Consolidated Financial Statements

DMG MORI CO., LTD.

Fiscal year ended 31 December 2023

with Independent Auditor's Report

DMG MORI CO., LTD.

Consolidated Financial Statements

Fiscal year ended 31 December 2023

Contents

Independent Auditor's Report

The Board of Directors
DMG MORI CO., LTD.

The Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of DMG MORI CO., LTD. (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2023, 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, 2023, 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 ¥85,587 million and other intangible assets with indefinite useful lives (mainly trademarks) of ¥40,738 million as of December 31, 2023, of which goodwill and other intangible assets with indefinite useful lives of ¥82,105 million and ¥40,738 million respectively were arose on the business combination with DMG MORI AG. The amount of forementioned goodwill and other intangible assets with indefinite useful lives represent 65.9% of total of goodwill and other intangible assets in the consolidated statement of financial position and 16.0% of total assets of the Group. The Company allocates the carrying amounts of goodwill and other intangible assets with indefinite useful lives arising on the business combination with DMG MORI AG to the group of cash generating units ("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. As a result of the impairment test, the Company did not recognize an impairment loss for the year ended December 31, 2023 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, using the pre-tax discount rate of 10.8%, which 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 using 2.0% as the growth rate determined in consideration of the conditions of the country and industry to which the group of CGUs belongs.	The audit procedures we performed to assess the valuation of goodwill and other intangible assets with indefinite useful lives arose on the business combination with DMG MORI AG included the following, among others: ・We assessed the design and operating effectiveness of the Company's 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. ・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's 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 and sensitivity 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 operating profit ratio 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.

The key assumptions used for the calculation of value in use are the growth rate of sales revenues, operating profit ratio 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. The above key assumptions, such as the growth rate of sales revenues tends to be affected significantly by any increase or decrease in capital expenditure demand in the machine tool market, and the operating profit ratio is affected by the aforementioned factor as well as rising costs due to inflation. Furthermore, the pre-tax discount rate is determined based on considerations to the future interest rate trend, along with selections regarding the calculation method and input data, and therefore a high level of expertise relating to the evaluation and significant judgments made by management are required. Therefore, we determined that the valuation of goodwill and other intangible assets with indefinite useful lives arising on business combination with DMG MORI AG to be a key audit matters due to its high level of uncertainly and subjective judgments by management.	・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 pre-tax discount rate by evaluating the consistency of the inputs used in the calculations with publicly available data. In addition, we conducted a sensitivity analysis.

Valuation of property, plant and equipment held by Russian subsidiaries	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 10, "Property, Plant and Equipment", to the consolidated financial statements, the Company recorded property, plant and equipment of ¥189,231 million as of December 31, 2023, of which ¥3,221 million was held by Ulyanovsk Machine Tools ooo, a factory for the assembly of machine tools in Ulyanovsk, and ¥1,277 million was held by DMG MORI Rus ooo, a sales and service branch in Moscow (hereafter "Russian subsidiaries"). The Russian subsidiaries have suspended production at the factory and business activities at the sales and service branch due to the conflict between Russia and Ukraine that has been taking place since February 2022. Judging there was an	The audit procedures we performed to assess the valuation of property, plant and equipment held by Russian subsidiaries included the following, among others, with the involvement of the component auditor. ・With the involvement of valuation specialists from the component auditor's network firm and of our network firm, we assessed the reasonableness of the Company's valuation method used in the calculation of fair value less costs of disposal. ・(Scenario one) We obtained the appraisal report, which is used to estimate the sales prices of property, plant and equipment and evaluated its reasonableness. In addition, we

indication that the assets may be impaired, the Company tested property, plant and equipment owned by the Russian subsidiaries for impairment as respective cash generating units. The recoverable amount of property, plant and equipment owned by the Russian subsidiaries is measured based on fair value less costs of disposal. As a result of the impairment test, the Company recognized the impairment loss of ¥1,559 million in total, including ¥753 million at Ulyanovsk Machine Tools ooo and ¥806 million at DMG MORI Rus ooo for the year ended December 31, 2023. Considering the scenarios including a valuation or a sale of the property, plant and equipment at fair value under the assumption that the Group withdraws its business (scenario one), the expropriation of the property, plant and equipment by the Russian government, the withdrawal of businesses and insurance claims made with the Federal German government (scenario two), and the case in which business restarts after a certain period under the assumption that future economic sanctions are lifted (scenarios three and four), the fair value less costs of disposal is calculated based on weighted average amount by multiplying the fair value less costs of disposal for each scenario with the respective probability of each scenario. The fair value less costs of disposal under each scenario is calculated by discounting estimated future cash flows under the scenario at 16.1%, which is the pre-tax discount rate reflecting current market assessment of time value of money and specific risks, excluding country risk in Russia. The fair value less costs of disposal calculated under scenarios one and two would have a significant impact on the estimated amount of future cash flows, and the key assumptions used in the estimation are the probability of each scenario and the pre-tax discount rate. The expropriation of shares of Ulyanovsk Machine Tools ooo by the Russian government after the year ended December 31, 2023, as described in Note 38, “Events after Reporting Period”, to the consolidated financial statements has been treated as a non-adjusting event after	evaluated the appropriateness, competency and objectivity of the specialist used by the management. ・(Scenario two) We obtained and evaluated the legal opinion by the external legal counsel engaged by DMG MORI AG, the regional headquarter of the Russian subsidiaries regarding the reasonableness of the amount and the probability of compensation through the insurance claims made with the Federal German government. ・(Scenarios three and four) We made inquiries with management of DMG MORI AG about assumptions used in the estimated future cash flows, and compared them with the authorized business plan to evaluate the consistency. In addition, we conducted trend analysis and sensitivity analysis based on past performances. ・In order to evaluate the probability of each scenario, we made inquiries with management of DMG MORI AG about the basis, and discussed the current situation and outlook of Russian subsidiaries. In addition, we conducted sensitivity analysis. ・With the involvement of valuation specialists from the component auditor’s network firm and of our network firm, we assessed the discount rate by evaluating consistency of input data used in the calculations with publicly available data. In addition, we conducted a sensitivity analysis. ・We assessed the related disclosure in Note 38, “Events after Reporting Period”, to the consolidated financial statements to evaluate its consistency with the results of the procedures enumerated above, and by evaluating the adequacy of accounting treatment of this non-adjusting event after the reporting period and the related description in the footnotes.

the reporting period by the Company and was not taken it into consideration in the estimation of future cash flow in the calculation of the fair value less costs of disposal. The probability of each scenario and valuation methods applied in the estimation of the fair value less costs of disposal of the property, plant and equipment of Russian subsidiaries include management's significant judgment after taking into consideration the uncertainties of the outlook of the situation between Russia and Ukraine. Therefore, we determined the valuation of property, plant and equipment held by Russian subsidiaries to be a key audit matter.	

Other Information

The other information comprises the information included in the annual report (Yukashoken Hokokusho) that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 consolidated 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2023 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.

Fee-related Information

The fees for the audits of the financial statements of the Company and its subsidiaries and other services provided by us and other EY member firms for the year ended December 31, 2023 are ¥393 million and ¥356 million, respectively.

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.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 28, 2024

/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

Consolidated Statement of Financial Position

31 December 2023

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Assets			
Current assets:			
Cash and cash equivalents *(Notes 7 and 24)*	**¥ 39,212**	¥ 36,992	**$ 276,475**
Trade and other receivables *(Notes 8, 24 and 25)*	**62,927**	68,437	**443,681**
Other financial assets *(Notes 12 and 24)*	**5,713**	6,503	**40,285**
Inventories *(Note 9)*	**200,843**	166,217	**1,416,084**
Other current assets	**14,277**	15,834	**100,664**
Total current assets from continuing operations	**322,974**	293,985	**2,277,191**
Assets held for sale	**799**	-	**5,638**
Total current assets	**323,773**	293,985	**2,282,829**
Non-current assets:			
Property, plant and equipment *(Note 10)*	**189,231**	162,965	**1,334,214**
Right-of-use assets *(Note 17)*	**24,637**	19,874	**173,709**
Goodwill *(Note 11)*	**85,587**	76,842	**603,448**
Other intangible assets *(Note 11)*	**100,909**	86,193	**711,482**
Other financial assets *(Notes 12 and 24)*	**26,246**	26,122	**185,053**
Investments in associates and joint ventures *(Note 13)*	**6,322**	5,917	**44,579**
Deferred tax assets *(Note 20)*	**5,334**	4,509	**37,611**
Other non-current assets	**3,764**	3,923	**26,540**
Total non-current assets	**442,033**	386,349	**3,116,639**
Total assets	**¥ 765,806**	¥ 680,334	**$ 5,399,469**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Liabilities and equity			
Liabilities			
Current liabilities:			
Trade and other payables *(Notes 14 and 24)*	**¥ 82,914**	¥ 72,806	**$ 584,601**
Interest-bearing bonds and borrowings *(Notes 15 and 24)*	**61,187**	51,241	**431,416**
Contract liabilities *(Note 25)*	**93,430**	92,935	**658,748**
Other financial liabilities *(Notes 16, 17, 24 and 34)*	**71,967**	7,304	**507,424**
Income taxes payable	**9,657**	6,959	**68,095**
Provisions *(Note 19)*	**50,998**	45,659	**359,573**
Other current liabilities	**6,477**	4,424	**45,670**
Total current liabilities	**376,633**	281,329	**2,655,530**
Non-current liabilities:			
Interest-bearing bonds and borrowings *(Notes 15 and 24)*	**52,474**	39,852	**369,978**
Other financial liabilities *(Notes 16, 17 and 24)*	**40,309**	87,305	**284,208**
Net employee defined benefit liabilities *(Note 18)*	**5,192**	4,479	**36,614**
Provisions *(Note 19)*	**6,371**	6,819	**44,922**
Deferred tax liabilities *(Note 20)*	**9,340**	8,103	**65,854**
Other non-current liabilities	**2,939**	2,069	**20,725**
Total non-current liabilities	**116,627**	148,630	**822,303**
Total liabilities	**493,261**	429,960	**3,477,834**
Equity *(Note 21)*			
Share capital	**51,115**	51,115	**360,401**
Capital surplus	**208**	266	**1,471**
Other equity instruments	**110,822**	118,753	**781,372**
Treasury shares	**(883)**	(906)	**(6,232)**
Retained earnings	**92,283**	69,864	**650,659**
Other components of equity	**14,444**	6,803	**101,844**
Equity attributable to owners of the parent	**267,990**	245,897	**1,889,518**
Non-controlling interests	**4,555**	4,477	**32,116**
Total equity	**272,545**	250,374	**1,921,634**
Total liabilities and equity	**¥ 765,806**	¥ 680,334	**$ 5,399,469**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Profit or Loss

Fiscal year ended 31 December 2023

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Revenues:			
Sales revenues *(Notes 6 and 25)*	**¥ 539,450**	¥ 474,771	**$ 3,803,502**
Other operating revenues *(Note 26)*	**9,078**	8,595	**64,011**
Total revenue	**548,529**	483,366	**3,867,514**
Costs:			
Changes in merchandise, finished goods and work in progress for sale	**(27,726)**	(6,844)	**(195,487)**
Costs of raw materials and consumables *(Note 9)*	**239,691**	203,948	**1,689,992**
Personnel costs *(Notes 23 and 28)*	**168,736**	138,882	**1,189,710**
Depreciation and amortization *(Notes 10, 11 and 17)*	**26,518**	24,016	**186,973**
Other operating costs *(Notes 10, 11 and 27)*	**87,158**	82,150	**614,529**
Total costs	**494,379**	442,152	**3,485,718**
Operating profit *(Note 6)*	**54,150**	41,213	**381,796**
Financial income *(Note 29)*	**1,138**	633	**8,026**
Financial costs *(Notes 17, 30 and 34)*	**7,553**	5,181	**53,257**
Share of profits (losses) of associates and joint ventures accounted for using equity method *(Notes 6 and 13)*	**192**	(137)	**1,354**
Profit before income taxes	**47,927**	36,528	**337,919**
Income taxes *(Note 20)*	**13,697**	10,728	**96,578**
Profit	**¥ 34,229**	¥ 25,800	**$ 241,340**
Profit attributable to:			
Owners of the parent	**33,944**	25,406	**239,334**
Non-controlling interests	**284**	393	**2,006**
Profit	**¥ 34,229**	¥ 25,800	**$ 241,340**
Earnings per share	*Yen*		*U.S. dollars*
Basic *(Note 32)*	**¥ 256.66**	¥ 188.62	**$ 1.80**
Diluted *(Note 32)*	**¥ 256.66**	¥ 188.62	**$ 1.80**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Fiscal year ended 31 December 2023

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Profit	**¥ 34,229**	¥ 25,800	**$ 241,340**
Other comprehensive income (OCI):			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans *(Notes 18 and 21)*	**(488)**	826	**(3,442)**
Changes in fair value of financial assets designated at fair value through other comprehensive income *(Notes 21 and 24)*	**(2,229)**	767	**(15,718)**
Subtotal	**(2,717)**	1,594	**(19,160)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations *(Note 21)*	**10,779**	12,960	**76,001**
Effective portion of changes in fair value of cash flow hedges *(Notes 21 and 24)*	**(103)**	434	**(732)**
Adjustments for hyperinflation *(Note 21)*	**-**	93	**-**
Share of other comprehensive income of associates and joint ventures accounted for using equity method *(Note 13)*	**212**	350	**1,500**
Subtotal	**10,888**	13,838	**76,770**
Total other comprehensive income *(Note 31)*	**8,170**	15,432	**57,609**
Comprehensive income	**¥ 42,400**	¥ 41,233	**$ 298,950**
Comprehensive income attributable to:			
Owners of the parent	**¥ 42,105**	¥ 40,791	**$ 296,869**
Non-controlling interests	**295**	441	**2,080**
Comprehensive income	**¥ 42,400**	¥ 41,233	**$ 298,950**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Fiscal year ended 31 December 2023

Millions of yen

	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal		
As of 1 January 2023	¥ 51,115	¥ 266	¥ 118,753	¥ (906)	¥ 69,864	¥ 6,803	¥ 245,897	¥ 4,477	¥ 250,374
Profit					33,944		33,944	284	34,229
Other comprehensive income (OCI)						8,160	8,160	10	8,170
Total comprehensive income	-	-	-	-	33,944	8,160	42,105	295	42,400
Payments of other equity instruments *(Note 21)*		(68)	(7,931)				(8,000)		(8,000)
Distributions to owners of other equity instruments *(Note 21)*					(1,768)		(1,768)		(1,768)
Acquisition of treasury shares *(Note 21)*				(2)			(2)		(2)
Disposition of treasury shares *(Note 21)*		0		24			25		25
Dividends *(Note 22)*					(10,045)		(10,045)	(129)	(10,175)
Share-based payments *(Note 23)*		238					238	75	314
Change in equity due to acquisition of shares in consolidated subsidiaries		(237)					(237)	(181)	(418)
Sale of shares of consolidated subsidiaries		8					8	6	15
Transfer from other components of equity to retained earnings					518	(518)	-		-
Other					(230)		(230)		(230)
Total transactions with owners of the parent	-	(57)	(7,931)	22	(11,526)	(518)	(20,011)	(229)	(20,241)
Acquisition of non-controlling interests		0					0	11	11
Total changes in ownership interests in subsidiaries and others	-	0	-	-	-	-	0	11	11
As of 31 December 2023	¥ 51,115	¥ 208	¥ 110,822	¥ (883)	¥ 92,283	¥ 14,444	¥ 267,990	¥ 4,555	¥ 272,545

See accompanying notes to consolidated financial statements.

