

Summary of Consolidated Financial Statements for the second quarter of Fiscal Year 2020 ended June 30, 2020 (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 27, 2020)

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: August 28, 2020

Estimated starting date of dividend payment: September 18, 2020

Preparation of supplementary explanatory materials: Yes

Holding of quarterly earnings release conference: Yes

1. Consolidated business results of the second quarter ended June 30, 2020 (January 1, 2020 to June 30, 2020)

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

	Sales revenues		Operating income		Earnings (Δ loss) before income taxes		Quarterly profit (Δ loss)		Income (Δ loss) attributable to owners of the parent		Total comprehensive income	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
	(% of change from same period in the previous year)											
Second quarter ended June 30, 2020	154,344	Δ 35.3	2,429	Δ 87.9	Δ 559	-	Δ 2,234	-	Δ 2,153	-	Δ 8,904	-
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

	Basic earnings (Δ loss) per share		Diluted earnings (Δ loss) per share	
	Yen		Yen	
	Second quarter ended June 30, 2020	Δ 21.87		Δ 21.87
Second quarter ended June 30, 2019	83.30		83.01	

(Note)

- Total comprehensive income of the second quarter ended June 30, 2020 is mainly caused by the differences from currency translation with the strong yen.
- Earnings (Δ loss) 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, 2020	503,024	115,855	111,712	22.2	903.32
December 31, 2019	524,606	127,807	124,006	23.6	1,008.36

(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, 2019	-	30.00	-	30.00	60.00
December 31, 2020	-	10.00	-	-	-
December 31, 2020 (Forecast)	-	-	-	10.00 ~20.00	20.00 ~30.00

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

3. Consolidated earnings forecast for Fiscal Year 2020 (January 1, 2020 to December 31, 2020) (% of change from same period in the previous year)

	Sales revenues		Operating income		Income attributable to owners of the parent		Basic earnings (Δloss) per share
	million yen	%	million yen	%	million yen	%	yen
Full Year 2020	330,000	△32.1	7,000	△81.3	1,000	△94.4	△1.63
	~340,000	~△30.0	~10,000	~△73.2	~3,000	~△83.3	~14.64

(Note)

Revision of consolidated earnings forecast in the current quarter: Yes

- We made a revision of sales revenues, operating income and income attributable to owners of the parent from the previous announcement released on May 28, 2020. 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 2020: JPY 110.0 /USD, 120.0 /EUR

4. Others

(1) Changes in significant subsidiaries during the second quarter ended June 30, 2020: No

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

1. Changes in accounting policies required by IFRS: No
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, 2020: 125,953,683

December 31, 2019: 125,953,683

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

June 30, 2020: 2,580,299

December 31, 2019: 3,295,627

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

January - June 2020: 122,968,992

January - June 2019: 121,762,573

(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 (1,825,400 shares as of December 31, 2019, and 1,280,100 shares as of June 30, 2020) and the number of treasury shares deducted in calculating the average number of outstanding shares during the period (2,162,286 shares from January 1 to June 30, 2019, and 1,597,786 shares from January 1 to June 30, 2020).

- 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 2020 (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 27, 2020.

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1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

For the first half of the fiscal year 2020 (from January 1 to June 30), the sales revenues were 154,344 million yen (1,293,747 thousand EUR), the operating income was 2,429 million yen (20,367 thousand EUR), and loss before income taxes was 559 million yen (4,693 thousand EUR). The loss attributable to owners of the parent was 2,153 million yen (18,052 thousand EUR). (Euro amount is converted from yen at 119.3 yen, the average exchange rate between January 1 and June 30).

DMG MORI has been evolving from a machine tool manufacturer into a total solution provider that realizes the entire shop machining process for customers. As one of our business strategies, we promote shop automation and digitization with 5-axis control machines and additive manufacturing machines as key manufacturing platforms. Against the backdrop, we reached a partnership agreement with NTT Communications Corporation and KDDI Corporation, respectively, and are working on the development of new technologies and solutions leveraging the 5G technology, such as AI-enabled chip removal and autonomous workpiece transfer robots capable of traveling on bumpy shop floor surfaces.

