Date: August 8, 2018

Summary of Consolidated Financial Statements for the second quarter of Fiscal Year 2018 ended June 30, 2018 (IFRS basis)

(All financial information has been prepared based on the original Japanese-language document, Summary of Consolidated Financial Statements for the second quarter announced on August 8, 2018)

Listed company name:	DMG MORI CO., LTD.		
Stock exchange listing:	First Section of Tokyo Stock Exchange		
Code Number:	6141	URL	http://www.dmgmori.co.jp
Company Representative:	Masahiko Mori, President		
Contact Person	Hirotake Kobayashi, Vice President, Accounting / Finance HQ, Executive Officer		
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Filing date of quarterly financial statements: August 9, 2018

Estimated starting date of dividend paying: September 14, 2018

Preparation of supplementary explanatory materials: Yes

Holding of quarterly earnigs release conference: Yes (for investment analysts and institional investors)

1. Consolidated business results of the second quarter ended June 30, 2018 (January 1, 2018 to June 30, 2018)

(Note: All amounts less than one million are disregarded)

(1) Consolidated business results (% of change from same period in the previous year)

	Sales revenues		Operating result		Earnings before Taxes		Quarterly profit		Income attributable to owners of the parent		Total comprehensive income	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Second quarter ended June 30, 2018	235,283	18.8	15,763	74.8	13,603	95.2	9,126	144.0	8,886	148.9	4,033	Δ7.9
Second quarter ended June 30, 2017	198,081	6.9	9,019	164.6	6,968	197.7	3,739	89.5	3,570	392.1	4,377	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Second quarter ended June 30, 2018	69.09	68.49
Second quarter ended June 30, 2017	24.94	24.81

(Note)

・The Total comprehensive income of the second quarter ended June 30, 2018 is mainly caused by the differences from currency translation with the strong yen.

・Basic earnings per share is based on the earning amount which excludes earnings attributed to owners of hybrid capital.

(2) Consolidated financial position

	Total assets	Total Equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent	Equity per share attributable to owners of the parent
	million yen	million yen	million yen	%	yen
June 30, 2018	533,446	110,670	107,895	20.2	887.43
December 31, 2017	567,411	110,019	107,617	19.0	886.73

(Note) Ratio of equity attributable to owners of the parent and equity per share attributable to owners of the parent are based on the equity amount which includes amounts of hybrid capital.

2. Dividends

Record Date	Dividends per share				
	1Q	2Q	3Q	Year-end	Annual
	yen	yen	yen	yen	yen
December 31, 2017	-	15.00	-	25.00	40.00
December 31, 2018	-	25.00			
December 31, 2018 (Forecast)			-	25.00	50.00

(Note) Revision of dividend forecast in the current quarter: No

3. Consolidated earnings forecast for Fiscal Year 2018 (January 1, 2018 to December 31, 2018) (% of change from same period in the previous year)

	Sales revenues		Operating result		Income attributable to owners of the parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	yen
Full Year 2018	470,000	9.4	38,000	29.3	22,000	44.1	173.12

(Note)

Revision of consolidated earnings forecast in the current quarter: Yes

・Supported by the strong demand in market, we made an upward revision of the consolidated earnings forecast for fiscal year 2018 released on February 13, 2018 for the sales revenues, the operating result, and the income attributable to owners of the parent. For details, please refer to the “1. Qualitative Information Regarding Quarterly Settlement of Accounts (3) Explanation of forecasts and other projections” on page 4.

・Exchange rate used for consolidated earnings forecast for fiscal year 2018: JPY 110.0 /USD, JPY 130.0 /EUR

4. Others

(1) Changes in significant subsidiaries during the second quarter ended June 30, 2018: No

(2) Changes in accounting policies applied and changes in accounting estimates

1. Changes in accounting policies required by IFRS: Yes
2. Changes in accounting policies other than the above: No
3. Changes in accounting estimates: No

(3) Number of shares outstanding (Common stock)

1. Number of shares outstanding at the end of the period (including treasury shares)

   June 30, 2018: 125,953,683 December 31, 2017: 125,953,683

2. Number of treasury shares at the end of the period

   June 30, 2018: 5,020,348 December 31, 2017: 5,054,853

3. Average number of outstanding shares during the period (cumulative from the beginning of the period)

   January - June 2018: 120,905,906 January - June 2017: 121,907,000

(Note) The Company implemented trust-type employee stock ownership incentive plan in April 2018. Therefore, the shares of the company held by DMG MORI Employee Shareholders Association Exclusive Trust are included in the number of treasury shares at the end of period (2,466,100 shares as of June 30, 2018) and the number of treasury shares deducted in calculating the average number of outstanding shares during the period (2,483,700 shares during 6 months ended June 30, 2018).

