

MAKITA CORP
Form 20-F
July 07, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F**

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2010
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-12602

KABUSHIKI KAISHA MAKITA

(Exact name of registrant as specified in its charter)

MAKITA CORPORATION

(Translation of registrant's name into English)

JAPAN

(Jurisdiction of incorporation or organization)

3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture, Japan

(Address of principal executive offices)

Minobu Kato, +81.566.97.1718, +81.566.98.6907, 3-11-8, Sumiyoshi-cho, Anjo City, Aichi, Japan

(Name, telephone, facsimile number and address of Company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Class

Name of each exchange on which registered

***American Depositary Shares**

Nasdaq Global Select Market

****Common Stock**

* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the registrant's Common Stock.

** No par value. Not for trading, but only in connection with registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of March 31, 2010, 137,760,402 shares of common stock were outstanding excluding 2,244,755 shares of Treasury stock represented by an aggregate of 3,896,087 American Depositary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

þ Yes o No

If this report is an annual or transition report, indicate by mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes þ No

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Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligation under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.GAAP

International Financial Reporting Standards
as issued by International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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Certain References and Information

As used in this annual report, the term FY preceding a year means the twelve-month period ended March 31 of the year referred to. For example, FY2010 refers to the twelve-month period ended March 31, 2010. All other references to years refer to the applicable calendar year. All information contained in this annual report is as of March 31, 2010 unless otherwise specified.

In parts of this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥93 = U.S.\$1.00, the approximate exchange rate of the noon buying rate for Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2010. On June 25, 2010 the noon buying rate for Japanese yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥89.35 = U.S.\$1.00.

As used herein, the Company refers to Makita Corporation and Makita or Makita Group refer to Makita Corporation and its consolidated subsidiaries unless the context otherwise indicates.

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains forward-looking statements that are based on current expectations, estimates, strategies and projections of the Company's management in light of the information currently available to it. The Company and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the Company's filing with the Securities and Exchange Commission and in its reports to shareholders, with respect to Makita's current plans, estimates, strategies and beliefs and other statements that are not historical. Generally, the inclusion of the words plan, strategy, believe, expect, intend, estimate, anticipate, will, similar expressions identify statements that constitute forward-looking statements within the meaning of Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections.

All statements addressing operating performance, events, or developments that Makita expects or anticipates to occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements. Makita undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons.

Such risks and uncertainties are generally set forth in Item 3.D. Risk Factors of this Form 20-F include but are not limited to:

The levels of construction activities and capital investments in Makita's markets

Fluctuations in currency exchange rates

Intense competition in the global power tools market for professional-use

Makita's overseas activities and entry into overseas markets

Makita's inability to develop attractive products

Geographic concentration of Makita's main offices and facilities

Sharp rise in prices of raw materials or failure of Makita to procure necessary raw materials at an adequate price

Failure of Makita's suppliers to deliver materials or parts required for production as scheduled

Failure to maintain cooperative relationships with significant customers and reduction of purchase and sale of Makita's products by significant customers

Failure to protect Makita's intellectual property rights or infringing intellectual property rights of third parties

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Product liability litigation or recalls

Fluctuations in stock market prices

Environmental or other government regulations

Effectiveness of Makita's internal control over financial reporting and the related attestation provided by Makita's auditors

Halts or malfunctioning of Makita's operational network

Makita's ability to retain talented personnel

The foregoing list is not exhaustive. There can be no assurance that Makita has correctly identified and appropriately assessed all factors affecting its business or that the publicly available and other information with respect to these matters is complete and correct.

Additional risks and uncertainties not presently known to Makita or that it currently believes to be immaterial also may adversely impact Makita. Should any risks and uncertainties develop into actual events, these developments could have material adverse effects on Makita's business, financial condition and results of operations.

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Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information**A. Selected financial data**

The following data for each of the five fiscal years ended March 31 have been derived from Makita's audited consolidated financial statements. They should be read in conjunction with Makita's audited consolidated balance sheets as of March 31, 2009 and 2010, the related consolidated statements of income, changes in equity and cash flows for each of the three years ended March 31, 2008, 2009 and 2010 and the notes thereto that appear elsewhere in this annual report. Makita's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and were also included in its Japanese Securities Reports filed with the Director of the Kanto Local Finance Bureau.

Income Statement Data

	Fiscal year ended March 31,					2010 U.S. Dollars in thousands
	2006	2007	2008	2009	2010	
			Yen in millions			
Net Sales	¥229,075	¥279,933	¥342,577	¥294,034	¥245,823	\$ 2,643,258
Operating Income	45,778	48,176	67,031	50,075	30,390	326,774
Net Income	40,633	37,371	46,509	33,712	22,566	242,645
Net Income attributable to shareholders of the Company	40,411	36,971	46,043	33,286	22,258	239,333
			Yen			U.S. Dollars
Net Income per share of Common stock and per ADS						
:Basic	281.1	257.3	320.3	236.9	161.6	1.74
:Diluted	-	-	-	-	-	-

Balance Sheet Data

	Yen in millions					2010 U.S. Dollars in thousands
	2006	2007	2008	2009	2010	
Total Assets	¥326,038	¥368,494	¥386,467	¥336,644	¥349,839	\$ 3,761,710
Cash and Cash equivalents, Time Deposits, and Short-term investments	88,672	102,211	98,142	66,308	104,312	1,121,635
Net Working Capital	181,808	212,183	230,699	199,586	211,336	2,272,430
Short-term Borrowings	1,728	1,892	1,724	239	385	4,140
Long-term Indebtedness	104	53	908	818	544	5,849
Common Stock	23,805	23,805	23,805	23,805	23,805	255,968
Treasury Stock	(258)	(298)	(263)	(6,435)	(6,445)	(69,301)
Makita Corporation Shareholders' Equity	266,584	302,675	316,498	283,485	297,207	3,195,774
Total Equity	¥268,219	¥304,810	¥319,014	¥285,746	¥299,673	\$ 3,222,290

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Total number of shares outstanding	Fiscal year ended March 31,				
	2006	2007	2008	2009	2010
	143,711,766	143,701,279	143,773,625	137,764,005	137,760,402

- Note:
1. Net income per share equals net income attributable to Makita shareholders divided by the average number of outstanding shares of common stock.
 2. Net working capital equals current assets less current liabilities.
 3. Diluted net income per share is not presented, as Makita has no shares or other rights convertible or exchangeable for shares of common stock.

Exchange rates (Japanese yen amounts per U.S. dollar)

The following table sets forth information concerning the exchange rates for Japanese yen and U.S. dollars based on the noon buying rate for cable transfers in Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York. The average Japanese yen exchange rates represent average noon buying rates on the last business day of each month during the previous period.

Fiscal year ended March 31,	Yen per U.S. \$ 1.00			
	High	Low	Average	Year-end
2006	120.93	104.41	113.15	117.48
2007	121.81	110.07	116.92	117.56
2008	124.09	96.88	114.31	99.85
2009	110.48	87.80	100.85	99.15
2010	100.71	86.12	92.49	93.40
2011 (through June 25, 2010)	94.68	89.35	91.47	89.35

2010	Yen per U.S. \$ 1.00					
	January	February	March	April	May	June
High	93.31	91.94	93.40	94.51	94.68	92.33
Low	89.41	88.84	88.43	92.03	89.89	89.35

On June 25, 2010, the noon buying rate for cable transfers in Japanese yen in New York as reported by the Federal Reserve Bank of New York was ¥ 89.35 = U.S.\$1.00.

Cash dividends declared per share of common stock and per ADS

Fiscal year ended March 31,	Yen		U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2006	19	38	0.16	0.32
2007	19	55	0.16	0.47
2008	30	67	0.30	0.67
2009	30	50	0.31	0.53
2010	15	37	0.17	0.41

Makita's basic dividend policy on the distribution of profits is to maintain a dividend payout ratio of 30% or greater, with a lower limit on annual cash dividends of 18 Japanese yen per share. However, in the event special circumstances arise, computation of the amount of dividends will be based on consolidated net income after certain adjustments.

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Note: Cash dividends in U.S. dollars are based on the exchange rates as of the respective payment date, using the noon buying rate for cable transfers in Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York.

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk factors

The following is a summary of some of the significant risks that could affect Makita. Other risks that could affect Makita are also discussed elsewhere in this annual report. Additionally, some risks that may be currently unknown to Makita and other risks that are currently believed to be immaterial, may become material. Some of these statements are forward-looking statements that are subject to the Cautionary Statement with Respect to Forward-Looking Statements appearing elsewhere in this annual report.

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

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

As a result, when economic conditions weaken Japan, Europe, North America, Asia, Central and South America, Oceania, the Middle East and Africa where Makita conducts business, this may have an adverse impact on Makita's financial condition and results of operations. In addition, fluctuations in prices of crude oil or mineral resources and volatility in the stock market may affect construction demand, public investment, capital expenditure and consumption trends, which in turn, may have a negative impact on Makita's financial condition.

The construction markets in developed economies, including Japan, the U.S. and Europe are the major markets for the Company and remain in severe business conditions.

Fiscal crises especially in Greece and other European countries have led to concerns about the stability of the financial system. Credit uncertainty may spread across a substantial number of economies in Europe, leading to adverse market conditions.

If these severe business conditions continue and economic recovery is delayed, construction activities and consumption may be adversely affected, and Makita's sales may decrease. The ratio of selling, general and administrative expenses to net sales may become relatively higher, and thus profit ratios may decrease. Such conditions would require reorganizing and restructuring production facilities and sales/distribution sites, which may lead to further decrease in profits.

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

The functional currency for all of Makita's significant foreign operations is the local currency. The transactions denominated in local currencies of Makita's subsidiaries around the world are translated into Japanese yen using the average market conversion rate during each financial period. Assets and liabilities of overseas subsidiaries denominated in their local currencies are translated at the exchange rate in effect at each fiscal year-end, and income and expenses are translated at the average rates of exchange prevailing during each fiscal year. The local currencies of the overseas subsidiaries are regarded as their functional currencies. The resulting currency translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity. Currently, over 80% of Makita's overall production and sales are generated overseas and a significant portion thereof is dominated in currencies other than Japanese yen.

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Consequently, fluctuations in exchange rates may have a significant impact on Makita's results of operations, assets and liabilities and shareholders' equity when translated into Japanese yen.

Makita is affected by fluctuations in the value of the euro, the U.S. dollar and Chinese Renmin yuan, among other currencies. The euro and the U.S. dollar are the primary foreign currencies on which Makita bases its foreign sales and the U.S. dollar and Chinese Renmin yuan are the primary foreign currencies on which Makita bases its foreign costs and liabilities. In an effort to minimize the impact of short-term exchange rate fluctuations between major currencies, mainly the euro, the U.S. dollar, and the Japanese yen, Makita engages in hedging transactions.

However, medium-to long-term fluctuations of exchange rates may affect Makita's ability to execute procurement, production, logistics and sales activities as planned and may have an adverse impact on Makita's financial condition and results of operations. In particular, currency exchange rates are increasingly affected by other currency exchange rates. Fluctuations in certain currency exchange rates may affect exchange rates among other currencies, which may significantly affect Makita's financial condition and results of operations.

Makita's consolidated results of operations after the translation of foreign currencies into Japanese yen were significantly affected by fluctuations in exchange rates due to the continuing appreciation of the Japanese yen against the euro and other currencies throughout FY2010. Further appreciation of the Japanese yen, especially against the euro, may have an adverse impact on Makita's financial condition and results of operation.

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

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

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

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

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

Makita derives a significant majority of its sales from markets located outside of Japan, including Europe, North America, Asia, Central and South America, the Middle East and Oceania.

During FY2010, approximately 83% of Makita's consolidated net sales were derived from products sold overseas. Moreover, approximately 83% of global production volume was derived from overseas production.

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

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

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

In order to compete effectively, Makita needs to, among other things, provide its customers a diverse product line-up supported by the development of high-quality and high-performance professional power tools, and build on the MAKITA brand value maintained and promoted by the effort of a strong world-wide sales and after-sale service network.

There is no assurance that Makita will be able to continue to develop new products across its diverse product line-up. If Makita is no longer able to develop in a timely manner new products that meet the changing needs and correspond to market price for high-end, professional users, Makita may not be able to compete effectively, and Makita's financial condition and results of operations may be adversely impacted.

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

Makita's principal management functions, including its headquarters, and most suppliers on which it relies for supplying major parts are located in Aichi Prefecture (Aichi), Japan. Makita's manufacturing facilities in Aichi and Kunshan, Jiangsu province, China, account for approximately 17% and 67%, respectively, of Makita's total production volume on a consolidated basis during FY2010.

Due to this geographic concentration of Makita's major functions, including plants and other operations in certain regions of Japan and China, Makita's performance may be significantly affected by the occurrence of major natural disasters and other catastrophic events, including earthquakes, floods, fires, power outages, and suspension of water supplies.

In addition, Makita's facilities in China may also be affected by changes in political and legal environments, changes in economic conditions, revisions in tariff rates, appreciation of Japanese yen, labor disputes, epidemics, power outages resulting from inadequacies in infrastructure, and other factors. In the event that such developments cannot be foreseen or measures taken to alleviate their damaging impact are inadequate, it may have an adverse impact on Makita's financial condition and results of operations.

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

Makita purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts to manufacture power tools. In recent years, demand for these materials in China has risen substantially. If Makita is unable to obtain the necessary quantities of these materials, this may have an adverse effect on production schedules.

Consumer demand in certain emerging countries in the world has begun to recover, and is expanding much faster than in developed countries. Under such circumstances, it may take longer for Makita to procure some or all of its raw materials and components, including electronic components. If the demand for electronic components grows more rapidly than expected, delivery may take substantially longer time. In addition, since the demand for raw materials and components used by Makita for its production has grown larger in emerging countries, prices may increase. Decrease in production capacity of suppliers caused by labor shortage and other factors may also push up the prices of raw materials and components.

In addition, limitation of suppliers' production capacity may cause an increase in prices of materials and components needed for manufacturing Makita products. In such an event, if the increase in prices cannot be offset by improvements in Makita's productivity, other internal cost-cutting efforts and/or raising the prices of final products, this may have an adverse impact on Makita's financial condition and results of operations.

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

Makita's production activities are greatly dependent on the on-schedule delivery of materials and parts from its suppliers.

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Purchases of production-use materials from Chinese manufacturers have increased in recent years. When launching new products, sales commencement dates can slip if such manufacturers' technologies do not satisfy Makita's demands or take an inordinate amount of time to satisfy Makita's demands. This may result in lost sales opportunities.

Certain emerging countries' economies have begun to recover and are expanding much faster than those in developed countries. Under such circumstances, it may take longer for Makita to procure some or all of its raw materials and components, including electronic components. Production of electronic components requires assembly lines. If the demand for electronic components becomes much larger than expected, the delivery may take a much longer time.

Makita purchases certain significant component parts for its products from sole suppliers. There is no assurance that Makita would be able to find alternate suppliers, if necessary, that can provide materials and parts of similar quality and price in a sufficient quantity and in a timely manner. If a supplier cannot deliver the required quality or quantity of parts on schedule due to reasons including natural disasters, government regulations, its production capacity, weakened business or financial condition, this may have an adverse effect on Makita's production schedules and cause a delay in Makita's own product deliveries. This may cause Makita to lose some customers or require Makita to purchase replacement materials or parts from alternate sources at a higher price. Any of these occurrences may have an adverse impact on Makita's financial condition and results of operations.

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

Although Makita does not have any customer that exceeds 10% of its consolidated sales, it has significant customers in each country. If Makita loses these customers and is unable to develop new sales channels to take their place, or if any such customer faces significant financial difficulties or accumulates a considerable amount of bad debt, sales to such customers may decline and have an adverse impact on Makita's financial condition and results of operations.

Under the current deteriorating economic condition stemming from the financial crisis, Makita's significant customers are reducing sales activities, experiencing a sharp decline in sales and an increase in bad debt, which may deteriorate their cash flow and have an adverse impact on Makita's net sales and profits. In addition, if significant customers of Makita select power tools from Chinese manufacturers or select products other than those produced by Makita and sell such products under their own brand instead of Makita's products, this may have an adverse impact on Makita's financial condition and results of operations.

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

In regions where Makita's sales and production are significant, Makita applies for patents, designs and trademarks, and strives to protect intellectual property rights proactively.

However, Makita may not be able to eliminate completely third party products that infringe on the intellectual property rights of Makita or third party products similar to Makita's products.

This may have a negative influence on Makita's results of operations.

Moreover, while Makita believes that it does not infringe on intellectual property rights of third parties, it may be subject to infringement claims from third parties.

When infringement of intellectual property rights is claimed by a third party, Makita may be required to pay damages or become subject to an injunction prohibiting production and sales of a product.

This may have an adverse impact on Makita's financial condition and results of operation.

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

Makita is developing a variety of products including power tools under the safety standards of each country, and is manufacturing them globally based on the quality standards of the factory. However, a large-scale recall and a large-scale product liability lawsuit may significantly damage Makita's brand image and reputation.

In addition, the related cost and time incurred through the recall or lawsuit may affect business performance and financial condition of Makita if Makita's insurance policy does not cover the related cost.

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

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

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

Makita believes it maintains strict compliance with environmental, commercial, export and import, tax, safety and other regulations that are applicable to its activities in all the countries and areas in which it operates.

If Makita is unable to continue its compliance with existing regulations or is unable to comply with any new or amended regulations, it may be subject to fines and other penalties and its activities may be significantly restricted. The cost related to compliance with any new or amended regulations may also result in significant increases in overall costs and may have an adverse impact on Makita's financial condition and results of operations.

In light of the heightened awareness seen across the globe on environmental issues including global warming and climate change, environmental or other government regulations designed to decrease environmental impact have been adopted in many regions, especially in European countries and North America. Such regulations may have an adverse impact on specifications of or terms and conditions of sales Makita's products. Operational results and financial condition of Makita may be adversely affected if Makita fails or is unable to respond to such specifications or terms and conditions in a timely manner.

Investor confidence and the value of Makita's ADRs and ordinary shares may be adversely impacted if Makita's management concludes that Makita's internal control over financial reporting is not effective or if Makita's independent registered public accounting firm is unable to provide adequate attestation over the effectiveness of the internal control over Makita's financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report in their Annual Report that contains an assessment by management of the effectiveness of corporate internal control over financial reporting. In addition, Makita's independent registered public accounting firm is required to attest to the effectiveness of Makita's internal control over financial reporting.

If Makita's management concludes that Makita's internal control over financial reporting is not effective, or if Makita's independent registered public accounting firm is not satisfied with Makita's internal control over its financial reporting or the level at which its controls are documented, designed, operated or reviewed, and declines to attest or issues a report that is qualified, there could be an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of Makita's financial statements, which ultimately could negatively impact the market price of Makita's ADRs and ordinary shares.

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

Makita's headquarters and its major sales, manufacturing and R&D bases are located in Japan, and its procurement, manufacturing, sales and product development sites are located worldwide. In addition, Makita's major manufacturing facilities are concentrated in China and Japan. These sites are connected globally through an operational network.

