

MAKITA CORP  
Form 20-F  
June 29, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 20-F**

- .. 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, 2012
  
- .. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934
  
- .. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 0-12602

**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 446-8502, Japan

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(Address of principal executive offices)

Minobu Kato, +81.566.97.1718, +81.566.98.6907, 3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture 446-8502, 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
<b>*American Depositary Shares</b>	<b>Nasdaq Global Select Market</b>
<b>**Common Stock</b>	

\* 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

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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, 2012, 135,750,518 shares of common stock were issued and outstanding excluding 4,258,242 shares of Treasury stock. An aggregate number of 1,423,699 shares of common stock were held in the form of 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.

Yes  No

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

Yes  No

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).

Yes  No

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  Other

as issued by International Accounting Standards Board

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, "FY2012" refers to the twelve-month period ended March 31, 2012. All other references to years refer to the applicable calendar year. All information contained in this annual report is as of March 31, 2012 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 ¥ 82 = 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, 2012. On June 22, 2012 the noon buying rate for Japanese yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥ 80.52 = 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 ("SEC") 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", "may" 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 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

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Failure to protect Makita's intellectual property rights or infringing intellectual property rights of third parties  
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 IT operations 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, 2011 and 2012, the related consolidated statements of income, changes in equity and comprehensive income (loss) and cash flows for each of the three years ended March 31, 2010, 2011 and 2012 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.

**Income Statement Data**

	2008	2009	Fiscal year ended March 31,			2012 U.S. Dollars in thousands
			2010	2011	2012	
			Yen in millions			
Net Sales	¥ 342,577	¥ 294,034	¥ 245,823	¥ 272,630	¥ 295,711	\$ 3,606,232
Operating Income	67,031	50,075	30,390	41,909	48,516	591,659
Net Income	46,509	33,712	22,566	30,271	32,789	399,866
Net Income attributable to Makita Corporation	46,043	33,286	22,258	29,905	32,497	396,305
			Yen			U.S. Dollars
Net Income per share of Common stock and per ADS						
:Basic	320.3	236.9	161.6	217.1	236.8	2.89
:Diluted	-	-	-	-	-	-

**Balance Sheet Data**

	2008	2009	Yen in millions			2012 U.S. Dollars in thousands
			2010	2011	2012	
Total Assets	¥ 386,467	¥ 336,644	¥ 349,839	¥ 372,507	¥ 383,256	\$ 4,673,854
Cash and Cash equivalents, Time Deposits and Short-term investments	98,142	66,308	104,312	101,107	83,441	1,017,573
Working Capital	230,699	199,586	211,336	219,270	223,045	2,720,061
Common Stock	23,805	23,805	23,805	23,805	23,805	290,305
Makita Corporation shareholders' equity	316,498	283,485	297,207	307,149	321,253	3,917,720
Total equity	¥ 319,014	¥ 285,746	¥ 299,673	¥ 309,678	¥ 323,778	\$ 3,948,513

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Total number of shares outstanding	Fiscal year ended March 31,				
	2008	2009	2010	2011	2012
	143,773,625	137,764,005	137,760,402	137,757,699	137,750,518

- 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			Year-end
	High	Low	Average	
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	94.68	78.74	85.71	82.76
2012	85.26	75.72	79.00	82.41
2013 (through June 22, 2012)	82.62	78.21	80.11	80.52

2012	Yen per U.S. \$ 1.00					
	January	February	March	April	May	June
High	78.13	81.10	83.78	82.62	80.36	80.52
Low	76.28	76.11	80.86	79.81	78.29	78.21

On June 22, 2012 the noon buying rate for cable transfers in Japanese yen in New York as reported by the Federal Reserve Bank of New York was ¥80.52 = U.S. \$ 1.00.

**Cash dividends declared per share of common stock and per American Depositary Share ( ADS )**

Fiscal year ended March 31,	Yen		U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2008	30	67	0.30	0.67
2009	30	50	0.31	0.53
2010	15	37	0.17	0.41
2011	15	51	0.18	0.61
2012	15	57	0.19	0.71

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 new housing construction, demand for household renovations, public investment and private investments. Generally speaking, the levels of construction activities and capital investment and consumption trends depend largely on the economic conditions in the market.

As a result, when economic conditions weaken in Japan, Europe, North America, Asia, Central and South America, Oceania, the Middle East and Africa where Makita conducts business actively, this may have an adverse impact on Makita's financial condition and results of operations. In addition, fluctuations in prices of crude oil or mineral resources and volatility in the increasingly globally-linked 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 and results of operations.

The world economy had been recovering from the aftermath of the financial crisis of 2008 until the European sovereign debt crisis emerged in 2010, which has adversely affected the economy, leading to a slow down in the recovery. While emerging countries such as Russia and Brazil are expected to continue their steady economic growth, uncertainty of world economic conditions may adversely affect construction activities and consumption, and Makita's sales may decrease. Consequently, the ratio of selling, general, administrative and others, net to net sales may become relatively high, and as a result, profit margin may decrease. Such conditions may require reorganization and restructuring of production facilities and sales/distribution sites.

If the European sovereign debt crisis prolongs, it may have further adverse effects on the level of new housing construction, demand for household renovations, public investment and private investments due to the tightening of credit because of fears of failure of financial institutions or further decrease in public spending because of the austerity budget. Moreover, euro's further decline may particularly impact export-oriented Asian countries and thus slow their economies.

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

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

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

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

However, medium to long-term fluctuations of exchange rates may affect Makita's ability to execute procurement, production, logistics and sales activities as planned and may have an adverse impact on Makita's financial condition and results of operations.

Rapid fluctuation in exchange rates may give rise to more than expected effects on Makita's results of operations.

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 FY2012. 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, price, technological developments, the pace of new product development, reliability of products, such as safety and durability, the rise of new competitors, brand images and after-sales service.

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

If Makita is unable to compete effectively, it may lose market share and its earnings may be adversely affected. In particular, in the event of a global recession in which demand for goods and services sharply 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, Oceania, the Middle East and Africa.

During FY2012, approximately 82% of Makita's consolidated net sales were derived from products sold overseas. Moreover, approximately 88% 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) Disadvantageous political and economic factors;
- (2) Large-scale natural disaster, such as earthquakes, floods and fires;
- (3) Enactments of and changes in laws and regulations, such as protectionist trade policy or change in tariff policy affecting markets in which Makita conducts its business;
- (4) The outflow of technical know-how and knowledge due to increased personnel turnover, enabling Makita's competitors to strengthen their position;
- (5) Potentially unfavorable tax systems and tariffs;
- (6) Terrorism, war, and other factors that lead to social turbulence; and
- (7) The interruption of or disruption to Makita's operations due to labor disputes.

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

In order to compete effectively, Makita needs to, among other things, provide its customers a diverse product line-up supported by the development of high-quality and high-performance professional power tools, and build on the MAKITA brand value maintained and promoted

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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.

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**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, Japan and Kunshan, Jiangsu Province, China. Makita's manufacturing facilities in Aichi Prefecture and Kunshan, Jiangsu province, China, account for approximately 12% and 65%, respectively, of Makita's total production volume on a consolidated basis during FY2012.

Due to this geographic concentration of Makita's major functions, including plants and other operations in certain regions of Japan and China, Makita's performance may be significantly affected by the occurrence of major disasters and other catastrophic events, including earthquakes (particularly massive earthquakes in areas such as Kanto, Tokai, Tonankai or Nankai), radioactive contamination, floods, fires, power outages, and suspension of water supplies.

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

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

Makita purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts to manufacture power tools. Makita's production activities are greatly dependent on the on-schedule delivery of materials and parts of required quality from its suppliers. Since the electronic components industry is a facility-intensive industry, delivery of electronic components may take substantially longer time than raw materials and other components. If Makita is unable to obtain the necessary quantities of these materials, this may have an adverse effect on production schedules.

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 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 purchase of the parts and components from third-party suppliers. For example, when launching new products, sales commencement dates can slip if such manufacturers' technologies do not satisfy Makita's demands or take an inordinate amount of time to satisfy Makita's demands. This may result in lost sales opportunities.

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 or weakened business or financial condition, this may have an adverse effect on Makita's production schedules and cause a delay in Makita's own product deliveries. Any of these occurrences may have an adverse impact on Makita's financial condition and results of operations.

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

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

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

In regions significant for Makita's sales and production, Makita applies for patents, designs and trademarks, and strives to protect intellectual property rights proactively. However, Makita may not be able to eliminate completely third party products that infringe on the intellectual property rights of Makita or third party products similar to Makita's products. This may have a negative influence on Makita's results of operations.

Moreover, while Makita believes that it does not infringe on intellectual property rights of third parties, it may be subject to infringement claims from third parties. When infringement of intellectual property rights is claimed by a third party, Makita may be required to pay damages or become subject to an injunction prohibiting production and sales of a product. This may have an adverse impact on Makita's financial condition and results of operation.

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

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

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

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

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### **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 costs 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 and North American countries. Such regulations may affect specifications of or terms and conditions of sales of 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 SEC, 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.

While a certain number of years have passed since Makita established its internal control system and the risk that internal control system is not effective is getting lowered Makita's management may conclude Makita's internal control over financial reporting is not effective, or Makita's independent registered public accounting firm may not be satisfied with Makita's internal control over its financial reporting or the level at which its controls are documented, designed, operated or reviewed, and may decline to attest to or issue an adverse opinion on the effectiveness of Makita's internal control over financial reporting. This could result in 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.

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

Makita's headquarters and its major sales, manufacturing and R&D bases are located in Japan, and its procurement, manufacturing, sales and product development site are located worldwide. 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 network and systems, which relies on both company networks and systems and third party networks and systems, halts or malfunctions due to any factor, such as earthquakes, fires and floods, or power outages, or wars, terrorist acts, cyber attack or computer viruses, despite safety measures Makita has undertaken, 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. In addition, improper use of or accidents involving information network and systems may affect business operations or reveal confidential or private information, lead to legal liability, lawsuits or monetary damages or damage, Makita's reputation or brand images and thereby cause an adverse effect on its operating results.

