

# ANNUAL REPORT

Year Ended March 31, 2019



## 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	
	2015	2016	2017	2018	2019	2019
Net sales	¥149,506	¥161,979	¥153,641	¥181,547	<b>¥204,709</b>	<b>\$1,844,391</b>
Net income attributable to owners of the parent	11,449	12,168	7,596	11,694	<b>16,981</b>	<b>152,995</b>
Net assets	117,836	117,133	127,190	152,519	<b>160,946</b>	<b>1,450,094</b>
Total assets	245,456	234,264	247,606	268,382	<b>269,521</b>	<b>2,428,335</b>
	Yen				Dollars	
Earnings per share attributable to owners of the parent						
Basic	¥ 102.93	¥ 109.56	¥ 69.03	¥ 511.29	<b>¥ 689.30</b>	<b>\$ 6.21</b>
Diluted	91.11	96.97	61.03	—	—	—
Number of employees	4,279	4,455	4,593	4,731	<b>4,805</b>	

Note: US dollar amounts have been translated from yen, for convenience only, at the rate of ¥110.99=US\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2019.

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### 1. Overview of Operating Results, etc.

#### (1) Operating Results for Fiscal 2019

During fiscal 2019, the Company posted net sales of ¥204,709 million (up 12.8% year on year), operating income of ¥20,671 million (up 37.6% year on year), and net income attributable to owners of the parent of ¥16,981 million (up 45.2% year on year) on a consolidated basis.

Orders received on a consolidated basis amounted to ¥201,963 million (up 2.0% year on year), remaining at the same level as the previous year. Order flows were strong in all regions in the first six months. In the second six months, orders received turned to decline, particularly in China and the U.S. because of the impact of the U.S.-China trade friction.

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

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

Domestic orders received by Makino Milling Machine Co., Ltd. exceeded the level of the previous year.

There was brisk demand from parts machining customers of general machinery including semiconductor production equipment and robots and of automobile.

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

Orders received in Asia exceeded the level of the previous year.

Orders received from China decreased. Orders from the smartphone die and mold industry and general machinery parts machining customers, including those for semiconductor production equipment, decreased from the level of the previous year. Capital investment of automotive parts machining customers for quality improvement and automation continued. Orders from large die and mold for automotive interiors, etc. and die and mold for electrical and electronic components increased.

Orders received in India exceeded the level of the previous year owing to an increase in demand from automotive parts machining customers.

Orders received in the ASEAN region exceeded the level of the previous year as orders were received from various industries, including the automotive, aircraft, and general machinery industries.

#### **MAKINO INC.**

Orders received were slightly lower than the level of the previous year.

Orders received from the aircraft industry decreased, following the high concentration of orders received in the previous year.

Orders from automotive parts machining customers were the same level as the previous year. From the

second six months onward, the level of inquiries declined and in the fourth quarter certain customers started to postpone capital investment projects.

#### **MAKINO Europe GmbH**

Orders received in Europe exceeded the level of the previous year because of an increase in demand from the aircraft-related industry.

Orders received from general machinery parts machining customers decreased. Customers became cautious about capital investment because of anxiety concerning the economic outlook.

### (2) Financial Position

Total assets on a consolidated basis at the end of fiscal 2019 increased by ¥1,139 million from the end of fiscal 2018 to ¥269,521 million. The principal items were a decrease of ¥6,716 million in investment securities, an increase of ¥4,314 million in inventories, and an increase of ¥2,267 million in notes and accounts receivable.

Total liabilities decreased by ¥7,287 million from the end of fiscal 2018 to ¥108,574 million. This was primarily attributable to a decrease of ¥6,815 million in long-term debt and an increase of ¥5,000 million in bonds.

Net assets increased by ¥8,426 million from the end of fiscal 2018 to ¥160,946 million. The principal items were an increase of ¥14,490 million in retained earnings and a decrease of ¥4,759 million in unrealized gains on available-for-sale securities.

### (3) Cash Flows

At the end of fiscal 2019, net cash provided by operating activities was ¥15,314 million. The principal items were income before income taxes amounting to ¥22,000 million, depreciation and amortization amounting to ¥5,837 million, an increase of ¥3,520 million in inventories, and a decrease of ¥2,840 million in notes and accounts payable, trade.

Net cash used in investing activities was ¥8,705 million. The principal item was purchases of property, plant and equipment amounting to ¥8,324 million.

Net cash used in financing activities was ¥7,638 million. The main items were repayment of long-term loans payable amounting to ¥11,256 million, proceeds from issue of bonds amounting to ¥5,000 million, and dividends paid amounting to ¥2,228 million.

As a result, cash and cash equivalents on a consolidated basis at the end of fiscal 2019 decreased by ¥958 million from the end of fiscal 2018 to ¥48,827 million.

The table below shows trends in cash-flow indicators.

	76th term	77th term	78th term	79th term	80th term
	Term ended March 2015	Term ended March 2016	Term ended March 2017	Term ended March 2018	Term ended March 2019
Shareholders' equity ratio (%)	47.7	49.7	51.1	56.5	59.4
Shareholders' equity ratio on a market value basis (%)	46.3	32.4	42.9	46.3	41.4
Ratio of interest-bearing debt to cash flows (%)	5.9	2.3	3.9	2.5	2.3
Interest coverage ratio (times)	17.0	52.9	34.3	45.9	50.0

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 2020)

The Company forecasts orders received in fiscal 2020 on a consolidated basis will decrease from the level of fiscal 2019. This is because the volume of orders received is expected to decrease centering on China and the U.S. and the value of orders received translated into yen is expected to decrease based on the assumed exchange rate, which is trending toward yen appreciation.

A situation similar to that in the second six months of fiscal 2019 is expected to continue in the first six months of fiscal 2020, and recovery is expected to start in the second six months.

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

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

Domestic orders received by Makino Milling Machine Co., Ltd. are expected to be the same level as fiscal 2019.

We expect orders received from automotive parts machining customers to continue despite fewer inquiries for major transactions compared with fiscal 2019.

We have been receiving orders from the aircraft industry since the beginning of fiscal 2020.

We expect orders from parts machining customers for semiconductor production equipment to increase from the second six months onward.

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

We forecast lower orders received than the level of fiscal 2019.

In China, we expect orders received from the smartphone die and mold industry to pick up from the second six months onward. Regarding automotive parts machining manufacturers, capital investment for quality improvement and production automation is continuing. In addition, the Chinese government's tax reduction policy is expected to start having a positive impact on orders received from the second six months onward. Regarding the automotive die and mold industry, the downward trend, which has been continuing since the fourth quarter of fiscal 2019, is expected to reverse owing to the government's policy to stimulate consumption.

In India, we forecast that orders received will be the same level as fiscal 2019, centering on orders from automotive and motorcycle parts machining customers.

Orders received in the ASEAN region is expected to exceed the level of the previous year because of the expected increase of orders from Vietnam.

##### **MAKINO INC.**

We forecast a lower level of orders received than for fiscal 2019.