Thousands of U.S. dollars

	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal		
As of 1 January 2023	$ 360,401	$ 1,879	$ 837,295	$ (6,393)	$ 492,595	$ 47,967	$ 1,733,746	$ 31,569	$ 1,765,315
Profit					239,334		239,334	2,006	241,340
Other comprehensive income (OCI)						57,534	57,534	74	57,609
Total comprehensive income	-	-	-	-	239,334	57,534	296,869	2,080	298,950
Payments of other equity instruments *(Note 21)*		(482)	(55,923)				(56,405)		(56,405)
Distributions to owners of other equity instruments *(Note 21)*					(12,469)		(12,469)		(12,469)
Acquisition of treasury shares *(Note 21)*				(14)			(14)		(14)
Disposition of treasury shares *(Note 21)*		2		176			178		178
Dividends *(Note 22)*					(70,830)		(70,830)	(915)	(71,746)
Share-based payments *(Note 23)*		1,682					1,682	533	2,215
Change in equity due to acquisition of shares in consolidated subsidiaries		(1,673)					(1,673)	(1,277)	(2,951)
Sale of shares of consolidated subsidiaries		62					62	43	105
Transfer from other components of equity to retained earnings					3,657	(3,657)	-		-
Other					(1,627)		(1,627)		(1,627)
Total transactions with owners of the parent	-	(408)	(55,923)	161	(81,270)	(3,657)	(141,098)	(1,617)	(142,715)
Acquisition of non-controlling interests		0					0	83	84
Total changes in ownership interests in subsidiaries and others	-	0	-	-	-	-	0	83	84
As of 31 December 2023	$ 360,401	$ 1,471	$ 781,372	$ (6,232)	$ 650,659	$ 101,844	$ 1,889,518	$ 32,116	$ 1,921,634

See accompanying notes to consolidated financial statements.

Millions of yen

	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	Subtotal		
As of 1 January 2022	¥ 51,115	¥ -	¥ 118,753	¥ (1,889)	¥ 52,817	¥ (7,657)	¥ 213,139	¥ 4,139	¥ 217,279
Profit					25,406		25,406	393	25,800
Other comprehensive income (OCI)						15,385	15,385	47	15,432
Total comprehensive income	-	-	-	-	25,406	15,385	40,791	441	41,233
Distributions to owners of other equity instruments *(Note 21)*					(1,764)		(1,764)		(1,764)
Acquisition of treasury shares *(Note 21)*				(1)			(1)		(1)
Disposition of treasury shares *(Note 21)*		(119)		984			864		864
Dividends *(Note 22)*					(7,519)		(7,519)	(100)	(7,619)
Share-based payments *(Note 23)*		290					290	125	416
Change in equity due to acquisition of shares in consolidated subsidiaries		111					111	(158)	(46)
Transfer from other components of equity to retained earnings					924	(924)	-		-
Total transactions with owners of the parent	-	282	-	982	(8,359)	(924)	(8,017)	(132)	(8,150)
Acquisition of non-controlling interests		(16)					(16)	29	12
Total changes in ownership interests in subsidiaries and others	-	(16)	-	-	-	-	(16)	29	12
As of 31 December 2022	¥ 51,115	¥ 266	¥ 118,753	¥ (906)	¥ 69,864	¥ 6,803	¥ 245,897	¥ 4,477	¥ 250,374

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Fiscal year ended 31 December 2023

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash flows from operating activities:			
Profit before income taxes	**¥ 47,927**	¥ 36,528	**$ 337,919**
Depreciation and amortization	**26,518**	24,016	**186,973**
Loss (gain) on sales or disposal of property, plant and equipment, and intangible assets	**(531)**	306	**(3,747)**
Financial income and costs	**6,415**	4,548	**45,231**
Share of (profits) losses of associates and joint ventures accounted for using equity method	**(192)**	137	**(1,354)**
Other non-cash transactions	**(5,030)**	(1,915)	**(35,471)**
Inventories	**(20,725)**	(26,311)	**(146,127)**
Trade and other receivables	**13,524**	577	**95,354**
Trade and other payables	**5,970**	16,524	**42,096**
Contract liabilities	**(7,910)**	21,498	**(55,772)**
Provisions	**(760)**	3,508	**(5,359)**
Other	**476**	(2,730)	**3,359**
Subtotal	**65,681**	76,687	**463,101**
Interest received	**1,002**	502	**7,066**
Dividends received	**148**	111	**1,046**
Interest paid	**(5,344)**	(3,821)	**(37,685)**
Income taxes paid	**(9,879)**	(3,731)	**(69,654)**
Net cash flows from operating activities	**51,608**	69,749	**363,874**
Cash flows used in investing activities:			
Payments into time deposits	**-**	(1,221)	**-**
Proceeds from withdrawal of time deposits	**1,242**	-	**8,759**
Purchases of property, plant and equipment	**(26,178)**	(26,203)	**(184,578)**
Proceeds from sales of property, plant and equipment	**5,716**	120	**40,307**
Purchases of intangible assets	**(16,294)**	(14,909)	**(114,886)**
Acquisition of associates, net of cash acquired	**-**	(63)	**-**
Purchases of investment securities	**(3,037)**	(2,286)	**(21,413)**
Proceeds from sales of investment securities	**2,173**	8	**15,328**
Other	**(353)**	(318)	**(2,492)**
Net cash flows used in investing activities	**(36,730)**	(44,874)	**(258,977)**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash flows used in financing activities:			
Net increase (decrease) in short-term borrowings	**¥ 15,696**	¥ 4,868	**$ 110,668**
Proceeds from long-term borrowings	**52,517**	-	**370,282**
Repayments of long-term borrowings	**(49,362)**	(1,748)	**(348,037)**
Payments for bond redemption	**-**	(10,000)	**-**
Repayments of other equity instruments *(Note 21)*	**(8,000)**	-	**(56,405)**
Repayment of debt instruments *(Note 16)*	**-**	(15,000)	**-**
Repayment of lease liabilities *(Note 17)*	**(6,272)**	(5,429)	**(44,224)**
Dividends paid	**(10,029)**	(7,525)	**(70,715)**
Dividends paid to non-controlling interests	**(129)**	(100)	**(915)**
Acquisition of treasury shares	**(2)**	(1)	**(14)**
Payments for obligations for non-controlling interests	**(4,334)**	(4,245)	**(30,560)**
Distributions to owners of other equity instruments *(Note 21)*	**(1,768)**	(1,764)	**(12,469)**
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	**(417)**	(46)	**(2,943)**
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	**15**	-	**105**
Others	**(4,282)**	2,014	**(30,196)**
Net cash flows used in financing activities	**(16,371)**	(38,978)	**(115,427)**
Effect of exchange rate changes on cash and cash equivalents	**3,713**	3,797	**26,180**
Change in cash and cash equivalents	**2,219**	(10,305)	**15,650**
Cash and cash equivalents at the beginning of the period	**36,992**	47,298	**260,825**
Cash and cash equivalents at the end of period *(Note 7)*	**¥ 39,212**	¥ 36,992	**$ 276,475**

See accompanying notes to consolidated financial statements.

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 2023 (the fiscal year 2023) 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, universal milling machines for five-axis machining and additive manufacturing machines), 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, “Material Accounting Policies,” the consolidated financial statements have been prepared on a historical cost basis, with the main exceptions of financial instruments, which are measured at fair value, and the application of hyperinflation accounting for the Company’s subsidiary in Turkey.

(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 ¥141.83 to U.S. $1.00 as of 31 December 2023. 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 28 March 2024.

(5) Changes in accounting policies

IAS 12 “Income Taxes”

The Group has applied the standard “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” (an amendment of IAS 12 “Income Taxes”) effective for the fiscal year ended 31 December 2023. The adoption of this standard does not have a material impact on the Group’s consolidated financial statements for the fiscal year ended 31 December 2023.
And the Group has applied the standard “International Tax Reform -Pillar Two Model Rules-” (an amendment of IAS 12 “Income Taxes”) effective for the fiscal year ended 31 December 2023.
The amendments clarify that IAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two GloBE (Global Anti-Base Erosion) Rules of Base Erosion and Profit Shifting (BEPS) published by the OECD. ”global minimum tax” However, the amendments introduce a temporary exception from recognizing and disclosing deferred tax assets and liabilities for income taxes arising from global minimum taxes. The Group has applied the exception mentioned above and does not recognize or disclose deferred tax assets and liabilities for income taxes arising from global minimum taxes.

3. Material Accounting Policies

The material 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 2023, 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 "Share of profits (losses) of associates and joint ventures accounted for using equity method" 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:

Buildings and structures	: 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 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) Temporary differences on initial recognition of an asset and liability arising from a transaction which is not a business combination, does not affect either accounting or tax profit or loss, and does not give rise to equal taxable temporary differences and deductible temporary differences at the time of the transaction.

(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.

(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. However, accounting adjustments have been made to financial statements of subsidiaries operating in hyperinflationary economies in accordance with the requirements set out in IAS 29 “Financial Reporting in Hyperinflationary Economies.” These adjustments have no material impact on the Group’s consolidated financial statements.

(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 “Material Accounting Policies,” Note 10 “Property, Plant and Equipment,” and Note 11 “Goodwill and Other Intangible Assets”)

   An impairment test is performed annually or each time 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 costs 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, there are the Group entities in Russia, such as a factory for the assembly of machine tools in Ulyanovsk, and a sales and service branch in Moscow; changes in the business environment present the risk of causing significant adjustments to the recoverable amounts of the property, plant and equipment owned by these subsidiaries in the consolidated financial statements in the next fiscal year.

   Information about uncertainties in assumptions and estimates that have a risk of causing significant adjustments to the carrying amounts of property, plant and equipment in the next fiscal year is included in Note 10, “Property, Plant and Equipment.”

2. Recoverability of deferred tax assets (“(12) Income taxes” in Note 3 “Material 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 “Material 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 assumes the expected payment timing and estimates the present discounted value of financial liabilities arising from the DPLTA. The timing of purchase of shares, conditions for payment and changes in future economic conditions may have an effect 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

Regarding new accounting standards, amended standards and new interpretations that are issued or amended before the approval date of the consolidated financial statements, but not yet adopted by the Group, the impact of amendments to IAS 7 “Statement of Cash Flows” and IFRS 7 “Financial Instruments: Disclosures” (Supplier Finance Arrangements) to the Group’s consolidated financial statements is still under consideration, and cannot be estimated at this time.
(Reporting periods beginning on or after which the application is required : January 1, 2024, reporting periods for adoption by the company：Fiscal year ended December 31, 2024)
As for the application of other standards, the impact of applying those standards to the Group’s consolidated financial statements is still under review.

5. Significant Change in Scope of Consolidation

There was no significant change in scope of consolidation during the fiscal years 2023 and 2022.

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 at the Board of Directors and the Management Meeting 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, “Material 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 2023 and 2022 are summarized as follows:

	Millions of yen					
	2023					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	¥ **357,774**	¥ **181,639**	¥ **539,413**	¥ **37**	¥ **-**	¥ **539,450**
Inter-segment	**310,515**	**48,172**	**358,688**	**1,703**	**(360,391)**	**-**
Total	**668,289**	**229,811**	**898,101**	**1,741**	**(360,391)**	**539,450**
Segment income *(Note 1)*	**40,142**	**37,969**	**78,112**	**(18,214)**	**(5,555)**	**54,342**
Financial income	**-**	**-**	**-**	**-**	**-**	**1,138**
Financial costs	**-**	**-**	**-**	**-**	**-**	**(7,553)**
Profit before income taxes	**-**	**-**	**-**	**-**	**-**	**47,927**
Segment assets *(Note 2)*	**733,358**	**694,003**	**1,427,361**	**573,082**	**(1,234,637)**	**765,806**
Other items						
Depreciation and amortization	**13,320**	**6,971**	**20,292**	**6,483**	**(257)**	**26,518**
Investments in associates and joint ventures	**3,886**	**275**	**4,162**	**2,160**	**-**	**6,322**
Capital expenditure	¥ **23,602**	¥ **10,461**	¥ **34,064**	¥ **14,737**	¥ **(729)**	¥ **48,072**

(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					
	2023					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	**$ 2,522,555**	**$ 1,280,682**	**$ 3,803,238**	**$ 264**	**$ -**	**$ 3,803,502**
Inter-segment	**2,189,351**	**339,648**	**2,528,999**	**12,013**	**(2,541,013)**	**-**
Total	**4,711,907**	**1,620,330**	**6,332,237**	**12,278**	**(2,541,013)**	**3,803,502**
Segment income *(Note 1)*	**283,035**	**267,709**	**550,744**	**(128,423)**	**(39,170)**	**383,150**
Financial income	**-**	**-**	**-**	**-**	**-**	**8,026**
Financial costs	**-**	**-**	**-**	**-**	**-**	**(53,257)**
Profit before income taxes	**-**	**-**	**-**	**-**	**-**	**337,919**
Segment assets *(Note 2)*	**5,170,687**	**4,893,204**	**10,063,891**	**4,040,629**	**(8,705,051)**	**5,399,469**
Other items						
Depreciation and amortization	**93,921**	**49,153**	**143,074**	**45,713**	**(1,813)**	**186,973**
Investments in associates and joint ventures	**27,402**	**1,942**	**29,345**	**15,234**	**-**	**44,579**
Capital expenditure	**$ 166,415**	**$ 73,759**	**$ 240,175**	**$ 103,913**	**$ (5,146)**	**$ 338,941**

(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					
	2022					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	¥ 317,015	¥ 157,725	¥ 474,740	¥ 30	¥ -	¥ 474,771
Inter-segment	257,197	42,728	299,925	1,464	(301,390)	-
Total	574,212	200,453	774,666	1,495	(301,390)	474,771
Segment income *(Note 1)*	24,053	30,119	54,173	(9,175)	(3,921)	41,076
Financial income	-	-	-	-	-	633
Financial costs	-	-	-	-	-	(5,181)
Profit before income taxes	-	-	-	-	-	36,528
Segment assets *(Note 2)*	700,961	609,303	1,310,264	532,225	(1,162,155)	680,334
Other items						
Depreciation and amortization	11,903	7,116	19,019	5,218	(221)	24,016
Investments in associates and joint ventures	3,723	227	3,950	1,966	-	5,917
Capital expenditure	¥ 20,806	¥ 10,894	¥ 31,700	¥ 15,344	¥ (503)	¥ 46,541

(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

Beginning in the fiscal year 2022, the methods by which inter-segment sales, segment assets, depreciation and amortization, investments in associates and joint ventures, and capital expenditures are totaled were changed in order to reflect a more appropriate management of the performance of reportable segments.