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

Makita considers the retention and development of talented personnel with the expertise and technological skills to be critical to its competitiveness. Makita also considers important the development and retention of personnel in management in Makita's group companies. However, competition in recruiting and retaining global talent requisite for technology innovation and management has become increasingly challenging as the employment environment has been rapidly changing.

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.





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**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 (*kaishaho*). 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 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.

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. 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, Morocco and Slovenia 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. In March 2011, Makita established Makita Manufacturing (Thailand) Co., Ltd. The production is scheduled to start by July 2012. In August 2011, Makita established a sales subsidiary, Makita d.o.o., in Slovenia for the purpose of strengthening Makita's product distribution and after-sales service structures in the Balkans and its neighboring countries.

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Makita presently sells its products in more than 150 countries and region around the world and manufactures power tools including pneumatic and engine-powered tools in seven countries (Japan, China, the United States, Brazil, the United Kingdom, Germany, and Romania). Makita has 50 consolidated subsidiaries as of March 31, 2012.

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 FY2012, approximately 82% 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. The plants in China yield 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.

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 part of its medium to long-term strategy, Makita aims to establish a brand value which is supreme in the industry by means of developing new products with high degree of user satisfaction, deploying global manufacturing network of high quality and cost competitive products and maintaining leading sales and after-sales service system in both domestic and overseas market. Makita also aims to attain and maintain a leading position as a multi-national integrated supplier of all types of tools such as power tools for professional use, pneumatic tools and gardening equipment. To accomplish this goal, Makita maintains a strong financial position to withstand unexpected changes in the operating environment such as foreign exchange risk, country risk or else and concentrates its management resources on the area of power tools for professional use.

**Table of Contents****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 equipments, Household and Other 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
	2010		2011		2012		2012
Power Tools	¥ 173,998	70.8%	¥ 195,952	71.9%	¥ 213,274	72.1%	\$ 2,600,903
Gardening Equipments, Household and Other Products	34,145	13.9	37,145	13.6	39,827	13.5	485,695
Parts, Repairs and Accessories	37,680	15.3	39,533	14.5	42,610	14.4	519,634
Total	¥ 245,823	100%	¥ 272,630	100%	¥ 295,711	100%	\$ 3,606,232

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.

**a) Power Tools**

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

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, bench grinders. Sanders are classified into disc sanders and 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.

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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-hydride 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, when charging, recognizes charging records and analyzes the condition, 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 2012, Makita introduced new power tool products, such as its cordless hammer drill with a brushless motor and enhanced efficiency, and downsized, lightweighted and advanced four-mode impact driver.

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.

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 are becoming as popular as the well-accepted cordless impact drivers used in housing construction, completing Makita's mainstay product line-up.

### ***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 and home maintenance.

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 popular.

Makita's line-up also includes electric/engine-powered 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 equipment.

In 2012, Makita introduced new gardening equipment products including engine-equipped multipurpose splittable brushcutter with replaceable attachments, and 36V cordless string trimmer.

### ***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
	2010		2011		2012		2012
Japan	¥ 42,697	17.4%	¥ 46,065	16.9%	¥ 53,175	18.0%	\$ 648,476
Europe	109,106	44.4	115,977	42.5	123,251	41.7	1,503,061
North America	34,509	14.0	37,111	13.6	37,475	12.7	457,012
Asia (excluding Japan)	18,373	7.5	23,073	8.5	26,013	8.8	317,232
Other	41,138	16.7	50,404	18.5	55,797	18.8	680,451
Total	¥ 245,823	100%	¥ 272,630	100%	¥ 295,711	100%	\$ 3,606,232

***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 767 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 11 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 FY2012, 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 FY2012, Makita's three largest wholesalers accounted, in the aggregate, for approximately 41% of Makita's domestic net sales.

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

During the first half of FY2008, Makita acquired Fuji Robin Industries Ltd. (currently Makita Numazu), a manufacturer of gardening equipment, as part of its full-scale entry into the gardening equipment 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, while there has been the demand from reconstruction and recovery after the Great East Japan Earthquake. 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 sells approximately 91% of its products overseas on a unit basis, and 82% of Makita's consolidated sales came from overseas markets in FY2012. Overseas sales, distribution, and service are carried out through a network of 42 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, China, Hong Kong, Taiwan, 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, Vietnam, Slovenia, Denmark, Norway, Sweden and Estonia. In addition, the Company exports its products through trading companies to its sales subsidiaries, as well as 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, one plant in the United States, Brazil, the United Kingdom, Germany, and Romania respectively.

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.

### **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.

### **Competition**

The markets in which Makita sells its products are generally highly competitive. Makita believes that competition in the portable 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 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 and international markets as well. 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 increasing competition, particularly in countries with lower purchasing power, from China-based power tool manufacturers who often offer lower-priced products.

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### **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 some of its parts are each obtained from single suppliers, the company is trying to find any eligible alternative suppliers for precautionary reasons.

As for raw material costs such as coppers and rare metals, Makita expects that they generally maintain an upward trend. Makita purchases raw materials and parts in FY2012, amounted to ¥ 167,759 million. Raw materials and parts are purchased from 401 suppliers in Japan and a number of local suppliers in each country in which Makita performs manufacturing operations. Makita has no single source accounting for a significant percentage 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 significant 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.

### **Information Security**

The Makita Group recognizes the importance of information security in modern corporate activities and has accordingly instituted the Makita Information Security Policy. The Makita Group conducts internal audits as an information security measure in compliance with the Policy's guidelines. In addition, as a systematic reaction 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, 2012, Makita owned 738 patents and 468 design rights in Japan and 773 patents, 180 utility model registrations and 919 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, 2012, Makita had made 931 applications for additional patents and 39 applications for additional design rights in Japan as well as 1,584 patents, 52 utility model registrations and 110 design rights applications outside Japan.



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The number of Makita's patents and pending applications has been increasing annually both in Japan and overseas. As of March 31, 2012, the patents held by Makita in Japan consisted of 574 patents in connection with power tools, 164 patents in connection with other products (such as gardening equipment and pneumatic tools). Patents held by Makita outside of Japan consisted of 610 patents in connection with power tools and 163 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.

**Legal proceedings**

At present, Makita is not involved in any major litigation as a defendant.

**C. Organizational structure**

As of March 31, 2012, the Makita Group consisted of 50 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 2 domestic subsidiaries and overseas sales are made almost entirely through sales subsidiaries and wholesalers.

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.S	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

**Table of Contents****D. Property, plants and equipment**

The following table sets forth information relating to Makita's principal production facilities as of March 31, 2012.

Location	Floor space (square meters)	Principal products manufactured
Japan;		
Makita Corp. Okazaki Plants	135,126	Power tools, etc
Makita Numazu Corporation	14,106	Engine powered agricultural and gardening equipments
Overseas;		
Makita (China) Co., Ltd.	35,645	Power tools, etc.
Makita (Kunshan) Co., Ltd.	16,242	Power tools, etc.
Makita Corporation of America	24,053	Power tools, etc.
Dolmar GmbH	17,747	Engine powered forestry equipments
Makita EU S.R.L. (Romania)	13,788	Power tools, etc.
Makita Manufacturing Europe Ltd.	11,520	Power tools, etc.
Makita do Brasil Ferramentas Eletricas Ltda.	6,789	Power tools, etc.

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

In addition, the Company owns an aggregate of 191,860 square meters of floor space occupied by the head office, R&D facilities, warehouse facilities, a training center, dormitories and sales offices. Makita believes it would require unreasonable effort to track the exact productive capacity and the extent of utilization of each of its manufacturing facilities within a reasonable degree of accuracy, because Makita's facilities are capable of producing a variety of products depending on the configuration and as market conditions and Makita's business evolves, Makita adjusts its products, capacity and utilizations accordingly.

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 is subject to any mortgage or lien.

Makita leases most of its sales offices in Japan and about half of its overseas sales offices and premises.

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 believes that its manufacturing facilities are currently operating at a normal capacity of production facility.

In FY 2012, Makita's major facility investment included the construction of new sales offices in Belgium and Taiwan, a new plant in Thailand, and machinery investment in Makita's plants in China.

**Item 4A. Unresolved Staff Comments**

None

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### **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. During this fiscal year, approximately 82% 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. Sales of gardening equipment and household products, such as engine equipped brush-cutters and cordless cleaners accounted for about 14% of Makita's total net sales.

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.

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

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

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

Despite the lingering effects of sluggish housing market in developed countries as well as the loss due to the appreciation of the yen against principal currencies, Makita managed to improve both its revenue and its profit through the introduction of attractive new products and leveraging off its competitive edge in sales and after-sales service system. In Western Europe, although the sovereign debt crisis slowed the economy which had once been on track to recovery, the German economy remained steady due to the strong exports supported by the weaker Euro. In North America, in spite of the signs of recovery in private consumption, sluggish housing market kept the United States economy slow. In Asia and Central and South America, while economies kept growing supported by brisk investment and strong exports, economic growth rates were lowered by factors such as monetary tightening in China and Brazil and the flood in Thailand. In Russia, owing to increasing oil prices, the economy remained strong enough to fuel a boom in construction. In Australia, the economy remained steady owing mainly to robust private consumption. In the Middle-East and Africa, the economy deteriorated due to political turmoil. In Japan, private consumption which was impacted by the Great East Japan Earthquake has slowly clawed its way toward recovery. Exports, however, continued to be sluggish due to record high levels of the yen against the euro and the U.S. dollar, which has prevented the Japanese economy from achieving a full-scale recovery.

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

From a research and development perspective, Makita continuously expanded its product lines, including those of power tools, rechargeable tools and gardening equipment through the development of smaller and lighter tools or tools with lower noise and vibration. In addition, Makita established a development and experimental center for gardening equipment at its Nisshin Office (Aichi Prefecture) in October 2011 to upgrade and extend the product line-ups of engine-powered gardening equipment. From a production perspective, Makita strived to strengthen its quality control system to maintain its standing as a high-quality brand while maintaining a production system with flexibility to respond to changes in customer demand. At its plants in China, Makita is not only adding new machines for the manufacture of engine parts, but also plans to acquire adjacent land to further expand the plant. In addition, Makita acquired land adjacent to its Romania plant in order to expand its facilities.