The level of inquiries from automotive parts machining customers (SUVs and trucks) and medical device parts machining customers has been solid and we do not expect a large decrease in orders received.

Orders received from the aircraft industry are expected to remain solid. However, the impact from reduction in production of certain aircraft is expected to become more evident.

##### **MAKINO Europe GmbH**

We forecast that the level of orders received will be the same as for fiscal 2019.

Regarding the aircraft-related industry, capital investment for increased production is expected to continue.

We expect to maintain orders received from general machinery and automotive parts machining customers by strengthening the sales structure in Europe.

The Group's consolidated performance forecasts for fiscal 2020 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)	79,000 *1 down 13.9%	2,400 *1 down 70.5%	1,600 *1 down 75.8%
Forecasts for the full fiscal year	179,000 *2 down 12.6%	12,000 *2 down 42.0%	9,700 *2 down 42.9%

\*1 Compared with the same period of fiscal 2019

\*2 Year on year

### 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 26, 2019, the Company's Board of Directors consists of seven 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 26, 2019, the Company's Board of Auditors consists of three statutory auditors (two of whom are full-time corporate auditors), of whom two are outside corporate auditors. The statutory auditors attend meetings of the Board of Directors and make remarks, as necessary, in the course of deliberation on the agenda. Also, the Board of Auditors meets periodically and, in addition to items specified by laws and regulations, deliberates and makes decisions on matters necessary for statutory auditors' activities, and audits directors' execution of operational duties from an independent standpoint.

##### 2) Internal control systems and risk management systems

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

Positioning risk management as the basis of systems

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

The Company has formulated internal rules, including the Risk Management Rules in which deviation from laws and regulations and the Articles of Incorporation is provided for as a type of risk, Employment Rules and the Security Export Control Program. The Company is endeavoring to ensure compliance with laws and regulations, rules and norms by raising employee awareness through the provision of training for new employees and periodic and non-periodic training. Regarding the recording of operational activities, records are prepared and retained in accordance with the Rules of the Board of Directors in the case of information on execution of duties of directors and in accordance with the Rules for Formal Approvals in the case of decision-making for routine operations. Subsidiaries are required to report to the Company on their execution of duties and risk situations, as necessary, and the Company's directors or employees are dispatched as directors of subsidiaries to participate in management and be responsible for oversight.

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

In addition, with respect to the system specified by a Cabinet Office Ordinance as necessary for ensuring appropriateness of statements on finance and accounting and other information as set forth in Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Law, the Company

maintains and manages such system in accordance with the basic framework of internal control as indicated in the "On the Setting of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)" published by the Business Accounting Council.

3) Internal audit and audit by corporate auditors

Necessary audits are performed at the Company on the basis of close cooperation between the corporate auditors, the accounting auditor and relevant staff at the Finance Department, the General Affairs Department and the Internal Audit Office. Internal audit on maintenance and management of internal control over financial reporting is conducted by the Internal Audit Office (consists of two members), which is established as an independent organization and directly reports to the President, in cooperation with relevant departments of the Company and its consolidated subsidiaries.

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

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

4) Accounting audits

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

5) Relations with outside corporate auditors

There are no personal, capital or transactional relations between the Company and its two 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	8	299
Corporate auditors excluding outside corporate auditors	1	24
Outside directors and corporate auditors	5	46

**On Introduction of Measures against Large-scale Purchases of the Company's Shares (Anti-Takeover Measures)**

The Company aims to produce reliable products, providing the machine tools and technologies that are most suitable for our customers so that they can manufacture their products efficiently. It is an invaluable asset to the Company to satisfy their demand and to maintain strict confidentiality of them.

We believe that we must eliminate large-scale purchases of the shares which will damage this relationship based on trust.

The introduction of the Anti-takeover Measures was approved by the shareholders at the Ordinary General Meeting of Shareholders on June 20, 2008 and came into effect.

## BUSINESS RISKS

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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, 2017, 2018 and 2019

US\$1=¥110.99

	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
<b>ASSETS</b>				
<b>Current assets:</b>				
Cash and time deposits (Notes 3 and 14)	¥ 51,668	¥ 50,175	¥ 49,215	\$ 443,418
Marketable securities (Notes 2.e, 3 and 4)	39	38	39	351
Notes and accounts receivable (Notes 2.k, 3 and 5)	44,569	51,134	53,402	481,142
Inventories (Notes 2.f and 6)	52,075	59,112	63,426	571,456
Other current assets	5,345	7,492	6,356	57,266
Allowance for doubtful accounts (Notes 2.h and 3)	(671)	(757)	(775)	(6,982)
Total current assets	153,026	167,196	171,665	1,546,670
<b>Investments and other assets:</b>				
Investment securities (Notes 2.e, 3 and 4)	23,190	27,544	20,828	187,656
Long-term loans receivable	419	366	559	5,036
Deferred income taxes (Notes 2.j and 10)	4,001	3,392	3,773	33,994
Net defined benefit assets (Notes 2.i and 8)	181	201	195	1,756
Other long-term assets	5,522	6,213	6,970	62,798
Allowance for doubtful accounts (Notes 2.h and 3)	(335)	(388)	(353)	(3,180)
Total investments and other assets	32,979	37,329	31,973	288,070
<b>Property, plant and equipment (Note 2.g):</b>				
Land	17,643	17,769	17,427	157,014
Buildings and structures	68,902	70,684	73,839	665,276
Machinery and equipment	36,936	38,757	43,373	390,782
Lease assets (Note 9)	2,257	2,119	1,865	16,803
Construction in progress	683	3,742	1,427	12,857
	126,423	133,071	137,934	1,242,760
Accumulated depreciation	(65,725)	(69,217)	(72,052)	(649,175)
Total property, plant and equipment	60,697	63,855	65,882	593,585
Total assets	¥ 246,704	¥ 268,382	¥ 269,521	\$2,428,335

The accompanying notes are an integral part of these statements.