(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*
	2023	2022	**2023**
Japan	¥ **84,721**	¥ 74,412	$ **597,348**
Germany	**148,835**	127,445	**1,049,390**
Americas	**97,533**	85,885	**687,677**
Europe other than Germany	**165,581**	137,741	**1,167,461**
China and Asia	**42,779**	49,285	**301,624**
Total	¥ **539,450**	¥ 474,771	$ **3,803,502**

(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*
	2023	2022	**2023**
Japan	¥ **138,131**	¥ 114,878	$ **973,922**
Germany	**123,894**	110,390	**873,542**
Americas	**17,693**	13,206	**124,752**
Europe other than Germany	**114,227**	103,360	**805,382**
China and Asia	**28,392**	24,064	**200,186**
Eliminations	**(21,974)**	(20,024)	**(154,932)**
Total	¥ **400,365**	¥ 345,875	$ **2,822,854**

(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, right-of-use assets, 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 2023 and 2022.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents at 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Cash on hand and at banks with maturities of three months or less	¥ **39,212**	¥ 36,992	$ **276,475**
Total	¥ **39,212**	¥ 36,992	$ **276,475**

(Note) The balance of cash and cash equivalents in the consolidated statement of financial position at 31 December 2023 and 2022 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 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Notes receivable and trade receivables	**¥ 52,928**	¥ 57,432	**$ 373,181**
Other	**13,699**	14,644	**96,592**
Allowance for doubtful receivables	**(3,700)**	(3,639)	**(26,092)**
Total	**¥ 62,927**	¥ 68,437	**$ 443,681**

9. Inventories

The breakdown of inventories at 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Raw materials and supplies	**¥ 83,852**	¥ 82,650	**$ 591,217**
Work in process	**38,726**	35,596	**273,051**
Merchandise and finished goods	**78,264**	47,969	**551,815**
Total	**¥ 200,843**	¥ 166,217	**$ 1,416,084**

(Note 1) “Costs of raw materials and consumables” in the consolidated statement of profit or loss includes the write-downs of inventories of ¥10,859 million ($76,564 thousand) and ¥4,401 million for the fiscal years 2023 and 2022, respectively.

(Note 2) Cost of inventories recognized in profit or loss for the fiscal years ended 31 December 2023 and 2022 amounted to ¥310,621 million ($2,190,094 thousand) and ¥278,571 million, respectively, including the above write-downs of inventories.

(Note 3) There is no significant reversal of write-downs for the fiscal years 2023 and 2022.

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 2023 and 2022 is as follows:

Acquisition cost

Millions of yen

	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ **190,022**	¥ **46,356**	¥ **46,096**	¥ **14,165**	¥ **296,641**
Acquisitions	**9,162**	**8,909**	**5,157**	**15,867**	**39,096**
Disposals	**(2,746)**	**(7,403)**	**(4,915)**	**(3,353)**	**(18,419)**
Reclassification from construction in progress	**11,387**	**5,866**	**1,633**	**(18,887)**	**-**
Exchange differences on translation of foreign operations	**7,434**	**2,921**	**4,269**	**3,548**	**18,173**
Ending balance	¥ **215,260**	¥ **56,650**	¥ **52,240**	¥ **11,340**	¥ **335,492**

Thousands of U.S. dollars

	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	$ **1,339,791**	$ **326,848**	$ **325,011**	$ **99,876**	$ **2,091,528**
Acquisitions	**64,599**	**62,818**	**36,360**	**111,877**	**275,656**
Disposals	**(19,364)**	**(52,201)**	**(34,659)**	**(23,643)**	**(129,868)**
Reclassification from construction in progress	**80,289**	**41,364**	**11,515**	**(133,170)**	**-**
Exchange differences on translation of foreign operations	**52,420**	**20,595**	**30,100**	**25,020**	**128,136**
Ending balance	$ **1,517,735**	$ **399,426**	$ **368,329**	$ **79,960**	$ **2,365,452**

Accumulated depreciation and impairment losses

	Millions of yen				
	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ (76,456)	¥ (23,681)	¥ (33,538)	¥ -	¥ (133,676)
Depreciation	(4,796)	(3,976)	(4,013)	-	(12,786)
Impairment losses	(1,559)	-	-	(53)	(1,612)
Disposals	1,921	2,855	4,297	-	9,074
Exchange differences on translation of foreign operations	(2,660)	(1,207)	(3,391)	-	(7,259)
Ending balance	¥ (83,551)	¥ (26,009)	¥ (36,646)	¥ (53)	¥ (146,260)

	Thousands of U.S. dollars				
	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	$ (539,070)	$ (166,974)	$ (236,466)	$ -	$ (942,511)
Depreciation	(33,820)	(28,034)	(28,300)	-	(90,155)
Impairment losses	(10,996)	-	-	(374)	(11,371)
Disposals	13,547	20,133	30,301	-	63,982
Exchange differences on translation of foreign operations	(18,756)	(8,512)	(23,915)	-	(51,184)
Ending balance	$ (589,096)	$ (183,387)	$ (258,380)	$ (374)	$ (1,031,238)

Carrying amounts

	Millions of yen				
	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ 113,566	¥ 22,675	¥ 12,558	¥ 14,165	¥ 162,965
Ending balance	¥ 131,708	¥ 30,640	¥ 15,594	¥ 11,287	¥ 189,231

	Thousands of U.S. dollars				
	2023				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	$ 800,720	$ 159,874	$ 88,545	$ 99,876	$ 1,149,017
Ending balance	$ 928,639	$ 216,039	$ 109,949	$ 79,586	$ 1,334,214

(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				
	2022				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ 166,652	¥ 40,190	¥ 41,562	¥ 9,894	¥ 258,300
Acquisitions	12,219	2,952	3,992	17,490	36,654
Disposals	(1,918)	(1,552)	(4,282)	(4,170)	(11,923)
Reclassification from construction in progress	6,312	2,280	774	(9,368)	-
Exchange differences on translation of foreign operations	6,756	2,486	4,048	319	13,610
Ending balance	¥ 190,022	¥ 46,356	¥ 46,096	¥ 14,165	¥ 296,641

Accumulated depreciation and impairment losses

	Millions of yen				
	2022				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ (69,353)	¥ (19,928)	¥ (30,941)	¥ -	¥ (120,223)
Depreciation	(4,379)	(3,539)	(3,482)	-	(11,400)
Impairment losses	(1,491)	-	-	-	(1,491)
Disposals	1,857	904	4,009	-	6,771
Exchange differences on translation of foreign operations	(3,089)	(1,119)	(3,123)	-	(7,332)
Ending balance	¥ (76,456)	¥ (23,681)	¥ (33,538)	¥ -	¥ (133,676)

Carrying amounts

	Millions of yen				
	2022				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Beginning balance	¥ 97,298	¥ 20,262	¥ 10,620	¥ 9,894	¥ 138,076
Ending balance	¥ 113,566	¥ 22,675	¥ 12,558	¥ 14,165	¥ 162,965

(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 Group tests for impairment whenever there is any indication for impairment of owned property, plant and equipment. There are the Group entities in Russia such as Ulyanovsk Machine Tools ooo, a factory for the assembly of machine tools in Ulyanovsk, and DMG MORI Rus ooo, a sales and service branch in Moscow (hereafter "Russian subsidiaries"). Since the Group has suspended production at the factory and business activities at the sales and service branch due to the conflict between Russia and Ukraine that has been taking place since February 2022. Judging there was an indication that the assets may be impaired, the Group tested property, plant and equipment owned by the Russian subsidiaries for impairment as respective cash generating units. With regard to the recoverable amount of property, plant and equipment owned by the Russian subsidiaries, property, plant and equipment for each subsidiary is determined as a cash generating unit based on fair value less costs of disposal. The key assumptions used for the calculation of fair value less costs of disposal are as follows:

- Estimated future cash flow: Management considers various scenarios after taking into consideration the political and economic uncertainties in the situation between Russia and Ukraine, the outlook of which is unclear, and makes estimates regarding expected cash flows. Specifically, the scenarios considered were a valuation or a sale of the property, plant and equipment at fair value under the assumption that the Group withdraws its business (scenario one), the expropriation of the property, plant and equipment by the Russian government, the withdrawal of businesses and insurance claims made with the Federal German government (scenario two), and the case in which business restarts after a certain period under the assumption that future economic sanctions are lifted (scenarios three and four). Management then takes the weighted average of the calculated fair value less costs of disposal for each scenario based on the probability of the scenario occurrence, and calculates the estimated amount of future cash flows. The fair value less costs of disposal calculated under scenarios one and two would have significant impact on the estimated amount of future cash flows. The probability of each scenario is a key assumption due to the impact of the previously mentioned situation with Russia and Ukraine as well as subjective judgments by management as the estimates are highly uncertain.
- Pre-tax discount rate: The Group used a pre-tax discount rate of 16.1% at 31 December 2023 (14.3% at 31 December 2022), reflecting current market assessments of the time value of money and specific risks, excluding country risks in Russia.

The fair value is categorized as a Level 3 measurement because inputs that are not based on observable market data are used in the measurement.

As a result of the impairment test, for the fiscal year 2023, the Group recorded impairment losses of ¥1,559 million ($10,996 thousand) in total (¥1,491 million for the fiscal year 2022), including ¥753 million ($5,313 thousand) (¥527 million for the fiscal year 2022) for Ulyanovsk Machine Tools ooo (Machine Tools segment) and ¥806 million ($5,683 thousand) (¥964 million for the fiscal year 2022) for DMG MORI Rus ooo (Industrial Services segment). Impairment losses are included in "Other operating costs" in the consolidated statement of profit or loss.

At the end of the fiscal year 2023 (31 December 2023), the carrying amount of the property, plant and equipment owned by the Russian subsidiaries was ¥3,221 million ($22,712 thousand) (¥4,763 million as of 31 December 2022) for Ulyanovsk Machine Tools ooo and ¥1,277 million ($9,007 thousand) (¥2,484 million as of 31 December 2022) for DMG MORI Rus ooo. These estimates are believed to be management's best estimate as of 31 December 2023, but they may be affected by changes in uncertain future economic conditions. In the event that the assumed situation changes, the calculation result of fair value less costs of disposal may differ. In the event that the main assumptions change more than the reasonable scope, the result of the impairment test may differ.

Furthermore, as described in Note 38. "Events after the Reporting Period", the Russian government expropriated the shares of Ulyanovsk Machine Tools ooo. Since the Company had received no contact regarding the facts of this case of expropriation till fiscal year end and the Russian government issued a decree concerning the expropriation without warning on 19 February 2024, the Company deemed this matter falls under non-adjusting events after the reporting period in accordance with "IAS10 Events after the Reporting Period" (par3(b), par10, par21 and par22(c)), and did not take it into consideration in the estimation of future cash flow in the calculation of the fair value less costs of disposal.

11. Goodwill and Other Intangible Assets

(1) The movement in acquisition cost, accumulated impairment losses and carrying amount for goodwill for the fiscal years 2023 and 2022 is as follows:

	Millions of yen		
	2023		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	¥ **77,245**	¥ **(402)**	¥ **76,842**
Acquisitions	**-**	**-**	**-**
Acquisitions through business combinations	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment losses	**-**	**-**	**-**
Exchange differences on translation of foreign operations	**8,758**	**(14)**	**8,744**
Ending balance	¥ **86,003**	¥ **(416)**	¥ **85,587**

	Thousands of U.S. dollars		
	2023		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	$ **544,631**	$ **(2,836)**	$ **541,794**
Acquisitions	**-**	**-**	**-**
Acquisitions through business combinations	**-**	**-**	**-**
Disposals	**-**	**-**	**-**
Impairment losses	**-**	**-**	**-**
Exchange differences on translation of foreign operations	**61,754**	**(100)**	**61,653**
Ending balance	$ **606,385**	$ **(2,936)**	$ **603,448**

	Millions of yen		
	2022		
	Acquisition cost	Accumulated impairment losses	Carrying amount
Beginning balance	¥ 71,227	¥ (392)	¥ 70,834
Acquisitions	-	-	-
Acquisitions through business combinations	-	-	-
Disposals	-	-	-
Impairment losses	-	-	-
Exchange differences on translation of foreign operations	6,017	(9)	6,007
Ending balance	¥ 77,245	¥ (402)	¥ 76,842

(2) The movement in acquisition cost, accumulated amortization and impairment losses and carrying amount for other intangible assets for the fiscal years 2023 and 2022 is as follows:

Acquisition cost

	Millions of yen						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ **47,697**	¥ **8,997**	¥ **6,701**	¥ **1,806**	¥ **19,423**	¥ **64,254**	¥ **148,881**
Acquisitions	**28**	**-**	**-**	**56**	**-**	**11,758**	**11,842**
Additions due to internal development	**-**	**-**	**-**	**-**	**4,262**	**-**	**4,262**
Disposals	**-**	**-**	**-**	**(7)**	**(170)**	**(1,219)**	**(1,397)**
Item reclassification	**-**	**-**	**-**	**-**	**(7)**	**7**	**-**
Exchange differences on translation of foreign operations	**5,266**	**924**	**741**	**29**	**2,175**	**3,057**	**12,194**
Ending balance	¥ **52,992**	¥ **9,922**	¥ **7,443**	¥ **1,883**	¥ **25,683**	¥ **77,858**	¥ **175,783**

	Thousands of U.S. dollars						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	$ **336,302**	$ **63,437**	$ **47,253**	$ **12,734**	$ **136,951**	$ **453,039**	$ **1,049,718**
Acquisitions	**200**	**-**	**-**	**395**	**-**	**82,905**	**83,500**
Additions due to internal development	**-**	**-**	**-**	**-**	**30,051**	**-**	**30,051**
Disposals	**-**	**-**	**-**	**(53)**	**(1,198)**	**(8,599)**	**(9,852)**
Item reclassification	**-**	**-**	**-**	**-**	**(54)**	**54**	**-**
Exchange differences on translation of foreign operations	**37,129**	**6,521**	**5,228**	**204**	**15,338**	**21,554**	**85,977**
Ending balance	$ **373,632**	$ **69,958**	$ **52,482**	$ **13,280**	$ **181,088**	$ **548,954**	$ **1,239,396**

