



# Makita Corporation

Additional Information  
for the year ended March 31, 2018

Consolidated Financial Statements

(Partial translation of "YUKASHOKEN HOKOKUSHO"  
originally issued in Japanese)



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## **【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, 2017 to March 31, 2018 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, 2017	As of March 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	142,181	147,320
Time deposits .....	34,329	43,013
Short-term investments .....	23,441	14,782
Trade receivables-		
Notes .....	1,199	1,343
Accounts .....	67,086	79,092
Less- Allowance for doubtful receivables .....	(1,137)	(1,340)
Inventories .....	167,398	196,217
Deferred income taxes .....	4,723	-
Prepaid expenses and other current assets .....	13,349	16,150
Total current assets .....	452,569	496,577
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST:</b>		
Land .....	22,358	22,626
Building and improvements .....	94,927	98,648
Machinery and equipment .....	91,493	98,868
Construction in progress .....	5,531	6,027
Sub-total .....	214,309	226,169
Less- Accumulated depreciation and amortization .....	(119,802)	(126,305)
Total net property, plant and equipment .....	94,507	99,864
<b>INVESTMENTS AND OTHER ASSETS:</b>		
Investments .....	34,004	33,815
Goodwill .....	721	721
Other intangible assets, net .....	3,641	3,944
Deferred income taxes .....	650	3,975
Other assets .....	11,157	12,135
Total investments and other assets .....	50,173	54,590
Total assets .....	597,249	651,031



	Yen (millions)	
	As of March 31, 2017	As of March 31, 2018
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Short-term borrowings.....	6,579	3,411
Trade notes and accounts payable.....	26,347	28,156
Other payables.....	7,122	7,131
Accrued expenses.....	10,537	11,952
Accrued payroll.....	9,431	10,731
Income taxes payable.....	6,944	9,720
Deferred income taxes.....	3,134	-
Other liabilities.....	8,178	9,497
Total current liabilities.....	<u>78,272</u>	<u>80,598</u>
<b>LONG-TERM LIABILITIES:</b>		
Accrued retirement and termination benefits.....	3,161	3,206
Deferred income taxes.....	8,313	9,391
Other liabilities.....	1,692	1,703
Total long-term liabilities.....	<u>13,166</u>	<u>14,300</u>
Total liabilities.....	<u>91,438</u>	<u>94,898</u>
<b>EQUITY</b>		
<b>MAKITA CORPORATION SHAREHOLDERS'</b>		
<b>EQUITY:</b>		
Common stock.....	23,805	23,805
Additional paid-in capital.....	45,501	45,531
Legal reserve.....	5,669	5,669
Retained earnings.....	456,546	497,456
Accumulated other comprehensive income (loss).....	(17,728)	(8,905)
Treasury stock, at cost.....	(11,623)	(11,617)
Total Makita Corporation shareholders' equity.....	<u>502,170</u>	<u>551,939</u>
NONCONTROLLING INTEREST.....	3,641	4,194
Total equity.....	<u>505,811</u>	<u>556,133</u>
Total liabilities and equity.....	<u>597,249</u>	<u>651,031</u>



## CONSOLIDATED STATEMENTS OF INCOME

	Yen (millions)			
	For the year ended March 31, 2017		For the year ended March 31, 2018	
	Composition ratio		Composition ratio	
NET SALES.....	414,999	100.0%	477,298	100.0%
Cost of sales.....	267,506	64.5%	302,173	63.3%
GROSS PROFIT.....	147,493	35.5%	175,125	36.7%
Selling, general, administrative and others, net.....	84,929	20.4%	95,363	20.0%
OPERATING INCOME.....	62,564	15.1%	79,762	16.7%
OTHER INCOME (EXPENSE):				
Interest and dividend income.....	2,512		2,919	
Interest expense.....	(104)		(43)	
Exchange gains (losses) on foreign currency transactions, net.....	(233)		(3,235)	
Realized gains (losses) on securities, net.....	26		299	
Impairment loss on securities.....	(27)		(24)	
Total other income (expense), net.....	2,174	0.5%	(84)	0.0%
INCOME BEFORE INCOME TAXES.....	64,738	15.6%	79,678	16.7%
Provision for income taxes:				
Current.....	19,988		24,943	
Deferred.....	(378)		(536)	
Total income tax expense.....	19,610	4.7%	24,407	5.1%
NET INCOME.....	45,128	10.9%	55,271	11.6%
Less-Net income attributable to the non-controlling interest.....	346	0.1%	516	0.1%
NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION.....	44,782	10.8%	54,755	11.5%

	Yen	
	For the year ended March 31, 2017	For the year ended March 31, 2018
PER SHARE OF COMMON STOCK AND ADS:		
Earnings per share: Basic.....	165.0	201.7
Earnings per share: Diluted.....	165.0	201.7
Cash dividends per share paid for the year.....	101.0	92.0

NOTE: The Company implemented a two-for-one common stock split, effective April 1, 2017. Net income attributable to Makita Corporation common shareholders per share (basic) and net income attributable to Makita Corporation common shareholders per share (diluted) were calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year. Dividend per share was calculated based on the stock before split.



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Yen (millions)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
NET INCOME .....	45,128	55,271
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment .....	(19,812)	9,860
Unrealized holding gains (losses) on available-for-sale securities .....	10,742	(1,364)
Pension liability adjustment .....	192	544
Total other comprehensive income (loss) .....	(8,878)	9,040
COMPREHENSIVE INCOME (LOSS) .....	36,250	64,311
Less-Comprehensive income (loss) attributable to the non-controlling interest .....	147	733
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO MAKITA CORPORATION .....	36,103	63,578



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Yen (millions)									
For the year ended March 31, 2017									
Makita Corporation shareholders' equity									
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Makita Corporatio n's shareholde rs' equity	Non- controlling interest	Total
Beginning balance	23,805	45,456	5,669	425,473	(9,049)	(11,602)	479,752	3,618	483,370
Purchases and disposal of treasury stock, net						(21)	(21)		(21)
Cash dividends				(13,709)			(13,709)	(124)	(13,833)
Comprehensive income (loss)									
Net income				44,782			44,782	346	45,128
Other comprehensive income					(8,679)		(8,679)	(199)	(8,878)
Other income (loss)		45					45		45
Ending balance	23,805	45,501	5,669	456,546	(17,728)	(11,623)	502,170	3,641	505,811

