

Summary of Consolidated Financial Statements for the third quarter of Fiscal Year 2020 ended September 30, 2020 (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 6, 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: November 13, 2020

Estimated starting date of dividend payment: -

Preparation of supplementary explanatory materials: Yes

Holding of quarterly earnings release conference: Yes

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

(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 income		Earnings before income 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, 2020	234,362	△32.9	6,235	△78.2	2,266	△90.6	2	△100.0	32	△99.8	△7,536	-
Third quarter ended September 30, 2019	349,342	△1.1	28,573	21.5	24,158	20.5	15,602	14.0	15,266	14.4	12,403	21.7

	Basic earnings (△ loss)	Diluted earnings (△ loss)
	per share	per share
	Yen	Yen
Third quarter ended September 30, 2020	△6.55	△6.55
Third quarter ended September 30, 2019	118.68	118.29

(Note)

- Total comprehensive income of the third quarter ended September 30, 2020 is mainly caused by the differences from currency translation with the strong yen.
- Earnings (△ 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
September 30, 2020	525,447	152,227	148,073	28.2	1,196.05
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

(Note) Revision of dividend forecast in the current quarter: Yes

3. Consolidated financial forecast for Fiscal Year 2020 (January 1, 2020 to December 31, 2020)

	Sales revenues		Operating income		Income attributable to owners of the parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	yen
	(% of change from same period in the previous year)						
Full Year 2020	330,000	△32.1	10,000 ~11,000	△73.2 ~△70.5	1,500 ~3,000	△91.7 ~△83.3	1.64 ~13.82

(Note)

Revision of consolidated financial 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 August 27, 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 financial forecast for fiscal year 2020: JPY 107.0 /USD, 121.0 /EUR

Note

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

September 30, 2020: 125,953,683

December 31, 2019: 125,953,683

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

September 30, 2020: 2,370,165

December 31, 2019: 3,295,627

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

January - September 2020: 123,131,303

January - September 2019: 121,874,521

(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 1,090,500 shares as of September 30, 2020). In addition, the Company's shares held by the trust account are included in the treasury shares to be deducted in the calculation of the average number of shares during the period (2,110,190 shares from January 1 to September 30, 2019, and 1,464,990 shares from January 1 to September 30, 2020).

- Information regarding implementation of quarterly review procedures

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

- Proper use of the financial forecasts and other notes

(Precautions regarding future descriptions)

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.

(How to obtain supplementary explanatory materials for quarterly financial results)

The supplementary explanatory material for quarterly financial results is scheduled to be posted on the Company's website on November 6, 2020 (Friday).

1. Qualitative Information Regarding Quarterly Settlement of Accounts	2
(1) Explanation of operating results	2
(2) Explanation of financial position	4
(3) Explanation of forecasts and other projections.....	4
2. Quarterly Consolidated Financial Statements	5
(1) Quarterly consolidated statements of financial position	5
(2) Quarterly consolidated statements of income	7
(3) Quarterly consolidated statements of comprehensive income.....	8
(4) Quarterly consolidated statements of changes in equity	9
(5) Quarterly consolidated statements of cash flows	11
(6) Notes on going concern assumption	13
(7) Notes on quarterly consolidated financial statements	13

1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

For the first three quarters of the fiscal year 2020 (from January 1 to September 30), the sales revenues were 234,362 million yen (1,938,486 thousand EUR), the operating income was 6,235 million yen (51,579 thousand EUR), and earnings before income taxes was 2,266 million yen (18,745 thousand EUR). The income attributable to owners of the parent was 32 million yen (267 thousand EUR). (Euro amount is converted from yen at 120.9 yen, the average exchange rate between January 1 and September 30, 2020).