Accumulated amortization and impairment losses

	Millions of yen						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥ (3,413)**	**¥ (5,693)**	**¥ (6,701)**	**¥ (1,710)**	**¥ (9,056)**	**¥ (36,111)**	**¥ (62,688)**
Amortization	**(435)**	**(613)**	**-**	**(28)**	**(1,682)**	**(5,748)**	**(8,509)**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**170**	**1,056**	**1,226**
Exchange differences on translation of foreign operations	**(341)**	**(587)**	**(741)**	**-**	**(1,905)**	**(1,326)**	**(4,902)**
Ending balance	**¥ (4,190)**	**¥ (6,895)**	**¥ (7,443)**	**¥ (1,739)**	**¥ (12,474)**	**¥ (42,130)**	**¥ (74,873)**

	Thousands of U.S. dollars						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$ (24,066)**	**$ (40,146)**	**$ (47,253)**	**$ (12,062)**	**$ (63,852)**	**$ (254,613)**	**$ (441,994)**
Amortization	**(3,071)**	**(4,328)**	**-**	**(204)**	**(11,864)**	**(40,528)**	**(59,996)**
Impairment losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Disposals	**-**	**-**	**-**	**-**	**1,198**	**7,445**	**8,644**
Exchange differences on translation of foreign operations	**(2,410)**	**(4,142)**	**(5,228)**	**-**	**(13,433)**	**(9,352)**	**(34,567)**
Ending balance	**$ (29,548)**	**$ (48,616)**	**$ (52,482)**	**$ (12,266)**	**$ (87,951)**	**$ (297,047)**	**$ (527,913)**

Carrying amount

	Millions of yen						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ **44,284**	¥ **3,303**	¥ **-**	¥ **95**	¥ **10,367**	¥ **28,142**	¥ **86,193**
Ending balance	¥ **48,801**	¥ **3,026**	¥ **-**	¥ **143**	¥ **13,209**	¥ **35,727**	¥ **100,909**

	Thousands of U.S. dollars						
	2023						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	$ **312,235**	$ **23,290**	$ **-**	$ **671**	$ **73,099**	$ **198,426**	$ **607,724**
Ending balance	$ **344,083**	$ **21,342**	$ **-**	$ **1,013**	$ **93,137**	$ **251,906**	$ **711,482**

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 ¥40,738 million ($287,237 thousand) as of 31 December 2023. 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 2023 were ¥13,209 million ($93,137 thousand) and included in capitalized development costs in the above table.

Acquisition cost

	Millions of yen						
	2022						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 43,981	¥ 8,236	¥ 6,184	¥ 1,739	¥ 14,069	¥ 54,751	¥ 128,963
Acquisitions	7	-	-	67	-	10,765	10,840
Additions due to internal development	-	-	-	-	3,661	-	3,661
Disposals	-	-	-	(0)	-	(6,838)	(6,839)
Item reclassification	-	-	-	-	196	(196)	-
Exchange differences on translation of foreign operations	3,708	761	517	-	1,495	5,773	12,255
Ending balance	¥ 47,697	¥ 8,997	¥ 6,701	¥ 1,806	¥ 19,423	¥ 64,254	¥ 148,881

Accumulated amortization and impairment losses

	Millions of yen						
	2022						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ (2,802)	¥ (4,814)	¥ (6,184)	¥ (1,691)	¥ (6,317)	¥ (32,637)	¥ (54,448)
Amortization	(372)	(553)	-	(19)	(1,425)	(4,818)	(7,189)
Impairment losses	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	5,304	5,304
Exchange differences on translation of foreign operations	(237)	(325)	(517)	-	(1,313)	(3,959)	(6,353)
Ending balance	¥ (3,413)	¥ (5,693)	¥ (6,701)	¥ (1,710)	¥ (9,056)	¥ (36,111)	¥ (62,688)

Carrying amount

	Millions of yen						
	2022						
	Trademarks	Customer-related assets	Technology-related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 41,179	¥ 3,421	¥ -	¥ 47	¥ 7,752	¥ 22,113	¥ 74,514
Ending balance	¥ 44,284	¥ 3,303	¥ -	¥ 95	¥ 10,367	¥ 28,142	¥ 86,193

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 ¥36,679 million as of 31 December 2022. 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 2022 were ¥10,367 million and included in capitalized development costs in the above table.

(3) Impairment losses

The Group did not record any impairment loss for the fiscal year ended 31 December 2023 and 31 December 2022.

(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	**2023**	2022	**2023**
Goodwill	Machine Tools	**¥ 38,235**	¥ 34,426	**$ 269,590**
	Industrial Services	**43,869**	39,125	**309,313**
	Total	**¥ 82,105**	¥ 73,552	**$ 578,903**
Intangible assets with indefinite useful lives	Machine Tools	**¥ 18,357**	¥ 16,528	**$ 129,432**
	Industrial Services	**22,381**	20,151	**157,804**
	Total	**¥ 40,738**	¥ 36,679	**$ 287,237**

In addition to the above, other intangible assets includes trademark rights (¥8,388 million ($59,147 thousand) in the fiscal year 2023, and ¥7,908 million in the fiscal year 2022), and customer-related assets (¥2,876 million ($20,279 thousand) in the fiscal year 2023, and ¥3,010 million in the fiscal year 2022), with remaining amortization periods for the fiscal year 2023 of 21 years and approximately 6 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	**2023**		2022		**2023**	
Goodwill	Machine Tools	**¥**	**38,235**	¥	34,426	**$**	**269,590**
	Industrial Services		**47,351**		42,416		**333,858**
	Total	**¥**	**85,587**	¥	76,842	**$**	**603,448**
Intangible assets with indefinite useful lives	Machine Tools	**¥**	**18,357**	¥	16,528	**$**	**129,432**
	Industrial Services		**22,381**		20,151		**157,804**
	Total	**¥**	**40,738**	¥	36,679	**$**	**287,237**

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 operating profit margin.

  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 2023 and 2022, respectively.
- Pre-tax discount rate: The Group used discount rates of 10.8% and 11.9% at 31 December 2023 and 2022, 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 2023 (31 December 2023) were ¥56,593 million ($399,022 thousand) in the Machine Tools segment and ¥66,251 million ($467,117 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 2023 (31 December 2023) and the fiscal year 2022 (31 December 2022) exceeded the corresponding carrying amounts by ¥40,292 million ($284,090 thousand) and ¥22,487 million in the Machine Tools segment and ¥158,000 million ($1,114,012 thousand) and ¥74,816 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 pre-tax discount rate and perpetual growth rate for the Machine Tools segment had changed by 2.0% and (3.2)% respectively at the end of the fiscal year 2023, it is possible that the recoverable amount would have fallen under the carrying amount. In addition, if we assume that the pre-tax discount rate and perpetual growth rate for the Industrial Services segment had changed by 11.9% and (45.0)% respectively at the end of the fiscal year 2023, 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 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Financial assets measured at amortized cost:			
Other financial assets including loans	**¥ 9,788**	¥ 10,929	**$ 69,014**
Financial assets measured at fair value through other comprehensive income			
Other financial assets (Equities)	**21,631**	21,094	**152,516**
Financial assets measured at fair value through profit:			
Derivative assets	**540**	602	**3,807**
Total	**¥ 31,959**	¥ 32,625	**$ 225,338**
Current assets	**5,713**	6,503	**40,285**
Non-current assets	**26,246**	26,122	**185,053**
Total	**¥ 31,959**	¥ 32,625	**$ 225,338**

13. Investments in Associates and Joint Ventures

The carrying amount of the Group's investments in associates and joint ventures as of 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Carrying amount of investments in associates	**¥ 6,322**	¥ 5,917	**$ 44,579**

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

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Profit attributable to the Group	**¥ 192**	¥ (137)	**$ 1,354**
Other comprehensive income attributable to the Group	**212**	350	**1,500**
Total	**¥ 404**	¥ 212	**$ 2,854**

14. Trade and Other Payables

The breakdown of trade and other payables as of 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Trade payables	**¥ 42,883**	¥ 40,939	**$ 302,357**
Other payables	**20,401**	15,857	**143,847**
Others	**19,628**	16,009	**138,396**
Total	**¥ 82,914**	¥ 72,806	**$ 584,601**

15. Interest-bearing Bonds and Borrowings

(1) The breakdown of interest-bearing bonds and borrowings as of 31 December 2023 and 2022 is as follows:

	Millions of yen		Average interest rate (%) (Note)	Maturity (Note)	*Thousands of U.S. dollars*
	2023	2022			**2023**
Financial liabilities measured at amortized cost:					
Short-term borrowings	¥ **21,253**	¥ 5,157	0.16-3.50	-	$ **149,854**
Long-term borrowings due within one year	**-**	46,083	-	-	**-**
Long-term borrowings (excluding those due within one year)	**52,474**	40	0.18-3.90	2030	**369,978**
Interest-bearing bonds due within one year	**39,933**	-	-	-	**281,562**
Interest-bearing bonds (excluding those due within one year)	**-**	39,812	-	2040	**-**
Total	¥ **113,661**	¥ 91,093			$ **801,395**
Current liabilities	¥ **61,187**	¥ 51,241			$ **431,416**
Non-current liabilities	**52,474**	39,852			**369,978**
Total	¥ **113,661**	¥ 91,093			$ **801,395**

(Note) Average interest rate and maturity are based on the respective information at the end of fiscal year 2023.

(2) Euro-yen denominated convertible bonds

In July 2021, the Company raised funds of ¥40 billion ($282 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 ($282 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 (Note)	30.04% / ¥2,549.4 ($17.97)
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).

(Note) In light of the approval of the proposal at the 76th annual general meeting of shareholders held on 28 March 2024 to make the year-end dividend of ¥50 ($0.35) per share, and the annual dividend of ¥90 ($0.63) per share, the conversion price was adjusted from ¥2,549.4 ($17.97) to ¥2,499.7 ($17.62) effective retrospectively from 1 January 2024 in line with the conversion price adjustment clause.

16. Other Financial Liabilities

The breakdown of other financial liabilities as of 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Financial liabilities measured at amortized cost:			
Payment obligation for external shareholders *(Note)*	**¥ 58,999**	¥ 55,413	**$ 415,989**
Other financial liabilities (Lease liabilities, etc.)	**52,846**	36,949	**372,604**
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	**431**	2,247	**3,038**
Total	**¥ 112,277**	¥ 94,610	**$ 791,632**
Current liabilities	**¥ 71,967**	¥ 7,304	**$ 507,424**
Non-current liabilities	**40,309**	87,305	**284,208**
Total	**¥ 112,277**	¥ 94,610	**$ 791,632**

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

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*
	2023	2022	**2023**
Depreciation of right-of-use assets			
Land, buildings, and structures	**¥ 2,190**	¥ 2,295	**$ 15,442**
Machinery and vehicles	**1,220**	1,590	**8,605**
Tools, furniture, and fixtures	**1,811**	1,539	**12,774**
Total	**5,222**	5,425	**36,822**
Lease expense from exemption of short-term leases	**1,352**	1,210	**9,539**
Lease expense from exemption of low-value assets	**317**	258	**2,235**
Interest expense for lease liabilities	**¥ 545**	¥ 540	**$ 3,849**

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

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Total cash outflow from lease transactions	**¥ 6,272**	¥ 5,429	**$ 44,224**

(2) Variable lease payments (lessee)

No variable lease payment is planned at the end of the fiscal year 2023.

(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 2023.

(4) Residual value guarantees (lessee)

No payment associated with residual value guarantees is planned at the end of the fiscal year 2023.

(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 2022. The table below shows profit or loss from sale and leaseback transactions.

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Gain or loss from sale and leaseback transactions	**¥ -**	¥ 34	**$ -**

(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*
	2023	2022	**2023**
Increase in right-of-use assets	**¥ 8,339**	¥ 5,777	**$ 58,802**

(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*
	2023	2022	**2023**
Land, buildings, and structures	**¥ 19,308**	¥ 15,172	**$ 136,139**
Machinery and vehicles	**1,709**	2,247	**12,054**
Tools, furniture, and fixtures	**3,618**	2,454	**25,514**
Total	**¥ 24,637**	¥ 19,874	**$ 173,709**

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 benefit 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 2023 and 2022 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Present value of defined benefit obligations	**¥ 10,019**	¥ 8,695	**$ 70,642**
Fair value of plan assets	**(4,826)**	(4,215)	**(34,028)**
Funded status	**5,192**	4,479	**36,614**
Net defined benefit liabilities	**5,192**	4,479	**36,614**
Amounts in consolidated statement of financial position:			
Net employee defined benefit liabilities	**¥ 5,192**	¥ 4,479	**$ 36,614**

Costs of defined benefit plans recognized in the consolidated statements of profit or loss for the fiscal years 2023 and 2022 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Current service cost	**¥ 189**	¥ 203	**$ 1,334**
Past service cost	**49**	21	**350**
Subtotal of operating costs	**238**	225	**1,684**
Net interest cost	**153**	57	**1,081**
Subtotal of financial costs	**153**	57	**1,081**
Total	**¥ 392**	¥ 283	**$ 2,766**

The movement in the present value of defined benefit obligations for the fiscal years 2023 and 2022 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Beginning balance	**¥ 8,695**	¥ 9,086	**$ 61,307**
Pension cost charged to profit or loss:			
Current service cost	**189**	203	**1,334**
Past service cost	**49**	21	**350**
Interest cost	**271**	83	**1,912**
Subtotal	**510**	309	**3,596**
Remeasurement (gains) losses in other comprehensive income:			
Actuarial gains and losses arising from changes in demographic assumptions	**-**	-	**-**
Actuarial gains and losses arising from changes in financial assumptions	**560**	(1,440)	**3,948**
Actuarial gains and losses arising from experience adjustments	**(127)**	200	**(897)**
Subtotal	**432**	(1,239)	**3,050**
Other:			
Benefits paid	**(470)**	(487)	**(3,316)**
Exchange differences on translation of foreign operations	**995**	775	**7,015**
Other	**(143)**	250	**(1,011)**
Subtotal	**381**	538	**2,687**
Ending balance	**¥ 10,019**	¥ 8,695	**$ 70,642**

The movement in the fair value in the plan assets for the fiscal years 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Beginning balance	**¥ 4,215**	¥ 3,905	**$ 29,722**
Amount recognized in profit or loss:			
Interest income	**117**	25	**830**
Subtotal	**117**	25	**830**
Amount recognized in other comprehensive income:			
Remeasurements of fair value of plan assets			
Return on plan assets	**(133)**	(49)	**(940)**
Subtotal	**(133)**	(49)	**(940)**
Other:			
Contributions to the plan by the employer	**515**	281	**3,634**
Benefits paid	**(438)**	(333)	**(3,090)**
Exchange differences on translation of foreign operations	**555**	384	**3,919**
Other	**(6)**	-	**(48)**
Subtotal	**626**	333	**4,415**
Ending balance	**¥ 4,826**	¥ 4,215	**$ 34,028**

(Note) The Group expects to contribute ¥588 million ($4,146 thousand) to its defined benefit pension plans for the year ending 31 December 2024.