Yen (millions)									
For the year ended March 31, 2018									
Makita Corporation shareholders' equity									
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Makita Corporatio n's shareholde rs' equity	Non- controlling interest	Total
Beginning balance	23,805	45,501	5,669	456,546	(17,728)	(11,623)	502,170	3,641	505,811
Purchases and disposal of treasury stock, net						(5)	(5)		(5)
Disposal of treasury stock by exercise of stock options		(11)				11	0		0
Cash dividends				(13,845)			(13,845)	(180)	(14,025)
Comprehensive income (loss)									
Net income				54,755			54,755	516	55,271
Other comprehensive income					8,823		8,823	217	9,040
Other income (loss)		41					41		41
Ending balance	23,805	45,531	5,669	497,456	(8,905)	(11,617)	551,939	4,194	556,133





## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Yen (millions)	
	For the year ended March 31, 2017	For the year ended March 31, 2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income .....	45,128	55,271
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization .....	8,943	9,917
Deferred income tax expense (benefit).....	(378)	(536)
Realized (gains) losses on securities, net.....	(26)	(299)
Unrealized (gains) losses on securities, net	27	24
Losses (gains) on disposal or sales of property, plant and equipment, net .....	385	18
Bad debt expense.....	172	317
Inventory write-downs .....	2,077	2,759
Changes in assets and liabilities-		
Trade receivables.....	(4,824)	(11,716)
Inventories.....	448	(26,932)
Trade notes and accounts payable and accrued expenses .....	9,171	2,780
Income taxes payable .....	3,472	2,755
Accrued retirement and termination benefits .....	(684)	(557)
Other, net.....	(560)	(507)
Net cash provided by operating activities.....	<u>63,351</u>	<u>33,294</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, including interest capitalized .....	(13,222)	(14,149)
Purchases of available-for-sale securities.....	(1,217)	(3,734)
Proceeds from sales of available-for-sale securities .....	30,663	11,993
Proceeds from maturities of available-for-sale securities .....	-	-
Purchases of held-to-maturity securities .....	(8,601)	(5,009)
Proceeds from maturities of held-to-maturity securities.....	5,700	4,200
Proceeds from sales of property, plant and equipment .....	383	496
Investment in term (time) deposit.....	(56,437)	(51,010)
Withdrawal of term (time) deposit .....	37,384	42,374
Other, net .....	332	28
Net cash used in investing activities.....	<u>(5,015)</u>	<u>(14,811)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Changes in borrowings with original maturities of less than three months .....	4,691	(3,667)
Payments on borrowings with original maturities of more than three months.....	(329)	-
Purchase (sale) of treasury stock, net .....	(22)	(5)
Cash dividends paid.....	(13,709)	(13,845)
Other, net .....	(126)	(226)
Net cash used in financing activities .....	<u>(9,495)</u>	<u>(17,743)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS.....	(6,575)	4,399
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	<u>42,266</u>	<u>5,139</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR .....	99,915	142,181
CASH AND CASH EQUIVALENTS, END OF YEAR .....	<u>142,181</u>	<u>147,320</u>
<b>SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest, net of amount capitalized .....	120	20
Cash paid during the year for income taxes .....	16,517	22,187



## **NOTES TO CONSOLIDATED 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 Depositary 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.

(4) Deferred Tax

Deferred Tax Liabilities and Assets are recognized in accordance with ASC 740 "Balance Sheet Classification of Deferred Taxes".

All Deferred Tax Liabilities and Assets are classified as noncurrent in a consolidated balance sheet.



## **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 82.7% of consolidated sales; in Europe 42.3%, in North America 15.5%, in Asia 9.2% and in Other Regions 15.7%.

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, 2017 and 2018 amounted to 8,072 million yen and 9,131 million 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, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Aggregate cost	74	238
Accumulated depreciation and amortization	43	60

#### **(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) Stock-based compensation***

We measure stock-based compensation expenses based on the fair value at the grant date according to Subtopic 718-10 (Compensation-Stock Compensation).

***(17) 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.

***(18) 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.

***(19) 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.

***(20) 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.



### ***(21) 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.

### ***(22) Subsequent events***

Makita has evaluated the subsequent events through June 28, 2018, the date on which the financial statements are available to be issued.

### ***(23) New Accounting Standards Adopted***

In July 2015, Accounting Standards Update 2015-11 (“Simplifying the Measurement of Inventory”—ASC 330 (“Inventory”)) was issued. This Update applies to all inventory except for which is measured using last-in, first-out (LIFO) or the retail inventory method, and requires an entity to measure inventory at the lower of cost and net realizable value. The Company adopted this standard on April 1, 2017. The adoption has no effect on the Company’s financial statements.

In November 2015, the U.S. Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” This accounting standard change requires that all deferred tax liabilities and assets be classified as noncurrent in a consolidated balance sheet. Effective April 1, 2017, the Company has adopted this accounting standard. In adopting this accounting standard, the Company did not adjust the prior period’s financial statement retrospectively.

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

Not applicable.

### ***(25) New Accounting Standards Not yet Adopted***

The Makita Group will voluntarily adopt International Financial Reporting Standards (IFRS) in its consolidated financial statements to conduct accurate financial report and increase in usefulness from the year ending March 31, 2019. Therefore, new accounting standards not yet adopted in U.S. GAAP have been omitted.



### **3. INVENTORIES**

Inventories as of March 31, 2017 and 2018 comprised the following:

	Yen in millions	
	2017	2018
Finished goods and merchandise	144,143	164,548
Work in process	2,431	3,117
Raw materials	20,824	28,552
Total	167,398	196,217

Inventory write-downs, which are charged to cost of sales, amounted to 2,077 million yen, and 2,759 million yen for the years ended March 31, 2017 and 2018, respectively.