From a sales perspective, Makita strengthened its sales network in China and established a subsidiary in Slovenia in order to enhance its sales structure in the Balkans. In doing so, Makita has strived to maintain and strengthen its sales and after-sales service network which is its competitive edge. In order to strengthen the capacity to supply the Southeast Asia market, which is showing increasing demand, Makita established Makita Manufacturing (Thailand) Co., Ltd. in Thailand in March 2011, which is the second largest production facility with respect to production capacity in Asia after China. The plant is scheduled to start production in July 2012 as originally planned in spite of some delays in the supply of building materials.

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In the face of the losses suffered as a result of the appreciation of the yen against major currencies, Makita expanded sales by introducing attractive new products and making the most of its competitive edge in its sales and after-sales service, which resulted in its consolidated net sales increasing by 8.5% compared with FY2011, to ¥295,711 million.

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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.

As part of the Company's policy to maximize shareholders return, the Company paid an interim dividend of ¥15 per share in November 2011 and a year-end dividend of ¥57 per share in June 26, 2012.

The following table sets forth Makita's income statement information for each of the years ended March 31, 2010, 2011 and 2012.

	Yen in millions, except for percentage amounts							U.S. Dollars in thousands 2012
	2010		2011		2012		Change	
<b>NET SALES</b>	¥245,823	100%	¥272,630	100%	¥295,711	100%	8.5%	\$3,606,232
<b>Cost of sales</b>	149,938	61.0	167,851	61.6	180,541	61.1	7.6	2,201,720
<b>GROSS PROFIT</b>	95,885	39.0	104,779	38.4	115,170	38.9	9.9	1,404,512
<b>Selling, general, administrative and others, net</b>	65,495	26.6	62,870	23.0	66,654	22.5	6.0	812,853
<b>OPERATING INCOME</b>	30,390	12.4	41,909	15.4	48,516	16.4	15.8	591,659
<b>OTHER INCOME (EXPENSE), NET</b>								
<b>Interest and Dividend Income</b>	881	0.3	1,313	0.5	1,491	0.5	13.6	18,183
<b>Interest Expense</b>	(71)	(0)	(33)	0	(242)	(0.1)	633.3	(2,951)
<b>Exchange gains(losses) on foreign currency transactions, net</b>	2,044	0.8	(591)	(0.2)	(2,150)	(0.7)	263.8	(26,220)
<b>Realized gains(losses) on Securities, net</b>	274	0.1	132	0	(652)	(0.2)	-	(7,951)
<b>Total other income (expense), net</b>	3,128	1.2	821	0.3	(1,553)	(0.5)	-	(18,939)
<b>INCOME BEFORE INCOME TAXES</b>								
<b>TAXES</b>	33,518	13.6	42,730	15.7	46,963	15.9	9.9	572,720
<b>Provision for Income Taxes</b>	10,952	4.4	12,459	4.6	14,174	4.8	13.8	172,854
<b>NET INCOME</b>	22,566	9.2	30,271	11.1	32,789	11.1	8.3	399,866
<b>Net income attributable to the noncontrolling interest</b>	(308)	(0.1)	(366)	(0.1)	(292)	(0.1)	(20.2)	(3,561)
<b>NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION</b>	¥22,258	9.1%	¥29,905	11.0%	¥32,497	11.0%	8.7%	\$396,305

**Currency Fluctuations**

Makita is affected by fluctuations in foreign currency exchange rates due to its business spanning the global market. Makita is primarily exposed to fluctuations of the Japanese yen against the euro, the U.S. dollar, as well as other currencies of countries where Makita does business. Makita's consolidated financial statements, presented in Japanese yen, are affected by currency exchange rate fluctuations through both translation and transaction risks. Translation risk is the risk that Makita's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates between the Japanese yen and the currencies in which the subsidiaries prepare their financial statements. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Makita's underlying results of operations. Transaction risk is the risk that the currency structure of Makita's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Makita enters into foreign exchange forward contracts in order to hedge a portion of its transaction risk. That has reduced, but not eliminated, the effects of exchange rate fluctuations against the Japanese yen, which in future years might have significant impact.

Generally, the depreciation of the Japanese yen against other currencies, particularly the euro, has a positive effect on Makita's operating income and net income. Conversely, the appreciation of the Japanese yen against other currencies, particularly the euro, has the opposite effect. In FY2012, the Japanese yen continued to appreciate against major currencies Makita uses for business, and this was truly the case with U.S. dollar.

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**Table of Contents****Impact of the Great East Japan Earthquake and aftermath, flood in Thailand and European sovereign debt crisis**

The March 11, 2011 Great East Japan Earthquake and resulting tsunami caused no significant damage to the Makita's facilities and assets during FY2011, nor has it caused any significant subsequent disruption to Makita's business. During FY2012, Makita recorded a robust revenue increase in Japan owing to demand from reconstruction and recovery after the earthquake. Makita's plant in Thailand is currently under construction with production scheduled to commence in July 2012. Makita had established an industrial park in Thailand located on elevated ground for purposes of construction of the plant and it therefore suffered no damage from the flood in Thailand in October 2011. Although capital expenditure and private consumption went down in Western Europe because of government spending cuts amidst the European sovereign debt crisis, Makita was able to increase revenue owing to the strong demand for our lithium-ion battery products.

**FY2012 compared to FY2011****Net Sales**

Makita's consolidated net sales for FY2012 amounted to ¥ 295,711 million, an increase of 8.5%, or ¥ 23,081 million, from FY2011. In FY2012, the average Japanese yen-U.S. dollar exchange rate was ¥ 79.06 for U.S. \$ 1.00, representing a 7.8% appreciation of the Japanese yen compared to the average exchange rate in FY2011. The average Japanese yen-euro exchange rate in FY2012 was ¥ 109.00 for 1.00 euro, representing a 3.6% appreciation of the Japanese yen compared to the average exchange rate in FY2011.

During the year, the weighted average of the Japanese yen's appreciation against other currencies was 4.3%. That unfavorable currency translation effect reduced Makita's sales by ¥ 10,959 million. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 12.5% or ¥34,040 in FY2012. This increase mainly consisted of an increase in the number of products sold by 16.5% from the previous fiscal year, which was partially offset by a trend of sales price reduction.

In terms of product group, the sales of power tools increased by 8.8%, or ¥ 17,322 million; the sale of gardening equipments, household and other products increased by 7.2%, or ¥ 2,682 million; and revenue from parts, repairs and accessories increased by 7.8%, or ¥3,077 million. Increase in sales of Makita's main products such as grinders and hammer drills ranged between 9% and 15%. The ratio of sale of cordless power tools to total sales of products increased to 36.9% in FY2012 from 34.9% in FY2011.

**Sales by region**

In Japan, Makita witnessed an increase in sales of 15.4%, or ¥ 7,110 million, to ¥ 53,175 million compared to the FY 2011. Sales in Europe after translation into Japanese yen increased by 6.3%, or ¥ 7,274 million, to ¥ 123,251 million. In North America, sales increased by 1.0%, or ¥ 364 million, to ¥ 37,475 million. In Asia, excluding Japan, sales increased by 12.7%, or ¥ 2,940 million, to ¥ 26,013 million. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales increased by 10.7%, or ¥ 5,393 million, to ¥ 55,797 million.

In Japan, owing to the high level of sales of our lithium-ion battery powered tools which boast largest product line-up in this field and the rising demand from reconstruction and recovery after the earthquake, net sales increased by 15.4% compared with FY2011 to ¥ 53,175 million which is a record high.

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In Europe, despite demand slowing in Western Europe including Germany and the U.K. in the later part of FY2012, owing to factors including continuing and strong sales in Russia where climbing oil prices kept economy strong enough to fuel a construction boom, net sales increased by 6.3% compared with FY2011 to ¥ 123,251 million. Net sales in local currencies increased in Western Europe by 5.6% and in Eastern Europe and Russia by 18.7%. In total, excluding the effect of currency translation, sales in Europe increased by 10.7%, or ¥ 12,371 million. Although sales in local currencies were robust as such, because the euro and the British pound depreciated by 3.6% and by 5.2%, respectively against the Japanese yen year-over-year, sales figures in Japanese yen were partially offset by unfavorable currency translation effects. Net sales after translation into Japanese yen increased in Eastern Europe and Russia by 13.4%, the U.K. by 3.5%, and Germany by 8.0%, and decreased in France by 1.3%.

In North America, in spite of the effects of the sluggish housing market, net sales were bolstered by launching an expanded product line of smaller and lighter lithium-ion battery powered tools featuring upgraded cutting capability. However, sales figures in Japanese yen were offset by unfavorable currency translation effects. Net sales increased by 1.0% compared with FY2011 to ¥ 37,475 million. The yen appreciated by 7.8% against the U.S. dollar. Excluding the effect of currency translation, sales in North America increased by 8.8%, or ¥3,262 million.

In Asia (excluding Japan), although adversely affected by China's monetary tightening and the flood in Thailand, Makita witnessed revenue growth owing to the steady demand in Southeast Asia.

Net sales increased by 12.7% compared with FY2011 to ¥ 26,013 million. Excluding the effect of currency translation, sales in Asia increased by 16.4%, or ¥3,782 million.

In other regions, net sales in Central and South America and Oceania, where demand kept steady, increased by 15.2% and 15.6% compared with FY2011 to ¥ 23,370 million and ¥ 17,780 million, respectively, while net sales in the Middle East and Africa, where economies suffered from political unrest, decreased by 0.5% compared with FY2011 to ¥ 14,647 million. On a year-over-year basis, the Australian dollar rose by 2.4% against the Japanese yen and the Brazilian Real declined by 5.7%. Excluding the effect of currency translation, sales in Other regions increased by 14.9%, or ¥ 7,515 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, cordless impact drivers, cutters and circular saws. These products represent the largest portion of Makita's net sales.

