Makita Corporation

Additional Information
for the year ended March 31, 2013

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, 2013

Looking at the global economic situation for the year ended March 31, 2013, economic conditions remained stagnant in Western Europe because the sovereign debt crisis in the region lingered, also affecting the German economy. However, the Russian economy was steady on the whole, with crude oil prices staying at high levels. In the United States, economic recovery remained moderate, but there was significant improvement in housing investment from the latter half of the term. In Asia, the economy grew steadily in Southeast Asian countries, although China's economic growth lost momentum. In Japan, business sentiment improved toward the end of the term against the backdrop of implementation of the easy-money policy by the government and the Bank of Japan, while the Japanese economy remained weak.

Under these circumstances, on the development side, we focused on further expanding and rolling out our lithium-ion battery product line as a series, which we began marketing ahead of competitors. In addition, we broadened product lines with the right combination of affordability, functionality and durability to meet the needs in emerging countries. On the production side, we began full operation of a plant in Thailand in July 2012 to shorten the lead time for supplying products to Southeast Asian countries, while expanding production capacity in our Brazil, China and Romania plants to cope with growing demand. On the sales side, we rebuilt the buildings for the Osaka and Fukuoka branches in Japan and sales subsidiaries in Belgium and Taiwan to meet diversified needs. Through these steps, we have strived to maintain and improve our system of providing sales and after-sales services closer to customers.

Our consolidated net sales for this year increased by 4.7% to 309,630 million yen compared to the previous year. It exceeded 300 billion yen for the first time in five years and hit the second-highest level. Operating income decreased by 6.5% to 45,366 million yen compared to the previous year (operating income ratio: 14.7%) mainly due to the rises in the ratio of cost of sales from 61.1% for the previous year to 62.9% for this period by 1.8 points as a result of depreciation of the euro and the decline in capacity utilization at the plants. Meanwhile, because we recorded non-operating income of 325 million yen due to a decrease in foreign exchange losses and gains on securities (non-operating loss of 1,553 million yen for the previous year), income before income taxes and net income attributable to Makita Corporation decreased by 2.7% to 45,691 million yen (income before income taxes ratio: 14.8%) and by 4.4% to 31,076 million yen (ratio of net income attributable to our shareholders: 10.0%), respectively.

Net sales results by region were as follows:

Net sales in Japan increased by 6.4% to 56,555 million yen compared to the previous year. This was because sales remained favorable due to expansion of lithium-ion battery product lineups, mainly impact drivers.

Net sales in Europe increased by 1.4% to 125,024 million yen compared to the previous year. This was because sales remained solid in Russia, though sales stayed sluggish in Western countries because of the effects of financial uncertainty.

Net sales in North America increased by 10.7% to 41,483 million yen compared to the previous year. This was because the yen exchange rate took a downward turn against the US dollar in addition to the recovery in housing investment and strong Christmas sales.

Net sales in Asia increased by 11.9% to 29,106 million yen compared to the previous year. This was because demand remained robust in Southeast Asian countries.

The sales situations in other regions are as follows. Net sales in Central and South America decreased by 1.9% to 22,919million yen compared to the previous year, because local currencies depreciated. Net sales in Oceania increased by 6.0% to 18,848 million yen due to the effects of sales promotion activities.

Net sales in the Middle East and Africa increased by 7.2% to 15,695 million yen because of the effects of depreciation of the yen.

(2) Analysis on cash flows and financial ratios

Total cash and cash equivalents (Hereinafter referred to as "cash") at the end of the year amounted to 62,283 million yen, an increase of 17,471 million yen compared to the end of the previous year.

(Net Cash Provided by Operating Activities)

Net cash provided by operating activities amounted to 38,364 million yen, up 29,742 million yen over the previous year (8,622 million yen for the previous year), because we conducted inventory adjustment this year since we substantially built up inventory in the previous year.

(Net Cash Used in Investing Activities)

Net cash used in investing activities amounted to 15,414 million yen, up 10,914 million yen over the previous year (4,500 million yen for the previous year) because we purchased investment securities and conducted capital expenditures.