### **4. IMPAIRMENT OF LONG-LIVED ASSETS**

There is no impairment loss recognized for the year ended March 31, 2017 and 2018.





## 5. SHORT-TERM INVESTMENTS AND INVESTMENTS

As of March 31, 2017 and 2018, 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, 2017 and 2018, were as follows:

As of March 31, 2017	Yen in millions				
	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Short-term investments:					
Available-for-sale:					
Investment trusts	2,806	538	14	3,330	3,330
MMF and FFF	11,248	-	-	11,248	11,248
Marketable equity securities	1,439	3,324	-	4,763	4,763
Sub-total	15,493	3,862	14	19,341	19,341
Held-to-maturity:					
Corporate debt securities	4,100	-	3	4,097	4,100
Sub-total	4,100	-	3	4,097	4,100
Total Short-term investments	19,593	3,862	17	23,438	23,441
Investments:	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Available-for-sale:					
Marketable equity securities	10,488	22,934	-	33,422	33,422
Sub-total	10,488	22,934	-	33,422	33,422
Held-to-maturity:					
Corporate debt securities	200	11	-	211	200
Sub-total	200	11	-	211	200
Total Investments	10,688	22,945	-	33,633	33,622

In addition to the above investments, non-marketable equity securities (carried at cost) amounted to 382 million yen on March 31, 2017, of which nil million yen is invested in Short-term investments and 382 million yen is invested in Investments.



As of March 31, 2018	Yen in millions				Carrying amount
	Cost	Unrealized gains	Unrealized losses	Fair value	
Short-term investments:					
Available-for-sale:					
Investment trusts	3,323	277	27	3,573	3,573
MMF and FFF	34	-	-	34	34
Marketable equity securities	1,689	4,780	-	6,469	6,469
Sub-total	5,046	5,057	27	10,076	10,076
Held-to-maturity:					
Corporate debt securities	4,702	0	0	4,702	4,702
Sub-total	4,702	0	0	4,702	4,702
Total Short-term investments	9,748	5,057	27	14,778	14,778
Investments:	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Available-for-sale:					
Marketable equity securities	13,248	19,779	-	33,027	33,027
Sub-total	13,248	19,779	-	33,027	33,027
Held-to-maturity:					
Corporate debt securities	406	6	2	410	406
Sub-total	406	6	2	410	406
Total Investments	13,654	19,785	2	33,437	33,433

In addition to the above investments, non-marketable equity securities (carried at cost) amounted to 382 million yen on March 31, 2017, of which 4 million yen is invested in Short-term investments and 382 million yen is invested in Investments.

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, 2017 and 2018, 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 382 million yen and 386 million yen as of March 31, 2017 and 2018, respectively. For the years ended March 31, 2017 and 2018, Makita did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.



The following table shows the gross unrealized holding losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2017 and 2018.

As of March 31, 2017	Yen in millions			
	Less than 12 months		12 months or more	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Short-term investments:				
Available-for-sale:				
Investment trusts	1,424	14	-	-
Sub-total	1,424	14	-	-

As of March 31, 2018	Yen in millions			
	Less than 12 months		12 months or more	
	Fair value	Unrealized losses	Fair value	Unrealized losses
Short-term investments:				
Available-for-sale:				
Investment trusts	1,214	27	-	-
Sub-total	1,214	27	-	-

Maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2018, regardless of their balance sheet classification, were as follows:

Cost	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	-	4,702	4,702
Due from one to five years	-	200	200
Due from five to ten years	-	-	-
Due after ten years	-	206	206
Total	-	5,108	5,108

  

Fair Value	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	-	4,702	4,702
Due from one to five years	-	206	206
Due from five to ten years	-	-	-
Due after ten years	-	204	204
Total	-	5,112	5,112

Gross realized gains on sales of short-term investments and investments for the years ended March 31, 2017 and 2018 amounted to 27 million yen and 300 million yen, respectively.

Gross realized losses, which included the gross realized losses considered as other than temporary, during the years ended March 31, 2017 and 2018 amounted to 1 million yen and 1 million yen, respectively. The cost of the securities sold was computed based on the moving average method. Impairment losses on short-term marketable investments and investments amounted to 27 million yen and 24 million yen for the years ended March 31, 2017 and 2018.

Proceeds from the sales and maturities of available-for-sale securities were 30,663 million yen and 11,993 million yen for the years ended March 31, 2017 and 2018, respectively. Proceeds from maturities of the held-to-maturity securities were 5,700 million yen and 4,200 million yen for the years ended March 31, 2017 and 2018, respectively.



## 6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Intangible assets developed or acquired during the year ended March 31, 2018 totaled 1,040 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, 2017 and 2018 were as follows:

	Yen in millions					
	2017			2018		
	Cost	Accumulated amortization	Carrying amount	Cost	Accumulated amortization	Carrying amount
Industrial property	2,790	1,514	1,276	2,796	1,716	1,080
Software	4,860	3,574	1,286	5,442	4,122	1,320
Other	2,074	1,058	1,016	2,408	911	1,497
Total	<u>9,724</u>	<u>6,146</u>	<u>3,578</u>	<u>10,646</u>	<u>6,749</u>	<u>3,897</u>

Aggregate amortization expense for the years ended March 31, 2017 and 2018 were 871 million yen and 786 million yen, respectively. As of March 31, 2018, the estimated amortization expense for intangible assets currently held for the next five years ending March 31 is 776 million yen in FY2019, 686 million yen in FY2020, 412 million yen in FY2021, 289 million yen in FY2022, and 286 million yen in FY2023.