DMG MORI promotes shop automation and digitization with process integration machines such as 5-axis control and multi-axis machines, and additive manufacturing machines as a total solution provider offering an entire process of machining for customers. The customer portal “my DMG MORI” allows customers to centrally manage their machine information and remotely request repair and recovery services. We place a focus on online learning, offering a number of seminars and articles about our products and advanced technologies on the website. Through “Digital Academy” that uses those digital contents, we provide customers higher quality education service combining e-learning and hands-on machining training. Moreover, we are introducing “TULIP,” an application creation tool for boosting shop productivity by digitization, at our production base. Because no professional programming knowledge is needed to operate the system, operators can promptly and intuitively handle shop tasks such as preparation of work procedures, inspection/quality management and equipment monitoring. We also work on the development of new technologies using the 5G technology, including an autonomous workpiece transfer robot (hereinafter called AGV) and AI-enabled chip removal that leverages machine-to-machine learning in cooperation with NTT Communications Corporation and KDDI Corporation. At Pfronten Factory, the largest production base in Europe, we started the operation of “monoBLOCK Excellence Factory” as the company’s model plant for automation and digitization. The factory adopts cutting-edge technologies such as efficient line production with the AGVs. DMG MORI continues to pursue the best technologies and services and bring new values and infinite possibilities of machine tools to customers.

For the technological aspect, we began to offer “LASERTEC 6600 DED hybrid,” a laser additive manufacturing machine suited to machining of large workpieces. The machine with a large build area ensures both metal additive manufacturing and subtractive machining on one machine, realizing far more advanced machining than ever. We will build the Nara Product Development Center in Nara Prefecture, the birth place of DMG MORI, as the largest cutting-edge research and development center in the DMG MORI group. The development base is scheduled to be open in spring 2022 with the aim to achieve digital transformation (DX) and develop innovative technologies. We are committed to providing highly accurate and functional, reliable and investment-worthy products in a speedy manner to boost customer productivity.

As for the sales aspect, after a few months of holding off on face-to-face promotional events due to the global spread of COVID-19, we began to participate in online trade shows and hold open houses to offer customers the experience of the DMG MORI’s leading-edge technologies. We also opened the full CG “Digital Twin Showroom” (4K image quality) on our company website. With a 360-degree panorama view created with 3D CG software, the showroom gives a sense of immersion to the visitors, making them feel like they are actually walking in the exhibition site. We will work on further improvement of Digital Twin Showroom so that customers can digitally take acceptance tests and get machining simulations on the site simply by bringing in necessary machining data. In the real world, we hold a private show “Technology Fridays” for a small group of customers, where our experts provide more attentive services and support to individual attendants. We will stay closely connected with customers in both real and digital worlds and offer the solutions best suited to their needs.

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 in which each of our employees remains healthy in body and mind and is given the opportunity to advance his/her career while maintaining a life-work balance. To establish such a healthy work environment, we regularly monitor employees’ working hours and rates of paid leave taken, encourage diverse ways of working, and build the infrastructure in order for them to be able to work from home smoothly and comfortably.

From the viewpoint of environmental conservation, DMG MORI AKTIENGESELLSCHAFT has set a goal to achieve carbon neutral operations in attempt to reduce its energy consumption by use of the energy-saving technology. In Japan, we are purchasing zero carbon emissions electricity by switching to a new power supply company. DMG MORI is committed to fulfilling its social responsibility as a company that has stakeholders across

the world and to increasing the corporation value through a sustainable growth.

The order intake for the first three quarters of the fiscal year 2020 totaled 206.5 billion yen, a drop of 36% from the same period of last year. On a quarterly basis, new orders for the third quarter (July to September) increased 24% to 71.0 billion yen from the second quarter result (April to June) of 57.2 billion yen. This indicates that the demand bottomed out during the second quarter and that the market is firmly on a recovery path. The order unit price was up 4% year-over-year from the previous year thanks to a growing number of inquiries for process integration machines such as 5-axis control and multi-axis machines; cutting-edge machines such as additive manufacturing and ultrasonic machines; and automation and digitization.