The customer portal “my DMG MORI” enables customers to check maintenance record and operation rates of their shop machines. With the application, customers can also sign up for operator training and ask for repair & recovery services remotely. Our “digital acceptance,” by which pre-shipment products can be remotely inspected through the online meeting system, allows customers to check their machines and peripheral equipment without directly visiting our factory, because the product images from multiple cameras can be shared among the participants in real time. We offer “Digital Academy” that combines e-learning courses available 24/7 and traditional hands-on machining training as a higher quality education service for operators. The TULIP, a platform for creating manufacturing applications, helps operators easily make applications that realize tasks such as the creation of work instructions and equipment monitoring with no professional programming knowledge, contributing to boosting shop productivity.

For the technological aspect, we released the LASERTEC 30 DUAL SLM equipped with the dual laser system in Japan. The machine boasts 80 percent higher machining efficiency than the conventional model. Among other released products are a large-capacity tool magazine that is capable of storing various types of tools and ideal for high-mix, low-volume production; and a laser metal additive manufacturing machine LASERTEC 6600 3D hybrid suited to machining of large workpieces. The LASERTEC 6600 3D hybrid featuring a large build area carries out metal additive manufacturing and subtractive machining on one machine, achieving far more advanced machining than ever.

We will establish the new development base Nara Product Development Center in Nara Prefecture, Japan, in spring 2022 to achieve DX (Digital Transformation) and advanced technologies. DMG MORI continues to develop the products that are equipped with a higher degree of reliability and functionality, and worthy of investment in an effort to respond to the needs of customers in broader sectors.

As for the sales aspect, we still hold off on participating in trade shows and having private shows due to the global pandemic of COVID-19. In response to the disruptive business environment, we released the “Digital Twin Showroom” on the company website for the visitors to be able to experience our cutting-edge technologies. The full CG Digital Twin Showroom (4K image quality) created with 3D CG software provides a 360-degree panorama view of the showroom, taking the visitors to a digital world that gives a real sense of immersion and makes them feel like they are actually walking around the showroom. Peripheral equipment as well as machines are put on display, and product information and catalogs are made available on the website. In the real-world showrooms, we hold “DMG MORI Technology Fridays” every Friday for a small group of customers to respond to the individual needs more attentively. On the company website, we also offer product videos and varieties of technical seminars by external lecturers and DMG MORI experts as a means to release information about product performance and investment benefits. We continue to offer the best possible solutions for customers by making connections with them in both real and digital worlds.

Under the company motto of “Play Hard + Be Dynamic,” “Study Continuously + Be Open” and “Work Together + Be Innovative,” we place a priority on creating a corporate culture where each of our employees remains healthy in body and mind and has the opportunity to upskill him/herself. We monitor their daily working hours and the rate of paid leave taken on a regular basis. As the preventive measures against the virus infection, we encourage public transportation commuters to work from home, and provide support so that they can engage in remote work smoothly by use of TV conference systems and online educational training.

Having won a ticket to a solo, round-the-world yacht race without assistance “Vendée Globe 2020,” the DMG MORI SAILING TEAM established in October 2018 is working on training to get itself completely ready for one of the world’s toughest yacht races scheduled in November 2020. DMG MORI is committed to fulfilling the social responsibility as a company that has stakeholders around the world, and to increasing the corporation value through a sustainable growth.

The order intake for the first half of the fiscal year 2020 totaled 135.5 billion yen, a drop of 39.5% from the same period of the previous year. Due to the negative effects of city-wide lockdowns and travel restrictions, orders during the period, especially April and May, saw a significant fall. On the other hand, thanks to the promotion of shop digitization we have focused for the past years, we were able to proceed with business discussion with customers, and process integration machines such as 5-axis control machines and multi-axis machines, additive manufacturing, automation and digitization showed a steady growth in sales, which as a result contributed to a continuing rise of 5.5% in order unit price over the previous year. Furthermore, because the demand from the semiconductor manufacturing equipment field demonstrated sustained robustness, our group company supplying parts for the sector kept a solid performance.

By region, the new orders for machine tools posted a sharp decrease of 42% in Japan, 55% in Europe and 40% in Asia including China from the comparable result for 2019, respectively. However, the drop rate of Americas remained relatively moderate at 19% compared with the other regions. The demand for after sales services, which had been stable before the economic disruption occurred, ended with a year-over-year drop of 23% due to a big correction in demand during the second quarter (April to June).

