

Summary of Consolidated Financial Statements for the Third quarter of Fiscal Year 2021 ended September 30, 2021 (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 5, 2021)

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>
 Company Representative: Masahiko Mori, President
 Contact Person: Hirotake Kobayashi, Executive Vice President, Accounting / Finance HQ, Executive Officer
 Phone: +81-(0)3-6758-5900

Filing date of quarterly financial statements: November 12, 2021

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, 2021 (January 1, 2021 to September 30, 2021)

(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 profit		Profit before income taxes		Quarterly profit		Profit attributable to owners of the parent		Comprehensive income	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
Third quarter ended September 30, 2021	274,271	17.0	16,733	168.3	14,179	525.7	9,464	-	9,880	-	25,172	-
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	-

	Basic earnings (△loss)	Diluted earnings (△loss)
	per share	per share
	Yen	Yen
Third quarter ended September 30, 2021	66.63	66.63
Third quarter ended September 30, 2020	△6.55	△6.55

(Note) Earnings (△loss) per share is calculated based on the profit which excludes profit attributable to owners of other equity instruments.

(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, 2021	591,713	211,582	207,627	35.1	1,660.56
December 31, 2020	526,526	189,895	185,420	35.2	1,493.86

(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 other equity instruments.

2. Dividends

Record Date	Dividends per share				
	1Q	2Q	3Q	Year-end	Annual
	yen	yen	yen	yen	yen
December 31, 2020	-	10.00	-	10.00	20.00
December 31, 2021	-	10.00	-		
December 31, 2021 (Forecast)				20.00	30.00

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

3. Consolidated financial forecast for Fiscal Year 2021 (January 1, 2021 to December 31, 2021)

	(% of change from same period in the previous year)						
	Sales revenues		Operating profit		Profit attributable to owners of the parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	yen
Full Year 2021	380,000	15.8	23,000	115.5	13,000	644.6	88.14

(Note)

Revision of consolidated financial forecast in the current quarter: Yes

- We made a revision of sales revenues, operating profit and profit attributable to owners of the parent from the previous announcement released on August 5, 2021. 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 2021: JPY 108.9 /USD 129.9 /EUR

4. Others

(1) Changes in significant subsidiaries during the third quarter ended September 30, 2021: 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, 2021: 125,953,683

December 31, 2020: 125,953,683

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

September 30, 2021: 1,071,440

December 31, 2020: 1,943,804

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

January - September 2021: 124,468,593

January - September 2020: 123,131,303

(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 (967,100 shares as of December 31, 2020, and 583,700 shares as of September 30, 2021). 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 (1,464,990 shares from January 1 to September 30, 2020, and 754,780 shares from January 1 to September 30, 2021).

- 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 2021 (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 the quarterly financial results is scheduled to be posted on the Company's website on November 5, 2021 (Friday).

(Attached Documents) Index

1. Qualitative Information Regarding Quarterly Settlement of Accounts	2
(1) Explanation of operating results	2
(2) Explanation of financial position	3
(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	12
(6) Notes on going concern assumption.....	14
(7) Notes on quarterly consolidated financial statements	14

1. Qualitative Information Regarding Quarterly Settlement of Accounts

(1) Explanation of operating results

For the third quarter of the fiscal year 2021 (from January 1 to September 30), the sales revenues were JPY 274,271 million (EUR 2,113,034 thousand), the operating profit was JPY 16,733 million (EUR 128,913 thousand), the profit before income taxes was JPY 14,179 million (EUR 109,244 thousand) and the profit attributable to owners of the parent was JPY 9,880 million (EUR 76,118 thousand). (Euro amount is translated from yen at 129.8 yen, the average exchange rate between January 1 and September 30, 2021).

