TEREX CORP
Form 10-Q
August 02, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

F O R M 10 – Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10702

Terex Corporation
(Exact name of registrant as specified in its charter)

| Delaware | 34-1531521 |
|---|---|
| (State of Incorporation) | (IRS Employer Identification No.) |

200 Nyala Farm Road, Westport, Connecticut 06880
(Address of principal executive offices)

(203) 222-7170
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| Large accelerated filer x | Accelerated filer o | Non-accelerated filer o |
|---|---|---|
| Smaller reporting company o | Emerging growth company o | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

Number of outstanding shares of common stock: 89.4 million as of July 31, 2017.
The Exhibit Index begins on page 55.

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TEREX CORPORATION AND SUBSIDIARIES

GENERAL

This Quarterly Report on Form 10-Q filed by Terex Corporation generally speaks as of June 30, 2017 unless specifically noted otherwise. Unless otherwise indicated, Terex Corporation, together with its consolidated subsidiaries, is hereinafter referred to as “Terex,” the “Registrant,” “us,” “we,” “our” or the “Company.”

Forward-Looking Information

Certain information in this Quarterly Report includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995) regarding future events or our future financial performance that involve certain contingencies and uncertainties, including those discussed below in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contingencies and Uncertainties.” In addition, when included in this Quarterly Report or in documents incorporated herein by reference, the words “may,” “expects,” “should,” “intends,” “anticipates,” “believes,” “plans,” “projects,” “estimates” and the negatives thereof and analogous or similar expressions are intended to identify forward-looking statements. However, the absence of these words does not mean that the statement is not forward-looking. We have based these forward-looking statements on current expectations and projections about future events. These statements are not guarantees of future performance. Such statements are inherently subject to a variety of risks and uncertainties that could cause actual results to differ materially from those reflected in such forward-looking statements. Such risks and uncertainties, many of which are beyond our control, include, among others:

- our business is cyclical and weak general economic conditions affect the sales of our products and financial results;
- our need to comply with restrictive covenants contained in our debt agreements;
- our ability to generate sufficient cash flow to service our debt obligations and operate our business;
- our ability to access the capital markets to raise funds and provide liquidity;
- our business is sensitive to government spending;
- our business is highly competitive and is affected by our cost structure, pricing, product initiatives and other actions taken by competitors;
- our retention of key management personnel;
- the financial condition of suppliers and customers, and their continued access to capital;
- our providing financing and credit support for some of our customers;
- we may experience losses in excess of recorded reserves;
- the carrying value of our goodwill could become impaired;
- our ability to obtain parts and components from suppliers on a timely basis at competitive prices;
- our business is global and subject to changes in exchange rates between currencies, commodity price changes, regional economic conditions and trade restrictions;
- our operations are subject to a number of potential risks that arise from operating a multinational business, including compliance with changing regulatory environments, the Foreign Corrupt Practices Act and other similar laws, and political instability;
- a material disruption to one of our significant facilities;
- possible work stoppages and other labor matters;
- compliance with changing laws and regulations, particularly environmental and tax laws and regulations;
- litigation, product liability claims, intellectual property claims, class action lawsuits and other liabilities;
- our ability to comply with an injunction and related obligations imposed by the United States Securities and Exchange Commission (“SEC”);

- disruption or breach in our information technology systems; and
- other factors.

Actual events or our actual future results may differ materially from any forward-looking statement due to these and other risks, uncertainties and significant factors. The forward-looking statements contained herein speak only as of the date of this Quarterly Report and the forward-looking statements contained in documents incorporated herein by reference speak only as of the date of the respective documents. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained or incorporated by reference in this Quarterly Report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TERFX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
(in millions, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net sales | $1,181.7 | $1,297.7 | $2,188.6 | $2,412.0 |
| Cost of goods sold | (941.0) | (1,055.6) | (1,795.6) | (1,988.2) |
| Gross profit | 240.7 | 242.1 | 393.0 | 423.8 |
| Selling, general and administrative expenses | (164.8) | (168.7) | (323.4) | (339.1) |
| Income (loss) from operations | 75.9 | 73.4 | 69.6 | 84.7 |
| Other income (expense) | | | | |
| Interest income | 1.5 | 1.1 | 3.3 | 2.3 |
| Interest expense | (15.1) | (25.5) | (36.5) | (50.2) |
| Loss on early extinguishment of debt | (6.5) | (0.4) | (51.9) | (0.4) |
| Other income (expense) – net | 62.7 | (6.1) | 45.4 | (12.0) |
| Income (loss) from continuing operations before income taxes | 118.5 | 42.5 | 29.9 | 24.4 |
| (Provision for) benefit from income taxes | (23.1) | 67.1 | 5.2 | 63.2 |
| Income (loss) from continuing operations | 95.4 | 109.6 | 35.1 | 87.6 |
| Income (loss) from discontinued operations – net of tax | — | (45.1) | — | (97.5) |
| Gain (loss) on disposition of discontinued operations – net of tax | 5.4 | 0.1 | 61.1 | 3.5 |
| Net income (loss) | 100.8 | 64.6 | 96.2 | (6.4) |
| Net loss (income) from discontinued operations attributable to noncontrolling interest | — | 0.5 | — | 0.7 |
| Net income (loss) attributable to Terex Corporation | $100.8 | $65.1 | $96.2 | $(5.7) |
| Amounts attributable to Terex Corporation Common Stockholders: | | | | |
| Income (loss) from continuing operations | $95.4 | $109.6 | $35.1 | $87.6 |
| Income (loss) from discontinued operations – net of tax | — | (44.6) | — | (96.8) |
| Gain (loss) on disposition of discontinued operations – net of tax | 5.4 | 0.1 | 61.1 | 3.5 |
| Net income (loss) attributable to Terex Corporation | $100.8 | $65.1 | $96.2 | $(5.7) |
| Basic Earnings (Loss) per Share Attributable to Terex Corporation Common Stockholders: | | | | |
| Income (loss) from continuing operations | $0.99 | $1.01 | $0.35 | $0.81 |
| Income (loss) from discontinued operations – net of tax | — | (0.41) | — | (0.89) |
| Gain (loss) on disposition of discontinued operations – net of tax | 0.06 | — | 0.61 | 0.03 |
| Net income (loss) attributable to Terex Corporation | $1.05 | $0.60 | $0.96 | $(0.05) |
| Diluted Earnings (Loss) per Share Attributable to Terex Corporation Common Stockholders: | | | | |
| Income (loss) from continuing operations | $0.98 | $1.00 | $0.34 | $0.80 |
| Income (loss) from discontinued operations – net of tax | — | (0.41) | — | (0.88) |
| Gain (loss) on disposition of discontinued operations – net of tax | 0.06 | — | 0.60 | 0.03 |
| Net income (loss) attributable to Terex Corporation | $1.04 | $0.59 | $0.94 | $(0.05) |
| Weighted average number of shares outstanding in per share calculation | | | | |
| Basic | 95.7 | 109.2 | 100.4 | 109.0 |
| Diluted | 97.1 | 109.6 | 102.2 | 109.6 |

| | | | | |
|---|---|---|---|---|
| Comprehensive income (loss) | $158.5 | $(0.5 ) | $582.0 | $(13.1 ) |
| Comprehensive loss (income) attributable to noncontrolling interest | — | 0.8 | — | 0.9 |
| Comprehensive income (loss) attributable to Terex Corporation | $158.5 | $0.3 | $582.0 | $(12.2 ) |
| | | | | |
| Dividends declared per common share | $0.08 | $0.07 | $0.16 | $0.14 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

TEREX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(unaudited)
(in millions, except par value)

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $555.5 | $ 428.5 |
| Trade receivables (net of allowance of $15.4 and $16.5 at June 30, 2017 and December 31, 2016, respectively) | 726.6 | 512.5 |
| Inventories | 912.5 | 853.8 |
| Prepaid and other current assets | 201.0 | 172.8 |
| Current assets held for sale | 8.0 | 732.9 |
| Total current assets | 2,403.6 | 2,700.5 |
| Non-current assets | | |
| Property, plant and equipment – net | 303.7 | 304.6 |
| Goodwill | 267.9 | 259.7 |
| Intangible assets – net | 17.6 | 18.4 |
| Investment carried at fair value | 218.0 | — |
| Other assets | 548.8 | 552.3 |
| Non-current assets held for sale | 0.4 | 1,171.3 |
| Total assets | $3,760.0 | $ 5,006.8 |
| | | |
| Liabilities and Stockholders’ Equity | | |
| Current liabilities | | |
| Notes payable and current portion of long-term debt | $11.7 | $ 13.8 |
| Trade accounts payable | 563.2 | 522.7 |
| Accrued compensation and benefits | 128.3 | 125.1 |
| Accrued warranties and product liability | 58.8 | 61.2 |
| Other current liabilities | 255.2 | 230.4 |
| Current liabilities held for sale | 3.5 | 453.8 |
| Total current liabilities | 1,020.7 | 1,407.0 |
| Non-current liabilities | | |
| Long-term debt, less current portion | 980.3 | 1,562.0 |
| Retirement plans | 158.3 | 153.8 |
| Other non-current liabilities | 59.4 | 50.7 |
| Non-current liabilities held for sale | 1.1 | 312.1 |
| Total liabilities | 2,219.8 | 3,485.6 |
| Commitments and contingencies | | |
| Stockholders’ equity | | |
| Common stock, $.01 par value – authorized 300.0 shares; issued 130.4 and 129.6 shares at June 30, 2017 and December 31, 2016, respectively | 1.3 | 1.3 |
| Additional paid-in capital | 1,304.6 | 1,300.0 |
| Retained earnings | 1,977.6 | 1,897.9 |
| Accumulated other comprehensive income (loss) | (293.6 ) | (779.4 ) |
| Less cost of shares of common stock in treasury – 40.5 and 24.6 shares at June 30, 2017 and December 31, 2016, respectively | (1,450.1 ) | (935.1 ) |
| Total Terex Corporation stockholders’ equity | 1,539.8 | 1,484.7 |

| | | |
|---|---|---|
| Noncontrolling interest | 0.4 | 36.5 |
| Total stockholders’ equity | 1,540.2 | 1,521.2 |
| Total liabilities and stockholders’ equity | $3,760.0 | $ 5,006.8 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

TEREX CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited)
(in millions)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Operating Activities | | |
| Net income (loss) | $96.2 | $(6.4) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 31.3 | 57.7 |
| (Gain) loss on disposition of discontinued operations | (61.1) | (3.5) |
| Deferred taxes | (14.9) | (82.4) |
| Asset impairments | — | 59.7 |
| (Gain) loss on sale of assets | (5.0) | (0.2) |
| Loss on early extinguishment of debt | 15.4 | 0.4 |
| Stock-based compensation expense | 20.2 | 18.7 |
| Other non-cash charges | 19.1 | 39.9 |
| Changes in operating assets and liabilities (net of effects of acquisitions and divestitures): | | |
| Trade receivables | (181.4) | (123.0) |
| Inventories | (8.3) | (91.0) |
| Trade accounts payable | 18.1 | (7.3) |
| Income taxes payable / receivable | 0.3 | 11.2 |
| Other assets and liabilities | (70.3) | 157.9 |
| Foreign exchange and other operating activities, net | (18.5) | (38.1) |
| Net cash provided by (used in) operating activities | (158.9) | (6.4) |
| Investing Activities | | |
| Capital expenditures | (17.6) | (44.1) |
| Acquisitions, net of cash acquired | — | (3.2) |
| Proceeds (payments) from disposition of discontinued operations | 768.0 | 3.5 |
| Proceeds from sale of assets | 578.7 | — |
| Other investing activities, net | — | (0.1) |
| Net cash provided by (used in) investing activities | 1,329.1 | (43.9) |
| Financing Activities | | |
| Repayments of debt | (1,585.0) | (681.5) |
| Proceeds from issuance of debt | 999.0 | 585.1 |
| Share repurchases | (506.8) | (1.0) |
| Dividends paid | (15.7) | (15.2) |
| Other financing activities, net | (30.2) | (10.0) |
| Net cash provided by (used in) financing activities | (1,138.7) | (122.6) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 25.2 | 4.5 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 56.7 | (168.4) |
| Cash and Cash Equivalents at Beginning of Period | 501.9 | 466.5 |
| Cash and Cash Equivalents at End of Period | $558.6 | $298.1 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

TEREX CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
NOTE A – BASIS OF PRESENTATION

Basis of Presentation. The accompanying unaudited Condensed Consolidated Financial Statements of Terex Corporation and subsidiaries as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States of America to be included in full-year financial statements. The accompanying Condensed Consolidated Balance Sheet as of December 31, 2016 has been derived from and should be read in conjunction with the audited Consolidated Balance Sheet as of that date, but does not include all disclosures required by accounting principles generally accepted in the United States. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

The Condensed Consolidated Financial Statements include accounts of Terex Corporation, its majority-owned subsidiaries and other controlled subsidiaries ("Terex" or the "Company"). The Company consolidates all majority-owned and controlled subsidiaries, applies the equity method of accounting for investments in which the Company is able to exercise significant influence and applies the cost method for all other investments. All intercompany balances, transactions and profits have been eliminated.

In the opinion of management, adjustments considered necessary for the fair statement of these interim financial statements have been made. Except as otherwise disclosed, all such adjustments consist only of those of a normal recurring nature. Operating results for the three and six months ended June 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017.

Cash and cash equivalents at June 30, 2017 and December 31, 2016 include $3.9 million and $6.0 million, respectively, which were not immediately available for use. These consist primarily of cash balances held in escrow to secure various obligations of the Company.

Reclassifications. Effective as of June 30, 2016, adjustments were made to the Company's reportable segments as a result of definitive agreements to sell portions of its business and reorganize the management structure of other portions of its business, as discussed below. On May 16, 2016, the Company entered into an agreement to sell its Material Handling and Port Solutions ("MHPS") business to Konecranes. As a result, the former MHPS segment is reported in discontinued operations in the Condensed Consolidated Statement of Comprehensive Income (Loss) for all periods presented, and in assets and liabilities held for sale in the Condensed Consolidated Balance Sheet at December 31, 2016, and is no longer a reportable segment. During June and July of 2016, the Company entered into agreements to sell certain portions of its former Construction segment. As a result, concrete mixer trucks and concrete paver product lines from the former Construction segment were reassigned to the Company's Materials Processing ("MP") segment and remaining product lines within the former Construction segment, such as loader backhoes and site dumpers, have been reassigned to the Corporate and Other category, as a result of changes in management responsibilities and reporting associated with these product lines. The effect of these changes has been shown in all periods presented.

See Note B - "Sale of MHPS Business and Investment Carried at Fair Value", Note C - "Business Segment Information", Note E - "Discontinued Operations and Assets and Liabilities Held for Sale" and Note J - "Goodwill and Intangible Assets, Net" for further information.

See discussion below for reclassification and cumulative effect adjustment impact related to adoption of Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting".

Recently Issued Accounting Standards

Accounting Standards Implemented in 2017

In July 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-11, "Simplifying the Measurement of Inventory," ("ASU 2015-11"). ASU 2015-11 simplifies the subsequent measurement of inventory by using only the lower of cost or net realizable value. The ASU defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted ASU 2015-11 on January 1, 2017. Adoption did not have a material effect on the Company's consolidated financial statements.



