

QUARTERLY REPORT

For the six months ended September 30, 2011



QUALITATIVE INFORMATION

(1) Qualitative Information Relating to Consolidated Quarterly Operating Results

While the global economy continued to grapple with considerable uncertainty in the wake of the financial crisis, the production activities of manufacturers increased, and spending on capital goods expanded across broader regions.

In this environment, the Company stepped up its sales activities to meet growing demand for machine tools. Orders received by the Company for the first half of this fiscal year (April through September) stood at ¥64,414 million on a consolidated basis, a rise of 46% year on year, and ¥39,920 million on a non-consolidated basis, increasing 68% year on year. Orders recovered almost to the record level achieved by the Company in the fiscal year ended March 2007.

The details of operating results by region are as follows:

Makino Milling Machine Co., Ltd. and its subsidiaries in Japan

Orders received in Japan for the first half of the fiscal year under review rose 79% year on year. Orders were mainly from the industrial and construction machine industries. Orders from medium-sized auto parts manufacturers also rose sharply. By machine type, horizontal machining centers were the mainstay products.

The mold-making industry, the Company's largest group of customers in Japan, started to make capital investments to deal with new products and new technologies. These investments are made to achieve the technological advances needed to produce higher value-added molds. The Company will strive to develop machine tools that will enable this renovation, but believes that it will take some time yet before the mold industry moves back to full activity given the effects of the strong yen and other factors.

MAKINO ASIA PTE LTD (Singapore)

Orders received by the subsidiary in Asia for the first half of the fiscal year under review remained at a robust level.

In China, orders from smaller local manufacturers slowed, reflecting the effects of the official policy of raising interest rates to control inflation. Foreign manufacturers, however, continued to be active in capital investments. Overall, orders remained mostly level.

In India, orders for horizontal machining centers from the auto, construction machinery and farm machinery industries increased. As a result, orders for the first half of the fiscal year under review rose 67% year on year.

MAKINO INC.

The Company sought to improve sales conditions to respond to the weak US dollar. In fact, orders rose 29% from the same period of the previous fiscal year, to a new record level. The Company received a large number of orders for the horizontal machining centers a51nx and a61nx from the auto industry, which was making capital investments related to low-fuel consumption engines for compact cars. Strong demand also came from the aircraft industry for the MAG/A 5-axis machining centers that were used for the processing of air frame (aluminum) structures. Meanwhile, in the field of processing difficult-to-cut materials (titanium materials), an area of focus for the Company, several orders were received for the MAG/T, a new product.

MAKINO Europe GmbH

The Company sought to improve sales conditions in the same manner as that described above to counter the weak euro. Despite severe competition with European machine tool manufacturers, orders for the first half of the fiscal year under review recovered, rising 74% year on year, in part a reflection of the longer delivery periods of competitors. Although the

sales environment is likely to remain severe, the Company is determined to achieve sound results by introducing unique products used by aircraft parts, microfabrication and other manufacturers.

In this environment, the Company achieved net sales of ¥52,161 million for the first half of the fiscal year under review on a consolidated basis (up 38.8% year on year), operating income of ¥2,756 million (compared with an operating loss of ¥934 million for the same period of the previous fiscal year), and net income of ¥1,468 million (compared with a net loss of ¥1,661 million for the same period of the previous fiscal year).

(2) Qualitative Information on Consolidated Financial Position

Total assets on a consolidated basis at the end of the first half of the fiscal year under review declined ¥8,667 million from the end of the previous fiscal year, to ¥159,612 million. The main changes in assets included an increase in inventories of ¥6,223 million and a decline in cash and time deposits of ¥10,652 million.

Liabilities at the end of the first half of the fiscal year under review declined ¥6,120 million from the end of the previous fiscal year, to ¥82,455 million. The fall was mainly attributable to a decline in notes and accounts payable of ¥2,840 million, and a decrease in long-term loans payable of ¥1,577 million.

Net assets declined ¥2,547 million from the end of the previous fiscal year, to ¥77,156 million, primarily attributable to a fall in foreign currency translation adjustments of ¥2,628 million.

