

# SEMI-ANNUAL REPORT

For the six months ended September 30, 2023



## QUALITATIVE INFORMATION

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### (1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the six-month period under review, the Company posted net sales of ¥108,515 million (up 5.3% year on year), operating income of ¥7,776 million (up 43.9% year on year), and net income attributable to owners of the parent of ¥7,675 million on a consolidated basis (up 43.7% year on year).

Orders received on a consolidated basis in the first half of the fiscal year amounted to ¥108,409 million (down 27.8% year on year). In most regions, orders decreased compared with the previous corresponding period when orders were received in the high level. Customers continued to refrain from capital expenditure.

The details of orders received by geographic region for the second quarter (July-September 2023) are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. were below the level of the previous corresponding period. Orders decreased primarily for die and mold for automobiles, general machinery including semiconductor production equipment, as well as parts machining for automobiles.

#### **MAKINO ASIA PTE LTD**

Orders received in Asia were below the level of the previous corresponding period.

Orders received in China decreased for die and mold for electrical and electronic components and parts machining for automobiles, for which orders had been brisk in the previous corresponding period. Even in such conditions, orders from industries related to new energy vehicles remained steady.

Orders received in India for automobiles and aircrafts were below the level of the previous corresponding period when orders had been concentrated.

#### **MAKINO INC.**

Orders received in America were at the same level as the previous corresponding period. Due to concerns over economic slowdown, customers remained cautious regarding capital expenditure primarily for automobiles. Even in such conditions, orders related to automation necessary to address labor shortage at production sites increased. Orders from industries related to aircrafts and medical devices remained firm.

#### **MAKINO Europe GmbH**

Orders received in Europe for parts machining for automobiles and general machinery as well as aircrafts were below the level of the previous corresponding period.

At the EMO, a European international machine tool trade show, held in Germany in September 2023, the Company presented products that suit the particular needs of individual industries and proposed the use of automation in an effort to seize an opportunity for business negotiations.

Although the business climate is expected to remain severe in the second half of the fiscal year, we will actively conduct business activities through both face-to-face and online, including exhibiting our products at the Mechatronics Technology Japan, a machine tools trade fair in Japan, and other exhibitions in different regions and holding online seminars, to help address customers' problems in a wide range of industries and win orders.

The Company will tackle four challenges, "Improved profitability," "Increased asset efficiency," "Greater shareholder returns," and "Enhanced sustainability" to manage operations with an eye on its capital costs and stock price more than ever and achieve an improvement in corporate value. We will actively make rationalization investments and work to enhance productivity by accelerating the development of high-value-added products that meet market needs. We will improve the inventory turnover ratio especially by shortening production lead times. We will return profits to our shareholders basically through the continuous distribution of stable dividends and flexibly through the implementation of additional returns.

The Company has set targets, consolidated net sales of ¥270,000 million, an operating margin ratio of 12.0%, a ROE of 11.0%, and a five-year average total payout ratio between 35% and 45%, which we aim to achieve for the fiscal year ending March 31, 2028 through the initiatives described above.

Information about the initiatives will be posted on the Company's website.

## **(2) Qualitative Information on Consolidated Financial Position**

Total assets on a consolidated basis at the end of second quarter under review increased by ¥1,287 million from the end of the previous fiscal year to ¥349,748 million. This was primarily attributable to an increase of ¥7,567 million in inventories, a decrease of ¥4,153 million in notes and accounts receivable, trade, a decrease of ¥1,591 million in investment securities, an increase of ¥1,323 million in machinery, equipment and vehicles, net, and an increase of ¥1,212 million in buildings and structures, net.

Total liabilities decreased by ¥11,134 million from the end of the previous fiscal year to ¥139,539 million. This was primarily attributable to a decrease of ¥4,354 million in notes and accounts payable, trade, a decrease of ¥815 million in borrowings, and a decrease of ¥669 million in deferred income taxes.

Net assets increased by ¥12,421 million from the end of the previous fiscal year to ¥210,209 million. The principal items were an increase of ¥8,061 million in foreign currency translation adjustments, an increase of ¥5,765 million in retained earnings, and a decrease of ¥1,141 million in unrealized gains on available-for-sale securities.

## **(3) Qualitative Information on Consolidated Performance Forecasts**

We have not revised our consolidated performance forecasts for the full fiscal year that had been announced previously (announced on July 31, 2023).

## CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries  
March 31, 2023 and September 30, 2023

US\$1=¥149.58

	Millions of yen		Thousands of dollars
	March 31, 2023	September 30, 2023	September 30, 2023
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits	¥ 68,312	¥ 68,240	\$ 456,210
Notes and accounts receivable	50,634	46,480	310,736
Marketable securities	4,234	4,235	28,312
Finished products	28,276	34,153	228,325
Work in process	21,140	20,317	135,826
Raw materials and supplies	45,699	48,213	322,322
Other current assets	12,961	8,294	55,448
Allowance for doubtful accounts	(1,544)	(1,657)	(11,077)
Total current assets	229,713	228,277	1,526,119
<b>Long-term assets:</b>			
<b>Property, plant and equipment:</b>			
Buildings and structures, net	37,565	38,778	259,245
Machinery, equipment and vehicles, net	9,570	10,893	72,823
Tools, furniture and fixtures, net	5,034	5,430	36,301
Land	19,080	19,761	132,109
Leased assets, net	6,012	5,996	40,085
Construction in progress	1,950	1,831	12,240
Total property, plant and equipment	79,215	82,691	552,821
<b>Intangible assets:</b>			
Other	2,952	3,017	20,169
Total intangible assets	2,952	3,017	20,169
<b>Investments and other assets:</b>			
Investment securities	27,100	25,508	170,530
Long-term loans receivable	620	580	3,877
Deferred income taxes	4,867	5,243	35,051
Net defined benefit assets	970	1,027	6,865
Other long-term assets	3,163	3,517	23,512
Allowance for doubtful accounts	(141)	(115)	(768)
Total investments and other assets	36,580	35,762	239,082
Total long-term assets	118,747	121,471	812,080
Total assets	¥ 348,461	¥ 349,748	\$ 2,338,200

The accompanying notes are an integral part of these statements.

US\$1=¥149.58

	Millions of yen		Thousands of dollars
	March 31, 2023	September 30, 2023	September 30, 2023
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade	¥ 20,068	¥ 16,682	\$ 111,525
Electronically recorded obligations-operating	19,019	18,051	120,677
Current portion of long-term debt	6,707	1,830	12,234
Short-term lease obligations	932	946	6,324
Income taxes payable	2,080	2,068	13,825
Other current liabilities	41,890	36,841	246,296
Total current liabilities	90,698	76,419	510,890
<b>Long-term liabilities:</b>			
Bonds	20,000	20,000	133,707
Long-term debt	26,228	30,290	202,500
Long-term lease obligations	3,210	3,073	20,544
Deferred income taxes	6,973	6,303	42,137
Allowance for directors' and corporate auditors' retirement benefits	122	133	0
Net defined benefit liabilities	1,357	1,446	9,667
Other long-term liabilities	2,083	1,872	12,515
Total long-term liabilities	59,975	63,120	421,981
Total liabilities	¥ 150,674	¥ 139,539	\$ 932,872
<b>Net assets:</b>			
Shareholders' equity			
Common stock, no par value	21,142	21,142	141,342
Authorized : 60,000,000 shares			
Issued : 24,893,841 shares			
as of March 31 and September 30, 2023			
Capital surplus	37,056	37,092	247,974
Retained earnings	114,714	120,480	805,455
Treasury stock	(4,233)	(4,198)	(28,065)
1,012,276 and 1,003,971 shares			
as of March 31 and September 30, 2023 respectively			
Total shareholders' equity	168,681	174,516	1,166,706
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	15,160	14,019	93,722
Foreign currency translation adjustments	12,880	20,941	139,998
Remeasurements of defined benefit plans	565	354	2,366
Total accumulated other comprehensive income	28,606	35,315	236,094
Non-controlling interests	499	377	2,520
Total net assets	197,787	210,209	1,405,328
Total liabilities and net assets	¥ 348,461	¥ 349,748	\$ 2,338,200