- Information regarding implementation of quarterly review procedures

These quarterly financial results are not subject to quarterly review procedures.

- Proper use of the earnings forecasts and other notes

The above forecast is based on information available as of the release of this report and assumptions of several uncertain factors which may affect the company's results. Actual results might be different from the above estimates due to subsequent changes in the circumstances. Regarding Fiscal Year 2018(Forecast), please see "1. Qualitative Information Regarding Quarterly Settlement of Accounts (3) Explanation of forecasts and other projections".

We will upload additional explanation on August 8, 2018.

(Attached Documents) Index

1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

During the first half of the fiscal year 2018 (from January 1 to June 30), the sales revenues were 235,283 million yen (1,786,509 thousand EUR), the operating result was 15,763 million yen (119,691 thousand EUR), and earnings before taxes were 13,603 million yen (103,291 thousand EUR). The income attributable to owners of the parent was 8,886 million yen (67,472 thousand EUR). (Euro amount is converted from yen at 131.7 yen/EUR, the average exchange rate between January and June, 2018.)

We are working on promotion of shop floor automation, process integration and a wider use of 5-axis machines as one of our business strategies. In the face of socio-economic changes such as the rise in electric vehicles (EV), manufacturing continues to polarize between the conventional mass production and high-mix, low-volume production of complex shaped products in the industry. We integrates automation systems that facilitate higher production efficiency and 5-axis machines/integrated mill turn centers that enable machining of complex-shaped products in an effort to meet the needs for both production styles and offer the most suitable solution for each and every customer. In June, we opened Tokyo Digital Innovation Center housing our research center and group companies including TECHNIUM CO., LTD. which was jointly established with Nomura Research Institute Ltd. to develop the digital market. The center aims to contribute to the digitalization of the manufacturing industry through the synergistic effect of cutting-edge technologies owned by each of the companies. As the DMG MORI’s 70th anniversary memorial project, we launched “DMG MORI 5-axis Machining Workshop” in collaboration with our customers and work on the joint research on advanced technologies and raising of highly-skilled operators for the purpose of providing reliable support for installation of 5-axis machines for customers. We also established “Die & Mold Excellence Center” in the Iga Campus to develop new die & mold technologies and offer the best solutions for high-accuracy production in a short delivery time. DMG MORI undertakes customers’ production issues in a comprehensive manner and continues to play an important role in a dramatically changing society.

As for the technological aspect, we developed a horizontal machining center NHX 4000/5000 3rd Generation series that is suitable for mass production requiring high rigidity and high accuracy, and showcased the series as Japan premiere models at the Iga Innovation Days in May. The series models come standard with the “speedMASTER,” a high-performance spindle with three-year warranty, and a new technology “Zero Sludge Coolant Tank” that efficiently collects fine chips accumulated in the coolant tank. It enables high-speed machining while significantly improving maintainability. We actively facilitate open innovation through joint projects with other companies: the development of a transfer robot easy to install in a compact footprint, “D-Carry,” with Denso Corporation, and a robot system with various functions “MATRIS mini” with NACHI-FUJIKOSHI CORP. We are committed to developing cutting-edge products in a continuous effort to offer new technologies to a wider range of customers.

As for sales, we received many orders at the company’s exhibition shows in May: Innovation Day shows held in Chicago and on the Iga Campus, and an open house at the Bergamo plant in Italy. Among the advanced technologies showcased at the company shows were Connected Industries via CELOS, automation, and 5-axis machining and additive manufacturing technologies. At INTERMOLD Nagoya, the die & mold manufacturing technology exhibition which was held in Nagoya for the first time, we demonstrated solutions for highly efficient metal machining with laser cutting and 5-axis machining techniques.

