Makita Corporation

Additional Information
for the year ended March 31, 2015

General Overview of Business

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

CONTENTS

【Operating results】

(1) Outline of operations results for the year ended March 31, 2015

Looking at the global economic situation for the year ended March 31, 2015, in Western Europe, the U.K. economy remained solid, while economic growth slowed in the eurozone. The Russian economy faced a tougher situation due to soured relations with Europe and the U.S. over political uncertainty in Ukraine and the economic sanctions. Meanwhile, the U.S. economy kept growing against the backdrop of solid consumer spending and housing investment. In Asia, the overall economy followed a moderate recovery track, despite the sluggish growth in China. Japanese economy showed signs of recovery, aided by improved corporate capital investment and higher exports, which more than offset sluggish consumption following the increase of the consumption tax rate.

Under these circumstances, on the development side, Makita was aggressive about developing new products. Among those launched in the year were high-capacity lithium ion batteries and rechargeable electric power tools that are compact in size but achieve high output with the installation of brushless electric motors. On the production side, overseas factories strived to reduce costs while raising local content ratios. To improve product quality and enhance productivity, overseas factories worked on introducing facilities that require less manpower. On the marketing side, Makita maintained and enhanced customer-oriented sales and after-sale systems. Specifically, we established a sales subsidiary in Kazakhstan and relocated offices of our local subsidiaries in Australia and Mexico to upgrade systems to supply products and services.

Our consolidated net sales for this year increased by 8.2% to 414,718 million yen compared to the previous year, marking the fifth consecutive year increase and an all-time high. The strong showing was attributed to brisk sales in the domestic market and steady overseas sales in almost all countries, especially in Western Europe. The strong sales also reflected the yen's depreciation against other major currencies such as the dollar and the euro during the reporting year, which generated exchange gains. Operating income increased by 30.9% to 71,905 million yen (operating income ratio: 17.3%) compared to the previous year because striving to reduce costs improved the ratio of cost against net sales. Income before income taxes and net income attributable to Makita Corporation increased by 20.0% to 68,394 million yen (income before income taxes ratio: 16.5%) and by 17.8% to 45,307 million yen (net income attributable to Makita Corporation ratio: 10.9%) compared to the previous year.

Net sales results by region were as follows:

Net sales in Japan increased by 2.6% to 67,740 million yen compared to the previous year. This was because of brisk sales of lithium ion batteries, which more than offset negative effects from a fall in housing starts.

Net sales in Europe increased by 6.0% to 175,254 million yen. This was because of steady demand in Western Europe and the yen's depreciation against the euro.

Net sales in North America increased by 14.6% to 57,168 million yen. This was because of favorable sales to home improvement retailers compared to the previous year, as well as the yen's depreciation against the US dollar.

Net sales in Asia mixed from country to country, but increased by 13.3% to 39,643 million yen. This was because of firm sales mainly in countries where Makita had established sales subsidiaries in recent years, such as Vietnam and Malaysia.

Sales situations in other regions are as follows. Net sales in Central and South America increased by 7.9% to 30,287 million yen compared to the previous year due to steady sales, despite a stagnant market. In addition, net sales in Oceania increased by 14.2% to 23,759 million yen and those in the Middle East and Africa increased by 15.5% to 20,867 million yen because demand recovered in these regions.

(2) Analysis on cash flows and financial ratios

Total cash and cash equivalents at the end of the year amounted to 94,529 million yen, increased by 12,797 million yen compared to the end of the previous year.

(Net Cash Provided by Operating Activities)

Net cash provided by operating activities amounted to 35,894 million yen, down by 5,792 million yen over the previous year (41,686 million yen for the previous year) because inventories increased.

(Net Cash Used in Investing Activities)

Net cash used in investing activities amounted to 20,096 million yen, up 12 million yen over the previous year (20,084 million yen for the previous year) because we increased time deposit and purchase of investment securities.

(Net Cash Used in Financing Activities)

Net cash used in financing activities amounted to 12,017 million yen, up 4,652 million yen over the previous year (7,365 million yen for the previous year) because we increased payments on short term borrowings and cash dividends paid from the previous year.

【Production, Orders Received and Sales】

Makita does not present orders received in amount or in quantity because it operates under make-to-stock manufacturing system.

Production volume, based on selling price, for this fiscal year increased 34,353 million yen (12.4%) to 311,846 million yen compared to the previous year.

Consolidated net sales for this year increased by 8.2% to 414,718 million yen compared to the previous year.

Because Makita operates in a single business of manufacturing and selling mainly power tools, and has organized as a single business division, no explanations are provided for in the context of business segments.

【Challenges the Company faces】

In developed countries, competition among companies is expected to intensify further because recovery of demand will remain moderate. In emerging countries including Asia, where economy is expected to expand over the medium term, the needs for affordable products are forecasted to grow. With foreign exchange rate trends and international political situations being unpredictable, Makita is expected to continue facing a challenging business environment.

In projecting the operational results for the next fiscal year, we use the following assumptions:

・ In Japan, significant increase in housing start is difficult to expect.
・ In U.S., competition is expected to intensify further, though demand for power tools is likely to increase due to gradual economic recovery.
・ Rapid recovery of the Russian economy is unlikely.
・ It is hard to expect an increase in demand for power tools in emerging countries due to the stagnation of economic activities caused by uncertain political situations.

To cope with these assumed conditions, Makita will:

・ Strengthen its R&D and product development capabilities with respect to environmentally friendly power tools and gardening equipment;
・ Promote the development of products that meet needs in both developed countries and emerging countries, which have been becoming bipolar;
・ Implement measures to improve the efficiency of production, procurement and distribution, while taking advantage of global production organizations.
・ Strive to improve its marketing and brand power by fine-tuned response to customer needs and further improved after-sales service.

【Risk factors】

The following is a summary of some of the significant risks, concerning the business and financial conditions stated in the financial statements, which could affect investors' decision-making. Additionally, some risks that may be currently unknown to Makita and other risks that are currently believed to be immaterial, may become material.

Makita's sales are affected by the levels of construction activities and capital investments in its markets.

The demand for power tools, Makita's main products, is affected to a large extent by the levels of new housing construction, demand for household renovations, public investment and private investments. Generally speaking, the levels of construction activities and capital investment and consumption trends depend largely on the economic conditions in the market.

As a result, when economic conditions weaken in Japan, Europe, North America, Asia, Central and South America, Oceania, the Middle East and Africa where Makita conducts business actively, this may have an adverse impact on Makita's financial condition and results of operations. Uncertainty of world economic condition may adversely affect construction activities and consumption, and Makita's sales may decrease. Consequently, the ratio of selling, general, administrative and others expense (hereinafter called "SGA expenses") against net sales may become relatively high, and as a result, profit margin may decrease. Such conditions may require reorganization and restructuring of production facilities and sales/distribution sites. If a sovereign debt crisis erupts in other country, it may have further adverse effects on the level of new housing construction, demand for household renovations, public investment and private investments due to the tightening of credit because of fears of failure of financial institutions or further decrease in public spending because of the austerity budget.

