ANNUAL REPORT

Year Ended March 31, 2021

MAKINO

PROFILE

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

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

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

FIVE-YEAR FINANCIAL SUMMARY

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

	Millions of yen					Thousands of dollars
	2017	2018	2019	2020	**2021**	**2021**
Net sales	¥153,641	¥181,547	¥204,709	¥159,401	**¥116,737**	**$1,054,439**
Net income attributable to owners of the parent	7,596	11,694	16,981	830	**(2,703)**	**(24,415)**
Net assets	127,190	152,519	160,946	151,703	**161,992**	**1,463,210**
Total assets	247,606	268,382	269,521	258,889	**280,015**	**2,529,265**
	Yen					Dollars
Earnings per share attributable to owners of the parent						
Basic	¥ 69.03	¥ 511.29	¥ 689.30	¥ 33.97	**¥ (110.82)**	**$ (1.00)**
Diluted	61.03	—	—	—	**—**	**—**
Number of employees	4,593	4,731	4,805	4,757	**4,451**	

Note: US dollar amounts have been translated from yen, for convenience only, at the rate of ¥110.71=US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2021.

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TO OUR SHAREHOLDERS AND INVESTORS

1. Overview of Operating Results, etc.

(1) Operating Results for Fiscal 2020

During fiscal 2020, the Company posted net sales of ¥159,401 million (down 22.1% year on year), operating income of ¥3,514 million (down 83.0% year on year), and net income attributable to owners of the parent of ¥830 million (down 95.1% year on year) on a consolidated basis.

Orders received on a consolidated basis amounted to ¥141,585 million (down 29.9% year on year), a substantial decrease from the previous year. Orders received by the Company decreased in all regions, especially China, because the impact of the U.S.-China trade friction continued up to the third quarter and order-taking activities were interrupted owing to the spread of coronavirus disease (COVID-19) in the fourth quarter. In addition, orders received from the aircraft industry decreased because European and American aircraft manufacturers postponed or stopped production.

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. fell below the level of the previous year.

The decrease was mainly attributable to lower orders received from the semiconductor production equipment and robot industries, which were brisk in the previous year. Orders received from the automobile industry also decreased.

MAKINO ASIA PTE LTD

Orders received in Asia were lower than the level of the previous year in all regions.

In China, orders received decreased, centering on orders from the automobile industry. In the fourth quarter, sales activities were interrupted, affected by the spread of COVID-19.

Orders received in India decreased, mainly reflecting persisting sluggishness of automobile sales. Orders received from industries other than the automobile industry were also lackluster.

Orders received in the ASEAN region also decreased. However, the decrease in orders received from Vietnam was slight.

MAKINO INC.

Orders received were below the level of the previous year.

Orders received from the aircraft industry decreased, affected by aircraft manufacturers' suspension of production of certain models.

Regarding orders from the automobile industry, the downward trend continued for SUVs and pickup trucks, which are the mainstay categories of our order.

Orders received from the medical device industry remained solid but could not make up for the overall decrease.

MAKINO Europe GmbH

Orders received in Europe were significantly lower than the level of the previous year.

Orders received from the automobile and general machinery industries suffered from many expected projects being postponed in line with the deterioration of the European economy.

Orders received from the aircraft industry decreased significantly in the second half. This was due to postponement of the projects we anticipated and cancellation of the projects for which we had received orders because of delays in production by the aircraft manufacturer in Europe compared with its plan.

(2) Financial Position

Total assets on a consolidated basis at the end of fiscal 2020 decreased by ¥10,631 million from the end of fiscal 2019 to ¥258,889 million. The principal items were a decrease of ¥13,222 million in notes and accounts receivable, an increase of ¥6,532 million in cash and time deposits, and a decrease of ¥5,080 million in inventories.

Total liabilities decreased by ¥1,389 million from the end of fiscal 2019 to ¥107,185 million. This was primarily attributable to an increase of ¥10,000 million in bonds, a decrease of ¥9,305 million in notes and accounts payable, and a decrease of ¥7,127 million in current portion of long-term debt.

Net assets decreased by ¥9,242 million from the end of fiscal 2019 to ¥151,703 million. The principal items were a decrease of ¥3,409 million in foreign currency translation adjustments, a decrease of ¥2,358 million in retained earnings, and a decrease of ¥2,220 million in unrealized gains on available-for-sale securities.

(3) Cash Flows

At the end of fiscal 2020, net cash provided by operating activities was ¥8,811 million. The principal items were a decrease of ¥10,698 million in notes and accounts receivable, trade, a decrease of ¥7,907 million in notes and accounts payable, trade, depreciation and amortization amounting to ¥6,652 million, income before income taxes amounting to ¥4,148 million, and a decrease of ¥3,842 million in inventories.

Net cash used in investing activities was ¥8,323 million. The principal item was purchases of property, plant and equipment amounting to ¥7,440 million.

Net cash provided by financing activities was ¥7,479 million. The main items were proceeds from issue of bonds amounting to ¥10,000 million, repayment of long-term loans payable amounting to ¥7,084 million, and dividends paid amounting to ¥2,925 million.

As a result, cash and cash equivalents on a consolidated basis at the end of fiscal 2020 increased by ¥6,531 million from the end of fiscal 2019 to ¥55,358 million.

The table below shows trends in cash-flow indicators.

	77th term Term ended March 2016	78th term Term ended March 2017	79th term Term ended March 2018	80th term Term ended March 2019	81st term Term ended March 2020
Shareholders' equity ratio (%)	49.7	51.1	56.5	59.4	58.3
Shareholders' equity ratio on a market value basis (%)	32.4	42.9	46.3	41.4	26.9
Ratio of interest-bearing debt to cash flows (%)	2.3	3.9	2.5	2.3	5.2
Interest coverage ratio (times)	52.9	34.3	45.9	50.0	25.7

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 2021)

The Company forecasts that orders received in fiscal 2021 on a consolidated basis will decrease from the level of fiscal 2020.

It is likely that customers will postpone capital investment in view of the impact of COVID-19.

Whereas economic activities are being resumed in China, other regions are expected to suffer a significant negative impact.

Once there are signs that the COVID-19 pandemic is abating, we expect orders received to recover at a moderate pace.

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 lower than the level of fiscal 2020.

