Date: August 6, 2019

Summary of Consolidated Financial Statements for the second quarter of Fiscal Year 2019 ended June 30, 2019 (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 6, 2019)

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	
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Filing date of quarterly financial statements: August 8, 2019

Estimated starting date of dividend paying: September 13, 2019

Preparation of supplementary explanatory materials: Yes

Holding of quarterly earnigs release conference: Yes

1. Consolidated business results of the second quarter ended June 30, 2019 (January 1, 2019 to June 30, 2019)

(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, 2019	238,646	1.4	20,022	27.0	17,030	25.2	11,095	21.6	10,673	20.1	10,694	165.2
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Second quarter ended June 30, 2019	83.30	83.01
Second quarter ended June 30, 2018	69.09	68.49

(Note)

・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, 2019	531,843	121,491	118,070	22.2	964.29
December 31, 2018	528,423	114,166	111,113	21.0	910.25

(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, 2018	-	25.00	-	25.00	50.00
December 31, 2019	-	30.00			
December 31, 2019 (Forecast)			-	30.00	60.00

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

3. Consolidated earnings forecast for Fiscal Year 2019 (January 1, 2019 to December 31, 2019) (% 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 2019	500,000	Δ0.2	36,000	Δ0.7	19,000	2.6	147.19

(Note)

Revision of consolidated earnings forecast in the current quarter: No

・Exchange rate used for consolidated earnings forecast for fiscal year 2019: JPY 110.0 /USD for the 2nd half, 110.0 /USD for the full year

JPY 120.0 /EUR for the 2nd half, 122.2 /EUR for the full year

4. Others

(1) Changes in significant subsidiaries during the second quarter ended June 30, 2019: 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 shares)

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

   June 30, 2019: 125,953,683 December 31, 2018: 125,953,683

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

   June 30, 2019: 3,979,980 December 31, 2018: 4,456,599

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

   January - June 2019: 121,762,573 January - June 2018: 120,905,906

(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 (2,044,900 shares as of June 30, 2019) and the number of treasury shares deducted in calculating the average number of outstanding shares during the period (2,162,286 shares as of June 30, 2019).

- 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 2019(Forecast), please see "1. Qualitative Information Regarding Quarterly Settlement of Accounts (3) Explanation of forecasts and other projections" on page 4.

We will upload additional explanation on August 6, 2019.

(Attached Documents) Index

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1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

During the first half of the fiscal year 2019 (from January 1 to June 30), the sales revenues were 238,646 million yen (1,919,923 thousand EUR), the operating result was 20,022 million yen (161,081 thousand EUR), and earnings before taxes were 17,030 million yen (137,011 thousand EUR). The income attributable to owners of the parent was 10,673 million yen (85,870 thousand EUR). (Euro amount is converted from yen at 124.3 yen, the average exchange rate between January 1 and June 30).

DMG MORI promotes 5-axis control and multi-axis machines and automation systems to facilitate process integration for customers and strengthens digital services to realize their efficient production management as its business strategies. In the enhancement of automation systems, we developed the AGV robot capable of running for 24 hours straight, which is equipped with a laser sensor for preventing contact with operators and a non-contact power supply system. We also developed the technology for automatically adjusting coolant discharge angles according to the chip location and amount inferred by AI based on camera images. The AI-enabled automatic chip cleaning solution helps reduce the operators' load and frequency of cleaning, ensuring no-man operation for long hours. In May, we began providing the operation manuals, maintenance manuals, parts lists through the website of our group company TECHNIUM CO., LTD. Digital manuals enable central management of the materials on PCs and tablets with no risk of degradation of or missing paper documents. With the search function, customers can quickly access necessary information and simultaneously share the same manuals between maintenance staff and machine operators at the customer site, which contributes to streamlined shop operations.

For the technological aspect, we developed a turning center NLX 6000 | 1000, a vertical machining center DMP 70, and an additive manufacturing machine LASERTEC 12 SLIM; and put them on show as Japan premiere models at the Iga Innovation Days 2019. The NLX 6000 | 1000 is a new product that can satisfy customers in the construction machinery and energy plant industries. The model boasting stable machining of large components features a beltless-driven motor integrated, large-diameter spindle and a rotary tool spindle that perfectly synchronizes the spindle. The DMP 70 achieves a high positioning accuracy of 5 μm thanks to the scale feedback mounted on all axes, the cooling function and the highly rigid structure. The LASERTEC 12 SLM uses an open system in which all the machine settings and process parameters can be adjusted, which allows the model to install the INTECH software OPTOMET. With the software, optimal parameters are automatically calculated only by operators' entering components of alloy powder materials and the particle size distribution. What's more, we produced a machine tool that has a drastically improved rigidity and a light-weight structure compared with the existing model while maintaining the same high cutting capability. This was done using the topology optimization technology which is recently drawing attention along with advancement of additive manufacturing. We continue to proactively adopt cutting-edge technologies and contribute to boosting customers' productivity.

