Makita Corporation

Additional Information
for the year ended March 31, 2020

Consolidated Financial Statements

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

CONTENTS

Consolidated Statement of Financial Position

In Millions of Yen

	Notes	2019	2020
ASSETS			
Current Assets			
Cash and Cash equivalents	5	146,512	143,439
Trade and other receivables	6,21	79,450	69,599
Inventories	7	219,938	214,560
Other financial assets	27	37,828	25,235
Other current assets	8	9,401	7,633
Total current assets		493,129	460,466
Non-current assets			
Property, plant and equipment	9	112,441	146,649
Goodwill and Intangible assets	10	8,039	8,749
Other financial assets	27	43,566	38,551
Employee benefits assets	15	9,541	9,511
Deferred tax assets	24	9,342	6,932
Other non-current assets	8	4,192	3,706
Total non-current assets		187,121	214,098
Total assets		680,250	674,564

In Millions of Yen

	Notes	2019	2020
LIABILITIES			
Current liabilities			
Trade and other payables	12	38,904	34,959
Borrowings	13	11,799	7,997
Other financial liabilities	27	220	2,468
Income tax payables		7,153	3,757
Provisions	17	3,040	2,931
Other current liabilities	14,21	29,678	27,264
Total current liabilities		90,794	79,376
Non-current liabilities			
Employee benefit obligations	15	3,231	3,138
Other financial liabilities	27	256	9,894
Provisions	17	1,293	1,248
Deferred tax liabilities	24	7,236	4,952
Other non-current liabilities	14	218	208
Total non-current liabilities		12,234	19,440
Total liabilities		103,028	98,816
EQUITY			
Share capital	19	23,805	23,805
Capital surplus	19	45,571	45,531
Retained earnings	19	508,622	540,063
Treasury shares	19	(11,681)	(11,554)
Other components of equity	19	6,431	(26,570)
Total equity attributable to owners of the parent		572,748	571,275
Non-controlling interests		4,474	4,473
Total equity		577,222	575,748
Total liabilities and equity		680,250	674,564

Consolidated Statement of Profit or Loss

In millions of Yen, per share amounts in Yen

	Notes	2019	2020
Revenue	4, 21	490,578	492,617
Cost of sales	22	(313,356)	(323,776)
Gross profit		17,222	168,841
Selling and general administrative expenses	22	(98,917)	(104,795)
Operating profit	4	78,305	64,046
Financial income	4, 23	2,680	2,558
Financial expenses	4, 23	(1,066)	(596)
Profit before tax	4	79,919	66,008
Income tax expense	24	(23,728)	(17,957)
Profit for current year		56,191	48,051
Attributable to:			
Owners of the parent		55,750	47,731
Non-controlling interests		441	320
Earnings per share	25		
Basic earnings per share		205.37	175.80
Diluted earnings per share		205.34	-

Consolidated statements of Comprehensive Income

In millions of Yen

	Notes	2019	2020
Profit for current year		56,191	48,051
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Net gain(loss) on revaluation of financial assets measured at fair value through other comprehensive income		(7,889)	(2,509)
Remeasurements of defined benefit plans		(87)	201
Total of items that will not be reclassified to profit or loss		(7,976)	(2,308)
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		(12,623)	(30,328)
Total of items that may be reclassified subsequently to profit or loss		(12,623)	(30,328)
Other comprehensive income, net of income taxes	26	(20,599)	(32,636)
Total comprehensive income		35,592	15,415
Attributable to:			
Owners of Makita		35,286	15,271
Non-controlling interests		306	144

Consolidated Statements of Changes in Equity

In millions of Yen

	Note	Issued capital	Capital surplus	Retained earnings	Treasury stock	Other components of equity	Total	Non-controlling interest	Total equity
Balance at April 1, 2018		23,805	45,531	469,232	(11,617)	27,095	554,046	4,393	558,439
Profit for currency year				55,750			55,750	441	56,191
Other comprehensive income, net of income taxes	26					(20,464)	(20,464)	(135)	(20,599)
Total comprehensive income		—	—	55,750	—	(20,464)	35,286	306	35,592
Dividends	20			(16,560)			(16,560)	(225)	(16,785)
Purchase of treasury shares	19				(4)		(4)		(4)
Disposal of treasury shares	19		0		0		0		0
Share-based payment transactions	16		40				40		40
Transfer from other components of equity to retained earnings	19			200		(200)	—		—
Other increase(decrease)					(60)		(60)		(60)
Total transactions with owners		—	40	(16,360)	(64)	(200)	(16,584)	(225)	(16,809)
Balance at March 31,2019		23,805	45,571	508,622	(11,681)	6,431	572,748	4,474	577,222
Net income				47,731			47,731	320	48,051
Other comprehensive income, net of income taxes	26					(32,460)	(32,460)	(176)	(32,636)
Total comprehensive income		—	—	47,731	—	(32,460)	15,271	144	15,415
Dividends	20			(16,831)			(16,831)	(145)	(16,976)
Purchase of treasury shares	19				(2)		(2)		(2)
Disposal of treasury shares	19		(13)		61		48		48
Share-based payment transactions	16		(27)		68		41		41
Transfer from other components of equity to retained earnings	19			541		(541)	—		—
Total transactions with owners		—	(40)	(16,290)	127	(541)	(16,744)	(145)	(16,889)
Balance at March 31, 2020		23,805	45,531	540,063	(11,554)	(26,570)	571,275	4,473	575,748

Consolidated Statement of Cash Flows

In millions of Yen

	Notes	2019	2020
Cash flows from operating activities			
Net income		56,191	48,051
Depreciation and amortization	9,10	11,271	14,349
Income tax expenses	24	23,728	17,957
Financial (income) and expenses		(1,614)	(1,962)
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets		113	(808)
(Increase) decrease in trade and other receivables		(2,085)	4,396
(Increase) decrease in inventories		(30,455)	(9,148)
Increase(decrease) in trade and other payables		2,581	(1,499)
Increase, decrease in asset and liability of Pension		395	586
Increase in guarantee deposits		(8,990)	741
Others		(4,487)	3,538
Subtotal		46,648	76,201
Dividends received		643	712
Interest received		2,004	1,488
Interest paid		(47)	(431)
Income taxes paid		(26,093)	(20,660)
Cash flows from operating activities		23,155	57,310
Cash flows from investing activities			
Additions to intangible assets and property, plant and equipment		(23,867)	(44,409)
Disposal of property, plant and equipment		382	2,574
Purchase of investments		(12,745)	(4,000)
Disposal and redemption of investments		5,634	7,641
Payments to time deposit		(31,902)	(33,534)
Proceeds from withdrawal of time deposits		47,758	40,960
Others		(589)	262
Cash flows from investing activities		(15,329)	(30,506)
Cash flows from financing activities			
Increase(decrease) in short-term borrowings	29	8,704	(3,461)
Purchase and re-issuance of treasury shares		(4)	46
Dividends paid	20	(16,560)	(16,831)
Lease liabilities paid	29	(36)	(2,537)
Others		(335)	(148)
Cash flows from financing activities		(8,231)	(22,931)
Effect of changes in exchange rates on cash and cash equivalents		(403)	(6,946)
Increase(Decrease) in cash and cash equivalents		(808)	(3,073)
Cash and cash equivalents at beginning of period	5	147,320	146,512
Cash and cash equivalents at end of period	5	146,512	143,439

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE1 BASIS OF PREPARATION

The consolidated financial statements of Makita Group for the year ended March 31, 2020, have been prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The consolidated financial statements are in line with the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation methods of consolidated financial statements (Ordinance of the Ministry of Finance of Japan No.28 of 1976), as they satisfy the requirements for an “IFRS Specified Company” in Article 1-2 of the same ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain assets and liabilities including financial instruments measured at fair value as presented in Note3 “Significant Accounting Policies”.

The functional and presentation currency is Japanese Yen. Unless stated otherwise, all figures are in millions of Yen.

The consolidated financial statements prepared as of March 31, 2020 were authorized for publication by management on June 26.

All accounting policies that are relevant to an understanding of financial statements are provided throughout the notes to the financial statements.

The group’s consolidated financial statements include estimates and assumptions made by management regarding income and expenses, measurement of the carrying amounts of assets and liabilities, and disclosure of contingencies and others at the end of the reporting period. These estimates and assumptions are based on management’s best judgement at the end of the reporting period, and take into account historical experience and various other factors that can be considered and reasonable. However, due to their nature, actual results may differ from these estimates and assumptions.
The estimates and their underlying assumptions are reviewed by management on an ongoing basis. The effects of revisions to accounting estimates and assumptions are recognized in the period when the estimates are revised and in future accounting periods.
Estimates and assumptions that significantly affect the amounts recognized in the Group’s consolidated financial statements are as follows:
Regarding the impact of the COVID-19, Makita Group, which has a high overseas sales ratio, had restrictions on sales activities due to regulations in each country, including restrictions on outing, and there are some countries which sales were stagnant at the end of the fourth quarter of the current consolidated fiscal year, but the impact on business results for the current consolidated fiscal year was immaterial. However, in some countries, the impact will continue to remain in the next consolidated fiscal year, and the impact may continue over a certain period in the future, leading to a decline in sales revenue.
In making accounting estimates such as determining the collectability of deferred tax assets, in addition to the available information as of the end of the current consolidated fiscal year, in the consequence of judgment based on the business results at the end of the current consolidated fiscal year, the accounting estimate is based on the assumption that the impact will continue for a certain period of the next consolidated fiscal year. Since there is a high degree of uncertainty regarding the impact of COVID-19 on economic activities, in the event of changes in accounting assumptions, it could affect the financial condition and operating results of the next consolidated fiscal year.

- Fair value of financial instruments – refer to Note3 Significant accounting policies and Note27 Financial instrument
  Makita Group uses fair value measured with inputs not based on observable market data for the asset or liability. Unobservable inputs may be affected by the fluctuation of future uncertain financial condition. In the event that revision is necessary, it may have an adverse impact on Makita Group’s financial condition and results of operations.

- Defined benefit obligation – refer to Note3 Significant accounting policies and Note15 Employee benefits

  Makita has adopted defined benefit pension plans and defined contribution plans for post-employment benefits.

  The present value of the defined benefit obligations and the related current service cost and past service cost are calculated by actuarial assumptions. Actuarial assumptions requires estimates and judgement for various factors including a discount rate. Actuarial assumptions is decided by estimates and judgement made by management, however it may be affected by the fluctuation of future uncertain financial condition or by amending or promulgating related laws.

  In the event that revision is necessary, it may have an adverse impact on Makita's financial condition and results of operations.

- Provision – refer to Note3 Significant accounting policies and Note17 Provisions

  Provisions are calculated based on the best estimates made by management regarding an outflow of resources embodying economic benefits. In the event when the result is different from the assumption for which the estimation is used, it may have an adverse impact on Makita's financial condition and results of operations.

  Period predicted an outflow of resources embodying economic benefits is as following.

