ANNUAL REPORT

Year Ended March 31, 2022

MAKINO

PROFILE

Makino Milling Machine Co., Ltd. is a manufacturer of advanced machine tools, founded in May 1937. Its corporate mission is to contribute to the development of industry in Japan and around the world by quickly discerning and responding to industrial trends with technological innovation.

Makino's state-of-the-art machine tools and machining technologies are used in the manufacturing systems of companies in a wide range of industries. Working with local partners possessing strong technical capabilities, Makino has built an extensive sales network in the United States, Europe and Asia, capable of responding to changes in global machine tool demand and structural changes in manufacturing operations.

Major products lines: Machining centers, Numerical control (NC) electrical discharge machines (EDM), Milling machines and other products

FIVE-YEAR FINANCIAL SUMMARY

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of dollars
	2018	2019	2020	2021	**2022**	**2022**
Net sales	¥181,547	¥204,709	¥159,401	¥116,737	**¥186,591**	**$1,524,560**
Net income attributable to owners of the parent	11,694	16,981	830	(2,703)	**12,042**	**98,390**
Net assets	152,519	160,946	151,703	161,992	**178,778**	**1,460,723**
Total assets	268,382	269,521	258,889	280,015	**325,579**	**2,660,176**
	Yen					Dollars
Earnings per share attributable to owners of the parent						
Basic	¥ 511.29	¥ 689.30	¥ 33.97	¥ (110.82)	**¥ 499.23**	**$ 4.07**
Diluted	—	—	—	—	**—**	**—**
Number of employees	4,731	4,805	4,757	4,451	**4,524**	

Note: US dollar amounts have been translated from yen, for convenience only, at the rate of ¥122.39=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2022.

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TO OUR SHAREHOLDERS AND INVESTORS

1. Overview of Operating Results, etc.

(1) Operating Results for Fiscal 2022

During fiscal 2022, the Company posted net sales of ¥186,591 million (up 59.8% year on year), operating income of ¥11,300 million, and net income attributable to owners of the parent of ¥12,042 million on a consolidated basis.

Orders received on a consolidated basis amounted to ¥228,960 million (up 95.0% year on year), a significant increase from the previous year. The strong orders were driven by a recovery in economic activities from the impact of COVID-19. This, coupled with customers' decisions on projects that had been postponed since the previous year, led to record-high orders received.

The details of operating results by geographic region are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. significantly increased from the level of the previous year, mainly due to robust orders for parts machining for semiconductor production equipment as well as higher orders for die and mold for automobiles. Orders received for medical devices were also firm. In addition, we saw a recovery in orders received across broad industries, including orders for general machinery such as construction machinery, agricultural machinery, and hydraulic/pneumatic equipment.

MAKINO ASIA PTE LTD

Orders received in Asia were significantly higher than the level of the previous year. Orders were mainly received in China.

In China, orders received for parts machining for automobiles were boosted by a considerable number of orders relating to new energy vehicles. Orders received for die and mold for electrical and electronic components remained strong.

Orders received in India increased mainly for parts machining for automobiles.

Orders received in the ASEAN region increased for semiconductor production equipment and for automobiles.

MAKINO INC.

Orders received in America were substantially higher than the level of the previous year. The increase was mainly seen in parts machining for pickup trucks, commercial trucks, semiconductor production equipment, and medical devices.

Orders received for aircrafts increased significantly from the previous year as various orders concentrated in the second half of the fiscal year, including orders for engines and structural parts for civil aircrafts, and defense-related orders.

MAKINO Europe GmbH

Orders received in Europe increased significantly from the previous year, returning to a level of good performance, with an exception of orders received for aircrafts. The increase was driven by orders received for parts machining for semiconductor production equipment, automobiles, and industrial equipment.

(2) Financial Position

Total assets on a consolidated basis at the end of fiscal 2022 increased by ¥45,564 million from the end of fiscal 2021, to ¥325,579 million. The principal items were an increase of ¥18,269 million in notes and accounts receivable, an increase of ¥18,587 million in inventories, and a decrease of ¥3,081 million in investment securities. Total liabilities increased by ¥28,778 million from the end of fiscal 2021, to ¥146,801 million. This was primarily attributable to an increase of ¥21,793 million in notes and accounts payable, trade and a decrease of ¥4,246 million in long-term debt (including current portion of long-term debt).

Net assets increased by ¥16,785 million from the end of fiscal 2021, to ¥178,778 million. The principal items were an increase of ¥11,282 million in retained earnings and an increase of ¥7,751 million in foreign currency translation adjustments.

(3) Cash Flows

At the end of fiscal 2022, net cash provided by operating activities was ¥14,943 million. The principal items were income before income taxes amounting to ¥14,304 million, depreciation and amortization amounting to ¥7,155 million, an increase of ¥15,228 million in notes and accounts receivable, trade, an increase of ¥14,406 million in inventories, and an increase of ¥18,896 million in notes and accounts payable, trade.

Net cash used in investing activities was ¥9,517 million. The principal items were purchases of property, plant and equipment amounting to ¥8,467 million and purchases of investment securities amounting to ¥1,311 million.

Net cash used in financing activities was ¥8,172 million. The main items were repayment of long-term loans payable amounting to ¥4,350 million, purchases of treasury stock amounting to ¥1,001 million, and dividends paid amounting to ¥725 million.

As a result, cash and cash equivalents on a consolidated basis at the end of fiscal 2022 increased by ¥1,067 million from the end of fiscal 2021 to ¥75,712 million.

The table below shows trends in cash-flow indicators.

	79th term Term ended March 2018	80th term Term ended March 2019	81st term Term ended March 2020	82nd term Term ended March 2021	83rd term Term ended March 2022
Shareholders' equity ratio (%)	56.5	59.4	58.3	57.6	54.6
Shareholders' equity ratio on a market value basis (%)	46.3	41.4	26.9	37.4	28.5
Ratio of interest-bearing debt to cash flows (%)	2.5	2.3	5.2	3.0	3.2
Interest coverage ratio (times)	45.9	50.0	25.7	61.8	55.6

Shareholders' equity ratio: Shareholders' equity / Total assets
Shareholders' equity ratio on a market value basis: Market capitalization / Total assets
Ratio of interest-bearing debt to cash flows: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payment

* Each indicator is calculated from consolidated financial data.
* Market capitalization is computed based on the number of shares issued, excluding treasury stock.
* Cash flows mean cash flows from operating activities.
* Interest-bearing debt includes all liabilities bearing interest posted in the consolidated balance sheets. Interest payment is interest paid recorded in the consolidated statements of cash flows.

(4) Outlook (Fiscal 2023)

The Company forecasts that orders received in fiscal 2023 will decrease from the fiscal 2022 level mainly in America and China. Excluding the factor of order concentration in fiscal 2022, orders received will remain at a high level in fiscal 2023.

The details of the forecast by geographic region are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. are expected to be roughly at the same level as in fiscal 2022.

We have been receiving robust inquiries mainly for semiconductor production equipment.

In addition, we have multiple business deals in progress on laser machining equipment relating to medical devices and semiconductors. From these, we will work to steadily win orders.

MAKINO ASIA PTE LTD

We forecast orders received in Asia for fiscal 2023 to be lower than the level of fiscal 2022.

In China, orders received are expected to be lower than the level of fiscal 2022 due to absence of the large order for automobiles received in fiscal 2022. The number of inquiries received for new energy vehicles is increasing. We expect to keep receiving die and mold orders for electrical and electronic components. In addition to this, we expect strong parts machining orders for semiconductor production equipment and hydraulic/pneumatic-related equipment.

In India and ASEAN, we forecast that orders received will be higher than the level of fiscal 2022 with removable of constraints on economic activities caused by COVID-19.

MAKINO INC.

We forecast orders received in America for fiscal 2023 to be lower than the level of fiscal 2022.

The concentration of various orders received for aircrafts in fiscal 2022 has decreased. That said, we expect an increase in orders received for engines as well as for the defense and space industries. Orders for business jets remain strong.

We will further focus on winning medical-related orders such as medical devices for artificial bones and implants, as well as orders for parts machining for semiconductor production equipment.

For automobiles, we strive to maintain the current level of orders.

In addition, we will work for sales expansion as we see an increase in orders received for our wire EDM machines from job shop customers engaged in advanced parts machining.

MAKINO Europe GmbH

We forecast orders received in Europe for fiscal 2023 to be roughly the same as the level in fiscal 2022.

We expect robust orders for automobiles including electric vehicles, for parts machining of general machinery including semiconductor production equipment, and for aircrafts.

Depending on developments in the energy crisis in Europe, there is a risk of our orders received being impacted by the crisis. With the expectation that demand for renewable energy will further increase, we will target wind and other power generation facilities in our sales activities.

The Group's consolidated performance forecasts for fiscal 2023 are as follows.

(Million yen)	Net sales	Operating income	Net income attributable to owners of the parent
Forecasts for the first six months (1st and 2nd quarters combined)	94,000 *1up 24.8%	4,950 *1up 74.4%	4,540 *1up 35.4%
Forecasts for the full fiscal year	210,000 *2up 12.5%	14,400 *2up 27.4%	13,000 *2up 7.9%

*1Compared with the same period of fiscal 2022

*2Year on year

We expect record sales for fiscal 2023 based on a large backlog of orders received and a continued high level of inquiries received.