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, 2022 and 2023

US\$1=¥149.58

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2022	Six months ended September 30, 2023	Six months ended September 30, 2023
<b>Net sales</b>	¥ 103,039	¥ 108,515	\$ 725,464
<b>Cost of sales</b>	73,736	75,775	506,585
Gross profit	29,303	32,740	218,879
<b>Selling, general and administrative expenses</b>	23,899	24,963	166,887
Operating income (loss)	5,403	7,776	51,985
<b>Non-operating income:</b>			
Interest and dividend income	450	660	4,412
Exchange income	811	966	6,458
Subsidy income	63	83	554
Other	451	447	2,988
Total non-operating income	1,775	2,158	14,427
<b>Non-operating expenses:</b>			
Interest expense	146	161	1,076
Other	79	42	280
Total non-operating expenses	226	203	1,357
Ordinary income (loss)	6,953	9,730	65,048
<b>Extraordinary income:</b>			
Gain on sales of property, plant and equipment	12	160	1,069
Total extraordinary income	12	160	1,069
<b>Extraordinary losses:</b>			
Loss on disposal of property, plant and equipment	430	6	40
Total extraordinary losses	430	6	40
<b>Income (loss) before income taxes</b>	6,535	9,884	66,078
<b>Income taxes (Note 2)</b>	1,190	2,200	14,707
<b>Net income (loss)</b>	5,344	7,683	51,363
<b>Net income (loss) attributable to non-controlling interests</b>	3	7	46
<b>Net income (loss) attributable to owners of the parent</b>	¥ 5,340	¥ 7,675	\$ 51,310

Yen

Dollars

### Per share of common stock:

Net income (loss) attributable to owners of the parent - Basic	¥ 223.13	¥ 321.38	\$ 2.15
- 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, 2022 and 2023

US\$1=¥149.58

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2022	Six months ended September 30, 2023	Six months ended September 30, 2023
<b>Net income (loss)</b>	¥ 5,344	¥ 7,683	\$ 51,363
<b>Other comprehensive income (loss):</b>			
Unrealized gains on available-for-sale securities	(1,715)	(1,140)	(7,621)
Foreign currency translation adjustments	9,043	8,061	53,890
Remeasurements of defined benefit plans	(262)	(210)	(1,403)
<b>Other comprehensive income (loss)</b>	7,064	6,709	44,852
<b>Total comprehensive income (loss)</b>	¥ 12,408	¥ 14,393	\$ 96,222
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the parent	12,406	14,384	96,162
Non-controlling interests	1	8	53
	¥ 12,408	¥ 14,393	\$ 96,222

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, 2022 and 2023

US\$1=¥149.58

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2022	Six months ended September 30, 2023	Six months ended September 30, 2023
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes	¥ 6,535	¥ 9,884	\$ 66,078
Adjustments for:			
Depreciation and amortization	3,787	3,934	26,300
Increase (decrease) in allowance for doubtful accounts	(85)	(72)	(481)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	(13)	10	66
Increase (decrease) in net defined benefit liabilities	5	(46)	(307)
Interest and dividend income	(450)	(660)	(4,412)
Interest expense	146	161	1,076
Exchange loss (gain)	(189)	(24)	(160)
(Gain) loss on sales of property, plant and equipment	(12)	(160)	(1,069)
Loss on disposal of property, plant and equipment	430	6	40
(Increase) decrease in notes and accounts receivable, trade	10,896	8,055	53,850
(Increase) decrease in inventories	(11,899)	(1,721)	(11,505)
Increase (decrease) in notes and accounts payable, trade	(9,020)	(8,430)	(56,357)
Other	8,643	(2,958)	(19,775)
Subtotal	8,775	7,979	53,342
Interest and dividends received	444	657	4,392
Interest paid	(146)	(158)	(1,056)
Income taxes (paid) refund	(2,507)	(2,173)	(14,527)
Net cash provided by (used in) operating activities	6,565	6,304	42,144
<b>Cash flows from investing activities:</b>			
Net decrease (Increase) in time deposits	(1,387)	766	5,121
Purchases of property, plant and equipment	(2,779)	(4,506)	(30,124)
Proceeds from sales of property, plant and equipment	31	364	2,433
Purchases of investment securities	(4)	(4)	(26)
Other	(277)	(552)	(3,690)
Net cash provided by (used in) investing activities	(4,417)	(3,932)	(26,286)
<b>Cash flows from financing activities:</b>			
Repayment of lease obligations	(502)	(515)	(3,442)
Proceeds from long-term loans payable	9,000	4,000	26,741
Repayment of long-term loans payable	(1,500)	(5,000)	(33,426)
Purchases of treasury stock	(21)	(2)	(13)
Purchases of treasury stock of subsidiaries in consolidation	(50)	(100)	(668)
Dividends paid	(1,288)	(1,907)	(12,749)
Dividends paid to non-controlling interests	(13)	(6)	(40)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(358)	—	—
Net cash provided by (used in) financing activities	5,264	(3,531)	(23,606)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	3,064	1,754	11,726
<b>Net increase (decrease) in cash and cash equivalents</b>	10,477	595	3,977
<b>Cash and cash equivalents, beginning of period</b>	75,712	69,467	464,413
<b>Cash and cash equivalents, end of period (Note 4)</b>	¥ 86,190	¥ 70,062	\$ 468,391

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 ¥149.58 = US\$1, which was the prevailing exchange rate on September 30, 2023.

