

SEMI-ANNUAL REPORT

For the six months ended September 30, 2020



QUALITATIVE INFORMATION

(1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the six-month period under review, the Company posted net sales of ¥49,634 million (down 33.4% year on year), operating loss of ¥3,716 million and net loss attributable to owners of the parent of ¥3,306 million on a consolidated basis.

Orders received on a consolidated basis in the first half of the fiscal year amounted to ¥51,814 million (down 36.1% year on year), a substantial decrease from the previous corresponding period. This was primarily attributable to significant declines in orders received by the Company in Japan and America, which had been robust in the previous corresponding period, as well as the ongoing impact of the new coronavirus disease (COVID-19) with the exception of China.

The details of orders by geographic region for the second quarter (July-September 2020) are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. significantly fell below the level of the previous corresponding period, and customers continued to postpone capital investments due to a sense of uncertainty for the future.

Orders also fell compared to the first quarter. It was due to the absence of robust orders from the automobile industry that we received in the previous quarter. In addition, although backup measures by the Japanese government by such means as subsidy were scheduled to be carried out and expected to boost orders in the second quarter, they were postponed to the third quarter onward.

In the third quarter we will strive to increase orders, including those backed by government measures.

MAKINO ASIA PTE LTD

Orders received in Asia were lower than the level of the previous corresponding period. This was primarily attributable to a decline in orders in India and ASEAN. Orders in China were almost unchanged from the previous corresponding period, having returned to the level prior to being affected by the COVID-19.

In China, we received orders for commercial vehicle and hydraulic/pneumatic parts machining.

We forecast a continued trend toward recovery in the third quarter. In addition to orders for die and mold from the electrical and electronic components industry, we began to receive inquiries from the automobile and semiconductor production equipment industries.

We anticipate that orders in the third quarter received in India and ASEAN will remain flat.

MAKINO INC.

Orders received in America were below the level of the previous corresponding period. This is primarily attributable to a decline in orders from the automobile and aircraft industries.

Orders increased compared to the first quarter in which the region had experienced a substantial decline. Amid severe conditions, including concerns about the spread of COVID-19 infections, the increase was owing to having won a considerable number of orders associated with SUVs and pickup trucks, medical devices, and defense industries.

We will continue efforts to acquire orders in the third quarter.

MAKINO Europe GmbH

Orders received in Europe were lower than the level of the corresponding period of the previous year, with lackluster conditions persisted.

We forecast a gradual increase in orders for the third quarter, as compared to the second quarter, owing to the expectation of steadily winning orders from the inquiries being received.

We will be participating in JIMTOF2020 Japan International Machine Tool Fair scheduled to be held online from November 16. In the event, we intend to exhibit new technologies and products that seize upon market trends such as larger size of die-casting mold and machining of brittle materials used for the semiconductor production equipment. Moreover, we plan to announce concept machines that embody our initiatives associated with such issues as the environment and society in the future.

We will work toward a recovery to orders by speedily applying these efforts to the market.

(2) Qualitative Information on Consolidated Financial Position

Total assets on a consolidated basis at the end of second quarter under review increased by ¥4,278 million from the end of previous fiscal year to ¥263,167 million. The principal items were an increase of ¥14,689 million in cash and cash equivalents, a decline of ¥12,654 million in notes and accounts receivable, and an increase of ¥5,469 million in investment securities.

Total liabilities increased by ¥4,022 million from the end of the previous fiscal year to ¥111,207 million. This was attributable to an increase of ¥11,546 million in long-term debt, a decrease of ¥8,469 million in notes and accounts payable, and an increase of ¥1,711 million in deferred income taxes.

Net assets increased by ¥256 million from the end of the previous fiscal year to ¥151,960 million. The principal items were a decrease of ¥3,795 million in retained earnings and an increase of ¥3,771 million in unrealized gains on available-for-sale securities.

(3) Qualitative Information on Consolidated Performance Forecasts

As cost reduction to address changes in the environment proceeded further than expected, we have revised our performance forecasts that had been announced on July 31, 2020. For details of the revisions, please refer to "Notice of Differences between Performance Forecasts and Actual Results for the First Half of the Fiscal Year Ending March 31, 2021 and Revision to Full-Year Performance Forecasts," announced today (October 30, 2020).

