

ANNUAL REPORT

Year Ended March 31, 2023



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
	2019	2020	2021	2022	2023	2023
Net sales	¥204,709	¥159,401	¥116,737	¥186,591	¥227,985	\$1,707,369
Net income attributable to owners of the parent	16,981	830	(2,703)	12,042	16,073	120,369
Net assets	160,946	151,703	161,992	178,778	197,787	1,481,217
Total assets	269,521	258,889	280,015	325,579	348,461	2,609,608
	Yen					Dollars
Earnings per share attributable to owners of the parent						
Basic	¥ 689.30	¥ 33.97	¥ (110.82)	¥ 499.23	¥ 671.86	\$ 5.03
Diluted	—	—	—	—	—	—
Number of employees	4,805	4,757	4,451	4,524	4,692	

Note: US dollar amounts have been translated from yen, for convenience only, at the rate of ¥133.53=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2023.

CONTENTS

TO OUR SHAREHOLDERS AND INVESTORS.....	1	CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS.....	10
CORPORATE GOVERNANCE.....	3	CONSOLIDATED STATEMENTS OF CASH FLOWS.....	11
BUSINESS RISKS	5	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	12
CONSOLIDATED BALANCE SHEETS	6	INDEPENDENT AUDITOR'S REPORT.....	28
CONSOLIDATED STATEMENTS OF INCOME	8	BOARD OF DIRECTORS AND CORPORATE AUDITORS.....	32
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME	9	CORPORATE DATA	32

TO OUR SHAREHOLDERS AND INVESTORS

1. Overview of Operating Results, etc.

(1) Operating Results for Fiscal 2023

During fiscal 2023, the Company posted net sales of ¥227,985 million (up 22.2% year on year), operating income of ¥17,492 million (up 54.8% year on year), and net income attributable to owners of the parent of ¥16,073 million on a consolidated basis (up 33.5% year on year).

Orders received on a consolidated basis amounted to ¥249,596 million (up 9.0% year on year), an increase from the previous year, resulting in record-high orders received. The main factor was the significant increase in the yen equivalent of orders due to depreciation of the yen compared to the previous year.

The details of orders received 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. were above the level of the previous year.

The increase was driven by orders received for parts machining for semiconductor production equipment and automobiles. Orders for semiconductor production equipment decreased in the fourth quarter, however orders for general machinery and medical devices increased, therefore we were able to maintain the level of orders.

MAKINO ASIA PTE LTD

Orders received in Asia were above the level of the previous year.

In China, during the first half of the fiscal year, there was a concentration of orders for the automobiles including new energy vehicles, etc., die and mold for connectors and other electrical and electronic components, as well as hydraulic and pneumatic components for various industries. In the second half of the fiscal year, orders decreased due to concern for economic slowdown. Full-year orders received exceeded those for the previous year.

Orders received in India were at the same level as the previous year. In addition to orders for parts machining for two-wheel vehicles, trucks and other automobiles, the Company received orders for the aircraft industry.

MAKINO INC.

Orders received in America were below the level of the previous year. From the second quarter, concerns over economic slowdown resulted in customers being cautious regarding capital expenditure primarily for automobiles and semiconductor production equipment. Orders for parts machining for the medical devices remained firm. Orders

for aircrafts were below the level of the previous year when orders had been concentrated.

MAKINO Europe GmbH

Orders received in Europe were above the level of the previous year. There was an increase in orders for aircrafts. Orders for the semiconductor production equipment and automobiles were at the same level as the previous year.

(2) Financial Position

Total assets on a consolidated basis at the end of fiscal 2023 increased by ¥22,881 million from the end of fiscal 2022, to ¥348,461 million. The principal items were an increase of ¥16,606 million in inventories, a decrease of ¥4,787 million in cash and time deposits, and an increase of ¥2,201 million in notes and accounts receivable - trade, and contract assets. Total liabilities increased by ¥3,872 million from the end of fiscal 2022, to ¥150,674 million. This was primarily attributable to a decrease of ¥4,530 million in notes and accounts payable, trade and an increase of ¥4,485 million in long-term debt (including current portion of long-term debt).

Net assets increased by ¥19,009 million from the end of fiscal 2022, to ¥197,787 million. The principal items were an increase of ¥13,200 million in retained earnings and an increase of ¥4,511 million in foreign currency translation adjustments.

(3) Cash Flows

At the end of fiscal 2023, net cash provided by operating activities was ¥2,948 million. The principal items were income before income taxes amounting to ¥19,450 million, depreciation and amortization amounting to ¥7,903 million, an increase of ¥12,107 million in inventories, a decrease of ¥8,075 million in notes and accounts payable, trade, and income taxes paid amounting to ¥4,859 million.

Net cash used in investing activities was ¥8,793 million. The principal items were purchases of property, plant and equipment amounting to ¥6,423 million and an increase in time deposits amounting to ¥1,409 million.

Net cash used in financing activities was ¥340 million. The main items were proceeds from long-term loans payable amounting to ¥9,000 million, repayment of long-term loans payable amounting to ¥4,650 million, and dividends paid amounting to ¥2,961 million.

As a result, cash and cash equivalents on a consolidated basis at the end of fiscal 2023 decreased by ¥6,245 million from the end of fiscal 2022 to ¥69,467 million.

The table below shows trends in cash-flow indicators.