If Makita's information system computer network halts or malfunctions due to any natural disaster, such as earthquakes, fires and floods, wars, or terrorist acts, or computer viruses, such an event may delay production and shipments of Makita's products. This may have an adverse impact on Makita's financial condition and results of operations.

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

Makita considers the retention and development of talented personnel with expertise and technological skills to be critical to its competitiveness. However, competition for recruiting such personnel has become increasingly challenging. Makita also considers important the development and retention of personnel in management in Makita's nearly 50 group companies. However, the competition to retain such excellent personnel is difficult in Japan, where the rapid aging of the population resulting from a decline in the birthrate is accelerating and the employment environment has been rapidly changing due to a declining labor population.

Given such a labor and social climate, failure of the Makita Group to hire competent employees or develop human resources in accordance with the management plan or retain experienced employees may have adverse effect on the long-term business development, operational results and growth prospects of the Makita Group.

Item 4. Information on the Company

A. History and development of the Company

The Company is a limited liability, joint-stock company incorporated under the Commercial Code of Japan and continuing to exist under the Companies Act of Japan. The Company traces its origin to an electrical repair workshop founded in Nagoya in 1915 and was incorporated on December 10, 1938 under the name of Makita Electric Works, Ltd. as a joint stock corporation.

Under the presidency of Mr. Jujiro Goto, Makita commenced the manufacture of electric power tools in 1958 and was listed on the Second Section of the Nagoya Stock Exchange in 1962. By 1969, Makita became the leading power tools maker in the Japanese market and was listed on the First Section of the Tokyo Stock Exchange in 1970. That same year, the Company decided to take advantage of overseas markets and established its first overseas subsidiary in the United States. It also constructed the Okazaki plant, which remains as the primary plant of the Makita Group in Japan. Since then, Makita has expanded its export activity and has established a number of overseas subsidiaries.

In 1971, Makita incorporated its first European subsidiary in France, followed by another European subsidiary in the United Kingdom in 1972, thus solidifying its operational bases in Europe.

In 1977, American Depositary Shares were issued with respect to the Company's shares of common stock, and the American Depositary Shares were listed on NASDAQ.

As part of its efforts to minimize trade friction, Makita started manufacturing operations in Canada, Brazil and the United States in 1981, 1983 and 1985 respectively. Makita established a manufacturing subsidiary in the United Kingdom in 1989.

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In 1991, the company changed its name from Makita Electric Works, Ltd. to Makita Corporation. Makita also acquired Sachs-Dolmar GmbH, a German company, primarily engaged in manufacturing engine driven chain saws, and subsequently renamed it Dolmar GmbH (Dolmar).

In 1995, Makita established a holding company in the United Kingdom to manage and control the operation of its European subsidiaries and also constructed a power tool manufacturing plant in China to reinforce its global production system. The power tool manufacturing plant in China commenced production in the same year.

In 2005, Makita established Makita EU S.R.L., a new subsidiary in Romania, to serve growing markets in Eastern Europe, Russia, Western Europe and the Middle East.

In 2006, the Company purchased the automatic nailer business of Kanematsu Nissan-Norin in order to strengthen its pneumatic tool business.

In 2007, Makita expanded the production capacity of its China factory by constructing a second production facility. In addition, a new factory in Romania commenced production in April 2007 in order to reduce foreign exchange risks and to provide stable supply capacity for the growing European market.

Also in 2007, Makita acquired all outstanding shares of Makita Numazu Corporation (Makita Numazu), formerly Fuji Robin industries, Ltd., or Fuji Robin, for approximately ¥2.7 billion in cash and 81,456 Makita shares.

In 2008, Makita established new sales subsidiaries in Bulgaria, Colombia, India and Morocco to expand sales and service activities into these emerging markets. Makita also transferred and consolidated the Canada plant with the U.S. plant in order to increase the efficiency of production in North America.

In 2009, Makita established a sales subsidiary as a joint venture in Vietnam, which Makita believes is one of the more promising countries showing high-speed economic growth. Makita Vietnam started its operation in April, 2010. Makita presently sells its products in 150 or more countries and regions around the world and manufactures power tools in seven countries (Japan, China, the United States, Brazil, the United Kingdom, Germany, and Romania). Makita has 48 consolidated subsidiaries as of March 31, 2010.

Makita Corporation's registered office is located at 3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture 446-8502, Japan, and its telephone number is +81.566.97.1718.

Makita's agent in the United States is Makita U.S.A., Inc., located at 14930 Northam Street, La Mirada, California 90638-5753, U.S.A.

B. Business overview

In FY2010, approximately 83% of Makita's sales were outside of Japan, most of which made to professional users worldwide, including those engaged in timber and metal processing, carpentry, forestry, concrete and masonry works. Makita's geographic segments are Japan, Europe, North America, Asia and Other regions. Makita's biggest market is Europe. The Other regions segment is further divided into Central and South America, Oceania and the Middle East and Africa.

Makita produces its products in seven countries. Makita's China plant yields Makita's highest production volume, the Okazaki Plant in Japan is the base for the production of new and high-value-added products, and Makita also has plants in the United States, Brazil, the United Kingdom, Germany and Romania.

The headquarters and the major sales and R&D bases of Makita are located in Japan, and the bases for procurement, manufacturing, sales and product development are located worldwide. Makita strives to improve not only production efficiency but also logistics, sales and service efficiencies by expanding the use of operating networks each year. Makita also strives to establish a system that can flexibly respond to short-term changes in market demand.

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Makita aims to further solidify its position in the industry as an international integrated supplier of power tools that benefit people's daily lives and housing improvements. In order to achieve this goal, Makita declared the following four management philosophies: Makita strives to exist in harmony with society, emphasizing compliance, ethical conduct and detachment from anti-social organizations, Makita values its customers as a market-driven company,

Makita is managed in a consistent and proactive manner with a sound profit structure and Encouraging each individual to perform at the highest level with Makita's simple and robust corporate culture. With these principles underlying all of its corporate activities, Makita pursues continued growth with stakeholders including shareholders, users, local communities and employees through a solid profit-generating system. Makita's management goal is to generate substantial profits and maintain a 10% operating margin (ratio of operating income to net sales) through sustainable growth on a consolidated basis.

Furthermore, as a medium-to-long-term strategy, Makita aims to enhance its brand value to attain and maintain the position as a leading multinational, integrated supplier of all types of tools such as power tools for professional use, pneumatic tools and gardening equipment. Makita believes that this goal can be attained through the development of new products that bring high satisfaction to commercial users; concerted global production systems targeting both high quality and cost competitiveness; and the maintenance of industry-leading sales and after-sales service systems nurtured in Japan and extended overseas.

To implement the foregoing, Makita is working to maintain a solid financial structure that responds well to short-term changes in the business environment, including volatile demand, exchange rate fluctuations and various country risks, and to concentrate its management resources in the area of professional-use power tools.

Consolidated Net Sales by Product Categories

The following table sets forth Makita's consolidated net sales by product categories for the periods presented. Makita specializes in power tools manufacturing and sales, as a single line of business, and conducts its business globally. Makita also provides Gardening and Household Products based on the mainstay products in that product category. Makita is making efforts to expand the sales of cordless power tools to professional users as well as to general users.

	Yen in millions, except for percentage amounts						U.S. Dollars
	Fiscal year ended March 31,						in thousands
	2008		2009		2010		2010
Power Tools	¥255,869	74.7%	¥214,703	73.0%	¥173,998	70.8%	\$ 1,870,946
Gardening Equipments, Household and Other Products	40,410	11.8	36,916	12.6	34,145	13.9	367,151
Parts, Repairs and Accessories	46,298	13.5	42,415	14.4	37,680	15.3	405,161
Total	¥342,577	100%	¥294,034	100%	¥245,823	100%	\$ 2,643,258

Makita aims to increase its market share not only in the power tool market for professional users, but also in the pneumatic tools and gardening equipment markets. To achieve this goal, Makita is continuing to strive to improve its global sales and service framework and develop high-value-added products. Makita is currently placing greater emphasis in developing user-friendly and environment-friendly products that feature smaller and lighter models, lower vibration and lower noise levels with reduced dust emissions. In addition, Makita is enhancing its lineup with more affordable products by simplifying the functions of the products.

Table of Contents***a) Power Tools***

Power tools consist mainly of drills, grinders and sanders, rotary hammers and hammer drills, demolition hammers and electric breakers, cordless impact drivers, circular saws, slide compound saws and cutters.

Drills are typical power tools used to drill metals, woods and plastics. They are classified into pistol-grip drills, D-handle drills, spade-handle drills and angle drills, according to their configuration. Makita also manufactures various kinds of cordless drills. Some of them are equipped with a screw-driving mechanism and are called cordless driver drills.

Grinders and sanders are used for smoothing and finishing. Sanders may also be used for polishing. Grinders are mainly used on metal and sanders are used on metal, wood, stone and concrete. Grinders are divided into portable disc grinders and bench grinders. Sanders are classified into disc sanders, orbital sanders and belt sanders.

Rotary hammers, which are used for drilling concrete primarily in the construction industry, can also be used as ordinary hammers without using the rotary mechanism. Hammer drills are equipped with a hammering function, but can also be used as conventional drills; these drills are used principally on metal and masonry in the civil engineering and electrical contracting industries. Demolition hammers are used to shatter hard surfaces, principally concrete. Makita aims to improve the working environment in the construction industry through the provision of power tools which incorporate Makita's proprietary low vibration mechanism. These tools meet the strong demand of drilling holes in stone and concrete, and of other uses.

Cordless impact drivers are particularly in high demand across Japanese construction sites. In February 2005, Makita introduced cordless impact drivers powered by lithium-ion batteries instead of the prevailing nickel-metal-hydrate batteries for the first time in the industry. Cordless impact drivers employing lithium-ion batteries are smaller and lighter, and the batteries last much longer. Combined with Makita's proprietary Optimum Charging System, this new product features long-life operation, and has been well received within Japan by professional users. The Optimum Charging System communicates with individual batteries and, when charging, recognizes charging records and analyzes the condition of the battery, such as the heat, over-discharge, and weakening of the battery. This is Makita's original technology, which can prolong the life of a battery through optimal and gradual charge carrying out Active Current Control, Active Thermal Control, and Active Voltage Control based on the results of the above analysis.

The cordless impact drivers are a strong addition to Makita's Japanese product line-up of new 14.4V cordless power tools powered by lithium-ion batteries, including cordless circular saws, cordless angle grinders, cordless nailers, cordless hammer drills, and cordless reciprocal saws. Makita began offering cordless power tools powered by lithium-ion batteries in the United States through major home centers in the fall of 2005. In addition to 14.4V cordless power tools available in Japan, Makita offers 18V Combo kits of cordless drills, cordless drills, cordless circular saws, and cordless lights in the United States where users demand more powerful tools. Makita also rolled out its 18V cordless power tools powered by lithium-ion batteries across major European markets since the summer of 2006, amid strong interest in the construction industry.

In 2009, Makita introduced new power tool products, such as rotary hammers equipped with 36V lithium-ion batteries, cordless impact driver drills equipped with newly developed brushless DC motor powered by 14.4V lithium-ion batteries, and compact and lightweight slide compound saw equipped with double sliding mechanism.

Circular saws, which are primarily sold to carpenters in the homebuilding industry, account for a substantial portion of Makita's sales of saws. The balance of saw sales is made up of jigsaws, sold primarily to carpenters and other woodworkers for delicate work, and reciprocal saws used for working in confined spaces unsuitable for conventional saws. Cutters and cutting machines are roughly classified into two categories: cutting machines that are equipped with a metal whetstone and are used for cutting metals and cutters that are equipped with a diamond whetstone and are mainly used for cutting stones.

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Subsequent to taking over the operations of Kanematsu-Nissan Norin Corp. in January 2006, Makita introduced into the Japanese market its Red series high-pressure air nailer, which is becoming as popular as the well-accepted cordless impact drivers used in housing construction, completing Makita's mainstay product line-up. In 2009, Makita introduced new pneumatic tools products including the high-pressure pneumatic nailer equipped with a movable nose adapter.

b) Gardening Equipments, Household and Other products

Gardening products, including brush-cutters, chain-saws, sprayers, blowers, hedge trimmers, are used for agricultural and forestry operations.

Household products, including vacuum cleaners and cordless cleaners, are used not only by housekeepers but also by professional cleaners. Among other uses, there is a strong demand for cordless cleaners at construction sites because cutting, drilling and grinding work using power tools generates debris. Small, light and high-suction cordless cleaners offered to home users are increasingly popular. New products launched during FY2009 included cordless cleaners and sprayers powered by lithium-ion batteries, low-vibration hedge trimmers and backpack-type, mini 4-stroke engine-equipped grass cutters.

Makita's line-up also includes electric hedge trimmers, grass cutters, chain saws and lawn mowers. The acquisition of Fuji Robin in FY2008 is contributing to strengthening Makita's line-up of gardening and engine-powered gardening tools. In 2009, Makita introduced new gardening equipment products including the super lightweight petrol hedge trimmer, cordless brushcutter powered by 36V lithium-ion batteries.

c) Parts, Repairs and Accessories

Makita manufactures and markets a variety of parts and accessories for its products and performs repair work as part of its after-sale services. In particular, Makita offers a variety of parts and accessories with respect to high-quality and durable professional power tools, and at the same time commits significant management resources to enhancing post-sales services. Makita is working hard toward strengthening its parts supply system and three-day repair program, while developing a worldwide sales network. Makita is also working to strengthen its range of authentic Makita accessories such as saw blades, drill bits, and grinding wheels.

Table of Contents**Principal Markets, Distribution and After-Sale Services**

The following table sets forth Makita's consolidated net sales by geographic area based on customer location for the periods presented:

Consolidated Net Sales by Geographic Area

	Yen in millions, except for percentage amounts						U.S. Dollars in thousands
	2008		2009		2010		2010
Japan	¥ 52,193	15.2%	¥ 46,222	15.7%	¥ 42,697	17.4%	\$ 459,108
Europe	160,360	46.8	137,113	46.6	109,106	44.4	1,173,182
North America	56,422	16.5	42,289	14.4	34,509	14.0	371,065
Asia (excluding Japan)	22,629	6.6	21,995	7.5	18,373	7.5	197,559
Other	50,973	14.9	46,415	15.8	41,138	16.7	442,344
Total	¥ 342,577	100%	¥ 294,034	100%	¥ 245,823	100%	\$ 2,643,258

Japan

Makita believes that most of its domestic sales are made to commercial users. The Japanese Do-It-Yourself, or DIY, market for power tools is growing but the pace of growth is slow. Makita has maintained its leading position in the Japanese market by maintaining close and frequent contact with retailers and users of Makita products. While Makita's major competitors rely primarily on wholesalers for all aspects of distribution and servicing, Makita has approximately 794 employees directly responsible for the promotion, sale and delivery and after-sale servicing of its products. These employees, operating from 19 branches and 114 sales offices throughout Japan, are assigned sales territories.

In addition, Makita has two distribution centers in Osaka and Saitama prefectures. These distribution centers strengthen Makita's distribution and after-sale service functions.

The majority of Makita's products are sold through its 12 independent wholesalers. Each wholesaler bears the risk of any bad debts of the retailers for which it has responsibility. The payments by the wholesalers to Makita are in most cases made within 30 to 60 days after sale. In FY2010, Makita sold its products, directly or through wholesalers, to approximately 30,000 retail outlets, and no single retailer accounted for more than 2% of Makita's domestic sales. In FY2010, Makita's three largest wholesalers accounted, in the aggregate, for approximately 35% of Makita's domestic net sales.

Repairs, including free repair service and after-sale services are carried out by Makita's sales offices.

To strengthen its business in Pneumatic Tools, Makita purchased the nailer business of Kanematsu-Nissan Norin Corp. in January 2006 and has expanded its lineup of pneumatic tools.

During the first half of FY2008, Makita acquired Fuji Robin Industries Ltd. (now named Makita Numazu Corporation), a manufacturer of gardening tools, as part of its full-scale entry into the gardening tool business. Fuji Robin's mini 4-stroke engine, its original engine technology is recognized globally as an environmentally clean engine. Makita's agricultural and gardening equipment are expected to have synergistic effect with Fuji Robin's original engine business.

Cordless power tools are becoming increasingly prevalent, and the ratio of Makita's cordless power tools has exceeded 30% of its total domestic product sales. In the Japanese market, the ratio of DIY sales is comparatively low, and accordingly the ratio of commercial users is relatively high, compared with the markets in North America and Europe. Also, medium-and high-grade products with high operability, durability and high-value-added products are preferred in the Japanese market.

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In Japan, the housing market has continued to shrink since the previous fiscal year. At the same time, existing power tool stores consolidated, sales channels diversified and the number of product models sold at stores decreased, resulting in increased competition.

Overseas

As a leading global manufacturer and marketer of power tools, Makita manufactures approximately 90% of its products overseas on a unit basis, and 83% of Makita's consolidated sales came from overseas markets in FY2010. Overseas sales, distribution, and service are carried out through a network of 41 sales subsidiaries and over 100 branch offices or service centers located in the United States, Canada, Brazil, Mexico, Argentina, Chile, Peru, Australia, New Zealand, Singapore, Taiwan, China, Korea, the United Kingdom, France, the Netherlands, Belgium, Italy, Greece, Germany, Austria, Poland, the Czech Republic, Hungary, Spain, Portugal, the United Arab Emirates, Romania, Switzerland, Finland, Russia, Ukraine, Slovakia, Bulgaria, Colombia, India, Morocco and Vietnam. In addition, the Company exports its products directly to its sales subsidiaries, as well as through trading companies, to various countries throughout the world. Makita has nine production bases world wide, out of which seven are located overseas, comprising of two plants in China and one plant in each of the United States, Brazil, the United Kingdom, Germany, and Romania.

Makita products are sold principally under the Makita brand name and the remaining products are sold under the Dolmar or Maktec brand names. Makita offers warranties to overseas customers. After-sale services and repairs overseas are provided by local sales subsidiaries, service depots designated by Makita, or by service stores designated by the applicable local importers.

Although the ratio of Makita's cordless power tools has exceeded 30% of its total overseas sales, the ratio varies significantly by region. In Western Europe, North America and Oceania, the ratio is relatively high. Western Europe and Oceania are characterized by the general preference for products with advanced operability and durability, and there is significant demand for products that contribute to the working environment and are environmentally friendly. In North America, where DIY consumers account for a large share of the market, there is significant demand for low priced goods. Accordingly, price competition in North America, including in connection with medium- and high-grade products, is intense.

In Asia, popular long-selling models for which spare parts are easy to obtain are preferred over high-value-added products, and cordless products have not yet gained widespread acceptance.

In China, local manufactures are overwhelmingly dominant with approximately 80% of the market share. A decisive factor is the difference in product prices.

