Date: November 7, 2018

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

(All financial information has been prepared based on the original Japanese-language document, Summary of Consolidated Financial Statements for the third quarter announced on November 7, 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: November 12 ,2018

Estimated starting date of dividend paying: -

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 third quarter ended September 30, 2018 (January 1, 2018 to September 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	%
Third quarter ended September 30, 2018	353,238	16.5	23,507	57.9	20,055	71.4	13,685	92.2	13,350	94.9	10,190	3.8
Third quarter ended September 30, 2017	303,254	13.3	14,883	473.3	11,700	-	7,119	-	6,848	-	9,817	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Third quarter ended September 30, 2018	103.75	102.91
Third quarter ended September 30, 2017	49.56	49.26

(Note) Basic earnings per share is based on the earning amount which excludes earnings attributable 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
September30, 2018	543,201	113,019	110,489	20.3	907.86
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	480,000	11.7	38,000	29.3	22,000	44.1	173.09

(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 August 8, 2018 for the sales revenues. On the other hand, as manufacturing and logistics costs are expected to increase, operating result and income attributable to owners of the parent are retained. 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 third quarter ended September 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)

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

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

   September 30, 2018: 4,936,149 December 31, 2017: 5,054,853

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

   January - September 2018: 120,928,409 January - September 2017: 122,063,013

(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 (2,383,100 shares as of September 30, 2018) and the number of treasury shares deducted in calculating the average number of outstanding shares during the period (2,451,500 shares as of September 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 November7, 2018.

(Attached Documents)　Index

1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

For the first three quarters of the fiscal year (from January 1 to September 30), the sales revenues were 353,238 million yen (2,696,474 thousand EUR), the operating result was 23,507 million yen (179,449 thousand EUR), and earnings before taxes were 20,055 million yen (153,098 thousand EUR). The income attributable to owners of the parent was 13,350 million yen (101,914 thousand EUR). (Euro amount is converted from yen at 131.0 yen, the average exchange rate between January and September 30).

We are working on the improvement of production efficiency with a focus on digitization, in addition to automation and process integration at the shop floor, and promotional activities of 5-axis control machines as our business strategy. In pursuit of those targets, we invested some eight billion yen on the FAMOT plant in Poland. The new plant opened in October with a total area of 50,000㎡ is a model plant for Industry 4.0 as well as one of our largest production bases. By using the advanced digital solutions of our group companies such as ISTOS GmbH, DMG MORI Software Solutions GmbH and WERKBLiQ GmbH, we connected each of our IT systems to seamlessly network all the information about incoming orders, supply chains, customer relationship, tool management and personnel resource planning, and achieved automated production planning and monitoring. The FAMOT plant contributes to promoting the advantages of digitization to customers while boosting our production capacity with its expanded scale and shop digitization.

We have been providing customers with support for installation of 5-axis control machines through the 5-axis Technology Study & Research Group, which was launched as the DMG MORI's 70th anniversary memorial project. In addition to the said activity, we began lending our cutting-edge machines to technical high schools and research institutes in Nara and Mie prefectures. The training of operators and support for research at educational organizations aim to facilitate a wider use of 5-axis machining in Japan.

We served as a Platinum Sponsor at the General Assembly of the CIRP (the International Academy for Production Engineering), an international academic organization that promotes research and development of production engineering. We continue to contribute to technological innovations from both industrial and academic aspects in an effort to further streamline production activities.

As for the technological aspect, we newly released the ALX series turning centers as the standard machines for automation for every shop floor. The new models equipped with a high-performance spindle turnMASTER achieve high productivity in a compact footprint. The series features high versatility with 36 variations of specifications. The extensive lineup with varieties of chuck sizes, distances between centers and machine specifications can meet a wide range of customer needs from any industry. We will develop high-performance, reliable and investment-worthy products to respond to our customer needs.

As for sales, we participated in IMTS 2018 held in Chicago, the U.S. and AMB 2018 in Stuttgart, Germany in September. In the trade shows, we set "automation," "additive manufacturing" and "technology excellence in the die & mold and medical fields" as the main themes, and with the highest focus on "digitization", we showcased full shop digitization covering production planning, production, setups, monitoring and services. The DMU 200 Gantry, which is suited for machining of large, difficult-to-cut materials and one of the largest machines in the venue, was highly appreciated by the customers in the aircraft and die & mold industries. In JIMTOF 2018 held from November 1 to 6 at Tokyo Big Sight, we showcased 22 cutting-edge machine tools in the largest exhibition area among the participating companies, such as DMU 340 Gantry, a large 5-axis control machine first-premiered in Japan, and advanced solutions for automation and digitization that use the MATRIS and Digital Twin technologies. The displayed products and technologies were highly evaluated and received favorable reviews at the event. During the same period, we also held Open House at Tokyo Global Headquarters. New models including the ALX 2000 and NTX 2500 2nd Generation were put on display, and the 5-axis machining workshop provided the customers with on-site experience of machine operation and cutting.