Although our lead time remains long due to continued difficulties in procuring components, we will strive to achieve our sales plan through design changes and self-manufacture.

Higher procurement costs and personnel costs are expected to weigh on profit growth. We have set up a cost-cutting project and are working to create a structure for achieving lower costs.

As we continue to provide our products and services, sustainability—especially environmental consideration—is gaining importance, on top of realizing high precision and productivity.

Our machines achieve lower power consumption not only while in operation through efficient machining but also while not in operation with a feature called "Eco Switch."

Furthermore, our subsidiary MAKINO TECHNICAL SERVICE has started providing services of overhauling old machines. This will enable our customers to use our products for a long time with peace of mind and reduce the amount of resources to be wasted, which weigh as much as a few tons per unit.

By pushing forward these initiatives, we will work to contribute to the benefit of our customers and to the realization of sustainability.

CORPORATE GOVERNANCE

1. Corporate governance

Basic corporate governance rationale

Makino Milling Machine Co., Ltd. regards strong management oversight functions as a vital element in the strengthening of competitiveness, swifter decision-making and greater transparency.

(1) Corporate governance status

1) Governing body

Makino Milling Machine Co., Ltd. is a company with Board of Directors. As of June 24, 2022, the Company's Board of Directors consists of eight directors. The Board of Directors meets once a month and, in addition to carrying out the tasks specified by laws and regulations and by the Articles of Incorporation, makes decisions on important matters and supervises operational duties. Whereas the representative director elected by the Board of Directors engages in execution of operational duties as the representative of the Company, specific operational duties are allocated among non-representative directors and executed by them. The term of office of a director is one year and directors are elected by vote of the annual general meeting of shareholders.

Makino Milling Machine Co., Ltd. is also a company with corporate auditors and with Board of Auditors. As of June 24, 2022, the Company's Board of Auditors consists of three statutory auditors (two of whom are full-time corporate auditors), of whom two are outside corporate auditors. The statutory auditors attend meetings of the Board of Directors and make remarks, as necessary, in the course of deliberation on the agenda. Also, the Board of Auditors meets periodically and, in addition to items specified by laws and regulations, deliberates and makes decisions on matters necessary for statutory auditors' activities, and audits directors' execution of operational duties from an independent standpoint.

2) Internal control systems and risk management systems

At its meeting held on May 1, 2006, the Company's Board of Directors passed a resolution concerning "the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company (internal control systems)" provided for in Article 348 Paragraph 4 and in Article 362 Paragraph 5 of the Corporation Law. The Company's internal control systems and risk management systems are described below.

Positioning risk management as the basis of systems ensuring properness of execution of duties, the Company is putting in place risk management systems not only for the purpose of managing risks that may cause losses to the Company but also for preventing deviation from laws and regulations and the Articles of Incorporation and for ensuring efficient execution of duties. Directors in charge of operations and departmental heads are responsible for management of usual risks. Risks that the directors or the statutory auditors consider material, and moreover, that they consider should be examined by the Board of Directors are examined, judged and dealt with by the Board of Directors.

The Company has formulated internal rules, including the Risk Management Rules in which deviation from laws and regulations and the Articles of Incorporation is provided for as a type of risk, Employment Rules and the Security Export Control Program. The Company is endeavoring to ensure compliance with laws and regulations, rules and norms by raising employee awareness through the provision of training for new employees and periodic and non-periodic training.

Regarding the recording of operational activities, records are prepared and retained in accordance with the Rules of the Board of Directors in the case of information on execution of duties of directors and in accordance with the Rules for Formal Approvals in the case of decision-making for routine operations.

Subsidiaries are required to report to the Company on their execution of duties and risk situations, as necessary, and the Company's directors or employees are dispatched as directors of subsidiaries to participate in management and be responsible for oversight.

Regarding audit by auditors, as well as reporting on important matters at meetings of the Board of Directors, based on the statutory auditors' requests directors make reports or hold a meeting with statutory auditors, as necessary. Directors and employees are required to report to statutory auditors without delay concerning any eventuality that may cause significant damage or that caused damage to the Company. In the event that statutory auditors request assistants, the Company selects such assistants based on the discussion with statutory auditors about the number of assistants, positions, affiliation, etc., and secures the consent of the Board of Auditors for treatment of such assistants.

In addition, with respect to the system specified by a Cabinet Office Ordinance as necessary for ensuring appropriateness of statements on finance and accounting and other information as set forth in Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Law, the Company maintains and manages such system in accordance with the basic framework of internal control as indicated in the" On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

3) Internal audit and audit by corporate auditors

Necessary audits are performed at the Company on the basis of close cooperation between the corporate auditors, the accounting auditor and relevant staff at the Finance Department, the General Affairs Department and the Internal Audit Office.

Internal audit on maintenance and management of internal control over financial reporting is conducted by the Internal Audit Office (consists of two members), which is established as an independent organization and directly reports to the President, in cooperation with relevant departments of the Company and its consolidated subsidiaries.

Regarding audits by the accounting auditor, necessary coordination such as scheduling is made internally through discussion between the corporate auditors, the Finance Department, the General Affairs Department and the Internal Audit Office. Corporate auditors and the Finance Department periodically exchange views with the accounting auditor and the necessary coordination is made. In addition, corporate auditors witness the audit process, as deemed necessary, to monitor the accounting auditor's audit proceedings.

Regarding audits by auditors, the statutory auditors gather necessary and sufficient information for conducting audits, including the situation of the Company and situations of its subsidiaries and affiliates, on a routine basis through systematic exchanges of views with directors, managerial personnel, key employees, and the accounting auditor of the Company and its subsidiaries and affiliates. Also, statutory auditors receive reports on the accounting auditor's audit results, and use such information in conducting stringent audits.

4) Accounting audits

Certified public accountants engaged in the Company's accounting audits are Ms. Naoko Enomoto and Mr. Akira Mishima, both of whom are with Gyosei & Co. Assistants engaged in the accounting audits comprise seven certified public accountants and three other person.

5) Relations with outside corporate auditors

There are no personal, capital or transactional relations between the Company and its three outside corporate auditors.

(2) Compensation paid to directors and corporate auditors

The compensation paid to directors and corporate auditors of the Company is as follows:

	Number of persons	Amount of compensation (Millions of yen)
Directors excluding outside directors	3	125
Corporate auditors excluding outside corporate auditors	2	23
Outside directors and corporate auditors	5	61

BUSINESS RISKS

The Group operates around the world, and the operations are influenced by a range of different factors, the most important of which are as follows:

- Changes in global economic conditions: The sales of the Company heavily depend on capital expenditures in the manufacturing industry in Japan, Asia and America. Since the investment appetite of companies is likely to fall more sharply than the general economy, there is the possibility that orders and sales of producer goods will decline rapidly if the global economy slows.

- Trends in individual industries: Many of the Company's products are used in automotive companies. Although trends in capital expenditure in the auto sector are the most stable in the manufacturing industry, they have a very substantial effect on sales of the Company because the capital expenditure, which is large, has a very significant influence on supply and demand in the market for machine tools. Sales in growth industries, including IT and digital home appliances, change sharply every fiscal year because of violent fluctuations in supply and demand.

- Exchange rate fluctuations: More than half of the Company's products are sold overseas. Moreover, we have developed a range of operations overseas. Exchange rates consequently have a significant impact on the sales and income of the Company.

- Changes in the supply-demand of parts and raw materials: Machine tools contain many parts and raw materials. If supply of parts and raw materials tightens, prices may rise, and this in turn could influence income. If the needed quality, quantity, and delivery dates are not secured, it could influence production and sales.

- Country risk: The Company has made inroads into countries that are modernizing their industries. If unexpected changes occur in the political, economic, or social circumstances in these countries, or if legal regulations are established or tightened, it could affect the sales and income of the Company.