  Warranty provisions

  Warranty provisions are provided to prepare for the expense of after-sales service for the products based on the past actual cost, taking into consideration the defective rate of current products, the malfunction of specific products never manufactured before, the effects of the costs of materials and shipping related to repair of defective products. Warranty provisions are provided as provisions and cost of sales, when the revenue is recognized.

  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.

  Product warranty provisions are recorded as provisions and cost of sales when revenue is recognized.

- Deferred tax asset – refer to Note3 Significant accounting policies and Note24 Income taxes

  Deferred tax assets are recognized for deductible temporary differences, the carryforward of unused tax losses and the carryforwards of unused tax credits to the extent of that it is probable that future taxable income will be available against such deferred tax assets. Period and amount which occurs taxable income may be affected by the fluctuation of future uncertain financial condition. In the event when the actual period and amount are different from the assumption for which the estimation is used, it may have an adverse impact on Makita's financial condition and results of operations. In the event when effective tax rate is changed, the balance of deferred tax assets may increase or decrease.

- Inventories – refer to Note3 Significant accounting policies and Note7 Inventories

  Inventories are measured at the acquisition cost, however if the net realizable value is lower than the acquisition cost, they are measured at the net realizable value and the difference between the acquisition cost is recognized as cost of sales in principle.

  For inventories that stay outside of the business cycle process, the net realizable value is calculated by reflecting future demand and market trends. If the market environment deteriorates more than expected and the net realizable value falls significantly, it may have a significant impact on the amount recognized in the consolidated financial statements from the next consolidated fiscal year.

The judgments made by management in the process of applying accounting policies that have a significant impact on consolidated financial statements are as follows:

- Revenue – refer to Note3 Significant accounting policies and Note15 Revenue

NOTE2 NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

IFRS	Standards	Mandatory Adoption (from the fiscal year beginning)	Adoption by the Group	Overview of new or revised standards and interpretations
IAS 1 IAS 8	Presentation of Financial Statements Accounting Policies, Changes in Accounting Estimates and Errors	January1, 2020	March, 2021	Amendments to the definition of material
IAS 1	Presentation of Financial Statements	January1, 2020	March, 2021	Clasifying liabilities as current or non-current

While the main impact of these adoptions are now on calculation, we have determined that they will not have a material impact on our business result and financial position.

Makita adopts IFRS 16 Lease from this consolidated fiscal year.

In accordance with IFRS 16, Makita records leases that were previously classified as operating leases under IAS 17 “Leases” as right-of-use assets and lease liabilities in the consolidated statement of financial position. Upon transitioning to IFRS 16, Makita has adopted a practical expedient that retains its previous determination of whether the contract is a lease or not. In accordance with IFRS 16 Transition rule, Makita adopt retrospective application with the cumulative effect recognized at the date of initial application. In the beginning of this consolidated fiscal year, Makita additionally recognized 10,656 million yen as totals assets including right-of-use assets which is included in the tangible fixed assets on the consolidated statement of financial position and 10,656 million yen as lease liabilities which is included in other financial liabilities on the consolidated statement of financial position. The present value of the lease liability at the beginning of the current consolidated fiscal year is measured by discounting the total residual lease payments at the date of initial application using the lessee's additional borrowing rate as of the date of initial application. The weighted average additional interest rate applied to the lease liability as of the date of initial application is 2.5%. The difference between the total future minimum lease payments for non-cancellable operating leases as of the end of the year immediately preceding the date of initial application and the lease liabilities recognized in the consolidated statement of financial position as of the date of initial application is as follows.

(Unit：in million of yen)

Contract of non-cancellable operating lease disclosed on 31st March 2019	4,169
Discounted present value of contract of non-cancellable operating lease disclosed on 31st March 2019	3,844
Finance lease liabilities	161
Cancellable contracts operating lease	6,812
Lease liabilities at the date of 1st April 2019	10,817

Upon transitioning to IFRS 16, Makita has adopted following practical expedients.

・A single discount rate is applied to lease portfolios with reasonably similar characteristics.

・The exemption rule that does not recognize the right-of-use asset and lease liability is applied to leases within 12 months from the date of initial application.

Regarding the impact of the new coronavirus infection, Makita Group, has a high overseas sales ratio, had restrictions on sales activities due to regulations in each country, including going-out restrictions, and although sales were stagnant at the end of the fourth quarter of the current consolidated fiscal year, the impact on business results for current consolidated fiscal year was immaterial. However, in some countries, the impact will continue to remain in the next consolidated fiscal year, and the impact may continue over a certain period in the future, leading to a decline in sales revenue.
In making accounting estimates such as determining the collectability of deferred tax assets, in addition to the information available as of the end of the current consolidated fiscal year, the results of judgment is also based on the business performance at the end of the current consolidated fiscal year. The accounting estimate is based on the assumption that the impact will continue for a certain period of the next consolidated fiscal year. Since there is a high degree of uncertainty regarding the impact of new coronavirus infections on economic activities, changes in accounting assumptions could affect the financial condition and operating results of the next consolidated fiscal year.

NOTE3 SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements present the operations of Makita Japan and all its subsidiaries.
Subsidiaries refer to all business entities controlled by the company. Financial statements of subsidiaries are included in the consolidated statements from the date the company gains the control of the subsidiary till the date the company loss the control of the subsidiaries. A change in the company's ownership interest without loss of control will be accounted for as equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attribution to the owner of Makita.
All intergroup balances, transactions, income and expenses, unrealized gains and losses arising from intergroup transactions are eliminated when prepare the consolidated statements.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration of an acquisition is measured as the aggregate of the acquisition-date fair value of the assets transferred, liabilities assumed and equity securities issued by the Company to the former owners of the acquire in exchange for control of the acquire.
Any excess of the consideration over the net fair value of identifiable assets acquired and liabilities assumed at the acquisition date is recognized as goodwill in the consolidated statement of financial position. Conversely, any deficit is immediately recognized as income in the consolidated statement of income.
Costs associated with business combinations are expensed as incurred.

Foreign currency translation

(1) Foreign Currency Transactions

Foreign currency transactions are conducted by translating into a functional currency of each company of Makita at the exchange rate as of the tansaction date.
Monetary assets and liabilities denominated in foreign currencies as of the reporting date are translated into functional currencies at the exchange rate as of the reporting date.
As for non-monetary assets and liabilities denominated in foreign currencies, those measured at the acquisition cost are translated by using the exchange rate as of the transaction date, and those measured at fair value are translated by using the exchange rate as of the date of calculation of the fair value. The exchange differences arising from the translation or the settlement are recognized in profit or loss. However, the differences arising from the translation of equity instruments measured at fair value through other comprehensive income are recognized in other comprehensive income.

(2) Foreign operations

Assets and liabilities of a foreign operation are translated into Japanese yen at the exchange rate as of the reporting date, and its revenue and expenses are translted at the average exchange rate for the period except the case that the exchage rate changes significantly. The exchange differences as a result of this are recognized in other comprehensive income. The exchange differences of a foreign operation are recognized in profit or loss during the period in which the foreign operation is disposed.

Financial instruments

Non-derivative financial assets

(i) Initial recognition and measurement

At initial recognition, Makita classifies financial assets as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. We initially recognize trade receivables and other receivables on the effective date, and other financial assets on the transaction date in which we become a party to the contract of the financial instrument.

All of the financial assets, except financial assets measured at fair value through profit or loss, are initially measured at the amount of fair value added to the transaction cost directly attributable to the financial asset. However, trade receivables without a significant financial component are initially measured at the transaction price.

(a) Financial assets measured at amortized cost

We classify financial assets that both of the following conditions are met as financial assets measured at amortized cost:

・ The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

・ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets measured at fair value through other comprehensive income

At initial recognition, Makita make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of a particular investment in an equity instrument not held for trading that would otherwise be measured at fair value and not classified as financial assets measured at amortized cost. If the group derecognized an investment, or if the fair value of the investment declines significantly, the cumulative gains or loss recognized in other comprehensive income is reclassified from other component of equity to retained earnings.

(c) Financial assets measured at fair value through profit or loss

Financial assets, other than financial assets measured at amortized cost or at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are, after initial recognition, measured at amortized cost based on the effective interest method. Interest revenue calculated by using the effective interest method is recognized in profit or loss.

(b) Financial assets measured at fair value through other comprehensive income

Equity instruments measured at fair value through other comprehensive income are, after initial recognition, measured at fair value, and its subsequent changes are recognized in other comprehensive income. The cumulative amount that is recognized in other comprehensive income is transferred to retained earnings, when the amount is derecognized or when the fair value decreases significantly. In addition, dividends from equity instruments measured at fair value through other comprehensive income are recognized in profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or losses are, after initial recognition, measured at fair value. Gain or loss of valuation arising from changes in fair value, dividends, and interest revenue are recognized in profit or loss.

(iii) Derecognition

Financial assets are derecognized, when the contractual rights to the cash flows from the financial asset expire, or when the contractual rights to receive the cash flows of the financial asset along with almost all of the risks related to the contract and its economic value transferred.

Impairment of financial assets

Makita recognizes allowance for doubtful receivables for expected credit losses related to financial assets measured at amortized cost. Expected credit losses are measured based on discounted present value of the difference between contractual cash flows to be received based on the contract and cash flows to be expected to be received.

If the credit risks related to the financial asset increase significantly after initial recognition, lifetime expected credit losses are recognized in allowance for doubtful receivables. If the risk does not increase significantly after initial recognition, 12-month expected credit losses are recognized in allowance for doubtful receivables. In addition, trade receivables without a significant financial component are classified in accordance with the credit risk of the other party based on the past due information or the internal credit rating, and their allowance for doubtful receivables are necessarily measured at an amount equal to lifetime expected credit losses, with the ratio of past credit losses calculated by the classification multiplied the provision ratio in consideration of expected future economic conditions.

We assess whether credit risks related to financial assets increase significantly after initial recognition or not by comparing the risk of default at initial recognition and the risk of default at each reporting date, taking into consideration the reasonable information with evidence as well as the past due information. If entire or part of a financial asset is judged to be impossible or incredibly difficult to be collected, it is considered to be in default and treated as credit-impaired financial assets.

We directly reduce the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof.

Allowance for doubtful receivables and reversal of allowance for doubtful receivables of financial assets are recognized in profit or loss.

Non-derivative financial liabilities

(i) Initial recognition and measurement

At initial recognition, Makita classifies financial liabilities as financial liabilities measured at amortized cost or liabilities measured at fair value through profit or loss. A financial liability is initially recognized on the transaction date in which we become a party to the contract of the financial liability.

All of the financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at the amount after deduction of the transaction cost directly attributable to the financial liabilities from the fair value.

(ii) Subsequent measurement

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are, after initial recognition, measured at amortized cost based on the effective interest method.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or losses are, after initial recognition, measured at fair value. Gain or losses of valuation arising from changes in fair value are recognized in profit or loss.

(iii) Derecognition

A financial liability is derecognized, when it is extinguished, namely, when the obligation specified in the contract is discharged, chancelled or expired.