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In March 2016, the FASB issued ASU 2016-05, “Derivatives and Hedging (Topic 815),” (“ASU 2016-05”). ASU 2016-05 provides guidance clarifying that novation of a derivative contract (i.e. a change in counterparty) in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. The Company adopted ASU 2016-05 on January 1, 2017. Adoption did not have a material effect on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, “Derivatives and Hedging (Topic 815),” (“ASU 2016-06”). ASU 2016-06 simplifies the embedded derivative analysis for debt instruments containing contingent call or put options by clarifying that an exercise contingency does not need to be evaluated to determine whether it relates to interest rates and credit risk in an embedded derivative analysis. The Company adopted ASU 2016-06 on January 1, 2017. Adoption did not have a material effect on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, “Investments-Equity Method and Joint Ventures (Topic 323),” (“ASU 2016-07”). ASU 2016-07 eliminates the retroactive adjustments to an investment qualifying for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence by the investor. The Company adopted ASU 2016-07 on January 1, 2017. Adoption did not have a material effect on the Company’s consolidated financial statements.

On January 1, 2017, the Company adopted ASU 2016-09, “Compensation-Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting,” (“ASU 2016-09”). As required by ASU 2016-09, excess tax benefits and tax deficiencies recognized on the vesting date of restricted stock awards are reflected in the Condensed Consolidated Statements of Comprehensive Income (Loss) as a component of the provision for income taxes and was adopted on a prospective basis. In addition, ASU 2016-09 requires that the excess tax benefit be removed from the overall calculation of diluted shares. The impact on diluted earnings per share for adoption of this provision was not material. As required by ASU 2016-09, excess tax benefits recognized on stock-based compensation expense are now classified as an operating activity in the Company’s Condensed Consolidated Statement of Cash Flows versus previously classified as a financing activity. The Company has elected to apply this provision on a prospective basis, so no prior periods have been adjusted. ASU 2016-09 increases the amount of shares an employer can withhold for tax purposes without triggering liability accounting, which had no effect on the Company’s consolidated financial statements. ASU 2016-09 requires all cash payments made on an employee’s behalf for withheld shares to be presented as a financing activity in the Condensed Consolidated Statement of Cash Flows, with retrospective application required. As a result, net cash used in operating activities for the six months ended June 30, 2016 decreased by $9.2 million with a corresponding increase to net cash used in financing activities. Finally, ASU 2016-09 allows for the option to account for forfeitures as they occur, rather than estimating expected forfeitures over the service period. The Company elected to account for forfeitures as they occur and the net cumulative effect of this change was recognized as a $0.6 million increase to additional paid in capital, a $0.2 million increase to deferred tax assets and a $0.4 million reduction to retained earnings as of January 1, 2017.

Accounting Standards to be Implemented

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” (“ASU 2014-09”). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14,

“Deferral of the Effective Date”, which amends ASU 2014-09. As a result, the effective date will be the first quarter of fiscal year 2018.

Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU 2016-08, “Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net),” (“ASU 2016-08”); ASU 2016-10, “Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing,” (“ASU 2016-10”); ASU 2016-12, “Revenue from Contracts with Customers (Topic 606) Narrow-Scope Improvements and Practical Expedients,” (“ASU 2016-12”); and ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” (“ASU 2016-20”), which are intended to provide additional guidance and clarity to ASU 2014-09. The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 along with ASU 2014-09 (collectively, the “New Revenue Standards”).

The New Revenue Standards may be applied using one of two retrospective application methods: (1) a full retrospective approach for all periods presented, or (2) a modified retrospective approach that presents a cumulative effect as of the adoption date and additional required disclosures. The Company plans to adopt the New Revenue Standards in the first quarter of 2018 using the modified retrospective approach. To date, we have performed a preliminary review of contracts representative of identified revenue streams and compared historical accounting policies and practices to the New Revenue Standards. We are still evaluating the impact to certain revenue streams within our segments and expect the evaluation process to be completed during the third quarter of 2017.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," (“ASU 2016-01”). The amendments in ASU 2016-01, among other things, require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income   require public business entities to use the exit price notion when measuring fair value of financial instruments for disclosure purposes   require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables)   and eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate fair value that is required to be disclosed for financial instruments measured at amortized cost. The effective date will be the first quarter of fiscal year 2018. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” (“ASU 2016-02”). ASU 2016-02 requires lessees to recognize assets and liabilities on the balance sheet for leases with lease terms greater than twelve months and disclose key information about leasing arrangements. The effective date will be the first quarter of fiscal year 2019, with early adoption permitted. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses,” (“ASU 2016-13”). ASU 2016-13 sets forth a “current expected credit loss” model which requires the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. The guidance in this new standard replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. The effective date will be the first quarter of fiscal year 2020. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments,” (“ASU 2016-15”).  ASU 2016-15 reduces the existing diversity in practice in financial reporting by clarifying existing principles in Accounting Standards Codification (“ASC”) 230, “Statement of Cash Flows,” and provides specific guidance on certain cash flow classification issues.  The effective date for ASU 2016-15 will be the first quarter of fiscal year 2018, with early adoption permitted.  ASU 2016-15 will be applied retrospectively and may modify the Company's current disclosures and reclassifications within the consolidated statement of cash flows, but is not expected to have a material effect on the Company’s consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740) - Intra-Entity Transfer of Assets Other than Inventory,” (“ASU 2016-16”).  ASU 2016-16 requires recognition of current and deferred income taxes resulting from an intra-entity transfer of any asset (excluding inventory) when the transfer occurs. This is a change from existing U.S. generally accepted accounting principles which prohibits recognition of current and deferred income taxes until the asset is sold to a third party.  The effective date for ASU 2016-16 will be the first quarter of fiscal year 2018 with early adoption permitted.  Adoption will be applied on a modified retrospective basis, resulting in a cumulative-effect adjustment directly to retained earnings.  The Company is evaluating the impact that adoption of

this new standard will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230) - Restricted Cash,” (“ASU 2016-18”). ASU 2016-18 requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The effective date will be the first quarter of fiscal year 2018. Adoption is not expected to have a material effect on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," ("ASU 2017-01"). ASU 2017-01 provides guidance in ascertaining whether a collection of assets and activities is considered a business. The effective date will be the first quarter of fiscal year 2018, with prospective application. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Instead, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, if any. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment. The effective date will be the first quarter of fiscal year 2020, with early adoption permitted in 2017. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," (ASU 2017-05"). ASU 2017-05 is meant to clarify the scope of ASC Subtopic 610-20, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets" and to add guidance for partial sales of nonfinancial assets. ASU 2017-05 is to be applied using a full retrospective method or a modified retrospective method as outlined in the guidance and is effective at the same time as ASU 2014-09. Further, the Company is required to adopt ASU 2017-05 at the same time that it adopts the guidance in the New Revenue Standards. Adoption is not expected to have a material effect on the Company's consolidated financial statements.

In February 2017, the FASB issued ASU 2017-06, "Plan Accounting: Defined Benefit Pension Plans (Topic 960); Defined Contribution Pension Plans (Topic 962); Health and Welfare Benefit Plans (Topic 965): Employee Benefit Plan Master Trust Reporting, ("ASU 2017-06")". ASU 2017-06 provides guidance for reporting by an employee benefit plan for its interest in a master trust. The guidance is effective beginning in the first quarter of fiscal year 2021 on a retrospective basis, with early application permitted as of the beginning of the first quarter of fiscal year 2020. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," ("ASU 2017-07"). ASU 2017-07 changes how employers that sponsor defined benefit pension plans and other postretirement plans present the net periodic benefit cost in the income statement. An employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendment also allows only the service cost component to be eligible for capitalization, when applicable. The effective date will be the first quarter of fiscal year 2018. ASU 2017-07 will be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables--Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities," ("ASU 2017-08"). ASU 2017-08 shortens the amortization period for callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount. The effective date will be the first quarter of fiscal year 2019. Adoption is not expected to have a material effect on the Company's

consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting,” (“ASU 2017-09”). ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The effective date will be the first quarter of fiscal year 2018. Early adoption is permitted. The Company is evaluating the impact that adoption of this new standard will have on its consolidated financial statements.

Accrued Warranties. The Company records accruals for potential warranty claims based on its claims experience. The Company's products are typically sold with a standard warranty covering defects that arise during a fixed period. Each business provides a warranty specific to products it offers. The specific warranty offered by a business is a function of customer expectations and competitive forces. Warranty length is generally a fixed period of time, a fixed number of operating hours, or both.

A liability for estimated warranty claims is accrued at the time of sale. The non-current portion of the warranty accrual is included in Other non-current liabilities in the Company's Condensed Consolidated Balance Sheet. The liability is established using historical warranty claim experience for each product sold. Historical claim experience may be adjusted for known design improvements or for the impact of unusual product quality issues. Warranty reserves are reviewed quarterly to ensure critical assumptions are updated for known events that may affect the potential warranty liability.

The following table summarizes the changes in the product warranty liability (in millions):

| | Six Months Ended June 30, 2017 |
|---|---|
| Balance at beginning of period | $ 59.8 |
| Accruals for warranties issued during the period | 28.1 |
| Changes in estimates | 0.4 |
| Settlements during the period | (31.3 ) |
| Foreign exchange effect/other | 2.0 |
| Balance at end of period | $ 59.0 |

Fair Value Measurements. Assets and liabilities measured at fair value on a recurring basis under the provisions of ASC 820, "Fair Value Measurement and Disclosure" ("ASC 820") include our investment discussed in Note B - "Sale of MHPS Business and Investment Carried at Fair Value", interest rate swaps, foreign currency forward contracts and cross currency swaps discussed in Note K – "Derivative Financial Instruments" and debt discussed in Note M – "Long-term Obligations". These investments are valued using a market approach, which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. ASC 820 establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
Level 2 – Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and
Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Determining which category an asset or liability falls within this hierarchy requires judgment. The Company evaluates its hierarchy disclosures each quarter.

NOTE B – SALE OF MHPS BUSINESS AND INVESTMENT CARRIED AT FAIR VALUE

On May 16, 2016, Terex agreed to sell its MHPS business to Konecranes Plc, a Finnish public company limited by shares, ("Konecranes") by entering into a Stock and Asset Purchase Agreement, as amended (the "SAPA"), with Konecranes. As a result, the Company and Konecranes terminated the Business Combination Agreement and Plan of Merger (the "BCA") announced on August 11, 2015, with no penalties incurred by either party. On January 4, 2017, the Company completed the disposition of its MHPS business to Konecranes (the "Disposition"), pursuant to the SAPA, effective as of January 1, 2017. In connection with the Disposition, the Company received 19.6 million newly issued Class B shares of Konecranes and approximately $835 million in cash after adjustments for estimated cash, debt and net working capital at closing and the divestiture of Konecranes' Stahl Crane Systems business ("Stahl"), which was undertaken by Konecranes in connection with the Disposition. The final transaction consideration is subject to post-closing adjustments for the actual cash, debt and net working capital at closing, the 2016 performance of the MHPS business and Konecranes business, and the closing of the sale of Stahl. During the three and six months ended June 30, 2017, the Company recognized a gain on the Disposition (net of tax) of $5.4 million and $58.1 million, respectively.

The Company and Konecranes entered into a Stockholders Agreement (the "Stockholders Agreement"), dated as of January 4, 2017, providing certain restrictions, including Terex's commitment that it will not directly or indirectly sell or otherwise transfer the shares of Konecranes stock received by the Company for a period of three months, subject to certain exceptions, including transfers to affiliates or with permission from Konecranes. In addition, under the Stockholders Agreement, Terex is subject to certain standstill obligations for a four-year period, as well as some limited obligations following the initial four-year period. Terex also has customary registration rights pursuant to a registration rights agreement between Terex and Konecranes entered into on January 4, 2017 (the "Registration Rights Agreement"). In connection with the Disposition, Konecranes' articles of association were amended to create a new class of B shares.

On February 15, 2017, Terex sold approximately 7.5 million Konecranes shares for proceeds of approximately $272 million and recorded a net loss on sale of $13.2 million. On May 23, 2017, Terex sold 7.0 million Konecranes shares for proceeds of approximately $277 million and recorded a net gain on sale of $7.6 million. The net loss on these sales is recorded as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss). Following the sale of shares, Terex owns approximately 6.6% of the outstanding shares of Konecranes. Pursuant to the Stockholders Agreement and amended articles of association, Terex had nominated two members to the Board of Directors of Konecranes. As a result of the Company's reduced ownership of Konecranes shares, the Terex Board nominees resigned from the Konecranes Board of Directors in the second quarter of 2017.

On March 23, 2017, Konecranes declared a dividend of €1.05 per share to holders of record as of March 27, 2017, which was paid on April 4, 2017. During the six months ended June 30, 2017, the Company recognized dividend income of $13.5 million as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

The Company's investment in Konecranes shares has been classified as trading and recorded at fair value. Changes in fair value of the shares of its investment in Konecranes are recognized as a component of Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss) during the period. During the three and six months ended June 30, 2017, the Company recorded a gain on the change in fair value of $53.5 million and $44.2 million, respectively.

At June 30, 2017, the Company's investment in Konecranes Class B shares was $218.0 million. Konecranes Class B shares have the same financial rights as Konecranes Class A shares. Konecranes Class A shares are publicly traded on

the NASDAQ Helsinki exchange, and as such, fair value of the Konecranes shares is based on price quotations in an active market. Therefore, the Company categorizes this investment under Level 1 of the ASC 820 hierarchy. See Note A – "Basis of Presentation," for an explanation of the ASC 820 hierarchy.

In connection with the Disposition, the Company and Konecranes entered into certain ancillary agreements, including Transition Services Agreements ("TSA's") generally with terms from three to twelve months, dated as of January 4, 2017, under which the parties will provide one another certain transition services to facilitate both the separation of the MHPS business from the businesses retained by the Company and the interim operations of the MHPS business acquired by Konecranes. Cash inflows and outflows related to these TSA's generally offset to immaterial amounts.

Loss Contract

Related to the Disposition, the Company and Konecranes entered into an agreement for Konecranes to manufacture certain crane products on behalf of the Company for a period of 12 months. The Company recorded an expense of $6.3 million related to losses expected to be incurred over the agreement's life during the six months ended June 30, 2017.

BCA Related Expenses

Terex incurred transaction costs directly related to the terminated BCA of $5.3 million and $12.6 million for the three and six months ended June 30, 2016, respectively, which amounts are recorded in Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

NOTE C – BUSINESS SEGMENT INFORMATION

Terex is a global manufacturer of lifting and material processing products and services that deliver lifecycle solutions to maximize customer return on investment. The Company delivers lifecycle solutions to a broad range of industries, including the construction, infrastructure, manufacturing, shipping, transportation, refining, energy, utility, quarrying and mining industries. The Company operates in three reportable segments: (i) Aerial Work Platforms ("AWP"); (ii) Cranes; and (iii) MP.

The AWP segment designs, manufactures, services and markets aerial work platform equipment, telehandlers and light towers, as well as their related components and replacement parts. Customers use these products to construct and maintain industrial, commercial and residential buildings and facilities and for other commercial operations, as well as in a wide range of infrastructure projects.

The Cranes segment designs, manufactures, services, refurbishes and markets a wide variety of cranes, including mobile telescopic cranes, lattice boom crawler cranes, tower cranes, and utility equipment, as well as their related components and replacement parts. Customers use these products primarily for construction, repair and maintenance of commercial buildings, manufacturing facilities, construction and maintenance of utility and telecommunication lines, tree trimming and certain construction and foundation drilling applications and a wide range of infrastructure projects.

The MP segment designs, manufactures and markets materials processing and specialty equipment, including crushers, washing systems, screens, apron feeders, material handlers, wood processing, biomass and recycling equipment, concrete mixer trucks and concrete pavers, and their related components and replacement parts. Customers use these products in construction, infrastructure and recycling projects, in various quarrying and mining applications, as well as in landscaping and biomass production industries, material handling applications, and in building roads and bridges.