Although customers are continuing to postpone capital investment, there has been no significant change in the number of service calls from customers even after the Japanese government's declaration of a state of emergency, indicating that customers are continuing their operations.

We expect orders from the semiconductor production equipment industry to increase in line with an increase in demand for 5G smartphones and communication devices for telecommuting.

Regarding orders from the automobile industry, we expect them to start capital investment in readiness for model changes from the second half.

MAKINO ASIA PTE LTD

We forecast lower orders received than the level of fiscal 2020 in all regions in Asia.

In China, we expect orders received will return to the level before the outbreak of COVID-19, but it will be difficult to achieve further growth.

Despite these circumstances, we expect capital investment to take off once production of automobiles corresponding to new automotive fuel regulations is in full swing. Inquiries from the automotive die and mold industry and engine and transmission parts machining customers have started to resume and are expected to lead to securing of orders in the second half.

There are no large smartphone-related projects for now. Orders for use in connector parts for 5G smartphones are expected to remain firm.

In India, we forecast that orders received will remain lackluster until the decrease in sales of new cars, attributable to the revision of the automotive fuel regulations, stabilizes.

In the ASEAN region, Vietnam is expected to continue to be the main driver of orders. Order-taking in other countries, such as Indonesia and Thailand, is expected to remain challenging.

MAKINO INC.

We forecast a substantial decrease in orders received from the level of fiscal 2020.

Capital investment of aircraft structural parts machining customers is expected to be moderate even after the aircraft manufacturer resumes production of certain models.

The downward trend of orders from the automobile industry, mainly for SUVs and pickup trucks, is expected to continue.

Orders received from the medical device industry are expected to remain solid.

MAKINO Europe GmbH

We forecast that the level of orders received will be the same as for fiscal 2020 as the lackluster situation is expected to continue.

Amid the deterioration of the European economy, prospects are uncertain.

The Group's consolidated performance forecasts for fiscal 2021 are as follows. The decrease in orders received is expected to result in unfavorable results for both net sales and income.

(Million yen)	Net sales	Operating income (loss)	Net income (loss) attributable to owners of the parent
Forecasts for the first six months (1st and 2nd quarters combined)	50,500 *1 down 32.2%	(4,800) —	(4,600) —
Forecasts for the full fiscal year	113,500 *2 down 28.8%	(7,100) —	(6,900) —

*1 Compared with the same period of fiscal 2020
*2 Year on year

INTERMOLD 2020 in Osaka, an exhibition on die and mold machining technologies scheduled to be held in April 2020, was cancelled because of COVID-19. JIMTOF2020 Japan International Machine Tool Fair scheduled to be held in December 2020 was also cancelled.

Despite the difficult circumstances, customers continue to seek further improvement in production efficiency and advanced solutions.

We are holding a virtual exhibition on our website, instead of direct sales activities, and making proposals that greatly facilitate automation of customers' operations.

Moreover, we are sharpening our focus on development of new technologies so as to be ready to offer the optimum support once demand associated with customers' renewed capital investment takes off.

(5) Significant accounting estimates and assumptions (Impairment of fixed assets)

The Group makes capital investments in manufacturing facilities and other equipment on an ongoing basis to improve production capacity and productivity. As a result, we hold a large number of fixed assets, and at the end of the fiscal year ended March 31, 2021, property, plant and equipment on the consolidated balance sheet totaled ¥69,751 million, of which property, plant and equipment on the Company's non-consolidated balance sheet totaled ¥40,989 million. The Company assesses whether there is any indication that an asset may be impaired (an impairment test) when there is an indication that the carrying value of an asset may not be recoverable. In assessing whether or not there is any such indication, the Company considers that the entire assets of each business location generate cash flows in a mutually complementary manner, as it has a single segment, consisting of manufacturing and sales of machine tools. Therefore, the Company's property, plant and equipment as a whole (excluding idle assets) are considered as the smallest unit that generates independent cash flows. In addition, regarding assessment of whether there is any indication of impairment of an asset, the recoverability of assets is determined by comparing the undiscounted future cash flows estimated from medium- to long-term profit and loss forecasts based on the estimated remaining economic useful life of primary assets (such as factory buildings) and the net realizable value of assets at a future date (including net realizable value based on appraisals by real estate appraisers for major properties) with the carrying value of property, plant and equipment. The profit and loss forecasts, etc. are calculated based on sales forecasts that take into account future economic cycles and growth rates and the corresponding cost forecasts, as well as capital reinvestment forecasts. As a result of such assessment, since it was determined that property, plant and equipment would generate sufficient future cash flows, no impairment loss was recognized.

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 25, 2021, the Company's Board of Directors consists of six 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 25, 2021, the Company's Board of Auditors consists of three statutory auditors (two of whom are full-time corporate auditors), of whom two are outside corporate auditors. The statutory auditors attend meetings of the Board of Directors and make remarks, as necessary, in the course of deliberation on the agenda. Also, the Board of Auditors meets periodically and, in addition to items specified by laws and regulations, deliberates and makes decisions on matters necessary for statutory auditors' activities, and audits directors' execution of operational duties from an independent standpoint.

2) Internal control systems and risk management systems

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

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

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

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

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

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

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

3) Internal audit and audit by corporate auditors

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

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

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

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

4) Accounting audits

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

5) Relations with outside corporate auditors

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

(2) Compensation paid to directors and corporate auditors

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

	Number of persons	Amount of compensation (Millions of yen)
Directors excluding outside directors	5	153
Corporate auditors excluding outside corporate auditors	1	19
Outside directors and corporate auditors	6	47