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2021 and 2022

	Millions of yen		Thousands of dollars (US$1=¥122.39)
	2021	**2022**	**2022**
ASSETS			
Current assets:			
Cash and time deposits (Notes 3 and 15)	¥ 72,032	**¥ 73,100**	**$ 597,271**
Marketable securities (Notes 2.e, 3 and 4)	3,343	**3,542**	**28,940**
Notes and accounts receivable (Notes 2.k, 3 and 5)	30,162	**48,432**	**395,718**
Inventories (Notes 2.f and 6)	59,922	**78,509**	**641,465**
Other current assets	6,376	**9,999**	**81,697**
Allowance for doubtful accounts (Notes 2.h and 3)	(1,300)	**(1,326)**	**(10,834)**
Total current assets	170,536	**212,257**	**1,734,267**
Investments and other assets:			
Investment securities (Notes 2.e, 3 and 4)	28,908	**25,827**	**211,022**
Long-term loans receivable	801	**704**	**5,752**
Deferred income taxes (Notes 2.j and 10)	2,664	**3,378**	**27,600**
Net defined benefit assets (Notes 2.i and 8)	281	**729**	**5,956**
Other long-term assets	7,311	**7,550**	**61,688**
Allowance for doubtful accounts (Notes 2.h and 3)	(239)	**(183)**	**(1,495)**
Total investments and other assets	39,727	**38,007**	**310,540**
Property, plant and equipment (Note 2.g):			
Land	18,765	**18,940**	**154,751**
Buildings and structures	74,686	**79,657**	**650,845**
Machinery and equipment	43,865	**46,013**	**375,953**
Lease assets (Note 9)	5,686	**6,414**	**52,406**
Construction in progress	2,909	**5,701**	**46,580**
	145,914	**156,727**	**1,280,553**
Accumulated depreciation	(76,162)	**(81,412)**	**(665,185)**
Total property, plant and equipment	69,751	**75,315**	**615,368**
Total assets	¥ 280,015	**¥ 325,579**	**$2,660,176**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of dollars (US$1=¥122.39)
	2021	**2022**	**2022**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 3):			
Trade	¥ 13,301	**¥ 25,394**	**$ 207,484**
Other	4,977	**6,651**	**54,342**
Electronically recorded obligations-operating (Note 3)	8,523	**18,304**	**149,554**
Short-term loans (Notes 3 and 7)	1,410	**—**	**—**
Current portion of long-term debt (Notes 2.k, 3, 5 and 7)	4,350	**4,650**	**37,993**
Short-term lease obligations (Note 7)	516	**591**	**4,828**
Accrued expenses	8,134	**11,230**	**91,755**
Income taxes payable	632	**2,544**	**20,786**
Other current liabilities	13,160	**20,529**	**167,734**
Total current liabilities	55,006	**89,895**	**734,496**
Long-term liabilities:			
Long-term debt (Notes 2.k, 3, 5 and 7)	48,347	**43,800**	**357,872**
Long-term lease obligations (Note 7)	2,412	**2,510**	**20,508**
Net defined benefit liabilities (Notes 2.i and 8)	2,922	**2,304**	**18,825**
Allowance for directors' and corporate auditors' retirement benefits (Note 2.i)	119	**129**	**1,054**
Deferred income taxes (Notes 2.j and 10)	7,495	**6,127**	**50,061**
Other long-term liabilities	1,719	**2,033**	**16,610**
Total long-term liabilities	63,016	**56,905**	**464,948**
Net assets:			
Shareholders' equity			
Common stock, no par value Authorized : 60,000,000 shares as of March 31, 2021 and 2022 Issued : 24,893,841 shares as of March 31, 2021 and 2022	21,142	**21,142**	**172,742**
Capital surplus	37,074	**37,074**	**302,916**
Retained earnings (Note 13)	90,231	**101,513**	**829,422**
Treasury stock 703,682 and 961,278 shares as of March 31, 2021 and 2022 respectively	(3,012)	**(4,014)**	**(32,796)**
Total shareholders' equity	145,436	**155,716**	**1,272,293**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities (Note 2.e)	16,099	**14,174**	**115,810**
Foreign currency translation adjustments	617	**8,369**	**68,379**
Remeasurements of defined benefit plans (Notes 2.i and 8)	(968)	**(369)**	**(3,014)**
Total accumulated other comprehensive income	15,748	**22,174**	**181,174**
Non-controlling interests	807	**886**	**7,239**
Total net assets	161,992	**178,778**	**1,460,723**
Total liabilities and net assets	¥ 280,015	**¥ 325,579**	**$2,660,176**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of dollars (US$1=¥122.39)
	2021	**2022**	**2022**
Net sales	¥ 116,737	**¥ 186,591**	**$1,524,560**
Cost of sales	89,806	**135,973**	**1,110,981**
Gross profit	26,930	**50,617**	**413,571**
Selling, general and administrative expenses	30,542	**39,317**	**321,243**
Operating income (loss)	(3,612)	**11,300**	**92,327**
Other income (expenses):			
Interest and dividend income	553	**764**	**6,242**
Interest expense	(291)	**(270)**	**(2,206)**
Subsidy income	990	**605**	**4,943**
Gain on sales of property, plant and equipment	176	**54**	**441**
Gain on sales of investment securities	24	**20**	**163**
Loss on disposal of property, plant and equipment	(88)	**(49)**	**(400)**
Loss on sales of investment securities	—	**(1)**	**(8)**
Impairment loss (Note 13)	(130)	**—**	**—**
Office transfer expenses	(899)	**—**	**—**
Exchange gain (loss), net	364	**1,051**	**8,587**
Subsidies for employment adjustment	785	**6**	**49**
Infectious disease related cost	(892)	**—**	**—**
Other, net	619	**823**	**6,724**
Income (loss) before income taxes	(2,399)	**14,304**	**116,872**
Income taxes (Notes 2.j and 10) - Current	806	**3,408**	**27,845**
- Deferred	(511)	**(1,229)**	**(10,041)**
Net income (loss)	(2,694)	**12,124**	**99,060**
Net income attributable to non-controlling interests	8	**81**	**661**
Net income (loss) attributable to owners of the parent	¥ (2,703)	**¥ 12,042**	**$ 98,390**

	Yen		Dollars
Per share of common stock:			
Net income (loss) attributable to owners of the parent	¥ (110.82)	**¥ 499.23**	**$ 4.07**
Cash dividends applicable to the period	20.00	**60.00**	**0.49**

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 years ended March 31, 2021 and 2022

	Millions of yen		Thousands of dollars (US$1=¥122.39)
	2021	**2022**	**2022**
Net income	¥ (2,694)	**¥ 12,124**	**$99,060**
Other comprehensive income (loss) (Note 15):			
Unrealized gains (losses) on available-for-sale securities (Note 2.e)	7,499	**(1,924)**	**(15,720)**
Foreign currency translation adjustments (Note 2.d)	3,947	**7,751**	**63,330**
Remeasurements of defined benefit plans (Notes 2.i and 8)	3,059	**599**	**4,894**
Other comprehensive income (loss)	14,507	**6,426**	**52,504**
Total comprehensive income	¥ 11,812	**¥ 18,551**	**$151,572**
Total comprehensive income attributable to:			
Owners of the parent	11,796	**18,468**	**150,894**
Non-controlling interests	16	**82**	**669**
	¥ 11,812	**¥ 18,551**	**$151,572**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of dollars (US$1=¥122.39)
	2021	**2022**	**2022**
Common stock:			
Balance at beginning of year	¥ 21,142	**¥ 21,142**	**$ 172,742**
Balance at end of year	21,142	**21,142**	**172,742**
Capital surplus:			
Balance at beginning of year	37,070	**37,074**	**302,916**
Other	3	**—**	**—**
Balance at end of year	37,074	**37,074**	**302,916**
Retained earnings (Note 14):			
Balance at beginning of year	93,424	**90,231**	**737,241**
Cumulative effects of changes in accounting policies	—	**(34)**	**(277)**
Net income (loss) attributable to owners of the parent	(2,703)	**12,042**	**98,390**
Cash dividends	(488)	**(725)**	**(5,923)**
Balance at end of year	90,231	**101,513**	**829,422**
Treasury stock:			
Balance at beginning of year	(2,011)	**(3,012)**	**(24,609)**
Acquisition of treasury stock	(1,001)	**(1,001)**	**(8,178)**
Balance at end of year	(3,012)	**(4,014)**	**(32,796)**
Unrealized gains on available-for-sale securities (Note 2.e):			
Balance at beginning of year	8,602	**16,099**	**131,538**
Net change during the year	7,496	**(1,924)**	**(15,720)**
Balance at end of year	16,099	**14,174**	**115,810**
Foreign currency translation adjustments (Note 2.d):			
Balance at beginning of year	(3,329)	**617**	**5,041**
Net change during the year	3,947	**7,751**	**63,330**
Balance at end of year	617	**8,369**	**68,379**
Remeasurements of defined benefit plans (Notes 2.i and 8):			
Balance at beginning of year	(4,024)	**(968)**	**(7,909)**
Net change during the year	3,055	**599**	**4,894**
Balance at end of year	(968)	**(369)**	**(3,014)**
Non-controlling interests:			
Balance at beginning of year	828	**807**	**6,593**
Net change during the year	(21)	**79**	**645**
Balance at end of year	¥ 807	**¥ 886**	**$ 7,239**

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 years ended March 31, 2021 and 2022