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

	2023	2022
Discount rates (%)	**1.13-4.49**	1.36-5.32
Rate of increase in benefits paid (%)	**2.20-3.03**	2.20-2.88

(Note) The weighted average durations of the defined benefit obligation as of 31 December 2023 and 2022 were 12.8 years and 12.7 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. If significant actuarial assumptions changed, the defined benefit obligation would change as follows.

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Discount rate:			
0.25% increase	**¥ (263)**	¥ (226)	**$ (1,858)**
0.25% decrease	**163**	138	**1,151**
Changes in rate of increase in benefits paid:			
0.25% increase	**74**	59	**526**
0.25% decrease	**¥ (183)**	¥ (151)	**$ (1,291)**

The breakdown of the fair value of plan assets as of 31 December 2023 and 2022 is as follows:

Millions of yen

	2023					
	Quoted prices in active market		Quoted prices in active market unavailable		Total	
Cash and cash equivalents	¥	**47**	¥	**-**	¥	**47**
Equities		**664**		**-**		**664**
Bonds		**760**		**-**		**760**
Real estate		**488**		**2**		**490**
Insurance		**-**		**2,745**		**2,745**
Other		**88**		**29**		**117**
Total	¥	**2,048**	¥	**2,777**	¥	**4,826**

Thousands of U.S. dollars

	2023					
	Quoted prices in active market		Quoted prices in active market unavailable		Total	
Cash and cash equivalents	$	**336**	$	**-**	$	**336**
Equities		**4,683**		**-**		**4,683**
Bonds		**5,363**		**-**		**5,363**
Real estate		**3,440**		**20**		**3,460**
Insurance		**-**		**19,356**		**19,356**
Other		**621**		**206**		**827**
Total	$	**14,445**	$	**19,582**	$	**34,028**

Millions of yen

	2022					
	Quoted prices in active market		Quoted prices in active market unavailable		Total	
Cash and cash equivalents	¥	36	¥	-	¥	36
Equities		526		-		526
Bonds		637		-		637
Real estate		419		-		419
Insurance		-		2,499		2,499
Other		-		97		97
Total	¥	1,619	¥	2,596	¥	4,215

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 2023 and 2022 are as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Expenses for defined contribution plans	**¥ 3,567**	¥ 3,052	**$ 25,150**

19. Provisions

The movement in provisions for the fiscal years 2023 and 2022 is as follows:

	Millions of yen				
	2023				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	¥ **9,442**	¥ **14,778**	¥ **17,495**	¥ **10,762**	¥ **52,478**
Increase	**8,065**	**7,098**	**15,344**	**6,926**	**37,434**
Decrease due to intended use	**(6,495)**	**(7,695)**	**(12,964)**	**(4,799)**	**(31,955)**
Reversal	**(658)**	**(1,896)**	**(905)**	**(1,935)**	**(5,395)**
Increase due to passage of time	**-**	**-**	**-**	**11**	**11**
Exchange differences on translation of foreign operations	**954**	**1,299**	**1,531**	**1,011**	**4,796**
Ending balance	¥ **11,308**	¥ **13,584**	¥ **20,501**	¥ **11,974**	¥ **57,369**

	Thousands of U.S. dollars				
	2023				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	$ **66,576**	$ **104,199**	$ **123,355**	$ **75,879**	$ **370,010**
Increase	**56,866**	**50,052**	**108,185**	**48,833**	**263,938**
Decrease due to intended use	**(45,798)**	**(54,260)**	**(91,407)**	**(33,839)**	**(225,306)**
Reversal	**(4,642)**	**(13,368)**	**(6,380)**	**(13,649)**	**(38,041)**
Increase due to passage of time	**-**	**-**	**-**	**77**	**77**
Exchange differences on translation of foreign operations	**6,731**	**9,159**	**10,796**	**7,129**	**33,816**
Ending balance	$ **79,733**	$ **95,781**	$ **144,549**	$ **84,431**	$ **404,495**

	Millions of yen				
	2022				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	¥ 9,231	¥ 10,804	¥ 16,064	¥ 10,314	¥ 46,415
Increase	8,256	6,312	12,554	6,913	34,036
Decrease due to intended use	(6,566)	(2,789)	(11,053)	(4,973)	(25,383)
Reversal	(2,146)	(555)	(1,296)	(2,501)	(6,500)
Increase due to passage of time	-	-	-	4	4
Exchange differences on translation of foreign operations	668	1,006	1,226	1,004	3,906
Ending balance	¥ 9,442	¥ 14,778	¥ 17,495	¥ 10,762	¥ 52,478

The breakdown of provisions as of 31 December 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Current liabilities:			
Provision for product warranties	¥ **11,308**	¥ 9,442	$ **79,733**
Provision for sales commissions	**13,435**	14,148	**94,726**
Provision for personnel costs	**17,142**	14,262	**120,868**
Other provisions	**9,111**	7,805	**64,245**
Subtotal	**50,998**	45,659	**359,573**
Non-current liabilities:			
Provision for sales commissions	**149**	630	**1,055**
Provision for personnel costs	**3,358**	3,232	**23,680**
Other provisions	**2,863**	2,956	**20,186**
Subtotal	**6,371**	6,819	**44,922**
Total	¥ **57,369**	¥ 52,478	$ **404,495**

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 2023 and 2022 are as follows:

	Millions of yen				
	2023				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	¥ 1,041	¥ 193	¥ -	¥ -	¥ 1,234
Property, plant and equipment	1,131	299	-	-	1,430
Inventories	4,785	2,263	-	-	7,048
Trade and other receivables	257	158	-	-	415
Unused tax losses *(Note 2)*	3,553	(1,333)	-	-	2,219
Trade and other liabilities	1,699	4,942	-	-	6,641
Provisions	3,712	1,780	-	-	5,493
Other	2,058	965	-	-	3,023
Total	18,238	9,268	-	-	27,507
Deferred tax liabilities:					
Intangible assets	(16,745)	(148)	-	-	(16,893)
Property, plant and equipment	(818)	(8,026)	-	-	(8,845)
Financial assets measured at fair value through other comprehensive income	(396)	145	(788)	-	(1,038)
Inventories	(115)	(36)	-	-	(152)
Other	(3,756)	(833)	7	-	(4,582)
Total	(21,833)	(8,899)	(780)	-	(31,512)
Net amount	¥ (3,594)	¥ 369	¥ (780)	¥ -	¥ (4,005)

	Thousands of U.S. dollars				
	2023				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	**$ 7,340**	**$ 1,363**	**$ -**	**$ -**	**$ 8,703**
Property, plant and equipment	**7,976**	**2,109**	**-**	**-**	**10,085**
Inventories	**33,739**	**15,959**	**-**	**-**	**49,698**
Trade and other receivables	**1,814**	**1,115**	**-**	**-**	**2,930**
Unused tax losses *(Note 2)*	**25,054**	**(9,404)**	**-**	**-**	**15,650**
Trade and other liabilities	**11,981**	**34,844**	**-**	**-**	**46,825**
Provisions	**26,173**	**12,556**	**-**	**-**	**38,730**
Other	**14,514**	**6,804**	**-**	**-**	**21,319**
Total	**128,594**	**65,349**	**-**	**-**	**193,943**
Deferred tax liabilities:					
Intangible assets	**(118,067)**	**(1,045)**	**-**	**-**	**(119,113)**
Property, plant and equipment	**(5,774)**	**(56,592)**	**-**	**-**	**(62,366)**
Financial assets measured at fair value through other comprehensive income	**(2,794)**	**1,028**	**(5,557)**	**-**	**(7,322)**
Inventories	**(815)**	**(260)**	**-**	**-**	**(1,076)**
Other	**(26,488)**	**(5,874)**	**55**	**-**	**(32,307)**
Total	**(153,940)**	**(62,744)**	**(5,501)**	**-**	**(222,187)**
Net amount	**$ (25,345)**	**$ 2,604**	**$ (5,501)**	**$ -**	**$ (28,243)**

(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 2023 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				
	2022				
	Beginning balance	Recognized in profit or loss *(Note 1)*	Recognized in other comprehensive income	Other	Ending balance
Deferred tax assets:					
Intangible assets	¥ 1,411	¥ (370)	¥ -	¥ -	¥ 1,041
Property, plant and equipment	1,231	(100)	-	-	1,131
Inventories	3,716	1,068	-	-	4,785
Trade and other receivables	407	(150)	-	-	257
Unused tax losses *(Note 2)*	1,467	2,085	-	-	3,553
Trade and other liabilities	483	1,216	-	-	1,699
Provisions	3,507	205	-	-	3,712
Other	4,980	(2,921)	-	-	2,058
Total	17,206	1,032	-	-	18,238
Deferred tax liabilities:					
Intangible assets	(11,422)	(5,322)	-	-	(16,745)
Property, plant and equipment	(944)	125	-	-	(818)
Financial assets measured at fair value through other comprehensive income	(604)	10	197	-	(396)
Inventories	(84)	(30)	-	-	(115)
Other	(4,447)	954	(264)	-	(3,756)
Total	(17,503)	(4,263)	(66)	-	(21,833)
Net amount	¥ (297)	¥ (3,230)	¥ (66)	¥ -	¥ (3,594)

(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 2022 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*
	2023	2022	**2023**
Deductible temporary differences	¥ **9,001**	¥ 8,423	$ **63,467**
Unused tax losses	**1,293**	2,434	**9,118**
Unused tax credits	**58**	57	**409**
Total	¥ **10,352**	¥ 10,915	$ **72,994**

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*
	2023	2022	**2023**
Unused tax losses			
Year 1	¥ **77**	¥ 174	$ **546**
Year 2	**19**	135	**137**
Year 3	**40**	130	**285**
Year 4	**41**	589	**294**
Year 5 or later	**1,114**	1,404	**7,854**
Total	¥ **1,293**	¥ 2,434	$ **9,118**
Unused tax credits			
Year 1	¥ **33**	¥ 17	$ **236**
Year 2	**7**	33	**53**
Year 3	**16**	6	**119**
Year 4	**-**	-	**-**
Year 5 or later	**-**	-	**-**
Total	¥ **58**	¥ 57	$ **409**

(3) Income tax expense

The breakdown of income tax expense recognized for the fiscal years 2023 and 2022 is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Current income tax expense	¥ **14,007**	¥ 9,047	$ **98,763**
Deferred income tax expense:			
Temporary differences originated and reversed	**(851)**	1,383	**(6,000)**
Changes in tax rate or imposition of new taxation	**-**	(0)	**-**
Change in unused tax losses or temporary differences not recognized in prior years	**541**	298	**3,815**
Total	**(309)**	1,680	**(2,185)**
Total income taxes	¥ **13,697**	¥ 10,728	$ **96,578**

(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 2023 and 2022. 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 2023 and 2022 is as follows:

	2023	2022
Effective statutory tax rate	**30.46%**	30.46%
Non-deductible expenses, such as entertainment expenses	**4.84**	5.98
Tax credits	**(2.89)**	(1.44)
Non-taxable income, such as dividend income	**(4.47)**	(2.19)
Temporary differences arising from investments in associates	**1.14**	0.88
Changes in unrecognized deferred tax assets	**1.25**	(1.79)
Effect of change in applicable tax rates	**-**	0.05
Effect of elimination of gain or loss on sales of subsidiaries' stock on consolidation	**(0.00)**	0.67
Effective tax rate difference in overseas consolidated subsidiaries	**(3.92)**	(4.27)
Other	**2.17**	1.02
Actual tax rates	**28.58**	29.37

(Global minimum tax rules)

Pillar Two legislation has been enacted in certain legal jurisdictions where the Group conducts sales activities. The legislation was effective to the Group's fiscal years commencing on or beginning January 1 2024.

Based on the most recent tax filings, country-by-country reporting, and financial statements for the constituent entities in the Group subject to this legislation, the Group conducted an assessment of the potential exposure to Pillar Two income tax. The result of this assessment indicates that in some lightly taxed countries where certain subsidiaries are located, additional tax will be imposed until the tax burden reaches at 15% minimum rate. However, the Group concluded that the impact on the Group's consolidated financial statements is not material.

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	
	2023	2022
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	
	2023	2022
At the beginning of the reporting period	**472,396**	984,204
Increase *(Notes 1 and 2)*	**870**	617
Decrease *(Notes 1 and 2)*	**12,925**	512,425
At the end of reporting period	**460,341**	472,396

(Note 1) The increase of 870 shares in the number of treasury shares in the fiscal year 2023 was due to an increase of 870 shares resulting from the purchase of odd-lot shares. The decrease of 12,925 shares in the number of treasury shares in the fiscal year 2023 was due to the granting of 12,925 shares of restricted stock.

(Note 2) The increase of 617 shares in the number of treasury shares in the fiscal year 2022 was due to an increase of 617 shares resulting from the purchase of odd-lot shares. The decrease of 512,425 shares in the number of treasury shares in the fiscal year 2022 was due to the sale of 499,500 shares to the Employee Stock Ownership Plan and the granting of 12,925 shares of restricted stock.

(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 raises funds through perpetual subordinated loans (“subordinated loans”) and step-up callable perpetual subordinated unsecured bonds with interest deferral options and optional redemption clauses (“subordinated bonds”).

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 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.

3. 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

(Note) Under interest rate benchmark reform, the 6-month euro - yen LIBOR ceased being published as of 31 December 2021; as an alternative, in line with bond terms pertaining to the determination of interest rates, the Group uses the average rate for 6-month deposits in yen offered to major banks in London by reference banks on the date on which the rates were determined. Notably, no changes have been made to the bond terms.

4. 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

(Note) Under interest rate benchmark reform, the 6-month euro - yen LIBOR ceased being published as of 31 December 2021; as an alternative, in line with bond terms pertaining to the determination of interest rates, the Group uses the average rate for 6-month deposits in yen offered to major banks in London by reference banks on the date on which the rates were determined. Notably, no changes have been made to the bond terms.

5. 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

(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.