US\$1=¥110.99

	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Notes and accounts payable (Note 3):				
Trade	¥ 15,100	¥ 15,849	¥ 16,784	\$ 151,220
Other	7,990	10,625	10,065	90,683
Electronically recorded obligations-operating (Note 3)	15,112	19,613	16,490	148,571
Short-term loans (Notes 3 and 7)	2,459	1,196	3,364	30,309
Current portion of long-term debt (Notes 2.k, 3, 5 and 7)	20,558	11,256	7,725	69,600
Short-term lease obligations (Note 7)	265	249	216	1,946
Accrued expenses	9,538	10,579	12,130	109,289
Income taxes payable	903	3,085	3,701	33,345
Other current liabilities	3,367	4,983	3,831	34,516
Total current liabilities	75,296	77,438	74,309	669,510
<b>Long-term liabilities:</b>				
Long-term debt (Notes 2.k, 3, 5 and 7)	31,783	25,687	23,872	215,082
Long-term lease obligations (Note 7)	1,092	975	856	7,712
Net defined benefit liabilities (Notes 2.i and 8)	4,960	4,250	4,047	36,462
Allowance for directors' and corporate auditors' retirement benefits (Note 2.i)	70	89	99	891
Deferred income taxes (Notes 2.j and 10)	5,022	6,217	4,155	37,435
Other long-term liabilities	1,289	1,202	1,234	11,118
Total long-term liabilities	44,217	38,423	34,265	308,721
<b>Net assets:</b>				
Shareholders' equity				
Common stock, no par value	19,263	21,142	21,142	190,485
Authorized : 300,000,000 shares				
as of March 31, 2017 and 2018				
60,000,000 shares as of March 31, 2019				
Issued : 119,944,543 shares as of March 31, 2017				
124,469,207 shares as of March 31, 2018				
24,893,841 shares as of March 31, 2019				
Capital surplus	32,602	37,070	37,070	333,994
Retained earnings (Note 13)	71,090	81,292	95,782	862,978
Treasury stock	(5,633)	(6)	(2,009)	(18,100)
9,897,144; 9,983 and 449,837 shares				
as of March 31, 2017, 2018				
and 2019 respectively				
Total shareholders' equity	117,322	139,499	151,986	1,369,357
Accumulated other comprehensive income				
Unrealized gains on available-for-sale securities (Note 2.e)	12,473	15,583	10,823	97,513
Foreign currency translation adjustments	(43)	(616)	79	711
Remeasurements of defined benefit plans (Notes 2.i and 8)	(3,312)	(2,743)	(2,774)	(24,993)
Total accumulated other comprehensive income	9,117	12,224	8,128	73,231
Non-controlling interests	750	796	831	7,487
Total net assets	127,190	152,519	160,946	1,450,094
Total liabilities and net assets	¥ 246,704	¥ 268,382	¥ 269,521	\$2,428,335

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, 2017, 2018 and 2019

	Millions of yen			US\$1=¥110.99 Thousands of dollars
	2017	2018	2019	2019
<b>Net sales</b>	¥ 153,641	¥ 181,547	¥ 204,709	\$ 1,844,391
<b>Cost of sales</b>	109,111	125,478	139,746	1,259,086
Gross profit	44,529	56,068	64,962	585,295
<b>Selling, general and administrative expenses</b>	34,868	41,044	44,290	399,044
Operating income	9,660	15,023	20,671	186,242
<b>Other income (expenses):</b>				
Interest and dividend income	557	645	1,075	9,685
Interest expense	(365)	(330)	(306)	(2,757)
Subsidy income	89	122	—	—
Gain on sales of property, plant and equipment	189	51	179	1,612
Gain on sales of investment securities	24	194	246	2,216
Loss on disposal of property, plant and equipment	(115)	(44)	(54)	(486)
Impairment loss (Note 12)	—	—	(327)	(2,946)
Exchange loss, net	(368)	(283)	(109)	(982)
Other, net	426	573	624	5,622
<b>Income before income taxes</b>	10,097	15,954	22,000	198,216
<b>Income taxes (Notes 2.j and 10) - Current</b>	2,218	4,066	5,526	49,788
- Deferred	222	146	(546)	(4,919)
<b>Net income</b>	7,656	11,740	17,020	153,347
<b>Net income attributable</b>				
to non-controlling interests	59	46	39	351
<b>Net income attributable to owners of the parent</b>	¥ 7,596	¥ 11,694	¥ 16,981	\$ 152,995
		Yen		Dollars
<b>Per share of common stock:</b>				
Net income attributable to owners of the parent				
- Basic	¥ 69.03	¥ 102.26	¥ 689.30	\$ 6.21
- Diluted	61.03	—	—	—
Cash dividends applicable to the period	16.00	17.00	69.00	0.62

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, 2017, 2018 and 2019

	Millions of yen			US\$1=¥110.99 Thousands of dollars
	2017	2018	2019	2019
<b>Net income</b>	¥ 7,656	¥ 11,740	¥ 17,020	\$ 153,347
<b>Other comprehensive income (loss) (Note 14):</b>				
Unrealized gains (losses) on available-for-sale securities (Note 2.e)	3,679	3,111	(4,761)	(42,895)
Foreign currency translation adjustments (Note 2.d)	(1,015)	(572)	695	6,261
Remeasurements of defined benefit plans (Notes 2.i and 8)	1,502	571	(31)	(279)
<b>Other comprehensive income (loss)</b>	4,167	3,109	(4,097)	(36,913)
<b>Total comprehensive income</b>	¥ 11,823	¥ 14,850	¥ 12,923	\$ 116,433
<b>Total comprehensive income attributable to:</b>				
Owners of the parent	11,760	14,800	12,885	116,091
Non-controlling interests	63	50	37	333
	¥ 11,823	¥ 14,850	¥ 12,923	\$ 116,424

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, 2017, 2018 and 2019

US\$1=¥110.99

	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
<b>Common stock:</b>				
Balance at beginning of year	¥ 19,263	¥ 19,263	¥ 21,142	\$ 190,485
Conversion of convertible bonds	—	1,879	—	—
Balance at end of year	19,263	21,142	21,142	190,485
<b>Capital surplus:</b>				
Balance at beginning of year	32,602	32,602	37,070	333,994
Conversion of convertible bonds	—	4,468	—	—
Balance at end of year	32,602	37,070	37,070	333,994
<b>Retained earnings (Note 13):</b>				
Balance at beginning of year	65,254	71,090	81,292	732,426
Cumulative effects of changes in accounting policies	—	—	(259)	(2,333)
Net income attributable to owners of the parent	7,596	11,694	16,981	152,995
Cash dividends	(1,760)	(1,760)	(2,230)	(20,091)
Other	—	268	—	—
Balance at end of year	71,090	81,292	95,782	862,978
<b>Treasury stock:</b>				
Balance at beginning of year	(5,629)	(5,633)	(6)	(54)
Acquisition of treasury stock	(3)	(4)	(2,003)	(18,046)
Conversion of convertible bonds	—	5,631	—	—
Balance at end of year	(5,633)	(6)	(2,009)	(18,100)
<b>Unrealized gains on available-for-sale securities (Note 2.e):</b>				
Balance at beginning of year	8,796	12,473	15,583	140,400
Net change during the year	3,677	3,109	(4,759)	(42,877)
Balance at end of year	12,473	15,583	10,823	97,513
<b>Foreign currency translation adjustments (Note 2.d):</b>				
Balance at beginning of year	971	(43)	(616)	(5,550)
Net change during the year	(1,015)	(572)	695	6,261
Balance at end of year	(43)	(616)	79	711
<b>Remeasurements of defined benefit plans (Notes 2.i and 8):</b>				
Balance at beginning of year	(4,814)	(3,312)	(2,743)	(24,713)
Net change during the year	1,501	569	(31)	(279)
Balance at end of year	(3,312)	(2,743)	(2,774)	(24,993)
<b>Non-controlling interests:</b>				
Balance at beginning of year	689	750	796	7,171
Net change during the year	60	46	35	315
Balance at end of year	¥ 750	¥ 796	¥ 831	\$ 7,487

