Makita Corporation

Additional Information
for the year ended March 31, 2018

General Overview of Business

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

CONTENTS

【Operating results】

(1) Outline of operations results for the year ended March 31, 2018

Looking at the global economic situation for the year ended March 31, 2018, developed countries' economies gradually recovered due to steady improvement in employment and income situation, although there were uncertainties regarding the international political situation and policies. In emerging countries, the economy in general remained robust, since domestic demand and exports grew steadily in southeast Asia.

Under these circumstance, on the development side, the Makita Group launched new products, mainly lithium-ion battery product lines, such as models with high power brushless motors featuring high power and speed equivalent to AC powered ones, and the industry's first dust-collecting system that is wirelessly connected to cordless tools. On the production side, our overseas factories strove to reduce costs while raising local content ratios. To improve product quality stability and enhance productivity, we continued to introduce facilities that require less manpower in each factory worldwide. On the sales side, while working hard to strengthen our community-and customer-based sales network, including the renovation of office buildings in New Zealand and Austria and the opening of sales and after-sales service bases in Poland, Lithuania, and Vietnam, we focused on expanding the sales of cordless gardening and cleaning tools.

Our consolidated net sales for this period increased by 15.0% from the previous year to 477,298 million yen, record-high sales, due to steady sales at home and abroad and depreciation of the yen compared with the previous year. Operating income increased by 27.5% to 79,762 million yen (operating income ratio: 16.7%), thanks to the improvement in the cost-of-sales ratio due to the impact of the exchange rate and a rise in net sales. Meanwhile, income before income taxes increased by 23.1% to 79,678 million yen (income before income taxes ratio: 16.7%) and net income attributable to Makita Corporation shareholders increased by 22.3% to 54,755 million yen (ratio of net income attributable to Makita Corporation shareholders: 11.5%).

Net sales by region are as follows:

Net sales in Japan increased by 11.0% to 82,575 million yen compared to the previous year. This was due to robust sales of power tools and gardening equipment, mainly lithium-ion battery products.

Net sales in Europe increased by 19.6% to 202,054 million yen. This was due to a rise in sales in Western and Eastern Europe (almost in all regions).

Net sales in North America increased by 11.7% to 73,873 million yen, supported by solid housing demand.

Net sales in Asia increased by 10.0% to 44,094 million yen. This was due to recovery of sales in China.

Net sales in Central and South America increased by 20.8% to 27,922 million yen. This was because the Brazilian economy showed signs of breaking out from stagnation.

Net sales in Oceania increased by 24.7% to 31,284 million yen due to steady sales, mainly of lithium-ion battery products.

Net sales in the Middle East and Africa decreased by 9.9% to 15,496 million yen. This was because a fall in crude oil prices affected the economy and political uncertainty continued.

(2) Analysis on cash flows and financial ratios

Total cash and cash equivalents at the end of the year amounted to 147,320 million yen, increased by 5,139 million yen compared to the end of the previous year.

(Net Cash Provided by Operating Activities)

Net cash provided by operating activities amounted to 33,294 million yen, down 30,057 million yen over the previous year.

(Net Cash Used in Investing Activities)

Net cash used in investing activities amounted to 14,811 million yen, down 9,796 million yen over the previous year.

(Net Cash Used in Financing Activities)

Net cash used in financing activities amounted to 17,743 million yen, down 8,248 million yen over the previous year, due to an increase in repayments of loans payable.

【Production, Orders Received and Sales】

Makita does not present orders received in amount or in quantity because it operates under make-to-stock manufacturing system.

Production volume, based on selling price, for this fiscal year increased by 78,363 million yen (26.6%) to 372,430 million yen compared to the previous year.

Consolidated net sales for this year increased by 15.0% to 477,298 million yen compared to the previous year.

Because Makita operates in a single business of manufacturing and selling mainly power tools, and has organized as a single business division, no explanations are provided for in the context of business segments.

【Management policies and Challenges the Company faces】

1. Basic Policies

Makita has set itself the goal of consolidating a strong position in the global power tool industry as a global supplier of a comprehensive range of power tools that assist people in creating homes and living environments. In order to achieve this, Makita has established strategic business approaches and quality policies such as "A management approach in symbiosis with society" "Managing to take good care of our customers," "Proactive, sound management" and "Emphasis on trustworthy and reliable corporate culture as well as management to draw out the capabilities of each employee." Makita aims to generate solid profitability so that Makita can promote its sustained corporate development and meet the needs of its shareholders, customers, and employees as well as regional societies where Makita operates.

2. Target Management Indicators

Makita believes that attaining sustained growth and maintaining high profitability are the ways to increase corporate value. Makita's specific numerical target is to maintain a stable ratio of operating income to net sales on a consolidated basis of 10% or more.

3. Medium-to-Long-Term Management Strategy

Makita aims to establish high brand recognition and become a “Strong Company” capable of acquiring and maintaining the top market share as an international total supplier of power tools for professional use, pneumatic tools, gardening equipment and other tools in each international region. To achieve these objectives, we will put focus on maintaining and expanding our efforts to develop new products that guarantee great satisfaction to professional users, our global production structure realizing both high quality and cost competitiveness at the same time, and the best marketing and after-sale service structure of the power tools industry in Japan and in international regions.

In order to carry out this management strategy, Makita is focusing its management resources on the professional-use tool category, while maintaining its strong financial position that can withstand any unpredictable changes in the operational environment including those related to foreign exchange risk and country risk.

4. Preparing for the Future

In the future, Makita expects that the global economy will continue to recover gradually and demand will remain robust in markets where it has presence. However, uncertainty about the prospects for the economy is expected to remain high due to concerns over the Fed’s interest rate policy and the Trump administration’s trade policies and heightened geopolitical risks in Russia and the Middle East.

To cope with these assumed conditions, Makita will:

・ Strengthen its R&D and product development capabilities, mainly rechargeable batteries and motors, to take the initiative in expanding the market of cordless products;
・ Position cordless gardening tools as a future pillar of its business after power tools and focus its effort on the development and sales expansion of new products;
・ Implement measures to improve the efficiency of production, procurement and distribution, while taking advantage of global production organizations; and
・ Strive to raise its brand power by promoting the establishment of a sales and after-sales service network to offer community-based and fine-tuned response to needs of customers around the world.

【Risk factors】

The following is a summary of some of the significant risks, concerning the business and financial conditions stated in the financial statements, which could affect investors' decision-making. Additionally, some risks that may be currently unknown to Makita and other risks that are currently believed to be immaterial, may become material.

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

The demand for power tools, Makita's main products, is affected to a large extent by the levels of new housing construction, demand for household renovations, public investment and private investments. Generally speaking, the levels of construction activities and capital investment and consumption trends depend largely on the economic conditions in the market.