The consolidated order intake for January-September 2021 was JPY 340.3 billion, an increase of 65% year-on-year. The positive trend from the previous quarter continued. As a result, the machine order backlog at the end of the third quarter was JPY 168 billion, up by JPY 72 billion from JPY 96 billion at the end of 2020. The average order price per unit continues to rise because of the surging demand for 5-axis machines and large-sized automation systems, as well as our recent promotion of digitization and other additional value propositions. The order intake in after-sales services and spare parts rose by 26% year-on-year, reflecting rising production activities by customers.

As for the machine order intake by region, we saw a major recovery in Europe (2.1 times higher than the same period in 2020), as well as Japan (+72%) which started to recover significantly since the previous quarter. Asia and Americas also showed the continued recovery (+41% respectively). The global demand for machine tools continues to grow across the world. The trend for order intake by industry remains unchanged. Order intake stay strong for semiconductor manufacturing equipment, die & mold, space industry, general machinery and automotive industry (including EV). In addition, inquiries for commercial aircraft and energy-related applications, which had been sluggish since last year, are beginning to emerge. With our strong direct sales and services as base, we will promote automation and turnkey operations and put a focus on process integration machines in order to achieve a consolidated order intake of around JPY 450 billion for the fiscal year 2021, a 61% increase year-on-year.

As mentioned in DMG MORI's Mission Statement, we aim to provide comprehensive processing automation systems to customers, combining hardware and software components and optimized after-sales services. In other words, DMG MORI offers machine tools, unique products, internally produced components, and peripheral equipment and thereafter establishes processing systems at customers' facilities, upgrades machining processes for higher productivity, maintains the systems, or offers financing.

As part of this effort, we are expanding and enhancing our portal site my DMG MORI, which enables customers to manage machine information in a comprehensive and efficient manner. This year, we introduced the new function "Service Request" to my DMG MORI, which allows customers to make repair and recovery requests and parts orders online. We also developed the "zeroFOG" built-in mist collector, which efficiently collects mist generated during metal processing to keep the factory clean. We also released the laser metal deposition machine "LASERTEC 3000 DED hybrid", which combines cutting and metal deposition in a single chucking.

To meet the demand for automation from customers around the world, we have also released MATRIS Light, a freely movable robot system with a collaborative robot mounted on a pushcart, and WH-AGV 5, a next-generation transport system that digitizes the entire factory by automating the transport and loading/unloading of workpieces and other logistics. AGV stands for 'Automated Guided Vehicle', a new automated transport method that replaces conventional hand lifters and forklifts operated by humans. We will continue to provide products that are highly functional, reliable, and worth the investment to further meet the diverse needs of customers.

In September and October, we took part at the exhibitions EMO in Milan (Italy) and MECT in Nagoya (Japan) to communicate these technologies to our customers. At EMO, we celebrated the world premiere of "NZ TRE" and "NZ QUATTRO". Prior to EMO, we also held an Open House event at our Pfronten Plant in Germany under the title of PRE-EMO SHOW. Furthermore, we continue to hold "Technology Fridays", our small-group in-house exhibitions at our Iga and Tokyo GHQ showrooms. We are also regularly updating the "Digital Twin Showroom", the digital replica of the Iga Plant showroom. We will continue to propose the best solutions by connecting with customers both in the digital and real world.

Furthermore, we have established the new "Service Skill Training Center" at DMG MORI Academy in Iga to train and improve the skills of our service engineers around the world. Machine tools are used by customers for several decades. Therefore, it is important that service engineers can handle machines of all ages to ensure that they always perform at their best. In addition, there has also been an increasing demand for engineers with additional skills in the fields of peripheral equipment and digital technology. The new Service Skill Training Center will act as a central training facility to respond to the growing service demand. It will be a place of intensive communication where DMG MORI's service engineers can polish their skills, share valuable experiences and pass on useful skills to each other.

DMG MORI also aims to contribute to a sustainable society and the achievement of SDGs through the machine tool business. We believe that our products itself can make a difference when it comes to environmental protection. If we make machine tools more energy- and environmentally friendly,

we can also reduce the carbon footprint of our customers in various industries. Of course, we not only support our customers to reduce CO₂ emissions, but we are also committed to transform our own manufacturing processes. The entire DMG MORI Group is working together to reduce CO₂ emissions of our business and to realize a decarbonized and resource-recycling society.

