Makita Corporation

Additional Information
for the year ended March 31, 2014

Consolidated Financial Statements

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

CONTENTS

【Accounting-Consolidated Financial Statements】

1. Basis for Consolidated Financial Statements

(1) Makita's Consolidated Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles in the United States of America as prescribed in Article 95 of Regulations for the Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Finance Ministry Ordinance No. 28 of 1976, hereinafter called "Regulation for Consolidated Financial Statement").

2. Audit Attestation

Makita's Consolidated Financial Statements for the consolidated year from April 1, 2013 to March 31, 2014 were audited by KPMG AZSA LLC in accordance with the Article 193-2(1) of the Financial Instruments and Exchange Law.

3. Special measures for ensuring the appropriateness of Consolidated Financial Statements, etc.

Makita engages in special measures for ensuring the appropriateness of Consolidated Financial Statements, etc.

More specifically, Makita takes part in the FASF (Financial Accounting Standards Foundation) and attends seminars in order to properly understand current accounting standards and to promptly and adequately keep pace with their updates.

CONSOLIDATED BALANCE SHEETS

	Yen (millions)	
	As of March 31, 2013	As of March 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	62,283	81,732
Time deposits	13,262	15,673
Short-term investments	38,060	41,048
Trade receivables-		
Notes	1,398	1,402
Accounts	53,583	64,176
Less- Allowance for doubtful receivables	(899)	(1,001)
Inventories	138,953	156,111
Deferred income taxes	5,533	7,231
Prepaid expenses and other current assets	11,102	13,665
Total current assets	323,275	380,037
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	22,710	22,793
Building and improvements	84,482	91,184
Machinery and equipment	80,484	86,594
Construction in progress	3,349	3,174
Sub total	191,025	203,745
Less- Accumulated depreciation and amortization	(104,740)	(112,143)
Total net property, plant and equipment	86,285	91,602
INVESTMENTS AND OTHER ASSETS:		
Investments	18,461	30,413
Goodwill	721	721
Other intangible assets, net	4,549	4,692
Deferred income taxes	961	623
Other assets	6,722	11,033
Total investments and other assets	31,414	47,482
Total assets	440,974	519,121

	Yen (millions)	
	As of March 31, 2013	As of March 31, 2014
LIABILITIES		
CURRENT LIABILITIES:		
Short-term borrowings	1,695	4,147
Trade notes and accounts payable	21,910	21,406
Other payables	5,556	6,647
Accrued expenses	7,148	10,566
Accrued payroll	8,295	9,083
Income taxes payable	5,221	8,210
Deferred income taxes	129	1,029
Other liabilities	6,371	8,199
Total current liabilities	56,325	69,287
LONG-TERM LIABILITIES:		
Long-term indebtedness	8	16
Accrued retirement and termination benefits	3,513	3,689
Deferred income taxes	3,136	5,332
Other liabilities	1,660	1,353
Total long-term liabilities	8,317	10,390
Total liabilities	64,642	79,677
EQUITY		
MAKITA CORPORATION SHAREHOLDERS' EQUITY:		
Common stock	23,805	23,805
Additional paid-in capital	45,421	45,421
Legal reserve	5,669	5,669
Retained earnings	338,239	366,919
Accumulated other comprehensive income (loss)	(28,064)	5,693
Treasury stock, at cost	(11,527)	(11,573)
Total Makita Corporation shareholders' equity	373,543	435,934
NONCONTROLLING INTEREST	2,789	3,510
Total equity	376,332	439,444
Total liabilities and equity	440,974	519,121

CONSOLIDATED STATEMENTS OF INCOME

	Yen (millions)			
	For the year ended March 31, 2013		For the year ended March 31, 2014	
		Composition ratio		Composition ratio
NET SALES	309,630	100.0%	383,207	100.0%
Cost of sales	194,859	62.9%	244,053	63.7%
GROSS PROFIT	114,771	37.1%	139,154	36.3%
Selling, general, administrative and others, net	69,405	22.4%	84,240	22.0%
OPERATING INCOME	45,366	14.7%	54,914	14.3%
OTHER INCOME (EXPENSE):				
Interest and dividend income	1,732		2,326	
Interest expense	(180)		(202)	
Exchange gains (losses) on foreign currency transactions, net	(1,324)		(1,700)	
Realized gains (losses) on securities, net	97		1,636	
Total other income (expense), net	325	0.1%	2,060	0.6%
INCOME BEFORE INCOME TAXES	45,691	14.8%	56,974	14.9%
Provision for income taxes:				
Current	13,206		18,749	
Deferred	1,301		(518)	
Total income tax expense	14,507	4.7%	18,231	4.8%
NET INCOME	31,184	10.1%	38,743	10.1%
Less-Net income attributable to the non-controlling interest	108	0.1%	290	0.1%
NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION	31,076	10.0%	38,453	10.0%

	Yen	
PER SHARE OF COMMON STOCK AND ADS:	For the year ended March 31, 2013	For the year ended March 31, 2014
Earnings per share: Basic	228.9	283.3
Cash dividends per share paid for the year	72.0	72.0

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Yen (millions)	
	For the year ended March 31, 2013	For the year ended March 31, 2014
NET INCOME	31,184	38,743
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment	27,740	30,204
Unrealized holding gains (losses) on available-for-sale securities	2,699	2,687
Pension liability adjustment	821	1,322
Total other comprehensive income (loss)	31,260	34,213
COMPREHENSIVE INCOME (LOSS)	62,444	72,956
Less-Comprehensive income (loss) attributable to the non-controlling interest	366	746
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO MAKITA CORPORATION	62,078	72,210

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Yen (millions)								
For the year ended March 31, 2013								
	Makita Corporation shareholders' equity						Non-controlling interest	Total
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock		
Beginning balance	23,805	45,421	5,669	316,937	(59,066)	(11,513)	2,525	323,778
Purchases and disposal of treasury stock, net						(14)		(14)
Cash dividends				(9,774)			(102)	(9,876)
Comprehensive income (loss)								
Net income				31,076			108	31,184
Other Comprehensive Income					31,002		258	31,260
Ending balance	23,805	45,421	5,669	338,239	(28,064)	(11,527)	2,789	376,332

Yen (millions)								
For the year ended March 31, 2014								
	Makita Corporation shareholders' equity						Non-controlling interest	Total
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock		
Beginning balance	23,805	45,421	5,669	338,239	(28,064)	(11,527)	2,789	376,332
Purchases and disposal of treasury stock, net						(46)		(46)
Cash dividends				(9,773)			(25)	(9,798)
Comprehensive income (loss)								
Net income				38,453			290	38,743
Other Comprehensive Income					33,757		456	34,213
Ending balance	23,805	45,421	5,669	366,919	5,693	(11,573)	3,510	439,444

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Yen (millions)	
	For the year ended March 31, 2013	For the year ended March 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	31,184	38,743
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	7,542	8,622
Deferred income tax expense (benefit)	1,301	(518)
Realized (gains) losses on securities, net	(97)	(1,636)
Losses (gains) on disposal or sales of property, plant and equipment, net	59	(297)
Bad debt expense	169	176
Inventory write-downs	719	1,632
Impairment of goodwill and long-lived assets	45	1,239
Changes in assets and liabilities-		
Trade receivables	(720)	(6,268)
Inventories	2,519	(1,480)
Trade notes and accounts payable and accrued expenses	(1,097)	1,441
Income taxes payable	(1,857)	907
Accrued retirement and termination benefits	(1,100)	(1,323)
Other, net	(303)	448
Net cash provided by operating activities	38,364	41,686
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, including interest capitalized	(11,481)	(11,417)
Purchases of available-for-sale securities	(11,358)	(19,650)
Purchases of held-to-maturity securities	(1,216)	-
Proceeds from sales of available-for-sale securities	2,249	7,730
Proceeds from maturities of available-for-sale securities	156	200
Proceeds from maturities of held-to-maturity securities	3,900	3,800
Proceeds from sales of property, plant and equipment	759	1,259
Investment in term (time) deposit	(21,828)	(16,549)
Withdrawal of term (time) deposit	23,785	15,123
Other, net	(380)	(580)
Net cash used in investing activities	(15,414)	(20,084)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additions to borrowings with original maturities of more than three months	2,272	4,002
Payments on borrowings with original maturities of more than three months	(2,919)	(1,611)
Purchase (sale) of treasury stock, net	(15)	(46)
Cash dividends paid	(9,774)	(9,773)
Other, net	(214)	63
Net cash used in financing activities	(10,650)	(7,365)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	5,171	5,212
NET CHANGE IN CASH AND CASH EQUIVALENTS	17,471	19,449
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	44,812	62,283
CASH AND CASH EQUIVALENTS, END OF YEAR	62,283	81,732
SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest, net of amount capitalized	175	195
Cash paid during the year for income taxes	15,063	17,841

NOTES TO COSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING PRINCIPLES

In compliance with Article 95 of the Regulation for Consolidated Financial Statement, our Consolidated Financial Statements are prepared in accordance with the Generally Accepted Accounting Principles in the United States of America including, but not limited to, Accounting Standards Codification of Financial Accounting Standard Board (hereinafter called "ASC") in relation to the issuance of American Depositary Receipts (ADR).

