Makita Corporation

Additional Information
for the year ended March 31, 2017

Consolidated Financial Statements

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

CONTENTS

【Accounting-Consolidated Financial Statements】

1. Basis for Consolidated Financial Statements

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

2. Audit Attestation

Makita's Consolidated Financial Statements for the consolidated year from April 1, 2016 to March 31, 2017 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, 2016	As of March 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	99,915	142,181
Time deposits	15,545	34,329
Short-term investments	48,263	23,441
Trade receivables-		
Notes	1,079	1,199
Accounts	64,309	67,086
Less- Allowance for doubtful receivables	(1,173)	(1,137)
Inventories	178,791	167,398
Deferred income taxes	5,454	4,723
Prepaid expenses and other current assets	15,390	13,349
Total current assets	427,573	452,569
PROPERTY, PLANT AND EQUIPMENT, AT COST:		
Land	22,436	22,358
Building and improvements	94,704	94,927
Machinery and equipment	91,365	91,493
Construction in progress	2,662	5,531
Sub-total	211,167	214,309
Less- Accumulated depreciation and amortization	(118,344)	(119,802)
Total net property, plant and equipment	92,823	94,507
INVESTMENTS AND OTHER ASSETS:		
Investments	21,872	34,004
Goodwill	721	721
Other intangible assets, net	4,107	3,641
Deferred income taxes	610	650
Other assets	10,318	11,157
Total investments and other assets	37,628	50,173
Total assets	558,024	597,249

	Yen (millions)	
	As of March 31, 2016	As of March 31, 2017
LIABILITIES		
CURRENT LIABILITIES:		
Short-term borrowings	2,195	6,579
Trade notes and accounts payable	20,620	26,347
Other payables	6,521	7,122
Accrued expenses	9,350	10,537
Accrued payroll	9,143	9,431
Income taxes payable	4,440	6,944
Deferred income taxes	3,084	3,134
Other liabilities	9,545	8,178
Total current liabilities	64,898	78,272
LONG-TERM LIABILITIES:		
Long-term indebtedness	30	18
Accrued retirement and termination benefits	3,271	3,161
Deferred income taxes	4,974	8,313
Other liabilities	1,481	1,674
Total long-term liabilities	9,756	13,166
Total liabilities	74,654	91,438
EQUITY		
MAKITA CORPORATION SHAREHOLDERS' EQUITY:		
Common stock	23,805	23,805
Additional paid-in capital	45,456	45,501
Legal reserve	5,669	5,669
Retained earnings	425,473	456,546
Accumulated other comprehensive income (loss)	(9,049)	(17,728)
Treasury stock, at cost	(11,602)	(11,623)
Total Makita Corporation shareholders' equity	479,752	502,170
NONCONTROLLING INTEREST	3,618	3,641
Total equity	483,370	505,811
Total liabilities and equity	558,024	597,249

CONSOLIDATED STATEMENTS OF INCOME

	Yen (millions)			
	For the year ended March 31, 2016		For the year ended March 31, 2017	
		Composition ratio		Composition ratio
NET SALES	423,623	100.0%	414,999	100.0%
Cost of sales	270,121	63.8%	267,506	64.5%
GROSS PROFIT	153,502	36.2%	147,493	35.5%
Selling, general, administrative and others, net	88,826	20.9%	84,929	20.4%
OPERATING INCOME	64,676	15.3%	62,564	15.1%
OTHER INCOME (EXPENSE):				
Interest and dividend income	2,468		2,512	
Interest expense	(115)		(104)	
Exchange gains (losses) on foreign currency transactions, net	(1,552)		(233)	
Realized gains (losses) on securities, net	1,418		26	
Impairment loss on securities	(5,403)		(27)	
Total other income (expense), net	(3,184)	(0.8%)	2,174	0.5%
INCOME BEFORE INCOME TAXES	61,492	14.5%	64,738	15.6%
Provision for income taxes:				
Current	18,707		19,988	
Deferred	812		(378)	
Total income tax expense	19,519	4.6%	19,610	4.7%
NET INCOME	41,973	9.9%	45,128	10.9%
Less-Net income attributable to the non-controlling interest	358	0.1%	346	0.1%
NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION	41,615	9.8%	44,782	10.8%

	Yen	
PER SHARE OF COMMON STOCK AND ADS:	For the year ended March 31, 2016	For the year ended March 31, 2017
Earnings per share: Basic	153.3	165.0
Earnings per share: Diluted	153.3	165.0
Cash dividends per share paid for the year	118.0	101.0

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, 2016	For the year ended March 31, 2017
NET INCOME	41,973	45,128
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation adjustment	(26,304)	(19,812)
Unrealized holding gains (losses) on available-for-sale securities	(3,036)	10,742
Pension liability adjustment	(2,678)	192
Total other comprehensive income (loss)	(32,018)	(8,878)
COMPREHENSIVE INCOME (LOSS)	9,955	36,250
Less-Comprehensive income (loss) attributable to the non-controlling interest	231	147
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO MAKITA CORPORATION	9,724	36,103