<Consolidated results>

Consolidated results of the third quarter of the fiscal year ended September 30, 2021 is as follows:

Unit: 100 Million yen
(Million EUR)

	January to September, 2020	January to September, 2021	Difference	<Forecast> January to December, 2021
Sales revenues	2,344 (1,938)	2,743 (2,113)	399 (175)	3,800 (2,925)
Operating profit	62 (52)	167 (129)	105 (77)	230 (177)
Operating profit / Sales revenues	2.7%	6.1%	3.4%pts	6.1%
Profit attributable to owners of the parent	0 (0)	99 (76)	98 (76)	130 (100)

(Note) Euro amount is converted from yen at the average or forecasted exchange rate of each fiscal period; 120.9 yen/EUR for the figures of January to September, 2020, 129.8 yen/EUR for those of January to September, 2021, and 129.9 yen/EUR for the figures of January to December, 2021.

(2) Explanation of financial position

Total assets at the end of the third quarter of fiscal year 2021 amounted to 591,713 million yen. Total equity is 211,582 million yen and ratio of equity attributable to owners of the parent is 35.1%.

(3) Explanation of forecasts and other projections

We continue to receive strong orders from various industries, mainly for semiconductors and electric vehicles (EV) since the previous revision of the financial forecast.

Based on the above and business results of the third quarter ended September 30, 2021, we made an upward revision of consolidated financial forecast for fiscal year 2021 from the previous announcement released on August 5, 2021.

Consolidated financial forecast

Unit: 100 Million yen
(Million EUR)

	Released on August 5 January to December, 2021	Released on November 5 January to December, 2021	Difference	<Reference> January to December, 2020
Sales revenues	3,650 (2,810)	3,800 (2,925)	150 (115)	3,283 (2,695)
Operating profit	200 (154)	230 (177)	30 (23)	107 (88)
Operating profit / Sales revenues	5.5%	6.1%	0.6%pts	3.3%
Profit attributable to owners of the parent	110 (85)	130 (100)	20 (15)	17 (14)

(Note)

- Exchange rate used for consolidated financial forecast for fiscal year 2021: JPY 108.9 /USD and 129.9 /EUR.
- Euro amount is converted from yen at the average exchange rate of JPY 121.8 /EUR for fiscal year 2020.
- 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, 2020	September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	33,754	48,737
Trade and other receivables	42,563	58,605
Other financial assets	4,254	6,826
Inventories	121,008	134,084
Other current assets	7,976	9,696
Subtotal	209,557	257,948
Assets held for sale	-	354
Total current assets	209,557	258,303
Non-current assets		
Property, plant and equipment	130,809	132,178
Right-of-use assets	19,792	18,581
Goodwill	68,807	70,490
Other intangible assets	66,944	72,171
Other financial assets	16,636	24,585
Investments in associates and joint ventures	5,222	5,641
Deferred tax assets	4,064	4,924
Other non-current assets	4,691	4,838
Total non-current assets	316,969	333,410
Total assets	526,526	591,713

December 31, 2020

September 30, 2021

Liabilities

Current liabilities

Trade and other payables	47,908	53,044
Interest-bearing bonds and borrowings	36,993	10,185
Contract liabilities	33,679	58,972
Other financial liabilities	58,085	59,351
Income tax payable	3,451	4,523
Provisions	33,593	38,170
Other current liabilities	3,961	3,459
Total current liabilities	217,674	227,707

Non-current liabilities

Interest-bearing bonds and borrowings	65,413	100,082
Other financial liabilities	35,142	34,509
Net employee defined benefit liabilities	5,817	5,278
Provisions	5,007	5,173
Deferred tax liabilities	6,374	6,180
Other non-current liabilities	1,201	1,198
Total non-current liabilities	118,957	152,423