In FY2012, sales of power tools increased by 8.8% from the previous fiscal year to ¥ 213,274 million, accounting for 72.1% of consolidated net sales. In Japan, sales of power tools increased by 25.8% to ¥ 26,219 million, accounting for 49.3% of the domestic net sales. Overseas sales of power tools increased by 6.8% to ¥ 187,055 million, accounting for 77.1% of overseas net sales.

New products launched during FY2012 include a rotary hammer which is equipped with a low vibration mechanism first for 2-kilogram class, 4-mode cordless impact driver full of advanced features, cordless hammer drill with brushless motor and enhanced work efficiency, cordless impact driver featuring world's shortest head length, and lightweight compact slide compound saw featuring upgraded cutting capability.

### ***Gardening Equipments, Household and Other Products***

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



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In FY2012, sales of gardening equipments, household and other products increased by 7.2%, to ¥39,827 million, which accounted for 13.5% of consolidated net sales. Domestic sales of gardening equipments, household and other products increased by 11.9%, to ¥15,321 million, accounting for 28.8% of total domestic sales. Overseas sales of the product category increased by 4.5%, to ¥24,506 million, accounting for 10.1% of total overseas sales in FY2012.

New products launched during FY2012 included low-level emission engine chain saw which provides powerful cutting, split type engine grass trimmer for multi-purpose use coming with interchangeable attachments and cordless grass trimmer. 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 Makita hopes for future sales expansion in sales.

***Parts, Repairs and Accessories***

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

In FY2012, the sales of parts, repairs and accessories increased by 7.8%, to ¥42,610 million, accounting for 14.4% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 0.8% to ¥11,635 million, accounting for 21.9% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 10.6%, to ¥30,975 million, accounting for 12.8% of overseas net sales.

**Gross Profit**

Gross profit on sales increased by 9.9%, or ¥10,391 million, to ¥115,170 million. Appreciation of the Japanese yen had an adverse effect on our sales figures for overseas sales subsidiaries when translated into Japanese yen. However, owing to continued demand for power tools in emerging countries and the rising demand in Japan from reconstruction and recovery after the Great East Japan Earthquake, Makita's plant utilization ratio increased resulting in a lower ratio of production overhead costs in both domestic and overseas plants. The gross profit margin improved 0.5 points from 38.4% to 38.9% compared with FY2011.

**Selling, general, administrative and others, net**

While appreciation of the Japanese yen had a favorable effect on our selling, general, administrative and others, net of overseas subsidiaries when translated into Japanese yen, selling, general, administrative and others, net for FY2012 went up by 6.0%, or ¥3,784 million to ¥66,654 million compared with FY2011 due mainly to the increase in personnel expenses, shipping expenses, professional fees and advertising expenses. Personnel expenses increased due mainly to the growing number of office employees in overseas sales subsidiaries. Shipping expenses increased due to the shipment volume growth. Professional fees increased due to the introduction of a new computer system. Advertising expenses increased due mainly to the enhanced monetary support for soccer and cricket games. Selling, general, administrative and others, net excluding the impact of currency fluctuations increased by 9.1%, or ¥ 5,751 million compared with FY2011. The ratio of selling, general, administrative and others, net to sales improved by 0.5 points from 23.0% in FY2011 to 22.5% in FY2012.

**Operating Income**

Owing to the factors such as favorable trend of facility utilization resulting from increased production volume in addition to increased sales volume, operating income for FY2012 increased by 15.8% to ¥48,516 million. Operating margin improved by 1.0 points, from 15.4% to 16.4% compared with FY2011.

**Other Income (Expense), net**

Other expense, net in FY2012 was ¥ 1,553 million compared to other income, net of ¥821 million in FY2011. This is mainly because of increased net foreign currency exchange losses of ¥ 2,150 million and realized losses on securities of ¥ 652 million which resulted from sharp appreciation of Japanese yen and sluggish equity markets, respectively. As the Company mainly operates using only its equity capital, and the subsidiaries are financed by loans from within the Makita Group, the variation in interest expense is insignificant.

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### **Income Before Income Taxes**

Income before income taxes for FY2012 increased by 9.9%, or ¥4,233 million, to ¥46,963 million. The ratio of income before income taxes to sales in FY2012 improved by 0.2 points, from 15.7% to 15.9%, compared with FY2011.

### **Provision for Income Taxes**

Provision for income taxes for FY2012 amounted to ¥14,174 million, an increase of 13.8%, or ¥1,715 million, compared with FY2011. The effective tax rate for FY2012 was 30.2%, compared to 29.2% for FY2011. The increase in the effective tax rate was mainly because of the decreased taxable income in China (Asia Segment) where lower tax rates are applied, and increased taxable income in Japan, where higher rates are applied.

Japan's parliament has passed bills to amend Japanese tax regulations, and they were enacted into laws on November 30, 2011. According to these amendments of income tax law, the statutory income tax rate will be lowered from the current rate of 30% to 25.5%, however, newly introduced temporary additional tax is imposed at the rate of 10% on the income taxes for the fiscal years beginning between April 1, 2012 and March 31, 2015.

As a result, when local income taxes are combined, the statutory income tax rate will be reduced from 40.3% to 37.7% effective from the year beginning April 1, 2012, and to 35.4% effective from the year beginning April 1, 2015 thereafter.

Because the laws were enacted during our third quarter, from the third quarter, Makita has estimated the deferred tax assets and deferred tax liabilities reflecting the statutory tax rates effective for the fiscal years during which temporary differences will be realized.

The adjustments of deferred tax assets and liabilities for this change in the tax rate amounted to ¥507 million and have been charged to income tax expense in the consolidated statement of income for the year ended March 31, 2012.

### **Net Income Attributable to Makita Corporation**

As a result of the above, net income for FY2012 increased by 8.7%, or ¥2,592 million, to ¥32,497 million compared with FY2011. Net income ratio to sales in FY2012 remained unchanged from FY2011 at 11.0%.

### **Earnings per Share**

Basic earnings per share of common stock increased to ¥236.8 in FY2012 from ¥217.1 in FY2011.

### **Regional Segments**

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

Makita evaluates the performance of each operating segment based on U.S.GAAP information. Segment profit and loss is measured in a consistent manner with consolidated operating income, which is earnings before income taxes excluding interest and dividend income, interest expense, foreign 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 FY2012, sales in the Japan segment increased by 10.8%, to ¥125,682 million. Sales to external customers increased by 15.0% to ¥71,499 million, which accounted for 24.2% of consolidated net sales. The increase reflects the strong sales of lithium-ion battery products as well as upturn in sales in the domestic market which was driven by the rising demand from reconstruction and recovery after the Great East Japan Earthquake and also reflects the surge in exports to Asia constituting inter-segment sales within the Japan segment. Although the selling, general, administrative and others, net increased due to the surge in advertising expenses, impairment of long-lived assets and professional fees, owing to the increased sales in domestic market where gross profit margin is much higher than in export market and improved plant utilization,

segment income increased by 48.3%, to ¥15,596 million.

**Table of Contents*****Europe Segment***

In FY2012, sales in the Europe segment increased by 7.5% to ¥127,631 million. Sales to external customers increased by 6.9%, to ¥123,537 million, which accounted for 41.8% of consolidated net sales. The increase is mainly due to surge in sales in Eastern Europe and Russia effectively absorbing the depreciation of European currencies and more than compensating for the slowing sales growth in Western Europe where capital expenditure and private consumption went down because of government spending cuts amidst the European sovereign debt crisis. In particular, in Russia, owing to the climbing oil prices, the economy kept strong enough to fuel a construction boom. Due to the appreciated Chinese Renmin yuan and rising personnel expenses in China, production costs in Makita's Chinese manufacturing plants increased, and the cost of goods sold by European sales subsidiaries supplied from Makita's China plants increased, accordingly the selling, general, administrative and others, net in local currencies increased due to the surge in personnel expenses and shipping & handling expenses. Accordingly, segment income increased by 4.0%, to ¥ 13,905 million.

***North America Segment***

In FY2012, sales in the North America segment increased by 1.6%, to ¥41,218 million. Sales increased by 9.5% on a local currency basis, which was partially offset by unfavorable currency translation effect by 7.9%. Sales to external customers increased by 1.3% to ¥38,073 million, which accounted for 12.9% of consolidated net sales. Sales increased due mainly to steady sales of lithium-ion battery products. At Makita's U.S. plant, as the operating ratio increased due to raise in production volume, the ratio of fixed charges in manufacturing cost decreased. In addition, the selling, general, administrative and others, net decreased owing to the fall in personnel expenses and advertisement expenses. Accordingly, segment income increased by 23.9%, to ¥2,297 million.

***Asia Segment***

In FY2012, sales in the Asia segment increased by 6.7% to ¥121,175 million. Sales to external customers increased by 4.2%, to ¥12,887 million, which accounted for 4.4% of the consolidated net sales. This is because the demand for power tools South East Asia remained steady during FY2012, despite the flood in Thailand and shrinking exports to Europe having a negative effect on growth.

Due to the appreciating Chinese Renmin yuan against the euro and the U.S. dollar and surges in personnel expenses resulting from salary increases in addition to the growing number of employees, production costs at Makita's Chinese manufacturing plants increased, and the cost of goods sold by Asian sales subsidiaries supplied from the Chinese plants increased. Selling, general, administrative and others, net increased due to an increase in the upturn of shipping expenses. Accordingly, segment income decreased by 17.1%, to ¥10,779 million in FY2012.

***Other Segment***

In FY2012, sales in the Other segment increased by 11.1% to ¥50,066 million. Sales to external customers increased by 10.6%, to ¥49,715 million. This was principally due to the influence of the increase in sales in the Central and South America and Oceania Region. Sales to external customers accounted for 16.8% of the consolidated net sales. In Central and South America, our sales in almost all areas were healthy due to a continuing construction boom. In Oceania, our sales experienced continuing growth due to the promotional campaigns. Owing to the political turmoil and deteriorating economy in the Mid-East, especially in North Africa, sales in these regions recorded a slightly negative growth.

Selling, general, administrative and others, net increased due to the surge in personnel expenses and shipping expenses. Personnel expenses increased due mainly to the growing number of office employees in overseas sales subsidiaries. Shipping expenses increased due to the shipment volume growth. As a result, segment income slightly increased by 0.6%, to ¥6,452 million, in FY2012.