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, 2017, 2018 and 2019

US\$1=¥110.99

	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
<b>Cash flows from operating activities:</b>				
Income before income taxes	¥ 10,097	¥ 15,954	¥ 22,000	\$ 198,216
Adjustments for:				
Income taxes (paid) refund	(2,768)	(2,006)	(4,752)	(42,814)
Depreciation and amortization	5,699	5,789	5,837	52,590
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	9	18	10	90
Increase (decrease) in net defined benefit liabilities	725	333	(200)	(1,801)
Increase (decrease) in allowance for doubtful accounts	(142)	158	(34)	(306)
(Gain) loss on sales of property, plant and equipment	(189)	(51)	(179)	(1,612)
Loss on disposal of property, plant and equipment	115	44	54	486
(Gain) loss on sales of investment securities	(24)	(194)	(246)	(2,216)
(Increase) decrease in notes and accounts receivable, trade	(5,707)	(7,007)	(1,484)	(13,370)
(Increase) decrease in inventories	(303)	(7,224)	(3,520)	(31,714)
Increase (decrease) in notes and accounts payable, trade	5,873	5,722	(2,840)	(25,587)
Other, net	639	3,775	672	6,054
Net cash provided by (used in) operating activities	14,026	15,311	15,314	137,976
<b>Cash flows from investing activities:</b>				
(Increase) decrease in time deposits	800	150	—	—
Proceeds from sales of investment securities	32	258	354	3,189
Purchases of investment securities	(1,004)	(4)	(6)	(54)
Purchases of property, plant and equipment	(7,627)	(8,827)	(8,324)	(74,997)
Proceeds from sales of property, plant and equipment	843	297	602	5,423
Other, net	(2,806)	(1,400)	(1,330)	(11,983)
Net cash provided by (used in) investing activities	(9,762)	(9,527)	(8,705)	(78,430)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term loans, net	(2,445)	(1,294)	2,164	19,497
Repayment of lease obligations	(355)	(331)	(310)	(2,793)
Proceeds from long-term loans payable	5,843	5,000	1,000	9,009
Repayment of long-term loans payable	(1,405)	(8,578)	(11,256)	(101,414)
Proceeds from issue of bonds	5,000	—	5,000	45,049
Redemption of bonds	(10,000)	—	—	—
Purchases of treasury stock	(3)	(4)	(2,003)	(18,046)
Dividends paid	(1,766)	(1,764)	(2,231)	(20,100)
Net cash provided by (used in) financing activities	(5,131)	(6,973)	(7,638)	(68,817)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(368)	(153)	70	630
<b>Net increase (decrease) in cash and cash equivalents</b>	(1,236)	(1,343)	(958)	(8,631)
<b>Cash and cash equivalents, beginning of period</b>	52,364	51,128	49,785	448,553
<b>Cash and cash equivalents, end of period (Notes 2.b and 15)</b>	¥ 51,128	¥ 49,785	¥ 48,827	\$ 439,922

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 ¥110.99 = US\$1, which was the prevailing exchange rate on March 31, 2019.

### 2. Summary of Significant Accounting Policies

#### (a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (32 for 2017 and 33 for 2018 and 2019). The significant subsidiaries, which are consolidated with the Company, are listed below:

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

The remaining subsidiaries (three for 2017 and four for 2018 and 2019), 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 (five for 2017 and six for 2018 and seven for 2019): 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 two 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) Changes in Accounting Policies

(1) Change in accounting standard

A part of overseas consolidated subsidiaries applied the accounting standard of IFRS15 from the beginning of the first quarter of this consolidated accounting period.

This change had no significant impact on the Company's results for this fiscal year.

(2) Change in inventory valuation method.

The Company and part of subsidiaries in Japan previously adopted the last purchase price method as evaluation method for raw material and supplies.

However, this has been changed to the moving average method.

The purpose of this change is to execute more appropriate periodic accounting of income and loss upon the replacement of inventory management system.

This change had no significant impact on the Company's results for this fiscal year.

(o) Changes in presentation.

Partial revision of accounting standard pertaining to tax effect accounting is adopted from the beginning of the first quarter of this consolidated accounting period.

Deferred income tax asset is indicated in Investments and other assets and deferred income tax liability is indicated in Long-term liabilities.

### 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, bonds and finance leases 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		
	2017		
Amount on balance sheet	Fair value	Difference	
<b>Assets</b>			
Cash and time deposits	¥ 51,668	¥ 51,668	—
Notes and accounts receivable	44,569	44,569	—
Allowance for doubtful accounts	(671)	(671)	—
Balance	43,897	43,897	—
Held-to-maturity securities	1,000	991	(8)
Other marketable securities and investment securities	22,127	22,127	—
<b>Total assets</b>	<b>¥118,693</b>	<b>¥118,684</b>	<b>¥ (8)</b>
<b>Liabilities</b>			
Notes and accounts payable	¥ 15,100	¥ 15,100	—
Electronically recorded obligations-operating	15,112	15,112	—
Short-term loans	2,459	2,459	—
Current portion of long-term loans	8,578	8,578	—
Bonds	5,000	5,002	2
Long-term loans	26,783	27,045	261
<b>Total liabilities</b>	<b>¥ 73,034</b>	<b>¥ 73,298</b>	<b>¥ 263</b>
Derivatives	¥ 9	¥ 9	—
	As of March 31,		
	Millions of yen		
	2018		
Amount on balance sheet	Fair value	Difference	
<b>Assets</b>			
Cash and time deposits	¥ 50,175	¥ 50,175	—
Notes and accounts receivable	51,134		
Allowance for doubtful accounts	(757)		
Balance	50,377	50,377	—
Held-to-maturity securities	1,000	997	(2)
Other marketable securities and investment securities	26,531	26,531	—
<b>Total assets</b>	<b>¥128,084</b>	<b>¥128,082</b>	<b>¥ (2)</b>
<b>Liabilities</b>			
Notes and accounts payable	¥ 15,849	¥ 15,849	—
Electronically recorded obligations-operating	19,613	19,613	—
Short-term loans	1,196	1,196	—
Current portion of long-term loans	11,256	11,256	—
Bonds	5,000	5,002	2
Long-term loans	20,687	20,837	149
<b>Total liabilities</b>	<b>¥ 73,603</b>	<b>¥ 73,755</b>	<b>¥ 151</b>
Derivatives	¥ 1	¥ 1	—
	As of March 31,		
	Millions of yen		
	2019		
Amount on balance sheet	Fair value	Difference	
<b>Assets</b>			
Cash and time deposits	¥ 49,215	¥ 49,215	—
Notes and accounts receivable	53,402		
Allowance for doubtful accounts	(775)		
Balance	52,626	52,626	—
Held-to-maturity securities	1,000	1,000	0
Other marketable securities and investment securities	19,758	19,758	—
<b>Total assets</b>	<b>¥122,600</b>	<b>¥122,600</b>	<b>¥ 0</b>
<b>Liabilities</b>			
Notes and accounts payable	¥ 16,784	¥ 16,784	—
Electronically recorded obligations-operating	16,490	16,490	—
Short-term loans	3,364	3,364	—
Current portion of long-term loans	7,725	7,725	—
Bonds	10,000	10,017	17
Long-term loans	13,872	13,884	12
<b>Total liabilities</b>	<b>¥ 68,236</b>	<b>¥ 68,266</b>	<b>¥ 29</b>
Derivatives	¥ (12)	¥ (12)	—

