

# **Hitachi Construction Machinery Co., Ltd.**

Financial Results for the Second Quarter  
Ended September 30, 2016

## Consolidated Financial Results for the First Quarter Ended September 30, 2016 (IFRS)

October 27, 2016

Listed company: Hitachi Construction Machinery Co., Ltd. (HCM)

Stock exchange: Tokyo (first section) Code number: 6305

URL <https://www.hitachim.com/global/>

Representative: Yuichi Tsujimoto, President and Chief Executive Officer

Scheduled date for submission of the Quarterly Securities Report: November 8, 2016

Scheduled date of commencement of payment of dividends: November 30, 2016

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 second quarter ended September 2016 (April 1, 2016 to September 30, 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	%
September 30, 2016	334,937	(8.3)	6,026	(63.4)	3,645	(66.5)	3,959	(50.5)	2,265	(66.9)	(27,249)	—
September 30, 2015	365,090	(6.2)	16,444	(44.7)	10,894	(61.3)	7,994	(50.2)	6,844	(48.3)	(3,972)	—

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 second quarter ended September 2016 is as below.

September 30, 2016      ¥4,367 million      YoY -72.8%

September 30, 2015      ¥16,035 million      YoY -44.7%

	Net income attributable to owners of the Parent per share (basic)	Net income attributable to owners of the Parent per share (diluted)
	Yen	Yen
September 30, 2016	10.65	10.65
September 30, 2015	32.19	32.19

#### (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	%
September 30, 2016	864,630	421,299	370,212	42.8
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
March 31, 2016	Yen —	Yen 30.00	Yen —	Yen 10.00	Yen 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: Yes

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

### 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
March 31, 2017	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	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)
 

September 2016: 215,115,038	March 2016: 215,115,038
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  - [2] Number of treasury shares at fiscal year-end
 

September 2016: 2,452,908	March 2016: 2,451,828
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  - [3] Average number of common shares outstanding during the fiscal year (shares)
 

September 2016: 212,662,726	September 2015: 212,599,481
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#### 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.

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## 1. Management Performance and Financial Conditions

### (1) Management Results

#### [1] Overview of Business Results

The 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 to 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 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 the 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.

Consequently, consolidated revenue for this term (April 1, 2016 to September 30, 2016) was ¥334,937 million, down 8.3% year on year due to appreciation of the yen in addition to weak demand for construction and mining machinery. Adjusted operating income decreased by 63.4% year on year to 6,026 million affected by appreciation of the yen, and operating income decreased by 72.8% year on year to ¥4,367 million due to booking of the restructuring cost. Income before income taxes decreased by 66.5% year on year to ¥3,645 million, and net income attributable to owners of the parent decreased by 66.9% year on year to ¥2,265 million.

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

	September 2016 (A)	September 2015 (B)	Year-on-year change	
			(A)-(B)	(A)/(B)-1 (%)
Revenue	334,937	365,090	(30,153)	(8.3)
Adjusted operating income*	6,026	16,444	(10,418)	(63.4)
Operating income	4,367	16,035	(11,668)	(72.8)
Income before income taxes	3,645	10,894	(7,249)	(66.5)
Net income attributable to owners of the parent	2,265	6,844	(4,579)	(66.9)

(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 3.9% year on year to ¥101,908 million due to a decline in new machinery demand.

### **[The Americas]**

In North America, while a decline in housing starts could be seen in September, demand for mini and small-sized hydraulic excavators increased year on 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 as a result of weak resource prices.

Under such circumstances, we strove to expand sales of machinery that complies with the local regulations of each country, in collaboration with Deere & Company.

Consequently, consolidated revenue decreased by 19.3% year on year to ¥42,334 million resulting from demand decrease and appreciation of the yen.

### **[Europe]**

In Europe, demand for construction machinery increased year on year. While demand in UK decreased, we have seen demand recovery in France and Italy, as well as solid demand in Germany and North Europe.

Under these circumstances, the HCM Group enhanced support service 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 increased by 1.3% year on year to ¥44,116 million affected by 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 dealers 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 introduced India-made hydraulic excavators targeting new customer segments.

Consolidated revenue decreased by 16.8% year on year to ¥34,699 million due to 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.