By industry, the demand from the semiconductor manufacturing equipment, die & mold, and medical industries indicated a sustained growth. On the other hand, the aircraft sector, which was a leading key driver until recently, abruptly went into a slowdown in demand, and the momentum of the automotive-related sector went one step worse than the previous period.

The sales and service activities are gradually getting back to normal since May, and orders showed recovery in June after hitting the bottom in April and May. We perceive a rising demand for process integration, automation and digitization across the manufacturing sector from the sentiment of the customers who visit the Digital Twin Showroom and Technology Fridays. DMG MORI strives to stimulate the potential needs and translate them into a boost in orders.

<Consolidated results>

Consolidated results of the second quarter of the fiscal year ended June 30, 2020 is as follows:

Unit : 100 Million yen

(Million EUR)

<Forecast>

	January to June, 2019	January to June, 2020	Difference	January to December, 2020
Sales revenues	2,386 (1,920)	1,543 (1,294)	△843 (△626)	3,300~3,400 (2,750~2,833)
Operating income	200 (161)	24 (20)	△176 (△141)	70~100 (58~83)
Operating income / Sales revenues	8.4%	1.6%	△6.8%pts	2.1%~2.9%
Income (△loss) attributable to owners of the parent	107 (86)	△22 (△18)	△128 (△104)	10~30 (8~25)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 124.3 yen/EUR for the figures of January to June, 2019, 119.3 yen/EUR for those of January to June, 2020, and 120.0 yen/EUR for the figures of January to December, 2020.

(2) Explanation of financial position

Total assets at the end of the second quarter of fiscal year 2020 amounted to 503,024 million yen. Total equity is 115,855 million yen and ratio of equity attributable to owners of the parent is 22.2%.

(3) Explanation of forecasts and other projections

For the consolidated earnings forecast for the fiscal year 2020, we announced some indicators as “to be determined” due to the impact of COVID-19 on May 28, 2020.

Although it still remains unclear when the COVID-19 pandemic will end, we made a revision to the forecast based on the current business environment and the results of the second quarter.

Consolidated earnings forecast

Unit : 100 Million yen
(Million EUR)

	Released on May 28	Released on August 27	Difference	<Reference>
	January to December, 2020	January to December, 2020		January to December, 2019
Sales revenues	3,200~3,400 (2,667~2,833)	3,300~3,400 (2,750~2,833)	100~- (83~-)	4,858 (3,979)
Operating income	50~100 (42~83)	70~100 (58~83)	20~- (17~-)	373 (306)
Operating income / Sales revenues	1.6%~2.9%	2.1%~2.9%	0.5%pts~-%pts	7.7%
Income attributable to owners of the parent	To be determined	10~30 (8~25)	- (-)	180 (147)

(Note)

- Exchange rate used for consolidated earnings forecast for fiscal year 2020: JPY 110.0 /USD and 120.0 /EUR.
- Euro amount is converted from yen at the average exchange rate of 122.1 yen/EUR for fiscal year 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, 2019	June 30, 2020
(Assets)		
Current assets		
Cash and cash equivalents	27,695	17,741
Trade and other receivables	55,314	44,462
Other financial assets	5,464	5,719
Inventories	120,862	123,425
Other current assets	9,072	9,501
Total current assets	218,409	200,849
Non-current assets		
Property, plant and equipment	130,943	127,997
Right-of-use assets	18,095	17,071
Goodwill	66,516	65,772
Other intangible assets	62,773	62,768
Other financial assets	12,871	13,826
Investments in associates and joint ventures	5,751	5,540
Deferred tax assets	4,074	4,248
Other non-current assets	5,170	4,948
Total non-current assets	306,196	302,174
Total assets	524,606	503,024

