

SEMI-ANNUAL REPORT

For the six months ended September 30, 2021



QUALITATIVE INFORMATION

(1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the six-month period under review, the Company posted net sales of ¥75,340 million (up 51.8% year on year), operating income of ¥2,839 million and net income attributable to owners of the parent of ¥3,351 million on a consolidated basis.

Orders received on a consolidated basis in the first half of the fiscal year amounted to ¥114,150 million (up 120.3% year on year), a considerable increase. Orders received by the Company in all regions were above the level of the previous corresponding period owing to the economic recovery taking place in the wake of the impact of the COVID-19 pandemic. Orders received by the Company particularly concentrated within the regions of America and China. The second quarter saw a continuation of the favorable conditions seen during the first quarter, resulting in the highest number of orders received to date seen on a quarterly basis.

The details of orders by geographic region for the second quarter (July-September 2021) are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. were significantly above the level of the previous corresponding period which had been sluggish. Orders were received from a wide variety of industries, such as the semiconductor production equipment industry and the automotive die and mold industry.

Orders are expected to keep coming in at a rate on par with the first half of the fiscal year with these conditions continuing during the third quarter.

MAKINO ASIA PTE LTD

Orders received in all regions in Asia were above the level of the previous corresponding period.

Orders in China were above the levels of both the previous corresponding period and the previous quarter with the Company posting the highest numbers ever. There was a significant increase in orders from parts machining customers, which resulted from having won a considerable number of orders for industries related to new energy vehicles (NEV). In addition, orders received from parts machining customers for diesel engines used in commercial vehicles, automobiles, and general machinery were solid. Orders received for die and mold were solid mainly from the electrical and electronic components industry and the automotive industry.

In the third quarter, a decrease in orders received is expected in China, in comparison to the second quarter during which there was a considerable number of orders. The pace of orders coming in will return to the pace initially planned for, and the number of orders is expected to increase from the level of the previous corresponding period.

Orders received in India mainly from the automotive industry were above the level of the previous corresponding period. Orders in the third quarter are expected to remain almost unchanged from the previous corresponding period.

Orders received in the ASEAN region were above the level of the previous corresponding period. We forecast that the same situation will continue during the third quarter owing to the impact of COVID-19 on the development of sales negotiations.

MAKINO INC.

Orders received in America were above the level of the previous corresponding period. Repeat orders continued from the first quarter in various industries, such as the semiconductor production equipment, automotive, and medical devices industries due to a rise in economic activities, and orders received were robust. Orders were received from the aircraft industry in relation to private jets and defense. In the third quarter, while there will be a decrease compared to the level of the first half of the fiscal year, when orders were concentrated, we expect orders received to return to the initially assumed level and continue to increase over the previous corresponding period. A recovery is expected to take place in the future with respect to orders from the aircraft industry.

MAKINO Europe GmbH

Orders received in Europe were significantly higher than the level of the corresponding period of the previous year, when there was a low level of orders. There was a considerable number of orders for diesel engines used in commercial vehicles. There were also orders received from the aircraft industry.

A similar level of orders as seen during the first half of the fiscal year is expected to continue during the third quarter. The Company will continue efforts to increase orders by ensuring successful acquisition of contracts during sales negotiations taking place after EMO MILANO 2021, a trade show dedicated to the metalworking sector in Europe held in October 2021.

Orders for the second half of the fiscal year are projected to be lower than the number seen during the first half of the fiscal year, when there was a temporary concentration of orders mainly in America and China. We expect orders received to return to the initially assumed level, and continue to increase over the previous corresponding period. With orders from customers in the aircraft industry having bottomed out, orders mainly in America and Europe are starting to come back. Sales activities will be conducted to ensure that the aircraft industry serves as pillars for more orders. Orders received from the semiconductor production equipment industry are expected to remain solid going forward.

There are concerns that net sales and income may be impacted by the tight situation in terms of high raw material prices and the procurement of materials. The Company will continue with action related to production increases, including with respect to parts procurement, and will continue efforts to achieve the figures provided in the sales plan.

At MECT 2021 (MECHATRONICS TECHNOLOGY JAPAN), a trade show dedicated to the metalworking sector held in Nagoya City in October 2021, the Company provided various proposals based on the theme of automation.

The Company's newly-developed v61 product is a full-fledged vertical machining center used for the highly-efficient parts machining in industries such as the automotive and general machinery industries. The Company will broadly deploy sales activities directed at customers involved in various parts machining.