Currency exchange rate fluctuations may affect Makita's financial results.

The functional currency for all of Makita's significant foreign operations is the local currency. Assets and liabilities of overseas subsidiaries denominated in their local currencies are translated into Japanese yen at the exchange rate in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange prevailing during each fiscal year. The resulting currency translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity. Currently, over 80% of Makita's overall production and sales are generated overseas and a significant portion thereof is dominated in currencies other than Japanese yen. Consequently, fluctuations in exchange rates may have a significant impact on Makita's results of operations, assets and liabilities and shareholders' equity when translated into Japanese yen.

Makita is affected by fluctuations in the value of the euro, the U.S. dollar and Chinese Renmin yuan, among other currencies. The euro and the U.S. dollar are the primary foreign currencies on which Makita bases its foreign sales and the U.S. dollar and Chinese Renmin yuan are the primary foreign currencies on which Makita bases its foreign production.

In an effort to minimize the impact of short-term exchange rate fluctuations between major currencies, mainly the euro, the U.S. dollar, and the Japanese yen, Makita engages in hedging transactions. However, medium to long-term fluctuations of exchange rates may affect Makita's ability to execute procurement, production, logistics and sales activities as planned and may have an adverse impact on Makita's financial condition and results of operations.

Rapid fluctuation in exchange rates may give rise to more than expected effects on Makita's results of operations. In addition, further depreciation of the Japanese yen against the Chinese Renmin yuan, may have an adverse impact on Makita's financial condition and results of operation because significant amount of materials, parts and finished products are imported from China.

Makita faces intense competition in the global market for its power tools for professional use.

The global market for power tools for professional use is highly competitive. Factors that affect competition in the markets for Makita's products include the quality, functionality of products, price, technological developments, the pace of new product development, reliability of products, such as safety and durability, the rise of new competitors, brand images and after-sales service.

While Makita strives to ensure its position as a leading international supplier of power tools for professional use, there is no guarantee that it will be able to effectively maintain its competitiveness in the future.

If Makita is unable to compete effectively, it may lose market share and its earnings may be adversely affected. In particular, in the event of a global recession in which demand for goods and services sharply drops, earnings and cash flows of Makita may be negatively affected by intensified competition and lowered product prices.

Makita's overseas activities and entry into overseas markets entail risks, which may have a material adverse effect on Makita's business activities.

The high percentage of overseas sales and production gives rise to a number of risks. If such risks materialize, they may have a material adverse impact on Makita's financial condition and results of operations. Such risks include the following:

(1) Disadvantageous political and economic factors;
(2) Large-scale natural disaster, such as earthquakes, floods and fires;
(3) Enactments of and changes in laws and regulations, such as protectionist trade policy or change in tariff policy affecting markets in which Makita conducts its business;
(4) The outflow of technical know-how and knowledge due to increased personnel turnover, enabling Makita's competitors to strengthen their position;
(5) Potentially unfavorable tax systems and tariffs;
(6) Terrorism, war, and other factors that lead to social turbulence; and
(7) The interruption of or disruption to Makita's operations due to labor disputes.

If Makita is not able to develop attractive products, Makita's sales may be adversely affected.

In order to compete effectively, Makita needs to, among other things, provide its customers a diverse product line-up supported by the development of high-quality and high-performance professional power tools, and build on the MAKITA brand value maintained and promoted by the effort of a strong world-wide sales and after-sale service network. There is no assurance that Makita will be able to continue to develop new products across its diverse product line-up. If Makita is no longer able to develop in a timely manner new products that meet the changing needs and correspond to market price for high-end, professional users, Makita may not be able to compete effectively, and Makita's financial condition and results of operations may be adversely impacted.

Geographic concentration of Makita's main offices and facilities may have adverse effects on Makita's business activities.

Makita's principal management functions, including its headquarters, and most suppliers on which it relies for supplying major parts are located in Aichi Prefecture, Japan and Kunshan, Jiangsu Province, China. Due to this geographic concentration of Makita's major functions, including plants and other operations in certain regions of Japan and China, Makita's performance may be significantly affected by the occurrence of major disasters and other catastrophic events, including earthquakes (particularly massive earthquakes in areas such as Kanto, Tokai, Tonankai or Nankai), radioactive contamination, floods, fires, power outages, and suspension of water supplies.

In addition, Makita's facilities in China may also be affected by changes in political and legal environments, changes in economic conditions, revisions in tariff rates, labor disputes, hikes in personnel expenses, epidemics and other factors.

In the event that such developments cannot be foreseen or measures taken to alleviate their damaging impact are inadequate, it may have an adverse impact on Makita's financial condition and results of operations.

If the procurement of raw materials used by Makita becomes difficult or prices of these raw materials rise sharply, this may have an adverse effect on Makita's performance.

Makita purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts for production activities. The production plans are dependent on the on-schedule delivery of materials. If Makita is unable to obtain the necessary quantities of these materials, this may have an adverse effect on production. If delivery takes longer due to the lack of certain elements and increase in production is difficult, production activity of electric components facing high demand of emerging countries may not be met. In addition, the change in the element markets, impact on currency exchange, or rise in labor of the markets may also push up the prices of raw materials and components. In such an event, if the increase in prices cannot be offset by improvements in Makita's productivity, other internal cost-cutting efforts and/or raising the prices of final products, this may have an adverse impact on Makita's financial condition and results of operations.

If any of Makita's suppliers fail to deliver materials or parts required for production as scheduled, Makita's production activities may be adversely affected.

Makita's purchase activities include those dependent on certain suppliers who cannot be substituted. For example, when launching new products, sales commencement dates can slip if such manufacturers' technologies do not satisfy Makita's demands or take an inordinate amount of time to satisfy Makita's demands. This may result in lost sales opportunities. There is no assurance that Makita would be able to find alternate suppliers, if necessary, that can provide materials and parts of similar quality and price in a sufficient quantity and in a timely manner. If a supplier cannot deliver the required quality or quantity of parts on schedule due to reasons including natural disasters, government regulations, its production capacity or weakened business or financial condition, this may have an adverse effect on Makita's production schedules and cause a delay in Makita's own product deliveries. Any of these occurrences may have an adverse impact on Makita's financial condition and results of operations.

If Makita fails to maintain its relationships with its significant customers or if such significant customers reduce their purchases and sales of Makita's product, Makita's sales may be significantly affected.

Although Makita does not have any customer from which it derives 10% or more of its consolidated sales, it has significant customers in each country. If Makita loses these customers and is unable to develop new sales channels to take their place, or if any such customer faces significant financial difficulties or accumulates a considerable amount of bad debt, sales to such customers may decline and this may have an adverse impact on Makita's financial condition and results of operations. In addition, if significant customers of Makita select power tools from Chinese manufacturers or select products other than those produced by Makita and sell such products under their own brand instead of Makita's products, this may have an adverse impact on Makita's financial condition and results of operations.

