

SEMI-ANNUAL REPORT

For the six months ended September 30, 2019



QUALITATIVE INFORMATION

(1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the six-month period under review, the Company posted net sales of ¥74,535 million (down 18.7% year on year), operating income of ¥1,067 million, and net income attributable to owners of the parent of ¥875 million on a consolidated basis.

Orders received on a consolidated basis for the first half of the fiscal year amounted to ¥81,143 million (down 28.8% year on year), decreasing significantly from the high level orders of the previous corresponding period. The downward trend of orders received continued from the second half of the previous year.

We forecast that tough conditions will continue in the second half of the fiscal year as well.

The details of orders by geographic region for the second quarter (July-September 2019) are as follows:

Makino Milling Machine Co., Ltd. and Its Consolidated Subsidiaries in Japan

Domestic orders received by Makino Milling Machine Co., Ltd significantly fell below the level of the previous corresponding period. This reflects a decrease in demand from robots and automotive parts machining customers. The demand from the semiconductor production equipment industry increased but could not make up for the decrease.

We forecast that tough conditions will continue in the next six-month period. We forecast the recovery of demand from the automobile and semiconductor production equipment industries will be postponed until the next fiscal year onwards. Amid weak capital investment, we will try to receive orders by strengthening unique proposals. There are inquiries related new model of aircraft from the aircraft industry, but receiving orders will be greatly affected by the development progress of aircraft manufacturers.

MAKINO ASIA PTE LTD

Orders received in Asia were significantly lower than the level of the previous corresponding period in all regions.

In China, orders received from automotive parts machining customers significantly decreased from the level of the previous corresponding period, as there were many inquiries which were postponed or cancelled. This reflects the impact of the U.S.-China trade friction.

Orders received from the automotive die and mold industry decreased. In orders from customers of die and mold for electrical and electronic components for PCs and home electrical appliance, our Asian products remained solid. This is due to the price competitiveness of our Asian products becoming relatively stronger than Japanese products by the appreciation of the yen against Chinese yuan. Capital investment in the smartphone market advanced, but we were not able to take advantage of it.

In the second six-month period, we expect orders received will pick up due to government policies on automobiles.

In India, there were postponements and cancellations of inquiries mainly from the automobile industry, and orders received were significantly lower than the level of the previous corresponding period during which there was a substantial number of orders. We forecast the recovery of demand from the automobile industry will take time. In the second half of the fiscal year, we will focus on our operating activities in industries where growth is expected other than the automobile industry, such as the general machinery and aircraft industries.

In ASEAN, orders received were lower than the level of the previous corresponding period, as orders received in Vietnam remained solid but those in Thailand and other regions decreased. We forecast that the same situation will continue in the second half of the fiscal year.

MAKINO INC.

Orders received in the United States of America were lower than the level of the previous corresponding period and remained the same as the first quarter.

Orders from automotive parts machining customers continued in pick-up trucks and SUVs.

Orders received from the aircraft industry were influenced by suspension of shipments of certain models of aircraft but were made up for by demands from business jet structural parts and aircraft engine parts machining customers.

We expect the same sort of orders received will continue for the second half of the fiscal year.

MAKINO Europe GmbH

Orders received in Europe were below the level of the previous corresponding period. The expected inquiries were postponed to the third quarter onward.

Automobile-related customers are postponing capital investment because they are paying close attention not only to the economic outlook but also to the trend of diesel cars and EVs.

Orders received from the aircraft industry decreased due to factors including a delay caused by aircraft manufacturers having renegotiated on parts orders placed with suppliers, despite increasing production of aircraft.

We will continue to try to acquire postponed projects in the second half of the fiscal year.

(2) Qualitative Information on Consolidated Financial Position

Total assets on a consolidated basis at the end of the second quarter under review decreased by ¥15,526 million from the end of the previous fiscal year to ¥253,994 million. Major changes included a decrease of ¥19,202 million in notes and accounts receivable and an increase of ¥2,928 million in inventories.