	Millions of yen		US$1=¥122.39 Thousands of dollars
	2021	**2022**	**2022**
Cash flows from operating activities:			
Income before income taxes	¥ (2,399)	**¥ 14,304**	**$ 116,872**
Adjustments for:			
Income taxes (paid) refund	900	**(1,565)**	**(12,786)**
Depreciation and amortization	6,876	**7,155**	**58,460**
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	10	**10**	**81**
Increase (decrease) in net defined benefit liabilities	836	**205**	**1,674**
Increase (decrease) in allowance for doubtful accounts	230	**(132)**	**(1,078)**
(Gain) loss on sales of property, plant and equipment	(176)	**(54)**	**(441)**
Loss on disposal of property, plant and equipment	88	**49**	**400**
(Gain) loss on sales of investment securities	(24)	**(18)**	**(147)**
(Increase) decrease in notes and accounts receivable, trade	10,852	**(15,228)**	**(124,421)**
(Increase) decrease in inventories	193	**(14,406)**	**(117,705)**
Increase (decrease) in notes and accounts payable, trade	(3,209)	**18,896**	**154,391**
Other, net	3,857	**5,727**	**46,793**
Net cash provided by (used in) operating activities	18,036	**14,943**	**122,093**
Cash flows from investing activities:			
Proceeds from sales of investment securities	74	**50**	**408**
Purchases of investment securities	(857)	**(1,311)**	**(10,711)**
Purchases of investments in subsidiaries	(54)	**—**	**—**
Purchases of property, plant and equipment	(5,394)	**(8,467)**	**(69,180)**
Proceeds from sales of property, plant and equipment	496	**301**	**2,459**
Other, net	(832)	**(91)**	**(743)**
Net cash provided by (used in) investing activities	(6,568)	**(9,517)**	**(77,759)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	(3,301)	**(1,419)**	**(11,594)**
Repayment of lease obligations	(649)	**(673)**	**(5,498)**
Proceeds from long-term loans payable	12,118	**—**	**—**
Repayment of long-term loans payable	(618)	**(4,350)**	**(35,542)**
Purchases of treasury stock	(1,001)	**(1,001)**	**(8,178)**
Purchases of treasury stock of subsidiaries in consolidation	(22)	**—**	**—**
Dividends paid	(502)	**(728)**	**(5,948)**
Net cash provided by (used in) financing activities	6,022	**(8,172)**	**(66,770)**
Effect of exchange rate changes on cash and cash equivalents	1,795	**3,813**	**31,154**
Net increase (decrease) in cash and cash equivalents	19,286	**1,067**	**8,718**
Cash and cash equivalents, beginning of period	55,358	**74,644**	**609,886**
Cash and cash equivalents, end of period (Notes 2.b and 16)	¥ 74,644	**¥ 75,712**	**$ 618,612**

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 ¥122.39 = US$1, which was the prevailing exchange rate on March 31, 2022.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (38 for 2021 and 2022). The significant subsidiaries, which are consolidated with the Company, are listed below:

Makino J Co., Ltd.
Makino Denso Co., Ltd.
Makino Technical Service Co., Ltd.
Kanto Bussan Kaisha, Ltd.
Makino Giken Co., Ltd.
Makino Logistics Co., Ltd.
MAKINO ASIA PTE LTD
MAKINO INC.
MAKINO Europe GmbH
MAKINO RESOURCE DEVELOPMENT PTE LTD
Makino Korea Co., Ltd

The remaining subsidiaries (three for 2021 and four for 2022), whose assets, net sales, net income and the underlying net equity of retained earnings in the aggregate are not significant in the consolidated totals, have not been consolidated with the Company.

The fiscal year of the consolidated subsidiaries is the same as the Company's except for some of the subsidiaries (seven for 2021 and 2022): Makino do Brasil Ltda., Single Source Technologies S. de R.L. de C.V., MAKINO CHINA Co., LTD. and the others, whose fiscal years end on December 31. Significant transactions between January 1 and March 31 are reflected in the consolidated financial statements.

The equity method is not applied since the combined net profit and loss and the underlying net equity of retained earnings in the aggregate in the unconsolidated subsidiaries and four affiliates are not significant in the consolidated totals.

All significant intercompany accounts and transactions are eliminated in consolidation.

(b) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

(c) Foreign currency translations

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income unless they are hedged by forward exchange contracts.

(d) Foreign currency financial statements
The balance sheet accounts of the overseas consolidated subsidiaries are translated into Japanese yen at the rates of exchange at the balance sheet date except as to capital, which is translated at the historical rates of exchange at dates of acquisition. The revenue and expense accounts of those subsidiaries are translated into Japanese yen at the average rates of exchange in effect during each fiscal year. Differences arising from translation are shown as "Foreign currency translation adjustments" in the net assets in the accompanying consolidated balance sheets.

(e) Marketable securities and investment securities
Investments in the unconsolidated subsidiaries and the affiliate are stated at cost. Equity method is not applied as in Note 2(a). Marketable securities and investment securities other than investment securities in the subsidiaries and the affiliate are stated at market value. However, such securities without market value are stated at cost if they are not significantly impaired. The Company credits or charges unrealized gains or losses, net of income taxes, on the above securities to net assets as "Unrealized gains on available-for-sale securities".

The cost of sold securities is calculated using the gross average method.

(f) Inventories
Finished products and work in process are principally valued at the lower of cost or net realized value, determined by the specific identification method. Raw materials and supplies are principally stated at the moving average method.

(g) Property, plant, equipment and depreciation
Property, plant and equipment, including significant renewals and additions, are carried at cost. The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gain or loss is reflected in income. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

Depreciation of the Company and the domestic consolidated subsidiaries is mainly computed by the declining balance method using the rates based on estimated useful lives of the assets. Depreciation of the overseas consolidated subsidiaries is computed by the straight-line method. The range of useful lives is principally from 5 to 50 years for buildings and structures and from 3 to 12 years for machinery and equipment.

(h) Allowance for doubtful accounts
The Group provides for possible losses due to uncollectibility of notes, accounts, loans receivable, etc. based on the Company's past credit loss experience and management's estimate.

(i) Allowance for employees' retirement benefits and directors' and corporate auditors' retirement benefits
Employees, excluding directors and corporate auditors, of the Company and most of its domestic consolidated subsidiaries are covered by a retirement plan whereby each employee, under most circumstances, upon mandatory retirement at the age of 60 years or earlier termination of employment, is entitled to either a lump sum retirement payment or pension payment based on compensation at the time of retirement and years of service. These employees' retirement plans are funded.

The employees' retirement benefits are accounted for as the liability for retirement benefits based on projected benefit obligations and plan assets in conformity with the accounting standard for the employees' retirement benefits.

Directors and corporate auditors are not covered by these plans. However, liabilities for directors' and corporate auditors' retirement benefits include amounts equal to management's estimate of the amounts which would be payable to them if they retired at the balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

(j) Income taxes
Deferred income taxes are recognized applying the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and the tax basis of the assets and liabilities, and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The Company and some of its consolidated subsidiaries adopted the consolidated taxation system effective from the fiscal year ended March 31, 2013.

(k) Hedge accounting
The Group uses derivative financial instruments to manage exposures to fluctuations in foreign exchange and interest rates and does not enter into the derivatives for trading or speculative purposes.

Forward exchange contracts are used for accounts receivable and payable denominated in foreign currencies. If the contracts meet certain hedging criteria, the hedged items are translated at the contracted rates, and the Group defers recognition of gains and losses resulting from changes in the fair value of the derivatives for future transactions until the related losses and gains on the hedged transactions are recognized.

The Group enters into interest rate swap contracts for long-term loans. The swaps which qualify for hedge accounting are not re-measured at market value, but the differential to be paid or received under the swap contracts are accrued and included in interest expense or income (the special hedge accounting short-cut method for interest rate swaps).

The Company assesses the effectiveness of the forward exchange contracts by comparing the contracted rate and spot rate at the balance sheet date and expiration date. The effectiveness assessment of the interest rate swaps, however, is not undertaken as they meet the hedging criteria for the special hedge accounting short-cut method.

(l) Appropriations of retained earnings

Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements basically when they are approved by the shareholders or resolved by the Board of Directors.

(m) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the current year's presentation.

(n) Recognition standards for significant revenue and expenses

The Group engages mainly in manufacturing and sales of machine tools. Revenue from sales of products is recognized when control of products is considered to have transferred to a customer at the point of dispatch or shipment. Meanwhile, in certain engineering services, performance obligations are deemed to be fulfilled over a period of time, where revenue is recognized over a period of time based on the estimated degree of progress in fulfilling performance obligations.

(o) Changes in accounting policies

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Revenue Recognition Standard"), and other standards from the beginning of the current fiscal year, whereby the Company recognizes revenue when the control of promised goods or services is transferred to a customer at an amount it expects to receive in return for the delivery of such goods or services. Accordingly, in the domestic sales transaction of products, timing of revenue recognition has been changed for certain services ancillary to the sale of products, from the previous method involving revenue recognition at the point of shipment from factory to revenue recognition at the completion of the service.

The Company applies the Revenue Recognition Standard, etc. in accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Revenue Recognition Standard. The cumulative impact of retrospectively applying the new accounting policies to prior fiscal years is adjusted to retained earnings at the beginning of the current fiscal year, with the new accounting policies applied from the beginning balance. The impact of the foregoing on the profit or loss for the current fiscal year, and the opening balance of retained earnings for the current fiscal year is minimal.

As a result of the application of the Revenue Recognition Standard, etc., "notes and accounts receivable" presented under "current assets" in the consolidated balance sheet for the previous fiscal year has been included in "notes and accounts receivable - trade, and contract asset" from the current fiscal year. However, in accordance with the transitional treatment prescribed in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified based on the new presentation method. And, in accordance with the transitional treatment prescribed in Paragraph 89-3 of the Revenue Recognition Standard, notes pertaining to the previous fiscal year are not presented.

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter the "Fair Value Measurement Standard") and other standards from the beginning of the current fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment provided in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This does not affect the consolidated financial statements. In addition, the Company will include notes on fair value information by level within the fair value hierarchy in the notes on financial instruments. However, in accordance with the transitional treatment provided in Paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, July 4, 2019), notes pertaining to the previous fiscal year are not presented.