Severe economic conditions persisted in overseas markets especially through the first half of FY 2010, following the drop in global demand in the second half of FY 2009 due to the global recession. Emerging countries appear to have started to recover since the second half of FY 2009, but in developed regions (Japan, the U.S. and Europe) recovery of demand is still weak.

Seasonality

Although Makita experiences limited seasonality in sales volume of certain gardening products, Makita's business has no significant seasonality overall that affects Makita's consolidated sales or profits.

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Competition

The markets in which Makita sells its products are generally highly competitive. Makita believes that competition in the portable electric power tool market is based on price, product reliability, design and after-sale services and that its products are generally competitive as to price and enjoy competitive advantage due to their reputation for quality, product reliability and after-sale services. Makita is the largest manufacturer of portable electric power tools in Japan and, together with one other Japanese competitor, accounts for a substantial majority of the total sales of such products in Japan.

In overseas markets, Makita competes with a number of manufacturers, some of which are well established in their respective local markets as well as internationally.

In recent years, in the U.S. power tool industry, some leading home centers have introduced their own brands of power tools for professionals, and a high level of M&A activity is in progress within the power tool industry.

Makita has also experienced, particularly in countries with lower purchasing power, increasing competition from China-based power tool manufacturers who often offer lower-priced products.

Makita believes many competitors are investing more time and resources on the development of their global business. However, in the past two years, many companies were adversely affected by the deterioration of the world economy. As a result, competition and pricing pressure has increased, reflecting excess production capacity and excess inventories amid the rapid decline in sales.

Raw Materials and Sources of Supply

Makita purchases raw materials and parts to manufacture its products. The principal raw materials and parts purchased by Makita include plastics, pressed steel plates, aluminum castings, copper wires, switches, gears, blades, batteries, and bearings. The Company procures most of its raw materials from multiple sources, although most of its parts are each obtained from single suppliers.

As for raw material costs, Makita expects that the price of steel and copper which is used for motors installed in Makita's products will rise due to increasing demands in emerging countries.

Makita purchases raw materials and parts in FY2010, amounted to ¥101,514 million. Raw materials and parts are purchased from 430 suppliers in Japan and a number of local suppliers in each country in which Makita performs manufacturing operations, with the largest single source accounting for approximately 8% of Makita's total purchases of raw materials and parts. Makita also purchases from outside sources finished products such as electric generators, lawn mowers and laser levels and resells these products to its customers under the Makita brand.

Makita has not experienced any difficulty in obtaining raw materials, parts or finished products.

Government Regulations

Makita is subject to different government regulations in the countries and areas in which it does business, such as required business and investment regulations approvals, export regulations based on national-security or other reasons, and other export and import regulations such as tariffs, as well as commercial, antitrust, patent, consumer and business taxation, exchange control, and environment and recycling laws and regulations.

If countries to which Makita exports its products adopt new protectionist trade policies or strengthen its tariff policy, such changes may affect Makita's exports and sales. Makita has expanded sales, service and production activities worldwide, and has a diverse investment portfolio. Consequently, Makita believes that the impact of the adoption of a new protectionist trade policy in a particular region would be immaterial. The Makita Group recognizes the importance of information security in modern corporate activities and has accordingly instituted the Makita Information Security Policy .

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The Makita Group conducts internal audits as an information security measure in compliance with the Policy s guidelines. In addition, as a systematic response in compliance with Section 404 of the Sarbanes-Oxley Act of 2002, the Makita Group addresses the development of global information systems to conduct information security activities in cooperation with overseas subsidiaries.

Overseas subsidiaries operate in compliance with the Makita s Information Security Implementation Procedure Manual .

Intellectual Property Rights

Makita is committed to technical development in anticipation of user needs as a leading global company in the professional-use power tool industry. Makita considers its proprietary technologies as the source of its competitive edge, and registers these technologies as intellectual property rights and strives to protect the intellectual property rights proactively worldwide.

As of March 31, 2010, Makita owned 596 patents and 383 design rights in Japan and 603 patents, 105 utility model registrations and 697 design rights outside Japan. A utility model registration is a right granted under Japanese law to inventions having a practical utility in terms of form, composition or assembly, but embodying less originality than that required for patents.

As of March 31, 2010, Makita had made 779 applications for additional patents and 46 applications for additional design rights in Japan as well as 750 patent and 93 design rights applications outside Japan.

The number of Makita s patents and pending applications has been increasing annually both in Japan and overseas. As of March 31, 2010, the patents held by Makita in Japan consisted of 446 patents in connection with power tools, 148 patents in connection with other products (such as gardening tools and pneumatic tools) and two patents in connection with production engineering. Patents held by Makita outside of Japan consisted of 462 patents in connection with power tools and 141 patents in connection with other products.

Even in the event the protection periods of patent rights and other intellectual property rights possessed by Makita expire, Makita believes its business will not be adversely affected because Makita constantly makes a strategic effort to acquire intellectual property rights and effectively utilize intellectual properties. At present, Makita is involved in no litigation as a defendant.

C. Organizational structure

As of March 31, 2010, the Makita Group consisted of 48 consolidated subsidiaries. The Company is the parent company of the Makita Group. The Company heads the development of products. Domestic sales are made by the Company and two domestic subsidiaries and overseas sales are made almost entirely through sales subsidiaries and wholesalers.

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The following is a list of significant subsidiaries of the Makita Group.

Company Name	Country of Incorporation	Proportion of Ownership and Voting interest
Makita Numazu Corporation	Japan	100.0%
Makita U.S.A., Inc.	U.S.A.	100.0
Makita Corporation of America	U.S.A.	100.0
Makita Canada Inc.	Canada	100.0
Makita Werkzeug GmbH	Germany	100.0
Dolmar GmbH	Germany	100.0
Makita (U.K.) Ltd.	U.K.	100.0
Makita Manufacturing Europe Ltd.	U.K.	100.0
Makita France S.A.	France	55.0
Makita S.p.A.	Italy	100.0
Makita Oy	Finland	100.0
Makita Werkzeug GmbH	Austria	100.0
Makita Sp. zo. o.	Poland	100.0
Makita (China) Co., Ltd.	China	100.0
Makita (Kunshan) Co., Ltd.	China	100.0
Makita do Brasil Ferramentas Eletricas Ltda.	Brazil	99.9
Makita Gulf FZE	U.A.E.	100.0
Makita (Australia) Pty. Ltd.	Australia	100.0

D. Property, plants and equipment

The following table sets forth information relating to Makita's principal production facilities as of March 31, 2010.

Location	Floor space (square meters)	Principal products manufactured
Japan:		
Makita Corp. Okazaki Plants	135,126	Electric power tools, etc
Makita Numazu Corporation	21,199	Engine powered agricultural and gardening equipments
Overseas:		
Makita (China) Co., Ltd.	61,332	Electric power tools, etc.
Makita (Kunshan) Co., Ltd.	26,564	Electric power tools, etc.
Makita Corporation of America	24,053	Electric power tools, etc.
Dolmar GmbH	17,747	Engine powered forestry equipments
Makita EU S.R.L. (Romania)	13,788	Electric power tools, etc.
Makita Manufacturing Europe Ltd.	11,520	Electric power tools, etc.
Makita do Brasil Ferramentas Eletricas Ltda.	6,789	Electric power tools, etc.

The figures stated above only count in production facilities excluding other facilities, such as warehouse facilities, R&D facilities, sales offices and guard house.

In addition, the Company owns an aggregate of 203,099 square meters of floor space occupied by the head office, R&D facilities warehouse facilities, a training center, dormitories and sales offices.

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Makita's overseas manufacturing operations are conducted in China, the United States, Brazil, the United Kingdom, Germany and Romania.

All buildings and land in these countries, except for land in China which is held under long-term land lease, are owned by Makita. None of the buildings or land that Makita owns in Japan is subject to any mortgage or lien.

Makita leases most of its sales offices in Japan and substantial majority of its overseas sales offices and premises, except for the following locations which are owned by the respective subsidiary companies;

Head offices and certain branch offices of Makita U.S.A., Makita Canada and Makita Australia; and

Head offices of Makita Germany, Makita France, Makita Nederland (the Netherlands), Makita Belgium, Makita Italy, Makita Brazil, Makita Taiwan and Makita Singapore.

Makita considers all of its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations.

Makita adjusts production capacity based on its assessment of markets demands and prospects for demands, according to market conditions and Makita's business objectives, by opening, closing, expanding or downsizing manufacturing facilities or by increasing or decreasing output from the facilities accordingly. Makita, therefore, believes that it is difficult and would require unreasonable effort or expense to determine the exact productive capacity and the extent of utilization of each of its manufacturing facilities with a reasonable degree of accuracy. Makita, however, believes that its manufacturing facilities are currently operating at a normal capacity of production facility.

In FY 2010, the Okazaki Plant was partially renovated, the Tokyo Technical Center was built in Tokyo, Japan, and new office buildings for sales subsidiaries were built in France, the Netherlands and Poland.

Item 4A. Unresolved Staff Comments

None

Item 5. Operating and Financial Review and Prospects

A. Operating results

General Overview

Makita's principal business is manufacturing and sales of power tools for professional users worldwide. Makita has nine production bases, two located in each of Japan and China, and one each in the United States, Brazil, the United Kingdom, Germany and Romania. For FY2010, approximately 83% of Makita's sales were outside of Japan. Makita is affected to a large extent by demand for power tools worldwide, which in turn is influenced by factors including new housing construction, demand for household renovations, public investment and private capital expenditures. The nature and the extent to which each of these factors influence Makita differ in each country and region in which Makita sells its products.

In FY2010, Makita's primary products were power tools such as drills, rotary hammers, hammer drills, demolition hammers, grinders and cordless impact drivers. Sales of these products accounted for more than 70% of Makita's total net sales. In addition, sales of gardening and household products, including engine-equipped grass cutters and cordless cleaners, accounted for approximately 14% of total net sales.

Developed countries in North America and Europe have matured markets for DIY products, and demand for power tools is affected more by changes in consumer spending. Demand for power tools in developing countries is expected to expand as the economic growth increases.

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

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

Prevailing economic conditions in FY 2010, especially in the first half, were extremely severe reflecting the simultaneous global recession. The demand for Makita's products dropped significantly and the yen continued to remain strong in the first half of FY2010 against many currencies Makita uses for its transactions. As a result, Makita's net sales for FY2010 decreased from the previous fiscal year.

In Western Europe, construction markets remained weak in the first half of FY2010. In Eastern Europe and Russia, economic activities slowed down steeply due to financial contraction, which in turn curbed capital investments and personal spending.

In North America, business conditions remained severe, investment drive did not recover and businesses generally experienced excess facilities and capacities.

In Asia, the economy recovered modestly in the first half of FY2010. The Chinese economy was the first to recover, followed by Southeast Asian countries where exports and personal spending have picked up.

In Japan, the economy remained weak. Despite the expectation that the economy would be vitalized by the Japanese government's stimulus programs, businesses picked up only in limited business areas. Public sectors investments decreased, and the unemployment rate rose as a general matter.

In the second half of FY2010, signs of gradual recovery of demand were seen in some regions in the world, supported by economic stimulus measures taken by governments and the economic growth of emerging countries. Although economies in Southern Europe faced severe difficulties, economies in certain Western European countries showed signs of modest recovery in the second half of FY2010.

In Asia, the Chinese economy grew and investment activities in neighboring countries have become active.

However, recovery in Eastern Europe and Russia was slow in the second half of FY2010. Real economic recovery was not seen in Japan and the United States even in the second half of FY2010, and housing construction remained slow.

The demand for power tools dropped significantly in developed countries in FY2010, especially in the first half of FY2010, compared with that before the financial depression two years ago. Recovery has been slow, but some emerging countries are showing signs of recovery.

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

In the R&D area, development of product lines pursuing compact, light-weight, low-noise and low-vibration features, including power tools, chargeable electric tools and gardening equipment, continued in FY2010. Moreover, Makita established the Tokyo Technical Center to strengthen its development ability to enhance the environmental performance of small engines.

In the production area, Makita's Japanese plants are capable of producing various types of high-value-added products in small quantities, while Makita's Chinese plants and other overseas plants are engaged in mass production.

Reflecting this global production structure, Makita strives to strengthen the production system to be able to maintain the high quality of its products while quickly and flexibly responding to rapid changes in customer demand.

In the sales area, Makita reconstructed the headquarters buildings of sales companies in Europe (France, Netherlands and Poland). The distributor training function was also reinforced in Europe. In Asia, Makita established a joint venture sales subsidiary in Vietnam in order to strengthen sales and after-sale service systems.

As a result, consolidated net sales decreased by 16.4% compared with FY2009 to ¥245,823 million

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As part of the Company's policy to maximize shareholders return, the Company paid an interim dividend of ¥15 per share in November 2009 and a year-end dividend of ¥37 per share in June 2010.

The following table sets forth Makita's income statement for each of the years ended March 31, 2008, 2009 and 2010.

	Yen in millions, except for percentage amounts						Change	U.S. Dollars
	2008		2009		2010			in thousands 2010
NET SALES	¥ 342,577	100%	¥ 294,034	100%	¥ 245,823	100%	(16.4)%	\$2,643,258
Cost of Sales	199,220	58.2	170,894	58.1	149,938	61.0	(12.3)	1,612,236
GROSS PROFIT	143,357	41.8	123,140	41.9	95,885	39.0	(22.1)	1,031,022
Selling, General and Administrative expenses	76,326	22.2	73,065	24.9	65,495	26.6	(10.4)	704,248
OPERATING INCOME	67,031	19.6	50,075	17.0	30,390	12.4	(39.3)	326,774
OTHER INCOME (EXPENSES)								
Interest and Dividend Income	2,092	0.6	1,562	0.5	881	0.3	(43.6)	9,473
Interest Expense	(269)	(0.1)	(236)	(0.1)	(71)	(0)	(69.9)	(763)
Exchange Gains(Losses) on Foreign currency transactions	(1,233)	(0.4)	(3,408)	(1.1)	2,044	0.8	-	21,979
Realized Gains(Losses) on Securities	(1,384)	(0.4)	(3,548)	(1.2)	274	0.1	-	2,946
Other, net	-		(2)	(0)	-	-	-	-
Total	(794)	(0.3)	(5,632)	(1.9)	3,128	1.2	-	33,635
INCOME BEFORE INCOME TAXES	66,237	19.3	44,443	15.1	33,518	13.6	(24.6)	360,409
Provision for Income Taxes	19,728	5.7	10,731	3.6	10,952	4.4	2.1	117,764
NET INCOME	46,509	13.6	33,712	11.5	22,566	9.2	(33.1)	242,645
Net income attributable to the noncontrolling interest	(466)	(0.2)	(426)	(0.2)	(308)	(0.1)	(27.7)	(3,312)
NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION	¥46,043	13.4%	¥33,286	11.3%	¥22,258	9.1%	(33.1)%	\$239,333

Currency Fluctuations

Makita is affected by fluctuations in foreign currency exchange rates due to its business spanning the global market. Makita is primarily exposed to fluctuations of the Japanese yen against the euro, the U.S. dollar, as well as

other currencies of countries where Makita does business. Makita's consolidated financial statements, presented in Japanese yen, are affected by currency exchange rate fluctuations through both translation and transaction risks. Translation risk is the risk that Makita's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates between the Japanese yen and the currencies in which the subsidiaries prepare their financial statements. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Makita's underlying results of operations. Transaction risk is the risk that the currency structure of Makita's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Makita enters into foreign exchange forward contracts in order to hedge a portion of its transaction risk. Doing so has reduced, but not eliminated, the effects of exchange rate fluctuations against the Japanese yen, which in some years can be significant. Generally, the depreciation of the Japanese yen against other currencies, particularly the euro, has a positive effect on Makita's operating income and net income. Conversely, the appreciation of the Japanese yen against other currencies, particularly the euro, has the opposite effect. The exchange rates of most currencies Makita uses with respect to its business depreciated against the Japanese yen in FY2010.

Table of Contents**FY2010 compared to FY2009****Net Sales**

Makita's consolidated net sales for FY2010 amounted to ¥245,823 million, a decrease of 16.4%, or ¥48,211 million, from FY2009. In FY2010, the average Japanese yen-U.S. dollar exchange rate was ¥92.89 for U.S. \$1.00, representing a 7.8% appreciation of the Japanese yen compared to the average exchange rate in FY2009. The average Japanese yen-euro exchange rate in FY2010 was ¥131.18 for 1.00 euro, representing a 8.9% appreciation of the Japanese yen compared to the average exchange rate in FY2009. Excluding the effect of currency fluctuations, consolidated net sales would have decreased by 9.1% or ¥26,682 million in FY2010.

Economic conditions in FY 2010, especially in the first half, were extremely severe due to the impact of the global recession. The demand for Makita's products dropped significantly and the yen value continued to be strong against many currencies Makita used for its business during FY2009. As a result, Makita's sales revenues for the fiscal year decreased from the previous fiscal year.

In the second half of FY2010, signs of gradual recovery of demand were seen in some regions, supported by economic stimulation measures taken by governments and the economic growth of emerging countries.

The demand for power tools dropped significantly in developed countries, compared with that before the financial depression two years ago. Recovery has been slow.

In terms of product type, the sales of power tools decreased by 19.0%, or ¥40,705 million; the sale of gardening and household products decreased by 7.5%, or ¥2,771 million; and revenue from parts, repairs and accessories decreased by 11.2%, or ¥4,735 million. Decrease of sales of Makita's main products including grinders, hammer drills and driver drills ranged between 15% and 25% due to the severe drop in demand for power tools which worsened the business environment, especially in the first half of FY2010.

On the other hand, the ratio of sale of cordless power tools to total sales of products increased to 34.5% in FY2010 from 31.8% in FY2009.

Sales by Region

In Japan, the number of new housing construction has been stagnant due to the implementation of a more stringent Building Standards Law and global financial crisis. Consequently, demand for power tools has not recovered, leading to a decrease in sales by 7.6%, or ¥3,525 million, to ¥42,697 million.

In Europe, demand in Germany and France was steady, but recovery was slow in Spain, Italy and other Southern European countries, Eastern European countries and Russia. Excluding the effect of currency translation, sales in Europe decreased by 9.2%, or ¥12,595 million.

The drop in the exchange rates of local currencies had a significant negative impact. The euro depreciated by 8.9% and the British pound by 15.2% against the Japanese yen year-over-year.

Partly due to the considerable drop in the exchange rates of local currencies, sales in Europe after translation into Japanese yen decreased by 20.4%, or ¥28,007 million, to ¥109,106 million.

Net sales in local currency terms decreased in Western Europe by 5.7% and in Eastern Europe and Russia by 14.5%. Net sales after translation into Japanese yen decreased in Eastern Europe and Russia by 28.6%, the United Kingdom by 26.2%, Germany by 8% and France by 8.2%.

In North America, the condition of the construction market in the United States remained severe. Demand dropped significantly in the first half of FY2010. Although Christmas campaigns mainly targeting home improvement centers contributed strongly to sales results in the second half of FY2010, the housing demand remained low throughout the fiscal year. In Canada, demand dropped sharply in the first half of the year due to the delayed impact of the financial recession.

