Consolidated Financial Statements

DMG MORI CO., LTD.

Fiscal year ended 31 December 2021

with Independent Auditor's Report

DMG MORI CO., LTD.

Consolidated Financial Statements

Fiscal year ended 31 December 2021

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The Board of Directors
DMG MORI CO., LTD.

Opinion

We have audited the accompanying consolidated financial statements of DMG MORI CO., LTD. (the Company) and its subsidiaries (collectively, the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill and other intangible assets with indefinite useful lives arising on business combination with DMG MORI AKTIEGESELLSCHAFT (“DMG MORI AG”)	
Description of Key Audit Matter	Auditor’s Response
As described in Note 11, “Goodwill and Other Intangible Assets,” to the consolidated financial statements, the Company recorded goodwill of ¥70,834 million and other intangible assets with indefinite useful lives of ¥33,847 million, (mainly trademark) as of December 31, 2021, ¥67,873 million and ¥33,847 million, respectively, arising on the business combination with DMG MORI AG.	The audit procedures we performed to assess the valuation of goodwill and other intangible assets with indefinite useful lives arising on the business combination with DMG MORI AG included the following, among others: • We assessed the design and operating effectiveness of the internal control for determining whether impairment loss should be recognized with regard to the valuation of goodwill and other intangible assets with indefinite useful lives.

The Company allocated the carrying amounts of goodwill and other intangible assets arising on the business combination with DMG MORI AG to a cash generating unit ("CGU") or group of CGUs, such as Machine Tools and Industrial Services, and performs impairment testing annually. The recoverable amount of goodwill and other intangible assets with indefinite useful lives is measured based on value in use of the CGU or group of CGUs to which they are allocated. During the year ended December 31, 2021, the Company did not recognize an impairment loss as the value in use exceeded the carrying amount. The value in use is calculated by discounting the estimated future cash flows based on the five-year business plan approved by management and the terminal value based on the growth rate for the period subsequent to the period covered by the business plan, using the pre-tax discount rate considering the corresponding pre-tax WACC for similar industries and reflecting current market assessments of the time value of money and specific risks. For the period subsequent to the period covered by the business plan, the Company calculates the terminal value by discounting estimated future cash flows to their present value using a growth rate determined in consideration of the conditions of the country and industry to which the CGU or group of CGUs belongs based on the forecasted cash flows for the final year of the business plan. The key assumptions used for the calculation of value in use are the growth rate of sales revenues and ratio of operating costs to sales revenues incorporated in the business plan, the growth rate for the period subsequent to the period covered by the business plan and pre-tax discount rate used in the calculation of present value.	• We compared the estimated future cash flows with the business plan approved by management to evaluate the consistency. • We compared the Company's business plan for prior years with actual results to evaluate the effectiveness of management's estimation process. • With the involvement of the valuation specialists from our network firm, we assessed the reasonableness of the valuation methodologies for value in use. • We made inquiries with management about alternative assumptions and results to enhance our understanding of the degree of uncertainty with regard to management estimate. • We assessed the growth rate of sales revenues, which serves as the basis of the business plan, by making inquiries about the rational for management determination, performing a trend analysis based on past performance, and conducting a comparison analysis of the outcome with the growth rate. In addition, we conducted a comparison analysis involving the capital expenditure demand forecast in the machine tool market prepared by third parties with the growth rate. • We assessed the ratio of operating costs to sales revenues which serves as the basis of the business plan, by making inquiries about the rational for management determination and conducting a trend analysis based on past performance. • With the involvement of valuation specialists from our network firm, we assessed the growth rates for the period subsequent to the period covered by the business plan and the discount rate by evaluating the consistency of the inputs used in the calculations with publicly available data. In addition, we conducted a sensitivity analysis.

The above key assumptions used to calculate value in use of goodwill and other intangible assets with indefinite useful lives arising on the business combination with DMG MORI AG are subject to uncertainty and require significant management judgment. The estimates are highly uncertain since in particular, the growth rate of sales revenues tends to be significantly affected by any increase or decrease in capital expenditure demand in the machine tool market due to economic fluctuations, and the ratio of operating costs to sales revenues is affected by the aforementioned fluctuations in economic conditions as well as the risk of rising raw material costs. Therefore, we determined the valuation of goodwill and other intangible assets with indefinite useful lives arising on the business combination with DMG MORI AG to be a key audit matter.	

Classification of perpetual subordinated bonds as equity instruments	
Description of Key Audit Matter	Auditor’s Response
As described in Note 21, “Equity and Other Equity Items,” to the consolidated financial statements, the Company raised funds in the amount of ¥30 billion through the Fourth Subordinated Bonds (“the perpetual subordinated bonds”) in August 2021. The Company determined that these perpetual subordinated bonds are classified as equity instruments as the Company has the option to defer interest payments and has no obligation to make payments, except in the case a liquidation event as defined in the subordinated bond clause, and recorded these bonds under “Equity” in the consolidated statement of financial position. As a result, the proceeds from the perpetual subordinated bonds, after deducting issue costs in the amount of ¥29,718 million, are recorded as “Other equity instruments” under “Equity” in the consolidated statement of financial position as of December 31, 2021.	The audit procedures we performed to assess the reasonableness of the classification of perpetual subordinated bonds as equity instruments included the following, among others: ・ We read the agreements and the subordinated bond terms to evaluate all clauses including the subordination clauses that affect judgments about the classification as equity instruments. ・ We read the legal opinion given by the external legal counsel engaged by the Company and made inquiries of management in order to evaluate applicable laws and the Company’s interpretation of the subordination clause. ・ With the involvement of other legal expert, we evaluated the legal opinion given by the external legal counsel engaged by the Company. In addition, we evaluated the competence, capabilities and objectivity of the external legal counsel engaged by the Company.

The judgments on the classification as equity instruments in accordance with IAS32 “Financial Instruments: Presentation“ require the involvement of legal experts on the evaluation of applicable laws and interpretations of the agreements, the subordinated bond clauses, and involve significant management judgment. Considering the overall materiality of the proceeds from the perpetual subordinated bonds on equity in the consolidated statement of financial position, we determined the classification of perpetual subordinated bonds as equity instruments to be a key audit matter.	・ We assessed the classification of perpetual subordinated bonds as equity instruments based on the contents of the subordination clause and applicable laws. ・ We evaluated the consistency of the related disclosures in Note 21, “Equity and Other Equity Items,” to the consolidated financial statements with the facts assessed above.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

・ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

・ Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group’s internal control.

・ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 22, 2022

/s/Yoshitomo Matsuura
Designated Engagement Partner
Certified Public Accountant

/s/Hironori Ogawa
Designated Engagement Partner
Certified Public Accountant

/s/Ryuichi Minami
Designated Engagement Partner
Certified Public Accountant

DMG MORI CO., LTD.

Consolidated Statement of Financial Position

31 December 2021

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Assets			
Current assets:			
Cash and cash equivalents *(Notes 7 and 24)*	**¥ 47,298**	¥ 33,754	**$ 411,258**
Trade and other receivables *(Notes 8, 24 and 25)*	**59,677**	42,563	**518,888**
Other financial assets *(Notes 12 and 24)*	**5,557**	4,254	**48,319**
Inventories *(Note 9)*	**129,542**	121,008	**1,126,358**
Other current assets	**12,616**	7,976	**109,697**
Total current assets	**254,692**	209,557	**2,214,523**
Non-current assets:			
Property, plant and equipment *(Note 10)*	**138,076**	130,809	**1,200,562**
Right-of-use assets *(Note 17)*	**22,099**	19,792	**192,148**
Goodwill *(Note 11)*	**70,834**	68,807	**615,902**
Other intangible assets *(Note 11)*	**74,514**	66,944	**647,897**
Other financial assets *(Notes 12 and 24)*	**21,989**	16,636	**191,195**
Investments in associates and joint ventures *(Note 13)*	**5,704**	5,222	**49,603**
Deferred tax assets *(Note 20)*	**5,132**	4,064	**44,627**
Other non-current assets	**4,073**	4,691	**35,414**
Total non-current assets	**342,425**	316,969	**2,977,353**
Total assets	**¥ 597,117**	¥ 526,526	**$ 5,191,876**

DMG MORI CO., LTD.

Consolidated Statement of Financial Position (continued)

31 December 2021

	Millions of yen		Thousands of U.S. dollars
	2021	2020	**2021**
Liabilities			
Current liabilities:			
Trade and other payables *(Notes 14 and 24)*	**¥ 54,169**	¥ 47,908	**$ 470,999**
Interest-bearing bonds and borrowings *(Notes 15 and 24)*	**10,259**	36,993	**89,209**
Contract liabilities *(Note 25)*	**65,707**	33,679	**571,317**
Other financial liabilities *(Notes 16, 17, 24 and 34)*	**74,677**	58,085	**649,316**
Income taxes payable	**4,734**	3,451	**41,167**
Provisions *(Note 19)*	**40,543**	33,593	**352,520**
Other current liabilities	**4,316**	3,961	**37,530**
Total current liabilities	**254,409**	217,674	**2,212,062**
Non-current liabilities:			
Interest-bearing bonds and borrowings *(Notes 15 and 24)*	**85,133**	65,413	**740,224**
Other financial liabilities *(Notes 16, 17 and 24)*	**22,406**	35,142	**194,820**
Net employee defined benefit liabilities *(Note 18)*	**5,180**	5,817	**45,043**
Provisions *(Note 19)*	**5,871**	5,007	**51,053**
Deferred tax liabilities *(Note 20)*	**5,429**	6,374	**47,212**
Other non-current liabilities	**1,407**	1,201	**12,236**
Total non-current liabilities	**125,428**	118,957	**1,090,591**
Total liabilities	**379,838**	336,631	**3,302,653**
Equity *(Note 21)*			
Share capital	**51,115**	51,115	**444,446**
Capital surplus	**-**	-	**-**
Other equity instruments	**118,753**	118,735	**1,032,550**
Treasury shares	**(1,889)**	(3,735)	**(16,430)**
Retained earnings	**52,817**	40,452	**459,245**
Other components of equity	**(7,657)**	(21,148)	**(66,583)**
Equity attributable to owners of the parent	**213,139**	185,420	**1,853,227**
Non-controlling interests	**4,139**	4,475	**35,994**
Total equity	**217,279**	189,895	**1,889,222**
Total liabilities and equity	**¥ 597,117**	¥ 526,526	**$ 5,191,876**

DMG MORI CO., LTD.

Consolidated Statement of Profit or Loss

Fiscal year ended 31 December 2021

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Revenues:			
Sales revenues *(Notes 6 and 25)*	**¥ 396,011**	¥ 328,283	**$ 3,443,278**
Other operating revenues *(Note 26)*	**6,103**	6,451	**53,068**
Total revenue	**402,114**	334,734	**3,496,346**
Costs:			
Changes in merchandise, finished goods and work in progress for sale	**7,148**	(3,946)	**62,152**
Costs of raw materials and consumables *(Note 9)*	**170,917**	145,083	**1,486,107**
Personnel costs *(Notes 23 and 28)*	**119,327**	107,818	**1,037,538**
Depreciation and amortization *(Notes 10, 11 and 17)*	**21,894**	24,118	**190,369**
Other operating costs *(Notes 10, 11 and 27)*	**59,759**	50,985	**519,606**
Total costs	**379,047**	324,060	**3,295,774**
Operating profit *(Note 6)*	**23,067**	10,674	**200,572**
Financial income *(Note 29)*	**429**	357	**3,735**
Financial costs *(Notes 17, 30 and 34)*	**3,919**	5,399	**34,078**
Share of profits (losses) of associates and joint ventures accounted for using equity method *(Notes 6 and 13)*	**30**	(526)	**269**
Profit before income taxes	**19,609**	5,106	**170,499**
Income taxes *(Note 20)*	**6,377**	3,409	**55,455**
Profit	**¥ 13,231**	¥ 1,696	**$ 115,043**
Profit attributable to:			
Owners of the parent	**¥ 13,460**	¥ 1,745	**$ 117,040**
Non-controlling interests	**(229)**	(49)	**(1,996)**
Profit	**¥ 13,231**	¥ 1,696	**$ 115,043**
Earnings per share	*Yen*		*U.S. dollars*
Basic *(Note 32)*	**¥ 91.75**	¥ 3.40	**$ 0.79**
Diluted *(Note 32)*	**¥ 91.75**	¥ 3.40	**$ 0.79**

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Comprehensive Income

Fiscal year ended 31 December 2021

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Profit	**¥ 13,231**	¥ 1,696	**$ 115,043**
Other comprehensive income (OCI):			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans *(Note 18)*	**380**	87	**3,311**
Changes in fair value of financial assets designated at fair value through other comprehensive income *(Note 24)*	**10,826**	198	**94,139**
Subtotal *(Note 13)*	**11,207**	286	**97,450**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**7,013**	(5,478)	**60,983**
Effective portion of changes in fair value of cash flow hedges *(Note 24)*	**(473)**	11	**(4,116)**
Share of other comprehensive income of associates and joint ventures accounted for using equity method *(Note 13)*	**6**	13	**57**
Subtotal	**6,546**	(5,452)	**56,924**
Total other comprehensive income *(Note 31)*	**17,754**	(5,166)	**154,375**
Comprehensive income	**¥ 30,985**	¥ (3,469)	**$ 269,419**
Comprehensive income attributable to:			
Owners of the parent	**¥ 31,230**	¥ (3,375)	**$ 271,548**
Non-controlling interests	**(244)**	(93)	**(2,129)**
Comprehensive income	**¥ 30,985**	¥ (3,469)	**$ 269,419**

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity

Fiscal year ended 31 December 2021

	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
	Millions of yen								
	Equity attributable to owners of the parent								
As of 1 January 2021	**¥ 51,115**	**¥ -**	**¥ 118,735**	**¥ (3,735)**	**¥ 40,452**	**¥ (21,148)**	**¥ 185,420**	**¥ 4,475**	**¥ 189,895**
Profit					**13,460**		**13,460**	**(229)**	**13,231**
Other comprehensive income (OCI)						**17,769**	**17,769**	**(15)**	**17,754**
Total comprehensive income	**-**	**-**	**-**	**-**	**13,460**	**17,769**	**31,230**	**(244)**	**30,985**
Issuance of other equity instruments (*Note 21*)			**30,000**				**30,000**		**30,000**
Other equity instruments issuance costs (*Note 21*)			**(282)**				**(282)**		**(282)**
Payments of other equity instruments *(Note 21)*		**(300)**	**(29,699)**				**(30,000)**		**(30,000)**
Distributions to owners of other equity instruments (*Note 21*)					**(2,123)**		**(2,123)**		**(2,123)**
Acquisition of treasury shares *(Note 21)*				**(0)**			**(0)**		**(0)**
Disposition of treasury shares *(Note 21)*		**(325)**		**1,846**		**(132)**	**1,388**		**1,388**
Dividends *(Note 22)*					**(2,488)**		**(2,488)**	**(87)**	**(2,576)**
Transfer between retained earnings and capital surplus *(Note 21)*		**849**			**(849)**		**-**		**-**
Share-based payments *(Note 23)*		**58**				**(33)**	**25**	**19**	**45**
Issuance of convertible bonds *(Note 15)*						**253**	**253**		**253**
Changes in interests in consolidated subsidiaries' capital		**(71)**					**(71)**	**71**	**-**

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity (continued)

Fiscal year ended 31 December 2021

Increase/decrease in non-controlling 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)
Sale of shares of consolidated subsidiaries		3					3	11	15
Transfer from other components of equity to retained earnings					4,365	(4,365)	-		-
Total transactions with owners of the parent	-	(11)	18	1,845	(1,095)	(4,278)	(3,522)	22	(3,499)
Acquisition of non-controlling interests		11					11	(113)	(102)
Total changes in ownership interests in subsidiaries and others	-	11	-	-	-	-	11	(113)	(102)
As of 31 December 2021	¥ 51,115	¥ -	¥ 118,753	¥ (1,889)	¥ 52,817	¥ (7,657)	¥ 213,139	¥ 4,139	¥ 217,279

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity (continued)

Fiscal year ended 31 December 2021

	Thousands of dollars								
	Equity attributable to owners of the parent								
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
As of 1 January 2021	**$444,446**	**$ -**	**$1,032,393**	**$ (32,476)**	**$351,731**	**$(183,887)**	**$1,612,207**	**$ 38,914**	**$1,651,122**
Profit					**117,040**		**117,040**	**(1,996)**	**115,043**
Other comprehensive income (OCI)						**154,507**	**154,507**	**(132)**	**154,375**
Total comprehensive income	**-**	**-**	**-**	**-**	**117,040**	**154,507**	**271,548**	**(2,129)**	**269,419**
Issuance of other equity instruments *(Note 21)*			**260,846**				**260,846**		**260,846**
Other equity instruments issuance costs *(Note 21)*			**(2,456)**				**(2,456)**		**(2,456)**
Payments of other equity instruments *(Note 21)*		**(2,613)**	**(258,233)**				**(260,846)**		**(260,846)**
Distributions to owners of other equity instruments (*Note 21*)					**(18,465)**		**(18,465)**		**(18,465)**
Acquisition of treasury shares *(Note 21)*				**(6)**			**(6)**		**(6)**
Disposition of treasury shares *(Note 21)*		**(2,828)**		**16,052**		**(1,154)**	**12,068**		**12,068**
Dividends *(Note 22)*					**(21,635)**		**(21,635)**	**(763)**	**(22,398)**
Transfer between retained earnings to capital surplus *(Note 21)*		**7,388**			**(7,388)**		**-**		**-**
Share-based payments *(Note 23)*		**510**				**(290)**	**220**	**170**	**391**
Issuance of convertible bonds *(Note 15)*						**2,202**	**2,202**		**2,202**
Changes in interests in consolidated subsidiaries' capital		**(621)**					**(621)**	**621**	**-**

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity (continued)

Fiscal year ended 31 December 2021

Increase/decrease in non-controlling interests due to decrease in number of consolidated subsidiaries							-	(734)	(734)
Increase/decrease in equity due to acquisition of shares in consolidated subsidiaries		(1,971)					(1,971)	809	(1,162)
Sale of shares of consolidated subsidiaries		34					34	96	130
Transfer from other components of equity to retained earnings					37,961	(37,961)	-		-
Total transactions with owners of the parent	-	(101)	156	16,046	(9,526)	(37,204)	(30,629)	199	(30,430)
Acquisition of non-controlling interests		101					101	(990)	(888)
Total changes in ownership interests in subsidiaries and others	-	101	-	-	-	-	101	(990)	(888)
As of 31 December 2021	$444,446	$ -	$1,032,550	$ (16,430)	$459,245	$ (66,583)	$1,853,227	$ 35,994	$1,889,222

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity (continued)

Fiscal year ended 31 December 2021

Millions of yen

	Equity attributable to owners of the parent								
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal	Non-controlling interests	Total equity
As of 1 January 2020	¥ 51,115	¥ -	¥ 49,505	¥ (6,319)	¥ 46,399	¥ (16,695)	¥ 124,006	¥ 3,800	¥ 127,807
Profit					1,745		1,745	(49)	1,696
Other comprehensive income (OCI)						(5,121)	(5,121)	(44)	(5,166)
Total comprehensive income	-	-	-	-	1,745	(5,121)	(3,375)	(93)	(3,469)
Issuance of other equity instruments (*Note 21*)			70,000				70,000		70,000
Other equity instruments issuance costs (*Note 21*)			(770)				(770)		(770)
Distributions to owners of other equity instruments (*Note 21*)					(1,086)		(1,086)		(1,086)
Acquisition of treasury shares *(Note 21)*				(0)			(0)		(0)
Disposition of treasury shares *(Note 21)*		(933)		2,743		(152)	1,657		1,657
Dividends *(Note 22)*					(4,916)		(4,916)	(117)	(5,034)
Transfer between retained earnings and capital surplus		865			(865)		-		-
Share-based payments *(Note 23)*		3				(3)	-		-
Changes in consolidated subsidiaries				(82)			(82)	539	456
Distribution of equity resulting from transactions with non-controlling shareholders				(76)			(76)	76	-
Changes in interests in consolidated subsidiaries’ capital		62					62	237	300

DMG MORI CO., LTD.

Consolidated Statement of Changes in Equity (continued)

Fiscal year ended 31 December 2021

Transfer from other components of equity to retained earnings					(825)	825	-		-
Total transactions with owners of the parent	-	(1)	69,229	2,583	(7,692)	668	64,787	735	65,523
Acquisition of non-controlling interests		1					1	32	34
Total changes in ownership interests in subsidiaries and others	-	1	-	-	-	-	1	32	34
As of 31 December 2020	¥ 51,115	¥ -	¥ 118,735	¥ (3,735)	¥ 40,452	¥ (21,148)	¥ 185,420	¥ 4,475	¥ 189,895

See accompanying notes to consolidated financial statements.

DMG MORI CO., LTD.

Consolidated Statement of Cash Flows

Fiscal year ended 31 December 2021

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Cash flows from operating activities:			
Profit before income taxes	**¥ 19,609**	¥ 5,106	**$ 170,499**
Depreciation and amortization	**21,894**	24,118	**190,369**
Loss (gain) on sales or disposal of property, plant and equipment, and intangible assets	**230**	(387)	**2,007**
Financial income and costs	**3,489**	5,042	**30,342**
Share of (profits) losses of associates and joint ventures accounted for using equity method	**(30)**	526	**(269)**
Other non-cash transactions	**(817)**	(4,632)	**(7,110)**
Changes in asset and liability items:			
Inventories	**(4,130)**	(217)	**(35,911)**
Trade and other receivables	**(15,479)**	12,498	**(134,593)**
Trade and other payables	**(406)**	(10,106)	**(3,530)**
Contract liabilities	**30,599**	(3,802)	**266,057**
Provisions	**5,937**	(1,737)	**51,622**
Other	**(2,451)**	(1,323)	**(21,317)**
Subtotal	**58,444**	25,085	**508,165**
Interest received	**354**	260	**3,081**
Dividends received	**84**	104	**732**
Interest paid	**(3,464)**	(3,394)	**(30,121)**
Income taxes paid	**(5,685)**	(8,408)	**(49,433)**
Net cash flows from operating activities	**49,733**	13,647	**432,425**
Cash flows used in investing activities:			
Purchases of property, plant and equipment	**(12,645)**	(12,062)	**(109,951)**
Proceeds from sales of property, plant and equipment	**1,210**	2,211	**10,522**
Purchases of intangible assets	**(10,606)**	(8,080)	**(92,224)**
Acquisition of subsidiaries, net of cash acquired resulting in change in scope of consolidation	**-**	(130)	**-**
Payments for sale of shares of subsidiaries resulting in change in scope of consolidation	**(399)**	-	**(3,477)**
Acquisition of associates, net of cash acquired	**(276)**	(137)	**(2,399)**
Purchases of investment securities	**(1,518)**	(747)	**(13,201)**
Proceeds from sales of investment securities	**5,440**	75	**47,300**
Other	**(580)**	12	**(5,047)**
Net cash flows used in investing activities	**(19,376)**	(18,859)	**(168,479)**

DMG MORI CO., LTD.

Consolidated Statement of Cash Flows (continued)

Fiscal year ended 31 December 2021

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Cash flows from/(used in) financing activities:			
Net increase in short-term borrowings	**¥ (21,730)**	¥ 2,680	**$ (188,942)**
Proceeds from long-term borrowings	**5,000**	37,801	**43,474**
Repayments of long-term borrowings	**(20,882)**	(46,148)	**(181,574)**
Proceeds from issuance of convertible bonds	**39,887**	-	**346,821**
Payments for bond redemption	**(10,000)**	-	**(86,948)**
Proceeds from issuance of other equity instruments *(Note 21)*	**29,717**	69,229	**258,390**
Repayments of other equity instruments *(Note 21)*	**(30,000)**	-	**(260,846)**
Repayment of lease liabilities *(Note 17)*	**(6,035)**	(5,780)	**(52,479)**
Dividends paid	**(2,496)**	(4,917)	**(21,708)**
Dividends paid to non-controlling interests	**(299)**	(121)	**(2,607)**
Acquisition of treasury shares	**(0)**	(1)	**(6)**
Payments for obligations for non-controlling interests	**(8)**	(42,289)	**(75)**
Distributions to owners of other equity instruments *(Note 21)*	**(2,123)**	(1,086)	**(18,465)**
Proceeds from increase in capital of subsidiaries	**-**	300	**-**
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	**(133)**	-	**(1,162)**
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	**15**	-	**130**
Others	**820**	1,125	**7,138**
Net cash flows from/(used in) financing activities	**(18,270)**	10,792	**(158,862)**
Effect of exchange rate changes on cash and cash equivalents	**1,459**	478	**12,685**
Change in cash and cash equivalents	**13,544**	6,058	**117,768**
Cash and cash equivalents at the beginning of the period	**33,754**	27,695	**293,490**
Cash and cash equivalents at the end of period *(Note 7)*	**¥ 47,298**	¥ 33,754	**$ 411,258**

DMG MORI CO., LTD.