Derivatives

Makita uses derivatives including forward exchange contracts and currency swap transactions in order to hedge the foreign currency risk. Derivatives are initially recognized at fair value and remeasured at fair value after initial recongnition. Changes in fair value of derivatives are recognized in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash, demand deposits and short-term that are highly liquid and readily convertible to known amounts of cash subject to an insignificantly risk of changes in value, and that mature or become due within 3 months from the date of acquisition.

Inventories

Inventories are measured at the lower of the acquisition cost and the net realizable value. Acquisition costs include all costs of purchases, conversion and other costs incurred in bringing the inventories to their present location and condition. Acquisition costs are calculated by using the weighted average cost formula. Costs of conversion include production overheads based on the normal capacity of production. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are measured using the cost model and carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of an item of property, plant and equipment comprises any cost directly attributable to acquisition of the asset and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Regarding subsequent expenditures for the repairs and improvement of the item of property, plant and equipment, if they satisfy the requirements that it is probable that value of the property, plant and equipment will be improved and future economic benefits associated with the item will flow to the entity and it is clear that production capacity will be significantly increased, these repairs and improvement shall be recognized as part of the acquisition cost.

Property, plant and equipment other than land and construction in progress are depreciated by using the straight-line method, for its depreciable amount that is its acquisition cost less the residual value, over its estimated useful life beginning from the point when the assets are available for use. The estimated useful lives of the major assets are as follows.

Buildings and improvements:	3 to 60 years
Machinery and equipment:	3 to 15 years

Depreciation method, residual value and estimated useful lives are reviewed every year and revised if necessary.

Goodwill and Intangible Assets

1) Goodwill

Goodwill arising from a business combination is not amortized, and is carried at cost, determined at the acquisition date, less any accumulated impairment losses.

In addition, goodwill is allocated to the cash generating unit or group of cash-generating units that is expected to benefit from the synergies of the business combination, and is tested for impairment at least once a year by each fiscal year end or if there are indications of impairment. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

2) Intangible Assets

Intangible assets are measured using the cost model and carried at cost less any accumulated amortization and any accumulated impairment losses.

The costs of separately acquired intangible assets comprise any costs directly attributable to acquisition of the assets. An intangible asset acquired in a business combination is recognized as an intangible asset and measured at fair value at the acquisition date.
Development expenditures are capitalized only if they can be measured reliably, future economic benefits are probable and the Group intends to, and has sufficient resources to complete development and to use or sell the asset. If it is probable that internally used software enables an entity to obtain future economic benefits and cut the cost, the development cost can be recognized as an intangible asset.
Intangible assets with definite useful lives are amortized by using the straight-line method over each estimated useful life. The estimated useful lives of the major intagible assets are as follows:

Intangible asset arising from development phase	5 years
Software	2-10 years
Trademarks	20 years

Amortization method, residual value and estimated useful lives are reviewed every year and revised if necessary.

Lease

Makita determines whether contracts are, or contain a lease based on the substance of the contract, even if it is not legally a form of lease. Makita recognizes a right-of-use asset and a lease liability at inception date of the lease. Right-of-use assets are initially measured at cost. This cost includes the initial measurement amount of the lease liability, the lease payments made at or before the commencement date, an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the underlying asset to the condition required by the terms and conditions of the lease, and borrowing costs that meet the capitalization requirements. Depreciation is amortized by using the straight-line method over the useful life of the underlying asset if the ownership of the underlying asset is transferred by the end of the lease term, or if it is reasonably certain to exercise the purchase option after initial recognition, in other cases, using the straight-line method over the useful life or the lease period, whichever is shorter. Right-of-use assets are measured at cost by deducting accumulated depreciation and accumulated impairment losses and adjusting any remeasurement of the lease liability. Right-of-use assets are included in property, plant and equipment in the consolidated statement of financial position. The lease term is determined by adding to the non-cancellable term of the lease the term of the extension option reasonably certain to be exercised or the term of the cancellation option reasonably sure not to be exercised. Lease liabilities are measured at present value by discounting the total remaining lease payments at the lease commencement date using the lessee's incremental borrowing rate as of that date. After initial recognition, lease liability measured by increasing the carrying amount to reflect interest on lease liability, reducing the carrying amount to reflect lease payments made and remeasuring the carrying amount to reflect any reassessement or lease modification. Lease expenses are allocated to financial charges and the part of repayment of the lease liability. After the commencement date of the lease, the lease liability is remeasured as necessary due to changes in the lease terms and conditions. Lease liabilities are included in other financial liabilities in the consolidated statement of financial position. Interest expenses are shown as financial charges separately from depreciation of right-of-use assets in the consolidated statement of profit or loss. Makita has adopted not to recognize right-of-use assets and lease liabilities by applying the exemption provision of IFRS 16 for short-term leases with a lease term of 12 months or less and low-value leases. Makita recognizes lease payments related to these leases as expenses using the straight-line method over the lease term.

In the previous consolidated fiscal year, the Group accounted for in accordance with the following policies.
The group classifies a lease that transfers substantially all the risks and rewards incidental to ownership of an asset as a financial lease and a lease other than a finance lease as an operating lease.

Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, in accordance with IFRIC Interpretation 4 “Determining Whether an Arrangement Contains a Lease.”

In finance lease transactions, lease assets and lease obligations are initially recognized at the lower of the fair value of leased property and the present value of the minimum lease payments, each determined at the inception of the lease.

Lease assets are depreciated by using the straight-line method over the fewer years of the estimated useful life and the lease term.

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term.

Impariment of Non-financial Assets

We judge at the reporting date whether there are any indications that Makita’s non-financial assets except inventories and deferred income taxes may be impaired.

If any of those indications is present, we conduct impairment tests to estimate recoverable amount of the assets. Goodwill, intangible assets with no definite useful life, and intangible assets that are not yet available for use are not amortized, and the impairment tests are conducted every year and every time when indications of impairment are present.

Makita’s corporate assets do not generate independent cash inflow, therefore, if there is any indication that the corporate assets may be impaired, the recoverable amount of cash-generating unit to which the corporate assets is attributable is estimated.

A recoverable amount is the higher amount of the fair value less the cost of disposal and the value in use. In culculating value in use, an estimate of the future cash flows is discounted to the present value by using the discount rate before tax that reflects the time value of money and the risk inherent in the asset.

If the carrying amount of each asset or cash-generating unit exceeds the recoverable amount, the impaiement loss is recognized in profit or loss, and the carrying amount of the asset is reduced to a recoverable amount. Any impairment loss recognized related to cash-generating units or groups of cash-generating units is allocated to reduce the carrying amount of goodwill allocated to the unit, and then the carrying amount of other assets in the unit is reduced proportionally.

Impairment losses of goodwill are not reversed. As for impairment losses of non-financial assets other than goodwill, the recorvarable amount of the asset is estimated if there is no impairment losses or any indication of possibility that the impairment loss is reduced, and the impairment loss is reversed if the recoverable amount exceeds the carrying amount after impairment. In addition, reversal of impairment losses are recognized in profit or loss, within the range not exceeding the carrying amount when there was no impairment loss recognized in the asset in the past.

Post-emplyment Benefits

Makita has adopted defined benefit pension plans and defined contribution plans for post-employment benefits.

(i) Defined benefit pension plans

The present value of the defined benefit obligations and the related current service cost and past service cost are calculated by using the projected unit credit method.

A discount rate is calculated based on the market yields of high quality corporate bonds at the reporting date corresponding to a discount period which is determined based on the period until the expected date of future benefit payment in each fiscal year.

Assets and liabilities related to defined benefit pension plans are calculated by the amount of the present value of defined benefit obligations less the fair value of the plan assets. The current service cost and net interest on the net defined benefit liability are recognized in profit or loss. Past service costs are recognized as expense during the period in which they occur.

Remeasurements of the net defined benefit liability or asset are entirely recognized in other comprehensive income in the period in which they occur, and immediately transferred to retained earnings.

(ii) Defined contribution plans

The contribution payable to defined contribution plans is recognized as expense during the period in which employees render the related service.

Share-based payments

The group enacted stock option plan to its members of the board of directors, excluding outside directors. The plan is designed as equity-settled. Fair value is measured at grant date and is expensed over the vesting period.

Provisions

Provisions are recognized when Makita has a present legal obligation or constructive obligation as a result of a past event, and when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the provision is measured at the present value of the expenditures that are expected to be required to settle the obligation. Present value is calculated by using the discount rate before tax that reflects the time value of money and the risks inherent in the liability. Rebate of the discounted amount arising from the passage of time is recognized as financial cost.

Warranty provisions are provided to prepare for the expense of after-sales service for the products based on the past actual cost, taking into consideration the defective rate of current products, the malfunction of specific products never manufactured before, the effects of the costs of materials and shipping related to repair of defective products. Warranty provisions are provided as provisions and cost of sales, when the revenue is recognized.

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.

Product warranty provisions are recorded as provisions and cost of sales when revenue is recognized.

Equity and other capital

1) Ordinary shares

Ordinary shares are recognized in share capital and capital surplus at their issue price. Share issuance costs are deducted from the issue price.

2)Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or retirement of the company’s treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized directly in equity.

Revenue Recognition

Makita recognizes revenue by applying the following five steps.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

Makita is engaged mainly in production and sales of electric power tools and gardening equipment, etc. Regarding these product, we have determined that a performance obligation is satisfied when a product is transferred to a customer as the customer has control of the product. Therefore, revenue of these products is recognized at the point of transferring these products. In addition, the revenue is measured at the amount of the promised consideration in a contract with a customer less the amount of a reduction, rebate and returned products.

Financial income and expenses

Financial income consists of interest income, dividend income, foreign exchange gains, derivative income, etc. Interest income is recognized as incurred using the effective interest rate method. Dividend income is recognized when the Group's right to receive payment is established. Financial expenses consist of interest expense, foreign exchange loss, derivative loss, etc. Interest expense is recognized as incurred using the effective interest rate method.

Income taxes

Income taxes consist of current income taxes and deferred income taxes. Income taxes are recognized as income or expenses and included in profit or loss, except for taxes related to business combinations and taxes related to items that are recognized directly in equity or in other comprehensive income.

Current income taxes are recognized in the amount of the expected taxes payable to or receivable from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the end of the reporting period in countries where the Group conducts business and earns taxable income.

Deferred income assets and liabilities are recognized for temporary differences between the carrying amounts of assets or liabilities at the end of the reporting period and its tax base, and for tax loss carryforwards. Deferred tax assets are recognized for deductible temporary differences, the carryforward of unused tax losses and the carryforwards of unused tax credits to the extent of that it is probable that future taxable income will be available against such deferred tax assets. Deferred tax liabilities are recognized, in principle, for all taxable temporary differences.

Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Taxable temporary differences arising from initial recognition of goodwill
- Deductible temporary differences on investments in subsidiaries and associates, when it is probable that the temporary differences will not reverse in the foreseeable future
- Taxable temporary differences on investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

Earnings Per share

Basic earnings per share are calculated by dividing net income attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares held. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

Government Grant

Government grants will be recognised if it is assurance that the grant will be received and the conditions attaching to them will be complied.

Government grant related to income will be included in “Other income”.