Demand for construction machinery 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 8.2% year on year to ¥88,895 million due to a decline in revenue from mining business and depreciation of local currencies.

### **[China]**

In China, demand for construction machinery increased year on year. Although sluggish investment for fixed assets from the private sector has continued, the demand is supported by public investment such as governmental investment for fixed assets and infrastructure.

Under such circumstances, the 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 emission regulations that commenced in April 2016 apply.

However, consolidated revenue decreased by 6.0% year on year to ¥22,985 million affected by depreciation of local currency.

The following table summarizes consolidated net revenue by geographic area:

	Current consolidated cumulative Second quarter (April 1, 2016- September 30, 2016)		Previous consolidated cumulative Second quarter (April 1, 2015- September 30, 2015)		Increase (Decrease)	
	Revenue (Millions of yen) (A)	Proportion (%)	Revenue (Millions of yen) (B)	Proportion (%)	Amount of change	% Change (A)/(B)-1
North America	40,594	12.1	48,911	13.4	(8,317)	(17.0)
Central and South America	1,740	0.5	3,565	1.0	(1,825)	(51.2)
The Americas	42,334	12.6	52,476	14.4	(10,142)	(19.3)
Europe	44,116	13.2	43,564	11.9	552	1.3
Russia-CIS	7,662	2.3	8,080	2.2	(418)	(5.2)
Africa	14,413	4.3	17,837	4.9	(3,424)	(19.2)
Middle East	12,624	3.8	15,803	4.3	(3,179)	(20.1)
Russia-CIS, Africa and the Middle East	34,699	10.4	41,720	11.4	(7,021)	(16.8)
Asia	26,605	7.9	34,928	9.6	(8,323)	(23.8)
India	20,301	6.1	18,051	4.9	2,250	12.5
Oceania	41,989	12.5	43,894	12.0	(1,905)	(4.3)
Asia and Oceania	88,895	26.5	96,873	26.5	(7,978)	(8.2)
China	22,985	6.9	24,465	6.7	(1,480)	(6.0)
Sub-total	233,029	69.6	259,098	71.0	(26,069)	(10.1)
Japan	101,908	30.4	105,992	29.0	(4,084)	(3.9)
Total	334,937	100.0	365,090	100.0	(30,153)	(8.3)

(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 second quarter amounted to ¥506,246 million, a decrease of 7.8%, or ¥42,971 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥30,571 million in trade receivables.

Non-current assets amounted to ¥358,384 million, a decrease of 5.0%, or ¥19,027 million, from the previous fiscal year-end. This was mainly due to a decrease of ¥11,767 million in property, plants, and equipment and a decrease of ¥2,201 million in investments accounted for using the equity method.

As a result, total assets decreased by 6.7% or ¥61,998 million from the previous fiscal year-end to ¥864,630 million.

#### **(b) Liabilities**

Current liabilities amounted to ¥298,082 million, a decrease of 4.6%, or ¥14,329 million, from the previous fiscal year-end. This was primarily due to an increase of ¥2,716 million in trade and other payables and a decrease of ¥18,189 million in bonds and borrowings.

Non-current liabilities decreased by 7.7%, or ¥12,152 million, from the previous fiscal year-end to ¥145,249 million. This was mainly due to a decrease of ¥8,404 million in bonds and borrowings.

As a result, total liabilities decreased by 5.6% or ¥26,481 million from the previous fiscal year-end to ¥443,331 million.

#### **(c) Equity**

Total equity decreased by 7.8% or ¥35,517 million from the previous fiscal year-end to ¥421,299 million.

### **[2] Analysis of the Status of Consolidated Cash Flows**

Cash and cash equivalents at the end of the second quarter totaled ¥77,599 million, a decrease of ¥1,511 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 second quarter was ¥3,959 million. Factors that increased cash in the second quarter included ¥15,329 million in depreciation, a ¥11,861 million decrease in trade receivables, a ¥1,374 million decrease in lease receivables, and a ¥19,788 million increase in trade payables. As a result, net cash provided by operating activities during the second quarter totaled ¥40,477 million, a decrease of ¥11,470 million year on year.

