

QUARTERLY REPORT

For the Nine Months Ended December 31, 2009



QUALITATIVE INFORMATION

Qualitative Information Relating to Consolidated Operating Results

During the nine-month period under review, the global economy achieved a steady, if very modest, recovery. Single-month orders for the machine tool industry in December 2009 were up 63.4% year on year, to ¥60,228 million, according to statistics published by the Japan Machine Tool Builders' Association (JMTBA). However, the accumulated amount of orders for the machine tool industry from April to December 2009 remained weak, down 61.3% year on year, to ¥351,416 million. Orders won by Makino Milling Machine on a nonconsolidated basis were also down 67.2% year on year, to ¥15,987 million.

A description of orders and results by region follows:

In the Japanese market, while production was recovering in many industries, capital investment remained anemic. In this environment, emerging needs increased, as witnessed in demand for LED lighting used for televisions and mobile phones. The iQ300 precision micromachining center released recently by the Company drew attention as a machining system enabling high precision die manufacturing. Large dies for automobiles also showed signs of recovery. In this area, MCC2013VG, a six-axis machining center, holds potential, as it reduces setup and shortens lead times with high-speed processing.

The Americas saw increasing orders, although the pace of recovery was slow. In the aerospace market, the Makino Group strengthened research to develop new models and reduce processing costs, responding to market needs for processing hard-to-cut materials. For this purpose, the Company established a development base in North America to focus on the relevant processing technologies and maintain its technological edge. Meanwhile, the automotive sector is extending across the Americas. Viewing this trend as an opportunity, the Makino Group is boosting its operations, completing a technical center in Mexico in January 2010 and entering into a distribution agreement with new agents in Brazil and Argentina.

Although the European market generally remained weak, there were positive developments in certain sectors related to precision dies, aircraft parts and energy. In 2010, we will take steps to expand sales channels in the Russian market, where there is growth.

The Asian market was among the first to recover. In China, following a rebound in demand for machining for domestic sectors, demand from exporting companies in electronics-related industries was also improving. In India, while a recovery in the export sector came first, demand from domestic sectors centering on auto manufacturers also strengthened. The Makino Group has been developing systems covering broad areas in these two countries. The Group is also bolstering its sales and service systems to address intensifying competition. In other regions, the Company is boosting sales networks in Thailand, Vietnam, and Indonesia.

The Makino Group is determined to build an international development system. To respond to diversified global needs, we will establish an R&D center in Singapore, principally for electrical discharge machines. In Japan, the Group is committed to strengthening the development of basic and advanced technologies.

On a consolidated basis, net sales for the nine-month period stood at ¥33,160 million (down 59.1% year on year). The Group posted an operating loss of ¥10,427 million (compared to operating income of ¥1,660 million a year ago), and a net loss of ¥10,895 million (compared to a net loss of ¥2,377 million a year ago).

For the results for each region, please refer to the segment information section.

Qualitative Information Relating to Consolidated Financial Position

(Assets, Liabilities, and Net Assets)

Total assets on a consolidated basis at the end of the nine-month period under review declined ¥10,986 million from the end of the previous fiscal year, to ¥148,158 million. This result is primarily attributable to decreases in notes and accounts receivable, trade and inventories.

Total liabilities fell ¥206 million, to ¥70,233 million, mainly because of declines in notes and accounts payable, trade and increase in short-term loans from banks.

Net assets decreased ¥10,780 million, to ¥77,924 million, given a fall of ¥10,904 million in retained earnings.

(Cash Flow)

Net cash provided by operating activities was ¥2,590 million, as a result of cash outflows, including a loss before income taxes of ¥10,657 million and a decrease in notes and accounts payable, trade of ¥4,162 million more than offset by cash inflows including a decrease in notes and accounts receivable, trade of ¥8,686 million and a decrease in inventories of ¥2,636 million.

Net cash used in investing activities was ¥2,807 million, reflecting primarily purchases of property, plant and equipment.