As a result, free cash flow increased by ¥18,828 million from ¥4,122 million in the last year to ¥22,950 million.

(Net Cash Used in Financing Activities)

Net cash used in financing activities amounted to 10,650 million yen, down by 2,057 million yen over the previous year (12,707 million yen for the previous year) because we decreased purchase of treasury stock 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 decreased 20,792 million yen (8.5%) to 223,692 million yen compared to the previous year.

Consolidated net sales for this year increased by 4.7% to 309,630 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 construction demand is expected to continuously expand, the needs for affordable products are forecast to grow. With trends in crude oil prices and the foreign exchange rates being unpredictable, Makita is expected to continue facing a challenging business environment.

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

- Demand for electric power tools is unlikely to increase in Europe because construction investment will decrease since the European sovereign debt crisis is expected to linger;
- Competition is expected to intensify further in Japan and North America, though demand for electric power tools is likely to increase due to the recovery of housing markets; and
- Demand for electric power tools is expected to expand in emerging countries due to economic growth.

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;
- Further expanding and rolling out each product line as a series;
- Implement measures to reduce production , procurement and distribution costs, while taking advantage of global production organizations; and
- 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. Some of these statements are forward-looking statements that are subject to the "Cautionary Statement with Respect to Forward-Looking Statements" appearing elsewhere in this report.

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. In addition, fluctuations in prices of crude oil or mineral resources and volatility in the increasingly globally-linked stock market may affect construction demand, public investment, capital expenditure and consumption trends, which in turn, may have a negative impact on Makita's financial condition and results of operations.

The world economy had been recovering from the aftermath of the financial crisis of 2008 until the European sovereign debt crisis emerged in 2010, which has adversely affected the economy, leading to a slowdown in the recovery. While emerging countries such as Russia and Brazil are expected to continue their steady economic growth, uncertainty of world economic conditions may adversely affect construction activities and consumption, and Makita's sales may decrease. Consequently, the ratio of selling, general, administrative and others, net to 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 the European sovereign debt crisis prolongs, 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. Moreover, euro's further decline may particularly impact export-oriented Asian countries and thus slow their economies.

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 especially 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.

Makita’s consolidated results of operations after the translation of foreign currencies into Japanese yen were not so much affected by fluctuations in exchange rates due to the continuing depreciation of the Japanese yen against other currencies, primarily the US dollars, despite the appreciation of the Japanese yen against the euro throughout FY2013. However, further appreciation of the Japanese yen, especially against the euro, may have an adverse impact on Makita’s financial condition and results of operation.

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 drop, 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.

Makita derives a significant majority of its sales from markets located outside of Japan, including Europe, North America, Asia, Central and South America, Oceania, the Middle East and Africa.
During FY2013, approximately 82% of Makita’s consolidated net sales were derived from products sold overseas. Moreover, approximately 88% of global production volume was derived from overseas production.

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. Makita's manufacturing facilities in Aichi Prefecture and Kunshan, Jiangsu province, China, account for approximately 12% and 64%, respectively, of Makita's total production volume on a consolidated basis during FY2013.

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, appreciation of Japanese yen, 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 relies on both company networks and systems and third party networks and systems, halts or malfunctions 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, 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 affect 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】

At its meeting on May 29, 2012, the board of directors of the Company resolved that Makita Numazu Corporation, a wholly-owned consolidated subsidiary of the Company, shall be absorbed and merged into the Company.
On April 1, 2013, the Company has absorbed and merged Makita Numazu accordingly.
Please refer to the note to the consolidated financial statements for details.

【Research and development】

As an internationally integrated supplier of power tools that benefit people's daily lives and assist in home improvements, Makita pursue 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). Eight hundred and fifty-four 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 FY2013, Makita allocated 8,396 million yen to R&D, an increase of 10.4% compared with FY2012. The ratio of R&D expenses to net sales was 2.7% in FY2013.
As of March 31, 2013, Makita owned 3,298 patents, utility model registration and design rights (inclusive of 2,068 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 been doubled compared to 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.

