



# Consolidated Financial Results for the Six Months of the Fiscal Year Ending March 31, 2017

<Japanese GAAP>

October 31, 2016

Company name: Makino Milling Machine Co., Ltd.  
 Stock exchange listings: First section of Tokyo Stock Exchange  
 Securities code: 6135 URL: <http://www.makino.co.jp/>  
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(Figures are rounded off to the nearest million yen)

## 1. Consolidated Financial Results for the Six Months of the Fiscal Year Ending March 31, 2017

(From April 1, 2016 to September 30, 2016)

(1) Consolidated Results of Operations (cumulative) (% indicate changes from the same period of the previous fiscal year)

|                                     | Net sales   |        | Operating income |        | Ordinary income |        | Net income attributable to owners of the parent |        |
|-------------------------------------|-------------|--------|------------------|--------|-----------------|--------|-------------------------------------------------|--------|
|                                     | (¥ million) | %      | (¥ million)      | %      | (¥ million)     | %      | (¥ million)                                     | %      |
| Six months ended September 30, 2016 | 64,561      | (14.0) | 2,137            | (64.1) | 1,458           | (77.6) | 889                                             | (82.8) |
| September 30, 2015                  | 75,045      | 22.8   | 5,952            | 112.6  | 6,503           | 99.4   | 5,175                                           | 97.6   |

Note: Comprehensive income: Six months ended September 30, 2016: ¥(3,900) million [ - %]

Six months ended September 30, 2015: ¥(609) million [ - %]

|                                     | Net income per share | Diluted net income per share |
|-------------------------------------|----------------------|------------------------------|
|                                     | (¥)                  | (¥)                          |
| Six months ended September 30, 2016 | 8.09                 | 7.15                         |
| September 30, 2015                  | 46.52                | 41.18                        |

## (2) Consolidated Financial Positions

|                          | Total assets | Net assets  | Capital adequacy ratio |
|--------------------------|--------------|-------------|------------------------|
|                          | (¥ million)  | (¥ million) | %                      |
| As of September 30, 2016 | 232,190      | 112,350     | 48.1                   |
| March 31, 2016           | 234,264      | 117,133     | 49.7                   |

Note: Owner's equity as of September 30, 2016: ¥111,646 million

March 31, 2016: ¥116,444 million

## 2. Dividends

|                                              | Annual dividends |                |               |                 |       |
|----------------------------------------------|------------------|----------------|---------------|-----------------|-------|
|                                              | First quarter    | Second quarter | Third quarter | Fiscal year end | Total |
|                                              | (¥)              | (¥)            | (¥)           | (¥)             | (¥)   |
| Fiscal year ended March 31, 2016             | -                | 8.00           | -             | 8.00            | 16.00 |
| Fiscal year ending March 31, 2017            | -                | 8.00           |               |                 |       |
| Fiscal year ending March 31, 2017 (Forecast) |                  |                | -             | 8.00            | 16.00 |

Note: Revisions of the forecast most recently announced : No

## 3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017

(From April 1, 2016 to March 31, 2017)

(% indicate changes from the same period of the previous fiscal year)

|           | Net sales   |        | Operating income |        | Ordinary income |        | Net income attributable to owners of the parent |        | Earnings per share attributable to owners of the parent |
|-----------|-------------|--------|------------------|--------|-----------------|--------|-------------------------------------------------|--------|---------------------------------------------------------|
|           | (¥ million) | %      | (¥ million)      | %      | (¥ million)     | %      | (¥ million)                                     | %      | (¥)                                                     |
| Full year | 140,000     | (13.6) | 7,000            | (51.6) | 6,100           | (60.4) | 5,000                                           | (58.9) | 45.43                                                   |

Note: Revisions of the forecast most recently announced : Yes

\*Others

(1) Material changes in subsidiaries during this period (Changes in specified subsidiaries resulting in the changes in scope of consolidation): No

[ New: - Excluded: - ]

(2) Applying of specific accounting of the consolidated quarterly financial statements: Yes

(3) Changes in accounting policies, accounting estimates and retrospective restatement

1) Changes in accounting policies based on revisions of accounting standard: Yes

2) Changes in accounting policies other than ones based on revisions of accounting standard: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Number of issued and outstanding shares (common stock)

1) Number of issued and outstanding shares at the end of the period (including treasury stock)

|                          |                    |
|--------------------------|--------------------|
| As of September 30, 2016 | 119,944,543 shares |
| As of March 31, 2016     | 119,944,543 shares |

2) Number of treasury stock at the end of the period

|                          |                  |
|--------------------------|------------------|
| As of September 30, 2016 | 9,894,231 shares |
| As of March 31, 2016     | 9,893,017 shares |

3) Average number of shares

|                                     |                    |
|-------------------------------------|--------------------|
| Six months ended September 30, 2016 | 110,050,824 shares |
| Six months ended September 30, 2015 | 111,244,589 shares |

\* Indication regarding execution of quarterly review procedures

This quarterly financial results report is not subject to the quarterly review procedures in accordance with the Financial Instruments and Exchange Law. At the time of disclosure of this quarterly financial results report, the quarterly review procedures to the quarterly consolidated financial statements are in progress.