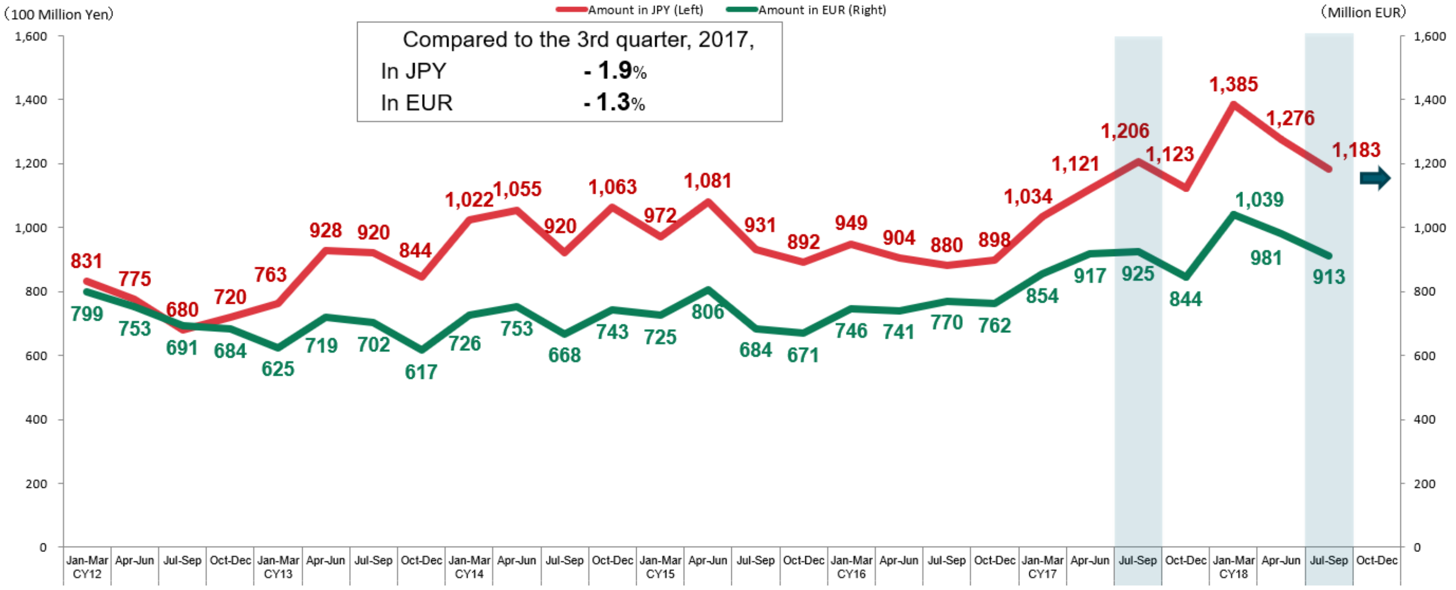
We have been working on the establishment of a working environment that is easy and comfortable for employees to continue working in. We also set up facilities for elementary schoolchildren where they can be cared during long school holidays. Moreover, in August the company adopted the working hours interval system that requires employees to take a rest for a certain period of time between daily shifts. From January 2019 on, the interval time will be extended to 12 hours from the current 11 hours. As of the end of September, the progress rate of the employees taking annual paid leave of 20 days is 79%, which exceeds the January-September target. We will go ahead with the work style reform to maximize our employees' strength under the motto of "play healthy + active," "work together + innovative," and "study smart + deeper."

The new orders for the first three quarters (from January 1 to September 30) totaled 384.4 billion yen, which is a 14% increase from the result for the previous year (336.0 billion yen). The demand for advanced machine tools such as multi-axis machines and ultrasonic machines, DMQPs (DMG MORI Qualified Peripherals) and automation systems including Technology Cycles (application software) is strong, and a rise in order unit price contributes to increasing the total order intake volume. The average order unit price is 35.1 million yen, which is 8% higher than the comparable figure for the previous year (32.6 million yen).