Intangible assets not subject to amortization at March 31, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Acquisition cost	63	47

The changes in the carrying amount of goodwill for the years ended in March 31, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Beginning balance	721	721
Impairment	-	-
Other	-	-
Ending balance	<u>721</u>	<u>721</u>

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, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Income before income taxes:		
Domestic	26,221	29,491
Foreign	38,517	50,187
Total	<u>64,738</u>	<u>79,678</u>
Income tax expenses:		
Current - Domestic	10,005	11,648
- Foreign	9,983	13,295
Sub-total	<u>19,988</u>	<u>24,943</u>
Deferred - Domestic	75	(193)
- Foreign	(453)	(343)
Sub-total	<u>(378)</u>	<u>(536)</u>
Total income tax expenses	<u>19,610</u>	<u>24,407</u>

Total income taxes including deferred tax for the years ended March 31, 2017 and 2018 were allocated as follows:

	Yen in millions	
	2017	2018
Income taxes	19,610	24,407
Other comprehensive income (loss) :		
Foreign currency translation adjustment	(495)	279
Unrealized holding gains (losses) on investment securities	4,833	(609)
Pension liability adjustment	54	201
Total income taxes	<u>24,002</u>	<u>24,278</u>

The Company and its domestic subsidiaries are subject to a National Corporate tax of 23.4%, an Inhabitant tax 3.3% and a deductible Enterprise tax of 5.0%, which in the aggregate figure resulted in a combined statutory income tax rate of 31.2% for the year ended March 31, 2017 and 2018.

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

	Year ended March 31	
	2017	2018
Standard tax rate	31.2%	31.2%
Non-deductible expenses	0.3	0.5
Non-taxable dividends received	(0.0)	(0.0)
Change in valuation allowance	(0.5)	(1.0)
Tax sparing impact	(0.6)	(0.1)
Effect of the foreign tax rate differential	(4.5)	(4.2)
Undistributed earnings	4.2	3.5
Other	0.2	1.3
Effective income tax rate	30.3%	30.6%

For the year ended in March 31, 2017, an effect of the foreign tax rate differential of 2,933 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 these effects, the effective tax rate for the year ended March 31, 2017 was 30.3%, a decrease of 0.9 points as compared with the statutory income tax rate of 31.2%.

For the year ended in March 31, 2018, an effect of the foreign tax rate differential of 3,382 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 these effects, the effective tax rate for the year ended March 31, 2018 was 30.6%, a decrease of 0.6 points as compared with the statutory income tax rate of 31.2%.

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 0.6% (402 million yen) and 0.1% (72 million yen) for the years ended March 31, 2017 and 2018, respectively.

The significant components of deferred income tax expense attributable to income before income taxes for the years ended March 31, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Provision for income tax: Current	19,988	24,943
Deferred tax expense (benefit) (exclusive of the effects of other components below)	(29)	(1,325)
Change in valuation allowance	(349)	789
Total	19,610	24,407



Significant components of deferred income tax assets and liabilities as of March 31, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Deferred income tax assets:		
Marketable securities and investment securities	26	612
Accrued retirement and termination benefits	490	247
Accrued expenses	1,663	1,804
Inventories	2,765	3,105
Property, plant and equipment	3,060	3,371
Accrued payroll	1,617	1,757
Net operating loss carryforwards of subsidiaries	1,877	2,683
Other	917	881
Total deferred income tax assets	<u>12,415</u>	<u>14,460</u>
Valuation allowance	<u>(2,796)</u>	<u>(3,373)</u>
Sub-total	9,619	11,087
Deferred income tax liabilities:		
Undistributed earnings of overseas subsidiaries	(7,302)	(7,800)
Accrued retirement and termination benefits	(2,497)	(2,869)
Unrealized gain on available-for-sale securities	(5,142)	(5,098)
Property, plant and equipment	(750)	(734)
Other	(2)	(2)
Total deferred income tax liabilities	<u>(15,693)</u>	<u>(16,503)</u>
Net deferred income tax assets	<u>(6,074)</u>	<u>(5,416)</u>

As of March 31, 2017 and 2018, deferred income tax assets and liabilities are recorded in the consolidated balance sheets as follows:

	Yen in millions	
	2017	2018
Current assets	4,723	-
Investments and other assets	650	3,975
Current liabilities	(3,134)	-
non-current liabilities	<u>(8,313)</u>	<u>(9,391)</u>
Net deferred tax assets	<u>(6,074)</u>	<u>(5,416)</u>

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 3,373 million yen as of March 31, 2018 against certain deferred income tax assets primarily associated with net operating loss carry-forwards.



As of March 31, 2018, certain subsidiaries had net operating loss carry-forwards for income tax purposes of 20,446 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, 2018	Yen in millions
Within 5 years	(133)
6 to 20 years	(1,481)
Indefinite	(8,730)
Total	(10,344)

As of March 31, 2017 and 2018, Makita had no foreign tax credit carry-forwards for income tax purposes.

Makita has recognized deferred tax liabilities for certain portions of undistributed earnings of foreign subsidiaries, while 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 155,780 million yen and 142,555 million yen as of March 31, 2017 and 2018. 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, 2017 and 2018 were neither material nor expected to significantly increase or decrease within the 12-month period subsequent to March 31, 2018. 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, 2017 and 2018. 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, 2015, 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, 2014.





## **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, 2017 and 2018 are as follows:

	Yen in millions	
	2017	2018
Service cost	1,688	1,680
Interest cost	213	267
Expected return on plan assets	(1,346)	(1,125)
Amortization of prior service cost	(406)	(387)
Amortization of actuarial loss	635	547
Pension costs	<u>784</u>	<u>982</u>

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

	Yen in millions
	2019
Amortization of actuarial loss	538
Amortization of prior service cost	(472)



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

	Yen in millions	
	2017	2018
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	40,370	39,777
Service cost	1,688	1,680
Interest cost	213	267
Plan Amendment	-	(1,187)
Actuarial difference	(605)	488
Benefits paid	(1,662)	(1,638)
Foreign exchange impact	(227)	315
Projected benefit obligation at end of year	<u>39,777</u>	<u>39,702</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	44,427	44,898
Actual return on plan assets	698	1,069
Employer contributions	1,323	1,350
Benefits paid	(1,507)	(1,443)
Foreign exchange impact	(43)	71
Fair value of plan assets at end of year	<u>44,898</u>	<u>45,945</u>
Funding position	<u>5,121</u>	<u>6,244</u>
Amounts recognized in consolidated balance sheets consisted of:		
Other current liabilities	(103)	(114)
Pension Allowance	(3,161)	(3,206)
Other assets	8,385	9,564
	<u>5,121</u>	<u>6,244</u>
Amounts recognized in accumulated other comprehensive income(loss) consisted of:		
Actuarial loss	(13,856)	(13,912)
Prior service cost	3,556	4,357
	<u>(10,300)</u>	<u>(9,555)</u>