We focus on the development of human resources, and long-term training is now given to young engineers in the company. We also work on the establishment of a working environment that is comfortable and easy for employees to continue to work in. By increasing work efficiency we aim to reduce the annual working hours to 2,000 hours or less, and encourage employees to use up annual paid leave. In April, we opened DMG MORI Child Care Center. DMG MORI supports its employees in various aspects of their lives under the motto of “play healthy + active,” “work together + innovative,” and “study smart + deeper,” and the entire company will work together for further growth and prosperity.

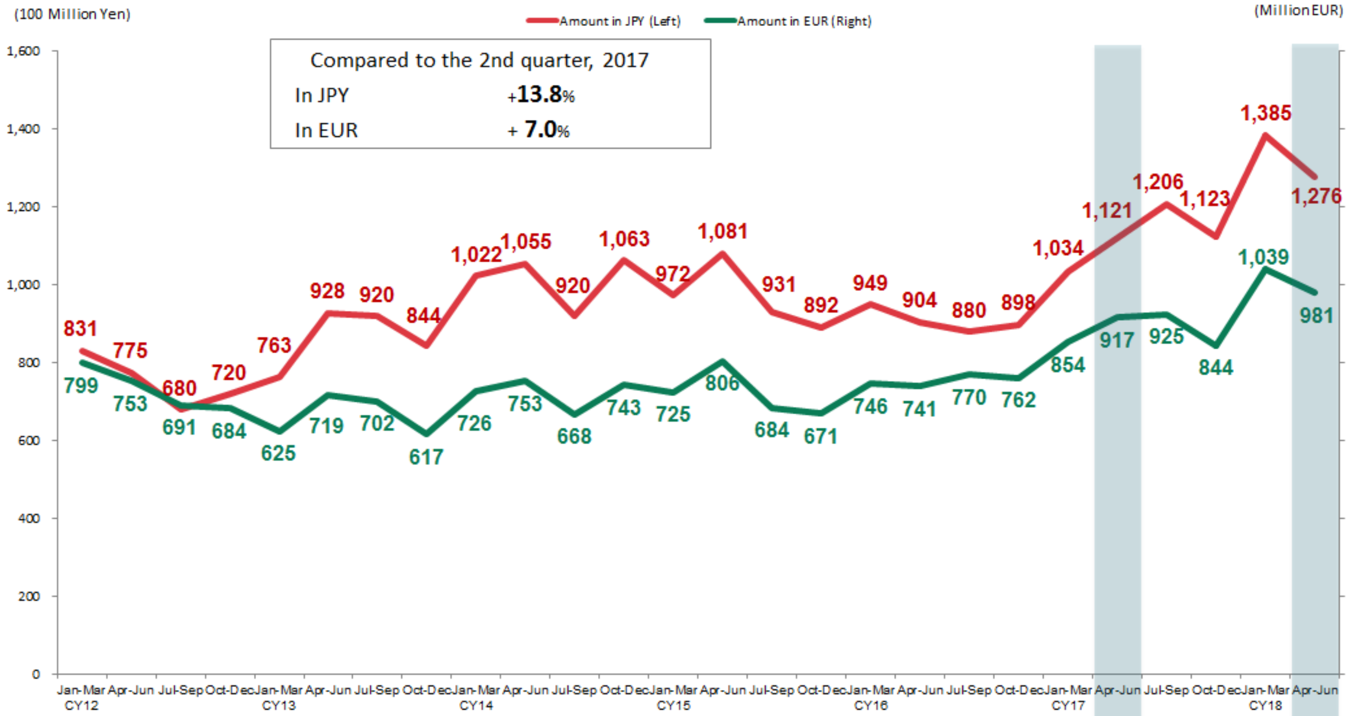
The new orders during the first half of the fiscal year 2018 (from January 1 to June 30) totaled 266.1 billion JPY, a 24% increase from the result for the previous year (215.4 billion JPY). The orders for multi-axis machines and automation systems, which we give high priority on, as well as machine bodies continued to be on the rise. In every region, we saw a solid momentum in demand associated with the increase in unit price.

