Makita Corporation

Additional Information
for the year ended March 31, 2021

Consolidated Financial Statements

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

CONTENTS

Consolidated Statement of Financial Position

In Millions of Yen

	Notes	2020	2021
ASSETS			
Current Assets			
Cash and Cash equivalents	5	143,439	148,640
Trade and other receivables	6 ,21	69,599	95,691
Inventories	7	214,560	267,547
Other financial assets	27	25,235	18,227
Other current assets	8	7,633	10,223
Total current assets		460,466	540,328
Non-current assets			
Property, plant and equipment	9	146,649	189,366
Goodwill and Intangible assets	10	8,749	9,364
Other financial assets	27	38,551	51,011
Employee benefits assets	15	9,511	10,685
Deferred tax assets	24	6,932	8,860
Other non-current assets	8	3,706	3,264
Total non-current assets		214,098	272,550
Total assets		674,564	812,878

In Millions of Yen

	Notes	2020	2021
LIABILITIES			
Current liabilities			
Trade and other payables	12	34,959	59,792
Borrowings	13	7,997	2,612
Other financial liabilities	27	2,468	4,080
Income tax payables		3,757	11,218
Provisions	17	2,931	3,665
Other current liabilities	14,21	27,264	40,431
Total current liabilities		79,376	121,798
Non-current liabilities			
Employee benefit obligations	15	3,138	3,406
Other financial liabilities	27	9,894	11,764
Provisions	17	1,248	1,421
Deferred tax liabilities	24	4,952	10,954
Other non-current liabilities	14	208	209
Total non-current liabilities		19,440	27,754
Total liabilities		98,816	149,552
EQUITY			
Share capital	19	23,805	23,805
Capital surplus	19	45,531	45,559
Retained earnings	19	540,063	588,644
Treasury shares	19	(11,554)	(11,543)
Other components of equity	19	(26,570)	11,390
Total equity attributable to owners of the parent		571,275	657,855
Non-controlling interests		4,473	5,471
Total equity		575,748	663,326
Total liabilities and equity		674,564	812,878

Consolidated Statement of Profit or Loss

In millions of Yen, per share amounts in Yen

	Notes	2020	2021
Revenue	4，21	492,617	608,331
Cost of sales	22	(323,776)	(405,282)
Gross profit		168,841	203,049
Selling and general administrative expenses	22	(104,795)	(114,585)
Operating profit	4	64,046	88,464
Financial income	4，23	2,558	1,813
Financial expenses	4，23	(596)	(3,078)
Profit before tax	4	66,008	87,199
Income tax expense	24	(17,957)	(24,515)
Profit for current year		48,051	62,684
Attributable to:			
Owners of the parent		47,731	62,018
Non-controlling interests		320	666
Earnings per share	25		
Basic earnings per share		175.80	228.41

Consolidated statements of Comprehensive Income

In millions of Yen

	Notes	2020	2021
Profit for current year		48,051	62,684
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		(2,509)	9,072
Remeasurements of defined benefit plans		201	953
Total of items that will not be reclassified to profit or loss		(2,308)	10,025
Items that may be reclassified subsequently to profit or loss			
Exchange difference on translation of foreign operations		(30,328)	29,220
Total of items that may be reclassified subsequently to profit or loss		(30,328)	29,220
Other comprehensive income, net of income taxes	26	(32,636)	39,245
Total comprehensive income		15,415	101,929
Attributable to:			
Owners of Makita		15,271	100,931
Non-controlling interests		144	998

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, 2019		23,805	45,571	508,622	(11,681)	6,431	572,748	4,474	577,222
Profit for currency year				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
Net income				62,018			62,018	666	62,684
Other comprehensive income, net of income taxes	26					38,913	38,913	332	39,245
Total comprehensive income		—	—	62,018	—	38,913	100,931	998	101,929
Dividends	20			(14,390)			(14,390)	—	(14,390)
Purchase of treasury shares	19				(4)		(4)		(4)
Share-based payment transactions	16		28		15		43		43
Transfer from other components of equity to retained earnings	19			953		(953)	—		—
Total transactions with owners		—	28	(13,437)	11	(953)	(14,351)	—	(14,351)
Balance at March 31, 2021		23,805	45,559	588,644	(11,543)	11,390	657,855	5,471	663,326