Total liabilities decreased by ¥12,647 million from the end of the previous fiscal year to ¥95,927 million. This was primarily attributable to a decrease of ¥8,237 million in notes and accounts payable and a decrease of ¥2,664 million in income taxes payable.

Net assets decreased by ¥2,879 million from the end of the previous fiscal year to ¥158,066 million. The principal items were a decrease of ¥2,929 million in foreign currency translation adjustments and a decrease of ¥846 million in retained earnings.

(3) Qualitative Information on Consolidated Performance Forecasts

The consolidated performance forecasts for the full year of the fiscal year ending March 31, 2020 are unchanged from the figures announced on July 31, 2019.

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2019 and September 30, 2019

US\$1=¥107.92

	Millions of yen		Thousands of dollars
	March 31, 2019	September 30, 2019	September 30, 2019
ASSETS			
Current assets:			
Cash and time deposits	¥ 49,215	¥ 47,512	\$ 440,252
Marketable securities	39	40	370
Notes and accounts receivable	53,402	34,199	316,892
Inventories	63,426	66,355	614,853
Other current assets	6,356	5,305	49,156
Allowance for doubtful accounts	(775)	(868)	(8,042)
Total current assets	171,665	152,544	1,413,491
Investments and other assets:			
Investment securities	20,828	21,983	203,697
Long-term loans receivable	559	725	6,717
Deferred income taxes	3,773	3,868	35,841
Net defined benefit assets	195	189	1,751
Other long-term assets	6,970	7,669	71,061
Allowance for doubtful accounts	(353)	(342)	(3,169)
Total investments and other assets	31,973	34,093	315,909
Property, plant and equipment:			
Land	17,427	17,644	163,491
Buildings and structures	73,839	73,404	680,170
Machinery and equipment	43,373	43,693	404,864
Lease assets	1,865	4,635	42,948
Construction in progress	1,427	1,443	13,371
	137,934	140,821	1,304,864
Accumulated depreciation	(72,052)	(73,465)	(680,735)
Total property, plant and equipment	65,882	67,356	624,128
Total assets	¥ 269,521	¥ 253,994	\$ 2,353,539

The accompanying notes are an integral part of these statements.

US\$1=¥107.92

	Millions of yen		Thousands of dollars
	March 31, 2019	September 30, 2019	September 30, 2019
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 16,784	¥ 11,824	\$ 109,562
Other	10,065	5,636	52,223
Electronically recorded obligations-operating	16,490	13,213	122,433
Short-term loans	3,364	3,570	33,080
Current portion of long-term debt	7,725	7,620	70,607
Short-term lease obligations	216	509	4,716
Accrued expenses	12,130	8,725	80,846
Income taxes payable	3,701	1,037	9,608
Other current liabilities	3,831	7,351	68,115
Total current liabilities	74,309	59,487	551,213
Long-term liabilities:			
Long-term debt	23,872	23,840	220,904
Long-term lease obligations	856	2,752	25,500
Net defined benefit liabilities	4,047	4,043	37,462
Allowance for directors' and corporate auditors' retirement benefits	99	104	963
Deferred income taxes	4,155	4,471	41,428
Other long-term liabilities	1,234	1,228	11,378
Total long-term liabilities	34,265	36,440	337,657
Net assets:			
Shareholders' equity			
Common stock, no par value	21,142	21,142	195,904
Authorized : 60,000,000 shares			
Issued : 24,893,841 shares			
as of March 31 and September 30, 2019			
Capital surplus	37,070	37,070	343,495
Retained earnings	95,782	94,936	879,688
Treasury stock	(2,009)	(2,010)	(18,624)
449,837 and 449,911 shares			
as of March 31 and September 30, 2019 respectively			
Total shareholders' equity	151,986	151,139	1,400,472
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	10,823	11,622	107,690
Foreign currency translation adjustments	79	(2,849)	(26,399)
Remeasurements of defined benefit plans	(2,774)	(2,664)	(24,684)
Total accumulated other comprehensive income	8,128	6,108	56,597
Non-controlling interests	831	819	7,588
Total net assets	160,946	158,066	1,464,659
Total liabilities and net assets	¥ 269,521	¥ 253,994	\$ 2,353,539