In Japan, the orders recorded the highest growth rate of 53% among all the countries and regions in the world due to strong demand from the semi-conductor manufacturing equipment, machine parts, automotive and automotive parts industries. The orders in the Americas posted a 27% increase year-over-year. The demand from the general machinery, semi-conductor manufacturing equipment and SMEs (Small and Medium-sized Enterprises) showed a strong upturn, and growing orders demonstrated a sustained robustness in the aircraft, medical, automotive, and automotive parts sectors. We also saw the demand make a comeback in the energy-related, construction machinery and agricultural machine fields. In Europe, the orders increased 17%. The demand from SMEs, which accounts for a large share in the region, and the general machinery industry indicated a solid growth. The demand from the aircraft and medical-related sectors also remained steady. In China, there was a high level of demand maintained throughout the period, and the result was 36% higher than the comparable total for 2017. The machine tool orders from the large transportation equipment parts field have been posting a surge, and the demand from the automotive and general machinery sectors also remained solid. As we are not providing machine tools for smart phone housing, our business is not affected by the demand volatility in the sector. In Asia and Oceania excluding China, the demand was up 8% over the previous year result, which was led by the Vietnamese, Thai and Australian markets.

The average unit price of the orders shows a steady increase from the previous year. The figure for the first half of 2018 is 35.2 million JPY, as against 31.2 million JPY for the average of the same period in 2017, and 32.7 million JPY for the annual average of 2017.

We plan on participating in various big exhibition shows towards the end of the year: IMTS in Chicago, the U.S. and AMB in Stuttgart, Germany in September, and JIMTOF in Tokyo in October. We strive to launch new innovative products that are highly accurate and productive, and contribute to creating higher corporate value for our customers by continuing to offer leading-edge automation systems. For the 2018 annual order plan for machine tool-related products, we aim to achieve over 480 billion JPY which exceeds our initial plan of 470 billion JPY.

<Reference> Quarterly consolidated order intake (Yen in 100 millions and EUR in millions)



(Note) Euro amount is converted from yen at the market exchange rate of each period.

<Consolidated results>

Consolidated results of the second quarter of the fiscal year ended June 30, 2018 is as follows: Unit : 100 Million yen (Million EUR)

	January to June, 2017	January to June, 2018	Difference	<Forecast> January to December, 2018
Sales revenues	1,981 (1,628)	2,353 (1,787)	372 (159)	4,700 (3,615)
Operating result	90 (74)	158 (120)	68 (46)	380 (292)
Operating result / Sales revenues	4.6%	6.7%	2.1%pts	8.1%
Income attributable to owners of the parent	36 (29)	89 (67)	53 (38)	220 (169)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 121.7 yen/EUR for the figures of January to June, 2017, 131.7 yen/EUR for those of January to June, 2018, and 130.0 yen/EUR for the figures of January to December, 2018.

(2) Explanation of financial position

Total assets at the end of the second quarter of fiscal year 2018 amounted to 533,446 million yen. Total equity is 110,670 million yen and ratio of equity attributable to owners of the parent is 20.2%.

(3) Explanation of forecasts and other projections

Supported by the strong demand in market, we made an upward revision of the consolidated earnings forecast for fiscal year 2018 released on February 13, 2018 for the sales revenues, the operating result, and the income attributable to owners of the parent.

This forecast is based on information available as of the release of this report and assumptions of several uncertain factors which may affect the company's results. Actual results might be different from the above estimates due to subsequent changes in the circumstances.

Consolidated earnings forecast

Unit : 100 Million yen
(Million EUR)

	Released on February 13 Jan. to Dec., 2018	Released on August 8 Jan. to Dec., 2018	Difference	<Reference> Jan. to Dec., 2017
Sales revenues	4,500 (3,462)	4,700 (3,615)	200 (153)	4,297 (3,391)
Operating result	350 (269)	380 (292)	30 (23)	294 (232)
Operating result / Sales revenues	7.8%	8.1%	0.3%pts	6.8%
Income attributable to owners of the parent	200 (154)	220 (169)	20 (15)	153 (120)

(Note)

・Exchange rate used for consolidated earnings forecast for fiscal year 2018: JPY 110.0 /USD and 130.0 /EUR

・Euro amount for fiscal year 2017 is converted from yen at the average exchange rate of that year; 126.7 yen/EUR.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated statements of financial position

(Yen in Millions)