As for sales, we participated in the China International Machine Tool Show (CIMT) 2019 in April, and held the Chicago Innovation Days 2019 in the U.S. and the open houses at the Bergamo Plant, Italy and at the Bielefeld Plant, Germany, respectively. At the Iga Innovation Days held in July, we showcased 36 advanced machines including a large 5-axis control machining center DMU 340 Gantry and the Japan premiere models DMP 70 for 5-axis control machining, the NLX 6000 | 1000 and the LASERTEC 12 SLM. At the event, DMG MORI set a booth of the 5-axis Technology Study & Research Group, which had been launched to commemorate the 70th anniversary of our foundation, to show examples of use of the 5-axis control machine DMU 50 3rd Generations it had lent to 70 customer companies across the nation. The cutting-edge technologies applied to our production equipment were also demonstrated. At the Precise Processing Plant, the 5-axis control machine DMC 125 FD duoBLOCK with the grinding function started its operation in full swing in June, so the processes which used to require a special grinding machine and a horizontal machining center can be performed on a single DMC 125 FD duoBLOCK now. This, as a result, led to approximately 40% shorter lead time and higher machining accuracy. We also showed our plants and facilities to customers as the proving grounds of shop digitization: the Ball Screw Plant and Assembly Plant have been revamped with various digital systems for machine operation monitoring and efficient production management. The new Iga Global Parts Center has employed the latest warehouse management system.

DMG MORI adopted the policy stipulating a working hours limit of 12 hours and an over 12-hour interval between daily shifts, and drastically raised a starting salary of new graduates (218,400 JPY in the previous year to 250,000 JPY for those with a bachelor's degree). The approach began showing effective results in terms of work efficiency and productivity improvements in the company. Under the motto of "Play Hard + Be Dynamic," "Study Continuously + Be Open," and "Work Together + Be Innovative," we make continued efforts to secure excellent human resources from every field and create a working environment for employees to be able to work with a sense of security for long years.

The DMG MORI SAILING TEAM, which was launched to welcome a marine adventurer Kojiro Shiraishi, aims to participate in the Vendée Globe

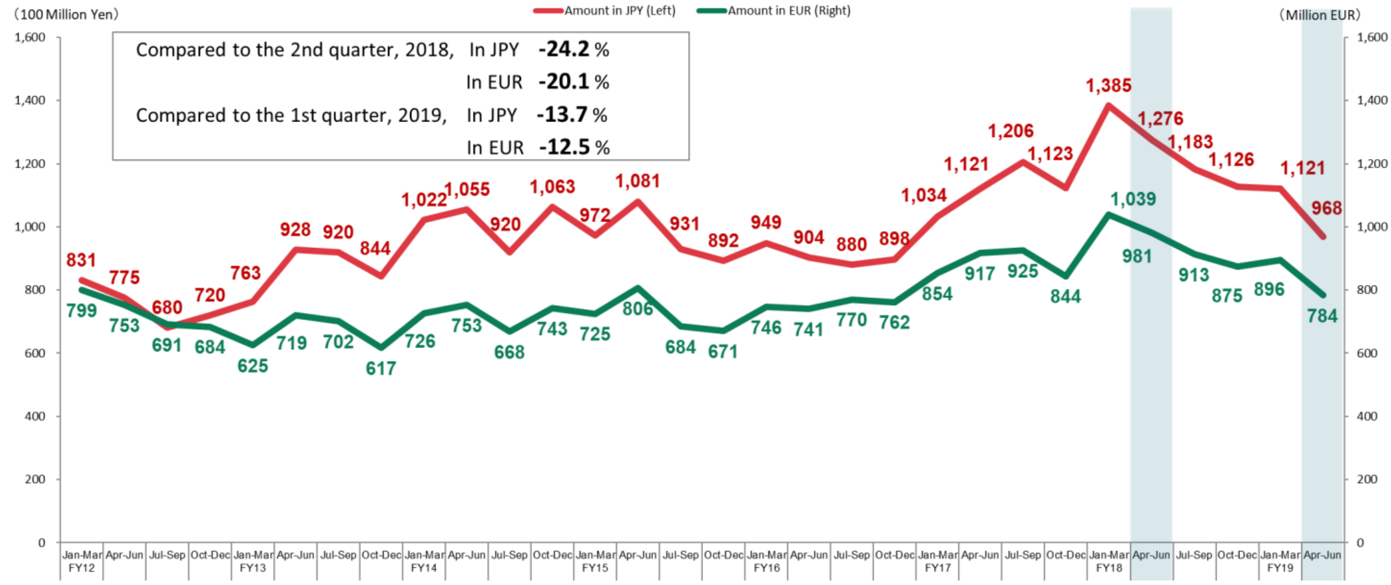
2020, a non-stop, solo, round-the-world race without assistance. The “DMG MORI Global One,” our new yacht currently under construction, uses components machined by our cutting-edge simultaneous 5-axis control machine and multi-axis machine. DMG MORI strives to contribute to the global development of the manufacturing industry through the activities of the “DMG MORI SAILING TEAM” as well as providing leading-edge machine tools and solutions for customers.