BUSINESS RISKS

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

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

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

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

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

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

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and 2021

	Millions of yen		Thousands of dollars (US$1=¥110.71)
	2020	2021	2021
ASSETS			
Current assets:			
Cash and time deposits (Notes 3 and 15)	¥ 55,748	**¥ 72,032**	**$ 650,636**
Marketable securities (Notes 2.e, 3 and 4)	35	**3,343**	**30,196**
Notes and accounts receivable (Notes 2.k, 3 and 5)	40,179	**30,162**	**272,441**
Inventories (Notes 2.f and 6)	58,346	**59,922**	**541,251**
Other current assets	8,683	**6,376**	**57,591**
Allowance for doubtful accounts (Notes 2.h and 3)	(949)	**(1,300)**	**(11,742)**
Total current assets	162,043	**170,536**	**1,540,384**
Investments and other assets:			
Investment securities (Notes 2.e, 3 and 4)	18,139	**28,908**	**261,114**
Long-term loans receivable	813	**801**	**7,235**
Deferred income taxes (Notes 2.j and 10)	3,084	**2,664**	**24,062**
Net defined benefit assets (Notes 2.i and 8)	127	**281**	**2,538**
Other long-term assets	7,186	**7,311**	**66,037**
Allowance for doubtful accounts (Notes 2.h and 3)	(315)	**(239)**	**(2,158)**
Total investments and other assets	29,036	**39,727**	**358,838**
Property, plant and equipment (Note 2.g):			
Land	18,198	**18,765**	**169,496**
Buildings and structures	73,611	**74,686**	**674,609**
Machinery and equipment	41,089	**43,865**	**396,215**
Lease assets (Note 9)	4,826	**5,686**	**51,359**
Construction in progress	2,471	**2,909**	**26,275**
	140,197	**145,914**	**1,317,983**
Accumulated depreciation	(72,388)	**(76,162)**	**(687,941)**
Total property, plant and equipment	67,808	**69,751**	**630,033**
Total assets	¥ 258,889	**¥ 280,015**	**$2,529,265**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of dollars (US$1=¥110.71)
	2020	**2021**	**2021**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable (Note 3):			
Trade	¥ 12,024	**¥ 13,301**	**$ 120,142**
Other	5,380	**4,977**	**44,955**
Electronically recorded obligations-operating (Note 3)	11,944	**8,523**	**76,984**
Short-term loans (Notes 3 and 7)	4,767	**1,410**	**12,735**
Current portion of long-term debt (Notes 2.k, 3, 5 and 7)	597	**4,350**	**39,291**
Short-term lease obligations (Note 7)	474	**516**	**4,660**
Accrued expenses	8,657	**8,134**	**73,471**
Income taxes payable	432	**632**	**5,708**
Other current liabilities	7,920	**13,160**	**118,869**
Total current liabilities	52,198	**55,006**	**496,847**
Long-term liabilities:			
Long-term debt (Notes 2.k, 3, 5 and 7)	40,445	**48,347**	**436,699**
Long-term lease obligations (Note 7)	2,801	**2,412**	**21,786**
Net defined benefit liabilities (Notes 2.i and 8)	5,512	**2,922**	**26,393**
Allowance for directors' and corporate auditors' retirement benefits (Note 2.i)	109	**119**	**1,074**
Deferred income taxes (Notes 2.j and 10)	4,737	**7,495**	**67,699**
Other long-term liabilities	1,381	**1,719**	**15,527**
Total long-term liabilities	54,987	**63,016**	**569,198**
Net assets:			
Shareholders' equity			
Common stock, no par value	21,142	**21,142**	**190,967**
Authorized : 60,000,000 shares as of March 31, 2020 and 2021			
Issued : 24,893,841 shares as of March 31, 2020 and 2021			
Capital surplus	37,070	**37,074**	**334,874**
Retained earnings (Note 13)	93,424	**90,231**	**815,021**
Treasury stock 450,092 and 703,682 shares as of March 31, 2020 and 2021 respectively	(2,011)	**(3,012)**	**(27,206)**
Total shareholders' equity	149,626	**145,436**	**1,313,666**
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities (Note 2.e)	8,602	**16,099**	**145,415**
Foreign currency translation adjustments	(3,329)	**617**	**5,573**
Remeasurements of defined benefit plans (Notes 2.i and 8)	(4,024)	**(968)**	**(8,743)**
Total accumulated other comprehensive income	1,248	**15,748**	**142,245**
Non-controlling interests	828	**807**	**7,289**
Total net assets	151,704	**161,992**	**1,463,210**
Total liabilities and net assets	¥ 258,893	**¥ 280,015**	**$2,529,265**

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, 2020 and 2021

	Millions of yen		Thousands of dollars (US$1=¥110.71)
	2020	2021	2021
Net sales	¥ 159,401	**¥ 116,737**	**$1,054,439**
Cost of sales	117,142	**89,806**	**811,182**
Gross profit	42,259	**26,930**	**243,248**
Selling, general and administrative expenses	38,744	**30,542**	**275,873**
Operating income (loss)	3,514	**(3,612)**	**(32,625)**
Other income (expenses):			
Interest and dividend income	802	**553**	**4,995**
Interest expense	(344)	**(291)**	**(2,628)**
Subsidy income	—	**990**	**8,942**
Gain on sales of property, plant and equipment	99	**176**	**1,589**
Gain on sales of investment securities	36	**24**	**216**
Loss on disposal of property, plant and equipment	(118)	**(88)**	**(794)**
Impairment loss (Note 12)	—	**(130)**	**(1,174)**
Office transfer expenses	—	**(899)**	**(8,120)**
Exchange gain (loss), net	(616)	**364**	**3,287**
Subsidies for employment adjustment	—	**785**	**7,090**
Infectious disease related cost	—	**(892)**	**(8,057)**
Other, net	775	**619**	**5,591**
Income (loss) before income taxes	4,148	**(2,399)**	**(21,669)**
Income taxes (Notes 2.j and 10) - Current	1,099	**806**	**7,280**
- Deferred	2,203	**(511)**	**(4,615)**
Net income (loss)	845	**(2,694)**	**(24,333)**
Net income attributable to non-controlling interests	14	**8**	**72**
Net income (loss) attributable to owners of the parent	¥ 830	**¥ (2,703)**	**$ (24,415)**

	Yen		Dollars
Per share of common stock:			
Net income (loss) attributable to owners of the parent	¥ 33.97	**¥ (110.82)**	**$ (1.00)**
Cash dividends applicable to the period	80.00	**20.00**	**0.18**