Notes to 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 consolidated financial statements of the Company as of and for the fiscal year ended 31 December 2021 (the fiscal year 2021) comprise the Company, its subsidiaries, associates and joint ventures (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 Preparation

(1) Compliance with IFRS

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) 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 Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976, the "Consolidated Financial Statements Ordinance"), it has applied the provisions of Article 93 of said Ordinance.

(2) Basis of measurement

As stated below in *Note 3*, "Significant Accounting Policies," the 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 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.

The translation of Japanese yen amounts to U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of ¥115.01 to U.S. $1.00 as of 31 December 2021. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be, converted into U.S. dollars at the above or any other rate.

(4) Authorization for issue of consolidated financial statements

The consolidated financial statements of the Group were approved at the Board of Directors' meeting of the Company held on 22 March 2022.

3. Significant Accounting Policies

The significant accounting policies of the Group are applied continuously to all the years indicated in the consolidated financial statements, unless otherwise stated.

(1) Basis of consolidation

All financial statements included in the consolidated financial statements are prepared as of 31 December 2021, in accordance with the unified accounting policies and, when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

(2) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a business is the aggregate of the acquisition date fair value of the assets transferred, the equity interests issued by the Group and the liabilities assumed, including the fair value of any assets or liabilities resulting from a contingent consideration arrangement.

Identifiable assets acquired and liabilities and contingent liabilities assumed resulting from a business combination are, in principle, measured at fair value at the acquisition date.

In a business combination achieved in stages, any previously held equity investment before obtaining control is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in profit or loss.

For each business combination, the Group chooses the method of measurement of non-controlling interests, which can be measured using one of two bases, either at fair value at the acquisition date or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Acquisition-related costs are expensed as incurred. Any excess of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill in the consolidated statement of financial position.

Goodwill is allocated to a cash generating unit ("CGU") or group of CGUs that are expected to benefit from synergies of the business combination. If the amount of transferred assets is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss. Goodwill is not amortized in accordance with IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets."

Equity in a subsidiary not attributable, directly or indirectly, to the parent is recognized as non-controlling interest. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in the loss of control is accounted for as an equity transaction. If the Group, however, loses control of a subsidiary, any resulting effects are recognized as gain or loss in profit or loss attributable to the Group.

(3) Subsidiaries

A subsidiary is an entity controlled by the Group.

Specifically, the Group controls an investee if and only if the Group has all of the following:

(a) Power over the investee,

(b) Exposure, or rights, to variable returns from its involvement with the investee and

(c) The ability to use its power over the investee to affect the amount of the investor's returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

All intercompany transactions, balances, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

(4) Associates

An associate is an entity over which the Group has significant influence but does not have control to govern the entity's financial and operating policies.

The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost and adjusted to recognize changes in the Group's share of net assets of the associate after the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment.

The consolidated statement of profit or loss reflects the results of operations of the Group's proportional interest in its associates. Any changes in the Group's proportional interest in its associates arising from changes in other comprehensive income of those associates after the acquisition date are presented as part of the Group's other comprehensive income.

When there has been a change recognized directly in retained earnings of the associate, the Group recognizes its share of any changes in its retained earnings.

The carrying amount of the investment is adjusted to recognize any change in the Group's share of net assets of the associate since the acquisition date. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying amount, and then recognizes the loss as "Other operating costs" in the consolidated statement of profit or loss. Unrealized gains and losses resulting from transactions between the Group and associates are eliminated to the extent of the Group's interest in the associate.

(5) Joint ventures

A joint arrangement is a contractual arrangement where two or more parties have joint control.

The Group determines the type of joint agreement in which it is involved. The classification of a joint arrangement as joint operation where the Group has rights to the assets and obligations for the liabilities of the arrangement, or a joint venture where the Group has rights to the net assets of the arrangement, depends upon the rights and obligations of the parties to the arrangement.

For a joint operation, the Group recognizes its assets, including its share of any assets held jointly, liabilities, including its share of any liabilities incurred jointly, revenues, including its share of any revenues incurred jointly and expenses, including its share of any expenses incurred jointly. The Group's interest in a joint venture is accounted for using the equity method.

(6) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and readily-marketable short-term investments with maturities of three months or less from the date of acquisition, which are subject to an insignificant risk of changes in value.

(7) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes purchase costs, costs of conversion and all other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is calculated as the estimated selling price for the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Cost of inventories is basically determined by the average cost method, except for the following inventories to which the Specific identification method is applied.
Specific identification method is applied to inventories such as:
(a) Inventories that are not interchangeable and
(b) Inventories produced for specific projects and segregated from other inventories.

(8) Property, plant and equipment
Property, plant and equipment is measured using the cost model and is stated at acquisition cost less accumulated depreciation and accumulated impairment losses. Such cost includes any costs directly attributable to the purchase of the assets. Repair and maintenance costs are recognized in profit or loss as incurred.
Depreciation of property, plant and equipment begins when the asset is available for use, on a straight-line basis, over the following estimated useful lives:

Plant and equipment	: 3–50 years
Machinery and vehicles	: 2–30 years
Tools, furniture and fixtures	: 2–23 years

(9) Goodwill and other intangible assets
Intangible assets are measured using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.
Goodwill arising on a business combination is recognized as “Goodwill” in the consolidated statement of financial position. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually and any respective impairment losses are recognized when necessary. Impairment losses relating to goodwill cannot be reversed in future periods.
Development costs on an individual project are recognized as an intangible asset, only if all of the following have been demonstrated:
(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) The Group’s intention to complete and use or sell the intangible asset;
(c) The Group’s ability to use or sell the intangible asset;
(d) How the intangible asset will generate probable future economic benefits;
(e) The availability of appropriate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) The ability to measure reliably the expenditure related to the intangible asset during its development.
Capitalized development costs are amortized on a straight-line basis beginning when development is completed and the asset is available for use over the period of expected future benefit. Development costs which do not meet the above criteria are expensed as incurred.
Other intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Intangible assets generated by development	: 2–10 years
Software and other intangible assets	: 1–5 years
Customer-related assets	: 15 years (approximately)
Technology-related assets	: 6 years (approximately)
Trademarks (with definite useful lives)	: 30 years

(10) Leases

(Lessees)

At the lease commencement date of the lease, the Group recognizes a lease liability measured at the present value of the remaining lease payments that are not paid at that date. The lease liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

At the commencement date of the lease, the Group recognizes a right-of-use asset initially measured at the amount of the initial measurement of lease liability adjusted for any initial direct costs, the prepaid lease payments, restoration costs and other costs.

After the initial measurement, the right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term or the estimated useful life of the underlying asset, and the lease payment is allocated to the principal portion and the interest portion of the lease liability using an effective interest method. In the consolidated statement of profit or loss, the interest expenses on the lease liabilities are included in "Financial costs," separately from the depreciation of right-of-use assets.

At the inception of the contract, the Group assesses whether a contract is, or contains a lease based on the substance of the contract regardless of whether its legal form is a lease.

The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases within 12 months and leases of low-value assets and recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(Lessors)

At the commencement of a lease contract, the Group classifies a lease as a finance lease transaction if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset, and all the other leases as operating lease transactions.

At the commencement date, the Group derecognize the underlying asset in a finance lease transaction, and recognizes the net investment in the lease measured at the present value of the total lease receivables that have not been collected at that date, discounted using the interest rate implicit in the lease.

The Group continues to recognize the underlying asset in an operating lease transaction. Total lease payments received from the lessee are recognized as income on a straight-line basis over the lease term.

(11) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is any indication that all fixed assets excluding intangible assets with indefinite useful lives and that have not yet been brought into use and goodwill, may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and the asset is written down to its recoverable amount. A CGU is the smallest group of assets which generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets.

Goodwill and intangible assets with indefinite useful lives are not amortized but tested for impairment annually regardless of whether an indication of impairment exists. When the recoverable amount of the asset is less than its carrying amount, an impairment loss is recognized.

The recoverable amount of CGU is the higher of the value in use and the fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The estimated present value based on future cash flows incorporates assumptions about future sales price, sales volume and costs. The key assumptions are described in *Note 11*, "Goodwill and Other Intangible Assets."

For fixed assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. Any reversal of a previous impairment is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized for the asset in prior years.

(12) Income taxes

Income taxes consist of current and deferred taxes. Current and deferred taxes are recognized in profit or loss, except for those arising from business combinations and recognized directly in other comprehensive income or equity.

Deferred tax is provided using the asset and liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, including carry forwards of unused tax losses and tax credits granted at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forwards of unused tax losses and any unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences in principle.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except:

(a) Future taxable temporary differences arising from initial recognition of goodwill.

(b) Future taxable or deductible differences relating to initial recognition of an asset or liability in a transaction other than a business combination that affects neither accounting profit nor taxable profit or loss.

(c) Future taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that such differences will not reverse in the foreseeable future.

(d) Future deductible temporary differences associated with investments in subsidiaries when it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxation authority on the same taxable entity.

(13) Financial instruments

1. Financial assets

(i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they are incurred, and other financial assets at the transaction date when the Group becomes a party to the contract for the financial assets. At initial recognition, financial assets are measured at fair value plus transaction costs, except for those measured at fair value through profit or loss.

(ii) Classification and subsequent measurement

The financial assets are classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income or financial assets measured at fair value through profit or loss at initial recognition.

(Financial assets measured at amortized cost)

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method subsequent to initial recognition.

(Financial assets measured at fair value through other comprehensive income)
Equity instruments such as shares held mainly for the purpose of maintaining or strengthening business relationships with investees are designated at initial recognition as financial assets measured at fair value through other comprehensive income.
Any change in fair value of equity financial assets measured at fair value through other comprehensive income is recognized in other comprehensive income subsequent to initial recognition. If such assets are derecognized or the fair value decreases significantly, cumulative gain or loss recognized in other comprehensive income is directly transferred to retained earnings. Dividends from such financial assets are recognized in profit or loss.

Debt instrument financial assets which meet both of the below requirements are classified as financial assets measured at fair value through other comprehensive income.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(Financial assets measured at fair value through profit or loss)
Financial assets other than above are classified as financial assets measured at fair value through profit or loss.
Changes in fair value of financial assets measured at fair value through profit or loss are recognized in profit or loss subsequent to initial recognition.

(iii) Impairment of financial assets
For financial assets measured at amortized cost, allowance for doubtful receivables for expected credit losses is recognized.
The Group evaluates at the end of each reporting period whether there is a significant increase in credit risk of financial assets since initial recognition. When there is no significant increase in the credit risk since initial recognition, the amount equal to the 12-month expected credit losses is recognized as allowance for doubtful receivables. When there is a significant increase in credit risk since initial recognition, the amount equal to the lifetime expected credit losses of the financial assets is recognized as allowance for doubtful receivables.
For trade and other receivables, allowance for doubtful receivables is always recognized at the amount equal to the lifetime expected credit losses of the financial assets.
With regard to financial assets on which impairment losses were previously recognized, when the amount of impairment losses decreased due to any event that occurred after the initial recognition of the impairment losses, the previously recognized impairment losses are reversed and recognized in profit or loss.

(iv) Derecognition
A financial asset is derecognized when the contractual rights to receive the cash flows from the financial asset expire or when the contractual rights to receive the cash flows from the financial asset are transferred and substantially all the risks and rewards of ownership are transferred.

2. Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are initially recognized at the transaction date when the Group becomes a party to the contract for the financial liabilities. All financial liabilities are measured at fair value at initial recognition, whereas financial liabilities measured at amortized cost are measured at the amount less directly attributable transaction costs.

(ii) Classification and subsequent measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost at initial recognition.

Changes in fair value of financial liabilities measured at fair value through profit or loss are recognized in profit or loss subsequent to the initial recognition.

Financial liabilities measured at amortized cost are measured at amortized cost subsequent to the initial recognition, by using the effective interest method. Amortization by the effective interest method, as well as gains and losses associated with derecognition shall be recognized in profit or loss.

(iii) Derecognition

A financial liability is derecognized when it is extinguished, namely when the obligation specified in the contract is discharged, cancelled or expires.

(iv) Preferred shares

Preferred shares are classified as either equity or financial liabilities based on the terms and conditions in the contractual agreement, rather than the legal form. Preferred shares that can be redeemed on a specific date are recognized as financial liabilities. Preferred shares recognized as financial liabilities are measured at amortized cost on the consolidated statement of financial position. Dividends for preferred shares are recognized as payments of interest and are recorded in financial costs on the consolidated statement of profit or loss.

3. Offsetting financial instruments

Financial assets and liabilities are offset, with the net amount presented in the consolidated statements of financial position, only if the Group holds a legal right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

4. Derivatives and hedge accounting

The Group uses derivatives, such as forward foreign currency exchange contracts and interest rate swaps, as hedging instruments against foreign currency exchange risk and interest rate risk. These derivatives are classified as financial assets measured at fair value through profit or loss and financial liabilities measured at fair value through profit or loss. Derivatives that meet the criteria for hedge accounting are designated as hedging instruments, and hedge accounting is applied. For the application of hedge accounting, the Group officially makes designation and prepares documentation at the inception of the hedge, regarding the hedging relationship as well as the risk management objectives and strategies. Such documentation includes the hedging instruments, hedged items, the nature of the risks to be hedged and the method for evaluating the hedge effectiveness. The Group continually evaluates whether the hedging relationship is effective prospectively.

The Group applies hedge accounting to cash flow hedges involving interest rate-related derivative transactions that meet the criteria for hedge accounting. Of changes in fair value associated with hedging instruments in cash flow hedges, the effective portion is recognized in other comprehensive income, and recognized in other components of equity until the hedged transaction affects profit or loss. The ineffective portion is recognized in profit or loss.

The amount associated with hedging instruments recognized in other components of equity is reclassified to profit or loss, at the point in time when the hedged transactions affect profit or loss. If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the associated amount recognized in other components of equity is accounted for as an adjustment to the initial carrying amount of the non-financial asset or the non-financial liability. When any forecast transaction is no longer expected to occur, hedge accounting is discontinued, and any related cumulative gain or loss that has been recognized in other components of equity is reclassified to profit or loss. Even if hedge accounting was discontinued, the amount that had been recognized in other components of equity until hedge accounting was discontinued continues to be recognized in other components of equity until estimated future cash flows occur. The Group does not use fair value hedges nor net investment hedges in foreign operations.

(14) Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount to be recognized as a provision is measured based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability.

(15) Employee benefits

The Group recognizes the undiscounted amount of any short-term benefits attributable to services that have been rendered in the period as an expense. When a present legal or constructive obligation to make payments associated with bonus plans or accumulating paid absences exists, and a reliable estimate of the provision can be made, the amount to be paid in accordance with these benefits is accounted for as a liability.

Defined benefit obligations are measured using the projected unit credit method. This actuarial method also determines the current service cost and any past service costs.

Under this method, The Group not only recognize these pensions and pension rights recognized or incurred on the last day of the reporting period, but also consider future increases in retirement benefits and salaries, which are factors that affect retirement benefits.

The valuation is based on a report prepared by independent actuaries.

Net defined benefit liabilities are based on the present value of the defined benefit obligation less the fair value of plan assets at the reporting date.

The present value of a defined benefit obligation is based on the discounted future cash flows at a rate determined by reference to market yield on high-quality corporate bonds whose currency and term are consistent with the obligation.

Actuarial differences arising from changes in actuarial assumptions and experience adjustments are recognized immediately in other comprehensive income in the consolidated statement of comprehensive income.

Past service costs are recognized immediately in profit or loss.

The contribution payable for a defined contribution plan in exchange for employee service is recognized as an expense, unless another IFRS requires or permits its capitalization.

When there is a surplus in a defined benefit plan, the net defined benefit asset recognized is restricted to the lower of the surplus in the plan and the asset ceiling.

(16) Equity and equity instruments

1. Common stock

Equity instruments issued by the Company are included in Share capital and capital surplus. Transaction costs related to the issuance of equity instruments are deducted from capital surplus.

2. Treasury shares

When the Company repurchases its own ordinary shares, the amount of the consideration paid, including transaction costs, is deducted from equity. When the Company sells or reissues treasury shares, the consideration received is recognized directly in equity, and the gain or loss resulting from the transaction is included in capital surplus.

3. Perpetual subordinated loans and perpetual subordinated bonds

Perpetual subordinated loans and perpetual subordinated bonds are classified as equity instruments if the Group has the option to defer repayment of the principal and interest payments and no obligation. The proceeds from the perpetual subordinated loan and perpetual subordinated bonds, after deduction of issuance costs, are recorded as “Other equity instruments” in the consolidated statement of financial position.

(17) Share-based payments

1. Stock option

The Group has stock option plans as incentive plans for directors and employees that are accounted for as equity-settled share-based payment transactions. The fair value of stock options at the grant date is recognized as a personnel cost over the vesting period from the grant date as a corresponding increase in other components of equity. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group regularly reviews the terms and revises estimates of the number of options that are expected to vest, as necessary.

2. Restricted share remuneration plan

The Group has adopted a restricted share remuneration plan as equity-settled share-based remuneration for directors.

The amount of the consideration for services to be provided is measured at the fair value of the Company shares as of the grant date, which is expensed on a straight-line basis over the vesting period from the grant date and the same amount is recognized as an increase in equity.

3. Trust-type employee stock ownership incentive plan
The Group has adopted a "Trust-Type Employee Stock Ownership Incentive Plan" as a cash-settled incentive plan for its employees to increase the mid to long-term corporate value of the Group.
Under this plan, the Company shares owned by "DMG MORI Employee Shareholders Association Exclusive Trust" are treated as treasury shares.
The amount of the consideration for services to be provided is measured at fair value of the liabilities incurred, which is expensed over the effective period of the trust from the grant date and the same amount is recognized as an increase in liabilities. The liabilities are remeasured at fair value as of the end of each reporting period until settlement, and the changes in fair value are recognized in profit or loss.

(18) Revenue recognition
The Group recognizes revenues from contracts with customers by applying the following five-step approach.
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contracts
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
The Group engages in businesses related to manufacturing and sales of machine tools and provides services and solutions for the machine tools and related business areas. Sales of machine tools are recognized when control of the product is transferred to customers (usually at the time of shipment or final acceptance) based on the contract. For the provision of services and solutions, which consist mainly of maintenance and recovery services, revenue is recognized when the performance obligation defined in the contract is satisfied (usually when the services are delivered, etc.).
The consideration for the transaction is received approximately within one year of fulfilling the performance obligation, except in cases when it is received as advances received prior to the satisfaction of the performance obligations, and does not include significant financial components.
Revenue is measured at the amount of the promised consideration in a contract with a customer less discounts and rebates, and net of the amount of sales returns.

(19) Financial income
Interest income is recorded using the effective interest method.
Dividend income is recognized when the Group's right to receive payment is established.

(20) Government grants
Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods in which the related costs, for which it is intended to compensate, are expensed.
When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset and as deferred income for the remaining portion in the consolidated statement of financial position.

(21) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of the assets. All other borrowing costs are expensed for the year when they occur.

(22) Foreign currency translation

Transactions in foreign currencies are initially recorded by Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen using the closing rate at the reporting date and income and expense items are translated using the average exchange rates for the period.

The exchange differences arising on translation of financial statements of foreign subsidiaries are recognized in other comprehensive income and the cumulative effect from the exchange differences is recognized in “Other components of equity” in the consolidated statement of financial position.

Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency spot rates at the reporting date.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The gain or loss arising on settlements or translation is recognized in profit or loss.

Any goodwill and other intangible assets arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(23) Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions are reviewed on an ongoing basis.

Changes in accounting estimates are accounted for prospectively; defined as recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

In the process of applying the Group’s accounting policies, management has made the following estimations and judgments, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the consolidated financial statements within the next fiscal year :

1. Impairment of property, plant and equipment, goodwill and other intangible assets (“(11) Impairment of non-financial assets” in *Note 3* “Significant Accounting Policies,” *Note 10* “Property, Plant and Equipment,” *Note 11* “Goodwill and Other Intangible Assets,” and *Note 38* “Events after Reporting Period”)

   An impairment test is performed annually or at any time if indications of impairment exist.

   For the impairment testing of property, plant and equipment, goodwill and other intangible assets, the recoverable amount is defined as the higher of fair value less costs of disposal and value in use based on the identified cash generating units.

The key assumptions, including the measurement of fair value less cost of disposal, the cash flows that the Group will derive from the use and disposal, in order to calculate the value in use of the cash generating unit and the respective discount rates may change due to market changes or circumstances arising that are beyond the control of the Group. Accordingly, significant adjustments to recoverable amounts in the consolidated financial statements for the next fiscal year may occur. Information about uncertainties in assumptions and estimates that have a risk of causing significant adjustments to the carrying amounts of goodwill and other intangible assets in the next fiscal year is included in *Note 11*, “Goodwill and Other Intangible Assets.”

Furthermore, in Russia, the Group owns a factory for the assembly of machine tools in Ulyanovsk, and a sales and service branch in Moscow. At the end of the fiscal year 2021, the carrying amount of the property, plant and equipment owned by the said Russian subsidiaries was ¥7,869 million ($68,420 thousand). As described in *Note 38,* “Events after Reporting Period,” as of the filing date of the annual securities report, production at the factory and business activities at the sales and service branch had been suspended, and there are indications that the property, plant, and equipment owned by the subsidiaries have been impaired. The situation in Russia and Ukraine involves global political uncertainties, and given that no date for the future resumption of business activities has been decided, there is a risk that, following changes in the business environment going forward, significant adjustments to the recoverable amount will be recorded in the consolidated financial statements for the next fiscal year.

2. Recoverability of deferred tax assets (“(12) Income taxes” in *Note 3* “Significant Accounting Policies” and *Note 20* “Income Taxes”)

   Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. However, judgment of the recoverability is based on the premise of estimated taxable income estimated from business plans of the Group. The estimation of taxable income may change due to market changes or circumstances arising that are beyond the control of the Group and, accordingly, significant adjustments to the recognized amount of deferred tax assets may occur in the consolidated financial statements for the next fiscal year.

3. Financial liabilities arising from the Domination and Profit and Loss Transfer Agreement (the “DPLTA”) (“(13) Financial instruments” in *Note 3* “Significant Accounting Policies” and *Note 34* “Domination and Profit and Loss Transfer Agreement”)

   The Group estimates the amount of its obligation arising from the entry into force of the DPLTA for the share purchase option and the annual compensation amount at the end of the reporting period based on a re-purchase price per share, annual compensation amount per share and the number of outstanding shares. At the same time, the Group reasonably estimates the expected payment timing and recognizes the present discounted value of financial liabilities arising from the DPLTA.

   The conditions for purchase and payment of shares and future economic conditions may change and, accordingly, significant adjustments to the measurement of the liability may occur in the consolidated financial statements for the next fiscal year.

4. New Accounting Standards Not Yet Adopted by the Group

There was no significant change of the new accounting standards, amended standards and new interpretations that are issued or amended, but not yet adopted by the Group up to the date of authorization for issue of consolidated financial statements.

5. Significant Change in Scope of Consolidation

There was no significant change in scope of consolidation during the fiscal years 2021 and 2020.

6. 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 Group 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 providing services and solutions related to machine tools.

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

The accounting methods for the reportable segments are essentially the same as those described in *Note 3*, “Significant Accounting Policies.”