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As a result, sales in North America decreased by 18.4%, or ¥7,780 million, to ¥34,509 million.

The appreciation of the yen by 7.8% against the U.S. dollar was also a contributing factor to the decline of net sales in North America. Excluding the effect of currency translation, sales in North America decreased by 11.9%, or ¥5,013 million.

Demand in Asia excluding Japan dropped significantly due to the worldwide recession in the first half of FY2010 and the weak performance of industries in Asia relying on exports to Europe and the United States. Moreover, the cost competitiveness of Japanese products weakened due to the appreciation of the yen value against local currencies. Thus, Makita's sales in Asia dropped sharply in the first half of FY2010.

In the second half, governments of Asian countries implemented economic stimulating measures, including improvement of infrastructures, and the economies expanded in China and India. Sales in Asia started to become active supported by the signs of economic recovery in the United States and in Europe. Business in Asia seems to have started to recover.

Excluding the effect of currency translation, sales in Asia decreased by 13.2%, or ¥2,897 million. Net sales in Asia excluding Japan after translation into Japanese yen decreased by 16.5%, or ¥3,622 million, to ¥18,373 million.

In Other regions, net sales in Central and South America after translation into Japanese yen decreased by 9.0%, to ¥15,228 million. Sales on a local currency basis were strong in Brazil and other countries. However, sales on a Japanese yen basis were negatively affected by the stronger Japanese yen against local currencies.

In Oceania, net sales after translation into Japanese yen decreased by 0.7%, to ¥13,116 million, however, net sales on the local currency basis increased by 3.1%.

Demand in Australia was strong and sales of gardening equipment via home improvement centers increased.

However, sales on a Japanese yen basis were negatively affected by the stronger Japanese yen against Australian dollars.

The Australian dollar fell by 2.4% against the Japanese yen and the Brazilian Real declined by 5.7% (year-over-year comparison on exchange rates for net sales).

In the Mid-East and Africa, net sales in translation into Japanese yen decreased by 22.3%, to ¥12,794 million.

The market environment in the Middle East and Africa was severe mainly due to the impact of the Dubai crisis.

As a consequence, excluding the effect of currency translation, sales in Other regions decreased by 5.7%, or ¥2,652 million.

Sales in Other regions after translation into Japanese yen decreased by 11.4%, or ¥5,277 million, to ¥41,138 million.

Review of Performance by Product Group***Power Tools***

The Power Tools group offers a wide range of products such as drills, grinders and sanders, rotary hammers and hammer drills, demolition hammers and electric breakers, cordless impact drivers, circular saws, slide compound saws and cutters. These products represent the largest portion of Makita's net sales.

In FY2010, sales of power tools decreased by 19.0% from the previous fiscal year to ¥173,998 million, accounting for 70.8% of consolidated net sales. In Japan, sales of power tools decreased by 13.3% to ¥18,021 million, accounting for 42.2% of the domestic net sales.

Overseas sales of power tools decreased by 19.6% to ¥155,977 million, accounting for 76.8% of overseas net sales.

New products launched during FY2010 included cordless impact drivers equipped with brushless motors powered by 14.4V lithium-ion batteries and compact and lightweight slide compound saw equipped with double sliding mechanism.

Gardening Equipments, Household and Other Products

Principal products in Makita's gardening and household products group include chain-saws, brush-cutters, vacuum cleaners and cordless cleaners.

In FY2010, sales of gardening equipments, household and other products decreased by 7.5%, to ¥34,145 million, which accounted for 13.9% of consolidated net sales.

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Domestic sales of gardening equipments, household and other products increased by 4.3%, to ¥13,462 million, accounting for 31.5% of total domestic sales. Overseas sales of the product category decreased by 13.9%, to ¥20,683 million, accounting for 10.2% of total overseas sales in FY2010.

New products launched during FY2010 included cordless compact vacuum cleaners powered by lithium-ion batteries, cordless brushcutters powered by 36V lithium-ion batteries, and lightweight petrol hedge trimmers.

Makita engages in the production of engine-equipped gardening equipments and cordless gardening equipments powered by batteries that are environment-friendly in terms of noise and exhaust emissions, and therefore future sales expansion is anticipated.

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories.

In FY2010, the sales of parts, repairs and accessories decreased by 11.2%, to ¥37,680 million, accounting for 15.3% of consolidated net sales. Domestic sales of parts, repairs, and accessories decreased by 10.5% to ¥11,214 million, accounting for 26.3% of domestic net sales.

Overseas sales of parts, repairs and accessories decreased by 11.4%, to ¥26,466 million, accounting for 13.0% of overseas net sales.

Gross Profit

Gross profit on sales decreased by 22.1%, or ¥27,255 million, to ¥95,885 million.

The gross profit margin dropped 2.9 points from 41.9% to 39.0%. Sales by overseas sales companies decreased on a Japanese yen basis due to appreciation of the Japanese yen against local currencies. Also, the ratio of production labor costs and expenses increased in Japanese and overseas plants, as plant utilization decreased due to reduction in production volume, reflecting adjustments to inventory volumes.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for FY2010 decreased by 10.4%, or ¥7,570 million to ¥65,495 million compared with FY2009, primarily because product transportation costs decreased due to lower sales. Cost saving efforts, such as reduction of advertising and travel expenses, were also implemented. Selling, general and administrative expenses excluding the impact of currency fluctuations decreased by 4.6%, or ¥3,347 million compared with FY2009. The ratio of selling, general and administrative expenses to sales rose by 1.7 points from 24.9% in FY2009 to 26.6% in FY2010.

In addition, Makita recognized ¥1,605 million of impairment losses on goodwill and long-lived assets of Makita Numazu Corporation, a Japanese entity acquired by the Company in FY2008, as well as net losses on disposal or sales of property, plant and equipment of ¥284 million in FY2010, compared with net losses of ¥430 million in FY2009.

Operating Income

As a result of the above, operating income for FY2010 decreased by 39.3%, or ¥19,685 million, to ¥30,390 million. This decrease was mainly due to currency fluctuations and decrease in sales. Operating margin decreased by 4.6 points, from 17.0% to 12.4% compared with FY2009.

Other Income (Expenses)

In FY2010, other income was ¥3,128 million, compared with other expense of ¥5,632 million in FY2009.

The major components of other income were as follows:

- (1) The amount of foreign exchange gain was ¥2,044 million, due to foreign exchange gain mainly in Brazil resulting from transfer of loan payable to the Company from U.S. Dollar basis to Japanese yen basis according to the renewal of the loan contract.

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(2) Realized gains on securities amounted to ¥274 million, compared with realized losses on securities of ¥3,548 million in FY2009. This gain was mainly due to the recovery of stock prices.

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

Income before Income taxes

Income before income taxes for FY2010 decreased by 24.6%, or ¥10,925 million, to ¥33,518 million. The ratio of income before income taxes to sales in FY2010 decreased by 1.5 points, from 15.1% to 13.6%, compared with FY2009.

Provision for Income taxes

Provision for income taxes for FY2010 amounted to ¥10,952 million, an increase of 2.1%, or ¥221 million, compared with FY2009. The effective tax rate for FY2010 was 32.7%, an increase of 8.6 points from 24.1% for FY2009 primarily because Makita recorded a valuation allowance against certain deferred income tax assets in FY2010.

Net Income Attributable to Makita Shareholders

As a result of the above, net income for FY2010 decreased by 33.1%, or ¥11,028 million, to ¥22,258 million compared with FY2009. Net income ratio to sales decreased by 2.2 points, to 9.1% in FY2010 from 11.3% in FY2009.

Earning per Share

Basic earnings per share of common stock decreased to ¥161.6 in FY2010 from ¥236.9 in FY2009.

Regional Segments

Segment information described below is based on the location of the Company and its relevant subsidiaries. Sales by segment are shown based on shipment routes and, accordingly differ from the geographic area information provided elsewhere in this document.

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

Transactions between business segments are carried out at arm's-length prices.

Japan Segment

In FY2010, sales in the Japan segment decreased by 25.9%, to ¥89,076 million. Sales to external customers decreased by 12.7% to ¥55,767 million, which accounted for 22.7% of consolidated net sales.

The decrease reflects decrease in sales in the domestic market and also reflects the sharp decline in exports to Eastern Europe, Russia and the Middle East constituting inter-segment sales within the Japan segment.

Due to this drop in sales, this segment was not able to absorb its fixed charges sufficiently and recognized ¥1,605 million in an impairment loss resulting from the revaluation of goodwill and long-lived assets of Makita Numazu acquired by the Company in FY2008.

Accordingly, this segment recorded operating losses of ¥643 million.

Table of Contents***Europe Segment***

In FY2010, sales in the Europe segment decreased by 20.6% to ¥112,293 million. Sales to external customers decreased by 20.2%, to ¥109,484 million, which accounted for 44.5% of consolidated net sales.

The decrease is mainly due to a sharp drop in sales in Eastern Europe and Russia, and depreciation of local currencies in Europe.

In addition, cost of sales increased as the cost of products manufactured in our Japan and China plants increased.

The depreciation of the Euro and other European currencies resulted in further increases in cost of sales.

Depreciation expense increased due to the renovation of buildings and warehouses of certain European sales subsidiaries.

Accordingly, segment operating income decreased by 34.7%, to ¥12,875 million.

North America Segment

In FY2010, sales in the North America segment decreased by 22.8%, to ¥36,394 million. Sales to external customers decreased by 18.6% to ¥34,547 million, which accounted for 14.1% of consolidated net sales.

A sharp decline in sales occurred during the first half of FY2010 in the United States, most notably a significant decrease in sales at specialty stores for professional applications. The construction market in the United States remained severely depressed through the first half of FY2010. Although Christmas campaigns mainly targeting home improvement centers contributed strongly to sales results in the second half of FY2010, housing demand remained low throughout the fiscal year. In Canada, demand dropped sharply in the first half of the year due to a delayed impact of the financial recession.

In North America, sales to the home improvement centers, which generate lower profit margins, increased as a percentage of the total sales. In the U.S. plant, as the operating ratio decreased due to drop in production volume, the ratio of fixed charges in manufacturing cost increased. Accordingly, operating income decreased by 57.4%, to ¥360 million.

Asia Segment

In FY2010, sales in the Asia segment decreased by 30.9% to ¥66,827 million. Sales to external customers decreased by 9.5%, to ¥9,007 million, which accounted for 3.7% of the consolidated net sales.

This decrease is primarily due to significantly decreased demand in the first half of the fiscal year, despite a slight recovery in demand in Southeast Asian countries during the second half of the fiscal year. In the second half of FY2010, certain governments of Asian countries implemented economic stimulation measures, including improvements to infrastructure, and the economies expanded in China and India.

In Asia, the ratio of cost of sales experienced almost no substantial changes, however, due to drop in sales, segment operating income decreased by 27.3%, to ¥8,880 million in FY2010.

Other Segment

FY2010, sales in the Other segment decreased by 8.7% to ¥37,116 million. Sales to external customers decreased by 8.7%, to ¥37,018 million, which accounted for 15.0% of the consolidated net sales.

This decrease is primarily due to a sharp drop in demand in the Middle East.

In the Latin America region, especially in Brazil, demand remained steady and sales of gardening tools increased in comparison with the previous fiscal year. However, in the second half of FY2010, the Brazilian Real depreciated, which resulted in an increase in the cost of sales. SGA expenses increased due to the transfer of production from one plant in Brazil to another. Sales on a local currency basis were strong in Brazil and other Latin America countries. However, sales on a Japanese yen basis were negatively affected by the appreciation of the Japanese yen against local currencies.

Demand in Australia was strong and sales of gardening equipment via home improvement centers increased. The Australian dollar depreciated slightly, which contributed to an increase in the cost of sales. The profit decreased mainly due to an increase of lower margin gardening equipment sales as a percentage of total sales.

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However, sales on a Japanese yen basis were negatively affected by the appreciation of the Japanese yen against Australian dollars.

In the Middle East region, demand in the construction market throughout FY2010 was further weakened by the economic crisis experienced in Dubai. Moreover, The the cost of inventory increased due to the appreciation of the Japanese yen against the U.S. dollar.

Accordingly, segment operating income decreased by 55.2%, to ¥2,174 million, in FY2010.

FY2009 compared to FY2008**Net Sales**

Makita's consolidated net sales for FY2009 amounted to ¥294,034 million, a decrease of 14.2%, or ¥48,543 million, from FY2008. In FY2009, the average Japanese yen-U.S. dollar exchange rate was ¥100.71 for U.S.\$1.00, representing a 12% appreciation of the Japanese yen compared to the average exchange rate in FY2008. The average Japanese yen-euro exchange rate in FY2009 was ¥144.07 for 1.00 euro, representing a 10.8% appreciation of the Japanese yen compared to the average exchange rate in FY2008. Excluding the effect of currency fluctuations, consolidated net sales would have decreased by 4.5% in FY2009.

In terms of product type, the sales of power tools decreased by 16.1%, or ¥41,166 million; the sale of gardening and household products decreased by 8.6%, or ¥3,494 million; and revenue from parts, repairs and accessories decreased by 8.4%, or ¥3,883 million.

Decrease of sales of Makita's main products including grinders, hammer drills and driver drills ranged between 12% and 19% due to a rapid decline in demand for power tools which worsened the business environment in the second half of FY2009. On the other hand, the ratio of sale of cordless power tools to total sales of power tools increased to 27.2% from 26.4% in FY2008.

Sales by Region

The decrease in consolidated net sales in FY2009 can be attributed to a decrease in sales in Japan by 11.4%, or ¥5,971 million, to ¥46,222 million, a decrease in sales in Europe by 14.5%, or ¥23,247 million, to ¥137,113 million; a decrease in sales in North America, by 25.0%, or ¥14,133 million, to ¥42,289 million; a decrease in sales in Asia (excluding Japan) by 2.8%, or ¥634 million, to ¥21,995 million and a decrease in sales in Other regions, including Central and South America, the Middle East, Africa and Oceania, by 8.9% or ¥4,558 million, to ¥46,415 million.

In Japan, the number of new housing construction started has been stagnant since summer 2007 partly due to the implementation of a more stringent Building Standards Law of Japan. Consequently, demand for power tools has not recovered, leading to a decline in sales.

In Europe, demand for construction in Western Europe decreased and the financial crisis considerably affected the real economy in Eastern Europe and Russia, where demand had been strong until the first half of FY2009 before the outbreak of the financial crisis. The chain effect of this crisis caused a sharp decline in sales in the second half of FY2009.

Net sales in local currency terms decreased in Western Europe by 6.6%, but increased in Eastern Europe and Russia by 2.3%. The considerable drop in the exchange rates of local currencies had a significant negative impact. The euro depreciated by 10.8% and the British pound by 23.9% against the Japanese yen year-over-year.

Net sales in translation into Japanese yen decreased in Eastern Europe and Russia by 5.8%, the United Kingdom by 25.4%, Germany by 12.7% and France by 15.2%. Excluding the effect of currency translation, sales in Europe decreased by 3.4%, or ¥5,415 million.

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In North America, where the financial crisis began, housing investments and the commercial construction market considerably declined. Even Christmas season sales, typically the best sale opportunity during the year remained stagnant due to sluggish sales at retailers. The appreciation of the yen by 12% against the U.S. dollar was also a contributing factor to the decline of net sales. Excluding the effect of currency translation, sales in North America decreased by 13.5%, or ¥7,633 million.

In Asia, sales were favorable in the Southeast Asia region during the first half of FY2009, but demand for construction fell rapidly in the second half of FY2009. Excluding the effect of currency translation, sales in Asia increased by 0.9%, or ¥214 million.

In Other regions, investments in construction in Brazil and the Middle East increased due to the hike of crude oil and natural resource prices during the first half of FY2009. However, such investments rapidly decreased following the financial crisis during the second half of FY2009. A sharp decline in currencies of emerging countries also accelerated the rapid decline of new construction starts. In Oceania, net sales on a local currency basis increased by 4.8%, however, this was largely affected by the decline of currencies in the second half of FY2009. The Australian dollar fell by 18.5% against the Japanese yen and Brazil's Real declined by 14.4% (year-over-year comparison on exchange rates for net sales). Excluding the effect of currency translation, sales in Other regions increased by 6.4%, or ¥3,245 million.

Review of Performance by Product Group***Power Tools***

The Power Tools group offers a wide range of products such as drills, grinders and sanders, rotary hammers and hammer drills, demolition hammers and electric breakers, cordless impact drivers, circular saws, slide compound saws and cutters. These products represent the largest portion of Makita's consolidated net sales.

In FY2009, sales of power tools decreased by 16.1% to ¥214,703 million year-over-year, accounting for 73.0% of consolidated net sales.

In Japan, sales of power tools decreased by 11.9% to ¥20,788 million, accounting for 45.0% of the domestic net sales. Overseas sales of power tools decreased by 16.5% to ¥193,915 million, accounting for 78.3% of overseas net sales. New products launched during FY2009 included brushless impact drivers and rotary hammers equipped with 36V lithium-ion batteries.

Gardening Equipments, Household and Other Products

Principal products in Makita's gardening and household products group include chain-saws, brush-cutters, vacuum cleaners and cordless cleaners. In FY2009, sales of gardening and household products decreased by 8.6%, to ¥36,916 million, which accounted for 12.6% of consolidated net sales. Domestic sales of gardening and household products decreased by 15.9%, to ¥12,907 million, accounting for 27.9% of total domestic sales. Overseas sales of gardening and household products decreased by 4.2%, to ¥24,009 million, accounting for 9.7% of total overseas sales in FY2009.

New products launched during FY2009 included cordless cleaners and sprays powered by lithium-ion batteries, low-vibration hedge trimmers and backpack-type, mini 4-stroke engine-equipped grass cutters.

In FY2008, Makita acquired all outstanding shares of Fuji Robin Industries, Ltd. (currently Makita Numazu Corporation), in exchange for approximately ¥2,673 million in cash and 81,456 Makita shares (with a fair value of ¥397 million) aimed to expand its business in the gardening equipment market. Makita Numazu engages primarily in the production of engine-equipped gardening equipment, especially mini 4-stroke engines that are environment-friendly in terms of noise and exhaust emissions, and therefore future sales expansion is anticipated. While such effects is yet to be seen in terms of sales and profits, such effect can be expected after engine production is transferred to Makita's plants in China in order to reduce costs of production of engine-equipped gardening equipments.

Table of Contents***Parts, Repairs and Accessories***

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2009, the sales of parts, repairs and accessories decreased by 8.4%, to ¥42,415 million, accounting for 14.4% of consolidated net sales. Domestic sales of parts, repairs, and accessories decreased by 5.4% to ¥12,527 million, accounting for 27.1% of domestic net sales.

Overseas sales of parts, repairs, and accessories decreased by 9.6% to ¥29,888 million, accounting for 12.0% of overseas net sales.