The Company assists customers in their rental, leasing and acquisition of its products through Terex Financial Services ("TFS"). TFS uses its equipment financing experience to provide financing solutions to customers who purchase the Company's equipment. TFS is included in the Corporate and Other category.

Business segment information is presented below (in millions):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Net Sales | | | | |
| AWP | $593.0 | $593.7 | $1,065.4 | $1,114.4 |
| Cranes | 303.8 | 357.4 | 567.7 | 664.7 |
| MP | 280.5 | 256.2 | 529.6 | 480.0 |
| Corporate and Other / Eliminations | 4.4 | 90.4 | 25.9 | 152.9 |
| Total | $1,181.7 | $1,297.7 | $2,188.6 | $2,412.0 |
| Income (loss) from Operations | | | | |
| AWP | $60.8 | $72.5 | $82.5 | $110.6 |

| | | | | |
|---|---|---|---|---|
| Cranes | 14.5 | (12.8 ) | (18.3 ) | (29.4 ) |
| MP | 35.4 | 28.6 | 60.9 | 44.4 |
| Corporate and Other / Eliminations | (34.8 ) | (14.9 ) | (55.5 ) | (40.9 ) |
| Total | $75.9 | $73.4 | $69.6 | $84.7 |

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Identifiable Assets | | |
| AWP (1) | $1,395.1 | $ 1,659.8 |
| Cranes | 1,687.6 | 1,618.0 |
| MP | 1,215.3 | 1,104.9 |
| Corporate and Other / Eliminations (2) | (546.4 ) | (1,280.1 ) |
| Assets held for sale | 8.4 | 1,904.2 |
| Total | $3,760.0 | $ 5,006.8 |

(1) Reduction due primarily to the settlement of an intercompany balance with Corporate and Other.
(2) Increase due to settlement of intercompany balance with AWP segment, Investment carried at fair value, increased cash on hand as a result of the sale of MHPS, and debt refinancing.

NOTE D – INCOME TAXES

During the three months ended June 30, 2017, the Company recognized an income tax expense of $23.1 million on income of $118.5 million, an effective tax rate of 19.5% as compared to an income tax benefit of $67.1 million on income of $42.5 million, an effective tax rate of (157.9)%, for the three months ended June 30, 2016. The higher effective tax rate for the three months ended June 30, 2017 is primarily due to lower tax benefits from valuation allowance releases and agreement with a non-U.S. authority with respect to certain tax matters extending back a period of years, partially offset by low-taxed appreciation of Konecranes shares, and favorable geographic mix of earnings when compared to the three months ended June 30, 2016.

During the six months ended June 30, 2017, the Company recognized an income tax benefit of $5.2 million on income of $29.9 million, an effective tax rate of (17.4)% as compared to an income tax benefit of $63.2 million on income of $24.4 million, an effective tax rate of (259.0)%, for the six months ended June 30, 2016. The higher effective tax rate for the six months ended June 30, 2017 is primarily due to lower tax benefits from valuation allowance releases and agreement with a non-U.S. authority with respect to certain tax matters extending back a period of years, partially offset by low-taxed appreciation of Konecranes shares, tax benefits from interest deductions, and favorable geographic mix of earnings when compared to the six months ended June 30, 2016.

NOTE E – DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR SALE

MHPS

On January 4, 2017, the Company completed the disposition of its MHPS business to Konecranes. See Note B - "Sale of MHPS Business and Investment Carried at Fair Value" for further information on the Disposition. The Disposition represented a significant strategic shift in the Company's business away from universal, process, mobile harbor and ship-to-shore cranes that will have a major effect on the Company's future operating results, primarily because the MHPS business represented the entirety of one of the Company's five previous reportable operating segments and comprised two of the Company's six previous reporting units, representing a significant portion of the Company's revenues and assets, and is therefore accounted for as a discontinued operation for all periods presented. MHPS products include universal cranes, process cranes and components, such as rope hoists, chain hoists, light crane systems, travel units and electric motors, primarily for industrial applications, and mobile harbor cranes, ship-to-shore gantry cranes, rubber tired and rail mounted gantry cranes, straddle carriers, sprinter carriers, reach stackers, container handlers, general cargo lift trucks, automated stacking cranes, automated guided vehicles and software solutions for logistics terminals.

Cash flows from discontinued operations are included in the Condensed Consolidated Statement of Cash Flows.

Income (loss) from discontinued operations

The following amounts related to the discontinued operations were derived from historical financial information and have been segregated from continuing operations and reported as discontinued operations in the Condensed Consolidated Statement of Comprehensive Income (Loss) (in millions):

| | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2016 |
|---|---|---|
| Net sales | $322.1 | $634.7 |
| Cost of sales | (242.1 ) | (512.9 ) |
| Selling, general and administrative expenses | (63.7 ) | (158.5 ) |
| Impairment of MHPS disposal group | (55.6 ) | (55.6 ) |
| Net interest (expense) | (0.2 ) | (0.6 ) |
| Other income (expense) | 0.1 | 2.2 |
| Income (loss) from discontinued operations before income taxes | (39.4 ) | (90.7 ) |
| (Provision for) benefit from income taxes | (5.7 ) | (6.8 ) |
| Income (loss) from discontinued operations – net of tax | (45.1 ) | (97.5 ) |
| Net loss (income) attributable to noncontrolling interest | 0.5 | 0.7 |
| Income (loss) from discontinued operations – net of tax attributable to Terex Corporation | $(44.6 ) | $(96.8 ) |

As a result of the SAPA, the Company recognized a pre-tax charge of $55.6 million ($55.6 million after-tax) in the second quarter of 2016 to write-down the MHPS disposal group to fair value, less costs to sell. The Company estimated the amount of sale proceeds using the cash proceeds plus an average of closing stock prices in the month of June 2016 for Konecranes common shares as traded on the Nasdaq Helsinki stock exchange (under the symbol "KCR1V") multiplied by 19.6 million Class B shares expected to be received.

As a result of the SAPA, the Company determined that amounts invested in the MHPS business were no longer indefinitely reinvested. Accordingly, the Company recorded previously unrecognized U.S. and foreign deferred taxes associated with its investment in MHPS subsidiaries.

Cranes

As part of the transformation and improvement of its Cranes segment, the Company is actively seeking a buyer for its utility hot lines tools business located in South America and, accordingly, the assets and liabilities are reported as held for sale.

Construction

In December 2016, the Company entered into an agreement to sell its Coventry, UK-based compact construction business. During the six months ended June 30, 2017, the Company completed the sale of Coventry, UK-based compact construction business and a loss of $0.6 million was recognized within Selling, general and administrative expenses ("SG&A") in the Condensed Consolidated Statement of Comprehensive Income (Loss) related to the sale. The sale of the remaining UK-based compact construction product line assets was completed during the second quarter of

2017 and a gain of $0.1 million was recognized within SG&A related to the sale. During the six months ended June 30, 2017, the Company recognized a gain of $5.9 million within SG&A resulting from a post-closing adjustment related to the 2016 sale of its midi/mini excavators, wheeled excavators, and compact wheel loader business in Germany. In March 2017, the Company signed a sale agreement with a buyer to sell its Indian compact construction business. The Company completed the sale during the second quarter of 2017 and a loss of $1.3 million was recognized within SG&A related to the sale. The operating results for these construction product lines are reported in continuing operations, within the Corporate and Other category in our segment disclosures.

Assets and liabilities held for sale

Assets and liabilities held for sale consist of the Company's former MHPS segment, portions of its Cranes segment and portions of its former Construction Segment. Such assets and liabilities are classified as held for sale upon meeting the requirements of ASC 360 - "Property, Plant and Equipment", and are recorded at lower of carrying amounts or fair value less costs to sell. Assets are no longer depreciated once classified as held for sale.

The following table provides the amounts of assets and liabilities held for sale in the Condensed Consolidated Balance Sheet (in millions):

| | June 30, 2017 | December 31, 2016 | | | |
|---|---|---|---|---|---|
| | Cranes | MHPS | Cranes | Construction | Total |
| Assets | | | | | |
| Cash and cash equivalents | $ 3.1 | $ 71.0 | $ 1.2 | $ 1.2 | $ 73.4 |
| Trade receivables – net | 2.6 | 243.5 | 3.1 | 24.4 | 271.0 |
| Inventories | 2.2 | 309.4 | 1.7 | 23.9 | 335.0 |
| Prepaid and other current assets | 0.1 | 49.9 | 0.5 | 3.1 | 53.5 |
| Current assets held for sale | $ 8.0 | $ 673.8 | $ 6.5 | $ 52.6 | $ 732.9 |
| | | | | | |
| Property, plant and equipment – net | $ 0.6 | $ 294.2 | $ 0.8 | $ 3.2 | $ 298.2 |
| Goodwill | — | 573.7 | — | — | 573.7 |
| Intangible assets | 2.9 | 212.6 | 2.9 | — | 215.5 |
| Impairment reserve | (3.1) | — | (1.7) | (3.5) | (5.2) |
| Other assets | — | 86.4 | 1.1 | 1.6 | 89.1 |
| Non-current assets held for sale | $ 0.4 | $ 1,166.9 | $ 3.1 | $ 1.3 | $ 1,171.3 |
| | | | | | |
| Liabilities | | | | | |
| Notes payable and current portion of long-term debt | $ — | $ 13.1 | $ — | $ 1.3 | $ 14.4 |
| Trade accounts payable | 0.8 | 132.6 | 0.7 | 23.8 | 157.1 |
| Accruals and other current liabilities | 2.7 | 267.0 | 6.2 | 9.1 | 282.3 |
| Current liabilities held for sale | $ 3.5 | $ 412.7 | $ 6.9 | $ 34.2 | $ 453.8 |
| | | | | | |
| Long-term debt, less current portion | $ — | $ 2.4 | $ — | $ — | $ 2.4 |
| Retirement plans and other non-current liabilities | 0.7 | 235.3 | 0.7 | 0.9 | 236.9 |
| Other non-current liabilities | 0.4 | 71.7 | 0.4 | 0.7 | 72.8 |
| Non-current liabilities held for sale | $ 1.1 | $ 309.4 | $ 1.1 | $ 1.6 | $ 312.1 |

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The following table provides amounts of cash and cash equivalents presented in the Condensed Consolidated Statement of Cash Flows (in millions):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Cash and cash equivalents: | | |
| Cash and cash equivalents - continuing operations | $ 555.5 | $ 428.5 |
| Cash and cash equivalents - held for sale | 3.1 | 73.4 |
| Total cash and cash equivalents: | $ 558.6 | $ 501.9 |

Cash and cash equivalents held for sale at June 30, 2017 includes no amounts which were not immediately available for use. Cash and cash equivalents held for sale at December 31, 2016 includes $14.0 million which were not immediately available for use. These consist primarily of cash balances held in escrow to secure various obligations of the Company.

The following table provides supplemental cash flow information related to discontinued operations (in millions):

| | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2016 |
|---|---|---|
| Non-cash operating items: | | |
| Depreciation and amortization | $ 9.1 | $ 22.4 |
| Asset Impairments | $ 55.6 | $ 55.6 |
| Deferred taxes | $ 4.4 | $ 4.3 |
| Investing activities: | | |
| Capital expenditures | $ 4.7 | $ 8.5 |

Gain (loss) on disposition of discontinued operations - net of tax

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | 2017 | | | 2016 |
| | MHPS | Atlas | Total | Total | MHPS | Atlas | Total | Total |
| Gain (loss) on disposition of discontinued operations | $ — | $ — | $ — | $ 0.1 | $ 79.5 | $ 3.5 | $ 83.0 | $ 4.6 |
| (Provision for) benefit from income taxes | 5.4 | — | 5.4 | — | (21.4 ) | (0.5 ) | (21.9 ) | (1.1 ) |
| Gain (loss) on disposition of discontinued operations – net of tax | $ 5.4 | $ — | $ 5.4 | $ 0.1 | $ 58.1 | $ 3.0 | $ 61.1 | $ 3.5 |

During the three and six months ended June 30, 2017, the Company recognized a gain on disposition of discontinued operations - net of tax of $5.4 million and $61.1 million, respectively, $5.4 million and $58.1 million of which is due to the sale of the MHPS business. During the six months ended June 30, 2017, the Company recorded contractual earnout payments of $3.0 million related to the sale of its Atlas heavy construction equipment and knuckle-boom cranes businesses (“Atlas”). During the six months ended June 30, 2016 the Company recognized a gain on disposition

of discontinued operations - net of tax of $3.5 million due primarily to a gain of $3.0 million related to the sale of Atlas based on contractual earnout payments and a $0.5 million gain related to sale of its truck business.

NOTE F – EARNINGS PER SHARE

| (in millions, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Income (loss) from continuing operations attributable to Terex Corporation Common Stockholders | $95.4 | $109.6 | $35.1 | $87.6 |
| Income (loss) from discontinued operations–net of tax | — | (44.6) | — | (96.8) |
| Gain (loss) on disposition of discontinued operations–net of tax | 5.4 | 0.1 | 61.1 | 3.5 |
| Net income (loss) attributable to Terex Corporation | $100.8 | $65.1 | $96.2 | $(5.7) |
| Basic shares: | | | | |
| Weighted average shares outstanding | 95.7 | 109.2 | 100.4 | 109.0 |
| Earnings (loss) per share – basic: | | | | |
| Income (loss) from continuing operations | $0.99 | $1.01 | $0.35 | $0.81 |
| Income (loss) from discontinued operations–net of tax | — | (0.41) | — | (0.89) |
| Gain (loss) on disposition of discontinued operations–net of tax | 0.06 | — | 0.61 | 0.03 |
| Net income (loss) attributable to Terex Corporation | $1.05 | $0.60 | $0.96 | $(0.05) |
| Diluted shares: | | | | |
| Weighted average shares outstanding - basic | 95.7 | 109.2 | 100.4 | 109.0 |
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock awards | 1.4 | 0.4 | 1.8 | 0.6 |
| Diluted weighted average shares outstanding | 97.1 | 109.6 | 102.2 | 109.6 |
| Earnings (loss) per share – diluted: | | | | |
| Income (loss) from continuing operations | $0.98 | $1.00 | $0.34 | $0.80 |
| Income (loss) from discontinued operations–net of tax | — | (0.41) | — | (0.88) |
| Gain (loss) on disposition of discontinued operations–net of tax | 0.06 | — | 0.60 | 0.03 |
| Net income (loss) attributable to Terex Corporation | $1.04 | $0.59 | $0.94 | $(0.05) |

Weighted average options to purchase approximately 8,000 shares of the Company's common stock, par value $0.01 per share ("Common Stock"), were outstanding during the three and six months ended June 30, 2017, but were not included in the computation of diluted shares as the effect would be anti-dilutive. Weighted average options to purchase approximately 102,000 and 121,000 shares of the Company's common stock, par value $0.01 per share ("Common Stock"), were outstanding during the three and six months ended June 30, 2016, respectively, but were not included in the computation of diluted shares as the effect would be anti-dilutive. Weighted average restricted stock awards of approximately 47,000 and 90,000 were outstanding during the three and six months ended June 30, 2017, respectively, but were not included in the computation of diluted shares because the effect would be anti-dilutive or performance targets were not expected to be achieved for awards contingent upon performance. Weighted average restricted stock awards of approximately 894,000 and 1,361,000 were outstanding during the three and six months ended June 30, 2016, respectively, but were not included in the computation of diluted shares because the effect would be anti-dilutive or performance targets were not expected to be achieved for awards contingent upon performance. ASC 260, "Earnings per Share," requires that employee stock options and non-vested restricted shares granted by the Company be treated as potential common shares outstanding in computing diluted earnings per share. Under the treasury stock method, the amount the employee must pay for exercising stock options and the amount of compensation cost for future services that the Company has not yet recognized are assumed to be used to repurchase shares.