Total liabilities

336,631 380,130

Equity

Share capital	51,115	51,115
Capital surplus	-	-
Other equity instruments	118,735	118,753
Treasury shares	△3,735	△2,049
Retained earnings	40,452	48,065
Other components of equity	△21,148	△8,258
Equity attributable to owners of the parent	185,420	207,627
Non-controlling interests	4,475	3,955

Total equity

189,895 211,582

Total liabilities and equity

526,526 591,713

(2) Quarterly consolidated statements of income

(Million Yen)

	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)	Third quarter ended September 30, 2021 (January 1 to September 30, 2021)
Revenues		
Sales revenues	234,362	274,271
Other operating revenues	4,456	4,713
Total revenue	238,819	278,984
Cost		
Changes in merchandise, finished goods and work in progress for sale	△7,625	△1,167
Costs of raw materials, consumables and goods for resale	104,660	121,797
Personnel costs	80,015	85,551
Depreciation and amortization	17,411	16,207
Other operating costs	38,122	39,861
Total costs	232,583	262,251
Operating profit	6,235	16,733
Financial income	241	228
Financial costs	4,222	2,731
Share of profits (△losses) of associates and joint ventures accounted for using equity method	11	△49
Profit before income taxes	2,266	14,179
Income taxes	2,263	4,715
Profit	2	9,464
Profit attributable to:		
Owners of the parent	32	9,880
Non-controlling interests	△29	△415
Profit	2	9,464
Earnings (△loss) per share		
Basic (yen)	△6.55	66.63
Diluted (yen)	△6.55	66.63

(3) Quarterly consolidated statements of comprehensive income

(Million Yen)

	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)	Third quarter ended September 30, 2021 (January 1 to September 30, 2021)
Profit	2	9,464
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurements of defined benefit plans	△11	241
Change in fair value measurements of financial assets designated at fair value through other comprehensive income	△203	10,375
Subtotal	△214	10,616
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	△7,348	5,376
Effective portion of changes in fair value of cash flow hedge	14	△290
Share of other comprehensive income of associates accounted for using equity method	8	5
Subtotal	△7,324	5,091
Total other comprehensive income	△7,539	15,708
Comprehensive income	△7,536	25,172
Comprehensive income attributable to:		
Owners of the parent	△7,463	25,570
Non-controlling interests	△73	△397
Comprehensive income	△7,536	25,172

(4) Quarterly consolidated statements of changes in equity

(Million Yen)

	Equity attributable to owner of the parent							Non-controlling interests	Total equity
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal		
As of January 1, 2020	51,115	-	49,505	△6,319	46,399	△16,695	124,006	3,800	127,807
Profit (△loss)					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 other equity instruments			37,000				37,000		37,000
Other equity instruments issuance costs			△468				△468		△468
Distributions to owners of other equity instruments					△1,086		△1,086		△1,086
Acquisition of treasury shares				△0			△0		△0
Disposal of treasury shares		△693		1,833		△57	1,082		1,082
Dividends					△4,916		△4,916	△117	△5,034
Transfer between retained earnings and capital surplus		687			△687		-		-
Changes in consolidated subsidiaries				△83			△83	522	439
Share-based payments		3				△3	-		-
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

(Million Yen)