By region, new orders for machine tools posted a significant year-over-year decline of 41% in Japan and 51% in Europe, respectively. However, the drop rate of Americas improved to 20% and Asia including China to 29%, showing a good sign of improvement in the regions. The demand for the third quarter (July to September) in Asia including China also posted a rise versus the comparable total for 2019. New orders for after-sales services during the first three quarters were 20% behind the year-to-date total for last year, yet the drop rate of the third quarter improved to 11%. This signals a rebound in the demand along with a rising number of resuming business operations and activities among customers. By industry, the demand from the medical-related sector showed strength, and steady performance was seen in the semiconductor manufacturing equipment, die & mold and infrastructure fields as well. The automotive-related industry also gained a slight momentum after about two years of a downward trend and hitting the bottom during the period. The demand from the private aircraft sector, however, has continued to be sluggish since the second quarter.

The number of people visiting our promotional events are significantly and steadily on the rise because the marketing and digital strategies including Technology Fridays (inviting a small group of customers to the real showrooms and factories, and business discussions); Digital Twin Showroom; digital trade shows for the global market; and various technical seminars have taken root across the industry. DMG MORI will drive promotion of products and solutions attracting great interest from customers, such as process integration machines, advanced machines, automaton and digitization, in continued efforts to increase orders in the global market.

<Consolidated results>

Consolidated results of the third quarter of the fiscal year ended September 30, 2020 is as follows:

Unit: 100 Million yen
(Million EUR)

	January to September, 2019	January to September, 2020	Difference	<Forecast> January to December, 2020
Sales revenues	3,493 (2,847)	2,344 (1,938)	△1,150 (△909)	3,300 (2,727)
Operating income	286 (233)	62 (52)	△223 (△181)	100~110 (83~91)
Operating income / Sales revenues	8.2%	2.7%	△5.5%pts	3.0%~3.3%
Income attributable to owners of the parent	153 (124)	0 (0)	△152 (△124)	15~30 (12~25)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 122.7 yen/EUR for the figures of January to September, 2019, 120.9 yen/EUR for those of January to September, 2020, and 121.0 yen/EUR for the figures of January to December, 2020.

(2) Explanation of financial position

Total assets at the end of the third quarter of fiscal year 2020 amounted to 525,447 million yen. Total equity is 152,227 million yen and ratio of equity attributable to owners of the parent is 28.2%.

(3) Explanation of forecasts and other projections

As a result of the effective control of expense that we have been promoting, we have revised our consolidated forecast for FY2020 as shown below.

Consolidated financial forecast

Unit: 100 Million yen
(Million EUR)

	Released on August 27 January to December, 2020	Released on November 6 January to December, 2020	Difference	<Reference> January to December, 2019
Sales revenues	3,300~3,400 (2,727~2,810)	3,300 (2,727)	- ~ △100 (- ~△83)	4,858 (3,979)
Operating income	70~100 (58~83)	100~110 (83~91)	30~10 (25~8)	373 (306)
Operating income / Sales revenues	2.1%~2.9%	3.0%~3.3%	0.9%pts~0.4%pts	7.7%
Income attributable to owners of the parent	10~30 (8~25)	15~30 (12~25)	5~ - (4~ -)	180 (147)

(Note)

- Exchange rate used for consolidated financial forecast for fiscal year 2020: JPY 107.0 /USD and 121.0 /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	September 30, 2020
(Assets)		
Current assets		
Cash and cash equivalents	27,695	21,086
Trade and other receivables	55,314	50,303
Other financial assets	5,464	4,188
Inventories	120,862	129,671
Other current assets	9,072	9,397
Total current assets	218,409	214,647
Non-current assets		
Property, plant and equipment	130,943	127,685
Right-of-use assets	18,095	20,628
Goodwill	66,516	67,389
Other intangible assets	62,773	63,979
Other financial assets	12,871	15,439
Investments in associates and joint ventures	5,751	5,700
Deferred tax assets	4,074	4,861
Other non-current assets	5,170	5,113
Total non-current assets	306,196	310,799
Total assets	524,606	525,447