The amount of segment income is based on operating income 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 for the fiscal years 2021 and 2020 are summarized as follows:

	Millions of yen					
	2021					
	Reportable segments			Adjustments		
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	Consolidated
Sales revenues						
External customers	**¥ 266,662**	**¥ 129,321**	**¥ 395,983**	**¥ 27**	**¥ -**	**¥ 396,011**
Inter-segment	**166,217**	**23,863**	**190,080**	**1,510**	**(191,590)**	**-**
Total	**432,880**	**153,184**	**586,064**	**1,538**	**(191,590)**	**396,011**
Segment income *(Note 1)*	**19,404**	**16,829**	**36,234**	**(14,416)**	**1,281**	**23,098**
Financial income	**-**	**-**	**-**	**-**	**-**	**429**
Financial costs	**-**	**-**	**-**	**-**	**-**	**(3,919)**
Profit before income taxes	**-**	**-**	**-**	**-**	**-**	**19,609**
Segment assets *(Note 2)*	**811,462**	**543,782**	**1,355,245**	**410,075**	**(1,168,203)**	**597,117**
Other items						
Depreciation and amortization	**11,033**	**6,249**	**17,283**	**4,611**	**-**	**21,894**
Investments in associates and joint ventures	**-**	**5,704**	**5,704**	**-**	**-**	**5,704**
Capital expenditure	**¥ 14,532**	**¥ 6,966**	**¥ 21,498**	**¥ 8,227**	**¥ (437)**	**¥ 29,287**

(Note 1) "Adjustments to segment income" include elimination of inter-segment transactions and expenses related to corporate services.

(Note 2) "Adjustments to segment assets" mainly include corporate assets not attributable to any business segment and elimination of inter-segment receivables.

(Note 3) Depreciation, amortization and capital expenditures include amounts related to right-of-use assets.

	Thousands of U.S. dollars					
	2021					
	Reportable segments			Adjustments		
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	Consolidated
Sales revenues						
External customers	**$ 2,318,602**	**$ 1,124,434**	**$ 3,443,036**	**$ 241**	**$ -**	**$ 3,443,278**
Inter-segment	**1,445,247**	**207,486**	**1,652,734**	**13,131**	**(1,665,857)**	**-**
Total	**3,763,849**	**1,331,921**	**5,095,770**	**13,372**	**(1,665,857)**	**3,443,278**
Segment income *(Note 1)*	**168,721**	**146,332**	**315,053**	**(125,353)**	**11,141**	**200,841**
Financial income	**-**	**-**	**-**	**-**	**-**	**3,735**
Financial costs	**-**	**-**	**-**	**-**	**-**	**(34,078)**
Profit before income taxes	**-**	**-**	**-**	**-**	**-**	**170,499**
Segment assets *(Note 2)*	**7,055,580**	**4,728,135**	**11,783,715**	**3,565,566**	**(10,157,405)**	**5,191,876**
Other items						
Depreciation and amortization	**95,934**	**54,340**	**150,275**	**40,094**	**-**	**190,369**
Investments in associates and joint ventures	**-**	**49,603**	**49,603**	**-**	**-**	**49,603**
Capital expenditure	**$ 126,356**	**$ 60,572**	**$ 186,928**	**$ 71,535**	**$ (3,808)**	**$ 254,655**

(Note 1) “Adjustments to segment income” include elimination of inter-segment transactions and expenses related to corporate services.

(Note 2) “Adjustments to segment assets” mainly include corporate assets not attributable to any business segment and elimination of inter-segment receivables.

(Note 3) Depreciation, amortization and capital expenditures include amounts related to right-of-use assets.

	Millions of yen					
	2020					
	Reportable segments			Adjustments		
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	Consolidated
Sales revenues						
External customers	¥ 228,201	¥ 100,061	¥ 328,262	¥ 21	¥ -	¥ 328,283
Inter-segment	150,244	19,313	169,558	1,433	(170,991)	-
Total	378,445	119,374	497,820	1,454	(170,991)	328,283
Segment income *(Note 1)*	16,944	9,949	26,893	(17,864)	1,119	10,148
Financial income	-	-	-	-	-	357
Financial costs	-	-	-	-	-	(5,399)
Profit before income taxes	-	-	-	-	-	5,106
Segment assets *(Note 2)*	763,470	481,850	1,245,320	401,435	(1,120,229)	526,526
Other items						
Depreciation and amortization	11,996	7,382	19,378	4,739	-	24,118
Investments in associates and joint ventures	-	5,222	5,222	-	-	5,222
Capital expenditure	¥ 12,492	¥ 7,351	¥ 19,843	¥ 6,614	¥ (534)	¥ 25,924

(Note 1) “Adjustments to segment income” include elimination of inter-segment transactions and expenses related to corporate services.

(Note 2) “Adjustments to segment assets” includes corporate assets not attributable to each business segment and elimination of inter-segment receivables.

(Note 3) Depreciation and amortization and capital expenditures include amounts related to right-of-use assets.

Changes related to reportable segments

Changes in calculation methods

Beginning in the fiscal year 2021, the method by which corporate expenses are allocated was changed in order to reflect a more appropriate assessment of the performance of reportable segments.

Furthermore, because it is difficult to obtain the information required to prepare segment information for the previous fiscal year based on the classification of reportable segments used in the fiscal year 2021, figures for the previous fiscal year are based on the classification methods used in the previous fiscal year.

(4) Information on products and services

As the classification for the reportable segments is based on the type of products and services of the Group, there is no additional information to be disclosed.

(5) Information on geographical areas

Sales revenues from external customers and non-current assets by geographic areas are as follows:

Sales revenues from external customers

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Japan	**¥ 63,151**	¥ 59,059	**$ 549,095**
Germany	**101,634**	82,038	**883,697**
Americas	**75,240**	63,513	**654,207**
Europe other than Germany	**115,324**	94,998	**1,002,732**
China and Asia	**40,661**	28,672	**353,544**
Total	**¥ 396,011**	¥ 328,283	**$ 3,443,278**

(Note) Sales revenues by geographical areas are categorized by countries or regions based on the geographical location of the respective sales entities.

Non-current assets

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Japan	**¥ 97,210**	¥ 84,404	**$ 845,239**
Germany	**107,879**	99,238	**937,999**
Americas	**9,260**	8,978	**80,515**
Europe other than Germany	**92,542**	100,644	**804,648**
China and Asia	**11,403**	8,157	**99,148**
Eliminations	**(12,770)**	(15,068)	**(111,039)**
Total	**¥ 305,525**	¥ 286,354	**$ 2,656,510**

(Note) Non-current assets by geographical areas are classified by countries or regions based on the locations of the assets, and consist of property, plant and equipment, goodwill and other intangible assets.

(6) Information on major customers

The proportion of revenue from any individual customers did not exceed 10% of consolidated sales revenues for the fiscal years 2021 and 2020.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents at 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Cash on hand and at banks with maturities of three months or less	**¥ 47,298**	¥ 33,754	**$ 411,258**
Total	**¥ 47,298**	¥ 33,754	**$ 411,258**

(Note) The balance of cash and cash equivalents in the consolidated statement of financial position at 31 December 2021 and 2020 agreed with the respective balances in the consolidated statement of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables at 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Notes and trade receivables	**¥ 54,744**	¥ 42,140	**$ 475,999**
Other	**8,073**	3,486	**70,195**
Allowance for doubtful receivables	**(3,140)**	(3,063)	**(27,305)**
Total	**¥ 59,677**	¥ 42,563	**$ 518,888**

9. Inventories

The breakdown of inventories at 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Raw materials and supplies	**¥ 62,159**	¥ 50,110	**$ 540,469**
Work in process	**30,612**	28,479	**266,168**
Merchandise and finished goods	**36,771**	42,418	**319,720**
Total	**¥ 129,542**	¥ 121,008	**$ 1,126,358**

(Note 1) “Costs of raw materials and consumables” in the consolidated statement of profit or loss includes the write-downs of inventories of ¥5,048 million ($43,893 thousand) and ¥7,379 million for the fiscal years 2021 and 2020, respectively.

(Note 2) Cost of inventories recognized in profit or loss for the fiscal years ended 31 December 2021 and 2020 amounted to ¥250,636 million ($2,179,260 thousand) and ¥205,607 million, respectively, including the above write-downs of inventories.

(Note 3) There is no significant reversal of write-downs for the fiscal years 2021 and 2020.

10. Property, Plant and Equipment

(1) The movement in acquisition cost, accumulated depreciation and impairment losses and carrying amount for property, plant and equipment for the fiscal years 2021 and 2020 is as follows:

Acquisition cost

	Millions of yen				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**¥ 159,133**	**¥ 38,480**	**¥ 39,706**	**¥ 5,242**	**¥ 242,562**
Acquisitions	**1,749**	**1,307**	**2,575**	**11,457**	**17,089**
Acquisitions through business combinations	**-**	**-**	**-**	**-**	**-**
Disposals	**(2,298)**	**(2,883)**	**(2,714)**	**(559)**	**(8,455)**
Reclassification from construction in progress	**4,205**	**1,921**	**327**	**(6,454)**	**-**
Exchange differences on translation of foreign operations	**3,862**	**1,365**	**1,667**	**209**	**7,104**
Ending balance	**¥ 166,652**	**¥ 40,190**	**¥ 41,562**	**¥ 9,894**	**¥ 258,300**

	Thousands of U.S. dollars				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**$ 1,383,651**	**$ 334,581**	**$ 345,240**	**$ 45,581**	**$ 2,109,054**
Acquisitions	**15,211**	**11,364**	**22,397**	**99,619**	**148,593**
Acquisitions through business combinations	**-**	**-**	**-**	**-**	**-**
Disposals	**(19,986)**	**(25,068)**	**(23,601)**	**(4,865)**	**(73,522)**
Reclassification from construction in progress	**36,568**	**16,706**	**2,848**	**(56,122)**	**-**
Exchange differences on translation of foreign operations	**33,580**	**11,872**	**14,496**	**1,821**	**61,771**
Ending balance	**$ 1,449,024**	**$ 349,455**	**$ 361,380**	**$ 86,033**	**$ 2,245,895**

Accumulated depreciation and impairment losses

	Millions of yen				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**¥ (65,216)**	**¥ (17,734)**	**¥ (28,801)**	**¥ -**	**¥ (111,752)**
Depreciation *(Note 1)*	**(4,136)**	**(3,468)**	**(3,161)**	**-**	**(10,767)**
Impairment losses *(Note 2)*	**(138)**	**(111)**	**-**	**-**	**(250)**
Disposals	**1,283**	**2,060**	**2,143**	**-**	**5,486**
Exchange differences on translation of foreign operations	**(1,144)**	**(674)**	**(1,121)**	**-**	**(2,941)**
Ending balance	**¥ (69,353)**	**¥ (19,928)**	**¥ (30,941)**	**¥ -**	**¥ (120,223)**

	Thousands of U.S. dollars				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**$ (567,049)**	**$ (154,198)**	**$ (250,427)**	**$ -**	**$ (971,675)**
Depreciation *(Note 1)*	**(35,968)**	**(30,158)**	**(27,490)**	**-**	**(93,617)**
Impairment losses *(Note 2)*	**(1,207)**	**(967)**	**-**	**-**	**(2,175)**
Disposals	**11,158**	**17,914**	**18,635**	**-**	**47,708**
Exchange differences on translation of foreign operations	**(9,954)**	**(5,865)**	**(9,753)**	**-**	**(25,572)**
Ending balance	**$ (603,022)**	**$ (173,275)**	**$ (269,035)**	**$ -**	**$ (1,045,333)**

Carrying amount

	Millions of yen				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**¥ 93,917**	**¥ 20,745**	**¥ 10,904**	**¥ 5,242**	**¥ 130,809**
Ending balance	**¥ 97,298**	**¥ 20,262**	**¥ 10,620**	**¥ 9,894**	**¥ 138,076**

	Thousands of U.S. dollars				
	2021				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	**$ 816,601**	**$ 180,382**	**$ 94,812**	**$ 45,581**	**$ 1,137,378**
Ending balance	**$ 846,002**	**$ 176,180**	**$ 92,345**	**$ 86,033**	**$ 1,200,562**

(Note 1) Depreciation is included in “Depreciation and amortization” in the consolidated statement of profit or loss.

(Note 2) Impairment losses are included in “Other operating costs” in the consolidated statement of profit or loss.

(Note 3) Amounts for property, plant and equipment under construction are presented in “Construction in progress.”

Acquisition cost

	Millions of yen				
	2020				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ 154,677	¥ 36,887	¥ 42,167	¥ 5,068	¥ 238,801
Acquisitions	2,009	2,601	1,919	6,298	12,828
Acquisitions through business combinations	1,017	354	17	0	1,390
Disposals	(2,709)	(2,460)	(6,361)	-	(11,530)
Reclassification from construction in progress	4,289	1,198	565	(6,053)	-
Exchange differences on translation of foreign operations	(151)	(102)	1,398	(72)	1,072
Ending balance	¥ 159,133	¥ 38,480	¥ 39,706	¥ 5,242	¥ 242,562

Accumulated depreciation and impairment losses

	Millions of yen				
	2020				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ (62,039)	¥ (15,326)	¥ (30,491)	¥ -	¥ (107,857)
Depreciation *(Note 1)*	(4,062)	(4,289)	(3,877)	-	(12,229)
Impairment losses *(Note 2)*	(45)	(150)	(301)	-	(496)
Disposals	1,216	2,062	6,294	-	9,573
Exchange differences on translation of foreign operations	(286)	(30)	(426)	-	(742)
Ending balance	¥ (65,216)	¥ (17,734)	¥ (28,801)	¥ -	¥ (111,752)

Carrying amount

	Millions of yen				
	2020				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ 92,638	¥ 21,560	¥ 11,675	¥ 5,068	¥ 130,943
Ending balance	¥ 93,917	¥ 20,745	¥ 10,904	¥ 5,242	¥ 130,809

(Note 1) Depreciation is included in “Depreciation and amortization” in the consolidated statement of profit or loss.

(Note 2) Impairment losses are included in “Other operating costs” in the consolidated statement of profit or loss.

(Note 3) Amounts for property, plant and equipment under construction are presented in “Construction in progress.”

(2) Impairment losses

The carrying amount of certain assets, including buildings, were written down to their recoverable amount during the fiscal year 2021 as their profitability declined. ¥250 million ($2,175 thousand) of impairment loss was allocated to the Machine Tools segment.

The carrying amount of certain assets, including tools, furniture and fixtures, were written down to their recoverable amount during the fiscal year 2020 as their profitability declined. ¥199 million of impairment loss was allocated to the Machine Tools segment, ¥77 million to the Industrial Services segment and ¥218 million to the Corporate Services segment.

11. Goodwill and Other Intangible Assets

(1) The movement in acquisition cost, accumulated impairment losses and carrying amount for goodwill for the fiscal years 2021 and 2020 is as follows:

	Millions of yen		
	2021		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	**¥ 69,142**	**¥ (334)**	**¥ 68,807**
Acquisitions	**-**	**-**	**-**
Acquisitions through business combinations	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment losses	**-**	**(9)**	**(9)**
Exchange differences on translation of foreign operations	**2,085**	**(48)**	**2,036**
Ending balance	**¥ 71,227**	**¥ (392)**	**¥ 70,834**

	Thousands of U.S. dollars		
	2021		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	**$ 601,183**	**$ (2,910)**	**$ 598,273**
Acquisitions	**-**	**-**	**-**
Acquisitions through business combinations	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment losses	**-**	**(81)**	**(81)**
Exchange differences on translation of foreign operations	**18,134**	**(423)**	**17,710**
Ending balance	**$ 619,317**	**$ (3,415)**	**$ 615,902**

	Millions of yen		
	2020		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	¥ 66,846	¥ (329)	¥ 66,516
Acquisitions	-	-	-
Acquisitions through business combinations	84	-	84
Disposals	-	-	-
Impairment losses	-	-	-
Exchange differences on translation of foreign operations	2,211	(5)	2,206
Ending balance	¥ 69,142	¥ (334)	¥ 68,807

(2) The movement in acquisition cost, accumulated amortization and impairment losses and carrying amount for other intangible assets for the fiscal years 2021 and 2020 is as follows:

Acquisition cost

	Millions of yen						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥ 42,758**	**¥ 7,908**	**¥ 6,016**	**¥ 1,678**	**¥ 11,834**	**¥ 47,603**	**¥ 117,801**
Acquisitions	**4**	**-**	**-**	**61**	**-**	**8,410**	**8,475**
Acquisitions through business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions due to internal development	**-**	**-**	**-**	**-**	**4,139**	**-**	**4,139**
Disposals	**-**	**-**	**-**	**-**	**(2,449)**	**(1,623)**	**(4,072)**
Exchange differences on translation of foreign operations	**1,219**	**327**	**167**	**-**	**545**	**360**	**2,620**
Ending balance	**¥ 43,981**	**¥ 8,236**	**¥ 6,184**	**¥ 1,739**	**¥ 14,069**	**¥ 54,751**	**¥ 128,963**

	Thousands of U.S. dollars						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$ 371,778**	**$ 68,767**	**$ 52,314**	**$ 14,594**	**$ 102,902**	**$ 413,910**	**$ 1,024,268**
Acquisitions	**37**	**-**	**-**	**530**	**-**	**73,124**	**73,692**
Acquisitions through business combinations	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions due to internal development	**-**	**-**	**-**	**-**	**35,988**	**-**	**35,988**
Disposals	**-**	**-**	**-**	**-**	**(21,295)**	**(14,112)**	**(35,408)**
Exchange differences on translation of foreign operations	**10,603**	**2,845**	**1,458**	**-**	**4,741**	**3,136**	**22,784**
Ending balance	**$ 382,418**	**$ 71,612**	**$ 53,773**	**$ 15,125**	**$ 122,337**	**$ 476,058**	**$ 1,121,326**

Accumulated amortization and impairment losses

	Millions of yen						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥ (2,097)**	**¥ (4,068)**	**¥ (6,016)**	**¥ (1,678)**	**¥ (6,876)**	**¥ (30,119)**	**¥ (50,856)**
Amortization	**(622)**	**(550)**	**-**	**(13)**	**(1,430)**	**(3,103)**	**(5,720)**
Impairment losses	**-**	**-**	**-**	**-**	**(10)**	**(127)**	**(138)**
Disposals	**-**	**-**	**-**	**-**	**2,449**	**778**	**3,227**
Exchange differences on translation of foreign operations	**(83)**	**(195)**	**(167)**	**-**	**(448)**	**(66)**	**(961)**
Ending balance	**¥ (2,802)**	**¥ (4,814)**	**¥ (6,184)**	**¥ (1,691)**	**¥ (6,317)**	**¥ (32,637)**	**¥ (54,448)**

	Thousands of U.S. dollars						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$ (18,236)**	**$ (35,372)**	**$ (52,314)**	**$ (14,594)**	**$ (59,789)**	**$ (261,884)**	**$ (442,192)**
Amortization	**(5,411)**	**(4,789)**	**-**	**(115)**	**(12,441)**	**(26,980)**	**(49,739)**
Impairment losses	**-**	**-**	**-**	**-**	**(91)**	**(1,109)**	**(1,200)**
Disposals	**-**	**-**	**-**	**-**	**21,295**	**6,768**	**28,064**
Exchange differences on translation of foreign operations	**(722)**	**(1,700)**	**(1,458)**	**-**	**(3,901)**	**(578)**	**(8,360)**
Ending balance	**$ (24,370)**	**$ (41,862)**	**$ (53,773)**	**$ (14,709)**	**$ (54,929)**	**$ (283,783)**	**$ (473,428)**

Carrying amount

	Millions of yen						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥ 40,660**	**¥ 3,840**	**¥ -**	**¥ -**	**¥ 4,958**	**¥ 17,484**	**¥ 66,944**
Ending balance	**¥ 41,179**	**¥ 3,421**	**¥ -**	**¥ 47**	**¥ 7,752**	**¥ 22,113**	**¥ 74,514**

	Thousands of U.S. dollars						
	2021						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$ 353,541**	**$ 33,395**	**$ -**	**$ -**	**$ 43,112**	**$ 152,025**	**$ 582,076**
Ending balance	**$ 358,048**	**$ 29,750**	**$ -**	**$ 415**	**$ 67,407**	**$ 192,275**	**$ 647,897**

Intangible assets in the above table with finite useful lives are amortized over their useful economic lives. Amortization of intangible assets is included in “Depreciation and amortization” in the consolidated statement of profit or loss.

Impairment losses are included in “Other operating costs” in the consolidated statement of profit or loss.

The amount of intangible assets in the above table with indefinite useful lives was ¥33,847 million ($294,303 thousand) as of 31 December 2021. Intangible assets with indefinite useful lives were mainly trademarks, which were recognized as a result of the business combination between DMG MORI AG and the Company during the fiscal year 2015. Trademarks are classified as intangible assets with indefinite useful lives since there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Group to the extent that their respective operations continue.

Internally generated intangible assets (after deducting accumulated amortization and impairment losses) as of 31 December 2021 were ¥7,752 million ($67,407 thousand) and included in capitalized development costs in the above table.

Acquisition cost

	Millions of yen						
	2020						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 41,289	¥ 7,734	¥ 5,806	¥ 1,669	¥ 9,210	¥ 41,654	¥ 107,364
Acquisitions	0	-	-	8	-	6,919	6,929
Acquisitions through business combinations	-	-	-	-	-	36	36
Additions due to internal development	-	-	-	-	2,122	-	2,122
Disposals	-	-	-	-	(126)	(1,518)	(1,644)
Exchange differences on translation of foreign operations	1,468	174	210	-	628	511	2,992
Ending balance	¥ 42,758	¥ 7,908	¥ 6,016	¥ 1,678	¥ 11,834	¥ 47,603	¥ 117,801

Accumulated amortization and impairment losses

	Millions of yen						
	2020						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ (1,725)	¥ (3,472)	¥ (4,796)	¥ (1,667)	¥ (5,001)	¥ (27,928)	¥ (44,591)
Amortization	(321)	(515)	(1,003)	(11)	(1,425)	(3,184)	(6,461)
Impairment losses	-	-	-	-	-	-	-
Disposals	-	-	-	-	126	1,443	1,569
Exchange differences on translation of foreign operations	(50)	(79)	(216)	-	(576)	(449)	(1,372)
Ending balance	¥ (2,097)	¥ (4,068)	¥ (6,016)	¥ (1,678)	¥ (6,876)	¥ (30,119)	¥ (50,856)

Carrying amount

	Millions of yen						
	2020						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 39,564	¥ 4,261	¥ 1,009	¥ 2	¥ 4,208	¥ 13,726	¥ 62,773
Ending balance	¥ 40,660	¥ 3,840	¥ -	¥ -	¥ 4,958	¥ 17,484	¥ 66,944

Intangible assets in the above table with finite useful lives are amortized over their useful economic lives. Amortization of intangible assets is included in "Depreciation and amortization" in the consolidated statement of profit or loss.
Impairment losses are included in "Other operating costs" in the consolidated statement of profit or loss.
The amount of intangible assets in the above table with indefinite useful lives was ¥32,929 million as of 31 December 2020. Intangible assets with indefinite useful lives were mainly trademarks, which were recognized as a result of the business combination between DMG MORI AG and the Company during the fiscal year 2015. Trademarks are classified as intangible assets with indefinite useful lives since there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Group to the extent that their respective operations continue.
Internally generated intangible assets (after deducting accumulated amortization and impairment losses) as of 31 December 2020 were ¥4,958 million and included in "capitalized development costs" in the above table.

(3) Impairment losses

The carrying amount of certain software and development assets were written down to their recoverable amount during the fiscal year 2021 as their profitability declined. They were allocated to the Machine Tools segment; the amount was ¥138 million ($1,200 thousand).
The Group did not record any impairment loss for the fiscal year ended 31 December 2020.