Makita may not be able to protect its intellectual property rights and may incur significant liabilities, litigation costs or licensing expenses or be prevented from selling its products if it is determined to be infringing the intellectual property of third parties.

In regions significant for Makita's sales and production, Makita applies for patents, designs and trademarks, and strives to protect intellectual property rights proactively. However, Makita may not be able to eliminate completely third party products that infringe on the intellectual property rights of Makita or third party products similar to Makita's products. This may have a negative influence on Makita's results of operations. Moreover, while Makita believes that it does not infringe on intellectual property rights of third parties, it may be subject to infringement claims from third parties. When infringement of intellectual property rights is claimed by a third party, Makita may be required to pay damages or become subject to an injunction prohibiting production and sales of a product. This may have an adverse impact on Makita's financial condition and results of operation.

Product liability litigation or recalls may harm Makita's financial statements and reputation.

Makita is developing a variety of products including power tools under the safety standards of each country, and is manufacturing them globally based on the quality standards applicable to each factory. However, a large-scale recall and a large-scale product liability lawsuit may significantly damage Makita's brand image and reputation. In addition, related costs and time incurred through a recall or a lawsuit may affect business performance and financial condition of Makita if Makita's insurance policy does not cover the related costs. Accordingly, large-scale recalls and large-scale product liability lawsuits may have an adverse impact on Makita's financial condition and results of operations.

Fluctuations in stock market prices may adversely affect Makita's financial statements.

Makita holds certain investments in Japanese equities and investments in trust, and records these investments as short-term investments and investments on its consolidated financial statements. The value of these investments changes based on fluctuations in the quoted market prices. Fluctuations in the value of these securities may have an adverse impact on Makita's financial condition and results of operations.

Environmental or other government regulations may have a material adverse impact on Makita's business activities.

Makita maintains strict compliance with environmental, commercial, export and import, tax, safety and other regulations that are applicable to its business in all the countries and areas in which it operates. In light of the heightened awareness seen across the globe on environmental issues including global warming and climate change, new environmental or other government regulations designed to decrease environmental impact have been adopted in many regions, especially in European and North American countries in recent years. Operational results and financial condition of Makita may be adversely affected if Makita fails to respond to such specifications or terms and conditions, unable to respond in a timely manner, or the cost of compliance is greatly higher.

If Makita's IT operations network halts or malfunctions, Makita's production and shipment schedule may be adversely affected.

Makita's headquarters and its major sales, manufacturing and R&D bases are located in Japan, and its procurement, manufacturing, sales and product development site are located worldwide. In addition, Makita's major manufacturing facilities are concentrated in China and Japan. These sites are connected globally through an operational network. If Makita's information network and systems, which rely on both company networks and systems and third party networks and systems, halt or malfunction due to any factor, such as earthquakes, fires and floods, or power outages, or wars, terrorist acts, cyber attack or computer viruses, despite safety measures Makita has undertaken, such an event may delay production and shipments of Makita's products. This may have an adverse impact on Makita's financial condition and results of operations. In addition, improper use of or accidents involving information network and systems may affect business operations or reveal confidential or private information, lead to legal liability, lawsuits or monetary damages or damage on Makita's reputation or brand images and thereby cause an adverse effect on its operating results.

If Makita is unable to retain talented personnel, this may have an adverse effect on Makita's competitiveness and result of operations.

Makita considers the retention and development of talented personnel with the expertise and technological skills to be critical to its competitiveness. Makita also considers important the development and retention of personnel in management in Makita's group companies. However, competition in recruiting and retaining global talent requisite for technology innovation and management has become increasingly challenging. Given such a labor and social climate, failure of the Makita Group to hire competent employees or develop human resources in accordance with the management plan or retain experienced employees may have an adverse effect on the business development, operational results and growth prospects of the Makita Group.

【Material contracts】

Not applicable.

【Research and development】

As an internationally integrated supplier of power tools that benefit people's daily lives and assist in home improvements, Makita pursues the development of power tools, pneumatic tools and gardening equipment in its own Research and Development division, such as the development of gardening equipment at Dolmar G.m.b.H. (Germany). 899 of Makita's employees are engaged in research and development of technologies in which Makita has a competitive edge and the development of new products.

Makita regards R&D as a high priority and believes that having a strong capability in R&D is crucial to its continuing development of high-quality, reliable products that meet users' needs.

In FY2015, Makita allocated 9,117 million yen to R&D, an increase of 4.6% compared with FY2014. The ratio of R&D expenses to net sales was 2.2% in FY2015. As of March 31, 2015, Makita owned 3,230 patents, utility model registration and design rights (inclusive of 2,401 patents and utility model registration) in and outside of Japan.

Makita is placing greater emphasis on designing power tools that are smaller and lighter, that feature electronic controls and that have internal power sources allowing for cordless operation. Makita has developed the Optimum Charging System, a battery recharging system that employs digital communication functions between the recharger and the battery to provide information on the status of the battery's charge, and automatically selects the most appropriate recharging mode. This system enables batteries to last longer. In particular, for lithium-ion batteries, the total operable hours of use have increased 3.3 times longer than conventional batteries. Makita also developed an original battery verification system that can be connected to personal computers. Through the use of this system, customers and users can check the status of the battery's charge and the history of the battery's usage.

Makita is also placing more emphasis on developing safe products with reduced dust emissions that feature low noise and low vibration to meet operating environment-related regulations, which have become increasingly stringent, especially in Europe. In addition, Makita developed power tools featuring an AVT mechanism. These power tools have been highly acclaimed by professional users. Makita also focuses on designing recyclable products that are environmentally-friendly and strives to reduce the development time for new products in order to effectively meet the needs of users.

New products launched during FY2015 included a cordless angle grinder with feature of excellent performance as powerful as AC model equipped with brushless motor and a petrol chain saw with combined features of low fuel consumption and high power equipped with a stratified scavenging engine.

Because Makita operates in a single business of manufacturing and selling mainly power tools, and has organized as a single business division, no explanations are provided for in the context of business segments.

【Analyses of Financial Position, Operating Results and Cash Flows】

Analyses and discussions of the Company's Financial Position, Operating Results and Cash Flows are based on its Consolidated Financial Statements.

This report may constitute "forward-looking statements" based on our assumptions and assessment. The power tools market where the Company operates may be subject to sudden changes in economic circumstances, demand for housing, foreign exchange rate, changes in the competition with rival enterprises and other factors. These changes in risk and circumstances may bring about significantly different results from those described in this report. Accordingly, the description related to the future is the Company's own judgment and does not state its realizability.

General Overview

Makita's principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, approximately 84% of Makita's sales were outside of Japan. Makita is affected to a large extent by demand for power tools worldwide, which in turn is influenced by factors including housing starts, demand for household renovations, public investment and private capital expenditures.