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2011 and September 30, 2011

US\$1=¥76.65

	Millions of yen		Thousands of dollars
	March 31, 2011	September 30, 2011	September 30, 2011
ASSETS			
Current assets:			
Cash and time deposits	¥ 36,714	¥ 26,062	\$ 340,013
Marketable securities	2,021	2,019	26,340
Notes and accounts receivable	31,626	30,867	402,700
Inventories	37,234	43,458	566,966
Deferred income taxes	1,906	1,781	23,235
Other current assets	3,865	2,889	37,690
Allowance for doubtful accounts	(893)	(703)	(9,171)
Total current assets	112,476	106,374	1,387,788
Investments and other assets:			
Investment securities	11,790	10,137	132,250
Long-term loans receivable	662	641	8,362
Deferred income taxes	937	780	10,176
Other long-term assets	5,735	5,502	71,780
Allowance for doubtful accounts	(603)	(569)	(7,423)
Total investments and other assets	18,523	16,491	215,146
Property, plant and equipment:			
Land	9,769	9,771	127,475
Buildings and structures	49,592	49,193	641,787
Machinery and equipment	23,365	22,456	292,968
Lease assets	2,584	2,904	37,886
Construction in progress	213	604	7,879
	85,526	84,930	1,108,023
Accumulated depreciation	(48,245)	(48,182)	(628,597)
Total property, plant and equipment	37,280	36,747	479,412
Total assets	¥ 168,280	¥ 159,612	\$ 2,082,348

The accompanying notes are an integral part of these statements.

US\$1=¥76.65

	Millions of yen		Thousands of dollars
	March 31, 2011	September 30, 2011	September 30, 2011
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 24,673	¥ 21,832	\$ 284,827
Other	5,569	4,319	56,347
Short-term loans	2,322	3,349	43,692
Current portion of long-term debt	3,011	3,062	39,947
Short-term lease obligations	678	477	6,223
Accrued expenses	4,632	4,503	58,747
Income taxes payable	1,116	778	10,150
Other current liabilities	1,519	1,876	24,474
Total current liabilities	43,523	40,199	524,448
Long-term liabilities:			
Long-term debt	36,268	34,690	452,576
Long-term lease obligations	2,103	2,178	28,414
Allowance for employees' retirement benefits	462	343	4,474
Allowance for directors' and corporate auditors' retirement benefits	295	15	195
Deferred income taxes	3,944	3,314	43,235
Other long-term liabilities	1,978	1,713	22,348
Total long-term liabilities	45,052	42,256	551,285
Net assets:			
Shareholders' equity			
Common stock, no par value	19,263	19,263	251,311
Authorized : 300,000,000 shares			
Issued : 119,944,543 shares			
as of March 31 and September 30, 2011			
Capital surplus	32,595	32,595	425,244
Retained earnings	34,099	35,126	458,264
Treasury stock	(4,772)	(4,775)	(62,296)
8,683,036 and 8,687,081 shares			
as of March 31 and September 30, 2011, respectively			
Total shareholders' equity	81,185	82,209	1,072,524
Accumulated other comprehensive loss			
Unrealized gain on available-for-sale securities	4,299	3,284	42,844
Deferred gains (losses) on hedges	(58)	(6)	(78)
Foreign currency translation adjustments	(6,318)	(8,946)	(116,712)
Total accumulated other comprehensive loss	(2,077)	(5,669)	(73,959)
Minority interests	597	617	8,049
Total net assets	79,704	77,156	1,006,601
Total liabilities and net assets	¥ 168,280	¥ 159,612	\$ 2,082,348

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, 2010 and 2011

	Millions of yen		US\$1=¥76.65 Thousands of dollars
	Six months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2011
Net sales	¥ 37,569	¥ 52,161	\$ 680,508
Cost of sales	28,483	37,821	493,424
Gross profit	9,085	14,339	187,071
Selling, general and administrative expenses	10,020	11,583	151,115
Operating income (loss)	(934)	2,756	35,955
Other income (expenses):			
Interest and dividend income	132	152	1,983
Interest expense	(510)	(411)	(5,362)
Gain on sales of property, plant and equipment	34	29	378
Loss on disposal of property, plant and equipment	(13)	—	—
Exchange gain (loss), net	(599)	(404)	(5,270)
Reversal of allowance for doubtful accounts	38	—	—
Other, net	145	(65)	(848)
Income (loss) before income taxes	(1,707)	2,056	26,823
Income taxes (Note 2)	(50)	564	7,358
Income (loss) before minority interests	(1,656)	1,492	19,465
Minority interests in earnings (losses) of consolidated subsidiaries	4	23	300
Net income (loss)	¥ (1,661)	¥ 1,468	\$ 19,151

