Makita Corporation

Additional Information
for the year ended March 31, 2016

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, 2016

Looking at the global economic situation for the year ended March 31, 2016, the Western European economy remained solid mainly in the major countries, while the Russian economy remained sluggish due to such factors as the impact of lower oil prices and a weaker ruble. The US economy gradually expanded on the back of robust consumer spending and housing investment. In Asia, the Chinese economy slowed down, causing the economies of neighboring countries to stagnate. Meanwhile, there were signs that the recovery in the Japanese economy was sputtering due to weak consumer spending, despite improvements in corporate results and the employment environment.

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 strove to reduce costs while raising local content ratios. To improve product quality and enhance productivity, we worked on introducing facilities that require less manpower in each factory worldwide. On the sales side, while we continued to carry out intensive sales activities in Japan based on our network of 114 business locations nationwide, we strove to disseminate the Makita brand abroad by offering the most appropriate products and services from our vast family of products to accommodate the different needs in various countries and regions, as well as maintaining and improving our customer-based sales and after-sales service through various efforts including establishment of our new sales branches in Bolivia in October 2015, Latvia in January 2016 and Krasnodar, Russia in March 2016.

Our consolidated net sales for this year increased by 2.1% to 423,623 million yen compared to the previous year due to generally robust sales within and outside Japan, marking the sixth consecutive years of increasing sales, and an all-time high. Operating income decreased by 10.1% to 64,676 million yen (operating income ratio: 15.3%) compared to the previous year, owing to deterioration in the cost-of-sales ratio due to the influence of exchange rate. Income before income taxes and net income attributable to Makita Corporation decreased by 10.1% to 61,492 million yen (income before income taxes ratio: 14.5%) and by 8.1% to 41,615 million yen (net income attributable to Makita Corporation ratio: 9.8%) compared to the previous year.

Net sales results by region were as follows:

Net sales in Japan increased by 1.0% to 68,445 million yen compared to the previous year. This was due to factors such as a further expansion of the lithium-ion battery product line and aggressive launches of new products.

Net sales in Europe decreased by 0.7% to 173,987 million yen. Despite steady sales in most countries, this was because of decreased sales in Russia and the yen’s appreciation against the euro.

Net sales in North America increased by 18.5% to 67,759 million yen. This was due to robust demand for electric power tools as the economy expanded in the US, as well as the yen’s depreciation against the US dollar compared to the previous year.

Net sales in Asia increased by 4.5% to 41,443 million yen. This was due to robust sales in countries such as Vietnam and the yen’s depreciation against local currencies, despite sluggish demand in some countries due to the slowdown of the Chinese economy.

The sales situations in other regions are as follows. Net sales in Central and South America decreased by 13.7% to 26,149 million yen compared to the previous year due to sluggish sales in Brazil and the yen’s appreciation against local currencies, despite increased demand in Mexico and other regions influenced by the U.S. economy. Net sales in Oceania increased by 3.8% to 24,653 million yen on the back of robust sales. Net sales in the Middle East and Africa increased by 1.5% to 21,187 million yen due to the yen’s depreciation against local currencies, despite the impact of political unrest and lower oil prices, etc.

(2) Analysis on cash flows and financial ratios

Total cash and cash equivalents at the end of the year amounted to 99,915 million yen, increased by 5,386 million yen compared to the end of the previous year.

(Net Cash Provided by Operating Activities)

Net cash provided by operating activities amounted to 34,188 million yen, down 1,706 million yen over the previous year (35,894 million yen for the previous year).

(Net Cash Used in Investing Activities)

Net cash used in investing activities amounted to 6,573 million yen, down 13,523 million yen over the previous year (20,096 million yen for the previous year).

(Net Cash Used in Financing Activities)

Net cash used in financing activities amounted to 18,719 million yen, up 6,702 million yen over the previous year (12,017 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 8,088 million yen (2.6%) to 319,934 million yen compared to the previous year.