Consolidated Statement of Cash Flows

In millions of Yen

	Notes	2020	2021
Cash flows from operating activities			
Net income		48,051	62,684
Depreciation and amortization	9,10	14,349	16,491
Income tax expenses	24	17,957	24,515
Financial (income) and expenses		(1,962)	1,265
(Gains) losses on sale and disposal of property, plant and equipment, and intangible assets		(808)	817
(Increase) decrease in trade and other receivables		4,396	(21,481)
(Increase) decrease in inventories		(9,148)	(35,990)
Increase(decrease) in trade and other payables		(1,499)	21,868
Increase, decrease in asset and liability of Pension		586	(152)
Increase in guarantee deposits		741	1,633
Others		3,538	8,178
Subtotal		76,201	79,828
Dividends received		712	688
Interest received		1,488	730
Interest paid		(431)	(356)
Income taxes paid		(20,660)	(16,353)
Cash flows from operating activities		57,310	64,537
Cash flows from investing activities			
Additions to intangible assets and property, plant and equipment		(44,409)	(49,855)
Disposal of property, plant and equipment		2,574	136
Purchase of investments		(4,000)	(3,740)
Disposal and redemption of investments		7,641	8,157
Payments to time deposit		(33,534)	(46,829)
Proceeds from withdrawal of time deposits		40,960	48,792
Others		262	426
Cash flows from investing activities		(30,506)	(42,913)
Cash flows from financing activities			
Increase(decrease) in short-term borrowings	29	(3,461)	(5,666)
Purchase and re-issuance of treasury shares		46	(4)
Dividends paid	20	(16,831)	(14,390)
Lease liabilities paid	29	(2,537)	(2,998)
Others		(148)	22
Cash flows from financing activities		(22,931)	(23,036)
Effect of changes in exchange rates on cash and cash equivalents		(6,946)	6,613
Increase(Decrease) in cash and cash equivalents		(3,073)	5,201
Cash and cash equivalents at beginning of period	5	146,512	143,439
Cash and cash equivalents at end of period	5	143,439	148,640

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE1 BASIS OF PREPARATION

The consolidated financial statements of Makita Group for the year ended March 31, 2021, 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, 2021 were authorized for publication by management on June 28.

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:

- 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.
- 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

None of the standards and interpretation guidelines that have been newly established or revised by the approval date of the consolidated financial statements have a significant impact.

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 20 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	4-17 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 reassement 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 culculated 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 (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 expenses	—	—	—	—	—	—	—	(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.

Current consolidated fiscal year (2020.4.1~2021.3.31)

In millions of yen

	Japan	Europe	North-America	Asia	Subtotal	Others	Reconciliation to Consolidated Financial Statements	Consolidated
Revenue								
External Revenue	131,329	284,419	92,812	25,238	533,798	74,533	—	608,331
Inter-segment revenue	247,385	12,597	4,220	265,547	529,749	568	(530,317)	—
Total revenue	378,714	297,016	97,032	290,785	1,063,547	75,101	(530,317)	608,331
Operating Income	31,102	29,837	3,681	20,722	85,342	4,358	(1,236)	88,464
Financial income	—	—	—	—	—	—	—	1,813
Financial Cost	—	—	—	—	—	—	—	(3,078)
Income before income tax	—	—	—	—	—	—	—	87,199
Other items								
Depreciation and Amortization	5,632	3,895	1,235	5,103	15,865	808	(182)	16,491
Segment Assets	517,110	291,813	81,723	177,055	1,067,701	75,034	(329,857)	812,878
Capital expenditures	24,019	13,712	2,741	8,687	49,159	943	(247)	49,855

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 (1,236) million includes the elimination of intersegment transactions.
   ② Depreciation and amortization adjustment of (182) million is the effect of consolidation adjustment between segments.
   ③ The adjustment amount of (329,857) million yen for segment assets includes inter-segment transaction elimination

amount.

④ The adjustment of capital expenditure of (247) million yen is the effect of consolidated adjustment between segments.