## 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, 2022

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

(2) Dividends in respect of the six months ended September 30, 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
Board of Directors (October 31, 2022)	Common stock	¥1,675 million	¥70.00	Retained earnings	September 30, 2022	December 2, 2022

(3) Dividends paid in the six months ended September 30, 2023

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 \$12,769 thousand	¥80.00 \$0.53	Retained earnings	March 31, 2023	June 23, 2023

(4) Dividends in respect of the six months ended September 30, 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
Board of Directors (October 31, 2023)	Common stock	¥1,672 million \$11,178 thousand	¥70.00 \$0.47	Retained earnings	September 30, 2023	December 4, 2023

#### 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
	2022	2023	2023
Cash and time deposits	¥85,000	<b>¥68,240</b>	<b>\$456,210</b>
Marketable securities	3,335	<b>4,235</b>	<b>28,312</b>
Time deposits with maturities over three months	(2,145)	<b>(2,412)</b>	<b>(16,125)</b>
Cash and cash equivalents	¥86,190	<b>¥70,062</b>	<b>\$468,391</b>

#### 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, 2022

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥21,927	¥46,465	¥28,727	¥5,919	<b>¥103,039</b>
Intersegment	40,016	6,952	288	10	<b>47,267</b>
Total	61,943	53,417	29,015	5,929	<b>150,307</b>
Segment income (loss)	¥ 213	¥ 4,517	¥ 1,578	¥ (402)	<b>¥ 5,907</b>

Six months ended September 30, 2023

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥25,726	¥42,902	¥30,726	¥9,160	<b>¥108,515</b>
Intersegment	40,598	5,766	349	0	<b>46,714</b>
Total	66,324	48,668	31,075	9,160	<b>155,229</b>
Segment income (loss)	¥ 4,041	¥ 2,346	¥ 1,482	¥ (354)	<b>¥ 7,515</b>

Six months ended September 30, 2023

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$ 171,988	\$ 286,816	\$ 205,415	\$ 61,238	\$ 725,464
Intersegment	271,413	38,547	2,333	0	312,301
Total	443,401	325,364	207,748	61,238	1,037,765
Segment income (loss)	\$ 27,015	\$ 15,683	\$ 9,907	\$ (2,366)	\$ 50,240

Six months ended September 30,

	Millions of yen		Thousands of dollars
	2022	2023	2023
Segment income	¥5,907	¥7,515	\$ 50,240
Elimination	(503)	261	1,744
Consolidated operating income	¥5,403	¥7,776	\$ 51,985

## 6. Revenue recognition

Disaggregation of revenue from contracts with customers

Year ended September 30, 2022

(Millions of yen)

	I	II	III	IV	Total
Goods or services transferred at a point in time	¥21,927	¥45,789	¥24,401	¥5,919	¥ 98,037
Goods or services transferred over time	—	675	4,326	—	5,002
Revenue from contracts with customers	¥21,927	¥46,465	¥28,727	¥5,919	¥103,039

Year ended September 30, 2023

(Millions of yen)

	I	II	III	IV	Total
Goods or services transferred at a point in time	¥25,726	¥42,059	¥25,430	¥9,160	¥102,376
Goods or services transferred over time	—	842	5,295	—	6,138
Revenue from contracts with customers	¥25,726	¥42,902	¥30,726	¥9,160	¥108,515

Year ended September 30, 2023

(Thousands of dollars)

	I	II	III	IV	Total
Goods or services transferred at a point in time	\$ 171,988	\$ 281,180	\$ 170,009	\$ 61,238	\$ 684,423
Goods or services transferred over time	—	5,629	35,399	—	41,034
Revenue from contracts with customers	\$ 171,988	\$ 286,816	\$ 205,415	\$ 61,238	\$ 725,464



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