	December 31, 2019	September 30, 2020
(Liabilities and equity)		
Current liabilities		
Trade and other payables	54,851	50,527
Interest-bearing bonds and borrowings	35,157	109,768
Contract liabilities	37,517	33,171
Other financial liabilities	98,505	57,513
Accrued income taxes	7,388	4,505
Provisions	34,738	33,872
Other current liabilities	4,393	2,730
Total current liabilities	272,553	292,090
Non-current liabilities		
Interest-bearing bonds and borrowings	73,539	27,738
Other financial liabilities	32,566	35,520
Net employee defined benefit liabilities	5,594	5,835
Provisions	5,219	4,433
Deferred tax liabilities	6,203	6,390
Other non-current liabilities	1,123	1,210
Total non-current liabilities	124,246	81,129
Total liabilities	396,799	373,219
Equity		
Subscribed capital	51,115	51,115
Capital surplus	-	-
Hybrid capital	49,505	86,037
Treasury shares	△ 6,319	△ 4,568
Retained earnings	46,399	39,730
Other components of equity	△ 16,695	△ 24,241
Equity attributable to owners of the parent	124,006	148,073
Non-controlling interests	3,800	4,153
Total equity	127,807	152,227
Total liabilities and equity	524,606	525,447

(2) Quarterly consolidated statements of income

(Million Yen)

	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)
Revenues		
Sales revenues	349,342	234,362
Other operating revenues	5,378	4,456
Total revenue	354,721	238,819
Cost		
Changes in merchandise, finished goods and work in progress for sale	△ 19,374	△ 7,625
Costs of raw materials, consumables and goods for resale	175,585	104,660
Personnel costs	96,274	80,015
Depreciation and amortization	16,772	17,411
Other operating costs	56,889	38,122
Total costs	326,147	232,583
Operating income	28,573	6,235
Financial income	270	241
Financial costs	4,765	4,222
Share of profits of associates and joint ventures accounted for using equity method	80	11
Earnings before income taxes	24,158	2,266
Income taxes	8,555	2,263
Net income	15,602	2
Income attributable to:		
Owners of the parent	15,266	32
Non-controlling interests	336	△ 29
Net income	15,602	2
Earnings (△loss) per share		
Basic (yen)	118.68	△ 6.55
Diluted (yen)	118.29	△ 6.55

(3) Quarterly consolidated statements of comprehensive income

(Million Yen)

	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)
Net income	15,602	2
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	35	△11
Change in fair value measurements of financial assets at fair value through other comprehensive income	375	△203
Share of other comprehensive income of associates accounted for using equity method	2	-
Subtotal	412	△214
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	△3,565	△7,348
Effective portion of changes in fair value of cash flow hedge	△46	14
Share of other comprehensive income of associates accounted for using equity method	-	8
Subtotal	△3,612	△7,324
Total other comprehensive income	△3,199	△7,539
Comprehensive income	12,403	△7,536
Comprehensive income attributable to:		
Owners of the parent	12,055	△7,463
Non-controlling interests	348	△73
Total	12,403	△7,536

(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					15,266		15,266	336	15,602
Other comprehensive income						△ 3,211	△ 3,211	11	△ 3,199
Total comprehensive income	-	-	-	-	15,266	△ 3,211	12,055	348	12,403
Issuance of hybrid capital							-		-
Issuance cost of hybrid capital							-		-
Payments to owners of hybrid capital					△ 1,076		△ 1,076		△ 1,076
Treasury shares acquisition				△ 0			△ 0		△ 0
Treasury shares disposition		△ 377		1,435		△ 109	948		948
Cash dividends					△ 6,705		△ 6,705	△ 132	△ 6,837
Transfer from retained earnings to capital surplus		373			△ 373		-		-
Share-based payments		2				△ 2	-		-
Increase in consolidated subsidiaries							-	49	49
Transfer from other components of equity to retained earnings					35	△ 35	-		-
Total transaction with owners of the parent	-	△ 1	-	1,435	△ 8,119	△ 147	△ 6,834	△ 82	△ 6,916
Acquisition 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	△ 7,135	44,298	△ 21,794	115,989	3,333	119,322

