

Summary of Consolidated Financial Statements for the third quarter of Fiscal Year 2019 ended September 30, 2019 (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, 2019)

Listed company name: DMG MORI CO., LTD.
 Stock exchange listing: First Section of Tokyo Stock Exchange
 Code Number: 6141 URL <https://www.dmgmori.co.jp>
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Filing date of quarterly financial statements: November 13, 2019

Estimated starting date of dividend paying: No

Preparation of supplementary explanatory materials: Yes

Holding of quarterly earnings release conference: Yes

1. Consolidated business results of the third quarter ended September 30, 2019 (January 1, 2019 to September 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	%
Third quarter ended September 30, 2019	349,342	Δ1.1	28,573	21.5	24,158	20.5	15,602	14.0	15,266	14.4	12,403	21.7
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

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Third quarter ended September 30, 2019	118.68	118.29
Third quarter ended September 30, 2018	103.75	102.91

(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
September 30, 2019	536,122	119,322	115,989	21.6	945.52
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	485,000	Δ3.2	37,000	2.0	19,500	5.3	151.15

(Note)

Revision of consolidated earnings forecast in the current quarter: Yes

- Reflecting the order decrease in the first half of the year, which is a reaction to the strong demand in market growing until last year, we have made a downward revision of sales revenues from the previous announcement released on February 12, 2019. On the other hand, as a result of continuous efforts to improve gross profit and reduce costs, operating result and income attributable to owners of the parent are expected to exceed the figures given in the previous announcement. 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 2019: JPY 109.0 /USD, 122.0 /EUR

4. Others

(1) Changes in significant subsidiaries during the third quarter ended September 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)

September 30, 2019: 125,953,683

December 31, 2018: 125,953,683

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

September 30, 2019: 3,713,813

December 31, 2018: 4,456,599

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

January - September 2019: 121,874,521

January - September 2018: 120,928,409

(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 (1,935,900 shares as of September 30, 2019) and the number of treasury shares deducted in calculating the average number of outstanding shares during the period (2,110,190 shares as of September 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 November 7, 2019.

1. Qualitative Information Regarding Quarterly Settlement of Accounts

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1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

For the first three quarters of the fiscal year 2019 (from January 1 to September 30), the sales revenues were 349,342 million yen (2,847,130 thousand EUR), the operating result was 28,573 million yen (232,873 thousand EUR), and earnings before taxes were 24,158 million yen (196,894 thousand EUR). The income attributable to owners of the parent was 15,266 million yen (124,424 thousand EUR). (Euro amount is converted from yen at 122.7 yen, the average exchange rate between January and September 30).

DMG MORI facilitates shop automation and digitization, and a wider use of 5-axis control machines and multi-axis machines in the manufacturing industry as its business strategies. We provide the cutting-edge machines equipped with Technology Cycles together with automation systems and DMQP (DMG MORI Qualified Products) to help our customers achieve integration of manufacturing processes. At the Iga Campus, verification experiments on digital technologies will be carried out using the next-generation communication standard "5G." We introduced the web portal "my DMG MORI" as a service to directly provide customers added value through shop digitization. It enables customers to check basic information, manuals and on-site service histories of their machines by plant, to directly send requests for repair and recovery services online with pictures and images attached, and to learn the shipping status of spare parts.

Moreover, we took a stake in a production management software provider TULIP to support process improvement for SME (Small- to Medium-sized Enterprise) customers by use of digital technologies. Its manufacturing application platform, which is easy to use with intuitive operation, requires no professional programming knowledge, yet realizes improvement in manufacturing processes and the efficiency. The software has already been used in spindle production processes at the Pfronten Plant, Germany, contributing to higher productivity and better quality. We will strengthen the production capacity in an effort to respond to the future demand expected to grow as a result of such strategic approaches of the company. In India, we began outsourcing the production of a vertical machining center for the Indian market to Lakshmi Machine Works. In Japan, large-scale renovations of the Iga Campus and Nara Campus are scheduled in the long-term business plan until 2023.

For the technological aspect, we have developed the internal system for quick search of the past order and machine recovery records, using AI. The new system developed by the DMG MORI Emerging Technologies Laboratories links a keyword to multiple related words by use of the in-house manufactured AI, enabling engineers to search and identify the similar past records such as product specifications and reports more easily. As a result, it saves their time for preparing quotations, and designing, repairing and recovering machines regardless of the variation in their skill levels.