Makita’s primary products are power tools such as drills, rotary hammers, hammer drills, demolition hammers, grinders and cordless impact drivers. Sales of these products accounted for more than 65% of Makita’s total net sales.

Sales of gardening equipment and household products, such as engine equipped with brush-cutters and cordless cleaners accounted for about 19% of Makita’s total net sales.

Developed countries in North America and Europe have mature markets for DIY products, and demand for power tools in developed countries is affected significantly by changes in consumers spending. Demand for power tools in emerging countries is expected to expand as their economies grow.

Developments in technology have also driven the market for power tools. In particular, in recent years the development of rechargeable electric tools featuring small, light and high-capacity lithium-ion batteries has resulted in an increased demand for rechargeable electric tools as more users begin to replace their conventional power tools, which use NiCad or nickel hydride batteries, with those that use the new lithium-ion batteries.

Makita has established a solid presence worldwide with its portable power tools; however, competition is intensifying on a global basis.

Although sales remained sluggish in Western countries because of the effects of financial uncertainty, by introducing attractive new products and making the most of its competitive edge in its sales and after-sales service network, our consolidated net sales for this year increased by 8.2% to 414,718 million yen compared to the previous year. In Western Europe, the U.K. economy remained solid, while economic growth slowed in the eurozone. The U.S. economy kept growing against the backdrop of solid consumer spending and housing investment. In Asia, the overall economy followed a moderate recovery track, despite the sluggish growth in China. Brazil's economy, in spite of decrease in investment and export, remained at the same level owing to the growth of private consumption. The Russian economy faced a tougher situation due to soured relations with Europe and the U.S. over political uncertainty in Ukraine and the economic sanctions. Australia's economy, despite of sluggish export, has shown the recovery of demand across the country thanks to the improved home-buying. The Japanese economy showed signs of recovery, aided by improved corporate capital investment and higher exports, which more than offset sluggish consumption following the increase of the consumption tax rate.

Under such economic conditions, Makita has made a group-wide effort with respect to cost reduction and promoted reinforcement of the management foundation.

On the development side, Makita was aggressive about developing new products. Among those launched in the year were high-capacity lithium ion batteries and rechargeable electric power tools that are compact in size but achieve high output with the installation of brushless electric motors. From the production perspective, overseas factories strived to reduce costs while raising local content ratios. To improve product quality and enhance productivity, overseas factories worked on introducing facilities that require less manpower.

From the sales perspective, Makita maintained and enhanced customer-oriented sales and after-sale systems. Specifically, we established a sales subsidiary in Kazakhstan and relocated offices of our local subsidiaries in Australia and Mexico to upgrade systems to supply products and services.

Makita's management goal is to generate substantial profits and maintain a 10% operating margin (ratio of operating income to net sales) through sustainable growth on a consolidated basis. Furthermore, as a medium-to-long-term strategy, Makita aims to enhance its brand value to attain and maintain its position as a leading multinational, integrated supplier of all types of tools such as power tools for professional use, pneumatic tools and gardening equipment.

Makita believes that this goal can be attained through the development of new products that bring high satisfaction to professional users; concerted global production systems targeting both high-quality and cost competitiveness; and the maintenance of industry-leading sales and after-sales service systems nurtured in Japan and extended overseas. To implement the foregoing, Makita is working to maintain a solid financial structure that responds well to unexpected changes in the business environment, including the risk of exchange rate fluctuations, geographical risks and the risk caused by the concentration of its management resources and manufacturing facilities.

As part of the Company's policy to maximize shareholders returns, the Company paid an interim dividend of 18 yen per share in November 2014 and a year-end dividend of 100 yen per share was approved at the Ordinary General Meeting of Shareholders held on June 25, 2015.

Currency Fluctuations

Makita is affected by fluctuations in foreign currency exchange rates due to its business spanning the global market. Makita is primarily exposed to fluctuations of the Japanese yen against the euro, the U.S. dollar, as well as other currencies of countries where Makita does business. Makita's consolidated financial statements, presented in Japanese yen, are affected by currency exchange rate fluctuations through both translation and transaction risks.

Translation risk is the risk that Makita's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates between the Japanese yen and the currencies in which the subsidiaries prepare their financial statements. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Makita's underlying results of operations.

Transaction risk is the risk that the currency structure of Makita's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Makita enters into foreign exchange forward contracts in order to hedge a portion of its transaction risk. That has reduced, but not eliminated, the effects of exchange rate fluctuations against the Japanese yen, which in future years might have significant impact.

Generally, the depreciation of the Japanese yen against other currencies, particularly the euro, has a positive effect on Makita's operating income and net income. Conversely, the appreciation of the Japanese yen against other currencies, particularly the euro, has the opposite effect. In FY2015, the Japanese yen depreciated against both the euro and the U.S. dollar.

Net Sales

Makita's consolidated net sales for FY2015 amounted to 414,718 million yen, an increase of 8.2%, or 31,511 million yen, from FY2014. In FY2015, the average Japanese yen-U.S. dollar exchange rate was 109.76 yen for U.S. $1.00, representing a 9.6% depreciation of the Japanese yen compared to the average exchange rate in FY2014. The average Japanese yen-euro exchange rate in FY2015 was 138.69 yen for 1.00 euro, representing a 3.3% depreciation of the Japanese yen compared to the average exchange rate in FY2014. During the year, the weighted average of the Japanese yen's depreciation against other currencies was 4.1%. That favorable currency translation effect increased Makita's sales by 13,674 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 4.7% or 17,837 million yen in FY2015. This increase mainly consisted of both a trend of sales price rise and the sales increase of repair and accessories.

In terms of product group, the sales of power tools increased by 0.7%, or 1,998 million yen; the sales of gardening equipment, household and other products increased by 37.2%, or 21,319 million yen; and revenue from parts, repairs and accessories increased by 14.5%, or 8,194 million yen. The ratio of sale of cordless power tools to total sales of products increased to 41.9% in FY2015 from 39.7% in FY2014.

Sales by region

In Japan, Makita witnessed an increase in sales of 2.6%, or 1,721 million yen, to 67,740 million yen compared to the FY 2014. Sales in Europe after translation into Japanese yen increased by 6.0%, or 9,897 million yen, to 175,254 million yen. In North America, sales increased by 14.6%, or 7,277 million yen, to 57,168 million yen. In Asia, excluding Japan, sales increased by 13.3%, or 4,639 million yen, to 39,643 million yen. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales increased by 11.9%, or 7,977 million yen, to 74,913 million yen.

Net sales in Japan increased by 2.6% to 67,740 million yen compared to the previous year. This was because of brisk sales of lithium ion batteries, which more than offset negative effects from a fall in housing starts.