	December 31, 2017	June 30, 2018
(Assets)		
Current assets		
Cash and cash equivalents	64,973	33,509
Trade and other receivables	60,741	60,813
Other financial assets	8,652	6,993
Inventories	122,981	133,936
Other current assets	10,629	11,988
Total current assets	267,979	247,240
Non-current assets		
Property, plant and equipment	133,983	127,767
Goodwill	73,347	69,517
Other intangible assets	69,315	65,719
Other financial assets	8,996	10,430
Investments in associates and joint ventures	2,229	2,217
Deferred tax assets	6,082	5,151
Other non-current assets	5,476	5,402
Total non-current assets	299,431	286,206
Total assets	567,411	533,446

(Yen in Millions)

	December 31, 2017	June 30, 2018
(Liabilities and equity)		
Current liabilities		
Trade and other payables	47,717	54,246
Interest-bearing bonds and borrowings	22,653	18,586
Advances received	45,696	-
Contract liabilities	-	61,001
Other financial liabilities	3,857	4,061
Accrued income taxes	4,002	4,228
Provisions	29,886	28,472
Other current liabilities	6,144	4,776
Total current liabilities	159,958	175,374
Non-current liabilities		
Interest-bearing bonds and borrowings	156,706	115,826
Other financial liabilities	120,907	112,028
Net employee defined benefit liabilities	6,254	5,795
Provisions	3,973	3,873
Deferred tax liabilities	7,844	8,118
Other non-current liabilities	1,746	1,759
Total non-current liabilities	297,433	247,402
Total liabilities	457,391	422,776
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	49,505
Treasury shares	△9,726	△9,660
Retained earnings	26,227	31,394
Other components of equity	△9,504	△14,460
Equity attributable to owners of the parent	107,617	107,895
Non-controlling interests	2,402	2,774
Total equity	110,019	110,670
Total liabilities and equity	567,411	533,446

(2) Quarterly consolidated statements of income

(Yen in Millions)

	Second quarter ended June 30, 2017 (January 1 to June 30, 2017)	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)
Revenues		
Sales revenues	198,081	235,283
Other operating revenues	3,216	1,868
Total revenue	201,297	237,152
Cost		
Changes in merchandise, finished goods and work in progress for sale	3,401	△8,772
Costs of raw materials, consumables and goods for resale	86,605	116,239
Personnel costs	57,514	63,938
Depreciation and amortization	8,886	8,988
Other operating costs	35,870	40,995
Total costs	192,278	221,388
Operating result	9,019	15,763
Financial income	308	220
Financial costs	2,395	2,434
Share of profits of associates and joint ventures accounted for using equity method	36	54
Earnings before income taxes	6,968	13,603
Income taxes	3,229	4,477
Net income	3,739	9,126
Income attributable to:		
Owners of the parent	3,570	8,886
Non-controlling interests	169	240
Net income	3,739	9,126
Earnings per share		
Basic (yen)	24.94	69.09
Diluted (yen)	24.81	68.49

(3) Quarterly consolidated statements of comprehensive income

(Yen in Millions)

	Second quarter ended June 30, 2017 (January 1 to June 30, 2017)	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)
Net income	3,739	9,126
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	6	45
Change in fair value measurements of financial assets at fair value through other comprehensive income	-	744
Share of other comprehensive income of associates accounted for using equity method	-	△14
Subtotal	6	775
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	167	△5,982
Effective portion of changes in fair value of cash flow hedge	342	113
Change in fair value measurements of available-for-sale financial assets	113	-
Share of other comprehensive income of associates accounted for using equity method	7	-
Subtotal	631	△5,868
Total other comprehensive income	637	△5,092
Comprehensive income	4,377	4,033
Comprehensive income attributable to:		
Owners of the parent	4,210	3,813
Non-controlling interests	166	220
Total	4,377	4,033

(4) Quarterly consolidated statements of changes in equity

(Yen in Millions)