**Table of Contents****FY2011 compared to FY2010****Net Sales**

Makita's consolidated net sales for FY2011 amounted to ¥ 272,630 million, an increase of 10.9%, or ¥ 26,807 million, from FY2010. In FY2011, the average Japanese yen-U.S. dollar exchange rate was ¥ 85.73 for U.S. \$ 1.00, representing a 7.7% appreciation of the Japanese yen compared to the average exchange rate in FY2010. The average Japanese yen-euro exchange rate in FY2011 was ¥ 113.12 for 1.00 euro, representing a 13.8% appreciation of the Japanese yen compared to the average exchange rate in FY2010.

During the year, Japanese yen appreciated over other currencies averagely 8.3%. That unfavorable currency translation effect reduced Makita's sales by ¥ 20,619 million. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 19.3% or ¥47,426 million in FY2011. This increase mainly consisted of an increase in the number of products sold by 24.1% from the previous fiscal year, which was partially offset by a trend of sales price reduction.

In terms of product type, the sales of power tools increased by 12.6%, or ¥ 21,954 million; the sale of gardening equipments, household and other products increased by 8.8%, or ¥ 3,000 million; and revenue from parts, repairs and accessories increased by 4.9%, or ¥1,853 million. Increase in sales of Makita's main products including grinders, hammer drills and driver drills ranged between 10% and 16%. The ratio of sale of cordless power tools to total sales of products increased to 34.9% in FY2011 from 34.5% in FY2010.

**Sales by region**

In Japan, Makita witnessed increase in sales by 7.9%, or ¥ 3,368 million, to ¥ 46,065 million. Sales in Europe after translation into Japanese yen increased by 6.3%, or ¥ 6,871 million, to ¥ 115,977 million. In North America, sales increased by 7.5%, or ¥ 2,602 million, to ¥ 37,111 million. In Asia, excluding Japan, sales increased by 25.6%, or ¥ 4,700 million, to ¥ 23,073 million. In Other regions, including Central and South America, Australia, Middle East and Africa, sales increased by 22.5%, or ¥ 9,266 million, to ¥ 50,404 million.

In Japan, income increased due to the high sales of new tools such as lithium-ion batteries powered tools and pneumatic nailers.

In Europe, personal consumption kept strong and demand continued steady. In Southern Europe, unemployment rate remained high and demand was slow to recover. In Eastern Europe, demand recovery varied from country to country. In Russia, demand was steady as in addition to a full-scale recover in manufacturing, transportation and communication industry, natural resources value also surged, resulting in a raise in exportation and a positive economic growth. Net sales in local currency increased in Western Europe by 15.4% and in Eastern Europe and Russia by 32.0%. In total, excluding the effect of currency translation, sales in Europe increased by 21.3%, or ¥ 23,244 million. Although the sales in local currencies were robust as such, because the euro and the British pound depreciated by 13.8% and by 10.2%, respectively against the Japanese yen year-over-year, sales figure in Japanese yen were partially offset by unfavorable currency translation effects. Net sales after translation into Japanese yen increased in Eastern Europe and Russia by 16.1%, the United Kingdom by 3.9%, and Germany by 5.5%, and decreased in France by 2.2%.

In North America, especially in the United States, because personal spending was on the way to recovery which was evidenced by the brisk Christmas sales, Makita recorded increased sales.

The yen appreciated by 7.7% against the U.S. dollar. Excluding the effect of currency translation, sales in North America increased by 14.7%, or ¥5,064 million.

In Asia excluding Japan, strong infrastructure development in public investment, and office and commercial facilities construction in private sectors in Southeast Asia resulted in an economic recovery especially in the manufacturing industry. Thus, Makita's income in Asia increased in FY2011. Excluding the effect of currency translation, sales in Asia increased by 29.2%, or ¥5,369 million.

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In Other regions, net sales in Central and South America, inclusive of Brazil, kept steady and increased by 33.3%, to ¥ 20,295 million. Thanks to new lithium-ion battery products introduced in Australia, sales in Oceania increased by 17.3% to ¥ 15,383 million. In the Mid-East and Africa, sales increased primarily due to the recovering market in the countries of the Gulf after the Dubai Crisis. Net sales after translation into Japanese yen increased by 15.1%, to ¥ 14,726 million.

On a year-over-year basis, the Australian dollar rose by 2.3% against the Japanese yen and Brazilian real declined by 0.5%. Excluding the effect of currency translation, sales in Other regions increased by 25.2%, or ¥ 10,381 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 FY2011, sales of power tools increased by 12.6% from the previous fiscal year to ¥195,952 million, accounting for 71.9% of consolidated net sales. In Japan, sales of power tools increased by 15.6% to ¥20,835 million, accounting for 45.2% of the domestic net sales. Overseas sales of power tools increased by 12.3% to ¥175,117 million, accounting for 77.3% of overseas net sales.

New products launched during FY2011 included Makita's 14.4V cordless impacts drivers equipped with advanced protection technology for dust/waterdrop proofing, and high pressure and driving-depth-adjustment-enabled pneumatic nailers.

### ***Gardening Equipments, Household and Other Products***

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

In FY2011, sales of gardening equipments, household and other products increased by 8.8%, to ¥37,145 million, which accounted for 13.6% of consolidated net sales. Domestic sales of gardening equipments, household and other products increased by 1.7%, to ¥13,691 million, accounting for 29.7% of total domestic sales. Overseas sales of the product category increased by 13.4%, to ¥23,454 million, accounting for 10.3% of total overseas sales in FY2011.

New products launched during FY2011 included gardening tools, cordless compact, vacuum cleaners, tools powered by 36V lithium-ion batteries (brush-cutters, chainsaw, hedge trimmers, blower).

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 FY2011, the sales of parts, repairs and accessories increased by 4.9%, to ¥39,533 million, accounting for 14.5% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 2.9% to ¥11,539 million, accounting for 25.1% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 5.8%, to ¥27,994 million, accounting for 12.4% of overseas net sales.

**Table of Contents****Gross Profit**

Gross profit on sales increased by 9.3%, or ¥8,894 million, to ¥104,779 million. As the demand for power tools bounced back from the prolonged inventory adjustment stage triggered by the Lehman Shock, Makita's plant utilization ratio was improved resulting in a lower ratio of production overhead costs in both domestic and overseas plant. However, appreciation of Japanese yen gave adverse effect on our sales figure of overseas sales subsidiaries when translated into Japanese yen. The gross profit margin dropped 0.6 points from 39.0% to 38.4%.

**Selling, general, administrative and others, net**

Selling, general, administrative and others, net for FY2011 decreased by 4.0%, or ¥2,625 million to ¥62,870 million compared with FY2010. On the one hand, research and development costs as well as advertising costs have been increased and shipping and handling costs increased proportionally to the sales. On the other hand, impairment of long-lived assets, legal expenses, warehouse rent and loss on disposal of fixed asset decreased. In addition, one of the subsidiaries, Makita Brazil, received tax benefits from the applicable state governments on value added taxes and appreciated Japanese yen rate had a favorable effect on translation of selling, general, administrative and others, net of foreign subsidiaries.

Selling, general, administrative and others, net excluding the impact of currency fluctuations increased by 2.2%, or ¥ 1,447 million compared with FY2010. The ratio of selling, general, administrative and others, net to sales improved by 3.6 points from 26.6% in FY2010 to 23.0% in FY2011.

**Operating Income**

Operating income for FY2011 increased by 37.9%, or ¥ 11,519 million, to ¥ 41,909 million. This was mainly because the favorable impacts of increase in sales volume and cost-efficiency due to increased production volume surpassed the unfavorable impact of adverse currency translation. Operating margin increased by 3.0 points, from 12.4% to 15.4% compared with FY2010.

**Other Income (Expense), Net**

Other income, net for FY2011 decreased to ¥821 million from ¥3,128 million for FY2010. Interest and dividend income increased by ¥432 million from ¥881 million for FY2010 to ¥1,313 million for FY2011 primarily due to the increase in amounts invested in interest bearing time deposits during FY2011. However, a net foreign exchange loss of ¥ 591 million was incurred in FY2011, primarily resulting from appreciation of Chinese Renmin yuan, compared to FY2010, when we recognized a net foreign exchange gain of ¥ 2,044 million mainly from an amended agreement to convert a loan payable to the Company from U.S. dollars to Japanese Yen.

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 FY2011 increased by 27.5%, or ¥9,212 million, to ¥42,730 million. The ratio of income before income taxes to sales in FY2011 improved by 2.1 points, from 13.6% to 15.7%, compared with FY2010.

**Provision for Income Taxes**

Provision for income taxes for FY2011 amounted to ¥12,459 million, an increase of 13.8%, or ¥1,507 million, compared with FY2010. The effective tax rate for FY2011 was 29.2%, a decrease of 3.5 points from 32.7% for FY2010. This was mainly because the valuation allowance for deferred tax assets was reduced to ¥ 1,640 million reflecting improved projection for future taxable income in the Japan segment which was partially offset by build-up of valuation allowance for deferred tax assets in the Europe segment.

**Net Income Attributable to Makita Corporation**

As a result of the above, net income for FY2011 increased by 34.4%, or ¥7,647 million, to ¥29,905 million compared with FY2010. Net income ratio to sales increased by 1.9 points, to 11.0% in FY2011 from 9.1% in FY2010.





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**Earnings per Share**

Basic earnings per share of common stock increased to ¥217.1 in FY2011 from ¥161.6 in FY2010.

**Regional Segments**

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

Makita evaluates the performance of each operating segment based on U.S.GAAP information. Segment profit and loss is measured in a consistent manner with consolidated operating income, which is earnings before income taxes excluding interest and dividend income, interest expense, foreign 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 FY2011, sales in the Japan segment increased by 27.3%, to ¥113,424 million. Sales to external customers increased by 11.5% to ¥62,194 million, which accounted for 22.8% of consolidated net sales. The increase reflects increase in sales in domestic market which was driven by strong sales of newly introduced lithium-ion battery products and airnailer products, and also reflects the surge in exports to Asia (exports to China factory) and Western Europe (exports to U.K. factory) constituting inter-segment sales within the Japan segment. Due to this increase in sales, this segment was able to sufficiently absorb its fixed charges and to improve cost of sales ratio, and recognized no impairment loss of long-lived assets, resulting in improved segment income of ¥ 10,519 million in FY2011. In FY2010, Makita recorded impairment losses of ¥ 1,605 million for goodwill and long-lived assets in one of our subsidiaries, Makita Numazu.