As for demand by region and country, the orders in Japan recorded the highest year-over-year growth rate of 37% among all other regions and countries. The demand from the semiconductor -related field, which was steady in the first half of the year, somewhat entered a correction phase. However, the machine component, automation-related parts, automotive and automotive parts sectors continued showing an upturn in demand. In Americas, the growth rate is 20%, which is continuously led by the general machinery, automotive-related, aircraft and medical fields. In Europe, the order posted a moderate increase of 6%, which is due to a reactionary fall after the highest record number of orders received at EMO, a large trade show held last year in Hannover, Germany in September. The demand from the general machinery, SMEs (Small Medium Enterprises), aircraft and energy-related industries remained stable, and we see the market maintain a high level of demand. In China, the expanding demand from the large transportation equipment and infrastructure sectors contributed to a year-over-year increase of 28%. We are barely affected by the US-China trade friction at this point. As to the investigation on dumping of vertical machining centers, which was decided to be made by the Ministry of Commerce of the People's Republic of China on October 16, we are not included in the five companies subject to the investigation at the moment. The demand in the Asian region excluding China remained at the same level as the previous year. In Thailand, Vietnam, Malaysia and Philippine, the demand was steady, and the markets in Korea, Taiwan and Indonesia moved into a correction phase.

The new orders for machine tool-related products during the fourth quarter (October 1 to December 31) are expected to maintain a high level of demand led by the successful results of the large trade shows such as BIMU in Italy in October and JIMTOF 2018 in Japan in November. We again increased the annual target order volume for machine tool-related products for 2018, aiming to achieve 490 billion yen with untiring efforts. (Previous forecast: 480 billion yen)

<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 third quarter of the fiscal year ended September 30, 2018 is as follows: Unit : 100 Million yen (Million EUR)

	January to September, 2017	January to September, 2018	Difference	<Forecast> January to December, 2018
Sales revenues	3,033 (2,433)	3,532 (2,696)	500 (263)	4,800 (3,692)
Operating result	149 (119)	235 (179)	86 (60)	380 (292)
Operating result / Sales revenues	4.9%	6.7%	1.8% pts	7.9%
Income attributable to owners of the parent	68 (54)	134 (102)	66 (48)	220 (169)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 124.6 yen/EUR for the figures of January to September, 2017, 131.0 yen/EUR for those of January to September, 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 third quarter of fiscal year 2018 amounted to 543,201 million yen. Total equity is 113,019 million yen and ratio of equity attributable to owners of the parent is 20.3%.

(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 August 8, 2018 for the sales revenues. On the other hand, as manufacturing and logistics costs are expected to increase, operating result and income attributable to owners of the parent are retained.

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 August 8 Jan. to Dec., 2018	Released on November 7 Jan. to Dec., 2018	Difference	<Reference> Jan. to Dec., 2017
Sales revenues	4,700 (3,615)	4,800 (3,692)	100 (77)	4,297 (3,391)
Operating result	380 (292)	380 (292)	- (-)	294 (232)
Operating result / Sales revenues	8.1%	7.9%	▵0.2% pts	6.8%
Income attributable to owners of the parent	220 (169)	220 (169)	- (-)	153 (120)

(Note)

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

・Euro amount is converted from yen at the average or forecasted exchange rate of the year, 126.7 yen/EUR for fiscal year 2017, 130.0 yen/EUR for fiscal year 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated statements of financial position

(Yen in Millions)

	December 31, 2017	September 30, 2018
(Assets)		
Current assets		
Cash and cash equivalents	64,973	22,456
Trade and other receivables	60,741	64,041
Other financial assets	8,652	5,554
Inventories	122,981	145,879
Other current assets	10,629	12,913
Total current assets	267,979	250,845
Non-current assets		
Property, plant and equipment	133,983	129,489
Goodwill	73,347	71,865
Other intangible assets	69,315	66,719
Other financial assets	8,996	10,482
Investments in associates and joint ventures	2,229	2,363
Deferred tax assets	6,082	5,647
Other non-current assets	5,476	5,786
Total non-current assets	299,431	292,355
Total assets	567,411	543,201

(Yen in Millions)

