

QUARTERLY REPORT

For the nine months ended December 31, 2017



QUALITATIVE INFORMATION

(1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the nine-month period under review, the Company posted net sales of ¥121,691 million (up 21.5% year on year), operating income of ¥7,595 million, and net income attributable to owners of the parent of ¥5,900 million on a consolidated basis.

Orders received on a consolidated basis for the nine-month period of the fiscal year amounted to ¥153,651 million (up 32.9% year on year). Orders received on a consolidated basis in the third quarter amounted to ¥56,015 million (up 36.1% year on year). Growth in orders received centered on Asia.

The details of orders by geographic region for the third quarter are as follows:

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

Domestic orders received by Makino Milling Machine Co., Ltd. decreased compared to the previous corresponding period.

Whereas in the third quarter of the previous fiscal year an international machine tool fair was held and there was a last-minute hike in orders received utilizing the capital expenditure tax incentive, there were no such factors in the third quarter of the current fiscal year, resulting in the decrease in domestic orders received.

Demand from parts machining customers, including those for semiconductor manufacturing equipment and robots, is expected to remain buoyant, and also because of the positive impact of new products for the die and mold industry, we forecast that orders in the fourth quarter will exceed the level of the previous corresponding period.

MAKINO ASIA PTE LTD

Orders received in Asia exceeded the level of the previous corresponding period.

In China, orders from the smartphone die and mold industry remained favorable and orders received from the automotive die and mold industry increased.

Orders received from parts machining customers for semiconductor manufacturing equipment also increased. Orders received from automotive parts machining customers remained robust.

In India, orders received from automotive and motorcycle parts machining customers increased.

We forecast that orders in the fourth quarter will exceed the level of the previous corresponding period.

MAKINO INC.

Orders received in North America exceeded the level of the previous corresponding period.

We received a large number of orders from parts machining customers for semiconductor manufacturing equipment and medical equipment. Orders from the automotive industry continued to center on small orders.

Orders received from the aircraft industry increased slightly.

We forecast that orders in the fourth quarter will be on a par with the level of the previous corresponding period.

MAKINO Europe GmbH

Orders received in Europe increased compared to the previous corresponding period.

Orders received from automotive and industrial machinery parts machining customers grew, mainly in Italy and Germany.

We forecast that orders in the fourth quarter will be on a par with the level of the previous corresponding period.

(2) Qualitative Information on Consolidated Financial Position

Total assets on a consolidated basis at the end of the third quarter under review increased by ¥19,003 million from the end of fiscal 2017 to ¥266,610 million. Major changes included an increase of ¥14,625 million in inventories, a decrease of ¥6,034 million in notes and accounts receivable, and an increase of ¥5,167 million in investment securities.

Total liabilities decreased by ¥481 million from the end of fiscal 2017 to ¥119,934 million. This was primarily attributable to a decrease of ¥9,060 million in current portion of convertible bonds with stock acquisition rights, and an increase of ¥4,732 million in notes and accounts payable.

Net assets increased by ¥19,485 million from the end of fiscal 2017 to ¥146,676 million, mainly owing to a decrease of ¥5,167 million in treasury stock, an increase of ¥4,140 million in retained earnings, and an increase of ¥3,705 million in unrealized gains on available-for-sale securities.

(3) Qualitative Information on Consolidated Performance Forecasts

The consolidated performance forecasts for the full year of the fiscal year ending March 31, 2018 are unchanged from the figures announced on November 1, 2017.

CONSOLIDATED BALANCE SHEETS

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
March 31, 2017 and December 31, 2017

US\$1=¥113.00

	Millions of yen		Thousands of dollars
	March 31, 2017	December 31, 2017	December 31, 2017
ASSETS			
Current assets:			
Cash and time deposits	¥ 51,668	¥ 52,872	\$ 467,893
Marketable securities	39	40	353
Notes and accounts receivable	44,569	38,535	341,017
Inventories	52,075	66,701	590,274
Deferred income taxes	1,448	1,991	17,619
Other current assets	5,345	6,512	57,628
Allowance for doubtful accounts	(671)	(797)	(7,053)
Total current assets	154,475	165,856	1,467,752
Investments and other assets:			
Investment securities	23,190	28,357	250,946
Long-term loans receivable	419	378	3,345
Deferred income taxes	3,455	2,587	22,893
Net defined benefit assets	181	168	1,486
Other long-term assets	5,522	6,166	54,566
Allowance for doubtful accounts	(335)	(394)	(3,486)
Total investments and other assets	32,433	37,264	329,769
Property, plant and equipment:			
Land	17,643	17,932	158,690
Buildings and structures	68,902	69,764	617,380
Machinery and equipment	36,936	38,653	342,061
Lease assets	2,257	2,165	19,159
Construction in progress	683	4,023	35,601
	126,423	132,539	1,172,911
Accumulated depreciation	(65,725)	(69,050)	(611,061)
Total property, plant and equipment	60,697	63,489	561,849
Total assets	¥ 247,606	¥ 266,610	\$ 2,359,380

The accompanying notes are an integral part of these statements.