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Yen (millions)								
	For the year ended March 31, 2016								
	Makita Corporation shareholders' equity								
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total Makita Corporation's shareholders' equity	Non-controlling interest	Total
Beginning balance	23,805	45,421	5,669	399,874	22,842	(11,590)	486,021	3,564	489,585
Purchases and disposal of treasury stock, net						(12)	(12)		(12)
Cash dividends				(16,016)			(16,016)	(177)	(16,193)
Comprehensive income (loss)									
Net income				41,615			41,615	358	41,973
Other comprehensive income					(31,891)		(31,891)	(127)	(32,018)
Other income (loss)		35					35		35
Ending balance	23,805	45,456	5,669	425,473	(9,049)	(11,602)	479,752	3,618	483,370

	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 Corporation's shareholders' 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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Yen (millions)	
	For the year ended March 31, 2016	For the year ended March 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	41,973	45,128
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation and amortization	9,284	8,943
Deferred income tax expense (benefit)	812	(378)
Realized (gains) losses on securities, net	(1,418)	(26)
Unrealized (gains) losses on securities, net	5,403	27
Losses (gains) on disposal or sales of property, plant and equipment, net	(39)	385
Bad debt expense	374	172
Inventory write-downs	1,849	2,077
Changes in assets and liabilities-		
Trade receivables	(3,526)	(4,824)
Inventories	(17,437)	448
Trade notes and accounts payable and accrued expenses	(2,821)	9,171
Income taxes payable	177	3,472
Accrued retirement and termination benefits	(1,253)	(684)
Other, net	810	(560)
Net cash provided by operating activities	34,188	63,351
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, including interest capitalized	(11,769)	(13,222)
Purchases of available-for-sale securities	(9,997)	(1,217)
Proceeds from sales of available-for-sale securities	15,268	30,663
Proceeds from maturities of available-for-sale securities	500	-
Purchases of held-to-maturity securities	-	(8,601)
Proceeds from maturities of held-to-maturity securities	500	5,700
Proceeds from sales of property, plant and equipment	1,421	383
Investment in term (time) deposit	(36,169)	(56,437)
Withdrawal of term (time) deposit	34,251	37,384
Other, net	(578)	332
Net cash used in investing activities	(6,573)	(5,015)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in borrowings with original maturities of less than three months	867	4,691
Payments on borrowings with original maturities of more than three months	(3,556)	(329)
Purchase (sale) of treasury stock, net	(12)	(22)
Cash dividends paid	(16,016)	(13,709)
Other, net	(2)	(126)
Net cash used in financing activities	(18,719)	(9,495)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(3,510)	(6,575)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,386	42,266
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	94,529	99,915
CASH AND CASH EQUIVALENTS, END OF YEAR	99,915	142,181
SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for interest, net of amount capitalized	116	120
Cash paid during the year for income taxes	18,530	16,517

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

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

(1) New share issuing expenses
New share issuing expenses net of taxes are deducted from Additional paid-in Capital.
(2) Allowance for retirement and benefits
Allowance for retirement benefits is recognized in accordance with ASC 715 “Compensation --- Retirement Benefits “.
(3) Goodwill and Other Intangible Assets
Goodwill and Other Intangible Assets are recognized in accordance with ASC 350 “Intangibles --- Goodwill and Other“.

Goodwill and Other Intangible Assets with indefinite useful lives are not depreciated but reassessed for impairment test at least once a year and tested whenever there is any indication of impairment.

2. OVERVIEW OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

(1)Overview of business

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

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

Sales in overseas market account for 82.1% of consolidated sales; in Europe 40.7%, in North America 15.9%, in Asia 9.7% and in Other Regions 15.8%.

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, 2016 and 2017 amounted to 8,442 million yen and 8,072 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, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Aggregate cost	99	74
Accumulated depreciation and amortization	55	43

(9) Goodwill

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

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

(10) Environmental Liabilities

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

(11) Research and Development Costs and Advertising Costs

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

(12) Shipping and Handling Costs

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

(13) Income Taxes

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

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

(14) Product Warranties

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

(15) Pension and Retirement Benefits

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

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

(16) 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 29, 2017, the date on which the financial statements are available to be issued.

(23) New Accounting Standards Adopted

Not applicable.

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

Not applicable.