As a result, when economic conditions weaken in Japan, Europe, North America, Asia, Central and South America, Oceania, the Middle East and Africa where Makita conducts business actively, this may have an adverse impact on Makita's financial condition and results of operations. Uncertainty of world economic condition may adversely affect construction activities and consumption, and Makita's sales may decrease. Consequently, the ratio of selling, general, administrative and others expense (hereinafter called "SGA expenses") against net sales may become relatively high, and as a result, profit margin may decrease. Such conditions may require reorganization and restructuring of production facilities and sales/distribution sites. If a sovereign debt crisis erupts in other country, it may have further adverse effects on the level of new housing construction, demand for household renovations, public investment and private investments due to the tightening of credit because of fears of failure of financial institutions or further decrease in public spending because of the austerity budget.

Currency exchange rate fluctuations may affect Makita's financial results.

The functional currency for all of Makita's significant foreign operations is the local currency. Assets and liabilities of overseas subsidiaries denominated in their local currencies are translated into Japanese yen at the exchange rate in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange prevailing during each fiscal year. The resulting currency translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity. Currently, over 80% of Makita's overall production and sales are generated overseas and a significant portion thereof is dominated in currencies other than Japanese yen. Consequently, fluctuations in exchange rates may have a significant impact on Makita's results of operations, assets and liabilities and shareholders' equity when translated into Japanese yen.

Makita is affected by fluctuations in the value of the euro, the U.S. dollar and Chinese Renmin yuan, among other currencies. The euro and the U.S. dollar are the primary foreign currencies on which Makita bases its foreign sales and the U.S. dollar and Chinese Renmin yuan are the primary foreign currencies on which Makita bases its foreign production.

In an effort to minimize the impact of short-term exchange rate fluctuations between major currencies, mainly the euro, the U.S. dollar, and the Japanese yen, Makita engages in hedging transactions. However, medium to long-term fluctuations of exchange rates may affect Makita's ability to execute procurement, production, logistics and sales activities as planned and may have an adverse impact on Makita's financial condition and results of operations.

Rapid fluctuation in exchange rates may give rise to more than expected effects on Makita's results of operations. In addition, further depreciation of the Japanese yen against the Chinese Renmin yuan, may have an adverse impact on Makita's financial condition and results of operation because significant amount of materials, parts and finished products are imported from China.

Makita faces intense competition in the global market for its power tools for professional use.

The global market for power tools for professional use is highly competitive. Factors that affect competition in the markets for Makita's products include the quality, functionality of products, price, technological developments, the pace of new product development, reliability of products, such as safety and durability, the rise of new competitors, brand images and after-sales service.

While Makita strives to ensure its position as a leading international supplier of power tools for professional use, there is no guarantee that it will be able to effectively maintain its competitiveness in the future.

If Makita is unable to compete effectively, it may lose market share and its earnings may be adversely affected. In particular, in the event of a global recession in which demand for goods and services sharply drops, earnings and cash flows of Makita may be negatively affected by intensified competition and lowered product prices.

Makita's overseas activities and entry into overseas markets entail risks, which may have a material adverse effect on Makita's business activities.

The high percentage of overseas sales and production gives rise to a number of risks. If such risks materialize, they may have a material adverse impact on Makita's financial condition and results of operations. Such risks include the following:

(1) Disadvantageous political and economic factors;
(2) Large-scale natural disaster, such as earthquakes, floods and fires;
(3) Enactments of and changes in laws and regulations, such as protectionist trade policy or change in tariff policy affecting markets in which Makita conducts its business;
(4) The outflow of technical know-how and knowledge due to increased personnel turnover, enabling Makita's competitors to strengthen their position;
(5) Potentially unfavorable tax systems and tariffs;
(6) Terrorism, war, and other factors that lead to social turbulence; and
(7) The interruption of or disruption to Makita's operations due to labor disputes.

If Makita is not able to develop attractive products, Makita's sales may be adversely affected.

In order to compete effectively, Makita needs to, among other things, provide its customers a diverse product line-up supported by the development of high-quality and high-performance professional power tools, and build on the MAKITA brand value maintained and promoted by the effort of a strong world-wide sales and after-sale service network. There is no assurance that Makita will be able to continue to develop new products across its diverse product line-up. If Makita is no longer able to develop in a timely manner new products that meet the changing needs and correspond to market price for high-end, professional users, Makita may not be able to compete effectively, and Makita's financial condition and results of operations may be adversely impacted.

Geographic concentration of Makita's main offices and facilities may have adverse effects on Makita's business activities.

Makita's principal management functions, including its headquarters are located in Aichi Prefecture, Japan, while the production base is located in Kunshan, Jiangsu Province, China. Due to this geographic concentration of Makita's major functions, including plants and other operations in certain regions of Japan and China, Makita's performance may be significantly affected by the occurrence of major disasters and other catastrophic events, including earthquakes (particularly massive earthquakes in areas such as Kanto, Tokai, Tonankai or Nankai), radioactive contamination, floods, fires, power outages, and suspension of water supplies.

In addition, Makita's facilities in China may also be affected by changes in political and legal environments, changes in economic conditions, revisions in tariff rates, labor disputes, hikes in personnel expenses, epidemics and other factors.

In the event that such developments cannot be foreseen or measures taken to alleviate their damaging impact are inadequate, it may have an adverse impact on Makita's financial condition and results of operations.

If the procurement of raw materials used by Makita becomes difficult or prices of these raw materials rise sharply, this may have an adverse effect on Makita's performance.

Makita purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts for production activities. The production plans are dependent on the on-schedule delivery of materials. If Makita is unable to obtain the necessary quantities of these materials, this may have an adverse effect on production. If delivery takes longer due to the lack of certain elements and increase in production is difficult, production activity of electric components facing high demand of emerging countries may not be met. In addition, the change in the element markets, impact on currency exchange, or rise in labor of the markets may also push up the prices of raw materials and components. In such an event, if the increase in prices cannot be offset by improvements in Makita's productivity, other internal cost-cutting efforts and/or raising the prices of final products, this may have an adverse impact on Makita's financial condition and results of operations.

If any of Makita's suppliers fail to deliver materials or parts required for production as scheduled, Makita's production activities may be adversely affected.

Makita's purchase activities include those dependent on certain suppliers who cannot be substituted. For example, when launching new products, sales commencement dates can slip if such manufacturers' technologies do not satisfy Makita's demands or take an inordinate amount of time to satisfy Makita's demands. This may result in lost sales opportunities. There is no assurance that Makita would be able to find alternate suppliers, if necessary, that can provide materials and parts of similar quality and price in a sufficient quantity and in a timely manner. If a supplier cannot deliver the required quality or quantity of parts on schedule due to reasons including natural disasters, government regulations, its production capacity or weakened business or financial condition, this may have an adverse effect on Makita's production schedules and cause a delay in Makita's own product deliveries. Any of these occurrences may have an adverse impact on Makita's financial condition and results of operations.