(4) Significant goodwill and other intangible assets

Significant goodwill and other intangible assets, including assets with indefinite useful lives, in the consolidated statement of financial position were recognized as a result of the business combination with DMG MORI AG and the Company during the fiscal year 2015 as follows:

		Millions of yen		Thousands of U.S. dollars
	CGU	**2021**	2020	**2021**
Goodwill	Machine Tools	**¥ 31,768**	¥ 30,906	**$ 276,222**
	Industrial Services	**36,104**	35,125	**313,927**
	Total	**¥ 67,873**	¥ 66,032	**$ 590,150**
Intangible assets with indefinite useful lives	Machine Tools	**¥ 15,252**	¥ 14,838	**$ 132,617**
	Industrial Services	**18,595**	18,091	**161,686**
	Total	**¥ 33,847**	¥ 32,929	**$ 294,303**

In addition to the above, other intangible assets includes trademark rights (¥7,738 million in the previous fiscal year, and ¥7,625 million ($66,306 thousand) in the fiscal year 2021), and customer-related assets

(¥3,466 million in the previous fiscal year, and ¥3,167 million ($27,538 thousand) in the fiscal year 2021), with remaining amortization periods of 23 years and approximately eight years, respectively.

(5) Impairment test of goodwill and other intangible assets

Carrying amounts of goodwill and other intangible assets with indefinite useful lives allocated to each CGU or group of CGUs are as follows:

		Millions of yen		*Thousands of U.S. dollars*
	CGU	**2021**	2020	**2021**
Goodwill	Machine Tools	**¥ 31,768**	¥ 30,906	**$ 276,222**
	Industrial Services	**39,066**	37,900	**339,679**
	Total	**¥ 70,834**	¥ 68,807	**$ 615,902**
Intangible assets with indefinite useful lives	Machine Tools	**¥ 15,252**	¥ 14,838	**$ 132,617**
	Industrial Services	**18,595**	18,091	**161,686**
	Total	**¥ 33,847**	¥ 32,929	**$ 294,303**

The recoverable amount of goodwill and other intangible assets (allocated to each CGU or group of CGUs) with indefinite useful lives related to DMG MORI AG is measured at value in use of CGU or group of CGUs to which they are allocated. The key assumptions used to calculate such value in use are as follows:

- Estimated future cash flow: The Group draws on past experience and external sources of information to estimate future cash flow based on a five-year business plan approved by management. The business plan is based on the key assumptions of growth rate of sales revenues and ratio of operating costs to sales revenues. The growth rate of sales revenues tends to be significantly affected by any increase or decrease in capital expenditure demand in the machine tool market due to economic fluctuations, and the ratio of operating costs to sales revenues is affected by the aforementioned fluctuations in economic conditions as well as the risk of rising raw material costs. Therefore, estimates are highly uncertain and may be affected by the subjective judgment of management. For the period subsequent to the period covered by the business plan, the Group calculates the terminal value by discounting estimated future cash flows to their present value using a growth rate determined in consideration of the conditions of the country and industry to which the CGU or group of CGUs belongs based on the forecasted cash flows for the final year of the business plan. The relevant growth rates are assumed to be 2.0% and 2.0% at 31 December 2021 and 2020, respectively.
- Discount rate: The Group used discount rates of 9.5% and 11.6% at 31 December 2021 and 2020, respectively, considering the corresponding pre-tax WACC for similar industries and reflecting current market assessments of the time value of money and specific risks.

  The carrying amounts of goodwill and other intangible assets with indefinite useful lives related to DMG MORI AG at the end of the fiscal year 2021 (31 December 2021) were ¥47,020 million ($408,839 thousand) in the Machine Tools segment and ¥54,700 million ($475,614 thousand) in the Industrial Services segment, and the recoverable amount of goodwill and other intangible assets with indefinite useful lives at the end of the fiscal year 2021 (31 December 2021) and the fiscal year 2020 (31 December 2020) exceeded the corresponding carrying amounts by ¥54,970 million ($477,964 thousand) and ¥12,410 million in the Machine Tools segment and ¥140,259 million ($1,219,541 thousand) and ¥25,376 million in the Industrial Services segment, respectively.

However, key assumptions used to calculate value in use may change within reasonable range in the future, and, as a result, the recognition of impairment loss may be required in some cases. If we assume that the discount rate and perpetual growth rate for the Machine Tools segment had changed by 2.6% and (4.0)% respectively at the end of the fiscal year 2021, it is possible that the recoverable amount would have fallen under the carrying amount. In addition, if we assume that the discount rate and perpetual growth rate for the Industrial Services segment had changed by 11.7% and (39.4)% respectively at the end of the fiscal year 2021, it is possible that the recoverable amount would have fallen under the carrying amount.

The recoverable amount of goodwill allocated to the other groups of CGUs is measured by the value in use. The value in use is calculated as the present value of the estimated future cash flows of each group of CGUs discounted at a discount rate. The value in use for goodwill allocated to the other groups of CGUs currently exceeds the carrying amounts and the Group believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the groups of CGUs.

12. Other Financial Assets

The breakdown of other financial assets as of 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Financial assets measured at amortized cost:			
Other financial assets including loans	**¥ 8,382**	¥ 8,249	**$ 72,887**
Financial assets measured at fair value through other comprehensive income			
Other financial assets (Equities)	**18,256**	12,412	**158,734**
Financial assets measured at fair value through profit:			
Derivative assets	**907**	227	**7,893**
Total	**27,546**	20,890	**239,515**
Current assets	**¥ 5,557**	¥ 4,254	**$ 48,319**
Non-current assets	**21,989**	16,636	**191,195**
Total	**¥ 27,546**	¥ 20,890	**$ 239,515**

13. Investments in Associates

The carrying amount of the Group's investments in associates as of 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Carrying amount of investments in associates	**¥ 5,704**	¥ 5,222	**$ 49,603**

Profit and other comprehensive income attributable to the Group are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Profit attributable to the Group	**¥ 30**	¥ (526)	**$ 269**
Other comprehensive income attributable to the Group	**6**	13	**57**
Total	**¥ 37**	¥ (512)	**$ 326**

14. Trade and Other Payables

The breakdown of trade and other payables as of 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Trade payables	**¥ 27,100**	¥ 28,373	**$ 235,638**
Other payables	**12,235**	11,159	**106,382**
Others	**14,833**	8,375	**128,978**
Total	**¥ 54,169**	¥ 47,908	**$ 470,999**

15. Interest-bearing Bonds and Borrowings

(1) The breakdown of interest-bearing bonds and borrowings as of 31 December 2021 and 2020 is as follows:

	Millions of yen				*Thousands of U.S. dollars*
	2021	2020	Average interest rate (%) (Note)	Maturity (Note)	**2021**
Financial liabilities measured at amortized cost:					
Short-term borrowings	**¥ 270**	¥ 22,000	0.625	-	**$ 2,351**
Long-term borrowings due within one year	**-**	5,000	-	-	**-**
Long-term borrowings (excluding those due within one year)	**45,442**	55,438	0.196	2023-2025	**395,120**
Interest-bearing bonds due within one year	**9,989**	9,992	0.120	-	**86,857**
Interest-bearing bonds (excluding those due within one year)	**39,690**	9,974	-	2022-2024	**345,104**
Total	**¥ 95,393**	¥ 102,406			**$ 829,433**
Current liabilities	**¥ 10,259**	¥ 36,993			**$ 89,209**
Non-current liabilities	**85,133**	65,413			**740,224**
Total	**¥ 95,393**	¥ 102,406			**$ 829,433**

(Note) Average interest rate and maturity are based on the respective information at the end of fiscal year 2021.

(2) Euro-yen denominated convertible bonds

In July 2021, the Company raised funds of ¥40 billion ($347 million) in total through the euro-yen denominated convertible bonds due 2024 (the “Bonds”).

On the consolidated statement of financial position as of the payment date, the fair value of the liability portion of the Bonds was recorded in “Interest-bearing bonds and borrowings (non-current)” and the remaining amount after deducting the fair value of the liability portion from the paid-in amount was recorded in “Other components of equity.”

Overview of the Bonds

1)	Name	Euro-yen denominated convertible bonds due 2024
2)	Total amount of the Bonds	¥40 billion ($347 million)
3)	Issue price/redemption price	100% / 100%
4)	Offer price	102.50%
5)	Interest rate	0.00%
6)	Payment date	16 July 2021
7)	Redemption date	16 July 2024
8)	Exceeding rate/conversion price	30.04% / ¥2,593
9)	Early redemption conditions	Early redemption may be permitted if the sum of the par value of the remaining bonds falls below 10% of the total par value of the bonds at the time of issuance, or in the event of a change in taxation. In addition, in case of special events such as reorganization, delisting, etc., the early redemption obligation arises.
10)	Call option clause	On or after 16 January 2024, if the closing price of the Company's common stock is 130% or more of the conversion price for a period of at least 20 consecutive trading days, the Company may, upon prior notice, exercise an early redemption of all (but not part) the remaining Bonds at a price equal to 100% of their par value.
11)	Conversion price adjustment clause	After the issuance of the Bonds, the conversion price will be adjusted in the event of a below-market issuance of the Company's shares, a share split or consolidation of shares, or a special dividend.
12)	Cross default clause	There is a clause that states that the Bonds will lose the benefit of time in the event of default on obligations over ¥0.5 billion owed by the Company or its major subsidiaries.
13)	Security setting restriction clause	There is a clause that states that the Company will not pledge the assets of the Company or its major subsidiaries to make payments on foreign bonds as long as the Bonds remain outstanding (except in cases where the same security is pledged to the Bonds in advance or at the same time).

16. Other Financial Liabilities

The breakdown of other financial liabilities as of 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Financial liabilities measured at amortized cost:			
Payment obligation for external shareholders *(Note 1)*	**¥ 53,876**	¥ 51,976	**$ 468,447**
Preferred shares *(Note 2)*	**14,957**	14,915	**130,056**
Other financial liabilities (Lease liabilities, etc.)	**26,893**	25,941	**233,834**
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	**1,356**	394	**11,798**
Total	**¥ 97,084**	¥ 93,227	**$ 844,137**
Current liabilities	**¥ 74,677**	¥ 58,085	**$ 649,316**
Non-current liabilities	**22,406**	35,142	**194,820**
Total	**¥ 97,084**	¥ 93,227	**$ 844,137**

(Note 1) The payment obligation for external shareholders arose from the DPLTA. For details, please refer to *Note 34* “Domination and Profit and Loss Transfer Agreement.”

(Note 2) One consolidated subsidiary of the Group issued preferred shares. The preferred shares cannot be converted to corporate bonds and instead, the subsidiary shall redeem the shares by the end of December 2022. Considering the contractual conditions, the consolidated subsidiary classifies these shares as financial liabilities. The shares are cumulative preferred shares and the annual dividend rate is based on the Japanese-yen TIBOR (6 months). The subsidiary shall be liable for any unpaid dividends with the amount carried forward to the next fiscal year in the event that the consolidated subsidiary does not fully pay the dividend based on the annual rate.

17. Leases

(1) Income and expenses from lease transactions

The table below shows income and expenses from lease transactions.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Depreciation of right-of-use assets			
Land, buildings, and structures	**¥ 2,006**	¥ 1,902	**$ 17,445**
Machinery and vehicles	**1,892**	2,045	**16,457**
Tools, furniture, and fixtures	**1,507**	1,479	**13,106**
Total	**5,406**	5,427	**47,009**
Lease expense from exemption of short-term leases	**1,338**	1,287	**11,641**
Lease expense from exemption of low-value assets	**251**	255	**2,190**
Interest expense for lease liabilities	**¥ 425**	¥ 440	**$ 3,704**

The table below shows the total cash outflow from lease transactions.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Total cash outflow from lease transactions	**¥ 6,035**	¥ 5,780	**$ 52,479**

(2) Variable lease payments (lessee)

No variable lease payment is planned at the end of the fiscal year 2021.

(3) Options to extend or terminate (lessee)

Each group company is responsible for the operation of leases. Therefore, lease conditions are negotiated individually, and the contractual terms and conditions vary widely.

Options to extend are mainly related to leases for buildings, and structures, and exercised by a lease contractor if necessary.

No payment associated with options to cancel is planned at the end of the fiscal year 2021.

(4) Residual value guarantees (lessee)

No payment associated with residual value guarantees is planned at the end of the fiscal year 2021.

(5) Sale and leaseback transactions (lessee)

For effective use of owned assets, the Group sold and monetized a part of buildings and structures during the fiscal year 2021. The table below shows profit or loss from sale and leaseback transactions.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Gain or loss from sale and leaseback transactions	**¥ 32**	¥ (177)	**$ 280**

(6) Increase in right-of-use assets

The table below shows an increase in right-of-use assets.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Increase in right-of-use assets	**¥ 8,115**	¥ 7,501	**$ 70,562**

(7) Carrying amount of right-of-use assets

The table below shows the carrying amount of right-of-use assets.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Land, buildings, and structures	**¥ 17,077**	¥ 13,430	**$ 148,489**
Machinery and vehicles	**3,011**	4,030	**26,182**
Tools, furniture, and fixtures	**2,010**	2,332	**17,476**
Total	**¥ 22,099**	¥ 19,792	**$ 192,148**

18. Retirement Benefits

The Company and its consolidated subsidiaries have established funded and unfunded defined benefit pension plans and defined contribution pension plans. In addition to the above, certain consolidated subsidiaries participate in a small- and medium-sized enterprise mutual aid plan.

(1) Defined benefit plans

1. Defined contribution plans adopted in Japan as post-employment benefits
   The Company and almost all of its consolidated subsidiaries in Japan have established defined contribution pension plans. Some of the consolidated subsidiaries in Japan have established defined benefit pension plans.
2. Defined benefit plans of overseas subsidiaries as post-employment benefits
   Overseas consolidated subsidiaries, mainly in Germany and Switzerland, have primarily established defined benefit plans for post-employment benefits. The contributions to these plans are determined based on the employee's length of service, salary level and other factors depending on general laws, economic conditions and taxation regulations of the respective countries. These plans expose the Group to the risks arising from fluctuations in interest rates, market and foreign exchanges rates, as well as actuarial differences due to changes in estimations, such as average life expectancy.

Assets and liabilities of defined benefit plans recognized in the consolidated statement of financial position as of 31 December 2021 and 2020 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Present value of defined benefit obligations	**¥ 9,086**	¥ 9,281	**$ 79,005**
Fair value of plan assets	**(3,905)**	(3,463)	**(33,961)**
Funded status	**5,180**	5,817	**45,043**
Net defined benefit liabilities	**5,180**	5,817	**45,043**
Amounts in consolidated statement of financial position:			
Net employee defined benefit liabilities	**¥ 5,180**	¥ 5,817	**$ 45,043**

Costs of defined benefit plans recognized in the consolidated statements of profit or loss for the fiscal years 2021 and 2020 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Current service cost	**¥ 101**	¥ 151	**$ 880**
Past service cost	**35**	63	**306**
Subtotal of operating costs	**136**	214	**1,186**
Net interest cost	**38**	34	**333**
Subtotal of financial costs	**38**	34	**333**
Total	**¥ 174**	¥ 249	**$ 1,520**

The movement in the present value of defined benefit obligations for the fiscal years 2021 and 2020 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Beginning balance	**¥ 9,281**	¥ 8,905	**$ 80,698**
Pension cost charged to profit or loss:			
Current service cost	**101**	151	**880**
Past service cost	**35**	63	**306**
Interest cost	**43**	51	**381**
Subtotal	**180**	266	**1,568**
Remeasurement (gains) losses in other comprehensive income:			
Actuarial gains and losses arising from changes in demographic assumptions	**(105)**	-	**(916)**
Actuarial gains and losses arising from changes in financial assumptions	**(329)**	(126)	**(2,864)**
Actuarial gains and losses arising from experience adjustments	**(8)**	20	**(70)**
Subtotal	**(443)**	(106)	**(3,851)**
Other:			
Benefits paid	**(457)**	(713)	**(3,980)**
Contributions to the plan by participants	**38**	40	**337**
Increase due to acquisition of consolidated subsidiaries	**-**	636	**-**
Exchange differences on translation of foreign operations	**313**	251	**2,727**
Other	**173**	-	**1,505**
Subtotal	**67**	214	**590**
Ending balance	**¥ 9,086**	¥ 9,281	**$ 79,005**

The movement in the fair value in the plan assets for the fiscal years 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Beginning balance	**¥ 3,463**	¥ 3,310	**$ 30,114**
Amount recognized in profit or loss:			
Interest income	**5**	17	**47**
Subtotal	**5**	17	**47**
Amount recognized in other comprehensive income:			
Remeasurements of fair value of plan assets			
Return on plan assets	**100**	47	**875**
Actuarial gains and losses arising from experience adjustments	**-**	-	**-**
Subtotal	**100**	47	**875**
Other:			
Contributions to the plan by the employer	**430**	420	**3,740**
Benefits paid	**(437)**	(664)	**(3,808)**
Contributions to the plan by participants	**25**	22	**220**
Increase due to acquisition of consolidated subsidiaries	**-**	191	**-**
Exchange differences on translation of foreign operations	**147**	118	**1,285**
Other	**170**	-	**1,486**
Subtotal	**336**	88	**2,923**
Ending balance	**¥ 3,905**	¥ 3,463	**$ 33,961**

(Note) The Group expects to contribute ¥453 million ($3,938 thousand) to its defined benefit pension plans for the year ending 31 December 2022.

Significant actuarial assumptions used for the calculation of the present value of defined benefit obligations are as follows:

	2021	2020
Discount rates (%)	**0.29-2.93**	0.25-2.43
Rate of increase in benefits paid (%)	**1.41-1.70**	0.00-1.70

(Note) The weighted average durations of the defined benefit obligation as of 31 December 2021 and 2020 were 13.8 years and 14.3 years, respectively.

The sensitivity analysis does not consider correlations between assumptions, assuming that all other assumptions are held constant. In practice, changes in some of the assumptions may occur in a correlated manner. When calculating the sensitivity of the defined benefit obligations, the same method has been applied as when calculating the defined benefit obligations in the consolidated statement of financial position.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Discount rate:			
0.25% increase	**¥ (231)**	¥ (254)	**$ (2,011)**
0.25% decrease	**250**	266	**2,175**
Changes in rate of increase in benefits paid:			
0.25% increase	**159**	183	**1,390**
0.25% decrease	**¥ (149)**	¥ (179)	**$ (1,301)**

The breakdown of the fair value of plan assets as of 31 December 2021 and 2020 is as follows:

	Millions of yen		
	2021		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	**¥ 27**	**¥ -**	**¥ 27**
Equities	**533**	**-**	**533**
Bonds	**623**	**-**	**623**
Real estate	**324**	**-**	**324**
Insurance	**-**	**2,315**	**2,315**
Other	**-**	**81**	**81**
Total	**¥ 1,509**	**¥ 2,396**	**¥ 3,905**

	Thousands of U.S. dollars		
	2021		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	**$ 237**	**$ -**	**$ 237**
Equities	**4,641**	**-**	**4,641**
Bonds	**5,424**	**-**	**5,424**
Real estate	**2,821**	**-**	**2,821**
Insurance	**-**	**20,129**	**20,129**
Other	**-**	**707**	**707**
Total	**$ 13,124**	**$ 20,836**	**$ 33,961**

	Millions of yen		
	2020		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	¥ 23	¥ -	¥ 23
Equities	374	-	374
Bonds	654	-	654
Real estate	284	-	284
Insurance	-	2,048	2,048
Other	-	78	78
Total	¥1,336	¥ 2,126	¥ 3,463

The investment strategy of the global pension assets in the Group is based on the goal of assuring pension payments over the long term. In Germany, plan assets mainly comprise insurance contracts and are held by a legally separate and independent entity whose sole purpose is to hedge and finance employee benefit liabilities. In Switzerland, external plan assets are invested in a traditional pension fund. Plan assets in Switzerland are subject to customary minimum funding requirements.

(2) Defined contribution plans

The expenses related to the defined contribution plans charged to profit or loss for the fiscal years 2021 and 2020 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Expenses for defined contribution plans	**¥ 2,555**	¥ 2,814	**$ 22,222**

19. Provisions

The movement in provisions for the fiscal years 2021 and 2020 is as follows:

	Millions of yen				
	2021				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	**¥ 8,099**	**¥ 7,041**	**¥ 13,939**	**¥ 9,521**	**¥ 38,601**
Increase	**9,504**	**5,505**	**11,425**	**3,119**	**29,554**
Decrease due to intended use	**(7,742)**	**(1,337)**	**(7,824)**	**(1,215)**	**(18,120)**
Reversal	**(882)**	**(780)**	**(1,825)**	**(920)**	**(4,408)**
Increase due to passage of time	**-**	**-**	**(1)**	**5**	**4**
Increase due to business combinations	**-**	**-**	**-**	**-**	**-**
Exchange differences on translation of foreign operations	**252**	**375**	**351**	**(196)**	**783**
Ending balance	**¥ 9,231**	**¥ 10,804**	**¥ 16,064**	**¥ 10,314**	**¥ 46,415**

	Thousands of U.S. dollars				
	2021				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	**$ 70,424**	**$ 61,226**	**$ 121,199**	**$ 82,786**	**$ 335,637**
Increase	**82,641**	**47,868**	**99,346**	**27,119**	**256,976**
Decrease due to intended use	**(67,323)**	**(11,632)**	**(68,035)**	**(10,564)**	**(157,556)**
Reversal	**(7,673)**	**(6,788)**	**(15,871)**	**(7,999)**	**(38,332)**
Increase due to passage of time	**-**	**-**	**(12)**	**51**	**39**
Increase due to business combinations	**-**	**-**	**-**	**-**	**-**
Exchange differences on translation of foreign operations	**2,194**	**3,267**	**3,054**	**(1,705)**	**6,810**
Ending balance	**$ 80,262**	**$ 93,941**	**$ 139,681**	**$ 89,687**	**$ 403,574**

	Millions of yen				
	2020				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	¥ 7,556	¥ 6,832	¥ 16,225	¥ 9,344	¥ 39,958
Increase	7,901	2,592	9,680	3,623	23,797
Decrease due to intended use	(7,078)	(1,670)	(10,414)	(2,187)	(21,350)
Reversal	(422)	(730)	(1,885)	(1,411)	(4,449)
Increase due to passage of time	-	-	(1)	36	34
Increase due to business combinations	-	-	208	-	208
Exchange differences on translation of foreign operations	143	17	127	115	403
Ending balance	¥ 8,099	¥ 7,041	¥ 13,939	¥ 9,521	¥ 38,601

The breakdown of provisions as of 31 December 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Current liabilities:			
Provision for product warranties	**¥ 9,231**	¥ 8,099	**$ 80,262**
Provision for sales commissions	**10,449**	6,843	**90,857**
Provision for personnel costs	**11,855**	10,259	**103,086**
Other provisions	**9,006**	8,391	**78,313**
Subtotal	**40,543**	33,593	**352,520**
Non-current liabilities:			
Provision for sales commissions	**354**	198	**3,084**
Provision for personnel costs	**4,208**	3,679	**36,595**
Other provisions	**1,308**	1,129	**11,374**
Subtotal	**5,871**	5,007	**51,053**
Total	**¥ 46,415**	¥ 38,601	**$ 403,574**

Provision for product warranties

Provision for product warranties is calculated based on the actual historical ratio of repair costs as a portion of the corresponding product sales revenues to provide for future repairs during free-of-charge product warranty periods.

Provision for sales commissions

Provision for sales commissions is calculated based on the estimated commissions to be paid to sales dealers.

Provision for personnel costs

Provision for personnel costs mainly consists of a provision for annual paid leaves and bonuses.

The outflows of economic benefits related to provisions included in current liabilities and non-current liabilities are expected within one year from the end of the reporting period and after one year from the end of the reporting period, respectively.