\* Proper use of the forecast of financial results, and other special matters

The forward-looking statements are based on currently available information and assumptions, contain risks and uncertainty, and do not constitute guarantees of future achievement. Please note that the future results may greatly vary by the changes of various factors.

## QUALITATIVE INFORMATION

### (1) Qualitative Information Relating to Consolidated Quarterly Operating Results

During the six-month period under review, the Company posted net sales of ¥64,561 million (down 14.0% year on year), operating income of ¥2,137 million, and net income attributable to owners of the parent of ¥889 million.

Orders received on a consolidated basis for the first half of the fiscal year amounted to ¥74,426 million (down 5.6% year on year).

The details of orders by geographic region for the first half of the fiscal year are as follows:

#### **Makino Milling Machine Co., Ltd. and its Consolidated Subsidiaries in Japan**

Orders received decreased significantly from the previous corresponding period, partly in reaction to government subsidies for energy conservation implemented in the previous year. However, the volume of orders received remained favorable in light of the plans set at the beginning of the fiscal year.

Despite their high equipment utilization rates, customers were cautious in deciding capital investment. We will endeavor to increase orders received by making proposals aimed at boosting replacement investment.

#### **MAKINO ASIA PTE LTD**

Orders received decreased compared to the previous corresponding period due to the impact of foreign currency translation attributable to the appreciation of the yen. However, orders denominated in local currencies exceeded those of the previous corresponding period.

In China, we saw continued demand mainly from the electrical and electronic industries, although the volume of orders from the auto industry was sluggish.

In India, we received more orders than the previous corresponding period mainly from the motorcycle and auto industries. The Company forecasts orders received will continue to remain at a high level.

#### **MAKINO INC.**

Orders received decreased compared to the previous corresponding period due to the impact of foreign currency translation attributable to the appreciation of the yen.

Customers in the auto-related industries continued to be cautious about capital investment.

Demand from the aircraft industry remained robust. The Company expects that more business talks will actively take place as development plans for new aircrafts advance.

#### **MAKINO Europe GmbH**

Orders received increased compared to the previous corresponding period, as we received orders from the aircraft industry as had been planned.

Orders from parts processing customers recovered significantly from the first quarter when such orders were sluggish. The number of inquiries is increasing in Italy, Austria and other countries in Central Europe. The Company will further strive to obtain more orders in the second half of the fiscal year through the effect of strengthening its sales structure.

#### **(2) Qualitative Information on Consolidated Financial Position**

Total assets on a consolidated basis at the end of the second quarter under review decreased by ¥2,073 million from the end of fiscal 2016 to ¥232,190 million. Major changes included a decrease of ¥7,285 million in notes and accounts receivable, an increase of ¥5,743 million in cash and time deposits and an increase of ¥2,554 million in inventories.

Total liabilities increased by ¥2,709 million from the end of fiscal 2016 to ¥119,840 million primarily due to a decrease in notes and accounts payable trade of ¥10,539 million, an increase in electronically recorded obligations-operating of ¥10,962 million and the issue of bonds of ¥5,000 million.

Net assets decreased by ¥4,783 million from the end of fiscal 2016 to ¥112,350 million mainly due to a decrease of ¥5,250 million in foreign currency translation adjustments.

#### **(3) Qualitative Information on Consolidated Results Forecasts**

The Company has revised the consolidated results forecasts for the full year announced on April 28, 2016.