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, 2020 and 2021

	Millions of yen		US$1=¥110.71 Thousands of dollars
	2020	**2021**	**2021**
Net income	¥ 845	**¥ (2,694)**	**$ (24,333)**
Other comprehensive income (loss) (Note 14):			
Unrealized gains (losses) on available-for-sale securities (Note 2.e)	(2,223)	**7,499**	**67,735**
Foreign currency translation adjustments (Note 2.d)	(3,409)	**3,947**	**35,651**
Remeasurements of defined benefit plans (Notes 2.i and 8)	(1,251)	**3,059**	**27,630**
Other comprehensive income (loss)	(6,883)	**14,507**	**131,036**
Total comprehensive income	¥ (6,038)	**¥ 11,812**	**$ 106,693**
Total comprehensive income attributable to:			
Owners of the parent	(6,049)	**11,796**	**106,548**
Non-controlling interests	11	**16**	**144**
	¥ (6,038)	**¥ 11,812**	**$ 106,693**

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, 2020 and 2021

	Millions of yen		Thousands of dollars (US$1=¥110.71)
	2020	**2021**	**2021**
Common stock:			
Balance at beginning of year	¥ 21,142	**¥ 21,142**	**$ 190,967**
Balance at end of year	21,142	**21,142**	**190,967**
Capital surplus:			
Balance at beginning of year	37,070	**37,070**	**334,838**
Other	—	**3**	**27**
Balance at end of year	37,070	**37,074**	**334,874**
Retained earnings (Note 13):			
Balance at beginning of year	95,782	**93,424**	**843,862**
Cumulative effects of changes in accounting policies	(255)	**—**	**—**
Net income (loss) attributable to owners of the parent	830	**(2,703)**	**(24,415)**
Cash dividends	(2,933)	**(488)**	**(4,407)**
Balance at end of year	93,424	**90,231**	**815,021**
Treasury stock:			
Balance at beginning of year	(2,009)	**(2,011)**	**(18,164)**
Acquisition of treasury stock	(1)	**(1,001)**	**(9,041)**
Balance at end of year	(2,011)	**(3,012)**	**(27,206)**
Unrealized gains on available-for-sale securities (Note 2.e):			
Balance at beginning of year	10,823	**8,602**	**77,698**
Net change during the year	(2,220)	**7,496**	**67,708**
Balance at end of year	8,602	**16,099**	**145,415**
Foreign currency translation adjustments (Note 2.d):			
Balance at beginning of year	79	**(3,329)**	**(30,069)**
Net change during the year	(3,409)	**3,947**	**35,651**
Balance at end of year	(3,329)	**617**	**5,573**
Remeasurements of defined benefit plans (Notes 2.i and 8):			
Balance at beginning of year	(2,774)	**(4,024)**	**(36,347)**
Net change during the year	(1,249)	**3,055**	**27,594**
Balance at end of year	(4,024)	**(968)**	**(8,743)**
Non-controlling interests:			
Balance at beginning of year	831	**828**	**7,478**
Net change during the year	(2)	**(21)**	**(189)**
Balance at end of year	¥ 828	**¥ 807**	**$ 7,289**

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, 2020 and 2021

	Millions of yen		US$1=¥110.71 Thousands of dollars
	2020	**2021**	**2021**
Cash flows from operating activities:			
Income before income taxes	¥ 4,148	**¥ (2,399)**	**$ (21,669)**
Adjustments for:			
Income taxes (paid) refund	(5,479)	**900**	**8,129**
Depreciation and amortization	6,652	**6,876**	**62,108**
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	10	**10**	**90**
Increase (decrease) in net defined benefit liabilities	234	**836**	**7,551**
Increase (decrease) in allowance for doubtful accounts	154	**230**	**2,077**
(Gain) loss on sales of property, plant and equipment	(99)	**(176)**	**(1,589)**
Loss on disposal of property, plant and equipment	118	**88**	**794**
(Gain) loss on sales of investment securities	(36)	**(24)**	**(216)**
(Increase) decrease in notes and accounts receivable, trade	10,698	**10,852**	**98,021**
(Increase) decrease in inventories	3,842	**193**	**(5,175)**
Increase (decrease) in notes and accounts payable, trade	(7,907)	**(3,209)**	**(28,985)**
Other, net	(3,523)	**3,857**	**41,766**
Net cash provided by (used in) operating activities	8,811	**18,036**	**162,912**
Cash flows from investing activities:			
Proceeds from sales of investment securities	157	**74**	**4,660**
Purchases of investment securities	(72)	**(857)**	**(7,740)**
Purchases of investments in subsidiaries	—	**(54)**	**(487)**
Purchases of property, plant and equipment	(7,440)	**(5,394)**	**(48,721)**
Proceeds from sales of property, plant and equipment	361	**496**	**4,480**
Other, net	(1,330)	**(832)**	**(11,507)**
Net cash provided by (used in) investing activities	(8,323)	**(6,568)**	**(59,326)**
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	1,470	**(3,301)**	**(29,816)**
Repayment of lease obligations	(571)	**(649)**	**(5,862)**
Proceeds from long-term loans payable	6,604	**12,118**	**109,457**
Repayment of long-term loans payable	(7,084)	**(618)**	**(5,582)**
Proceeds from issue of bonds	10,000	**—**	**—**
Purchases of treasury stock	(1)	**(1,001)**	**(9,041)**
Purchases of treasury stock of subsidiaries in consolidation	—	**(22)**	**(198)**
Dividends paid	(2,938)	**(502)**	**(4,534)**
Net cash provided by (used in) financing activities	7,479	**6,022**	**54,394**
Effect of exchange rate changes on cash and cash equivalents	(1,436)	**1,795**	**16,213**
Net increase (decrease) in cash and cash equivalents	6,531	**19,286**	**174,202**
Cash and cash equivalents, beginning of period	48,827	**55,358**	**500,027**
Cash and cash equivalents, end of period (Notes 2.b and 15)	¥ 55,358	**¥ 74,644**	**$ 674,229**

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 ¥110.71 = US$1, which was the prevailing exchange rate on March 31, 2021.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (36 for 2020 and 38 for 2021). 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 (four for 2020 and three for 2021), whose assets, net sales, net income and the underlying net equity of retained earnings in the aggregate are not significant in the consolidated totals, have not been consolidated with the Company.

The fiscal year of the consolidated subsidiaries is the same as the Company's except for some of the subsidiaries (seven for 2020 and 2021): Makino do Brasil Ltda., Single Source Technologies S. de R.L. de C.V., MAKINO CHINA Co., LTD. and the others, whose fiscal years end on December 31. Significant transactions between January 1 and March 31 are reflected in the consolidated financial statements.