Consolidated net sales for this year increased by 2.1% to 423,623 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 the future, demand is unlikely to grow sharply in advanced countries. Meanwhile, competition between companies is expected to intensify. In addition, as to emerging countries, it does not seem probable that demand in China, Russia and Brazil will turn significantly positive. 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:

- A sharp rise in housing starts is unlikely in Japan.
- 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 and Brazilian 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.

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

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 are located in Aichi Prefecture, Japan, while the production base is located in 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. 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, floods, power outages, wars, terrorist acts, cyber attack or computer viruses, despite safety measures including security measures Makita has undertaken, Makita may have to delay production and shipments, or the Company may leak privacy, credit worthiness and other information such as customer's personal information and confidential information about companies and other third parties. 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 Makita Engineering Germany G.m.b.H. (Germany). 945 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 FY2016, Makita allocated 9,593 million yen to R&D, an increase of 5.2% compared with FY2015. The ratio of R&D expenses to net sales was 2.3% in FY2016. As of March 31, 2016, Makita owned 3,470 patents, utility model registration and design rights (inclusive of 2,735 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 FY2016 included a cordless impact driver with feature of increased maneuverability and 10.8V Li-ion battery series with new slide battery and robotic cleaner jointly developed with Sharp corporation.

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.

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 2.1% to 423,623 million yen compared to the previous year. The Western European economy remained solid mainly in the major countries. The US economy gradually expanded on the back of robust consumer spending and housing investment. In Asia, the Chinese economy slowed down, causing the economies of neighboring countries to stagnate. Brazil's economy faced a tougher situation due to decrease in domestic demand and export. The Russian economy remained sluggish due to such factors as the impact of lower oil prices and a weaker ruble. In Australia, its economy home-buying has remained solid, despite of sluggish export. There were signs that the recovery in the Japanese economy was sputtering due to weak consumer spending, despite improvements in corporate results and the employment environment.

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

From the development perspective, 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 strove to reduce costs while raising local content ratios. To improve product quality and enhance productivity, we worked on introducing facilities that require less manpower in each factory worldwide.

From the sales perspective, while we continued to carry out intensive sales activities in Japan based on our network of 114 business locations nationwide, we strove to disseminate the Makita brand abroad by offering the most appropriate products and services from our vast family of products to accommodate the different needs in various countries and regions, as well as maintaining and improving our customer-based sales and after-sales service through various efforts including establishment of our new sales branches in Bolivia in October 2015, Latvia in January 2016 and Krasnodar, Russia in March 2016.

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 2015 and a year-end dividend of 83 yen per share was approved at the Ordinary General Meeting of Shareholders held on June 28, 2016.

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 FY2016 amounted to 423,623 million yen, an increase of 2.1%, or 8,905 million yen, from FY2015. In FY2016, the average Japanese yen-U.S. dollar exchange rate was 120.15 yen for U.S. $1.00, representing a 9.5% depreciation of the Japanese yen compared to the average exchange rate in FY2015. The average Japanese yen-euro exchange rate in FY2016 was 132.60 yen for 1.00 euro, representing a 4.4% appreciation of the Japanese yen compared to the average exchange rate in FY2015. During the year, the weighted average of the Japanese yen's appreciation against other currencies was 1.8%. That unfavorable currency translation effect decreased Makita's sales by 6,692 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 3.8% or 15,597 million yen in FY2016. This increases 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 2.0%, or 5,520 million yen; the sales of gardening equipment, household and other products increased by 1.0%, or 813 million yen; and revenue from parts, repairs and accessories increased by 4.0%, or 2,572 million yen. The ratio of sales of cordless power tools to total sales of products increased to 45.5% in FY2016 from 41.9% in FY2015.