Gross Profit

Gross profit on sales decreased by 14.1%, or ¥20,217 million, to ¥123,140 million.

Gross profit margin rose by 0.1 point from 41.8% to 41.9% compared with FY2008, which is mainly due to positive effects from strong sales in the first half of FY2009, a rise in the production rate of the plants in China and favorable exchange rate fluctuations, despite a decline in sales during the second-half of FY2009 and rapid appreciation of the Japanese yen resulting in a rise in the cost of sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for FY2009 decreased by 4.7%, or ¥3,563 million from FY2008 to ¥72,635 million compared with FY2008.

R&D cost mainly incurred in Japan increased. Although personnel cost increased overseas on a local currency basis, the corresponding amount in Japanese yen decreased due to the appreciation of the Japanese yen.

In FY2009, selling, general and administrative expenses excluding the impact of currency fluctuations increased by 4.1%, or ¥3,121 million compared with FY2008. The ratio of selling, general and administrative expenses to sales rose by 2.5 points from 22.2% in FY2008 to 24.7% in FY2009.

Losses (Gains) on Disposal or Sales of Property, Plant and Equipment

In FY2009, the Company demolished parts of its head office building and Okazaki plant through reconstruction projects. Makita recognized net losses on disposal or sales of property, plant and equipment of ¥430 million in FY2009, compared with net losses of ¥128 million in FY2008.

Operating Income

As a result of the above, operating income for FY2009 decreased by 25.3%, or ¥16,956 million to ¥50,075 million. This decrease was mainly due to currency fluctuations and decrease in sales. Operating margin decreased by 2.6 points, from 19.6% to 17.0% compared with FY2009.

Other Income (Expenses)

In FY2009, other expense was ¥6,058 million, compared with other expense of ¥1,260 million in FY2008.

The major components of other expense were as follows:

- (1) Realized losses on securities amounted to ¥3,548 million, compared with realized losses on securities of ¥1,384 million in FY2008. This increase of losses was mainly due to the decline of stock price.
- (2) The amount of foreign exchange losses increased by ¥2,175 million, to ¥3,408 million, in FY2009 due to foreign exchange losses mainly in Brazil and China.

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

Income before Income taxes

Income before income taxes for FY2009 decreased by 33.1%, or ¥21,754 million, to ¥44,017 million. This was the first profit decline in seven fiscal years. The ratio of income before income taxes to sales in FY2009 decreased by 4.2 points, from 19.2% to 15.0% compared with FY2008.

Table of Contents**Provision for Income taxes**

Provision for income taxes for FY2009 amounted to ¥10,731 million, a decrease of 45.6%, or ¥8,997 million, compared with FY2008.

The effective tax rate for FY2009 was 24.4%, a decrease of 5.6 points from 30.0% for FY2008 primarily because of a higher proportion of foreign source income from overseas subsidiaries in FY2009 that are subject to lower tax rates.

Net Income

As a result of the above, net income for FY2009 decreased by 27.7%, or ¥12,757 million, to ¥33,286 million compared with FY2008. Net income ratio to sales was 11.3% in FY2009.

Earning per Share

Basic earnings per share of common stock decreased by 26%, to ¥236.9 in FY2009 from ¥320.3 in FY2008. In FY2009, the Company repurchased six million shares of its own stock and then retired four million shares of treasury stock.

Regional Segments

Segment information described below is based on the location of the Company and its relevant subsidiaries. Sales by segment shown below are based on shipment routes and accordingly differ from the geographic area information provided elsewhere in this document.

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

Transactions between business segments are carried out at arm's-length prices.

Japan Segment

In FY2009, sales in the Japan segment decreased by 15.3%, to ¥120,230 million.

Sales to external customers decreased by 11.9% to ¥63,859 million, which accounted for 21.7% of consolidated net sales. The decrease reflects an 11.4% decrease in sales in the domestic market. The number of new housing construction starts has been stagnant since summer 2007 partly due to the implementation of the stringent Building Standards Law of Japan. The decrease was also attributable to a sharp decline in exports to North America and Europe further impacted by the appreciation of the Japanese yen against mainly the U.S. dollar, the Euro, the Australian dollar and the British pound sterling.

Cost of sales as a percentage of sales increased due to increases in both the production costs per unit and the ratio of fixed charges resulting from a reduction of production volume.

Selling, general and administrative expenses increased due to accelerated depreciation and the transfer of the Atsugi plant activities to the Okazaki plant and higher research and development expenses.

Segment operating expenses in Japan decreased by 6.6%, to ¥112,109 million. Segment income decreased by 63.1%, to ¥8,121 million in FY2009.

Europe Segment

In FY2009, sales in the Europe segment decreased by 14.7% to ¥141,384 million. Sales to external customers decreased by 14.3%, to ¥137,230 million, which accounted for 46.7% of consolidated net sales.

This decrease is mainly due to a decrease of sales in Europe and the depreciation of local currencies in Europe. Demand for construction in Western Europe declined and the financial crisis considerably affected the economy in Eastern Europe and Russia, where demand had been strong until the first half of FY2009. The impact of the global economic crisis caused a sharp decline in sales in the second half of FY2009. Net sales in local currency terms decreased in Western Europe by 6.6%, but increased in Eastern Europe and Russia by 2.3%. The considerable drop in the exchange rates of local currencies further impacted net sales on a Japanese yen basis.

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The euro and other European currencies depreciated against the Japanese yen resulting in an increase in cost of sales. Shipping and advertising expenses decreased consistent with the decrease in sales. Segment operating income decreased by 26.9%, to ¥19,716 million.

North America Segment

In FY2009, sales in the North America segment decreased by 23.3%, to ¥47,136 million. Sales to customers decreased by 24.5% to ¥42,446 million, which accounted for 14.4% of consolidated net sales. This decrease in sales was primarily due to a large decline in sales in the United States, most notably a significant decrease in sales at specialty stores for professional applications. In the United States, cost of sales as a percentage of sales decreased due to higher margins experienced in cordless tools sales. In addition, selling, general and administrative expenses such as sales bonuses and advertising support expenses were reduced as sales decreased. In Canada, cost of sales increased due to the depreciation of the Canadian dollar.

Operating income decreased by 50.8%, to ¥845 million due to the significant decrease in sales.

Asia Segment

In FY2009, sales in the Asia segment decreased by 14.1% to ¥96,651 million. Sales to external customers decreased by 11.7%, to ¥9,954 million, which accounted for 3.4% of the consolidated net sales. This decrease was primarily due to declines in sales of subsidiaries in Singapore, Hong Kong and China, as well as the adverse effect of exchange rate fluctuations. In Asia, operating expenses decreased as result of the reduction of shipping expenses from the Chinese plants, mainly due to the decline of sales and crude oil value. Despite decreases in expenses due to product mix changes and cost reduction efforts. Segment operating income decreased by 12.9%, to ¥12,213 million in FY2009.

Other Segment

FY2009, sales in the Other segment decreased by 4.5% to ¥40,666 million. Sales to external customers decreased by 4.3%, to ¥40,545 million, which accounted for 13.8% of the consolidated net sales.

Although the number of products sold increased, sales on a Japanese yen basis decreased due to the effect of unfavorable exchange rates.

In Latin America, the appreciation of the Brazilian Real through the fiscal year resulted in a decrease of cost of sales as a percentage of sales. Operating expenses increased due to increases in the labor force and also due to depreciation expenses related to a second plant in Brazil.

In the Middle East region, cost of sales as a percentage of sales decreased as a result of selling price increases. In Oceania, cost of sales as a percentage of sales increased due to the depreciation of the Australian dollar during the second half of FY2009.

Segment operating income decreased by 13.3%, to ¥4,850 million, in FY2009.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

Makita recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed and determinable or collectibility is reasonably assured. Makita offers sales incentives to qualifying customers through various incentive programs. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts.

Volume-based rebates are given in the form of cash or credit memos and settled monthly, quarterly, semiannually or annually. Volume-based rebates are given to specific customers as a specified percentage of sales amounts for the agreed calculation period if accumulated sales to the customer achieve specified sales volume.

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Based on such agreed percentages applicable specific customers and estimated of accumulated sales volume during the agreed program period, liabilities for volume-based rebates are recognized with a corresponding reduction to revenue for the sales incentive at the time the related revenue is recognized. If expected sales levels are not achieved or achieved in levels higher than anticipated resulting in a greater magnitude of incentive, the result could have a material impact on Makita's financial statements.

Cooperative advertising programs are provided to certain customers as a contribution to or as sponsored funds for advertisements. Cooperative advertising programs vary by customer agreement. Under Makita's cooperative advertising programs, specified customers receive cooperative advertisement allowances based on a certain percentage of sales per agreement and are not required to submit proof of advertisement to Makita. Liabilities for cooperative advertisements are recognized with a corresponding reduction to revenue for the expected cooperative advertisements at the time the related revenue is recognized, and are based on the estimation of cooperative advertisements reflecting the historical performance of individual customers.

Cash discounts are provided as a certain percentage of the invoice price as predetermined by spot contracts or based on contractually agreed upon amounts with customers. Cash discounts are recognized as a reduction of revenue at the time the related revenue is recognized, based on Makita's ability to reliably estimate such future discounts to be taken. Estimates of expected cash discounts are evaluated and adjusted periodically based on actual sales transactions and historical trends.

The following table shows the changes in accruals for volume-based rebates, cooperative advertising and cash discounts for the years ended March 31, 2008, 2009 and 2010:

	Yen in millions			U.S. Dollars in thousands
	2008	For the year ended March 31,		2010
		2009	2010	
Volume-based Rebates:				
Actual payment for the year	¥(9,626)	¥(10,343)	¥(6,763)	\$ (72,720)
Charge to earnings for the year	9,897	7,866	6,519	70,097
Translation adjustments	346	662	(1)	(11)
Accrued expense or deduction of account receivable(BS) as of March 31	4,476	2,661	2,416	25,978
Cooperative Advertisings:				
Actual payment for the year	(3,585)	(3,981)	(2,453)	(26,376)
Charge to earnings for the year	3,517	3,435	2,923	31,430
Translation adjustments	64	185	(109)	(1,172)
Accrued expense or deduction of account receivable(BS) as of March 31	953	592	953	10,247
Cash Discounts:				
Actual payment for the year	(5,891)	(5,514)	(4,281)	(46,032)
Charge to earnings for the year	5,881	5,444	4,420	47,527
Translation adjustments	58	14	8	86
Accrued expense or deduction of account receivable(BS) as of March 31	¥ 396	¥ 340	¥ 487	\$ 5,237

Inventory Valuation

Makita monitors its inventories with various measures such as ageing, turnover periods, sales trend, profitability in recent trades and so on. Inventories are valued at the lower of cost or market price, with cost determined based on the average cost method. Makita estimates obsolete or excess inventory as well as inventory that is not of saleable quality.

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The determination of obsolete or excess inventory requires Makita to estimate the future demand for products taking into consideration such factors as macro and microeconomic conditions, competitive pressures, technological obsolescence, changes in consumer buying habits and other factors. The estimates of future demand that Makita uses in the valuation of inventory are the basis for revenue forecasts, which are also consistent with short-term manufacturing plans.

If demand forecast for specific products is greater than actual demand and Makita fails to reduce manufacturing output accordingly, Makita could be required to write down additional on-hand inventory, which would have a negative impact on gross profit and, consequently, a potential material adverse impact on net income.

Revaluation of inventories, losses on inventory write-downs or write-offs, which are included in costs of sales in the consolidated statements of income, are charged as incurred and totaled ¥313 million, ¥990 million and ¥195 million for the years ended March 31, 2008, 2009 and 2010, respectively.

Impairment Losses on Securities

Makita's investments include debt and equity securities accounted for under the cost method of accounting. If it has been determined that an investment has sustained an other-than-temporary decline in its value, the investment is written down to its fair value by a charge to earnings. Makita regularly evaluates its investment portfolio to identify other-than-temporary impairments of individual securities. Factors that are considered by Makita in determining whether an other-than-temporary decline in value has occurred include: the length of time and extent to which the market value of the security has been less than its original cost, the financial condition, operating results, business plans of the issuer of the security, other specific factors affecting the market value, deterioration of credit condition of the issuers, and whether or not Makita is able to retain the investment for a period of time sufficient to allow for the anticipated recovery in market value.

In evaluating the factors for available-for-sale securities whose fair values are readily determinable, Makita presumes a decline in value to be other-than-temporary if the fair value of the security is a certain percentage below its original cost for an extended period of time.

The assessment of whether a decline in the value of an investment is other-than-temporary is often subjective in nature and involves certain assumptions and estimates concerning the expected operating results and business plans of the issuer of the security. Accordingly, it is possible that investments in Makita's portfolio that have had a decline in value that Makita currently believes to be temporary may be determined to be other-than-temporary in the future based on Makita's evaluation of subsequent information such as continued poor operating results, continuing broad declines in the value of worldwide equity markets and the effect of worldwide interest rate fluctuations. As a result, unrealized losses recorded for investments may be recognized and reduce income in future periods.

Impairment losses on securities were ¥1,662 million in FY2008, ¥4,059 million in FY2009 and ¥228 million in FY2010, respectively.

Allowance for Doubtful Receivables

Makita performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by Makita's review of their current credit information. Makita continuously monitors collections and payments from its customers and maintains a provision for probable estimated credit losses based upon its historical experience and any specific customer collection issues that Makita has identified. The estimated amount for doubtful receivables is calculated on the basis of the following elements: the ratio of past bad debts against regular account receivables, as well as the credit standing by customers and the examination of the account receivables which have not been collected yet after the due date against specific doubtful account receivables. Further, when the payment ability of one of the customers becomes doubtful as a result of its filing for bankruptcy or the deterioration of its operating results, Makita establishes additional reserves. Any credit losses have historically been within Makita's expectations and the provisions established. However, Makita cannot guarantee that it will continue to experience the similar credit loss rates that it has in the past. Changes in the underlying financial condition of its customers could result in a material impact to Makita's consolidated results of operations and financial condition.

Table of Contents***Impairment of Long-lived Assets***

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

Makita performs an impairment review for long-lived assets held and used whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. This review is based upon Makita's projections of expected undiscounted future cash flows. Estimates of the future cash flows are based on the historical trends adjusted to reflect the best estimate of future operating conditions. Makita believes that its estimates are reasonable. However, different assumptions regarding such cash flows could materially affect Makita's evaluations.

Recoverability of assets to be held and used is assessed by comparing the carrying amount of an asset or asset group to the expected future undiscounted cash flows of the asset or group of assets.

If an asset or group of assets is considered to be impaired due to factors such as a significant decline in market value of an asset, current period operating or cash flow losses and significant changes in the manner of the use of an asset, the impairment charge to be recognized is measured as the amount by which the carrying amount of the asset or group of assets exceeds fair value.

Long-lived assets meeting the criteria to be considered as held for sale, if any, are reported at the lower of their carrying amount or fair value less costs to sell.

Fair value is determined based on recent transactions involving sales of similar assets, by discounting expected future cash flows, or by using other valuation techniques. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or a shorter expected future period to generate such cash flows, additional impairment charges may be required.

In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and in turn affect Makita's consolidated results of operations and financial condition. Makita did not recognize any impairment loss of long-lived assets in FY2008 and FY2009, however Makita recognized impairment loss of long-lived assets of ¥354 million in FY2010.

Impairment of Goodwill

Makita conducts goodwill impairment assessment annually and at any time if an event occurs or circumstances change and that would indicate possibility of goodwill impairment. Goodwill is tested using a two-step process. The first step of the goodwill impairment assessment compares the fair value of a reporting unit where the relevant goodwill is assigned with its carrying amount. If the fair value of a reporting unit exceeds its net book value, goodwill of the reporting unit is considered not impaired, thus the second step of the impairment test is unnecessary. If net book value of a reporting unit exceeds its fair value, the second step of the goodwill impairment test will be performed to measure the amount of impairment loss. The second step of the goodwill impairment assessment, used to measure the amount of impairment loss, compares the implied fair value of the goodwill, which is determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of that goodwill. If the carrying amount of the goodwill exceeds the implied fair value of that goodwill, an impairment loss shall be recognized in an amount equal to that excess.

In the first step of the goodwill impairment assessment, Makita uses an income approach to derive a present value of the reporting unit's projected future annual cash flows and the present residual value of the reporting unit. Makita uses the income approach because it believes that the discounted future cash flows provide greater detail and opportunity to reflect facts, circumstances and economic conditions for each reporting unit. In addition, Makita believes that this valuation approach is a proven valuation technique and methodology for its industry and is widely accepted by investors.

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Makita uses a variety of underlying assumptions to estimate these future cash flows, which vary for each of the reporting units and include (i) future revenue growth rates, (ii) future operating profitability, (iii) the weighted-average cost of capital and (iv) a terminal growth rate. Makita also estimates fair value using a market approach, which relies on values based on market multiples. If Makita's estimates and assumptions used in the estimates will change in future, Makita may incur an impairment charge which could have a material adverse effect on the results of operations for the period in which the impairment occurs.

Makita conducted the step-on test for each of Makita's reporting units for its annual impairment test. As a result of the step-on impairment test, an indication of goodwill impairment existed for Makita's (Gardening tools) reporting unit in Japan. A third-party appraiser was utilized to estimate fair value of the reporting unit in Japan and the underlying net assets (excluding goodwill) of the reporting unit. Upon completion of that assessment, Makita recognized a goodwill impairment loss on assigned to the Japan segment of ¥ 1,251 million.

Retirement and Termination Benefit Plans

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

The expected long-term rate of return on plan assets is determined annually based on the composition of the pension asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return on plan assets is designed to approximate the long-term rate of return actually earned on the plan assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees.

A number of factors are used to determine the reasonableness of the expected long-term rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

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

The Company and certain of its subsidiaries have various contributory and noncontributory employee benefit plans covering substantially all of their employees. The discount rate assumed to determine the pension obligation for the pension plan was 2.3% as of March 31, 2010.

As of March 31, 2010, Makita allocated 28.5% and 47.0% of plan assets to equity securities and debt securities, respectively. The value of these plan assets are influenced by fluctuations in world securities markets. Significant depreciation or appreciation will have corresponding impact on future expenses.

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The following table illustrates the sensitivity to changes in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for Makita's pension plans as of March 31, 2010.

Change in assumption	Yen in millions			
	Change in projected benefit obligation		Change in pre-tax pension expenses	
	(2,205)			
50 basis point increase/decrease in discount rate	/	2,462	3/	(5)
50 basis point increase/decrease in expected return on assets	-	-	(193)/	193

While Makita believes that the assumptions are appropriate, significant differences in its actual experience or significant changes in its assumptions may materially affect Makita's accrued retirement and termination benefits and future expenses.

Although pension liability increases in the current unfavorable investment environment, Makita holds sufficient surplus funds. Therefore, Makita is satisfied that its pension plans can be maintained.