	December 31, 2017	September 30, 2018
(Liabilities and equity)		
Current liabilities		
Trade and other payables	47,717	64,487
Interest-bearing bonds and borrowings	22,653	56,010
Advances received	45,696	-
Contract liabilities	-	64,128
Other financial liabilities	3,857	4,526
Accrued income taxes	4,002	4,542
Provisions	29,886	31,943
Other current liabilities	6,144	4,360
Total current liabilities	159,958	229,998
Non-current liabilities		
Interest-bearing bonds and borrowings	156,706	65,235
Other financial liabilities	120,907	115,243
Net employee defined benefit liabilities	6,254	5,936
Provisions	3,973	4,321
Deferred tax liabilities	7,844	7,958
Other non-current liabilities	1,746	1,488
Total non-current liabilities	297,433	200,183
Total liabilities	457,391	430,182
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	49,505
Treasury shares	△9,726	△9,497
Retained earnings	26,227	32,166
Other components of equity	△9,504	△12,801
Equity attributable to owners of the parent	107,617	110,489
Non-controlling interests	2,402	2,529
Total equity	110,019	113,019
Total liabilities and equity	567,411	543,201

(2) Quarterly consolidated statements of income

(Yen in Millions)

	Third quarter ended September 30, 2017 (January 1 to September 30, 2017)	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)
Revenues		
Sales revenues	303,254	353,238
Other operating revenues	5,463	3,018
Total revenue	308,718	356,257
Cost		
Changes in merchandise, finished goods and work in progress for sale	195	△14,395
Costs of raw materials, consumables and goods for resale	137,581	175,950
Personnel costs	87,403	96,159
Depreciation and amortization	13,356	13,474
Other operating costs	55,297	61,560
Total costs	293,834	332,749
Operating result	14,883	23,507
Financial income	383	268
Financial costs	3,612	3,861
Share of profits of associates and joint ventures accounted for using equity method	46	140
Earnings before income taxes	11,700	20,055
Income taxes	4,580	6,370
Net income	7,119	13,685
Income attributable to:		
Owners of the parent	6,848	13,350
Non-controlling interests	271	335
Net income	7,119	13,685
Earnings per share		
Basic (yen)	49.56	103.75
Diluted (yen)	49.26	102.91

(3) Quarterly consolidated statements of comprehensive income

(Yen in Millions)

	Third quarter ended September 30, 2017 (January 1 to September 30, 2017)	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)
Net income	7,119	13,685
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	△22	17
Change in fair value measurements of financial assets at fair value through other comprehensive income	-	761
Share of other comprehensive income of associates accounted for using equity method	-	△9
Subtotal	△22	769
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	2,509	△4,156
Effective portion of changes in fair value of cash flow hedge	△11	△108
Change in fair value measurements of available-for-sale financial assets	207	-
Share of other comprehensive income of associates accounted for using equity method	13	-
Subtotal	2,719	△4,264
Total other comprehensive income	2,697	△3,495
Comprehensive income	9,817	10,190
Comprehensive income attributable to:		
Owners of the parent	9,562	9,863
Non-controlling interests	255	327
Total	9,817	10,190

(4) Quarterly consolidated statements of changes in equity

(Yen in Millions)

	Equity attributable to owner of the parent							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					6,848		6,848	271	7,119
Other comprehensive income						2,713	2,713	△16	2,697
Total comprehensive income	-	-	-	-	6,848	2,713	9,562	255	9,817
Payments to owners of hybrid capital					△1,069		△1,069		△1,069
Treasury shares acquisition				△2,750			△2,750		△2,750
Treasury shares cancellation		△12,847		12,847			-		-
Treasury shares disposition		△6,442		6,446			3		3
Cash dividends					△3,405		△3,405	△57	△3,462
Transfer from retained earnings to capital surplus		19,290			△19,290		-		-
Share-based payments						246	246		246
Changes due to business combinations					△5		△5	18	13
Increase in consolidated subsidiaries							-		-
Transfer from other components of equity to retained earnings					△22	22	-		-
Total transaction with owners of the parent	-	0	-	16,543	△23,791	268	△6,980	△39	△7,020
Acquisition and disposition of non-controlling interests		△0					△0	△0	△0
Changes in ownership interests in subsidiaries and others	-	△0	-	-	-	-	△0	△0	△0
As of September 30, 2017	51,115	-	49,505	△7,225	17,919	△8,284	103,030	2,249	105,279

(Yen in Millions)

	Equity attributable to owner of the parent							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					13,350		13,350	335	13,685
Other comprehensive income						△3,487	△3,487	△7	△3,495
Total comprehensive income	-	-	-	-	13,350	△3,487	9,863	327	10,190
Payments to owners of hybrid capital					△1,072		△1,072		△1,072
Treasury shares acquisition				△0			△0		△0
Treasury shares cancellation							-		-
Treasury shares disposition		△16		229			213		213
Cash dividends					△6,050		△6,050	△159	△6,210
Transfer from retained earnings to capital surplus		98			△98		-		-
Share-based payments		4				209	213		213
Changes due to business combinations							-		-
Increase in consolidated subsidiaries							-	250	250
Transfer from other components of equity to retained earnings					17	△17	-		-
Total transaction with owners of the parent	-	86	-	229	△7,203	191	△6,696	90	△6,606
Acquisition and disposition of non-controlling interests		△86					△86	△290	△376
Changes in ownership interests in subsidiaries and others	-	△86	-	-	-	-	△86	△290	△376
As of September 30, 2018	51,115	-	49,505	△9,497	32,166	△12,801	110,489	2,529	113,019