In its initial issuance of American Depository Receipts (ADR) in 1977, Makita prepared Consolidated Financial Statements based on US GAAP and registered them with the SEC. Since then, Makita has continued to prepare and file with the SEC its Consolidated Financial Statements based on US GAAP, in accordance with Article 13 of Securities Exchange Act of 1934. Makita effectively delisted from NASDAQ on April 2013 and its registration with the SEC was discontinued on July 2013.

Major Differences between Generally Accepted Accounting Principles in Japan and those in the United States of America are listed below. If the variance is significant in amount, the impact is disclosed. The impact on each item is net income before income tax basis but not net income attributable to Makita Corporation's shareholders basis.

(1) New share issuing expenses
New share issuing expenses net of taxes are deducted from Additional paid-in Capital.
(2) Allowance for retirement and benefits
Allowance for retirement benefits is recognized in accordance with ASC 715 "Compensation --- Retirement Benefits ".
(3) Goodwill and Other Intangible Assets
Goodwill and Other Intangible Assets are recognized in accordance with ASC 350 "Intangibles --- Goodwill and Other".
Goodwill and Other Intangible Assets with indefinite useful lives are not depreciated but reassessed for impairment test at least once a year and tested whenever there is any indication of impairment.

2. OVERVIEW OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

(1)Overview of business

Makita and its Group engage mainly in the business of production and sales of drills, grinders, sanders, hammer drills, rotary hammers, cordless impact drivers, cutters and circular saws, and also, production and sales of pneumatic tools and gardening tools.

Sales are made under the brand name of "Makita" or "Maktec" by Makita and another domestic subsidiary in the market in Japan and by sales subsidiaries and agents in overseas market.

Sales in overseas market account for 82.8% of consolidated sales; in Europe 43.2%, in North America 13.0%, in Asia 9.1% and in Other Regions 17.5%.

Makita and its Group have 9 production facilities: 2 in China, and one each in the Japan, U.S.A., Brazil, U.K., Germany, Romania and Thailand.

(2) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, and all of its majority-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in the consolidation. Makita did not have any consolidated variable interest entities for any of the periods presented herein.

(3) Foreign Currency Translation and Transactions

Overseas subsidiaries' assets and liabilities on the consolidated balance sheet denominated in their local currencies are translated at the exchange rate in effect at each fiscal year-end and items on the consolidated profit and loss statement are translated at the average exchange rates prevailing during each fiscal year. The local currencies of the countries where the subsidiaries are located are regarded as their functional currencies. The resulting currency translation adjustments are included in accumulated other comprehensive income (loss).

Gains and losses resulting from all foreign currency transactions, including foreign exchange contracts, and re-measurement of receivables and payables denominated in foreign currencies are included in other income (expenses).

(4) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and time deposits with original maturities of three months or less.

(5) Short-term Investments and Investments

Makita classifies investments in debt and marketable equity securities as available-for-sale or held-to-maturity securities. Makita does not hold any marketable or investment securities that are bought and held primarily for the purpose of sale in the near term.

Except for non-marketable equity securities, available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded as a separate component of accumulated other comprehensive income (loss), net of applicable income taxes. Non-marketable equity securities are carried at cost and reviewed periodically for impairment. Held-to-maturity securities are reported at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

A decline in the fair value of any equity securities to below the carrying amount that is deemed to be other-than-temporary results in a write-down of the carrying amount to the fair value as a new cost basis and the amount of the write-down is 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 in earnings, and the amount related to all other factors, which is recognized in other comprehensive income (loss). For debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell them, impairments in their entirety are recognized in earnings.

Available-for-sale securities are periodically reviewed for other-than-temporary declines on criteria that include the length and the magnitude of decline, the financial condition and prospects of the issuer, and Makita's intent and ability to retain the investment for a period of time to allow for recovery in market value and other relevant factors.

Held-to-maturity securities are periodically evaluated for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Makita classifies investments, which are available for current operations, in current assets. The other investments are classified as investments as a part of non-current investments and other assets in the consolidated balance sheets.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the moving average cost method.

(6) Allowance for Doubtful Receivables

Allowance for doubtful receivables represents Makita's best estimate of the amount of probable credit losses in its existing receivables. The allowance is determined based on, but is not limited to, historical collection experience adjusted for the effects of the current economic environment, assessment of inherent risks, aging and changes in the financial performance of the debtor. Account balances are charged off against the allowance after all means of collection have been exhausted and the potentiality for recovery is considered remote.

(7) Inventories

Inventory costs include raw materials, labor and manufacturing overheads. Inventories are valued at the lower of cost or market price, with cost determined principally based on the average cost method. Makita estimates the obsolescence of inventory based on the difference between the cost of inventory and its estimated market value reflecting certain assumptions about anticipated future demand. The carrying amount of inventory is then reduced to account for such obsolescence. Once inventory items are written-down or written-off, such items are not written-up subsequently. All existing and anticipated modifications to product models are evaluated against on-hand inventories, and are adjusted for potential obsolescence.

(8) Property, Plant and Equipment and Depreciation and Amortization

Property, plant and equipment is stated at cost. For the Company, depreciation is computed principally by using the declining-balance method over the estimated useful life. Most of the subsidiaries have adopted the straight-line method for computing depreciation. The depreciation period generally ranges from 10 years to 60 years for buildings and improvements and from 3 years to 20 years for machinery and equipment. The cost and accumulated depreciation and amortization applicable to assets retired are removed from the accounts and any resulting gain or loss is recognized in the consolidated profit and loss statement. The cost for betterments, renewals and repairs that extend the life of the assets are capitalized. Other maintenance and repair costs are expensed as incurred.

Depreciation and amortization expenses for the years ended March 31, 2013 and 2014 amounted to 6,888 million yen and 7,874million yen, respectively, which included the amortization of capitalized lease equipment.

Certain leased buildings, improvements, machinery and equipment are accounted for as capital leases. The aggregate cost included in property, plant and equipment and the related accumulated amortization as of March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Aggregate cost	166	71
Accumulated depreciation and amortization	147	43

(9) Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step process. Under the first step, the fair value of the reporting unit is compared with its carrying amount (including goodwill). If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairments exists for the reporting unit and the management must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in the same manner to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit's goodwill. Makita determines the fair value of its reporting units by using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

Makita performs its annual impairment review of goodwill every December 31, and when a triggering event occurs between annual impairment dates.

(10) Environmental Liabilities

Liabilities for environmental remediation and other environmental costs, if any, are accrued when environmental assessments or remedial efforts are probable to be required and the costs can be reasonably estimated. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values unless the amount and timing of such payments are determinable.

(11) Research and Development Costs and Advertising Costs

Research and development costs, which are included in Selling, general, administrative and others, net in the consolidated statements of income, are expensed as incurred. Advertising costs are also expensed as incurred.

(12) Shipping and Handling Costs

Shipping and handling costs, which mainly include transportation to customers, are included in Selling, general, administrative and others, net in the consolidated statements of income.

(13) Income Taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of existing assets and liabilities on the consolidated financial statements and their respective tax bases and tax loss carry-forwards and tax credit carry-forwards. Deferred income tax assets and liabilities are measured by using the estimated effective statutory tax rates applicable to taxable income in the years during which those temporary differences and the tax consequences attributable to those carry-forwards are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or laws is recognized in income in the period that includes the enactment date.

Makita recognizes in its consolidated financial statements the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured as the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Makita classifies penalties and interest related to unrecognized tax benefits, if any, in provision for income taxes.

(14) Product Warranties

A liability for the estimated product warranty-related cost is established at the time revenue is recognized and is included in other current liabilities and cost of sales. Estimates for accrued product warranty costs are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure.

(15) Pension and Retirement Benefits

Changes in the amount of either the projected benefit obligation or plan assets resulting from actual results different from those assumed and from changes in assumptions can result in gains and losses to be recognized in the consolidated financial statements in the future periods. Amortization of an unrecognized net gain or loss is included as a component of the net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets. In such a case, the amount of amortization recognized is the excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability on the consolidated balance sheet. Subsequent changes in the funded status are recognized as a component of accumulated other comprehensive income (loss).

(16) Earnings per Share

Basic earnings per share is computed by dividing the net income available to common shareholders by the weighted average common shares outstanding during each year.

(17) Impairment of Long-lived Assets

Long-lived assets, such as property, plant and equipment, and certain intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flow. Any acquired intangible asset determined to have an indefinite useful life is not amortized, but instead is tested for impairment based on its fair value until its life would be determined to be no longer indefinite. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by the projected discounted cash flows or other valuation techniques as appropriate.

Assets to be disposed of, if any, are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

(18) Derivative Financial Instruments

Makita recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and on the type of hedging relationship.