Net sales in Europe increased by 6.0% to 175,254 million yen. This was because of steady demand in Western Europe and the yen's depreciation against the euro. Net sales in local currencies increased in Western Europe by 9.1% and decreased in Eastern Europe and Russia by 6.8%. Excluding the effect of currency translation, sales in Europe increased by 2.2%, or 3,668 million yen. Although sales in local currencies as a whole were robust, because the euro appreciated by 3.3% against the Japanese yen on a year-over-year basis, sales figures in Japanese yen were partially boosted by favorable currency translation effects. Net sales after translation into Japanese yen decreased in Eastern Europe and Russia by 5.8% and increased in the U.K. by 33.4%, Germany by 10.7% and France by 5.8%.

Net sales in North America increased by 14.6% to 57,168 million yen. This was because of favorable sales to home improvement retailers compared to the previous year, as well as the yen's depreciation against the US dollar. The yen depreciated by 9.6% against the U.S. dollar. Excluding the effect of currency translation, sales in North America increased by 6.2%, or 3,078 million yen.

Net sales in Asia mixed from country to country, but increased by 13.3% to 39,643 million yen. This was because of firm sales mainly in countries where Makita had established sales subsidiaries in recent years, such as Vietnam and Malaysia. Excluding the effect of currency translation, sales in Asia increased by 8.8%, or 3,080 million yen.

Sales situations in other regions are as follows. Net sales in Central and South America increased by 7.9% to 30,287 million yen compared to the previous year due to steady sales, despite a stagnant market. In addition, net sales in Oceania increased by 14.2% to 23,759 million yen and those in the Middle East and Africa increased by 15.5% to 20,867 million yen. On a year-over-year basis, the Australian dollar rose by 2.5% against the Japanese Yen and the Brazilian Real decreased by 0.2%. Excluding the effect of currency translation, sales in Other regions increased by 9.4%, or 6,291 million yen.

Review of Performance by Product Group

Power Tools

The power tools group offers a wide range of products such as drills, grinders and sanders, rotary hammers and hammer drills, cordless impact drivers, cutters and circular saws. These products represent the largest portion of Makita's consolidated net sales. In FY2015, sales of power tools increased by 0.7% from the previous fiscal year to 271,232 million yen, accounting for 65.4% of consolidated net sales. In Japan, sales of power tools increased by 1.7% to 34,674 million yen, accounting for 51.2% of domestic net sales. Overseas sales of power tools increased by 0.6% to 236,558 million yen, accounting for 68.2% of overseas net sales.

New products launched during FY2015 included a cordless angle grinder with feature of excellent performance as powerful as AC model equipped with brushless motor and a circular saw with feature of superior cutting capacity and a construction coil nailer operated by high pressure air which achieves both high power and low noise.

Gardening Equipment, Household and Other Products

Principal products in Makita's gardening equipment and household products group include chain-saws, brush-cutters, vacuum cleaners and cordless cleaners. In FY2015, sales of gardening equipment, household and other products increased by 37.2%, to 78,600 million yen, which accounted for 19.0% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 1.8%, to 18,517 million yen, accounting for 27.3% of total domestic sales. Overseas sales in the product category increased by 53.7%, to 60,083 million yen, accounting for 17.3% of total overseas sales in FY2015.

New products launched during FY2015 included a petrol chain saw with combined features of low fuel consumption and high power equipped with stratified scavenging engine and hedge trimmers with new high-end shear blade.

Makita engages in the production of engine-equipped gardening equipment and cordless gardening equipment powered by lithium-ion batteries that are environment-friendly in terms of noise and exhaust emissions, inspiring Makita to hope for future expansion in sales.

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2015, the sales of parts, repairs and accessories increased by 14.5%, to 64,886 million yen, accounting for 15.6% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 6.0% to 14,549 million yen, accounting for 21.5% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 17.2%, to 50,337 million yen, accounting for 14.5% of overseas net sales.

Gross Profit

For FY2015, gross profit on sales increased by 12.9%, or 17,982 million yen, to 157,136 million yen, compared to FY2014. The ratio of cost of sales decreased by 1.6 points from 63.7% in FY2014 to 62.1% in FY2015, due to the appreciation of Chinese Yuan. As a result, the gross profit margin deteriorated from 36.3% to 37.9% compared with FY2014.

Selling, general, administrative and others, net

Depreciation of the Japanese yen had an unfavorable effect on our selling, general, administrative and others, net (hereinafter called "SGA expenses") of overseas subsidiaries when translated into Japanese yen by approximately 2,500 million yen. SGA expenses for FY2015 increased by 1.2%, or 991 million yen to 85,231 million yen compared with FY2014. SGA expenses excluding the impact of currency fluctuations decreased by 1.8%, or 1,488 million yen compared with FY2014. The ratio of SGA expenses to sales improved by 1.4 points from 22.0% in FY2014 to 20.6% in FY2015.

Operating Income

Operating income increased by 30.9% to 71,905 million yen. Operating margin improved by 3.0 points from 14.3% to 17.3% compared with FY2014.

Other Income (Expense), net

Other expenses, net in FY2015 was 3,511 million yen compared to Other income, net of 2,060 million yen in FY2014. This is partly due to the increase of dividend income by 2,639 million yen despite the currency exchange losses increased to 6,480 million yen.

As the Company mainly operates using only its equity capital, and the subsidiaries are financed by loans from within the Makita Group, the variation in interest expense is insignificant.

Income before Income Taxes

Income before income taxes for FY2015 increased by 20.0%, or 11,420 million yen, to 68,394 million yen. The ratio of income before income taxes to sales in FY2014 improved by 1.6 points, from 14.9% to 16.5%, compared with FY2014.

Provision for Income Taxes

Provision for income taxes for FY2015 amounted to 22,713 million yen, an increase of 24.6%, or 4,482 million yen, compared with FY2014. The effective tax rate for FY2015 was 33.2%, up by 1.2% points from 32.0% for FY2014.

Net Income Attributable to Makita Corporation

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2015 increased by 17.8%, or 6,854 million yen, to 45,307 million yen compared with FY2014. The ratio of net income attributable to Makita Corporation's shareholders to sales in FY2015 was 10.9%, up by 0.9 points from 10.0% for FY2014.

Earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders increased to 333.8 yen in FY2015 from 283.3 yen in FY2014.

Regional Segments

Segment information described below is based on the location of the Company and its relevant subsidiaries. Sales by segment are based on the locations of the Company or its relevant subsidiaries that transacted the sales and, accordingly differ from the geographic area information provided elsewhere in this document.

Makita evaluates the performance of each operating segment based on U.S. GAAP information. Segment profit and loss is measured in a consistent manner with consolidated operating income, which is earnings before income taxes excluding interest and dividend income, interest expense, foreign exchange gains or losses, realized gains and losses on investment securities, and other.