(25) New Accounting Standards Not yet Adopted

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers (Topic 606)". The guidance provides a framework on addressing revenue recognition issues and, upon its effective date, replaces almost all exiting revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. Subsequently in August 2015, the FASB issued Proposed Accounting Standards Update "Revenue from Contracts with Customers (Topic 606) " which proposes to defer the effective date of Update 2015-14 by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans would apply the guidance in Update 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application would be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We are currently evaluating the effect that the adoption of the guidance will have on our consolidated results of operations and financial condition

In November 2015, the FASB issued an amendment which requires deferred tax assets and liabilities be classified as noncurrent in the consolidated balance sheets. The guidance is effective for annual reporting periods beginning after December 15, 2016, and early adoption is permitted. The adoption of this guidance will have an impact on our consolidated balance sheets as our current deferred tax assets were 4,723 million and current deferred tax liabilities were 3,134 million as of March 31, 2017.

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

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

3. INVENTORIES

Inventories as of March 31, 2016 and 2017 comprised the following:

	Yen in millions	
	2016	2017
Finished goods and merchandise	156,650	144,143
Work in process	2,744	2,431
Raw materials	19,397	20,824
Total	178,791	167,398

Inventory write-downs, which are charged to cost of sales, amounted to 1,849 million yen, and 2,077 million yen for the years ended March 31, 2016 and 2017, respectively.

4. IMPAIRMENT OF LONG-LIVED ASSETS

There is no impairment loss recognized for the year ended March 31, 2016 and 2017.

5. SHORT-TERM INVESTMENTS AND INVESTMENTS

As of March 31, 2016 and 2017, 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, 2016 and 2017, were as follows:

	Yen in millions				
As of March 31, 2016	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Short-term investments:					
Available-for-sale:					
Investment trusts	1,864	392	3	2,253	2,253
MMF and FFF	43,350	-	-	43,350	43,350
Marketable equity securities	593	1,062	-	1,655	1,655
Sub-total	45,807	1,454	3	47,258	47,258
Held-to-maturity:					
Corporate debt securities	1,000	-	-	1,000	1,000
Sub-total	1,000	-	-	1,000	1,000
Total Short-term investments	46,807	1,454	3	48,258	48,258
Investments:	Cost	Unrealized gains	Unrealized losses	Fair value	Carrying amount
Available-for-sale:					
Marketable equity securities	11,333	9,757	-	21,090	21,090
Sub-total	11,333	9,757	-	21,090	21,090
Held-to-maturity:					
Corporate debt securities	400	14	-	414	400
Sub-total	400	14	-	414	400
Total Investments	11,733	9,771	-	21,504	21,490

In addition to the above investments, non-marketable equity securities (carried at cost) amounted to 387 million yen on March 31, 2016, of which 5 million yen is invested in Short-term investments and 382 million yen is invested in Investments.

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.

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, 2016 and 2017, each fund mainly consisted of marketable equity securities and interest-bearing bonds. Investments in non-marketable equity securities are accounted for under cost method and amounted to 387 million yen and 382 million yen as of March 31, 2016 and 2017, respectively. For the years ended March 31, 2016 and 2017, 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, 2016 and 2017.

	Yen in millions			
	Less than 12 months		12 months or more	
As of March 31, 2016	Fair value	Unrealized losses	Fair value	Unrealized losses
Short-term investments:				
Available-for-sale:				
Investment trusts	292	3	-	-
Sub-total	292	3	-	-

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

Maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2017, regardless of their balance sheet classification, were as follows:

Cost	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	-	4,100	4,100
Due from one to five years	-	200	200
Due from five to ten years	-	-	-
Due after ten years	-	-	-
Total	-	4,300	4,300

Fair Value	Yen in millions		
	Available-for-sale	Held-to-maturity	Total
Due within one year	-	4,097	4,097
Due from one to five years	-	211	211
Due from five to ten years	-	-	-
Due after ten years	-	-	-
Total	-	4,308	4,308

Gross realized gains on sales of short-term investments and investments for the years ended March 31, 2016 and 2017 amounted to 1,421 million yen and 27 million yen, respectively.

Gross realized losses, which included the gross realized losses considered as other than temporary, during the years ended March 31, 2016 and 2017 amounted to 3 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 5,403 million yen and 27 million yen for the years ended March 31, 2016 and 2017.

Proceeds from the sales and maturities of available-for-sale securities were 15,768 million yen and 30,663 million yen for the years ended March 31, 2016 and 2017, respectively. Proceeds from maturities of the held-to-maturity securities were 500 million yen and 5,700 million yen for the years ended March 31, 2016 and 2017, respectively.