3. Financial Instruments

(1) Management policy

In consideration of plans for capital expenditure, the Group raises funds through loans and bonds. Temporary cash surpluses are invested in low-risk financial assets, and short-term capital is raised through loans. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Financial instruments and risk management

Notes and accounts receivable are exposed to customer credit risk. The Group identifies and reduces risk of bad debt by reviewing the financial positions of major customers and outstanding balances.

Notes and accounts receivable denominated in foreign currencies are also exposed to foreign exchange risk. To reduce the risk, the Group enters into forward exchange contracts.

The Group holds marketable securities and investment securities, most of which are shares of other companies with which the Group has business relationships, the subsidiaries and the affiliate. Those securities are exposed to market risk, and the Group regularly reviews the fair values of the securities and the financial positions of the issuers.

The purpose of loans and bonds is mainly to finance capital expenditure. Interest rate swaps are used to avoid interest rate risk from loans with floating interest rates.

The Group manages liquidity risk by preparing and updating cash flow plans and maintaining sufficient funds.

The amount of financial instruments on the consolidated balance sheets and the fair value are as follows:

	As of March 31,		
	Millions of yen		
	2021		
	Amount on balance sheet	Fair value	Difference
Assets			
Cash and time deposits	¥ 72,032	¥ 72,032	—
Notes and accounts receivable	30,162	30,162	
Allowance for doubtful accounts	(1,300)	(1,300)	
Balance	28,861	28,861	—
Held-to-maturity securities	1,701	1,699	(1)
Other marketable securities and investment securities	30,242	30,242	—
Total assets	¥132,838	¥132,837	¥ (1)
Liabilities			
Notes and accounts payable	¥ 13,301	¥ 13,301	—
Electronically recorded obligations-operating	8,523	8,523	—
Short-term loans	1,410	1,410	—
Current portion of long-term loans	4,350	4,350	—
Bonds	20,000	20,023	23
Long-term loans	28,347	28,268	(78)
Total liabilities	¥ 75,931	¥ 75,876	¥ (54)
Derivatives	¥ (13)	¥ (13)	—

	As of March 31,		
	Millions of yen		
	2022		
	Amount on balance sheet	Fair value	Difference
Assets			
Held-to-maturity securities	**¥ 1,702**	**¥ 1,694**	**¥ (7)**
Other marketable securities and investment securities	**27,325**	**27,325**	**—**
Total Assets	**29,028**	**29,020**	**(7)**
Liabilities			
Bonds	**20,000**	**20,023**	**23**
Long-term loans	**28,450**	**28,397**	**(52)**
Total liabilities	**48,450**	**48,421**	**(29)**
Derivatives	**¥ (9)**	**¥ (9)**	**—**

	As of March 31, Thousands of dollars 2022		
	Amount on balance sheet	Fair value	Difference
Assets			
Held-to-maturity securities	**$ 13,906**	**$ 13,841**	**$ (57)**
Other marketable securities and investment securities	**223,261**	**223,261**	**—**
Total Assets	**237,176**	**237,110**	**(57)**
Liabilities			
Bonds	**163,412**	**163,599**	**187**
Long-term loans	**232,453**	**232,020**	**(424)**
Total liabilities	**395,865**	**395,628**	**(236)**
Derivatives	**$ (73)**	**$ (73)**	**—**

(3) Fair value information of financial instruments by level within the fair value hierarchy
The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than those included within Level 1

Level 3 fair value: Fair values measured by material but unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(a) Financial assets and financial liabilities measured at fair value in the consolidated balance sheets

	As of March 31, Millions of yen 2022			
	Level 1	Level 2	Level 3	**Total**
Securities and investment securities				
Available-for-sale-securities	¥ 24,325	¥ —	¥ —	**¥ 24,325**
Total assets	24,325	—	—	**24,325**
Derivative transactions				
Currency-related	—	(9)	—	**(9)**
Total liabilities	¥ —	¥ (9)	¥ —	**¥ (9)**

	As of March 31, Thousands of dollars 2022			
	Level 1	Level 2	Level 3	**Total**
Securities and investment securities				
Available-for-sale-securities	$198,749	$ —	$ —	**$198,749**
Total assets	198,749	—	—	**198,749**
Derivative transactions				
Currency-related	—	(73)	—	**(73)**
Total liabilities	$ —	$ (73)	$ —	**$ (73)**

(b) Financial instruments other than those measured at fair value in the consolidated balance sheets

	As of March 31, Millions of yen 2022			
	Level 1	Level 2	Level 3	**Total**
Securities and investment securities				
Held-to-maturity bonds	¥ —	¥ 1,694	¥ —	**¥ 1,694**
Available-for-sale-securities	—	3,000	—	**3,000**
Total assets	—	4,694	—	**4,694**
Bonds	—	20,023	—	**20,023**
Long-term loans payable	—	28,397	—	**28,397**
Total liabilities	¥ —	¥ 48,421	¥ —	**¥ 48,421**

	As of March 31,			
	Thousands of dollars			
	2022			
	Level 1	Level 2	Level 3	**Total**
Securities and investment securities				
Held-to-maturity bonds	$ —	$ 13,841	$ —	**$ 13,841**
Available-for-sale-securities	—	24,511	—	**24,511**
Total assets	—	38,352	—	**38,352**
Bonds	—	163,599	—	**163,599**
Long-term loans payable	—	232,020	—	**232,020**
Total liabilities	$ —	$395,628	$ —	**$395,628**

* Explanation regarding the valuation methods and inputs used in fair value measurement

Securities and investment securities

Shares are evaluated based on quoted prices. As shares are traded in active markets, their fair value is classified as Level 1. Bonds are evaluated based on the price quoted on the exchange or provided by financial institutions. Bonds are classified as Level 2 because they are not traded frequently in the public market and not considered to have quoted prices in active markets. Certificates of deposit are classified as Level 2 because they are not considered to have quoted prices in active markets. Due to their short-term maturity, their carrying amount is quoted as fair value because it approximates their fair value.

Derivative transactions

The fair value of forward exchange contracts is measured using the discounted cash flow method based on observable inputs, such as exchange rates, and is classified as Level 2. Forward exchange contracts under hedge accounting are treated as one combined with hedged monetary claims, hence their fair value is included in the fair value of such monetary claims. Interest rate swaps qualifying for special accounting treatment are treated as one combined with hedged long-term loans payable, hence their fair value is included in the fair value of such long-term loans payable.

Bonds

Fair value of bonds issued by the Company is measured by discounting the sum of principal and interest by using the interest rate assumed to be applicable to new bond issuance on similar conditions. While market prices for fair value of corporate bonds are available, their fair value is classified as Level 2 because they are not traded in an active market.

Long-term loans payable

Fair value of long-term loans payable is measured by discounting the sum of principal and interest by using the interest rate assumed to be applicable to new borrowings on similar conditions, and is classified into Level 2.

4. Marketable Securities and Investment Securities

Marketable securities and investment securities quoted at an exchange as of March 31, 2021 and 2022.

(1) Held-to-maturity securities

	As of March 31,		
	Millions of yen		
	2021		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	¥ —	¥ —	¥ —
Securities whose market value does not exceed amount on balance sheet	¥ 1,701	¥ 1,699	¥ (1)
Total	¥ 1,701	¥ 1,699	¥ (1)

	As of March 31,		
	Millions of yen		
	2022		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	**¥ —**	**¥ —**	**¥ —**
Securities whose market value does not exceed amount on balance sheet	**¥ 1,702**	**¥ 1,694**	**¥ (7)**
Total	**¥ 1,702**	**¥ 1,694**	**¥ (7)**

	As of March 31,		
	Thousands of dollars		
	2022		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	**$ —**	**$ —**	**$ —**
Securities whose market value does not exceed amount on balance sheet	**$ 13,906**	**$ 13,841**	**$ (57)**
Total	**$ 13,906**	**$ 13,841**	**$ (57)**

(2) Other marketable securities and investment securities

	As of March 31,		
	Millions of yen		
	2021		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	¥27,124	¥ 4,071	¥23,052
(2) Other	43	40	3
Subtotal	¥27,167	¥ 4,112	¥23,055
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	¥ 75	¥ 80	¥ (5)
(2) Other	3,000	3,000	—
Subtotal	¥ 3,075	¥ 3,080	¥ (5)
Total	¥30,242	¥ 7,192	¥23,050

	As of March 31,		
	Millions of yen		
	2022		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	**¥24,220**	**¥ 4,050**	**¥20,169**
(2) Other	**12**	**9**	**2**
Subtotal	**¥24,232**	**¥ 4,060**	**¥20,172**
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	**¥ 66**	**¥ 72**	**¥ (6)**
(2) Other	**3,027**	**3,030**	**(3)**
Subtotal	**¥ 3,093**	**¥ 3,103**	**¥ (9)**
Total	**¥27,325**	**¥ 7,163**	**¥20,162**

	As of March 31,		
	Thousands of dollars		
	2022		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	**$197,891**	**$ 33,090**	**$164,792**
(2) Other	**98**	**73**	**16**
Subtotal	**$197,990**	**$ 33,172**	**$164,817**
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	**$ 539**	**$ 588**	**$ (49)**
(2) Other	**24,732**	**24,756**	**(24)**
Subtotal	**$ 25,271**	**$ 25,353**	**$ (73)**
Total	**$223,261**	**$ 58,526**	**$164,735**

5. Derivative Financial Instruments

(1) Derivatives to which hedge accounting is not applied

(a) Currency related

	As of March 31,			
	Millions of yen			
	2021			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	¥ 332	—	¥ (1)	¥ (1)
Purchase contracts				
SGD	¥ 71	—	¥ 0	¥ 0
JPY	47	—	(0)	(0)
Option trade contracts *				
Sales				
USD	¥ 221	—	¥ (11)	¥ (11)
Total	¥ 671	—	¥ (13)	¥ (13)

* The option trade contracts are zero-cost option contracts. With respect to the zero-cost option contracts, the call option and put option are shown in aggregate as they are set in one contract.