NOTE G – FINANCE RECEIVABLES

TFS leases equipment and provides financing to customers for the purchase and use of Terex equipment. In the normal course of business, TFS assesses credit risk, establishes structure and pricing of financing transactions, documents the finance receivable, and records and funds the transactions. TFS bills and collects cash from the customer.

TFS primarily conducts on-book business in the U.S., with limited business in China, the United Kingdom, and Germany. TFS does business with various types of customers consisting of rental houses, end user customers and Terex equipment dealers.

The Company's net finance receivable balances include both sales-type leases and commercial loans. Finance receivables that management intends to hold until maturity are stated at their outstanding unpaid principal balances, net of an allowance for loan losses as well as any deferred fees and costs. Finance receivables originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value, in the aggregate. During the three and six months ended June 30, 2017, the Company transferred finance receivables of $45.5 million and $88.9 million, respectively, to third party financial institutions, which qualified for sales treatment under ASC 860. During the three and six months ended June 30, 2016, the Company transferred finance receivables of $76.3 million and $110.2 million, respectively, to third party financial institutions, which qualified for sales treatment under ASC 860. At June 30, 2017, the Company had $42.1 million of held for sale finance receivables recorded in Prepaid and other current assets in the Condensed Consolidated Balance Sheet.

Revenue attributable to finance receivables management intends to hold until maturity is recognized on the accrual basis using the effective interest method. TFS bills customers and accrues interest income monthly on the unpaid principal balance. The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has significant doubts about further collectability of contractual payments, even though the loan may be currently performing. A receivable may remain on accrual status if it is in the process of collection and is either guaranteed or secured. Interest received on non-accrual finance receivables is typically applied against principal. Finance receivables are generally restored to accrual status when the obligation is brought current and the borrower has performed in accordance with the contractual terms for a reasonable period of time and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The Company has a history of enforcing the terms of these separate financing agreements.

Finance receivables, net consisted of the following (in millions):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Commercial loans | $216.0 | $ 226.4 |
| Sales-type leases | 16.3 | 16.4 |
| Total finance receivables, gross | 232.3 | 242.8 |
| Allowance for credit losses | (6.3 ) | (6.3 ) |
| Total finance receivables, net | $226.0 | $ 236.5 |

At June 30, 2017, approximately $98 million of finance receivables are recorded in Prepaid and other current assets and approximately $128 million are recorded in Other assets in the Condensed Consolidated Balance Sheet. At December 31, 2016, approximately $74 million of finance receivables were recorded in Prepaid and other current assets and approximately $162 million were recorded in Other assets in the Condensed Consolidated Balance Sheet

Credit losses are charged against the allowance for credit losses when management ceases active collection efforts. Subsequent recoveries, if any, are credited to earnings. The allowance for credit losses is maintained at a level set by

management which represents evaluation of known and inherent risks in the portfolio at the consolidated balance sheet date. Management’s periodic evaluation of the adequacy of the allowance is based on the Company’s past loan loss experience, market-based loss experience, specific customer situations, estimated value of any underlying collateral, current economic conditions, and other relevant factors. This evaluation is inherently subjective, since it requires estimates that may be susceptible to significant change. Although specific and general loss allowances are established in accordance with management’s best estimate, actual losses are dependent upon future events and, as such, further additions to or decreases from the level of loss allowances may be necessary.

The following table presents an analysis of the allowance for credit losses:

| | Three Months Ended June 30, 2017 | | | Three Months Ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Commercial Loans | Sales-Type Leases | Total | Commercial Loans | Sales-Type Leases | Total |
| Balance, beginning of period | $5.6 | $ 0.4 | $6.0 | $6.4 | $ 1.1 | $7.5 |
| Provision for credit losses | 0.4 | — | 0.4 | 0.5 | (0.6 ) | (0.1 ) |
| Charge offs | (0.1 ) | — | (0.1 ) | — | — | — |
| Recoveries | — | — | — | — | — | — |
| Balance, end of period | $5.9 | $ 0.4 | $6.3 | $6.9 | $ 0.5 | $7.4 |

| | Six Months Ended June 30, 2017 | | | Six Months Ended June 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Commercial Loans | Sales-Type Leases | Total | Commercial Loans | Sales-Type Leases | Total |
| Balance, beginning of period | $5.9 | 0.4 | $6.3 | $6.5 | $ 0.8 | $7.3 |
| Provision for credit losses | 0.1 | — | 0.1 | 0.4 | (0.3 ) | 0.1 |
| Charge offs | (0.1 ) | — | (0.1 ) | — | — | — |
| Recoveries | — | — | — | — | — | — |
| Balance, end of period | $5.9 | $ 0.4 | $6.3 | $6.9 | $ 0.5 | $7.4 |

The Company utilizes a two tier approach to set allowances: (1) identification of impaired finance receivables and establishment of specific loss allowances on such receivables; and (2) establishment of general loss allowances on the remainder of its portfolio. Specific loss allowances are established based on circumstances and factors of specific receivables. The Company regularly reviews the portfolio which allows for early identification of potentially impaired receivables. The process takes into consideration, among other things, delinquency status, type of collateral and other factors specific to the borrower.

General loss allowance levels are determined based upon a combination of factors including, but not limited to, TFS experience, general market loss experience, performance of the portfolio, current economic conditions, and management's judgment. The two primary risk characteristics inherent in the portfolio are (1) the customer's ability to meet contractual payment terms, and (2) the liquidation values of the underlying primary and secondary collaterals. The Company records a general or unallocated loss allowance that is calculated by applying the reserve rate to its portfolio, including the unreserved balance of accounts that have been specifically reserved for. All delinquent accounts are reviewed for potential impairment. A receivable is deemed to be impaired when based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Amount of impairment is measured as the difference between the balance outstanding and underlying collateral value of equipment being financed, as well as any other collateral. All finance receivables identified as impaired are evaluated individually. Generally, the Company does not change terms and conditions of existing finance receivables.

The following table presents individually impaired finance receivables (in millions):

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Commercial Loans | Sales-Type Leases | Total | Commercial Loans | Sales-Type Leases | Total |
| Recorded investment | $2.9 | $ — | $2.9 | $1.6 | $ — | $1.6 |
| Related allowance | 1.6 | — | 1.6 | 1.6 | — | 1.6 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Average recorded investment | 2.5 | — | 2.5 | 1.7 | 0.9 | 2.6 |

The average recorded investment for impaired finance receivables was $1.2 million for sales-type leases and $1.7 million for commercial loans at June 30, 2016, which were fully reserved.

The allowance for credit losses and finance receivables by portfolio, segregated by those amounts that are individually evaluated for impairment and those that are collectively evaluated for impairment, was as follows (in millions):

| | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| Allowance for credit losses, ending balance: | Commercial Loans | Sales-Type Leases | Total | Commercial Loans | Sales-Type Leases | Total |
| Individually evaluated for impairment | $1.6 | $ — | $1.6 | $1.6 | $ — | $1.6 |
| Collectively evaluated for impairment | 4.3 | 0.4 | 4.7 | 4.3 | 0.4 | 4.7 |
| Total allowance for credit losses | $5.9 | $ 0.4 | $6.3 | $5.9 | $ 0.4 | $6.3 |
| | | | | | | |
| Finance receivables, ending balance: | | | | | | |
| Individually evaluated for impairment | $2.9 | $ — | $2.9 | $1.6 | $ — | $1.6 |
| Collectively evaluated for impairment | 213.1 | 16.3 | 229.4 | 224.8 | 16.4 | 241.2 |
| Total finance receivables | $216.0 | $ 16.3 | $232.3 | $226.4 | $ 16.4 | $242.8 |

Accounts are considered delinquent when the billed periodic payments of the finance receivables exceed 30 days past the due date.

The following tables present analysis of aging of recorded investment in finance receivables (in millions):

| | June 30, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 31-60 days past due | 61-90 days past due | Greater than 90 days past due | Total past due | Total Finance Receivables |
| Commercial loans | $210.4 | $ 1.4 | $ 0.1 | $ 4.1 | $5.6 | $ 216.0 |
| Sales-type leases | 15.8 | — | — | 0.5 | 0.5 | 16.3 |
| Total finance receivables | $226.2 | $ 1.4 | $ 0.1 | $ 4.6 | $6.1 | $ 232.3 |

| | December 31, 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Current | 31-60 days past due | 61-90 days past due | Greater than 90 days past due | Total past due | Total Finance Receivables |
| Commercial loans | $224.2 | $ 0.6 | $ 0.2 | $ 1.4 | $2.2 | $ 226.4 |
| Sales-type leases | 15.8 | — | 0.6 | — | 0.6 | 16.4 |
| Total finance receivables | $240.0 | $ 0.6 | $ 0.8 | $ 1.4 | $2.8 | $ 242.8 |

At June 30, 2017 and December 31, 2016, $4.1 million and $1.4 million, respectively, of commercial loans were 90 days or more past due. Commercial loans in the amount of $11.3 million and $7.4 million were on non-accrual status as of June 30, 2017 and December 31, 2016, respectively.

At June 30, 2017, there were $0.5 million sales-type lease receivables that were 90 days or more past due. At December 31, 2016 there were no sales-type lease receivables that were 90 days or more past due. Sales-type leases in the amount of $0.5 million were on non-accrual status as of June 30, 2017. At December 31, 2016 there were no sales-type leases on non-accrual status.

Credit Quality Information

Credit quality is reviewed periodically based on customers' payment status. In addition to delinquency status, any information received regarding a customer (such as bankruptcy filings, etc.) will also be considered to determine the credit quality of the customer. Collateral asset values are also monitored regularly to determine the potential loss exposures on any given transaction.

The Company uses the following internal credit quality indicators, based on an internal risk rating system, using certain external credit data, listed from the lowest level of risk to highest level of risk. The internal rating system considers factors affecting specific borrowers' ability to repay.

Finance receivables by risk rating (in millions):

| Rating | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Superior | $7.8 | $ 9.6 |
| Above Average | 55.0 | 64.7 |
| Average | 96.3 | 111.3 |
| Below Average | 68.6 | 53.0 |
| Sub Standard | 4.6 | 4.2 |
| Total | $232.3 | $ 242.8 |

NOTE H – INVENTORIES

Inventories consist of the following (in millions):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Finished equipment | $ 349.0 | $ 334.7 |
| Replacement parts | 153.9 | 144.9 |
| Work-in-process | 189.9 | 175.4 |
| Raw materials and supplies | 219.7 | 198.8 |
| Inventories | $ 912.5 | $ 853.8 |

Reserves for lower of cost or net realizable value and excess and obsolete inventory were $86.7 million at June 30, 2017. Reserves for lower of cost or market value, excess and obsolete inventory were $83.3 million at December 31, 2016.

NOTE I – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment – net consist of the following (in millions):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Property | $41.1 | $ 36.4 |
| Plant | 151.4 | 144.3 |
| Equipment | 467.5 | 456.1 |
| Property, plant and equipment – gross | 660.0 | 636.8 |
| Less: Accumulated depreciation | (356.3 ) | (332.2 ) |
| Property, plant and equipment – net | $303.7 | $ 304.6 |

NOTE J – GOODWILL AND INTANGIBLE ASSETS, NET

An analysis of changes in the Company's goodwill by business segment is as follows (in millions):

| | AWP | Cranes | MP | Total |
|---|---|---|---|---|
| Balance at December 31, 2016, gross | $137.7 | $179.3 | $183.8 | $500.8 |
| Accumulated impairment | (38.6 ) | (179.3 ) | (23.2 ) | (241.1 ) |
| Balance at December 31, 2016, net | 99.1 | — | 160.6 | 259.7 |
| Foreign exchange effect and other | 1.6 | — | 6.6 | 8.2 |
| Balance at June 30, 2017, gross | 139.3 | 179.3 | 190.4 | 509.0 |
| Accumulated impairment | (38.6 ) | (179.3 ) | (23.2 ) | (241.1 ) |
| Balance at June 30, 2017, net | $100.7 | $— | $167.2 | $267.9 |

Intangible assets, net were comprised of the following as of June 30, 2017 and December 31, 2016 (in millions):

| | | June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Life (in years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Definite-lived intangible assets: | | | | | | | |
| Technology | 7 | $18.0 | $ (16.8 ) | $ 1.2 | $17.0 | $ (15.7 ) | $ 1.3 |
| Customer Relationships | 20 | 33.5 | (26.6 ) | 6.9 | 33.1 | (25.2 ) | 7.9 |
| Land Use Rights | 68 | 8.2 | (1.0 ) | 7.2 | 7.9 | (0.9 ) | 7.0 |
| Other | 8 | 26.4 | (24.1 ) | 2.3 | 25.8 | (23.6 ) | 2.2 |
| Total definite-lived intangible assets | | $86.1 | $ (68.5 ) | $ 17.6 | $83.8 | $ (65.4 ) | $ 18.4 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (in millions) | 2017 | 2016 | 2017 | 2016 |
| Aggregate Amortization Expense | $0.5 | $0.7 | $1.0 | $1.4 |

Estimated aggregate intangible asset amortization expense (in millions) for each of the next five years below is:

| | |
|---|---|
| 2017 | $2.0 |
| 2018 | $1.8 |
| 2019 | $1.7 |
| 2020 | $1.7 |
| 2021 | $1.6 |

NOTE K – DERIVATIVE FINANCIAL INSTRUMENTS

The Company operates internationally, with manufacturing and sales facilities in various locations around the world. In the normal course of business, the Company uses derivatives to manage foreign currency and interest rate cash flow exposures on third party and intercompany forecasted transactions. Cash flow exposures relate to the variability of future cash flows associated with recognized assets or liabilities or forecasted transactions. For a derivative to qualify for hedge accounting treatment at inception and throughout the hedge period, the Company formally documents the nature and relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking various hedge transactions, and the method of assessing hedge effectiveness. Additionally, for hedges of forecasted transactions, significant characteristics and expected terms of a forecasted transaction must be specifically identified, and it must be probable that each forecasted transaction will occur. If it is deemed probable the forecasted transaction will not occur, then the gain or loss would be recognized in current earnings. Financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. The Company does not engage in trading or other speculative use of financial instruments.

Primary currencies to which the Company is exposed are the Euro, British Pound and Australian Dollar. The effective portion of unrealized gains and losses associated with foreign exchange contracts are deferred as a component of Accumulated other comprehensive income (loss) ("AOCI") until the underlying hedged transactions are reported in the Company's Condensed Consolidated Statement of Comprehensive Income (Loss).

The Company has used and may use interest rate swaps to mitigate its exposure to changes in interest rates related to existing issuances of variable rate debt and changes in the fair value of fixed rate debt. Primary exposure includes movements in the U.S. prime rate and London Interbank Offered Rate ("LIBOR"). The effective portion of interest rate derivatives designated as cash flow hedges is deferred in AOCI and is recognized in earnings as hedged transactions occur. Changes in fair value associated with contracts deemed ineffective are recognized in earnings immediately.

The Company has not designated as hedging instruments certain foreign exchange contracts used to mitigate its exposure to changes in foreign currency exchange rates on third party forecasted transactions and recognized assets and liabilities. The majority of gains and losses recognized from foreign exchange contracts not designated as hedging instruments were offset by changes in the underlying hedged items, resulting in no material net impact on earnings. Changes in the fair value of these derivative financial instruments are recognized as gains or losses in Cost of goods sold or Other income (expense) – net in the Condensed Consolidated Statement of Comprehensive Income (Loss).