20. Income Taxes

(1) Deferred tax assets and liabilities

The breakdown and movement of deferred tax assets and liabilities by major causes of their occurrence for fiscal years 2021 and 2020 are as follows:

	Millions of yen				
	2021				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	**¥ 1,862**	**¥ (451)**	**¥ -**	**¥ -**	**¥ 1,411**
Property, plant and equipment	**1,292**	**(60)**	**-**	**-**	**1,231**
Inventories	**3,613**	**103**	**-**	**-**	**3,716**
Trade and other receivables	**373**	**34**	**-**	**-**	**407**
Unused tax losses *(Note 2)*	**730**	**737**	**-**	**-**	**1,467**
Provisions	**3,105**	**401**	**-**	**-**	**3,507**
Other	**5,183**	**280**	**-**	**-**	**5,463**
Total	**16,160**	**1,045**	**-**	**-**	**17,206**
Deferred tax liabilities:					
Intangible assets	**(11,303)**	**(118)**	**-**	**-**	**(11,422)**
Property, plant and equipment	**(1,200)**	**256**	**-**	**-**	**(944)**
Financial assets measured at fair value through other comprehensive income	**(1,494)**	**1,318**	**(428)**	**-**	**(604)**
Inventories	**(114)**	**29**	**-**	**-**	**(84)**
Other	**(4,358)**	**41**	**(130)**	**-**	**(4,447)**
Total	**(18,471)**	**1,526**	**(558)**	**-**	**(17,503)**
Net amount	**¥ (2,310)**	**¥ 2,572**	**¥ (558)**	**¥ -**	**¥ (297)**

(Note 1) Exchange differences arising on translation of foreign operations are included.

(Note 2) The cause of deferred tax assets associated with unused tax losses as of 31 December 2021 is non-recurring in nature, and the management assessed that the tax benefit will be realizable based on the forecast of future taxable income in the business plan approved by the Board of Directors of the Company.

	Thousands of U.S. dollars				
	2021				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	**$ 16,195**	**$ (3,924)**	**$ -**	**$ -**	**$ 12,271**
Property, plant and equipment	**11,234**	**(524)**	**-**	**-**	**10,710**
Inventories	**31,419**	**897**	**-**	**-**	**32,316**
Trade and other receivables	**3,246**	**300**	**-**	**-**	**3,547**
Unused tax losses *(Note 2)*	**6,348**	**6,412**	**-**	**-**	**12,761**
Provisions	**27,005**	**3,488**	**-**	**-**	**30,494**
Other	**45,066**	**2,438**	**-**	**-**	**47,504**
Total	**140,516**	**9,089**	**-**	**-**	**149,605**
Deferred tax liabilities:					
Intangible assets	**(98,286)**	**(1,032)**	**-**	**-**	**(99,318)**
Property, plant and equipment	**(10,441)**	**2,231**	**-**	**-**	**(8,210)**
Financial assets measured at fair value through other comprehensive income	**(12,992)**	**11,460**	**(3,724)**	**-**	**(5,256)**
Inventories	**(994)**	**257**	**-**	**-**	**(737)**
Other	**(37,893)**	**357**	**(1,132)**	**-**	**(38,668)**
Total	**(160,607)**	**13,274**	**(4,857)**	**-**	**(152,190)**
Net amount	**$ (20,091)**	**$ 22,363**	**$ (4,857)**	**$ -**	**$ (2,584)**

(Note 1) Exchange differences arising on translation of foreign operations are included.

(Note 2) The cause of deferred tax assets associated with unused tax losses as of 31 December 2021 is non-recurring in nature, and the management assessed that the tax benefit will be realizable based on the forecast of future taxable income in the business plan approved by the Board of Directors of the Company.

	Millions of yen				
	2020				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	¥ 1,876	¥ (13)	¥ -	¥ -	¥ 1,862
Property, plant and equipment	1,328	(36)	-	-	1,292
Inventories	3,686	(72)	-	-	3,613
Trade and other receivables	2,126	(287)	-	(1,465)	373
Unused tax losses *(Note 2)*	732	(2)	-	-	730
Provisions	2,147	958	-	-	3,105
Other	4,008	(145)	-	1,319	5,183
Total	15,906	400	-	(146)	16,160
Deferred tax liabilities:					
Intangible assets	(11,172)	(131)	-	-	(11,303)
Property, plant and equipment	(1,443)	242	-	-	(1,200)
Financial assets measured at fair value through other comprehensive income	(1,052)	22	(322)	(141)	(1,494)
Inventories	(201)	87	-	-	(114)
Other	(4,164)	(267)	(72)	146	(4,358)
Total	(18,035)	(45)	(394)	4	(18,471)
Net amount	¥ (2,129)	¥ 354	¥ (394)	¥ (141)	¥ (2,310)

(Note 1) Exchange differences arising on translation of foreign operations are included.

(Note 2) The cause of deferred tax assets associated with unused tax losses as of 31 December 2020 is non-recurring in nature, and the management assessed that the tax benefit will be realizable based on the forecast of future taxable income in the business plan approved by the Board of Directors of the Company.

(2) Unrecognized deferred tax assets

Deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Deductible temporary differences	**¥ 8,235**	¥ 8,523	**$ 71,607**
Unused tax losses	**13,028**	13,637	**113,279**
Unused tax credits	**63**	26	**552**
Total	**¥ 21,327**	¥ 22,188	**$ 185,440**

Unused tax losses and unused tax credits for which no deferred tax asset is recognized will expire as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Unused tax losses			
Year 1	**¥ 620**	¥ 479	**$ 5,398**
Year 2	**1,451**	740	**12,617**
Year 3	**2,195**	2,581	**19,086**
Year 4	**4,189**	2,068	**36,423**
Year 5 or later	**4,572**	7,767	**39,753**
Total	**¥ 13,028**	¥ 13,637	**$ 113,279**
Unused tax credits			
Year 1	**¥ 12**	¥ 14	**$ 111**
Year 2	**17**	12	**150**
Year 3	**33**	-	**291**
Year 4	**-**	-	**-**
Year 5 or later	**-**	-	**-**
Total	**¥ 63**	¥ 26	**$ 552**

(3) Income tax expense

The breakdown of income tax expense recognized for the fiscal years 2021 and 2020 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Current income tax expense	**¥ 6,971**	¥ 4,585	**$ 60,612**
Deferred income tax expense:			
Temporary differences originated and reversed	**(844)**	(1,078)	**(7,343)**
Changes in tax rate or imposition of new taxation	**10**	11	**86**
Change in unused tax losses or temporary differences not recognized in prior years	**241**	(108)	**2,099**
Total	**(593)**	(1,176)	**(5,157)**
Total income taxes	**¥ 6,377**	¥ 3,409	**$ 55,455**

(4) Reconciliation of effective tax rate

The Company is mainly subject to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rate calculated based on these taxes was 30.46% for the fiscal years 2021 and 2020. Foreign subsidiaries are subject to income taxes in their respective jurisdictions.

The reconciliation of the effective statutory tax rate and the average actual tax rates for the fiscal years 2021 and 2020 is as follows:

	2021	2020
Effective statutory tax rate	**30.46%**	30.46%
Non-deductible expenses, such as entertainment expenses	**6.40**	29.84
Tax credits	**(1.40)**	(10.80)
Non-taxable income, such as dividend income	**(0.03)**	(0.58)
Temporary differences arising from investments in associates	**0.66**	3.84
Changes in unrecognized deferred tax assets	**(2.24)**	31.27
Effect of change in applicable tax rates	**0.05**	0.22
Revision of tax amount due to tax system revision	**-**	(7.03)
Net gain/loss on step acquisitions	**-**	(0.42)
Effect of elimination of gain on sales of subsidiaries' stock on consolidation	**(0.05)**	0.75
Effective tax rate difference in overseas consolidated subsidiaries	**(5.27)**	(11.26)
Transfer pricing taxation	**2.67**	3.09
Other	**1.28**	(2.61)
Actual tax rates	**32.53%**	66.77%

21. Equity and Other Equity Items

(1) Number of authorized shares and issued shares

The number of authorized shares and issued shares is as follows:

	Shares	
	2021	2020
Number of authorized shares	**300,000,000**	300,000,000
Number of issued shares:		
At the beginning of the reporting period	**125,953,683**	125,953,683
Increase/(decrease)	**-**	-
At the end of the reporting period	**125,953,683**	125,953,683

(Note) The shares issued by the Company are ordinary shares with no par value. Issued shares are fully paid-in.

(2) Treasury shares

The movement in treasury shares is as follows:

	Shares	
	2021	2020
At the beginning of the reporting period	**1,943,804**	3,295,627
Increase *(Notes 1 and 2)*	**425**	71,402
Decrease *(Notes 1 and 2)*	**960,025**	1,423,225
At the end of reporting period	**984,204**	1,943,804

(Note 1) The increase of 71,402 shares in the number of shares of treasury stock during the previous fiscal year was due to an increase of 70,997 shares resulting from an increase in the number of consolidated subsidiaries and transactions with non-controlling shareholders, and an increase of 405 shares resulting from the purchase of odd-lot shares. The decrease of 1,423,225 shares in the number of shares of treasury stock during the previous fiscal year was due to the sale of 858,300 shares to the Employee Stock Ownership Plan, the decrease of 552,000 shares resulting from the exercise of stock acquisition rights (stock options), and the granting of 12,925 shares of restricted stock.

(Note 2) The increase of 425 shares in the number of shares of treasury stock in the current fiscal year was due to an increase of 425 shares resulting from the purchase of odd-lot shares. The decrease of 960,025 shares in the number of shares of treasury stock in the current fiscal year was due to a decrease of 479,500 shares resulting from the exercise of stock acquisition rights (stock options), the sale of 467,600 shares to the Employee Stock Ownership Plan, and the granting of 12,925 shares of restricted stock.

(Note 3) The number of treasury shares at 31 December 2021 and 2020 includes 499,500 shares and 967,100 shares, respectively, held by The Nomura Trust and Banking Co., Ltd (DMG MORI Employee Shareholders Association Exclusive Trust) for the Trust-Type Employee Stock Ownership Incentive Plan.

(3) Capital surplus and retained earnings

The Companies Act of Japan (the "Companies Act") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus and retained earnings be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of the capital stock account.

(4) Other equity instruments

The Company raised funds in the amounts of ¥40 billion through a perpetual subordinated loan (the "first subordinated loan") and ¥10 billion through perpetual subordinated bonds (the "first subordinated bonds") in September 2016; ¥37 billion through a perpetual subordinated loan (the "second subordinated loan") in August 2020; and ¥8 billion through perpetual subordinated bonds (the "second subordinated bonds") and ¥25 billion through perpetual subordinated bonds (the "third subordinated bonds") in October 2020. In August 2021, the Company raised funds in the amounts of ¥30 billion ($260 million) through perpetual subordinated bonds (the "fourth subordinated bonds") to redeem the first subordinated bonds and repay a part of the first subordinated loan.

Perpetual subordinated loans and perpetual subordinated bonds are deemed to be classified as equity instruments as the Group has the option to defer interest payments and has no obligation to make payments, except in case a liquidation event as defined in the subordinated loan clause occurs. The proceeds from the subordinated loans and the subordinated bonds after deducting issue costs are recorded as "Other equity instruments" under "Equity" in the consolidated statement of financial position.

1. Overview of the First Subordinated Loan

(1)	Name	First subordinated loan
(2)	Amount	¥40 billion
(3)	Lender	Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation
(4)	Execution date	20 September 2016
(5)	Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 20 September 2021 onward, the Group has the option to repay all or part of the principal and no obligation.
(6)	Interest rate	From 20 September 2016 to 20 September 2026: Variable interest based on 6-month Japanese yen TIBOR From 21 September 2026 onward: Variable interest stepped up by 1.00% based on 6-month Japanese yen TIBOR
(7)	Clauses relating to payment of interest	The Group has the option to defer the interest payment and no obligation.
(8)	Subordination clause	The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case a liquidation event defined in the loan contract occurs.

2. Overview of the First Subordinated Bonds

(1) Name — First step-up callable perpetual subordinated unsecured bonds with interest deferral options and optional redemption clause (With Subordinated clause & Eligible institutional investors only)

(2) Amount — ¥10 billion

(3) Execution date — 2 September 2016

(4) Repayment date — No repayment date is specified.
Provided, however, that on each interest payment date from 2 September 2021 onward, the Group has the option to repay all principal (part is not possible).

(5) Interest rate — From 2 September 2016 to 2 September 2021: Fixed interest
From 3 September 2021 onward: Variable interest stepped up by 1.00% based on 6-month euro - yen LIBOR

(6) Clauses relating to payment of interest
The Group has the option to defer the interest payment.

(7) Subordination clause
The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case an event defined in the bond terms such as liquidation occurs.

(8) Replacement restrictions
The Group has right to optional redemption or repurchase of the subordinated bonds, it is assumed that the subordinated bonds are being replaced with equivalent bonds or loans certified by a credit rating agency, that satisfy necessary conditions to be classified as equity instruments.
However, if at any point following five years from the execution date, both of the following conditions are satisfied, it is possible not to refinance with equivalent financial instruments.
(a) Consolidated shareholders' equity after the adjustment is more than ¥151.2 billion.
(b) The consolidated equity ratio after the adjustment is more than 26.8%.
The values stated above shall be calculated according to the following method.
Consolidated shareholders' equity after the adjustment is equal to total equity attributable to owners of parent less other components of equity and other equity instruments.
The consolidated equity ratio after the adjustment is equal to consolidated shareholders' equity after the adjustment as calculated above divided by total assets.

3. Overview of the Second Subordinated Loan

(1) Name — Second subordinated loan

(2) Amount — ¥37 billion

(3) Lender — Sumitomo Mitsui Trust Bank, Limited, Nanto Bank, Ltd., and 8 other banks

(4) Execution date — 31 August 2020

(5) Repayment date — No repayment date is specified.
Provided, however, that on each interest payment date from 29 August 2025 onward, the Group has the option to repay all or part of the principal and no obligation.

(6) Interest rate — From 31 August 2020 to 29 August 2025: Fixed interest
From 30 August 2025 onward: Variable interest stepped up by 1.00% based on 6-month Japanese yen TIBOR

(7) Clauses relating to payment of interest

The Group has the option to defer the interest payment and no obligation.

(8) Subordination clause

The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case a liquidation event defined in the loan contract occurs.

(9) Replacement restrictions

The Group has the right to optional redemption or repurchase of the subordinated loan, it is assumed that the subordinated loan is being replaced with equivalent bonds or loans certified by a credit rating agency, that satisfy necessary conditions to be classified as equity instruments.

However, if at any point following five years from the execution date, both of the following conditions are satisfied, it is possible not to refinance with equivalent financial instruments.

(a) Consolidated shareholders' equity after the adjustment is more than ¥151.2 billion.

(b) The consolidated equity ratio after the adjustment is more than 26.8%.

The values stated above shall be calculated according to the following method.

Consolidated shareholders' equity after the adjustment is equal to total equity attributable to owners of parent less other components of equity and other equity instruments.

The consolidated equity ratio after the adjustment is equal to consolidated shareholders' equity after the adjustment as calculated above divided by total assets.

4. Overview of the Second Subordinated Bonds

(1)	Name	Second step-up callable perpetual subordinated unsecured bonds with interest deferral options and optional redemption clause (With Subordinated Covenant)
(2)	Amount	¥8 billion
(3)	Execution date	29 October 2020
(4)	Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 29 October 2023 onward, the Group has the option to repay all principal (part is not possible) and no obligation.
(5)	Interest rate	From 29 October 2020 to 29 October 2023: Fixed interest From 30 October 2023 onward: Variable interest stepped up by 3.00% based on 6-month euro - yen LIBOR
(6)	Clauses relating to payment of interest	The Group has the option to defer the interest payment and no obligation.
(7)	Subordination clause	The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case a liquidation event defined in the bond terms occurs.
(8)	Replacement restrictions	None

5. Overview of the Third Subordinated Bonds

(1)	Name	Third step-up callable perpetual subordinated unsecured bonds with interest deferral options and optional redemption clause (With Subordinated Covenant)
(2)	Amount	¥25 billion
(3)	Execution date	29 October 2020
(4)	Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 29 October 2027 onward, the Group has the option to repay all principal (part is not possible) and no obligation.
(5)	Interest rate	From 29 October 2020 to 29 October 2027: Fixed interest From 30 October 2027 onward: Variable interest stepped up by 3.00% based on 6-month euro - yen LIBOR
(6)	Clauses relating to payment of interest	The Group has the option to defer the interest payment and no obligation.
(7)	Subordination clause	The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case a liquidation event defined in the bond terms occurs.
(8)	Replacement restrictions	None

6. Overview of the Fourth Subordinated Bonds

(1)	Name	Fourth step-up callable perpetual subordinated unsecured bonds with interest deferral options and optional redemption clause (With Subordinated Covenant)
(2)	Amount	¥30 billion ($260 million)
(3)	Execution date	31 August 2021
(4)	Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 31 August 2026 onward, the Group has the option to repay all principal (part is not possible) and no obligation.
(5)	Interest rate	From 31 August 2021 to 31 August 2026: Fixed interest From 1 September 2026 onward: Variable interest stepped up by 1.00% based on 1-year Japanese government bonds

(6) Clauses relating to payment of interest

The Group has the option to defer the interest payment and no obligation.

(7) Subordination clause

The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case a liquidation event defined in the bond terms occurs.

(8) Replacement restrictions

The Group has right to optional redemption or repurchase of the subordinated bonds, it is assumed that the subordinated bonds are being replaced with equivalent bonds or loans certified by a credit rating agency, that satisfy necessary conditions to be classified as equity instruments.

However, if at any point following five years from the execution date, both of the following conditions are satisfied, it is possible not to refinance with equivalent financial instruments.

(a) Consolidated shareholders' equity after the adjustment is more than ¥151.2 billion.

(b) The consolidated equity ratio after the adjustment is more than 26.8%.

The values stated above shall be calculated according to the following method.

Consolidated shareholders' equity after the adjustment is equal to total equity attributable to owners of parent less other components of equity and other equity instruments.

The consolidated equity ratio after the adjustment is equal to consolidated shareholders' equity after the adjustment as calculated above divided by total assets.

7. Discretionary interest payments for other equity instruments

The following payments on the other equity instruments were made for the fiscal years 2021 and 2020:

		Payment amount	
		2021	
Category	Payment date	*Millions of yen*	*Thousands of U.S. dollars*
The first subordinated loan	22 March 2021	**¥ 439**	**$ 3,818**
	21 September 2020	**20,448**	**177,797**
The second subordinated loan	26 February 2021	**181**	**1,577**
	31 August 2021	**188**	**1,639**
The first subordinated bonds	1 March 2021	**93**	**808**
	2 September 2021	**10,093**	**87,757**
The second subordinated bonds	28 April 2021	**40**	**347**
	28 October 2021	**40**	**347**
The third subordinated bonds	28 April 2021	**300**	**2,608**
	28 October 2021	**300**	**2,608**

		Payment amount
		2020
Category	Payment date	*Millions of yen*
The first subordinated loan	23 March 2020	¥ 451
	23 September 2020	448
The first subordinated bonds	28 February 2020	93
	1 September 2020	93

The balance of other equity instruments at the end of the fiscal year 2021 is as follows:

	Balance	
Category	*Millions of yen*	*Thousands of U.S. dollars*
The first subordinated loan	**¥ 20,000**	**$ 173,897**
The second subordinated loan	**37,000**	**321,711**
The first subordinated bonds	**-**	**-**
The second subordinated bonds	**8,000**	**69,559**
The third subordinated bonds	**25,000**	**217,372**
The fourth subordinated bonds	**30,000**	**260,846**

8. Fixed future payment on other equity instruments

Subsequent to 31 December 2021 and 2020, the following payments were determined before the approval date of the consolidated financial statements:

		Payment amount	
		2021	
Category	Payment date	*Millions of yen*	*Thousands of U.S. dollars*
The fourth subordinated bonds	25 February 2022	**¥ 135**	**$ 1,173**
The second subordinated loan	28 February 2022	**183**	**1,595**
The first subordinated loan	22 March 2022	**221**	**1,921**

		Payment amount
		2020
Category	Payment date	*Millions of yen*
The second subordinated loan	26 February 2021	¥ 181
The first subordinated loan	22 March 2021	439
The first subordinated bonds	1 March 2021	93

9. During the fiscal year 2021, the Company repaid a part of the first subordinated loan and redeemed the first subordinated bonds. The difference of ¥300 million ($2,613 thousand) between the amount of repayment and redemption and the amount of reduction in other equity instruments is recorded as capital surplus. The same amount was transferred from capital surplus to retained earnings.

(5) Other components of equity

The movement in other components of equity is as follows:

	Millions of yen					
	2021					
	Remeasure -ments of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of fair value through OCI financial assets	Stock options	Total
Beginning balance	**¥ -**	**¥ (24,632)**	**¥ 27**	**¥ 3,290**	**¥ 166**	**¥ (21,148)**
Other comprehensive income	**380**	**7,034**	**(473)**	**10,828**	**-**	**17,769**
Treasury shares disposition	**-**	**-**	**-**	**-**	**(132)**	**(132)**
Share-based payments	**-**	**-**	**-**	**-**	**(33)**	**(33)**
Issuance of convertible bonds	**-**	**-**	**-**	**-**	**253**	**253**
Transfer from other components of equity to retained earnings	**(380)**	**-**	**-**	**(3,985)**	**-**	**(4,365)**
Ending balance	**¥ -**	**¥ (17,598)**	**¥ (446)**	**¥ 10,133**	**¥ 253**	**¥ (7,657)**

	Thousands of U.S. dollars					
	2021					
	Remeasure-ments of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of fair value through OCI financial assets	Stock options	Total
Beginning balance	**$ -**	**$ (214,176)**	**$ 235**	**$ 28,608**	**$ 1,445**	**$ (183,887)**
Other comprehensive income	**3,311**	**61,162**	**(4,116)**	**94,150**	**-**	**154,507**
Treasury shares disposition	**-**	**-**	**-**	**-**	**(1,154)**	**(1,154)**
Share-based payments	**-**	**-**	**-**	**-**	**(290)**	**(290)**
Issuance of convertible bonds	**-**	**-**	**-**	**-**	**2,202**	**2,202**
Transfer from other components of equity to retained earnings	**(3,311)**	**-**	**-**	**(34,650)**	**-**	**(37,961)**
Ending balance	**$ -**	**$ (153,013)**	**$ (3,881)**	**$ 88,108**	**$ 2,202**	**$ (66,583)**

	Millions of yen					
	2020					
	Remeasure-ments of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of fair value through OCI financial assets	Stock options	Total
Beginning balance	¥ -	¥ (19,188)	¥ 15	¥ 2,154	¥ 322	¥ (16,695)
Other comprehensive income	87	(5,444)	11	222	-	(5,121)
Treasury shares disposition	-	-	-	-	(152)	(152)
Share-based payments	-	-	-	-	(3)	(3)
Transfer from other components of equity to retained earnings	(87)	-	-	913	-	825
Ending balance	¥ -	¥ (24,632)	¥ 27	¥ 3,290	¥ 166	¥ (21,148)

Descriptions and purposes of other components of equity are explained as follows:

Remeasurements of defined benefit plans

Remeasurements of defined benefit plans comprise actuarial gains and losses.

Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations arising from the translation of the foreign currency financial statements of foreign subsidiaries.

Effective portion of changes in fair value of cash flow hedges

This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

Changes in fair value measurements of fair value through OCI financial assets

This is a valuation difference on fair value through OCI financial assets.

Stock options

The Company has stock option plans and issues stock options under the Companies Act. For details on the conditions and amounts, please refer to *Note 23*, “Share-based Payments.”

In addition, the Company has issued convertible bonds under the Companies Act.

The terms of the agreement and the amounts, etc. involved are described in *Note 15*, “Interest-bearing Bonds and Borrowings.”