	As of March 31,			
	Millions of yen			
	2022			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	**¥ 367**	—	**¥ (1)**	**¥ (1)**
Purchase contracts				
SGD	**¥ 76**	—	**¥ (0)**	**¥ (0)**
JPY	**98**	—	**(7)**	**(7)**
Total	**¥ 542**	—	**¥ (9)**	**¥ (9)**

	As of March 31,			
	Thousands of dollars			
	2022			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	**$ 2,998**	—	**$ (8)**	**$ (8)**
Purchase contracts				
SGD	**$ 620**	—	**$ (0)**	**$ (0)**
JPY	**800**	—	**(57)**	**(57)**
Total	**$ 4,428**	—	**$ (73)**	**$ (73)**

(2) Derivatives to which hedge accounting is applied

(a) Currency related

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Millions of yen 2021 Contracted amount	Contracted amount over one year	Fair value
Method where hedged items are translated at contracted rates	Forward exchange contracts				
	Sales contracts				
	USD	Account receivable	¥2,760	—	¥ (128)
	EUR	Account receivable	519	—	(13)
	Total		¥3,279	—	¥ (141)

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Millions of yen **2022** Contracted amount	Contracted amount over one year	Fair value
Method where hedged items are translated at contracted rates	Forward exchange contracts				
	Sales contracts				
	USD	Account receivable	**¥5,751**	**—**	**¥ (325)**
	EUR	Account receivable	**1,394**	**—**	**(45)**
	Total		**¥7,145**	**—**	**¥ (370)**

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Thousands of dollars **2022** Contracted amount	Contracted amount over one year	Fair value
Method where hedged items are translated at contracted rates	Forward exchange contracts				
	Sales contracts				
	USD	Account receivable	**$ 46,989**	**—**	**$ (2,655)**
	EUR	Account receivable	**11,389**	**—**	**(367)**
	Total		**$ 58,378**	**—**	**$ (3,023)**

(b) Interest related

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Millions of yen 2021		
			Contracted amount	Contracted amount over one year	Fair value
Special hedge accounting short-cut method for interest rate swaps	Interest rate swap contracts Receive floating, pay fixed	Long-term loans	¥ 1,000	¥ 1,000	*
	Total		¥ 1,000	¥ 1,000	*

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Millions of yen **2022**		
			Contracted amount	Contracted amount over one year	Fair value
Special hedge accounting short-cut method for interest rate swaps	Interest rate swap contracts Receive floating, pay fixed	Long-term loans	**¥ 1,000**	**¥ —**	*****
	Total		**¥ 1,000**	**¥ —**	*****

Hedge accounting method	Nature of transaction	Hedged item	As of March 31, Thousands of dollars **2022**		
			Contracted amount	Contracted amount over one year	Fair value
Special hedge accounting short-cut method for interest rate swaps	Interest rate swap contracts Receive floating, pay fixed	Long-term loans	**$ 8,170**	**$ —**	*****
	Total		**$ 8,170**	**$ —**	*****

* Interest rate swaps are accounted for as part of long-term loans. Therefore, the fair value of the swaps is included in the fair value of the underlying long-term loans.

6. Inventories

Inventories as of March 31, 2021 and 2022 comprise the following:

	As of March 31, Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Finished products	¥ 19,950	**¥ 22,335**	**$182,490**
Work in process	13,759	**20,342**	**166,206**
Raw material and supplies	26,212	**35,831**	**292,760**
Total	¥ 59,922	**¥ 78,509**	**$641,465**

7. Short-Term and Long-Term Debts and Lease Obligations

The table below shows information on short-term and long-term debts and lease obligations:

			As of March 31,		
			Millions of yen		Thousands of dollars
	Interest rate	Date of maturity as of March 31, 2022	2021	**2022**	**2022**
Short-term loans	—*	—	¥ 1,410	**¥ —**	**$ —**
Current portion of long-term loans	0.32*	—	4,350	**4,650**	**37,993**
Long-term loans less current portion	0.35*	from August 31, 2023 to September 30, 2025	¥ 28,347	**¥ 23,800**	**$194,460**
Yen unsecured bonds	0.50	September 1, 2026	5,000	**5,000**	**40,853**
Yen unsecured bonds	0.47	July 23, 2025	5,000	**5,000**	**40,853**
Yen unsecured bonds	0.41	March 2, 2027	5,000	**5,000**	**40,853**
Yen unsecured bonds	0.55	March 1, 2030	5,000	**5,000**	**40,853**
Short-term lease obligations	—	—	¥ 516	**¥ 591**	**$ 4,828**
Long-term lease obligations	—	from April 30, 2023 to December 31, 2040	2,412	**2,510**	**20,508**

* The weighted average interest rate as of March 31, 2022

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2022 are as follows:

	Long-term debt		Lease obligations	
Year ending March 31,	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
2023	¥ 4,650	$ 37,993	¥ 591	$ 4,828
2024	6,617	54,064	411	3,358
2025	5,683	46,433	285	2,328
2026	16,500	134,814	246	2,009
2027	10,000	81,706	197	1,609

8. Employees' Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension plans, which consist of a benefit plan provided under the Welfare Pension Insurance Law of Japan, a corporate pension plan and a lump-sum payment plan as well as defined contribution pension plans.

Some of the overseas consolidated subsidiaries have defined contribution plans as well as defined benefit plans.

(1) Reconciliation of changes in benefit obligations

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Balance at beginning of year	¥ 22,431	**¥ 22,918**	**$187,253**
Service cost	753	**758**	**6,193**
Interest cost	234	**201**	**1,642**
Actuarial loss	170	**(14)**	**(114)**
Benefits paid	(887)	**(989)**	**(8,080)**
Other	216	**564**	**4,608**
Balance at end of year	¥ 22,918	**¥ 23,437**	**$191,494**

(2) Reconciliation of changes in pension assets

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Balance at beginning of year	¥ 17,110	**¥ 20,351**	**$166,279**
Expected return on pension assets	466	**565**	**4,616**
Actuarial loss	3,241	**769**	**6,283**
Contributions by employer	446	**470**	**3,840**
Benefits paid	(855)	**(957)**	**(7,819)**
Other	(58)	**739**	**6,038**
Balance at end of year	¥ 20,351	**¥ 21,939**	**$179,254**

(3) Reconciliation of changes in retirement benefit liabilities using a simplified method

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Balance at beginning of year	¥ 63	**¥ 73**	**$ 596**
Periodic benefit cost	10	**9**	**73**
Benefits paid	(0)	**(6)**	**(49)**
Balance at end of year	¥ 73	**¥ 77**	**$ 629**

(4) Reconciliation of benefit obligations and pension assets to net defined benefit liabilities and assets on the consolidated balance sheet

	As of March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Funded benefit obligations	¥ 22,409	**¥ 22,959**	**$187,588**
Pension assets	(20,351)	**(21,939)**	**(179,254)**
	2,058	**1,019**	**8,325**
Unfunded benefit obligations	582	**555**	**4,534**
Net amount of liabilities and assets on consolidated balance sheet	2,641	**1,575**	**12,868**
Net defined benefit liabilities	2,922	**2,304**	**18,825**
Net defined benefit assets	(281)	**(729)**	**(5,956)**
Net amount of liabilities and assets on consolidated balance sheet	¥ 2,641	**¥ 1,575**	**$ 12,868**

(5) Components of net periodic benefit costs

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Service cost	¥ 753	**¥ 758**	**$ 6,193**
Interest cost	234	**201**	**1,642**
Expected return on plan assets	(466)	**(565)**	**(4,616)**
Actuarial loss recognized in the year	589	**60**	**490**
Periodic benefit cost in simplified method	10	**9**	**73**
Other	19	**18**	**147**
Net periodic benefit costs of retirement benefit plan	¥ 1,140	**¥ 482**	**$ 3,938**

(6) Re-measurements of defined benefit plans before related tax effects on the consolidated statements of comprehensive income

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Actuarial loss	¥ 3,660	**¥ (845)**	**$ (6,904)**
Total	¥ 3,660	**¥ (845)**	**$ (6,904)**

(7) Re-measurements of defined benefit plans before related tax effects on the consolidated balance sheets

	As of March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Unrecognized actuarial loss	¥ 752	**¥ (92)**	**$ (751)**
Total	¥ 752	**¥ (92)**	**$ (751)**

(8) Breakdown of pension assets

	As of March 31,	
	2021	**2022**
Stocks	41.8%	**40.3%**
Bonds	30.4%	**18.1%**
Insurance assets	10.8%	**10.2%**
Other	17.0%	**31.4%**
Total	100.0%	**100.0%**

(9) Assumptions used in accounting for the plans

	Year ended March 31,	
	2021	**2022**
Discount rate	Mainly 0.4%	**Mainly 0.4%**
Long-term expected rate of return on plan assets	Mainly 1.5%	**Mainly 1.5%**

(10) Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

Year ended March 31,		
Millions of yen		Thousands of dollars
2021	**2022**	**2022**
¥ 905	**¥ 1,274**	**$ 10,409**

9. Leases

Lease assets accounted for as finance leases are depreciated using the same methods applied to the tangible fixed assets which the Company owns, except for those not accompanying the transfer of ownership, which are depreciated to residual value of zero by the straight-line method over the lease terms.