The Company is party to foreign exchange contracts that generally mature within one year to manage its exposure to changing currency exchange rates. At June 30, 2017 and December 31, 2016, the Company had $251.5 million and $245.5 million notional amount of foreign exchange contracts outstanding that were initially designated as hedge contracts, respectively. Most of the foreign exchange contracts outstanding as of June 30, 2017 mature on or before June 30, 2018. The fair market value of the contracts outstanding as of June 30, 2017 and December 31, 2016 was a net gain of $4.0 million and a net loss of $2.6 million, respectively. At June 30, 2017 and December 31, 2016, $215.9 million and $194.0 million notional amounts ($3.9 million of net fair value gains and $2.7 million of net fair value losses), respectively, of these contracts have been designated as, and are effective as, cash flow hedges of forecasted and specifically identified transactions. During 2017 and 2016, the Company recorded the change in fair value for these cash flow hedges to AOCI and reclassified to earnings a portion of the deferred gain or loss from AOCI as the hedged transactions occurred and were recognized in earnings.

The Company records foreign exchange contracts at fair value on a recurring basis. The foreign exchange contracts designated as hedging instruments are categorized under Level 2 of the ASC 820 hierarchy. See Note A – "Basis of Presentation," for an explanation of the ASC 820 hierarchy. Fair values of these contracts are derived using quoted

forward foreign exchange prices to interpolate values of outstanding trades at the reporting date based on their maturities.

Concurrent with the 2014 sale of a majority stake in A.S.V., Inc. to Manitex International, Inc. (“Manitex”), the Company invested in a subordinated convertible promissory note from Manitex, which included an embedded derivative, the conversion feature. At the date of issuance, the embedded derivative was measured at fair value. The derivative is categorized under Level 2 of the ASC 820 hierarchy and marked-to-market each period with changes in fair value recorded in Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss).



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Commencing in May 2015 the Company entered into certain interest rate swap agreements to offset the variability of cash flows due to changes in the floating rate of borrowings under its former Securitization Facility, which was terminated on May 31, 2016. The interest rate swaps were designated as cash flow hedges of the changes in the cash flows of interest rate payments on debt associated with changes in floating interest rates. Changes in the fair value of these derivative financial instruments were recognized as gains or losses in Cost of goods sold in the Condensed Consolidated Statement of Comprehensive Income (Loss). The Company recorded these contracts at fair value on a recurring basis. At June 30, 2017, the Company had no interest rate swap contracts outstanding, because it terminated the Securitization Facility and concurrently settled its outstanding interest rate swap contracts.

During November 2016, the Company entered into foreign exchange contracts, with notional value of €100 million, in connection with the sale of the MHPS business to Konecranes to hedge against its exposure to changes in the Euro to U.S. dollar exchange rate, as part of the proceeds from sale was received in Euros. These derivatives were not designated as hedging instruments and categorized under Level 2 of the ASC 820 hierarchy. Fair value was derived using quoted forward foreign exchange prices to interpolate values of outstanding trades at the reporting date based on their maturities. These foreign exchange contracts were recorded as a net asset of $2.0 million at December 31, 2016. At June 30, 2017, these contracts were no longer outstanding as the sale of MHPS to Konecranes closed in January 2017.

During the six months ended June 30, 2017, the Company entered into foreign exchange contracts to hedge a portion of its Euro exposure of Konecranes shares held by the Company and dividends received on Konecranes shares. At June 30, 2017 the Company had €40.4 million notional amount of these derivatives outstanding. They are categorized under Level 2 of the ASC 820 hierarchy and fair value was derived using quoted forward foreign exchange prices to interpolate values of outstanding trades at the reporting date based on their maturities. These foreign exchange contracts are not designated as hedging instruments and recorded as a net liability of $0.9 million in the Condensed Consolidated Balance Sheet as of June 30, 2017, respectively.

In June 2017, the Company entered into cross currency swap contracts and designated these derivatives as cash flow hedges to hedge changes in foreign currency exchange rates. At June 30, 2017, the Company had €40 million notional amount of these derivatives maturing on August 1, 2022. The Company uses the cross currency swaps to mitigate the risk associated with fluctuations in exchange rates on euro denominated cash flows related to a €40 million intercompany note receivable maturing on August 1, 2022. Changes in the fair value of these derivatives are recorded on a recurring basis to AOCI and amounts are reclassified to Other income (expense) - net in the Condensed Consolidated Statement of Comprehensive Income (Loss) to offset the re-measurement of the hedged asset. These derivatives are categorized under Level 2 of the ASC 820 hierarchy and fair value is based on the present value of future cash payments and receipts. These derivatives are recorded as a net liability of $0.7 million in the Condensed Consolidated Balance Sheet as of June 30, 2017.

The following table provides the location and fair value amounts of derivative instruments designated as hedging instruments that are reported in the Condensed Consolidated Balance Sheet (in millions):

| Asset Derivatives | Balance Sheet Account | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| Foreign exchange contracts | Other current assets | $ 5.3 | $ 4.2 |
| Total asset derivatives | | $ 5.3 | $ 4.2 |
| Liability Derivatives | | | |
| Foreign exchange contracts | Other current liabilities | $ (1.3 ) | $ (6.8 ) |
| Cross currency swap | Other non-current liabilities | (0.7 ) | — |
| Total liability derivatives | | (2.0 ) | (6.8 ) |
| Total Derivatives | | $ 3.3 | $ (2.6 ) |

The following table provides the location and fair value amounts of derivative instruments not designated as hedging instruments that are reported in the Condensed Consolidated Balance Sheet (in millions):

| Asset Derivatives | Balance Sheet Account | June 30, 2017 | December 31, 2016 |
|---|---|---|---|
| Foreign exchange contracts | Other current assets | $ 0.1 | $ 2.6 |
| Debt conversion feature | Other assets | 0.9 | 1.1 |
| Total asset derivatives | | 1.0 | 3.7 |
| Liability Derivatives | | | |
| Foreign exchange contracts | Other current liabilities | (0.9 ) | (1.2 ) |
| Total liability derivatives | | (0.9 ) | (1.2 ) |
| Total Derivatives | | $ 0.1 | $ 2.5 |

The following tables provide the effect of derivative instruments that are designated as hedges in the Condensed Consolidated Statement of Comprehensive Income (Loss) and AOCI (in millions):

| Gain (Loss) Recognized on Derivatives in AOCI, net of tax: | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Cash Flow Derivatives | 2017 | 2016 | 2017 | 2016 |
| Foreign exchange contracts | $ 4.4 | $ (1.5) | $5.5 | $(4.6 ) |
| Interest rate swap | — | 0.3 | — | (0.2 ) |
| Total | $ 4.4 | $ (1.2) | $5.5 | $(4.8 ) |

| Gain (Loss) Reclassified from AOCI into Income (Effective): | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| Account | 2017 | 2016 | 2017 | 2016 |
| Cost of goods sold | $ (0.8) | $ — | $(2.8 ) | $1.3 |
| Other income (expense) – net | (0.7 ) | — | (0.7 ) | — |
| Total | $ (1.5) | $ — | $(3.5 ) | $1.3 |

| Gain (Loss) Recognized on Derivatives (Ineffective) in Income : | Three Months Ended June 30, | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|
| Account | 2017 | 69.1 | $141.6 | | $215.5 |
| Operating expenses: | | | | | |
| Purchased natural gas sold | 10.8 | 31.8 | 35.4 | | 99.8 |
| Operation and maintenance | 19.2 | 16.6 | 34.8 | * | 52.8 |
| Depreciation, depletion and amortization | 7.3 | 6.4 | 20.4 | | 19.3 |
| Taxes, other than income | 3.5 | 3.4 | 10.5 | | 10.3 |
| | 40.8 | 58.2 | 101.1 | | 182.2 |
| Operating income | 7.5 | 10.9 | 40.5 | | 33.3 |
| Earnings | $3.3 | $5.2 | $21.9 | * | $16.9 |
| Transportation volumes (MMdk) | 34.1 | 29.4 | 103.0 | | 82.5 |
| Natural gas gathering volumes (MMdk) | 10.7 | 16.4 | 36.5 | | 50.8 |
| Customer natural gas storage balance (MMdk): | | | | | |
| Beginning of period | 40.4 | 31.7 | 36.0 | | 58.8 |
| Net injection (withdrawal) | 8.8 | 6.8 | 13.2 | | (20.3 ) |
| End of period | 49.2 | 38.5 | 49.2 | | 38.5 |

* Results reflect a net benefit of $24.1 million ($15.0 million after tax) related to the natural gas gathering operations litigation, largely reflected in operation and maintenance expense, as discussed in Note 19.

Three Months Ended September 30, 2012 and 2011 Pipeline and energy services earnings decreased $1.9 million (37 percent) due to:

- Lower natural gas gathering volumes from existing operations, largely resulting from customers experiencing curtailments, normal production declines, deferral of certain natural gas development activity and the Company's divestments
- Higher operation and maintenance expense from existing operations of $700,000 (after tax), largely due to higher payroll-related and legal costs

Partially offsetting the earnings decrease was higher storage services revenue of $600,000 (after tax), largely higher average storage balances, as well as higher margins of $600,000 (after tax) from energy efficiency-related services.

Results also reflect lower operating revenues and lower purchased natural gas sold, both related to lower natural gas prices and lower natural gas volumes.

Nine Months Ended September 30, 2012 and 2011 Pipeline and energy services earnings increased $5.0 million due to:

- Lower operation and maintenance expense from existing operations largely related to a $15.0 million (after tax) net benefit related to the natural gas gathering operations litigation, as discussed in Note 19, which was partially offset by an impairment of certain natural gas gathering assets of $1.7 million (after tax) due largely to low natural gas prices
- Higher transportation volumes of $800,000 (after tax), largely higher volumes transported to storage

Partially offsetting the earnings increase were:

- Lower earnings of $7.3 million (after tax) due to lower natural gas gathering volumes from existing operations, as previously discussed
- Lower storage services revenue of $1.0 million (after tax), largely lower average storage balances

Results also reflect lower operating revenues and lower purchased natural gas sold, both related to lower natural gas prices and lower natural gas volumes.

Exploration and Production

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in millions, where applicable) | | | |
| Operating revenues: | | | | |
| Oil | $85.0 | $74.9 | $243.6 | $201.9 |
| Natural gas | 23.5 | 45.9 | 70.6 | 135.6 |
| | 108.5 | 120.8 | 314.2 | 337.5 |
| Operating expenses: | | | | |
| Operation and maintenance: | | | | |
| Lease operating costs | 20.7 | 19.4 | 58.2 | 55.8 |
| Gathering and transportation | 4.3 | 6.9 | 12.8 | 18.1 |
| Other | 9.6 | 9.8 | 28.4 | 27.3 |
| Depreciation, depletion and amortization | 41.4 | 38.5 | 112.6 | 106.0 |
| Taxes, other than income: | | | | |
| Production and property taxes | 9.6 | 10.0 | 27.8 | 30.5 |
| Other | .2 | (.7) | .8 | (.1) |
| Write-down of oil and natural gas properties | 160.1 | — | 160.1 | — |
| | 245.9 | 83.9 | 400.7 | 237.6 |
| Operating income (loss) | (137.4) | 36.9 | (86.5) | 99.9 |
| Earnings (loss) | $(87.8) | $22.5 | $(56.9) | $60.1 |
| Production: | | | | |
| Oil (MBbls) | 1,123 | 944 | 3,165 | 2,567 |
| Natural gas (MMcf) | 7,390 | 11,656 | 25,676 | 34,667 |
| Total production (MBOE) | 2,354 | 2,887 | 7,444 | 8,345 |
| Average realized prices (including hedges): | | | | |
| Oil (per Bbl) | $75.69 | $79.28 | $76.96 | $78.64 |
| Natural gas (per Mcf) | $3.17 | $3.94 | $2.75 | $3.91 |
| Average realized prices (excluding hedges): | | | | |
| Oil (per Bbl) | $73.89 | $80.90 | $76.45 | $83.05 |
| Natural gas (per Mcf) | $2.25 | $3.44 | $1.88 | $3.44 |
| Average depreciation, depletion and amortization rate, per BOE | $16.85 | $12.72 | $14.44 | $12.09 |
| Production costs, including taxes, per BOE: | | | | |
| Lease operating costs | $8.77 | $6.71 | $7.81 | $6.68 |
| Gathering and transportation | 1.84 | 2.37 | 1.72 | 2.17 |
| Production and property taxes | 4.07 | 3.46 | 3.74 | 3.66 |
| | $14.68 | $12.54 | $13.27 | $12.51 |

Three Months Ended September 30, 2012 and 2011 Exploration and production earnings decreased $110.3 million due to:

- A noncash write-down of oil and natural gas properties of $100.9 million (after tax), as discussed in Note 5
- Decreased natural gas production of 37 percent, largely related to a decision to curtail production, normal production declines, deferral of certain natural gas development activity and divestment at existing properties
- Lower average realized natural gas prices of 20 percent
- Lower average realized oil prices of 5 percent
-

Higher depreciation, depletion and amortization expense of $1.9 million (after tax), due to higher depletion rates, partially offset by lower volumes

Partially offsetting these decreases were:

- Increased oil production of 19 percent, largely related to drilling activity in the Bakken area, as well as the Paradox Basin
- Lower gathering and transportation expense of $1.6 million (after tax), largely due to lower gathering costs resulting from lower volumes and lower gathering rates in the coalbed area

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Nine Months Ended September 30, 2012 and 2011 Exploration and production earnings decreased $117.0 million due to:

- A noncash write-down of oil and natural gas properties of $100.9 million (after tax), as discussed in Note 5
- Lower average realized natural gas prices of 30 percent
- Decreased natural gas production of 26 percent, as previously discussed
- Higher depreciation, depletion and amortization expense of $4.2 million (after tax), as previously discussed
- Lower average realized oil prices of 2 percent
- Increased lease operating expenses of $1.5 million (after tax), largely due to higher costs in the Bakken area resulting largely from increased production volumes and higher workover costs, partially offset by lower costs at certain natural gas properties where curtailments of production have occured
- Higher general and administrative expense of $1.3 million (after tax), largely due to higher payroll-related costs

Partially offsetting these decreases were:

- Increased oil production of 23 percent, largely related to drilling activity in the Bakken area, the Paradox Basin, as well as at the South Texas properties
- Lower gathering and transportation expense of $3.3 million (after tax), as previously discussed
- Lower production taxes of $1.6 million (after tax), largely resulting from lower revenues excluding hedges

Construction Materials and Contracting

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Dollars in millions) | | | |
| Operating revenues | $650.0 | $619.1 | $1,241.5 | $1,138.2 |
| Operating expenses: | | | | |
| Operation and maintenance | 549.6 | 530.7 | 1,103.3 | 1,011.8 |
| Depreciation, depletion and amortization | 20.3 | 21.6 | 59.9 | 64.2 |
| Taxes, other than income | 11.0 | 11.1 | 29.6 | 28.6 |
| | 580.9 | 563.4 | 1,192.8 | 1,104.6 |
| Operating income | 69.1 | 55.7 | 48.7 | 33.6 |
| Earnings | $41.9 | $33.1 | $24.7 | $16.7 |
| Sales (000's): | | | | |
| Aggregates (tons) | 9,009 | 9,196 | 17,983 | 18,502 |
| Asphalt (tons) | 3,013 | 3,462 | 4,874 | 5,469 |
| Ready-mixed concrete (cubic yards) | 1,105 | 986 | 2,410 | 2,081 |