US\$1=¥113.00

	Millions of yen		Thousands of dollars
	March 31, 2017	December 31, 2017	December 31, 2017
LIABILITIES AND NET ASSETS			
Current liabilities:			
Notes and accounts payable:			
Trade	¥ 15,100	¥ 15,459	\$ 136,805
Other	7,990	10,494	92,867
Electronically recorded obligations-operating	15,112	19,486	172,442
Short-term loans	2,459	3,219	28,486
Current portion of long-term debt	20,558	12,335	109,159
Short-term lease obligations	265	239	2,115
Accrued expenses	9,538	8,779	77,690
Income taxes payable	903	2,246	19,876
Other current liabilities	3,367	5,422	47,982
Total current liabilities	75,296	77,682	687,451
Long-term liabilities:			
Long-term debt	31,783	27,674	244,902
Long-term lease obligations	1,092	963	8,522
Net defined benefit liabilities	4,960	4,800	42,477
Allowance for directors' and corporate auditors' retirement benefits	70	83	734
Deferred income taxes	5,924	7,441	65,849
Other long-term liabilities	1,289	1,287	11,389
Total long-term liabilities	45,119	42,251	373,902
Net assets:			
Shareholders' equity (Note 3)			
Common stock, no par value	19,263	20,012	177,097
Authorized : 300,000,000 shares			
Issued : 119,944,543 and 121,749,597 shares as of March 31 and December 31, 2017 respectively			
Capital surplus (Note 3)	32,602	35,740	316,283
Retained earnings	71,090	75,230	665,752
Treasury stock (Note 3)	(5,633)	(465)	(4,115)
9,897,144 and 803,771 shares as of March 31 and December 31, 2017 respectively			
Total shareholders' equity	117,322	130,518	1,155,026
Accumulated other comprehensive income			
Unrealized gains on available-for-sale securities	12,473	16,179	143,176
Foreign currency translation adjustments	(43)	2,225	19,690
Remeasurements of defined benefit plans	(3,312)	(3,022)	(26,743)
Total accumulated other comprehensive income	9,117	15,382	136,123
Non-controlling interests	750	774	6,849
Total net assets	127,190	146,676	1,298,017
Total liabilities and net assets	¥ 247,606	¥ 266,610	\$ 2,359,380

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF INCOME

Makino Milling Machine Co., Ltd. and Consolidated Subsidiaries
For the Nine months ended December 31, 2016 and 2017

	Millions of yen		US\$1=¥113.00 Thousands of dollars
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2017
Net sales	¥ 100,144	¥ 121,691	\$ 1,076,911
Cost of sales	71,692	84,402	746,920
Gross profit	28,451	37,288	329,982
Selling, general and administrative expenses	24,563	29,693	262,769
Operating income	3,887	7,595	67,212
Other income (expenses):			
Interest and dividend income	508	607	5,371
Interest expense	(293)	(249)	(2,203)
Gain on sales of property, plant and equipment	144	35	309
Gain on sales of investment securities	7	41	362
Loss on disposal of property, plant and equipment	(97)	(8)	(70)
Exchange gain (loss), net	(408)	315	2,787
Other, net	385	451	3,991
Income before income taxes	4,133	8,789	77,778
Income taxes (Note 2)	932	2,863	25,336
Net income	3,200	5,926	52,442
Net income attributable to non-controlling interests	28	25	221
Net income attributable to owners of the parent	¥ 3,171	¥ 5,900	\$ 52,212

	Yen		Dollars
Per share of common stock:			
Net income attributable to owners of the parent - Basic	¥ 28.82	¥ 53.00	\$ 0.46
- Diluted	25.48	47.01	0.41

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 Nine months ended December 31, 2016 and 2017

	Millions of yen		US\$1=¥113.00 Thousands of dollars
	Nine months ended December 31, 2016	Nine months ended December 31, 2017	Nine months ended December 31, 2017
Net income	¥ 3,200	¥ 5,926	\$ 52,442
Other comprehensive income:			
Unrealized losses on available-for-sale securities	1,970	3,708	32,814
Foreign currency translation adjustments	245	2,269	20,079
Remeasurements of defined benefit plans	441	291	2,575
Other comprehensive income	2,657	6,268	55,469
Total comprehensive income	¥ 5,858	¥ 12,194	\$ 107,911
Total comprehensive income attributable to:			
Owners of the parent	5,827	12,166	107,663
Non-controlling interests	31	28	247
	¥ 5,858	¥ 12,194	\$ 107,911

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 ¥113.00 = US\$1, which was the prevailing exchange rate on December 31, 2017.

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. Notes on Significant Changes in the amount of Shareholder's Equity

During the nine months ended December 31, 2017, capital stock increased by ¥749 million, capital surplus increased by ¥3,044 million, and treasury stock decreased by ¥5,265 million as a result of exercising stock acquisition rights regarding convertible bonds with stock acquisition rights.