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2018 and 2019

	Millions of yen		US\$1=¥107.92
			Thousands of dollars
	Six months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019
Net sales	¥ 91,709	¥ 74,535	\$ 690,650
Cost of sales	62,950	54,209	502,307
Gross profit	28,758	20,326	188,343
Selling, general and administrative expenses	20,628	19,258	178,446
Operating income	8,129	1,067	9,886
Other income (expenses):			
Interest and dividend income	447	504	4,670
Interest expense	(155)	(174)	(1,612)
Gain on sales of property, plant and equipment	144	30	277
Gain on sales of investment securities	52	7	64
Loss on disposal of property, plant and equipment	(21)	(29)	(268)
Exchange gain (loss), net	253	(577)	(5,346)
Other, net	159	286	2,650
Income before income taxes	9,009	1,114	10,322
Income taxes (Note 2)	2,381	237	2,196
Net income	6,628	876	8,117
Net income attributable to non-controlling interests	12	1	9
Net income attributable to owners of the parent	¥ 6,615	¥ 875	\$ 8,107

	Yen		Dollars
Per share of common stock:			
Net income attributable to owners of the parent - Basic	¥ 267.12	¥ 35.82	\$ 0.33
- Diluted	—	—	—

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2018 and 2019

	Millions of yen		US\$1=¥107.92
			Thousands of dollars
	Six months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019
Net income	¥ 6,628	¥ 876	\$ 8,117
Other comprehensive income (loss):			
Unrealized gains (losses) on available-for-sale securities	(3,048)	798	7,394
Foreign currency translation adjustments	1,647	(2,929)	(27,140)
Remeasurements of defined benefit plans	(11)	110	1,019
Other comprehensive income (loss)	(1,413)	(2,020)	(18,717)
Total comprehensive income	¥ 5,214	¥ (1,143)	\$ (10,591)
Total comprehensive income attributable to:			
Owners of the parent	5,202	(1,144)	(10,600)
Non-controlling interests	12	1	9
	¥ 5,214	¥ (1,143)	\$ (10,591)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the six months years ended September 30, 2018 and 2019

US\$1=¥107.92

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2018	Six months ended September 30, 2019	Six months ended September 30, 2019
Cash flows from operating activities:			
Income before income taxes	¥ 9,009	¥ 1,114	\$ 10,322
Adjustments for:			
Income taxes (paid) refund	(2,532)	(3,101)	(28,734)
Depreciation and amortization	2,751	3,135	29,049
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	5	5	46
Increase (decrease) in net defined benefit liabilities	(466)	112	1,037
Increase (decrease) in allowance for doubtful accounts	(93)	107	991
(Gain) loss on sales of property, plant and equipment	(144)	(30)	(277)
Loss on disposal of property, plant and equipment	21	29	268
(Gain) loss on sales of investment securities	(52)	(7)	(64)
(Increase) decrease in notes and accounts receivable, trade	8,656	16,208	150,185
(Increase) decrease in inventories	(8,129)	(4,301)	(39,853)
Increase (decrease) in notes and accounts payable, trade	(2,335)	(6,842)	(63,398)
Other, net	1,252	(1,040)	(9,636)
Net cash provided by (used in) operating activities	7,942	5,389	49,935
Cash flows from investing activities:			
Proceeds from sales of investment securities	86	14	129
Purchases of investment securities	(3)	(3)	(27)
Purchases of property, plant and equipment	(4,560)	(3,835)	(35,535)
Proceeds from sales of property, plant and equipment	346	117	1,084
Other, net	(719)	(542)	(5,022)
Net cash provided by (used in) investing activities	(4,850)	(4,250)	(39,381)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	4,290	309	2,863
Repayment of lease obligations	(160)	(296)	(2,742)
Repayment of long-term loans payable	(5,157)	(40)	(370)
Proceeds from issue of bonds	5,000	—	—
Purchases of treasury stock	(1,000)	0	0
Dividends paid	(1,122)	(1,477)	(13,686)
Net cash provided by (used in) financing activities	1,850	(1,504)	(13,936)
Effect of exchange rate changes on cash and cash equivalents	271	(1,336)	(12,379)
Net increase (decrease) in cash and cash equivalents	5,213	(1,701)	(15,761)
Cash and cash equivalents, beginning of period	49,785	48,827	452,436
Cash and cash equivalents, end of period (Note 4)	¥ 54,998	¥ 47,125	\$ 436,666