Three Months Ended September 30, 2012 and 2011 Earnings at the construction materials and contracting business increased $8.8 million (27 percent) due to:

- Increased construction margins of $4.1 million (after tax) reflecting increased construction activity and margins in the South and North Central regions
- Higher earnings of $2.3 million (after tax) resulting from higher liquid asphalt oil margins and volumes
- Lower selling, general and administrative expense of $2.3 million (after tax), largely lower payroll and benefit-related costs
- Higher earnings of $1.5 million (after tax) resulting from higher ready-mixed concrete volumes and margins

Partially offsetting these increases were:

- Lower earnings of $800,000 (after tax) resulting from lower aggregate margins primarily due to higher costs, as well as lower volumes
- Lower gains of $700,000 (after tax) from the sale of property, plant and equipment

Nine Months Ended September 30, 2012 and 2011 Construction materials and contracting earnings increased $8.0 million (48 percent) due to:

- Increased construction margins of $8.3 million (after tax), largely due to favorable weather in the North Central and Intermountain regions and increased construction activity in the North Central region
- Lower selling, general and administrative expense of $3.6 million (after tax), as previously discussed
- Higher earnings of $3.0 million (after tax) resulting from higher ready-mixed concrete volumes and margins, largely in the North Central region
- Higher earnings of $2.9 million (after tax) resulting from higher liquid asphalt oil margins and volumes

Partially offsetting these increases were:

- Higher income taxes, including the absence of an income tax benefit of $2.0 million related to favorable resolution of certain income tax matters in 2011
- Lower earnings of $3.5 million (after tax) resulting from lower asphalt margins primarily due to higher costs, as well as lower volumes
- Lower earnings of $3.3 million (after tax) resulting from lower aggregate margins and volumes, as previously discussed

Construction Services

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Operating revenues | $247.2 | $226.2 | $689.4 | $627.6 |
| Operating expenses: | | | | |
| Operation and maintenance | 219.9 | 208.0 | 606.5 | 571.2 |
| Depreciation, depletion and amortization | 2.8 | 2.8 | 8.3 | 8.5 |
| Taxes, other than income | 7.2 | 5.8 | 22.1 | 19.0 |
| | 229.9 | 216.6 | 636.9 | 598.7 |
| Operating income | 17.3 | 9.6 | 52.5 | 28.9 |
| Earnings | $9.9 | $5.1 | $30.0 | $15.8 |

Three Months Ended September 30, 2012 and 2011 Construction services earnings increased $4.8 million (96 percent), primarily due to higher workloads and margins in the Central and Western regions, higher equipment sales and rental margins, as well as higher margins in the Mountain region. These increases were partially offset by higher general and administrative expense of $700,000 (after tax).

Nine Months Ended September 30, 2012 and 2011 Construction services earnings increased $14.2 million (89 percent), primarily due to higher workloads and margins in the Central and Western regions, higher equipment sales and rental margins, as well as higher margins in the Mountain region. These increases were partially offset by higher general and administrative expense of $3.3 million (after tax), including higher payroll-related costs.

Other and Intersegment Transactions

Amounts presented in the preceding tables will not agree with the Consolidated Statements of Income due to the Company's other operations and the elimination of intersegment transactions. The amounts relating to these items are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (In millions) | | | |
| Other: | | | | |
| Operating revenues | $2.3 | $2.6 | $7.0 | $7.9 |
| Operation and maintenance | 1.5 | 1.6 | 4.4 | 6.5 |
| Depreciation, depletion and amortization | .5 | .4 | 1.5 | 1.2 |
| Taxes, other than income | — | .1 | .1 | .1 |
| Intersegment transactions: | | | | |
| Operating revenues | $26.4 | $39.9 | $78.6 | $139.3 |
| Purchased natural gas sold | 13.6 | 31.0 | 56.5 | 112.3 |
| Operation and maintenance | 12.8 | 8.9 | 22.1 | 27.0 |

For more information on intersegment eliminations, see Note 15.

PROSPECTIVE INFORMATION

The following information highlights the key growth strategies, projections and certain assumptions for the Company and its subsidiaries and other matters for certain of the Company's businesses. Many of these highlighted points are "forward-looking statements." There is no assurance that the Company's projections, including estimates for growth and changes in earnings, will in fact be achieved. Please refer to assumptions contained in this section, as well as the various important factors listed in Part II, Item 1A - Risk Factors, as well as Part I, Item 1A - Risk Factors in the 2011 Annual Report. Changes in such assumptions and factors could cause actual future results to differ materially from the Company's growth and earnings projections.

MDU Resources Group, Inc.

- Earnings per common share for 2012 are projected in the range of $1.05 to $1.20, excluding a third quarter noncash write-down of $100.9 million after tax and a second quarter $15.0 million after-tax benefit from a reversal of an arbitration charge. Including these items, earnings guidance for 2012 is 60 cents to 75 cents per common share.

- Although near-term market conditions are uncertain, the Company's long-term compound annual growth goals on earnings per share from operations are in the range of 7 to 10 percent.

- The Company continually seeks opportunities to expand through strategic acquisitions and organic growth opportunities.

Electric and natural gas distribution

- The Company filed an application with the MTPSC on September 26, 2012, for a natural gas rate increase, as discussed in Note 18.

- The EPA approved the South Dakota Regional Haze Program, which requires the Big Stone Station to install and operate a BART air quality control system to reduce emissions of particulate matter, sulfur dioxide and nitrogen oxides. The Company's share of the cost for the installation is estimated at $125 million and is expected to be completed in 2015. Advance determination of prudence for recovery of costs related to this system in electric rates

charged to customers has been approved by the NDPSC.

- The Company plans to construct and operate an 88-MW simple-cycle natural gas turbine and associated facilities, with an estimated project cost of $85 million and a projected in-service date late 2014. It will be located on owned property that is adjacent to the Company's Heskett Generating Station near Mandan, North Dakota. The capacity is necessary to meet the requirements of the Company's integrated electric system customers and will be a partial replacement for third-party contract capacity expiring in 2015. Advance determination of prudence and a Certificate of Public Convenience and Necessity have been received from the NDPSC.

- The Company plans to invest approximately $75 million in 2012 to serve the growing electric and gas customer base associated with the Bakken oil development in western North Dakota and eastern Montana.

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- The Company is analyzing potential projects for accommodating load growth in its industrial and agricultural sectors with company and customer-owned pipeline facilities designed to serve existing facilities currently served by fuel oil or propane, and to serve new customers. The Company is currently engaged in a 30-mile natural gas line project into the Hanford Nuclear Site in Washington.

- Currently the Company is involved with a number of pipeline projects to enhance the reliability and deliverability of its system in the Pacific Northwest and Idaho.

- The Company is pursuing opportunities associated with the potential development of high-voltage transmission lines and system enhancements targeted toward delivery of energy to major market areas.

- On October 10, 2012, the Company entered into a new coal supply agreement that will replace the Coyote coal supply agreement that expires in May 2016, as reported in Items 1 and 2 - Business and Properties - General in the 2011 Annual Report. The new agreement provides for the purchase of coal necessary to supply the coal requirements of the Coyote Station for the period May 2016 through December 2040.

- On August 16, 2012, Cascade filed an application for a decoupling mechanism with the OPUC. The OPUC approved an extension until March 31, 2013, of Cascade's existing decoupling mechanism, which was scheduled to expire in the third quarter of 2012, as reported in Items 1 and 2 - Business and Properties - General in the 2011 Annual Report.

Pipeline and energy services

- The Company along with Calumet Refining, LLC, continues to explore the feasibility of building and operating a 20,000 Bbl per day diesel topping plant in southwestern North Dakota. The facility would process Bakken crude and market the diesel within the Bakken region. Options to purchase land for the plant site were recently exercised. Total project costs are estimated to be approximately $280 million to $300 million with a projected in-service date in 2014.

- In May 2012, the Company purchased a 50 percent undivided interest in Whiting Oil and Gas Corporation's Pronghorn natural gas and oil midstream assets near Belfield, North Dakota in the Bakken area. The Company expects to invest approximately $100 million in 2012 including the purchase price. The Belfield natural gas processing plant has an inlet processing capacity of 35 MMcf per day.

- The Company expects average natural gas storage balances for the remainder of the year to be slightly higher than last year. The curtailment and/or divestment of certain natural gas properties and the deferral of certain gas development activity are expected to result in gathering volumes being lower in 2012 compared to last year. The decline is expected to be partially offset by higher transportation volumes related to growth projects placed in service in the Bakken area.

- In August 2012, the Company placed in service approximately 13 miles of high-pressure transmission pipeline from the Stateline processing facilities in northwestern North Dakota to deliver gas into the Northern Border Pipeline.

- The Company continues to pursue expansion of facilities and services offered to customers. Energy development within its geographic region, which includes portions of Colorado, Wyoming, Montana and North Dakota, is expanding, most notably the Bakken of North Dakota and eastern Montana. The Company owns an extensive natural gas pipeline system in the Bakken area. Ongoing energy development is expected to have many direct and indirect benefits to this business.

Exploration and production

- 

The Company has increased its expected capital expenditures to approximately $525 million in 2012. The Company has improved efficiencies across its portfolio to reduce individual well costs. However, an increase in the number of total planned wells for the year as well as the drilling of higher WI wells has resulted in higher total projected capital expenditures for the year. The Company continues its focus on returns by allocating the majority of its capital investment into the production of oil given the current commodity price environment.

- For 2012, the Company expects a 25 to 30 percent increase in oil production and a 25 to 30 percent decrease in natural gas production. The projected decline in natural gas production is primarily the result of a decision to curtail certain natural gas properties as well as divestments and the deferral of certain natural gas development activity because of sustained low natural gas prices.

- The Company has a total of seven drilling rigs deployed on its acreage in the Bakken, Texas and Paradox areas.

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• Bakken Area

The Company owns a total of approximately 127,000 net acres of leaseholds in Mountrail, Stark and Richland counties.

Capital expenditures are now expected to total approximately $265 million this year; an expansion of $165 million compared to 2011. The increase in the Bakken projected capital expenditures from earlier this year relates to more operated wells being drilled in 2012 along with the drilling of higher WI wells.

Mountrail County, North Dakota

The Company has had strong recent well results in the area. The Amundson 23-14H (15 percent WI) came on production October 16, 2012, with a 24-hour IP rate of 1,353 Bbls of oil and 582 Mcf of natural gas and the Luke 19-20-29H (58 percent WI) began producing October 18, 2012, at a 24-hour IP rate of 968 Bbls and 678 Mcf.

Approximately 40 remaining middle Bakken locations have been identified. This does not include any additional Three Forks potential, which is currently being evaluated. Estimated gross ultimate recovery rates per well are 250,000 to 600,000 Bbls.

Stark County, North Dakota

The Company has had strong recent well results in the Pavlish 19-20H (71 percent WI) and Kudrna 5-8H (81 percent WI) with 24-hour IP rates of 1,097 Bbls of oil and 657 Mcf of natural gas, and 1,151 Bbls of oil and 571 Mcf, respectively. The Pavlish came on production on September 19, 2012, and the Kudrna September 20, 2012.

Based on current information and assuming 1,280-acre spacing, the Company has identified approximately 40 future drill sites. Estimated gross ultimate recovery rates per well are 200,000 to 400,000 Bbls.

Richland County, Montana

On September 30, 2012, the Company brought the Klose (66 percent WI) well on line with a 24-hour IP rate of 371 Bbls of oil and 82 Mcf of natural gas.

Approximately 100 potential gross well sites have been identified. Estimated gross ultimate recovery rates per well are 250,000 to 500,000 Bbls.

Paradox Basin - Cane Creek Federal Unit, Utah

The Company holds approximately 75,000 net exploratory leasehold acres.

The drilling of six operated wells is planned for this year with approximately $45 million of capital expenditures.

The Company has experienced strong well results with the Cane Creek 12-1 (100 percent WI) consistently producing approximately 1,500 BOPD excluding natural gas over the past three weeks with consistently high flowing pressures.

Approximately 50 to 75 future net locations have been identified. Estimated gross ultimate recovery rates per well range from 250,000 to 1 million Bbls.

Texas

The Company is targeting areas that have the potential for higher liquids content with approximately $65 million of capital planned for this year.

Approximately 50 potential gross well sites have been identified. Estimated gross ultimate recovery rates per well are 250,000 to 400,000 Bbls.

Heath Shale

The Company holds approximately 90,000 net exploratory leasehold acres in the Heath Shale oil prospect in Montana and expects to spend approximately $40 million this year.

Two recently completed wells have had IP rates in excess of 200 Bbls per day. Production optimization efforts continue in the Heath with ongoing cleanouts of the horizontal laterals and paraffin treatment to assure sustainable production from the field.

Sioux County, Nebraska

The Company has entered into an exploration agreement where it will drill two vertical wells and one horizontal well. The vertical wells in the project have been drilled and are undergoing selective well testing. The horizontal well is planned for the first half of next year. After evaluating these initial wells, the Company may exercise an option to purchase a 65 percent WI in approximately 79,000 gross acres.

Other Opportunities

The Company has spent approximately $25 million in the Niobrara area where the economic viability and other horizons are currently being evaluated.

The remaining forecasted 2012 capital has been allocated to other operated and non-operated opportunities, including $25 million for acquisitions of leaseholds acquired earlier this year primarily in the Bakken, Richland County area.

- Earnings guidance reflects estimated average NYMEX index prices for November and December in the ranges of $90.00 to $95.00 per Bbl of crude oil and $3.00 to $3.50 per Mcf of natural gas. Estimated prices do not reflect potential basis differentials.

- For the last three months of 2012, the Company has hedged 8,000 BOPD utilizing swaps and costless collars at a weighted average price of $101.34 and $81.25/$95.88 (floor/ceiling) respectively, and 49,500 MMBtu of natural gas per day utilizing swaps at a weighted average price of $4.38.

- For 2013, the Company has hedged 7,000 BOPD utilizing swaps and costless collars with a weighted average price of $99.83 and $92.50/$107.03 (floor/ceiling) respectively, and 30,000 MMBtu of natural gas per day utilizing swaps at a weighted average price of $3.89.