Net cash provided by financing activities was ¥1,368 million, attributable mainly to a net increase in short-term loans.

As a result of the above, cash and cash equivalents on a consolidated basis at the end of the nine-month period increased ¥1,227 million from the end of the previous fiscal year, to ¥41,205 million.

CONSOLIDATED BALANCE SHEETS

MAKINO MILLING MACHINE CO., LTD.

March 31, 2009 and December 31, 2009

	Millions of yen		US\$1=¥92.10 Thousands of dollars	
	March 31, 2009	December 31, 2009	December 31, 2009	
ASSETS				
Current assets:				
Cash and time deposits	¥ 39,235	¥ 41,760	\$	453,428
Marketable securities	2,160	2,018		21,912
Notes and accounts receivable	24,529	15,330		166,451
Inventories	34,365	31,452		341,498
Deferred income taxes	828	572		6,215
Other current assets	3,414	2,500		27,148
Allowance for doubtful accounts	(1,079)	(825)		(8,961)
Total current assets	<u>103,454</u>	<u>92,808</u>		<u>1,007,691</u>
Investments and other assets:				
Investment securities	7,261	8,939		97,059
Long-term loans receivable	493	686		7,451
Deferred income taxes	1,231	999		10,855
Other long-term assets	6,956	6,145		66,724
Allowance for doubtful accounts	(266)	(561)		(6,095)
Total investments and other assets	<u>15,676</u>	<u>16,209</u>		<u>175,996</u>
Property, plant and equipment:				
Land	9,628	9,897		107,462
Buildings and structures	49,479	49,383		536,196
Machinery and equipment	24,006	23,369		253,735
Lease assets	1,666	2,403		26,097
Construction in progress	228	546		5,934
	<u>85,010</u>	<u>85,600</u>		<u>929,425</u>
Accumulated depreciation	(44,995)	(46,459)		(504,447)
Total property, plant and equipment	<u>40,014</u>	<u>39,140</u>		<u>424,978</u>
Total assets	<u>¥ 159,145</u>	<u>¥ 148,158</u>	<u>\$</u>	<u>1,608,666</u>

Note: US dollar amounts have been translated from yen, for convenience only, at the rate of US\$1=¥92.10, the approximate Tokyo foreign exchange market rate as of December 31, 2009.

US\$1=¥92.10

	Millions of yen		Thousands of dollars
	March 31, 2009	December 31, 2009	December 31, 2009
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 11,063	¥ 6,753	\$ 73,327
Other	375	2,246	24,396
Short-term loans from banks	4,752	6,402	69,514
Current portion of long-term debt	611	14,532	157,790
Short-term lease obligations	247	757	8,223
Accrued expenses	4,608	3,711	40,293
Income taxes payable	603	523	5,687
Other current liabilities	1,881	1,725	18,730
Total current liabilities	<u>24,143</u>	<u>36,652</u>	<u>397,963</u>
Long-term liabilities:			
Long-term debt	39,314	25,467	276,524
Long-term lease obligations	1,905	2,318	25,172
Allowance for employees' retirement benefits	642	629	6,839
Allowance for directors' and corporate auditors' retirement benefits	1,309	275	2,992
Deferred income taxes	2,699	3,319	36,042
Other long-term liabilities	424	1,569	17,046
Total long-term liabilities	<u>46,297</u>	<u>33,581</u>	<u>364,618</u>
Net assets:			
Shareholders' equity			
Common stock, no par value	19,263	19,263	209,154
Authorized : 300,000,000 shares on March 31 and December 31, 2009			
Issued : 119,944,543 shares on March 31 and December 31, 2009			
Capital surplus	32,595	32,595	353,917
Retained earnings	42,455	31,550	342,572
Treasury stock, at cost	(2,764)	(2,766)	(30,039)
	<u>91,550</u>	<u>80,643</u>	<u>875,605</u>
Evaluation and conversion difference			
Unrealized gain on available-for-sale securities	1,692	2,657	28,850
Foreign currency translation adjustments	(5,786)	(5,946)	(64,562)
	<u>(4,094)</u>	<u>(3,289)</u>	<u>(35,711)</u>
Minority interest	1,249	570	6,190
Total net assets	<u>88,704</u>	<u>77,924</u>	<u>846,083</u>
Total liabilities and net assets	<u>¥ 159,145</u>	<u>¥ 148,158</u>	<u>\$ 1,608,666</u>

CONSOLIDATED STATEMENTS OF INCOME

MAKINO MILLING MACHINE CO., LTD.