6. Discretionary interest payments for other equity instruments

The following payments on the other equity instruments were made for the fiscal years 2023 and 2022:

Category	Payment date	Payment amount 2023 *Millions of yen*	Payment amount 2023 *Thousands of U.S. dollars*
The first subordinated loan	20 March 2023	¥ **221**	$ **1,563**
	20 September 2023	**226**	**1,598**
The second subordinated loan	28 February 2023	**183**	**1,293**
	31 August 2023	**186**	**1,315**
The second subordinated bonds	28 April 2023	**40**	**282**
	27 October 2023	**8,040**	**56,687**
The third subordinated bonds	28 April 2023	**300**	**2,115**
	27 October 2023	**300**	**2,115**
The fourth subordinated bonds	27 February 2023	**135**	**951**
	30 August 2023	**135**	**951**

Category	Payment date	Payment amount 2022 *Millions of yen*
The first subordinated loan	22 March 2022	¥ 221
	20 September 2022	223
The second subordinated loan	28 February 2022	183
	31 August 2022	186
The first subordinated bonds	27 April 2022	40
	27 October 2022	40
The second subordinated bonds	27 April 2022	300
	27 October 2022	300
The third subordinated bonds	25 February 2022	135
	30 August 2022	135

The balance of other equity instruments at the end of the fiscal years 2023 and 2022 is as follows:

	Balance **2023**			
Category	*Millions of yen*		*Thousands of U.S. dollars*	
The first subordinated loan	**¥**	**20,000**	**$**	**141,013**
The second subordinated loan		**37,000**		**260,875**
The second subordinated bonds		**-**		**-**
The third subordinated bonds		**25,000**		**176,267**
The fourth subordinated bonds		**30,000**		**211,520**

	Balance 2022	
Category	*Millions of yen*	
The first subordinated loan	¥	20,000
The second subordinated loan		37,000
The second subordinated bonds		8,000
The third subordinated bonds		25,000
The fourth subordinated bonds		30,000

7. Fixed future payment on other equity instruments
   Subsequent to 31 December 2023 and 2022, the following payments were determined before the approval date of the consolidated financial statements:

		Payment amount **2023**			
Category	Payment date	*Millions of yen*		*Thousands of U.S. dollars*	
The fourth subordinated bonds	29 February 2024	**¥**	**135**	**$**	**951**
The second subordinated loan	29 February 2024		**184**		**1,300**
The first subordinated loan	21 March 2024		**225**		**1,590**

		Payment amount 2022	
Category	Payment date	*Millions of yen*	
The fourth subordinated bonds	27 February 2023	¥	135
The second subordinated loan	28 February 2023		183
The first subordinated loan	20 March 2023		221

8. During the fiscal year 2023, the Company redeemed the second subordinated bonds. The difference of ¥68 million ($482 thousand) between the amount of redemption and the amount of reduction in other equity instruments was recorded as capital surplus.

(5) Other components of equity

The movement in other components of equity is as follows:

	Millions of yen						
	2023						
	Remeasure-ments of defined benefit plans	Adjust-ments for hyper-inflation	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	**¥ -**	**¥ -**	**¥ (4,328)**	**¥ (12)**	**¥ 10,891**	**¥ 253**	**¥ 6,803**
Other comprehensive income	**(488)**	**-**	**10,981**	**(103)**	**(2,229)**	**-**	**8,160**
Treasury shares disposition	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issuance of convertible bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer from other components of equity to retained earnings	**488**	**-**	**-**	**-**	**(1,006)**	**-**	**(518)**
Ending balance	**¥ -**	**¥ -**	**¥ 6,652**	**¥ (116)**	**¥ 7,654**	**¥ 253**	**¥ 14,444**

	Thousands of U.S. dollars						
	2023						
	Remeasure-ments of defined benefit plans	Adjust-ments for hyper-inflation	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	**$ -**	**$ -**	**$ (30,521)**	**$ (86)**	**$ 76,789**	**$ 1,786**	**$ 47,967**
Other comprehensive income	**(3,442)**	**-**	**77,427**	**(732)**	**(15,718)**	**-**	**57,534**
Treasury shares disposition	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Issuance of convertible bonds	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer from other components of equity to retained earnings	**3,442**	**-**	**-**	**-**	**(7,099)**	**-**	**(3,657)**
Ending balance	**$ -**	**$ -**	**$ 46,905**	**$ (818)**	**$ 53,971**	**$ 1,786**	**$ 101,844**

	Millions of yen						
	2022						
	Remeasure-ments of defined benefit plans	Adjust-ments for hyper-inflation	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	¥ -	¥ -	¥ (17,598)	¥ (446)	¥ 10,133	¥ 253	¥ (7,657)
Other comprehensive income	826	93	13,269	434	761	-	15,385
Treasury shares disposition	-	-	-	-	-	-	-
Share-based payments	-	-	-	-	-	-	-
Issuance of convertible bonds	-	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	(826)	(93)	-	-	(3)	-	(924)
Ending balance	¥ -	¥ -	¥ (4,328)	¥ (12)	¥ 10,891	¥ 253	¥ 6,803

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.

Adjustments for hyperinflation

Adjustments to the financial statements of subsidiaries operating in hyperinflationary economies.

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 are described in Note 15, “Interest-bearing Bonds and Borrowings.”

22. Dividends

(1) Dividends paid

Dividends paid for the fiscal years 2023 and 2022 are as follows:

		2023					
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 28 March 2023	Ordinary shares	**¥**	**5,022**	**¥**	**40**	31 December 2022	29 March 2023
		$	**35,415**	**$**	**0.28**		
Board of Directors meeting held on 3 August 2023	Ordinary shares	**¥**	**5,022**	**¥**	**40**	30 June 2023	8 September 2023
		$	**35,415**	**$**	**0.28**		

		2022					
Resolution	Class of shares	Total dividends *(Millions of yen)*		Dividends per share *(Yen)*		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
Board of Directors meeting held on 4 August 2022	Ordinary shares	¥	3,767	¥	30	30 June 2022	9 September 2022

(Note 1) The amount of dividends based on the annual general meeting of shareholders held on 22 March 2022 includes ¥14 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 4 August 2022 includes ¥0 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 2023 or 2022 but whose effective date is in the following fiscal year are as follows:

		2023			
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 28 March 2024	Ordinary shares	**¥ 6,278** **$ 44,269**	**¥ 50** **$ 0.35**	31 December 2023	29 March 2024

		2022			
Resolution	Class of shares	Total dividends *(Millions of yen)*	Dividends per share *(Yen)*	Record date	Effective date
Annual general meeting of shareholders held on 28 March 2023	Ordinary shares	¥ 5,022	¥ 40	31 December 2022	29 March 2023

23. Share-based Payments

The Group has introduced stock options, and restricted stock compensation plan.

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.

There is no exercisable outstanding balance of stock options as of 31 December 2023.

(1) 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, corporate auditor, 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 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 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, Taiyo Koki 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 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 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 Taiyo Koki 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, Taiyo Koki 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 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 hold positions in Taiyo Koki 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

(iv) Granted on 30 March 2022

For introducing the Plan, Taiyo Koki 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 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 hold positions in Taiyo Koki throughout the restricted period.

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

	2022
Grant date	30 March 2022
Number of shares granted	Common stock of Taiyo Koki Co., Ltd. 5,800
Fair value as of grant date (Yen)	1,190

(v) Granted on 12 May 2022

Under this plan, employees eligible to enroll in Taiyo Koki's Employee Shareholders Association (the "Association") ("Eligible Employees") receive pecuniary claims as special bonuses for granting shares of restricted stock ("Special Bonuses"), and then use the Special Bonuses to contribute to the Association. Then, the Association uses the Special Bonuses contributed by Eligible Employees to make investments in kind in the Company, the Company disposes of common stock of the Company, and the Association receives the common stock of the Company in the form of shares of restricted stock. For introducing the plan, Taiyo Koki and the Association have made an arrangement on allotment of restricted stocks, which includes (1) the Association 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, for management personnel, the period from 27 July 2022 until the day they retire from their position as an employee of Taiyo Koki eligible for membership in the Association and, for general employees, the period from 27 July 2022 to 1 August 2025, and is structured such that Eligible Employees who fulfill the condition of continuous membership in the Association during the restricted period are released from the restriction from transferring all of their allotted shares commensurate with their holdings of restricted shares when the restricted period ends. When Eligible Employees withdraw (referring to cases in which eligibility for membership is forfeited and in which applications to withdraw are submitted, and including withdrawals due to death) from the Association because they reach the mandatory retirement age or for some other justifiable reason (excluding withdrawals due to their own circumstances) during the restricted period, they are released from the restriction from transferring all of their allotted shares commensurate with their holdings of restricted shares as of the date on which their application to withdraw from the Association is received (the "Date of Withdrawal Application Receipt") on the Date of Withdrawal Application Receipt.

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

	2022
Grant date	12 May 2022
Number of shares granted	Common stock of Taiyo Koki Co., Ltd. 14,858
Fair value as of grant date (Yen)	1,180

(vi) Granted on 29 March 2023

For introducing the Plan, Taiyo Koki 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 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 30 years. 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 Taiyo Koki throughout the restricted period.

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

	2023
Grant date	**29 March 2023**
Number of shares granted	**Common stock of Taiyo Koki Co., Ltd.** **4,300**
Fair value as of grant date (Yen)	**1,201 ($8.46)**

(2) 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*
	2023	2022	**2023**
Expenses arising from the restricted stock compensation plan	**¥ 457**	¥ 542	**$ 3,222**

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 same management is also applied to consolidated subsidiaries. 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 2023 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					
	2023					
	Debtors not facing financial difficulties		Debtors facing significant financial difficulties		Total	
Beginning balance	**¥**	**57,304**	**¥**	**127**	**¥**	**57,432**
Ending balance	**¥**	**52,735**	**¥**	**193**	**¥**	**52,928**

	Thousands of U.S. dollars					
	2023					
	Debtors not facing financial difficulties		Debtors facing significant financial difficulties		Total	
Beginning balance	**$**	**404,035**	**$**	**900**	**$**	**404,935**
Ending balance	**$**	**371,819**	**$**	**1,362**	**$**	**373,181**

	Millions of yen					
	2022					
	Debtors not facing financial difficulties		Debtors facing significant financial difficulties		Total	
Beginning balance	¥	54,631	¥	113	¥	54,744
Ending balance	¥	57,304	¥	127	¥	57,432

Allowance for doubtful receivables

	Millions of yen		
	2023		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**¥ 3,511**	**¥ 127**	**¥ 3,639**
Increase during the year	**137**	**183**	**321**
Decrease during the year	**(462)**	**(127)**	**(590)**
Other (Exchange differences on translation of foreign operations)	**321**	**9**	**330**
Ending balance	**¥ 3,507**	**¥ 193**	**¥ 3,700**

	Thousands of U.S. dollars		
	2023		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	**$ 24,759**	**$ 900**	**$ 25,659**
Increase during the year	**967**	**1,296**	**2,263**
Decrease during the year	**(3,262)**	**(900)**	**(4,162)**
Other (Exchange differences on translation of foreign operations)	**2,266**	**65**	**2,331**
Ending balance	**$ 24,730**	**$ 1,362**	**$ 26,092**

	Millions of yen		
	2022		
	Debtors not facing financial difficulties	Debtors facing significant financial difficulties	Total
Beginning balance	¥ 3,027	¥ 113	¥ 3,140
Increase during the year	1,273	110	1,383
Decrease during the year	(1,031)	(113)	(1,145)
Other (Exchange differences on translation of foreign operations)	243	17	260
Ending balance	¥ 3,511	¥ 127	¥ 3,639

Information on other receivables

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

Other receivables

	Millions of yen			
	2023			
	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	**¥ 14,644**	**¥ -**	**¥ -**	**¥ 14,644**
Ending balance	**¥ 13,699**	**¥ -**	**¥ -**	**¥ 13,699**

	Thousands of U.S. dollars			
	2023			
	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	**$ 103,252**	**$ -**	**$ -**	**$ 103,252**
Ending balance	**$ 96,592**	**$ -**	**$ -**	**$ 96,592**

	Millions of yen			
	2022			
	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	¥ 8,073	¥ -	¥ -	¥ 8,073
Ending balance	¥ 14,644	¥ -	¥ -	¥ 14,644

Allowance for doubtful receivables

	Millions of yen			
	2023			
	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			
	2023			
	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			
	2022			
	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			
	2023			
	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	**¥ 10,931**	**¥ -**	**¥ -**	**¥ 10,931**
Ending balance	**¥ 9,814**	**¥ -**	**¥ -**	**¥ 9,814**

	Thousands of U.S. dollars			
	2023			
	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	**$ 77,075**	**$ -**	**$ -**	**$ 77,075**
Ending balance	**$ 69,198**	**$ -**	**$ -**	**$ 69,198**

	Millions of yen			
	2022			
	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	¥ 8,382	¥ -	¥ -	¥ 8,382
Ending balance	¥ 10,931	¥ -	¥ -	¥ 10,931

Allowance for doubtful receivables

	Millions of yen			
	2023			
	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			
	2023			
	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			
	2022			
	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				
	2023				
	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	¥ **82,914**	¥ **82,914**	¥ **82,914**	¥ **-**	¥ **-**
Interest-bearing bonds and borrowings	**113,661**	**114,726**	**61,594**	**51,897**	**1,234**
Other financial liabilities (Payment obligation for external shareholders)	**58,999**	**62,111**	**62,111**	**-**	**-**
Other financial liabilities (Lease liability)	**28,516**	**31,276**	**11,138**	**9,699**	**10,438**
Other financial liabilities	**24,329**	**26,158**	**8,538**	**10,828**	**6,790**
Derivative financial liabilities:					
Other financial liabilities	**431**	**431**	**431**	**-**	**-**
Total	¥ **308,853**	¥ **317,618**	¥ **226,728**	¥ **72,426**	¥ **18,463**

	Thousands of U.S. dollars				
	2023				
	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	$ 584,601	$ 584,601	$ 584,601	$ -	$ -
Interest-bearing bonds and borrowings	801,395	808,903	434,283	365,915	8,703
Other financial liabilities (Payment obligation for external shareholders)	415,989	437,928	437,928	-	-
Other financial liabilities (Lease liability)	201,063	220,521	78,533	68,391	73,597
Other financial liabilities	171,541	184,437	60,205	76,351	47,880
Derivative financial liabilities:					
Other financial liabilities	3,038	3,038	3,038	-	-
Total	$ 2,177,629	$ 2,239,431	$ 1,598,591	$ 510,658	$ 130,181

	Millions of yen				
	2022				
	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	¥ 72,806	¥ 72,806	¥ 72,806	¥ -	¥ -
Interest-bearing bonds and borrowings	91,093	91,927	51,887	40,000	40
Other financial liabilities (Payment obligation for external shareholders)	55,413	60,371	-	60,371	-
Other financial liabilities (Lease liability)	24,649	25,927	4,859	12,207	8,860
Other financial liabilities	12,300	13,505	1,331	7,336	4,837
Derivative financial liabilities:					
Other financial liabilities	2,247	2,247	2,247	-	-
Total	¥ 258,509	¥ 266,784	¥ 133,131	¥ 119,915	¥ 13,738