Government grant related to asset will be recognized as deferred income that is recognized in profit or loss on a systematic basis over the useful life of the asset.

NOTE4 SEGEMENT INFORMATION

The group's reportable segment are the components of the Group for which discrete financial information is available and which are regularly reviewed by the Board of Directors in deciding how to allocate resources and in assessing their performance.

Makita group has an single business with core activities in the field of production and sales of electric power tools, pneumatic tools and gardening equipment. Local subsidiaries in Japan, Europe, North America, Asia and other regions work in cooperation with each other to achieve our aims.

Accordingly, the group's reportable segement is organized by the region of Japan, Europe, North-american and Asia.

Reportable Segment	Major Countries
Japan	Japan
Europe	Germany、England、Russia、France、Finland
North-America	America、Canada
Asia	China、Thailand

Reportable segment information

The accounting treatment in each reportable segment is the same as in Notes3 "Significant Accounting policies and critical accounting estimates".

Previous consolidated fiscal year (2018.4.1~2019.3.31)

In millions of Yen

	Japan	Europe	North-America	Asia	**Subtotal**	Others	Reconciliation to Consolidated Financial Statements	**Consolidated**
Revenue								
External Revenue	112,143	213,903	74,854	26,414	427,314	63,264	—	490,578
Inter-segment revenue	220,111	5,902	3,941	220,999	450,953	806	(451,759)	—
Total revenue	332,254	219,805	78,795	247,413	878,267	64,070	(451,759)	490,578
Operating Income	32,330	18,424	267	23,094	74,115	5,715	(1,525)	78,305
Financial income	—	—	—	—	—	—	—	2,680
Financial expenses	—	—	—	—	—	—	—	(1,066)
Income before income tax	—	—	—	—	—	—	—	79,919
Other items								
Depreciation and Amortization	3,948	2,163	702	4,108	10,921	454	(104)	11,271
Segment Assets	425,982	228,123	68,582	160,642	883,329	71,699	(274,778)	680,250
Capital expenditures	8,337	6,872	1,129	7,023	23,361	743	(237)	23,867

1. Internal sales revenue or transfer amount between segments is based on the selling price decided through consultation in

consideration of market conditions.

2. “Other” mainly consists of the regions of Australia, Brazil and the United Arab Emirates.

3. Reconciliation to Consolidated Financial Statements is as follows.

① The adjustment of operating income of 1,525 million includes the elimination of intersegment transactions.

② Depreciation and amortization adjustment of 104 million is the effect of consolidation adjustment between segments.

③ The adjustment amount of 274,778 million yen for segment assets includes inter-segment transaction elimination amount.

④ The adjustment of capital expenditure of 237 million yen is the effect of consolidated adjustment between segments.

Current consolidated fiscal year (2019.4.1~2020.3.31)

In millions of yen

	Japan	Europe	North-America	Asia	Subtotal	Others	Reconciliation to Consolidated Financial Statements	Consolidated
Revenue								
External Revenue	118,797	217,113	74,139	24,912	434,961	57,656	—	492,617
Inter-segment revenue	176,567	7,323	3,896	188,012	375,798	587	(376,385)	—
Total revenue	295,364	224,436	78,035	212,924	810,759	58,243	(376,385)	492,617
Operating Income	22,726	13,252	(201)	17,877	53,654	1,327	9,065	64,046
Financial income	—	—	—	—	—	—	—	2,558
Financial Cost	—	—	—	—	—	—	—	(596)
Income before income tax	—	—	—	—	—	—	—	66,008
Other items								
Depreciation and Amortization	4,833	3,201	917	4,711	13,662	815	(128)	14,349
Segment Assets	446,963	219,398	65,625	141,333	873,319	56,568	(255,323)	674,564
Capital expenditures	19,420	9,000	5,966	9,121	43,507	1,028	(126)	44,409

1. Internal sales revenue or transfer amount between segments is based on the selling price decided through consultation in consideration of market conditions.

2. “Other” mainly consists of the regions of Australia, Brazil and the United Arab Emirates.

3. Reconciliation to Consolidated Financial Statements is as follows.

① The adjustment of operating income of 9,065 million includes the elimination of intersegment transactions.

② Depreciation and amortization adjustment of △128 million is the effect of consolidation adjustment between segments.

③ The adjustment amount of △255,323 million yen for segment assets includes inter-segment transaction elimination amount.

④ The adjustment of capital expenditure of △126 million yen is the effect of consolidated adjustment between segments.

Products and Service Information

In millions of Yen

	Previous consolidated fiscal year (2018.4.1~2019.3.31)	Current consolidated fiscal year (2019.4.1~2020.3.31)
electric power tools	300,118	292,497
pneumatic tools and gardening equipment	108,046	112,678
Parts, accessories and maintenance	82,414	87,442
Total	490,578	492,617

Information about Geographical Areas

The breakdown of sales revenue and non-current assets by region is as follows.

External revenue

In millions of Yen

	Previous consolidated fiscal year (2018.4.1~2019.3.31)	Current consolidated fiscal year (2019.4.1~2020.3.31)
Japan	92,129	100,697
Europe	213,238	216,230
North-America America	72,508 (62,892)	72,304 (63,179)
Asia	40,909	38,998
Others	71,794	64,388
Total	490,578	492,617

Non-current assets (excluding financial assets, deferred tax assets and retirement benefits assets)

In millions of Yen

	Previous consolidated fiscal year (2019.3.31)	Current consolidated fiscal year (2020.3.31)
Japan	50,737	69,686
Europe （Romania）	29,732 （13,370）	36,624 （15,359）
North-America	5,259	10,830
Asia （China）	28,961 (21,592)	32,436 (23,938)
Others	9,983	9,528
Total	124,672	159,104

Excludes financial instruments, deferred tax assets, and retirement benefit assets

(5) Information about major customers

It is omitted because there are no customers who account for 10% or more of the sales income in the consolidated profit and loss statement among the sales income to external customers.

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and Cash equivalents comprise the following:

The balance of "cash and cash equivalents" in the consolidated statement of financial position and the balance of "cash and cash equivalents" in the consolidated statement of cash flows for the previous consolidated fiscal year and the current consolidated fiscal year are the same.

In millions of Yen

	Previous consolidated fiscal year (2019.3.31)	Current consolidated fiscal year (2020.3.31)
Cash and deposit	111,220	87,030
Deposit within 3 months	35,292	56,409
Total	146,512	143,439

Cash and cash equivalents are classified as financial assets measured at amortized cost.

NOTE 6 TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables comprise the following:

In millions of Yen

	Previous consolidated fiscal year (2019.3.31)	Current consolidated fiscal year (2020.3.31)
Notes receivables and Accounts receivables	80,511	70,781
Allowance of bad debt	(1,061)	(1,182)
Total	79,450	69,599

Trade and other receivables are classified as financial assets measured at amortized cost.

NOTE 7 INVENTORIES

Inventories comprise the following:

	Previous consolidated fiscal year (2019.3.31)	Current consolidated fiscal year (2020.3.31)
Finished goods and goods for sale	185,774	175,510
Work in progress	3,010	3,402
Raw materials and supplies	31,154	35,648
Total	219,938	214,560

- The Cost of sales includes inventories recognized as expense amounted to 310,058 million and 320,523 respectively, in fiscal year 2019 and 2020
- Write-downs to net realizable value amounted to 1,983 and 2,940 million, respectively, in fiscal year 2019 and 2020
- There are no inventories pledged for debt.
- There was no reversal of significant devaluation during the previous and current consolidated fiscal years
-

NOTE 8 OTHER ASSETS

Other assets comprise the following:

	Previous consolidated fiscal year (2019.3.31)	Current consolidated fiscal year (2020.3.31)
Tax receivable	1,433	1.588
Accrued expenses	1,647	1,949
Others	10,513	7,802
Total	13,593	11,339
Thereof Current	9,401	7,633
Thereof Non-Current	4,192	3,706
Total	13,593	11,339

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

The following tables present changes in acquisition costs, accumulated depreciation and accumulated impairment losses, and carrying amounts of property, plant and equipment.

Acquisition cost

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Right-of-use asset	Total
April 1, 2018	101,218	98,868	23,338	6.027	—	229,451
Additions	1,781	7,777	2.549	11,961	—	24,068
Sales and Disposals	(282)	(4,140)	(110)	(160)	—	(4,692)
Reclassification	919	3,054	167	(4,140)	—	—
Exchange differences on translation of foreign operations	(1,262)	(1,698)	(243)	(409)	—	(3,612)
March 31, 2019	102,374	103,861	25,701	13,279	—	245,215
Changes in accounting rule	—	(244)	—	—	10,546	10,302
April 1, 2019	102,374	103,617	25,701	13,279	10,546	255,517
Additions	860	9,577	3,997	27,857	4,154	46,445
Sales and Disposals	(312)	(5,350)	(1,357)	(2,208)	(102)	(9,329)
Reclassification	7,523	2,830	665	(11,018)	—	—
Exchange differences on translation of foreign operations	(2,964)	(4,239)	(571)	(686)	(875)	(9,335)
March 31, 2020	107,481	106,435	28,435	27,224	13,723	283,298

Accumulated depreciation and accumulated impairment

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Right-of-use asset	Total
April 1, 2018	(54,311)	(73,914)	(413)	—	—	(128,638)
Depreciation	(2,668)	(6,986)	—	—	—	(9,654)
Sales and Disposals	240	4,108	31	—	—	4,379
Exchange differences on translation of foreign operations	286	853	—	—	—	(1,139)
March 31, 2019	(56,453)	(75,939)	(382)	—	—	(132,774)
Changes in accounting rule	—	104	—	—	(104)	—
April 1, 2019	(56,453)	(75,835)	(382)	—	(104)	(132,774)
Depreciation	(2,765)	(7,533)	—	—	(2,292)	(12,590)
Sales and Disposals	158	4,283	382	—	24	4,847
Exchange differences on translation of foreign operations	1184	2,559	—	—	125	3,868
March 31, 2020	(57,876)	(76,526)	—	—	(2,247)	(136,649)

Carrying Amount

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Right-of-use asset	Total
March 31,2019	45,921	27,922	25,319	13,279	—	112,441
March 31,2020	49,605	29.909	28,435	27,224	11,476	146,649

1. Depreciation of property, plant and equipment is included in cost of sales, selling, general and administrative expenses and other operating expenses in the consolidated statement of profit or loss.
2. The amount of property, plant and equipment under construction is shown as construction in progress.
3. There is no borrowing cost included in the acquisition cost of property, plant and equipment.
4. There are no tangible fixed assets with mortgages as collateral for tangible fixed assets and liabilities with restrictions on ownership
5. In the previous consolidated fiscal year and the current consolidated fiscal year, the amount of significant commitments regarding the acquisition of property, plant and equipment was 24,068 and 33,129 million.

Right-of-use assets

The carrying amount of Right-of-use assets (finance leases in last fiscal year) included in property, plant and equipment are as following:

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Total
March 31,2019	—	140	—	140
March 31,2020	9,627	779	1,070	11,476

NOTE 10 GOODWILL AND INTANGIBLE ASSETS

(1)Change table

The following tables present changes in acquisition costs, accumulated depreciation and accumulated impairment losses, and carrying amounts of Goodwill and Intangible assets.