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2020 and September 30, 2020

US\$1=¥105.80

	Millions of yen		Thousands of dollars
	March 31, 2020	September 30, 2020	September 30, 2020
ASSETS			
Current assets:			
Cash and time deposits	¥ 55,748	¥ 70,437	\$ 665,756
Notes and accounts receivable	40,179	27,524	260,151
Marketable securities	35	243	2,296
Finished products	19,343	18,619	175,982
Work in process	12,350	14,024	132,551
Raw materials and supplies	26,652	26,011	245,850
Other current assets	8,683	5,051	47,741
Allowance for doubtful accounts	(949)	(985)	(9,310)
Total current assets	162,043	160,926	1,521,017
Long-term assets:			
Property, plant and equipment:			
Buildings and structures, net	30,634	30,116	284,650
Machinery, equipment and vehicles, net	8,712	9,089	85,907
Tools, furniture and fixtures, net	4,250	3,910	36,956
Land	18,198	18,534	175,179
Leased assets, net	3,541	4,068	38,449
Construction in progress	2,471	2,510	23,724
Total property, plant and equipment	67,808	68,229	644,865
Intangible assets:			
Other	4,581	4,289	40,538
Total intangible assets	4,581	4,289	40,538
Investments and other assets:			
Investment securities	18,139	23,609	223,147
Long-term loans receivable	813	816	7,712
Deferred income taxes	3,084	2,944	27,826
Net defined benefit assets	127	115	1,086
Other long-term assets	2,604	2,526	23,875
Allowance for doubtful accounts	(315)	(290)	(2,741)
Total investments and other assets	24,454	29,721	280,905
Total long-term assets	96,845	102,240	966,308
Total assets	¥ 258,889	¥ 263,167	\$ 2,487,400

The accompanying notes are an integral part of these statements.

US\$1=¥105.80

	Millions of yen		Thousands of dollars
	March 31, 2020	September 30, 2020	September 30, 2020
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable – trade	¥ 12,024	¥ 8,911	\$ 84,224
Electronically recorded obligations-operating	11,944	6,588	62,268
Short-term loans	4,767	6,310	59,640
Current portion of long-term debt	597	620	5,860
Short-term lease obligations	474	488	4,612
Income taxes payable	432	539	5,094
Other current liabilities	21,957	19,850	187,618
Total current liabilities	52,198	43,307	409,328
Long-term liabilities:			
Bonds	20,000	20,000	189,035
Long-term debt	20,445	31,991	302,372
Long-term lease obligations	2,801	2,632	24,877
Deferred income taxes	4,737	6,448	60,945
Allowance for directors' and corporate auditors' retirement benefits	109	114	1,077
Net defined benefit liabilities	5,512	5,562	52,570
Other long-term liabilities	1,381	1,150	10,869
Total long-term liabilities	54,987	67,899	641,767
Total liabilities	¥ 107,185	¥ 111,207	\$ 1,051,105
Net assets:			
Shareholders' equity			
Common stock, no par value	21,142	21,142	199,829
Authorized : 60,000,000 shares			
Issued : 24,893,841 shares			
as of March 31 and September 30, 2020			
Capital surplus	37,070	37,074	350,415
Retained earnings	93,424	89,628	847,145
Treasury stock	(2,011)	(2,011)	(19,007)
450,092 and 450,199 shares			
as of March 31 and September 30, 2020 respectively			
Total shareholders' equity	149,626	145,834	1,378,393
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	8,602	12,374	116,956
Foreign currency translation adjustments	(3,329)	(3,267)	(30,879)
Remeasurements of defined benefit plans	(4,024)	(3,761)	(35,548)
Total accumulated other comprehensive income	1,248	5,345	50,519
Non-controlling interests	828	780	7,372
Total net assets	151,703	151,960	1,436,294
Total liabilities and net assets	¥ 258,889	¥ 263,167	\$ 2,487,400