We will take orders for the NHX series equipped with the Zero Sludge Coolant Tank as standard in November. With our new technology, coolant is stirred in the tank, and fine sludge is efficiently collected to control accumulation. Making it a standard feature contributes to reduction in cleaning time and machine failure frequency, and improvement in efficiency at more customer shops. DMG MORI strives to achieve higher customer value and social value creation through the development of leading-edge technologies.

As for sales, we had a grand opening ceremony for the DMG MORI Technology Center in Czech in August, and the Famot Plant Open House in Poland in October, following the Innovation Days held at the Iga Campus in July. We also participated in EMO held in Hannover, Germany in September and MECT held in Nagoya in October. At EMO, we showcased 45 advanced machines including the world premiere models and 29 automation systems in the entire Hall 2 with an area of 10,000 m². At MECT, we presented practical and technological know-how by giving live demonstrations on all the display models. Various technologies not on the show were also presented in the videos of digital factory consisting mainly of MATRIS, large-scale automation systems and CELOS. In November, we will have the Seebach Plant Open House in Germany to offer customers the opportunity to experience the DMG MORI's latest technologies.

Under the motto of "Play Hard + Be Dynamic," "Study Continuously + Be Open," and "Work Together + Be Innovative," the company supports physical and mental well-being and a fulfilled life for each employee. One of the company's clubs "BIRDMAN HOUSE IGA" won the 42nd Birdman Rally 2019 (hosted by Yomiuri Telecasting Corporation), where it proudly set a new record in the Human Power Propeller Division. The body components of the human-powered aircraft were machined on the company machines at the Iga Plant.

"DMG MORI Global One", the new boat of the DMG MORI SAILING TEAM, has been completed, and the launching ceremony was held in Lorient, France. The components were also produced on the DMG MORI machines. The team will participate in the qualifying races such as "The Transat" and "Transat NY-Vendée" after training in France and Portugal with a target for participation in "Vendée Globe 2020," a non-stop, solo, round-the-world yacht race without assistance, to be held in November 2020. We continue a research grant activity for MTTRF (Machine Tool Technologies Research Foundation), grant scholarship for doctoral course students through Mori Manufacturing Research and Technology Foundation, and hosting of the Cutting Dream Contest to contribute to further advancement of the manufacturing industry.

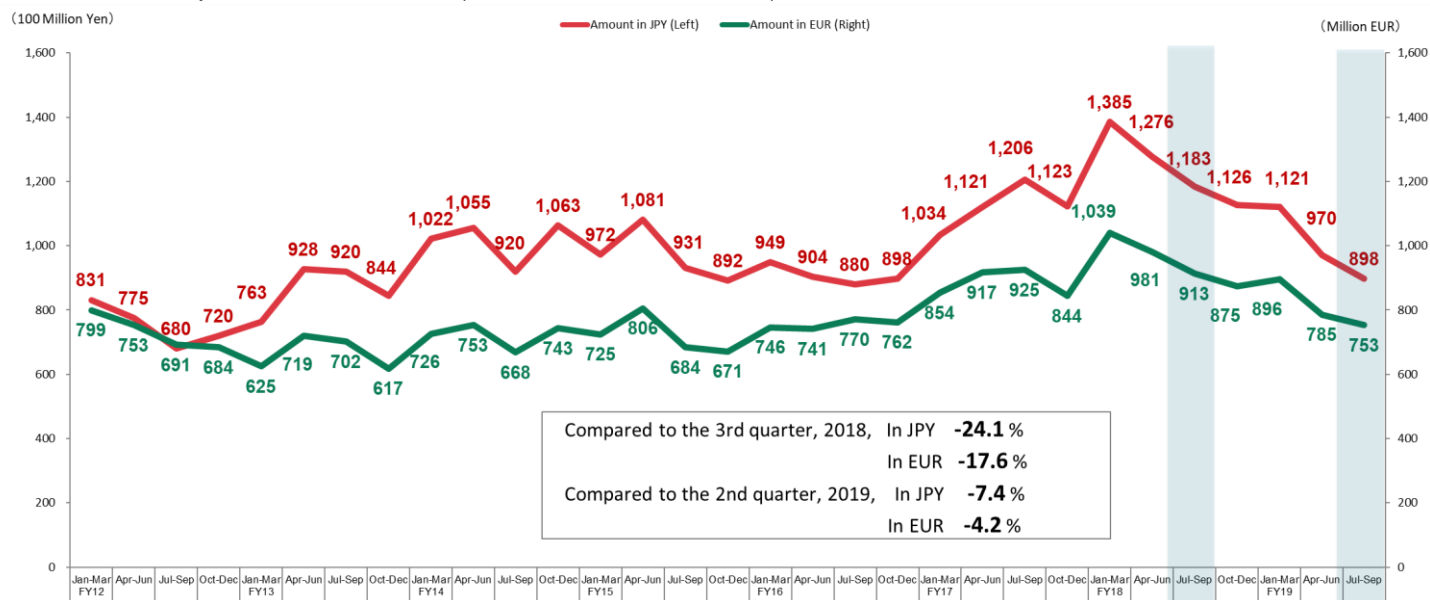
The new orders for the first three quarters of the fiscal year 2019 totaled 321.1 billion yen, a 22% drop from the figure for the previous year. The order unit price is up approximately 6% than the annual average of the last year because of the company-wide efforts to deploy value-added solutions such as shop automation and digitization; and cutting-edge products such as 5-axis control machines, multi-axis machines and additive manufacturing machines. The orders for repair parts and machine recovery services posted a year-over-year increase of 7% as a result of our focusing on the service area.