**(Net cash used in investing activities)**

Net cash used in investing activities in the second quarter amounted to ¥9,665 million, an increase of ¥11,253 million year on year. This is mainly due to an outlay of ¥7,833 million for capital expenditure and a ¥1,319 million increase in short-term loan receivables.

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 ¥30,812 million.

**(Net cash used in financing activities)**

Net cash used in financing activities in the second quarter totaled ¥25,277 million, a decrease of ¥10,074 million year on year. This was mainly due to a decrease of ¥2,081 million in short-term debt (net), a decrease of ¥14,808 million in long-term debt and bonds, and ¥4,226 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; however, we revised the demand outlook for hydraulic excavators to 151,000 units from the previous 148,000 units announced on July 27<sup>th</sup> due to its recovery trend seen from June onward in Asian countries such as China and Indonesia. On the other hand, downward pressure on the demand continued in Middle Eastern countries affected by weak crude oil price.

With regards to mining machinery, we expect demand during this fiscal year for ultra-large excavators to decline 10% year on year and that for rigid dump trucks to decline 20% year on year since the demand for the first half was below our previous expectation announced on July 27<sup>th</sup> due to a decline in mining companies' capital expenditure affected by sluggish mineral prices.

The 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<sup>th</sup> because the decline in revenue from mining machinery is expected to be compensated by the increase from China and Asia.

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

## **2. Notes on Summary Information**

(1) Important changes in the scope of consolidation during the period: None

(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 taxes are calculated by multiplying income before income taxes 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 taxes decreased and both the net income and the net income attributable to owners of the parent increased by 948 million yen compared to the previous calculation.

In addition, this change in accounting estimate does not have any impact on the net income for 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)

	Second quarter As of Sep. 30, 2016 (A)	Previous fiscal year-end As of Mar. 31, 2016 (B)	(A)-(B)
<b>Assets</b>			
Current assets			
Cash and cash equivalents	77,599	79,110	(1,511)
Trade receivables	152,357	182,928	(30,571)
Inventories	230,341	248,564	(18,223)
Other financial assets	26,203	29,727	(3,524)
Other current assets	19,746	8,888	10,858
Total current assets	506,246	549,217	(42,971)
Non-current assets			
Property, plant and equipment	264,526	276,293	(11,767)
Intangible assets	9,067	9,611	(544)
Goodwill	7,803	8,694	(891)
Investments accounted for using the equity method	16,525	18,726	(2,201)
Trade receivables	23,734	23,125	609
Deferred tax asset	13,931	15,241	(1,310)
Other financial assets	15,068	15,668	(600)
Other non-current assets	7,730	10,053	(2,323)
Total non-current assets	358,384	377,411	(19,027)
<b>Total assets</b>	<b>864,630</b>	<b>926,628</b>	<b>(61,998)</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	185,364	182,648	2,716
Bonds and borrowings	93,699	111,888	(18,189)
Income tax payables	7,063	4,728	2,335
Other financial liabilities	7,281	8,936	(1,655)
Other current liabilities	4,675	4,211	464
Total current liabilities	298,082	312,411	(14,329)
Non-current liabilities			
Trade and other payables	22,262	23,224	(962)
Bonds and borrowings	97,603	106,007	(8,404)
Retirement and severance benefit	15,952	16,855	(903)
Deferred tax liability	4,786	6,057	(1,271)
Other financial liabilities	60	32	28
Other non-current liabilities	4,586	5,226	(640)
Total non-current liabilities	145,249	157,401	(12,152)
<b>Total liabilities</b>	<b>443,331</b>	<b>469,812</b>	<b>(26,481)</b>
<b>Equity</b>			
Equity attributable to owners of the parent			
Common stock	81,577	81,577	-
Capital surplus	82,731	84,095	(1,364)
Retained earnings	223,120	222,721	399
Accumulated other comprehensive income	(14,163)	10,621	(24,784)
Treasury stock, at cost	(3,053)	(3,051)	(2)
Total Equity attribute to owners of the parent	370,212	395,963	(25,751)
Non-controlling interests	51,087	60,853	(9,766)
<b>Total equity</b>	<b>421,299</b>	<b>456,816</b>	<b>(35,517)</b>
<b>Total liabilities and equity</b>	<b>864,630</b>	<b>926,628</b>	<b>(61,998)</b>