	Equity attributable to owner of the parent company							Non-controlling interest share of equity	Total equity
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity	Total		
As of January 1, 2017	51,115	-	49,505	△23,769	34,863	△11,266	100,449	2,033	102,482
Net income					3,570		3,570	169	3,739
Other comprehensive income						640	640	△3	637
Total comprehensive income	-	-	-	-	3,570	640	4,210	166	4,377
Payments to owners of hybrid capital					△533		△533		△533
Treasury shares acquisition				△1,000			△1,000		△1,000
Treasury shares cancellation		△12,847		12,847			-		-
Treasury shares disposition		△6,442		6,446			3		3
Cash dividends					△1,560		△1,560	△57	△1,618
Transfer from retained earnings to capital surplus		19,290			△19,290		-		-
Share-based payments						163	163		163
Changes due to business combinations					△5		△5	18	13
Increase in consolidated subsidiaries							-		-
Transfer from other components of equity to retained earnings					6	△6	-		-
Total transaction with owners of the parent	-	-	-	18,293	△21,383	156	△2,933	△39	△2,972
Acquisition of non-controlling interests							-		-
Changes in ownership interests in subsidiaries and others	-	-	-	-	-	-	-	-	-
As of June 30, 2017	51,115	-	49,505	△5,475	17,049	△10,468	101,726	2,160	103,887

(Yen in Millions)

	Equity attributable to owner of the parent company							Non-controlling interest share of equity	Total equity
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity	Total		
As of January 1, 2018	51,115	-	49,505	△9,726	26,227	△9,504	107,617	2,402	110,019
Impact of changes in accounting policies					△208		△208		△208
As of January 1, 2018 (revised)	51,115	-	49,505	△9,726	26,018	△9,504	107,408	2,402	109,811
Net income					8,886		8,886	240	9,126
Other comprehensive income						△5,073	△5,073	△19	△5,092
Total comprehensive income	-	-	-	-	8,886	△5,073	3,813	220	4,033
Payments to owners of hybrid capital					△530		△530		△530
Treasury shares acquisition				△0			△0		△0
Treasury shares cancellation							-		-
Treasury shares disposition		△5		67			61		61
Cash dividends					△3,022		△3,022	△101	△3,124
Transfer from retained earnings to capital surplus		2			△2		-		-
Share-based payments						163	163		163
Changes due to business combinations							-		-
Increase in consolidated subsidiaries							-	250	250
Transfer from other components of equity to retained earnings					45	△45	-		-
Total transaction with owners of the parent	-	△2	-	66	△3,510	117	△3,329	149	△3,179
Acquisition of non-controlling interests		2					2	2	5
Changes in ownership interests in subsidiaries and others	-	2	-	-	-	-	2	2	5
As of June 30, 2018	51,115	-	49,505	△9,660	31,394	△14,460	107,895	2,774	110,670

(5) Quarterly consolidated statements of cash flows

(Yen in Millions)

	Second quarter ended June 30, 2017 (January 1 to June 30, 2017)	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)
Cash flows from operating activities		
Earnings or losses before income taxes	6,968	13,603
Depreciation and amortization	8,886	8,988
Loss (gain) on sales/disposal of property, plant and equipment (△: gain)	23	106
Financial income and costs(△: gain)	2,087	2,214
Share of profits of associates and joint ventures accounted for using equity method (△: gain)	△36	△54
Other non-cash transactions (△: gain)	△1,296	△1,099
Changes in asset and liability items:		
Inventories (△: increase)	2,700	△16,023
Trade and other receivables (△: increase)	△2,447	△2,404
Trade and other payables (△: decrease)	△7,900	7,924
Advances received (△: decrease)	3,028	-
Contract liabilities (△: decrease)	-	18,085
Provisions (△: decrease)	△2,530	5
Others	△6,902	△2,954
Subtotal	2,580	28,392
Interest received	165	156
Dividends received	143	63
Interest paid	△3,700	△3,582
Income tax paid	△3,817	△3,737
Net cash flows from operating activities	△4,629	21,292
Cash flows from investing activities		
Purchases of property, plant and equipment	△2,076	△4,818
Proceeds from sales of property, plant and equipment	906	652
Purchases of intangible assets	△1,760	△1,974
Acquisition of subsidiaries, net of cash acquired	△541	△199
Acquisition of associated companies, net of cash acquired	-	△13
Purchases of financial instruments	△1,331	△25
Proceeds from sales of financial instruments	598	-
Other	132	74
Net cash flows from investing activities	△4,073	△6,304

(Yen in Millions)