(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					32		32	△29	2
Other comprehensive income						△7,495	△7,495	△44	△7,539
Total comprehensive income	-	-	-	-	32	△7,495	△7,463	△73	△7,536
Issuance of hybrid capital			37,000				37,000		37,000
Issuance cost of hybrid capital			△468				△468		△468
Payments to owners of hybrid capital					△1,086		△1,086		△1,086
Treasury shares acquisition				△0			△0		△0
Treasury shares disposition		△693		1,833		△57	1,082		1,082
Cash dividends					△4,916		△4,916	△117	△5,034
Transfer from retained earnings to capital surplus		687			△687		-		-
Share-based payments		3				△3	-		-
Increase in consolidated subsidiaries				△83			△83	522	439
Transfer from other components of equity to retained earnings					△11	11	-		-
Total transaction with owners of the parent	-	△1	36,531	1,750	△6,701	△50	31,528	404	31,933
Acquisition of non-controlling interests		1					1	21	23
Changes in ownership interests in subsidiaries and others	-	1	-	-	-	-	1	21	23
As of September 30, 2020	51,115	-	86,037	△4,568	39,730	△24,241	148,073	4,153	152,227

(5) Quarterly consolidated statements of cash flows

(Million Yen)

	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)
Cash flows from operating activities		
Earnings before income taxes	24,158	2,266
Depreciation and amortization	16,772	17,411
Loss (gain) on sales/disposal of property, plant and equipment (Δ: gain)	378	△832
Financial income and costs (Δ: gain)	4,495	3,981
Share of profits of associates and joint ventures accounted for using equity method (Δ: gain)	△80	△11
Other non-cash transactions (Δ: gain)	△1,599	△2,602
Changes in asset and liability items:		
Inventories (Δ: increase)	△21,232	△8,236
Trade and other receivables (Δ: increase)	8,217	5,758
Trade and other payables (Δ: decrease)	8,626	△4,875
Contract liabilities (Δ: decrease)	△2,029	△4,378
Provisions (Δ: decrease)	1,012	△2,547
Others	△4,500	△6,552
Subtotal	34,219	△619
Interest received	188	183
Dividends received	72	58
Interest paid	△4,412	△2,823
Income tax paid	△8,896	△5,743
Net cash flows from operating activities	21,171	△8,944
Cash flows from investing activities		
Purchases of property, plant and equipment	△9,317	△6,751
Proceeds from sales of property, plant and equipment	3,645	1,940
Purchases of intangible assets	△3,365	△3,798
Purchase of investments in subsidiaries resulting in change in scope of consolidation	△395	△119
Acquisition of associated companies, net of cash acquired	△2,538	△136
Purchases of financial instruments	△2,957	△746
Other	112	12
Net cash flows from investing activities	△14,815	△9,598

(Million Yen)

	Third quarter ended September 30, 2019 (January 1 to September 30, 2019)	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)
Cash flows from financing activities		
Net increase (decrease) in current borrowings	4,661	45,499
Proceeds from non-current borrowings	19,949	-
Payments for non-current borrowings	△ 17,235	△ 17,542
Proceeds from issuance of bonds	9,955	-
Payments for bond redemption	△ 20,000	-
Proceeds from issuance of hybrid capital	-	36,531
Payments for lease liabilities	△ 4,137	△ 4,769
Dividends paid	△ 6,394	△ 4,780
Dividends paid to non-controlling interests	△ 130	△ 119
Acquisition of treasury shares	△ 0	△ 1
Payments for obligations for non-controlling interests	△ 7	△ 42,184
Payments to owners of hybrid capital	△ 1,076	△ 1,086
Other	927	697
Net cash flows from financing activities	△ 13,488	12,243
Effect of exchange rate changes on cash and cash equivalents	△ 1,369	△ 310
Increase (decrease) in cash and cash equivalents	△ 8,502	△ 6,608
Cash and cash equivalents at the beginning of period	27,368	27,695
Cash and cash equivalents at the end of period	18,865	21,086

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

(3) Segment sales and income

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

Third quarter ended September 30, 2019 (January 1 to September 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	253,616	95,709	349,326	16	-	349,342
Sales revenues with other segments	138,855	13,316	152,171	1,377	△ 153,549	-
Total	392,472	109,025	501,498	1,393	△ 153,549	349,342
Segment income	26,689	13,590	40,280	△ 11,762	136	28,654
Financial income						270
Financial costs						△ 4,765
Earnings before income taxes						24,158