If Makita fails to maintain its relationships with its significant customers or if such significant customers reduce their purchases and sales of Makita's product, Makita's sales may be significantly affected.

Although Makita does not have any customer from which it derives 10% or more of its consolidated sales, it has significant customers in each country. If Makita loses these customers and is unable to develop new sales channels to take their place, or if any such customer faces significant financial difficulties or accumulates a considerable amount of bad debt, sales to such customers may decline and this may have an adverse impact on Makita's financial condition and results of operations. In addition, if significant customers of Makita select power tools from Chinese manufacturers or select products other than those produced by Makita and sell such products under their own brand instead of Makita's products, this may have an adverse impact on Makita's financial condition and results of operations.

Makita may not be able to protect its intellectual property rights and may incur significant liabilities, litigation costs or licensing expenses or be prevented from selling its products if it is determined to be infringing the intellectual property of third parties.

In regions significant for Makita's sales and production, Makita applies for patents, designs and trademarks, and strives to protect intellectual property rights proactively. However, Makita may not be able to eliminate completely third party products that infringe on the intellectual property rights of Makita or third party products similar to Makita's products. This may have a negative influence on Makita's results of operations. Moreover, while Makita believes that it does not infringe on intellectual property rights of third parties, it may be subject to infringement claims from third parties. When infringement of intellectual property rights is claimed by a third party, Makita may be required to pay damages or become subject to an injunction prohibiting production and sales of a product. This may have an adverse impact on Makita's financial condition and results of operation.

Product liability litigation or recalls may harm Makita's financial statements and reputation.

Makita is developing a variety of products including power tools under the safety standards of each country, and is manufacturing them globally based on the quality standards applicable to each factory. However, a large-scale recall and a large-scale product liability lawsuit may significantly damage Makita's brand image and reputation. In addition, related costs and time incurred through a recall or a lawsuit may affect business performance and financial condition of Makita if Makita's insurance policy does not cover the related costs. Accordingly, large-scale recalls and large-scale product liability lawsuits may have an adverse impact on Makita's financial condition and results of operations.

Fluctuations in stock market prices may adversely affect Makita's financial statements.

Makita holds certain investments in Japanese equities and investments in trust, and records these investments as short-term investments and investments on its consolidated financial statements. The value of these investments changes based on fluctuations in the quoted market prices. Fluctuations in the value of these securities may have an adverse impact on Makita's financial condition and results of operations.

Environmental or other government regulations may have a material adverse impact on Makita's business activities.

Makita maintains strict compliance with environmental, commercial, export and import, tax, safety and other regulations that are applicable to its business in all the countries and areas in which it operates. In light of the heightened awareness seen across the globe on environmental issues including global warming and climate change, new environmental or other government regulations designed to decrease environmental impact have been adopted in many regions, especially in European and North American countries in recent years. Operational results and financial condition of Makita may be adversely affected if Makita fails to respond to such specifications or terms and conditions, unable to respond in a timely manner, or the cost of compliance is greatly higher.

If Makita's IT operations network halts or malfunctions, Makita's production and shipment schedule may be adversely affected.

Makita's headquarters and its major sales, manufacturing and R&D bases are located in Japan, and its procurement, manufacturing, sales and product development site are located worldwide. These sites are connected globally through an operational network. Our service via internet access has been increasing. If Makita's information network and systems, which rely on both company networks and systems and third party networks and systems, halt or malfunction due to any factor, such as earthquakes, fires, floods, power outages, wars, terrorist acts, cyber attack, computer viruses, unexpected intrusion or illegal operation despite safety measures including security measures Makita has undertaken, Makita may have to delay production and shipments, stop our service or the Company may leak privacy, credit worthiness and other information such as customer's personal information and confidential information about companies and other third parties. This may have an adverse impact on Makita's financial condition and results of operations. In addition, improper use of or accidents involving information network and systems may affect business operations or reveal confidential or private information, lead to legal liability, lawsuits or monetary damages or damage on Makita's reputation or brand images and thereby cause an adverse effect on its operating results.

If Makita is unable to retain talented personnel, this may have an adverse effect on Makita's competitiveness and result of operations.

Makita considers the retention and development of talented personnel with the expertise and technological skills to be critical to its competitiveness. Makita also considers important the development and retention of personnel in management in Makita's group companies. However, competition in recruiting and retaining global talent requisite for technology innovation and management has become increasingly challenging. Given such a labor and social climate, failure of the Makita Group to hire competent employees or develop human resources in accordance with the management plan or retain experienced employees may have an adverse effect on the business development, operational results and growth prospects of the Makita Group.

【Material contracts】

Not applicable.

【Research and development】

As an internationally integrated supplier of power tools that benefit people's daily lives and assist in home improvements, Makita pursues the development of power tools, pneumatic tools and gardening equipment in its own Research and Development division, such as the development of gardening equipment at Makita Engineering Germany G.m.b.H. (Germany). 951 of Makita's employees are engaged in research and development of technologies in which Makita has a competitive edge and the development of new products.

Makita regards R&D as a high priority and believes that having a strong capability in R&D is crucial to its continuing development of high-quality, reliable products that meet users' needs.

In FY2018, Makita allocated 10,894 million yen to R&D, an increase of 7.4% compared with FY2017. The ratio of R&D expenses to net sales was 2.3% in FY2018. As of March 31, 2018, Makita owned 4,003 patents, utility model registration and design rights (inclusive of 3,255 patents and utility model registration) in and outside of Japan.

Makita is placing greater emphasis on the expansion of cordless tools running on li-ion batteries. Makita is expanding lineup of cordless tools such as ones achieved high speed equivalent to engine powered or conventional AC corded equipment, ones realized further small and light design, and ones enhancing more user comfort in work place.
In the field of outdoor power equipment (OPE), regulation for gas emission has been tightened in accompany with increasing awareness of health and living environment. Looking ahead of future, Makita is striving to develop the products equipped with 4 stroke engine which realized low noise and vibration level and also cordless tools with features of greater startability and easy maintenance without gas emission.

Makita is also placing emphasis on market survey through our global sales channel in order to develop, in a timely manner, new products that meet the needs for whole users.

New products launched during FY2018 included;

・New impact driver improved maneuverability
・Cordless hammer drill and cordless grinder with brushless motor realized power equivalent to large corded model
・Cordless vacuum cleaner with the industry's first dust-collecting system that is wirelessly connected to cordless tools
・Cordless hedge trimmer and chain saw realized handling equivalent to small engine model

Because Makita operates in a single business of manufacturing and selling mainly power tools, and has organized as a single business division, no explanations are provided for in the context of business segments.

【Analyses of Financial Position, Operating Results and Cash Flows】

Analyses and discussions of the Company's Financial Position, Operating Results and Cash Flows are based on its Consolidated Financial Statements.