	Second quarter ended June 30, 2017 (January 1 to June 30, 2017)	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	18,116	△3,841
Proceeds from non-current borrowings	-	4,885
Payments for non-current borrowings	△12,120	△41,426
Payments for bond redemption	△20,000	-
Dividends paid	△1,558	△3,016
Dividends paid to non-controlling interests	△57	△100
Payments for obligations for non-controlling interests	△8	△1
Proceeds from non-controlling interests	-	250
Acquisition of treasury shares	△1,000	△0
Payments to owners of hybrid capital	△533	△530
Other	△241	△210
Net cash flows from financing activities	△17,402	△43,993
Effect of exchange rate changes on cash and cash equivalents	958	△2,459
Increase (decrease) in cash and cash equivalents	△25,147	△31,464
Cash and cash equivalents at the beginning of period	67,750	64,973
Cash and cash equivalents at the end of period	42,603	33,509

(6) Notes on going concern assumption

Not applicable.

(7) Notes on quarterly consolidated financial statements

1. Reporting Entity

DMG MORI Co., Ltd. (the "Company") is a company established under Japanese law. The Company domiciles in Japan and its registered office is located in 106 Kitakoriyama-cho, Yamato-Koriyama City, Nara.

The consolidated financial statements of the Company are reported as of June 30, 2018 and composed of the Company, its associates and equity interests to related companies (the "Group"). The Group engages in businesses related to providing total solutions utilizing of machine tools (Machining Centers, Turning Centers, Turn-Mill Complete Machining Centers, Universal Milling machines for 5-axis machining), software (user interface, technology cycles and embedded software), measuring devices with service support, application, and engineering.

2. Basis of preparations

(1) Accounting standards complied with

These quarterly consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements, etc. (Cabinet Office Ordinance No. 64 of 2007), as they satisfy all of the requirements for a "Specified Company" prescribed in Article 1-2, Paragraph 1, Item (i), (a) – (c) and (d)-3 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Cabinet Office Ordinance No. 64 of 2007).

(2) Basis of Measurement

These quarterly consolidated financial statements have been prepared on a historical cost basis, with the exception of some financial assets which are measured at fair value.

(3) Presentation currency and units used

These quarterly consolidated financial statements are presented in Japanese yen, with figures less than one million yen being rounded down.

(4) Changes in presentation

Prior to January 1, 2018, changes in "Advances received" and "Contract liabilities" in asset and liability items were included in the "Others" among the operating activities section of the consolidated statement of cash flows. Since the accounts became significant during this fiscal period, such amount is disclosed separately in the operating activities section of the consolidated statement of cash flows for the second quarter ended June 30, 2018. The amounts of comparative figures have been restated to reflect this adjustment and reclassification.

The amounts included in the "Others" for the second quarter ended June 30, 2017 (△3,874 million yen) were now presented as 3,028 million yen of "Advances received (△: decrease)" of changes in asset and liability items and △6,902 million yen of "Others" among the operating activities section of the consolidated statement of cash flows.

(5) Significant accounting policy

The significant accounting policies applied to the quarterly consolidated financial statements are identical to those applied to the consolidated financial statements for the previous fiscal year ended December 31, 2017 except for those stated in (6) Changes of accounting policy.

(6) Changes of accounting policy

The following new standards have been implemented since January 1, 2018.

Standard	Name of the standard	Summary
IFRS 9	Financial Instruments	Change in classification, measurement, and recognition of financial instruments and hedge accounting model etc.
IFRS 15	Revenue from Contracts with Customers	Comprehensive framework for revenue recognition

The nature and the effects of the changes most relevant to the Group’s Consolidated Financial Statements are given below.

IFRS 9 “Financial Instruments”

The Group has implemented IFRS 9 “Financial Instruments” since January 1, 2018. The new standard replaces IAS 39 “Financial Instruments: Recognition and Measurement”. The standard deals with the classification, recognition and measurement (including impairment) of financial instruments and also introduces a new hedge accounting model. There is no material impact on the Group’s performance or financial position from the application of this standard.

① Classification and measurement of financial instruments

Equity securities, which were previously classified as available-for-sale under IAS 39, are classified as financial assets at fair value through other comprehensive income (FVTOCI financial assets). Debt securities are classified as financial assets measured at amortized cost. The Group takes advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes.

Changes in the fair value of equity instruments designated as FVTOCI financial assets are recognized in other comprehensive income, and the cumulative amount of other comprehensive income is transferred to retained earnings when the instruments are derecognized.