For the nine months ended December 31, 2008 and 2009

	Millions of yen		US\$1=¥92.10
			Thousands of dollars
	Nine months ended December 31, 2008	Nine months ended December 31, 2009	Nine months ended December 31, 2009
Net sales	¥ 81,170	¥ 33,160	\$ 360,045
Cost of sales	58,429	30,786	334,276
Gross profit	22,740	2,373	25,768
Selling, general and administrative expenses	21,080	12,801	138,992
Operating income (loss)	1,660	(10,427)	(113,223)
Other income (expenses):			
Interest and dividend income	336	174	1,898
Interest expense	(417)	(657)	(7,136)
Subsidy income	-	250	2,717
Loss on sales of marketable securities	(5)	-	-
Gain on sales of property, plant and equipment	13	29	323
Gain on sales of investment securities	122	-	-
Loss on disposal of property, plant and equipment	(47)	-	-
Loss on valuation of investment securities	(34)	-	-
Exchange loss, net	(789)	(376)	(4,089)
Reversal of allowance for doubtful accounts	32	-	-
Other, net	(150)	349	3,795
Income (loss) before income taxes	721	(10,657)	(115,713)
Income taxes	3,119	274	2,977
Loss after income taxes	(2,397)	(10,931)	(118,691)
Minority interest in loss of consolidated subsidiaries	(20)	(36)	(395)
Net loss	¥ (2,377)	¥ (10,895)	\$ (118,295)
	Yen		Dollars
Per share of common stock:			
Net loss	¥ (20.39)	¥ (95.04)	\$ (1.03)

CONSOLIDATED STATEMENTS OF CASH FLOWS

MAKINO MILLING MACHINE CO., LTD.

For the nine months ended December 31, 2008 and 2009

	Millions of yen		US\$1=¥92.10	
			Thousands of dollars	
	Nine months ended December 31, 2008	Nine months ended December 31, 2009	Nine months ended December 31, 2009	Nine months ended December 31, 2009
Cash flows from operating activities:				
Income (loss) before income taxes	¥ 721	¥ (10,657)	\$ (115,713)	
Adjustments for:				
Income taxes (paid) refund	(1,882)	310	3,371	
Depreciation and amortization	2,709	2,501	27,157	
Amortization of goodwill	29	29	319	
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	(215)	(1,034)	(11,229)	
Increase (decrease) in allowance for employees' retirement benefits	(84)	87	946	
Increase (decrease) in reserve for directors' bonus	(70)	-	-	
Increase (decrease) in allowance for doubtful accounts	(67)	159	1,735	
(Gain) loss on sales of property, plant and equipment	(13)	(29)	(325)	
Loss on disposal of property, plant and equipment	47	0	1	
(Increase) decrease in notes and accounts receivable, trade	14,345	8,686	94,316	
(Increase) decrease in inventories	(3,704)	2,636	28,630	
Increase (decrease) in notes and accounts payable, trade	(7,517)	(4,162)	(45,199)	
Other, net	(486)	4,062	44,112	
Net cash provided by (used in) operating activities	3,810	2,590	28,122	
Cash flows from investing activities:				
(Increase) decrease in time deposits	(400)	(1,301)	(14,130)	
Payment for purchases of marketable securities	(150)	(50)	(542)	
Proceeds from sales of marketable securities	50	200	2,171	
Payment for purchases of property, plant and equipment	(6,247)	(1,353)	(14,697)	
Proceeds from sales of property, plant and equipment	76	437	4,752	
Payment for purchases of investments in subsidiaries	-	(316)	(3,437)	
Other, net	73	(423)	(4,598)	
Net cash provided by (used in) investing activities	(6,597)	(2,807)	(30,483)	
Cash flows from financing activities:				
Increase (decrease) in short-term loans, net	(267)	1,852	20,118	
Repayments of lease obligations	(20)	(242)	(2,638)	
Proceeds from long-term loans payable	5,500	536	5,830	
Repayments of long-term loans payable	(1,997)	(458)	(4,976)	
Proceeds from issue of bonds	10,000	-	-	
Payment for purchases of treasury stock	(531)	(1)	(19)	
Payment for purchases of treasury stock of subsidiaries in consolidation	-	(316)	(3,437)	
Dividends paid	(1,756)	(1)	(20)	
Net cash provided by (used in) financing activities	10,926	1,368	14,856	
Effect of exchange rate changes on cash and cash equivalents	(1,004)	76	830	
Net increase (decrease) in cash and cash equivalents	7,136	1,227	13,325	
Cash and cash equivalents, beginning of period	25,621	39,978	434,078	
Cash and cash equivalents, end of period	¥ 32,757	¥ 41,205	\$ 447,404	