The DA300 Automation Package allows customers to easily implement automation thanks to the integration of necessary elements, such as switching equipment for workpieces, into the Company's DA300 5-Axis Vertical Machining

Center. The Company will continue with efforts to increase customer satisfaction and improve upon the added value of its products through initiatives such as these.

(2) Qualitative Information on Consolidated Financial Position

Total assets on a consolidated basis at the end of second quarter under review increased by ¥11,665 million from the end of previous fiscal year to ¥291,680 million. The principal items included an increase of ¥7,478 million in inventories, an increase of ¥1,753 million in buildings and structures, net, an increase of ¥1,431 million in construction in progress, and a decrease of ¥1,368 million in investment securities.

Total liabilities increased by ¥8,856 million from the end of the previous fiscal year to ¥126,879 million. This was attributable to an increase of ¥5,566 million in notes and accounts payable and an increase of ¥429 million in income taxes payable.

Net assets increased by ¥2,808 million from the end of the previous fiscal year to ¥164,801 million. The principal items were an increase of ¥2,833 million in retained earnings, an increase of ¥471 million in foreign currency translation adjustments, and a decrease of ¥423 million unrealized gains on available-for-sale securities.

(3) Qualitative Information on Consolidated Performance Forecasts

We have revised our performance forecasts that had been announced on July 30, 2021. For details of the revisions, please refer to "Notice of Differences between Performance Forecasts and Actual Results for the First Half of the Fiscal Year Ending March 31, 2022 and Revision to Full-Year Performance Forecasts," announced today (October 29, 2021).

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2021 and September 30, 2021

US\$1=¥111.92

	Millions of yen		Thousands of dollars
	March 31, 2021	September 30, 2021	September 30, 2021
ASSETS			
Current assets:			
Cash and time deposits	¥ 72,032	¥ 74,299	\$ 663,858
Notes and accounts receivable	30,162	29,648	264,903
Marketable securities	3,343	3,443	30,763
Finished products	19,950	20,478	182,969
Work in process	13,759	16,775	149,883
Raw materials and supplies	26,212	30,146	269,353
Other current assets	6,376	6,749	60,302
Allowance for doubtful accounts	(1,300)	(1,146)	(10,239)
Total current assets	170,536	180,394	1,611,812
Long-term assets:			
Property, plant and equipment:			
Buildings and structures, net	30,225	31,978	285,721
Machinery, equipment and vehicles, net	9,357	8,854	79,110
Tools, furniture and fixtures, net	4,539	4,221	37,714
Land	18,765	18,674	166,851
Leased assets, net	3,954	4,112	36,740
Construction in progress	2,909	4,341	38,786
Total property, plant and equipment	69,751	72,182	644,942
Intangible assets:			
Other	4,122	3,723	33,264
Total intangible assets	4,122	3,723	33,264
Investments and other assets:			
Investment securities	28,908	27,540	246,068
Long-term loans receivable	801	730	6,522
Deferred income taxes	2,664	3,022	27,001
Net defined benefit assets	281	274	2,448
Other long-term assets	3,188	4,003	35,766
Allowance for doubtful accounts	(239)	(191)	(1,706)
Total investments and other assets	35,604	35,380	316,188
Total long-term assets	109,478	111,285	994,326
Total assets	¥ 280,015	¥ 291,680	\$ 2,606,147

The accompanying notes are an integral part of these statements.