Future lease payments, including interest portion, subsequent to March 31, 2021 and 2022 for non-cancelable operating leases are as follows:

	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Due within one year	¥ 779	**¥ 748**	**$ 6,111**
Due after one year	2,003	**1,412**	**11,536**
Total	¥ 2,783	**¥ 2,161**	**$ 17,656**

10. Income Taxes

Breakdown of deferred tax assets and liabilities is as follows:

	Year ended March 31, Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Deferred tax assets:			
Tax loss carry forward	¥ 3,315	**¥ 2,564**	**$ 20,949**
Accrued expenses	1,177	**1,505**	**12,296**
Directors' and corporate auditors' retirement benefits	40	**40**	**326**
Valuation loss on investment securities	534	**524**	**4,281**
Long-term accounts payable	4	**4**	**32**
Net defined benefit liabilities	773	**664**	**5,425**
Other	2,270	**3,037**	**24,814**
Subtotal	8,115	**8,341**	**68,150**
Valuation allowance for tax loss carryforwards	(2,900)	**(1,759)**	**(14,372)**
Valuation allowance for temporary differences	(1,551)	**(1,558)**	**(12,729)**
Deferred tax assets	¥ 3,663	**¥ 5,023**	**$ 41,040**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (6,945)	**¥ (5,981)**	**$ (48,868)**
Net defined benefit assets	(525)	**(174)**	**(1,421)**
Tax depreciation over book	(995)	**(1,021)**	**(8,342)**
Other	(27)	**(595)**	**(4,861)**
Deferred tax liabilities	(8,494)	**(7,772)**	**(63,501)**
Net deferred tax assets (liabilities)	¥ (4,830)	**¥ (2,749)**	**$ (22,460)**

Reconciliation between the statutory and effective tax rates is as follows:

	Year ended March 31, 2021	**2022**
Statutory tax rate	—	**30.6%**
Income not deductible for income tax purposes	—	**(0.2)**
Valuation allowance	—	**(7.9)**
Per capita inhabitant tax	—	**0.3**
Difference in statutory tax rates for subsidiaries	—	**(8.7)**
Tax credits	—	**(0.7)**
Other	—	**1.8**
Effective tax rate	—	**15.2%**

Reconciliation for the year ended March 31, 2021 is not shown as loss before income taxes were recorded.

11. Revenue recognition

(1) Disaggregation of revenue from contracts with customers

Year ended March 31, 2022 (Millions of yen)

	I	II	III	IV	**Total**
Goods or services transferred at a point in time	¥ 53,823	¥ 73,142	¥ 39,699	¥ 12,743	**¥179,409**
Goods or services transferred over time	—	1,100	6,081	—	**7,181**
Revenue from contracts with customers	¥ 53,823	¥ 74,243	¥ 45,780	¥ 12,743	**¥186,591**

Year ended March 31, 2022 (Thousands of dollars)

	I	II	III	IV	**Total**
Goods or services transferred at a point in time	$ 439,766	$ 597,614	$ 324,364	$ 104,117	**$1,465,879**
Goods or services transferred over time	—	8,987	49,685	—	**58,673**
Revenue from contracts with customers	$ 439,766	$ 606,610	$ 374,050	$ 104,117	**$1,524,560**

(2) Basic information in understanding revenue
Basic information in understanding revenue is as stated in "2. Summary of Significant Accounting Policies (n) Recognition standards for significant revenue and expenses"

(3) Relationship between the satisfaction of performance obligations based on the contracts with customers and cash flows arising from such contracts, and the amount and timing of revenue arising from contracts with customers existing at the end of the current fiscal year expected to be recognized in and after the following fiscal year

(a) Contract asset and contract liability balances

	Year ended March 31,	
	Millions of yen	Thousands of dollars
	2022	**2022**
Receivables from contracts with customers (beginning balance)	**¥ 28,810**	**$235,395**
Receivables from contracts with customers (ending balance)	**46,695**	**381,526**
Contract assets (beginning balance)	**1,352**	**11,046**
Contract assets (ending balance)	**1,737**	**14,192**
Contract liabilities (beginning balance)	**13,154**	**107,476**
Contract liabilities (ending balance)	**¥ 20,062**	**$163,918**

(b) The performance obligations that are unsatisfied (or partially unsatisfied) amounted to 88,075 million yen at the end of the current fiscal year. Such performance obligation relates primarily to manufacturing and sales of machine tools, of which approximately 90% are expected to be recognized as revenue within one year after the end of the current fiscal year, while the remaining approximately 10% are more than one year after the end of the current fiscal year.

12. Research and Development Costs
Research and development costs are as follows:

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Research and development costs	¥ 6,542	**¥ 7,533**	**$ 61,549**

13. Impairment Loss
In the year ended March 31, 2021 the Company recognized an impairment loss on the following assets which were no longer in use:

Class of assets	Location	Millions of yen	Thousands of dollars
Buildings and structures	Meguro-ku, Tokyo, Japan	¥ 130	$ 1,174

The recoverable amount of the assets was determined using their fair value less costs to sell.

14. Retained Earnings and per Share Data
In accordance with the Japanese Corporation Law, dividends and the related appropriations of retained earnings may be approved by the shareholders or resolved by the Board of Directors after the end of each fiscal year. The dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of such fiscal years but recorded at the time they are approved or become effective. However, dividends per share shown in the accompanying consolidated statements of income are included in the periods to which they are applicable.

Earnings per share are based on the weighted average number of shares of common stock outstanding during each period.

Cash dividends per share are based on cash dividends declared as applicable to the respective periods.

A summary of information regarding dividends is as follows:

(1) Dividends paid in the year ended March 31, 2021

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 24, 2020)	Common stock	¥ 488 million	¥20.00	Retained earnings	March 31, 2020	June 25, 2020

(2) Dividends in respect of the year ended March 31, 2021 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
General shareholders' meeting (June 24, 2021)	Common stock	¥ 483 million	¥20.00	Retained earnings	March 31, 2021	June 25, 2021

(3) Dividends paid in the year ended March 31, 2022

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 24, 2021)	Common stock	¥ 483 million $ 3,946 thousand	¥20.00 $ 0.16	Retained earnings	March 31, 2021	June 25, 2021
Board of Directors (October 29, 2021)	Common stock	¥ 241 million $ 1,969 thousand	¥10.00 $ 0.08	Retained earnings	September 30, 2021	December 2, 2021

(4) Dividends in respect of the year ended March 31, 2022 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
General shareholders' meeting (June 23, 2022)	Common stock	¥ 1,196 million $ 9,772 thousand	¥50.00 $ 0.40	Retained earnings	March 31, 2022	June 24, 2022

15. Comprehensive Income

Reclassification adjustments and tax effects relating to components of other comprehensive income are as follows:

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Unrealized gains on available-for-sale securities:			
Gains arising during the period	¥ 10,678	**¥ (2,869)**	**$ (23,441)**
Reclassification adjustment	(24)	**(18)**	**(147)**
Tax effect	(3,154)	**963**	**7,868**
Unrealized gains on available-for-sale securities	¥ 7,499	**¥ (1,924)**	**$ (15,720)**
Foreign currency translation adjustments:			
Adjustments arising during the period	¥ 3,947	**¥ 7,751**	**$ 63,330**
Remeasurements of defined benefit plans:			
Remeasurements arising during the period	3,071	**784**	**6,405**
Reclassification adjustment	589	**60**	**490**
Tax effect	(600)	**(245)**	**(2,001)**
Remeasurements of defined benefit plans	¥ 3,059	**¥ 599**	**$ 4,894**
Other comprehensive income	¥ 14,507	**¥ 6,426**	**$ 52,504**

16. Cash and Cash Equivalents

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 March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Cash and time deposits	¥ 72,032	**¥ 73,100**	**$597,271**
Marketable securities	3,343	**3,542**	**28,940**
Subtotal	75,376	**76,642**	**626,211**
Time deposits with maturities over three months	(731)	**(929)**	**(7,590)**
Cash and cash equivalents	¥ 74,644	**¥ 75,712**	**$618,612**

17. Segment Information

(1) 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.

The accounting policies on the reportable segments are consistent with those presented in Note 2. Income for each reportable segment denotes operating income, and intersegments are based on market prices in general.