The new orders for the first half of the fiscal year 2019 totaled 223.4 billion yen, a 22% drop from the figure for the previous year. The total orders received by the members of the Japan Machine Tool Industry Association also decreased 29% year-over-year, with the decline rate of DMG MORI remaining modest compared with the average of the machine tool industry. The order unit price is up 5% than the annual average of 2018 because of a company-wide effort to promote value-added solutions such as 5-axis control machines and multi-axis machines for process integration, Technology Cycles, DMQPs and automation systems. Furthermore, the orders for repair parts and machine recovery services increased 11% as a result of our strengthening the service area.

The company is in a correction phase in every country and region across the world. Japan, which accounts for 15% of the total orders, posted a decline of 41% over the comparable period of the previous year. The orders in Americas, which take up a 19% share of the total, decreased 37%. The Asia including China with a 16% share dropped 29%. EMEA (Europe, Middle East and Africa) including Russia and Turkey with a 50% share posted a year-over-year decline of 20%. By industry, the demand from the aircraft component and medical-related sectors remained solid while the automotive-related, general machinery, SMEs (Small Medium Enterprises) and construction machinery sectors are sliding into a correction. The demand from the semi-conductor device has been sluggish since the middle of the last year.

In September, the world’s largest machine tool show EMO will be held in Germany. We will maximize the opportunity and pay utmost efforts to increase orders.

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



(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, 2019 is as follows: Unit : 100 Million yen (Million EUR)

	January to June, 2018	January to June, 2019	Difference	<Forecast> January to December, 2019
Sales revenues	2,353 (1,787)	2,386 (1,920)	33 (133)	5,000 (4,092)
Operating result	158 (120)	200 (161)	42 (41)	360 (295)
Operating result / Sales revenues	6.7%	8.4%	1.7% pts	7.2%
Income attributable to owners of the parent	89 (67)	107 (86)	18 (19)	190 (155)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 131.7 yen/EUR for the figures of January to June, 2018, 124.3 yen/EUR for those of January to June, 2019, and 122.2 yen/EUR for the figures of January to December, 2019.

(2) Explanation of financial position

Total assets at the end of the second quarter of fiscal year 2019 amounted to 531,843 million yen. Total equity is 121,491 million yen and ratio of equity attributable to owners of the parent is 22.2%.

(3) Explanation of forecasts and other projections

Forecasts of the consolidated results are the same figures as those published in “Summary of Consolidated Financial Statements for the Fiscal Year 2018 ended December 31, 2018”, uploaded on February 12, 2019.

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.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated statements of financial position

(Million Yen)

	December 31, 2018	June 30, 2019
(Assets)		
Current assets		
Cash and cash equivalents	27,368	19,525
Trade and other receivables	69,441	61,225
Other financial assets	6,836	6,648
Inventories	130,726	141,065
Other current assets	9,656	11,843
Total current assets	244,029	240,309
Non-current assets		
Property, plant and equipment	128,686	122,269
Right-of-use assets	-	18,886
Goodwill	68,854	66,459
Other intangible assets	65,399	62,513
Other financial assets	8,509	9,092
Investments in associates and joint ventures	3,331	3,085
Deferred tax assets	4,317	4,164
Other non-current assets	5,293	5,061
Total non-current assets	284,393	291,533
Total assets	528,423	531,843

(Million Yen)