(% indicate changes from the same period of the previous fiscal year)

|           | Net sales   |        | Operating income |        | Ordinary income |        | Net income attributable to owners of the parent |        | Earnings per share attributable to owners of the parent |
|-----------|-------------|--------|------------------|--------|-----------------|--------|-------------------------------------------------|--------|---------------------------------------------------------|
|           | (¥ million) | %      | (¥ million)      | %      | (¥ million)     | %      | (¥ million)                                     | %      | (¥)                                                     |
| Full year | 140,000     | (13.6) | 7,000            | (51.6) | 6,100           | (60.4) | 5,000                                           | (58.9) | 45.43                                                   |

## 5. Consolidated Financial Statements (Unaudited)

### (1) Consolidated Balance Sheets (As of March 31, 2016 and September 30, 2016)

(in million yen)

|                                        | As of<br>March 31, 2016 | As of<br>September 30, 2016 |
|----------------------------------------|-------------------------|-----------------------------|
| Assets                                 |                         |                             |
| Current assets                         |                         |                             |
| Cash and deposits                      | 52,240                  | 57,984                      |
| Notes and accounts receivable-trade    | 38,682                  | 31,396                      |
| Securities                             | 1,102                   | 114                         |
| Merchandise and finished goods         | 15,328                  | 17,813                      |
| Work in process                        | 12,203                  | 12,954                      |
| Raw materials and supplies             | 23,867                  | 23,186                      |
| Deferred tax assets                    | 1,665                   | 1,583                       |
| Other                                  | 4,636                   | 3,996                       |
| Allowance for doubtful accounts        | (806)                   | (559)                       |
| Total current assets                   | 148,920                 | 148,470                     |
| Noncurrent assets                      |                         |                             |
| Property, plant and equipment          |                         |                             |
| Buildings and structures, net          | 28,929                  | 29,425                      |
| Machinery, equipment and vehicles, net | 6,869                   | 6,024                       |
| Tools, furniture and fixtures, net     | 3,390                   | 3,505                       |
| Land                                   | 17,524                  | 17,300                      |
| Lease assets, net                      | 1,176                   | 1,131                       |
| Construction in progress               | 2,173                   | 1,269                       |
| Total property, plant and equipment    | 60,063                  | 58,655                      |
| Intangible assets                      |                         |                             |
| Other                                  | 1,840                   | 2,073                       |
| Total intangible assets                | 1,840                   | 2,073                       |
| Investments and other assets           |                         |                             |
| Investment securities                  | 17,072                  | 17,882                      |
| Long-term loans receivable             | 443                     | 428                         |
| Deferred tax assets                    | 3,102                   | 2,635                       |
| Net defined benefit asset              | 273                     | 258                         |
| Other                                  | 2,910                   | 2,128                       |
| Allowance for doubtful accounts        | (361)                   | (343)                       |
| Total investments and other assets     | 23,440                  | 22,990                      |
| Total noncurrent assets                | 85,344                  | 83,719                      |
| Total assets                           | 234,264                 | 232,190                     |

(Continued)

|                                                                | (in million yen)       |                            |
|----------------------------------------------------------------|------------------------|----------------------------|
|                                                                | As of<br>March 31,2016 | As of<br>September 30,2016 |
| Liabilities                                                    |                        |                            |
| Current liabilities                                            |                        |                            |
| Notes and accounts payable-trade                               | 21,249                 | 10,710                     |
| Electronically recorded obligations - operating                | 3,124                  | 14,086                     |
| Short-term loans payable                                       | 5,058                  | 4,410                      |
| Current portion of bonds                                       | 10,000                 | 10,000                     |
| Current portion of long-term loans payable                     | 1,405                  | 2,685                      |
| Lease obligations                                              | 279                    | 275                        |
| Income taxes payable                                           | 1,543                  | 536                        |
| Other                                                          | 19,733                 | 15,882                     |
| Total current liabilities                                      | 62,393                 | 58,585                     |
| Noncurrent liabilities                                         |                        |                            |
| Bonds payable                                                  | -                      | 5,000                      |
| Convertible bond-type bonds with subscription rights to shares | 11,980                 | 11,980                     |
| Long-term loans payable                                        | 29,591                 | 32,465                     |
| Lease obligations                                              | 1,156                  | 1,099                      |
| Deferred tax liabilities                                       | 4,275                  | 4,148                      |
| Provision for directors' retirement benefits                   | 61                     | 65                         |
| Net defined benefit liability                                  | 5,616                  | 5,306                      |
| Other                                                          | 2,055                  | 1,187                      |
| Total noncurrent liabilities                                   | 54,736                 | 61,254                     |
| Total liabilities                                              | 117,130                | 119,840                    |
| Net assets                                                     |                        |                            |
| Shareholders' equity                                           |                        |                            |
| Capital stock                                                  | 19,263                 | 19,263                     |
| Capital surplus                                                | 32,602                 | 32,602                     |
| Retained earnings                                              | 65,254                 | 65,263                     |
| Treasury stock                                                 | (5,629)                | (5,630)                    |
| Total shareholders' equity                                     | 111,490                | 111,498                    |
| Accumulated other comprehensive income                         |                        |                            |
| Valuation difference on available-for-sale securities          | 8,796                  | 8,654                      |
| Foreign currency translation adjustment                        | 971                    | (4,279)                    |
| Remeasurements of defined benefit plans                        | (4,814)                | (4,228)                    |
| Total accumulated other comprehensive income                   | 4,954                  | 147                        |
| Non controlling interests                                      | 689                    | 703                        |
| Total net assets                                               | 117,133                | 112,350                    |
| Total liabilities and net assets                               | 234,264                | 232,190                    |