Acquisition cost

In millions of Yen

	Goodwill	Intangible Assets				Total
		Development Expenses	Software	Trademark	Others	
April 1,2018	721	5,441	5,442	2,796	1,636	16,036
Acquisition	141	—	1,076	72	311	1,600
Internal development	—	1,197	—	—	—	1,197
Sales and disposals	—	—	(643)	—	(177)	(820)
Exchange differences on translation of foreign operations	—	—	(104)	—	(6)	(110)
March 31,2019	862	6,638	5,771	2,868	1,764	17,903
Acquisition	—	—	748	—	300	1,048
Internal development	—	1,636	—	—	—	1,636
Sales and disposals	—	—	(423)	(19)	(50)	(492)
Exchange differences on translation of foreign operations	—	—	(217)	—	(36)	(253)
March 31,2020	862	8,274	5,879	2,849	1,978	19,842

Accumulated amortization and Accumulated impairment losses

In millions of Yen

	Goodwill	Intangible Assets				Total
		Development Expenses	Software	Trademark	Others	
April 1, 2018	—	(2,483)	(4,122)	(1,716)	(724)	(9,045)
depreciation	—	(825)	(555)	(201)	(36)	(1,617)
Sales and disposals	—	—	560	—	174	734
Exchange differences on translation of foreign operations	—	—	62	—	2	64
March 31, 2019	—	(3,308)	(4,055)	(1,917)	(584)	(9,864)
depreciation	—	(833)	(671)	(210)	(45)	(1,759)
Impairment loss	—	(123)	—	—	—	(123)
Sales and disposals	—	—	416	19	48	483
Exchange differences on translation of foreign operations	—	—	150	—	20	170
March 31, 2020	—	(4,264)	(4,160)	(2,108)	(561)	(11,093)

Carrying amount

In millions of Yen

	Goodwill	Intangible Assets				Total
		Research	Software	Trademark	Others	
March31,2019	862	3,330	1,716	951	1,180	8,039
March31,2020	862	4,010	1,719	741	1,417	8,749

1. Amortization of intangible assets is included in cost of sales, selling, general and administration of the consolidated statement of Profit or Loss.
2. There are no intangible assets with mortgages as collateral for intangible assets and liabilities with restrictions on ownership.
3. No significant commitment to acquire intangible assets.
4. There are no significant intangible assets with indefinite useful lives.

(2) Impairment loss

In the current consolidated fiscal year, an impairment loss of 123 million yen was recorded in the Japan segment, which is included in "Sales and general administrative expenses" in the consolidated statement of Profit or Loss. Assets for which an impairment loss was recognized are development costs and are due to the suspension of development during the current consolidated fiscal year. The valuation value is set to “0”, because no cash flow will occur in the future.

(3) R&D expenses

Research expenses and development expenses that do not meet the asset recognition standard are recognized as expenses when incurred. R&D expenses recognized as expenses in selling, general and administration of the consolidated statement of Profit or Loss in the fiscal year 2019 and 2020 amounted to 10,433 and 10,768 respectively.

NOTE 11 LEASES

The group, as a lessee, leases land, buildings and structures, machinery and vehicles.

Although some lease contracts have renewal options and purchase options, option lease payments that are not included in the lease term are immaterial to the lease payments. In addition, sublease agreements, variable lease payments and escalation clauses (clauses that raise the lease contract amount) and restrictions imposed by the lease agreements (dividends, additional borrowings, restrictions on additional leases, etc.) are not significant.

(1) Income and expensens relating to lease consisits of the followings.

In millions of Yen

	2020
Recognition Exemption－Short-term lease expensens	801
Recognition Exemption－Low-valued lease expensens（exclude short-term lease）	161
Depreciation of Right-of-use assets	
Buildings and structures	1,941
Machinery and vehicles	312
Land	39
Total of depreciation	2,292
Interest expenses on lease liabilities	249

（2）The total cashout flow of leases including low-value lease and short-term lease.

In millions of Yen

Total cashout flow	3,499

Note 9 Property, plant and equipment presents additions and classification of right-of-use assets
Note 27 Financial Instrument presents maturity analysis of lease liablity

Fiscal year ended March 31, 2019.

(１) Finance Lease

The Group leases some vehicles as finance lease.

The total of future minimum lease payments and the present value under finance lease contracts comprise the following:

In millions of Yen

	Minimum lease payments	Present value of minimum lease payments
	2019	2019
Not later than 1 year	44	37
Later than 1 year and not later than 5 years	132	124
Later than 5 years	—	—
Total	176	161
Financial charges	15	
Present value of minimum lease payments	161	

(２)Non-cancellable Operating leases

The group leased some office buildings as cancellable and non-cancellable operating leases. The total future minimum lease payments of non-cancellable operating lease are as following:

	In millions of Yen
	2019
Not later than 1 year	1,185
Later than 1 year and not later than 5 years	2,314
Later than 5 years	670
Total	4,169

The lease expenses under operating lease recognized in fiscal year 2019 are as following:

	In millions of Yen
	2019
total of minimum lease payments	4,037

NOTE 12 TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables comprise the following:

In millions of Yen

	2019	2020
Trade payables	29,114	25,870
Non-trade payables	9,790	9,089
Total	38,904	34,959

NOTE 13 BORROWINGS

In millions of Yen

	2019	2020
Short-term borrowings	11,799	7,997
Total	11,799	7,997

The average interest rate for loans from banks in fiscal year 2019 and 2020 were 0.33% and 0.45% respectively.

NOTE 14 OTHER LIABILITIES

Other liabilities comprise the following:

In millions of Yen

	2019	2020
Accrued expenses	12,243	10,764
Accrued payroll and bonus	10,667	10,433
Others	6,986	6,275
Total	29,896	27,472
Thereof Current	29,678	27,264
Thereof Non-current	218	208
Total	29,896	27,472

NOTE 15 EMPLOYEE BENEFITS

(１) Post-employment Benefits

① defined benefit plan

The Company and most of its consolidated subsidiaries have defined benefit plans, defined contribution plans and other plans for their post-employment benefits. Under these plans, employees are entitled to lump-sum payments or retirement benefits as pensions.

The Company's domestic retirement benefit plan covers all employees of the Company. Contribution to the defined benefit plan is determined by various factors such as the employee's salary level, service years, funded status of plan assets, actuarial calculation, etc. According to the provisions of defined benefit corporate pension law, the contributions to the fund will be reviewed every 5 years.

The defined benefit plan is legally separated from the parent company, and is responsible for the management and operation of the plan assets. Benefits payment is determined using the cumulative points granted each month and the position of the employees at the time of retirement, service year etc.

The objective of managing pension assets is to earn returns to the greatest extent possible and ensure stable benefits and payments for plan participants. 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 of 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.

② Defined benefit plan

(a) Defined benefit assets recognized in the consolidated statement of financial position

		In millions of Yen
	2019	2020
Present value of defined benefit obligation	(39,583)	(39,612)
Present value of Plan asset	45,893	45,985
Total	6,310	6,373
Amount recognized in consolidated statement of financial position		
Retirement benefit assets	9,541	9,511
Retirement benefit liabilities	(3,231)	(3,138)

(b) Defined benefit obligations

Changes in the present value of defined obligations are as follows:

In millions of Yen

	2019	2020
Defined benefit obligations at beginning of year	39,422	39,583
Service cost	1,716	1,727
Interest expenses	266	224
Premeasurement		
Actuarial(gains)losses arising from changes in demographic assumptions	(184)	92
Actuarial(gains)losses arising from changes in financial assumptions	496	54
Actuarial(gains)losses arising from others	(37)	22
Past service cost	—	—
Benefits paid	(1,919)	(1,902)
Exchange differences on translation of foreign operations	(177)	(188)
Defined benefit obligations at ending of year	39,583	39,612

The weighted average duration of the defined benefit obligations was 12.5 years at March 31, 2019 and 12.4 years at March 31, 2020.

(c) Plan asset

Changes in the present value of plan asset are as follows:

In millions of Yen

	2019	2020
The fair value of plan assets at beginning of year	45,945	45,893
Interest income	280	239
Contribution by employees	1,226	1,179
Measurements-Return on Plan asset	215	444
Benefits paid	(1,724)	(1,730)
Exchange differences on translation of foreign operations	(49)	(40)
The fair value of plan assets at end of year	45,893	45,985

The group plans to contribute 1,185 Million in the year ending March 31, 2021.

The details of plan asset are as followings:

In millions of Yen

	2019		2020	
	Market price in an active market		Market price in an active market	
	quoted	quoted	quoted	quoted
Cash and cash equivalents	7,752	—	7,660	—
Equity financial products				
Equity stock	1,330	—	717	—
Joint investment trust(domestic)	—	880	—	594
Joint investment trust(overseas)	—	2,467	—	1,090
Debt financial instruments				
Joint investment trust(domestic)	—	11,545	—	11,881
Joint investment trust(overseas)	—	5,757	—	5,542
Life Insurance general account	—	7,844	—	8,615
Alternative investment	—	8,318	—	9,886
Total	9,082	36,811	8,377	37,608

Virtually all equity securities have quoted prices in active markets. Makita group Conducted sufficient research and analysis on the management content and growth potential of the investment target company and appropriately diversifies investments by the type of industry.

Debt securities mainly composed of domestic and foreign government bonds and municipal bonds.Makita conducts a good research and analysis on issuance conditions, such as rating, coupon, maturity date, and issuer. 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, and hedge-funds (market neutral strategy for Japanese equity and relative value strategy for bonds).

(d) Significant actuarial assumptions and related sensitivity analysis

Significant actuarial assumptions are as follows:

	2019	2020
Discount rate	0.6％	0.6%

(e) Sensitivity analysis on defined benefit obligations

The sensitivity analysis on defined benefit obligation is as follows:

In millions of Yen

	2019	2020
Discount rate		
0.25％increase	(1,130)	(1,149)
0.25％decrease	1,188	1,211

- Defined contribution plans

  Expenses related to the defined contribution plan recognized in profit or loss were 378 million yen and 394 million yen for the fiscal year ended March 31, 2019 and March 31, 2020.

(２) Other employee benefit expenses

Other employee benefit expenses recognized in cost of sales, selling, general and administrative expenses in the consolidated statement of income for the fiscal years ended March 31, 2019 and 2020 were 75,007 million yen and 75,411 million yen, respectively.

NOTE 16 SHARE-BASED PAYMENTS

The Company aims to further increase the motivation of its directors to contribute to the rise of stock prices and the improvement of corporate value and share the merits and risks of stock price fluctuations with shareholders, We have introduced a stock compensation system that allocates restricted stock to eligible directors.Based on this plan, the accounting treatment of equity-settled stock plans is applied. In addition, with the implementation of the restricted stock compensation plan, the directors abandoned the stock acquisition rights as stock options which have not yet exercised and the stock option plan will be abolished.