This report may constitute "forward-looking statements" based on our assumptions and assessment. The power tools market where the Company operates may be subject to sudden changes in economic circumstances, demand for housing, foreign exchange rate, changes in the competition with rival enterprises and other factors. These changes in risk and circumstances may bring about significantly different results from those described in this report. Accordingly, the description related to the future is the Company's own judgment and does not state its realizability.

General Overview

Makita's principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, approximately 83% of Makita's sales were outside of Japan. Makita is affected to a large extent by demand for power tools worldwide, which in turn is influenced by factors including housing starts, demand for household renovations, public investment and private capital expenditures.

Makita's primary products are power tools such as drills, rotary hammers, hammer drills, demolition hammers, grinders and cordless impact drivers. Sales of these products accounted for more than 63% of Makita's total net sales.

Sales of gardening equipment and household products, such as engine equipped with brush-cutters and cordless cleaners accounted for about 21% of Makita's total net sales.

Developed countries in North America and Europe have mature markets for DIY products, and demand for power tools in developed countries is affected significantly by changes in consumers spending. Demand for power tools in emerging countries is expected to expand as their economies grow.

Developments in technology have also driven the market for power tools. In particular, in recent years the development of rechargeable electric tools featuring small, light and high-capacity lithium-ion batteries has resulted in an increased demand for rechargeable electric tools as more users begin to replace their conventional power tools, which use NiCad or nickel hydride batteries, with those that use the new lithium-ion batteries.

Makita has established a solid presence worldwide with its portable power tools, however, competition is intensifying on a global basis.

Our consolidated net sales for this period increased by 15.0% from the previous year to 477,298 million yen, record-high sales, due to steady sales at home and abroad and depreciation of the yen compared with the previous year. The Western European economy remained robust in Europe, supported by solid domestic demand, although there was uncertainty regarding the outlook for the Western European economy in relation to Brexit (the British referendum on remaining in or leaving the E.U.). In the U.S., the economy recovered, driven by the favorable employment and income situation. In Asia, Southeast Asian countries and India saw their economies grow steadily, while the Chinese economy continued to slow down. The Brazilian economy continued to negative economic growth remained stagnant, hence inward investment and personal consumption did not recover. The Russian economy remained sluggish, despite oil prices and Ruble showed signs of recovery. In Australia, the economy remained solid with high level, although the growth of housing starts approval number slightly slowed down. The Japanese economy gradually recovered, although some sectors, such as personal consumption, lacked strength.

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

On the development side, the Makita Group launched new products, mainly lithium-ion battery product lines, such as models with high power brushless motors featuring high power and speed equivalent to AC powered ones, and the industry's first dust-collecting system that is wirelessly connected to cordless tools. On the production side, our overseas factories strove to reduce costs while raising local content ratios. To improve product quality stability and enhance productivity, we continued to introduce facilities that require less manpower in each factory worldwide.

On the sales side, while working hard to strengthen our community-and customer-based sales network, including the renovation of office buildings in New Zealand and Austria and the opening of sales and after-sales service bases in Poland, Lithuania, and Vietnam, we focused on expanding the sales of cordless gardening and cleaning tools.

Makita's management goal is to generate substantial profits and maintain a 10% operating margin (ratio of operating income to net sales) through sustainable growth on a consolidated basis. Furthermore, as a medium-to-long-term strategy, Makita aims to enhance its brand value to attain and maintain its position as a leading multinational, integrated supplier of all types of tools such as power tools for professional use, pneumatic tools and gardening equipment.

Makita believes that this goal can be attained through the development of new products that bring high satisfaction to professional users; concerted global production systems targeting both high-quality and cost competitiveness; and the maintenance of industry-leading sales and after-sales service systems nurtured in Japan and extended overseas. To implement the foregoing, Makita is working to maintain a solid financial structure that responds well to unexpected changes in the business environment, including the risk of exchange rate fluctuations, geographical risks and the risk caused by the concentration of its management resources and manufacturing facilities.

As part of the Company's policy to maximize shareholders returns, the Company paid an interim dividend of 10 yen per share in November 2017 and a year-end dividend of 51 yen per share was approved at the Ordinary General Meeting of Shareholders held on June 27, 2018. Dividend per share was calculated based on the stock before split.

Currency Fluctuations

Makita is affected by fluctuations in foreign currency exchange rates due to its business spanning the global market. Makita is primarily exposed to fluctuations of the Japanese yen against the euro, the U.S. dollar, as well as other currencies of countries where Makita does business. Makita's consolidated financial statements, presented in Japanese yen, are affected by currency exchange rate fluctuations through both translation and transaction risks.

Translation risk is the risk that Makita's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates between the Japanese yen and the currencies in which the subsidiaries prepare their financial statements. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Makita's underlying results of operations.

Transaction risk is the risk that the currency structure of Makita's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Makita enters into foreign exchange forward contracts in order to hedge a portion of its transaction risk. That has reduced, but not eliminated, the effects of exchange rate fluctuations against the Japanese yen, which in future years might have significant impact.

Generally, the depreciation of the Japanese yen against other currencies, particularly the euro, has a positive effect on Makita's operating income and net income. Conversely, the appreciation of the Japanese yen against other currencies, particularly the euro, has the opposite effect. In FY2018, the Japanese yen depreciated against both the euro and the U.S. dollar.

Net Sales

Makita's consolidated net sales for FY2018 amounted to 477,298 million yen, a increase of 15.0%, or 62,299 million yen, from FY2017. In FY2018, the average Japanese yen-U.S. dollar exchange rate was 110.85 yen for U.S. $1.00, representing a 2.3% depreciation of the Japanese yen compared to the average exchange rate in FY2017. The average Japanese yen-euro exchange rate in FY2018 was 129.66 yen for 1.00 euro, representing a 9.2% depreciation of the Japanese yen compared to the average exchange rate in FY2017. During the year, the weighted average of the Japanese yen's depreciation against other currencies was 5.8%. That unfavorable currency translation effect decreased Makita's sales by 21,801 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 9.8% or 40,498 million yen in FY2018. Sales quantity increased by 6.3%.

In terms of product group, the sales of power tools increased by 10.9%, or 29,477 million yen; the sales of gardening equipment, household and other products increased by 20.9.%, or 22,475 million yen; and revenue from parts, repairs and accessories increased by 15.3%, or 10,347 million yen. The ratio of sales of cordless power tools to total sales of products increased to 52.6% in FY2018 from 48.9% in FY2017.