Year ended March 31, 2021 (Millions of yen)

	I	II	III	IV	**Total**
Net sales:					
External customers	¥ 35,344	¥ 41,048	¥ 32,398	¥ 7,946	**¥116,737**
Intersegment	33,389	4,120	344	11	**37,866**
Total	68,734	45,169	32,742	7,957	**154,604**
Segment income	(5,740)	2,313	599	(1,440)	**(4,268)**
Segment assets	198,791	67,492	31,385	13,420	**311,090**
Depreciation and amortization	4,458	1,533	684	325	**7,002**
Amortization of goodwill	—	—	51	—	**51**
Capital expenditure	¥ 4,413	¥ 1,582	¥ 280	¥ 93	**¥ 6,369**

Year ended March 31, 2022 (Millions of yen)

	I	II	III	IV	**Total**
Net sales:					
External customers	¥ 53,823	¥ 74,243	¥ 45,780	¥ 12,743	**¥186,591**
Intersegment	63,335	9,183	351	80	**72,952**
Total	117,159	83,427	46,132	12,824	**259,543**
Segment income	3,334	5,562	1,933	123	**10,954**
Segment assets	218,837	90,379	44,790	16,813	**370,821**
Depreciation and amortization	4,648	1,811	615	334	**7,410**
Amortization of goodwill	—	—	54	—	**54**
Capital expenditure	¥ 3,317	¥ 5,570	¥ 256	¥ 56	**¥ 9,201**

Year ended March 31, 2022

(Thousands of dollars)

	I	II	III	IV	**Total**
Net sales:					
External customers	$ 439,766	$ 606,610	$ 374,050	$ 104,117	**$1,524,560**
Intersegment	517,485	75,030	2,867	653	**596,061**
Total	957,259	681,648	376,926	104,779	**2,120,622**
Segment income	27,240	45,444	15,793	1,004	**89,500**
Segment assets	1,788,030	738,450	365,961	137,372	**3,029,830**
Depreciation and amortization	37,976	14,796	5,024	2,728	**60,544**
Amortization of goodwill	—	—	441	—	**441**
Capital expenditure	$ 27,101	$ 45,510	$ 2,091	$ 457	**$ 75,177**

Reconciliation of reportable segment information to consolidated financial statements

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Net sales	¥ 154,604	**¥ 259,543**	**$2,120,622**
Elimination	(37,866)	**(72,952)**	**(596,061)**
Consolidated net sales	¥ 116,737	**¥ 186,591**	**$1,524,560**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Segment income	¥ (4,268)	**¥ 10,954**	**$ 89,500**
Elimination	656	**345**	**2,818**
Consolidated operating income	¥ (3,612)	**¥ 11,300**	**$ 92,327**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Segment assets	¥ 311,090	**¥ 370,821**	**$3,029,830**
Elimination	(31,074)	**(45,241)**	**(369,646)**
Consolidated total assets	¥ 280,015	**¥ 325,579**	**$2,660,176**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Depreciation and amortization	¥ 7,002	**¥ 7,410**	**$ 60,544**
Elimination	(189)	**(255)**	**(2,083)**
Amount on consolidated financial statements	¥ 6,812	**¥ 7,154**	**$ 58,452**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Capital expenditure	¥ 6,369	**¥ 9,201**	**$ 75,177**
Elimination	(44)	**(31)**	**(253)**
Amount on consolidated financial statements	¥ 6,325	**¥ 9,169**	**$ 74,916**

(2) Geographical information

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Sales by destination			
Japan	¥ 28,717	**¥ 43,025**	**$ 351,540**
USA	29,051	**40,265**	**328,989**
Americas, excluding USA	3,811	**5,557**	**45,404**
China	31,727	**62,187**	**508,105**
Asia, excluding China	13,584	**20,244**	**165,405**
Europe	8,577	**13,398**	**109,469**
Other	1,267	**1,911**	**15,614**
Total	¥ 116,737	**¥ 186,591**	**$1,524,560**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2021	**2022**	**2022**
Property, plant and equipment			
Japan	¥ 42,801	**¥ 43,431**	**$ 354,857**
Americas	2,107	**2,222**	**18,155**
Asia	22,476	**27,324**	**223,253**
Europe	2,366	**2,336**	**19,086**
Total	¥ 69,751	**¥ 75,315**	**$ 615,368**

18. Quarterly Earnings per Share

Quarterly earnings per share attributable to owners of the parent are as follows:

	Yen		Dollars
Three months ended	2021	**2022**	**2022**
June 30	¥ (81.78)	**¥ 51.58**	**$ 0.42**
September 30	(53.49)	**86.98**	**0.71**
December 31	(22.64)	**103.81**	**0.84**
March 31	47.59	**257.91**	**2.10**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Makino Milling Machine Co., Ltd. and its subsidiaries (the Group) which comprise the consolidated balance sheets as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 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.

<table>
<tr><td colspan="2">1. Appropriateness of sales cut-off for machine tools</td></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Net sales of Makino Milling Machine Co., Ltd. and its consolidated subsidiaries ("the Group") are mainly from machine tools sales, parts sales, maintenance services.
The Group recognizes net sales related to machine tools sales mainly on the date of shipment from a plant or warehouse and on completion of lading, in light of the agreement with the customer.
There is a risk of not recording net sales in the proper accounting period mainly for the following reasons:
・ Transactions for machine tools are conducted throughout the year, but transaction volume is particularly large near the period end.
・ The Group is under pressure to achieve the forecast because the Group announce its performance forecast to the market.
Furthermore, the price per transaction is large; therefore, it is highly likely that recording sales in the wrong period results in a significant impact on consolidated financial statements.
Accordingly, the appropriateness of sales cut-off for machine tools is particularly significant in the consolidated financial statements audit for the fiscal year. Therefore, we determined this matter to be a key audit matter.</td><td>The primary procedures we performed to verify the appropriateness of sales cut-off for machine tools included the following:
(1) Evaluation of internal controls
We evaluated the design and operating effectiveness of internal controls relevant to the process of recording sales for machine tools.
(2) Assessment of appropriateness of sales cut-off
We performed following audit procedures, among others, to verify whether the sales for machine tools have been recorded in the proper accounting period:
・ inspected relevant evidence such as receipts from transportation companies and bill of lading in order to verify the appropriateness of the sales recording date around the period end, which involves a high risk of inappropriate sales cut-off;
・ verified that machine tools that are recognized as product inventory at the end of the fiscal year have not been recorded as sales;
・ inspected relevant evidence such as purchase order, receipts from transportation companies, and bill of lading and found that sales in regard to product inventory at the end of the fiscal year that could not be verified by observing physical stocktaking or inventory confirmations obtained directly from the warehouse companies (e.g. machine tools in shipment) are not recognized in this fiscal year; and
・ instructed the component auditors of</td></tr>
</table>

	significant subsidiaries to perform audit procedures and communicated with them about risk assessments and response. We received a report about the result of audit and evaluated the adequacy of audit procedures performed by component auditors.

Other Information

The other information comprises the information included in the ANNUAL REPORT, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the preparation and disclosure of the other information. Corporate Auditors and Board of Auditors are responsible for overseeing the Group's financial reporting process.

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 and Corporate Auditors and Board of Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, including whether the use of the disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

Corporate Auditors and Board of 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. The procedures selected and applied depend on the auditor's judgement.
- 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 to express 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 addition, evaluate whether the presentation of consolidated financial statements and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan.
- 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 Corporate Auditors and Board of 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 Corporate Auditors and Board of Auditors with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Corporate Auditors and Board of 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 United States dollar amounts shown in the consolidated financial statements referred to above have been translated solely for convenience. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis described in Note. 1.

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.

Gyosei & Co.

Tokyo, Japan
June 23, 2022

榎本尚子

Naoko Enomoto
Designated Engagement Partner
Certified Public Accountant

三島陽

Akira Mishima
Designated Engagement Partner
Certified Public Accountant

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President	Shotaro Miyazaki
Executive Vice President, Director	Toshiyuki Nagano
Vice President, Director	Tatsuaki Aiba
Director	Haruyuki Shiraishi
Director	Shin Yoshidome
Director	Naofumi Masuda
Director	Kodo Yamazaki
Director	Kazumi Nishino
Corporate Auditor	Akio Komura
Corporate Auditor	Jinei Yamaguchi
Corporate Auditor	Jiro Nakashima

CORPORATE DATA

Makino Milling Machine Co., Ltd.

Date of Foundation	May 1, 1937
Paid-in Capital	¥21,142 million
Activities	Manufacture, sale and export of machine tools
Head Office	3-19, Nakane 2-chome, Meguro-ku, Tokyo 152-8578, Japan Phone : +81-3-3717-1151 Fax : +81-3-3725-2105
Research Laboratory	Atsugi (Kanagawa)
Domestic Works	Atsugi (Kanagawa), Fuji-Katsuyama (Yamanashi)
Overseas Works	MAKINO ASIA PTE LTD (Singapore) MAKINO CHINA CO., LTD (China) MAKINO INDIA PRIVATE LIMITED (India)
Sales & Service Offices	Tokyo, Osaka, Nagoya and 13 other offices
Overseas Sales & Service Offices	USA, Germany, Singapore, Korea, China, India and others
Consolidated Subsidiaries	See page 12.

As of June 24, 2022

MAKINO

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