	Equity attributable to owner of the parent							Non-controlling interests	Total equity
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal		
As of January 1, 2021	51,115	-	118,735	△3,735	40,452	△21,148	185,420	4,475	189,895
Profit					9,880		9,880	△415	9,464
Other comprehensive income						15,689	15,689	18	15,708
Total comprehensive income	-	-	-	-	9,880	15,689	25,570	△397	25,172
Issuance of other equity instruments			30,000				30,000		30,000
Other equity instruments issuance costs			△282				△282		△282
Payments of other equity instruments		△300	△29,699				△30,000		△30,000
Distributions to owners of other equity instruments					△1,783		△1,783		△1,783
Acquisition of treasury shares				△0			△0		△0
Disposal of treasury shares		△326		1,685		△132	1,226		1,226
Dividends					△2,488		△2,488	△87	△2,576
Transfer between retained earnings and capital surplus		881			△881		-		-
Share-based payments		33				△33	-		-
Issuance of bonds with stock acquisition rights						253	253		253
Capital increase of consolidated subsidiaries		△71					△71	71	-
Increase/decrease in noncontrolling interests due to decrease in number of consolidated subsidiaries							-	△84	△84
Increase/decrease in equity due to acquisition of shares in consolidated subsidiaries		△226					△226	93	△133
Transfer from other components of equity to retained earnings					2,886	△2,886	-		-
Total transaction with owners of the parent	-	△10	18	1,685	△2,267	△2,799	△3,373	△7	△3,380

Acquisition of non-controlling interests		10					10	△115	△105
Changes in ownership interests in subsidiaries and others	-	10	-	-	-	-	10	△115	△105
As of September 30, 2021	51,115	-	118,753	△2,049	48,065	△8,258	207,627	3,955	211,582

(5) Quarterly consolidated statements of cash flows

(Million Yen)

	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)	Third quarter ended September 30, 2021 (January 1 to September 30, 2021)
Cash flows from (△used in) operating activities		
Profit before income taxes	2,266	14,179
Depreciation and amortization	17,411	16,207
Loss (△gain) on sales or disposal of property, plant and equipment, and intangible assets	△832	△53
Financial income and costs (△: gain)	3,981	2,503
Share of profits of associates and joint ventures accounted for using equity method (△: gain)	△11	49
Other non-cash transactions (△: gain)	△2,602	△500
Change in asset and liability items:		
Inventories (△: increase)	△8,236	△9,661
Trade and other receivables (△: increase)	5,758	△14,635
Trade and other payables (△: decrease)	△4,875	4,064
Contract liabilities (△: decrease)	△4,378	24,257
Provisions (△: decrease)	△2,547	3,163
Other	△6,552	△6,068
Subtotal	△619	33,507
Interest received	183	179
Dividends received	58	54
Interest paid	△2,823	△2,844
Income tax paid	△5,743	△4,285
Net cash flows from (△used in) operating activities	△8,944	26,610
Cash flows used in investing activities		
Purchases of property, plant and equipment	△6,751	△6,159
Proceeds from sales of property, plant and equipment	1,940	690
Purchases of intangible assets	△3,798	△7,132
Acquisition of subsidiaries, net of cash acquired	△119	-
Acquisition of associates, net of cash acquired	△136	△321
Purchases of investment securities	△746	△1,403
Proceeds from sale of investment securities	-	3,857
Other	12	△340
Net cash flows used in investing activities	△9,598	△10,809

(Million Yen)

	Third quarter ended September 30, 2020 (January 1 to September 30, 2020)	Third quarter ended September 30, 2021 (January 1 to September 30, 2021)
Cash flows from (△used in) financing activities		
Net increase (△decrease) in current borrowings	45,499	△21,800
Proceeds from long-term borrowings	-	5,000
Repayments of long-term borrowings	△17,542	△5,730
Proceeds from issuance of bonds with stock acquisition rights	-	39,764
Repayments of bonds	-	△10,000
Proceeds from issuance of other equity instruments	36,531	29,717
Repayments of other equity instruments	-	△30,000
Repayments of lease liabilities	△4,769	△4,460
Dividends paid	△4,780	△2,410
Dividends paid to non-controlling interests	△119	△343
Payments for obligations for non-controlling interests	△42,184	△8
Acquisition of treasury shares	△1	△0
Distributions to owners of other equity instruments	△1,086	△1,783
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	△133
Other	697	799
Net cash flows from (△used in) financing activities	12,243	△1,389
Effect of exchange rate changes on cash and cash equivalents	△310	963
Change in cash and cash equivalents	△6,608	15,374
Cash and cash equivalents at the beginning of period	27,695	33,754
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	△392
Cash and cash equivalents at the end of period	21,086	48,737

(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 the Companies Act of Japan. The Company is domiciled in Japan and its registered office is located at 106 Kitakoriyama-cho, Yamato-Koriyama City, Nara.