6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Intangible assets developed or acquired during the year ended March 31, 2017 totaled 481 million yen, which are subject to amortization and primarily consist of software. The weighted average amortization period for software, other and total is approximately 6 years, 5 years and 6 years, respectively. The components of intangible assets subject to amortization at March 31, 2016 and 2017 were as follows:

	Yen in millions					
	2016			2017		
	Cost	Accumulated amortization	Carrying amount	Cost	Accumulated amortization	Carrying amount
Industrial property	2,865	1,389	1,476	2,790	1,514	1,276
Software	4,821	3,422	1,399	4,860	3,574	1,286
Other	1,958	795	1,163	2,074	1,058	1,016
Total	9,644	5,606	4,038	9,724	6,146	3,578

Aggregate amortization expense for the years ended March 31, 2016 and 2017 were 842 million yen and 871 million yen, respectively. As of March 31, 2017, the estimated amortization expense for intangible assets currently held for the next five years ending March 31 is 695 million yen in FY2018, 681 million yen in FY2019, 379 million yen in FY2020, 287 million yen in FY2021, and 272 million yen in FY2022.

Intangible assets not subject to amortization at March 31, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Acquisition cost	69	63

The changes in the carrying amount of goodwill for the years ended in March 31, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Beginning balance	721	721
Impairment	-	-
Other	-	-
Ending balance	721	721

The above goodwill was included in the Japan operating segment.

7. INCOME TAXES

Income before income taxes and the provision for income taxes for the years ended March 31, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Income before income taxes:		
Domestic	18,422	26,221
Foreign	43,070	38,517
Total	61,492	64,738
Income tax expenses:		
Current - Domestic	7,000	10,005
- Foreign	11,707	9,983
Sub-total	18,707	19,988
Deferred - Domestic	978	75
- Foreign	(166)	(453)
Sub-total	812	(378)
Total income tax expenses	19,591	19,610

Total income taxes including deferred tax for the years ended March 31, 2016 and 2017 were allocated as follows:

	Yen in millions	
	2016	2017
Income taxes	19,519	19,610
Other comprehensive income (loss) :		
Foreign currency translation adjustment	(792)	(495)
Unrealized holding gains (losses) on investment securities	(1,461)	4,833
Pension liability adjustment	(939)	54
Total income taxes	16,327	24,002

The Company and its domestic subsidiaries are subject to a National Corporate tax of 23.9%, an Inhabitant tax 3.4% and a deductible Enterprise tax of 6.9%, which in the aggregate figure resulted in a combined statutory income tax rate of 33.0% for the year ended March 31, 2016.

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.

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

	Year ended March 31	
	2016	2017
Standard tax rate	33.0%	31.2%
Non-deductible expenses	0.4	0.3
Non-taxable dividends received	(0.0)	(0.0)
Change in valuation allowance	2.1	(0.5)
Tax sparing impact	(1.0)	(0.6)
Effect of the foreign tax rate differential	(7.0)	(4.5)
Undistributed earnings	4.7	4.2
Other	(0.5)	0.2
Effective income tax rate	31.7%	30.3%

For the year ended in March 31, 2016, an effect of the foreign tax rate differential of 4,313 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, 2016 was 31.7%, a decrease of 1.3 points as compared with the statutory income tax rate of 33.0%.

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%.

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 1.0% (604 million yen) and 0.6% (402 million yen) for the years ended March 31, 2016 and 2017, respectively.

The significant components of deferred income tax expense attributable to income before income taxes for the years ended March 31, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Provision for income tax: Current	18,707	19,988
Deferred tax expense (benefit) (exclusive of the effects of other components below)	(506)	(29)
Change in valuation allowance	1,318	(349)
Total	19,519	19,610

Significant components of deferred income tax assets and liabilities as of March 31, 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Deferred income tax assets:		
Marketable securities and investment securities	3,253	26
Accrued retirement and termination benefits	496	490
Accrued expenses	1,552	1,663
Inventories	2,368	2,765
Property, plant and equipment	2,745	3,060
Accrued payroll	1,546	1,617
Net operating loss carryforwards of subsidiaries	1,550	1,877
Other	1,322	917
Total deferred income tax assets	14,832	12,415
Valuation allowance	(2,955)	(2,796)
Sub-total	11,877	9,619
Deferred income tax liabilities:		
Undistributed earnings of overseas subsidiaries	(7,290)	(7,302)
Accrued retirement and termination benefits	(2,297)	(2,497)
Unrealized gain on available-for-sale securities	(3,477)	(5,142)
Property, plant and equipment	(778)	(750)
Other	(29)	(2)
Total deferred income tax liabilities	(13,871)	(15,693)
Net deferred income tax assets	(1,994)	(6,074)

As of March 31, 2016 and 2017, deferred income tax assets and liabilities are recorded in the consolidated balance sheets as follows:

	Yen in millions	
	2016	2017
Current assets	5,454	4,723
Investments and other assets	610	650
Current liabilities	(3,084)	(3,134)
non-current liabilities	(4,974)	(8,313)
Net deferred tax assets	(1,994)	(6,074)

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 2,796 million yen as of March 31, 2017 against certain deferred income tax assets primarily associated with net operating loss carry-forwards.