	December 31, 2018	June 30, 2019
(Liabilities and equity)		
Current liabilities		
Trade and other payables	56,833	63,355
Interest-bearing bonds and borrowings	54,725	49,472
Contract liabilities	61,695	57,075
Other financial liabilities	95,982	95,658
Accrued income taxes	9,147	8,164
Provisions	32,256	31,515
Other current liabilities	3,896	5,194
Total current liabilities	314,537	310,437
Non-current liabilities		
Interest-bearing bonds and borrowings	62,289	52,277
Other financial liabilities	19,158	31,048
Net employee defined benefit liabilities	5,159	4,837
Provisions	5,633	4,343
Deferred tax liabilities	6,133	6,251
Other non-current liabilities	1,345	1,156
Total non-current liabilities	99,718	99,914
Total liabilities	414,256	410,351
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	49,505
Treasury shares	△8,571	△7,650
Retained earnings	37,498	44,023
Other components of equity	△18,435	△18,924
Equity attributable to owners of the parent	111,113	118,070
Non-controlling interests	3,053	3,421
Total equity	114,166	121,491
Total liabilities and equity	528,423	531,843

(2) Quarterly consolidated statements of income

(Million Yen)

	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)
Revenues		
Sales revenues	235,283	238,646
Other operating revenues	1,868	2,957
Total revenue	237,152	241,604
Cost		
Changes in merchandise, finished goods and work in progress for sale	△8,772	△11,811
Costs of raw materials, consumables and goods for resale	116,239	118,178
Personnel costs	63,938	65,698
Depreciation and amortization	8,988	10,827
Other operating costs	40,995	38,688
Total costs	221,388	221,581
Operating result	15,763	20,022
Financial income	220	194
Financial costs	2,434	3,259
Share of profits of associates and joint ventures accounted for using equity method	54	73
Earnings before income taxes	13,603	17,030
Income taxes	4,477	5,935
Net income	9,126	11,095
Income attributable to:		
Owners of the parent	8,886	10,673
Non-controlling interests	240	421
Net income	9,126	11,095
Earnings per share		
Basic (yen)	69.09	83.30
Diluted (yen)	68.49	83.01

(3) Quarterly consolidated statements of comprehensive income

(Million Yen)

	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)
Net income	9,126	11,095
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	45	18
Change in fair value measurements of financial assets at fair value through other comprehensive income	744	438
Share of other comprehensive income of associates accounted for using equity method	△14	3
Subtotal	775	460
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	△5,982	△981
Effective portion of changes in fair value of cash flow hedge	113	120
Subtotal	△5,868	△861
Total other comprehensive income	△5,092	△400
Comprehensive income	4,033	10,694
Comprehensive income attributable to:		
Owners of the parent	3,813	10,273
Non-controlling interests	220	421
Total	4,033	10,694

(4) Quarterly consolidated statements of changes in equity

(Million Yen)

	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					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 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
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

(Million Yen)

	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, 2019	51,115	-	49,505	△8,571	37,498	△18,435	111,113	3,053	114,166
Impact of changes in accounting policies					△347		△347		△347
As of January 1, 2019 (revised)	51,115	-	49,505	△8,571	37,151	△18,435	110,765	3,053	113,818
Net income					10,673		10,673	421	11,095
Other comprehensive income						△400	△400		△400
Total comprehensive income	-	-	-	-	10,673	△400	10,273	421	10,694
Payments to owners of hybrid capital					△534		△534		△534
Treasury shares acquisition				△0			△0		△0
Treasury shares disposition		△248		921		△66	606		606
Cash dividends					△3,041		△3,041	△58	△3,100
Transfer from retained earnings to capital surplus		244			△244		-		-
Share-based payments		2				△2	-		-
Increase in consolidated subsidiaries							-		-
Transfer from other components of equity to retained earnings					18	△18	-		-
Total transaction with owners of the parent	-	△1	-	920	△3,802	△88	△2,970	△58	△3,029
Acquisition of non-controlling interests		1					1	5	6
Changes in ownership interests in subsidiaries and others	-	1	-	-	-	-	1	5	6
As of June 30, 2019	51,115	-	49,505	△7,650	44,023	△18,924	118,070	3,421	121,491

(5) Quarterly consolidated statements of cash flows

(Million Yen)