In addition, Makita has been focusing on developing models that use generic parts, as well as consolidating the variety of products to reduce cost.

New products launched during FY2013 included a multi-tool with combined capability of cutting, scraping and grinding, high-pressure air screw shooter with minimized reaction when shooting, a high-pressure air nailer featuring minimized air consumption (20% less), a cordless-, brushless-motor circular saw featuring the most powerful cutting capability for the class, a dust collector with automatic filter cleaning function that allows long-lasting capability, an engine-cutter and mist blower equipped with a 4-stroke engine that emits much less gas than a 2-stroke engine, a trimmer equipped with an ultimate level of low-noise and low-vibration feature, and a decomposable cordless grass cutter convenient for storage and transportation.
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 than 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 82% 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.

Sales of gardening equipment and household products, such as engine equipped with brush-cutters and cordless cleaners accounted for about 14% of Makita's total net sales.

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 70% 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 4.7% to 309,630 million yen compared to the previous year.

Economic conditions remained stagnant in Western Europe because the sovereign debt crisis in the region lingered, also affecting the German economy. In the United States, economic recovery remained moderate, but there was significant improvement in housing investment from the latter half of the term. In Asia, the economy grew steadily in Southeast Asian countries, although China's economic growth lost momentum. Brazil's economic growth slowed because the demand for resources slowed down. The Russian economy was steady on the whole, with crude oil prices staying at high levels. The Australian economy was steady, supported by strong private consumption in spite of deteriorated housing investment. In Japan, business sentiment improved toward the end of the term against the backdrop of implementation of the easy-money policy by the government and the Bank of Japan, while the Japanese economy remained weak due to continuing sluggish exports and capital expenditure.

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

From a research and development perspective, Makita took the lead in launching products equipped with lithium-ion and moved forward with expansion of its line-ups in developed countries. In emerging countries, Makita added to its lineup a series of products matching their needs and offering a balance between price, function and durability.

From a production perspective, in order to shorten the lead time in Southeast Asian countries, Makita started full-scale operation of its Thailand plant in July 2012. Makita also proceeded with the expansion of its Brazil plant, China plants and Romania plant in consideration of the rise in potential demand.

From a sales perspective, Makita reconstructed the Osaka and Fukuoka Branches in Japan. Makita also reconstructed the Belgium and Taiwan sales subsidiaries with a view to responding to increasingly diversified needs of customers and to enhancing the sales and after-sales service network that enables us to keep close contact with our customers.

Makita expanded sales by introducing attractive new products and making the most of its competitive edge in its sales and after-sales service network resulting in its consolidated net sales increasing by 4.7% compared with FY2012, to 309,630 million yen.

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 15 yen per share in November 2012 and a year-end dividend of 54 yen per share in June 25, 2013.

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 FY2013, the Japanese yen continued to appreciate against the euro but depreciate against the U.S. dollar.

European debt crisis

As capital expenditures and private consumption went down in Western Europe because of government spending cuts amidst the European sovereign debt crisis, net sales in Western Europe decreased.

Net Sales

Makita's consolidated net sales for FY2013 amounted to 309,630 million yen, an increase of 4.7%, or 13,919 million yen, from FY2012. In FY2013, the average Japanese yen-U.S. dollar exchange rate was 82.91 yen for U.S. $1.00, representing a 4.9% depreciation of the Japanese yen compared to the average exchange rate in FY2012. The average Japanese yen-euro exchange rate in FY2013 was 106.78 yen for 1.00 euro, representing a 2.0% appreciation of the Japanese yen compared to the average exchange rate in FY2012.

During the year, the weighted average of the Japanese yen's depreciation against other currencies was 0.04%. That favorable currency translation effect increased Makita's sales by 106 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 4.7% or 13,813 million yen in FY2013. This increase mainly consisted of an increase in the number of products sold by 7.2% from the previous fiscal year, which was partially offset by a trend of sales price reduction.