US\$1=¥111.92

	Millions of yen		Thousands of dollars
	March 31, 2021	September 30, 2021	September 30, 2021
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable – trade	¥ 13,301	¥ 14,439	\$ 129,011
Electronically recorded obligations-operating	8,523	12,952	115,725
Short-term loans	1,410	864	7,719
Current portion of long-term debt	4,350	5,850	52,269
Short-term lease obligations	516	575	5,137
Income taxes payable	632	1,062	9,488
Other current liabilities	26,272	29,586	264,349
Total current liabilities	55,006	65,330	583,720
Long-term liabilities:			
Bonds	20,000	20,000	178,699
Long-term debt	28,347	26,847	239,876
Long-term lease obligations	2,412	2,499	22,328
Deferred income taxes	7,495	7,278	65,028
Allowance for directors' and corporate auditors' retirement benefits	119	124	1,107
Net defined benefit liabilities	2,922	3,021	26,992
Other long-term liabilities	1,719	1,776	15,868
Total long-term liabilities	63,016	61,548	549,928
Total liabilities	¥ 118,023	¥ 126,879	\$ 1,133,657
Net assets:			
Shareholders' equity			
Common stock, no par value	21,142	21,142	188,902
Authorized : 60,000,000 shares			
Issued : 24,893,841 shares			
as of March 31 and September 30, 2021			
Capital surplus	37,074	37,074	331,254
Retained earnings	90,231	93,064	831,522
Treasury stock	(3,012)	(3,013)	(26,921)
703,682 and 703,930 shares			
as of March 31 and September 30, 2021 respectively			
Total shareholders' equity	145,436	148,268	1,324,767
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	16,099	15,675	140,055
Foreign currency translation adjustments	617	1,089	9,730
Remeasurements of defined benefit plans	(968)	(1,042)	(9,310)
Total accumulated other comprehensive income	15,748	15,722	140,475
Non-controlling interests	807	810	7,237
Total net assets	161,992	164,801	1,472,489
Total liabilities and net assets	¥ 280,015	¥ 291,680	\$ 2,606,147

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2020 and 2021

US\$1=¥111.92

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2021
Net sales	¥ 49,634	¥ 75,340	\$ 673,159
Cost of sales	39,023	55,265	493,790
Gross profit	10,610	20,075	179,369
Selling, general and administrative expenses	14,326	17,236	154,002
Operating income (loss)	(3,716)	2,839	25,366
Non-operating income:			
Interest and dividend income	321	426	3,806
Exchange income	—	76	679
Subsidy income	644	410	3,663
Other	346	398	3,556
Total non-operating income	1,313	1,312	11,722
Non-operating expenses:			
Interest expense	146	138	1,233
Exchange loss	100	—	—
Retirement benefit expenses	143	—	—
Other	16	1	8
Total non-operating expenses	407	139	1,241
Ordinary income (loss)	(2,810)	4,011	35,838
Extraordinary income:			
Gain on sales of property, plant and equipment	145	29	259
Gain on sales of investment securities	5	11	98
Subsidies for employment adjustment	480	6	53
Total extraordinary income	631	47	419
Extraordinary losses:			
Loss on disposal of property, plant and equipment	35	26	232
Loss on infections disease related cost	892	—	—
Total extraordinary losses	927	26	232
Income (loss) before income taxes	(3,106)	4,032	36,025
Income taxes (Note 2)	213	675	6,031
Net income (loss)	(3,319)	3,356	29,985
Net income (loss) attributable to non-controlling interests	(13)	5	44
Net income (loss) attributable to owners of the parent	¥ (3,306)	¥ 3,351	\$ 29,941

	Yen		Dollars
Per share of common stock:			
Net income (loss) attributable to owners of the parent - Basic	¥ (135.27)	¥ 138.56	\$ 1.24
- Diluted	—	—	—

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2020 and 2021

US\$1=¥111.92

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2021
Net income (loss)	¥ (3,319)	¥ 3,356	\$ (29,985)
Other comprehensive income (loss):			
Unrealized gains on available-for-sale securities	3,772	(423)	(3,779)
Foreign currency translation adjustments	62	471	4,208
Remeasurements of defined benefit plans	263	(73)	(652)
Other comprehensive income (loss)	4,098	(25)	(223)
Total comprehensive income (loss)	¥ 778	¥ 3,331	\$ (29,762)
Total comprehensive income (loss) attributable to:			
Owners of the parent	790	3,326	(29,717)
Non-controlling interests	(11)	5	44
	¥ 778	¥ 3,331	\$ (29,762)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the six months years ended September 30, 2020 and 2021