	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)
Cash flows from operating activities		
Earnings or losses before income taxes	13,603	17,030
Depreciation and amortization	8,988	10,827
Loss (gain) on sales/disposal of property, plant and equipment (△: gain)	106	8
Financial income and costs(△: gain)	2,214	3,065
Share of profits of associates and joint ventures accounted for using equity method (△: gain)	△54	△73
Other non-cash transactions (△: gain)	△1,099	△1,405
Changes in asset and liability items:		
Inventories (△: increase)	△16,023	△13,371
Trade and other receivables (△: increase)	△2,404	7,078
Trade and other payables (△: decrease)	7,924	7,553
Contract liabilities (△: decrease)	18,085	△2,583
Provisions (△: decrease)	5	△932
Others	△2,954	△1,020
Subtotal	28,392	26,178
Interest received	156	120
Dividends received	63	69
Interest paid	△3,582	△3,795
Income tax paid	△3,737	△5,746
Net cash flows from operating activities	21,292	16,827
Cash flows from investing activities		
Purchases of property, plant and equipment	△4,818	△6,267
Proceeds from sales of property, plant and equipment	652	3,565
Purchases of intangible assets	△1,974	△2,125
Acquisition of subsidiaries, net of cash acquired	△199	△395
Acquisition of associated companies, net of cash acquired	△13	△31
Purchases of financial instruments	△25	△200
Other	74	215
Net cash flows from investing activities	△6,304	△5,238

(Million Yen)

	Second quarter ended June 30, 2018 (January 1 to June 30, 2018)	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	△3,841	△4,130
Proceeds from non-current borrowings	4,885	-
Payments for non-current borrowings	△41,426	△8,832
Payments for lease liabilities	-	△2,685
Dividends paid	△3,016	△3,034
Dividends paid to non-controlling interests	△100	△58
Payments for obligations for non-controlling interests	△1	△1
Proceeds from non-controlling interests	250	-
Acquisition of treasury shares	△0	△0
Payments to owners of hybrid capital	△530	△534
Other	△210	591
Net cash flows from financing activities	△43,993	△18,686
Effect of exchange rate changes on cash and cash equivalents	△2,459	△744
Increase (decrease) in cash and cash equivalents	△31,464	△7,842
Cash and cash equivalents at the beginning of period	64,973	27,368
Cash and cash equivalents at the end of period	33,509	19,525

(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, 2019 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, machine recovery 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) 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, 2018 except for those stated in (5) Changes of accounting policy.

(5) Changes of accounting policy

IFRS 16 "Leases"

The Group has implemented IFRS 16 "Leases" (issued in January 2016; hereafter, "IFRS 16") since January 1, 2019. As a transitional measure upon the implementation of IFRS 16, the Group applies this standard retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. As the result, retained earnings at beginning of year was decreased 347 million yen.

In transitioning to IFRS 16, the Group has chosen the practical expedient detailed in IFRS 16 paragraph C3 and grandfathered its assessments of whether contracts contain leases based on IAS 17 "Leases" (hereafter, "IAS 17") and IFRIC 4 "Determining whether an Arrangement contains a Lease". From the date of application, this assessment is determined based on the provisions of IFRS 16.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application, except short-term and low value leases. Short-term and low value leases are recognized as cost based on the straight-line method for lease period. These lease liabilities have been measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average of the lessee's incremental borrowing rates is 2.5%.

For leases that the Group as lessee previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are the carrying amounts of lease assets and lease liabilities, respectively, immediately before that date measured applying IAS 17.

The difference between a reconciliation of non-cancelable operating lease contracts applying IAS 17 as of December 31, 2018 (discounted by incremental borrowing rates) and lease liabilities recognized in the condensed consolidated statement of financial position at the date of initial application is mainly from estimated value of land and buildings after non-cancelable period.

As the result, right-of-use assets recognized at the initial application in the condensed consolidated statement of financial position were 19,282 million yen, and lease liabilities were 20,539 million yen. The following practical expedients are used in the implementation of IFRS 16.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
- Similar method to short term lease is applied to lease contracts which are terminated within 12 months since the initial application date.
- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

In condensed quarterly consolidated statement of cash flows, lease related cash flows had been classified as cash flows from operating activities. However, under the implementation of IFRS 16, lease transactions, except short-term and low value leases and including payments for lease liabilities which were presented as finance leases, are classified in cash flows from financing activities as "Payments for lease liabilities"

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, 2018 (January 1 to June 30, 2018)

(Million Yen)

	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 functions.

Second quarter ended June 30, 2019 (January 1 to June 30, 2019)

(Million Yen)

	Reporting Segments			Adjustment (Note)		
	Machine Tools	Industrial Services	Total	Corporate	Adjustment	Figures in consolidated statements of income
Sales revenues						
Sales revenues with third parties	175,141	63,494	238,635	10	-	238,646
Sales revenues with other segments	91,717	7,198	98,915	933	△99,848	-
Total	266,858	70,692	337,551	944	△99,848	238,646
Segment income	17,763	9,535	27,298	△7,627	424	20,095
Financial income						194
Financial costs						△3,259
Earnings before Taxes						17,030

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