***Europe Segment***

In FY2011, sales in the Europe segment increased by 5.7% to ¥ 118,725 million. Sales to external customers increased by 5.5%, to ¥ 115,554 million, which accounted for 42.4% of consolidated net sales. The increase is mainly due to surge in sales in Eastern Europe and Russia effectively absorbing the depreciation of European currencies. Among other things, in Russia, owing to the skyrocketing oil prices, economy recovered to resume once-suspended construction and demand for power tools surged. Due to the appreciated Chinese Renmin yuan and uprising personnel expenses in China, production cost in Makita's Chinese manufacturing plants increased, and cost of goods sold in European sales subsidiaries which imported from the Chinese plants were boosted accordingly. Although the selling, general, administrative and others, net in local currencies increased due to the increase in personnel expenses and shipping and handling costs, and impairment losses incurred in one of Makita's subsidiaries, Dolmer, they decreased when translated into Japanese yen, because the local currencies generally continued weak during the year. Accordingly, segment income increased by 3.8%, to ¥ 13,364 million.

***North America Segment***

In FY2011, sales in the North America segment increased by 11.4%, to ¥40,552 million. Sales increased by 14.2% in local currency basis, which was partially offset by unfavourable currency translation effect 2.8%. Sales to external customers increased by 8.8% to ¥37,573 million, which accounted for 13.8% of consolidated net sales. Sales increased due to strong sales of lithium-ion battery products and to Christmas campaigns mainly targeting home improvement centers. In the U.S., plant, as the operating ratio increased due to raise in production volume, the ratio of fixed charges in manufacturing cost decreased. Accordingly, segment income increased by 415%, to ¥1,854 million.

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### ***Asia Segment***

In FY2011, sales in the Asia segment increased by 70.0% to ¥113,581 million. Sales to external customers increased by 37.3%, to ¥12,365 million, which accounted for 4.5% of the consolidated net sales. This was due to the strong demand for power tools driven by strong infrastructure development in public investment, and office and commercial facilities construction in private sectors as well as rising personal income level supported by strong export performance and climbing prices for agricultural products.

Due to the appreciated Chinese Renmin yuan against the euro and U.S. dollar and uprising raw materials cost, production cost in Makita's Chinese manufacturing plants increased, and cost of goods sold in Asian sales subsidiaries which imported from the Chinese plants were boosted accordingly. However, due to surge in sales, segment income increased by 46.5%, to ¥ 13,006 million in FY2011.

### ***Other Segment***

FY2011, sales in the Other segment increased by 21.4% to ¥45,060 million. Sales to external customers increased by 21.4%, to ¥44,944 million. It is principally due to the influence of the increase in sales in the Central and South America and Oceania Region. Sales to external customers accounted for 16.5% of the consolidated net sales. In the Central and South America region, especially in Brazil, demand remained steady and the sales in local currency were strong. Brazil real keeping steady, the sales translated into Japanese yen also increased. After moving, Brazilian manufacturing facility recognized improved cost of sales ratio with greater efficiency in production line after the moving. Selling, general, administrative and others, net were reduced due to the tax benefits received from Brazilian state governments on value added taxes. In Oceania, sales increased thanks to lithium-ion battery products, and stronger Australian dollar improved the cost of sales ratio and profitability. Sales in a Japanese yen basis also increased from the last year. In the Middle East region, demand reached a high level as the market is recovering from the economic crisis experienced in Dubai and sales surged during the year thanks to the increased demand in construction, although the 4<sup>th</sup> quarter growth rate slowed due to the political unrest erupted across North Africa. The purchase cost increased due to the appreciation of the Japanese yen against the U.S. dollar and also appreciation of Chinese Renmin Yuan against the U.S. dollar.

Accordingly, segment income increased by 195.0%, to ¥6,414 million, in FY2011.

## **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 or determinable and collectibility is reasonably assured. Makita offers sales incentives to qualifying customers through various incentive programs. Revenues are reported net of these sales incentives. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts.

Volume-based rebates are given in the form of cash or 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.

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.

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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, 2010, 2011 and 2012:

	Yen in millions			U.S. Dollars
	2010	2011	2012	in thousands
	For the year ended March 31,			
<b>Volume-based Rebates:</b>				
Actual payment for the year	¥ (7,672)	¥ (7,835)	¥ (9,770)	\$ (119,146)
Charge to earnings for the year	7,738	8,736	10,223	124,671
Translation adjustments	(117)	(111)	(113)	(1,378)
Accrued expense or deduction of accounts receivable (BS) as of March 31	3,013	3,803	4,143	50,524
<b>Cooperative Advertisings:</b>				
Actual payment for the year	(1,544)	(2,209)	(2,252)	(27,463)
Charge to earnings for the year	1,704	2,296	2,269	27,671
Translation adjustments	7	(30)	(14)	(171)
Accrued expense or deduction of accounts receivable (BS) as of March 31	356	413	416	5,073
<b>Cash Discounts:</b>				
Actual payment for the year	(4,281)	(5,184)	(5,170)	(63,049)
Charge to earnings for the year	4,420	5,069	5,310	64,756
Translation adjustments	8	(28)	(2)	(24)
Accrued expense or deduction of accounts receivable (BS) as of March 31	¥ 487	¥ 344	¥ 482	\$ 5,878

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**Table of Contents*****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.

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 ¥195 million, ¥709 million and ¥1,962 million for the years ended March 31, 2010, 2011 and 2012, respectively.

***Impairment Losses on Securities***

Makita's investments include debt and equity securities accounted for under the cost method of accounting. A decline in fair value of any equity securities below the carrying amount that is deemed to be other-than-temporary results in a write-down of the carrying amount to the fair value as a new cost basis and the amount of the write-down is included in earnings. For debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, impairments are separated into the amount related to credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income (loss). For debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, impairments in their entirety are recognized in 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 ¥228 million in FY2010, ¥199 million in FY2011 and ¥666 million in FY2012, 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 valuation allowances. 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.

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Makita recorded bad debt expenses of ¥ 152 million, ¥ 223 million, and ¥ 131 million, for the years ended March 31, 2010, 2011 and 2012, respectively. Makita has a large customer base that is geographically dispersed. Consequently, significant concentration of credit risk is not considered to exist. No single customer accounted for more than 10% of Makita's total accounts receivable in 2010, 2011 and 2012.

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**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, plants and equipment, the recoverability of which could significantly affect its operating results and financial condition. Makita performs an impairment review for long-lived assets held and used, including amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be fully recoverable. This review is 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. An impairment loss would be recognized when estimated undiscounted future cash flows from the operation and disposition of the asset group are less than the carrying amount of the asset group. If an impairment is determined to exist, the impairment loss is calculated as the excess of the carrying amount of the asset group over its fair value. Impairment losses on long-lived assets to be disposed of, if any, are based on the fair value less costs of disposal. Fair value is determined based on recent transactions involving sales of similar assets, by discounting expected future cash flows, or by using other valuation techniques. Makita's estimate of future cash flows requires management to make projections and to apply judgment, including forecasting future operating results and estimating useful lives of the asset. Estimate of future cash flow can be affected by factors such as future sales and expenses, market and operating conditions. If actual market and operating conditions under which assets are operated are less favorable than those projections made by management, resulting in lower expected future cash flows or a shorter expected future period to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and in turn affect Makita's consolidated results of operations and financial condition. Makita recognized impairment loss of long-lived assets of ¥354 million, ¥ 262 million and ¥ 214 million in FY2010, FY2011 and FY2012 respectively. As Makita's principal management functions, including its headquarters are located in Aichi Prefecture, Japan, the Great East Japan Earthquake and its aftermath, including the accompanying tsunami and accident at the Fukushima nuclear power plant had no effects on the above-mentioned impairment loss of long-lived assets.

***Impairment of Goodwill***

Makita conducts goodwill impairment assessment annually and at any time if an event occurs or circumstances change and that would indicate possibility of goodwill impairment. The annual goodwill impairment assessment date is December 31. 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. 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 first step of impairment test for each of Makita's reporting units for its annual impairment test. As a result of the first step of impairment test in FY2010, an indication of goodwill impairment of existed for Makita's 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 in FY2010. As Makita's principal management functions, including its headquarters are located in Aichi Prefecture, Japan, management determined that no impairment of goodwill occurred at the Makita's Japan operating segment in FY2011 and FY2012 as a result of the Great East Japan Earthquake and its aftermath, including the accompanying tsunami and accident at the Fukushima nuclear power plant.

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***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 2.1% as of March 31, 2012.

As of March 31, 2012, Makita allocated 25.0% and 42.5% 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. The expected rate of return on plan assets assumed to determine the pension expense was 2.6% as of March 31, 2012.

Pension obligations and expenses are most sensitive to the assumption on the discount rate and the expected rate of return on plan assets.

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, 2012.

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Change in assumption	Yen in millions			
	Change in projected benefit obligation		Change in pre-tax pension expenses	
50 basis point increase/decrease in discount rate	(2,135) /	2,359	8/	(11)
50 basis point increase/decrease in expected return on assets	-	-	(182)/	182

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. The pension liability decreased due to an excess of change in plan assets over change in projected benefit obligation and Makita holds sufficient surplus funds. Therefore, Makita is satisfied that its pension plans can be maintained.

**Income Taxes**

Makita is required to estimate its income taxes in each of the jurisdictions in which Makita operates. This process involves estimating Makita's current tax provision together with assessing temporary differences resulting from differing treatment of items for income tax reporting and financial accounting and reporting purposes.

Such differences result in deferred income tax assets and liabilities, which are included within Makita's consolidated balance sheets.