Sales by region

In Japan, Makita witnessed an increase in sales of 11.0%, or 8,194 million yen, to 82,575 million yen compared to the FY2017. Sales in Europe after translation into Japanese yen increased by 19.6%, or 33,062 million yen, to 202,054 million yen. In North America, sales increased by 11.7%, or 7,725 million yen, to 73,873 million yen. In Asia, excluding Japan, sales increased by 10.0%, or 4,015 million yen, to 44,094 million yen. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales increased by 14.2%, or 9,303 million yen, to 74,702 million yen.

Net sales in Japan increased by 11.0% to 82,575 million yen compared to the previous year. This was due to robust sales of power tools and gardening equipment, mainly lithium-ion battery products.

Net sales in Europe increased by 19.6% to 202,054 million yen. This was due to a rise in sales in Western and Eastern Europe (almost in all regions) and the depreciation of the yen against the euro from a year earlier. Net sales in local currencies increased by 10.1% in Western Europe and by 10.4% in Eastern Europe and Russia. Excluding the effect of currency translation, sales in Europe increased by 10.2%, or 17,207 million yen. Sales in local currencies as a whole were robust, due to the euro appreciated by 9.2% against the Japanese yen on a year-over-year basis, sales figures in Japanese yen were increased by favorable currency translation effects. Net sales after translation into Japanese yen increased in Eastern Europe and Russia by 21.4%, the U.K. by 17.5%, Germany by 20.2% and France by 20.5%.

Net sales in North America increased by 11.7% to 73,873 million yen, supported by solid housing demand. This was due to the weakening of the yen against the U.S. dollar compared to the same period of the previous year. Excluding the effect of currency translation, sales in North America increased by 8.8%, or 5,828 million yen.

Net sales in Asia increased by 10.0% to 44,094 million yen. This was due to recovery of sales in China and the depreciation of the yen against local currencies compared to the previous year. Excluding the effect of currency translation, sales in Asia increased by 6.8%, or 2,732million yen.

Sales situations in other regions are as follows. Net sales in Oceania increased by 24.7% to 31,284 million yen due to steady sales, mainly of lithium-ion battery products. Net sales in Central and South America increased by 20.8% to 27,922 million yen. This was because the Brazilian economy showed signs of breaking out from stagnation. Net sales in the Middle East and Africa decreased by 9.9% to 15,496 million yen. This was because a fall in crude oil prices affected the economy and political uncertainty continued. Excluding the effect of currency translation, sales in other regions increased by 10.0%, or 6,537 million yen.

Review of Performance by Product Group

Power Tools

The power tools group offers a wide range of products such as drills, grinders and sanders, rotary hammers and hammer drills, cordless impact drivers, cutters and circular saws. These products represent the largest portion of Makita's consolidated net sales. In FY2018, sales of power tools increased by 10.9% from the previous fiscal year to 299,264 million yen, accounting for 62.7% of consolidated net sales. In Japan, sales of power tools increased by 4.7% to 40,706 million yen, accounting for 49.3% of domestic net sales. Overseas sales of power tools increased by 12.0% to 258,558 million yen, accounting for 65.5% of overseas net sales.

New products launched during FY2018 included;

・New impact driver improved maneuverability
・Cordless trimmer with brushless motor realized higher operating efficiency than corded model
・Cordless hammer drill and cordless grinder powered by two 18V batteries realized power equivalent to large corded model
・Cordless rebar tying tool with sequential mode that reduces users' burdens enabled you to adjust binding turns and tying strength

Gardening Equipment, Household and Other Products

Principal products in Makita's gardening equipment and household products group include chain-saws, brush-cutters, vacuum cleaners and cordless cleaners. In FY2018, sales of gardening equipment, household and other products increased by 29.0% to 99,976 million yen, which accounted for 20.9% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 25.9%, to 24,605 million yen, accounting for 29.8% of total domestic sales. Overseas sales in the product category increased by 30.0%, to 75,371 million yen, accounting for 19.1% of total overseas sales in FY2018.

New products launched during FY2018 included;

・Cordless vacuum cleaner with the industry's first dust-collecting system that is wirelessly connected to cordless tools
・Cordless hedge trimmer with brushless motor and new blade teeth realized high performance equivalent to engine model
・Cordless chain saw with outer rotor brushless motor that realized handling equivalent to 23mL class engine chain saw

Makita engages in the production of engine-equipped gardening equipment and cordless gardening equipment powered by lithium-ion batteries that are environment-friendly in terms of noise and exhaust emissions, inspiring Makita to hope for future expansion in sales.

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2018, the sales of parts, repairs and accessories increased by 15.3%, to 78,058 million yen, accounting for 16.4% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 8.2% to 17,264 million yen, accounting for 20.9% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 17.5%, to 60,794 million yen, accounting for 15.4% of overseas net sales.

Gross Profit

For FY2018, gross profit on sales increased by 18.7%, or 27,632 million yen, to 175,125 million yen, compared to FY2017. The ratio of cost of sales decreased by 1.2 points from 64.5% in FY2017 to 63.3% in FY2018, due to unfavorable currency translation effect. As a result, the gross profit margin deteriorated from 35.5% to 36.7% compared with FY2017.

Selling, general, administrative and others, net

The effect of exchange rate and the increase of advertising expenses and wages increased our selling, general, administrative and others, net (hereinafter called "SGA expenses"). SGA expenses for FY2018 increased by 12.3%, or 10,434 million yen to 95,363 million yen compared with FY2017. SGA expenses excluding the impact of currency fluctuations increased by 8.4%, or 7,160 million yen compared with FY2017. The ratio of SGA expenses to sales improved by 0.4 points from 20.4% in FY2017 to 20.0% in FY2018.

Operating Income

Operating income increased by 27.5% to 79,762 million yen. Operating margin improved by 1.6 points from 15.1% to 16.7% compared with FY2017.

Other Income (Expense), net

Other expenses, net in FY2018 was 84 million yen compared to other incomes, net of 2,174 million yen in FY2017. This is due to exchange loss increased by 3,002 million while interest incomes and dividend incomes increased by 407 million.

As the Company mainly operates using only its equity capital, and the subsidiaries are financed by loans from within the Makita Group, the variation in interest expense is insignificant.

Income before Income Taxes

Income before income taxes for FY2018 increased by 23.1%, or 14,940 million yen, to 79,678 million yen. The ratio of income before income taxes to sales in FY2018 improved by 1.1 percent point, from 15.6% to 16.7%, compared with FY2017.

Provision for Income Taxes

Provision for income taxes for FY2018 amounted to 24,407 million yen, an increase of 24.5%, or 4,797 million yen, compared with FY2017. The effective tax rate for FY2018 was 30.6%, up by 0.3 percent point from 30.3% for FY2017.

Net Income Attributable to Makita Corporation

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2018 increased by 22.3%, or 9,973 million yen, to 54,755 million yen compared with FY2017. The ratio of net income attributable to Makita Corporation's shareholders to sales in FY2018 was 11.5%, up by 0.7 percent point from 10.8% for FY2017.

Earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders increased to 201.7 yen in FY2018 from 165.0yen in FY2017.

Regional Segments

Segment information described below is based on the location of the Company and its relevant subsidiaries. Sales by segment are based on the locations of the Company or its relevant subsidiaries that transacted the sales and, accordingly differ from the geographic area information provided elsewhere in this document.

Makita evaluates the performance of each operating segment based on U.S. GAAP information. Segment profit and loss is measured in a consistent manner with consolidated operating income, which is earnings before income taxes excluding interest and dividend income, interest expense, foreign exchange gains or losses, realized gains and losses on investment securities, and other.

Japan Segment

In FY2018, sales in the Japan segment increased by 27.7% on a year-over-year basis, to 309,689 million yen. Sales to external customers increased by 9.3% on a year-over-year basis to 106,862 million yen, which accounted for 22.4% of consolidated net sales. The increase reflects the increase of product distribution between intercompany by the continued strong sales in the oversea market and the continued strong sales mainly on new products in the domestic market. The decrease of cost of sales by exchange improved operating income ratio by 0.4 percent point to 10.1% in FY2018 from 9.7% in FY2017. Operating income increased by 32.9% on a year-over-year basis, to 31,376 million yen.

Europe Segment

In FY2018, sales in the Europe segment increased by 19.4% to 207,175 million yen. Sales to external customers increased by 19.6%, to 202,364 million yen, which accounted for 42.4% of consolidated net sales. The increase reflects the yen depreciation against the euro as compared to the previous year and the continued strong sales in Germany. Thanks to the U.S. dollar depreciation against the euro improved operating income ratio by 1.3 percent point to 9.2% in FY2018 from 7.9% in FY2017. Accordingly, segment income increased by 39.4%, to 19,015 million yen for this year.

North America Segment

In FY2018, sales in the North America segment increased by 12.7%, to 80,713 million yen. Sales to external customers increased by 12.1% to 76,325 million yen, which accounted for 16.0% of consolidated net sales. The increase reflects robust sales to home centers and the yen depreciation against the U.S. dollar as compared to the previous year. In North America, while under severe competition, robust sales covered fixed cost and consequently led higher profit margin. Operating income ratio improved by 0.6 percent point to 2.8% in FY2018 from 2.2% in FY2017. As a result, segment income increased by 42.5%, to 2,261 million yen.

Asia Segment

In FY2018, sales in the Asia segment increased by 22.7% to 238,836 million yen. Sales to external customers increased by 17.0%, to 26,139 million yen, which accounted for 5.5% of the consolidated net sales. This was due to robust sales in Vietnam and appreciation of local currency against Japanese yen compared with the previous year. In Asia, rise of wages in our manufacturing facilities in China decreased gross profit. Operating income ratio deteriorated by 0.5 percent point to 10.3% in FY2018 from 10.8% in FY2017. Accordingly, segment income increased by 16.7%, to 24,565 million yen in FY2018.

Other Segment

In FY2018, sales in the Other segment increased by 15.6% to 67,168 million yen. Sales to external customers increased by 13.9%, to 65,608 million yen, which accounted for 13.7% of the consolidated net sales. Sales situation in the Other regions are as follows: Sales in Oceania and Central and South America including Brazil whose market slowed down increased while the market in the Middle East and Africa slowed down. Hence private consumption in Australia kept solid, gross profit margin rose because U.S. dollar, by which import prices are settled, was depreciated against Australian dollar. Operating income ratio ameliorated by 4.1 percent point to 8.2% in FY2018 from 4.1% in FY2017. As a result, segment income increased by 130.3%, to 5,495 million yen, in FY2018.

CRITICAL ACCOUNTING POLICIES

Makita believes that the followings are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements and accompanying notes.

Revenue Recognition

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

Makita offers sales incentives to qualifying customers through various incentive programs. Revenues are reported net of these sales incentives. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts.

Volume-based rebates are given in the form of cash or the offsetting of accounts receivable, and settled monthly, quarterly, semiannually or annually. Volume-based rebates are given to specific customers as a specified percentage of sales amounts derived from the agreed calculation method if the accumulated sales of the customer achieve the predetermined target. Based on such agreed percentages applicable to specific customers and the accumulated sales volume expected to be achieved during the agreed program period, liabilities for volume-based rebates are recognized with a corresponding deduction of the sales incentive from revenue at the time the related revenue is recognized.

Makita’s financial statements may be affected significantly by whether revenue exceeds the amount set when estimating incentives.

Cooperative advertising programs are provided to certain customers as a contribution to or as sponsored funds for advertisements. Cooperative advertising programs vary by customer agreement. Under Makita’s cooperative advertising programs, specified customers may receive cooperative advertisement allowances based on a certain percentage of sales per agreement and may not be required to submit proof of advertisement to Makita. Liabilities for cooperative advertising allowances are recognized with a corresponding deduction of the cooperative advertising allowances from revenue at the time the related revenue is recognized. The cooperative advertising allowances are calculated based on the estimated sales of each customer, reflecting their historical performance.

Cash discounts are provided as a certain percentage of the invoice price as predetermined by spot contracts or based on contractually agreed upon amounts with customers. Cash discounts are recognized as a deduction from revenue at the time the related revenue is recognized, based on Makita’s ability to reliably estimate such future discounts to be taken. Cash discounts are estimated periodically based on actual sales transactions and historical data.

Inventory Valuation

Makita monitors its inventories with various measures such as holding periods, sales trend and profitability in recent trades. Inventories are valued at the lower of cost or market price, with cost determined based on the average method. Makita is required to evaluate obsolete or excess inventory as well as non-saleable inventory. The determination of obsolete or excess inventory requires Makita to estimate the future demand for products taking into consideration such factors as macro and microeconomic conditions, competitive action, technological obsolescence and changes in customer needs. The estimates of future demand that Makita uses in the valuation of inventory are the basis for revenue forecasts, which are also consistent with short-term manufacturing plans. If demand forecast for specific products is greater than actual demand and Makita fails to reduce manufacturing output accordingly, Makita could be required to write down the increased on-hand inventory, which may decrease gross profit and consequently have a material adverse impact on net income.

Impairment Losses on Securities

Makita's investments include debt and equity securities accounted for under the cost method of accounting. If a decline in fair value of equity securities to below the carrying amount is deemed to be other-than-temporary, Makita will take a write-down of the carrying amount to the fair value and the amount will be included in earnings. For debt securities, for which the declines are deemed to be other-than-temporary and there is no intent to sell them, impairments are separated into the amount related to credit loss, which is recognized as earnings, and the amount related to all other factors, which is recognized as other comprehensive income (loss). For debt securities, for which the declines are deemed to be other-than-temporary and there is intent to sell them, impairments in their entirety are recognized as earnings. Makita regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Makita in determining whether an other-than-temporary decline in value has occurred include: the length of time and the extent to which the fair value of the security has been less than its original cost; the financial condition, operating results, business plans of the issuer of the security; other specific factors affecting the fair value and credit risk of the issuers; and whether or not Makita is able to retain the security for a period of time sufficient to allow for the recovery in fair value.