Makita employs derivative financial instruments, including forward foreign currency exchange contracts and currency swaps to manage its exposure to fluctuations in foreign currency exchange rates. Makita does not use derivatives for speculation or trading purpose. Changes in the fair value of derivatives are recorded for each period in current earnings depending on whether or not a derivative is designated as part of a hedge transaction and on the type of hedge transaction. The ineffective portion of all hedges is recognized currently in earnings.

(19) Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of financial statements in conformity with U.S. GAAP requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Makita has identified the following areas where it believes assumptions and estimates are particularly critical to the consolidated financial statements. These are accounting for sales incentives, volume-based rebates and cooperative advertising, determination of an allowance for doubtful receivables, impairment of long-lived assets, realizability of deferred income tax assets, the determination of unrealized losses on securities for which the decline in market value is considered to be other than temporary, the actuarial assumptions on retirement and termination benefit plans and valuation of inventories.

(20) Revenue Recognition

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

Makita offers sales incentives to qualifying customers through various incentive programs. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts, and are accounted for in accordance with ASC 605-50 “Customer’s Payments and Incentives.”

Volume-based rebates are provided to customers only if customers attain a pre-determined cumulative level of revenue transactions within a specified period of one year or less. Liabilities for volume-based rebates are recognized with a corresponding reduction of revenue for the expected sales incentive at the time the related revenue is recognized, and are based on the estimation of sales volume reflecting the historical performance of individual customers. Cooperative advertising programs are provided to certain customers as a contribution to or as sponsored funds for advertisements.

Under cooperative advertising programs, Makita does not receive an identifiable benefit sufficiently separable from its customers. Accordingly, cooperative advertising is also recognized as a reduction of revenue at the time the related revenue is recognized based on Makita’s ability to reliably estimate such future advertising to be taken.

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 reduction of revenue at the time the related revenue is recognized based on Makita’s ability to reliably estimate such future discounts to be taken. Estimates of expected cash discounts are evaluated and adjusted periodically based on actual sales transactions and historical trends.

When repairs are made and charged to customers, the revenue from this source is recognized when the repairs have been completed and the item has been shipped to the customer.

Taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

(21) Subsequent events

Makita has evaluated the subsequent events through June 26, 2014, the date on which the financial statements are available to be issued.

(22) New Accounting Standards Adopted

In February 2013, FASB issued ASU 2013-02 which requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component, and to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. Makita will adopt this amended guidance from the quarter beginning April 1, 2013, and does not expect the adoption of this guidance to have a material impact on Makita’s consolidated results of operations, financial condition and cash flows.

***(23)* Changes in accounting principles, procedures and presentations:**

On April 1, 2013, the depreciation method used by the corporation and some of its consolidated subsidiaries to compute the depreciation of property, plant and equipment was changed from the declining-balance method to the straight-line method.

This change has its basis in the following: through Makita’s efforts to globalize its production, it has established a system for mass production at its overseas manufacturing subsidiaries. As a result, we can now regard our plants in Japan as production centers of mainly high-value-added products that are consistently in demand and so we can expect the generally stable consumption of the economic benefits of our property, plant and equipment. In view of these developments, we decided that the straight-line method is a more realistic and rational way of cost allocation. Estimated useful lives have also been reevaluated and changed according to the actual status of use.
Based on FASB ASC Topic 250, Accounting changes and error corrections, Makita recognizes the change in the accounting estimates and their future impact.

These changes have caused a decrease of 239 million yen in depreciation cost during the period, and respective increases of 81 million yen and 0.59 yen in net income and in earning per share net income attributable to Makita common shareholders.

(24) New Accounting Standards Not yet Adopted

In May 2014, the FASB issued ASU 2014-09 Revenue from Contracts with Customers (Topic 606).

The guidance provides a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The ASU is effective for annual reporting periods beginning on April 1, 2017. We are currently evaluating the impact of adopting ASU 2014-09 to determine the impact, if any.

3. INVENTORIES

Inventories as of March 31, 2013 and 2014 comprised the following:

	Yen in millions	
	2013	2014
Finished goods and merchandise	118,585	132,799
Work in process	2,357	2,541
Raw materials	18,011	20,771
Total	138,953	156,111

Inventory write-downs, which are charged to cost of sales, amounted to719 million yen, and 1,632million yen for the years ended March 31, 2013 and 2014, respectively.

4. IMPAIRMENT OF LONG-LIVED ASSETS

Makita recognized an impairment loss of 45 million yen for the year ended March 31, 2013 on long-lived assets related to the gardening tools asset group within the Japan operating segment.

Management conducted the impairment test because of the continued stagnant business activity, and as result assessed that the impairment losses mainly consisted of the decrease in the fair value of the land for the plant.

The impairment losses were included in selling, general, administrative and others, net in the consolidated statements of income.

The long-lived assets consist of the land for the plant and other long-lived assets. The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third party appraiser.

Makita recognized an impairment loss of 1,239million yen for the year ended March 31, 2014 on long-lived assets related to the gardening tools asset group within the Japan operating segment.

Management conducted the impairment test because of the continued stagnant business activity, and as result assessed that the impairment losses mainly consisted of the decrease in the fair value of the land for the plant.

The impairment losses were included in selling, general, administrative and others, net in the consolidated statements of income.

The long-lived assets consist of the land for the plant and other long-lived assets. The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third party appraiser.

5. SHORT-TERM INVESTMENTS AND INVESTMENTS

As of March 31, 2013 and 2014, short-term investments and investments consisted of available-for-sale securities and held-to-maturity securities and non-marketable equity securities (carried at cost).

The cost, unrealized gains and losses, fair value and carrying amount of such securities by major security type as of March 31, 2013 and 2014, were as follows:

	Yen in millions				
As of March 31, 2013	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Short-term investments:					
Available-for-sale:					
Corporate debt securities	726	32	-	758	758
Investment trusts	5,655	1,368	-	7,023	7,023
MMF and FFF	24,927	-	-	24,927	24,927
Marketable equity securities	587	951	-	1,538	1,538
Sub-total	31,895	2,351	-	34,246	34,246
Held-to-maturity:					
Corporate debt securities	3,513	3	-	3,516	3,513
Government debt securities	100	-	-	100	100
Public debt securities (except Government debt securities)	201	-	-	201	201
Sub-total	3,814	3	-	3,817	3,814
Total Short-term investments	35,709	2,354	-	38,063	38,060

Investments:	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Available-for-sale:					
Marketable equity securities	6,910	7,232	-	14,142	14,142
Sub-total	6,910	7,232	-	14,142	14,142
Held-to-maturity:					
Corporate debt securities	3,432	23	-	3,455	3,432
Government debt securities	100	1	-	101	100
Public debt securities (except Government debt securities)	400	3	-	403	400
Sub-total	3,932	27	-	3,959	3,932
Total Investments	10,842	7,259	-	18,101	18,074

In addition to above investments, non-marketable equity securities (carried at cost) amounted to 387 million yen on March 31, 2013.

As of March 31, 2014	Yen in millions Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Short-term investments:					
Available-for-sale:					
Corporate debt securities	583	11	-	594	594
Investment trusts	3,489	1,006	-	4,495	4,495
MMF and FFF	32,022	-	-	32,022	32,022
Marketable equity securities	398	531	-	929	929
Sub-total	36,492	1,548	-	38,040	38,040
Held-to-maturity:					
Corporate debt securities	2,508	3	-	2,511	2,508
Government debt securities	100	-	-	100	100
Public debt securities (except Government debt securities)	400	2	-	402	400
Sub-total	3,008	5	-	3,013	3,008
Total Short-term investments	39,500	1,553	-	41,053	41,048

Investments:	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Available-for-sale:					
Marketable equity securities	16,930	12,195	-	29,125	29,125
Sub-total	16,930	12,195	-	29,125	29,125
Held-to-maturity:					
Corporate debt securities	901	15	-	916	901
Sub-total	901	15	-	916	901
Total Investments	17,831	12,210	-	30,041	30,026

In addition to the above investments, non-marketable equity securities (carried at cost) amounted to 387 million yen on March 31, 2014.

During FY2013, we reclassified certain corporate bonds with book value of 203 million yen from Held-to-Maturity category to Available-for-sale category. This reclassification was made because credit rating agencies had lowered the rating of the issuing corporation and we decided to consider the possibility of their disposal. As a result of the reclassification, investments decreased by 203 million yen and realized gain on securities decreased by 93 million yen.

Investments in trusts represent funds deposited with trust banks in multiple investor accounts and managed by the fund managers of the trust banks. As of March 31, 2013 and 2014, each fund mainly consisted of marketable equity securities and interest-bearing bonds.