Stock-option plan

Share-based payment awards at Makita group are predominately designed as equity-settled, the group issued stock-option to its directors, excluding outside directors. The exercise period of the stock option is 50 years from the grant date. Directors can exercise the stock acquisition right form the next day of their employment termination from the Group.

Content of stock-option

	First issue in Year 2015	Second issue in Year 2016	Third issue in Year 2017	Fourth issue in Year 2018
Number of person	Directors 2 Operating officer 9	Directors 2 Operating officer 9	Directors 2 Operating officer 8	Directors 2 Operating officer 8
Granted shares	14,000	13,640	10,220	9,180
Grant date	July 31, 2015	July 28, 2016	July 31, 2017	July 31, 2018
Conditions for vesting	Right can be exercised from the next day of employment termination	Right can be exercised from the next day of employment termination	Right can be exercised from the next day of employment termination	Right can be exercised from the next day of employment termination
Payment method	Equity settlement	Equity settlement	Equity settlement	Equity settlement
Exercise period	From August19,2015 to August18,2065	From August19,2016 to August18,2066	From August19,2017 to August18,2067	From August18,2018 to August17,2068

Number of stock option and the weighted average exercise price

	2019		2020	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Beginning balance of outstanding	29,180	1	38,360	—
Granted	9,180	1	—	—
Exercised	—	—	—	—
Abandonment of rights	—	—	(38,360)	—
Ending balance of outstanding	38,360	1	0	—
Ending balance of exercisable	—	—	—	—

The directors abandoned all of the stock options which have not been exercised (38,360 shares), and the same number of restricted stocks are allotted to them.

Fair value and assumption of the stock option granted

The weighted average fair value of stock options granted in the previous consolidated fiscal year was 4,407 Yen, which was evaluated using the Black-Shoals model based on the following assumptions.

	2019
	Forth issue in 2018
Share price on granted date	4,900Yen
Expected Volatility	32.23%
Expected remaining period	8.5Year
Expected dividends	61Yen
Risk free rate	0.04％

Restricted stock compensation plan

The Company and the eligible Directors have entered into a restricted stock agreement, and the content of the agreement is that the transfer restriction period is 50 years. During this period, transfer of restricted stocks to a third party, setting of pledges, setting of security interests, gifts before birth, beneficiary and any other disposition acts are not permitted. With regard to the transfer restriction, provided that the eligible directors who received the allocation of the transfer-restricted stocks remained in the position of directors of the Company from the start of the transfer restriction period until the date of the first ordinary general meeting of shareholders of the Company, all of the shares will be released when the transfer restriction period expires. On the other hand, if there are shares whose transfer restrictions have not been released when the transfer restriction period has expired, the Company will acquire the shares free of charge.

Grant date	July 19, 2019
Granted shares	12,220
Fair value of grant date	3,435 Yen
Fair value measurement	Calculated based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding the resolution date of the Board of Directors

Share-based payment expenses

Share-based payment expenses recognized in selling, general and administration for fiscal year 2019 and 2020 is as following:

	March31, 2019	March31, 2020
Expenses on Stock-option plan	40	10
Expenses on Restricted stock compensation plan	—	31
Total	40	41

NOTE 17 PROVISIONS

Components of and changes in provisions consist of the following:

In millions of Yen

	Production warranty	Others	Total
Balance as of April 1, 2018	3,300	980	4,280
Additions	3,717	43	3,760
Decrease(provision used)	(2,601)	(47)	(2,648)
Decrease(provision reversed)	(913)	(20)	(933)
Exchange differences on translation of foreign operations	(53)	(73)	(126)
Balance as of March 31, 2019	3,450	883	4,333
Additions	2,743	164	2,907
Decrease(provision used)	(2,540)	(88)	(2,628)
Decrease(provision reversed)	(62)	(49)	(111)
Exchange differences on translation of foreign operations	(195)	(127)	(322)
Balance as of March 31, 2020	3,396	783	4,179

	2019	2020
Thereof Current	3,040	2,931
Thereof Non-current	1,293	1,248

NOTE 18 CONTINGENT LIABILITIES

Although the Group is exposed to various legal allegations and litigation arising from its normal business activities, the ultimate consequences of these events will not have a significant impact on the Company's consolidated financial position.

NOTE 19 EQUITY

Capital and treasury shares

The number of authorized shares, the number of issued shares and the number of treasury shares are as follows.

Shares

	2019	2020
Type of Shares	Ordinary Shares	Ordinary Shares
Number of authorized shares	992,000,000	992,000,000
Number of issued shares		
Beginning	280,017,520	280,017,520
Increase/decrease	—	—
Ending	280,017,520	280,017,520
Treasury shares		
Beginning	8,549,592	8,550,463
Increase/decrease	871	(49,933)
Ending	8,550,463	8,500,530

Capital surplus

Capital surplus consists of capital reserve and other capital surplus.

The Companies Act in Japan (hereinafter referred to as the “Company Act”) stipulates that over half of the capital contributed from the issue of the shares must be included in share capital by resolution of the General Meeting of Shareholders.

Retained earnings

Retained earnings consist of legal reserve and other retained earnings.

The company Act requires that 10% of dividend payment must be appropriated as capital reserve or legal reserve till their aggregate amount equals to 25% of the capital shares. Legal reserve can be used for deficit compensation and can be reversed by the resolution of the general meeting of the shareholders.

(４) Other components of equity

- Equity securities measured at fair value through other comprehensive incomes

  This is the accumulated difference of changes in the fair value of financial assets. The amount recognized in other comprehensive income will be reclassified to retained earnings if the financial asset is derecognized or the fair value declined significantly.

- Premeasurement of defined benefit plans

  Premeasurement of defined benefit plans include the effect of any variances between actuarial assumptions at the beginning of the year and actual results, the effects of changes in actuarial assumptions, actual return on plan assets and interest income on plan assets(excluding amounts included in net interest on the net defined benefit liability (asset). Premeasurements of defined benefit plans are recognized in other comprehensive income and immediately reclassified to retained earnings from other components of equity in the period when they occur.

- Exchange difference on translation of foreign operations

  Foreign currency translation differences arise from the translation of financial statements of foreign operations prepared in foreign currencies. The exchange difference on the transition date is all transferred to retained earnings because the group adopted the IFRS1 exemptions.

Other components of equity comprise the following:

	Remeasurment of defined benefit plans	equity securities measured at fair value through other comprehensive incomes	Exchange difference on translation of foreign operations	Total
April 1, 2018	17,459	—	9,636	27,095
Other comprehensive income	(7,889)	(87)	(12,488)	(20,464)
Transfer to retained earnings	(287)	87	—	(200)
March 31, 2019	9,283	—	(2,852)	6,431
Other comprehensive income	(2,509)	201	(30,152)	(32,460)
Transfer to retained earnings	(340)	(201)	—	(541)
March 31, 2020	6,434	—	(33,004)	(26,570)

NOTE 20 DIVIDENDS

- Payment of dividends

Fiscal year ended on March 31, 2019

Date of Resolution	Type of stocks	Amount of dividend in millions of Yen	Dividend per share (Yen)	Record date	Effective date
General meeting of Shareholders on June 27, 2018	Common stock	13,845	51	March 31, 2018	June 28, 2018
Board of directors on October 30, 2018	Common stock	2,715	10	September 30, 2018	November 28, 2018

Fiscal year ended on March 31, 2020

Date of Resolution	Type of stocks	Amount of dividend in millions of Yen	Dividend per share (Yen)	Record date	Effective date
General meeting of Shareholders on June 26, 2019	Common stock	14,116	52	March 31, 2019	June 27, 2019
Board of directors on October 30, 2019	Common stock	2,715	10	September 30, 2019	November 28, 2019

- Record date is belong to current fiscal year but the effective date belong to the next fiscal year

Fiscal year ended on March 31, 2019

Date of Resolution	Type of stocks	Source of dividends	Amount of dividend in millions of Yen	Dividend per share (Yen)	Record date	Effective date
General meeting of Shareholders on June 26, 2019	Common stock	Retained earnings	14,116	52	March 31, 2019	June 27, 2019

Fiscal year ended on March 31, 2020

Date of Resolution	Type of stocks	Source of dividends	Amount of dividend in millions of Yen	Dividend per share (Yen)	Record date	Effective date
General meeting of Shareholders on June 25, 2020	Common stock	Retained earnings	11,675	43	March 31, 2020	June 26, 2020

NOTE 21 REVENUE

Revenues recognized from contracts with customers

A) Revenue

Makita group has an single business with core activities in the field of production and sales of electric power tools, pneumatic tools and gardening equipment. An analysis of revenue by segments is shown in Note 4 “Segment Information”. The revenue is all from contracts with customers and is recognized at the time of delivery of the product.

B) Contract balance

Assets and liabilities from the contract with customers are as follows:

In millions of Yen

	2019	2020
Assets from the contract with customers	80,511	70,781
Contract liabilities	278	246

Assets from the contract with customers are included in trade receivables and other receivables on the consolidated financial statements. Contract liabilities are included in other current liabilities.

(２) Performance obligation

The normal payment deadline after fulfilling the performance obligation is within 2 months from the billing date. In addition, the contract with customers does not contain any significant financial components.

If the consideration promised in a contract includes a variable amount and the uncertainty related to the variable consideration is subsequently resolved, the variable consideration should be included in the transaction price only if the magnitude of a revenue reversal won’t occur.

⑶ Transaction price allocated to the remaining performance obligation

As there are no transactions with an individual expected contract period exceeding one year, the Group applies practical expedients and omits information on remaining performance obligations.

(4) Assets recognized from the cost of acquiring or fulfilling a contract with a customer

The Group has no assets recognized from the cost of acquiring or fulfilling a contract with a customer.