	December 31, 2019	June 30, 2020
(Liabilities and equity)		
Current liabilities		
Trade and other payables	54,851	44,361
Interest-bearing bonds and borrowings	35,157	121,510
Contract liabilities	37,517	33,621
Other financial liabilities	98,505	55,227
Accrued income taxes	7,388	5,226
Provisions	34,738	32,030
Other current liabilities	4,393	3,060
Total current liabilities	272,553	295,039
Non-current liabilities		
Interest-bearing bonds and borrowings	73,539	42,933
Other financial liabilities	32,566	31,697
Net employee defined benefit liabilities	5,594	5,815
Provisions	5,219	4,267
Deferred tax liabilities	6,203	6,204
Other non-current liabilities	1,123	1,210
Total non-current liabilities	124,246	92,129
Total liabilities	396,799	387,168
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	49,505
Treasury shares	△6,319	△4,974
Retained earnings	46,399	39,462
Other components of equity	△16,695	△23,397
Equity attributable to owners of the parent	124,006	111,712
Non-controlling interests	3,800	4,142
Total equity	127,807	115,855
Total liabilities and equity	524,606	503,024

(2) Quarterly consolidated statements of income

(Million Yen)

	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)	Second quarter ended June 30, 2020 (January 1 to June 30, 2020)
Revenues		
Sales revenues	238,646	154,344
Other operating revenues	2,957	2,762
Total revenue	241,604	157,106
Cost		
Changes in merchandise, finished goods and work in progress for sale	△11,811	△2,482
Costs of raw materials, consumables and goods for resale	118,178	66,498
Personnel costs	65,698	54,306
Depreciation and amortization	10,827	11,597
Other operating costs	38,688	24,756
Total costs	221,581	154,676
Operating income	20,022	2,429
Financial income	194	184
Financial costs	3,259	3,209
Share of profits of associates and joint ventures accounted for using equity method	73	35
Earnings (△loss) before income taxes	17,030	△559
Income taxes	5,935	1,674
Net income (△loss)	11,095	△2,234
Income attributable to:		
Owners of the parent	10,673	△2,153
Non-controlling interests	421	△80
Net income (△loss)	11,095	△2,234
Earnings (△loss) per share		
Basic (yen)	83.30	△21.87
Diluted (yen)	83.01	△21.87

(3) Quarterly consolidated statements of comprehensive income

(Million Yen)

	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)	Second quarter ended June 30, 2020 (January 1 to June 30, 2020)
Net income (Δ loss)	11,095	Δ 2,234
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	18	13
Change in fair value measurements of financial assets at fair value through other comprehensive income	438	Δ 464
Share of other comprehensive income of associates accounted for using equity method	3	-
Subtotal	460	Δ 450
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	Δ 981	Δ 6,257
Effective portion of changes in fair value of cash flow hedge	120	40
Share of other comprehensive income of associates accounted for using equity method	-	Δ 2
Subtotal	Δ 861	Δ 6,219
Total other comprehensive income	Δ 400	Δ 6,670
Comprehensive income	10,694	Δ 8,904
Comprehensive income attributable to:		
Owners of the parent	10,273	Δ 8,786
Non-controlling interests	421	Δ 118
Total	10,694	Δ 8,904

(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, 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

(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, 2020	51,115	-	49,505	△6,319	46,399	△16,695	124,006	3,800	127,807
Net income (△loss)					△2,153		△2,153	△80	△2,234
Other comprehensive income						△6,632	△6,632	△37	△6,670
Total comprehensive income	-	-	-	-	△2,153	△6,632	△8,786	△118	△8,904
Payments to owners of hybrid capital					△544		△544		△544
Treasury shares acquisition				△0			△0		△0
Treasury shares disposition		△575		1,428		△52	800		800
Cash dividends					△3,681		△3,681	△73	△3,755
Transfer from retained earnings to capital surplus		571			△571		-		-
Share-based payments		2				△2	-		-
Increase in consolidated subsidiaries				△83			△83	522	439
Transfer from other components of equity to retained earnings					13	△13	-		-
Total transaction with owners of the parent	-	△1	-	1,344	△4,783	△69	△3,509	449	△3,060
Acquisition of non-controlling interests		1					1	11	12
Changes in ownership interests in subsidiaries and others	-	1	-	-	-	-	1	11	12
As of June 30, 2020	51,115	-	49,505	△4,974	39,462	△23,397	111,712	4,142	115,855

(5) Quarterly consolidated statements of cash flows

(Million Yen)