	80th term	81st term	82nd term	83rd term	84th term
	Term ended March 2019	Term ended March 2020	Term ended March 2021	Term ended March 2022	Term ended March 2023
Shareholders' equity ratio (%)	59.4	58.3	57.6	54.6	56.6
Shareholders' equity ratio on a market value basis (%)	41.4	26.9	37.4	28.5	33.3
Ratio of interest-bearing debt to cash flows (%)	2.3	5.2	3.0	3.2	18.0
Interest coverage ratio (times)	50.0	25.7	61.8	55.6	9.2

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 2024)

The Company forecasts that orders received in fiscal 2024 will be below the level of fiscal 2023. In addition to orders decreasing in most regions with the exception of some, the Company expects yen equivalent to decrease based on the assumption of yen appreciation. In the first half of fiscal 2024, we expect orders received will continue to be below the level of fiscal 2023. In the second half of fiscal 2024, we expect orders to begin increasing primarily with regard to orders for automobiles (electric vehicles, etc.) and the semiconductor production equipment.

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

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

The Company expects domestic orders received by Makino Milling Machine Co., Ltd. to be slightly below the level of fiscal 2023.

We expect orders received for semiconductor production equipment to increase toward the end of the

year. The Company will strive to maintain the level of orders for automobiles.

MAKINO ASIA PTE LTD

Orders received in Asia for fiscal 2024 are expected to be below the level of fiscal 2023.

In China, orders received are expected to be below the level of fiscal 2023 when there was a concentration of orders for the automobiles and die and mold for electrical and electronic components. Customers remain cautious in regards to capital expenditure. The Company anticipates that orders will begin increasing in the first half of fiscal 2024 starting with orders for the automobiles, such as new energy vehicles.

In India, we expect that orders received will be above the level of fiscal 2023. The number of inquiries received for parts machining orders for automobiles is increasing, including large orders. The Company will strive to boost sales by rolling out our unique products and services in fields where growth is expected, including die and mold for automobiles, and aircrafts.

In ASEAN, we expect that orders received will remain almost unchanged from the level of fiscal 2023. We expect we will be capable of maintaining the level of orders due to an increase in capital expenditure for strengthening of the supply chain. We anticipate an increase in orders for the semiconductor production equipment from the second half of the fiscal year onward.

MAKINO INC.

The Company expects that orders received in the US for fiscal 2024 will be below the level of fiscal 2023. We continue to expect concerns about the economic slowdown to affect customers' capital expenditure. Orders for the automotive and semiconductor industries, which were the Company's main customers during fiscal 2023, are expected to increase in the second half of fiscal 2024.

The Company expects orders for the aircrafts to increase in conjunction with increased production of aircrafts.

We expect medical-related orders, such as medical devices for implants and artificial bones, to remain firm.

MAKINO Europe GmbH

The Company expects that orders received in Europe for fiscal 2024 will be below the level of fiscal 2023. We expect orders for semiconductor production equipment to decrease.

The Company is receiving an increasing number of inquiries for hydraulic parts for various industries and aircraft-related orders. Additionally, we will endeavor to minimize the decrease in orders by securing energy-related and automobile-related orders.

The Group's consolidated performance forecasts for fiscal 2024 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)	101,300 *1down 1.7%	5,000 *1down 7.5%	4,100 *1down 23.2%
Forecasts for the full fiscal year	208,000 *2down 8.8%	11,700 *2down 33.1%	10,100 *2down 37.2%

*1Compared with the same period of fiscal 2023

*2Year on year

Net sales for the first half of fiscal 2024 are expected to remain almost unchanged from the previous corresponding period considering the high level of backlog of orders at the beginning of the period.

The Company expects that net sales for the full fiscal year will be below the level of the previous corresponding period. This is due to a decrease in sales in the second half of fiscal 2024 as orders received in the first half of 2024 will be significantly below the level of the previous corresponding period, and a decrease in the yen equivalent amount due to yen appreciation.

The Company expects that profit will also decrease in conjunction with net sales. By promoting cost reduction initiatives, we will endeavor to minimize the scale of profit decrease.

In April 2023, the Company announced our new energy-saving technology, "eSTABILIZER." This technology predicts and automatically controls mechanical distortions caused by temperature fluctuations in factories to achieve stable high-accuracy machining while helping to reduce power consumption in the factory for air conditioning. By adding eSTABILIZER to our existing energy-saving product lineup, we will strengthen our environment-orientated initiatives.

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 23, 2023, 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 23, 2023, 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 Mr. Akira Mishima and Mr. Nobufumi Yoshida, both of whom are with Gyosei & Co. Assistants engaged in the accounting audits comprise seven certified public accountants and five 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	5	188
Corporate auditors excluding outside corporate auditors	1	24
Outside directors and corporate auditors	6	72