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

## (2) Consolidated Statements of Income and Comprehensive Income

### Consolidated cumulative quarter

### Consolidated Statements of Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2016 (A)	Second quarter Six months ended Sep. 30, 2015 (B)	(A)/(B)×100 (%)
Revenue	334,937	365,090	92
Cost of sales	(259,953)	(271,789)	96
Gross profit	74,984	93,301	80
Selling, general and administrative expenses	(68,958)	(76,857)	90
Adjusted operating income	6,026	16,444	37
Other income	2,306	1,769	130
Other expenses	(3,965)	(2,178)	182
Operating income	4,367	16,035	27
Financial income	1,812	1,696	107
Financial expenses	(2,612)	(8,018)	33
Share of profits (losses) of investments accounted for using the equity method	78	1,181	7
Income before income taxes	3,645	10,894	33
Income taxes	314	(2,900)	-
Net income (loss)	3,959	7,994	50
Net income (loss) attributable to			
Owners of the parent	2,265	6,844	33
Non-controlling interests	1,694	1,150	147
Total net income (loss)	3,959	7,994	50
EPS attributable to owners of the parent			
Net income (loss) per share (Basic) (yen)	10.65	32.19	
Net income (loss) per share (Diluted) (yen)	10.65	32.19	

(Rounded off to the nearest million)

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2016 (A)	Second quarter Six months ended Sep. 30, 2015 (B)	(A)/(B)×100 (%)
Net income (loss)	3,959	7,994	50
Other comprehensive income			
Items that cannot be reclassified into net income			
Net gains and losses from financial assets measured at fair value through OCI	549	(1,691)	-
Remeasurements of defined benefit obligations	(12)	(1)	-
Other comprehensive income of equity method associates	-	(26)	-
Items that can be reclassified into net income			
Foreign currency translation adjustments	(30,329)	(9,739)	-
Cash flow hedges	622	(5)	-
Other comprehensive income of equity method associates	(2,038)	(504)	-
Other comprehensive income, net of taxes	(31,208)	(11,966)	-
Comprehensive income	(27,249)	(3,972)	-
Comprehensive income attributable to			
Owners of the parent	(22,525)	(3,301)	-
Non-controlling interests	(4,724)	(671)	-

(Rounded off to the nearest million)

**(3) Consolidated Statements of Changes in Equity**  
**Consolidated cumulative quarter**  
**Second quarter six months ended Sep. 30, 2016**

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				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 (loss)			2,265			
Other comprehensive income				(12)	551	622
Comprehensive income	-	-	2,265	(12)	551	622
Acquisition of treasury stock						
Sale of treasury stock						
Dividends to stockholders of the Company			(2,127)			
Gains/losses on change in equity		(1,097)				
Transfer to retained earnings			(6)		6	
Expiration of subscription rights		(267)	267			
Transaction with owners	-	(1,364)	(1,866)	-	6	-
Balance at end of period	81,577	82,731	223,120	(4,012)	5,217	699

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Accumulated other comprehensive income		Treasury stock, at cost	Total		
	Foreign currency translation adjustments	Total				
Balance at beginning of period	9,884	10,621	(3,051)	395,963	60,853	456,816
Net income (loss)		-		2,265	1,694	3,959
Other comprehensive income	(25,951)	(24,790)		(24,790)	(6,418)	(31,208)
Comprehensive income	(25,951)	(24,790)	-	(22,525)	(4,724)	(27,249)
Acquisition of treasury stock			(2)	(2)		(2)
Sale of treasury stock						
Dividends to stockholders of the Company				(2,127)	(7,208)	(9,335)
Gains/losses on change in equity				(1,097)	2,166	1,069
Transfer to retained earnings		6				
Expiration of subscription rights						
Transaction with owners	-	6	(2)	(3,226)	(5,042)	(8,268)
Balance at end of period	(16,067)	(14,163)	(3,053)	370,212	51,087	421,299

**Second quarter six months ended Sep. 30, 2015**

(Millions of yen)