② Impairment of financial assets

On January 1, 2018, the Group changed the methodology of assessing impairment of its financial assets from the incurred loss model (used in IAS 39) to the expected credit loss model (used in IFRS 9). In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods but it has reassessed the impairment allowances under the new approach as of January 1, 2018.

③ Hedge accounting

As the Group may continue to apply the hedge accounting requirements of IAS 39 instead of those of IFRS 9 at the initial application of IFRS9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

④ Transition approach

The Group recognizes the cumulative effect of applying the new standard at the date of initial application, with no restatement of the comparative periods presented. It reduces 43 million yen of the opening balance of retained earnings at the date of initial application as the cumulative effect.

IFRS 15 “Revenue from Contracts with Customer”

The Group has implemented IFRS 15 “Revenue from Contracts with Customers” since January 1, 2018. The new standard replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts”. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue is recognized, and also contains new requirements related to presentation.

The core principle in the framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition as follows:

Step 1 : Identifying contracts with customers

Step 2 : Identifying performance obligations

Step 3 : Determining transaction prices

Step 4 : Allocating transaction prices to performance obligations

Step 5 : Recognizing revenue when or as performance obligations are satisfied

① Changes introduced by the standard relevant to the Group

The operation of the Group includes manufacturing and sales of machines and providing services and solutions related to machines. When selling machines, the Group recognizes revenue at a point in time the control over machines transfers to the customer based on the contract with the customer. As for providing services and solutions related to machines, the Group recognizes revenue at a point in time it performs obligations from the contract with the customer.

There is no material impact on the Group's performance or financial position from the application of this standard. Note that the advances received, which was presented in the previous consolidated statements of financial position, is now presented as contract liabilities.

② Transition approach

The Group recognizes the cumulative effect of applying the new standard at the date of initial application, with no restatement of the comparative periods presented. It reduces 164 million yen of the opening balance of retained earnings at the date of initial application as the cumulative effect.

3. Segmental information

(1) Scope of segment reporting

The reporting segments of the Group is based on the business areas where independent financial statements are available and that are regularly reviewed by executive boards for the purposes of decision-making on the allocation of management resources and evaluation of profitability. The segments are divided according to products and services that the Group deals with and difference in internal reporting and management method associated with the products and services.

The business activities of the Group are categorized into the business segments of "Machine Tools" and "Industrial Services".

(2) Calculation method of net sales, income or loss and other items by each reportable segment

The amount of segment income (loss) is based on operating income (loss) and Share of profits of at equity-accounted investments. Inter-segment sales and transfers between the segments are the prices determined based on the market prices.

(3) Segment sales and income

The segment sales and income by each reportable segment are summarized as follows.

Second quarter ended June 30, 2017 (January 1 to June 30, 2017)

(Yen in Millions)

	Reporting Segments			Adjustment (Note)		
	Machine Tools	Industrial Services	Total	Corporate	Adjustment	Figures in consolidated statements of income
Sales revenues						
Sales revenues with third parties	142,128	55,941	198,070	10	-	198,081
Sales revenues with other segments	58,604	10,376	68,980	1,001	△69,982	-
Total	200,733	66,318	267,051	1,012	△69,982	198,081
Segment income	12,321	3,310	15,632	△6,208	△367	9,056
Financial income						308
Financial costs						△2,395
Earnings before Taxes						6,968

(Note) “Adjustment” includes trade elimination of inter-segment trade amounts and net profit of corporate functions.

Second quarter ended June 30, 2018 (January 1 to June 30, 2018)

(Yen in Millions)

	Reporting Segments			Adjustment (Note)		
	Machine Tools	Industrial Services	Total	Corporate	Adjustment	Figures in consolidated statements of income
Sales revenues						
Sales revenues with third parties	177,417	57,852	235,269	13	-	235,283
Sales revenues with other segments	93,625	8,582	102,208	1,034	△103,242	-
Total	271,042	66,435	337,478	1,047	△103,242	235,283
Segment income	17,763	5,726	23,490	△7,794	121	15,817
Financial income						220
Financial costs						△2,434
Earnings before Taxes						13,603

(Note) “Adjustment” includes trade elimination of inter-segment trade amounts and net profit of corporate function