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, 2022 and 2023

	Millions of yen		US\$1=¥133.53 Thousands of dollars
	2022	2023	2023
ASSETS			
Current assets:			
Cash and time deposits (Notes 3 and 15)	¥ 73,100	¥ 68,312	\$ 511,585
Marketable securities (Notes 2.e, 3 and 4)	3,542	4,234	31,708
Notes and accounts receivable (Notes 2.k, 3 and 5)	48,432	50,634	379,195
Inventories (Notes 2.f and 6)	78,509	95,116	712,319
Other current assets	9,999	12,961	97,064
Allowance for doubtful accounts (Notes 2.h and 3)	(1,326)	(1,544)	(11,562)
Total current assets	212,257	229,713	1,720,310
Investments and other assets:			
Investment securities (Notes 2.e, 3 and 4)	25,827	27,100	202,950
Long-term loans receivable	704	620	4,643
Deferred income taxes (Notes 2.j and 10)	3,378	4,867	36,448
Net defined benefit assets (Notes 2.i and 8)	729	970	7,264
Other long-term assets	7,550	6,115	45,794
Allowance for doubtful accounts (Notes 2.h and 3)	(183)	(141)	(1,055)
Total investments and other assets	38,007	39,532	296,053
Property, plant and equipment (Note 2.g):			
Land	18,940	19,080	142,889
Buildings and structures	79,657	86,828	650,250
Machinery and equipment	46,013	50,087	375,099
Lease assets (Note 9)	6,414	9,091	68,082
Construction in progress	5,701	1,950	14,603
	156,727	167,039	1,250,947
Accumulated depreciation	(81,412)	(87,824)	(657,709)
Total property, plant and equipment	75,315	79,215	593,237
Total assets	¥ 325,579	¥ 348,461	\$2,609,608

The accompanying notes are an integral part of these statements.

US\$1=¥133.53

Millions of yen		Thousands of dollars
2022	2023	2023

LIABILITIES AND NET ASSETS**Current liabilities:**

Notes and accounts payable (Note 3):

Trade	¥ 25,394	¥ 20,281	\$ 151,883
Other	6,651	8,419	63,049
Electronically recorded obligations-operating (Note 3)	18,304	19,019	142,432
Current portion of long-term debt (Notes 2.k, 3, 5 and 7)	4,650	6,707	50,228
Short-term lease obligations (Note 7)	591	932	6,979
Accrued expenses	11,230	11,611	86,954
Income taxes payable	2,544	2,080	15,577
Other current liabilities	20,529	21,645	162,098
Total current liabilities	89,895	90,698	679,233

Long-term liabilities:

Long-term debt (Notes 2.k, 3, 5 and 7)	43,800	46,228	346,199
Long-term lease obligations (Note 7)	2,510	3,210	24,039
Net defined benefit liabilities (Notes 2.i and 8)	2,304	1,357	10,162
Allowance for directors' and corporate auditors' retirement benefits (Note 2.i)	129	122	913
Deferred income taxes (Notes 2.j and 10)	6,127	6,973	52,220
Other long-term liabilities	2,033	2,083	15,599
Total long-term liabilities	56,905	59,975	449,150

Net assets:

Shareholders' equity			
Common stock, no par value	21,142	21,142	158,331
Authorized : 60,000,000 shares as of March 31, 2022 and 2023			
Issued : 24,893,841 shares as of March 31, 2022 and 2023			
Capital surplus	37,074	37,056	277,510
Retained earnings (Note 13)	101,513	114,714	859,087
Treasury stock 961,278 and 1,012,276 shares as of March 31, 2022 and 2023 respectively	(4,014)	(4,233)	(31,700)
Total shareholders' equity	155,716	168,681	1,263,244
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities (Note 2.e)	14,174	15,160	113,532
Foreign currency translation adjustments	8,369	12,880	96,457
Remeasurements of defined benefit plans (Notes 2.i and 8)	(369)	565	4,231
Total accumulated other comprehensive income	22,174	28,606	214,229
Non-controlling interests	886	499	3,736
Total net assets	178,778	197,787	1,481,217
Total liabilities and net assets	¥ 325,579	¥ 348,461	\$2,609,608

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, 2022 and 2023

	Millions of yen		US\$1=¥133.53 Thousands of dollars
	2022	2023	2023
Net sales	¥ 186,591	¥ 227,985	\$ 1,707,369
Cost of sales	135,973	161,596	1,210,184
Gross profit	50,617	66,388	497,176
Selling, general and administrative expenses	39,317	48,895	366,172
Operating income	11,300	17,492	130,996
Other income (expenses):			
Interest and dividend income	764	1,138	8,522
Interest expense	(270)	(316)	(2,366)
Subsidy income	605	661	4,950
Gain on sales of property, plant and equipment	54	66	494
Gain on sales of investment securities	20	—	—
Loss on disposal of property, plant and equipment	(49)	(499)	(3,736)
Loss on sales of investment securities	(1)	—	—
Exchange gain (loss), net	1,051	(335)	(2,508)
Subsidies for employment adjustment	6	—	—
Other, net	823	1,244	9,316
Income before income taxes	14,304	19,450	145,660
Income taxes (Notes 2.j and 10) - Current	3,408	4,283	32,075
- Deferred	(1,229)	(922)	(6,904)
Net income	12,124	16,089	120,489
Net income attributable to non-controlling interests	81	16	119
Net income attributable to owners of the parent	¥ 12,042	¥ 16,073	\$ 120,369
Per share of common stock:	Yen		Dollars
Net income attributable to owners of the parent	¥ 499.23	¥ 671.86	\$ 5.03
Cash dividends applicable to the period	60.00	150.00	1.12