By region, the orders in Japan were 42% behind the comparable total for 2018 because of a reactionary fall in demand after the expanding market trend up to the previous year. In Americas, the orders were down 29%, and in Asia including China down 31% from the previous year, respectively. Europe, which accounts for 50% of the total orders, experienced a decline of 21%. The drop rate somehow remained lower than the rest of the world, which is in part because the company achieved a greater sales result than originally planned at EMO held in Hannover, Germany in September. The leading-edge technologies and automation received rave reviews from the customers at the event.

By industry, we saw a solid growth in demand from the aircraft-related, medical-related and die & mold sectors. On the other hand, the automotive-related, general machinery-related and semiconductor device-related markets were softening. For a quarter-over-quarter comparison, the orders in the Asia posted a slight decline while Japan, the Americas and Europe settled into a leveling-off situation.

We believe that there is a great deal of latent demand across the world because we have customers who consider investment in process integration, automation and digitization, aiming for a mid- to long-term growth and profitability improvement. DMG MORI strives to translate the demand into an increase in orders with full strength of direct sales and services.

<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 third quarter of the fiscal year ended September 30, 2019 is as follows:

Unit : 100 Million yen
(Million EUR)

	January to September, 2018	January to September, 2019	Difference	<Forecast> January to December, 2019
Sales revenues	3,532 (2,696)	3,493 (2,847)	△39 (151)	4,850 (3,975)
Operating result	235 (179)	286 (233)	51 (53)	370 (303)
Operating result / Sales revenues	6.7%	8.2%	1.5% pts	7.6%
Income attributable to owners of the parent	134 (102)	153 (124)	19 (23)	195 (160)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 131.0 yen/EUR for the figures of January to September, 2018, 122.7 yen/EUR for those of January to September, 2019, and 122.0 yen/EUR for the figures of January to December, 2019.

(2) Explanation of financial position

Total assets at the end of the third quarter of fiscal year 2019 amounted to 536,122 million yen. Total equity is 119,322 million yen and ratio of equity attributable to owners of the parent is 21.6%.

(3) Explanation of forecasts and other projections

Reflecting the order decrease in the first half of the year, which is a reaction to the strong demand in market growing until last year, we have made a downward revision of sales revenues from the previous announcement released on February 12, 2019. On the other hand, as a result of continuous efforts to improve gross profit and reduce costs, operating result and income attributable to owners of the parent are expected to exceed the figures given in the previous announcement.

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 12 January to December, 2019	Released on November 7 January to December, 2019	Difference	<Reference> January to December, 2018
Sales revenues	5,000 (4,092)	4,850 (3,975)	△150 (△116)	5,012 (3,844)
Operating result	360 (295)	370 (303)	10 (9)	363 (278)
Operating result / Sales revenues	7.2%	7.6%	0.4% pts	7.2%
Income attributable to owners of the parent	190 (155)	195 (160)	5 (4)	185 (142)

(Note)

- Exchange rate used for consolidated earnings forecast for fiscal year 2019: JPY 109.0 /USD and 122.0 /EUR
- Euro amount is converted from yen at the average exchange rate of 130.4 yen/EUR for fiscal year 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly consolidated statements of financial position

(Million Yen)