Makita evaluates its ability to realize the tax benefits associated with deferred tax assets by analyzing its forecasted taxable income using both historical and projected future operating results, the reversal of existing taxable temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies.

Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

In determining the valuation allowances to establish against these deferred tax assets, many factors are considered, including, but not limited to, the specific taxing jurisdiction, the carry-forward period, income tax strategies available and, among other things, forecasted earnings for the entities in each jurisdiction. During FY2010, Makita increased the deferred tax asset valuation allowance by ¥ 1,020 million based on the assessment that certain deferred tax assets were unlikely to be realized. During FY2011, Makita decreased the deferred tax asset valuation allowance by ¥134 million based on changes in estimates about the realizability of those deferred tax assets, primarily due to the improved projection for future taxable income in the Japan segment which was partially offset by an increase in the valuation allowance for deferred tax assets in Europe segment.

Makita has recorded against certain deferred income tax assets a valuation allowance of ¥557 million as of March 31, 2012 which is substantially lower than the valuation allowance recorded in the last year. During FY2012, Makita decreased the deferred tax asset valuation allowance by ¥901 million based on changes in estimates about the realizability of those deferred tax assets. This is mainly because during FY2012, management changed its assessment of the ability to realize the deferred tax assets of a certain wholly owned subsidiary. Legally merging that subsidiary with the Company was not considered prudent in FY2010 and FY2011, and therefore the management believed then that the likelihood of realizing the deferred tax assets of the subsidiary was low. Consequently, a valuation allowance was established on those deferred tax assets. During FY2012, the merger of the subsidiary into the Company was deemed prudent and therefore the Company decided to execute it. If Makita were not to generate sufficient taxable income of the appropriate character in the jurisdictions in the future, it could lead to the build-up of additional valuation allowances.

For the balance of deferred income taxes, although realization is not assured, management believes, judging from an authorized business plan, it is more likely than not that all of the deferred income tax assets, less the valuation allowance, will be realized. The amount of such net deferred income tax assets that are considered realizable, however, could change in the near term and any such change may have a material effect on Makita's consolidated results of operations and financial position if estimates of future taxable income are different.



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Makita's effective tax rate reflects the impact of undistributed foreign earnings for which no Japanese taxes have been provided because such earnings are intended to be invested indefinitely outside Japan based on Makita's global management policy considering working capital and long-term investment requirements of our Japanese and foreign operations. If future events, including material changes in estimates of cash, working capital and long-term investment requirements necessitate that certain assets associated with these earnings be repatriated to Japan, an additional tax provision and related liability would be required at the applicable Japanese marginal income tax rates which could materially impact our future effective tax rate.

Under the current Japanese tax code, 95% of dividends of foreign subsidiaries are excluded from taxable income. Makita has not recognized deferred tax liabilities for certain portions of undistributed earnings of foreign subsidiaries in the total amount of ¥ 169,470 million (\$ 2,066,707 thousand) as of March 31, 2012 because Makita considers these earnings to be indefinitely reinvested, and the calculation of the unrecognized deferred tax liabilities is not practicable.

### ***New Accounting Standards Not yet Adopted***

In May 2011, Financial Accounting Standards Board (the "FASB") issued ASU2011-11 (Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities).

This Amendment requires the entity to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement.

ASU2011-11 is effective during interim and annual periods beginning on or after January 1, 2013 and is required to be adopted by Makita in the fiscal year beginning April 1, 2013.

Makita does not expect the adoption of ASU2011-11 will have a material impact on its consolidated results of operations and financial condition.

**Table of Contents****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.

**FY2012****Cash Flows**

Net cash provided by operating activities decreased by ¥ 10,995 million from ¥ 19,617 million in FY2011 to ¥ 8,622 million in FY2012, primarily as a result of the following:

Cash flow decreasing factors:

¥ 18,813 million increase due to the increased purchases and inventories as a result of production increase

¥ 7,051 million increase in selling expenses and manufacturing costs due to an increase in sales and production volume

¥ 4,903 million increase due to income tax payments.

Cash flow increasing factors:

Cash collected from customers increased ¥ 22,451 million due to the sales increase.

Net cash used in investing activities decreased by ¥ 14,834 million from ¥ 19,334 million in FY2011 to ¥ 4,500 million in FY2012, primarily as a result of the following:

Cash flow increasing factors:

¥ 12,351 million increase of sales of available-for-sale securities

¥ 9,209 million increase due to withdrawals of time deposits

Cash flow decreasing factors:

¥ 3,739 million increase due to higher capital expenditures compared with FY2011 including expenditures for the construction of new sales offices in Belgium and Taiwan, a new plant in Thailand, and machinery investment of Makita's plants in China

¥ 3,229 million increase of purchase of held-to-maturity securities

Net cash used in financing activities increased by ¥ 5,352 million from ¥ 7,355 million in FY2011 to ¥ 12,707 million in FY2012 primarily as a result of the following:

Cash flow decreasing factors:

¥ 5,051 million increase due to repurchase of treasury stock

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¥ 1,929 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 ¥7,021 million from ¥ 51,833 million as of the end of FY2011 to ¥ 44,812 million as of the end of FY2012.

In FY2012, funding source requirements increased due to a production increase in the wake of the recovery of the global power tools demand, resulting in a year-over-year decrease of ¥ 7,021 million in the cash balance as of March 31, 2012.

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Inventory balances increased compared with the previous fiscal year because sales subsidiaries increased inventories and production sites raised their production volumes to cope with the recovery of the global power tools demand.

Capital expenditures are expected to be higher in FY2013 compared to FY2012 due to reasons such as the Company's purchase of dies/molds, and the machinery investment of each plant.

### **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 FY2010, 2011 and 2012 were ¥ 10,837 million, ¥ 9,742 million and ¥ 13,481 million, respectively.

Capital expenditures in FY2012 were primarily used for the purchase of metal molds in Japan, the construction of new sales offices in Belgium and Taiwan, a new plant in Thailand, and machinery investment of Makita's plants in China.

Capital investments of the Company amounted to approximately ¥ 3,865 million, while capital investment of overseas subsidiaries amounted to approximately ¥ 9,616 million. All of Makita's capital expenditures in FY2012 were funded through internally generated funds.

Under its investment plans for FY2013, Makita is scheduled to make capital investments totaling ¥ 14 billion, which is 4% higher than for FY2012. Of this total, the Company plans to make direct investments of ¥ 4 billion and its consolidated subsidiaries will invest ¥ 10 billion.

The Company's capital investment plan is mainly to purchase dies/molds, and facilities investments by consolidated subsidiaries including mainly machinery investments of each plant. The projected capital expenditure in FY2013 is planned to be funded by internally generated funds.

### **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, 2012, Makita held cash and cash equivalents amounting to ¥ 44,812 million and the Company's subsidiaries had credit lines up to ¥ 17,615 million, of which ¥ 2,335 million was used and ¥ 15,280 million was unused and available.

As of March 31, 2012, Makita had ¥ 2,351 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 ¥ 12 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.

As of March 31, 2012, Makita's total short-term borrowings and long-term indebtedness amounted to ¥ 2,363 million, representing an increase of ¥ 1,476 million from ¥ 887 million reported for FY2011. Makita's ratio of indebtedness to shareholders' equity almost remained unchanged at 0.7%.

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 FY2013 and thereafter.

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Makita has historically maintained a high level of liquid assets. Management estimates that the cash and cash equivalents level of ¥44,812 million as of March 31, 2012, 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 FY2013 and thereafter. In the opinion of management, the working capital is sufficient for Makita's present requirements

Please see "FY2012 Capital Expenditures" above for a description of Makita's principal capital expenditures for FY2012 and the main planned expenditures for FY2013.

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 2011. At the Ordinary General Meeting of Shareholders held in June 2012, the Company's shareholders approved a cash dividend of ¥57 per share. In June 2012, the Company paid cash dividends of ¥7,738 million in the aggregate.

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.

## **FY2011**

### **Cash Flows**

Net cash provided by operating activities decreased by ¥37,509 million from ¥57,126 million in FY2010 to ¥19,617 million in FY2011, mainly due to the increase of purchases of parts and raw material as a result of the production increase.

Primary factors that affected such result include the following:

Cash flow increasing factors:

Cash collected from customers increased ¥21,810 million due to the sales increase.

Cash flow decreasing factors:

Cash outflow increased ¥59,319 million due to the increased purchases and inventories as a result of production increase.

Net cash used in investing activities increased by ¥1,666 million from ¥17,668 million in FY2010 to ¥19,334 million in FY2011, primarily as a result of the following:

Cash flow increasing factors:

¥1,095 million decrease due to lower capital expenditures compared with FY2010 including expenditures for the construction of new sales offices in Germany and Switzerland, and machinery investment of Makita's China Plant.

¥971 million decrease due to lower purchases of available-for-sale securities and held-to-maturity securities

Cash flow decreasing factors:

¥3,899 million increase of a purchase of time deposits

¥361 million decrease due to a decrease in proceeds from sales and maturities of securities



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Net cash used in financing activities decreased by ¥ 1,759 million from ¥ 9,114 million in FY2010 to ¥ 7,355 million in FY2011 primarily as a result of the following:

¥ 1,792 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 decreased by ¥10,457 million from ¥ 62,290 million as of the end of FY2010 to ¥ 51,833 million as of the end of FY2011.

In FY2011, funding source requirements increased due to a production increase in the wake of the recovery of the global power tools demand, resulting in a year-over-year decrease of ¥ 10,457 million in the cash balance as of March 31, 2011.

Inventory balances increased compared with the previous fiscal year because sales subsidiaries increased inventories and production sites raised their production volumes to cope with the recovery of the global power tools demand.

### **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 FY2009, 2010 and 2011 were ¥ 17,046 million, ¥ 10,837 million and ¥ 9,742 million, respectively.

Capital expenditures in FY2011 were primarily used for the purchase of metal molds in Japan, the construction of new sales offices in Germany and Switzerland, and machinery investment of Makita's plants in China.

Capital investments of the Company amounted to approximately ¥ 2,354 million, while capital investment of overseas subsidiaries amounted to approximately ¥ 7,388 million. All of Makita's capital expenditures in FY2011 were funded through internally generated funds.