	As of March 31,		
	Thousands of dollars		
	<b>2019</b>		
	Amount on balance sheet	Fair value	Difference
<b>Assets</b>			
Cash and time deposits	\$ 443,418	\$ 443,418	—
Notes and accounts receivable	481,142		
Allowance for doubtful accounts	(6,982)		
Balance	474,150	474,150	—
Held-to-maturity securities	9,009	9,009	0
Other marketable securities and investment securities	178,016	178,016	—
<b>Total assets</b>	<b>\$1,104,604</b>	<b>\$1,104,604</b>	<b>\$ —</b>
<b>Liabilities</b>			
Notes and accounts payable	\$ 151,220	\$ 151,220	—
Electronically recorded obligations-operating	148,571	148,571	—
Short-term loans	30,309	30,309	—
Current portion of long-term loans	69,600	69,600	—
Bonds	90,098	90,251	153
Long-term loans	124,984	125,092	108
<b>Total liabilities</b>	<b>\$ 614,794</b>	<b>\$ 615,064</b>	<b>\$ 261</b>
Derivatives	\$ (108)	\$ (108)	—

#### 4. Marketable Securities and Investment Securities

Marketable securities and investment securities quoted at an exchange as of March 31, 2017, 2018 and 2019

(1) Held-to-maturity securities

	As of March 31,		
	Millions of yen		
	<b>2017</b>		
	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	¥ 1,000	¥ 991	¥ (8)
<b>Total</b>	<b>¥ 1,000</b>	<b>¥ 991</b>	<b>¥ (8)</b>

	As of March 31,		
	Millions of yen		
	<b>2018</b>		
	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	¥ 1,000	¥ 997	¥ (2)
<b>Total</b>	<b>¥ 1,000</b>	<b>¥ 997</b>	<b>¥ (2)</b>

	As of March 31,		
	Millions of yen		
	<b>2019</b>		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	¥ 500	¥ 500	¥ 0
Securities whose market value does not exceed amount on balance sheet	¥ 500	¥ 499	¥ (0)
<b>Total</b>	<b>¥ 1,000</b>	<b>¥ 1,000</b>	<b>¥ 0</b>

	As of March 31,		
	Thousands of dollars		
	<b>2019</b>		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	\$ 4,504	\$ 4,504	\$ 0
Securities whose market value does not exceed amount on balance sheet	\$ 4,504	\$ 4,495	\$ (0)
<b>Total</b>	<b>\$ 9,009</b>	<b>\$ 9,009</b>	<b>\$ 0</b>

(2) Other marketable securities and investment securities

		As of March 31, Millions of yen		
		2017		
	Amount on balance sheet	Acquisition cost	Difference	
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost				
(1) Stocks	¥22,088	¥ 4,373	¥17,714	
(2) Other	—	—	—	
Subtotal	¥22,088	¥ 4,373	¥17,714	
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost				
(1) Stocks	¥ —	¥ —	¥ —	
(2) Other	39	40	(1)	
Subtotal	¥ 39	¥ 40	¥ (1)	
Total	¥22,127	¥ 4,414	¥17,713	

		As of March 31, Millions of yen		
		2018		
	Amount on balance sheet	Acquisition cost	Difference	
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost				
(1) Stocks	¥26,492	¥ 4,360	¥22,132	
(2) Other	—	—	—	
Subtotal	¥26,492	¥ 4,360	¥22,132	
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost				
(1) Stocks	¥ —	¥ —	¥ —	
(2) Other	38	40	(1)	
Subtotal	¥ 38	¥ 40	¥ (1)	
Total	¥26,531	¥ 4,401	¥22,130	

		As of March 31, Millions of yen		
		2019		
	Amount on balance sheet	Acquisition cost	Difference	
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost				
(1) Stocks	¥19,718	¥ 4,263	¥15,454	
(2) Other	11	9	1	
Subtotal	¥19,729	¥ 4,273	¥15,456	
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost				
(1) Stocks	¥ —	¥ —	¥ —	
(2) Other	28	30	(2)	
Subtotal	¥ 28	¥ 30	¥ (2)	
Total	¥19,758	¥ 4,304	¥15,453	

	As of March 31, Thousands of dollars		
	<b>2019</b>		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	<b>\$177,655</b>	<b>\$ 38,408</b>	<b>\$139,237</b>
(2) Other	<b>99</b>	<b>81</b>	<b>9</b>
Subtotal	<b>\$177,754</b>	<b>\$ 38,498</b>	<b>\$139,255</b>
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
(2) Other	<b>252</b>	<b>270</b>	<b>(18)</b>
Subtotal	<b>\$ 252</b>	<b>\$ 270</b>	<b>\$ (18)</b>
Total	<b>\$178,016</b>	<b>\$ 38,778</b>	<b>\$139,228</b>

## 5. Derivative Financial Instruments

### (1) Derivatives to which hedge accounting is not applied

#### (a) Currency related

	As of March 31, Millions of yen			
	<b>2017</b>			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	¥ 673	—	¥ 5	¥ 5
JPY	22	—	2	2
SGD	24	—	1	1
Total	¥ 720	—	¥ 9	¥ 9

	As of March 31, Millions of yen			
	<b>2018</b>			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
EUR	¥ 274	—	¥ 0	¥ 0
JPY	324	—	3	3
Option trade contracts *				
Sales				
USD	¥ 106	—	¥ (1)	¥ (1)
EUR	65	—	(1)	(1)
Total	¥ 770	—	¥ 1	¥ 1

	As of March 31, Millions of yen			
	<b>2019</b>			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
EUR	¥ 74	—	¥ 3	¥ 3
Option trade contracts *				
Sales				
USD	¥ 1,720	—	¥ (15)	¥ (15)
Total	¥ 1,795	—	¥ (12)	¥ (12)

As of March 31,				
Thousands of dollars				
<b>2019</b>				
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
EUR	<b>\$ 666</b>	—	<b>\$ 27</b>	<b>\$ 27</b>
Option trade contracts *				
Sales				
USD	<b>\$15,496</b>	—	<b>\$ (135)</b>	<b>\$ (135)</b>
Total	<b>\$16,172</b>	—	<b>\$ (108)</b>	<b>\$ (108)</b>

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

(2) Derivatives to which hedge accounting is applied

(a) Currency related

As of March 31,					
Millions of yen					
<b>2017</b>					
Hedge accounting method	Nature of transaction	Hedged item	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	¥5,709	—	¥ (84)
	EUR	Account receivable	1,612	—	(6)
	Total		¥7,321	—	¥ (91)