	Equity attributable to owners of the parent					
	Common stock	Capital surplus	Retained earnings	Accumulated other comprehensive income		
				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			6,844			
Other comprehensive income				(38)	(1,671)	(5)
Comprehensive income	-	-	6,844	(38)	(1,671)	(5)
Acquisition of treasury stock						
Sale of treasury stock		9				
Dividends to stockholders of the Company			(6,377)			
Gains/losses on change in equity		(233)				
Transaction with owners	-	(224)	(6,377)	-	-	-
Balance at end of period	81,577	84,091	226,799	147	5,819	(122)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated other comprehensive income		Treasury stock, at cost	Total	Non-controlling interests	Total equity
	Foreign currency translation adjustments	Total				
Balance at beginning of period	34,601	42,159	(3,156)	431,227	66,675	497,902
Net income		-		6,844	1,150	7,994
Other comprehensive income	(8,431)	(10,145)		(10,145)	(1,821)	(11,966)
Comprehensive income	(8,431)	(10,145)	-	(3,301)	(671)	(3,972)
Acquisition of treasury stock		-	(3)	(3)		(3)
Sale of treasury stock		-	40	49		49
Dividends to stockholders of the Company		-		(6,377)	(2,180)	(8,557)
Gains/losses on change in equity		-		(233)	233	-
Transaction with owners	-	-	37	(6,564)	(1,947)	(8,511)
Balance at end of period	26,170	32,014	(3,119)	421,362	64,057	485,419



**(4) Consolidated Statements of Cash Flows**  
**Consolidated cumulative quarter**

(Millions of yen)

	Second quarter Six months ended Sep. 30, 2016 (A)	Second quarter Six months ended Sep. 30, 2015 (B)
Net income (loss)	3,959	7,994
Depreciation	15,329	15,911
Amortization of intangible asset	1,587	1,752
Income tax expense	(314)	2,900
Equity in net earnings of associates	(78)	(1,181)
Gain (loss) on sales of property, plant and equipment	(61)	(72)
Financial income	(1,812)	(1,696)
Financial expense	2,612	8,018
(Increase) decrease in trade receivables	11,861	34,907
(Increase) decrease in lease receivables	1,374	9,766
(Increase) decrease in inventories	1,661	8,765
Increase (decrease) in trade payables	19,788	(11,059)
Increase (decrease) in retirement and severance benefit	(443)	(101)
Other	(8,217)	(10,793)
<b>Subtotal</b>	<b>47,246</b>	<b>65,111</b>
Interest received	1,300	1,491
Dividends received	400	358
Interest paid	(1,732)	(2,575)
Income tax paid	(6,737)	(12,438)
<b>Net cash provided by operating activities</b>	<b>40,477</b>	<b>51,947</b>
Capital expenditures	(7,833)	(7,031)
Proceeds from sale of property, plant and equipment	212	184
Acquisition of intangible assets	(1,215)	(917)
Acquisition of investments in securities and other financial assets (including investments in associates)	-	(607)
Increase (decrease) in short-term loan receivables, net	(1,319)	(1,062)
Collection of long-term loan receivables	82	10,472
Other	408	549
<b>Net cash provided by (used in) investing activities</b>	<b>(9,665)</b>	<b>1,588</b>
Increase (decrease) in short-term debt, net	(2,081)	(19,746)
Proceeds from long-term debt and bond	7,785	13,179
Payments on long-term debt	(22,593)	(16,711)
Payments on lease payables	(2,749)	(1,984)
Dividends paid to owners of the parent	(2,146)	(6,387)
Dividends paid to non-controlling interests	(2,080)	(3,757)
Purchase of shares of consolidated subsidiaries from non-controlling interests	(1,411)	-
Other	(2)	55
<b>Net cash used in financing activities</b>	<b>(25,277)</b>	<b>(35,351)</b>
Effect of exchange rate changes on cash and cash equivalents	(7,046)	(3,212)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,511)</b>	<b>14,972</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>79,110</b>	<b>51,433</b>
<b>Cash and cash equivalents at end of period</b>	<b>77,599</b>	<b>66,405</b>

## (5) Notes on Consolidated Financial Statements

(Notes on the Preconditions for a Going Concern)

There is no relevant item.