#### 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	
	2017	2018
Accumulated benefit obligation	38,814	38,749

#### Weighted-average assumptions

The weighted-average assumptions used to determine the benefit obligations as of March 31, 2017 and 2018 were as follows:

	2017	2018
Weighted-average rate used in determining the benefit obligation as of March 31		
Discount rate	0.7%	0.6%
Salary increase rate	4.7%	4.7%



The weighted-average assumptions used to determine net periodic pension cost for the years ended in March 31, 2017 and 2018 were as follows:

Weighted-average rate used in determining the retirement benefit expenses for years ended March 31, 2017 and 2018	2017	2018
Discount rate	0.5%	0.7%
Salary increase rate	4.8%	4.8%
Expected long-term rate of return on plan assets	3.1%	2.5%

The discount rate is determined by yield curve approach based on high-quality corporate bonds and long term national bond. The expected rate of return on assets is determined considering the current and future asset portfolio and the long-term rates of return which are expected currently and in the future from the variety of asset portfolios in plan assets.

#### Plan Assets

The target asset allocations by asset class for the year ending March 31, 2019 are as follows:

#### Asset Class:

Asset Class:	Target Allocations
Equity securities	5%
Debt securities	31
Life insurance company general accounts	16
Short-term assets	10
Alternative investments	38
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 9 million yen as of March 31, 2018.



The fair values of Makita's pension plan assets as of March 31, 2017 and 2018, by asset class, were as follows:

As of March 31, 2017	Yen in millions			
	Total	Level 1	Level 2	Level 3
<b>Fair value measured not at net asset value</b>				
Equity securities:				
Domestic				
Stock	1,314	1,314	-	-
Life insurance company general accounts	6,973	-	6,973	-
Short-term assets	5,399	5,399	-	-
<b>Fair value measured at net asset value</b>				
Equity securities:				
Domestic				
Stocks(commingled)	1,557	-	-	-
Overseas				
Stocks (commingled)	3,525	-	-	-
Debt securities:				
Domestic				
Commingled	10,731	-	-	-
Overseas				
Commingled	7,279	-	-	-
Alternative investments				
Commingled funds	8,120	-	-	-
Total	<u>44,898</u>	<u>6,713</u>	<u>6,973</u>	<u>-</u>
As of March 31, 2018	Yen in millions			
	Total	Level 1	Level 2	Level 3
<b>Fair value measured not at net asset value</b>				
Equity securities:				
Domestic				
Stock	1,433	1,433	-	-
Life insurance company general accounts	7,522	-	7,522	-
Short-term assets	9,007	9,007	-	-
<b>Fair value measured at net asset value</b>				
Equity securities:				
Domestic				
Stocks(commingled)	1,324	-	-	-
Overseas				
Stocks (commingled)	2,427	-	-	-
Debt securities:				
Domestic				
Commingled	11,069	-	-	-
Overseas				
Commingled	5,362	-	-	-
Alternative investments				
Commingled funds	7,801	-	-	-
Total	<u>45,945</u>	<u>10,440</u>	<u>7,522</u>	<u>-</u>

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 investments in life insurance company general accounts.

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 15 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 assets for which fair value is measured at net asset value, consisting of hedge-funds investment (relative value strategy for bonds) and Commingled investment were valued using the net asset value calculated by the sponsor of the fund. Information for retirement benefit plans with an accumulated benefit obligation in excess of plan assets is as follows:

	Yen in millions	
	2017	2018
Projected benefit obligation	4,059	4,241
Accumulated benefit obligation	3,963	4,191
Fair value of plan assets	816	939
Accumulated benefit obligation in excess of plan assets	3,147	3,252

#### Cash flows

##### Contributions:

Makita expects to contribute 1,249 million yen to its defined benefit pension plan in the year ending March 31, 2019.

##### Estimated future benefit payments

At March 31, 2018, 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
2019	2,098
2020	2,066
2021	1,872
2022	1,762
2023	2,102
2024-2028	10,347
Total	20,247



Certain foreign subsidiaries have defined contribution plans. The total expenses charged to income under these plans were 325 million yen and 355 million yen for the years ended March 31, 2017 and 2018, 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 351 million yen and 326 million yen as of March 31, 2017 and 2018, 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. STOCK-BASED COMPENSATION

Based on the ordinary general shareholders' meeting on June 25, 2015 and the provision of Article 361 of the corporation law, we enacted stock option plan to its members of the board of directors, excluding outside directors.

We issued stock acquisition rights to its directors to purchase 700 shares of common stock on July 31, 2015, 682 shares of common stock on July 28, 2016 and 511 shares of common stock on July 31, 2017. Pursuant to the provisions of the plan, stock acquisition rights may be exercised during a fifty-year period that starts from August 19, 2015 to August 18, 2065, from August 19, 2016 to August 18, 2066 and from August 19, 2017 to August 18, 2067, respectively. The option vest once the directors retired from the company. The exercise price of each stock acquisition is 1 yen.

The following table summarizes option activity under the Plans during the years ended March 31, 2017.

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Years	Millions of yen
Balance at April 1, 2016	14,000	1	-	-
Granted	13,640	1	-	-
Exercised	-	-	-	-
Forfeited/Expired	-	-	-	-
Balance at March 31, 2017	27,640	1	48.9	108
Exercisable at March 31, 2017	-	-	-	-

The following table summarizes option activity under the Plans during the years ended March 31, 2018.

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Years	Millions of yen
Balance at April 1, 2017	27,640	1	48.9	108
Granted	10,220	1	-	-
Exercised	(8,680)	1	-	-
Forfeited/Expired	-	-	-	-
Balance at March 31, 2018	29,180	1	48.4	152
Exercisable at March 31, 2018	-	-	-	-

The stock-based compensation expenses recognized as selling, general and administrative expenses for this stock option for the years ended March 31, 2017 and 2018 was 45 million yen and 41 million yen, respectively. The grant-date fair value during the year ended March 31, 2017 and 2018 was 45 million yen and 40 million yen, respectively.