As of March 31,					
Millions of yen					
<b>2018</b>					
Hedge accounting method	Nature of transaction	Hedged item	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	¥7,225	—	¥ 250
	EUR	Account receivable	2,225	—	39
	Total		¥9,450	—	¥ 290

As of March 31,					
Millions of yen					
<b>2019</b>					
Hedge accounting method	Nature of transaction	Hedged item	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	<b>¥5,671</b>	—	<b>¥ (19)</b>
	EUR	Account receivable	<b>2,251</b>	—	<b>42</b>
	Total		<b>¥7,922</b>	—	<b>¥ 23</b>

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Thousands of dollars		
			2019		
			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	\$ 51,094	—	\$ (171)
	EUR	Account receivable	20,281	—	378
	Total		\$ 71,375	—	\$ 207

(b) Interest related

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Millions of yen		
			2017		
			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	¥ 18,712	¥ 11,900	*
	Total		¥ 18,712	¥ 11,900	*

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Millions of yen		
			2018		
			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	¥ 11,900	¥ 7,000	*
	Total		¥ 11,900	¥ 7,000	*

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Millions of yen		
			2019		
			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	¥ 7,000	¥ 1,000	*
	Total		¥ 7,000	¥ 1,000	*

Hedge accounting method	Nature of transaction	Hedged item	As of March 31,		
			Thousands of dollars		
			2019		
			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	\$ 63,068	\$ 9,009	*
	Total		\$ 63,068	\$ 9,009	*

\* 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, 2017, 2018 and 2019 comprise the following:

	As of March 31,			
	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
Finished products	¥ 15,254	¥ 16,656	¥ 17,916	\$161,419
Work in process	11,874	14,822	13,192	118,857
Raw material and supplies	24,946	27,633	32,317	291,170
Total	¥ 52,075	¥ 59,112	¥ 63,426	\$571,456

## 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, 2018	As of March 31,			
			Millions of yen			Thousands of dollars
			2017	2018	2019	2019
Short-term loans	3.13*	—	¥ 2,459	¥ 1,196	¥ 3,364	\$ 30,309
Current portion of long-term loans	0.67*	—	8,578	11,256	7,725	69,600
Long-term loans less current portion	0.27*	from October 31, 2020 to December 31, 2024	¥ 26,783	¥ 20,687	¥ 13,872	\$124,984
Euro-yen convertible bonds	—	March 19, 2018	11,980	—	—	—
Yen unsecured bonds	0.50	September 1, 2026	5,000	5,000	5,000	45,049
Yen unsecured bonds	0.47	July 23, 2025	—	—	5,000	45,049
Short-term lease obligations	—	—	¥ 265	¥ 249	¥ 216	\$ 1,946
Long-term lease obligations	—	from April 30, 2020 to October 31, 2028	1,092	975	856	7,712

\* The weighted average interest rate as of March 31, 2019

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2019 are as follows:

Year ending March 31,	Long-term debt		Lease obligations	
	Millions of yen	Thousands of dollars	Millions of yen	Thousands of dollars
2020	¥ 7,725	\$ 69,600	¥ 216	\$ 1,946
2021	622	5,604	182	1,639
2022	1,500	13,514	131	1,180
2023	1,500	13,514	99	891
2024	5,250	47,301	85	765

## 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
	2017	2018	2019	2019
Balance at beginning of year	¥ 21,532	¥ 21,414	¥ 21,508	\$193,783
Service cost	744	706	710	6,396
Interest cost	280	267	282	2,540
Actuarial loss	(241)	43	322	2,901
Benefits paid	(872)	(762)	(805)	(7,252)
Other	(29)	(160)	131	1,180
Balance at end of year	¥ 21,414	¥ 21,508	¥ 22,149	\$199,558

(2) Reconciliation of changes in pension assets

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Balance at beginning of year	¥ 16,237	¥ 16,687	¥ 17,511	\$157,770
Expected return on pension assets	443	479	538	4,847
Actuarial loss	281	548	(183)	(1,648)
Contributions by employer	569	735	1,083	9,757
Benefits paid	(838)	(725)	(772)	(6,955)
Other	(5)	(215)	181	1,630
Balance at end of year	¥ 16,687	¥ 17,511	¥ 18,358	\$165,402

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

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Balance at beginning of year	¥ 47	¥ 52	¥ 51	\$ 459
Periodic benefit cost	5	14	8	72
Benefits paid	(0)	(14)	(0)	(0)
Balance at end of year	¥ 52	¥ 51	¥ 60	\$ 540

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

	As of March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Funded benefit obligations	¥ 20,898	¥ 20,963	¥ 21,682	\$195,350
Pension assets	(16,687)	(17,511)	(18,358)	(165,402)
	4,210	3,452	3,323	29,939
Unfunded benefit obligations	567	596	527	4,748
Net amount of liabilities and assets on consolidated balance sheet	4,778	4,048	3,851	34,696
Net defined benefit liabilities	4,960	4,250	4,047	36,462
Net defined benefit assets	(181)	(201)	(195)	(1,756)
Net amount of liabilities and assets on consolidated balance sheet	¥ 4,778	¥ 4,048	¥ 3,851	\$ 34,696

(5) Components of net periodic benefit costs

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Service cost	¥ 744	¥ 706	¥ 710	\$ 6,396
Interest cost	280	267	282	2,540
Expected return on plan assets	(443)	(479)	(538)	(4,847)
Actuarial loss recognized in the year	882	729	512	4,613
Past service cost recognized in the year	(24)	(26)	(22)	(198)
Periodic benefit cost in simplified method	5	14	8	72
Net periodic benefit costs of retirement benefit plan	¥ 1,444	¥ 1,212	¥ 952	\$ 8,577



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

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Past service cost	¥ (24)	¥ (26)	¥ (22)	\$ (198)
Actuarial loss	1,405	1,234	6	54
Total	¥ 1,380	¥ 1,208	¥ (15)	\$ (135)

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

	As of March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Unrecognized past service cost	¥ (61)	¥ (35)	¥ (13)	\$ (117)
Unrecognized actuarial loss	4,386	3,151	3,144	28,326
Total	¥ 4,324	¥ 3,115	¥ 3,130	\$28,200

(8) Breakdown of pension assets

	As of March 31,		
	2017	2018	2019
Stocks	39.6%	41.0%	41.9%
Bonds	34.6%	31.7%	32.1%
Insurance assets	12.4%	12.1%	11.6%
Other	13.4%	15.2%	14.4%
Total	100.0%	100.0%	100.0%

(9) Assumptions used in accounting for the plans

	Year ended March 31,		
	2017	2018	2019
Discount rate	Mainly 0.4%	Mainly 0.4%	Mainly 0.4%
Long-term expected rate of return on plan assets	Mainly 1.5%	Mainly 1.5%	Mainly 1.5%

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

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
	¥ 840	¥ 1,002	¥ 1,095	\$ 9,865

## 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, 2017, 2018 and 2019 for non-cancelable operating leases are as follows:

	Millions of yen			Thousands of
	2017	2018	2019	dollars
Due within one year	¥ 963	¥ 995	¥ 1,003	\$ 9,036
Due after one year	4,578	4,641	4,488	40,436
Total	¥ 5,541	¥ 5,637	¥ 5,491	\$ 49,472

## 10. Income Taxes

Breakdown of deferred tax assets and liabilities is as follows:

	Year ended March 31,			Thousands of dollars
	Millions of yen			
	2017	2018	2019	2019
Deferred tax assets:				
Tax loss carry forward	¥ 1,164	¥ 773	¥ 401	\$ 3,612
Accrued expenses	1,527	1,398	1,623	14,622
Directors' and corporate auditors' retirement benefits	23	30	33	297
Valuation loss on investment securities	624	600	563	5,072
Long-term accounts payable	74	74	74	666
Net defined benefit liabilities	1,520	941	1,086	9,784
Other	1,785	2,125	2,820	25,407
Subtotal	6,719	5,945	6,602	59,482
Valuation allowance	(1,486)	(1,162)	(1,047)	(9,433)
Deferred tax assets	¥ 5,232	¥ 4,783	¥ 5,554	\$ 50,040
Deferred tax liabilities:				
Unrealized gains on available-for-sale securities	¥ (5,234)	¥ (6,536)	¥ (4,625)	\$ (41,670)
Net defined benefit assets	(56)	(61)	(87)	(783)
Tax depreciation over book	(615)	(557)	(713)	(6,424)
Other	(346)	(452)	(510)	(4,595)
Deferred tax liabilities	(6,253)	(7,609)	(5,936)	(53,482)
Net deferred tax assets (liabilities)	¥ (1,020)	¥ (2,825)	¥ (382)	\$ (3,441)

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

	Year ended March 31,		
	2017	2018	2019
Statutory tax rate	30.8%	30.6%	30.6%
Valuation allowance	(3.7)	(0.6)	(0.5)
Difference in statutory tax rates for subsidiaries	(5.3)	(6.6)	(5.7)
Effect of change in applicable tax rates	—	3.9	—
Tax credits	(0.4)	(1.5)	(1.6)
Other	2.8	0.6	(0.2)
Effective tax rate	24.2%	26.4%	22.6%

## 11. Research and Development Costs

Research and development costs are as follows:

	Year ended March 31,			Thousands of dollars
	Millions of yen			
	2017	2018	2019	2019
Research and development costs	¥ 5,650	¥ 6,093	¥ 6,532	\$ 58,852

## 12. Impairment Loss

In the year ended March 31, 2019 the Company recognized an impairment loss on the following assets which were no longer in use:

Class of assets	Location	Millions of yen	Thousands of dollars
Land	Aikawa-machi, Kanagawa, Japan	¥ 311	\$ 2,802
Land	Hokuto-shi, Yamanashi, Japan	¥ 15	\$ 135

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

## 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, 2017

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 22, 2016)	Common stock	¥ 880 million	¥ 8.00	Retained earnings	March 31, 2016	June 23, 2016
Board of Directors (October 31, 2016)	Common stock	¥ 880 million	¥ 8.00	Retained earnings	September 30, 2016	December 5, 2016

### (2) Dividends in respect of the year ended March 31, 2017 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 27, 2017)	Common stock	¥ 880 million	¥ 8.00	Retained earnings	March 31, 2017	June 28, 2017

### (3) Dividends paid in the year ended March 31, 2018

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 27, 2017)	Common stock	¥ 880 million	¥ 8.00	Retained earnings	March 31, 2017	June 28, 2017
Board of Directors (November 1, 2017)	Common stock	¥ 880 million	¥ 8.00	Retained earnings	September 30, 2017	December 5, 2017

### (4) Dividends in respect of the year ended March 31, 2018 which become payable after the balance sheet date

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

### (5) Dividends paid in the year ended March 31, 2019

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 21, 2018)	Common stock	¥ 1,120 million \$ 10,090 thousand	¥ 9.00 \$ 0.08	Retained earnings	March 31, 2018	June 22, 2018
Board of Directors (October 31, 2018)	Common stock	¥ 1,110 million \$ 10,000 thousand	¥ 9.00 \$ 0.08	Retained earnings	September 30, 2018	December 5, 2018

(6) Dividends in respect of the year ended March 31, 2019 which become payable after the balance sheet date

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 25, 2019)	Common stock	¥ 1,466 million \$ 13,208 thousand	¥ 60.00 \$ 0.54	Retained earnings	March 31, 2019	June 26, 2019

#### 14. Comprehensive Income

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

	Year ended March 31,			Thousands of dollars 2019
	Millions of yen			
	2017	2018	2019	
Unrealized gains on available-for-sale securities:				
Gains arising during the period	¥ 5,147	¥ 4,455	¥ (6,425)	\$ (57,888)
Reclassification adjustment	(24)	(42)	(246)	(2,216)
Tax effect	(1,443)	(1,301)	1,910	17,208
Unrealized gains on available-for-sale securities	¥ 3,679	¥ 3,111	¥ (4,761)	\$ (42,895)
Foreign currency translation adjustments:				
Adjustments arising during the period	¥ (1,015)	¥ (572)	¥ 695	\$ 6,261
Remeasurements of defined benefit plans:				
Remeasurements arising during the period	522	505	(505)	(4,549)
Reclassification adjustment	857	703	490	4,414
Tax effect	121	(636)	(15)	(135)
Remeasurements of defined benefit plans	¥ 1,502	¥ 571	¥ (31)	\$ (279)
Other comprehensive income	¥ 4,167	¥ 3,109	¥ (4,097)	\$ (36,913)

#### 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,			Thousands of dollars 2019
	Millions of yen			
	2017	2018	2019	
Cash and time deposits	¥ 51,668	¥ 50,175	¥ 49,215	\$ 443,418
Marketable securities	39	38	39	351
Subtotal	51,707	50,214	49,255	443,778
Time deposits with maturities over three months	(579)	(429)	(428)	(3,856)
Cash and cash equivalents	¥ 51,128	¥ 49,785	¥ 48,827	\$ 439,922

#### 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, 2017

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥ 52,067	¥ 40,361	¥ 48,140	¥ 13,071	<b>¥153,641</b>
Intersegment	47,641	7,535	280	65	<b>55,523</b>
Total	99,708	47,896	48,420	13,137	<b>209,164</b>
Segment income	4,466	2,765	1,539	260	<b>9,032</b>
Segment assets	186,292	49,277	36,159	12,800	<b>284,529</b>
Depreciation and amortization	4,510	737	273	167	<b>5,688</b>
Amortization of goodwill	—	—	7	—	<b>7</b>
Capital expenditure	¥ 7,128	¥ 1,048	¥ 876	¥ 156	<b>¥ 9,210</b>