US\$1=¥111.92

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2020	Six months ended September 30, 2021	Six months ended September 30, 2021
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (3,106)	¥ 4,032	\$ 36,025
Adjustments for:			
Depreciation and amortization	3,279	3,493	31,209
Increase (decrease) in allowance for doubtful accounts	23	(211)	(1,885)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	5	5	44
Increase (decrease) in net defined benefit liabilities	318	21	187
Interest and dividend income	(321)	(426)	(3,806)
Interest expense	146	138	1,233
Exchange loss (gain)	35	(9)	(80)
(Gain) loss on sales of investment securities	(5)	(11)	(98)
(Gain) loss on sales of property, plant and equipment	(145)	(29)	(259)
Loss on disposal of property, plant and equipment	35	26	232
(Increase) decrease in notes and accounts receivable, trade	12,495	540	4,824
(Increase) decrease in inventories	(385)	(7,057)	(63,053)
Increase (decrease) in notes and accounts payable, trade	(8,409)	5,640	50,393
Other	(505)	2,803	25,044
Subtotal	3,458	8,956	80,021
Interest and dividends received	318	421	3,761
Interest paid	(146)	(134)	(1,197)
Income taxes (paid) refund	1,498	(472)	(4,217)
Net cash provided by (used in) operating activities	5,128	8,770	78,359
Cash flows from investing activities:			
Purchases of property, plant and equipment	(2,604)	(5,346)	(47,766)
Proceeds from sales of property, plant and equipment	371	185	1,652
Purchases of investment securities	(552)	(509)	(4,547)
Proceeds from sales of investment securities	18	24	214
Purchase of shares of subsidiaries and associates	(54)	—	—
Other	4	123	1,098
Net cash provided by (used in) investing activities	(2,816)	(5,522)	(49,338)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	1,647	(549)	(4,905)
Repayment of lease obligations	(334)	(323)	(2,885)
Proceeds from long-term loans payable	11,500	—	—
Purchases of treasury stock	(0)	(1)	(8)
Purchases of treasury stock of subsidiaries in consolidation	(22)	—	—
Dividends paid	(490)	(483)	(4,315)
Dividends paid to non-controlling interests	(11)	(3)	(26)
Net cash provided by (used in) financing activities	12,288	(1,360)	(12,151)
Effect of exchange rate changes on cash and cash equivalents	89	379	3,386
Net increase (decrease) in cash and cash equivalents	14,690	2,267	20,255
Cash and cash equivalents, beginning of period	55,358	74,644	666,940
Cash and cash equivalents, end of period (Note 4)	¥ 70,048	¥ 76,912	\$ 687,205

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 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 ¥111.92 = US\$1, which was the prevailing exchange rate on September 30, 2021.

2. Income Taxes

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

3. Dividends

A summary of information regarding dividends is as follows:

(1) Dividends paid in the six months ended September 30, 2020

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 six months ended September 30, 2020 which become payable after the balance sheet date

There is not applicable.

(3) Dividends paid in the six months ended September 30, 2021

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 \$4,316 thousand	¥20.00 \$0.18	Retained earnings	March 31, 2021	June 25, 2021

(4) Dividends in respect of the six months ended September 30, 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
Board of Directors (October 29, 2021)	Common stock	¥241 million \$2,153 thousand	¥10.00 \$0.09	Retained earnings	September 30, 2021	December 2, 2021

4. Cash Flows

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

	As of September 30,		
	Millions of yen		Thousands of dollars
	2020	2021	2021
Cash and time deposits	¥70,437	¥74,299	\$663,858
Marketable securities	243	3,443	30,763
Time deposits with maturities over three months	(633)	(830)	(7,416)
Cash and cash equivalents	¥70,048	¥76,912	\$687,205

5. Segment Information

Reportable segment information

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

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

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

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

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

Six months ended September 30, 2020

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥14,559	¥18,154	¥13,684	¥ 3,235	¥ 49,634
Intersegment	14,299	2,073	112	0	16,486
Total	28,859	20,228	13,797	3,236	66,120
Segment income (loss)	¥ (3,273)	¥ 788	¥ (371)	¥ (792)	¥ (3,648)

Six months ended September 30, 2021

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥19,830	¥31,713	¥18,702	¥5,093	¥ 75,340
Intersegment	26,027	3,431	185	11	29,656
Total	45,858	35,145	18,887	5,105	104,997
Segment income (loss)	¥ (44)	¥ 3,012	¥ 552	¥ (610)	¥ 2,908

Six months ended September 30, 2021

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$ 177,180	\$ 283,354	\$ 167,101	\$ 45,505	\$ 673,159
Intersegment	232,550	30,655	1,652	98	264,974
Total	409,739	314,018	168,754	45,612	938,143
Segment income (loss)	\$ (393)	\$ 26,912	\$ 4,932	\$ (5,450)	\$ 25,982

Six months ended September 30,

	Millions of yen		Thousands of dollars
	2020	2021	2021
Segment income	¥ (3,648)	¥2,908	\$ 25,982
Elimination	(67)	(69)	(616)
Consolidated operating income	¥ (3,716)	¥2,839	\$ 25,366



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