SEGMENT INFORMATION

MAKINO MILLING MACHINE CO., LTD.

For the nine months ended December 31, 2008 and 2009

1. Geographical segment information

Nine-month period from April 1, 2008 to December 31, 2008

(Millions of yen)

	Japan	Asia	America	Europe	Subtotal	Eliminations	Total
Net sales:							
External customers	¥33,189	¥15,572	¥21,756	¥10,652	¥81,170	-	¥81,170
Intersegment	50,517	3,756	341	53	54,669	(54,669)	-
Total	83,706	19,328	22,097	10,706	135,839	(54,669)	81,170
Operating expenses	84,199	19,167	20,722	10,275	134,364	(54,854)	79,510
Operating income (loss)	(¥492)	¥161	¥1,375	¥431	¥1,475	184	¥1,660

Nine-month period from April 1, 2009 to December 31, 2009

(Millions of yen)

	Japan	Asia	America	Europe	Subtotal	Eliminations	Total
Net sales:							
External customers	¥12,998	¥8,576	¥8,920	¥2,664	¥33,160	-	¥33,160
Intersegment	7,876	678	129	11	8,695	(8,695)	-
Total	20,875	9,254	9,049	2,676	41,855	(8,695)	33,160
Operating expenses	29,652	10,009	9,579	3,686	52,928	(9,340)	43,588
Operating income (loss)	(¥8,776)	(¥755)	(¥529)	(¥1,010)	(¥11,072)	644	(¥10,427)

Nine-month period from April 1, 2009 to December 31, 2009

(Thousands of dollars)

	Japan	Asia	America	Europe	Subtotal	Eliminations	Total
Net sales:							
External customers	\$141,138	\$93,119	\$96,860	\$28,926	\$360,045	-	\$360,045
Intersegment	85,518	7,362	1,401	130	94,413	(94,413)	-
Total	226,656	100,482	98,262	29,056	454,458	(94,413)	360,045
Operating expenses	321,954	108,684	104,010	40,032	574,681	(101,413)	473,268
Operating income (loss)	(\$95,298)	(\$8,202)	(\$5,747)	(\$10,975)	(\$120,223)	6,999	(\$113,223)

2. Overseas sales

Nine-month period from April 1 to December 31, 2008 and 2009

	Millions of yen		Thousands of dollars
	2008	2009	2009
Overseas sales			
America	¥21,878	¥9,081	\$98,601
Europe	11,920	3,020	32,797
Asia	20,370	10,737	116,580
Other	2,144	793	8,617
Total	¥56,313	¥23,632	\$256,597
Consolidated sales	¥81,170	¥33,160	\$360,045
Proportion of overseas sales to consolidated sales	69.4%	71.3%	71.3%



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