Japan Segment

In FY2015, sales in the Japan segment increased by 16.5% on a year-over-year basis, to 169,425 million yen. Sales to external customers increased by 3.0% on a year-over-year basis to 91,258 million yen, which accounted for 22.0% of consolidated net sales. The increase reflects the continued strong sales in the domestic market owing to the sales of lithium-ion battery products in spite of low housing starts. A temporary cost was incurred due to the shutdown of Numazu office and the yen depreciation improved operating income ratio by 0.9 percent point to 13.8% in FY2015 from 12.9% in FY2014. Operating income increased by 24.2% on a year-over-year basis, to 23,334 million yen.

Europe Segment

In FY2015, sales in the Europe segment increased by 5.8% to 181,480 million yen. Sales to external customers increased by 5.3%, to 175,680 million yen, which accounted for 42.4% of consolidated net sales. The increase reflects the yen depreciation against the euro as compared to the previous year and the steady sales in Western Europe. In addition to the sluggish sales in Russia, the euro kept deteriorating against the U.S. dollar over the second half of FY2015. However, thanks to the reduction of SGA expense and steady sales, operating income ratio improved by 1.9 percent point to 10.9% in FY2015 from 9.0% in FY2014. Accordingly, segment income increased by 28.0%, to 19,739 million yen for this year.

North America Segment

In FY2015, sales in the North America segment increased by 15.5%, to 62,516 million yen. Sales to external customers increased by 16.2% to 58,962 million yen, which accounted for 14.2% of consolidated net sales. The increase reflects the sharp yen depreciation against the U.S. dollar as compared to the previous year and favorable sales to home improvement retailers. In North America, strong competition led lower gross profit margin and the increase of SGA expenses. Operating income ratio deteriorated by 1.9 percent point to 2.5% in FY2015 from 4.4% in FY2014. As a result, segment income decreased by 33.2%, to 1,593 million yen.

Asia Segment

In FY2015, sales in the Asia segment increased by 16.5% to 203,247 million yen. Sales to external customers increased by 24.0%, to 22,145 million yen, which accounted for 5.3% of the consolidated net sales. The overall economy followed a moderate recovery track, despite the sluggish growth in China. In Asia, owing to the raw material costs reduction and the improved operational efficiency in our manufacturing facilities in China, gross profit margin increased while SGA expenses increased slightly. Operating income ratio improved by 1.1 percent point to 13.6% in FY2015 from 12.5% in FY2014. Accordingly, segment income increased by 26.5%, to 27,662 million yen in FY2015.

Other Segment

In FY2015, sales in the Other segment increased by 12.6% to 66,830 million yen. Sales to external customers increased by 12.5%, to 66,673 million yen, which accounted for 16.1% of the consolidated net sales. Sales situation in the other regions are as follows: Net sales in Central and South America kept solid, despite sluggish economy. Demand in Oceania, the Middle East and Africa showed the sign of recovery as compared to the previous year. Although private consumption and home-buying in Australia improved, gross profit margin lowered because U.S. dollar, by which import prices are settled, was appreciated against Australian dollar. SGA expenses increased due to the surge in personnel expenses and advertising expenses. Operating income ratio deteriorated by 0.1 percent point to 5.7% in FY2015 from 5.8% in FY2014. As a result, segment income increased by 11.2%, to 3,800 million yen, in FY2015.

CRITICAL ACCOUNTING POLICIES

Makita believes that the followings are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements and accompanying notes.

Revenue Recognition

Makita recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed or determinable and collectability is reasonably assured.

Makita offers sales incentives to qualifying customers through various incentive programs. Revenues are reported net of these sales incentives. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts.

Volume-based rebates are given in the form of cash or the offsetting of accounts receivable, and settled monthly, quarterly, semiannually or annually. Volume-based rebates are given to specific customers as a specified percentage of sales amounts derived from the agreed calculation method if the accumulated sales of the customer achieve the predetermined target. Based on such agreed percentages applicable to specific customers and the accumulated sales volume expected to be achieved during the agreed program period, liabilities for volume-based rebates are recognized with a corresponding deduction of the sales incentive from revenue at the time the related revenue is recognized.

Makita's financial statements may be affected significantly by whether revenue exceeds the amount set when estimating incentives.

Cooperative advertising programs are provided to certain customers as a contribution to or as sponsored funds for advertisements. Cooperative advertising programs vary by customer agreement. Under Makita's cooperative advertising programs, specified customers may receive cooperative advertisement allowances based on a certain percentage of sales per agreement and may not be required to submit proof of advertisement to Makita. Liabilities for cooperative advertising allowances are recognized with a corresponding deduction of the cooperative advertising allowances from revenue at the time the related revenue is recognized. The cooperative advertising allowances are calculated based on the estimated sales of each customer, reflecting their historical performance.

Cash discounts are provided as a certain percentage of the invoice price as predetermined by spot contracts or based on contractually agreed upon amounts with customers. Cash discounts are recognized as a deduction from revenue at the time the related revenue is recognized, based on Makita's ability to reliably estimate such future discounts to be taken. Cash discounts are estimated periodically based on actual sales transactions and historical data.

Inventory Valuation

Makita monitors its inventories with various measures such as holding periods, sales trend and profitability in recent trades. Inventories are valued at the lower of cost or market price, with cost determined based on the average method. Makita is required to evaluate obsolete or excess inventory as well as non-saleable inventory. The determination of obsolete or excess inventory requires Makita to estimate the future demand for products taking into consideration such factors as macro and microeconomic conditions, competitive action, technological obsolescence and changes in customer needs. The estimates of future demand that Makita uses in the valuation of inventory are the basis for revenue forecasts, which are also consistent with short-term manufacturing plans. If demand forecast for specific products is greater than actual demand and Makita fails to reduce manufacturing output accordingly, Makita could be required to write down the increased on-hand inventory, which may decrease gross profit and consequently have a material adverse impact on net income.

Impairment Losses on Securities

Makita's investments include debt and equity securities accounted for under the cost method of accounting. If a decline in fair value of equity securities to below the carrying amount is deemed to be other-than-temporary, Makita will take a write-down of the carrying amount to the fair value and the amount will be included in earnings. For debt securities, for which the declines are deemed to be other-than-temporary and there is no intent to sell them, impairments are separated into the amount related to credit loss, which is recognized as earnings, and the amount related to all other factors, which is recognized as other comprehensive income (loss). For debt securities, for which the declines are deemed to be other-than-temporary and there is intent to sell them, impairments in their entirety are recognized as earnings. Makita regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Makita in determining whether an other-than-temporary decline in value has occurred include: the length of time and the extent to which the fair value of the security has been less than its original cost; the financial condition, operating results, business plans of the issuer of the security; other specific factors affecting the fair value and credit risk of the issuers; and whether or not Makita is able to retain the security for a period of time sufficient to allow for the recovery in fair value.

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, Makita presumes a decline in value to be other-than-temporary if the fair value of the security is below its original cost for an extended period of time. The assessment of whether a decline in the fair value of an investment is other-than-temporary is often subjective in nature and requires certain assumptions and estimates concerning the expected operating results and business plans of the issuer of the security. Accordingly, it is possible that investments in Makita's portfolio that have had a decline in value that Makita currently believes to be temporary may be determined to be other-than-temporary in the future, based on Makita's evaluation of subsequent information such as continued poor operating results, continuing decline in the global equity market and the effect of market interest rate fluctuations. As a result, unrealized losses may be recognized and reduce income in future periods.