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

All significant intercompany accounts and transactions are eliminated in consolidation.

(b) Cash equivalents

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

(c) Foreign currency translations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Financial Instruments

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

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

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

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

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

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

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

	As of March 31, Millions of yen 2020		
	Amount on balance sheet	Fair value	Difference
Assets			
Cash and time deposits	¥ 55,748	¥ 55,748	—
Notes and accounts receivable	40,179	40,179	
Allowance for doubtful accounts	(949)	(949)	
Balance	39,229	39,229	—
Held-to-maturity securities	1,000	998	(1)
Other marketable securities and investment securities	16,632	16,632	—
Total assets	¥112,610	¥112,608	¥ (1)
Liabilities			
Notes and accounts payable	¥ 12,024	¥ 12,024	—
Electronically recorded obligations-operating	11,944	11,944	—
Short-term loans	4,767	4,767	—
Current portion of long-term loans	597	597	—
Bonds	20,000	20,024	24
Long-term loans	20,445	20,455	10
Total liabilities	¥ 69,779	¥ 69,813	¥ 34
Derivatives	¥ (32)	¥ (32)	—

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

	As of March 31, Thousands of dollars **2021**		
	Amount on balance sheet	Fair value	Difference
Assets			
Cash and time deposits	**$ 650,636**	**$ 650,636**	**—**
Notes and accounts receivable	**272,441**	**272,441**	
Allowance for doubtful accounts	**(11,742)**	**(11,742)**	
Balance	**260,690**	**260,690**	**—**
Held-to-maturity securities	**15,364**	**15,346**	**(9)**
Other marketable securities and investment securities	**273,164**	**273,164**	**—**
Total assets	**$1,199,873**	**$1,199,864**	**$ (9)**
Liabilities			
Notes and accounts payable	**$ 120,142**	**$ 120,142**	**—**
Electronically recorded obligations-operating	**76,984**	**76,984**	**—**
Short-term loans	**12,735**	**12,735**	**—**
Current portion of long-term loans	**39,291**	**39,291**	**—**
Bonds	**180,652**	**180,859**	**207**
Long-term loans	**256,047**	**255,333**	**(704)**
Total liabilities	**$ 685,854**	**$ 685,358**	**$ (487)**
Derivatives	**$ (117)**	**$ (117)**	**—**

4. Marketable Securities and Investment Securities

Marketable securities and investment securities quoted at an exchange as of March 31, 2020 and 2021.

(1) Held-to-maturity securities

	As of March 31, Millions of yen 2020		
	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	¥ 998	¥ (1)
Total	¥ 1,000	¥ 998	¥ (1)

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

	As of March 31, Thousands of dollars **2021**		
	Amount on balance sheet	Market value	Difference
Securities whose market value exceeds amount on balance sheet	**$ —**	**$ —**	**$ —**
Securities whose market value does not exceed amount on balance sheet	**$ 15,364**	**$ 15,346**	**$ (9)**
Total	**$ 15,364**	**$ 15,346**	**$ (9)**

(2) Other marketable securities and investment securities

	As of March 31, Millions of yen 2020		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	¥15,845	¥ 3,362	¥12,483
(2) Other	—	—	—
Subtotal	¥15,845	¥ 3,362	¥12,483
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	¥ 750	¥ 833	¥ (82)
(2) Other	35	40	(4)
Subtotal	¥ 786	¥ 873	¥ (87)
Total	¥16,632	¥ 4,236	¥12,395

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

	As of March 31,		
	Thousands of dollars		
	2021		
	Amount on balance sheet	Acquisition cost	Difference
Available-for-sale securities whose amount on balance sheet exceeds acquisition cost			
(1) Stocks	**$245,000**	**$ 36,771**	**$208,219**
(2) Other	**388**	**361**	**27**
Subtotal	**$245,388**	**$ 37,142**	**$208,246**
Available-for-sale securities whose amount on balance sheet does not exceed acquisition cost			
(1) Stocks	**$ 677**	**$ 722**	**$ (45)**
(2) Other	**27,097**	**27,097**	**—**
Subtotal	**$ 27,775**	**$ 27,820**	**$ (45)**
Total	**$273,164**	**$ 64,962**	**$208,201**

5. Derivative Financial Instruments

(1) Derivatives to which hedge accounting is not applied

(a) Currency related

	As of March 31,			
	Millions of yen			
	2020			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	¥ 598	—	¥ (11)	¥ (11)
EUR	71	—	0	0
CNY	153	—	1	1
Purchase contracts				
SGD	¥ 132	—	¥ 0	¥ 0
Option trade contracts *				
Sales				
USD	¥ 1,197	—	¥ (21)	¥ (21)
EUR	298	—	(1)	(1)
Total	¥ 2,452	—	¥ (32)	¥ (32)

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

	As of March 31,			
	Thousands of dollars			
	2021			
	Contracted amount	Contracted amount over one year	Fair value	Unrealized gain (loss)
Forward exchange contracts				
Sales contracts				
USD	**$ 2,998**	**—**	**$ (9)**	**$ (9)**
Purchase contracts				
SGD	**$ 641**	**—**	**$ 0**	**$ 0**
JPY	**424**	**—**	**(0)**	**(0)**
Option trade contracts *				
Sales				
USD	**$ 1,996**	**—**	**$ (99)**	**$ (99)**
Total	**$ 6,060**	**—**	**$ (117)**	**$ (117)**

* 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		
			2020		
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	¥3,748	—	¥ (25)
	EUR	Account receivable	1,951	—	10
	Total		¥5,699	—	¥ (14)

			As of March 31,		
			Millions of yen		
			2021		
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	**¥2,760**	**—**	**¥ (128)**
	EUR	Account receivable	**519**	**—**	**(13)**
	Total		**¥3,279**	**—**	**¥ (141)**

Hedge accounting method	Nature of transaction	Hedged item	Contracted amount	Contracted amount over one year	Fair value
			As of March 31, Thousands of dollars		
			2021		
Method where hedged items are translated at contracted rates	Forward exchange contracts Sales contracts				
	USD	Account receivable	**$ 24,929**	**—**	**$ (1,156)**
	EUR	Account receivable	**4,687**	**—**	**(117)**
	Total		**$ 29,617**	**—**	**$ (1,273)**