Realizability of Deferred Income Tax Assets

Makita is required to estimate its income taxes in each of the jurisdictions in which Makita operates. This process involves estimating Makita's current tax provision together with assessing temporary differences resulting from differing treatment of items for income tax reporting and financial accounting and reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within Makita's consolidated balance sheets. Makita must then assess the likelihood that Makita's deferred income tax assets will be recovered from future taxable income and, to the extent Makita believes that recovery is not more likely than not, Makita must establish a valuation allowance.

Significant management judgment is required in determining Makita's provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against Makita's gross deferred income tax assets.

Makita has recorded a valuation allowance of ¥2,021 million as of March 31, 2010 against certain deferred income tax assets due to the lack of available tax planning strategy to prevent a portion of net operating loss carryforwards from expiring unused. For the balance of deferred income taxes, although realization is not assured, management believes, judging from an authorized business plan, it is more likely than not that all of the deferred income tax assets, less the valuation allowance, will be realized. The amount of such net deferred income tax assets that are considered realizable, however, could change in the near term and any such change may have a material effect on Makita's consolidated results of operations and financial position if estimates of future taxable income are different.

New Accounting Standards Not yet Adopted

In October 2009, the FASB issued ASC2009-13 Revenue recognition under multiple-deliverable arrangements. ASC2009-13 modifies the criteria for separating consideration under multiple-deliverable arrangements and requires allocation of the overall consideration to each deliverable using the estimated selling price in the absence of vendor-specific objective evidence or third-party evidence of selling price for deliverables. As a result, the residual method of allocating arrangement consideration will no longer be permitted. ASC2009-13 also requires additional disclosures about how a vendor allocates revenue in its arrangements and about the significant judgments made and their impact on revenue recognition. ASC2009-13 is effective for fiscal years beginning on or after June 15, 2010 and is required to be adopted by Makita in the fiscal year beginning April 1, 2011. The provisions are effective prospectively for revenue arrangements entered into or materially modified after the effective date, or retrospectively for all prior periods. Makita does not expect the adoption of ASC2009-13 will have a material impact on its consolidated results of operations and financial condition.

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In October 2009, the FASB issued ASC2009-14 Software revenue recognition . ASC2009-14 modifies the scope of the software revenue recognition guidance to exclude from its requirements non-software components of tangible products and software components of tangible products that are sold, licensed, or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product 's essential functionality. ASC2009-14 is effective for fiscal years beginning on or after June 15, 2010 and is required to be adopted by Makita in the fiscal year beginning April 1, 2011 using the same effective date and the same transition method used to adopt ASC2009-13 Revenue recognition under multiple-deliverable arrangements . Makita does not expect the adoption of ASC2009-14 will have a material impact on its consolidated results of operations and financial condition.

B. Liquidity and capital resources

Makita supports its business activities by maintaining sufficient capital resources, a sufficient level of liquidity and a sound balance sheet. Makita 's main business is the manufacturing and sale of power tools, gardening equipment and related accessories. To support this business worldwide, Makita provides capital resources to its subsidiaries mainly through the use of intercompany loans. Makita meets its operating capital requirements primarily through cash generated by operations and bank loans.

Makita requires operating capital mainly to purchase materials required for production, to conduct research and development, to respond to cash flow fluctuations related to changes in inventory levels and to cover the payment lag related to receivables from wholesalers.

Makita further requires funds for capital expenditures, mainly to expand production facilities and purchase metal molds. Makita also requires funds to pay dividends and to repurchase its own stock.

FY2010**Cash Flows**

Net cash provided by operating activities increased by ¥34,948 million from ¥22,178 million in FY2009 to ¥57,126 million in FY2010, mainly due to the decrease of inventories adjusting to current sales volume.

Primary factors that affected such result include the following:

Cash flow increasing factors:

Cash inflow increased ¥92,743 million due to decreased purchases as a result of reduced production, decreased inventories, and the effect of cost reduction efforts.

Cash flow decreasing factors:

Cash collected from customers decreased ¥57,795 million due to the sales decrease.

Net cash used in investing activities was ¥17,668 million in FY2010 as opposed to net cash provided by investment activities in the amount of ¥232 million in FY2009 primarily as a result of the following:

¥6,143 million increase due to higher purchases of available-for-sale securities and held-to-maturity securities

¥15,593 million decrease due to a decrease in proceeds from sales and maturities of securities

¥2,815 million decrease due to proceeds from maturity of time deposits

¥6,209 million decrease due to lower capital expenditures compared with FY2009 including expenditures for the partial renovation of the Okazaki Plant in Japan, the reconstruction of sales offices and warehouse in Germany, the Netherlands, Poland and Switzerland, relocation of Nagoya branch office in Japan, the extension of the Makita China Plant and the Dubai warehouse of Makita Gulf.

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Net cash used in financing activities decreased by ¥24,065 million from ¥33,179 million in FY2009 to ¥9,114 million in FY2010 primarily as a result of the following:

¥17,630 million decrease reflecting almost no acquisition of treasury shares during FY2010

¥4,900 million decrease due to reduced amount of cash dividends paid

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents increased by ¥28,075 million from ¥34,215 million as of the end of FY2009 to ¥62,290 million as of the end of FY2010.

In FY2010, funding source requirements decreased due to a decrease in inventories, almost no acquisition of treasury shares, decrease of capital expenditures and dividend payments, resulting in a year-over-year increase of ¥28,075 million in the cash balance as of March 31, 2010.

Both inventory values and turnover period decreased compared with the previous fiscal year because sales subsidiaries minimized inventories and production sites adjusted the production volumes to cope with the sharp sales decreases caused by the simultaneous global recession.

Capital expenditures are expected to be lower in FY2011 compared to FY2010, even though several relocation and/or expansion projects for certain sales offices are planned.

Sales and net income are expected to increase slightly and capital investments decrease slightly.

However, no increase in the cash balance is expected at the end of FY 2011, compared with the current fiscal year, because Makita will increase production volume and will maintain sufficient volumes of inventories for active marketing activities.

Capital Expenditures

Makita has continued to allocate sizable amounts of funds for capital expenditures, which it believes is crucial for sustaining long-term growth.

As the competition in the market has intensified recently, Makita has implemented capital investments mainly in extensions of overseas plants and production of dies/molds for new products, as well as capital investments in sales companies in order to further improve their customer service.

The amount of its capital expenditures for FY2008, 2009 and 2010 were ¥15,306 million, ¥17,046 million and ¥10,837 million, respectively.

Capital expenditures in FY2010 were primarily used for the partial renovation of the Okazaki Plant in Japan, reconstruction of office buildings and warehouse of sales companies in Europe (Germany, the Netherlands, Poland and Switzerland), relocation and construction of Nagoya branch office in Japan, extension of the Makita China Plant and the Dubai warehouse of Makita Gulf.

Capital investments of Makita amounted to approximately ¥3,677 million, while capital investment of overseas subsidiaries amounted to approximately ¥7,160 million. All of Makita's capital expenditures in FY2010 were funded through internal sources.

Under its investment plans for FY2011, Makita is scheduled to make capital investments totaling ¥10.3 billion, which is 5% lower than for FY2010. Of this total, the Company plans to make direct investments of ¥2.7 billion and its consolidated subsidiaries will invest ¥7.6 billion.

The Company's main capital investment plan is to purchase dies/molds for new products, relocation or rebuilding of certain domestic sales offices.

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The main facilities investments by consolidated subsidiaries include capital expenditures for the installation of the engine production facility and dies/molds for new products in the China Plant, reconstruction of office buildings and warehouses of sales companies in Europe (Germany and Switzerland), the extensions of warehouses of sales companies in Asia and North America. The projected capital expenditure in FY2011 is planned to be funded by equity capital.

Financial Position

Makita's principal sources of liquidity are cash on hand, cash provided by operating activities and borrowings within credit lines.

As of March 31, 2010, Makita held cash and cash equivalents amounting to ¥62,290 million and the Company's subsidiaries had credit lines up to ¥14,226 million, of which ¥105 million was used and ¥14,121 million was unused and available.

As of March 31, 2010, Makita had ¥385 million in short-term borrowing, which included bank borrowings and the current portion of capital lease obligations. Short-term borrowing was used for daily operations at the subsidiaries. The amount excluding current maturities of long-term indebtedness was ¥544 million. For further information regarding Makita's short-term borrowings, including the average interest rates, see Note 12 to the accompanying consolidated financial statements.

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

As of March 31, 2010, Makita's total short-term borrowings and long-term indebtedness amounted to ¥929 million, representing a decrease of ¥128 million from ¥1,057 million reported for FY2009. Makita's ratio of indebtedness to shareholders' equity was down by 0.1 points to 0.3%. This decrease was mainly due to a decrease of long-term borrowing, which decreased from ¥818 million to ¥544 million.

Makita expects to continue to incur additional indebtedness from time to time as required to finance working capital needs. Makita has no potentially significant refinancing requirements in FY2011 and thereafter.

Makita has historically maintained a high level of liquid assets. Management estimates that the cash and cash equivalents level of ¥62,290 million as of March 31, 2010, together with Makita's available credit facilities, cash flow from operations and funds available from long-term and short-term debt financing, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2011 and thereafter. Please see Fiscal Year 2010 Capital Expenditures below for a description of Makita's principal capital expenditures for FY2010 and the main planned expenditures for FY2011.

As part of the Company's policy to maximize shareholder return, the Company distributed to its shareholders an interim dividend of ¥15 per share in November 2009, and a year-end dividend of ¥37 per share in June 2010.

At the Ordinary General Meeting of Shareholders held in June 2010, the Company's shareholders approved a cash dividend of ¥37 per share. The total cash dividend payments amount to ¥5,097 million, and were made in June 2010.

In 2007, Makita acquired all outstanding shares of Fuji Robin Industries, Ltd. (currently Makita Numazu Corporation) for approximately ¥2.7 billion in cash and 81,456 Makita shares. Makita financed the cash portion of the purchase price from internal sources.

Makita believes it will continue to be able to access the capital markets on terms and for amounts that will be satisfactory to it and as necessary to support the business and to engage in hedging transactions on commercially acceptable terms.

While Makita had received an A+ rating from Standard & Poor's Financial Services LLC through the end of FY2008, starting FY2009, Makita no longer requests ratings from rating agencies in consideration of its cost reduction efforts. Makita believes that because its financial health is ensured by a high equity ratio, there is little need for financing through bank borrowings or corporate bonds issuances.

Table of Contents**FY2009****Cash Flows**

Net cash provided by operating activities decreased by ¥7,097 million from ¥29,275 million in FY2008 to ¥22,178 million in FY2009, due to the deterioration of business results in the second half of FY2009. Primary factors that affected such result include the following:

Cash flow increasing factors:

¥25,428 million increase due to lower levels of cash used in operating activities such as purchases of parts and raw materials, selling, general and administrative expenses and income tax payments

Cash flow decreasing factors:

¥32,525 million decrease due to lower level of cash received from customers as a result of decrease in sales

Net cash provided by investing activities was ¥232 million in FY2009 as opposed to net cash used in investment activities in the amount of ¥4,508 million in FY2008 primarily as a result of the following:

¥20,565 million decrease due to lower purchases of available-for-sale securities and held-to-maturity securities

¥8,302 million decrease due to a decrease in proceeds from sales and maturities of securities

¥4,791 million decrease due to proceeds from maturity of time deposits

¥2,010 million increase due to higher capital expenditures compared with FY2008 including expenditures for the partial reconstruction of the Okazaki Plant, purchases of metal molds for the manufacture of new products, construction of the research and development facility at the Makita China Plant, expansion of the Makita Romania Plant, construction of the second plant in Brazil and construction of the headquarter building of the sales company in France

Net cash used in financing activities increased by ¥19,364 million from ¥13,815 million in FY2008 to ¥33,179 million in FY2009 primarily as a result of the following:

¥17,640 million used for repurchase of the Company's own shares of common stock

¥1,638 million increase due to cash dividends paid

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents decreased by ¥12,091 million from ¥46,306 million as of the end of FY2008 to ¥34,215 million as of the end of FY2009.

In FY2009, demand for cash was high due to an increase in inventories, the repurchase of the Company's own shares, capital expenditures and dividend payments, resulting in a year-over-year decline of ¥12,091 million in the cash balance as of March 31, 2009.

The downturn of the worldwide economy, which unfolded while Makita was enhancing its production system, resulted in a substantial decrease in sales in the second half of FY2009. Inventory amount increased by ¥17,314 million in FY2009 compared to the previous fiscal year, despite Makita's efforts in adjusting its production level during the fourth quarter of FY2009.

Capital expenditures are expected to be lower in FY2010 compared to FY2009, even though several relocation and/or expansion projects for certain facilities are planned. Makita expects the difficult business environment to continue in FY2010 and projects a considerable decrease in net income in FY2010 compared with FY2009. Makita plans to reduce its inventory level by adjusting production levels in FY2010.

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Makita also expects a longer period for recovering trade accounts receivable in FY2010, because Makita has granted an extension to several customers who are facing difficulties in financing as a result of the financial crisis. Makita expects its cash flow to increase in general, as the Company does not plan to repurchase its own shares.

Capital Expenditures

Makita has continued to allocate sizable amounts of funds for capital expenditures, which it believes is crucial for sustaining long-term growth. In light of the severity of the current market competition, however, Makita has focused its capital investments on constructing or expanding its plants in Brazil, Romania and China and also purchasing metal molds to manufacture new products.

This required Makita to increase the amount of its capital expenditures in FY2009 compared to FY2008, amounting to ¥12,980 million, ¥15,036 million and ¥17,046 million for FY2007, 2008 and 2009, respectively.

Capital expenditures in FY2009 were primarily used for the partial reconstruction of the Okazaki Plant, purchases of metal molds for the manufacture of new products, the construction of the second plant in Brazil and the extension of the Makita Romania Plant to reinforce the global production system, as well as the construction of the headquarters building at a sales company in France.

Capital investments of the Company amounted to approximately ¥6.2 billion, while capital investment of overseas subsidiaries amounted to approximately ¥10.8 billion. All of Makita's capital expenditures in FY2009 were funded through internal sources.

Under its investment plans for FY2010, Makita is scheduled to make capital investments totaling ¥13 billion, which is 24% lower than for FY2009. Of this total, the Company plans to make direct investments of ¥3.1 billion and its consolidated subsidiaries will invest ¥9.9 billion.

The Company's main capital investment plan is to purchase metal molds for the manufacture of new products, rebuild the delivery center in the Okazaki Plant, and construct the Tokyo Technical Center.

The main facilities investments by consolidated subsidiaries include ¥9.9 billion in capital expenditures for production facilities in the China Plant, the purchase of metal molds for the manufacture of new products and the construction of the headquarters building and warehouses at sales companies in Europe and Asia. The projected capital expenditure in FY2010 is planned to be funded by equity capital.

Financial Position

Makita's principal sources of liquidity are cash on hand, cash provided by operating activities and borrowings within credit lines.

As of March 31, 2009, Makita held cash and cash equivalents amounting to ¥34,215 million and the Company's subsidiaries had credit lines up to ¥16,079 million, of which ¥110 million was used and ¥15,969 million was unused and available. As of March 31, 2009, Makita had ¥239 million in short-term borrowing, which included bank borrowings and the current portion of capital lease obligations. Short-term borrowing was used for daily operations at the subsidiaries.

The amount excluding current maturities of long-term indebtedness was ¥110 million. For further information regarding Makita's short-term borrowings, including the average interest rates, see Note 11 to the accompanying consolidated financial statements.

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

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As of March 31, 2009, Makita's total short-term borrowings and long-term indebtedness amounted to ¥1,057 million, representing a decrease of 59.8% from ¥2,632 million reported for FY2008. Makita's ratio of indebtedness to shareholders' equity was down by 0.4 points to 0.4%. This decrease was mainly due to a decrease of long-term borrowing, which decreased from ¥908 million to ¥818 million. Makita expects to continue to incur additional indebtedness from time to time as required to finance working capital needs. Makita has no potentially significant refinancing requirements in FY2010 and thereafter.

Makita has historically maintained a high level of liquid assets. Management estimates that the cash and cash equivalents level of ¥34,215 million as of March 31, 2009, together with Makita's available credit facilities, cash flow from operations and funds available from long-term and short-term debt financing, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2010 and thereafter. Please see Fiscal Year 2009 Capital Expenditures below for a description of Makita's principal capital expenditures for FY2009 and the main planned expenditures for FY2010.

As part of the Company's policy to maximize shareholder return, the Company distributed to its shareholders an interim dividend of ¥30 per share in November 2008, and a year-end dividend of ¥50 per share in June 2009.

At the Ordinary General Meeting of Shareholders held in June 2009, the Company's shareholders approved a cash dividend of ¥50 per share. The total cash dividend payments amount to ¥6,888 million, and were made in June 2009.

Makita believes it will continue to be able to access the capital markets on terms and for amounts that will be satisfactory to it and as necessary to support the business and to engage in hedging transactions on commercially acceptable terms.

While Makita had received an A+ rating from Standard & Poor's Financial Services LLC through the end of FY2008, starting FY2009, Makita no longer requests ratings from rating agencies in consideration of its cost reduction efforts.

Makita believes that because its financial health is ensured by a high equity ratio, there is little need for financing through bank borrowings or corporate bonds issuances.

C. Research and development, patents and licenses, etc.

Approximately 682 of Makita's employees are engaged in research and development of technologies in which Makita has a competitive edge and the development of new products. Makita regards R&D as a high priority and believes that having a strong capability in R&D is crucial to its continuing development of high-quality, reliable products that meet users' needs. In FY2010, Makita allocated ¥6,782 million to R&D, a decrease of 1.5% compared with FY2009. In FY2009, Makita allocated ¥6,883 million to R&D, an increase of 16.2% compared to FY2008. The ratio of R&D expenses to net sales was approximately 2.8% in FY2010, 2.3% in FY2009 and 1.7% in FY2008, respectively.

Makita is placing greater emphasis on designing power tools that are smaller and lighter, that feature electronic controls and that have internal power sources allowing for cordless operation. Makita has developed the Optimum Charging System, a battery recharging system which employs digital communication functions between the recharger and the battery to provide information on the status of the battery's charge, and automatically selects the most appropriate recharging mode. This system enables batteries to last longer. In particular, for lithium ion batteries, the total operable hours of use has been doubled compared to the conventional batteries. Makita also developed an original battery verification system that can be connected to personal computers. Through the use of this system, customers and users can check the status of the battery's charge and the history of the battery's usage.

Makita is also placing more emphasis on developing safe products with reduced dust emissions that feature low noise, level and low vibration. Makita developed power tools featuring an AVT mechanism that meet operating environment related regulations, which have increasingly become stringent, especially in Europe. These power tools have been highly acclaimed by commercial users. Makita also focuses on designing recyclable products that are environmentally-friendly.

Makita also strives to reduce the development time for new products in order to effectively meet the needs of users.