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Makino Milling Machine Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in Japan in order to present these statements in a form which is more familiar to the readers outside Japan.

In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

Amounts of less than one million yen have been omitted as permitted under generally accepted accounting principles and practices in Japan. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and dollars) do not necessarily agree with the sum of individual amounts.

The United States dollar amounts presented in the accompanying consolidated financial statements are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥107.92 = US\$1, which was the prevailing exchange rate on September 30, 2019.

2. Income Taxes

The Company estimates an annual effective tax rate derived from projected annual income before taxes and calculates interim income taxes by applying the effective tax rate to the income before taxes at the end of each interim period.

3. Dividends

A summary of information regarding dividends is as follows:

(1) Dividends paid in the six months ended September 30, 2018

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 21, 2018)	Common stock	¥1,120 million	¥9.00	Retained earnings	March 31, 2018	June 22, 2018

(2) Dividends in respect of the six months ended September 30, 2018 which become payable after the balance sheet date

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
Board of Directors (October 31, 2018)	Common stock	¥1,110 million	¥9.00	Retained earnings	September 30, 2018	December 5, 2018

(3) Dividends paid in the six months ended September 30, 2019

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 25, 2019)	Common stock	¥1,466 million \$13,584 thousand	¥60.00 \$555.97	Retained earnings	March 31, 2019	June 26, 2019

(4) Dividends in respect of the six months ended September 30, 2019 which become payable after the balance sheet date

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
Board of Directors (October 31, 2019)	Common stock	¥1,466 million \$13,584 thousand	¥60.00 \$555.97	Retained earnings	September 30, 2019	December 4, 2019

4. Cash Flows

Reconciliation of cash and time deposits on the consolidated balance sheets to cash and cash equivalents on the consolidated statements of cash flows is as follows:

	As of September 30,		
	Millions of yen		Thousands of dollars
	2018	2019	2019
Cash and time deposits	¥55,388	¥47,512	\$440,252
Marketable securities	40	40	370
Time deposits with maturities over three months	(429)	(428)	(3,965)
Cash and cash equivalents	¥54,998	¥47,125	\$436,666

5. Segment Information

Reportable segment information

The Group's reportable segments are defined as individual units where independent financial information is available and which are subject to regular review by the Board of Directors to evaluate their results and decide the allocation of management resources. The reportable segments are summarized as follows:

Reportable segment I is a segment for which Makino Milling Machine Co., Ltd. is responsible. Its main areas are Japan, the Republic of Korea, China, Oceania, Russia, Norway, the United Kingdom, and all other areas not included in reportable segments II, III or IV.

Reportable segment II is a segment for which MAKINO ASIA PTE LTD (Singapore) is responsible. Its main areas are China, ASEAN and India.

Reportable segment III is a segment for which MAKINO INC. (the United States of America) is responsible. It covers all countries in North and South America.

Reportable segment IV is a segment for which MAKINO Europe GmbH (Germany) is responsible. It covers all countries in the European continent except Norway.