NOTE 22 COSTS OF SALES, SELLING AND GENERAL ADMINISTRATION EXPENSES

In millions of Yen

	2019	2020
Materials and purchasing	298,110	288,959
Inventories (increase)/decrease	(23,484)	5,378
Employee benefits	75,047	75,452
Advertising	9,383	9,269
Freight expenses	9,388	9,757
Research and development	10,433	10,768
Depreciation and amortization	11,271	14,349
Loss(profit) on disposal of Fixed Assets	113	(808)
Others	22,012	15,447
Total	412,273	428,571

NOTE 23 FINANCIAL INCOME AND FINANCIAL EXPENSES

(1) Financial income comprise the following:

In millions of Yen

	2019	2020
Interest Income		
Financial assets measured at amortized cost	1,587	1,179
Financial assets measured through profit or loss	417	329
Dividend Income		
Financial assets measured at fair value through other comprehensive income	643	712
Gain on sale		
Financial assets measured at amortized cost	0	0
Financial assets measured through profit or loss	1	0
Valuation gain		
Financial assets measured through profit or loss	32	—
Exchange gains or losses(net)	—	338
Total	2,680	2,558

(2) Financial expenses

Financial expenses comprise the following

In millions of Yen

	2019	2020
Interest expenses		
Lease liabilities	0	249
Financial liabilities measured at amortized cost	49	185
Loss on sale		
Financial assets measured at amortized cost	1	3
Financial assets measured through profit or loss	—	0
Loss on valuation of fair value		
Financial assets and liabilities measured through profit or loss	—	159
Exchange gains or losses(net)	1,016	—
Total	1,066	596

NOTE 24 INCOME TAXES

(1) Deferred tax assets and deferred tax liabilities

The allocation of deferred tax assets and liabilities to balance sheet line items at 31 March 2019 is shown in the following table:

In millions of Yen

	April 1 2018	Recognized through profit or loss	Recognized through equity	Recognized through other comprehensive income	March 31,2019
Deferred tax asset					
Property, plant and equipment	2,317	△753	—	—	1,564
Inventories	9,388	△323	—	—	9,065
Tax loss carry forward	21	△15	—	—	6
Accrued expenses	1,754	△342	—	—	1,412
Employee benefit obligation	164	△9	—	39	194
Accrued Bonuses	1,710	△10	—	—	1,700
Undistributed foreign earnings	△7,748	225	—	—	△7,523
Employee benefit asset	△2,766	96	—	△66	△2,736
Financial assets valued on fair value	△4,617	△83	124	3,413	△1,163
Others	△562	149	—	—	△413
Total	△339	△1,065	124	3,386	2,106

The allocation of deferred tax assets and liabilities to balance sheet line items at 31 March 2020 is shown in the following table:

In millions of Yen

	April 1,2019	Recognized through profit or loss	Recognized through equity	Recognized through other comprehensive income	March 31,2020
Deferred tax asset					
Property, plant and equipment	1,564	△400	—	—	1,164
Inventories	9,065	△2,092	—	—	6,973
Tax loss carry forward	6	2	—	—	8
Accrued expenses	1,412	△41	—	—	1,371
Retirement benefit obligation	194	△19	—	29	204
Accrued Bonuses	1,700	40	—	—	1,740
Undistributed foreign earnings	△7,523	1,713	—	—	△5,810
Retirement benefit asset	△2,736	181	—	△104	△2,659
Valuation on debt securities	△1,163	△43	147	1,085	26
Others	△413	△624	—	—	△1,037
Total	2,106	△1,283	147	1,010	1,980

Deferred tax assets and deferred tax liabilities on consolidated statement of financial position

In millions of Yen

	2019	2020
Deferred tax assets	9,342	6,932
Deferred tax liabilities	(7,236)	△4,952
Total	2,106	1,980

The deductible temporary difference and unused tax loss carryforward for which no deferred tax asset is recognized are as follows:

In millions of Yen

	2019	2020
Deductible temporary difference	9,459	10,015
Tax loss carry forward	8,703	8,968

Unused tax losses for which the deferred tax assets are not recognized will expires as following:

In millions of Yen

	2019	2020
No later than 1 year	17	15
Later than 1 year and not later than 2 years	7	291
Later than 2 years and not later than 3 years	74	3
Later than 3 years and not later than 4 years	69	—
Later than 5 years	1,006	938
No limited	7,530	7,721
Total	8,703	8,968

The aggregate amounts of taxable temporary difference associated with investment in subsidiaries and associates for which deferred liabilities were not recognized at March 2019 and 2020 were 142,378million yen and 150,545million yen. The group did not recognize deferred tax liabilities because it was able to control the timing of the temporary difference.

(２) income tax expenses

①Taxes on income comprise the following:

In millions of Yen

	2019	2020
Current tax expense	22,409	16,869
Deferred tax expense		
thereof relating to temporary differences	1,289	1,084
Thereof Tax rate change	30	4
Sub-total	1,319	1,088
Total	23,728	17,957

Reconciliation of effective rate

The details of difference between the effective statutory tax rate and the Group's average actual tax rate consist of the following:

	2019	2020
Effective statutory tax rate	30.2%	30.2%
(Reconciliation)		
Items that are not counted as a deduction permanently such as entertainment expenses	0.3	0.5
Increase/Decrease of unrecognized deferred tax assets	0.1	0.9
Tax spring	(0.1)	△0.0
Change in tax rates	(4.2)	△4.8
Undistributed foreign earnings	3.7	0.9
Others	(0.3)	△0.5
Effective tax rate	29.7%	27.2%

NOTE 25 EARNINGS PER SHARE

（1）The Basis for calculating basic earnings per share

		2019	2020
Net profit attributable to the owners of the parent company	Yen Million	55,750	47,731
Weighted average number of ordinary shares during the period	Number	271,467,574	271,502,528
Basic earnings per share	Yen	205.37	175.80

（2）The Basis for calculating Diluted earnings per share

		2019	2020
Net profit attributable to the owners of the parent company	Yen Million	55,750	-
Adjustments	Yen Million	-	-
Net profit used to calculate diluted earnings per share	Yen Million	55,750	-
Weighted average number of ordinary shares during the period	Number	271,467,574	-
Increase in ordinary shares by stock-option	Number	34,910	-
Weighted average number of ordinary shares after dilution	Number	271,502,484	-
Diluted earnings per share	Yen	205.34	-

Note) Diluted earnings per share for the current consolidated fiscal year is not stated because there are no dilutive potential shares.

NOTE 26 OTHER COMPREHENSIVE INCOME

Other comprehensive income for the period after tax comprises the following:

In millions of Yen

	2019	2020
Items not expected to be reclassified to the income statement in the future		
Equity financial instruments measured at fair value through Other comprehensive income		
Before Tax	(11,302)	(3,594)
Deferred Taxes	3,413	1,085
After Tax	(7,889)	(2,509)
Premeasurement of defined benefit plans		
Before Tax	(60)	276
Deferred Taxes	(27)	(75)
After Tax	(87)	201
Sub-total	(7,976)	(2,308)
Items expected to be reclassified to the income statement in the future		
Exchange difference on translation of foreign operations		
Before Tax	(12,623)	(30,328)
Deferred Taxes	-	-
After Tax	(12,623)	(30,328)
Sub-total	(12,623)	(30,328)
Total	(20,599)	(32,636)

NOTE 27 FINANCIAL INSTRUMENTS

(1)Classification of Financial Instruments

The carrying amount of other financial assets is as follows:

In millions of Yen

	2019	2020
At amortized cost		
Cash and cash equivalents	25,974	16,864
Debt securities	2,311	3,105
Deposit	9,508	8,744
Loans to third party	374	274
Sub-Total	38,167	28,987
At fair value through other comprehensive income		
Equity securities	31,032	26,587
Sub-Total	31,032	26,587
At fair value through Profit or loss		
Debt securities	11,992	7,726
Derivatives	203	486
Sub-Total	12,195	8,212
Total	81,394	63,786
Thereof Current Assets	37,828	25,235
Thereof Non-current Assets	43,566	38,551
Total	81,394	63,786

The carrying amount of other financial liabilities is as follows:

In millions of Yen

	2019	2020
Lease liabilities	161	11,740
At fair value through Profit or loss		
Derivatives	315	622
Sub-total	476	12,362
Thereof Current Liabilities	220	2,468
Thereof Non-current Liabilities	256	9,894
Total	476	12,362

(2) Financial assets measured at fair value through other comprehensive income

Equity securities held by the company for the purpose of maintaining and strengthening business relationships are designated as at fair value through other comprehensive income.

- Names of major equity securities and their fair value are as followings:

Fiscal year March 31, 2019

In millions of Yen

Company name	Fair value
Sharp Corporation	4,366
OMRON Corporation	3,574
Toyota Motor Corporation	3,087
Sumitomo Real Estate Co., Ltd.	2,100
Murata Manufacturing Co., Ltd.	1,845
Suzuki Corporation	1,602
Mitsubishi UFJ Financial Group, Inc.	1,426
SEINO Holdings Co., Ltd.	1,056
Toho Gas Co., Ltd.	1,046
Others	10,930
Total	31,032

Fiscal year March 31, 2020

In millions of Yen

Company name	Fair value
Sharp Corporation	4,068
OMRON Corporation	3,884
Toyota Motor Corporation	3,094
Murata Manufacturing Co., Ltd.	1,832
Sumitomo Real Estate Co., Ltd.	1,207
Mitsubishi UFJ Financial Group, Inc.	1,045
Toho Gas Co., Ltd.	1,031
Fuji Machine Mfg. Co., Ltd.	882
Suzuki Corporation	845
SEINO Holdings Co., Ltd.	840
Others	7,859
Total	26,587

- Dividend Income

In millions of Yen

	2019	2020
Investments derecognized during the period	7	15
Investments held at the end of the period	636	697
Total	643	712

- Derecognized Finance assets measured at fair value through other comprehensive income

The fair value of financial assets derecognized and the cumulative gains or losses are as follows:

In millions of Yen

	2019	2020
Fair value	683	851
Cumulative gains/losses	467	524

The group transfers the cumulative gains/losses arising from changes in the fair value of financial assets measured at fair value through other comprehensive income to retained earnings. The amount recognized in other comprehensive income will be transferred to retained earnings when the assets derecognized or the fair value decreased significantly. The amount transferred to retained earnings was 287 million yen in FY2019 and 340 million yen in FY2020.

(３) Risk management on financial instruments

The group manages financial instrument risk based on the following policies to avoid and mitigate market risk, Interest risk, credit risk and liquidity risk.

- Capital management

The main indicators used by the company in capital management are as follows:

	2019	2020
Capital amount in millions of Yen	572,748	571,275
Capital adequacy ratio (%)	84.2	84.7

- Financial risks

The Group is exposed to financial risks, such as foreign exchange risk, market price fluctuation risk, interest rate risk, credit risk, liquidity risk. The group manages to mitigate the risks as following.

A) **Market risks**

- **Currency risks**

As an enterprise with worldwide operations, the Makita Group conducts business in a variety of currencies from which currency risks arise. In order to hedge currency risks, the Group holds derivative financial instruments such as forward currency exchange.

The group did not apply hedge accounting for these derivative transactions, but determined that these transactions effectively offset the impact of fluctuations in exchange rate.

- **Currency exposure**

At the end of the reporting period, the currency exposure for the following year was as follows:

	2019	2020
U.S. Dollar	3,556	7,379
Euro	(258)	2,544

- **Exchange risk sensitivity analysis**

The following table illustrated the impact on income and equity in the consolidated statement of income from foreign currency-denominated financial instruments held by the Group at the end of each fiscal year if the Japanese yen appreciated by 10% against U.S. dollar and the euro.

In millions of Yen

Currency	2019		2020	
	Profit before tax	After tax	Profit before tax	After tax
U.S. Dollar	(36)	(25)	(74)	(52)
Euro	3	2	(25)	(18)

- **Stock price fluctuation risk management**

The Group held marketable equity securities and exposed to price fluctuation risk. In order to manage this risk, the group regularly reviews market prices and financial conditions of the issuers, and review the holding status appropriately. The effects of the 1% decline in market prices on other comprehensive income (after tax effects) on listed shares held by the Group at the transition date, the end of the previous consolidated fiscal year and the end of the current consolidated fiscal year are as follows:

In millions of Yen

	2019	2020
Other comprehensive income(After tax)	(208)	(177)

B) Interest risk

The Group's borrowings and lease obligation generally have fixed interest rates.