## (2) Consolidated Income Statements and Comprehensive Income Statement

(in million yen)

|                                                      | Six month ended<br>September 30, 2015 | Six month ended<br>September 30, 2016 |
|------------------------------------------------------|---------------------------------------|---------------------------------------|
| Net sales                                            | 75,045                                | 64,561                                |
| Cost of sales                                        | 52,259                                | 46,162                                |
| Gross profit                                         | 22,785                                | 18,399                                |
| Selling, general and administrative expenses         | 16,833                                | 16,261                                |
| Operating income                                     | 5,952                                 | 2,137                                 |
| Non-operating income                                 |                                       |                                       |
| Interest and dividends income                        | 420                                   | 296                                   |
| Rent income                                          | 117                                   | 115                                   |
| Other                                                | 423                                   | 210                                   |
| Total non-operating income                           | 962                                   | 622                                   |
| Non-operating expenses                               |                                       |                                       |
| Interest expenses                                    | 246                                   | 203                                   |
| Foreign exchange losses                              | 46                                    | 1,025                                 |
| Other                                                | 118                                   | 72                                    |
| Total non-operating expenses                         | 411                                   | 1,301                                 |
| Ordinary income                                      | 6,503                                 | 1,458                                 |
| Extraordinary income                                 |                                       |                                       |
| Gain on sales of noncurrent assets                   | 22                                    | 69                                    |
| Gain on sales of investment securities               | 33                                    | 7                                     |
| Total extraordinary income                           | 56                                    | 77                                    |
| Extraordinary loss                                   |                                       |                                       |
| Loss on retirement of noncurrent assets              | 32                                    | 66                                    |
| Total extraordinary losses                           | 32                                    | 66                                    |
| Income before income taxes                           | 6,526                                 | 1,468                                 |
| Income taxes                                         | 1,337                                 | 562                                   |
| Net income                                           | 5,189                                 | 905                                   |
| Net income attributable to non controlling interests | 14                                    | 16                                    |
| Net income attributable to owners of the parent      | 5,175                                 | 889                                   |

(Continued)

|                                                                | (in million yen)                      |                                       |
|----------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                | Six month ended<br>September 30, 2015 | Six month ended<br>September 30, 2016 |
| Net income                                                     | 5,189                                 | 905                                   |
| Other comprehensive income                                     |                                       |                                       |
| Valuation difference on available-for-sale securities          | (4,487)                               | (141)                                 |
| Deferred gains or losses on hedges                             | 4                                     | -                                     |
| Foreign currency translation adjustment                        | (1,468)                               | (5,250)                               |
| Remeasurements of defined benefit plans, net of tax            | 152                                   | 587                                   |
| Total other comprehensive income                               | (5,799)                               | (4,805)                               |
| Comprehensive income                                           | (609)                                 | (3,900)                               |
| Comprehensive income attributable to                           |                                       |                                       |
| Comprehensive income attributable to owners of the parent      | (622)                                 | (3,916)                               |
| Comprehensive income attributable to non controlling interests | 12                                    | 16                                    |