The condensed quarterly consolidated financial statements of the Company as of September 30, 2021 comprise the Company, its subsidiaries and associates (collectively, the "Group"). The Group engages in businesses related to manufacturing and sales of machine tools (machining centers, turning centers, turn-mill complete machining centers and universal milling machines for five-axis machining), software (user interface, technology cycles and embedded software) and measuring devices, and provides total solutions utilizing the machine tools, software and measuring devices with service support, applications and engineering.

2. Basis of preparations

(1) Accounting standards complied with

The Company's Condensed Quarterly Consolidated Financial Statements have been prepared in accordance with International Accounting Standards (IAS) 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. As the Company meets the requirements of a "Specified Company applying Designated International Financial Reporting Standards", pursuant to Article 1-2 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 64 of 2007), the "Quarterly Consolidated Financial Statements Ordinance"), it has applied the provisions of Article 93 of said Ordinance.

(2) Basis of Measurement

The condensed quarterly consolidated financial statements have been prepared on a historical cost basis, with the main exception of financial instruments which are measured at fair value.

(3) Functional and presentation currency

The condensed quarterly consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen has been rounded down to the nearest million, unless otherwise stated.

(4) Significant accounting policy

The significant accounting policies adopted for the condensed quarterly consolidated financial statements are the same as those for the consolidated financial statements for the fiscal year ended December 31, 2020, with the exception that income tax for the third quarter ended September 30, 2021 was calculated based on the estimated average annual effective tax rate.

3. Segment information

(1) Outline of reportable segments

The operating segments of the Group are based on its business areas for which discrete financial information is available, and they are regularly reviewed by the Board of Directors and corporate officers for the purpose of making decisions about resource allocation and performance assessment. The classification of the operating segments is based on the products and services and the associated internal reporting and management methods.

As a result, the business activities of the Group are categorized into "Machine Tools" and "Industrial Services," as its two reportable segments. The Company has not aggregated its operating segments.

The “Machine Tools” segment generates its revenue through the production and sales of machine tools. The “Industrial Services” segment generates its revenue through the provision of services and solutions related to machine tools.

(2) Calculation methods of sales revenues, income or loss by each reportable segment

The accounting methods for the reportable segments are essentially the same as Condensed Quarterly Consolidated Financial Statements.

The amount of segment income is based on operating profit and Share of profits (losses) of associates and joint ventures accounted for using equity method. Inter-segment sales revenues are based on arm’s length prices.

(3) Segment sales revenues and income

The segment sales revenues, income or loss and other items by each reportable segment are summarized as follows:

Third quarter ended September 30, 2020 (January 1 to September 30, 2020)

	Reportable Segments			Adjustments (Note)		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
External customers	162,761	71,585	234,347	15	-	234,362
Inter-segment	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
Profit before income taxes	-	-	-	-	-	2,266

(Note) “Adjustments to segment income” include elimination of inter-segment transactions and expenses related to corporate services.

Third quarter ended September 30, 2021 (January 1 to September 30, 2021)

	Reportable Segments			Adjustments (Note)		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
External customers	181,999	92,252	274,251	20	-	274,271
Inter-segment	112,561	16,948	129,509	1,116	△130,626	-
Total	294,561	109,200	403,761	1,136	△130,626	274,271
Segment income	12,096	12,233	24,330	△8,505	858	16,683
Financial income	-	-	-	-	-	228
Financial costs	-	-	-	-	-	△2,731
Profit before income taxes	-	-	-	-	-	14,179

(Note) “Adjustments to segment income” include elimination of inter-segment transactions and expenses related to corporate services.