- The hedges that are in place as of October 31, 2012, are summarized in the following chart:

| Commodity | Type | Index | Period Outstanding | Forward Notional Volume (Bbl/MMBtu) | Price (Per Bbl/MMBtu) |
|---|---|---|---|---|---|
| Crude Oil | Collar | NYMEX | 10/12 - 12/12 | 92,000 | $80.00-$87.80 |
| Crude Oil | Collar | NYMEX | 10/12 - 12/12 | 92,000 | $80.00-$94.50 |
| Crude Oil | Collar | NYMEX | 10/12 - 12/12 | 92,000 | $80.00-$98.36 |
| Crude Oil | Collar | NYMEX | 10/12 - 12/12 | 46,000 | $85.00-$102.75 |
| Crude Oil | Collar | NYMEX | 10/12 - 12/12 | 46,000 | $85.00-$103.00 |
| Crude Oil | Swap | NYMEX | 10/12 - 12/12 | 46,000 | $100.10 |
| Crude Oil | Swap | NYMEX | 10/12 - 12/12 | 46,000 | $100.00 |
| Crude Oil | Swap | NYMEX | 10/12 - 12/12 | 92,000 | $110.30 |
| Crude Oil | Swap | NYMEX | 10/12 - 12/12 | 92,000 | $96.00 |
| Crude Oil | Swap | NYMEX | 10/12 - 12/12 | 92,000 | $99.00 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 874,000 | $6.27 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 460,000 | $5.005 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 230,000 | $5.005 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 230,000 | $5.0125 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 920,000 | $3.05 |
| Natural Gas | Swap | NYMEX | 10/12 - 12/12 | 920,000 | $2.805 |
| Natural Gas | Swap | Ventura | 10/12 - 12/12 | 920,000 | $4.87 |
| Crude Oil | Collar | NYMEX | 1/13 - 12/13 | 182,500 | $95.00-$117.00 |
| Crude Oil | Collar | NYMEX | 1/13 - 12/13 | 182,500 | $95.00-$117.00 |
| Crude Oil | Collar | NYMEX | 1/13 - 12/13 | 365,000 | $90.00-$97.05 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $95.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $95.30 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $100.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $100.02 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $102.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $102.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $104.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $104.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $98.00 |
| Crude Oil | Swap | NYMEX | 1/13 - 12/13 | 182,500 | $98.00 |
| Natural Gas | Swap | NYMEX | 1/13 - 12/13 | 3,650,000 | $3.76 |
| Natural Gas | Swap | NYMEX | 1/13 - 12/13 | 3,650,000 | $3.90 |
| Natural Gas | Swap | NYMEX | 1/13 - 12/13 | 3,650,000 | $4.00 |
| Natural Gas | Basis Swap | CIG | 10/12 - 12/12 | 690,000 | $0.405 |
| Natural Gas | Basis Swap | CIG | 10/12 - 12/12 | 184,000 | $0.41 |

Notes:

- Ventura is an index pricing point related to Northern Natural Gas Co.'s system; CIG is an index pricing point related to Colorado Interstate Gas Co.'s system.
- For all basis swaps, index prices are below NYMEX prices and are reported as a positive amount in the price column.

Construction materials and contracting

- Work backlog as of September 30, 2012, was approximately $464 million, compared to approximately $448 million a year ago. Private work represents 17 percent of the backlog, up from 8 percent in the second quarter. Public work represents 83 percent of the backlog. The backlog includes a variety of projects such as highway paving projects, airports, bridge work, reclamation and harbor expansions.

- The Company's backlog in the Bakken area of North Dakota is approximately $49 million.

- Projected revenues included in the Company's 2012 earnings guidance are approximately $1.5 billion.
- The Company anticipates margins in 2012 to be slightly lower compared to 2011.
- The Company continues to pursue opportunities for expansion in energy projects such as refineries, transmission, wind towers and geothermal. Initiatives are aimed at capturing additional market share and expansion into new markets.
- As the country's fifth largest sand and gravel producer, the Company will continue to strategically manage its 1.1 billion tons of aggregate reserves in all its markets, as well as take further advantage of being vertically integrated.
- Of the ten labor contracts that Knife River was negotiating, as reported in Items 1 and 2 - Business and Properties - General in the 2011 Annual Report, five have been ratified. The five remaining contracts are still in negotiations.

Construction services

- Work backlog as of September 30, 2012, was approximately $370 million, compared to approximately $331 million a year ago. The backlog includes a variety of projects such as substation and line construction, solar and other commercial, institutional and industrial projects including refinery work.
- The Company's backlog in the Bakken area of North Dakota is approximately $1 million.
- Projected revenues included in the Company's 2012 earnings guidance are approximately $900 million.
- The Company anticipates margins in 2012 to be higher compared to 2011.
- The Company continues to pursue opportunities for expansion in energy projects such as refineries, transmission, substations, utility services, as well as solar. Initiatives are aimed at capturing additional market share and expansion into new markets.

NEW ACCOUNTING STANDARDS

For information regarding new accounting standards, see Note 8, which is incorporated by reference.

CRITICAL ACCOUNTING POLICIES INVOLVING SIGNIFICANT ESTIMATES

The Company's critical accounting policies involving significant estimates include impairment testing of oil and natural gas production properties, impairment testing of long-lived assets and intangibles, revenue recognition, pension and other postretirement benefits, and income taxes. There were no material changes in the Company's critical accounting policies involving significant estimates from those reported in the 2011 Annual Report. For more information on critical accounting policies involving significant estimates, see Part II, Item 7 in the 2011 Annual Report.

LIQUIDITY AND CAPITAL COMMITMENTS

At September 30, 2012, the Company had cash and cash equivalents of $74.2 million and available capacity of $281.4 million under the outstanding credit facilities of the Company and its subsidiaries. The Company expects to meet its obligations for debt maturing within one year from various sources, including internally generated funds; the Company's credit facilities, as described below; and through the issuance of long-term debt.

Cash flows

Operating activities The changes in cash flows from operating activities generally follow the results of operations as discussed in Financial and Operating Data and also are affected by changes in working capital.

Cash flows provided by operating activities in the first nine months of 2012 decreased $82.3 million from the comparable period in 2011. The decrease was largely due to higher working capital requirements of $107.4 million, primarily at the exploration and production business. Excluding the effect of the write-down of oil and natural gas properties, the decrease was partially offset by increased cash flows due to higher deferred income taxes of $19.6 million, largely due to increased capital expenditures at the exploration and production business.

Investing activities Cash flows used in investing activities in the first nine months of 2012 increased $326.6 million from the comparable period in 2011. The increase was primarily due to higher ongoing capital expenditures of $290.3 million, largely at the exploration and production and electric and natural gas distribution businesses, as well as increased acquisition-related capital expenditures at the pipeline and energy services business. Lower investments partially offset the increase in cash flows used in investing activities.

Financing activities Cash flows provided by financing activities in the first nine months of 2012 increased $423.6 million from the comparable period in 2011, primarily due to higher issuance of long-term debt of $400.1 million and lower repayment of short-term borrowings of $20.0 million.

Defined benefit pension plans
There were no material changes to the Company's qualified noncontributory defined benefit pension plans from those reported in the 2011 Annual Report. For more information, see Note 17 and Part II, Item 7 in the 2011 Annual Report.

Capital expenditures
Net capital expenditures for the first nine months of 2012 were $702.2 million and are estimated to be approximately $940 million for 2012. Estimated capital expenditures include:

- System upgrades
- Routine replacements
- Service extensions
- Routine equipment maintenance and replacements
- Buildings, land and building improvements
- Pipeline and gathering projects, including an acquisition as discussed in Note 16
- Further development of existing properties, acquisition of additional leasehold acreage and exploratory drilling at the exploration and production segment
- Power generation opportunities, including certain costs for additional electric generating capacity
- Environmental upgrades
- Other growth opportunities

The Company continues to evaluate potential future acquisitions and other growth opportunities; however, they are dependent upon the availability of economic opportunities and, as a result, capital expenditures may vary significantly from the estimated 2012 capital expenditures referred to previously. The Company expects the 2012 estimated capital expenditures to be funded by various sources, including internally generated funds; the Company's credit facilities, as described below; and through the issuance of long-term debt.

Capital resources
Certain debt instruments of the Company and its subsidiaries, including those discussed later, contain restrictive covenants and cross-default provisions. In order to borrow under the respective credit agreements, the Company and its subsidiaries must be in compliance with the applicable covenants and certain other conditions, all of which the Company and its subsidiaries, as applicable, were in compliance with at September 30, 2012. In the event the Company and its subsidiaries do not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued. For additional information on the covenants, certain other conditions and cross-default provisions, see Part II, Item 8 - Note 9, in the 2011 Annual Report.

The following table summarizes the outstanding credit facilities of the Company and its subsidiaries at September 30, 2012:

| Company | Facility | | Facility Limit | | Amount Outstanding | | Letters of Credit | | Expiration Date | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | (In millions) | | | | | | | |
| MDU Resources Group, Inc. | Commercial paper/Revolving credit agreement | (a) | $100.0 | | $50.0 | (b) | $— | | 5/26/15 | |
| Cascade Natural Gas Corporation | Revolving credit agreement | | $50.0 | (c) | $— | | $1.9 | (d) | 12/27/13 | (e) |
| Intermountain Gas Company | Revolving credit agreement | | $65.0 | (f) | $11.0 | | $— | | 8/11/13 | |
| Centennial Energy Holdings, Inc. | Commercial paper/Revolving credit agreement | (g) | $500.0 | | $350.5 | (b) | $20.2 | (d) | 6/8/17 | |

(a) The $125 million commercial paper program is supported by a revolving credit agreement with various banks totaling $100 million (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of $150 million). There were no amounts outstanding under the credit agreement. On October 4, 2012, the credit agreement was increased to $125 million and the expiration date was extended to October 4, 2017.
(b) Amount outstanding under commercial paper program.
(c) Certain provisions allow for increased borrowings, up to a maximum of $75 million.
(d) The outstanding letters of credit, as discussed in Note 19, reduce amounts available under the credit agreement.
(e) Effective June 27, 2012, Cascade extended the credit agreement.
(f) Certain provisions allow for increased borrowings, up to a maximum of $80 million.
(g) The $500 million commercial paper program is supported by a revolving credit agreement with various banks totaling $500 million (provisions allow for increased borrowings, at the option of Centennial on stated conditions, up to a maximum of $650 million). There were no amounts outstanding under the credit agreement.

The Company's and Centennial's respective commercial paper programs are supported by revolving credit agreements. While the amount of commercial paper outstanding does not reduce available capacity under the respective revolving credit agreements, the Company and Centennial do not issue commercial paper in an aggregate amount exceeding the available capacity under their credit agreements. The commercial paper borrowings may vary during the period, largely the result of fluctuations in working capital requirements due to the seasonality of the construction businesses.

The following includes information related to the preceding table.

MDU Resources Group, Inc. On October 4, 2012, the Company amended the revolving credit agreement to increase the borrowing limit to $125.0 million and extend the termination date to October 4, 2017. The Company's revolving credit agreement supports its commercial paper program. Any commercial paper borrowings under this agreement would be classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. The Company's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in the Company's credit ratings have not limited, nor are currently expected to limit, the Company's ability to access the capital markets. If the Company were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Prior to the maturity of the credit agreement, the Company expects that it will negotiate the extension or replacement of this agreement. If the Company is unable to successfully negotiate an extension of, or replacement for, the credit

agreement, or if the fees on this facility become too expensive, which the Company does not currently anticipate, the Company would seek alternative funding.

The Company's coverage of fixed charges including preferred stock dividends was 2.8 times and 4.0 times for the 12 months ended September 30, 2012 and December 31, 2011, respectively.

Common stockholders' equity as a percent of total capitalization was 61 percent, 66 percent and 66 percent at September 30, 2012 and 2011 and December 31, 2011, respectively. This ratio is calculated as the Company's common stockholders' equity, divided by the Company's total capital. Total capital is the Company's total debt, including short-term borrowings and long-term debt due within one year, plus stockholders' equity. This ratio indicates how a company is financing its operations, as well as its financial strength.

The Company currently has a shelf registration statement on file with the SEC, under which the Company may issue and sell any combination of common stock and debt securities. The Company may sell all or a portion of such securities if warranted by market conditions and the Company's capital requirements. Any public offer and sale of such securities will be made only by means of a prospectus meeting the requirements of the Securities Act and the rules and regulations thereunder. The Company's board of directors currently has authorized the issuance and sale of up to an aggregate of $1.0 billion worth of such securities. The Company's board of directors reviews this authorization on a periodic basis and the aggregate amount of securities authorized may be increased in the future.

Centennial Energy Holdings, Inc. On June 8, 2012, Centennial entered into an amended and restated revolving credit agreement which replaced the previous $400 million revolving credit agreement and extended the termination date to June 8, 2017. The credit agreement contains customary covenants and provisions, including a covenant of Centennial not to permit, as of the end of any fiscal quarter, the ratio of total consolidated debt to total consolidated capitalization to be greater than 65 percent. Other covenants include restrictions on the sale of certain assets, limitations on subsidiary indebtedness and the making of certain loans and investments.

Centennial's revolving credit agreement contains cross-default provisions. These provisions state that if Centennial or any subsidiary of Centennial fails to make any payment with respect to any indebtedness or contingent obligation, in excess of a specified amount, under any agreement that causes such indebtedness to be due prior to its stated maturity or the contingent obligation to become payable, the agreement will be in default.

Centennial's revolving credit agreement supports its commercial paper program. On June 28, 2012, Centennial entered into a new private placement memorandum related to their commercial paper program to increase the borrowing limit to $500.0 million. Any commercial paper borrowings under this agreement would be classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. Centennial's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in Centennial's credit ratings have not limited, nor are currently expected to limit, Centennial's ability to access the capital markets. If Centennial were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Off balance sheet arrangements
In connection with the sale of the Brazilian Transmission Lines, Centennial has agreed to guarantee payment of any indemnity obligations of certain of the Company's indirect wholly owned subsidiaries who are the sellers in three purchase and sale agreements for periods ranging up to 10 years from the date of sale. The guarantees were required by the buyers as a condition to the sale of the Brazilian Transmission Lines.

Centennial continues to guarantee CEM's obligations under a construction contract for a 550-MW combined-cycle electric generating facility near Hobbs, New Mexico. For more information, see Note 19.

Contractual obligations and commercial commitments
There are no material changes in the Company's contractual obligations relating to estimated interest payments, operating leases, commodity derivatives, interest rate derivatives and minimum funding requirements for its defined benefit plans for 2012 from those reported in the 2011 Annual Report.

The Company's contractual obligations relating to long-term debt at September 30, 2012, increased $318.3 million or 22% from December 31, 2011. At September 30, 2012, the Company's contractual obligations related to long-term debt totaled $1.7 billion. The scheduled maturities (for the twelve months ended September 30, of each year listed) totaled $240.6 million in 2013; $41.0 million in 2014; $166.7 million in 2015; $388.5 million in 2016; $443.9 million in 2017; and $462.3 million thereafter. The Company intends to refinance long-term debt due within one year.

The Company's contractual obligations relating to purchase commitments at September 30, 2012, increased $498.9 million or 41% from December 31, 2011, largely related to natural gas supply and transportation contracts. At September 30, 2012, the Company's contractual obligations related to purchase commitments totaled $1.7 billion. The scheduled commitment amounts (for the twelve months ended September 30, of each year listed) totaled $467.5 million in 2013; $275.5 million in 2014; $169.3 million in 2015; $90.8 million in 2016; $25.2 million in 2017; and $695.1 million thereafter.

For more information on the Company's uncertain tax positions, see Note 14.

For more information on contractual obligations and commercial commitments, see Part II, Item 7 in the 2011 Annual Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of market fluctuations associated with commodity prices, interest rates and foreign currency. The Company has policies and procedures to assist in controlling these market risks and utilizes derivatives to manage a portion of its risk.

Commodity price risk
Fidelity utilizes derivative instruments to manage a portion of the market risk associated with fluctuations in the price of oil and natural gas and basis differentials on forecasted sales of oil and natural gas production. Cascade utilizes derivative instruments to manage a portion of its regulated natural gas supply portfolio in order to manage fluctuations in the price of natural gas. For more information on derivative instruments and commodity price risk, see Part II, Item 7A in the 2011 Annual Report, the Consolidated Statements of Comprehensive Income and Note 12.

The following table summarizes derivative agreements entered into by Fidelity and Cascade as of September 30, 2012. These agreements call for Fidelity to receive fixed prices and pay variable prices and for Cascade to receive variable prices and pay fixed prices.