Investments in non-marketable equity securities are accounted for under cost method and amounted to 387 million yen and 387 million yen as of March 31, 2013 and 2014, respectively. For the years ended March 31, 2013 and 2014, Makita did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

Maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2014, regardless of their balance sheet classification, were as follows:

Cost	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	89	3,008	3,097
Due from one to five years	494	301	795
Due from five to ten years	-	600	600
Due after ten years	-	-	-
Total	583	3,909	4,492

Fair Value	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	100	3,013	3,113
Due from one to five years	494	301	795
Due from five to ten years	-	615	615
Due after ten years	-	-	-
Total	594	3,929	4,523

Gross realized gains on sales of short-term investments and investments for the years ended March 31, 2013 and 2014 amounted to 386 million yen and 1,642 million yen, respectively.

Gross realized losses, which included the gross realized losses considered as other than temporary, during the years ended March 31, 2013 and 2014 amounted to 289million yen, 6 million yen, respectively. The cost of the securities sold was computed based on the moving average method. Gross unrealized losses on short-term marketable investments and investments of which the declines in market value are considered to be other than temporary were charged to earnings as realized losses on securities, amounting to 277 million yen for the years ended March 31, 2013. There were no earnings as realized losses on securities in the ended March 2014.

Proceeds from the sales and maturities of available-for-sale securities were 2,405 million yen and 7,930 million yen for the years ended March 31, 2013 and 2014, respectively. Proceeds from maturities of the held-to-maturity securities were 3,900 million yen and 3,800 million yen for the years ended March 31, 2013 and 2014, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Intangible assets developed or acquired during the year ended March 31, 2014 totaled 778 million yen, which are subject to amortization and primarily consist of software. The weighted average amortization period for software, other and total is approximately 5 years, 5 years and 5 years, respectively. The components of intangible assets subject to amortization at March 31, 2013 and 2014 were as follows:

	Yen in millions					
	2013			2014		
	Cost	Accumulated amortization	Carrying amount	Cost	Accumulated amortization	Carrying amount
Industrial property	2,881	790	2,091	2,902	1,010	1,892
Software	3,812	2,580	1,232	4,448	3,023	1,425
Other	1,793	623	1,170	1,999	685	1,314
Total	8,486	3,993	4,493	9,349	4,718	4,631

Aggregate amortization expense for the years ended March 31, 2013 and 2014 were 654 million yen and 748 million yen, respectively. As of March 31, 2014, the estimated amortization expense for intangible assets currently held for the next five years ending March 31 is 740 million yen in FY2015, 712 million yen in FY2016, 674 million yen in FY2017, 482million yen in FY2018, and 340 million yen in FY2019.

Intangible assets not subject to amortization at March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Acquisition cost	56	61

The changes in the carrying amount of goodwill for the years ended in March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Beginning balance	721	721
Impairment	-	-
Other	-	-
Ending balance	721	721

The above goodwill was included in the Japan operating segment.

7. INCOME TAXES

Income before income taxes and the provision for income taxes for the years ended March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Income before income taxes:		
Domestic	14,629	18,804
Foreign	31,062	38,170
Total	45,691	56,974
Income tax expenses:		
Current - Domestic	5,493	7,723
- Foreign	7,713	11,026
Sub-total	13,206	18,749
Deferred - Domestic	1,263	(160)
- Foreign	38	(358)
Sub-total	1,301	(518)
Total income tax expenses	14,507	18,231

Total income taxes including deferred tax for the years ended March 31, 2013 and 2014 were allocated as follows:

	Yen in millions	
	2013	2014
Income taxes	14,507	18,231
Other comprehensive income(loss) :		
Foreign currency translation adjustment	85	175
Unrealized holding gains (losses) on investment securities	1,478	1,473
Pension liability adjustment	472	805
Total income taxes	16,542	20,684

The Company and its domestic subsidiaries are subject to a National Corporate tax of 25.5%, a Special Reconstruction Corporate tax of 2.55%, an Inhabitant tax 4.8% and a deductible Enterprise tax of 7.9%, which in the aggregate figure resulted in a combined statutory income tax rate of 37.7% for the year ended March 31, 2013.

The Company and its domestic subsidiaries are subject to a National Corporate tax of 25.5%, a Special Reconstruction Corporate tax of 2.55%, an Inhabitant tax of approximately 4.8% and a deductible Enterprise tax of approximately 7.9%, which in the aggregate resulted in a combined statutory income tax rate of approximately 37.7% for the years ended March 31, 2014.

Associated with the promulgation on March 31, 2014 of the Act for Partial Revision of the Income Tax Act,etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures. As a result, the statutory effective tax rate used for the calculation of deferred tax assets and deferred tax liabilities for the fiscal year under review (limited to those to be eliminated on and after April 1, 2014) has been changed from 37.5% in the previous fiscal year to 35.1% for those which are expected to be recovered or paid on. The effect of this tax rate is insignificant.

A reconciliation of the combined statutory income tax rates to the effective income tax rates is as follows:

	Year ended March 31	
	2013	2014
Standard tax rate	37.7%	37.7%
Non-deductible expenses	0.6	0.5
Non-taxable dividends received	(0.1)	(0.2)
Change in valuation allowance	0.3	0.0

	2013	2014
Tax sparing impact	(0.7)	(1.0)
Effect of the foreign tax rate differential	(8.7)	(9.0)
Undistributed earnings	3.2	3.8
Other	(0.5)	0.2
Effective income tax rate	31.8%	32.0%

For the year ended March 31, 2013, an effect of the foreign tax rate differential of 3,998 million yen was recorded. This was attributable to proportionately higher profits earned in the overseas subsidiaries compared to those in the Company and domestic subsidiaries in the background of relatively lower tax rates applied in overseas subsidiaries.

Due mainly to this effect, the effective tax rate for the year ended March 31, 2013 was 31.8%, a decrease of 5.9 points as compared with the statutory income tax rate of 37.7%.

For the year ended in March 31, 2014, an effect of the foreign tax rate differential of 5,134 million yen was recorded. This was attributable to proportionately higher profits earned in the overseas subsidiaries compared to those in the Company and domestic subsidiaries in the background of relatively lower tax rates applied in overseas subsidiaries. In addition, we changed policies of permanent reinvestment in certain foreign subsidiaries and accrued corresponding deferred tax liabilities for the undistributed earnings. Due mainly to these effects, the effective tax rate for the year ended March 31, 2014 was 32.0%, a decrease of 5.7 points as compared with the statutory income tax rate of 37.7%.

According to the provisions of the tax treaties which have been concluded between Japan and 7 countries, Japanese corporations can claim a tax credit against Japanese income taxes on income earned in one of those 7 countries, even though that income is exempted from income taxes or is reduced by special tax incentive measures in those countries, as if no special exemption or reduction were provided. The Company applied such “tax sparing” mainly to China with the indicated tax reduction effect. The effect of the “tax sparing” resulted in a decrease of tax expense by 329 million yen or 0.7% and 590 million yen or 1.0% for the years ended March 31, 2013 and 2014, respectively.

The significant components of deferred income tax expense attributable to income before income taxes for the years ended March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Deferred tax expense (benefit) (exclusive of the effects of other components below)	1,301	(518)

Significant components of deferred income tax assets and liabilities as of March 31, 2013 and 2014 were as follows:

	Yen in millions	
	2013	2014
Deferred income tax assets:		
Marketable securities and investment securities	2,354	2,038
Accrued retirement and termination benefits	649	417
Accrued expenses	1,257	2,275
Inventories	2,005	2,278
Property, plant and equipment	2,067	2,728
Accrued payroll	1,746	1,754
Net operating loss carryforwards of subsidiaries	1,022	861
Other	726	416
Total deferred income tax assets	11,826	12,767
Valuation allowance	(886)	(1,053)
Sub-total	10,940	11,714
Deferred income tax liabilities:		
Undistributed earnings of overseas subsidiaries	(1,881)	(2,238)
Accrued retirement and termination benefits	(1,263)	(2,335)
Unrealized gain on available-for-sale securities	(3,392)	(4,864)
Property, plant and equipment	(1,151)	(754)
Other	(24)	(30)
Total deferred income tax liabilities	(7,711)	(10,221)
Net deferred income tax assets	3,229	1,493

As of March 31, 2013 and 2014, deferred income tax assets and liabilities are recorded in the consolidated balance sheets as follows:

	Yen in millions	
	2013	2014
Current assets	5,533	7,231
Investments and other assets	961	623
Current liabilities	(129)	(1,029)
non-current liabilities	(3,136)	(5,332)
Net deferred tax assets	3,229	1,493

In assessing the realizability of deferred income tax assets, Makita considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss carry-forwards are utilizable. Makita considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, Makita believes it is more likely than not that the benefits of these deductible differences and net operating loss carry-forwards, net of the existing valuation allowance, will be realized. The actual amount of the deferred income tax assets realizable, however, would be reduced if estimates of future taxable income during the carry-forward period are not achieved. Makita has recorded a valuation allowance of 1,053 million yen as of March 31, 2014 against certain deferred income tax assets primarily associated with net operating loss carry-forwards.

As of March 31, 2014, certain subsidiaries had net operating loss carry-forwards for income tax purposes of 3,731 million yen which are available to offset future taxable income, if any. The time limits during which the net operating losses may be offset against future taxable income are as follows:

March 31, 2014	Yen in millions
Within 5 years	233
6 to 20 years	845
Indefinite	2,653
Total	3,731

As of March 31, 2014, Makita had no foreign tax credit carry-forwards for income tax purposes.