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In addition, Makita has been focusing on developing models that use generic parts, as well as consolidating the variety of products to reduce cost. Makita established a R&D division at Makita China Plant where local personnel are hired to accelerate the development of general-purpose products. Furthermore, Makita plans to establish the Tokyo Technical Center to improve its ability to develop engine-equipped gardening equipment and enhance product line-up.

New products developed during FY2010 include lightweight hedge trimmers powered by mini 2-stroke engine, lightweight brushcutters powered by mini 4-stroke engine, compact and lightweight slide compound saw equipped with double sliding mechanism.

D. Trend information

The recovery of demand in developed countries is expected to remain modest and competitions among businesses will intensify. In emerging countries in Asia and other regions, the growth of the construction demand for houses and other structures is expected to continue. But it is forecast that the market prefers low-priced properties.

With trends in raw material prices and the foreign exchange market being unpredictable, Makita is expected to continue facing a challenging business environment.

As for exchange rates, it is expected that the euro will become weaker against the yen and the U.S. dollar will not fluctuate significantly, compared with the actual average exchange rates for sales of the previous fiscal year. If appreciation of the Chinese Renmin Yuan value continues to be implemented, the production cost of Makita may increase. Many emerging countries have potential additional demand and strong business growth is expected in these countries. However, uncertainties about the foreign exchange market continue.

In general, Makita expects that the growth of the power tools market in Japan, the United States, Western Europe and other developed countries will be difficult. In Japan, the home owner rate is expected to increase in FY 2011 supported by the government's housing eco point program and the housing loan tax reduction. However, the number of housing starts will remain low. In Europe, there are concerns about impact of credit uncertainties, stemming from the financial crisis in Greece on the entire substantial European economies. The progress of economic recovery in the Eastern European market is also uncertain. In the United States, there are concerns about severe price competition, a weak dollar and increase in raw material prices.

In Asia, Makita expects that demands will rise in China and India that have economic power to grow and that capital investments will increase in neighboring countries. In Central and South America, steady demand is expected mainly in Brazil. The economy in the Middle East is expected to grow modestly since the aftermath of the Dubai crisis has settled. In Oceania, the exchange rate of the Australian dollar and real recovery of the export economy are important factors for business expansions. However, since the power tools market in the region has already matured, significant business expansion is expected to be difficult.

One of the impacts of the global warming and climate change in which people's awareness has raised is laws and regulations established in many regions. Europe and North America were the first regions that adopt environmental laws and regulations. Makita will be required to supply products that satisfy specifications conforming to those laws and regulations. In Southeast Asia, sales of chain saws are restricted in some areas to prevent destructive lumbering of forests.

End users' interest in environment-friendly ECO products has been increasing, and the market demand for ECO products is also increasing.

Moreover, cool summers, droughts and heavy snow occur often. Unseasonable weather will have impact on sales of gardening equipment. Sales of power tools may also be affected by unusual weather in a short term since weather will have effect on the work schedule on construction sites.

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Under such circumstances, Makita will strive to strengthen its R&D ability and product development ability in the area of work environment/global environment-friendly power tools and gardening equipment and technical development ability in the area of compact engines. Makita will reinforce the global production system to cope with changes in the demand and reduce the production costs. Makita will also strive to strengthen marketing activities targeting professional users, make fine-tuned response to customer needs and take active measures to maintain and improve the best sales and after-sales service system in the industry.

E. Off-balance sheet arrangements

Makita also has certain operating leases entered into in the ordinary course of business. See Note 15 to the accompanying consolidated financial statements.

F. Tabular disclosure of contractual obligations

	Yen in millions						
	Expected payment date; year ending March 31,						
	Total	2011	2012	2013	2014	2015	There-after
Capital lease	¥324	¥280	¥28	¥13	¥3	-	-
Interest expenses on capital lease	13	12	1	-	-	-	-
Operating Lease	2,765	840	545	410	329	244	397
Unsecured loans from bank	500	-	500	-	-	-	-
Interest expenses on loans from bank	16	9	7	-	-	-	-
Contributions to defined benefit plan	2,475	2,475	-	-	-	-	-
Purchase obligation	7,609	7,609	-	-	-	-	-
Total	¥13,702	¥11,225	¥1,081	¥423	¥332	¥244	¥397

	U.S. Dollars in thousands						
	Expected payment date; year ending March 31,						
	Total	2011	2012	2013	2014	2015	There-after
Capital lease	\$ 3,484	\$ 3,011	\$ 301	\$ 140	\$ 32	-	-
Interest expenses on capital lease	140	129	11	-	-	-	-
Operating Lease	29,731	9,032	5,860	4,408	3,538	2,624	4,269
Unsecured loans from bank	5,376	-	5,376	-	-	-	-
Interest expenses on loans from bank	172	97	75	-	-	-	-
Contributions to defined benefit plan	26,613	26,613	-	-	-	-	-
Purchase obligation	81,817	81,817	-	-	-	-	-
Total	\$ 147,333	\$ 120,699	\$ 11,623	\$ 4,548	\$ 3,570	\$ 2,624	\$ 4,269

Note: 1. Determination of contributions to defined benefit plan after FY2011 is not practicable.

2. The notional amount of derivative financial instruments that are expected to settle in FY2010 is ¥14,544 million and their estimated fair value is ¥(276) million at March 31, 2010.
Please see note 17, 18, 19 to the consolidated financial statements for further information.

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All information is not historical in nature disclosed under Item 5. Forecasts of operating and financial results and statements of trend information and contractual obligations are forward-looking statements. See Cautionary Statement with Respect to Forward-Looking Statements for additional information.

Item 6. Directors, Senior Management and Employees**A. Directors and senior management**

The Company introduced a corporate officer system in order to promote and strengthen prompt execution of Makita's business affairs. 15 Corporate Officers are appointed and 10 Directors excluding one Outside Director are Corporate Officer concurrently.

The Directors and Statutory Auditors of the Company as of June 30, 2010 are as follows:

Masahiko Goto

Current Position	President, Representative Director and Chief Executive Officer since May 1989	
Date of Birth	November 16, 1946	
Director since	May 1984	
Business Experience	May 1984	Director, General Manager of General Planning Department
	July 1987	Managing Director of Administration Headquarters

Yasuhiko Kanzaki

Current Position	Director, Managing Corporate Officer, in charge of International Sales and General Manager of International Sales Headquarters: Europe, Middle East and Africa Region since June 2009	
Date of Birth	July 9, 1946	
Director since	June 1999	
Business Experience	April 1995	Director of Makita International Europe Ltd.
	June 1999	Director, Assistant General Manager of International Sales Headquarters 1
	June 2003	Director, General Manager of International Sales Headquarters (Europe region)
	June 2007	Managing Director, General Manager of International Sales Headquarters (Europe region)

Tadayoshi Torii

Current Position	Director, Managing Corporate Officer, in charge of Production and General Manager of Production Headquarters since June 2009	
Date of Birth	December 10, 1946	
Director since	June 2001	
Business Experience	October 1998	General Manager of Production Department
	June 2001	Director, General Manager of Quality Control Headquarters
	June 2003	Director, General Manager of Production Headquarters

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Shiro Hori

Current Position	Director, Managing Corporate Officer, in charge of International Sales and General Manager of International Sales Headquarters: America, Asia and Oceania Region since June 2009	
Date of Birth	February 24, 1948	
Director since	June 2003	
Business Experience	March 1999	General Manager of Europe Sales Department
	June 2003	Director, General Manager of International Sales Headquarters: America Area and International Administration
	September 2007	Director, General Manager of Overseas Sales Headquarters (America, Asia and Oceania Area, and International Administration)

Tomoyasu Kato

Current Position	Director, Corporate Officer, General Manager of Research and Development Headquarters in charge of Research and Development since June 2009	
Date of Birth	March 25, 1948	
Director since	June 2001	
Business Experience	March 1999	General Manager of Technical Administration Department
	June 2001	Director, General Manager of Research and Development Headquarters

Tadashi Asanuma

Current Position	Director, Corporate Officer, in charge of Domestic Sales and General Manager of Domestic Sales Marketing Headquarters since June 2009	
Date of Birth	January 4, 1949	
Director since	June 2003	
Business Experience	April 1995	Manager of Saitama Branch Office
	April 2001	General Manager of Osaka Sales Department
	June 2003	Director, Assistant General Manager of Domestic Sales Marketing Headquarters
	June 2007	Director, General Manager of Domestic Sales Marketing Headquarters (Tokyo Sales Department)

Hisayoshi Niwa

Current Position	Director, Corporate Officer, General Manager of Quality Headquarters since June 2009	
Date of Birth	February 24, 1949	
Director since	June 2003	
Business Experience	October 1991	General Manager of Information System Center
	October 1999	General Manager of Production Control Department
	June 2003	Director, General Manager of Quality Control Headquarters
	April 2005	Director, General Manager of Quality Headquarters

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Shinichiro Tomita

Current Position	Director, Corporate Officer, General Manager of Purchasing Headquarters since May 2010
Date of Birth	January 11, 1951
Director since	June 2007
Business Experience	October 2001 General Manager of Production Engineering Department September 2003 President of Makita (China) Co., Ltd. June 2007 Director, Assistant General Manager of Production Headquarters in charge of China Plant June 2009 Director, Corporate Officer, General Manager of Research and Development Headquarters in charge of Product Development

Tetsuhisa Kaneko

Current Position	Director, Corporate Officer, General Manager of Production Headquarters in charge of China Plant since May 2010
Date of Birth	April 6, 1955
Director since	June 2007
Business Experience	April 2004 General Manager of Technical Research Department August 2005 General Manager of 2 nd Production Department October 2006 General Manager of 1st Production Department June 2007 Director, General Manager of Purchasing Headquarters June 2009 Director, Corporate Officer, General Manager of Purchasing Headquarters

Yoji Aoki

Current Position	Director, Chief Financial Officer, Corporate Officer and General Manager of Administration Headquarters since June 2009
Date of Birth	May 22, 1950
Director since	June 2009
Business Experience	July 2001 General Manager of Personnel Department July 2004 General Manager of General Administration Department

Motohiko Yokoyama

Current Position	Outside Director since June 2005
Date of Birth	May 13, 1944
Director since	June 2005
Business Experience	June 2004 President and Representative Director of Toyoda Machine Works, Ltd. January 2006 Vice President and Representative Director of JTEKT Corporation, which is the entity created by the merger of Toyoda Machine Works, Ltd. with Koyo Seiko Co., Ltd. June 2007 President and Representative Director of JTEKT Corporation June 2010 Vice Chairman of JTEKT Corporation

Toshihito Yamazoe

Current Position	Standing Statutory Auditor since June 2008
Date of Birth	

Statutory Auditor since Business Experience	October 16, 1949	
	June 2008	
	April 1999	Assistant General Manager of Asia and Oceania Sales Department
	August 2000 April 2006	President of Makita (China) Co., Ltd. General Manager of Europe Sales Department

Table of Contents**Haruhito Hisatsune**

Current Position	Outside Standing Statutory Auditor since June 2008	
Date of Birth	February 7, 1947	
Statutory Auditor since	June 2008	
Business Experience	May 1990	Manager of Government Securities Service Section of Operation Department of the Bank of Japan
	May 1991	Officer of Examination Department of the Bank of Japan
	April 1997	General Manager of Overseas Section of the Hekikai Shinkin Bank
	August 2003	Management Director and Corporate Officer, Director of Business Center of the Hekikai Shinkin Bank

Masafumi Nakamura

Current Position	Outside Statutory Auditor since June 2007	
Date of Birth	September 17, 1942	
Statutory Auditor since	June 2007	
Business Experience	May 1983	Representative partner of SAN-AI Audit Corporation
	April 2001	Representative partner of Tohmatsu & Co.
	January 2006	Representative partner of Masafumi Nakamura Accountancy Firm
	June 2007	Outside Statutory Auditor for Taiyo Kagaku Co., Ltd.
	November 2008	Outside Statutory Auditor for Shinwa Co., Ltd.
	April 2009	Professor in Graduate School of Business at Aichi Shukutoku University

Michiyuki Kondo

Current Position	Outside Statutory Auditor since June 2008 (Attorney-at-law, Kondo Michiyuki Law Firm)	
Date of Birth	October 23, 1944	
Statutory Auditor since	June 2008	
Business Experience	April 1971	Attorney-at-law, Takasu Hiroo Law Firm
	May 1977	Established Kondo Michiyuki Law Firm
	May 2005	Outside Statutory Auditor for ELMO Co., Ltd.
	April 2010	Outside Statutory Auditor for TECNO HORIZON HOLDINGS CO.,LTD

The terms of each director listed above and Masufumi Nakamura as Statutory Auditor expire in June 2011. The terms of Mr. Toshihito Yamazoe as Statutory Auditor and of Mr. Haruhito Hisatsune and Michiyuki Kondo as Outside Statutory Auditor expire in June 2012.

There are no family relationships between any of the individuals named above. There is no arrangement or understanding with major shareholders, customers, suppliers, or others pursuant to which any person named above.

B. Compensation

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2010 to all Directors, who served during FY2010 totaled ¥231 million.

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2010 to all Statutory Auditors, who served during FY2010 totaled ¥41 million.

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2009 to all Directors, who served during FY2009 totaled ¥276 million.

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The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2009 to all Statutory Auditors, who served during FY2009 totaled ¥41 million.

Some of the fringe benefits provided by the Company to its employees in Japan, such as medical and dental service insurance and welfare pension insurance were also made available to Directors and Standing Statutory Auditors. The Company had an unfunded retirement and termination allowances program for Directors and Statutory Auditors. Under such program, the aggregate amount set aside as retirement allowances for Directors and Statutory Auditors was ¥450 million as of March 31, 2009 and was ¥384 million as of March 31, 2010.

However, this executive retirement and termination allowances program was abolished by the Annual General Meeting of Shareholders held on June 29, 2006, because the program featured minimal correlation with the Company's results while presenting strong seniority-based elements. With regard to retirement and termination allowances accrued through that day, the retirement allowance will be paid to eligible executives upon their retirement. The aggregate amount of remuneration related to retirement and termination paid by the Company during FY2010 to all Directors and Statutory Auditors totaled ¥62 million.

Beginning in July 2006, the Company introduced a new remuneration program which links the Directors' compensation to Makita's stock prices. Under this remuneration program, a portion or all of the directors' monthly compensation representing their retirement allowance will be contributed to the Executive Stock Ownership Plan, which in turn will acquire the Company's stock. The acquired stock will be retained for the duration of the Director's tenure. The purpose of this system is to effectively link a portion of the Directors' remuneration to the stock price, and thereby provide further transparency of directors' managerial responsibility with respect to improving the Company's value.

C. Board practices

Makita regards the management checking function as an important means of providing for transparent management, strengthening the functions of the Board of Directors and the Board of Corporate Auditors and improving corporate governance.

Makita also strives to provide for effective corporate governance and fair and transparent management by disclosing information proactively and timely via various channels including an Internet website dedicated to disclosure of financial information.

Under the Company Law, the Company has elected to structure its corporate governance system as a company with a board of statutory auditors as set out below.

The Company's Articles of Incorporation provide for 15 or fewer Directors and 5 or fewer Statutory Auditors. All Directors and Statutory Auditors are elected at general meetings of shareholders. In general, the term of offices of Directors expires at the conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within two years from their election, and in the case of Statutory Auditors, within four years from their election; however, Directors and Statutory Auditors may serve any number of consecutive terms.

With respect to each expiration date of the term of offices of current Directors and Statutory Auditors, see A. Directors and senior management of Item 6.A.

The Board of Directors assumes final responsibility for the business operations of the Company. The Board has responsibility over material matters related the business management of the Company, in addition to basic business management policies and matters assigned to it by law.

The Board of Directors may elect from among its members a Chairman and Director, one or more Vice Chairmen and Directors, a President and Director, one or more Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors. From among the Directors referred to above, the Board of Directors elects one or more Representative Directors.

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Each Representative Director has the authority to individually represent the Company in the conduct of the affairs of the Company.

Makita has appointed executive officers in order to ensure quick implementation of group strategies and strengthen the operational organization.

As Makita expands its business globally, this system will allow Makita to improve its corporate value by implementing flexible and efficient business operations in rapidly changing business environments.

Since the general meeting of shareholders on June 25, 2010, the Board of Directors of the Company has been comprised of eleven directors, including one independent outside director. At a June 25, 2010 meeting of the Board of Directors, 15 executive officers were appointed, ten of whom concurrently serve as directors.

Pursuant to the Articles of Incorporation of the Company, the number of Directors must be 15 or less.

The Company has established a Board of Corporate Auditors. The Board of Corporate Auditors is comprised of four corporate auditors, including three independent outside corporate auditors who are not and have not been employed by the Company. Two of these outside corporate auditors are part-time.

The two full-time corporate auditors audit directors' execution of duties on a continual basis. Of the four corporate auditors, two have considerable knowledge and expertise in financial and accounting matters.

The Board of Corporate Auditors provides audit and status reports, as necessary, to the independent accounting firm responsible for auditing the Company.

The Statutory Auditors of the Company are not required to be certified public accountants. However, at least half of the Statutory Auditors are required to be persons who have never been in the past a director, accounting counselor, corporate executive officer, general manager or any other employee of the Company or any of its subsidiaries.

The Statutory Auditors may not, while acting as such, be a director, accounting counselor, corporate executive officer, general manager or any other employee of the Company or any of its subsidiaries.

Each Statutory Auditor has the statutory duty to supervise the administration by the Directors of the Company's affairs and also to examine the Company's annual consolidated and non-consolidated financial statements and business report proposed to be submitted by a Representative Director at the general meeting of shareholders and, based on such examination and a report of an Accounting Auditor referred to below, to individually prepare their audit reports. They are required to attend meetings of the Board of Directors but are not entitled to vote.

In addition to Statutory Auditors, independent certified public accountants or an audit corporation must be appointed by a general meeting of shareholders as Accounting Auditors.

Such Accounting Auditors have, as their primary statutory duties, a duty to examine the Company's annual consolidated and non-consolidated financial statements proposed to be submitted by a Representative Director to general meetings of shareholders and to report their opinion thereon to certain Statutory Auditors designated by the Board of Statutory Auditors to receive such report (if such Statutory Auditors are not designated, all Statutory Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements).

The Board of Statutory Auditors has a statutory duty to, based upon the reports prepared by respective Statutory Auditors, prepare its audit report and Statutory Auditors designated by the Board of Statutory Auditors to submit such report (if such Statutory Auditors are not designated, all Statutory Auditors) to the Accounting Auditors and Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements and the business report). A Statutory Auditor may note his or her opinion in the audit report of the Board of Statutory Auditors if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report of the Board of Statutory Auditors. The Board of Statutory Auditors shall elect one or more full-time Statutory Auditors from among its members.

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The Board of Statutory Auditors is empowered to establish audit principles, the method of examination by Statutory Auditors of the Company's affairs and financial position, and other matters concerning the performance of the Statutory Auditors' duties. For names of the Statutory Auditors that constitute the current Board of Statutory Auditors, see Item 6. A.