Sales by region

In Japan, Makita witnessed an increase in sales of 1.0%, or 705 million yen, to 68,445 million yen compared to the FY2015. Sales in Europe after translation into Japanese yen decreased by 0.7%, or 1,267 million yen, to 173,987 million yen. In North America, sales increased by 18.5%, or 10,591 million yen, to 67,759 million yen. In Asia, excluding Japan, sales increased by 4.5%, or 1,800 million yen, to 41,443 million yen. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales decreased by 3.9%, or 2,924 million yen, to 71,989 million yen.

Net sales in Japan increased by 1.0% to 68,445 million yen compared to the previous year. This was because of factors such as a further expansion of the lithium-ion battery product line and aggressive launches of new products.

Net sales in Europe decreased by 0.7% to 173,987 million yen. This was because of tougher situation in Russia and the yen's appreciation against the euro. Net sales in local currencies increased in Western Europe by 10.2% and decreased in Eastern Europe and Russia by 8.2%. Excluding the effect of currency translation, sales in Europe increased by 3.1%, or 5,494 million yen. Sales in local currencies as a whole were robust, while, due to the euro depreciated by 4.4% against the Japanese yen on a year-over-year basis, sales figures in Japanese yen were partially reduced by unfavorable currency translation effects. Net sales after translation into Japanese yen decreased in Eastern Europe and Russia by 14.0% and increased in the U.K. by 6.8%, Germany by 27.5% and France by 2.2%.

Net sales in North America increased by 18.5% to 67,759 million yen. This was because of f expansion on the back of robust consumer spending and housing investment. as well as the yen's depreciation against the US dollar. The yen depreciated by 9.5% against the U.S. dollar. Excluding the effect of currency translation, sales in North America increased by 10.6%, or 6,052 million yen.

Net sales in Asia mixed from country to country, but increased by 4.5% to 41,443 million yen. This was because of robust sales in countries such as Vietnam and the yen's depreciation against local currencies, despite sluggish demand in some countries due to the slowdown of the Chinese economy. Excluding the effect of currency translation, sales in Asia increased by 2.0%, or 803 million yen.

Sales situations in other regions are as follows. Net sales in Central and South America decreased by 13.7% to 26,149 million yen compared to the previous year due to sluggish sales in Brazil and the yen's appreciation against local currencies, despite increased demand in Mexico and other regions influenced by the U.S. economy. Net sales in Oceania increased by 3.8% to 24,653 million yen on the back of robust sales. Net sales in the Middle East and Africa increased by 1.5% to 21,187 million yen due to the yen's depreciation against local currencies, despite the impact of political unrest and lower oil prices, etc. On a year-over-year basis, the Australian dollar depreciated by 7.6% against the Japanese Yen and the Brazilian Real depreciated by 24.0%. Excluding the effect of currency translation, sales in Other regions increased by 3.4%, or 2,543 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 FY2016, sales of power tools increased by 2.0% from the previous fiscal year to 276,752 million yen, accounting for 65.3% of consolidated net sales. In Japan, sales of power tools increased by 3.2% to 35,778 million yen, accounting for 52.3% of domestic net sales. Overseas sales of power tools increased by 1.9% to 240,974 million yen, accounting for 67.8% of overseas net sales.

New products launched during FY2016 included a cordless impact driver with feature of increased maneuverability and 10.8V Li-ion battery series with new slide battery and Pneumatic auto feed coil screwdriver achieved with compact and lightweight body.

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 FY2016, sales of gardening equipment, household and other products increased by 1.0%, to 79,413 million yen, which accounted for 18.8% of consolidated net sales. Domestic sales of gardening equipment, household and other products decreased by 2.7%, to 18,014 million yen, accounting for 26.3% of total domestic sales. Overseas sales in the product category increased by 2.2%, to 61,399 million yen, accounting for 17.3% of total overseas sales in FY2016.