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries, as the tax law provides a means by which the investment in domestic subsidiaries can be recovered tax free. Makita has not recognized deferred tax liabilities for certain portions of undistributed earnings of foreign subsidiaries in the total amount of 163,340 million yen as of March 31, 2014. This is because Makita considers these earnings to be indefinitely reinvested, and the calculation of the unrecognized deferred tax liabilities is not practicable.

The unrecognized tax benefits for the years ended March 31, 2013 and 2014 were neither material nor expected to significantly increase or decrease within the 12-month period subsequent to March 31, 2014. Makita classifies penalties and interest related to unrecognized tax benefits, if any, as provision for income taxes, and the total amounts of penalties and interest related to unrecognized tax benefits recorded were not material for the years ended March 31, 2013 and 2014. Makita conducts business globally and, as a result, the Company and its subsidiaries file income tax returns in various jurisdictions all over the world. The Company will no longer be subject to income tax examinations for the periods prior to the fiscal year ended March 31, 2012, and one of the Company's major subsidiaries in the United States remains subject to income tax examinations for the periods beginning in the year ended March 31, 2011.

8. ALLOWANCE FOR RETIREMENT BENEFIT

The Company and certain of its subsidiaries have various employee retirement benefit plans covering substantially all of their employees. Under these plans, employees are entitled to lump-sum payments at the time of termination or retirement, or to pension payments. A domestic retirement benefit plan covers substantially all of the employees of the Company. The amounts of lump-sum or pension payments under the plans are generally determined on the basis of length of service and remuneration at the time of termination or retirement.

The net periodic pension costs of the defined benefit plans for the years ended March 31, 2013 and 2014 are as follows:

	Yen in millions	
	2013	2014
Service cost	1,341	1,410
Interest cost	779	700
Expected return on plan assets	(1,066)	(1,463)
Amortization of prior service cost	(226)	(223)
Amortization of actuarial loss	573	646
pension costs	1,401	1,070

Net actuarial loss and amortization of prior service cost which will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are as follows:

	Yen in millions
	2015
Amortization of actuarial loss	446
Amortization of prior service cost	(221)

Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets were as follows:

	Yen in millions	
	2013	2014
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	37,511	38,543
Service cost	1,341	1,410
Interest cost	779	700
Actuarial difference	934	(1,056)
Benefits paid	(2,337)	(2,374)
Foreign exchange impact	315	521
Projected benefit obligation at end of year	38,543	37,744
Change in plan assets:		
Fair value of plan assets at beginning of year	35,654	38,908
Actual return on plan assets	2,991	2,149
Employer contributions	2,409	2,409
Benefits paid	(2,197)	(1,837)
Foreign exchange impact	51	85
Fair value of plan assets at end of year	38,908	41,714
Funding position	365	3,970
Amounts recognized in accumulated other comprehensive income consisted of:		
Other current liabilities	(181)	(119)
Pension Allowance	(3,513)	(3,669)
Other assets	4,059	7,778
	365	3,970
Amounts recognized in accumulated other comprehensive income consisted of:		
Actuarial loss	12,132	9,860
Prior service cost	(1,500)	(1,274)
	10,632	8,586

Measurement date

The Company uses a March 31 measurement date for all of its plans. The accumulated benefit obligation for all defined benefit plans were as follows:

	Yen in millions	
	2013	2014
Accumulated benefit obligation	33,800	33,918

Weighted-average assumptions

The weighted-average assumptions used to determine the benefit obligations as of March 31, 2013 and 2014 were as follows:

Weighted-average rate used in determining the benefit obligation as of March 31	2013	2014
Discount rate	1.8%	1.8%
Salary increase rate	2.8%	2.7%

The weighted-average assumptions used to determine net periodic pension cost for the years ended in March 31, 2013 and 2014 were as follows:

Weighted-average rate used in determining the retirement benefit expenses for years ended March 31, 2013 and 2014	2013	2014
Discount rate	2.1%	1.8%
Salary increase rate	2.8%	2.8%
Expected long-term rate of return on plan assets	2.9%	3.9%

The discount rate is determined by aggregating average remaining service period and average payment period using an approximated curve developed from the rate of high-quality corporate bonds of grade AA or better and long-term government securities as of the measurement date. The pension fund's expected long-term rate of return on assets is derived from a review of actual historical returns achieved and anticipated future long-term performance of individual asset classes.

Plan Assets

The target asset allocations by asset class for the year ending March 31, 2015 are as follows:

Asset Class:

Asset Class:	Target Allocations
Equity securities	16%
Debt securities	41
Life insurance company general accounts	17
Short-term assets	2
Alternative investments	24
Total	100%

The overall objective of Makita's pension assets is to earn a rate of return to satisfy the benefit obligations of the pension plans and to pay benefits. In order to meet this objective, Makita determines an optimal asset mix from a three-to-five-year's medium and long-term standpoint. To avoid a sharp decline in the asset value in the future, Makita updates the asset mix as necessary by monitoring risks and assessing the magnitude of the risks. Makita has an acceptable divergence indicator for the asset mix, and the proportion of the temporary asset allocations will be updated promptly when the divergence occurs. Makita determined the mix of equity securities and debt securities after taking into consideration the expected long-term rate of return on pension assets. To decide whether changes in the basic portfolio are necessary, Makita examines the divergence between the expected long-term income and the actual income from the portfolio on an annual basis. Makita and some subsidiaries revise the portfolio when it is deemed necessary to reach the expected long-term yield. The plans' equity securities include common stock of the Company in the amount of 2 million yen as of March 31, 2014.

The fair values of Makita's pension plan assets as of March 31, 2013 and 2014, by asset class, were as follows:

As of March 31, 2013	Yen in millions			
	Total	Level 1	Level 2	Level 3
Equity securities:				
Domestic				
Stock	1,661	1,661	-	-
Stocks(commingled)	1,326	-	1,326	-
Overseas				
Stocks	23	23	-	-
Stocks (commingled)	4,300	-	4,300	-
Debt securities:				
Domestic				
Government bonds	481	481	-	-
Commingled	8,508	-	8,508	-
Overseas				
Government bonds	1,506	1,506	-	-
Commingled	6,172	-	6,172	-
Life insurance company general accounts	6,199	-	6,199	-
Short-term assets	3,851	3,844	7	-
Alternative investments				
Commingled funds	4,881	-	3,983	898
Total	38,908	7,515	30,495	898

As of March 31, 2014	Yen in millions			
	Total	Level 1	Level 2	Level 3
Equity securities:				
Domestic				
Stock	1,600	1,600	-	-
Stocks(commingled)	2,745	-	2,745	-
Overseas				
Stocks	29	29	-	-
Stocks (commingled)	4,634	-	4,634	-
Debt securities:				
Domestic				
Government bonds	119	119	-	-
Commingled	8,152	-	8,152	-
Overseas				
Government bonds	1,546	1,546	-	-
Commingled	6,089	-	6,089	-
Life insurance company general accounts	6,292	-	6,292	-
Short-term assets	5,379	4,731	648	-
Alternative investments				
Commingled funds	5,399	-	4,436	963
Total	41,714	8,025	32,726	963

Domestic and overseas equity securities consist primarily of stocks that are listed on the securities exchanges. Debt securities consist primarily of domestic and overseas government and municipal bonds. Short-term assets consist primarily of bank deposits with a short-term maturity. Level 1 assets are comprised principally of equity securities which are valued based on quoted prices in active markets for identical assets. Level 2 assets are comprised principally of government bonds, commingled funds that invest in equity and debt securities, investments in life insurance company general accounts and alternative investments.

Investments in life insurance company general accounts are valued at the amounts that are the conventional interest added to the principle amounts calculated by the life insurance company. See note 14 for additional information about fair value hierarchies and valuation techniques.

Regarding the debt securities selection, Makita conducts a good research and analysis on issuance conditions, such as rating, coupon, maturity date, and issuer. Makita appropriately diversifies investments by maturity and issuer. The equity securities are selected primarily from stocks that are listed on securities exchanges and over-the-counter market. Makita conducts a good research and analysis on the business scope and growth potential of companies to be invested in, and appropriately diversifies investments by the type of industry. Regarding investments in foreign equity and bonds, Makita has investigated the political and economic stability of the markets to be invested in, the market characteristics such as settlement systems and the taxation systems. On that basis, Makita selected countries and currencies appropriate for investment. For commingled funds, Makita selected those that have defined operating assets and management style. Makita also has alternative investments in J-REIT, G-REIT, commodities, high-yield debts and hedge-funds (market neutral strategy for Japanese equity and relative value strategy for bonds).