Products and Service Information

In millions of Yen

	Previous consolidated fiscal year (2019.4.1~2020.3.31)	Current consolidated fiscal year (2020.4.1~2021.3.31)
electric power tools	292,497	356,232
pneumatic tools and gardening equipment	112,678	147,937
Parts, accessories and maintenance	87,442	104,162
Total	492,617	608,331

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 (2019.4.1~2020.3.31)	Current consolidated fiscal year (2020.4.1~2021.3.31)
Japan	100,697	113,048
Europe	216,230	282,725
North-America America	72,304 (63,179)	90,945 (80,387)
Asia	38,998	39,331
Others	64,388	82,282
Total	492,617	608,331

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

In millions of Yen

	Previous consolidated fiscal year (2020.3.31)	Current consolidated fiscal year (2021.3.31)
Japan	69,686	89,522
Europe （Romania）	36,624 （15,359)	50,738 （19,864)
North-America	10,830	12,711
Asia （China）	32,436 (23,938)	38,912 (30,049)
Others	9,528	10,111
Total	159,104	201,994

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 (2020.3.31)	Current consolidated fiscal year (2021.3.31)
Cash and deposit	87,030	121,393
Deposit within 3 months	56,409	27,247
Total	143,439	148,640

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 (2020.3.31)	Current consolidated fiscal year (2021.3.31)
Notes receivables and Accounts receivables	70,781	97,246
Allowance of bad debt	(1,182)	(1,555)
Total	69,599	95,691

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

NOTE 7 INVENTORIES

Inventories comprise the following:

	Previous consolidated fiscal year (2020.3.31)	Current consolidated fiscal year (2021.3.31)
Finished goods and goods for sale	175,510	215,015
Work in progress	3,402	4,633
Raw materials and supplies	35,648	47,899
Total	214,560	267,547

- The Cost of sales includes inventories recognized as expense amounted to 320,523 million and 401,175 respectively, in fiscal year 2020 and 2021
- Write-downs to net realizable value amounted to 2,940 and 2,211 million, respectively, in fiscal year 2020 and 2021
- The amount of inventories recorded in the consolidated financial statements for the previous consolidated fiscal year and the current consolidated fiscal year was 214,560 million yen and 267,547 million yen, and the devaluation of book value due to the decline in net realizable value was 19,566 million yen.It is recorded after deducting yen and 20,972 million yen.
- 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 (2020.3.31)	Current consolidated fiscal year (2021.3.31)
Tax receivable	1.588	670
Accrued expenses	1,949	1,983
Others	7,802	10,834
Total	11,339	13,487
Thereof Current	7,633	10,223
Thereof Non-Current	3,706	3,264
Total	11,339	13,487

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
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
Additions	5,820	10,178	1,454	30,558	4,147	52,157
Sales and Disposals	(538)	(5,968)	(11)	(1,457)	(728)	(8,702)
Reclassification	18,820	3,921	610	(23,351)	—	—
Exchange differences on translation of foreign operations	4,466	5,058	1,038	1,238	1,010	12,810
March 31, 2021	136,049	119,624	31,526	34,212	18,152	339,563

Accumulated depreciation and accumulated impairment

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Right-of-use asset	Total
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	1,184	2,559	—	—	125	3,868
March 31, 2020	(57,876)	(76,526)	—	—	(2,247)	(136,649)
Depreciation	(3,306)	(8,498)	—	—	(2,610)	(14,414)
Sales and Disposals	520	4,971	—	—	669	6,160
Exchange differences on translation of foreign operations	(1,670)	(3,195)	—	—	(429)	(5,294)
March 31, 2021	(62,332)	(83,248)	—	—	(4,617)	(150,197)

Carrying Amount

In millions of Yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Right-of-use asset	Total
March 31,2020	49,605	29,909	28,435	27,224	11,476	146,649
March 31,2021	73,717	36,376	31,526	34,212	13,535	189,366

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 33,129 and 36,898 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 31,2020	9,627	779	1,070	11,476
March 31,2021	11,619	764	1,152	13,535

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 1,2019	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
Acquisition	—	—	668	93	270	1,031
Internal development	—	1,721	—	—	—	1,721
Sales and disposals	—	—	(387)	—	(18)	(405)
Exchange differences on translation of foreign operations	—	—	348	—	52	400
March 31,2021	862	9,995	6,508	2,942	2,282	22,589

Accumulated amortization and Accumulated impairment losses

In millions of Yen

	Goodwill	Intangible Assets				Total
		Development Expenses	Software	Trademark	Others	
April 1, 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)
depreciation		(1,013)	(804)	(217)	(43)	(2,077)
Impairment loss	(141)	—	—	—	—	(141)
Sales and disposals	—	—	379	—	17	396
Exchange differences on translation of foreign operations	—	—	(265)	—	(45)	(310)
March 31, 2021	(141)	(5,277)	(4,850)	(2,325)	(632)	(13,225)

Carrying amount

In millions of Yen

	Goodwill	Intangible Assets				Total
		Research	Software	Trademark	Others	
March31,2020	862	4,010	1,719	741	1,417	8,749
March31,2021	721	4,718	1,658	617	1,650	9,364

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 last 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.