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, 2022 and 2023

	Millions of yen		US\$1=¥133.53 Thousands of dollars
	2022	2023	2023
Net income	¥ 12,124	¥ 16,089	\$ 120,489
Other comprehensive income (Note 15):			
Unrealized gains (losses) on available-for-sale securities (Note 2.e)	(1,924)	985	7,376
Foreign currency translation adjustments (Note 2.d)	7,751	4,511	33,782
Remeasurements of defined benefit plans (Notes 2.i and 8)	599	934	6,994
Other comprehensive income	6,426	6,431	48,161
Total comprehensive income	¥ 18,551	¥ 22,521	\$ 168,658
Total comprehensive income attributable to:			
Owners of the parent	18,468	22,505	168,538
Non-controlling interests	82	16	119
	¥ 18,551	¥ 22,521	\$ 168,658

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, 2022 and 2023

	Millions of yen		US\$1=¥133.53 Thousands of dollars
	2022	2023	2023
Common stock:			
Balance at beginning of year	¥ 21,142	¥ 21,142	\$ 158,331
Balance at end of year	21,142	21,142	158,331
Capital surplus:			
Balance at beginning of year	37,074	37,074	277,645
Other	—	(18)	(134)
Disposal of treasury stock	—	1	7
Balance at end of year	37,074	37,056	277,510
Retained earnings (Note 13):			
Balance at beginning of year	90,231	101,513	760,226
Cumulative effects of changes in accounting policies	(34)	—	—
Net income attributable to owners of the parent	12,042	16,073	120,369
Cash dividends	(725)	(2,872)	(21,508)
Balance at end of year	101,513	114,714	859,087
Treasury stock:			
Balance at beginning of year	(3,012)	(4,014)	(30,060)
Acquisition of treasury stock	(1,001)	(265)	(1,984)
Disposal of treasury stock	—	46	344
Balance at end of year	(4,014)	(4,233)	(31,700)
Unrealized gains on available-for-sale securities (Note 2.e):			
Balance at beginning of year	16,099	14,174	106,148
Net change during the year	(1,924)	985	7,376
Balance at end of year	14,174	15,160	113,532
Foreign currency translation adjustments (Note 2.d):			
Balance at beginning of year	617	8,369	62,675
Net change during the year	7,751	4,511	33,782
Balance at end of year	8,369	12,880	96,457
Remeasurements of defined benefit plans (Notes 2.i and 8):			
Balance at beginning of year	(968)	(369)	(2,763)
Net change during the year	599	935	7,002
Balance at end of year	(369)	565	4,231
Non-controlling interests:			
Balance at beginning of year	807	886	6,635
Net change during the year	79	(387)	(2,898)
Balance at end of year	¥ 886	¥ 499	\$ 3,736

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, 2022 and 2023

US\$1=¥133.53

	Millions of yen		Thousands of dollars
	2022	2023	2023
Cash flows from operating activities:			
Income before income taxes	¥ 14,304	¥ 19,450	\$ 145,660
Adjustments for:			
Income taxes (paid) refund	(1,565)	(4,859)	(36,388)
Depreciation and amortization	7,155	7,903	59,185
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	10	(7)	(52)
Increase (decrease) in net defined benefit liabilities	205	(94)	(703)
Increase (decrease) in allowance for doubtful accounts	(132)	71	531
(Gain) loss on sales of property, plant and equipment	(54)	(66)	(494)
Loss on disposal of property, plant and equipment	49	499	3,736
(Gain) loss on sales of investment securities	(18)	—	—
(Increase) decrease in notes and accounts receivable, trade	(15,228)	1,278	9,570
(Increase) decrease in inventories	(14,406)	(12,107)	(90,668)
Increase (decrease) in notes and accounts payable, trade	18,896	(8,075)	(60,473)
Other, net	5,727	(1,045)	(7,825)
Net cash provided by (used in) operating activities	14,943	2,948	22,077
Cash flows from investing activities:			
(Increase) decrease in time deposits	—	(1,409)	(10,551)
Proceeds from sales of investment securities	50	—	—
Purchases of investment securities	(1,311)	(1,207)	(9,039)
Purchases of property, plant and equipment	(8,467)	(6,423)	(48,101)
Proceeds from sales of property, plant and equipment	301	237	1,774
Other, net	(91)	9	67
Net cash provided by (used in) investing activities	(9,517)	(8,793)	(65,850)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	(1,419)	—	—
Repayment of lease obligations	(673)	(1,040)	(7,788)
Proceeds from long-term loans payable	—	9,000	67,400
Repayment of long-term loans payable	(4,350)	(4,650)	(34,823)
Purchases of treasury stock	(1,001)	(265)	(1,984)
Purchases of treasury stock of subsidiaries in consolidation	—	(50)	(374)
Dividends paid	(728)	(2,975)	(22,279)
Other, net	—	(358)	(2,681)
Net cash provided by (used in) financing activities	(8,172)	(340)	(2,546)
Effect of exchange rate changes on cash and cash equivalents	3,813	(59)	(441)
Net increase (decrease) in cash and cash equivalents	1,067	(6,245)	(46,768)
Cash and cash equivalents, beginning of period	74,644	75,712	567,003
Cash and cash equivalents, end of period (Notes 2.b and 15)	¥ 75,712	¥ 69,467	\$ 520,235

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 ¥133.53 = US\$1, which was the prevailing exchange rate on March 31, 2023.