The following table summarizes the changes in Level 3 plan assets for the years ended March 31, 2013 and 2014:

	Yen in millions	
	2013	2014
Balance at beginning of year	520	898
Actual return on plan assets relating to assets held at year end	42	65
Purchases	336	-
Balance at end of year	898	963

Level 3 assets consist of hedge-funds investment (relative value strategy for bonds). They are valued at the net asset value. Information for retirement benefit plans with an accumulated benefit obligation in excess of plan assets is as follows:

	Yen in millions	
	2013	2014
Projected benefit obligation	4,199	4,489
Accumulated benefit obligation	4,119	4,321
Fair value of plan assets	509	682
Accumulated benefit obligation in excess of plan assets	3,610	3,639

Cash flows

Contributions:

Makita expects to contribute1, 473 million yen to its defined benefit pension plan in the year ending March 31, 2015.

Estimated future benefit payments

At March 31, 2014, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five years thereafter are as follows:

Year ending March 31,	Yen in millions
2015	1,817
2016	1,821
2017	1,320
2018	1,608
2019	2,030
2020-2024	9,626
Total	18,222

Certain foreign subsidiaries have defined benefit pension plans. The total expenses charged to income under these plans were 201 million yen and 250 million yen for the years ended March 31, 2013 and 2014, respectively.

The Company has unfunded retirement allowance programs for the Directors and the Statutory Auditors. Under such programs, the aggregate amount set aside as retirement allowances for the Directors and the Statutory Auditors were 384 million yen and 360 million yen as of March 31, 2013 and 2014, respectively, which are included in other liabilities in the accompanying balance sheets. This executive retirement and termination allowances program was abolished by the Annual General Meeting of Shareholders held in June 2006. The aggregate amount set aside will be paid to the Directors and the Statutory Auditors when they retire.

9. SHORT-TERM BORROWINGS AND LONG-TERM INDEBTEDNESS

As of March 31, 2013 and 2014, short-term borrowings consisted of the following:

	Yen in millions	
	2013	2014
Bank borrowings	1,686	4,134
Current maturities of long-term indebtedness	9	13
Total	1,695	4,147

Short-term borrowings, excluding long-term indebtedness maturing within one year, consisted primarily of bank borrowings of overseas subsidiaries denominated in foreign currencies. As of March 31, 2013 and 2014, the weighted average interest rate on short-term bank borrowings was 9.4% and 10.3%, respectively. Certain subsidiaries of the Company had unused lines of credit available for immediate short-term borrowings without restrictions amounting to 11,292 million yen and 9,522 million yen of March 31, 2013 and 2014, respectively.

As of March 31, 2013 and 2014, long-term indebtedness consisted of the following:

	Yen in millions	
	2013	2014
Capital lease obligations (see Note 2 (8))	17	29
Current maturities included in short-term borrowings	(9)	(13)
Total	8	16

There were no covenants or cross default provisions under the Makita's financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements. The aggregate annual maturities of long-term indebtedness subsequent to March 31, 2014 are as summarized below:

Year ending March 31,	Yen in millions
2015	13
2016	7
2017	5
2018	3
2019	1
2020 and after	-
Total	29

10. SHAREHOLDERS' EQUITY

The Companies Act of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company should be appropriated as a capital reserve or earned reserve (hereinafter called reserve). No further appropriations are required when the total amount of the reserve exceeds 25% of the capital stock. After shareholders' approval of the declaration of a cash dividend in the amount of 9,909 million yen at the annual meeting of shareholders held on June 25, 2014 based on a resolution of the Board of Directors, cash dividends will be paid to shareholders of record as of March 31, 2014. The declaration of this dividend has not been reflected in the consolidated financial statements as of March 31, 2014.

The amount of retained earnings available for dividends distribution is recorded in the Company's non-consolidated financial statement and amounted to 153,310 million yen as of March 31, 2014.

11. OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) as of March 31, 2013 was as follows:

	Yen in millions
	2013
Foreign currency translation adjustment:	
Beginning balance	(54,847)
Adjustments for the year	27,482
Ending balance	(27,365)
Unrealized gains on investment securities:	
Beginning balance	2,899
Adjustments for the year	2,699
Ending balance	5,598
Pension liability adjustment:	
Beginning balance	(7,118)
Adjustments for the year	821
Ending balance	(6,297)
Total accumulated other comprehensive loss:	
Beginning balance	(59,066)
Adjustments for the year	31,002
Ending balance	(28,064)

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments were as follows:

	Yen in millions		
For the year ended March 31, 2013	Before tax adjustment	Amount of tax	After tax adjustment
Foreign currency translation adjustment:			
Unrealized gain arising during the year	27,532	(85)	27,447
Addition-Reclassification adjustment for losses realized in net income	35	-	35
Net unrealized gains	27,567	(85)	27,482
Unrealized gains on investment securities:			
Unrealized gains arising during the year	4,274	(1,515)	2,759
Deduction-Reclassification adjustment for income realized in net income	(97)	37	(60)
Net unrealized gains	4,177	(1,478)	2,699
Pension liability adjustment:			
Unrealized gains arising during the year	946	(340)	606
Addition-Reclassification adjustment for losses realized in net income	347	(132)	215
Net unrealized gains	1,293	(472)	821
Other comprehensive income	33,037	(2,035)	31,002

Accumulated other comprehensive income (loss) as of March 31, 2014 was as follows:

For the year ended March 31, 2014	Yen in millions			
	Foreign currency translation adjustment	Unrealized gains on investment securities	Pension liability adjustment	Total
Beginning balance	(27,365)	5,598	(6,297)	(28,064)
Other comprehensive Income before reclassification	30,204	3,744	1,048	34,994
Accumulated other comprehensive income (loss)	-	(1,057)	274	(781)
Other comprehensive income (Loss)	30,204	2,687	1,322	34,213
Net income attributable to noncontrolling interests	456	-	-	456
Ending balance	2,383	8,285	(4,975)	5,693

Tax effects allocated to each component of other comprehensive income (loss) and reclassification adjustments were as follows:

For the year ended March 31, 2014	Yen in millions		
	Before tax adjustment	Amount of tax	After tax adjustment
Foreign currency translation adjustment:	30,379	(175)	30,204
Net unrealized gains and losses on securities			
Unrealized gains arising during the year	5,796	(2,052)	3,744
Deduction: Reclassification adjustment for losses realized in net income	(1,636)	579	(1,057)
Net unrealized gains	4,160	(1,473)	2,687
Pension liability adjustment:			
Unrealized losses arising during the year	1,704	(656)	1,048
Deduction: Reclassification adjustment for losses realized in net income	423	(149)	274
Net unrealized gains	2,127	(805)	1,322
Other comprehensive income	36,666	(2,453)	34,213

Other comprehensive income (loss) redistribution of accumulated amount was as follows :

	For the year ended March 31, 2014 Yen in millions	
	Other Comprehensive Income (Loss) Redistribution of accumulated amount	Items that influence the consolidated statement of income
Unrealized gain arising during the year		
Realized gains on securities	1,636	Realized gains (losses) on securities, net
	(579)	Provision for income taxes
	1,057	Net Income
Pension liability adjustment		
Amortization of prior service cost	223	※
Actuarial difference Elimination of differences in calculation methods	(646)	※
	(423)	Income before income taxes
	149	Provision for income taxes
	(274)	Net Income
Total reclassified amount	783	

※Included pension payments. See note 8 for Consolidated Financial Statements (ALLOWANCE FOR RETIREMENT BENEFIT)

12. EARNINGS PER SHARE

Basic earnings per share computations were as follows. There were no diluted effects during the years ended March 31, 2013 and 2014.

	Yen in millions	
Numerator	2013	2014
Net income available to common shareholders- Basic	31,076	38,453

	Number of shares	
Denominator	2013	2014
Weighted-average number of common shares outstanding- Basic	135,748,088	135,740,827

	Yen	
	2013	2014
Earnings per share: Basic	228.9	283.3

13. COMMITMENTS AND CONTINGENT LIABILITIES

Makita guarantees borrowings of its employees from external financial institutions. As of March 31, 2014, the Company was contingently liable as a guarantor for housing and education loans to employees in the amount of 1 million yen. The Company will be required to satisfy the outstanding loan commitments of certain employees in the event those employees are not able to fulfill their repayment obligations. The fair value of the liabilities for the Company's obligations under the guarantees described above as of March 31, 2014, was insignificant.

Makita is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Makita's consolidated financial position, results of operations, or cash flows.