Year ended March 31, 2018

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥ 53,167	¥ 57,215	¥ 54,625	¥ 16,538	<b>¥181,547</b>
Intersegment	64,071	9,786	618	49	<b>74,525</b>
Total	117,239	67,001	55,243	16,588	<b>256,073</b>
Segment income	7,324	5,880	1,873	462	<b>15,540</b>
Segment assets	202,347	63,569	37,865	15,964	<b>319,747</b>
Depreciation and amortization	4,593	812	256	179	<b>5,842</b>
Amortization of goodwill	—	—	54	—	<b>54</b>
Capital expenditure	¥ 5,009	¥ 4,037	¥ 967	¥ 57	<b>¥ 10,071</b>

Year ended March 31, 2019

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥ 65,683	¥ 60,213	¥ 58,961	¥ 19,851	<b>¥204,709</b>
Intersegment	69,819	9,971	423	123	<b>80,337</b>
Total	135,502	70,184	59,384	19,975	<b>285,046</b>
Segment income	12,633	5,873	2,203	715	<b>21,425</b>
Segment assets	194,642	63,647	43,806	15,431	<b>317,528</b>
Depreciation and amortization	4,321	1,019	424	171	<b>5,936</b>
Amortization of goodwill	—	—	53	—	<b>53</b>
Capital expenditure	¥ 4,007	¥ 4,740	¥ 1,038	¥ 69	<b>¥ 9,857</b>

Year ended March 31, 2019

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$ 591,792	\$ 542,508	\$ 531,228	\$ 178,853	<b>\$1,844,391</b>
Intersegment	629,056	89,836	3,811	1,108	<b>723,821</b>
Total	1,220,848	632,345	535,039	179,971	<b>2,568,213</b>
Segment income	113,821	52,914	19,848	6,442	<b>193,035</b>
Segment assets	1,753,689	573,448	394,684	139,030	<b>2,860,870</b>
Depreciation and amortization	38,931	9,181	3,820	1,540	<b>53,482</b>
Amortization of goodwill	—	—	477	—	<b>477</b>
Capital expenditure	\$ 36,102	\$ 42,706	\$ 9,352	\$ 621	<b>\$ 88,809</b>

Reconciliation of reportable segment information to consolidated financial statements

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Net sales	¥ 209,164	¥ 256,073	¥ <b>285,046</b>	<b>\$2,568,213</b>
Elimination	(55,523)	(74,525)	<b>(80,337)</b>	<b>(723,821)</b>
Consolidated net sales	¥ <u>153,641</u>	¥ <u>181,547</u>	¥ <u><b>204,709</b></u>	<u><b>\$1,844,391</b></u>

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Segment income	¥ 9,032	¥ 15,540	¥ <b>21,425</b>	<b>\$ 193,035</b>
Elimination	628	(516)	<b>(753)</b>	<b>(6,784)</b>
Consolidated operating income	¥ <u>9,660</u>	¥ <u>15,023</u>	¥ <u><b>20,671</b></u>	<u><b>\$ 186,242</b></u>

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Segment assets	¥ 284,529	¥ 319,747	¥ <b>317,528</b>	<b>\$2,860,870</b>
Elimination	(36,923)	(50,476)	<b>(48,007)</b>	<b>(432,534)</b>
Consolidated total assets	¥ <u>247,606</u>	¥ <u>269,271</u>	¥ <u><b>269,521</b></u>	<u><b>\$2,428,335</b></u>

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Depreciation and amortization	¥ 5,688	¥ 5,842	¥ <b>5,936</b>	<b>\$ 53,482</b>
Elimination	(62)	(32)	<b>(104)</b>	<b>(937)</b>
Amount on consolidated financial statements	¥ <u>5,625</u>	¥ <u>5,810</u>	¥ <u><b>5,832</b></u>	<u><b>\$ 52,545</b></u>

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Capital expenditure	¥ 9,210	¥ 10,071	¥ <b>9,857</b>	<b>\$ 88,809</b>
Elimination	(18)	(475)	<b>(463)</b>	<b>(4,171)</b>
Amount on consolidated financial statements	¥ <u>9,192</u>	¥ <u>9,596</u>	¥ <u><b>9,394</b></u>	<u><b>\$ 84,638</b></u>

(2) Geographical information

	Year ended March 31,			Thousands of
	Millions of yen			dollars
	2017	2018	2019	2019
Sales by destination				
Japan	¥ 42,741	¥ 39,555	¥ <b>50,975</b>	<b>\$ 459,275</b>
USA	40,279	46,318	<b>49,589</b>	<b>446,787</b>
Americas, excluding USA	7,429	7,877	<b>7,755</b>	<b>69,871</b>
China	28,240	42,563	<b>41,740</b>	<b>376,069</b>
Asia, excluding China	17,675	21,943	<b>29,107</b>	<b>262,248</b>
Europe	15,554	19,416	<b>21,062</b>	<b>189,764</b>
Other	1,720	3,870	<b>4,478</b>	<b>40,345</b>
Total	¥ <u>153,641</u>	¥ <u>181,547</u>	¥ <u><b>204,709</b></u>	<u><b>\$1,844,391</b></u>

	Year ended March 31,			
	Millions of yen			Thousands of dollars
	2017	2018	2019	2019
Property, plant and equipment				
Japan	¥ 46,560	¥ 46,504	¥ <b>45,024</b>	\$ <b>405,658</b>
Americas	1,988	2,523	<b>3,114</b>	<b>28,056</b>
Asia	9,877	12,480	<b>15,586</b>	<b>140,427</b>
Europe	2,270	2,346	<b>2,156</b>	<b>19,425</b>
Total	¥ <u>60,697</u>	¥ <u>63,855</u>	¥ <u><b>65,882</b></u>	\$ <u><b>593,585</b></u>

### 17. Quarterly Earnings per Share

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

Three months ended	Yen			Dollars
	2017	2018	2019	2019
June 30	¥ 2.96	¥ 2.86	¥ <b>113.40</b>	\$ <b>1.02</b>
September 30	5.13	22.25	<b>153.98</b>	<b>1.38</b>
December 31	20.74	27.71	<b>218.75</b>	<b>1.97</b>
March 31	<u>40.21</u>	<u>46.88</u>	<u><b>204.27</b></u>	<u><b>1.84</b></u>



**GYOSEI & CO.**

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

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying consolidated financial statements of Makino Milling Machine Co., Ltd. (the "Company") and its subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.





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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

*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.

Tokyo, Japan

June 25, 2019

*Gyosei & Co.*

**GYOSEI & Co.**

Certified Public Accountants

## BOARD OF DIRECTORS AND CORPORATE AUDITORS

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President	Shinichi Inoue
Chairman	Shun Makino
Vice Chairman	Yoshiki Ueda
Executive Vice President, Director	Toshiyuki Nagano
Vice President, Director	Tatsuaki Aiba
Director	Hiroshi Suzuki
Director	Shin Yoshidome
Corporate Auditor	Eiji Fukui
Corporate Auditor	Kazuo Hiruta
Corporate Auditor	Jiro Nakashima

## CORPORATE DATA

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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 14 other offices

Overseas Sales & Service Offices

USA, Germany, Singapore, Korea, China, India and others

Consolidated Subsidiaries

See page 12.

As of June 26, 2019



**MAKINO**



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