In the current consolidated fiscal year, an impairment loss of 141 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 goodwill. As a result of considering future collectability, the valuation amount is set to “0”.

(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 2020 and 2021 amounted to 10,768 and 11,770 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 expenses relating to lease consists of the followings.

In millions of Yen

	2020	2021
Recognition Exemption－Short-term lease expenses	801	578
Recognition Exemption－Low-valued lease expenses （exclude short-term lease）	161	96
Depreciation of Right-of-use assets		
Buildings and structures	1,941	2,190
Machinery and vehicles	312	344
Land	39	76
Total of depreciation	2,292	2,610
Interest expenses on lease liabilities	249	288

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

In millions of Yen

Total cashout flow	3,499	3,672

Note 9　Property, plant and equipment presents additions and classification of right-of-use assets

Note 27　Financial Instrument presents maturity analysis of lease liability

NOTE 12 TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables comprise the following:

In millions of Yen

	2020	2021
Trade payables	25,870	49,826
Non-trade payables	9,089	9,966
Total	34,959	59,792

NOTE 13 BORROWINGS

In millions of Yen

	2020	2021
Short-term borrowings	7,997	2,612
Total	7,997	2,612

The average interest rate for loans from banks in fiscal year 2020 and 2021 were 0.45％ and 0.22％ respectively.

NOTE 14 OTHER LIABILITIES

Other liabilities comprise the following:

In millions of Yen

	2020	2021
Accrued expenses	10,764	18,022
Accrued payroll and bonus	10,433	13,337
Others	6,275	9,281
Total	27,472	40,640
Thereof Current	27,264	40,431
Thereof Non-current	208	209
Total	27,472	40,640

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
	2020	2021
Present value of defined benefit obligation	(39,612)	(40,507)
Present value of Plan asset	45,985	47,786
Total	6,373	7,279
Amount recognized in consolidated statement of financial position		
Retirement benefit assets	9,511	10,685
Retirement benefit liabilities	(3,138)	(3,406)

(b) Defined benefit obligations

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

		In millions of Yen
	2020	2021
Defined benefit obligations at beginning of year	39,583	39,612
Service cost	1,727	1,668
Interest expenses	224	243
Premeasurement		
Actuarial(gains)losses arising from changes in demographic assumptions	92	268
Actuarial(gains)losses arising from changes in financial assumptions	54	(90)
Actuarial(gains)losses arising from others	22	103
Past service cost	—	—
Benefits paid	(1,902)	(1,686)
Exchange differences on translation of foreign operations	(188)	389
Defined benefit obligations at ending of year	39,612	40,507

The weighted average duration of the defined benefit obligations was 12.4 years at March 31, 2020 and 12.8 years at March 31, 2021.

(c) Plan asset

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

		In millions of Yen
	2020	2021
The fair value of plan assets at beginning of year	45,893	45,985
Interest income	239	262
Contribution by employees	1,179	1,212
Measurements-Return on Plan asset	444	1,661
Benefits paid	(1,730)	(1,471)
Exchange differences on translation of foreign operations	(40)	137
The fair value of plan assets at end of year	45,985	47,786

The group plans to contribute 1,217 Million in the year ending March 31, 2022.