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 2022 and 40 for 2023). 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 Co, 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 (four for 2022 and 2023), 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 2022 and 2023): 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

A part of overseas consolidated subsidiaries applied the accounting standard of ASU 2016-2 "Leases" from the beginning of this consolidated accounting period.

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

The effects of the changes were adjusted in the beginning of the fiscal year ending March 31, 2023.

This change had no significant impact on the Company's results for the fiscal year ended March 31, 2023.

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			
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, Millions of yen			
2023			
	Amount on balance sheet	Fair value	Difference
Assets			
Held-to-maturity securities	¥ 2,398	¥ 2,373	¥ (25)
Other marketable securities and investment securities	28,677	28,677	—
Total Assets	31,076	31,051	(25)
Liabilities			
Bonds	20,000	20,022	22
Long-term loans	32,935	32,901	(33)
Total liabilities	52,935	52,924	(11)
Derivatives	¥ (8)	¥ (8)	—
As of March 31, Thousands of dollars			
2023			
	Amount on balance sheet	Fair value	Difference
Assets			
Held-to-maturity securities	\$ 17,958	\$ 17,771	\$ (187)
Other marketable securities and investment securities	214,760	214,760	—
Total Assets	232,726	232,539	(187)
Liabilities			
Bonds	149,779	149,943	164
Long-term loans	246,648	246,394	(247)
Total liabilities	396,427	396,345	(82)
Derivatives	\$ (59)	\$ (59)	—

(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,				
Millions of yen				
2023				
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale-securities	¥ 25,677	¥ —	¥ —	¥ 25,677
Total assets	25,677	—	—	25,677
Derivative transactions				
Currency-related	—	(8)	—	(8)
Total liabilities	¥ —	¥ (8)	¥ —	¥ (8)
As of March 31,				
Thousands of dollars				
2023				
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale-securities	\$ 192,293	\$ —	\$ —	\$ 192,293
Total assets	192,293	—	—	192,293
Derivative transactions				
Currency-related	—	(59)	—	(59)
Total liabilities	\$ —	\$ (59)	\$ —	\$ (59)

(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,				
Millions of yen				
2023				
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity bonds	¥ —	¥ 2,373	¥ —	¥ 2,373
Available-for-sale-securities	—	3,000	—	3,000
Total assets	—	5,373	—	5,373
Bonds	—	20,022	—	20,022
Long-term loans payable	—	32,901	—	32,901
Total liabilities	¥ —	¥ 52,924	¥ —	¥ 52,924

	As of March 31,			
	Thousands of dollars			
	2023			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Held-to-maturity bonds	\$ —	\$ 17,771	\$ —	\$ 17,771
Available-for-sale-securities	—	22,466	—	22,466
Total assets	—	40,238	—	40,238
Bonds	—	149,943	—	149,943
Long-term loans payable	—	246,394	—	246,394
Total liabilities	\$ —	\$396,345	\$ —	\$396,345

* 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, 2022 and 2023.

(1) Held-to-maturity securities

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, Millions of yen			
2023			
	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	¥ 2,398	¥ 2,373	¥ (25)
Total	¥ 2,398	¥ 2,373	¥ (25)

	As of March 31, Thousands of dollars		
	2023		
	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	\$ 17,958	\$ 17,771	\$ (187)
Total	\$ 17,958	\$ 17,771	\$ (187)

(2) Other marketable securities and investment securities

	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, Millions of yen		
	2023		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	¥25,643	¥ 4,130	¥21,513
(2) Other	11	9	2
Subtotal	¥25,655	¥ 4,139	¥21,515
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	¥ —	¥ —	¥ —
(2) Other	3,022	3,030	(8)
Subtotal	¥ 3,022	¥ 3,030	¥ (8)
Total	¥28,677	¥ 7,170	¥21,507

	As of March 31, Thousands of dollars		
	2023		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	\$192,039	\$ 30,929	\$161,109
(2) Other	82	67	14
Subtotal	\$192,129	\$ 30,996	\$161,124
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	\$ —	\$ —	\$ —
(2) Other	22,631	22,691	(59)
Subtotal	\$ 22,631	\$ 22,691	\$ (59)
Total	\$214,760	\$ 53,695	\$161,064

5. Derivative Financial Instruments

(1) Derivatives to which hedge accounting is not applied

(a) Currency related

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,				
Millions of yen				
2023				
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	¥ 400	—	¥ 1	¥ 1
EUR	262	—	(3)	(3)
Purchase contracts				
JPY	¥ 290	—	¥ (5)	¥ (5)
Total	¥ 953	—	¥ (8)	¥ (8)

As of March 31,				
Thousands of dollars				
2023				
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	\$ 2,995	—	\$ 7	\$ 7
EUR	1,962	—	(22)	(22)
Purchase contracts				
JPY	\$ 2,171	—	\$ (37)	\$ (37)
Total	\$ 7,136	—	\$ (59)	\$ (59)

(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		
			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,		
			Millions of yen		
			2023		
			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	¥ 9,228	—	¥ 44
	EUR	Account receivable	2,485	—	(66)
	Total		¥ 11,713	—	¥ (22)

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Thousands of dollars		
			2023		
			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	\$ 69,108	—	\$ 329
	EUR	Account receivable	18,610	—	(494)
	Total		\$ 87,718	—	\$ (164)

(b) Interest related

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	¥ —	*

* 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, 2022 and 2023 comprise the following:

	As of March 31,		
	Millions of yen		Thousands of dollars
	2022	2023	2023
Finished products	¥ 22,335	¥ 28,276	\$211,757
Work in process	20,342	21,140	158,316
Raw material and supplies	35,831	45,699	342,237
Total	¥ 78,509	¥ 95,116	\$712,319

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:

	Interest rate	Date of maturity as of March 31, 2023	As of March 31,		
			Millions of yen		Thousands of dollars
			2022	2023	2023
Short-term loans	—*	—	¥ —	¥ —	\$ —
Current portion of long-term loans	0.38*	—	4,650	6,707	50,228
Long-term loans less current portion	0.37*	from October 31, 2024 to March 31, 2027	¥ 23,800	¥ 26,228	\$196,420
Yen unsecured bonds	0.50	September 1, 2026	5,000	5,000	37,444
Yen unsecured bonds	0.47	July 23, 2025	5,000	5,000	37,444
Yen unsecured bonds	0.41	March 2, 2027	5,000	5,000	37,444
Yen unsecured bonds	0.55	March 1, 2030	5,000	5,000	37,444
Short-term lease obligations	—	—	¥ 591	¥ 932	\$ 6,979
Long-term lease obligations	—	from April 30, 2024 to December 31, 2040	2,510	3,210	24,039

* The weighted average interest rate as of March 31, 2023

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2023 are as follows:

Year ending March 31,	Long-term debt		Lease obligations	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
2024	¥ 6,707	\$ 50,228	¥ 932	\$ 6,979
2025	5,728	42,896	750	5,616
2026	16,500	123,567	514	3,849
2027	19,000	142,290	364	2,725
2028	—	—	255	1,909

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
	2022	2023	2023
Balance at beginning of year	¥ 22,918	¥ 23,437	\$175,518
Service cost	758	777	5,818
Interest cost	201	297	2,224
Actuarial loss	(14)	(2,202)	(16,490)
Benefits paid	(989)	(1,032)	(7,728)
Other	564	578	4,328
Balance at end of year	¥ 23,437	¥ 21,855	\$163,671

(2) Reconciliation of changes in pension assets

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2022	2023	2023
Balance at beginning of year	¥ 20,351	¥ 21,939	\$164,300
Expected return on pension assets	565	662	4,957
Actuarial loss	769	(1,094)	(8,192)
Contributions by employer	470	464	3,474
Benefits paid	(957)	(989)	(7,406)
Other	739	551	4,126
Balance at end of year	¥ 21,939	¥ 21,533	\$161,259

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

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2022	2023	2023
Balance at beginning of year	¥ 73	¥ 77	\$ 576
Periodic benefit cost	9	10	74
Benefits paid	(6)	(23)	(172)
Balance at end of year	¥ 77	¥ 64	\$ 479

(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
	2022	2023	2023
Funded benefit obligations	¥ 22,959	¥ 21,410	\$160,338
Pension assets	(21,939)	21,533	161,259
	1,019	(123)	(921)
Unfunded benefit obligations	555	510	3,819
Net amount of liabilities and assets on consolidated balance sheet	1,575	386	2,890
Net defined benefit liabilities	2,304	1,357	10,162
Net defined benefit assets	(729)	(970)	(7,264)
Net amount of liabilities and assets on consolidated balance sheet	¥ 1,575	¥ 386	\$ 2,890

(5) Components of net periodic benefit costs

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2022	2023	2023
Service cost	¥ 758	¥ 777	\$ 5,818
Interest cost	201	297	2,224
Expected return on plan assets	(565)	(662)	(4,957)
Actuarial loss recognized in the year	60	(47)	(351)
Periodic benefit cost in simplified method	9	10	74
Other	18	38	284
Net periodic benefit costs of retirement benefit plan	¥ 482	¥ 413	\$ 3,092

(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
	2022	2023	2023
Actuarial loss	¥ (845)	¥ (1,060)	\$ (7,938)
Total	¥ (845)	¥ (1,060)	\$ (7,938)

(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
	2022	2023	2023
Unrecognized actuarial loss	¥ (92)	¥ (1,153)	\$ (8,634)
Total	¥ (92)	¥ (1,153)	\$ (8,634)

(8) Breakdown of pension assets

	As of March 31,	
	2022	2023
Stocks	40.3%	27.8%
Bonds	18.1%	30.6%
Insurance assets	10.2%	10.5%
Other	31.4%	31.1%
Total	100.0%	100.0%

(9) Assumptions used in accounting for the plans

	Year ended March 31,	
	2022	2023
Discount rate	Mainly 0.4%	Mainly 1.1%
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	
2022	2023	2023
¥ 1,274	¥ 1,619	\$ 12,124

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, 2022 and 2023 for non-cancelable operating leases are as follows:

	Millions of yen		Thousands of dollars
	2022	2023	2023
Due within one year	¥ 748	¥ 477	\$ 3,572
Due after one year	1,412	382	2,860
Total	¥ 2,161	¥ 860	\$ 6,440

10. Income Taxes

Breakdown of deferred tax assets and liabilities is as follows:

	Year ended March 31,		Thousands of dollars
	Millions of yen		2023
	2022	2023	2023
Deferred tax assets:			
Tax loss carry forward	¥ 2,564	¥ 1,684	\$ 12,611
Accrued expenses	1,505	1,606	12,027
Directors' and corporate auditors' retirement benefits	40	40	299
Valuation loss on investment securities	524	524	3,924
Long-term accounts payable	4	4	29
Net defined benefit liabilities	664	555	4,156
Research and development costs	—	570	4,268
Other	3,037	4,398	32,936
Subtotal	8,341	9,385	70,283
Valuation allowance for tax loss carryforwards	(1,759)	(1,078)	(8,073)
Valuation allowance for temporary differences	(1,558)	(1,559)	(11,675)
Deferred tax assets	¥ 5,023	¥ 6,747	\$ 50,527
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (5,981)	¥ (6,341)	\$ (47,487)
Net defined benefit assets	(174)	(371)	(2,778)
Tax depreciation over book	(1,021)	(1,200)	(8,986)
Other	(595)	(940)	(7,039)
Deferred tax liabilities	(7,772)	(8,854)	(66,307)
Net deferred tax assets (liabilities)	¥ (2,749)	¥ (2,106)	\$ (15,771)

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

	Year ended March 31,	
	2022	2023
Statutory tax rate	30.6%	30.6%
Income not deductible for income tax purposes	(0.2)	(0.2)
Valuation allowance	(7.9)	(3.6)
Per capita inhabitant tax	0.3	0.2
Difference in statutory tax rates for subsidiaries	(8.7)	(8.0)
Tax credits	(0.7)	(2.1)
Other	1.8	0.3
Effective tax rate	15.2%	17.3%

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, 2023					(Millions of yen)
	I	II	III	IV	Total
Goods or services transferred at a point in time	¥ 53,785	¥ 91,449	¥ 54,302	¥ 17,671	¥217,209
Goods or services transferred over time	—	1,254	9,520	—	10,775
Revenue from contracts with customers	¥ 53,785	¥ 92,704	¥ 63,823	¥ 17,671	¥227,985

Year ended March 31, 2023					(Thousands of dollars)
	I	II	III	IV	Total
Goods or services transferred at a point in time	\$ 402,793	\$ 684,857	\$ 406,665	\$ 132,337	\$1,626,668
Goods or services transferred over time	—	9,391	71,294	—	80,693
Revenue from contracts with customers	\$ 402,793	\$ 694,255	\$ 477,967	\$ 132,337	\$1,707,369

(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,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Receivables from contracts with customers (beginning balance)	¥ 28,810	¥ 46,695	\$349,696
Receivables from contracts with customers (ending balance)	46,695	48,570	363,738
Contract assets (beginning balance)	1,352	1,737	13,008
Contract assets (ending balance)	1,737	2,063	15,449
Contract liabilities (beginning balance)	13,154	20,062	150,243
Contract liabilities (ending balance)	¥ 20,062	¥ 21,596	\$161,731

(b) Transaction price allocated to the remaining performance obligations

The performance obligations that are unsatisfied (or partially unsatisfied) amounted to 109,686 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 93% are expected to be recognized as revenue within one year after the end of the current fiscal year, while the remaining approximately 7% 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,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Research and development costs	¥ 7,533	¥ 9,247	\$ 69,250

13. 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, 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	¥ 20.00	Retained earnings	March 31, 2021	June 25, 2021
Board of Directors (October 29, 2021)	Common stock	¥ 241 million	¥ 10.00	Retained earnings	September 30, 2021	December 2, 2021

(2) 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	¥ 50.00	Retained earnings	March 31, 2022	June 24, 2022

(3) Dividends paid in the year ended March 31, 2023

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 \$ 8,956 thousand	¥ 50.00 \$ 0.37	Retained earnings	March 31, 2022	June 24, 2022
Board of Directors (October 31, 2022)	Common stock	¥ 1,675 million \$ 12,543 thousand	¥ 70.00 \$ 0.52	Retained earnings	September 30, 2022	December 2, 2022

(4) Dividends in respect of the year ended March 31, 2023 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 22, 2023)	Common stock	¥ 1,910 million \$ 14,303 thousand	¥ 80.00 \$ 0.59	Retained earnings	March 31, 2023	June 23, 2023

14. 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
	2022	2023	2023
Unrealized gains on available-for-sale securities:			
Gains arising during the period	¥ (2,869)	¥ 1,345	\$ 10,072
Reclassification adjustment	(18)	—	—
Tax effect	963	(359)	(2,688)
Unrealized gains on available-for-sale securities	¥ (1,924)	¥ 985	\$ 7,376
Foreign currency translation adjustments:			
Adjustments arising during the period	¥ 7,751	¥ 4,511	\$ 33,782
Remeasurements of defined benefit plans:			
Remeasurements arising during the period	784	1,108	8,297
Reclassification adjustment	60	(47)	(351)
Tax effect	(245)	125	936
Remeasurements of defined benefit plans	¥ 599	¥ 934	\$ 6,994
Other comprehensive income	¥ 6,426	¥ 6,431	\$ 48,161

15. 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
	2022	2023	2023
Cash and time deposits	¥ 73,100	¥ 68,312	\$511,585
Marketable securities	3,542	4,234	31,708
Subtotal	76,642	72,546	543,293
Time deposits with maturities over three months	(929)	(3,079)	(23,058)
Cash and cash equivalents	¥ 75,712	¥ 69,467	\$520,235

16. 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, 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, 2023