As of March 31, 2017, certain subsidiaries had net operating loss carry-forwards for income tax purposes of 9,716 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, 2017	Yen in millions
Within 5 years	224
6 to 20 years	1,505
Indefinite	7,987
Total	9,716

As of March 31, 2016 and 2017, 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 166,584 million yen and 155,780 million yen as of March 31, 2016 and 2017. 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, 2016 and 2017 were neither material nor expected to significantly increase or decrease within the 12-month period subsequent to March 31, 2017. 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, 2016 and 2017. 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, 2016 and 2017 are as follows:

	Yen in millions	
	2016	2017
Service cost	1,554	1,688
Interest cost	398	213
Expected return on plan assets	(1,465)	(1,346)
Amortization of prior service cost	(406)	(406)
Amortization of actuarial loss	597	635
Pension costs	678	784

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
	2018
Amortization of actuarial loss	(541)
Amortization of prior service cost	388

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

	Yen in millions	
	2016	2017
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	38,177	40,370
Service cost	1,554	1,688
Interest cost	398	213
Plan Amendment	(158)	-
Actuarial difference	2,360	(605)
Benefits paid	(1,833)	(1,662)
Foreign exchange impact	(128)	(227)
Projected benefit obligation at end of year	40,370	39,777
Change in plan assets:		
Fair value of plan assets at beginning of year	44,727	44,727
Actual return on plan assets	16	698
Employer contributions	1,434	1,323
Benefits paid	(1,719)	(1,507)
Foreign exchange impact	(31)	(43)
Fair value of plan assets at end of year	44,427	44,898
Funding position	4,057	5,121
Amounts recognized in consolidated balance sheets consisted of:		
Other current liabilities	(108)	(103)
Pension Allowance	(3,271)	(3,161)
Other assets	7,436	8,385
	4,057	5,121
Amounts recognized in accumulated other comprehensive income(loss) consisted of:		
Actuarial loss	(14,507)	(13,856)
Prior service cost	3,961	3,556
	(10,546)	(10,300)

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	
	2016	2017
Accumulated benefit obligation	39,498	38,814

Weighted-average assumptions

The weighted-average assumptions used to determine the benefit obligations as of March 31, 2016 and 2017 were as follows:

Weighted-average rate used in determining the benefit obligation as of March 31	2016	2017
Discount rate	0.6%	0.7%
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, 2016 and 2017 were as follows:

Weighted-average rate used in determining the retirement benefit expenses for years ended March 31, 2016 and 2017	2016	2017
Discount rate	1.1%	0.5%
Salary increase rate	4.7%	4.8%
Expected long-term rate of return on plan assets	3.5%	3.1%

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, 2018 are as follows:

Asset Class:

Asset Class:	Target Allocations
Equity securities	7%
Debt securities	37
Life insurance company general accounts	16
Short-term assets	3
Alternative investments	37
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 6 million yen as of March 31, 2017.

The fair values of Makita's pension plan assets as of March 31, 2016 and 2017, by asset class, were as follows:

As of March 31, 2016	Yen in millions			
	Total	Level 1	Level 2	Level 3
Fair value measured not at net asset value				
Equity securities:				
Domestic				
Stock	1,128	1,128	-	-
Debt securities:				
Overseas				
Government bonds	2,070	2,070	-	-
Life insurance company general accounts	6,348	-	6,348	-
Short-term assets	4,562	4,562	-	-
Fair value measured at net asset value				
Equity securities:				
Domestic				
Stocks(commingled)	1,590	-	-	-
Overseas				
Stocks (commingled)	3,445	-	-	-
Debt securities:				
Domestic				
Commingled	10,252	-	-	-
Overseas				
Commingled	7,364	-	-	-
Alternative investments				
Commingled funds	7,668	-	-	-
Total	44,427	7,760	6,348	-

As of March 31, 2017	Yen in millions			
	Total	Level 1	Level 2	Level 3
Fair value measured not at net asset value				
Equity securities:				
Domestic				
Stock	1,314	1,314	-	-
Life insurance company general accounts	6,973	-	6,973	-
Short-term assets	5,399	5,399	-	-
Fair value measured at net asset value				
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	44,898	6,713	6,973	-

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 following table summarizes the changes in Level 3 plan assets for the years ended March 31, 2016 and 2017:

	Yen in millions	
	2016	2017
Balance at beginning of year	1,274	1,358
Actual return on plan assets relating to assets held at year end	84	135
Purchases	-	500
Balance at end of year	1,358	1,993

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	
	2016	2017
Projected benefit obligation	4,380	4,059
Accumulated benefit obligation	4,306	3,963
Fair value of plan assets	1,001	816
Accumulated benefit obligation in excess of plan assets	3,305	3,147

Cash flows

Contributions:

Makita expects to contribute 1,331 million yen to its defined benefit pension plan in the year ending March 31, 2018.