(b) Interest related

Hedge accounting method	Nature of transaction	Hedged item	Contracted amount	Contracted amount over one year	Fair value
			As of March 31, Millions of yen		
			2020		
Special hedge accounting short-cut method for interest rate swaps	Interest rate swap contracts Receive floating, pay fixed	Long-term loans	¥ 1,000	¥ 1,000	*
	Total		¥ 1,000	¥ 1,000	*

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

Hedge accounting method	Nature of transaction	Hedged item	Contracted amount	Contracted amount over one year	Fair value
			As of March 31, Thousands of dollars		
			2021		
Special hedge accounting short-cut method for interest rate swaps	Interest rate swap contracts Receive floating, pay fixed	Long-term loans	**$ 9,032**	**$ 9,032**	*
	Total		**$ 9,032**	**$ 9,032**	*

* 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, 2020 and 2021 comprise the following:

	As of March 31, Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Finished products	¥ 19,343	**¥ 19,950**	**$180,200**
Work in process	12,350	**13,759**	**124,279**
Raw material and supplies	26,652	**26,212**	**236,762**
Total	¥ 58,346	**¥ 59,922**	**$541,251**

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, 2021	As of March 31, Millions of yen 2020	Millions of yen 2021	Thousands of dollars 2021
Short-term loans	1.05*	—	¥ 4,767	**¥ 1,410**	**$ 12,735**
Current portion of long-term loans	0.23*	—	597	**4,350**	**39,291**
Long-term loans less current portion	0.34*	from June 30, 2022 to September 30, 2025	¥ 20,445	**¥ 28,347**	**$256,047**
Yen unsecured bonds	0.50	September 1, 2026	5,000	**5,000**	**45,163**
Yen unsecured bonds	0.47	July 23, 2025	5,000	**5,000**	**45,163**
Yen unsecured bonds	0.41	March 2, 2027	5,000	**5,000**	**45,163**
Yen unsecured bonds	0.55	March 1, 2030	5,000	**5,000**	**45,163**
Short-term lease obligations	—	—	¥ 474	**¥ 516**	**$ 4,660**
Long-term lease obligations	—	from April 30, 2022 to December 31, 2040	2,801	**2,412**	**21,786**

* The weighted average interest rate as of March 31, 2021

The aggregate annual maturities of long-term debt and lease obligations subsequent to March 31, 2021 are as follows:

Year ending March 31,	Long-term debt Millions of yen	Long-term debt Thousands of dollars	Lease obligations Millions of yen	Lease obligations Thousands of dollars
2022	¥ 4,350	$ 39,291	¥ 516	$ 4,660
2023	4,650	42,001	382	3,450
2024	6,548	59,145	268	2,420
2025	5,649	51,025	192	1,734
2026	16,500	149,038	166	1,499

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 2020	Millions of yen 2021	Thousands of dollars 2021
Balance at beginning of year	¥ 22,149	**¥ 22,431**	**$202,610**
Service cost	725	**753**	**6,801**
Interest cost	260	**234**	**2,113**
Actuarial loss	175	**170**	**1,535**
Benefits paid	(795)	**(887)**	**(8,011)**
Other	(84)	**216**	**1,951**
Balance at end of year	¥ 22,431	**¥ 22,918**	**$207,009**

(2) Reconciliation of changes in pension assets

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Balance at beginning of year	¥ 18,358	**¥ 17,110**	**$154,547**
Expected return on pension assets	534	**466**	**4,209**
Actuarial loss	(1,365)	**3,241**	**29,274**
Contributions by employer	452	**446**	**4,028**
Benefits paid	(767)	**(855)**	**(7,722)**
Other	(101)	**(58)**	**(523)**
Balance at end of year	¥ 17,110	**¥ 20,351**	**$183,822**

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

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Balance at beginning of year	¥ 60	**¥ 63**	**$ 569**
Periodic benefit cost	10	**10**	**90**
Benefits paid	(6)	**(0)**	**(0)**
Balance at end of year	¥ 63	**¥ 73**	**$ 659**

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

	As of March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Funded benefit obligations	¥ 22,007	**¥ 22,409**	**$202,411**
Pension assets	(17,110)	**(20,351)**	**(183,822)**
	4,896	**2,058**	**18,589**
Unfunded benefit obligations	488	**582**	**5,256**
Net amount of liabilities and assets on consolidated balance sheet	5,384	**2,641**	**23,855**
Net defined benefit liabilities	5,512	**2,922**	**26,393**
Net defined benefit assets	(127)	**(281)**	**(2,538)**
Net amount of liabilities and assets on consolidated balance sheet	¥ 5,384	**¥ 2,641**	**$ 23,855**

(5) Components of net periodic benefit costs

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Service cost	¥ 725	**¥ 753**	**$ 6,801**
Interest cost	260	**234**	**2,113**
Expected return on plan assets	(534)	**(466)**	**(4,209)**
Actuarial loss recognized in the year	272	**589**	**5,320**
Past service cost recognized in the year	(13)	**—**	**—**
Periodic benefit cost in simplified method	10	**10**	**90**
Other	—	**19**	**171**
Net periodic benefit costs of retirement benefit plan	¥ 721	**¥ 1,140**	**$ 10,297**

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

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Past service cost	¥ (13)	**¥ —**	**$ —**
Actuarial loss	(1,268)	**3,660**	**33,059**
Total	¥ (1,282)	**¥ 3,660**	**$ 33,059**

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

	As of March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Unrecognized past service cost	¥ —	**¥ —**	**$ —**
Unrecognized actuarial loss	4,413	**752**	**6,792**
Total	¥ 4,413	**¥ 752**	**$ 6,792**

(8) Breakdown of pension assets

	As of March 31,	
	2020	**2021**
Stocks	39.1%	**41.8%**
Bonds	31.1%	**30.4%**
Insurance assets	12.7%	**10.8%**
Other	17.1%	**17.0%**
Total	100.0%	**100.0%**

(9) Assumptions used in accounting for the plans

	Year ended March 31,	
	2020	**2021**
Discount rate	Mainly 0.4%	**Mainly 0.4%**
Long-term expected rate of return on plan assets	Mainly 1.5%	**Mainly 1.5%**