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
	2023	2022	**2023**
Credit line	**¥ 288,666**	¥ 241,483	**$ 2,035,296**
Borrowings	**24,757**	1,901	**174,557**
Unused balance	**¥ 263,908**	¥ 239,582	**$ 1,860,738**

(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					
	2023					
	Japanese yen		U.S. dollars		Euro	
Net exposures	**¥**	**3,660**	**¥**	**(709)**	**¥**	**29,477**
Per each local currency			**$**	**(5,004) thousand**	**€**	**187,659 thousand**

	Thousands of U.S. dollars					
	2023					
	Japanese yen		U.S. dollars		Euro	
Net exposures	**$**	**25,811**	**$**	**(5,004)**	**$**	**207,837**

	Millions of yen					
	2022					
	Japanese yen		U.S. dollars		Euro	
Net exposures	¥	(1,114)	¥	(2,638)	¥	43,991
Per each local currency			$	(19,881) thousand	€	311,049 thousand

Foreign currency sensitivity analysis

The financial impact on profit before income taxes for the fiscal years ended 31 December 2023 and 2022 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*	
	2023		2022		**2023**	
Japanese yen	**¥**	**(36)**	¥	11	**$**	**(258)**
U.S. dollars		**7**		26		**50**
Euro		**(294)**		(439)		**(2,078)**

(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 fiscal years ended 31 December 2023 and 2022 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*
	2023	2022	**2023**
Profit before income taxes	**¥ -**	¥ (69)	**$ -**

(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. The breakdown of fair value is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
With quoted prices in active markets	**¥ 8,320**	¥ 5,600	**$ 58,668**
Without quoted prices in active markets	**13,310**	15,493	**93,848**
Total	**21,631**	21,094	**152,516**

1. Major issuers and fair value

Major issuers and fair value at 31 December 2023 and 2022 are as follows:

Issuers	*Millions of yen*		*Thousands of U.S. dollars*
	2023	2022	**2023**
TULIP Interfaces, Inc.	**¥ 11,438**	¥ 14,813	**$ 80,648**
Aero Edge	**1,314**	600	**9,264**
nLIGHT, INC.	**959**	674	**6,762**
The Nanto Bank, Ltd.	**-**	1,221	**-**

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*
	2023	2022	**2023**
Fair value at the date of derecognition	**¥ 1,168**	¥ 11	**$ 8,241**
Cumulative gain or loss on disposal	**¥ 1,025**	¥ 7	**$ 7,228**

(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 or non-controlling interests.

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*
	2023	2022	**2023**
Equity instruments derecognized during the year	**¥ 72**	¥ -	**$ 511**
Equity instruments held at the end of year	**75**	111	**534**
Total	**¥ 148**	¥ 111	**$ 1,046**

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 2023 and 2022 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*
	2023	2022	**2023**
Other comprehensive income	**¥ (158)**	¥ (294)	**$ (1,114)**

(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*			
	2023				2022				**2023**					
	Carrying amounts		Fair value		Carrying amounts		Fair value		Carrying amounts		Fair value			
Financial assets measured at amortized cost:														
Cash and cash equivalents	**¥**	**39,212**	**¥**	**39,212**	¥	36,992	¥	36,992	**$**	**276,475**	**$**	**276,475**		
Trade and other receivables		**62,927**		**62,927**		68,437		68,437		**443,681**		**443,681**		
Other financial assets including loans		**9,788**		**9,788**		10,929		10,929		**69,014**		**69,014**		
Financial assets measured at fair value through other comprehensive income														
Other financial assets (Equities)		**21,631**		**21,631**		21,094		21,094		**152,516**		**152,516**		
Financial assets measured at fair value through profit or loss included in other financial assets:														
Derivative assets		**540**		**540**		602		602		**3,807**		**3,807**		
Total	**¥**	**134,099**	**¥**	**134,099**	¥	138,055	¥	138,055	**$**	**945,496**	**$**	**945,496**		
Financial liabilities measured at amortized cost:														
Trade and other payables	**¥**	**82,914**	**¥**	**82,914**	¥	72,806	¥	72,806	**$**	**584,601**	**$**	**584,601**		
Interest-bearing bonds and borrowings		**113,661**		**113,076**		91,093		90,560		**801,395**		**797,266**		
Other financial liabilities (Payment obligation for external shareholders)		**58,999**		**58,999**		55,413		55,413		**415,989**		**415,989**		
Other financial liabilities (Lease liabilities, etc.)		**52,846**		**52,846**		36,949		36,949		**372,604**		**372,604**		
Financial liabilities measured at fair value through profit or loss														
Derivative liabilities		**431**		**431**		2,247		2,247		**3,038**		**3,038**		
Total	**¥**	**308,853**	**¥**	**308,267**	¥	258,509	¥	257,976	**$**	**2,177,629**	**$**	**2,173,500**		

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 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, the 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.

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.

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				
	2023				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	**¥ 52,474**	**¥ -**	**¥ -**	**¥ 52,474**	**¥ 52,474**
Interest-bearing bonds	**39,933**	**-**	**39,348**	**-**	**39,348**
Other financial liabilities (Payment obligation for external shareholders)	**¥ 58,999**	**¥ -**	**¥ -**	**¥ 58,999**	**¥ 58,999**

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

	Thousands of U.S. dollars				
	2023				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	**$ 369,978**	**$ -**	**$ -**	**$ 369,978**	**$ 369,978**
Interest-bearing bonds	**281,562**	**-**	**277,433**	**-**	**277,433**
Other financial liabilities (Payment obligation for external shareholders)	**$ 415,989**	**$ -**	**$ -**	**$ 415,989**	**$ 415,989**

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

	Millions of yen				
	2022				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing long-term borrowings	¥ 46,123	¥ -	¥ -	¥ 46,123	¥ 46,123
Interest-bearing bonds	39,812	-	39,279	-	37,279
Other financial liabilities (Payment obligation for external shareholders)	5,413	-	-	55,413	55,413

(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			
	2023			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	¥ **8,320**	¥ **-**	¥ **13,310**	¥ **21,631**
Financial assets measured at fair value through profit or loss				
Derivative assets	**-**	**540**	**-**	**540**
Total	¥ **8,320**	¥ **540**	¥ **13,310**	¥ **22,171**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	**-**	**431**	**-**	**431**
Total	¥ **-**	¥ **431**	¥ **-**	¥ **431**

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2023.

	Thousands of U.S. dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	$ **58,668**	$ **-**	$ **93,848**	$ **152,516**
Financial assets measured at fair value through profit or loss				
Derivative assets	**-**	**3,807**	**-**	**3,807**
Total	$ **58,668**	$ **3,807**	$ **93,848**	$ **156,323**
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	**-**	**3,038**	**-**	**3,038**
Total	$ **-**	$ **3,038**	$ **-**	$ **3,038**

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2023.

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (Equities)	¥ 5,000	¥ -	¥ 16,093	¥ 21,094
Financial assets measured at fair value through profit or loss				
Derivative assets	-	602	-	602
Total	¥ 5,000	¥ 602	¥ 16,093	¥ 21,696
Financial liabilities:				
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:				
Derivative liabilities	-	2,136	110	2,247
Total	¥ -	¥ 2,136	¥ 110	¥ 2,247

(Note) There have been no significant transfers between Levels 1 and 2 of the fair value measurement hierarchy during the fiscal year 2022.

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*
	2023	2022	**2023**
Beginning balance	**¥ 16,093**	¥ 15,032	**$ 113,472**
Total gain and loss:			
Profit or loss *(Note 1)*	**144**	-	**1,022**
Other comprehensive income *(Note 2)*	**(3,318)**	1,009	**(23,395)**
Purchases	**543**	63	**3,834**
Sales or settlement	**(145)**	(11)	**(1,029)**
Transfer from Level 3 to Level 1 *(Note 3)*	**(600)**	-	**(4,230)**
Other *(Note 4)*	**591**	-	**4,173**
Ending balance	**¥ 13,310**	¥ 16,093	**$ 93,848**

(Note 1) Gain and loss included in profit or loss are included in “Other operating revenues” in the consolidated statement of profit or loss.
(Note 2) 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 2023 and 2022.
(Note 3) The fiscal year 2023 includes a transfer from Level 3 to Level 1 due to the listing of an investee on an exchange.
(Note 4) The fiscal year 2023 includes an increase of ¥591 million ($4,173 thousand) due to a transfer from investments in associates and joint ventures, resulting from a decrease in the Company’s ownership percentage in investees.

(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 rate in the foreign exchange forward contracts is 150.67 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					
	2023					
	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)	**¥ 30,999**	**¥ -**	**¥ 540**	**¥ 431**	**¥ -**	**Other financial assets (current) and Other financial liabilities (current)**
Cross currency interest rate swaps (foreign exchange and interest rate risk)	**-**	**-**	**-**	**-**	**-**	**-**
Total	**¥ 30,999**	**¥ -**	**¥ 540**	**¥ 431**	**¥ -**	

	Thousands of U.S. dollars					
	2023					
	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)	**$ 218,568**	**$ -**	**$ 3,807**	**$ 3,038**	**$ -**	**Other financial assets (current) and Other financial liabilities (current)**
Cross currency interest rate swaps (foreign exchange and interest rate risk)	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 218,568**	**$ -**	**$ 3,807**	**$ 3,038**	**$ -**	

	Millions of yen					
	2022					
	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)	¥ 42,740	¥ -	¥ 602	¥ 1,171	¥ -	Other financial assets (current) and Other financial liabilities (current)
Cross currency interest rate swaps (foreign exchange and interest rate risk)	-	-	-	-	-	-
Total	¥ 42,740	¥ -	¥ 602	¥ 1,171	¥ -	

(iii) Information on hedged items

The impact of the hedged items on the Group's consolidated statement of financial position (before tax effect adjustments) is as follows:

	Millions of yen		
	2023		
	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			
Foreign exchange forward contracts (foreign exchange risk)	**¥ -**	**¥ (109)**	**¥ -**
Total	**¥ -**	**¥ (109)**	**¥ -**

	Thousands of U.S. dollars		
	2023		
	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			
Foreign exchange forward contracts (foreign exchange risk)	**$ -**	**$ (771)**	**$ -**
Total	**$ -**	**$ (771)**	**$ -**

	Millions of yen		
	2022		
	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			
Foreign exchange forward contracts (foreign exchange risk)	¥ -	¥ 119	¥ -
Total	¥ -	¥ 119	¥ -

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

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

	Millions of yen				
	2023				
	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					
Foreign exchange forward contracts (foreign exchange risk)	**¥ (109)**	**¥ -**	**-**	**¥ 119**	**Other operating costs**
Total	**¥ (109)**	**¥ -**		**¥ 119**	

	Thousands of U.S. dollars				
	2023				
	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					
Foreign exchange forward contracts (foreign exchange risk)	**$ (771)**	**$ -**	**-**	**$ 842**	**Other operating costs**
Total	**$ (771)**	**$ -**		**$ 842**	

	Millions of yen							
	2022							
	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								
Foreign exchange forward contracts (foreign exchange risk)	¥	119	¥	-	-	¥	(467)	Other operating costs
Total	¥	119	¥	-		¥	(467)	

(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*	
	2023		2022		**2023**	
Beginning balance	**¥**	**(12)**	¥	(446)	**$**	**(86)**
Transactions during the reporting period						
Foreign exchange forward contracts (foreign exchange risk)		**(109)**		119		**(771)**
Reclassification adjustment to profit or loss		**75**		242		**533**
Tax effect		**(70)**		71		**(494)**
Ending balance	**¥**	**(116)**	¥	(12)	**$**	**(818)**

(10) Reconciliation of liabilities arising from financing activities

Reconciliation of liabilities arising from financing activities is as follows:

Millions of yen

2023

	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Non-cash changes					Ending balance
				Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Other	
Short-term borrowings	¥ 5,157	¥ 15,696	¥ -	¥ 399	¥ -	¥ -	¥ -	¥ -	¥ 21,253
Long-term borrowings	46,123	3,154	-	3,166	29	-	-	-	52,474
Interest-bearing bonds	39,812	-	-	-	121	-	-	-	39,933
Dividends payable	42	(10,159)	-	-	-	10,175	-	-	58
Payment obligation for external shareholders	55,413	(4,334)	(1,372)	5,787	3,506	-	-	-	58,999
Debt instruments (preferred shares)	-	-	-	-	-	-	-	-	-
Debt instruments (lease liabilities, etc.)	36,949	(10,579)	(88)	1,349	832	-	8,244	16,137	52,846
Total	¥ 183,498	¥ (6,222)	¥ (1,460)	¥ 10,702	¥ 4,490	¥ 10,175	¥ 8,244	¥ 16,137	¥ 225,566

Thousands of U.S. dollars

2023

	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Non-cash changes					Ending balance
				Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Other	
Short-term borrowings	$ 36,367	$ 110,668	$ -	$ 2,819	$ -	$ -	$ -	$ -	$ 149,854
Long-term borrowings	325,202	22,244	-	22,323	208	-	-	-	369,978
Interest-bearing bonds	280,702	-	-	-	859	-	-	-	281,562
Dividends payable	297	(71,631)	-	-	-	71,746	-	-	412
Payment obligation for external shareholders	390,701	(30,560)	(9,674)	40,802	24,719	-	-	-	415,989
Debt instruments (preferred shares)	-	-	-	-	-	-	-	-	-
Debt instruments (lease liabilities, etc.)	260,522	(74,591)	(625)	9,514	5,871	-	58,128	113,783	372,604
Total	$ 1,293,793	$ (43,870)	$ (10,300)	$ 75,459	$ 31,659	$ 71,746	$ 58,128	$ 113,783	$ 1,590,401

Millions of yen

2022

	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Non-cash changes					Ending balance
				Foreign exchange differences	Measuring at amortized cost	Appropriation of retained earnings	New lease	Other	
Short-term borrowings	¥ 270	¥ 4,868	¥ -	¥ 18	¥ -	¥ -	¥ -	¥ -	¥ 5,157
Long-term borrowings	45,442	(1,748)	-	2,367	62	-	-	-	46,123
Interest-bearing bonds	49,679	(10,000)	-	-	132	-	-	-	39,812
Dividends payable	48	(7,625)	-	-	-	7,619	-	-	42
Payment obligation for external shareholders	53,876	(4,245)	(1,408)	4,434	2,757	-	-	-	55,413
Debt instruments (preferred shares)	14,957	(15,000)	-	-	42	-	-	-	-
Debt instruments (lease liabilities, etc.)	26,886	(4,252)	-	704	749	-	13,827	(965)	36,949
Total	¥ 191,161	¥ (38,004)	¥ (1,408)	¥ 7,525	¥ 3,742	¥ 7,619	¥ 13,827	¥ (965)	¥ 183,498

25. Sales Revenues

(1) Breakdown of sales revenue

The breakdown of sales revenues is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Sales of products	¥ **357,774**	¥ 317,015	$ **2,522,555**
Service revenue	**181,639**	157,725	**1,280,682**
Other	**37**	30	**264**
Total	¥ **539,450**	¥ 474,771	$ **3,803,502**

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 2023 and 2022.