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥ 53,785	¥ 92,704	¥ 63,823	¥ 17,671	¥227,985
Intersegment	87,472	13,436	437	28	101,374
Total	141,258	106,141	64,261	17,699	329,360
Segment income	7,644	7,569	4,051	113	19,379
Segment assets	226,744	97,949	58,455	22,366	405,516
Depreciation and amortization	4,656	2,262	852	389	8,161
Amortization of goodwill	—	—	65	—	65
Capital expenditure	¥ 3,997	¥ 3,108	¥ 614	¥ 101	¥ 7,822

Year ended March 31, 2023

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$ 402,793	\$ 694,255	\$ 477,967	\$ 132,337	\$1,707,369
Intersegment	655,073	100,621	3,272	209	759,185
Total	1,057,874	794,885	481,247	132,546	2,466,561
Segment income	57,245	56,683	30,337	846	145,128
Segment assets	1,698,075	733,535	437,766	167,497	3,036,890
Depreciation and amortization	34,868	16,940	6,380	2,913	61,117
Amortization of goodwill	—	—	486	—	486
Capital expenditure	\$ 29,933	\$ 23,275	\$ 4,598	\$ 756	\$ 58,578

Reconciliation of reportable segment information to consolidated financial statements

	Year ended March 31,		Thousands of dollars
	Millions of yen		dollars
	2022	2023	2023
Net sales	¥ 259,543	¥ 329,360	\$2,466,561
Elimination	(72,952)	(101,374)	(759,185)
Consolidated net sales	¥ 186,591	¥ 227,985	\$1,707,369
	Year ended March 31,		Thousands of dollars
	Millions of yen		dollars
	2022	2023	2023
Segment income	¥ 10,954	¥ 19,379	\$ 145,128
Elimination	345	(1,886)	(14,124)
Consolidated operating income	¥ 11,300	¥ 17,492	\$ 130,996

	Year ended March 31,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Segment assets	¥ 370,821	¥ 405,516	\$3,036,890
Elimination	(45,241)	(57,055)	(427,282)
Consolidated total assets	¥ 325,579	¥ 348,461	\$2,609,608

	Year ended March 31,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Depreciation and amortization	¥ 7,410	¥ 8,161	\$ 61,117
Elimination	(255)	(258)	(1,932)
Amount on consolidated financial statements	¥ 7,154	¥ 7,903	\$ 59,185

	Year ended March 31,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Capital expenditure	¥ 9,201	¥ 7,822	\$ 58,578
Elimination	(31)	(143)	(1,070)
Amount on consolidated financial statements	¥ 9,169	¥ 7,678	\$ 57,500

(2) Geographical information

	Year ended March 31,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Sales by destination			
Japan	¥ 43,025	¥ 39,807	\$ 298,112
USA	40,265	56,444	422,706
Americas, excluding USA	5,557	7,577	56,743
China	62,187	76,907	575,952
Asia, excluding China	20,244	26,697	199,932
Europe	13,398	18,765	140,530
Other	1,911	1,785	13,367
Total	¥ 186,591	¥ 227,985	\$1,707,369

	Year ended March 31,		Thousands of dollars
	Millions of yen		
	2022	2023	2023
Property, plant and equipment			
Japan	¥ 43,431	¥ 43,165	\$ 323,260
Americas	2,222	3,544	26,540
Asia	27,324	30,008	224,728
Europe	2,336	2,497	18,699
Total	¥ 75,315	¥ 79,215	\$ 593,237

17. Quarterly Earnings per Share

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

	Yen		Dollars
	2022	2023	2023
Three months ended			
June 30	¥ 51.58	¥ 99.77	\$ 0.74
September 30	86.98	123.36	0.92
December 31	103.81	218.63	1.63
March 31	257.91	230.13	1.72

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, 2023, 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, 2023, 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.

1. Appropriateness of sales cut-off for machine tools	
Key audit matter	How the matter was addressed in our audit
<p>Net sales of Makino Milling Machine Co., Ltd. and its consolidated subsidiaries (“the Group”) are mainly from machine tools sales, parts sales, maintenance services.</p> <p>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.</p> <p>There is a risk of not recording net sales in the proper accounting period mainly for the following reasons:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>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.</p>	<p>The primary procedures we performed to verify the appropriateness of sales cut-off for machine tools included the following:</p> <p>(1) Evaluation of internal controls</p> <p>We evaluated the design and operating effectiveness of internal controls relevant to the process of recording sales for machine tools.</p> <p>(2) Assessment of appropriateness of sales cut-off</p> <p>We performed following audit procedures, among others, to verify whether the sales for machine tools have been recorded in the proper accounting period:</p> <ul style="list-style-type: none"> • 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

	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 22, 2023

三島 陽

Akira Mishima

Designated Engagement Partner

Certified Public Accountant

吉田 延史

Nobufumi Yoshida

Designated Engagement Partner

Certified Public Accountant

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President	Shotaro Miyazaki
Executive Vice President, Director	Toshiyuki Nagano
Executive Vice President, Director	Tatsuaki Aiba
Director	Haruyuki Shiraishi
Director	Naofumi Masuda
Director	Kodo Yamazaki
Director	Kazumi Nishino
Director	Kazuo Takahashi
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 23, 2023



MAKINO



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

Phone : +81-3-3717-1151

Fax : +81-3-3725-2105

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