22. Dividends

(1) Dividends paid

Dividends paid for the fiscal years 2021 and 2020 are as follows:

		2021			
Resolution	Class of shares	Total dividends *(Millions of yen)* *(Thousands of U.S. dollars)*	Dividends per share *(Yen)* *(U.S. dollars)*	Record date	Effective date
Annual general meeting of shareholders held on 29 March 2021	Ordinary shares	**¥ 1,250** **$ 10,876**	**¥ 10** **$ 0.08**	31 December 2020	30 March 2021
Board of Directors meeting held on 5 August 2021	Ordinary shares	**¥ 1,253** **$ 10,901**	**¥ 10** **$ 0.08**	30 June 2021	10 September 2021

(Note 1) The amount of dividends based on Annual general meeting of shareholders held on 29 March 2021 includes ¥9 million ($84 thousand) of dividends paid to the exclusive trust account of "DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

(Note 2) The amount of dividends based on Board of Directors meeting held on 5 August 2021 includes ¥6 million ($58 thousand) of dividends paid to the exclusive trust account of "DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

		2020			
Resolution	Class of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Record date	Effective date
Annual general meeting of shareholders held on 24 March 2020	Ordinary shares	¥ 3,739	¥ 30	31 December 2019	25 March 2020
Board of Directors meeting held on 27 August 2020	Ordinary shares	¥ 1,248	¥ 10	30 June 2020	18 September 2020

(Note 1) The amount of dividends based on Annual general meeting of shareholders held on 24 March 2020 includes ¥54 million of dividends paid to the exclusive trust account of "DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

(Note 2) The amount of dividends based on Board of Directors meeting held on 27 August 2020 includes ¥12 million of dividends paid to the exclusive trust account of "DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

(2) Dividends whose record date is in the fiscal year 2021 but whose effective date is in the following fiscal year are as follows:

		2021			
Resolution	Class of shares	Total dividends *(Millions of yen)* *(Thousands of U.S. dollars)*	Dividends per share *(Yen)* *(U.S. dollars)*	Record date	Effective date
Annual general meeting of shareholders held on 22 March 2022	Ordinary shares	**¥ 3,767**	**¥ 30**	31 December 2021	23 March 2022
		$ 32,755	**$ 0.26**		

(Note) The amount of dividends based on the annual general meeting of shareholders held on 22 March 2022 includes ¥14 million ($130 thousand) of dividends paid to the exclusive trust account of DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

		2020			
Resolution	Class of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Record date	Effective date
Annual general meeting of shareholders held on 29 March 2021	Ordinary shares	¥ 1,250	¥ 10	31 December 2020	30 March 2021

(Note) The amount of dividends based on the annual general meeting of shareholders held on 29 March 2021 includes ¥9 million of dividends paid to the exclusive trust account of DMG MORI Co., Ltd. Employee Shareholders Association Exclusive Trust," which is held by The Nomura Trust and Banking Co., Ltd.

23. Share-based Payments

The Group has introduced stock options, restricted stock compensation plan, and trust-type employees stock ownership incentive plan as share-based payments.

The share-based payments provide incentives to enhance the medium- to long-term corporate value of the Group as well as to promote the strengthening of business performance by raising awareness of the Group's business performance and share price of the Company.

(1) Description of stock options

1. Outline of stock options

The Company grants stock options as equity-settled share-based payments to its executive officers and certain of its and its consolidated subsidiaries' employees, in order to raise their motivation for enhancing the corporate value of the Company and secure talented personnel.

The outline of stock option plan is as follows:

Issuer	The Company (DMG MORI CO., LTD.)	
Date of resolution at the Board of Directors Meeting	13 September 2016	
Grantees (person)	Corporate officers of the Company	20
	Employees of the Company	75
	Executive officers of the Company's subsidiaries	15
	Employees of the Company's subsidiaries	49
Class and number of granted shares	Common stock, 2,410,000 shares	
Grant date	30 September 2016	
Vesting conditions	Continuous service with the Company or its subsidiaries in the state of being employed or entrusted from the grant date (30 September 2016) to the vesting date (13 September 2018)	
Service period	From 30 September 2016 to 13 September 2018	
Exercisable period	From 14 September 2018 to 13 September 2021	

2. Changes in the number of shares for outstanding stock options (100 shares per 1 option)

	Shares	
	2021	2020
Beginning balance	**600,000**	1,166,000
Granted	**-**	-
Expired	**(120,500)**	(14,000)
Exercised	**(479,500)**	(552,000)
Ending balance	**-**	600,000
Exercisable outstanding balance at the reporting date	**-**	600,000

(Note) The weighted-average share prices of stock options at the time of exercise were ¥1,780 ($15.47) and ¥1,531 for the fiscal years 2021 and 2020, respectively.

3. Measurement approach for fair value of stock options

The fair value of stock options has been estimated using the Black-Scholes model. The fair value and assumptions used in the calculation are as follows:

	Granted on 30 September 2016 (Decided on 13 September 2016)
Issue price per options (Yen)	27,700
Share price at the grant date (Yen)	1,042
Exercise price of the option (Yen)	1,090
Expected volatility of the share price (%)	47.724
Expected remaining life of the option (years)	3.46
Expected dividend yield (%)	2.495
Risk-free interest rate for the remaining life of the option (%)	(0.267)

The exercise price shall be the amount that is equal to the average of the daily closing prices (excluding days on which no transactions are established) of common stock of the Company in regular transactions at the Tokyo Securities Exchange during the calendar month immediately prior to the month in which the grant date of the stock acquisition rights belongs, multiplied by 1.05, and any fraction less than one yen resulting therefrom shall be rounded down; provided, however, that in the event that this amount is less than the closing price of common stock of the Company in regular transactions at the Tokyo Securities Exchange as of the grant date (the closing price on the day immediately preceding the grant date if no transactions are established on the grant date), the relevant closing price shall be the exercise price.

The expected volatility of the share price is calculated based on past weekly share prices corresponding to the remaining life of the option.

The Company has adjusted the exercise price of the options granted on 30 September 2016 from ¥1,121 to ¥1,090 due to disposal of treasury shares at a price below the market price, for which the payment due date was 31 March 2017.

(2) Description of restricted stock compensation plan

1. Restricted stock compensation plan introduced by the Company

(i) Granted on 6 April 2018

The Company has introduced a restricted stock compensation plan (the "Plan") as equity-settled share-based payment since the fiscal year 2018 for the Company's executive directors excluding outside directors (the "Eligible Directors"), for the purpose of further promoting shared value with shareholders and providing an incentive to sustainably increase the Company's corporate value.

For introducing the Plan, the Company and each of the Eligible Directors have made an arrangement on allotment of restricted stocks, which includes (1) prohibiting the shares from being transferred or pledged to a third party or otherwise disposed of in any manner during a certain specified period and (2) allowing the Company to reclaim the shares at no cost under certain specified circumstances. This transfer restriction period is 30 years and the transfer restriction is lifted for all shares held by Eligible Directors when the transfer restriction period expires, on the condition that the Eligible Directors continue to hold a position of director, executive officer not concurrently serving as director, audit & supervisory board member, employee or fellow, or any other equivalent position of the Company during the transfer restriction period. The fair value of the restricted stock is measured based on the observable market price.

	2018
Grant date	6 April 2018
Class and number of granted shares	Common stock 153,400
Fair value as of grant date (Yen)	1,954

(ii) Granted on 21 December 2021

The Company has introduced a restricted stock compensation plan (the "Plan") as equity-settled share-based payment since the fiscal year 2021 for the Company's executive officers and employees (the "Officers and Employees") for the purpose of providing an incentive to sustainably increase the Company's corporate value.

For introducing the Plan, the Company and each of the eligible Officers and Employees have made an arrangement on allotment of restricted stocks, which includes (1) prohibiting the shares of DMG MORI AG from being transferred or pledged to a third party or otherwise disposed of in any manner during a certain specified period and (2) allowing the Company to reclaim the shares at no cost under certain specified circumstances. As a rule, the vesting period shall be 10 years, and the transfer restriction period is from the grant date of the relevant common stock to the date of retirement of the eligible Officers and Employees, and the transfer restriction is lifted for all shares held by the eligible Officers and Employees when the transfer restriction period expires, on condition that the eligible Officers and Employees continue to hold positions of Officers and Employees in the Company during the transfer restriction period, and that the vesting period has been completed by the point at which they retire. The fair value of the restricted stock is measured based on the observable market price.

	2021
Grant date	**21 December 2021**
Class and number of granted shares	**Common stock of DMG MORI AG 785,700**
Fair value as of grant date (Euro)	**41.89**

2. Restricted stock compensation plan issued by Taiyo Koki Co., Ltd.

Taiyo Koki Co., Ltd. (“Taiyo Koki”), one of DMG MORI CO., LTD.’s consolidated subsidiaries, has introduced a restricted stock compensation plan (the “Plan”) as equity-settled share-based payment since 2018 for Taiyo Koki’s executive directors excluding outside directors (the “eligible directors”) and employee, for the purpose of raising their motivation and providing an incentive to sustainably enhance the corporate value.

(i) Granted on 27 March 2018

For introducing the Plan, Taiyo Koki and each eligible directors and employees have made an arrangement on allotment of restricted stocks, which includes (1) the eligible directors and employees must not transfer, create a security interest on, or otherwise dispose of Taiyo Koki’s common shares allotted by an arrangement on allotment of restricted shares during a specified period, and (2) Taiyo Koki will take back the allotted shares without cost in case that certain events happen. The restricted period on stock transfer is 40 years. This compensation vests as of the time of expiration of the restricted period under the condition where the eligible directors and employees hold positions in Taiyo Koki throughout the restricted period. The fair value of the restricted stock is measured based on the observable market price.

	2018
Grant date	27 March 2018
Number of shares granted	Common stock of Taiyo Koki Co., Ltd. 25,900
Fair value as of grant date (Yen)	2,565

(ii) Granted on 11 June 2020

For introducing the plan, the company and each eligible director and employee have made an arrangement on allotment of restricted stocks, which includes (1) the eligible directors and employees must not transfer, create a security interest on, or otherwise dispose of the company’s common shares allotted by an arrangement on allotment of restricted shares during a specified period, and (2) the company will take back the allotted shares without cost in case that certain events happen. The restricted period on stock transfer is 40 years for eligible directors and employees (executive officers), and 2 years and 2 months for eligible employees (managers). This compensation vests as of the time of expiration of the restricted period under the condition where the eligible directors and employees (executive officers and managers) hold positions in the company throughout the restricted period.

The fair value of the restricted stock is measured based on the observable market price.

	2020
Grant date	11 June 2020
Number of shares granted	Common stock of Taiyo Koki Co., Ltd. 26,800
Fair value as of grant date (Yen)	979

(iii) Granted on 24 March 2021

For introducing the plan, the company and each eligible director have made an arrangement on allotment of restricted stocks, which includes (1) the eligible directors must not transfer, create a security interest on, or otherwise dispose of the company’s common shares allotted by an arrangement on allotment of restricted shares during a specified period, and (2) the company will take back the allotted shares without cost in case that certain events happen. The restricted period on stock transfer is 40 years. This

compensation vests as of the time of expiration of the restricted period under the condition where the eligible directors hold positions in the company throughout the restricted period.
The fair value of the restricted stock is measured based on the observable market price.

	2021
Grant date	**24 March 2021**
Number of shares granted	**Common stock of Taiyo Koki Co., Ltd. 4,700**
Fair value as of grant date (Yen)	**1,238 ($10.76)**

(3) Description of trust-type employee stock ownership incentive plan

The Company has implemented a trust-type employee stock ownership incentive plan ("the Incentive Plan") as cash-settled share-based payment since the fiscal year 2018 to provide incentives for its employees to enhance the medium- to long-term corporate value of the Company.

The Incentive Plan is available to all employees who belong to the DMG MORI Employee Shareholders Association ("the Association"). Under the Incentive Plan, the Company sets up a trust – DMG MORI Employee Shareholders Association Exclusive Trust ("the Exclusive Trust") – through a trust bank. The Exclusive Trust estimates the number of shares that the Association is likely to acquire in the future and purchases this amount during the acquisition period set in advance. Then the Exclusive Trust will sell the Company's shares to the Association on the same date every month. The Exclusive Trust will continuously sell the Company's shares to the Association, and if an amount equivalent to net gains on the Company's shares has accumulated in the Exclusive Trust when the trust period expires, such money will be distributed as residual assets to members of the Association who meet beneficiary eligibility criteria. This distribution is cash-settled transaction and the fair value of the liability is measured on every reporting date at the discounted present value of estimated cash flows as of the end of the trust period in accordance with the provisions in the trust contract.

The fair value of the Incentive Plan has been estimated using the Monte-Carlo method. The fair value and assumptions used in the calculation are as follows:

	2021	2020
Share price (Yen)	**1,977 ($17.19)**	¥1,569
Remaining shares	**499,500**	967,100
Expected volatility of the share price * (%)	**37.894**	38.217
Expected remaining life of the option (years)	**3.5**	4.5
Risk-free interest rate for the remaining life of the option (%)	**(0.099)**	(0.125)

*The expected volatility of the share price is calculated based on past daily share prices corresponding to the expected remaining period.

The liabilities arising from share-based payment regarding the Incentive Plan are as follows:

	2021	2020
Carrying amount arising from the cash-settled share-based payments (Millions of yen)	**-**	-

(4) Share-based payment expenses

Share-based payment expenses on the consolidated statement of profit or loss are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Expenses arising from the restricted stock compensation plan	**¥ 65**	¥ 47	**$ 572**

24. Financial Instruments

(1) Capital management

The Group's capital management policy is to maintain an optimal capital structure in order to achieve sustained improvement in the enterprise value for further growth in global machine tool markets. The Group monitors financial indicators, such as ROE (Ratio of profit to equity attributable to owners of the Parent), EPS (earnings per share) and the equity ratio, in order to maintain an optimal capital structure. The Group is not subject to any material capital regulation.

The Group raises necessary capital partly by issuing new shares and bonds, borrowings from banks and liquidation of receivables for mainly operations related to the manufacturing and sales of machine tools based on the demand for funds from its operating activities.

(2) Risk management policy

The Group is exposed to financial risk (credit risk, liquidity risk, foreign exchange risk, interest rate risk and market volatility risk) in operating its business and manages these risks based on its policy to mitigate them.

The Group manages surplus funds by investing only in short-term deposits and others and does not enter into speculative transactions. The purpose of derivative transactions is, in principle, to hedge the risks as described herein, and transactions are not carried out for speculative purposes.

(3) Credit risk

1. Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instruments or customer contract, leading to a financial loss.

Cash and cash equivalents are held only with banks and financial institutions with high credit ratings, therefore, the corresponding credit risk is very limited.

Trade and other receivables are exposed credit risk of customers. The Group regularly monitors the credit information related to customer operating claims and manages collection dates and outstanding balances in accordance with its credit control policy. The Group's receivables do not have significant concentration of credit risk on specific counterparties or counterparty groups.

Other accounts receivable is also exposed to credit risk; however they are settled in short-term period.

Derivative transactions included in other financial assets and liabilities are exposed to credit risks associated with the banks and financial institutions with which the Group has a business relationship. To minimize the counterparty risk when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

2. Maximum exposure of credit risk

The maximum exposure of credit risk at the end of period for the fiscal year 2021 is carrying amount after impairment of financial assets, however there was no significant bad debt loss in prior years.

The Group has granted certain financial guarantees and these are exposed to the credit risk of those entities for which the guarantees were granted. Other than guarantee obligations, the Group's maximum exposures to credit risk, without taking into account any collateral held or other credit enhancements, is the carrying amount of the financial instruments less impairment losses in the consolidated statement of financial position and the amount of guarantee obligations as disclosed in *Note 37*, "Contingent Liabilities."

3. Credit risk management practices

Credit risk exposure of the Group regarding trade and other receivables and other financial instruments is as follows:

Credit risk exposure of trade receivables is measured at an amount equal to lifetime expected credit losses. In addition, considering the status of significant credit risk, such as a debtor’s financial condition at the end of the fiscal year and past bad debt loss and overdue payment, the financial instruments are classified as “Debtors not facing financial difficulties” or “Debtors facing significant financial difficulties” and allowance for doubtful receivables is recognized by measuring expected credit losses for each category. “Debtors not facing financial difficulties” refer to those that exhibit no indication of problems in repaying their debts and no problems in their ability to repay their debts. Allowance for doubtful receivables on receivables from the debtors in this category is recognized collectively using a provision ratio based on a historical loan loss ratio and future estimates. “Debtors facing significant financial difficulties” refer to those that are facing or will likely face, serious problems in repaying their debts. Allowance for doubtful receivables on receivables from the debtors in this category is recorded based on the estimated collectable amount of the respective assets on an individual basis.

The Group evaluates at the end of each reporting period whether there is a significant increase in credit risk of “other receivables and other financial assets” since initial recognition. When there is no significant increase in credit risk since initial recognition, the amount equal to 12-month expected credit losses is recognized as allowance for doubtful receivables. When there is a significant increase in credit risk since initial recognition, the amount equal to lifetime expected credit losses of the financial assets is recognized as allowance for doubtful receivables.

A “significant increase in credit risk” refers to a situation in which there are serious concerns about collectability of receivables at the end of the reporting period compared to that at initial recognition. When evaluating whether or not there is a significant increase in credit risk, the Group takes into consideration reasonably available and supportable information, such as a debtor’s operating results for past periods and management improvement plan, as well as past due information.

Allowance for doubtful receivables on “trade and other receivables and other financial assets” is recognized using a method to estimate credit losses collectively or individually according to the extent of the debtor’s credit risk. However, when the debtors are in serious financial difficulty or legally or substantially bankrupt, allowance for doubtful receivables is recognized using a method to estimate credit losses individually by considering the receivables as credit-impaired financial assets.

Information on trade receivables

Carrying amounts of trade receivables and allowance for doubtful receivables are as follows:

Trade receivables

	Millions of yen		
	2021		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**¥ 42,058**	**¥ 82**	**¥ 42,140**
Ending balance	**¥ 54,631**	**¥ 113**	**¥ 54,744**

	Thousands of U.S. dollars		
	2021		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**$ 365,690**	**$ 716**	**$ 366,406**
Ending balance	**$ 475,014**	**$ 985**	**$ 475,999**

	Millions of yen		
	2020		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	¥ 52,940	¥ 86	¥ 53,027
Ending balance	¥ 42,058	¥ 82	¥ 42,140

Allowance for doubtful receivables

	Millions of yen		
	2021		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**¥ 2,980**	**¥ 82**	**¥ 3,063**
Increase during the year	**1,183**	**103**	**1,286**
Decrease during the year	**(837)**	**(82)**	**(919)**
Other (Exchange differences on translation of foreign operations)	**(299)**	**10**	**(289)**
Ending balance	**¥ 3,027**	**¥ 113**	**¥ 3,140**

	Thousands of U.S. dollars		
	2021		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**$ 25,917**	**$ 716**	**$ 26,634**
Increase during the year	**10,290**	**896**	**11,187**
Decrease during the year	**(7,280)**	**(716)**	**(7,997)**
Other (Exchange differences on translation of foreign operations)	**(2,607)**	**88**	**(2,519)**
Ending balance	**$ 26,320**	**$ 985**	**$ 27,305**

	Millions of yen		
	2020		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	¥ 2,633	¥ 86	¥ 2,720
Increase during the year	1,076	87	1,163
Decrease during the year	(834)	(86)	(921)
Other (Exchange differences on translation of foreign operations)	105	(4)	100
Ending balance	¥ 2,980	¥ 82	¥ 3,063

Information on other receivables

The carrying amounts of other receivables and allowance for doubtful receivables are as follows:

Other receivables

	Millions of yen			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**¥ 3,486**	**¥ -**	**¥ -**	**¥ 3,486**
Ending balance	**¥ 8,073**	**¥ -**	**¥ -**	**¥ 8,073**

	Thousands of U.S. dollars			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**$ 30,311**	**$ -**	**$ -**	**$ 30,311**
Ending balance	**$ 70,195**	**$ -**	**$ -**	**$ 70,195**

	Millions of yen			
	2020			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	¥ 5,007	¥ -	¥ -	¥ 5,007
Ending balance	¥ 3,486	¥ -	¥ -	¥ 3,486

Allowance for doubtful receivables

	Millions of yen			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**¥ -**	**¥ -**	**¥ -**	**¥ -**
Increase	-	-	-	-
Decrease	-	-	-	-
Other (Exchange differences on translation of foreign operations)	-	-	-	-
Ending balance	**¥ -**	**¥ -**	**¥ -**	**¥ -**

	Thousands of U.S. dollars			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**$ -**	**$ -**	**$ -**	**$ -**
Increase	**-**	**-**	**-**	**-**
Decrease	**-**	**-**	**-**	**-**
Other (Exchange differences on translation of foreign operations)	**-**	**-**	**-**	**-**
Ending balance	**$ -**	**$ -**	**$ -**	**$ -**

	Millions of yen			
	2020			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	¥ -	¥ -	¥ -	¥ -
Increase	-	-	-	-
Decrease	-	-	-	-
Other (Exchange differences on translation of foreign operations)	-	-	-	-
Ending balance	¥ -	¥ -	¥ -	¥ -

Information on other financial instruments

The carrying amounts of allowance for doubtful receivables of other financial instruments and certain receivables are as follows:

Other financial instruments

	Millions of yen			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**¥ 8,249**	**¥ -**	**¥ -**	**¥ 8,249**
Ending balance	**¥ 8,382**	**¥ -**	**¥ -**	**¥ 8,382**
	Thousands of U.S. dollars			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**$ 71,729**	**$ -**	**$ -**	**$ 71,729**
Ending balance	**$ 72,887**	**$ -**	**$ -**	**$ 72,887**
	Millions of yen			
	2020			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	¥ 7,085	¥ -	¥ -	¥ 7,085
Ending balance	¥ 8,249	¥ -	¥ -	¥ 8,249

Allowance for doubtful receivables

	Millions of yen			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**¥ -**	**¥ -**	**¥ -**	**¥ -**
Increase	**-**	**-**	**-**	**-**
Decrease	**-**	**-**	**-**	**-**
Other (Exchange differences on translation of foreign operations)	**-**	**-**	**-**	**-**
Ending balance	**¥ -**	**¥ -**	**¥ -**	**¥ -**

	Thousands of U.S. dollars			
	2021			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	**$ -**	**$ -**	**$ -**	**$ -**
Increase	**-**	**-**	**-**	**-**
Decrease	**-**	**-**	**-**	**-**
Other (Exchange differences on translation of foreign operations)	**-**	**-**	**-**	**-**
Ending balance	**$ -**	**$ -**	**$ -**	**$ -**

	Millions of yen			
	2020			
	Financial assets measured at same amount as 12-month expected credit losses	Financial assets measured at same amount as lifetime expected credit losses		Total
		Financial assets whose credit risk has increased significantly since initial recognition	Credit-impaired financial assets	
Beginning balance	¥ -	¥ -	¥ -	¥ -
Increase	-	-	-	-
Decrease	-	-	-	-
Other (Exchange differences on translation of foreign operations)	-	-	-	-
Ending balance	¥ -	¥ -	¥ -	¥ -

(4) Liquidity risk

The Group is exposed to liquidity risk that it might have difficulty settling its financial obligations.

Trade and other payables, bonds and borrowings and other financial liabilities are exposed to liquidity risk. However, the Group manages liquidity risk by maintaining liquidity on hand and credit lines from financial institutions that enable the Group to meet its obligations based on funding plans that are updated in a timely manner.

Financial liabilities by maturity date are as follows:

The contractual cash flows in the table are based on the undiscounted cash flows, reflecting interest payments. Of the other financial liabilities, those paid on demand are included within one year.