Consolidated financial statements created by the Company are audited by KPMG AZSA LLC, a KPMG member firm.

No relationship or transaction that is required to be noted under the Certified Public Accountants Act exists between the Company and the accounting firm or any of its partners.

The Company consults with legal counsel regarding matters requiring judgment from a legal perspective in order to ensure compliance with applicable laws.

There are no contractual arrangements providing for benefits to Directors upon termination of service. Also see B. Memorandum and articles of association - Directors in Item 10.

D. Employees

The following table sets forth information about the number of Makita's employees excluding temporary employees:

Employees by Geographic Areas

		As of March 31,		
	2008	2009	2010	
Japan	3,206	3,171	3,146	
Europe	2,323	2,381	2,347	
North America	995	912	848	
Asia	3,278	3,203	3,230	
Other regions	634	745	757	
Total	10,436	10,412	10,328	

As of March 31, 2010, Makita had 10,328 regular full-time employees and 3,223 temporary employees who were not entitled to retirement or certain other fringe benefits which regular full-time employees receive.

The Company has a labor contract with the Makita Workers' Union covering wages and conditions of employment. All full-time employees of the Company in Japan, except management and certain other employees, must be union members. The Makita Union is affiliated with the Japanese Electrical Electronic & Information Union. The Company has not been materially affected by any work stoppages or difficulties in connection with labor negotiations in the past.

As of March 31, 2010, there are 2,672 members of the labor union and Makita considers its relationship with the labor union to be good.

E. Share ownership

The total number of shares of the Company's common stock owned by the Directors and Statutory Auditors as a group as of March 31, 2010 is as follows:

Identity of person or group	Number of shares owned	Percentage of outstanding shares
Directors and Statutory Auditors	2,094,593	1.52%

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The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2010.

Name	Position as of March 31, 2010	Number of shares
Masahiko Goto	CEO & President, Representative Director	1,990,537
Yasuhiko Kanzaki	Director and Managing Corporate Officer	23,104
Tadayoshi Torii	Director and Managing Corporate Officer	16,477
Shiro Hori	Director and Managing Corporate Officer	13,263
Tomoyasu Kato	Director and Corporate Officer	14,777
Tadashi Asanuma	Director and Corporate Officer	7,179
Hisayoshi Niwa	Director and Corporate Officer	8,380
Shinichiro Tomita	Director and Corporate Officer	4,406
Tetsuhisa Kaneko	Director and Corporate Officer	7,005
Yoji Aoki	CFO & Director and Corporate Officer	3,314
Motohiko Yokoyama	Outside Director	0
Toshihito Yamazoe	Standing Statutory Auditor	5,317
Haruhito Hisatsune	Standing Statutory Auditor	0
Masafumi Nakamura	Outside Statutory Auditor	0
Michiyuki Kondo	Outside Statutory Auditor	834

Item 7. Major Shareholders and Related Party Transactions**A. Major shareholders**

Except for Masahiko Goto, who holds 1.44% of total number of shares of outstanding common stock with voting rights, excluding treasury stock, as of March 31, 2010, none of the Company's Directors and Statutory Auditors own more than one percent of the Company's common stock. The information on beneficial ownership of the Company's common stock in the table below was prepared from publicly available records of the filings made by the Company's shareholders regarding their ownership of the Company's common stock under the Financial Instruments and Exchange Act of Japan.

Under the Financial Instruments and Exchange Act of Japan, any person who becomes beneficially, solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares), must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of the Company's common stock as of March 31, 2010, indicated in the reports described below.

Name of beneficial owner	Number of shares	Percentage
Master Trust Bank of Japan, Ltd. (Trust account)	8,193,100	5.85%

Based on information made publicly available on or after April 1, 2007, the following table describes transactions resulting in a 1% or more change in the percentage ownership held by major beneficial owners of the Company's common stock.

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Name of shareholder	Date of transaction	Shares owned prior to transaction	%	Number of shares changed	Shares owned after transaction	%
Mitsubishi UFJ Financial Group	April 14, 2008	8,544,423	5.93	1,478,577	10,023,000	6.97
Mitsubishi UFJ Financial Group	June 30, 2008	10,023,000	6.97	1,462,523	11,485,523	7.98
Mitsubishi UFJ Financial Group	October 27, 2008	11,485,523	7.98	(1,446,434)	10,039,089	6.97
Nomura Asset Management	March 13, 2009	7,528,400	5.23	(1,677,600)	5,850,800	4.18
Nomura Asset Management	October 15, 2009	7,218,000	5.16	(1,652,200)	5,565,800	3.98

As of March 31, 2010, the Company had 137,760,402 outstanding shares of common stock, excluding 2,248,358 shares of Treasury Stock. According to the Bank of New York Mellon, depository for the Company's ADSs, as of March 31, 2010, 3,896,087 shares of the Company's common stock were held in the form of ADRs and there were 85 ADR holders of record in the United States. According to the Company's register of shareholders and register of beneficial owners as of March 31, 2010, there were 15,272 holders of common stock of record worldwide and the number of record holders in the United States was 130.

The major shareholders do not have voting rights that are different to the other shareholders of the Company. As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of the Company.

To the knowledge of the Company, it is not directly or indirectly owned or controlled by any other corporation or by the Japanese or any foreign government.

B. Related party transactions

Makita sells and purchases products, materials, supplies and services to and from affiliated companies in the ordinary course of business. No Director or Statutory Auditor has been indebted to the Company or any of its subsidiaries at any time during the latest three fiscal years. Neither the Company nor any of its subsidiaries expects to make any loans to Directors or Statutory Auditors in the future.

During FY2008, Makita acquired all outstanding shares of Fuji Robin Industries, Ltd. in exchange for approximately ¥2,673 million in cash and 81,456 Makita shares with a fair value of ¥397 million.

The Company recorded advertisement expenses of ¥2 million in FY2009 and ¥2 million in FY2010, respectively, paid to Maruwa Co., Ltd., a Japanese corporation in which the Company's President, Masahiko Goto, and his relatives hold a majority of the voting rights.

The Company recorded purchases of materials and production facilities amounting to ¥109 million in FY2009 and ¥28 million in FY2010 as a result of business transactions with Toa Co., Ltd., a Japanese corporation in which the Company's President, Masahiko Goto, and his relatives hold a majority of the voting rights. In addition, in connection with such transactions, the Company recorded trade accounts payable of ¥5 million and ¥2 million, as of March 31, 2009 and March 31, 2010, respectively.

Makita recorded purchases of materials and machinery and facilities amounting to ¥614 million in FY2009 and ¥311 million in FY2010 as a result of business transactions with JTEKT Group, a corporation in which Motohiko Yokoyama, an Outside Director of the Company, serves as the Vice Chairman and Representative Director. In connection with such transactions, Makita recorded trade accounts payable of ¥27 million and ¥24 million as of March 31, 2009 and March 31, 2010, respectively.

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C. Interests of experts and counsel

Not applicable

Item 8. Financial Information

A. Consolidated statements and other financial information

1-3. Consolidated Financial Statements

Makita's audited consolidated financial statements are included under Item 18 Financial Statements. Except for Makita's consolidated financial statements included under Item 18, no other information included in this annual report has been audited by Makita's Independent Registered Public Accounting Firm.

4. Not applicable

5. Not applicable

6. Export Sales

7. Legal or arbitration proceedings

In 2009, Milwaukee Electric Tool Corporation (Milwaukee) and Metco Battery Technologies, LLC (Metco) filed a lawsuit against the Company and its subsidiaries, Makita U.S.A., Inc. and Makita Corporation of America (the Company and its subsidiaries) alleging infringement of certain patents registered under Milwaukee's and Metco's names by one of the Makita Group's products. The Company and its subsidiaries filed a legal action for a declaratory judgment against Milwaukee and Metco arguing that certain of Milwaukee's and Metco's patents are invalid and that otherwise the Makita Group's product does not infringe Milwaukee's or Metco's patents. Milwaukee, Metco and the Company and its subsidiaries agreed to settle the lawsuit in September 2009 and the parties dropped each suit in October 2009.

8. Dividend Policy

Makita's basic policy on the distribution of profits is to maintain a dividend payout ratio of 30% or greater, with a lower limit on annual cash dividends of 18 Japanese yen per share. However, in the event special circumstances arise, computation of the amount of dividends will be based on consolidated net income after certain adjustments. In addition, Makita aims to implement a flexible capital policy, augment the efficiency of its capital employment, and thereby boost shareholder profit. Makita continues to consider repurchases of its outstanding shares in light of trends in stock prices. The Company intends to retire treasury stock when necessary based on consideration of the balance of treasury stock and its capital policy. Makita intends to maintain a financial position strong enough to withstand the challenges associated with changes in its operating environment and other changes and allocate funds for strategic investments aimed at expanding its global operations.

According to this basic policy, the Company paid interim cash dividends in FY2010 of ¥15 per share and ADS. The Company has declared a year-end cash dividend of ¥37 per share and ADS, which was approved by the shareholders' meeting held on June 25, 2010.

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The following table sets forth cash dividends per share of common stock declared in Japanese yen and as translated into U.S. dollars.

Fiscal year ended March 31,	Yen		U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2006	19	38	0.16	0.32
2007	19	55	0.16	0.47
2008	30	67	0.30	0.67
2009	30	50	0.31	0.53
2010	15	37	0.17	0.41

Note: Cash dividends in U.S. dollars are based on the exchange rates at the respective payment date (except for the FY2010 year-end dividend, which is based on the exchange rate on June 25, 2010), using the noon buying rates for cable transfers in Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York.

B. Significant changes

To Makita's knowledge, except as disclosed in this annual report, no significant change has occurred since the date of the annual financial statements.

Item 9. The Offer and Listing**A. Offer and listing details**

The shares of common stock of the Company were listed on the First Section of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in 1970. The Company decided to discontinue its listing on the Osaka Securities Exchange due to the low level of trading volume in its shares on that exchange, and it was delisted from that exchange at the end of February 2003. The shares of common stock of the Company were listed on the Amsterdam Stock Exchange (Euronext Amsterdam) in 1973, initially in the form of Continental Depositary Receipts. The Company decided to discontinue its listing on the Euronext Amsterdam Stock Exchange due to the extremely low level of trading volume in its shares on that exchange, and it was delisted from that exchange at the end of January 2005.

The Company's American Depositary Shares, each representing one share (prior to April 1, 1991, five shares) of common stock and evidenced by American Depositary Receipts (ADRs), have been quoted since 1977 through the National Association of Securities Dealers Automated Quotation (NASDAQ) System under MKTAY .

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The following table shows the high and low sales prices of the Common Stock on the Tokyo Stock Exchange for the periods indicated and the reported high and low bid prices of American Depositary Shares through the NASDAQ system.

Fiscal year ended March 31,	Tokyo Stock Exchange price per share of Common stock Yen		NASDAQ price per American Depositary Share U.S. Dollars	
	High	Low	High	Low
2006	3,820	1,755	34.19	16.15
2007	4,630	2,995	39.00	26.03
2008	5,920	2,885	50.60	27.28
2009	4,780	1,160	45.76	12.72
2010	3,400	1,912	39.65	21.01
Quarterly				
Fiscal year 2009				
1 st quarter ended June 30, 2008	4,780	3,000	45.76	29.94
2 nd quarter ended September 30, 2008	4,380	1,965	39.30	19.07
3 rd quarter ended December 31, 2008	2,215	1,160	22.64	12.72
4 th quarter ended March 31, 2009	2,490	1,580	25.09	17.80
Fiscal year 2010				
1 st quarter ended June 30, 2009	2,535	2,080	25.58	21.68
2 nd quarter ended September 30, 2009	3,060	1,912	33.87	21.01
3 rd quarter ended December 31, 2009	3,400	2,700	39.65	30.51
4 th quarter ended March 31, 2010	3,395	2,771	36.60	31.44
Monthly				
January 2010	3,395	2,953	36.60	32.78
February 2010	3,130	2,771	34.53	31.44
March 2010	3,190	2,800	34.22	31.67
April 2010	3,265	2,810	34.69	30.55
May 2010	2,882	2,375	32.74	25.55
June 2010	2,727	2,380	29.75	26.66

B. Plan of distribution

Not applicable

C. Markets

See Item 9.A.

D. Selling shareholders

Not applicable

E. Dilution

Not applicable

F. Expenses of the issue

Not applicable

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Item 10. Additional Information

A. Share capital

Not applicable

B. Memorandum and articles of association

Organization

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Companies Act (*kaishaho*) of Japan. It is registered in the Commercial Register (*shogyo tokibo*) maintained by the Kariya Branch Office of the Nagoya Legal Affairs Bureau of the Ministry of Justice of Japan.

Objects and purposes

Article 2 of the Articles of Incorporation of the Company provides that the purposes of the Company are to engage in the following businesses:

Manufacture and sale of machine tools including electric power tools, pneumatic tools, engine-powered tools, etc., and wood-working tools;

Manufacture and sale of electric machinery and equipment, gardening machinery and various other machinery and equipment;

Manufacture and sale of interior furnishings and household goods and their installation work;

Purchase, sale, lease and management of real estate;

Operation of sporting and recreational facilities;

Casualty insurance agency and business relating to offering of life insurance;

Tourist business under the Travel Agency Law;

Acquisition, assignment and licensing of industrial property rights, copyright and other intellectual property rights and provision of technical guidance;

Investment in various kinds of business; and

All other business incidental or relative to any of the preceding items.

Directors

Under the Companies Act, each Director has executive powers and duties to manage the affairs of the Company and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent the Company in all respects.

Under the Companies Act, the Directors must refrain from engaging in any business competing with the Company unless approved by the Board of Directors and any Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The total amount of remuneration to Directors and that to Statutory Auditors are subject to the approval of the general meeting of shareholders. Within such authorized amounts the Board of Directors and the Board of Statutory Auditors respectively determine the compensation to each Director and Statutory Auditor.

Except as stated below, neither the Companies Act nor the Company's Articles of Incorporation make special provisions as to:

the Directors' or Statutory Auditors' power to vote in connection with their compensation;

the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power);

the Directors or Statutory Auditors retirement age; or
requirement to hold any shares of capital stock of the Company.

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The Companies Act specifically requires the resolution of the Board of Directors for a company:

to acquire or dispose of material assets;

to borrow a substantial amount of money;

to employ or discharge from employment important employees, such as general managers;

to establish, change or abolish material corporate organization such as a branch office;

to determine material conditions concerning offering of corporate bonds; and

to establish and maintain an internal control system.

The Regulations of the Board of Directors and operational regulations thereunder of the Company require a resolution of the Board of Directors for the Company to borrow money in an amount of ¥100 million or more to give a guarantee in an amount of ¥10 million or more.

Common stock

General

Unless indicated otherwise, set forth below is information relating to the Company's Common Stock, including brief summaries of the relevant provisions of the Company's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Companies Act of Japan and related legislation.

On January 5, 2009, a new central book-entry transfer system for shares of Japanese listed companies was established pursuant to the Act Concerning Book-entry Transfer of Corporate Bonds, Shares etc. (Book-entry Transfer Act), and this system applies to the shares of Common Stock of the Company.

Under this system, shares of all Japanese companies listed on any Japanese stock exchange are dematerialized, and shareholders must have accounts at account management institutions to hold their shares unless such shareholder has an account at Japan Securities Depository Center, Inc. (JASDEC). Account management institutions are financial instruments business operators (i.e., securities companies), banks, trust companies and certain other financial institutions which meet the requirements prescribed by the Book-entry Transfer Act. Transfer of the shares of Common Stock of the Company is effected exclusively through entry in the records maintained by JASDEC and the account management institutions, and title to the shares passes to the transferee at the time when the transfer of the shares is recorded at the transferee's account at an account management institution. The holder of an account at an account management institution is presumed to be the legal holder of the shares recorded in such account.

Under the Companies Act and the Book-entry Transfer Act, in order for a shareholder to assert against the Company any right to which such shareholder is entitled as of a given record date (such as the rights to vote at a general meeting of shareholders or receive dividends), such shareholder must have its name and address registered in the Company's register of shareholders. Under the central book-entry transfer system operated by JASDEC, shareholders shall notify the relevant account management institutions of certain information prescribed under the Book-entry Transfer Act or the Company's Share Handling Regulations, including their names and addresses.

The Company's register of shareholders is updated when JASDEC notifies the Company of information on shareholders who hold the shares of Common Stock as of record dates set forth in the Company's Articles of Incorporation and record dates which the Company may at any time set in order to determine the shareholders who are entitled to certain rights pertaining to the shares of Common Stock.

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In order for a shareholder to assert any right to which such shareholders is entitled regardless of record date, such as minority shareholders' rights, including the right to propose that a matter be considered at a general meeting of shareholders, but excluding the right to request the Company to purchase or sell shares of common stock constituting less than a full unit (see *Unit share system*), upon such shareholder's request, JASDEC will issue to the Company a notice of certain information, including the name and address of such shareholder. Thereafter, such shareholder is required to present to the Company a receipt of the notice request in accordance with the Company's Share Handling Regulations. Under the Book-entry Transfer Act, a shareholder must exercise its shareholder's right within 4 weeks after the notice above.

Non-resident shareholders are required to appoint a standing proxy in Japan or file notice of a mailing address in Japan. Each such shareholder must give notice of such standing proxy or mailing address to the relevant account management institution. Such notice will be forwarded to the Company through JASDEC. Japanese securities companies and commercial banks customarily act as standing proxies and provide related services for standard fees.

Notices from the Company to non-resident shareholders are delivered to such standing proxies or mailing addresses. The registered holder of deposited shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against the Company.

Authorized capital

Under the current Articles of Incorporation of the Company, the Company may only issue shares of Common Stock. Article 6 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is 496,000,000 shares.

As of March 31, 2010, 140,008,760 shares of Common Stock were in issue.

All shares of Common Stock of the Company have no par value. All issued shares are fully-paid and non-assessable, and are in registered form.

Dividends from Surplus**Dividends from Surplus – General**

Under the Companies Act, distributions of cash or other assets by joint stock corporations to their shareholders, so called dividends, are referred to as dividends from Surplus (Surplus is defined in Restriction on dividends from Surplus). The Company may make dividends from Surplus to the shareholders any number of times per business year, subject to certain limitations described in Restriction on dividends from Surplus. Dividends from Surplus are required in principle to be authorized by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors if:

- (a) Articles of Incorporation of the Company so provide;
- (b) the normal term of office of the Directors is no longer than one year; and
- (c) its non-consolidated annual financial statements and certain documents for the latest business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Under the current Articles of Incorporation of the Company, the requirements described in (a) and (b) are not met. Nevertheless, even under the current Articles of Incorporation, the Company may make dividends from Surplus in cash to the shareholders by resolutions of the Board of Directors once per business year. Such dividend from Surplus is called interim dividends.

Dividends from Surplus may be made in cash or in kind in proportion to the number of shares of Common Stock held by each shareholder. A resolution of a general meeting of shareholders or the Board of Directors authorizing a dividend from Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of