	Yen		Dollars
Per share of common stock:			
Net income (loss)	¥ (14.70)	¥ 13.20	\$ 0.17

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, 2010 and 2011

	Millions of yen		US\$1=¥76.65 Thousands of dollars
	Six months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2011
Income (loss) before minority interests	¥ (1,656)	¥ 1,492	\$ 19,465
Other comprehensive loss			
Unrealized gain on available-for-sale securities	(240)	(1,016)	(13,255)
Deferred gains (losses) on hedges	—	51	665
Foreign currency translation adjustments	(1,454)	(2,629)	(34,298)
Other comprehensive loss	(1,695)	(3,594)	(46,888)
Total comprehensive loss	¥ (3,351)	¥ (2,101)	\$ (27,410)
Total comprehensive loss attributable to:			
Owners of the parent	(3,353)	(2,122)	(27,684)
Minority interests	1	20	260
	¥ (3,351)	¥ (2,101)	\$ (27,410)

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 ended September 30, 2010 and 2011

US\$1=¥76.65

	Millions of yen		Thousands of dollars
	Six months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2011
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (1,707)	¥ 2,056	\$ 26,823
Adjustments for:			
Income taxes (paid) refund	(183)	(692)	(9,028)
Depreciation and amortization	1,537	1,626	21,213
Amortization of goodwill	7	(11)	(143)
Increase (decrease) in allowance for directors' and corporate auditors' retirement benefits	7	(279)	(3,639)
Increase (decrease) in allowance for employees' retirement benefits	(52)	29	378
Increase (decrease) in allowance for doubtful accounts	(1)	(167)	(2,178)
(Gain) loss on sales of property, plant and equipment	(34)	(29)	(378)
Loss on disposal of property, plant and equipment	13	—	—
(Increase) decrease in notes and accounts receivable, trade	1,258	(1,003)	(13,085)
(Increase) decrease in inventories	(5,398)	(7,791)	(101,643)
Increase (decrease) in notes and accounts payable, trade	4,114	(979)	(12,772)
Other, net	2,617	760	9,915
Net cash provided by (used in) operating activities	2,179	(6,482)	(84,566)
Cash flows from investing activities:			
(Increase) decrease in time deposits	8,400	0	0
Purchases of property, plant and equipment	(629)	(1,831)	(23,887)
Proceeds from sales of property, plant and equipment	128	143	1,865
Other, net	(191)	(172)	(2,243)
Net cash provided by (used in) investing activities	7,707	(1,861)	(24,279)
Cash flows from financing activities:			
Increase (decrease) in short-term loans, net	(628)	1,232	16,073
Repayment of lease obligations	(54)	(464)	(6,053)
Proceeds from long-term loans payable	4,750	—	—
Repayment of long-term loans payable	(4,391)	(1,472)	(19,204)
Redemption of bonds	(10,000)	—	—
Purchases of treasury stock	(2,000)	(2)	(26)
Purchases of treasury stock of subsidiaries in consolidation	(14)	—	—
Dividends paid	(0)	(441)	(5,753)
Net cash provided by (used in) financing activities	(12,340)	(1,148)	(14,977)
Effect of exchange rate changes on cash and cash equivalents	(704)	(1,158)	(15,107)
Net increase (decrease) in cash and cash equivalents	(3,157)	(10,651)	(138,956)
Cash and cash equivalents, beginning of period	42,790	36,604	477,547
Cash and cash equivalents, end of period (Note 4)	¥ 39,632	¥ 25,952	\$ 338,577

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 ¥76.65 = US\$1, which was the prevailing exchange rate on September 30, 2011.

2. Accounting methods used specifically for interim consolidated financial statements

Income Taxes

The Group 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, 2010

No dividends were paid.

(2) Dividend in respect of the six months ended September 30, 2010

No dividend was declared.

(3) Dividends paid in the six months ended September 30, 2011

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 23, 2011)	Common stock	¥445 million	¥4.00	Retained earnings	March 31, 2011	June 24, 2011
		\$5,805 thousand	\$0.05			

(4) Dividend in respect of the six months ended September 30, 2011

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
Board of directors (October 31, 2011)	Common stock	¥445 million	¥4.00	Retained earnings	September 30, 2011	December 5, 2011
		\$5,805 thousand	\$0.05			

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
	2010	2011	2011
Cash and time deposits	¥39,464	¥26,062	\$340,013
Marketable securities	2,019	2,019	26,340
Subtotal	41,483	28,081	366,353
Time deposits with maturities over three months	(1,850)	(2,128)	(27,762)
Cash and cash equivalents	¥39,632	¥25,952	\$338,577

5. 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 taken charge of by Makino Milling Machine Co., Ltd. and its subsidiaries in Japan. 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 taken charge of by MAKINO ASIA PTE LTD (Singapore). Its main areas are China, ASEAN and India.