Allowance for Doubtful Receivables

Makita performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit strength. Makita continuously monitors collections and payments from its customers and maintains a reasonable allowance for doubtful receivables based upon its historical experience and the standard that Makita has set. The estimated amount for doubtful receivables is calculated on the basis of the following elements: the historical loan loss ratio for regular account receivables; the credit standing by customers and the examination of the receivables unrecovered after the due date for specific receivables including potentially irrecoverable loans. Further, when the payment ability of customers becomes doubtful as a result of its filing for bankruptcy or the deterioration of its operating results, Makita includes an additional allowance. Historically, credit losses never exceeded the amount of allowances. However, Makita cannot guarantee that it will continue to experience the similar credit loss rates that it has in the past. Fundamental changes in the financial condition of its customers may result in a material impact to Makita's consolidated results of operations and financial condition. Makita has a large customer base that is geographically dispersed. Consequently, significant concentration of credit risk is not considered to exist.

Impairment of Long-lived Assets

Makita believes that impairment of long-lived assets is critical for its financial statements because Makita has significant amounts of property, plants and equipment, the recoverability of which could significantly affect its operating results and financial condition.

Makita performs an impairment review for long-lived assets held and used, including amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be fully recoverable. This review is conducted based upon Makita's projections of expected undiscounted future cash flows. Estimates of the future cash flows are based on the historical trends adjusted to reflect the best estimates of future operating conditions. Makita believes that its estimates are reasonable. However, different assumptions regarding such cash flows could materially affect Makita's evaluations. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. If an impairment is determined to exist, the impairment loss is calculated as the excess of the carrying amount of the asset group over its fair value. Impairment losses on long-lived assets to be disposed of, if any, are based on the fair value less costs of disposal.

Fair value is determined based on recent transactions involving sales of similar assets, by discounting expected future cash flows, or by using other valuation techniques. Makita's estimate of future cash flows requires management to make projections and to apply judgment, including forecasting future operating results and estimating useful lives of the asset. Estimate of future cash flow can be affected by factors such as future sales and expenses, market and operating conditions. If actual market and operating conditions under which assets are operated are less favorable than those projections made by management, resulting in lower expected future cash flows or a shorter expected future period to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and in turn affect Makita's consolidated results of operations and financial condition.

Impairment of Goodwill

Makita conducts goodwill impairment assessment annually and at any time if an event occurs or circumstances change and that would indicate possibility of goodwill impairment. The annual goodwill impairment assessment date is December 31. Makita has adopted ASU No. 2011-08 "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment" from the year ended March 31, 2013. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not hat a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. If an entity concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is tested using a two-step process. Makita proceeds to the following two-step process only when it concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount after making the aforementioned qualitative assessment. The first step of the goodwill impairment assessment compares the fair value of a reporting unit where the relevant goodwill is assigned with its carrying amount. If the fair value of a reporting unit exceeds its net book value, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If net book value of a reporting unit exceeds its fair value, the second step of the goodwill impairment test will be performed to measure the amount of impairment loss. The second step of the goodwill impairment assessment, used to measure the amount of impairment loss, compares the implied fair value of the goodwill, which is determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

In the first step of the goodwill impairment assessment, Makita uses an income approach to derive a present value of the reporting unit's projected future annual cash flows and the present residual value of the reporting unit. Makita uses the income approach because it believes that the discounted future cash flows provide greater detail and opportunity to reflect facts, circumstances and economic conditions for each reporting unit. In addition, Makita believes that this valuation approach is a proven valuation technique and methodology for its industry and is widely accepted by investors. Makita uses a variety of underlying assumptions to estimate these future cash flows, which vary for each of the reporting units and include (i) future revenue growth rates, (ii) future operating profitability, (iii) the weighted-average cost of capital and (iv) a terminal growth rate. Makita also estimates fair value using a market approach, which relies on values based on market multiples. If Makita's estimates and assumptions used in the estimates will change in future, Makita may incur an impairment charge which could have a material adverse effect on the results of operations for the period in which the impairment occurs.

Retirement Benefit Plans

Makita believes that the accounting for retirement benefits is critical for its financial statements because assumptions used to estimate projected benefit obligations and net periodic pension costs may have a significant effect on its operating results and financial condition. Allowance for retirement benefits are determined based on projected benefit obligations and plan assets at the end of a fiscal year. The levels of projected benefit obligations and net periodic pension costs are calculated based on various annuity actuarial calculation assumptions. Principal assumptions include discount rates, expected return on plan assets, assumed rates of increase in future compensation levels, mortality rates and some other assumed rates. Discount rates employed by Makita are reflective of rates available on long-term, high quality fixed-income debt instruments. Discount rates are determined annually on the measurement date.

The expected long-term rate of return on plan assets is determined annually based on the composition of the plan asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return on plan assets is designed to approximate the long-term rate of return actually earned on the plan assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees. A number of factors are used to determine the reasonableness of the expected long-term rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

Accordingly, these assumptions are evaluated annually and retirement benefit obligations are recalculated at the end of each fiscal year based on the latest assumptions. In accordance with U.S.GAAP, actual results that differ from the assumptions are accumulated and amortized over the average remaining service periods of employees and therefore, generally affect Makita's results of operations in such future periods.

The Company and certain of its subsidiaries have various contributory and noncontributory employee benefit plans covering substantially all of their employees.

The value of these plan assets are influenced by fluctuations in world securities markets. Significant depreciation or appreciation in the market will have corresponding impact on future expenses.

Income Taxes

Makita is required to estimate its income taxes in each of the jurisdictions in which Makita operates. This process involves estimating Makita's current tax provision together with assessing temporary differences resulting from differing treatment of items for income tax reporting and financial accounting and reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within Makita's consolidated balance sheets. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

In determining the valuation allowances to establish against these deferred tax assets, many factors are considered. If Makita were not to generate sufficient taxable income of the appropriate character in the jurisdictions in the future, it could lead to the build-up of additional valuation allowances. For the balance of deferred income taxes, although realization is not assured, management believes, judging from an authorized business plan, it is more likely than not that all of the deferred income tax assets, less the valuation allowance, will be realized. The amount of such net deferred income tax assets that are considered realizable, however, could change in the near term and any such change may have a material effect on Makita's consolidated results of operations and financial position if estimates of future taxable income are different.

The effective tax rate of Makita reflects the effects of the undistributed earnings of the overseas subsidiaries that are to be reinvested permanently according to the Makita's global management policies on working capital or long-term investment and thus are not subject to Japan's corporate income taxes. If, by some future event, such as changes in requirement in cash, working capital or long-term investment, these undistributed earnings were to be distributed to the parent company, additional tax expenses and related deferred tax liabilities would be recognized, resulting in significant effects on Makita's future effective tax rates.