(Important Subsequent Events)

Execution of Agreement with Regard to Acquisition of Shares in the Australian Corporation “Bradken Limited” and Scheduled Commencement of Share Takeover Offer for the Acquisition

On October 3, 2016, we decided to implement a takeover offer (the “Takeover Offer”) for all issued shares of common stock in Bradken Limited, which conducts metal casting and operates manufacture and distribution services for metal casting products (Australian Stock Exchange: BKN; Head office: Newcastle, Australia; Chairman: Phillip Arnall; “Bradken”). The Company and Bradken have executed a “Bid Implementation Agreement” related to the implementation of the Takeover Offer as follows.

### 1. Purpose of the Acquisition and Takeover Offer

Bradken’s business is wide-ranging across the value chain globally. Its operations include a mining equipment business, a business for wear parts in mining, and a maintenance service business, as well as a manufacturing business of industrial products for mining and infrastructure. The Company believes that the acquisition of Bradken will complement and bolster the parts service business in the Company’s mining business and expects further improvement in business income stability and profitability through mutual utilization of a global network.

After the acquisition, the Company will utilize Bradken’s management independence to maintain and develop Bradken’s brand and its existing framework of manufacture and distribution. The Company will continue to push through the structural reforms currently promoted by Bradken as planned and will endeavor to improve rates of return for individual businesses.

### 2. Outline of the Takeover Offer

#### (1) Takeover offer period (scheduled)

The Takeover Offer period is scheduled from November 1, 2016 to February 10, 2017.

If the conditions of the acquisition are not satisfied, the Company may extend the Takeover Offer period, as long as it does not exceed a period of six months from the commencement.

#### (2) Class of share certificates, etc. to be purchased Common shares

#### (3) Takeover Offer price AUD 3.25 per common share

#### (4) Funds required for the Takeover Offer Approximately AUD 689 million

The amount necessary for conducting payment related to the purchase of all issued shares in Bradken (on a fully diluted basis) is stated above. The Company intends that funds for making the acquisition will be procured from funds on hand and bank loans.

#### (5) Conditions of the Takeover Offer

The Takeover Offer will be conducted on the conditions that more than 50% of the total amount of issued shares in Bradken (on a fully diluted basis) are tendered, that clearance is obtained from the competition law authorities in each of Australia, the USA, and Canada and the Foreign Investment Review Board of Australia, and that other requirements ordinarily stipulated for similar transactions are satisfied. Procurement of funds is not a condition for the completion of the Takeover Offer.

### 3. Minimum number of shares to be acquired

The Company will consummate the Takeover Offer if more than 50% of the total amount of shares in Bradken (on a fully diluted basis) are tendered.

### 4. Change in the Number of Shares in Bradken Held by the Company Due to the Takeover Offer

Ratio of the shares held before the Takeover Offer: 0%

(English translation of “KESSAN TANSHIN” originally issued in the Japanese language)

Ratio of the shares held after the Takeover Offer: 100%\*

\* Based on the assumption that the Company purchases 100% of the shares in Bradken (on a fully diluted basis)

5. Outline of the Target Company

(1) Name	Bradken Limited
(2) Address	20 McIntosh Drive, Mayfield West, New South Wales, 2304, Australia
(3) Representative's name and title	Phillip Arnall, Chairman
(4) Description of business	Metal casting and manufacture and distribution services for metal casting products
(5) Stated capital	AUD 549,671 thousand (as of June 30, 2016)
(6) Year of establishment	1922
(7) Major shareholders and shareholding ratios	Litespeed Master Fund Ltd.: 12.9% Paradice Investment Management Pty. Ltd.: 7.8% Delta Partners, LP: 5.4%
(8) Total number of issued shares*	211,848,761 shares (as of 30 September, 2016)

\* Note: On a fully diluted basis.

6. Future Outlook

We will make an announcement in a timely manner once the result of the Takeover Offer becomes clear. Bradken will become a consolidated subsidiary of the Company if the Takeover Offer is successfully completed. The Company will promptly disclose details regarding the effect of these events on the Company's consolidated business performance in accordance with the status of progress with the acquisition.