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

Third quarter ended September 30, 2020 (January 1 to September 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	162,761	71,585	234,347	15	-	234,362
Sales revenues with other segments	109,727	14,459	124,186	1,205	△ 125,392	-
Total	272,489	86,044	358,533	1,221	△ 125,392	234,362
Segment income	9,070	6,076	15,147	△ 9,570	670	6,247
Financial income						241
Financial costs						△ 4,222
Earnings before income taxes						2,266

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

4. Additional information

Raising of funds by perpetual subordinated bonds

At the board of directors meeting held on October 6, 2020, the Company resolved to raise a total of 33.0 billion yen through the 2nd and 3rd unsecured perpetual bonds with interest payment deferral clause and voluntary redemption clause (with subordinated debt at clearing bankruptcy procedures) (hereinafter referred to as “the subordinated bonds”). The conditions were decided as follows on October 23, 2020, and the full payment was completed on October 29, 2020.

1. Purpose of Fund Raising

Since the Domination and Profit and Loss Transfer Agreement with DMG MORI AKTIENGESELLSCHAFT (hereinafter “AG”) came into effect in 2016, the Company is obliged to purchase AG shares from external shareholders.

The Company purchased AG shares from major external shareholders from March to April 2020. In order to renew the interest-bearing debt the Company owed to purchase AG shares and other interest-bearing debt due within the year without diluting the stock, and to strengthen the mid- to long-term financial stability, the Company decided to raise funds by the subordinated bonds.

The subordinated bonds are classified as “Financial Instruments with Characteristics of Equity” under the International Financial Reporting Standards (IFRS) as no specific date is specified for redemption of the principal, and redemption at the Company’s discretion as well as optional deferral of interest payments are possible. The amount to be raised from the subordinated bonds are to be recorded 100% under “Equity” in the Company’s consolidated financial statements.

2. Overview of the subordinated bonds

(1) Total amount	JPY33.0 billion (Of which, the 2nd bond is JPY8.0 billion and the 3rd bond is JPY25.0 billion)
(2) Execution date	October 29, 2020
(3) Amount of each corporate bond	JPY100 million
(4) Issuing price	JPY100 for every JPY100 of each corporate bond
(5) Redemption date	No redemption date specified. For the 2nd bond, provided, however, that on each interest payment date from October 29, 2023 onward, optional redemption of all (part is not possible) of the principal is possible. For the 3rd bond, provided, that on each interest payment date from October 29, 2027 onward, optional redemption of all (part is not possible) of the principal is possible.
(6) Use of funds	To be allocated to repay the interest-bearing debt the Company owed to purchase AG shares from external shareholders and other interest-bearing debt due within the year.
(7) Interest rate	The 2nd bond is a fixed interest rate from October 29, 2020 to October 29, 2023, and variable interest rate which is based on 6 months Euroyen Libor, stepped up by 3.00% thereafter. The 3rd bond is a fixed interest rate from October 29, 2020 to October 29, 2027, and variable interest rate which is based on 6 months Euroyen Libor, stepped up by 3.00% thereafter.
(8) Clauses relating to payment of interest	Optional deferral of interest payment is possible.
(9) Subordinated clause	Creditors of the subordinated bonds have right to claim payment that is subordinate to all senior creditors with respect to cases where the Company begins liquidation proceedings, bankruptcy proceeding, or other proceedings equivalent to these not subject to Japanese laws. Each clause of terms and conditions of the subordinated bonds must not for any reason be changed to details that cause disadvantage to all of the Company’s creditors other than the creditors of the subordinated bonds.
(10) Replacement restrictions	None
(11) Underwriters	Nomura Securities Co., Ltd., Mizuho Securities Co., Ltd., SMBC Nikko Securities Inc.
(12) Equity credit evaluation by the rating agency	None (Rating and Investment Information, Inc.)