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

Year ended March 31,		
Millions of yen		Thousands of dollars
2020	**2021**	**2021**
¥ 1,110	**¥ 905**	**$ 8,174**

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, 2020 and 2021 for non-cancelable operating leases are as follows:

	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Due within one year	¥ 395	**¥ 779**	**$ 7,036**
Due after one year	817	**2,003**	**18,092**
Total	¥ 1,213	**¥ 2,783**	**$ 25,137**

10. Income Taxes

Breakdown of deferred tax assets and liabilities is as follows:

	Year ended March 31, Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Deferred tax assets:			
Tax loss carry forward	¥ 1,702	**¥ 3,315**	**$ 29,943**
Accrued expenses	1,167	**1,177**	**10,631**
Directors' and corporate auditors' retirement benefits	36	**40**	**361**
Valuation loss on investment securities	536	**534**	**4,823**
Long-term accounts payable	74	**4**	**36**
Net defined benefit liabilities	1,139	**773**	**6,982**
Other	2,154	**2,270**	**20,504**
Subtotal	6,812	**8,115**	**73,299**
Valuation allowance for tax loss carryforwards	(1,323)	**(2,900)**	**(26,194)**
Valuation allowance for temporary differences	(2,153)	**(1,551)**	**(14,009)**
Deferred tax assets	¥ 3,334	**¥ 3,663**	**$ 33,086**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥ (3,791)	**¥ (6,945)**	**$ (62,731)**
Net defined benefit assets	(42)	**(525)**	**(4,742)**
Tax depreciation over book	(631)	**(995)**	**(8,987)**
Other	(521)	**(27)**	**(243)**
Deferred tax liabilities	(4,986)	**(8,494)**	**(76,722)**
Net deferred tax assets (liabilities)	¥ (1,652)	**¥ (4,830)**	**$ (43,627)**

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

	Year ended March 31, 2020	**2021**
Statutory tax rate	30.6%	—
Valuation allowance	58.6	—
Difference in statutory tax rates for subsidiaries	(15.9)	—
Unrealized profits elimination	10.0	—
Other	(3.7)	—
Effective tax rate	79.6%	—

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

11. Research and Development Costs

Research and development costs are as follows:

	Year ended March 31, Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Research and development costs	¥ 6,615	**¥ 6,542**	**$ 59,091**

12. Impairment Loss

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

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

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

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, 2020

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	¥60.00	Retained earnings	March 31, 2019	June 26, 2019
Board of Directors (October 31, 2019)	Common stock	¥ 1,466 million	¥60.00	Retained earnings	September 30, 2019	December 4, 2019

(2) Dividends in respect of the year ended March 31, 2020 which become payable after the balance sheet date

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

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

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 24, 2020)	Common stock	¥ 488 million $ 4,407 thousand	¥20.00 $ 0.18	Retained earnings	March 31, 2020	June 25, 2020

(4) Dividends in respect of the year ended March 31, 2021 which become payable after the balance sheet date

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 24, 2021)	Common stock	¥ 483 million $ 4,362 thousand	¥20.00 $ 0.18	Retained earnings	March 31, 2021	June 25, 2021

14. Comprehensive Income

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

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Unrealized gains on available-for-sale securities:			
Gains arising during the period	¥ (3,021)	**¥ 10,678**	**$ 96,450**
Reclassification adjustment	(36)	**(24)**	**(216)**
Tax effect	835	**(3,154)**	**(28,488)**
Unrealized gains on available-for-sale securities	¥ (2,223)	**¥ 7,499**	**$ 67,735**
Foreign currency translation adjustments:			
Adjustments arising during the period	¥ (3,409)	**¥ 3,947**	**$ 35,651**
Remeasurements of defined benefit plans:			
Remeasurements arising during the period	(1,541)	**3,071**	**27,739**
Reclassification adjustment	258	**589**	**5,320**
Tax effect	(1,282)	**3,660**	**33,059**
Remeasurements of defined benefit plans	¥ (1,251)	**¥ 3,059**	**$ 27,630**
Other comprehensive income	¥ (6,883)	**¥ 14,507**	**$131,036**

15. Cash and Cash Equivalents

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

	As of March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Cash and time deposits	¥ 55,748	**¥ 72,032**	**$650,636**
Marketable securities	35	**3,343**	**30,196**
Subtotal	55,784	**75,376**	**680,841**
Time deposits with maturities over three months	(425)	**(731)**	**(6,602)**
Cash and cash equivalents	¥ 55,358	**¥ 74,644**	**$674,229**

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, 2020

(Millions of yen)

	I	II	III	IV	**Total**
Net sales:					
External customers	¥ 50,946	¥ 44,511	¥ 49,383	¥ 14,560	**¥159,401**
Intersegment	49,083	6,719	1,200	56	**57,060**
Total	100,030	51,230	50,584	14,616	**216,462**
Segment income	(1,547)	3,125	1,980	33	**3,592**
Segment assets	184,973	58,419	38,968	14,156	**296,517**
Depreciation and amortization	4,347	1,453	603	308	**6,712**
Amortization of goodwill	—	—	52	—	**52**
Capital expenditure	¥ 3,900	¥ 4,126	¥ 801	¥ 99	**¥ 8,928**

Year ended March 31, 2021

(Millions of yen)

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

Year ended March 31, 2021

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	$ 319,248	$ 370,770	$ 292,638	$ 71,773	**$1,054,439**
Intersegment	301,589	37,214	3,107	99	**342,028**
Total	620,847	407,993	295,745	71,872	**1,396,477**
Segment income	(51,847)	20,892	5,410	(13,006)	**(38,551)**
Segment assets	1,795,601	609,628	283,488	121,217	**2,809,953**
Depreciation and amortization	40,267	13,846	6,178	2,935	**63,246**
Amortization of goodwill	—	—	460	—	**460**
Capital expenditure	$ 39,860	$ 14,289	$ 2,529	$ 840	**$ 57,528**

Reconciliation of reportable segment information to consolidated financial statements