In terms of product group, the sales of power tools increased by 4.6%, or 9,795 million yen; the sales of gardening equipment, household and other products increased by 5.8%, or 2,309 million yen; and revenue from parts, repairs and accessories increased by 4.3%, or 1,815 million yen.

The ratio of sale of cordless power tools to total sales of products increased to 37.3% in FY2013 from 36.9% in FY2012.

Sales by region

In Japan, Makita witnessed an increase in sales of 6.4%, or 3,380 million yen, to 56,555 million yen compared to the FY 2012. Sales in Europe after translation into Japanese yen increased by 1.4%, or 1,773 million yen, to 125,024 million yen. In North America, sales increased by 10.7%, or 4,008 million yen, to 41,483 million yen. In Asia, excluding Japan, sales increased by 11.9%, or 3,093 million yen, to 29,106 million yen. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales increased by 3.0%, or 1,665 million yen, to 57,462 million yen.

Net sales in Japan increased by 6.4% to 56,555 million yen compared to the previous year. This was because sales remained favorable due to expansion of lithium-ion battery product lineups, mainly impact drivers.

Net sales in Europe increased by 1.4% to 125,024 million yen compared to the previous year. This was due to sales remaining solid in Russia, though sales remained sluggish in Western countries because of the effects of financial uncertainty.

Net sales in local currencies decreased in Western Europe by 3.2% and increased in Eastern Europe and Russia by 11.3%. Excluding the effect of currency translation, sales in Europe increased by 2.8%, or 3,477 million yen. Although sales in local currencies as a whole were robust, because the euro depreciated by 2.0% against the Japanese yen on a year-over-year basis, sales figures in Japanese yen were partially offset by unfavorable currency translation effects. Net sales after translation into Japanese yen increased in Eastern Europe and Russia by 9.0%, and in the U.K. by 13.9%, while Germany and France decreased by 1.3% and 9.2%, respectively.

Net sales in North America increased by 10.7% to ¥41,483 million compared to the previous year. This was because the yen exchange rate took a downward turn against the U.S. dollar in addition to the recovery in housing investment and strong Christmas sales. The yen depreciated by 4.9% against the U.S. dollar. Excluding the effect of currency translation, sales in North America increased by 5.9%, or 2,220 million yen.

Net sales in Asia increased by 11.9% to 29,106 million yen compared to the previous year. This was because demand remained robust in Southeast Asian countries while China's economic growth lost momentum.

Excluding the effect of currency translation, sales in Asia increased by 9.9%, or 2,579 million yen.

The sales situations in other regions are as follows. Net sales in Central and South America increased by 4.9% in local currencies, however, decreased by 1.9% to 22,919 million yen compared to the previous year, because local currencies depreciated. Net sales in Oceania increased by 6.0% to 18,848 million yen due to the effects of sales promotion activities.

Net sales in the Middle East and Africa increased by 7.2% to 15,695 million yen due to the effects of depreciation of the yen. On a year-over-year basis, the Australian dollar rose by 3.4% against the Japanese Yen and the Brazilian Real declined by 11.9%. Excluding the effect of currency translation, sales in Other regions increased by 3.9%, or 2,157 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 FY2013, sales of power tools increased by4.6% from the previous fiscal year to 223,069 million yen, accounting for 72.1% of consolidated net sales. In Japan, sales of power tools increased by 7.6% to 28,203 million yen, accounting for 49.9% of domestic net sales. Overseas sales of power tools increased by 4.2% to 194,866 million yen, accounting for 77.0% of overseas net sales.

New products launched during FY2013 included a multi-tool with combined capability of cutting, scraping and grinding, a high-pressure air screw shooter with minimized reaction when shooting, a high-pressure air nailer featuring minimized air consumption (20% less), a cordless, brushless-motor circular saw featuring the most powerful cutting capability for the class, and a dust collector with automatic filter cleaning function that allows long-lasting capability.

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 FY2013, sales of gardening equipment, household and other products increased by 5.8%, to 42,136 million yen, which accounted for 13.6% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 6.4%, to 16,305 million yen, accounting for 28.8% of total domestic sales. Overseas sales in the product category increased by 5.4%, to 25,831 million yen, accounting for 10.2% of total overseas sales in FY2013.