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2019 and 2020

US\$1=¥105.80

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020
Net sales	¥ 74,535	¥ 49,634	\$ 469,130
Cost of sales	54,209	39,023	368,837
Gross profit	20,326	10,610	100,283
Selling, general and administrative expenses	19,258	14,326	135,406
Operating income (loss)	1,067	(3,716)	(35,122)
Non-operating income:			
Interest and dividend income	504	321	3,034
Rental income	126	121	1,143
Subsidy income	11	644	6,086
Other	194	225	2,126
Total non-operating income	837	1,313	12,389
Non-operating expenses:			
Interest expense	174	146	1,379
Exchange loss	577	100	945
Retirement benefit expenses	—	143	1,351
Other	47	16	151
Total non-operating expenses	799	407	3,826
Ordinary income (loss)	1,105	(2,810)	(26,559)
Extraordinary income:			
Gain on sales of property, plant and equipment	30	145	1,370
Gain on sales of investment securities	7	5	47
Subsidies for employment adjustment	—	480	4,536
Total extraordinary income	38	631	5,953
Extraordinary losses:			
Loss on disposal of property, plant and equipment	29	35	330
Loss on infections disease related cost	—	892	8,431
Total extraordinary losses	29	927	8,761
Income (loss) before income taxes	1,114	(3,106)	(29,367)
Income taxes (Note 2)	237	213	2,013
Net income (loss)	876	(3,319)	(31,380)
Net income (loss) attributable to non-controlling interests	1	(13)	(122)
Net income (loss) attributable to owners of the parent	¥ 875	¥ (3,306)	\$ (31,258)

	Yen	Dollars
Per share of common stock:		
Net income (loss) attributable to owners of the parent - Basic	¥ 35.82	\$ (1.27)
- Diluted	—	—

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Six months ended September 30, 2019 and 2020

US\$1=¥105.80

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020
Net income (loss)	¥ 876	¥ (3,319)	\$ (31,380)
Other comprehensive income (loss):			
Unrealized gains on available-for-sale securities	798	3,772	35,652
Foreign currency translation adjustments	(2,929)	62	586
Remeasurements of defined benefit plans	110	263	2,485
Other comprehensive income (loss)	(2,020)	4,098	38,723
Total comprehensive income (loss)	¥ (1,143)	¥ 778	\$ 7,343
Total comprehensive income (loss) attributable to:			
Owners of the parent	(1,144)	790	7,446
Non-controlling interests	1	(11)	(103)
	¥ (1,143)	¥ 778	\$ 7,343

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the six months years ended September 30, 2019 and 2020

US\$1=¥105.80

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2019	Six months ended September 30, 2020	Six months ended September 30, 2020
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 1,114	¥ (3,106)	\$ (29,357)
Adjustments for:			
Depreciation and amortization	3,135	3,279	30,992
Increase (decrease) in allowance for doubtful accounts	107	23	217
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	5	5	47
Increase (decrease) in net defined benefit liabilities	112	318	3,005
Interest and dividend income	(504)	(321)	(3,034)
Interest expense	174	146	1,379
Exchange loss (gain)	23	35	330
(Gain) loss on sales of investment securities	(7)	(5)	(47)
(Gain) loss on sales of property, plant and equipment	(30)	(145)	(1,370)
Loss on disposal of property, plant and equipment	29	35	330
(Increase) decrease in notes and accounts receivable, trade	16,208	12,495	118,100
(Increase) decrease in inventories	(4,301)	(385)	(3,638)
Increase (decrease) in notes and accounts payable, trade	(6,842)	(8,409)	(79,480)
Other	(1,058)	(505)	(4,773)
Subtotal	8,165	3,458	32,701
Interest and dividends received	499	318	3,005
Interest paid	(174)	(146)	(1,379)
Income taxes (paid) refund	(3,101)	1,498	14,158
Net cash provided by (used in) operating activities	5,389	5,128	48,485
Cash flows from investing activities:			
Purchases of property, plant and equipment	(3,835)	(2,604)	(24,612)
Proceeds from sales of property, plant and equipment	117	371	3,506
Purchases of investment securities	(3)	(552)	(5,217)
Proceeds from sales of investment securities	14	18	170
Purchase of shares of subsidiaries and associates	—	(54)	(510)
Other	(542)	4	37
Net cash provided by (used in) investing activities	(4,250)	(2,816)	(26,626)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	309	1,647	15,567
Repayment of lease obligations	(296)	(334)	(3,156)
Proceeds from long-term loans payable	—	11,500	108,695
Repayment of long-term loans payable	(40)	—	—
Purchases of treasury stock	(0)	(0)	0
Purchases of treasury stock of subsidiaries in consolidation	—	(22)	(207)
Dividends paid	(1,463)	(490)	(4,631)
Dividends paid to non-controlling interests	(13)	(11)	(103)
Net cash provided by (used in) financing activities	(1,504)	12,288	116,165
Effect of exchange rate changes on cash and cash equivalents	(1,336)	89	841
Net increase (decrease) in cash and cash equivalents	(1,701)	14,690	138,024
Cash and cash equivalents, beginning of period	48,827	55,358	523,232
Cash and cash equivalents, end of period (Note 4)	¥ 47,125	¥ 70,048	\$ 661,256