## (3) Consolidated Statements of Cash flows

|                                                                     | (in million yen)                      |                                       |
|---------------------------------------------------------------------|---------------------------------------|---------------------------------------|
|                                                                     | Six month ended<br>September 30, 2015 | Six month ended<br>September 30, 2016 |
| Net cash provided by (used in) operating activities                 |                                       |                                       |
| Income before income taxes                                          | 6,526                                 | 1,468                                 |
| Depreciation and amortization                                       | 2,718                                 | 2,664                                 |
| Increase (decrease) in allowance for doubtful accounts              | (178)                                 | (196)                                 |
| Increase (decrease) in provision for directors' retirement benefits | 4                                     | 4                                     |
| Increase (decrease) in net defined benefit liability                | (41)                                  | 366                                   |
| Interest and dividends income                                       | (420)                                 | (296)                                 |
| Interest expenses                                                   | 246                                   | 203                                   |
| Foreign exchange losses (gains)                                     | 7                                     | 17                                    |
| Loss (gain) on sales of investment securities                       | (33)                                  | (7)                                   |
| Loss (gain) on sales of property, plant and equipment               | (22)                                  | (69)                                  |
| Loss on retirement of property, plant and equipment                 | 32                                    | 66                                    |
| Decrease (increase) in notes and accounts receivable-trade          | 8,992                                 | 4,597                                 |
| Decrease (increase) in inventories                                  | (3,186)                               | (5,764)                               |
| Increase (decrease) in notes and accounts payable-trade             | (2,285)                               | 3,170                                 |
| Other, net                                                          | (2,837)                               | (1,660)                               |
| Subtotal                                                            | 9,523                                 | 4,564                                 |
| Interest and dividends income received                              | 414                                   | 293                                   |
| Interest expenses paid                                              | (239)                                 | (198)                                 |
| Income taxes paid                                                   | (1,828)                               | (1,373)                               |
| Net cash provided by (used in) operating activities                 | 7,870                                 | 3,285                                 |
| Net cash provided by (used in) investing activities                 |                                       |                                       |
| Decrease (increase) in time deposits                                | 500                                   | (300)                                 |
| Purchase of property, plant and equipment                           | (3,611)                               | (3,639)                               |
| Proceeds from sales of property, plant and equipment                | 176                                   | 323                                   |
| Purchase of investment securities                                   | (2)                                   | (1,002)                               |
| Proceeds from sales of investment securities                        | 49                                    | 15                                    |
| Other, net                                                          | 508                                   | (642)                                 |
| Net cash provided by (used in) investing activities                 | (2,378)                               | (5,245)                               |
| Net cash provided by (used in) financing activities                 |                                       |                                       |
| Net increase (decrease) in short-term loans payable                 | 273                                   | (187)                                 |
| Repayments of finance lease obligations                             | (154)                                 | (147)                                 |
| Proceeds from long-term loans payable                               | 1,500                                 | 5,000                                 |
| Repayment of long-term loans payable                                | (1,702)                               | (702)                                 |
| Proceeds from issuance of bonds                                     | -                                     | 5,000                                 |
| Purchase of treasury stock                                          | (2)                                   | (0)                                   |
| Cash dividends paid                                                 | (887)                                 | (882)                                 |
| Cash dividends paid to non controlling shareholders                 | (1)                                   | (2)                                   |
| Net cash provided by (used in) financing activities                 | (975)                                 | 8,077                                 |
| Effect of exchange rate change on cash and cash equivalents         | (756)                                 | (2,059)                               |
| Net increase (decrease) in cash and cash equivalents                | 3,759                                 | 4,057                                 |
| Cash and cash equivalents at beginning of period                    | 42,232                                | 52,364                                |
| Cash and cash equivalents at end of period                          | 45,992                                | 56,421                                |

## 6. 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. (Mason, Ohio, 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 (Hamburg, Germany) is responsible. It covers 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, 2015

(Millions of yen)

|                    | I       | II      | III     | IV     | Total   |
|--------------------|---------|---------|---------|--------|---------|
| Net sales:         |         |         |         |        |         |
| External customers | ¥24,637 | ¥22,057 | ¥21,416 | ¥6,932 | ¥75,045 |
| Intersegment       | 24,902  | 4,746   | 277     | 63     | 29,989  |
| Total              | 49,540  | 26,804  | 21,694  | 6,996  | 105,035 |
| Segment income     | ¥4,001  | ¥1,713  | ¥633    | ¥161   | ¥6,509  |

Six months ended September 30, 2016

(Millions of yen)

|                      | I       | II      | III     | IV     | Total   |
|----------------------|---------|---------|---------|--------|---------|
| Net sales:           |         |         |         |        |         |
| External customers   | ¥20,891 | ¥18,809 | ¥20,440 | ¥4,420 | ¥64,561 |
| Intersegment         | 24,344  | 3,924   | 141     | 25     | 28,436  |
| Total                | 45,236  | 22,733  | 20,581  | 4,446  | 92,997  |
| Segment income(loss) | ¥1,226  | ¥1,307  | ¥510    | (¥414) | ¥2,630  |

|                               | Six months ended September 30, |        |
|-------------------------------|--------------------------------|--------|
|                               | Millions of yen                |        |
|                               | 2015                           | 2016   |
| Segment income                | ¥6,509                         | ¥2,630 |
| Elimination                   | (557)                          | (492)  |
| Consolidated operating income | ¥5,952                         | ¥2,137 |