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, Makita presumes a decline in value to be other-than-temporary if the fair value of the security is below its original cost for an extended period of time. The assessment of whether a decline in the fair value of an investment is other-than-temporary is often subjective in nature and requires certain assumptions and estimates concerning the expected operating results and business plans of the issuer of the security. Accordingly, it is possible that investments in Makita's portfolio that have had a decline in value that Makita currently believes to be temporary may be determined to be other-than-temporary in the future, based on Makita's evaluation of subsequent information such as continued poor operating results, continuing decline in the global equity market and the effect of market interest rate fluctuations. As a result, unrealized losses may be recognized and reduce income in future periods.

Allowance for Doubtful Receivables

Makita performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit strength. Makita continuously monitors collections and payments from its customers and maintains a reasonable allowance for doubtful receivables based upon its historical experience and the standard that Makita has set. The estimated amount for doubtful receivables is calculated on the basis of the following elements: the historical loan loss ratio for regular account receivables; the credit standing by customers and the examination of the receivables unrecovered after the due date for specific receivables including potentially irrecoverable loans. Further, when the payment ability of customers becomes doubtful as a result of its filing for bankruptcy or the deterioration of its operating results, Makita includes an additional allowance. Historically, credit losses never exceeded the amount of allowances. However, Makita cannot guarantee that it will continue to experience the similar credit loss rates that it has in the past. Fundamental changes in the financial condition of its customers may result in a material impact to Makita's consolidated results of operations and financial condition. Makita has a large customer base that is geographically dispersed. Consequently, significant concentration of credit risk is not considered to exist.

Impairment of Long-lived Assets

Makita believes that impairment of long-lived assets is critical for its financial statements because Makita has significant amounts of property, plants and equipment, the recoverability of which could significantly affect its operating results and financial condition.

Makita performs an impairment review for long-lived assets held and used, including amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be fully recoverable. This review is conducted based upon Makita's projections of expected undiscounted future cash flows. Estimates of the future cash flows are based on the historical trends adjusted to reflect the best estimates of future operating conditions. Makita believes that its estimates are reasonable. However, different assumptions regarding such cash flows could materially affect Makita's evaluations. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. If an impairment is determined to exist, the impairment loss is calculated as the excess of the carrying amount of the asset group over its fair value. Impairment losses on long-lived assets to be disposed of, if any, are based on the fair value less costs of disposal.

Fair value is determined based on recent transactions involving sales of similar assets, by discounting expected future cash flows, or by using other valuation techniques. Makita's estimate of future cash flows requires management to make projections and to apply judgment, including forecasting future operating results and estimating useful lives of the asset. Estimate of future cash flow can be affected by factors such as future sales and expenses, market and operating conditions. If actual market and operating conditions under which assets are operated are less favorable than those projections made by management, resulting in lower expected future cash flows or a shorter expected future period to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and in turn affect Makita's consolidated results of operations and financial condition.

Impairment of Goodwill

Makita conducts goodwill impairment assessment annually and at any time if an event occurs or circumstances change and that would indicate possibility of goodwill impairment. The annual goodwill impairment assessment date is December 31. Makita conducts a qualitative assessment of whether it is more likely than not hat a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. If an entity concludes it is more likely than not that the fair value of a reporting unit is less than its carrying amount, goodwill is tested using a two-step process. Makita proceeds to the following two-step process only when it concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount after making the aforementioned qualitative assessment. The first step of the goodwill impairment assessment compares the fair value of a reporting unit where the relevant goodwill is assigned with its carrying amount. If the fair value of a reporting unit exceeds its net book value, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If net book value of a reporting unit exceeds its fair value, the second step of the goodwill impairment test will be performed to measure the amount of impairment loss. The second step of the goodwill impairment assessment, used to measure the amount of impairment loss, compares the implied fair value of the goodwill, which is determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

In the first step of the goodwill impairment assessment, Makita uses an income approach to derive a present value of the reporting unit's projected future annual cash flows and the present residual value of the reporting unit. Makita uses the income approach because it believes that the discounted future cash flows provide greater detail and opportunity to reflect facts, circumstances and economic conditions for each reporting unit. In addition, Makita believes that this valuation approach is a proven valuation technique and methodology for its industry and is widely accepted by investors. Makita uses a variety of underlying assumptions to estimate these future cash flows, which vary for each of the reporting units and include (i) future revenue growth rates, (ii) future operating profitability, (iii) the weighted-average cost of capital and (iv) a terminal growth rate. Makita also estimates fair value using a market approach, which relies on values based on market multiples. If Makita's estimates and assumptions used in the estimates will change in future, Makita may incur an impairment charge which could have a material adverse effect on the results of operations for the period in which the impairment occurs.

Retirement Benefit Plans

Makita believes that the accounting for retirement benefits is critical for its financial statements because assumptions used to estimate projected benefit obligations and net periodic pension costs may have a significant effect on its operating results and financial condition. Allowance for retirement benefits are determined based on projected benefit obligations and plan assets at the end of a fiscal year. The levels of projected benefit obligations and net periodic pension costs are calculated based on various annuity actuarial calculation assumptions. Principal assumptions include discount rates, expected return on plan assets, assumed rates of increase in future compensation levels, mortality rates and some other assumed rates. Discount rates employed by Makita are reflective of rates available on long-term, high quality fixed-income debt instruments. Discount rates are determined annually on the measurement date.

The expected long-term rate of return on plan assets is determined annually based on the composition of the plan asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return on plan assets is designed to approximate the long-term rate of return actually earned on the plan assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees. A number of factors are used to determine the reasonableness of the expected long-term rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

Accordingly, these assumptions are evaluated annually and retirement benefit obligations are recalculated at the end of each fiscal year based on the latest assumptions. In accordance with U.S.GAAP, actual results that differ from the assumptions are accumulated and amortized over the average remaining service periods of employees and therefore, generally affect Makita's results of operations in such future periods.

The Company and certain of its subsidiaries have various contributory and noncontributory employee benefit plans covering substantially all of their employees.

The value of these plan assets are influenced by fluctuations in world securities markets. Significant depreciation or appreciation in the market will have corresponding impact on future expenses.