Reportable segment III is a segment taken charge of by MAKINO INC. (Mason, Ohio, the United States of America). Its main areas are all countries in North and South America.

Reportable segment IV is a segment taken charge of by MAKINO Europe GmbH (Hamburg, Germany). Its main areas are all countries in the European continent except Norway.

Income for each reportable segment denotes operating income, and intersegments are based on market prices in general.

Six months ended September 30, 2010	(Millions of yen)				
	I	II	III	IV	Total
Net sales:					
External customers	¥17,175	¥11,898	¥5,760	¥2,734	¥37,569
Intersegment	12,738	1,400	85	—	14,224
Total	29,914	13,298	5,845	2,734	51,793
Segment income (loss)	¥ (292)	¥ 664	¥ (548)	¥ (552)	¥ (728)
Six months ended September 30, 2011	(Millions of yen)				
	I	II	III	IV	Total
Net sales:					
External customers	¥25,039	¥13,272	¥9,546	¥4,302	¥52,161
Intersegment	16,871	3,292	81	86	20,333
Total	41,911	16,565	9,627	4,388	72,494
Segment income	¥ 1,164	¥ 988	¥ 316	¥ 98	¥ 2,568

Six months ended September 30, 2011

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$326,666	\$173,150	\$124,540	\$56,125	\$680,508
Intersegment	220,104	42,948	1,056	1,121	265,270
Total	546,784	216,112	125,596	57,247	945,779
Segment income	\$ 15,185	\$ 12,889	\$ 4,122	\$ 1,278	\$ 33,502

Reconciliation of reportable segment information to consolidated financial statements

Six months ended September 30,

	Millions of yen		Thousands of dollars
	2010	2011	2011
Segment income (loss)	¥(728)	¥2,568	\$33,502
Elimination	(206)	187	2,439
Consolidated operating income (loss)	¥(934)	¥2,756	\$35,955

6. Subsequent Event

The Company issued unsecured straight bonds on October 17, 2011 in accordance with a resolution of the board of directors passed on October 7, 2011. The following is a summary of the bonds.

- (1) Total principal amount
¥10,000 million (\$130,463 thousand)
- (2) Interest rate
1.00% per annum
- (3) Issue price
¥100 (\$1.30) per face value of ¥100 (\$1.30)
- (4) Settlement date
October 17, 2011
- (5) Maturity
Five years
- (6) Redemption and purchase
 - (a) Final redemption
The bonds will be redeemed at their principal amount on October 17, 2016.
 - (b) Purchase
The Company may purchase the bonds at any time after the settlement date.
- (7) Use of proceeds
The proceeds will be used to repay long-term loans due by December 31, 2013.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying quarterly consolidated balance sheets of Makino Milling Machine Co., Ltd. and subsidiaries (the "Company") as of September 30, 2011 and the related quarterly consolidated statements of income and comprehensive income for the six-month periods ended September 30, 2011 and 2010 and cash flows for the six-month period ended September 30, 2011 and 2010, all expressed in Japanese yen. These quarterly consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our reviews.

We conducted our reviews in accordance with quarterly review standards generally accepted in Japan. A review of quarterly financial statements consists of making inquiries, primarily of management and persons responsible for financial and accounting matters, and applying analytical and other quarterly review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in Japan and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying quarterly consolidated financial statements do not present fairly, in all material respects, the financial position of the Company as of September 30, 2011 and the results of their operations for the six-month periods ended September 30, 2011 and 2010 and their cash flows for the six-month period ended September 30, 2011 and 2010 in conformity with accounting principles for quarterly consolidated financial statements generally accepted in Japan.

As discussed in Note 6 to the consolidated financial statements, the Company issued unsecured straight bonds on October 17, 2011 in accordance with a resolution of the board of directors passed on October 7, 2011.

The United States dollar amounts shown in the quarterly consolidated financial statements referred to above have been translated solely for convenience. We have reviewed this translation and, in our conclusion, the United States dollar amounts in the accompanying quarterly consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

November 11, 2011
Tokyo, Japan

Gyosei & Co.
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