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Net sales	¥ 216,462	**¥ 154,604**	**$1,396,477**
Elimination	(57,060)	**(37,866)**	**(342,028)**
Consolidated net sales	¥ 159,401	**¥ 116,737**	**$1,054,439**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Segment income	¥ 3,592	**¥ (4,268)**	**$ (38,551)**
Elimination	(78)	**656**	**5,925**
Consolidated operating income	¥ 3,514	**¥ (3,612)**	**$ (32,625)**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Segment assets	¥ 296,517	**¥ 311,090**	**$2,809,953**
Elimination	(37,628)	**(31,074)**	**(280,679)**
Consolidated total assets	¥ 258,889	**¥ 280,015**	**$2,529,265**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Depreciation and amortization	¥ 6,712	**¥ 7,002**	**$ 63,246**
Elimination	(87)	**(189)**	**(1,707)**
Amount on consolidated financial statements	¥ 6,625	**¥ 6,812**	**$ 61,530**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Capital expenditure	¥ 8,928	**¥ 6,369**	**$ 57,528**
Elimination	(532)	**(44)**	**(397)**
Amount on consolidated financial statements	¥ 8,395	**¥ 6,325**	**$ 57,131**

(2) Geographical information

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Sales by destination			
Japan	¥ 40,437	**¥ 28,717**	**$ 259,389**
USA	42,631	**29,051**	**262,406**
Americas, excluding USA	6,250	**3,811**	**34,423**
China	29,573	**31,727**	**286,577**
Asia, excluding China	23,734	**13,584**	**122,698**
Europe	15,055	**8,577**	**77,472**
Other	1,719	**1,267**	**11,444**
Total	¥ 159,401	**¥ 116,737**	**$1,054,439**

	Year ended March 31,		
	Millions of yen		Thousands of dollars
	2020	**2021**	**2021**
Property, plant and equipment			
Japan	¥ 44,390	**¥ 42,801**	**$ 386,604**
Americas	2,215	**2,107**	**19,031**
Asia	18,609	**22,476**	**203,016**
Europe	2,593	**2,366**	**21,371**
Total	¥ 67,808	**¥ 69,751**	**$ 630,033**

17. Quarterly Earnings per Share

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

	Yen		Dollars
Three months ended	2020	**2021**	**2021**
June 30	¥ 17.42	**¥ (81.78)**	**$ (0.73)**
September 30	18.40	**(53.49)**	**(0.48)**
December 31	(18.89)	**(22.64)**	**(0.20)**
March 31	17.04	**47.59**	**0.42**

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Makino Milling Machine Co., Ltd. and its subsidiaries (the Group) which comprise the consolidated balance sheets as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of impairment loss on fixed assets.	
Key Audit Matter	How the matter was addressed in our audit
Of the 69,751 million yen in property, plant and equipment recorded in the Consolidated Balance Sheets of the Makino Milling Machine Co., Ltd. ("the Company") Group for the current fiscal year, 40,989 million yen is property, plant and equipment of the Company. The Company's property, plant and equipment accounts for 15% of total consolidated assets. When identifying impairment indicators on fixed assets, the Company considers property, plant and equipment as a whole (excluding idle assets) to be the smallest unit that generates independent cash flow. As the Company continues to record operating losses, impairment indicators exist. Therefore, the Company estimates future cash flow and compares undiscounted future cash flow with the carrying value of property, plant and equipment. There is a high degree of uncertainty in both the estimated future cash flow and the assumptions used in that estimation in terms of the following points: ・ The Company's primary assets (most important assets to generate future cash flow) are its plants. The period of estimating future cash flow of the assets is long due to their long remaining useful economic life. ・ The key assumptions below involve subjective judgments by management. i. Forecasts of future net sales ii. Forecasts of future operating expenses	The primary procedures we performed to verify the recognition of impairment loss on the Company's fixed assets included the following: ・ inspected materials relevant to business plans and inquired of management to evaluate the reasonableness and feasibility of the key assumptions used by management in its estimation of future cash flow; ・ compared past business plans with results and evaluated the effectiveness of management's estimation process; ・ inspected trend analyses of past results and relevant supporting materials; ・ performed a stress test on the key assumptions and evaluated what kind of impact they would have on future cash flow; and ・ inquired of a real estate appraiser and examined the reasonableness of the assumptions of the real estate appraisal in order to consider the net realizable value of land.

iii. Forecasts of future reinvestment amounts iv. Net realizable value of land Accordingly, the estimation of future cash flows and assumptions used involve subjective judgement by management and a high degree of uncertainty. Therefore, we determined this matter to be a key audit matter.	

Responsibilities of Management and Corporate auditors and Board of Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Corporate auditors and Board of Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The procedures selected and applied depend on the auditor's judgement.

• Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation, in addition, evaluate whether the presentation of consolidated financial statements and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Corporate auditors and Board of Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Corporate auditors and Board of Auditors with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Corporate auditors and Board of Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

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

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Gyosei & Co.
Tokyo, Japan

June 24, 2021

榎本尚子

Naoko Enomoto
Designated Engagement Partner
Certified Public Accountant

三島陽

Akira Mishima
Designated Engagement Partner
Certified Public Accountant

BOARD OF DIRECTORS AND CORPORATE AUDITORS

President	Shinichi Inoue
Executive Vice President, Director	Toshiyuki Nagano
Vice President, Director	Tatsuaki Aiba
Director	Shin Yoshidome
Director	Naofumi Masuda
Director	Kodo Yamazaki
Corporate Auditor	Akio Komura
Corporate Auditor	Jinei Yamaguchi
Corporate Auditor	Jiro Nakashima

CORPORATE DATA

Makino Milling Machine Co., Ltd.

Date of Foundation	May 1, 1937
Paid-in Capital	¥21,142 million
Activities	Manufacture, sale and export of machine tools
Head Office	3-19, Nakane 2-chome, Meguro-ku, Tokyo 152-8578, Japan Phone : +81-3-3717-1151 Fax : +81-3-3725-2105
Research Laboratory	Atsugi (Kanagawa)
Domestic Works	Atsugi (Kanagawa), Fuji-Katsuyama (Yamanashi)
Overseas Works	MAKINO ASIA PTE LTD (Singapore) MAKINO CHINA CO., LTD (China) MAKINO INDIA PRIVATE LIMITED (India)
Sales & Service Offices	Tokyo, Osaka, Nagoya and 14 other offices
Overseas Sales & Service Offices	USA, Germany, Singapore, Korea, China, India and others
Consolidated Subsidiaries	See page 12.

As of June 26, 2021

MAKINO

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