95% of the distributed earnings from the overseas' subsidiaries are not taxed according to the Japan's corporate income tax acts. As of March 31, 2014, Makita and its consolidated overseas subsidiaries have such undistributed earnings that are to be reinvested permanently and thus give rise to no recognition of deferred tax liabilities. Makita does not determine the amount of such unrecognized deferred tax liabilities because it is practically hard to calculate.

Cash Flows

Net cash provided by operating activities decreased by 5,792 million yen from 41,686 million yen in FY2014 to 35,894 million yen in FY2015, primarily as a result of the following:

Cash flow increasing factors:

- Cash collected from customers increased 36,406 million yen due to the sales increase

Cash flow decreasing factors:

- Disbursement increased by 26,139 million yen due to increased purchases
- 5,420 million yen increase in selling expenses due to an increase in sales
- Tax payments increased by 5,876 million yen

Net cash used in investing activities increased by 12 million yen from 20,084 million yen in FY2014 to 20,096 million yen in FY2015, primarily as a result of the following:

Cash flow increasing factors:

- 3,968 million yen decrease in purchases of available-for-sale securities
- 7,311 million yen increase in cancellation of term deposits

Cash flow decreasing factors:

- 3,336 million yen increase in deposit of term deposits
- 6,911 million yen decrease in sales and redemption of available-for-sale securities

Net cash used in financing activities increased by 4,652 million yen from 7,365 million yen in FY2014 to 12,017 million yen in FY2015 primarily as a result of the following:

Cash flow increasing factor:

- 1,042 million yen increase in short term borrowing maturing within three months

Cash flow decreasing factor:

- 583 million yen decrease in financing by notes maturing in three months or longer
- 2,832 million yen increase in repayment by notes maturing in three months or longer
- 2,579 million yen increase in payment of dividends

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents increased by 12,797 million yen from 81,732 million yen as of the end of FY2014 to 94,529 million yen as of the end of FY2015.

Makita intends to strengthen its global production network. In respect of global power tools demand, emerging countries continue to show a strong growth momentum and developed countries have recovered to the level before the global recession. Inventory balances decreased compared with the previous fiscal year because sales subsidiaries managed to decrease inventories.

Capital expenditures are expected to be higher in FY2015 compared to FY2014 due to the purchase of dies/molds, and the machinery and equipment investment of each of our plants.

Financial Position

Makita's principal sources of liquidity are cash on hand, cash provided by operating activities and borrowings within credit lines. As of March 31, 2015, Makita held cash and cash equivalents amounting to 94,529 million yen and the Company's subsidiaries had credit lines up to 11,556 million yen, of which 4,637 million yen was used and 6,919 million yen was unused and available. As of March 31, 2015, Makita had 4,647 million yen in short-term borrowings, which included bank borrowings and the current portion of capital lease obligations. Short-term borrowing was used for daily operations at the subsidiaries. The amount excluding current maturities of long-term indebtedness decreased by 12.2% (503 million yen) to 4,637 million yen. For further information regarding Makita's short-term borrowings, including the average interest rates, please see notes to the accompanying consolidated financial statements.

The Company's subsidiaries are financed by loans within the Makita Group—from subsidiaries with surplus funds to subsidiaries that lack funds—and the variation in interest expense is insignificant.

As of March 31, 2015, Makita's total short-term borrowings and long-term indebtedness amounted to 5,030 million yen, representing an increase of 867 million yen from 4,163 million yen reported for FY2014. Long-term indebtedness increased from 16 million yen in FY2014 to 383 million yen in FY2015 mainly due to the increase of long term borrowing from bank. Makita's ratio of indebtedness to shareholders' equity remained almost unchanged at 1.0%.

Makita expects to continue to incur additional indebtedness from time to time as required to finance working capital needs. Makita has no potentially significant refinancing requirements in FY2015.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 94,529 million yen as of March 31, 2015, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2015 and thereafter. In the opinion of management, the working capital is sufficient for Makita's present requirements.

As part of the Company's policy to maximize shareholder returns, the Company distributed to its shareholders an interim dividend of 18 yen per share in November 2014. At the Ordinary General Meeting of Shareholders held on June 25, 2015, the Company's shareholders approved a cash dividend of 100 yen (inclusive of 100 year memorial dividend of 15 yen) per share. In June 2015, the Company paid cash dividends of 16,016 million yen in the aggregate.

Makita believes it will continue to be able to access the capital markets on ordinary terms and for amounts that will be satisfactory to it and as necessary to support the business.

Adoption of New Accounting Standards

Not applicable.

Newly Issued Accounting Standards yet to be Adopted

In May 2014, the FASB issued, ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". The guidance provides a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning after December 15, 2016; in the case of Makita, for annual reporting periods beginning on April 1, 2017.

We are currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any. Subsequently the FASB issued Proposed Accounting Standards Update in April 2015 which defers the effective date of Update 2014-09 by one year with earlier application permitted only as of annual reporting periods beginning after December 15, 2016.

【Facilities and Equipment】

(1)Head Office

As of March 31, 2015

Office Name (Location)	Content of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees
Makita Corp (Anjo, Aichi)	R&D	4,741	2,241	251 [40,330]	7,233	984
Okazaki Plant (Okazaki, Aichi)	Production	6,310	1,519	2,524 [160,382]	10,353	1,007
Nisshin (Nisshin, Aichi)	R&D	1,295	191	1,818 [43,102]	3,304	116
Tokyo R&D Center (Tachikawa, Tokyo)	R&D	145	29	189 [831]	363	17
Tokyo Branch (Bunkyo, Tokyo)	Sales point	252	2	57 [323]	311	28
Nagoya Branch (Nakamura, Nagoya)	Same as above	268	4	352 [1,238]	624	28
Osaka Branch (Kita, Osaka)	Same as above	814	4	69 [335]	887	28

(2)Overseas Subsidiaries

As of March 31, 2015

Company Name	Location	Contents of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees (average number of temporary staff)
Makita Corporation of America	Atlanta U.S.A.	Production	288	68	95 [230,825]	451	116 (143)
Makita (China) Co., Ltd.	Kunshan China	Same as above	5,126	8,225	- [-] ＜160,340＞	13,351	3,798 (1,010)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	2,680	1,270	- [-] ＜87,683＞	3,950	1,606 (861)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	832	340	178 [50,600]	1,350	265 (62)
Dolmar GmbH	Hamburg Germany	Same as above	350	519	497 [53,819]	1,366	344 (6)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	5,836	2,228	284 [142,499]	8,348	629 (56)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	1,275	649	136 [141,876]	2,060	654 (40)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	2,737	493	697 [131,223]	3,927	203 (79)

(Attention)

1. ＜　＞ means rental from other than Makita Group.
2. (　) means average numbers of temporary staff for this Fiscal Year.