	December 31, 2018	September 30, 2019
(Assets)		
Current assets		
Cash and cash equivalents	27,368	18,865
Trade and other receivables	69,441	58,557
Other financial assets	6,836	6,934
Inventories	130,726	145,326
Other current assets	9,656	11,415
Total current assets	244,029	241,099
Non-current assets		
Property, plant and equipment	128,686	125,040
Right-of-use assets	-	17,862
Goodwill	68,854	64,128
Other intangible assets	65,399	60,419
Other financial assets	8,509	13,197
Investments in associates and joint ventures	3,331	5,408
Deferred tax assets	4,317	3,802
Other non-current assets	5,293	5,163
Total non-current assets	284,393	295,023
Total assets	528,423	536,122

December 31, 2018

September 30, 2019

(Liabilities and equity)		
Current liabilities		
Trade and other payables	56,833	63,645
Interest-bearing bonds and borrowings	54,725	39,112
Contract liabilities	61,695	55,899
Other financial liabilities	95,982	94,017
Accrued income taxes	9,147	5,778
Provisions	32,256	32,565
Other current liabilities	3,896	3,877
Total current liabilities	314,537	294,896
Non-current liabilities		
Interest-bearing bonds and borrowings	62,289	72,583
Other financial liabilities	19,158	33,695
Net employee defined benefit liabilities	5,159	4,636
Provisions	5,633	4,175
Deferred tax liabilities	6,133	5,687
Other non-current liabilities	1,345	1,125
Total non-current liabilities	99,718	121,903
Total liabilities	414,256	416,800
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	49,505
Treasury shares	Δ8,571	Δ7,135
Retained earnings	37,498	44,298
Other components of equity	Δ18,435	Δ21,794
Equity attributable to owners of the parent	111,113	115,989
Non-controlling interests	3,053	3,333
Total equity	114,166	119,322
Total liabilities and equity	528,423	536,122

(2) Quarterly consolidated statements of income

(Million Yen)

	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)
Revenues		
Sales revenues	353,238	349,342
Other operating revenues	3,018	5,378
Total revenue	356,257	354,721
Cost		
Changes in merchandise, finished goods and work in progress for sale	△14,395	△19,374
Costs of raw materials, consumables and goods for resale	175,950	175,585
Personnel costs	96,159	96,274
Depreciation and amortization	13,474	16,772
Other operating costs	61,560	56,889
Total costs	332,749	326,147
Operating result	23,507	28,573
Financial income	268	270
Financial costs	3,861	4,765
Share of profits of associates and joint ventures accounted for using equity method	140	80
Earnings before income taxes	20,055	24,158
Income taxes	6,370	8,555
Net income	13,685	15,602
Income attributable to:		
Owners of the parent	13,350	15,266
Non-controlling interests	335	336
Net income	13,685	15,602
Earnings per share		
Basic (yen)	103.75	118.68
Diluted (yen)	102.91	118.29

(3) Quarterly consolidated statements of comprehensive income

(Million Yen)

	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)
Net income	13,685	15,602
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	17	35
Change in fair value measurements of financial assets at fair value through other comprehensive income	761	375
Share of other comprehensive income of associates accounted for using equity method	△9	2
Subtotal	769	412
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	△4,156	△3,565
Effective portion of changes in fair value of cash flow hedge	△108	△46
Subtotal	△4,264	△3,612
Total other comprehensive income	△3,495	△3,199
Comprehensive income	10,190	12,403
Comprehensive income attributable to:		
Owners of the parent	9,863	12,055
Non-controlling interests	327	348
Total	10,190	12,403

(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					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 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
Increase (decrease) 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 (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

(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	Δ8,571	37,498	Δ18,435	111,113	3,053	114,166
Impact of changes in accounting policies					Δ347		Δ347		Δ347
As of January 1, 2019 (revised)	51,115	-	49,505	Δ8,571	37,151	Δ18,435	110,765	3,053	113,818
Net income					15,266		15,266	336	15,602
Other comprehensive income						Δ3,211	Δ3,211	11	Δ3,199
Total comprehensive income	-	-	-	-	15,266	Δ3,211	12,055	348	12,403
Payments to owners of hybrid capital					Δ1,076		Δ1,076		Δ1,076
Treasury shares acquisition				Δ0			Δ0		Δ0
Treasury shares disposition		Δ377		1,435		Δ109	948		948
Cash dividends					Δ6,705		Δ6,705	Δ132	Δ6,837
Transfer from retained earnings to capital surplus		373			Δ373		-		-
Share-based payments		2				Δ2	-		-
Increase (decrease) in consolidated subsidiaries							-	49	49
Transfer from other components of equity to retained earnings					35	Δ35	-		-
Total transaction with owners of the parent	-	Δ1	-	1,435	Δ8,119	Δ147	Δ6,834	Δ82	Δ6,916
Acquisition (disposition) of non-controlling interests		1					1	14	16
Changes in ownership interests in subsidiaries and others	-	1	-	-	-	-	1	14	16
As of September 30, 2019	51,115	-	49,505	Δ7,135	44,298	Δ21,794	115,989	3,333	119,322