Income Taxes

Makita is required to estimate its income taxes in each of the jurisdictions in which Makita operates. This process involves estimating Makita's current tax provision together with assessing temporary differences resulting from differing treatment of items for income tax reporting and financial accounting and reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within Makita's consolidated balance sheets. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

In determining the valuation allowances to establish against these deferred tax assets, many factors are considered. If Makita were not to generate sufficient taxable income of the appropriate character in the jurisdictions in the future, it could lead to the build-up of additional valuation allowances. For the balance of deferred income taxes, although realization is not assured, management believes, judging from an authorized business plan, it is more likely than not that all of the deferred income tax assets, less the valuation allowance, will be realized. The amount of such net deferred income tax assets that are considered realizable, however, could change in the near term and any such change may have a material effect on Makita's consolidated results of operations and financial position if estimates of future taxable income are different.

The effective tax rate of Makita reflects the effects of the undistributed earnings of the overseas subsidiaries that are not subject to Japan's corporate income taxes. If, by some future event, such as changes in requirement in cash, working capital or long-term investment, these undistributed earnings were to be distributed to the parent company, additional tax expenses and related deferred tax liabilities would be recognized, resulting in significant effects on Makita's future effective tax rates.

95% of the distributed earnings from the overseas' subsidiaries are not taxed according to the Japan's corporate income tax acts. As of March 31, 2018, Makita and its consolidated overseas subsidiaries have such undistributed earnings that are to be reinvested permanently and thus give rise to no recognition of deferred tax liabilities. Makita does not determine the amount of such unrecognized deferred tax liabilities because it is practically hard to calculate.

Cash Flows

Net cash provided by operating activities decreased by 30,057 million yen from 63,351 million yen in FY2017 to 33,294 million yen in FY2018, primarily as a result of the following:

Cash flow increasing factors:

・ Cash collected from customers increased 54,700 million yen due to the sales increase

Cash flow decreasing factors:

・ Disbursement increased by 26,139 million yen due to increased purchases
・ 10,101 million yen increase in selling expenses due to an increase in sales
・ Tax payments increased by 5,670 million yen

Net cash used in investing activities increased by 9,796 million yen from 5,015 million yen in FY2017 to 14,811 million yen in FY2018, primarily as a result of the following:

Cash flow increasing factors:

・ 3,592 million yen decrease in purchases of held-to-maturity securities

Cash flow decreasing factors:

・ 2,517 million yen increase in purchases of available-for-sale securities
・ 18,670 million yen decrease in sales of available-for-sale securities

Net cash used in financing activities increased by 8,248 million yen from 9,495 million yen in FY2017 to 17,743 million yen in FY2018 primarily as a result of the following:

Cash flow increasing factors:

・ 329 million yen decrease in repayment by notes maturing in three months or longer

Cash flow decreasing factor:

・ 3,667 million yen decrease in financing by notes maturing within three months (4,691 million yen increased in FY2017)

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents increased by 5,139 million yen from 142,181 million yen as of the end of FY2017 to 147,320 million yen as of the end of FY2018.

Makita intends to strengthen its global production network. Global demand for power tools steadily increased. As a result, Inventory balances increased compared with the previous fiscal year because sales subsidiaries increased inventories.

Capital expenditures are expected to be higher in FY2018 compared to FY2017 due to extension of Makita (China) Co., Ltd., Makita EU S.R.L (Romania) and the warehouse in Okazaki Plant.

Financial Position

Makita's principal sources of liquidity are cash on hand, cash provided by operating activities and borrowings within credit lines. As of March 31, 2018, Makita held cash and cash equivalents amounting to 147,320 million yen and the Company's subsidiaries had credit lines up to 15,953 million yen, of which 3,361 million yen was used and 12,592 million yen was unused and available. As of March 31, 2018, Makita had 3,411 million yen in short-term borrowings, which included bank borrowings and the current portion of capital lease obligations. Short-term borrowing was used for daily operations at the subsidiaries. The amount excluding current maturities of long-term indebtedness decreased by 48.8% (3,203 million yen) to 3,361 million yen. For further information regarding Makita's short-term borrowings, including the average interest rates, please see notes to the accompanying consolidated financial statements.

The Company's subsidiaries are financed by loans within the Makita Group—from subsidiaries with surplus funds to subsidiaries that lack funds—and the variation in interest expense is insignificant.

As of March 31, 2018, Makita's total short-term borrowings and long-term indebtedness amounted to 3,544 million yen, representing a decrease of 3,053 million yen from 6,597 million yen reported for FY2017. Makita's ratio of indebtedness to shareholders' equity remained almost unchanged at 0.6%.

Makita expects to continue to incur additional indebtedness from time to time as required to finance working capital needs. Makita has no potentially significant refinancing requirements in FY2018.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 147,320 million yen as of March 31, 2018, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2018 and thereafter. In the opinion of management, the working capital is sufficient for Makita's present requirements.

As part of the Company's policy to maximize shareholder returns, the Company distributed to its shareholders an interim dividend of 10 yen per share in November 2017. At the Ordinary General Meeting of Shareholders held on June 27, 2018, the Company's shareholders approved a cash dividend of 51 yen per share. In June 2018, the Company paid cash dividends of 16,560 million yen in the aggregate.

Makita believes it will continue to be able to access the capital markets on ordinary terms and for amounts that will be satisfactory to it and as necessary to support the business.

Adoption of New Accounting Standards

Not applicable.

Newly Issued Accounting Standards yet to be Adopted

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

【Facilities and Equipment】

(1)Head Office

As of March 31, 2018

Office Name (Location)	Content of Facilities	Net Book Value (Millions of Yen)				Number of Employees
		Buildings	Machinery and Equipment	Land [Square Meters]	Total	
Makita Corp (Anjo, Aichi)	R&D	4,321	3,344	251 [40,330]	7,916	1,051
Okazaki Plant (Okazaki, Aichi)	Production	7,676	2,685	2,524 [160,382]	12,885	952
Nisshin (Nisshin, Aichi)	R&D	1,148	141	1,818 [43,102]	3,107	124
Tokyo Branch (Bunkyo, Tokyo)	Sales point	226	16	57 [323]	299	28
Nagoya Branch (Nakamura, Nagoya)	Same as above	243	4	352 [1,238]	599	24

Osaka Branch (Kita, Osaka)	Same as above	757	4	69 [335]	830	26

(2)Overseas Subsidiaries

As of March 31, 2018

Company Name	Location	Contents of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees (average number of temporary staff)
Makita Corporation of America	Atlanta U.S.A.	Production	244	209	84 [230,825]	537	129 (154)
Makita (China) Co., Ltd.	Kunshan China	Same as above	3,490	8,829	- [-] ＜156,484＞	12,319	4,696 (420)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	1,863	2,251	- [-] ＜87,683＞	4,114	2,188 (224)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	595	197	149 [50,660]	921	288 (99)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	156	326	498 [53,819]	980	221 (-)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	5,290	2,221	270 [151,876]	7,781	856 (291)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	1,032	703	119 [141,876]	1,854	623 (64)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	2,056	727	672 [131,223]	3,455	321 (171)

(Attention)

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