Six months ended September 30, 2018

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥28,274	¥30,222	¥24,918	¥8,293	¥ 91,709
Intersegment	34,635	4,954	186	8	39,784
Total	62,909	35,177	25,105	8,301	131,493
Segment income (loss)	¥ 6,058	¥ 3,114	¥ 548	¥ (541)	¥ 9,179

Six months ended September 30, 2019

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥22,645	¥23,852	¥23,018	¥ 5,019	¥ 74,535
Intersegment	27,067	3,682	165	37	30,953
Total	49,713	27,535	23,183	5,057	105,489
Segment income (loss)	¥ 77	¥ 1,975	¥ 478	¥(1,077)	¥ 1,453

Six months ended September 30, 2019

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$209,831	\$221,015	\$213,287	\$46,506	\$690,650
Intersegment	250,806	34,117	1,528	342	286,814
Total	460,646	255,142	214,816	46,858	977,474
Segment income (loss)	\$ 713	\$ 18,300	\$ 4,429	\$ (9,979)	\$ 13,463

Six months ended September 30,

	Millions of yen		Thousands of dollars
	2018	2019	2019
Segment income	¥ 9,179	¥1,453	\$ 13,463
Elimination	(1,049)	(385)	(3,567)
Consolidated operating income	¥ 8,129	¥1,067	\$ 9,886

6. Changes in Accounting Policies

(1) ASC No.606 Revenue from contracts with customers

A part of overseas consolidated subsidiaries applied the accounting standard of ASC606 from the beginning of the first quarter of this consolidated accounting period.

The application of ASC 606 is in accordance with the transitional treatment, and thereby cumulative effects were recorded as retained earnings as of the beginning of the first quarter of the fiscal year ending March 31, 2020.

This change had no significant impact on the Company's results for the six months ended September 30, 2019.

(2) IFRS No.16 Leases

A part of overseas consolidated subsidiaries applied the accounting standard of IFRS16 "Leases" from the beginning of the first quarter of this consolidated accounting period.

Due to this application, a lessee is required to record all leases as assets and liabilities in the balance sheets.

The application of IFRS 16 is in accordance with the transitional treatment, and thereby cumulative effects were recorded as retained earnings as of the beginning of the first quarter of the fiscal year ending March 31, 2020.

As a result of applying this standard, property, plant and equipment increased by ¥2,309 million, current liabilities increased by ¥312 million and non-current liabilities increased by ¥2,017 million at the beginning of first quarter of the fiscal year ending March 31, 2020.

This change had no significant impact on the Company's results for the six months ended September 30, 2019.



GYOSEI & CO.

Certified Public Accountants
Tokyu Bancho Bldg.11F,6 Yonbancho
Chiyoda-ku, Tokyo, 102-0081 Japan
Tel: 81(3)5211-7878 Fax: 81(3)5211-7879

INDEPENDENT AUDITOR'S QUARTERLY REVIEW REPORT

To the Board of Directors of Makino Milling Machine Co., Ltd.

We have reviewed the accompanying quarterly consolidated financial statements of Makino Milling Machine Co., Ltd. (the "Company") and its subsidiaries, which comprise the quarterly consolidated balance sheet as at September 30, 2019, and the quarterly consolidated statements of income and comprehensive income and cash flows for the six-month period then ended, and notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these quarterly consolidated financial statements in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan, 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review. We conducted our review in accordance with quarterly review standards generally accepted in Japan. A review of quarterly financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the financial position of the Company and its subsidiaries as at September 30, 2019 and their performance and cash flows for the six-month period then ended in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.



GYOSEI & CO.

Certified Public Accountants
Tokyu Bancho Bldg.11F,6 Yonbancho
Chiyoda-ku, Tokyo, 102-0081 Japan
Tel: 81(3)5211-7878 Fax: 81(3)5211-7879

Convenience Translation

The United States dollar amounts shown in the quarterly consolidated financial statements referred to above have been translated solely for convenience. We have recomputed this translation and, in our conclusion, the United States dollar amounts in the accompanying quarterly consolidated financial statements have been translated from Japanese yen on the basis described in Note1.

Tokyo, Japan

November 13, 2019

Gyosei & Co.

GYOSEI & Co.

Certified Public Accountants



MAKINO



3-19, Nakane 2-chome, Meguro-ku, Tokyo 152-8578, Japan

Phone : +81-3-3717-1151

Fax : +81-3-3725-2105

URL : <http://www.makino.co.jp/>