(Forward notional volume and fair value in thousands)

| | Weighted Average Fixed Price (Per Bbl/MMBtu) | Forward Notional Volume (Bbl/MMBtu) | Fair Value |
|---|---|---|---|
| Fidelity | | | |
| Oil swap agreements maturing in 2012 | $101.34 | 368 | $3,164 |
| Oil swap agreements maturing in 2013 | $99.83 | 1,825 | $11,157 |
| Natural gas swap agreements maturing in 2012 | $4.38 | 4,554 | $4,806 |
| Natural gas swap agreement maturing in 2013 | $3.76 | 3,650 | $(307) |
| Natural gas basis swap agreements maturing in 2012 | $.41 | 874 | $(174) |
| Cascade | | | |
| Natural gas swap agreement maturing in 2012 | $4.47 | 31 | $(53) |

| | Weighted Average Floor/Ceiling Price (Per Bbl) | Forward Notional Volume (Bbl) | Fair Value |
|---|---|---|---|
| Fidelity | | | |
| Oil collar agreements maturing in 2012 | $81.25/$95.88 | 368 | $(843) |
| Oil collar agreements maturing in 2013 | $92.50/$107.03 | 730 | $2,814 |

Interest rate risk
There were no material changes to interest rate risk faced by the Company from those reported in the 2011 Annual Report. For more information, see Part II, Item 7A in the 2011 Annual Report.

Centennial entered into interest rate swap agreements to manage a portion of its interest rate exposure on the forecasted issuance of long-term debt. The agreements call for Centennial to receive payments from or make payments to counterparties based on the difference between fixed and variable rates as specified by the interest rate

swap agreements. For more information on derivative instruments, see the Consolidated Statements of Comprehensive Income and Note 12.



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The following table summarizes derivative instruments entered into by Centennial as of September 30, 2012. The agreements call for Centennial to receive variable rates and pay fixed rates.

(Notional amount and fair value in thousands)

| | Weighted Average Fixed Interest Rate | Notional Amount | Fair Value |
|---|---|---|---|
| Centennial | | | |
| Interest rate swap agreement with mandatory termination date in 2012 | 3.15 % | $10,000 | $(1,343) |
| Interest rate swap agreements with mandatory termination dates in 2013 | 3.22 % | $50,000 | $(6,436) |

Foreign currency risk
The Company's equity method investment in ECTE is exposed to market risks from changes in foreign currency exchange rates between the U.S. dollar and the Brazilian Real. For more information, see Part II, Item 8 - Note 4 in the 2011 Annual Report.

At September 30, 2012 and 2011, and December 31, 2011, the Company had no outstanding foreign currency hedges.

ITEM 4. CONTROLS AND PROCEDURES

The following information includes the evaluation of disclosure controls and procedures by the Company's chief executive officer and the chief financial officer, along with any significant changes in internal controls of the Company.

Evaluation of disclosure controls and procedures
The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. The Company's disclosure controls and other procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the chief executive officer and the chief financial officer have concluded that, as of the end of the period covered by this report, such controls and procedures were effective at a reasonable assurance level.

Changes in internal controls
No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 19, which is incorporated herein by reference.

## ITEM 1A. RISK FACTORS

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words "anticipates," "estimates," "expects," "intends," "plans," "predicts" and similar expressions.

The Company is including the following factors and cautionary statements in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and other statements that are other than statements of historical facts. From time to time, the Company

may publish or otherwise make available forward-looking statements of this nature, including statements contained within Prospective Information. All these subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, also are expressly qualified by these factors and cautionary statements.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Nonetheless, the Company's expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

There are no material changes in the Company's risk factors from those reported in Part I, Item 1A - Risk Factors in the 2011 Annual Report other than the risk related to the Company's exploration and production and pipeline and energy services businesses being dependent on factors which are subject to various external influences that cannot be controlled; the risk that actual quantities of recoverable oil and natural gas reserves and discounted future net cash flows from those reserves may vary significantly from estimated amounts; the risk related to environmental laws and regulations; the risk associated with electric generation operation that could be adversely impacted by global climate change initiatives to reduce GHG emissions; and the risk related to increased costs related to obligations under multiemployer pension plans. These factors and the other matters discussed herein are important factors that could cause actual results or outcomes for the Company to differ materially from those discussed in the forward-looking statements included elsewhere in this document.

Economic Risks
The Company's exploration and production and pipeline and energy services businesses are dependent on factors, including commodity prices and commodity price basis differentials, which are subject to various external influences that cannot be controlled.

These factors include: fluctuations in oil and natural gas production and prices; fluctuations in commodity price basis differentials; availability of economic supplies of natural gas; drilling successes in oil and natural gas operations; the timely receipt of necessary permits and approvals; the ability to contract for or to secure necessary drilling rig and service contracts and to retain employees to identify, drill for and develop reserves; the ability to acquire oil and natural gas properties; and other risks incidental to the development and operations of oil and natural gas wells, processing plants and pipeline systems. Volatility in oil and natural gas prices could negatively affect the results of operations, cash flows and asset values of the Company's exploration and production and pipeline and energy services businesses.

Actual quantities of recoverable oil and natural gas reserves and discounted future net cash flows from those reserves may vary significantly from estimated amounts. There is a risk that changes in estimates of proved reserve quantities or other factors including downward movements in prices, could result in additional future noncash write-downs of the Company's oil and natural gas properties.

The process of estimating oil and natural gas reserves is complex. Reserve estimates are based on assumptions relating to oil and natural gas pricing, drilling and operating expenses, capital expenditures, taxes, timing of operations, and

the percentage of interest owned by the Company in the properties. The reserve estimates are prepared for each of the Company's properties by internal engineers assigned to an asset team by geographic area. The internal engineers analyze available geological, geophysical, engineering and economic data for each geographic area. The internal engineers make various assumptions regarding this data. The extent, quality and reliability of this data can vary. Although the Company has prepared its reserve estimates in accordance with guidelines established by the industry and the SEC, significant changes to the reserve estimates may occur based on actual results of production, drilling, costs and pricing.

The Company bases the estimated discounted future net cash flows from proved reserves on prices and current costs in accordance with SEC requirements. Actual future prices and costs may be significantly different. Given the current pricing environment, there is risk that lower SEC Defined Prices, changes in estimates of reserve quantities, unsuccessful results of exploration and development efforts or changes in operating and development costs could result in additional future noncash write-downs of the Company's oil and natural gas properties.

Environmental and Regulatory Risks
The Company's operations are subject to environmental laws and regulations that may increase costs of operations, impact or limit business plans, or expose the Company to environmental liabilities.

The Company is subject to environmental laws and regulations affecting many aspects of its present and future operations, including air quality, water quality, waste management and other environmental considerations. These laws and regulations can result in increased capital, operating and other costs, delays as a result of litigation and administrative proceedings, and compliance, remediation, containment, monitoring and reporting obligations, particularly with regard to laws relating to electric generation operations and oil and natural gas development. These laws and regulations generally require the Company to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Although the Company strives to comply with all applicable environmental laws and regulations, public officials and entities, as well as private individuals and organizations, may seek injunctive relief or other remedies to enforce applicable environmental laws and regulations with which they have differing interpretations of the Company's legal or regulatory compliance. The Company cannot predict the outcome (financial or operational) of any related litigation or administrative proceedings that may arise.

Existing environmental laws and regulations may be revised and new laws and regulations seeking to protect the environment may be adopted or become applicable to the Company. These laws and regulations could require the Company to limit the use or output of certain facilities, restrict the use of certain fuels, install pollution control equipment or initiate pollution control technologies, remediate environmental contamination, remove or reduce environmental hazards, or prevent or limit the development of resources. Revised or additional laws and regulations, that result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from customers, could have a material adverse effect on the Company's results of operations and cash flows.

The EPA has issued draft regulations that outline several possible approaches for coal combustion residuals management under the RCRA. One approach, designating coal ash as a hazardous waste, would significantly change the manner and increase the costs of managing coal ash at five plants that supply electricity to customers of Montana-Dakota. This designation also could significantly increase costs for Knife River, which beneficially uses fly ash as a cement replacement in ready-mixed concrete and road base applications.

In December 2011, the EPA finalized the Mercury and Air Toxics rule that will require reductions in mercury and other toxic air emissions from coal- and oil-fired electric utility steam generating units. Montana-Dakota is evaluating the pollution control technologies needed at its electric generation resources to comply with this final rule. Controls must be installed by April 16, 2015. One additional year may be granted by the permitting authority to install pollution controls if needed to ensure electric system reliability.

Hydraulic fracturing is an important common practice used by the Company that involves injecting water; sand; guar, a water thickening agent; and trace amounts of chemicals under pressure into rock formations to stimulate oil and natural gas production. The EPA is developing a study to review the potential effects of hydraulic fracturing on underground sources of drinking water; the results of that study could impact future legislation or regulation. The BLM has released draft well stimulation regulations for hydraulic fracturing operations. The comment period for these regulations closed September 10, 2012. Fidelity worked with industry trade associations, other oil and gas operators and service companies in reviewing and commenting on the proposed regulations. If implemented, the BLM regulations would only affect Fidelity's operations on BLM-administered lands. If adopted as proposed, the BLM regulations, along with other legislative initiatives and regulatory studies, proceedings or initiatives at federal or state agencies that focus on the hydraulic fracturing process could result in additional compliance, reporting and disclosure requirements. Future legislation or regulation could increase compliance and operating costs, as well as delay or inhibit the Company's ability to develop its oil and natural gas reserves.

The EPA published a final NSPS rule for the oil and natural gas industry on August 16, 2012. The NSPS rule phases in over the next two years. The first phase was effective October 15, 2012, and primarily covers natural gas wells that are hydraulically fractured. Under the new rule, gas vapors or emissions from the natural gas wells must be captured or combusted utilizing a high efficiency device. Additional reporting requirements and control devices covering oil and natural gas production equipment, will be phased in on certain new oil and gas facilities with a final effective date of January 1, 2015. Impacts on Fidelity from this new rule are likely to include implementation of recordkeeping, reporting and testing requirements and the acquisition and installation of required equipment.

Initiatives to reduce GHG emissions could adversely impact the Company's electric generation operations.

Concern that GHG emissions are contributing to global climate change has led to international, federal and state legislative and regulatory proposals to reduce or mitigate the effects of GHG emissions. In late March 2012, the EPA proposed a GHG NSPS for new fossil fuel-fired electric generating units, including coal-fired units and natural gas-fired combined-cycle units. The EPA's new carbon dioxide emissions standard is equivalent to emissions from a natural gas-fired, high-efficiency combined-cycle unit. This stringent standard does not allow for any new coal-fired electric generation to be constructed unless the generating unit's carbon dioxide emissions are captured and sequestered. The EPA has not applied this new standard to existing fossil fuel-fired units or existing units that make modifications, therefore no impacts to Montana-Dakota's existing electric generation facilities are expected. However, it is not clear that the EPA will always exempt required future pollution control project modifications from GHG NSPS. If the EPA does not clearly exempt these projects, the Company's electric generation operations could be adversely impacted.

The primary GHG emitted from the Company's operations is carbon dioxide from combustion of fossil fuels at Montana-Dakota's electric generating facilities, particularly its coal-fired facilities. Approximately 70 percent of Montana-Dakota's owned generating capacity and more than 90 percent of the electricity it generates is from coal-fired facilities. Montana-Dakota also owns approximately 100 MW of natural gas- and oil-fired peaking plants.

The future of GHG regulation remains uncertain. Montana-Dakota's existing electric generating facilities may be subject to GHG laws or regulations within the next few years, including the EPA's proposed GHG NSPS for new fossil fuel-fired units, as well as when the EPA develops any separate GHG NSPS specifically for existing and modified units. Implementation of treaties, legislation or regulations to reduce GHG emissions could affect Montana-Dakota's electric utility operations by requiring expanded energy conservation efforts or increased development of renewable energy sources, as well as other mandates that could significantly increase capital expenditures and operating costs. If Montana-Dakota does not receive timely and full recovery of GHG emission compliance costs from its customers, then such costs could have an adverse impact on the results of its operations.

Due to the uncertain availability of technologies to control GHG emissions and the unknown obligations that potential GHG emission legislation or regulations may create, the Company cannot determine the potential financial impact on its operations.

Other Risks

An increase in costs related to obligations under multiemployer pension plans could have a material negative effect on the Company's results of operations and cash flows.

Various operating subsidiaries of the Company participate in approximately 75 multiemployer pension plans for employees represented by certain unions. The Company is required to make contributions to these plans in amounts established under numerous collective bargaining agreements between the operating subsidiaries and those unions.

The Company may be obligated to increase its contributions to underfunded plans that are classified as being in endangered, seriously endangered, or critical status as defined by the Pension Protection Act of 2006. Plans classified as being in one of these statuses are required to adopt RPs or FIPs to improve their funded status through increased contributions, reduced benefits or a combination of the two. Based on available information, the Company believes that approximately 40 percent of the multiemployer plans to which it contributes are currently in endangered, seriously endangered or critical status.

The Company may also be required to increase its contributions to multiemployer plans where the other participating employers in such plans withdraw from the plan and are not able to contribute an amount sufficient to fund the

unfunded liabilities associated with their participants in the plans. The amount and timing of any increase in the Company's required contributions to multiemployer pension plans may also depend upon one or more of the following factors including the outcome of collective bargaining, actions taken by trustees who manage the plans, the industry for which contributions are made, future determinations that additional plans reach endangered, seriously endangered or critical status, government regulations and the actual return on assets held in the plans, among others. The Company may experience increased operating expenses as a result of the required contributions to multiemployer pension plans, which may have a material adverse effect on the Company's results of operations, financial position or cash flows.

In addition, pursuant to ERISA, as amended by MPPAA, the Company could incur a partial or complete withdrawal liability upon withdrawing from a plan, exiting a market in which it does business with a union workforce or upon termination of a plan to the extent these plans are underfunded.



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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 4. MINE SAFETY DISCLOSURES

For information regarding mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K, see Exhibit 95 to this Form 10-Q, which is incorporated herein by reference.

ITEM 6. EXHIBITS

See the index to exhibits immediately preceding the exhibits filed with this report.



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SIGNATURES

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | MDU RESOURCES GROUP, INC. | |
| DATE: November 7, 2012 | BY: | /s/ Doran N. Schwartz<br>Doran N. Schwartz<br>Vice President and Chief Financial Officer |
| | BY: | /s/ Nicole A. Kivisto<br>Nicole A. Kivisto<br>Vice President, Controller and<br>Chief Accounting Officer |

EXHIBIT INDEX

| Exhibit No. | |
|---|---|
| 3 | Company Bylaws, as amended and restated, on August 16, 2012 |
| 4 | First Amendment to Credit Agreement, dated October 4, 2012, among MDU Resources Group, Inc., Various Lenders, and Wells Fargo Bank, National Association, as Administrative Agent |
| +10(a) | Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated August 29, 2012 |
| +10(b) | Instrument of Amendment to the MDU Resources Group, Inc. 401(k) Retirement Plan, dated August 29, 2012 |
| +10(c) | Form of Agreement for Termination of Change of Control Employment Agreement, effective November 1, 2012, by and between MDU Resources Group, Inc. and William E. Schneider, John G. Harp, Steven L. Bietz, David L. Goodin, William R. Connors, Mark A. Del Vecchio, Nicole A. Kivisto, Cynthia J. Norland, Paul K. Sandness, Doran N. Schwartz and John P. Stumpf |
| 12 | Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends |
| 31(a) | Certification of Chief Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31(b) | Certification of Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 95 | Mine Safety Disclosures |
| 101 | The following materials from MDU Resources Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged in summary and detail |

+ Management contract, compensatory plan or arrangement.

MDU Resources Group, Inc. agrees to furnish to the SEC upon request any instrument with respect to long-term debt that MDU Resources Group, Inc. has not filed as an exhibit pursuant to the exemption provided by Item 601(b)(4)(iii)(A) of Regulation S-K.