(5) Quarterly consolidated statements of cash flows

(Million Yen)

	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)
Cash flows from operating activities		
Earnings before income taxes	20,055	24,158
Depreciation and amortization	13,474	16,772
Loss (gain) on sales/disposal of property, plant and equipment (Δ: gain)	160	378
Financial income and costs (Δ: gain)	3,592	4,495
Share of profits of associates and joint ventures accounted for using equity method (Δ: gain)	Δ140	Δ80
Other non-cash transactions (Δ: gain)	Δ1,209	Δ1,599
Changes in asset and liability items:		
Inventories (Δ: increase)	Δ24,360	Δ21,232
Trade and other receivables (Δ: increase)	Δ4,122	8,217
Trade and other payables (Δ: decrease)	16,736	8,626
Contract liabilities (Δ: decrease)	19,028	Δ2,029
Provisions (Δ: decrease)	2,908	1,012
Others	Δ4,601	Δ4,500
Subtotal	41,522	34,219
Interest received	201	188
Dividends received	68	72
Interest paid	Δ4,409	Δ4,412
Income tax paid	Δ5,530	Δ8,896
Net cash flows from operating activities	31,852	21,171
Cash flows from investing activities		
Purchases of property, plant and equipment	Δ7,073	9,317
Proceeds from sales of property, plant and equipment	906	3,645
Purchases of intangible assets	Δ2,932	Δ3,365
Acquisition of subsidiaries, net of cash acquired	Δ199	Δ395
Acquisition of associated companies, net of cash acquired	Δ39	Δ2,538
Purchases of financial instruments	Δ25	Δ2,957
Other	60	112
Net cash flows from investing activities	Δ9,303	Δ14,815

(Million Yen)

	Third quarter ended September 30, 2018 (January 1 to September 30, 2018)	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	13,288	4,661
Proceeds from non-current borrowings	4,885	19,949
Payments for non-current borrowings	△73,986	△17,235
Proceeds from issue of bond	-	9,955
Payments for bond redemption	-	△20,000
Payments for lease liabilities	-	△4,137
Dividends paid	△5,776	△6,394
Dividends paid to non-controlling interests	△157	△130
Proceeds from non-controlling interests	250	-
Acquisition of non-controlling interests	△387	-
Acquisition of treasury shares	△0	△0
Payments for obligations for non-controlling interests	△1	△7
Payments to owners of hybrid capital	△1,072	△1,076
Other	△172	927
Net cash flows from financing activities	△63,132	△13,488
Effect of exchange rate changes on cash and cash equivalents	△1,933	△1,369
Increase (decrease) in cash and cash equivalents	△42,516	△8,502
Cash and cash equivalents at the beginning of period	64,973	27,368
Cash and cash equivalents at the end of period	22,456	18,865

(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, 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 are 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 is based on operating income and Share of profits of associates and joint ventures accounted for using equity method. Sales revenues with other 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, 2018 (January 1 to September 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	260,559	92,659	353,218	19	-		353,238
Sales revenues with other segments	137,829	12,582	150,412	1,538	Δ151,950		-
Total	398,389	105,241	503,631	1,557	Δ151,950		353,238
Segment income	27,609	8,843	36,453	Δ11,756	Δ1,048		23,648
Financial income							268
Financial costs							Δ3,861
Earnings before Taxes							20,055

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

Third quarter ended September 30, 2019 (January 1 to September 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	253,616	95,709	349,326	16	-		349,342
Sales revenues with other segments	138,855	13,316	152,171	1,377	Δ153,549		-
Total	392,472	109,025	501,498	1,393	Δ153,549		349,342
Segment income	26,689	13,590	40,280	Δ11,762	136		28,654
Financial income							270
Financial costs							Δ4,765
Earnings before Taxes							24,158

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