The aggregate intrinsic value of exercised stock options on the year ended March 31, 2018 was 36 million and Makita disposed treasury stock. The sum of money paid up by exercise of stock options is not material.

The Grant-date fair value of stock acquisition rights per share on the year ended March 31, 2017 and 2018 was 6,569 yen and 3,892 yen. It was estimated on the following assumption, using a Black-Scholes valuation model.

	March 31, 2017	March 31, 2018
Grant-date stock prices	7,160Yen	4,320Yen
Expected remaining contractual term	6.1Year	9.0Year
risk-free rate	(0.18)%	0.01%



Volatility of the Company's stock	34.93%	40.15%
Dividend yield of the Company	1.41%	1.16%

NOTE: The Company implemented a two-for-one common stock split, effective April 1, 2017. We calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.





## **10. SHORT-TERM BORROWINGS AND LONG-TERM INDEBTEDNESS**

As of March 31, 2017 and 2018, short-term borrowings consisted of the following:

	Yen in millions	
	2017	2018
Bank borrowings	6,564	3,361
Current maturities of long-term indebtedness	15	50
Total	<u>6,579</u>	<u>3,411</u>

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, 2017 and 2018, the weighted average interest rate on short-term bank borrowings was 0.21% and 0.25%, respectively. Certain subsidiaries of the Company had unused lines of credit available for immediate short-term borrowings without restrictions amounting to 7,790 million yen and 12,592 million yen of March 31, 2017 and 2018, respectively.

As of March 31, 2017 and 2018, long-term indebtedness consisted of the following:

	Yen in millions	
	2017	2018
Bank borrowings	-	-
Capital lease obligations (see Note 2 (8) )	33	183
Current maturities included in short-term borrowings	(15)	(50)
Total	<u>18</u>	<u>133</u>

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, 2018 are as summarized below:

Year ending March 31,	Yen in millions
2019	50
2020	126
2021	4
2022	2
2023	1
2024 and after	-
Total	<u>183</u>



## **11. 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 13,845 million yen at the annual meeting of shareholders held on June 27, 2018 based on a resolution of the Board of Directors, cash dividends will be paid to shareholders of record as of March 31, 2018. The declaration of this dividend has not been reflected in the consolidated financial statements as of March 31, 2018.

The amount of retained earnings available for dividends distribution is recorded in the Company's non-consolidated financial statement and amounted to 230,314 million yen as of March 31, 2018.



## 12. OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) as of March 31, 2017 and 2018 were as follows:

For the year ended March 31, 2017	Yen in millions			
	Foreign currency translation adjustment	Unrealized gains on investment securities	Pension liability adjustment	Total
Beginning balance	(8,959)	6,516	(6,606)	(9,049)
Other comprehensive income (loss) before reclassification	(19,812)	10,755	15	(9,042)
Reclassification	-	(13)	177	164
Other comprehensive income (loss)	(19,812)	10,742	192	(8,878)
Less: Other comprehensive income attributable to noncontrolling interests	(199)	-	-	(199)
Ending balance	(28,572)	17,258	(6,414)	(17,728)

For the year ended March 31, 2018	Yen in millions			
	Foreign currency translation adjustment	Unrealized gains on investment securities	Pension liability adjustment	Total
Beginning balance	(28,572)	17,258	(6,414)	(17,728)
Other comprehensive income (loss) before reclassification	9,860	(1,165)	412	9,107
Reclassification	-	(199)	132	(67)
Other comprehensive income (loss)	9,860	(1,364)	544	9,040
Less: Other comprehensive income attributable to noncontrolling interests	217	-	-	217
Ending balance	(18,929)	15,894	(5,870)	(8,905)

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

For the year ended March 31, 2017	Yen in millions		
	Before tax adjustment	Amount of tax	After tax adjustment
Foreign currency translation adjustment:	(20,307)	495	(19,812)
Net unrealized gains and losses on securities			
Unrealized losses arising during the year	15,594	(4,839)	10,755
Deduction: Reclassification adjustment for losses realized in net income	(19)	6	(13)
Net unrealized losses	15,575	(4,833)	10,742
Pension liability adjustment:			
Unrealized losses arising during the year	17	(2)	15
Deduction: Reclassification adjustment for losses realized in net income	229	(52)	177
Net unrealized losses	246	(54)	192
Other comprehensive income (loss)	(4,486)	(4,392)	(8,878)



For the year ended March 31, 2018

	Yen in millions		
	Before tax adjustment	Amount of tax	After tax adjustment
Foreign currency translation adjustment:	10,139	(279)	9,860
Net unrealized gains and losses on securities			
Unrealized losses arising during the year	(1,685)	520	(1,165)
Deduction: Reclassification adjustment for losses realized in net income	(288)	89	(199)
Net unrealized losses	(1,973)	609	(1,364)
Pension liability adjustment:			
Unrealized losses arising during the year	585	(173)	412
Deduction: Reclassification adjustment for losses realized in net income	160	(28)	132
Net unrealized losses	745	(201)	544
Other comprehensive income (loss)	8,911	129	9,040

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

	For the year ended March 31, 2017	
	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	23	Realized gains (losses) on securities, net
Unrealized loss on securities	(4)	Impairment loss on securities
	(6)	Provision for income taxes
	13	Net Income
Pension liability adjustment		
Amortization of prior service cost	406	※
Actuarial difference Elimination of differences in calculation methods	(635)	※
	(229)	Income before income taxes
	52	Provision for income taxes
	(177)	Net Income
Total reclassified amount	(164)	



For the year ended March 31, 2018

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	299	Realized gains (losses) on securities, net
Unrealized loss on securities	(11)	Impairment loss on securities
	(89)	Provision for income taxes
	199	Net Income
Pension liability adjustment		
Amortization of prior service cost	387	※
Actuarial difference Elimination of differences in calculation methods	(547)	※
	(160)	Income before income taxes
	28	Provision for income taxes
	(132)	Net Income
Total reclassified amount	67	

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



### 13. EARNINGS PER SHARE

Basic earnings per share computations were as follows.