4. Dividends

A summary of information regarding dividends is as follows:

(1) Dividends paid in the nine months ended December 31, 2016

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

(2) Dividends in respect of the nine months ended December 31, 2016 which become payable after the balance sheet date

Such dividends were not declared.

(3) Dividends paid in the nine months ended December 31, 2017

Resolution	Class of shares	Amount of dividends	Dividend per share	Funds for dividends	Record date	Effective date
General shareholders' meeting (June 27, 2017)	Common stock	¥880 million \$7,787 thousand	¥8.00 \$0.07	Retained earnings	March 31, 2017	June 28, 2017
Board of Directors (November 1, 2017)	Common stock	¥880 million \$7,787 thousand	¥8.00 \$0.07	Retained earnings	September 30, 2017	December 5, 2017

- (4) Dividends in respect of the nine months ended December 31, 2017 which become payable after the balance sheet date
Such dividends were not declared.

5. Cash Flows

Consolidated statements of cash flows for the nine months ended December 31, 2016 and 2017 have not been prepared. Depreciation and amortization for the nine months ended December 31, 2016 and 2017 are as follows:

	Nine months ended December 31,		
	Millions of yen		Thousands of dollars
	2016	2017	2017
Depreciation and amortization	¥4,119	¥4,251	\$37,619

6. 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.

	Nine months ended December 31, 2016				(Millions of yen)
	I	II	III	IV	Total
Net sales:					
External customers	¥34,610	¥26,610	¥31,394	¥7,527	¥100,144
Intersegment	32,504	5,550	202	42	38,299
Total	67,114	32,161	31,597	7,569	138,443
Segment income (loss)	¥ 1,468	¥ 1,921	¥ 976	¥ (546)	¥ 3,819

	Nine months ended December 31, 2017				(Millions of yen)
	I	II	III	IV	Total
Net sales:					
External customers	¥35,899	¥37,406	¥36,607	¥11,777	¥121,691
Intersegment	43,798	7,415	468	30	51,713
Total	79,698	44,822	37,076	11,808	173,405
Segment income (loss)	¥ 4,012	¥ 3,949	¥ 1,140	¥ (389)	¥ 8,712

Nine months ended December 31, 2017

(Thousands of dollars)

	I	II	III	IV	Total
Net sales:					
External customers	\$317,690	\$331,026	\$323,955	\$104,221	\$1,076,911
Intersegment	387,592	65,619	4,141	265	457,637
Total	705,292	396,654	328,106	104,495	1,534,557
Segment income (loss)	\$ 35,504	\$ 34,946	\$ 10,088	\$ (3,442)	\$ 77,097

Nine months ended December 31,

	Millions of yen		Thousands of dollars
	2016	2017	2017
Segment income	¥3,819	¥ 8,712	\$77,097
Elimination	68	(1,117)	(9,884)
Consolidated operating income	¥3,887	¥ 7,595	\$67,212

7. Subsequent Events

Regarding convertible bonds with stock acquisition rights issued by the Company, all rights were exercised until January 31, 2018, after the end of the third quarter.

The outline is as stated below.

- The number of stock acquisition rights exercised is 292 pieces.
- Decrease of ¥2,920 million in convertible bonds with stock acquisition rights.
- Increase of ¥1,130 million in capital stock.
- Increase of ¥1,330 million in capital surplus.
- Increase of 2,719,610 shares in common stock.



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INDEPENDENT AUDITOR'S QUARTERLY REVIEW REPORT

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

We have reviewed the accompanying quarterly consolidated financial statements of Makino Milling Machine Co., Ltd. (the "Company") and its subsidiaries, which comprise the quarterly consolidated balance sheet as at December 31, 2017, and the quarterly consolidated statements of income and comprehensive income for the nine-month period then ended, and notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express a conclusion on these quarterly consolidated financial statements based on our review. We conducted our review 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. We believe that we have obtained the evidence to provide a basis for our review conclusion.

Conclusion

Based on our review, 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 and its subsidiaries as at December 31, 2017 and their performance for the nine-month period then ended in accordance with accounting principles for quarterly consolidated financial statements generally accepted in Japan.



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Convenience Translation

The United States dollar amounts shown in the quarterly consolidated financial statements referred to above have been translated solely for convenience. We have recomputed 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 described in Note 1.

Tokyo, Japan

February 9, 2018

Gyosei & Co.

GYOSEI & Co.

Certified Public Accountants



NORTH AMERICA · CENTRAL AMERICA

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<http://www.makino.com/>



EUROPE

Makino Europe GmbH
<http://www.makino.de>



ASIA

MAKINO ASIA PTE LTD (Singapore)
<http://www.makino.com.sg/>

MAKINO China Co., Ltd.
<http://www.makino.com.cn/>

MAKINO INDIA PRIVATE LIMITED
<http://makinoindia.co.in/>

- Head Quarter
- ★ Plant / Technical Center
- ▲ Technical Center
- Sales & Service Office



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