Estimated future benefit payments

At March 31, 2017, 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
2018	1,638
2019	2,116
2020	2,111
2021	1,886
2022	1,743
2023-2027	10,091
Total	19,585

Certain foreign subsidiaries have defined contribution plans. The total expenses charged to income under these plans were 350 million yen and 325 million yen for the years ended March 31, 2016 and 2017, 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 351 million yen as of March 31, 2016 and 2017, 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 7,000 shares of common stock on July 31, 2015 and 6,820 shares of common stock on July 28, 2016. 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 and from August 19, 2016 to August 18, 2066, 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, 2016.

	Shares	Weighted-average exercise price	Weighted-average remaining contractual term	Aggregate intrinsic value
		Yen	Years	Millions of yen
Balance at April 1, 2015	-	-	-	-
Granted	14,000	1	-	-
Exercised	-	-	-	-
Forfeited/Expired	-	-	-	-
Balance at March 31, 2016	14,000	1	49.4	49
Exercisable at March 31,2016	-	-	-	-

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 stock-based compensation expenses recognized as selling, general and administrative expenses for this stock option for the years ended March 31, 2016 and 2017 was 35 million yen and 45 million yen, respectively. The grant-date fair value during the year ended March 31, 2016 and 2017 was 46 million yen and 45 million yen, respectively.

We estimated the fair value of stock options at the date of grant using a Black-Scholes valuation model.

	March 31,2016	March 31,2017
Grant-date fair value	66,330Yen	65,690Yen
Expected remaining contractual term	7.1Year	6.1Year
risk-free rate	0.15%	(0.18)%
Volatility of the Company's stock	43.24%	34.93%
Dividend yield of the Company	1.41%	1.41%

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, 2016 and 2017, short-term borrowings consisted of the following:

	Yen in millions	
	2016	2017
Bank borrowings	1,870	6,564
Current maturities of long-term indebtedness	325	15
Total	2,195	6,579

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, 2016 and 2017, the weighted average interest rate on short-term bank borrowings was 2.1% and 0.21%, respectively. Certain subsidiaries of the Company had unused lines of credit available for immediate short-term borrowings without restrictions amounting to 6,794 million yen and 7,790 million yen of March 31, 2016 and 2017, respectively.

As of March 31, 2016 and 2017, long-term indebtedness consisted of the following:

	Yen in millions	
	2016	2017
Bank borrowings	310	-
Capital lease obligations (see Note 2 (8))	45	33
Current maturities included in short-term borrowings	(325)	(15)
Total	30	18

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, 2017 are as summarized below:

Year ending March 31,	Yen in millions
2018	15
2019	12
2020	4
2021	2
2022	-
2023 and after	-
Total	33

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 11,130 million yen at the annual meeting of shareholders held on June 28, 2017 based on a resolution of the Board of Directors, cash dividends will be paid to shareholders of record as of March 31, 2017. The declaration of this dividend has not been reflected in the consolidated financial statements as of March 31, 2017.

The amount of retained earnings available for dividends distribution is recorded in the Company's non-consolidated financial statement and amounted to 194,721 million yen as of March 31, 2017.

12. OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) as of March 31, 2016 and 2017 were as follows:

For the year ended March 31, 2016	Yen in millions			
	Foreign currency translation adjustment	Unrealized gains on investment securities	Pension liability adjustment	Total
Beginning balance	17,218	9,552	(3,928)	22,842
Other comprehensive income (loss) before reclassification	(26,304)	(3,277)	(2,843)	(32,424)
Reclassification	-	241	165	406
Other comprehensive income (loss)	(26,304)	(3,036)	(2,678)	(32,018)
Less: Other comprehensive income attributable to noncontrolling interests	(127)	-	-	(127)
Ending balance	(8,959)	6,516	(6,606)	(9,049)

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)

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

For the year ended March 31, 2016	Yen in millions		
	Before tax adjustment	Amount of tax	After tax adjustment
Foreign currency translation adjustment:	(27,096)	792	(26,304)
Net unrealized gains and losses on securities			
Unrealized losses arising during the year	(4,857)	1,580	(3,277)
Deduction: Reclassification adjustment for losses realized in net income	360	(119)	241
Net unrealized losses	(4,497)	1,461	(3,036)
Pension liability adjustment:			
Unrealized losses arising during the year	(3,808)	965	(2,843)
Deduction: Reclassification adjustment for losses realized in net income	191	(26)	165
Net unrealized losses	(3,617)	939	(2,678)
Other comprehensive income (loss)	(35,210)	3,192	(32,018)

For the year ended March 31, 2017	Before tax adjustment	Amount of tax	After tax adjustment
	Yen in millions		
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)