Therefore, the interest rate risk is not important for the Group and interest rate risk sensitivity analysis has not been conducted.

There were no outstanding balances of floating interest rate at the transition date, the end of the previous consolidated fiscal year and the end of the current consolidated fiscal year.

Credit risk

- Credit risk management

The Group is exposed to credit risk if the counterparties default on contractual obligations resulting in financial losses to the group.

Note and accounts receivables are trade receivables that expose the Group to customer credit risk. The Group sets up credit limits for business partners in accordance with the credit management rules, the sales management department regularly monitors the status of major business partners, and manages due dates and balances for each business partner to identify quickly any concerns about collection due to deterioration of financial conditions.

The Group has no overly concentrated credit risk with respect to a single business partner or the group to which the business partner belongs.

The Group's fund management is exposed to the credit risk of the depositors and bond issuers.

Based on the Fund Management Guidelines, cash and cash equivalents and other financial assets the Group holded are issued by high-rated financial institutions, therefore the credit risk the group exposed is limited.

- Credit risk exposure

Credit risk exposure related to trade receivables and other receivables is present as following by days past due:

In millions of Yen

	2019	2020
Not due	76,276	65,674
Less than 30 days	2,315	3,843
Over 30days less than 60days	526	171
Over 60days less than 90days	462	386
Over 90days	932	707
Total	80,511	70,781

- Allowances for doubtful receivables

The changes of the allowances for doubtful receivables are as following:

In millions of Yen

	2019	2020
Beginning balance	1,340	1,061
Increase during the year	179	355
Decrease during the year(purpose use)	(13)	(70)
Decrease during the year (reversal)	(423)	(80)
Exchange difference on translation of foreign operations	(22)	(84)
Ending balance	1,061	1,182

- Liquidity risk

Liquidity risk is the risk that the Group will not be able to fulfill its obligations relating to pay financial liabilities that come due. The group stipulated its financial plan to understand its liquidity and consistently ensure the availability of sufficient funding to reduce the liquidity risk.

Financial year ended March 31, 2019 In millions of Yen

	Book value	Cash flow on contract	Within 1year	Over 1 year within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade liabilities and other liabilities	38,904	38,904	38,904	—	—
Loan	11,799	11,910	11,910	—	—
Lease liabilities	161	176	44	132	—
Derivative financial liabilities					
Currency related derivatives					
Cash inflow	17,940	17,940	17,940	—	—
Cash outflow	18,255	18,255	18,255	—	—
Sub-total	315	315	315	—	—

Financial year ended March 31, 2020 In millions of Yen

	Book value	Cashflow on contract	Within 1year	Over 1 year within 5 years	Over 5 years
Non-derivative financial liabilities					
Trade liabilities and other liabilities	34,959	34,959	34,959	—	—
Loan	7,997	8,042	8,042	—	—
Lease liabilities	11,740	12,789	2,695	5,962	4,132
Derivative financial liabilities					
Currency related derivatives					
Cash inflow	15,703	15,703	10,096	5,607	—
Cash outflow	16,325	16,325	10,265	6,060	—
Sub-total	622	622	169	453	—

(４) Fair value

① Fair value hierarchy

Level 1 : Fair value measured with quoted prices in active market for identical assets and liabilities

Level 2 : Fair value measured with inputs other than quoted prices categorized within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 : Fair value measured with inputs not based on observable market data for the asset or liability

② Measurement of fair value

The fair value of financial assets and liabilities are decided as following:

(Cash and Cash equivalent, Trade receivables and other receivables, Trade liabilities and other liabilities)

Carrying amounts approximate fair value because these are settled in the short term.

(Borrowings)

Carrying amounts approximate fair value because all repayments are made within one year

(Other financial assets and financial liabilities)

Regarding the other financial assets, time deposits longer than 3 months, carrying amounts approximate fair value because they are settled in the short term. Equity securities are designated at fair value measured through other comprehensive income and are measured using market prices on exchanges.

Debt securities measured at fair value through profit or loss is calculated on the price on the exchange or the price presented by the correspondent financial institution.

Derivative instruments measured at fair value through profit or loss is calculated based on observable market conditions such as exchange rates, interest rates and volatility.

- Financial instruments measured at amortized cost

  The carrying amount and fair value hierarchy of financial asset measured at previous fiscal year ending on March 31,2019 and current fiscal year ending on March 31, 2020 are as following:

March 31, 2019

In millions of Yen

	Book value	Fair value			
		Level 1	Level 2	Level 3	total
Debt securities	2,311	1,003	1,304	-	2,307

March 31, 2020

In millions of Yen

	Book value	Fair value			
		Level 1	Level 2	Level 3	total
Debt securities	3,105	299	2,786	-	3,085

- Fair value of the financial assets and liabilities measured at fair value

Fiscal year ending on March 31, 2019

In millions of Yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	29,806	—	1,226	31,032
Financial assets measured at fair value through profit or loss				
Derivative assets	—	203	—	203
Debt securities	3,604	8,332	56	11,992
Total	33,410	8,535	1,282	43,227
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	315	—	315
Total	—	315	—	315

Fiscal year ending on March 31, 2020

In millions of Yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	25,369	—	1,216	26,587
Financial assets measured at fair value through profit or loss				
Derivative assets	—	486	—	486
Debt securities	3,628	4,057	41	7,726
Total	28,997	4,543	1,259	34,799
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	622	—	622
Total	—	622	—	622

Finance assets classified as level1 is mainly the publicly listed stocks and trade in active market。 Publicly listed stocks are based on quoted prices in active markets where there is sufficient trading volume and frequent trading.

Finance assets classified as level2 are mainly asset management products and derivatives. Asset management products are assessed based on the price that counterparty financial institutions calculate based on observable market data. Derivatives are mainly exchange contracts and are calculated based on the basic conditions observable in the market such as exchange rates.

Finance assets classified as level3 is primarily the unlisted equity securities. In accordance with the Group's accounting policies, the fair value is measured using the most recently available data.

NOTE 28 RELATED PARTY RELATIONSHIPS

（1） Transactions with related parties

Fiscal year 2019

In millions of Yen

	Company	**Supplies and services performed**	Transaction Amount	Outstanding balance
Other related parties	Maruwa Co. Ltd.	Advertising expense	2	—
Other related parties	Toa Co. Ltd.	Purchase of materials and production equipment	97	6

Fiscal year 2020

In millions of Yen

	Company	Supplies and services performed	Transaction Amount	Outstanding balance
Other related parties	Maruwa Co. Ltd.	Advertising expense	2	—
Other related parties	Toa Co. Ltd.	Purchase of materials and production equipment	90	3

(２) Primary executive management compensation

Primary executive management includes the member of the Board of directors and executive officers of the company. Primary executive management compensation consists of the following:

In millions of Yen

	2019	2020
Short-term benefits	346	317
Compensation and bonus	140	145
Share-based payments	40	41
Total	526	503

NOTE 29 CASH FLOW INFORMATION

The changes in liabilities related to financing activities are as follows

Fiscal year 2019

In millions of Yen

	April 1,2018	Change with cashflow fluctuation	Change with cashflow fluctuation		March 31, 2019
			Exchange difference of foreign operations	Lease obligation	
Short-term Borrowings	3,361	8,704	(266)	—	11,799
Lease obligation	183	(36)	7	7	161
Total	3,544	8,668	(259)	7	11,960

Fiscal year 2020

In millions of Yen

	April 1,2019	Change with cashflow fluctuation	Change with cashflow fluctuation		March 31, 2020
			Exchange difference of foreign operations	Lease obligation	
Short-term Borrowings	11,799	(3,461)	(341)	—	7,997
Lease obligation	161	(2,537)	(497)	14,613	11,740
Total	11,960	(5,998)	(838)	14,613	19,737

NOTE 30 PRINCIPLE SUBSIDRIES

Principle subsidiaries consist of the followings. Voting rights on March 31, 2020 has no significant change from the former year.

Company name	Country	Capital (Thousand)	Principle business	Voting rights Proportion of Ownership (%)
Makita U.S.A.Inc.	USA Los Angeles	161,400	Sales of power tools	100.0
Makita Corporation of America	USA Atlanta	73,600	Production of power tools	100.0 (80.0)
Makita Canada Inc.	Canada Toronto	16,000	Sales of power tools	100.0
Makita (U.K.) Ltd.	United Kingdom London	21,700	Sales of power tools	100.0 (100.0)
Makita Manufacturing Europe Ltd.	United Kingdom Telford	37,600	Production of power tools	100.0 (100.0)
Makita France SAS	France Bussy Saint Georges	12,436	Sales of power tools	55.0 (55.0)
Makita S.p.A.	Italy Milan	16,000	Sales of power tools	100.0 (100.0)
Makita Verkzeik G.m.b.H. (Germany)	Germany Ratingen	7,669	Sales of power tools	100.0 (99.0)
Makita Engineering Germany G.m.b.H.	Germany Hamburg	3,105	Manufacture and sale of horticultural equipment	100.0 (10.6)
Makita Verkzeik G. m. B. H. (Austria)	Austria Vienna	12,173	Sales of power tools	100.0 (100.0)
Makita Sp.zo.o.	Poland Bielsko Beer	17,016	Sales of power tools	100.0 (100.0)
Makita Oy	Finland Helsinki	100	Sales of power tools	100.0 (100.0)
Makita LLC	Russia Moscow	83,207	Sales of power tools	100.0 (100.0)
Makita (China) Co., Ltd.	China Jiangsu Province Kunshan	80,000	Manufacture and sale of power tools	100.0
Makita (Kunshan) Co., Ltd.	China Jiangsu Province Kunshan	25,000	Production of power tools	100.0
Makita Australia Pty. Ltd.	Australia Sydney	13,000	Sales of power tools	100.0
Makita de Brazil Ltda.	Brazil Pontagrosa	717,495	Manufacture and sale of power tools	99.9
Makita Gulf FZE	United Arab Emirates Dubai	22,391	Sales of power tools	100.0
Other companies 35				

NOTE 31. SIGNIFICANT SUBSEQUENT EVENTS

There were no significant subsequent events.

(TRANSLATION)

Independent Auditor's Report on the Financial Statements

and

Internal Control Over Financial Reporting

To the Board of Directors of Makita Corporation:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Makita Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2020, and the consolidated statements of profit or loss, comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Artilce 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board Members and Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Audit of the Internal Control Report

Opinion

We also have audited the accompanying internal control report of Makita Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group") as at March 31, 2020.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as at March 31, 2020, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of the internal control report in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Internal Control Report* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the internal control report in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and Audit & Supervisory Board 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.

Audit & Supervisory Board Members and Audit & Supervisory Board are responsible for overseeing and examining the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor's Responsibilities for the Audit of the Internal Control Report

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and Audit & Supervisory Board regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide Audit & Supervisory Board Members and Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan

Yasuyuki Morimoto

Designated Engagement Partner
Certified Public Accountant

Masaki Kawaguchi

Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Nagoya Office, Japan
June 26, 2020