New products launched during FY2016 included;

・Cordless grass trimmer with features of high power and work amount, powered by two 18V Li-ion batteries in series.
・Corded and cordless vacuum cleaner powered by AC and two 18V Li-ion batteries in series.
・Cordless backpack vacuum cleaner achieved with long working time and large capacity of storage, powered by two 18V Li-ion batteries in series.
・Robotic cleaner jointly developed with Sharp corporation.

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2016, the sales of parts, repairs and accessories increased by 4.0%, to 67,458 million yen, accounting for 15.9% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 0.7% to 14,653 million yen, accounting for 21.4% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 4.9%, to 52,805 million yen, accounting for 14.9% of overseas net sales.

Gross Profit

For FY2016, gross profit on sales decreased by 2.3%, or 3,634 million yen, to 153,502 million yen, compared to FY2015. The ratio of cost of sales increased by 1.7 points from 62.1% in FY2015 to 63.8% in FY2016, due to the appreciation of Chinese Yuan. As a result, the gross profit margin deteriorated from 37.9% to 36.2% compared with FY2015.

Selling, general, administrative and others, net

The effect of exchange rate decreased our selling, general, administrative and others, net (hereinafter called "SGA expenses"), while research and development expenses and wages increased. SGA expenses for FY2016 increased by 4.2%, or 3,595 million yen to 88,826 million yen compared with FY2015. SGA expenses excluding the impact of currency fluctuations increased by 5.5%, or 4,694 million yen compared with FY2015. The ratio of SGA expenses to sales deteriorated by 0.3 points from 20.6% in FY2015 to 20.9% in FY2016.

Operating Income

Operating income decreased by 10.1% to 64,676 million yen. Operating margin deteriorated by 2.0 points from 17.3% to 15.3% compared with FY2015.

Other Income (Expense), net

Other expenses, net in FY2016 was 3,184 million yen compared to Other expenses, net of 3,511 million yen in FY2015. This is partly due to the increase of valuation loss on securities by 5,403 million yen despite the currency exchange losses decreased to 1,552 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 FY2016 decreased by 10.1%, or 6,902 million yen, to 61,492 million yen. The ratio of income before income taxes to sales in FY2016 deteriorated by 2.0 points, from 16.5% to 14.5%, compared with FY2015.

Provision for Income Taxes

Provision for income taxes for FY2016 amounted to 19,519 million yen, a decrease of 14.1%, or 3,194 million yen, compared with FY2015. The effective tax rate for FY2016 was 31.7%, down by 1.5% points from 33.2% for FY2015.

Net Income Attributable to Makita Corporation

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2016 decreased by 8.1%, or 3,692 million yen, to 41,615 million yen compared with FY2015. The ratio of net income attributable to Makita Corporation's shareholders to sales in FY2016 was 9.8%, down by 1.1 points from 10.9% for FY2015.

Earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders decreased to 306.6 yen in FY2016 from 333.8 yen in FY2015.

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 FY2016, sales in the Japan segment decreased by 0.1% on a year-over-year basis, to 169,342 million yen. Sales to external customers increased by 1.2% on a year-over-year basis to 92,366 million yen, which accounted for 21.8% of consolidated net sales. The increase reflects the continued strong sales in the domestic market owing to factors such as a further expansion of the lithium-ion battery product line and aggressive launches of new products. Effect of exchange rate deteriorated operating income ratio by 2.7 percent point to 11.1% in FY2016 from 13.8% in FY2015. Operating income decreased by 19.4% on a year-over-year basis, to 18,815 million yen.

Europe Segment

In FY2016, sales in the Europe segment decreased by 1.5% to 178,824 million yen. Sales to external customers decreased by 0.9%, to 174,126 million yen, which accounted for 41.1% of consolidated net sales. The decrease reflects the yen appreciation against the euro as compared to the previous year and the sluggish sales in Russia. In addition, due to the depreciation of euro against the U.S. dollar, operating income ratio deteriorated by 4.6 percent point to 6.3% in FY2016 from 10.9% in FY2015. Accordingly, segment income decreased by 43.0%, to 11,253 million yen for this year.