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

	For the year ended March 31, 2016 Yen in millions	
	Other Comprehensive Income (Loss) Redistribution of accumulated amount	Items that influence the consolidated statement of income
Unrealized gain arising during the year		
Realized gains on securities	1,231	Realized gains (losses) on securities, net
Unrealized loss on securities	(1,591)	Impairment loss on securities
	119	Provision for income taxes
	(241)	Net Income
Pension liability adjustment		
Amortization of prior service cost	406	※
Actuarial difference Elimination of differences in calculation methods	(597)	※
	(191)	Income before income taxes
	26	Provision for income taxes
	(165)	Net Income
Total reclassified amount	(406)	

	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)	

※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	
Numerator	2016	2017
Net income available to common shareholders- Basic	41,615	44,782

	Number of shares	
Denominator	2016	2017
Weighted-average number of common shares outstanding- Basic	271,468,236	271,463,676
Effect of diluted securities:		
Stock Option	8,748	22,519
Diluted common shares outstanding	271,476,984	271,486,195

	Yen	
	2016	2017
Earnings per share: Basic	153.3	165.0
Earnings per share: Diluted	153.3	165.0

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.

14. COMMITMENTS AND CONTINGENT LIABILITIES

Makita guarantees borrowings of its employees from external financial institutions. As of March 31, 2016 and 2017, 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, 2017, 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 3,619 million yen and 3,411 million yen under cancelable and noncancelable operating lease agreements for offices, warehouses, automobiles and office equipment during the years ended March 31, 2016 and 2017, respectively. The minimum rental payments required under noncancelable operating lease agreements as of March 31, 2017, were as follows:

March 31, 2017	Yen in millions
2018	1,156
2019	739
2020	533
2021	389
2022	282
2023 and after	426
Total	3,525

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, 2016 and 2017 are summarized as follows:

	Yen in millions	
	2016	2017
Balance at beginning of year	2,769	2,972
Increase amount	2,435	2,292
Decrease amount (Utilization)	(2,062)	(2,036)
Foreign exchange adjustments	(170)	(65)
Balance at end of year	2,972	3,163

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.

The provisions for environment protection as of March 31 2016 and 2017 were as follows:

	Yen in millions	
	2016	2017
Balance at beginning of year	1,356	560
Increase amount	-	-
Decrease amount (Utilization)	(781)	-
Other	(15)	-
Balance at end of year	560	560

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, 2016 and 2017:

As of March 31, 2016	Yen in millions			
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Investment trusts	2,253	1,946	-	-
MMF and FFF	43,350	-	43,350	-
Marketable equity securities	1,655	1,655	-	-
Fair value measured at Net Asset Value	307	-	-	-
Derivatives	1,225	-	1,225	-
Investments:				
Marketable equity securities	21,090	21,090	-	-
Liabilities:				
Derivatives	(678)	-	(678)	-

As of March 31, 2017	Yen in millions			
	Total	Level 1	Level 2	Level 3
Assets:				
Short-term investments:				
Investment trusts	3,330	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)	-

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, 2016 and 2017, 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, 2016 and 2017 were as follows.

Derivatives not designated as hedging instruments	Account title	Yen in millions March 31, 2016	 March 31, 2017
Assets			
Foreign currency contracts	Other current assets	1,225	274
Liabilities			
Foreign currency contracts	Other current liabilities	(670)	(269)
Currency swap	Other current liabilities	(8)	-

The amount of gains (losses) recognized in income from derivatives for the years ended March 31, 2016 and 2017 were as follows:

Derivatives not designated as hedging instruments	Account title	Yen in millions Amount of gains (losses) on valuation of derivative	
		2016	2017
Foreign currency contracts	Net exchange gains (losses)	646	(550)
Currency swap	Net exchange gains (losses)	(672)	8

As of March 31, 2016 and 2017, 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, 2016	March 31, 2017
Foreign currency contracts	43,254	18,825
Currency swap	310	-
Total	43,564	18,825

Breakdown of notional amounts outstanding by currency	Yen in millions	
	March 31, 2016	March 31, 2017
U.S. Dollars	31,001	7,475
Euro	8,064	7,990
Other	4,499	3,360
Total	43,564	18,825

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 387 million yen and 382 million yen as of March 31, 2016 and 2017 respectively, of which nil million yen is invested in Short-term investments and 382 million yen is invested in Investments as of March 31, 2017.