	Yen in millions	
<u>Numerator</u>	2017	2018
Net income available to common shareholders- Basic	44,782	54,755
	Number of shares	
<u>Denominator</u>	2017	2018
Weighted-average number of common shares outstanding- Basic	271,463,676	271,465,951
Effect of diluted securities:		
Stock Option	22,519	27,870
Diluted common shares outstanding	271,486,195	271,493,821
	Yen	
	2017	2018
Earnings per share: Basic	165.0	201.7
Earnings per share: Diluted	165.0	201.7

NOTE: The Company implemented a two-for-one common stock split, effective April 1, 2017. Net income attributable to Makita Corporation common shareholders per share (basic) and net income attributable to Makita Corporation common shareholders per share (diluted) were calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year.



#### **14. COMMITMENTS AND CONTINGENT LIABILITIES**

Makita guarantees borrowings of its employees from external financial institutions. As of March 31, 2017 and 2018, the Company was contingently liable as a guarantor for housing and education loans to employees in the amount of 1 million yen, respectively. 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, 2018, 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 3,411 million yen and 3,474 million yen under cancelable and noncancelable operating lease agreements for offices, warehouses, automobiles and office equipment during the years ended March 31, 2017 and 2018, respectively. The minimum rental payments required under noncancelable operating lease agreements as of March 31, 2018, were as follows:

March 31, 2018	Yen in millions
2019	1,310
2020	886
2021	612
2022	514
2023	399
2024 and after	784
Total	<u>4,505</u>

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, 2017 and 2018 are summarized as follows:

	Yen in millions	
	2017	2018
Balance at beginning of year	2,972	3,163
Increase amount	2,292	2,684
Decrease amount (Utilization)	(2,036)	(2,570)
Foreign exchange adjustments	(65)	23
Balance at end of year	<u>3,163</u>	<u>3,300</u>

Liabilities for environmental protection 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.

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. Therefore, we implemented land improvement construction such as drilling, removing the contaminated soil and reclaiming the land. The construction was completed on December 2015 and submitted report of construction completed and got the approval of the local government on March 31, 2018.

The provisions for environment protection as of March 31, 2017 and 2018 were as follows:

	Yen in millions	
	2017	2018
Balance at beginning of year	560	560
Increase amount	-	-
Decrease amount (Utilization)	-	(69)
Other*	-	(491)
Balance at end of year	<u>560</u>	<u>-</u>



\* The difference between estimated and actual costs was written off because Makita got the approval of the local government on March 31, 2018.

## 15. 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, 2017 and 2018:

As of March 31, 2017	Yen in millions			
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Investment trusts	2,938	2,938	-	-
MMF and FFF	11,248	-	11,248	-
Marketable equity securities	4,763	4,763	-	-
Fair value measured at Net Asset Value	392	-	-	-
Derivatives	274	-	274	-
Investments:				
Marketable equity securities	33,422	33,422	-	-
Liabilities:				
Derivatives	(269)	-	(269)	-
As of March 31, 2018				
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Investment trusts	3,511	3,511	-	-
MMF and FFF	34	-	34	-
Marketable equity securities	6,469	6,469	-	-
Fair value measured at Net Asset Value	62	-	-	-
Derivatives	125	-	125	-
Investments:				
Marketable equity securities	33,027	33,027	-	-
Liabilities:				
Derivatives	(379)	-	(379)	-



Level 1:

Short-term investments and 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:

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.

The assets for which fair value measured at net asset value are comprised principally of foreign bond investment funds that are valued at their net asset values calculated by the sponsor of the fund.

Assets and liabilities measured at fair value on a nonrecurring basis

During the year ended March 31, 2017 and 2018, there is no asset and liability that was measured at fair value on nonrecurring basis.



## **16. 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, 2017 and 2018 were as follows.

Derivatives not designated as hedging instruments	Account title	Yen in millions	
		March 31, 2017	March 31, 2018
Assets			
Foreign currency contracts	Other current assets	274	125
Liabilities			
Foreign currency contracts	Other current liabilities	(269)	(379)
Currency swap	Other current liabilities	-	-

The amount of gains (losses) recognized in income from derivatives for the years ended March 31, 2017 and 2018 were as follows:

Derivatives not designated as hedging instruments	Account title	Yen in millions	
		Amount of gains (losses) on valuation of derivative	
		2017	2018
Foreign currency contracts	Net exchange gains (losses)	(550)	(259)
Currency swap	Net exchange gains (losses)	8	-



As of March 31, 2017 and 2018, 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, 2017	March 31, 2018
Foreign currency contracts	18,825	16,056
Total	18,825	16,056

  

Breakdown of notional amounts outstanding by currency	Yen in millions	
	March 31, 2017	March 31, 2018
U.S. Dollars	7,475	7,159
Euro	7,990	6,967
Other	3,360	1,930
Total	18,825	16,056

***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.

## **17. 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 382 million yen and 386 million yen as of March 31, 2017 and 2018 respectively, of which 4 million yen is invested in Short-term investments and 382 million yen is invested in Investments as of March 31, 2018.

(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, 2017 and 2018, the estimated fair value of the financial instruments was as follows:

	Yen in millions				
	March 31, 2017		March 31, 2018		Fair Value Hierarchy Levels
	Carrying amount	Fair value	Carrying amount	Fair value	
Short-term investments (see Note 15)	23,441	23,438	14,778	14,778	1 or 2
Investments (see Note 15)	33,622	33,633	33,433	33,437	1 or 2
Long-term time deposits	10	10	9	9	2
Long-term indebtedness including current maturities	(33)	(33)	(183)	(183)	2
Foreign currency contracts:					
Assets					
(see Note 15)	274	274	125	125	2
Foreign currency contracts:					
Liabilities					
(see Note 15)	(269)	(269)	(379)	(379)	2
Currency swap:					
Liabilities					
(see Note 15)	-	-	-	-	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.