New products launched during FY2013 included an engine-cutter and a mist blower equipped with 4-stroke engine that emits much less gas than a 2-stroke engine, a trimmer equipped with an ultimate level of low-noise and low-vibration feature, and a decomposable cordless grass cutter convenient for storage and transportation.

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 FY2013, the sales of parts, repairs and accessories increased by 4.3%, to 44,425 million yen, accounting for 14.3% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 3.5% to 12,047 million yen, accounting for 21.3% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 4.5%, to 32,378 million yen, accounting for 12.8% of overseas net sales.

Gross Profit

For FY2013, gross profit on sales decreased by 0.3%, or 399 million yen, to 114,771 million yen, compared to FY2012. The ratio of cost of sales increased by 1.8 points from 61.1% in FY2012 to 62.9% in FY2013, due to the depreciation of the euro and the decline in capacity utilization at the plants. As a result, the gross profit margin deteriorated from 38.9% to 37.1% compared with FY2012.

Selling, general, administrative and others, net

Depreciation of the Japanese yen had an unfavorable effect on our selling, general, administrative and others, net of overseas subsidiaries when translated into Japanese yen. In addition to this, due mainly to the increase in personnel expenses and research and development expenses, selling, general, administrative and others, net for FY2013 increased by 4.1%, or 2,751 million yen to 69,405 million yen compared with FY2012.

Personnel expenses and research and development expenses increased due mainly to the growing number of employees in overseas sales subsidiaries and in research and development departments. Selling, general, administrative and others, net excluding the impact of currency fluctuations increased by 3.6%, or 2,374 million yen compared with FY2012. The ratio of selling, general, administrative and others, net to sales improved by 0.1 points from 22.5% in FY2012 to 22.4%

in FY2013.

Operating Income

Operating income decreased by 6.5% to ¥45,366 million mainly as a result of depreciation of the euro and the decline in capacity utilization at the plants.
Operating margin deteriorated by 1.7 points from 16.4% to 14.7% compared with FY2012.

Other Income (Expense), net

Other Income, net in FY2013 was 325 million yen compared to Other Expenses, net of 1,553 million yen in FY2012.

This is partly due to the decrease in Other Expenses, net because the foreign currency exchange losses stood at 1,324 million yen owing to the offsetting effects of the weaker euro and stronger U.S. dollar, and partly due to the realized gains on securities of 97 million yen thanks to the Japan's improved equity markets. In comparison, in the previous year we suffered foreign currency exchange losses of 2,150 million yen and realized losses on securities of 652 million yen which resulted from sharp appreciation of Japanese yen and sluggish equity markets.

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 FY2013 decreased by 2.7%, or 1,272 million yen, to 45,691 million yen. The ratio of income before income taxes to sales in FY2013 deteriorated by 1.1 points, from 15.9% to 14.8%, compared with FY2012.

Provision for Income Taxes

Provision for income taxes for FY2013 amounted to 14,507 million yen, an increase of 2.3%, or 333 million yen, compared with FY2012. The effective tax rate for FY2013 was 31.8%, up by 1.6% points from 30.2% for FY2012.

This is because the nominal tax rate in Japan has been lowered, while the earnings of overseas subsidiaries that benefit from lower effective tax rates decreased. In addition, the valuation allowances for deferred tax assets increased slightly in the current year while they decreased significantly in the previous year.

Net Income Attributable to Makita Corporation's shareholders

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2013 decreased by 4.4%, or 1,421 million yen, to 31,076 million yen compared with FY2012. The ratio of net income attributable to Makita Corporation's shareholders to sales in FY2013 deteriorated by 1.0 point, from 11.0% to 10.0% compared with FY2012.

Earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders increased to 228.9 yen in FY2013 from 236.8 yen in FY2012.

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.

Transactions between business segments are carried out at arm's-length prices.