(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, 2016 and 2017, the estimated fair value of the financial instruments was as follows:

	Yen in millions				
	March 31, 2016		March 31, 2017		
	Carrying amount	Fair value	Carrying amount	Fair value	Fair Value Hierarchy Levels
Short-term investments (see Note 15)	48,258	48,258	23,441	23,438	1 or 2
Investments (see Note 15)	21,490	21,504	33,622	33,633	1 or 2
Long-term time deposits	8	8	10	10	2
Long-term indebtedness including current maturities	(355)	(355)	(33)	(33)	2
Foreign currency contracts: Assets (see Note 15)	1,225	1,225	274	274	2
Foreign currency contracts: Liabilities (see Note 15)	(670)	(670)	(269)	(269)	2
Currency swap: Liabilities (see Note 15)	(8)	(8)	-	-	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, 2016 and 2017, 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, Italy, 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, 2016
(From April 1, 2015 to March 31, 2016)

	Yen in millions							
	Japan	Europe	North America	Asia	Other regions	Total	Corporate and Eliminations	Consolidated
Sales:								
External customers	92,366	174,126	69,793	23,316	64,022	423,623	-	423,623
Inter-segment (including transfers)	76,976	4,698	3,952	190,630	196	276,452	(276,452)	-
Total	169,342	178,824	73,745	213,946	64,218	700,075	(276,452)	423,623
Operating expenses	150,527	167,571	72,716	187,145	61,878	639,837	(280,890)	358,947
Operating income	18,815	11,253	1,029	26,801	2,340	60,238	4,438	64,676
Non-operating income	-	-	-	-	-	-	-	(3,184)
Income before income taxes	-	-	-	-	-	-	-	61,492
Long-lived assets	38,084	22,280	2,592	23,623	6,502	93,081	(258)	92,823
Total assets	282,345	185,576	45,652	166,324	62,985	742,882	(184,858)	558,024
Capital expenditures	3,824	2,754	520	4,169	593	11,860	(91)	11,769
Loss on valuation of inventories	48	860	15	354	572	1,849	-	1,849
Depreciation and amortization	2,580	2,125	449	3,742	459	9,355	(71)	9,284
Government Grants	-	-	-	-	193	193	-	193
Provision for environmental measures	(15)	-	-	-	-	(15)	-	(15)

The Long-lived assets in China included in the Asia Segment amount to 17,593 million yen.

Year ended March 31, 2017

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

	Yen in millions							
	Japan	Europe	North America	Asia	Other regions	Total	Corporate and Eliminations	Consolidated
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	242,588	173,442	71,622	194,693	58,118	740,463	(325,464)	414,999
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
Government Grants	-	-	-	-	79	79	-	79
Provision for environmental measures	-	-	-	-	-	-	-	-

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

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

	Yen in millions, except for percentage amounts			
	Year ended March 31,			
	2016		2017	
Japan	68,445	16.2%	74,381	17.9%
Europe	173,987	41.1	168,992	40.7
United States	58,085	13.7	57,220	13.8
North America (excluding United States)	9,674	2.2	8,928	2.1
Asia (excluding Japan)	41,443	9.8	40,079	9.7
Other	71,989	17.0	65,399	15.8
Total	423,623	100.0%	414,999	100.0%

No single external customer accounted for 10% or more of Makita's net sales for each of the year ended March 31, 2016 and 2017.

Consolidated Net Sales by Product Categories are as follows:

	Yen in millions, except for percentage amounts			
	Fiscal Year ended March 31,			
	2016		2017	
Electric Power Tools	276,752	65.3%	269,787	65.0%
Gardening Equipment, Household and Other Products	79,413	18.8	77,501	18.7
Parts, Repairs and Accessories	67,458	15.9	67,711	16.3
Total	423,623	100.0%	414,999	100.0%

19. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME

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

	Yen in millions	
Item	2016	2017
Research and Development Costs	9,593	10,139
Advertising Costs	7,401	6,642
Shipping and Handling Costs	7,703	7,389
Government Grants *	(193)	(79)
Provision for environmental protection	(15)	-

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

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, 2016 and 2017. The accounts payable of the Company related to these transactions were nil as of March 31, 2016 and March 31, 2017.

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 97 million yen and 93 million yen during the years ended March 31, 2016 and 2017, respectively. The other payables of the Company related to these transactions were 3 million yen and 14 million yen as of March 31, 2016 and 2017, respectively.

21. SUBSEQUENT EVENTS

The Company executed a stock split effective April 1, 2017, according to the resolution of the Board of Directors' meeting on February 22, 2017.

1. Purpose of the stock split

The stock split was conducted with the aim of increasing the liquidity of the Company's stock and expanding its investor base by reducing the price of share-trading units.

2. Outline of the stock split

(1) Method of the stock split

Each of the shares of the Company's common stock held by shareholders included or recorded in the final register of shareholders as of the record date of March 31, 2017 split into two shares.

(2) Number of increase in shares by the stock split

Total number of issued shares before the stock split 140,008,760 shares
Number of increase in shares by the stock split 140,008,760 shares
Total number of issued shares after the stock split 280,017,520 shares

We calculated on the assumption that the relevant stock split had been implemented at the beginning of the previous consolidated fiscal year for Note9 STOCK-BASED COMPENSATION and Note13 EARNINGS PER SHARE.

【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 FY2017, a detailed description of this is omitted.

(TRANSLATION)

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

June 29, 2017

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, 2017 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 consideres 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, 2017, 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, 2017, 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, 2017, 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.