Changes related to reportable segments

Beginning in the fiscal year 2022, the method by which inter-segment sales are totaled was changed in order to reflect a more appropriate management of the performance of each reportable segment.

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

	Millions of yen					
	2023					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
Japan	¥ **203,126**	¥ **64,440**	¥ **267,567**	¥ **-**	¥ **(182,845)**	¥ **84,721**
Germany	**232,510**	**45,199**	**277,709**	**1,741**	**(130,616)**	**148,835**
Americas	**68,467**	**42,376**	**110,843**	**-**	**(13,310)**	**97,533**
Europe other than Germany	**133,061**	**57,776**	**190,838**	**-**	**(25,257)**	**165,581**
China and Asia	**31,122**	**20,018**	**51,141**	**-**	**(8,361)**	**42,779**
Total	¥ **668,289**	¥ **229,811**	¥ **898,101**	¥ **1,741**	¥ **(360,391)**	¥ **539,450**

	Thousands of U.S. dollars					
	2023					
	Reporting segments			Adjustments		Consolidated
	Machine tools	Industrial services	Total	Corporate services	Elimination	
Sales revenues						
Japan	**$ 1,432,186**	**$ 454,352**	**$ 1,886,538**	**$ -**	**$ (1,289,189)**	**$ 597,348**
Germany	**1,639,362**	**318,685**	**1,958,048**	**12,278**	**(920,936)**	**1,049,390**
Americas	**482,742**	**298,780**	**781,523**	**-**	**(93,845)**	**687,677**
Europe other than Germany	**938,178**	**407,367**	**1,345,546**	**-**	**(178,085)**	**1,167,461**
China and Asia	**219,435**	**141,144**	**360,580**	**-**	**(58,956)**	**301,624**
Total	**$ 4,711,906**	**$ 1,620,330**	**$ 6,332,237**	**$ 12,278**	**$ (2,541,013)**	**$ 3,803,502**

	Millions of yen					
	2022					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
Japan	¥ 166,133	¥ 61,753	¥ 227,887	¥ -	¥ (153,474)	¥ 74,412
Germany	180,701	38,641	219,343	1,495	(93,393)	127,445
Americas	65,816	33,452	99,268	-	(13,382)	85,885
Europe other than Germany	123,137	45,103	168,240	-	(30,499)	137,741
China and Asia	38,422	21,503	59,926	-	(10,640)	49,285
Total	¥ 574,212	¥ 200,453	¥ 774,665	¥ 1,495	¥ (301,390)	¥ 474,771

(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*
	2023	2022	**2023**
Receivables from contract with customers	**¥ 52,928**	¥ 57,432	**$ 373,181**
Contract liabilities	**¥ 93,430**	¥ 92,935	**$ 658,748**

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 2023 included in contract liabilities at the beginning of the fiscal year amounting to ¥92,935 million ($655,257 thousand), and during the fiscal year 2022 included in contract liabilities at the beginning of the fiscal year amounting to ¥65,707 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
	2023	2022	**2023**
Exchange gain	¥ **2,147**	¥ -	$ **15,141**
Received commission	**263**	297	**1,854**
Gain on sales of fixed asset	**842**	169	**5,941**
Subsidy income	**369**	286	**2,602**
Reversal of impairment losses	**103**	1,132	**728**
Other	**5,353**	6,709	**37,743**
Total	¥ **9,078**	¥ 8,595	$ **64,011**

27. Other Operating Costs

The breakdown of other operating costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Commissions	¥ **24,257**	¥ 22,316	$ **171,031**
Sales promotion costs	**8,367**	5,790	**58,996**
Freight and packaging costs	**18,502**	18,888	**130,455**
Exchange losses	**-**	2,437	**-**
Other	**36,031**	32,717	**254,046**
Total	¥ **87,158**	¥ 82,150	$ **614,529**

28. Personnel Costs

The breakdown of personnel costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Remuneration and salaries	¥ **124,595**	¥ 100,772	$ **878,486**
Bonuses	**15,541**	13,989	**109,576**
Social security and welfare expenses	**25,602**	21,312	**180,517**
Retirement benefit expenses	**1,700**	1,470	**11,986**
Share-based compensation expenses	**457**	542	**3,222**
Other employee benefit expenses	**839**	794	**5,919**
Total	¥ **168,736**	¥ 138,882	$ **1,189,710**

29. Financial Income

The breakdown of financial income is as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2023		2022		**2023**	
Financial income						
Interest income:						
Financial assets measured at amortized cost	**¥**	**990**	¥	522	**$**	**6,980**
Dividend income:						
Financial assets measured at fair value through other comprehensive income		**148**		111		**1,046**
Total	**¥**	**1,138**	¥	633	**$**	**8,026**

30. Financial Costs

The breakdown of financial costs is as follows:

	Millions of yen				*Thousands of U.S. dollars*	
	2023		2022		**2023**	
Financial costs						
Interest expenses on bonds and borrowings:						
Financial liabilities measured at amortized cost	**¥**	**4,186**	¥	2,424	**$**	**29,515**
Financial costs arising from DPLTA:						
Financial liabilities measured at amortized cost		**3,367**		2,757		**23,742**
Total	**¥**	**7,553**	¥	5,181	**$**	**53,257**

31. Other Comprehensive Income

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

	Millions of yen						*Thousands of U.S. dollars*		
	2023			2022			**2023**		
	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	¥ (566)	¥ 77	¥ (488)	¥ 1,190	¥ (363)	¥ 826	$ (3,991)	$ 549	$ (3,442)
Net changes during the year	(566)	77	(488)	1,190	(363)	826	(3,991)	549	(3,442)
Changes in fair value measurements of financial assets at fair value through other comprehensive income:									
Amount arising during the year	(1,441)	(787)	(2,229)	570	197	767	(10,162)	(5,555)	(15,718)
Net changes during the year	(1,441)	(787)	(2,229)	570	197	767	(10,162)	(5,555)	(15,718)
Subtotal	(2,007)	(710)	(2,717)	1,760	(165)	1,594	(14,154)	(5,006)	(19,160)
Items that may be reclassified subsequently to profit:									
Exchange differences on translation of foreign operations:									
Amount arising during the year	10,779	-	10,779	12,960	-	12,960	76,001	-	76,001
Reclassification adjustments to profit	-	-	-	-	-	-	-	-	-
Net changes during the year	10,779	-	10,779	12,960	-	12,960	76,001	-	76,001
Effective portion of changes in fair value of cash flow hedges:									
Amount arising during the year	(109)	14	(95)	119	26	145	(771)	99	(672)
Reclassification adjustments to profit	75	(84)	(8)	242	45	288	533	(593)	(59)
Net changes during the year	(33)	(70)	(103)	362	71	434	(237)	(494)	(732)
Adjustments for hyperinflation:	-			-	-	-	-	-	-
Amount arising during the year	-	-	-	93	-	93	-	-	-
Reclassification adjustments to profit	-	-	-	-	-	-	-	-	-
Net changes during the year	-	-	-	93	-	93	-	-	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method:									
Amount arising during the year	212	-	212	350	-	350	1,500	-	1,500
Reclassification adjustments to profit	-	-	-	-	-	-	-	-	-
Net changes during the year	212	-	212	350	-	350	1,500	-	1,500
Subtotal	10,958	(70)	10,888	13,766	71	13,838	77,264	(494)	76,770
Total other comprehensive income	¥ 8,950	¥ (780)	¥ 8,170	¥ 15,527	¥ (94)	¥ 15,432	$ 63,109	$ (5,500)	$ 57,609

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*	
	2023		2022		**2023**	
Profit attributable to owners of the parent	**¥**	**33,944**	¥	25,406	**$**	**239,334**
Profit not attributable to ordinary shareholders of the parent		**1,754**		1,766		**12,373**
Profit used for basic earnings per share attributable to ordinary shareholders of the parent		**32,189**		23,639		**226,960**
Adjustment for diluted earnings		**-**		-		**-**
Diluted earnings	**¥**	**32,189**	¥	23,639	**$**	**226,960**
Weighted-average number of common shares (Thousands of shares)		**125,420**		125,328		
Increase in number of common stock shares for diluted earnings per share						
Increase due to exercising stock options (Thousands of shares)		**-**		-		
Weighted-average number of common shares outstanding for diluted earnings per share (Thousands of shares)		**125,420**		125,328		
Basic earnings per share (Yen) (U.S. dollars)	**¥**	**256.66**	¥	188.62	**$**	**1.80**
Diluted earnings per share (Yen) (U.S. dollars)	**¥**	**256.66**	¥	188.62	**$**	**1.80**

(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 year ended 31 December 2022, the average number of treasury shares during the year includes the shares of the Company (Average number of shares during the year of 146,262 shares) 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 2023 and 2022.

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 Europe Holding 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; and, for external shareholders who do not request to purchase their shares, to pay 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 2023, the Group recognized ¥58,999 million ($415,989 thousand) of other financial liabilities (current) on the consolidated statement of financial position, and ¥3,367 million ($23,742 thousand) of financial costs on the consolidated statement of profit or loss for the fiscal year 2023.

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	88.2	Interlocking directorates: Officers 3 persons
DMG MORI Europe Holding GmbH	Nordrhein-Westfalen, Germany	Purchase and holding of shares of companies whose main business purpose is to sell machine tools	100	Interlocking directorates: Officers 3 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 EMEA GmbH	Nordrhein-Westfalen, Germany	Sale and service of machine tools	100	Interlocking directorates: Officers 5 persons
FAMOT Pleszew Sp.z o.o.	Województwo wielkopolskie, Poland	Manufacture and sale of machine tools	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	-
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

Name of company	Business location	Description of principal business	Ownership ratio (%)	Relationship
DMG MORI TIANJIN Manufacturing Co. Ltd.	Tianjin, China	〃	100	Manufacturing company of the products of the Company Interlocking directorates: Officers 4 persons 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 4 persons The Company borrows the funds.
Taiyo Koki Co., Ltd.	Nagaoka, Niigata	Manufacture and sale of machine tools	50.9	Joint purchasing of raw materials Interlocking directorates: Officer 1 person Employee 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 Employee 1 person The Company borrows the funds.
DMG MORI Digital 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 4 persons The Company lends and borrows the funds.
Other 104 subsidiaries				
(Associated Companies) 9 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:

Category	Name of related parties	Details of transactions	*Millions of yen*		*Thousands of U.S. dollars*
			Transaction amounts		Transaction amounts
			2023	2022	**2023**
Associate	DMG MORI Finance GmbH	Sales of products	**¥ 23,953**	¥ 23,670	**$ 168,888**

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

Category	Name of related parties	Details of transactions	*Millions of yen*				*Thousands of U.S. dollars*	
			2023		2022		**2023**	
			Receivables	Payables	Receivables	Payables	Receivables	Payables
Associate	DMG MORI Finance GmbH	Sales of products	**¥ 983**	**¥ 2,258**	¥ 2,688	¥ 3,434	**$ 6,934**	**$ 15,925**

(2) Key management compensation

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

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Compensation and bonuses	**¥ 2,428**	¥ 2,560	**$ 17,123**
Share-based payments	**18**	18	**129**
Total	**¥ 2,446**	¥ 2,578	**$ 17,252**

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

(Note 2) The compensation and bonuses paid to the officers of DMG MORI AG totaled ¥1,045 million ($7,374 thousand) and ¥1,370 million for the fiscal years 2023 and 2022, respectively.

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

(Note 4) In addition to the above, retirement expenses of ¥3,749 million ($26,434 thousand) was paid to the officers of DMG MORI AG during the fiscal year 2023.

37. Contingent Liabilities

The breakdown of guarantee obligations is as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2023	2022	**2023**
Guarantees for lease payments by customers	**¥ 1,892**	¥ 1,589	**$ 13,344**
Other guarantee obligations	**377**	353	**2,659**
Total	**¥ 2,269**	¥ 1,942	**$ 16,004**

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

38. Events after the Reporting Period

(Situation between Russia and Ukraine)

On 19 February 2024, the shares of the Company's consolidated subsidiary Ulyanovsk Machine Tools ooo were expropriated by the Russian government. The Group deems it has lost controlling interest in Ulyanovsk Machine Tools ooo, and it plans to exclude Ulyanovsk Machine Tools ooo from the scope of consolidation effective from the first quarter of the fiscal year 2024. As of 31 December 2023, assets of Ulyanovsk Machine Tools ooo amounted to ¥3,813 million ($26,884 thousand) (excluding monetary receivables from the Group of ¥6,667 million ($47,012 thousand)) and liabilities amounted to ¥376 million ($2,656 thousand). In addition, the cumulative amount of the exchange differences arising on translation of financial statements of Ulyanovsk Machine Tools ooo (recorded in "Other components of equity" of the Group's consolidated statement of financial position) was negative ¥4,032 million ($28,433 thousand).

The Group purchased an overseas direct investment insurance policy with the Federal German government and has filed insurance claims in relation to the aforementioned expropriation to receive compensation for the losses expected to arise in the Group's next fiscal year. At this point in time, as the amount of the said compensation claim has not been finalized, it is not possible to make a reasonable estimate of the financial impact projected in this case.

(Early redemption of convertible bonds)

Concerning the euro-yen denominated convertible bonds due 2024 that the Company issued on 16 July 2021 (the "Bonds"), it has been determined that the conditions for the 130% call option clause set forth in the bond term were satisfied as of 18 March 2024. Consequently, the right to redeem all of the remaining Bonds at 100% of their par value was established on the same date. The Company has made the decision to exercise those rights and make an early redemption of all the remaining Bonds.

(1) Name of security to be redeemed early	DMG MORI Co., Ltd. Euro-yen denominated convertible bonds due 2024
(2) Total amount of early redemption	All of the remaining Bonds * Remaining amount as of 18 March 2024: ¥38,590,000,000 ($272,086,300) (par value)
(3) Deadline for exercise of stock acquisition rights	12 April 2024
(4) Date of early redemption	17 April 2024
(5) Amount of early redemption	100% of par value of the Bonds

*The total amount of early redemption is the par value of the remaining Bonds as of 18 March 2024, when the decision for early redemption was made and notified. The total amount of early redemption would change if the stock acquisition rights are exercised by the exercise deadline.