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Makino Milling Machine Co., Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In addition, the notes to the consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

Amounts of less than one million yen have been omitted as permitted under generally accepted accounting principles and practices in Japan. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and dollars) do not necessarily agree with the sum of individual amounts.

The United States dollar amounts presented in the accompanying consolidated financial statements are included solely for convenience and are stated, as a matter of arithmetical computation only, at the rate of ¥105.80 = US\$1, which was the prevailing exchange rate on September 30, 2020.

2. Income Taxes

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

3. Dividends

A summary of information regarding dividends is as follows:

(1) Dividends paid in the six months ended September 30, 2019

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

(2) Dividends in respect of the six months ended September 30, 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
Board of Directors (October 31, 2019)	Common stock	¥1,466 million	¥60.00	Retained earnings	September 30, 2019	December 4, 2019

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

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 24, 2020)	Common stock	¥488 million \$4,612 thousand	¥20.00 \$0.19	Retained earnings	March 31, 2020	June 25, 2020

(4) Dividends in respect of the six months ended September 30, 2020 which become payable after the balance sheet date

There is not applicable.

4. Cash Flows

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

	As of September 30,		
	Millions of yen		Thousands of dollars
	2019	2020	2020
Cash and time deposits	¥47,512	¥70,437	\$665,756
Marketable securities	40	243	2,296
Time deposits with maturities over three months	(428)	(633)	(5,982)
Cash and cash equivalents	¥47,125	¥70,048	\$662,070

5. Segment Information

Reportable segment information

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

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

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

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

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

Six months ended September 30, 2019

(Millions of yen)

	I	II	III	IV	Total
Net sales:					
External customers	¥22,645	¥23,852	¥23,018	¥ 5,019	¥ 74,535
Intersegment	27,067	3,682	165	37	30,953
Total	49,713	27,535	23,183	5,057	105,489
Segment income (loss)	¥ 77	¥ 1,975	¥ 478	¥(1,077)	¥ 1,453

Six months ended September 30, 2020

(Millions of yen)

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

Six months ended September 30, 2020

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$137,608	\$171,587	\$129,338	\$30,576	\$ 469,130
Intersegment	135,151	19,593	1,058	0	155,822
Total	272,769	191,190	130,406	30,586	624,952
Segment income (loss)	\$(30,935)	\$ 7,448	\$ (3,506)	\$ (7,485)	\$ (34,480)

Six months ended September 30,

	Millions of yen		Thousands of dollars
	2019	2020	2020
Segment income	¥1,453	¥(3,648)	\$(34,480)
Elimination	(385)	(67)	(633)
Consolidated operating income	¥1,067	¥(3,716)	\$(35,113)

6. Subsequent Events

Repurchase of the Company's common stock

On October 30, 2020, the Board of Directors resolved to repurchase up to 280 thousand shares of the Company's common stock. The shares will be repurchased for a maximum of ¥1,000 million (\$9,452 thousand) from November 1, 2020 to March 31, 2021.



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