Makita made rental payments of 2,589 million yen and 3,251 million yen under cancelable and noncancelable operating lease agreements for offices, warehouses, automobiles and office equipment during the years ended March 31, 2013 and 2014, respectively. The minimum rental payments required under noncancelable operating lease agreements as of March 31, 2014, were as follows:

March 31, 2014	Yen in millions
2015	1,118
2016	758
2017	560
2018	319
2019	228
2020 and after	96
Total	3,079

Makita generally guarantees the performance of products delivered and of services rendered for a certain period or term. Estimates for product warranty cost are made based on historical warranty claim experience. The changes in provision for product warranty cost for the years ended March 31, 2013 and 2014 are summarized as follows:

	Yen in millions	
	2013	2014
Balance at beginning of year	2,032	2,357
Increase amount	1,859	1,898
Decrease amount (Utilization)	(1,736)	(1,712)
Foreign exchange adjustments	202	210
Balance at end of year	2,357	2,753

Following the closure of operations in Numazu office in FY2014, we conducted a soil contamination investigation to find that there was a possibility for exceeding pollution threshold prescribed by Soil Contamination Countermeasures Act. We will further investigate the soil contamination level and, if necessary, drill and remove the contaminated soil and reclaim the land as soon as possible. We estimated and incurred 2,404 million yen as provision for the total expenses and charged to the FY2014 income. The amount recognized as a provision is the best estimate of the expenditure required at the balance sheet date, however, it is possible that the figure will change as time moves forward.

14. FAIR VALUE MEASUREMENTS

ASC 820 establishes a fair value hierarchy that prioritizes the inputs applied to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1:

Inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2:

Inputs are those other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:

Inputs are unobservable types for the asset or liability.

The level in the fair value hierarchy within which a fair values measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets and liabilities measured at fair value on a recurring basis

The following table presents the placement in the fair value hierarchy of Makita's assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2013 and 2014:

As of March 31, 2013	Yen in millions			
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Corporate debt securities	758	-	758	-
Investment trusts	7,023	6,154	869	-
MMF and FFF	24,927	-	24,927	-
Marketable equity securities	1,538	1,538	-	-
Derivatives	125	-	125	-
Investments:				
Marketable equity securities	14,142	14,142	-	-
Liabilities:				
Derivatives	(229)	-	(229)	-

As of March 31, 2014	Yen in millions			
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Corporate debt securities	594	-	594-	-
Investment trusts	4,495	3,905	590	-
MMF and FFF	32,022	-	32,022	-
Marketable equity securities	929	929	-	-
Derivatives	77	-	77	-
Investments:				
Marketable equity securities	29,125	29,125	-	-
Liabilities:				
Derivatives	(493)	-	(493)	-

Level 1:

Short-term investments are comprised principally of investment in trusts. Investments are comprised of marketable equity securities. They are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Level 2:

Investments in trusts are comprised principally of domestic stock investment funds, domestic bond investment funds, and foreign bond investment funds, which are estimated by using observable inputs, such as net asset value per share. Almost all investments in trusts can be liquidated within 30 days.

MMF and FFF are acronyms for “Money Management Funds” and “Free Financial Funds”. They are comprised principally of domestic public bonds, domestic corporate bonds, commercial papers, foreign public bonds and foreign corporate bonds which are operated to accrue stable capital gain.

Corporate bonds are not directly observable, but are valued using observable market data obtained from the financial institutions.

Derivatives are comprised of foreign currency contracts which are estimated by using observable market inputs, such as foreign currency exchange rates, interest rate and volatility.

Assets and liabilities measured at fair value on a nonrecurring basis

During the year ended March 31, 2013, Makita recognized an impairment loss of 45 million yen on long-lived assets. The impairment loss was included in the results of the Japan segment.

These long-lived assets consist of the land for the plant and other long-lived assets.

The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third-party appraiser.

The following table presents Makita’s assets that are measured at fair value on a non-recurring basis as of March 31, 2013:

As of March 31, 2013	Yen in millions			
	Fair Value			
	Level 1	Level 2	Level 3	Impairment loss
Assets:				
Long-lived assets	-	-	2,580	45

During the year ended March 31, 2014, Makita recognized an impairment loss of 1,239 million yen on long-lived assets. The impairment loss was included in the results of the Japan segment. These long-lived assets consist of the land for the plant and other long-lived assets.

The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third-party appraiser.

The following table presents Makita’s assets that are measured at fair value on a non-recurring basis as of March 31, 2014:

As of March 31, 2014	Yen in millions			
	Fair Value			
	Level 1	Level 2	Level 3	Impairment loss
Assets:				
Long-lived assets	-	-	1,257	1,239

15. DERIVATIVES AND HEDGING ACTIVITIES

Risk management policy

Makita is exposed to market risks, such as changes in currency exchange rates and interest rates. The Company and certain of its subsidiaries enter into foreign exchange contracts and currency swap to reduce these risks. Makita does not use derivative instruments for trading or speculation purpose. Makita is also exposed to a risk of credit-related losses in the event of nonperformance by counter parties to the financial instrument contracts; however it is not expected that any counter parties will fail to meet their obligations, because the contracts are diversified among a number of major internationally recognized credit-worthy financial institutions.

Foreign exchange rate risk management

Makita operates internationally, giving rise to significant exposures to market risks from changes in foreign exchange rates, and enters into foreign currency contracts and currency swap to hedge the foreign currency exposure. These derivative instruments are principally intended to protect against foreign exchange exposure related to intercompany transactions and financing activities.

The fair value of the derivative instruments as of March 31, 2013 and 2014 were as follows.

Derivatives not designated as hedging instruments	Account title	Yen in millions March 31, 2013	Yen in millions March 31, 2014
Assets			
Foreign currency contracts	Other current assets	125	38
Currency swap	Other current assets	-	39
Liabilities			
Foreign currency contracts	Other current liabilities	(229)	(366)
Currency swap	Other current liabilities	-	(127)

The amount of gains (losses) recognized in income from derivatives for the years ended March 31, 2013 and 2014 were as follows:

Derivatives not designated as hedging instruments	Account title	Yen in millions Amount of gains (losses) on valuation of derivative 2013	2014
Foreign currency contracts	Net exchange gains (losses)	48	(224)
Currency swap	Net exchange gains (losses)	-	(88)

As of March 31, 2013 and 2014, the components of the notional amounts related to outstanding derivative assets and liabilities, by product and by currency, were as follows:

Breakdown of notional amounts outstanding by derivative product	Yen in millions	
	March 31, 2013	March 31, 2014
Foreign currency contracts	33,487	40,197
Currency swap	-	3,149
Total	33,487	43,346

Breakdown of notional amounts outstanding by currency	Yen in millions	
	March 31, 2013	March 31, 2014
U.S. Dollars	26,000	35,298
Euro	5,707	5,141
Other	1,780	2,907
Total	33,487	43,346

Interest rate risk management

Makita conducts financing and investing activities through the Company. As Makita's subsidiaries are financed by loans within the Group—from subsidiaries with surplus funds to subsidiaries that lack funds—interest expense variation is insignificant.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and significant assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a fair value:

(1) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivable, Short-term Borrowings, Trade Notes and Accounts Payable, Other Payables, and Accrued Expenses

The carrying amounts approximate to the fair value because of the short or no maturities of those instruments.

(2) Long-term Time Deposits

The fair value is estimated by discounting future cash flows using the market rate at the end of the year, in which Makita would be offered for deposits with similar terms and remaining maturities.

(3) Short-term Investments and Investments

The fair value of marketable short-term investments is estimated based on quoted market prices. For non-marketable securities, since there are no quoted market prices existing, a reasonable estimation of a fair value is impracticable, and such securities have been excluded from fair value disclosure. The fair value of such securities is estimated if and when the fair value becomes extremely low, or there may be indications of this.

Non-marketable securities amounted to 387 million yen and 387 million yen as of March 31, 2013 and 2014, respectively.

(4) Long-term Indebtedness

The fair value of long-term indebtedness is calculated based on the present value of future cash flows associated with each instrument discounted using Makita's current borrowing rates for similar debt instruments of comparable maturities.

(5) Derivatives

The fair values of derivative financial instruments, consisting of foreign currency contracts and currency swap used for hedging purposes, are estimated by obtaining quotes from brokers.

As of March 31, 2013 and 2014, the estimated fair value of the financial instruments was as follows:

	Yen in millions				
	March 31, 2013		March 31, 2014		
	Carrying amount	Fair value	Carrying amount	Fair value	Fair Value Hierarchy Levels
Short-term investments (see Note 14)	38,060	38,063	41,048	41,053	1 or 2
Investments (see Note 14)	18,074	18,101	30,026	30,041	1 or 2
Long-term time deposits	28	28	17	17	2
Long-term indebtedness including current maturities	(17)	(17)	(29)	(29)	2
Foreign currency contracts: Assets (see Note 14)	125	125	38	38	2
Foreign currency contracts: Liabilities (see Note 14)	(229)	(229)	(366)	(366)	2
Currency swap: Assets (see Note 14)	-	-	39	39	2
Currency swap: Liabilities (see Note 14)	-	-	(127)	(127)	2

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and are matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

17. SEGMENT INFORMATION

The operating segments presented below are defined as components of the enterprise for which separate financial information is available and regularly reviewed by the Company's chief operating decision maker. The Company's chief operating decision maker utilizes various measurements to assess segment performance and allocate company resources to the segments.

Segment by region

For the years ended March 31, 2013 and 2014, Makita's operating structure included the following geographical operating segments: Japan Group, Europe Group, North America Group, Asia Group, and Other Regions Group. Segment information is determined by the location of the Company and its relevant subsidiaries, as reported to the Company's chief operating decision maker.