The details of plan asset are as followings:

In millions of Yen

	2020		2021	
	Market price in an active market		Market price in an active market	
	quoted	quoted	quoted	quoted
Cash and cash equivalents	7,660	—	7,392	—
Equity financial products				
Equity stock	717	—	666	—
Joint investment trust(domestic)	—	594	—	1,541
Joint investment trust(overseas)	—	1,090	—	2,786
Debt financial instruments				
Joint investment trust(domestic)	—	11,881	—	8,486
Joint investment trust(overseas)	—	5,542	—	6,362
Life Insurance general account	—	8,615	—	9,322
Alternative investment	—	9,886	—	11,231
Total	8,377	37,608	8,058	39,728

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:

	2020	2021
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

	2020	2021
Discount rate		
0.25％increase	(1,149)	(1,226)
0.25％decrease	1,211	1,292

- Defined contribution plans

Expenses related to the defined contribution plan recognized in profit or loss were 394 million yen and 463 million yen for the fiscal year ended March 31, 2020 and March 31, 2021.

(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, 2020 and 2021 were 75,411 million yen and 85,649 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.

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	July 20, 2020
Granted shares	12,220	10,726
Fair value of grant date	3,435 Yen	3,915 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	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 2020 and 2021 is as following:

	March31, 2020	March31, 2021
Expenses on Stock-option plan	10	—
Expenses on Restricted stock compensation plan	31	43
Total	41	43

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, 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
Additions	3,249	113	3,362
Decrease(provision used)	(2,617)	(36)	(2,653)
Decrease(provision reversed)	(7)	(24)	(31)
Exchange differences on translation of foreign operations	260	(31)	229
Balance as of March 31, 2021	4,281	805	5,086

	2020	2021
Thereof Current	2,931	3,665
Thereof Non-current	1,248	1,421

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
	2020	2021
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	8,550,463	8,500,530
Increase/decrease	(49,933)	(10,134)
Ending	8,500,530	8,490,396

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, 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)
Other comprehensive income	9,072	953	28,888	38,913
Transfer to retained earnings	—	(953)	—	(953)
March 31, 2021	15,506	—	(4,116)	11,390

NOTE 20 DIVIDENDS

- Payment of dividends

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

Fiscal year ended on March 31, 2021

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 25, 2020	Common stock	11,675	43	March 31, 2020	June 26, 2020
Board of directors on October 30, 2020	Common stock	2,715	10	September 30, 2020	November 26, 2020

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

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

Fiscal year ended on March 31, 2021

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, 2021	Common stock	Retained earnings	16,020	59	March 31, 2021	June 28, 2021

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

	2020	2021
Assets from the contract with customers	70,781	97,246
Contract liabilities	246	478

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

	2020	2021
Materials and purchasing	288,959	390,489
Inventories (increase)/decrease	5,378	(52,987)
Employee benefits	75,452	85,692
Advertising	9,269	9,960
Freight expenses	9,757	12,988
Research and development	10,768	11,770
Depreciation and amortization	14,349	16,491
Loss(profit) on disposal of Fixed Assets	(808)	817
Others	15,447	44,647
Total	428,571	519,867

NOTE 23 FINANCIAL INCOME AND FINANCIAL EXPENSES

(1) Financial income comprise the following:

In millions of Yen

	2020	2021
Interest Income		
Financial assets measured at amortized cost	1,179	702
Financial assets measured through profit or loss	329	21
Dividend Income		
Financial assets measured at fair value through other comprehensive income	712	688
Gain on sale		
Financial assets measured at amortized cost	0	—
Financial assets measured through profit or loss	0	16
Valuation gain		
Financial assets measured through profit or loss	—	386
Exchange gains or losses(net)	338	—
Total	2,558	1,813

(2) Financial expenses

Financial expenses comprise the following

In millions of Yen

	2020	2021
Interest expenses		
Lease liabilities	249	288
Financial liabilities measured at amortized cost	185	67
Loss on sale		
Financial assets measured at amortized cost	3	—
Financial assets measured through profit or loss	0	14
Loss on valuation of fair value		
Financial assets and liabilities measured through profit or loss	159	—
Exchange gains or losses(net)	—	2,709
Total	596	3,078

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 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
Employee benefit obligation	194	(19)	—	29	204
Accrued Bonuses	1,700	40	—	—	1,740
Undistributed foreign earnings	(7,523)	1,713	—	—	(5,810)
Employee benefit asset	(2,736)	181	—	(104)	(2,659)
Financial assets valued on fair value	(1,163)	(43)	147	1,085	26
Others	(413)	(624)	—	—	(1,037)
Total	2,106	(1,283)	147	1,010	1,980

The allocation of deferred tax assets and liabilities to balance sheet line items at 31 March 2021 is shown in the following table:

In millions of Yen

	April 1,2020	Recognized through profit or loss	Recognized through equity	Recognized through other comprehensive income	March 31,2021
Deferred tax asset					
Property, plant and equipment	1,164	(216)	—	—	948
Inventories	6,973	1,272	—	—	8,245
Tax loss carry forward	8	(7)	—	—	1
Accrued expenses	1,371	472	—	—	1,843
Retirement benefit obligation	204	7	—	73	284
Accrued Bonuses	1,740	197	—	—	1,937
Undistributed foreign earnings	(5,810)	(1,498)	—	—	(7,308)
Retirement benefit asset	(2,659)	103	—	(500)	(3,056)
Valuation on debt securities	26	(144)	0	(3,924)	(4,042)
Others	(1,037)	91	—	—	(946)
Total	1,980	277	0	(4,351)	(2,094)

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

In millions of Yen

	2020	2021
Deferred tax assets	6,932	8,860
Deferred tax liabilities	(4,952)	(10,954)
Total	1,980	(2,094)

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

In millions of Yen

	2020	2021
Deductible temporary difference	10,015	9,845
Tax loss carry forward	8,968	8,912

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

In millions of Yen

	2020	2021
No later than 1 year	15	8
Later than 1 year and not later than 2 years	291	—
Later than 2 years and not later than 3 years	3	—
Later than 3 years and not later than 4 years	—	—
Later than 5 years	938	1,040
No limited	7,721	7,864
Total	8,968	8,912

The aggregate amounts of taxable temporary difference associated with investment in subsidiaries and associates for which deferred liabilities were not recognized at March 2020 and 2021 were 150,545million yen and 144,398million 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

	2020	2021
Current tax expense	16,869	24,545
Deferred tax expense		
thereof relating to temporary differences	1,084	(39)
Thereof Tax rate change	4	9
Sub-total	1,088	(30)
Total	17,957	24,515

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:

	2020	2021
Effective statutory tax rate	30.2%	30.2%
(Reconciliation)		
Items that are not counted as a deduction permanently such as entertainment expenses	0.5	0.4
Increase/Decrease of unrecognized deferred tax assets	0.9	(0.1)
Tax spring	(0.0)	(0.0)
Change in tax rates	(4.8)	(4.4)
Undistributed foreign earnings	0.9	2.8
Others	(0.5)	(0.8)
Effective tax rate	27.2%	28.1%

NOTE 25 EARNINGS PER SHARE

The Basis for calculating basic earnings per share is shown in the following table:

		2020	2021
Net profit attributable to the owners of the parent company	Yen Million	47,731	62,018
Weighted average number of ordinary shares during the period	Number	271,502,528	271,524,393
Basic earnings per share	Yen	175.80	228.41

Note) Diluted earnings per share for the previous and 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

	2020	2021
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	(3,594)	12,996
Deferred Taxes	1,085	(3,924)
After Tax	(2,509)	9,072
Premeasurement of defined benefit plans		
Before Tax	276	1,380
Deferred Taxes	(75)	(427)
After Tax	201	953
Sub-total	(2,308)	10,025
Items expected to be reclassified to the income statement in the future		
Exchange difference on translation of foreign operations		
Before Tax	(30,328)	29,220
Deferred Taxes	-	-
After Tax	(30,328)	29,220
Sub-total	(30,328)	29,220
Total	(32,636)	39,245

NOTE 27 FINANCIAL INSTRUMENTS

(1)Classification of Financial Instruments

The carrying amount of other financial assets is as follows:

In millions of Yen

	2020	2021
At amortized cost		
Cash and cash equivalents	16,864	14,940
Debt securities	3,105	2,304
Deposit	8,744	7,393
Loans to third party	274	174
Sub-Total	28,987	24,811
At fair value through other comprehensive income		
Equity securities	26,587	39,674
Sub-Total	26,587	39,674
At fair value through Profit or loss		
Debt securities	7,726	4,519
Derivatives	486	234
Sub-Total	8,212	4,753
Total	63,786	69,238
Thereof Current Assets	25,235	18,227
Thereof Non-current Assets	38,551	51,011
Total	63,786	69,238

The carrying amount of other financial liabilities is as follows:

		In millions of Yen
	2020	2021
Lease liabilities	11,740	13,843
At fair value through Profit or loss		
Derivatives	622	2,001
Sub-total	12,362	15,844
Thereof Current Liabilities	2,468	4,080
Thereof Non-current Liabilities	9,894	11,764
Total	12,362	15,844

(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, 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

Fiscal year March 31, 2021

In millions of Yen

Company name	Fair value
Sharp Corporation	6,846
OMRON Corporation	5,961
Toyota Motor Corporation	4,100
Murata Manufacturing Co., Ltd.	2,960
Sumitomo Real Estate Co., Ltd.	1,789
Suzuki Corporation	1,643
Mitsubishi UFJ Financial Group, Inc.	1,534
Fuji Machine Mfg. Co., Ltd.	1,515
Toho Gas Co., Ltd.	1,438
Toyota Tsusho Corporation	1,293
Others	10,595
Total	39,674

- Dividend Income

In millions of Yen

	2020	2021
Investments derecognized during the period	15	0
Investments held at the end of the period	697	688
Total	712	688

- 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

	2020	2021
Fair value	851	0
Cumulative gains/losses	524	0

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 340 million yen in FY2020 and 0 million yen in FY2021.

(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:

	2020	2021
Capital amount in millions of Yen	571,275	657,855
Capital adequacy ratio (%)	84.7	80.9

- 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:

	2020	2021
U.S. Dollar	7,379	(6,661)
Euro	2,544	7,753

- **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	2020		2021	
	Profit before tax	After tax	Profit before tax	After tax
U.S. Dollar	(74)	(52)	67	46
Euro	(25)	(18)	(78)	(54)

- **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

	2020	2021
Other comprehensive income(After tax)	(177)	(268)

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

	2020	2021
Not due	65,674	92,027
Less than 30 days	3,843	1,004
Over 30days less than 60days	171	2,301
Over 60days less than 90days	386	460
Over 90days	707	1,454
Total	70,781	97,246

- Allowances for doubtful receivables

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

In millions of Yen

	2020	2021
Beginning balance	1,061	1,182
Increase during the year	355	675
Decrease during the year(purpose use)	(70)	(64)
Decrease during the year (reversal)	(80)	(171)
Exchange difference on translation of foreign operations	(84)	(67)
Ending balance	1,182	1,555

- 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, 2020 — 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	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	—

Financial year ended March 31, 2021					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	59,792	59,792	59,792	—	—
Loan	2,612	2,616	2,616	—	—
Lease liabilities	13,843	14,588	3,262	6,870	4,456
Derivative financial liabilities					
Currency related derivatives					
Cash inflow	71,929	71,929	66,322	5,607	—
Cash outflow	73,930	73,930	67,635	6,295	—
Sub-total	2,001	2,001	1,313	688	—

(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 31,2020 and current fiscal year ending on March 31, 2021 are as following:

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

March 31, 2021

In millions of Yen

	Book value	Fair value			
		Level 1	Level 2	Level 3	total
Debt securities	2,304	501	1,807	-	2,308

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

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

Fiscal year ending on March 31, 2021

In millions of Yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at fair value through other comprehensive income				
Stocks	38,375	—	1,299	39,674
Financial assets measured at fair value through profit or loss				
Derivative assets	—	234	—	234
Debt securities	4,511	—	8	4,519
Total	42,886	234	1,307	44,427
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	—	2,001	—	2,001
Total	—	2,001	—	2,001

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 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

Fiscal year 2021

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	182	17

(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

	2020	2021
Short-term benefits	317	374
Compensation and bonus	145	146
Share-based payments	41	43
Total	503	563

NOTE 29 CASH FLOW INFORMATION

The changes in liabilities related to financing activities are as follows

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

Fiscal year 2021

In millions of Yen

	April 1,2020	Change with cashflow fluctuation	Change with cashflow fluctuation		March 31, 2021
			Exchange difference of foreign operations	Lease obligation	
Short-term Borrowings	7,997	(5,666)	281	—	2,612
Lease obligation	11,740	(2,998)	509	4,592	13,843
Total	19,737	(8,664)	790	4,592	16,455

NOTE 30 PRINCIPLE SUBSIDIARIES

Principle subsidiaries consist of the followings. Voting rights on March 31, 2021 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	106,217	Sales of power tools	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.