(5) Quarterly consolidated statements of cash flows

(Yen in Millions)

	Third quarter ended September 30, 2017 (January 1 to September 30, 2017)	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)
Cash flows from operating activities		
Earnings before income taxes	11,700	20,055
Depreciation and amortization	13,356	13,474
Loss (gain) on sales/disposal of property, plant and equipment (△: gain)	198	160
Financial income and costs(△: gain)	3,229	3,592
Share of profits of associates and joint ventures accounted for using equity method (△: gain)	△46	△140
Other non-cash transactions (△: gain)	△5,362	△1,209
Changes in asset and liability items:		
Inventories (△: increase)	△1,119	△24,360
Trade and other receivables (△: increase)	△4,564	△4,122
Trade and other payables (△: decrease)	△3,388	16,736
Advances received (△: decrease)	8,605	-
Contract liabilities (△: decrease)	-	19,028
Provisions (△: decrease)	△763	2,908
Others	△5,335	△4,601
Subtotal	16,510	41,522
Interest received	237	201
Dividends received	145	68
Interest paid	△4,344	△4,409
Income tax paid	△4,955	△5,530
Net cash flows from operating activities	7,594	31,852
Cash flows from investing activities		
Purchases of property, plant and equipment	△4,011	△7,073
Proceeds from sales of property, plant and equipment	1,741	906
Purchases of intangible assets	△2,362	△2,932
Acquisition of subsidiaries, net of cash acquired	△554	△199
Acquisition of associated companies, net of cash acquired	-	△39
Purchases of financial instruments	△1,431	△25
Proceeds from sales of financial instruments	2,302	-
Other	335	60
Net cash flows from investing activities	△3,981	△9,303

(Yen in Millions)

	Third quarter ended September 30, 2017 (January 1 to September 30, 2017)	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)
Cash flows from financing activities		
Net increase (decrease) in current borrowings (△: decrease)	20,368	13,288
Proceeds from non-current borrowings	-	4,885
Payments for non-current borrowings	△20,488	△73,986
Payments for bond redemption	△20,000	-
Dividends paid	△3,247	△5,776
Dividends paid to non-controlling interests	△57	△157
Proceeds from non-controlling interests	-	250
Acquisition of non-controlling interests	△0	△387
Acquisition of treasury shares	△2,750	△0
Payments for obligation for non-controlling interests	△9	△1
Payments to owners of hybrid capital	△1,069	△1,072
Other	△340	△172
Net cash flows from financing activities	△27,594	△63,132
Effect of exchange rate changes on cash and cash equivalents	3,062	△1,933
Increase (decrease) in cash and cash equivalents (△: decrease)	△20,918	△42,516
Cash and cash equivalents at the beginning of period	67,750	64,973
Cash and cash equivalents at the end of period	46,832	22,456

(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 September 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 third quarter ended September 30, 2018. The amounts of comparative figures have been restated to reflect this adjustment and reclassification.

The amounts included in the "Others" for the third quarter ended September 30, 2017 (3,270 million yen) were now presented as 8,605 million yen of "Advances received (△: decrease)" of changes in asset and liability items and △5,335 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.

Third quarter ended September 30, 2017 (January 1 to September 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	218,000	85,226	303,226	27	-	303,254
Sales revenues with other segments	92,446	15,021	107,468	1,528	△108,996	-
Total	310,447	100,247	410,694	1,556	△108,996	303,254
Segment income	21,111	4,122	25,234	△9,440	△864	14,930
Financial income						383
Financial costs						△3,612
Earnings before Taxes						11,700

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

Third quarter ended September 30, 2018 (January 1 to September 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	260,559	92,659	353,218	19	-	353,238
Sales revenues with other segments	137,829	12,582	150,412	1,538	△151,950	-
Total	398,389	105,241	503,631	1,557	△151,950	353,238
Segment income	27,609	8,843	36,453	△11,756	△1,048	23,648
Financial income						268
Financial costs						△3,861
Earnings before Taxes						20,055

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