Major countries or regions in each geographic area:

(46) Europe:
Germany, United Kingdom, Italy, France, Finland

(46) North America:
United States, Canada

(46) Asia:
China, Thailand

(4)Other regions:
Australia, Brazil, United Arab Emirates

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 excludes interest income, dividend income, interest expense, foreign exchange gains or losses, realized gains and losses on investment securities, and other. Segment assets are based on total assets attributable to the segment. The accounting policies used in the segments information are the same as those used in the preparation of the consolidated financial statements. Inter-segment sales are made at estimated arm's-length. Eliminations and corporate items include inter-segment transactions, inter-segment payables and receivables, and elimination of unrealized profits related to inter-segment transactions. Makita is a manufacturer and wholesaler of electric power tools and other tools. The operating segments derive substantially all of their revenues from the sale of electric power tools and parts and their repairs.

Year ended March 31, 2013
(From April 1, 2012 to March 31, 2013)

	Yen in millions							
	Japan	Europe	North America	Asia	Other regions	Total	Corporate and Eliminations	Consolidated
Sales:								
External customers	77,194	126,380	41,885	13,104	51,067	309,630	-	309,630
Inter-segment (including transfers)	47,835	3,892	2,466	111,478	137	165,808	(165,808)	-
Total	125,029	130,272	44,351	124,582	51,204	475,438	(165,808)	309,630
Operating expenses	109,883	118,466	42,689	110,158	46,150	427,346	(163,082)	264,264
Operating income	15,146	11,806	1,662	14,424	5,054	48,092	(2,726)	45,366
Non-operating income	-	-	-	-	-	-	-	325
Income before income taxes	-	-	-	-	-	-	-	45,691
Long-lived assets	38,310	18,498	2,104	21,054	6,489	86,455	(170)	86,285
Total assets	243,033	142,252	36,351	113,564	60,154	595,354	(154,380)	440,974
Capital expenditures	2,714	2,784	295	3,474	2,259	11,526	(45)	11,481
Loss on valuation of inventories	4	359	9	163	184	719	-	719
Depreciation and amortization	3,657	1,314	328	1,908	381	7,588	(46)	7,542
Impairment loss	45	-	-	-	-	45	-	45
Government Grants	-	-	-	-	494	494	-	494
Provision for environmental measures	-	-	-	-	-	-	-	-

The Long-lived assets in China included in the Asia Segment amount to 14,891 million yen.

Due to the change in the depreciation policy of Makita Group in the current fiscal year, the operating profit for Japan segment has increased by 46 million yen and the operating profit for North America segment has increased by 79 million yen.

Year ended March 31, 2014
(From April 1, 2013 to March 31, 2014)

	Yen in millions							
	Japan	Europe	North America	Asia	Other regions	Total	Corporate and Eliminations	Consolidated
Sales:								
External customers	88,605	166,768	50,730	17,860	59,244	383,207	-	383,207
Inter-segment (including transfers)	56,847	4,684	3,373	156,615	103	221,622	(221,622)	-
Total	145,452	171,452	54,103	174,475	59,347	604,829	(221,622)	383,207
Operating expenses	126,662	156,036	51,718	152,607	55,930	542,953	(214,660)	328,293
Operating income	18,790	15,416	2,385	21,868	3,417	61,876	(6,962)	54,914
Non-operating income	-	-	-	-	-	-	-	2,060
Income before income taxes	-	-	-	-	-	-	-	56,974
Long-lived assets	35,913	23,898	2,313	22,598	7,099	91,820	(218)	91,602
Total assets	272,358	178,215	38,359	130,673	65,397	685,002	(165,881)	519,121
Capital expenditures	2,580	3,994	392	3,298	1,176	11,440	(23)	11,417
Loss on valuation of inventories	103	876	132	196	325	1,632	-	1,632
Depreciation and amortization	3,324	1,877	294	2,734	447	8,676	(54)	8,622
Impairment loss	1,239	-	-	-	-	1,239	-	1,239
Government Grants	-	-	-	-	269	269	-	269
Provision for environmental measures	2,404	-	-	-	-	2,404	-	2,404

The Long-lived assets in China included in the Asia Segment amount to 16,433 million yen.

Makita's current revenues by geographic area are set forth below.

	Yen in millions, except for percentage amounts			
	Year ended March 31,			
	2013		2014	
Japan	56,555	18.3%	66,019	17.2%
Europe	125,024	40.4	165,357	43.2
United States	32,393	10.5	39,538	10.3
North America (excluding United States)	9,090	2.9	10,333	2.7
Asia (excluding Japan)	29,106	9.4	35,004	9.1
Other	57,462	18.5	66,956	17.5
Total	309,630	100.0%	383,207	100.00

No single external customer accounted for 10% or more of Makita's net sales for each of the year ended Mar 31, 2013 and 2014.
Consolidated Net Sales by Product Categories are as follows:

	Yen in millions, except for percentage amounts			
	Fiscal Year ended March 31,			
	2013		2014	
Electric Power Tools	223,069	72.1%	269,234	70.3%
Gardening Equipment, Household and Other Products	42,136	13.6	57,281	14.9
Parts, Repairs and Accessories	44,425	14.3	56,692	14.8
Total	309,630	100.0%	383,207	100.0%

18. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME

The following items and amounts were included in selling, general, administrative and others, net:

	Yen in millions	
Item	2013	2014
Research and Development Costs	8,396	8,720
Advertising Costs	5,310	6,436
Shipping and Handling Costs	6,116	7,634
Government Grants *	(494)	(269)
Provision for environmental measures	-	2,404

Government Grants are related to value-added tax incentives granted by Parana state in Brazil.

19. RELATED PARTY TRANSACTIONS

The transactions between the Company and Maruwa Co., Ltd. ("Maruwa"), for which the representative director of the Company, Masahiko Goto, and certain of his family members have a majority of the voting rights, amounted to 2 million yen for advertising expenses for each of the years ended March 31, 2013 and 2014.

The accounts payable of the Company related to these transactions were nil as of March 31, 2013 and March 31, 2014.

The Company's purchases of raw materials and production equipment from Toa Co., Ltd., for which a representative director of the Company, Masahiko Goto, and certain of his family members have a majority of the voting rights, were 45 million yen and 66 million yen during the years ended March 31, 2013 and 2014, respectively. The other payables of the Company related to these transactions were 2 million yen and 5 million yen as of March 31, 2013 and 2014, respectively.

The former outside director, Motohiko Yokoyama is the chairman of JTEKT Corporation. The Company's purchases of raw materials and production equipment, as well as payments to employees from JTEKT Corporation were 360 million yen during the year ended March 31, 2013 and 90 million yen during the year ended March 31, 2014. The accounts payable of the Company related to this transaction was 40 million yen as of March 31, 2013.

【Schedule to the Consolidated Financial Statements】

a. List of Bonds Payable

Makita has no Bonds Payable.

b. List of Borrowings

Please refer to Notes 9 of the Consolidated Financial Statements

c. List of Asset Retirement Obligation

Since the balance of Asset Retirement Obligation was less than one-hundredth of the total of liabilities and net assets as of the beginning and ending of FY2014, a detailed description of this is omitted.

(TRANSLATION)

Independent Auditor's Report on the Financial Statements
and
Internal Control Over Financial Reporting

June 26, 2014

To the Board of Directors of Makita Corporation:

KPMG AZSA LLC

Hideaki Koyama (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Hisashi Ohkita (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Financial Statement Audit

We have audited the accompanying consolidated financial statements of Makita Corporation and its consolidated subsidiaries provided in the "Financial Information" section in the company's Annual Report, which comprise the consolidated balance sheet as at March 31, 2014 and the consolidated statement of income, comprehensive income, changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies, other explanatory information and supplementary schedules, in accordance with Article 193-2(1) of the Financial Instruments and Exchange Law of Japan.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America pursuant to the Paragraph 3 of the Supplementary Provisions of the Cabinet Office Ordinance for Partial Amendment of the Regulations for Terminology, Forms and Preparation Meshods of Consolidated Financial Statements (No.11 of the Cabinet Office Ordinance in 2002), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Makita Corporation and its consolidated subsidiaries as at March 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Internal Control Audit

We also have audited the accompanying internal control report of Makita Corporation as at March 31, 2014, in accordance with Article 193-2(2) of the Financial Instruments and Exchange Law of Japan.

Management's Responsibility for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibility

Our responsibility is to independently express an opinion on the internal control report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the internal control report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the assessment of internal control over financial reporting in the internal control report. The procedures selected depend on the auditor's judgement, including significance of effect on the reliability of financial reporting. Also, an internal control audit includes evaluating the appropriateness of the scope, procedures and result of the assessment determined and presented by management, and the overall internal control report presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the internal control report, in which Makita Corporation states that internal control over financial reporting was effective as at March 31, 2014, presents fairly, in all material respects, the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the reader of audit report:
The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Financial Instruments and Exchange Law of Japan.