North America Segment

In FY2016, sales in the North America segment increased by 18.0%, to 73,745 million yen. Sales to external customers increased by 18.4% to 69,793 million yen, which accounted for 16.5% of consolidated net sales. The increase reflects the sharp yen depreciation against the U.S. dollar as compared to the previous year and robust demand for electric power tools as the economy expanded in the US. In North America, strong competition led lower gross profit margin and the increase of SGA expenses. Operating income ratio deteriorated by 1.1 percent point to 1.4% in FY2016 from 2.5% in FY2015. As a result, segment income decreased by 35.4%, to 1,029 million yen.

Asia Segment

In FY2016, sales in the Asia segment increased by 5.3% to 213,946 million yen. Sales to external customers increased by 5.3%, to 23,316 million yen, which accounted for 5.5% of the consolidated net sales. This was due to robust sales in countries such as Vietnam and the yen's depreciation against local currencies, despite sluggish demand in some countries due to the slowdown of the Chinese economy. In Asia, rise of wages in our manufacturing facilities in China decreased gross profit. Operating income ratio deteriorated by 1.1 percent point to 12.5% in FY2016 from 13.6% in FY2015. Accordingly, segment income decreased by 3.1%, to 26,801 million yen in FY2016.

Other Segment

In FY2016, sales in the Other segment decreased by 3.9% to 64,218 million yen. Sales to external customers decreased by 4.0%, to 64,022 million yen, which accounted for 15.1% of the consolidated net sales. Sales situation in the other regions are as follows: Sales in Oceania steadily increased, while Brazilian economy remained sluggish. Although private consumption and home-buying in Australia kept solid, 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 2.1 percent point to 3.6% in FY2016 from 5.7% in FY2015. As a result, segment income decreased by 38.4%, to 2,340 million yen, in FY2016.

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 conducts 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 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, 2016, 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 1,706 million yen from 35,894 million yen in FY2015 to 34,188 million yen in FY2016, primarily as a result of the following:

Cash flow increasing factors:

- Cash collected from customers increased 6,092 million yen due to the sales increase
- Tax payments decreased by 5,187 million yen

Cash flow decreasing factors:

- Disbursement increased by 11,854 million yen due to increased purchases
- 5,448 million yen increase in selling expenses due to an increase in sales

Net cash used in investing activities decreased by 13,523 million yen from 20,096 million yen in FY2015 to 6,573 million yen in FY2016, primarily as a result of the following:

Cash flow increasing factors:

- 11,817 million yen increase in cancellation of term deposits
- 5,685 million yen decrease in purchases of available-for-sale securities
- 14,349 million yen increase in sales of available-for-sale securities

Cash flow decreasing factors:

- 2,500 million yen decrease in redemption of available-for-sale securities
- 16,284 million yen increase in deposit of term deposits

Net cash used in financing activities increased by 6,702 million yen from 12,017 million yen in FY2015 to 18,719 million yen in FY2016 primarily as a result of the following:

- 887 million yen decrease in repayment by notes maturing in three months or longer

Cash flow decreasing factor:

- 3,419 million yen decrease in financing by notes maturing in three months or longer
- 3,664 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 5,386 million yen from 94,529 million yen as of the end of FY2015 to 99,915 million yen as of the end of FY2016.

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 increased compared with the previous fiscal year because sales subsidiaries increased inventories.

Capital expenditures are expected to be higher in FY2016 compared to FY2015 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, 2016, Makita held cash and cash equivalents amounting to 99,915 million yen and the Company's subsidiaries had credit lines up to 8,974 million yen, of which 2,180 million yen was used and 6,794 million yen was unused and available. As of March 31, 2016, Makita had 2,195 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 59.7% (2,767 million yen) to 1,870 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, 2016, Makita's total short-term borrowings and long-term indebtedness amounted to 2,225 million yen, representing a decrease of 2,805 million yen from 5,030 million yen reported for FY2015. Long-term indebtedness decreased from 383 million yen in FY2015 to 30 million yen in FY2016 mainly due to the decrease of long term borrowing from bank. Makita's ratio of indebtedness to shareholders' equity remained almost unchanged at 0.5%.