	Millions of yen				
	2021				
	Carrying amounts	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	**¥ 54,169**	**¥ 54,169**	**¥ 54,169**	**¥-**	**¥-**
Interest-bearing bonds and borrowings	**95,393**	**95,648**	**10,578**	**85,030**	**40**
Other financial liabilities (Payment obligation for external shareholders)	**53,876**	**54,688**	**54,688**	**-**	**-**
Other financial liabilities (Preferred shares)	**14,957**	**15,128**	**15,128**	**-**	**-**
Other financial liabilities (Lease liability)	**23,056**	**25,678**	**5,391**	**10,133**	**10,154**
Other financial liabilities	**3,837**	**3,424**	**531**	**2,892**	**-**
Derivative financial liabilities:					
Other financial liabilities	**1,356**	**1,356**	**1,356**	**-**	**-**
Total	**¥ 246,647**	**¥ 250,095**	**¥ 141,845**	**¥ 98,056**	**¥ 10,194**

	Thousands of U.S. dollars				
	2021				
	Carrying amounts	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	**$ 470,999**	**$ 470,999**	**$ 470,999**	**$ -**	**$ -**
Interest-bearing bonds and borrowings	**829,433**	**831,656**	**91,980**	**739,328**	**347**
Other financial liabilities (Payment obligation for external shareholders)	**468,447**	**475,511**	**475,511**	**-**	**-**
Other financial liabilities (Preferred shares)	**130,056**	**131,542**	**131,542**	**-**	**-**
Other financial liabilities (Lease liability)	**200,469**	**223,272**	**46,877**	**88,105**	**88,288**
Other financial liabilities	**33,364**	**29,773**	**4,620**	**25,152**	**-**
Derivative financial liabilities:					
Other financial liabilities	**11,798**	**11,798**	**11,798**	**-**	**-**
Total	**$ 2,144,570**	**$ 2,174,555**	**$ 1,233,331**	**$ 852,587**	**$ 88,636**

	Millions of yen				
	2020				
	Carrying amounts	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	¥ 47,908	¥ 47,908	¥ 47,908	¥-	¥-
Interest-bearing bonds and borrowings	102,406	102,893	37,742	65,110	40
Other financial liabilities (Payment obligation for external shareholders)	51,976	53,057	53,057	-	-
Other financial liabilities (Preferred shares)	14,915	15,514	257	15,257	-
Other financial liabilities (Lease liability)	21,645	24,664	5,700	11,366	7,597
Other financial liabilities	4,296	4,524	553	3,970	0
Derivative financial liabilities:					
Other financial liabilities	394	394	394	-	-
Total	¥ 243,542	¥ 248,957	¥ 145,614	¥ 95,704	¥ 7,637

Borrowing commitments and other credit lines

For effective financing purposes, the Group concluded line-of-credit agreements with several banks and financial institutions. The status of such agreements is summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Credit line	**¥ 340,356**	¥ 385,618	**$ 2,959,362**
Borrowings	**40**	22,040	**347**
Unused balance	**¥ 340,316**	¥ 363,578	**$ 2,959,015**

(5) Foreign exchange risk

The Group operates globally and its business transactions denominated in foreign currencies other than the functional currencies of each group entity are exposed to foreign exchange risks. The underlying currencies of these transactions are mainly the Japanese yen, the U.S. dollar and the Euro.

Trade receivables and trade payables denominated in foreign currencies are exposed to foreign exchange risk, which is, in principle, hedged using foreign exchange forward contracts, limited to the necessary amounts, in order to mitigate the risk of fluctuations of foreign currencies identified by each currency.

The analysis of exposures to foreign exchange risk of the Group is as follows:

	Millions of yen		
	2021		
	Japanese yen	U.S. dollars	Euro
Net exposures	**¥ (1,506)**	**¥(1,232)**	**¥ 35,867**
Per each local currency		**$(10,716) thousand**	**€274,827 thousand**

	Thousands of U.S. dollars		
	2021		
	Japanese yen	U.S. dollars	Euro
Net exposures	**$ (13,098)**	**$ (10,716)**	**$ 311,866**

	Millions of yen		
	2020		
	Japanese yen	U.S. dollars	Euro
Net exposures	¥ (1,476)	¥8,061	¥ 61,586
Per each local currency		$77,884 thousand	€485,046 thousand

Foreign currency sensitivity analysis

The financial impact on profit before income taxes for the years ended 31 December 2021 and 2020 in the case of a 1% increase in the Japanese yen, which is the Company's functional currency, against the U.S. dollar and Euro is as follows:

It is based on the assumption that all parameters other than the currencies used for the calculation remain constant. In addition, these amounts are based on the effect of translation. The effects of forecasted sales revenues and purchases are not taken into account.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Japanese yen	**¥ 15**	¥ 14	**$ 137**
U.S. dollar	**12**	(80)	**107**
Euro	**(358)**	(615)	**(3,118)**

(Note) The impact on profit or loss due to the fluctuation of the Japanese yen in the above table is related to financial assets or financial liabilities denominated in Japanese yen of foreign subsidiaries.

(6) Interest rate risk
Non-current floating rate borrowings in the Group are exposed to interest rate risk.

Interest rate sensitivity analysis
The financial impact on profit before income taxes for the years ended 31 December 2021 and 2020 in the case of a 1% increase in interest rates is as follows:
It is based on the assumption that all parameters other than the interest rates used for the calculation remain constant. In addition, the table below represents the corresponding sensitivity analysis on the balance of variable interest rate, excluding the portion of borrowings whose interest payments are substantially fixed through a corresponding interest rate swap.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Profit before income taxes	**¥ (62)**	¥ (535)	**$ (544)**

(7) Equity instruments measured at fair value through other comprehensive income
The Group holds listed shares and others of companies with which it has business relationships. These equity instruments are designated as equity instruments measured at fair value through other comprehensive income considering the purpose of maintaining and strengthening relationships.

1. Major issuers and fair value
Major issuers and fair value at 31 December 2021 and 2020 are as follows:

Issuers	*Millions of yen*		*Thousands of U.S. dollars*
	2021	2020	**2021**
TULIP Interfaces, Inc.	**¥ 13,288**	¥ 2,640	**$ 115,540**
nLIGHT, INC.	**1,379**	1,692	**11,997**
The Nanto Bank, Ltd.	**925**	830	**8,044**
Aero Edge	**600**	600	**5,216**
ADAMOS GmbH	**513**	499	**4,466**
CKD Corporation	**369**	349	**3,216**
THK CO., LTD.	**304**	365	**2,649**
MARUKA FURUSATO Corporation	**238**	130	**2,072**
DAIKIN INDUSTRIES, LTD.	**-**	2,108	**-**
YAMAZEN CORPORATION	**-**	1,232	**-**
Shimadzu Corporation	**-**	1,327	**-**
Other	**635**	634	**5,529**
Total	**¥ 18,256**	¥ 12,412	**$ 158,734**

2. Derecognized equity instruments measured at fair value through other comprehensive income
Fair value at the date of derecognition and cumulative gain or loss on equity instruments (before tax) measured at fair value through other comprehensive income derecognized during the year are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Fair value at the date of derecognition	**¥ 1,475**	¥ 77	**$ 12,828**
Cumulative gain or loss on disposal	**¥ 4,018**	¥ 47	**$ 34,937**

(Note 1) The Group derecognized certain equity instruments measured at fair value through other comprehensive income after selling them mainly due to reviewing the business relationship during the year.

(Note 2) In case that equity instruments measured at fair value through other comprehensive income are derecognized, cumulative gain or loss recognized in other comprehensive income (after tax) is reclassified to retained earnings.

3. Dividend income
The breakdown of dividend income recognized from equity instruments measured at fair value through other comprehensive income is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Equity instruments derecognized during the year	**¥ 6**	¥ -	**$ 57**
Equity instruments held at the end of year	**77**	104	**$ 674**
Total	**¥ 84**	¥ 104	**$ 732**

4. Equity instruments sensitivity analysis
The Group holds listed shares of companies with which it has business relationships, and such equity instruments are exposed to market volatility risk. The Group continually assesses the market situation by periodically reviewing share prices and the financial positions of the issuers (business partners).
The financial impact on other comprehensive income (net of tax) for the fiscal years 2021 and 2020 in the case of a 10% decrease in listed share prices is as follows. It is based on the assumption that all parameters other than the share prices used for the calculation remain constant.

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Other comprehensive income	**¥ (252)**	¥ (584)	**$ (2,193)**

(8) Fair value of financial instruments

Carrying amounts and fair value of financial instruments are as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2021		2020		**2021**	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets measured at amortized cost:						
Cash and cash equivalents	**¥ 47,298**	**¥ 47,298**	¥ 33,754	¥ 33,754	**$ 411,258**	**$ 411,258**
Trade and other receivables	**59,677**	**59,677**	42,563	42,563	**518,888**	**518,888**
Other financial assets including loans	**8,382**	**8,382**	8,249	8,249	**72,887**	**72,887**
Financial assets measured at fair value through other comprehensive income						
Other financial assets (Equities)	**18,256**	**18,256**	12,412	12,412	**158,734**	**158,734**
Financial assets measured at fair value through profit or loss included in other financial assets:						
Derivative assets	**907**	**907**	227	227	**7,893**	**7,893**
Total	**¥ 134,522**	**¥ 134,522**	¥ 97,208	¥ 97,208	**$ 1,169,662**	**$ 1,169,662**
Financial liabilities measured at amortized cost:						
Trade and other payables	**¥ 54,169**	**¥ 54,169**	¥ 47,908	¥ 47,908	**$ 470,999**	**$ 470,999**
Interest-bearing bonds and borrowings	**95,393**	**95,444**	102,406	102,416	**829,433**	**829,877**
Other financial liabilities (Payment obligation for external shareholders)	**53,876**	**53,848**	51,976	52,012	**468,447**	**468,210**
Other financial liabilities (Preferred shares)	**14,957**	**14,968**	14,915	14,936	**130,056**	**130,150**
Other financial liabilities (Lease liabilities, etc)	**26,893**	**26,893**	25,941	25,941	**233,834**	**233,834**
Financial liabilities measured at fair value through profit or loss						
Derivative liabilities	**1,356**	**1,356**	394	394	**11,798**	**11,798**
Total	**¥ 246,647**	**¥ 246,681**	¥ 243,542	¥ 243,609	**$ 2,144,570**	**$ 2,144,870**

Methods to determine the fair value of financial assets and liabilities measured at amortized cost are summarized as follows:

Cash and cash equivalents
The carrying amount approximates the fair value due to the short maturities of the instruments.

Trade and other receivables
The carrying amount approximates the fair value due to the short maturities of the instruments.

Other financial assets including loans
The fair value of the non-current loans and other financial assets including loans is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risk considering years to maturity. On the other hand, the carrying amount of the current portion approximates the fair value due to the short maturities of the instruments.

Trade and other payables
The carrying amount approximates the fair value due to the short maturities of the instruments.

Interest-bearing bonds and borrowings
For euro-yen denominated convertible bonds, fair value is calculated by discounting at a rate that takes into account credit risks and the remaining time until maturity of the bonds, while other bonds are calculated using the market price at the end of the fiscal year. The fair value of non-current borrowings with fixed interest rates is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risks considering years to maturity. On the other hand, the carrying amount of the current portion approximates the fair value due to the short maturities of the instruments.

Other financial liabilities
The fair value of the payment obligations for external shareholders (the liabilities arising from becoming effective into force of the DPLTA) is calculated based on the present value of the total amount of estimated future payments to the external shareholders discounted by the expected interest rate based on the payment period and credit risk considering years to payments.
The Group classifies its preferred shares outstanding as financial liabilities in accordance with IFRS since the shares must be redeemed at a certain point of time in the future.
The fair value of the preferred shares is calculated based on the present value of future cash flows discounted by the expected interest rate including the credit risk premium considering years to maturity period and credit risk.
The fair value of other financial liabilities including lease liabilities is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risks considering years to maturity.

Methods to determine the fair value of financial assets measured at fair value through other comprehensive income are summarized as follows:

Other financial assets (Equities)
The fair value of listed shares is based on the market price, and when no market price exists for non-listed shares, a rationally calculated amount principally measured based on net asset value is used.

Methods to determine the fair value of financial assets and liabilities measured at fair value through profit or loss are summarized as follows:

Derivative assets and liabilities
The fair value of foreign exchange forward contracts included in derivative assets and liabilities is determined based on respective market price at the end of the reporting period. The fair value of interest rate swaps is calculated based on the present value of estimated future cash flows discounted by the expected interest rate based on the maturity term and applicable swap rates at the end of the reporting period.

The levels of the fair value hierarchy are as follows:
Fair value of financial instruments is categorized within the fair value hierarchy described as follows from Level 1 to Level 3. Any significant transfers of the financial instruments between levels are recognized at the date of events that causes the transfers or changes on the status.

- Level 1 – Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Fair value measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 – Fair value measured using unobservable inputs for the asset or liability

Financial instruments measured at amortized cost

The carrying amount and the respective level in the fair value hierarchy of financial instruments measured at amortized cost at the end of the reporting period are as follows:

	Millions of yen				
	2021				
		Fair value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	**¥ 45,442**	**¥ -**	**¥ -**	**¥ 45,442**	**¥ 45,442**
Interest-bearing bonds	**49,679**	**-**	**49,730**	**-**	**49,730**
Other financial liabilities (Payment obligation for external shareholders)	**53,876**	**-**	**-**	**53,848**	**53,848**
Other financial liabilities (Preferred shares)	**¥ 14,957**	**¥ -**	**¥ -**	**¥ 14,968**	**¥ 14,968**

(Note) The balance of interest-bearing long-term borrowings and interest-bearing bonds includes those due within one year.

	Thousands of U.S. dollars				
	2021				
		Fair value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	**$ 395,120**	**$ -**	**$ -**	**$ 395,120**	**$ 395,120**
Interest-bearing bonds	**431,961**	**-**	**432,405**	**-**	**432,405**
Other financial liabilities (Payment obligation for external shareholders)	**468,447**	**-**	**-**	**468,210**	**468,210**
Other financial liabilities (Preferred shares)	**$ 130,056**	**$ -**	**$ -**	**$ 130,150**	**$ 130,150**

(Note) The balance of interest-bearing long-term borrowings and interest-bearing bonds includes those due within one year.

	Millions of yen				
	2020				
		Fair value			
	Carrying amounts	Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	¥ 60,438	¥ -	¥ -	¥ 60,438	¥ 60,438
Interest-bearing bonds	19,967	-	19,977	-	19,977
Other financial liabilities (Payment obligation for external shareholders)	51,976	-	-	52,012	52,012
Other financial liabilities (Preferred shares)	¥ 14,915	¥ -	¥ -	¥ 14,936	¥ 14,936

(Note) The balance of interest-bearing long-term borrowings and interest-bearing bonds includes those due within one year.

The carrying amounts of financial instruments measured at amortized cost, except for long-term borrowings and bonds and other financial liabilities (payment obligation for external shareholders and preferred shares), approximates the fair value.

Financial instruments measured at fair value

The carrying amount and the respective level in the fair value hierarchy of financial instruments measured at fair value at the end of reporting period are as follows:

	Millions of yen			
	2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	**¥ 3,223**	**¥ -**	**¥ 15,032**	**¥ 18,256**
Financial assets measured at fair value through profit or loss				
Derivative assets	**-**	**907**	**-**	**907**
Total	**¥ 3,223**	**¥ 907**	**¥ 15,032**	**¥ 19,163**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	**-**	**1,356**	**-**	**1,356**
Total	**¥ -**	**¥ 1,356**	**¥ -**	**¥ 1,356**

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2021.

	Thousands of U.S. dollars			
	2021			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	**$ 28,032**	**$ -**	**$ 130,702**	**$ 158,734**
Financial assets measured at fair value through profit or loss				
Derivative assets	**-**	**7,893**	**-**	**7,893**
Total	**$ 28,032**	**$ 7,893**	**$ 130,702**	**$ 166,627**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	**-**	**11,798**	**-**	**11,798**
Total	**$ -**	**$ 11,798**	**$ -**	**$ 11,798**

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2021.

	Millions of yen			
	2020			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	¥ 8,049	¥ -	¥ 4,363	¥ 12,412
Financial assets measured at fair value through profit or loss				
Derivative assets	-	227	-	227
Total	¥ 8,049	¥ 227	¥ 4,363	¥ 12,640
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	-	394	-	394
Total	¥ -	¥ 394	¥ -	¥ 394

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2020.

The fair value of non-listed shares categorized within Level 3 is measured by the adjusted net asset method. The financial assets and financial liabilities categorized in Level 2 are mainly derivative transactions related to foreign exchange forward contracts and cross-currency interest rate swaps. The fair values of foreign exchange forward contracts and cross-currency interest rate swaps are measured based on observable market data, such as interest rates mainly provided by counterparty financial institutions.

The movement in fair value of financial instruments categorized within Level 3 of the fair value hierarchy is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Beginning balance	**¥ 4,363**	¥ 3,796	**$ 37,940**
Total gain and loss:			
Other comprehensive income *(Note 1)*	**9,316**	18	**81,003**
Purchases	**1,387**	625	**12,066**
Sales	**(35)**	-	**(308)**
Transfer from Level 3 *(Note 2)*	**-**	(122)	**-**
Other	**-**	46	**-**
Ending balance	**¥ 15,032**	¥ 4,363	**$ 130,702**

(Note 1) Gain and loss included in other comprehensive income are included in changes in fair value measurements of financial assets at fair value through other comprehensive income in the consolidated statement of comprehensive income for the fiscal years 2021 and 2020.

(Note 2) Transfer from Level 3 is due to becoming an associated company due to having an important influence.

(9) Derivative and hedge accounting

(i) Overview of hedge accounting

The Group uses foreign exchange forward contracts to hedge the risk of foreign currency transactions and applies hedge accounting by designating the contracts as cash flow hedges. The Group recognizes the economic relationship between the hedging instrument and the hedged item as the key condition for foreign exchange forward contracts matches the condition of highly probable forecast transactions, such that the notional amount, payment date and so on. The Group sets the hedge ratio on a one-to-one basis because the risk of foreign currency transactions is identical to the hedged risk component. The Group evaluates the effectiveness of the hedge by comparing changes in the fair value of the hedging instrument with those of the hedged item. Hedge ineffectiveness may arise due to the following:

- Mismatches in timing between the cash flows of the hedging instrument and those of the hedged item
- Counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item
- Changes in estimated cash flows of the hedging instrument and those of the hedged item

The average exchange rates in the foreign exchange forward contracts are 110.46 JPY / USD and 133.11 JPY / EUR.

(ii) Information on items designated as hedging instruments

The impact of the hedging instruments on the Group's consolidated statement of financial position is as follows:

Millions of yen

	2021					
	Contract amount	Over one year	Carrying amounts of the hedging instruments (Fair value)		Changes in fair value of the hedging instruments used in calculation of recognition of the ineffective portion of the hedge	Disclosure item in the consolidated statements of financial position which includes the hedging instruments
			Assets	Liabilities		
Cash flow hedges:						
Foreign exchange forward contracts (foreign exchange risk)	**¥ 67,748**	**¥ -**	**¥ 907**	**¥ 888**	**-**	**Other financial assets (current) and Other financial liabilities (current)**
Cross currency interest rate swaps (foreign exchange and interest rate risk)	**-**	**-**	**-**	**-**	**-**	-
Total	**¥ 67,748**	**¥ -**	**¥ 907**	**¥ 888**	-	

Thousands of U.S. dollars

	2021					
	Contract amount	Over one year	Carrying amounts of the hedging instruments (Fair value)		Changes in fair value of the hedging instruments used in calculation of recognition of the ineffective portion of the hedge	Disclosure item in the consolidated statements of financial position which includes the hedging instruments
			Assets	Liabilities		
Cash flow hedges:						
Foreign exchange forward contracts (foreign exchange risk)	**$ 589,070**	**$ -**	**$ 7,893**	**$ 7,728**	-	**Other financial assets (current) and Other financial liabilities (current)**
Cross currency interest rate swaps (foreign exchange and interest rate risk)	**-**	**-**	**-**	**-**	-	-
Total	**$ 589,070**	**$ -**	**$ 7,893**	**$ 7,728**	-	

	Millions of yen					
	2020					
	Contract amount	Over one year	Carrying amounts of the hedging instruments (Fair value): Assets	Carrying amounts of the hedging instruments (Fair value): Liabilities	Changes in fair value of the hedging instruments used in calculation of recognition of the ineffective portion of the hedge	Disclosure item in the consolidated statements of financial position which includes the hedging instruments
Cash flow hedges:						
Foreign exchange forward contracts (foreign exchange risk)	¥ 39,268	¥ -	¥ 227	¥ 394	-	Other financial assets (current) and Other financial liabilities (current)
Cross currency interest rate swaps (foreign exchange and interest rate risk)	-	-	-	-	-	-
Total	¥ 39,268	¥ -	¥ 227	¥ 394	-	

(iii) Information on hedged items

The impact of the hedged items on the Group's consolidated statements of financial position is as follows:

	Millions of yen		
	2021		
	Changes in fair value of the hedged items used in calculation of recognition of the ineffective portion of the hedge	Cash flow hedge reserve from continued hedge accounting	Cash flows hedge reserve from discontinued hedge accounting
Cash flow hedges			
Highly probable forecast transactions (foreign exchange risk on trade receivables)	**¥ -**	**¥ (467)**	**¥ -**
Highly probable forecast transactions (foreign exchange risk on trade payables)	**-**	**-**	**-**
Floating rate borrowings in foreign currency (foreign exchange risk and interest rate)	**-**	**-**	**-**
Total	**¥ -**	**¥ (467)**	**¥ -**

(Note) Before tax effect

	Thousands of U.S. dollars		
	2021		
	Changes in fair value of the hedged items used in calculation of recognition of the ineffective portion of the hedge	Cash flow hedge reserve from continued hedge accounting	Cash flows hedge reserve from discontinued hedge accounting
Cash flow hedges			
Highly probable forecast transactions (foreign exchange risk on trade receivables)	**$ -**	**$ (4,066)**	**$ -**
Highly probable forecast transactions (foreign exchange risk on trade payables)	**-**	**-**	**-**
Floating rate borrowings in foreign currency (foreign exchange risk and interest rate)	**-**	**-**	**-**
Total	**$ -**	**$ (4,066)**	**$ -**

(Note) Before tax effect

	Millions of yen		
	2020		
	Changes in fair value of the hedged items used in calculation of recognition of the ineffective portion of the hedge	Cash flow hedge reserve from continued hedge accounting	Cash flows hedge reserve from discontinued hedge accounting
Cash flow hedges			
Highly probable forecast transactions (foreign exchange risk on trade receivables)	¥ -	¥ 26	¥ -
Highly probable forecast transactions (foreign exchange risk on trade payables)	-	12	-
Floating rate borrowings in foreign currency (foreign exchange risk and interest rate)	-	-	-
Total	¥ -	¥ 38	¥ -

(Note) Before tax effect

(iv) Impact of application of hedge accounting on the consolidated statements of profit and loss and comprehensive income

The impact of the hedging instruments on the Group's consolidated statements of profit and loss and comprehensive income is as follows:

	Millions of yen				
	2021				
	Cash flow hedges recognized in other comprehensive income during the reporting period *(Note)*	Ineffective portion of the hedge recognized in profit or loss	Disclosure item in the consolidated statements of income which includes the ineffective portion of the hedge recognized	Amount of reclassification adjustment from cash flow hedge reserve to profit or loss	Disclosure item in the consolidated statements of income which includes the reclassification adjustment
Cash flow hedges					
Highly probable forecast transactions (foreign exchange risk on trade receivables)	**¥ (467)**	**¥ -**	**-**	**¥ 26**	**Other operating costs**
Highly probable forecast transactions (foreign exchange risk on trade payables)	**-**	**-**	**-**	**12**	**Other operating costs**
Floating rate borrowings in foreign currency (foreign exchange risk and interest rate)	**-**	**-**	**-**	**-**	**-**
Total	**¥ (467)**	**¥ -**		**¥ 38**	

(Note) Before tax effect

	Thousands of U.S. dollars				
	2021				
	Cash flow hedges recognized in other comprehensive income during the reporting period *(Note)*	Ineffective portion of the hedge recognized in profit or loss	Disclosure item in the consolidated statements of income which includes the ineffective portion of the hedge recognized	Amount of reclassification adjustment from cash flow hedge reserve to profit or loss	Disclosure item in the consolidated statements of income which includes the reclassification adjustment
Cash flow hedges					
Highly probable forecast transactions (foreign exchange risk on trade receivables)	**$ (4,066)**	**$ -**	**-**	**$ 227**	**Other operating costs**
Highly probable forecast transactions (foreign exchange risk on trade payables)	**-**	**-**	**-**	**108**	**Other operating costs**
Variable interest rate borrowings in foreign currency (foreign exchange risk and interest rate)	**-**	**-**	**-**	**-**	**-**
Total	**$(4,066)**	**$ -**		**$ 336**	