Japan Segment

In FY2013, sales in the Japan segment decreased by 0.5% on a year-over-year basis, to 125,029 million yen. Sales to external customers increased by 8.0% on a year-over-year basis to 77,194 million yen, which accounted for 24.9% of consolidated net sales.

The increase reflects the continued strong sales in the domestic market owing to expansion of lithium-ion battery product lineups, mainly impact drivers.

Although the cost percentage improved owing to the decrease in export sales, for which the profit margins are relatively low, and the increase in domestic sales, for which the profit margins are relatively high, operating income decreased by 2.9% on a year-over-year basis, to 15,146 million yen due to the surge in selling, general, administrative and others, net, since the research and development expenses and the personnel expenses increased.

Europe Segment

In FY2013, sales in the Europe segment increased by 2.1% to 130,272 million yen. Sales to external customers increased by 2.3%, to 126,380 million yen, which accounted for 40.8% of consolidated net sales.

The increase reflects the steady and strong sales to Russia in spite of stagnant sales in Western Europe due to the financial instability.

During FY2013, the euro remained weak against the U.S. dollar, and the ratio of cost of sales in our sales subsidiaries in Europe increased because they import mainly from our production subsidiaries in China and their import prices are settled in U.S. dollars.

Selling, general, administrative and others, net increased due to the surge in personnel expenses and advertising expenses and to the decrease in profit on disposal of fixed assets.

Accordingly, segment income decreased by 15.1%, to 11,806 million yen for this year.

North America Segment

In FY2013, sales in the North America segment increased by 7.6%, to 44,351 million yen. Sales to external customers increased by 10.0% to 41,885 million yen, which accounted for 13.5% of consolidated net sales.

This was because the yen exchange rate took a downward turn against the US dollar in addition to the recovery in housing investment and strong Christmas sales.

Selling prices were lowered because of strong competition.

The selling, general, administrative and others, net increased due to the surge in personnel expenses and advertising expenses.

As a result, segment income decreased by 27.6%, to 1,662 million yen.

Asia Segment

In FY2013, sales in the Asia segment increased by 2.8% to 124,582 million yen. Sales to external customers increased by 1.7%, to 13,104 million yen, which accounted for 4.2% of the consolidated net sales.

This is because the economy grew steadily in Southeast Asian countries, although China’s economic growth lost momentum.

In Asia, owing to the raw material costs reduction in our production China plants, gross profit margin increased significantly while selling, general, administrative and others, net increased slightly.

Accordingly, segment income increased by 33.8%, to 14,424 million yen in FY2013.

Other Segment

In FY2013, sales in the Other segment increased by 2.3% to 51,204 million yen. Sales to external customers increased by 2.7%, to 51,067 million yen, which accounted for 16.5% of the consolidated net sales.

The sales situations in other regions are as follows.

Net sales in Central and South America decreased, because local currencies depreciated.

Net sales in Oceania increased due to the effects of sales promotion activities.

Net sales in the Middle East and Africa increased because of the effects of depreciation of the yen.

During FY2013, local currencies, especially the Brazilian Real, remained weak against the U.S. dollar, and the ratio of

cost of sales in our sales subsidiaries in this segment increased because they import mainly from our production subsidiaries in China and their import prices are settled in U.S. dollars.
Selling, general, administrative and others, net increased due to the surge in advertising expenses.
As a result, segment income decreased by 21.7%, to 5,054 million yen, in FY2013.

CRITICAL ACCOUNTING POLICIES

Makita believes that the following 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, 2013, 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 increased by 29,742 million yen from 8,622 million yen in FY2012 to 38,364 million yen in FY2013, primarily as a result of the following:

Cash flow increasing factors:

- Cash collected from customers increased 17,747 million yen due to the sales increase.
- Expenses declined by 13,980 million yen due to decreased purchases and reduced inventories

Cash flow decreasing factors:

- 2,150 million yen increase in selling expenses due to an increase in sales
- Tax payments increased by 1,495 million yen

Net cash used in investing activities increased by 10,914 million yen from 4,500 million yen in FY2012 to 15,414 million yen in FY2013, primarily as a result of the following:

Cash flow increasing factors:

- 4,883 million yen decrease in purchases of held-to-maturity securities
- 3,600 million yen increase in redemption of held-to-maturity securities

Cash flow decreasing factors:

- 11,258 million yen decrease in sales of available-for-sale securities
- 9,885 million yen increase in purchases of available-for-sale securities

Net cash used in financing activities decreased by 2,057 million yen from 12,707 million yen in FY2012 to 10,650 million yen in FY2013 primarily as a result of the following:

Cash flow increasing factor:

- 5,044 million yen increase due to no repurchase of treasury stock during FY2013

Cash flow decreasing factors:

- 2,237 million yen decrease in financing by notes maturing in three months or more.
- 682 million yen increase in cash dividends paid

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents increased by 17,471 million yen from 44,812 million yen as of the end of FY2012 to 62,283 million yen as of the end of FY2013.

In FY2013, collection of accounts receivable from customers increased, inventories reduced by inventory control activity and there were no repurchases of treasury stock, resulting in a year-over-year increase of 17,471 million yen in the cash and cash equivalents as of March 31, 2013.

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 and production facilities reduced their production volumes.

Capital expenditures are expected to be higher in FY2014 compared to FY2013 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, 2013, Makita held cash and cash equivalents amounting to 62,283 million yen and the Company's subsidiaries had credit lines up to 12,978 million yen, of which 1,686 million yen was used and 11,292 million yen was unused and available.

As of March 31, 2013, Makita had 1,695 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 27.8% (649 million yen) to 1,686 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, 2013, Makita's total short-term borrowings and long-term indebtedness amounted to 1,703 million yen, representing a decrease of 660 million yen from 2,363 million yen reported for FY2012. Long-term indebtedness decreased from 12 million yen in FY2012 to 8 million yen in FY2013. 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 FY2014.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 62,283 million yen as of March 31, 2013, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2014 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 15 yen per share in November 2012. At the Ordinary General Meeting of Shareholders held on June 25, 2013, the Company's shareholders approved a cash dividend of 54 yen per share. In June 2013, the Company paid cash dividends of 7,330 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.

【Facilities and Equipment】

(1)Head Office

As of March 31, 2013

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	5,120	1,489	251 [40,330]	6,860	944
Okazaki Plant (Okazaki, Aichi)	Production	7,371	1,712	2,524 [160,382]	11,607	1,035
Nisshin (Nisshin, Aichi)	R&D	1,455	170	1,818 [43,102]	3,443	70
Tokyo R&D Center (Tachikawa, Tokyo)	R&D	156	30	189 [831]	375	15
Tokyo Branch (Bunkyo, Tokyo)	Sales point	277	13	57 [323]	347	25
Nagoya Branch (Nakamura, Nagoya)	Same as above	289	5	352 [1,238]	646	24
Osaka Branch (Kita, Osaka)	Same as above	859	4	69 [335]	932	27

(2)Domestic Subsidiaries

As of March 31, 2013

Company Name	Office Name	Location	Content of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees
Makita Numazu Corporation	Main Office	Numazu, Shizuoka	Sales point and Production	640	314	1,745 [43,737]	2,699	275

(3)Overseas Subsidiaries

As of March 31, 2013

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	269	65	74 [230,825]	408	117 (138)
Makita (China) Co., Ltd.	Kunshan China	Same as above	4,565	6,516	- [-] ＜160,340＞	11,081	3,086 (897)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	2,341	538	- [-] ＜87,683＞	2,879	1,300 (918)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	731	381	143 [50,600]	1,255	370 (2)
Dolmar GmbH	Hamburg Germany	Same as above	433	949	460 [53,819]	1,842	357 (32)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	2,120	1,081	174 [109,999]	3,375	658 (16)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	1,094	705	173 [141,876]	1,972	620 (26)

(Attention)

1. ＜ ＞ means rental from other than Makita Group.

2. ( ) means average numbers of temporary staff for this Fiscal Year.