## 18. 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, 2017 and 2018, 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:

- (1) Europe:  
Germany, United Kingdom, Russia, France, Finland
- (2) North America:  
United States, Canada
- (3) 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, 2017

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

	Yen in millions						Corporate and Eliminations	Consolidated
	Japan	Europe	North America	Asia	Other regions	Total		
Sales:								
External customers	97,797	169,204	68,069	22,336	57,593	414,999	-	414,999
Inter-segment (including transfers)	144,791	4,238	3,553	172,357	525	325,464	(325,464)	-
Total	<u>242,588</u>	<u>173,442</u>	<u>71,622</u>	<u>194,693</u>	<u>58,118</u>	<u>740,463</u>	<u>(325,464)</u>	<u>414,999</u>
Operating expenses	218,973	159,804	70,035	173,637	55,732	678,181	(325,746)	352,435
Operating income	23,615	13,638	1,587	21,056	2,386	62,282	282	62,564
Non-operating income	-	-	-	-	-	-	-	2,174
Income before income taxes	-	-	-	-	-	-	-	64,738
Long-lived assets	38,061	21,554	4,601	23,516	7,009	94,741	(234)	94,507
Total assets	354,552	187,668	52,059	162,231	70,897	827,407	(230,158)	597,249
Capital expenditures	2,809	2,602	2,450	4,654	749	13,264	(42)	13,222
Loss on valuation of inventories	63	1,025	53	751	185	2,077	-	2,077
Depreciation and amortization	2,777	1,857	460	3,514	415	9,023	(80)	8,943
Provision for environmental measures	-	-	-	-	-	-	-	-

The Long-lived assets in China included in the Asia Segment amount to 17,432 million yen.



Year ended March 31, 2018  
(From April 1, 2017 to March 31, 2018)

	Yen in millions						Corporate and Eliminations	Consolidated
	Japan	Europe	North America	Asia	Other regions	Total		
Sales:								
External customers	106,862	202,364	76,325	26,139	65,608	477,298	-	477,298
Inter-segment (including transfers)	202,827	4,811	4,388	212,697	1,560	426,283	(426,283)	-
Total	<u>309,689</u>	<u>207,175</u>	<u>80,713</u>	<u>238,836</u>	<u>67,168</u>	<u>903,581</u>	<u>(426,283)</u>	<u>477,298</u>
Operating expenses	278,313	188,160	78,452	214,271	61,673	820,869	(423,333)	397,536
Operating income	31,376	19,015	2,261	24,565	5,495	82,712	(2,950)	79,762
Non-operating income	-	-	-	-	-	-	-	(84)
Income before income taxes	-	-	-	-	-	-	-	79,678
Long-lived assets	39,302	24,117	4,653	25,589	6,540	100,201	(337)	99,864
Total assets	390,877	227,172	61,161	163,066	71,997	914,273	(263,242)	651,031
Capital expenditures	4,518	2,860	625	5,561	497	14,061	88	14,149
Loss on valuation of inventories	-	1,609	240	423	487	2,759	-	2,759
Depreciation and amortization	2,923	2,106	595	3,915	461	10,000	(83)	9,917
Provision for environmental measures	(491)	-	-	-	-	-	(491)	(491)

The Long-lived assets in China included in the Asia Segment amount to 19,239 million yen.

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

	Yen in millions, except for percentage amounts			
	Year ended March 31,			
	2017		2018	
Japan	74,381	17.9%	82,575	17.3%
Europe	168,992	40.7	202,054	42.3
United States	57,220	13.8	64,089	13.4
North America (excluding United States)	8,928	2.1	9,784	2.1
Asia (excluding Japan)	40,079	9.7	44,094	9.2
Other	65,399	15.8	74,702	15.7
Total	<u>414,999</u>	<u>100.0%</u>	<u>477,298</u>	<u>100.0%</u>

No single external customer accounted for 10% or more of Makita's net sales for each of the year ended March 31, 2017 and 2018.

Consolidated Net Sales by Product Categories are as follows:

	Yen in millions, except for percentage amounts			
	Fiscal Year ended March 31,			
	2017		2018	
Electric Power Tools	269,787	65.0%	299,264	62.7%
Gardening Equipment,				
Household and Other Products	77,501	18.7	99,976	20.9
Parts, Repairs and Accessories	67,711	16.3	78,058	16.4
Total	<u>414,999</u>	<u>100.0%</u>	<u>477,298</u>	<u>100.0%</u>



## **19. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME**

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

Item	Yen in millions	
	2017	2018
Research and Development Costs	10,139	10,894
Advertising Costs	6,642	8,363
Shipping and Handling Costs	7,389	8,637
Provision for environmental protection	-	(491)



## **20. RELATED PARTY TRANSACTIONS**

The transactions between the Company and Maruwa Co., Ltd. (“Maruwa”), for which the representative director of the Company, Masahiko Goto, the representative director of the Company, Munetoshi 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, 2017 and 2018. The accounts payable of the Company related to these transactions were nil as of March 31, 2017 and March 31, 2018.

The Company’s purchases of raw materials and production equipment from Toa Co., Ltd., for which a representative director of the Company, Masahiko Goto, the representative director of the Company, Munetoshi Goto and certain of his family members have a majority of the voting rights, were 93 million yen and 162 million yen during the years ended March 31, 2017 and 2018, respectively. The other payables of the Company related to these transactions were 14 million yen and 6 million yen as of March 31, 2017 and 2018, respectively.

## **21. SUBSEQUENT EVENTS**

Not applicable.

### **【Schedule to the Consolidated Financial Statements】**

List of Bonds Payable

Makita has no Bonds Payable.

List of Borrowings

Please refer to Notes 10 of the Consolidated Financial Statements

#### a. 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 FY2018, a detailed description of this is omitted.





(TRANSLATION)

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

June 29, 2018

To the Board of Directors of Makita Corporation:

KPMG AZSA LLC

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

Masaki Kawaguchi (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, 2018 and the consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to consolidated financial statements and schedule to the consolidated financial statements, 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 Methods 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, 2018, 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, 2018, 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, 2018, 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.