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 FY2016.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 99,915 million yen as of March 31, 2016, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2016 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 2015. At the Ordinary General Meeting of Shareholders held on June 28, 2016, the Company's shareholders approved a cash dividend of 83 yen per share. In June 2016, the Company paid cash dividends of 13,709 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. Subsequently in August 2015, the FASB issued Proposed Accounting Standards Update "Revenue from Contracts with Customers (Topic 606) " which proposes to defer the effective date of Update 2015-14 by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans would apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application would be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the effect that the adoption of the guidance will have on our consolidated results of operations and financial condition

In November 2015, the FASB issued an amendment which requires deferred tax assets and liabilities be classified as noncurrent in the consolidated balance sheets. The guidance is effective for annual reporting periods beginning after December 15,2016, and early adoption is permitted. The adoption of this guidance will have an impact on our consolidated balance sheets as our current deferred tax assets were 5,454 million and current deferred tax liabilities were 3,084 million as of March 31, 2016.

In January 2016, the FASB issued an amendment which addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The guidance includes the requirement that equity investments be measured at fair value with changes in the fair value recognized in net income. The guidance is effective for annual reporting periods beginning after December 15, 2017. We are currently evaluating the effect that the adoption of this guidance will have on our consolidated results of operations and financial condition.

In February 2016, the FASB issued an amendment which requires lessees to recognize most leases on their balance sheets but recognize expenses on their income statements in a manner similar to current guidance. For lessors, the guidance modifies the classification criteria and the accounting for sales type and direct financing leases. The guidance is effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the effect that the adoption of this guidance will have on our consolidated results of operations and financial condition.

【Facilities and Equipment】

(1)Head Office

As of March 31, 2016

Office Name (Location)	Content of Facilities	Net Book Value (Millions of Yen)				Number of Employees
		Buildings	Machinery and Equipment	Land [Square Meters]	Total	
Makita Corp (Anjo, Aichi)	R&D	4,553	2,763	251 [40,330]	7,567	973
Okazaki Plant (Okazaki, Aichi)	Production	8,402	1,678	2,524 [160,382]	12,604	995
Nisshin (Nisshin, Aichi)	R&D	1,231	166	1,818 [43,102]	3,215	115
Tokyo R&D Center (Tachikawa, Tokyo)	R&D	139	22	189 [831]	350	18
Tokyo Branch (Bunkyo, Tokyo)	Sales point	239	2	57 [323]	298	28
Nagoya Branch (Nakamura, Nagoya)	Same as above	258	3	352 [1,238]	613	25
Osaka Branch (Kita, Osaka)	Same as above	791	3	69 [335]	863	27

(2)Overseas Subsidiaries

As of March 31, 2016

Company Name	Location	Contents of Facilities	Net Book Value (Millions of Yen)				Number of Employees (average number of temporary staff)
			Buildings	Machinery and Equipment	Land [Square Meters]	Total	
Makita Corporation of America	Atlanta U.S.A.	Production	262	77	89 [230,825]	428	115 (159)
Makita (China) Co., Ltd.	Kunshan China	Same as above	4,214	8,310	[-] ＜160,340＞	12,524	4,324 (586)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	2,243	1,459	[-] ＜87,683＞	3,702	1,955 (612)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	719	262	162 [50,600]	1,143	273 (69)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	282	388	487 [53,819]	1,157	254 (8)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	5,550	2,232	275 [142,499]	8,057	561 (71)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	1,047	670	115 [141,876]	1,832	613 (36)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	2,212	401	601 [131,223]	3,214	225 (91)

(Attention)

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