(Note) Before tax effect

	Millions of yen				
	2020				
	Cash flow hedges recognized in other comprehensive income during the reporting period *(Note)*	Ineffective portion of the hedge recognized in profit or loss	Disclosure item in the consolidated statements of income which includes the ineffective portion of the hedge recognized	Amount of reclassification adjustment from cash flow hedge reserve to profit or loss	Disclosure item in the consolidated statements of income which includes the reclassification adjustment
Cash flow hedges					
Highly probable forecast transactions (foreign exchange risk on trade receivables)	¥ 26	¥ -	-	¥ -	-
Highly probable forecast transactions (foreign exchange risk on trade payables)	12	-	-	(0)	Other operating costs
Floating rate borrowings in foreign currency (foreign exchange risk and interest rate)	-	-	-	20	Other operating revenues
Total	¥ 38	¥ -		¥ 20	

(Note) Before tax effect

(v) Movement in other components of equity (changes in fair value of the hedging instruments)

	Millions of yen	*Millions of yen*	*Thousands of U.S. dollars*
	2021	2020	**2021**
Beginning balance	**¥ 27**	¥ 15	**$ 235**
Transactions during the reporting period			
Highly probable forecast transactions (foreign exchange risk on trade receivables)	**¥ (467)**	¥ 26	**(4,066)**
Highly probable forecast transactions (foreign exchange risk on trade payables)	**-**	12	**-**
Variable interest rates borrowings in foreign currency (foreign exchange risk and interest rate)	**-**	-	**-**
Reclassification adjustment to profit or loss	**(38)**	(20)	**(336)**
Tax effect	**32**	(6)	**286**
Ending balance	**¥ (446)**	¥ 27	**$ (3,881)**

(10) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities is as follows:

	Millions of yen							
	2021							
				Non-cash changes				
	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Ending balance
Short-term borrowings	**¥ 22,000**	**¥ (21,730)**	**¥ -**	**¥ 0**	**¥ -**	**¥ -**	**¥ -**	**¥ 270**
Long-term borrowings	**60,438**	**(15,882)**	**-**	**817**	**69**	**-**	**-**	**45,442**
Interest-bearing bonds	**19,967**	**29,634**	**-**	**-**	**77**	**-**	**-**	**49,679**
Dividends payable	**47**	**(2,584)**	**-**	**-**	**-**	**2,585**	**-**	**48**
Payment obligation for external shareholders	**51,976**	**(8)**	**(1,326)**	**1,475**	**1,758**	**-**	**-**	**53,876**
Debt instruments (preferred shares)	**14,915**	**-**	**-**	**-**	**42**	**-**	**-**	**14,957**
Debt instruments (lease liabilities, etc.)	**25,935**	**(6,566)**	**-**	**(1,087)**	**497**	**-**	**8,107**	**26,886**
Total	**¥ 195,281**	**¥ (17,138)**	**¥ (1,326)**	**¥ 1,206**	**¥ 2,445**	**¥ 2,585**	**¥ 8,107**	**¥191,161**

	Thousands of U.S. dollars							
	2021							
				Non-cash changes				
	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Ending balance
Short-term borrowings	**$ 191,290**	**$ (188,942)**	**$ -**	**$ 3**	**$ -**	**$ -**	**$ -**	**$ 2,351**
Long-term borrowings	**525,508**	**(138,099)**	**-**	**7,110**	**600**	**-**	**-**	**395,120**
Interest-bearing bonds	**173,616**	**257,669**	**-**	**-**	**675**	**-**	**-**	**431,961**
Dividends payable	**409**	**(22,474)**	**-**	**-**	**-**	**22,482**	**-**	**417**
Payment obligation for external shareholders	**451,928**	**(75)**	**(11,533)**	**12,833**	**15,293**	**-**	**-**	**468,447**
Debt instruments (preferred shares)	**129,687**	**-**	**-**	**-**	**368**	**-**	**-**	**130,056**
Debt instruments (lease liabilities, etc.)	**225,509**	**(57,096)**	**-**	**(9,456)**	**4,323**	**-**	**70,496**	**233,776**
Total	**$ 1,697,952**	**$ (149,018)**	**$ (11,533)**	**$ 10,490**	**$ 21,262**	**$ 22,482**	**$ 70,496**	**$ 1,662,132**

	Millions of yen							
	2020							
				Non-cash changes				
	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Ending balance
Short-term borrowings	¥ 18,401	¥ 2,680	¥ -	¥ 918	¥ -	¥ -	¥ -	¥ 22,000
Long-term borrowings	70,352	(8,346)	-	(1,598)	31	-	-	60,438
Interest-bearing bonds	19,943	-	-	-	24	-	-	19,967
Dividends payable	48	(5,038)	-	-	-	5,037	-	47
Payment obligation for external shareholders	92,318	(42,289)	(1,249)	154	3,042	-	-	51,976
Debt instruments (preferred shares)	14,873	-	-	-	41	-	-	14,915
Debt instruments (lease liabilities, etc.)	23,490	(6,311)	-	735	519	-	7,501	25,935
Total	¥ 239,427	¥ (59,305)	¥ (1,249)	¥ 209	¥ 3,660	¥5,037	¥ 7,501	¥ 195,281

25. Sales Revenues

(1) Breakdown of sales revenue

The breakdown of sales revenues is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Sales of products	**¥ 266,662**	¥ 228,201	**$ 2,318,602**
Service revenue	**129,321**	100,061	**1,124,434**
Other	**27**	21	**241**
Total	**¥ 396,011**	¥ 328,283	**$ 3,443,278**

Sales of machine tools are recognized when control of the product is transferred to customers (usually at the time of shipment or final acceptance) based on the contract. For the provision of services and solutions, revenue is recognized when the performance obligation defined in the contract is satisfied (usually when the services are delivered, etc.). The consideration for the transaction is received approximately within one year of fulfilling the performance obligation, except in cases when it is received as advances received prior to the satisfaction of the performance obligations, and does not include significant financial components.

Revenue is measured at the amount of a promised consideration in contracts with customers less discounts and rebates, and net of the amount of sales returns. There were no material discounts, rebates, or sales returns in the fiscal years 2021 and 2020.

The relationship between sales revenues by geographical area and segment sales revenues is as follows:

	Millions of yen					
	2021					
	Reportable segments			Adjustments		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
Japan	**¥ 89,894**	**¥ 46,916**	**¥ 136,810**	**¥ -**	**¥ (73,659)**	**¥ 63,151**
Germany	**145,588**	**24,710**	**170,299**	**1,538**	**(70,203)**	**101,634**
Americas	**60,721**	**26,294**	**87,015**	**-**	**(11,775)**	**75,240**
Europe other than Germany	**102,799**	**38,165**	**140,965**	**-**	**(25,641)**	**115,324**
China and Asia	**33,875**	**17,097**	**50,973**	**-**	**(10,312)**	**40,661**
Total	**¥ 432,880**	**¥ 153,184**	**¥ 586,064**	**¥ 1,538**	**¥ (191,590)**	**¥ 396,011**

	Thousands of U.S. dollars					
	2021					
	Reporting segments			Adjustments		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
Japan	**$ 781,623**	**$ 407,929**	**$ 1,189,553**	**$ -**	**$ (640,458)**	**$ 549,095**
Germany	**1,265,880**	**214,856**	**1,480,737**	**13,373**	**(610,413)**	**883,697**
Americas	**527,966**	**228,625**	**756,592**	**-**	**(102,384)**	**654,207**
Europe other than Germany	**893,831**	**331,848**	**1,225,679**	**-**	**(222,946)**	**1,002,732**
China and Asia	**294,547**	**148,660**	**443,207**	**-**	**(89,662)**	**353,544**
Total	**$ 3,763,849**	**$ 1,331,921**	**$ 5,095,770**	**$ 13,373**	**$ (1,665,857)**	**$ 3,443,278**

	Millions of yen					
	2020					
	Reportable segments			Adjustments		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
Japan	¥ 100,764	¥ 37,526	¥ 138,291	¥ -	¥ (79,232)	¥ 59,059
Germany	119,405	20,881	140,287	1,454	(59,703)	82,038
Americas	55,601	17,483	73,084	-	(9,570)	63,513
Europe other than Germany	80,531	31,661	112,193	-	(17,194)	94,998
China and Asia	22,142	11,821	33,963	-	(5,290)	28,672
Total	¥ 378,445	¥ 119,374	¥ 497,820	¥ 1,454	¥ (170,991)	¥ 328,283

(2) Balance of outstanding contracts

Balance of receivables from contracts with customers and contract liabilities are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Receivables from contract with customers	**¥ 54,744**	¥ 42,140	**$ 475,999**
Contract liabilities	**¥ 65,707**	¥ 33,679	**$ 571,317**

Receivables from contracts with customers are included in trade and other receivables in the consolidated statement of financial position.

Contract liabilities consist of advances received and other payments received prior to fulfillment of performance obligations, such as when orders are placed, based on contracts with customers. The contract liability is derecognized when the performance obligation under the individual contract is satisfied, and revenue is recognized at the same time. Since the period between the establishing a contract (e.g., an order) and the fulfillment of the performance obligation usually does not exceed one year, significant financial components are not included.

Revenues recognized during the fiscal year 2021 included in contract liabilities at the beginning of the fiscal year amounting to ¥33,679 million ($292,838 thousand), and during the fiscal year 2020 included in contract liabilities at the beginning of the fiscal year amounting to ¥37,517 million. The expected contract term of the remaining performance obligation is one year or less.

26. Other Operating Revenues

The breakdown of other operating revenues is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Exchange gain	**¥ 1,812**	¥ 1,565	**$ 15,758**
Received commission	**258**	407	**2,244**
Gain on sales of fixed asset	**339**	1,114	**2,948**
Other	**3,693**	3,362	**32,117**
Total	**¥ 6,103**	¥ 6,451	**$ 53,068**

27. Other Operating Costs

The breakdown of other operating costs is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Commissions	**¥ 16,235**	¥ 15,476	**$ 141,168**
Sales promotion costs	**5,031**	4,209	**43,744**
Freight and packaging costs	**13,231**	10,263	**115,047**
Other	**25,261**	21,035	**219,646**
Total	**¥ 59,759**	¥ 50,985	**$ 519,606**

28. Personnel Costs

The breakdown of personnel costs is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Remuneration and salaries	**¥ 83,720**	¥ 74,336	**$ 727,942**
Bonuses	**12,312**	8,951	**107,054**
Social security and welfare expenses	**18,401**	16,787	**160,002**
Retirement benefit expenses	**2,729**	3,063	**23,728**
Share-based compensation expenses	**65**	47	**572**
Other employee benefit expenses	**2,097**	4,632	**18,237**
Total	**¥ 119,327**	¥ 107,818	**$ 1,037,538**

29. Financial Income

The breakdown of financial income is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Financial income			
Interest income:			
Financial assets measured at amortized cost	**¥ 345**	¥ 252	**$ 3,003**
Dividend income:			
Financial assets measured at fair value through other comprehensive income	**84**	104	**732**
Total	**¥ 429**	¥ 357	**$ 3,735**

30. Financial Costs

The breakdown of financial costs is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Financial costs			
Interest expenses on bonds and borrowings:			
Financial liabilities measured at amortized cost	**¥ 2,160**	¥ 2,356	**$ 18,785**
Financial costs arising from DPLTA:			
Financial liabilities measured at amortized cost	**1,758**	3,042	**15,293**
Total	**¥ 3,919**	¥ 5,399	**$ 34,078**

31. Other Comprehensive Income

The breakdown of each component of other comprehensive income and the corresponding tax effects (including non-controlling interests) is as follows:

	Millions of yen						*Thousands of U.S. dollars*		
	2021			2020			**2021**		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified subsequently to profit or loss:									
Remeasurements of defined benefit plans:									
Amount arising during the year	**¥ 543**	**¥ (163)**	**¥ 380**	¥ 153	¥ (65)	¥87	**$ 4,727**	**$ (1,419)**	**$ 3,308**
Net changes during the year	**543**	**(163)**	**380**	153	(65)	87	**4,727**	**(1,419)**	**3,308**
Changes in fair value measurements of financial assets at fair value through other comprehensive income:									
Amount arising during the year	**11,255**	**(428)**	**10,826**	521	(322)	198	**97,864**	**(3,724)**	**94,139**
Net changes during the year	**11,255**	**(428)**	**10,826**	521	(322)	198	**97,864**	**(3,724)**	**94,139**
Share of other comprehensive income of associates and joint ventures accounted for using equity method:									
Amount arising during the year	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**
Net changes during the year	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**
Subtotal	**11,799**	**(591)**	**11,207**	674	(387)	286	**102,591**	**(5,143)**	**97,447**
Items that may be reclassified subsequently to profit:									
Exchange differences on translation of foreign operations:									
Amount arising during the year	**7,013**	**-**	**7,013**	(5,478)	-	(5,478)	**60,983**	**-**	**60,983**
Reclassification adjustments to profit	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**
Net change during the year	**7,013**	**-**	**7,013**	(5,478)	-	(5,478)	**60,983**	**-**	**60,983**
Effective portion of changes in fair value of cash flow hedges:									
Amount arising during the year	**(467)**	**21**	**(446)**	38	(11)	27	**(4,066)**	**185**	**(3,881)**
Reclassification adjustments to profit	**(38)**	**11**	**(27)**	(20)	4	(15)	**(336)**	**100**	**(235)**
Net changes during the year	**(506)**	**32**	**(473)**	18	(6)	11	**(4,402)**	**286**	**(4,116)**
Share of other comprehensive income of associates and joint ventures accounted for using equity method:									
Amount arising during the year	**6**	**-**	**6**	13	-	13	**57**	**-**	**57**
Reclassification adjustments to profit	**-**	**-**	**-**	-	-	-	**-**	**-**	**-**
Net change during the year	**6**	**-**	**6**	13	-	13	**57**	**-**	**57**
Subtotal	**6,514**	**32**	**6,546**	(5,445)	(6)	(5,452)	**56,638**	**286**	**56,924**
Total other comprehensive income	**¥18,313**	**¥(558)**	**¥17,754**	¥(4,771)	¥(394)	¥(5,166)	**$ 159,230**	**$ (4,857)**	**$ 154,372**

32. Earnings Per Share

The basis of the calculation of basic earnings per share and diluted earnings per share is as follows:

	Millions of yen, except as otherwise indicated		*Thousands of U.S. dollars*
	2021	2020	**2021**
Profit attributable to owners of the parent	**¥ 13,460**	¥ 1,745	**$ 117,040**
Profit not attributable to ordinary shareholders of the parent	**2,030**	1,326	**17,658**
Profit used for basic earnings per share attributable to ordinary shareholders of the parent	**11,429**	419	**99,382**
Adjustment for diluted earnings	**-**	-	**-**
Diluted earnings	**¥ 11,429**	¥ 419	**$ 99,382**
Weighted-average number of common shares (Thousands of shares)	**124,578**	123,300	
Increase in number of common stock shares for diluted earnings per share			
Increase due to exercising stock options (Thousands of shares)	**-**	121	
Weighted-average number of common shares outstanding for diluted earnings per share (Thousands of shares)	**124,578**	123,421	
Basic earnings per share (Yen) (U.S. dollars)	**¥ 91.75**	¥ 3.40	**$ 0.79**
Diluted earnings per share (Yen) (U.S. dollars)	**¥ 91.75**	¥ 3.40	**$ 0.79**

(Note) Basic earnings per share is calculated by dividing profit attributable to owners of the parent after deducting the amount attributable to owners of other equity instruments by the average number of common shares excluding the average number of treasury shares during the year. Diluted earnings per share is calculated by adjusting for the effects of all dilutive potential common shares. For the fiscal years ended 31 December 2021 and 2020, the average number of treasury shares during the year includes the shares of the Company (Average number of shares during the year of 701,131 shares and 1,358,923 shares, respectively) held by The Nomura Trust and Banking Co., Ltd. (DMG MORI Employee Shareholders Association Exclusive Trust) due to the implementation of the "Trust-Type Employee Stock Ownership Incentive Plan.

33. Business Combinations

There was no material business combination during the fiscal years 2021 and 2020.

34. Domination and Profit and Loss Transfer Agreement

(1) Entry into force of Domination and Profit and Loss Transfer Agreement

On 24 August 2016, the DPLTA between DMG MORI GmbH ("GmbH"), one of the Company's consolidated subsidiaries, and DMG MORI AKTIENGESELLSCHAFT ("AG") came into effect.

AG is subject to the DPLTA based on German Company Law, which enables an entity to give direct instructions to a decision-making body, normally the board meeting of another entity. In addition, under the agreement, all profit or loss of AG since 2016 is transferred to GmbH.

Shareholders of AG, except for GmbH (hereinafter the "external shareholders"), have two options; either to offer their shares to GmbH in exchange for a cash compensation amount, or to receive a recurring annual cash compensation from GmbH.

Therefore, GmbH undertakes upon demand of the external shareholders to purchase their shares in exchange for the amount of €37.35 per share, or to pay them the recurring annual cash compensation of €1.17 per share.

The obligation of GmbH to purchase the shares was originally two months after the effective date of the agreement. However, since some external shareholders initiated a judicial appraisal proceeding to achieve a higher recurring compensation or a higher exercise price of the share purchase option, as the result, the share purchase period has been extended to two months after the date on which the final ruling has been announced in the Federal Gazette based on the German law. The amounts of the recurring cash compensation and the exercise price of the share purchase option have been audited and certified as fair by independent auditors appointed by a German court and therefore, the Group believes that those amounts are appropriate.

(2) Outline of accounting treatments and significant non-cash transactions

Due to the DPLTA being effective, the Group recognized the net present value of the expected future payment obligations as other financial liabilities in the consolidated statement of financial position.

As a result of remeasurement of the discounted present value of the future payment obligations to external shareholders at the end of fiscal year 2021, the Group recognized ¥53,876 million ($468,447 thousand) of other financial liabilities (current) on the consolidated statement of financial position, and ¥1,758 million ($15,293 thousand) of financial costs on the consolidated statement of profit or loss for the fiscal year 2021.

35. Principal Subsidiaries

(1) The consolidated financial statements of the Group include:

Name of company	Business location	Description of principal business	Ownership ratio (%)	Relationship
(Consolidated subsidiary)				
DMG MORI AKTIENGESELLSCHAFT	Nordrhein-Westfalen, Germany	Supervision of related companies	86.4	Interlocking directorates: Officers 3 persons

Name of company	Business location	Description of principal business	Ownership ratio (%)	Relationship
DMG MORI GmbH	Nordrhein-Westfalen, Germany	Purchase and holding of shares of companies whose main business purpose is to sell machine tools	100	Interlocking directorates: Officers 2 persons Employee 1 person The Company lends the funds.
DECKEL MAHO Pfronten GmbH	Bayern, Germany	Manufacture and sale of machine tools	100	-
DECKEL MAHO Seebach GmbH	Thüringen, Germany	〃	100	-
GILDEMEISTER Drehmaschinen GmbH	Nordrhein-Westfalen, Germany	〃	100	-
DMG MORI Ultrasonic Lasertec GmbH	Rheinland-Pfalz, Germany	〃	100	-
DMG MORI Stuttgart GmbH	Baden-Württemberg, Germany	Sale and service of machine tools	100	-
DMG MORI Additive GmbH	Nordrhein-Westfalen, Germany	Manufacture and sale of machine tools	100	-
DMG MORI Management GmbH	Nordrhein-Westfalen, Germany	Sale and service of machine tools	100	-
FAMOT Pleszew Sp.z o.o.	Województwo wielkopolskie, Poland	Manufacture and sale of machine tools	100	-
Ulyanovsk Machine Tools ooo	Ulyanovsk, Russia	〃	100	-
GRAZIANO Tortona S.r.l.	Piemonte, Italy	〃	100	-
Gildemeister Italiana S.r.l.	Lombardia, Italy	〃	100	-
DMG MORI Italia S.R.L.	Lombardia, Italy	Sale and service of machine tools	100	-
DMG MORI FRANCE SAS	Roissy, France	〃	100	-

Name of company	Business location	Description of principal business	Ownership ratio (%)	Relationship
DMG MORI USA, INC.	Illinois, U.S.A.	〃	100	Sales company of the products of the Company Interlocking directorates: Officers 3 persons
DMG MORI MANUFACTURING USA, INC.	California, U.S.A.	Manufacture and sale of machine tools	100	Manufacturing company of the products of the Company Interlocking directorates: Officers 3 persons
DMG MORI TIANJIN Manufacturing Co. Ltd.	Tianjin, China	〃	100	Manufacturing company of the products of the Company Interlocking directorates: Officers 3 persons Employee 1 person The Company borrows the funds.
DMG MORI Sales and Service Co., Ltd.	Nakamura-ku, Nagoya, Aichi	Sale and service of machine tools	100	Sales company of the products of the Company Interlocking directorates: Officers 3 persons The Company borrows the funds.
Taiyo Koki Co., Ltd.	Nagaoka, Niigata	Manufacture and sale of machine tools	51.1	Joint purchasing of raw materials Interlocking directorates: Officer 1 person
Magnescale CO., LTD.	Isehara, Kanagawa	Manufacture and sale of measuring equipment	100	Manufacturing company of the parts of the products of the Company Interlocking directorates: Officers 3 persons The Company borrows the funds.
DMG MORI B.U.G. CO., LTD.	Atsubetsu-ku, Sapporo, Hokkaido	Development and sales of software / hardware	100	Develop the software for the products of the Company Interlocking directorates: Officers 3 persons The Company lends and borrows the funds.
Other 106 subsidiaries				
(Associated Companies) 11 companies				

(2) Significant non-controlling interests in subsidiaries

The Group does not recognize significant non-controlling interests in its subsidiaries.

36. Related Party Transactions

(1) Transactions with related parties

Transactions with related parties carried out during the reporting period are as follows:

			Millions of yen		*Thousands of U.S. dollars*
			Transaction amounts		Transaction amounts
Category	Name of related parties	Details of transactions	**2021**	2020	**2021**
Associate	DMG MORI Finance GmbH	Sales of products	**¥ 17,092**	¥ 13,097	**$ 148,614**

Receivables and payables due from and to major related parties are as follows:

			Millions of yen				*Thousands of U.S. dollars*	
			2021		2020		**2021**	
Category	Name of related parties	Details of transactions	Receivables	Payables	Receivables	Payables	Receivables	Payables
Associate	DMG MORI Finance GmbH	Sales of products	**¥ 2,235**	**¥ 2,285**	¥ 1,250	¥ 1,182	**$ 19,436**	**$ 19,869**

(2) Key management compensation

The breakdown of key management compensation in the Group is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Compensation and bonuses	**¥ 1,818**	¥ 1,172	**$ 15,809**
Share-based payments	**18**	18	**159**
Total	**¥ 1,836**	¥ 1,190	**$ 15,968**

(Note 1) Key management compensation is paid to directors, including outside directors, of the Company, and important directors of DMG MORI AG.

(Note 2) The compensation and bonuses paid to the directors of DMG MORI AG totaled ¥915 million ($7,962 thousand) and ¥627 million for the fiscal years 2021 and 2020.

(Note 3) Share-based payments are costs of restricted stock compensation for the directors, excluding outside directors of the Company.

37. Contingent Liabilities

The breakdown of guarantee obligations is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2021	2020	**2021**
Guarantees for lease payments by customers	**¥ 1,941**	¥ 2,082	**$ 16,877**
Other guarantee obligations	**493**	455	**4,292**
Total	**¥ 2,434**	¥ 2,538	**$ 21,170**

(Note) Guarantee obligations are not recognized as a financial liability, as the probability of executing these guarantees is very low.

38. Events after Reporting Period

Situation in Russia and Ukraine

The Group has one production subsidiary and one sales subsidiary in Russia. Due to the conflict between Russia and Ukraine that arose in February 2022, on 3 March 2022, the Group took the decision to suspend exports of goods and the providing services to Russia, and to suspend production at the factory of its production subsidiary in Russia, effective the same date.

At this point in time, no date for the resumption of business in Russia has been decided, and it is possible that the suspension of exports to Russia and the suspension of production and sales within Russia itself, and the fall in the value of the Russian Ruble, will have an impact on the consolidated financial statements of the Group for the next following fiscal years. However, it is currently difficult to form reasonable estimates of the financial impact.

In the fiscal year 2021, sales revenues in Russia and net assets owned by the two Russian subsidiaries were negligible as a proportion of the amounts for the Group as a whole.