	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)	Second quarter ended June 30, 2020 (January 1 to June 30, 2020)
Cash flows from operating activities		
Earnings (Δ loss) before income taxes	17,030	Δ 559
Depreciation and amortization	10,827	11,597
Loss (gain) on sales/disposal of property, plant and equipment (Δ : gain)	8	Δ 478
Financial income and costs (Δ : gain)	3,065	3,024
Share of profits of associates and joint ventures accounted for using equity method (Δ : gain)	Δ 73	Δ 35
Other non-cash transactions (Δ : gain)	Δ 1,405	44
Changes in asset and liability items:		
Inventories (Δ : increase)	Δ 13,371	Δ 3,640
Trade and other receivables (Δ : increase)	7,078	10,990
Trade and other payables (Δ : decrease)	7,553	Δ 10,295
Contract liabilities (Δ : decrease)	Δ 2,583	Δ 3,346
Provisions (Δ : decrease)	Δ 932	Δ 3,405
Others	Δ 1,020	Δ 6,031
Subtotal	26,178	Δ 2,136
Interest received	120	126
Dividends received	69	57
Interest paid	Δ 3,795	Δ 2,342
Income tax paid	Δ 5,746	Δ 4,132
Net cash flows from operating activities	16,827	Δ 8,427
Cash flows from investing activities		
Purchases of property, plant and equipment	Δ 6,267	Δ 3,866
Proceeds from sales of property, plant and equipment	3,565	945
Purchases of intangible assets	Δ 2,125	Δ 3,153
Purchase of investments in subsidiaries resulting in change in scope of consolidation	Δ 395	Δ 119
Acquisition of associated companies, net of cash acquired	Δ 31	Δ 134
Purchases of financial instruments	Δ 200	Δ 744
Other	215	12
Net cash flows from investing activities	Δ 5,238	Δ 7,060

(Million Yen)

	Second quarter ended June 30, 2019 (January 1 to June 30, 2019)	Second quarter ended June 30, 2020 (January 1 to June 30, 2020)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	△4,130	64,346
Payments for non-current borrowings	△8,832	△9,021
Payments for lease liabilities	△2,685	△2,942
Dividends paid	△3,034	△4,044
Dividends paid to non-controlling interests	△58	△76
Payments for obligations for non-controlling interests	△1	△42,181
Acquisition of treasury shares	△0	△1
Payments to owners of hybrid capital	△534	△544
Other	591	553
Net cash flows from financing activities	△18,686	6,087
Effect of exchange rate changes on cash and cash equivalents	△744	△554
Increase (decrease) in cash and cash equivalents	△7,842	△9,954
Cash and cash equivalents at the beginning of period	27,368	27,695
Cash and cash equivalents at the end of period	19,525	17,741

(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, 2020 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, 2019.

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 (Δ loss) is based on operating income (Δ 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, 2019 (January 1 to June 30, 2019)

	(Million Yen)					
	Reporting Segments			Adjustment (Note)		Figures in consolidated statements of income
	Machine Tools	Industrial Services	Total	Corporate	Adjustment	
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	Δ 99,848	-
Total	266,858	70,692	337,551	944	Δ 99,848	238,646
Segment income	17,763	9,535	27,298	Δ 7,627	424	20,095
Financial income						194
Financial costs						Δ 3,259
Earnings before income taxes						17,030

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

Second quarter ended June 30, 2020 (January 1 to June 30, 2020)

	(Million Yen)					
	Reporting Segments			Adjustment (Note)		Figures in consolidated statements of income
	Machine Tools	Industrial Services	Total	Corporate	Adjustment	
Sales revenues						
Sales revenues with third parties	107,337	46,995	154,333	10	-	154,344
Sales revenues with other segments	70,478	9,385	79,864	791	Δ 80,655	-
Total	177,816	56,381	234,198	801	Δ 80,655	154,344
Segment income	4,730	4,298	9,028	Δ 7,354	790	2,464
Financial income						184
Financial costs						Δ 3,209
Earnings (Δ loss) before income taxes						Δ 559

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

4. Significant subsequent event

United States Department of the Treasury announced the final rules stipulating high tax rate exemption for Global Intangible Low-Taxed Income (GILTI) on July 20, 2020.

Estimated impacts of this revision in the third quarter ended September 30, 2020 (January 1 to September 30, 2020) are decrease of Income taxes payable by 580 million yen and decrease of Income taxes by 583 million yen.