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

As an internationally integrated supplier of power tools that benefit people's daily lives and assist in home improvements, Makita pursues the development of power tools, pneumatic tools and gardening equipment in its own Research and Development division, such as the development of gardening equipment at Makita Numazu Corporation and Dolmar G.m.b.H.(Germany).

Approximately 843 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 FY2012, Makita allocated ¥ 7,603 million to R&D, an increase of 4.4% compared with FY2011. In FY2011, Makita allocated ¥ 7,283 million to R&D, an increase of 7.4 % compared with FY2010. The ratio of R&D expenses to net sales was approximately 2.6% in FY2012, 2.7% in FY2011 and 2.8% in FY2010, respectively. In October 2011, the Company opened its OPE (Outdoor Power Equipment) R&D center at Nisshin, Aichi Prefecture for reinforcing the development organization for OPE.

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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.

In addition, Makita has been focusing on developing models that use generic parts, as well as consolidating the variety of products to reduce cost. New products launched during FY2012 included hammer drill equipped with a low-vibration mechanism first for Makita's 2-kilogram class, low-level emission engine chain saw which provides powerful cutting, 4-mode cordless impact driver full of advanced features, cordless hammer drill with a brushless motor and enhanced efficiency, cordless impact driver featuring the world's shortest head length and lightweight compact slide circular saw featuring upgraded cutting capability, split type engine grass trimmer for multi-purpose use coming with interchangeable attachments and cordless grass trimmer.

### **D. Trend information**

Overall, the recovery of demand in developed countries is expected to remain modest and competition is expected to intensify. In emerging countries in Asia and other regions, the growth of construction demand is expected to continue but market demand is expected to favor lower-priced power tools.

Raw material prices and the foreign exchange market remain unpredictable. Makita is expected to continue to face a challenging business environment in FY 2013.

In FY2013 the yen is expected to appreciate slightly against the euro and depreciate slightly against the U.S. dollar compared to FY2012. Moreover, if appreciation of the value of the Chinese Renmin yuan is implemented, Makita's production costs may increase. While it is expected that there will be strong growth in latent demand in emerging countries, conditions in the exchange market remain uncertain. Makita does not expect that the power tool market in Japan, the United States, Western Europe and other developed countries to grow significantly.

In Japan, although it is difficult to accurately predict the significance of the scope of residential reconstruction due to the Great East Japan Earthquake, Makita anticipates steady growth for power tools. In Europe, the situation remains uncertain due to unclear prospects for economic recovery in southern Europe, which may have repercussions for Europe as a whole. In the United States, there are concerns regarding certain factors including severe price competition, a weak dollar and increases in raw material price, thus a difficult situation is expected. In Asia, the outlook is for rising demand in China and India, which have displayed strong economic growth, and for capital investment to increase in neighboring Asian countries. In Central and South America, the outlook is for steady demand, mainly in Brazil. The economy in the Middle East is not expected to show a full-fledged recovery for an extended period due to ongoing geopolitical turmoil. In Oceania, the exchange rate of the Australian dollar and full-fledged recovery of the export economy are important factors affecting business growth, but significant growth is unlikely since the power tool market in the region is already mature.

One of the impacts of the growing attention being paid to global warming and climate change is the establishment of laws and regulations related to the environment in many regions. Europe and North America has lead the way in environmental regulations, and Makita has been developing regulation-compliant products. End users' interest in environment-friendly products has also been increasing, driving market demand for such products.



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Moreover, cool summers, droughts and heavy snow have occurred frequently in recent years. Unseasonable weather will have an impact on sales of gardening equipment, and sales of power tools may also be affected by unusual weather in the short-term since weather will have effect on progress of work at construction sites.

Under such circumstances, the Company will strive to strengthen its R&D capabilities and product development capabilities for tools and equipment including power tools and gardening equipment that improve the work environment and are more environmentally friendly, and to strengthen its technical development capabilities in the area of compact engines. The Company will also seek to enhance the global production system to cope with changes in demand and reduce production costs. It will also strive to strengthen marketing activities targeting professional users, to make fine-tuned responses to customer needs and to take active measures to maintain and improve its industry-leading sales and after-sales service system.

**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						There- after
	Total	Expected payment date; year ending March 31,					
		2013	2014	2015	2016	2017	
Capital lease	¥ 28	¥ 16	¥ 7	¥ 3	¥ 1	¥ 1	-
Interest expenses on capital lease	1	1	-	-	-	-	-
Operating Lease	2,738	811	726	515	318	233	135
Contributions to defined benefit plan	2,482	2,482	-	-	-	-	-
Purchase obligation	7,973	7,887	86	-	-	-	-
Total	¥ 13,222	¥ 11,197	¥ 819	¥ 518	¥ 319	¥ 234	¥ 135

Note: 1. Determination of contributions to defined benefit plan after FY2013 is not practicable.  
 2. The notional amount of derivative financial instruments that are expected to settle in FY2013 is ¥27,450 million and their estimated fair value is ¥(152) million at March 31, 2012.  
 Please see note 16, 17, 18 to the consolidated financial statements for further information.

**G. Safe harbor**

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.

**Table of Contents****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.

The Directors and Statutory Auditors of the Company as of June 29, 2012 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

**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 since October 2010	
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
	June 2009	Director, Corporate Officer, General Manager of Research and Development Headquarters in charge of Research and Development



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**Tadashi Asanuma**

Current Position Director, Corporate Officer, in charge of Domestic Sales and General Manager of Domestic Sales Marketing Headquarters since April 2010

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)  
 June 2009 Director, Corporate Officer, in charge of Domestic Sales and General Manager of Domestic Sales Marketing Headquarters (Nagoya 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

**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 2nd 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

**Table of Contents****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 Affairs 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 May 2011      Chairman of Japan Machine Tool Builders Association June 2011      Chairman of JTEKT Corporation

**Toshihito Yamazoe**

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

**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 2006      Outside Statutory Auditor for SUZUKEN CO., LTD 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 April 2012      Professor in Faculty of Business at Aichi Shukutoku University

**Table of Contents****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 term of each director listed above expires in June 2013. 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. The term of Masafumi Nakamura as Outside Statutory Auditor expires in June 2015. 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 FY2012 to all Directors, who served during FY2012 totaled ¥ 284 million. The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2012 to all Statutory Auditors, who served during FY2012 totaled ¥ 41 million.

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2011 to all Directors, who served during FY2011 totaled ¥ 269 million. The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY2011 to all Statutory Auditors, who served during FY2011 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 ¥384 million as of March 31, 2012 and was ¥ 384 million as of March 31, 2011. However, this Executive retirement and termination allowances program was abolished by the Ordinary 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.

**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 Statutory Auditors and improving corporate governance.

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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 Act, 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. 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 26, 2012, the Board of Directors of the Company has been comprised of eleven directors, including one independent outside director. At a June 26, 2012 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 Statutory Auditors. The Board of Statutory Auditors is comprised of four statutory auditors, including three independent outside statutory auditors who are not and have not been employed by the Company. Two of these outside statutory 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 Statutory 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.





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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) submit such report 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.

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,		
	2010	2011	2012
Japan	3,146	3,135	3,107
Europe	2,347	2,718	2,941
North America	848	835	773
Asia	3,230	4,413	4,597
Other regions	757	953	1,145
Total	10,328	12,054	12,563

As of March 31, 2012, Makita had 12,563 regular full-time employees and 3,075 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.



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As of March 31, 2012, there are 2,601 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, 2012 is as follows:

Identity of person or group	Number of shares owned	Percentage of outstanding shares
Directors and Statutory Auditors	2,116,674	1.55%

The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2012.

Name	Position as of March 31, 2012	Number of shares
Masahiko Goto	CEO & President, Representative Director	1,993,884
Yasuhiko Kanzaki	Director and Managing Corporate Officer	26,361
Tadayoshi Torii	Director and Managing Corporate Officer	19,673
Shiro Hori	Director and Managing Corporate Officer	15,772
Tomoyasu Kato	Director and Corporate Officer	16,447
Tadashi Asanuma	Director and Corporate Officer	8,452
Hisayoshi Niwa	Director and Corporate Officer	9,634
Shinichiro Tomita	Director and Corporate Officer	5,661
Tetsuhisa Kaneko	Director and Corporate Officer	8,262
Yoji Aoki	CFO & Director and Corporate Officer	5,131
Motohiko Yokoyama	Outside Director	0
Toshihito Yamazoe	Standing Statutory Auditor	5,732
Haruhito Hisatsune	Outside Standing Statutory Auditor	0
Masafumi Nakamura	Outside Statutory Auditor	0
Michiyuki Kondo	Outside Statutory Auditor	1,665

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

Except for Masahiko Goto, who holds 1.46% of total number of shares of outstanding common stock with voting rights, excluding treasury stock, as of March 31, 2012, none of the Company's Directors and Statutory Auditors own more than one percent of the Company's common stock. 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.

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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, 2012, indicated in the reports described below.

Name of beneficial owner	Number of shares	Percentage
Master Trust Bank of Japan, Ltd. (Trust account)	9,040,500	6.45%
Japan Trustee Services Bank, Ltd. (Trust account)	7,593,200	5.42%

Note: The Company understands that Master Trust Bank of Japan, Ltd. and Japan Trustee Services Bank, Ltd. is not a beneficial owner of the Company's common stock. The Company does not know the identity of the beneficiaries of these trust accounts.

Based on information made publicly available, 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 in the last three years.

Name of shareholder	Date of transaction	Shares owned prior to transaction	%	Number of shares changed	Shares owned after transaction	%
Nomura Asset Management	October 15, 2009	7,218,000	5.16	(1,652,200)	5,565,800	3.98
Fidelity Investments	February 15, 2011	7,334,770	5.24	(1,462,700)	5,872,070	4.19
Fidelity Investments	October 31, 2011	7,060,370	5.04	(1,923,900)	5,136,470	3.67

As of March 31, 2012, the Company had 135,750,518 outstanding shares of common stock, excluding 4,258,242 shares of Treasury Stock. According to the Bank of New York Mellon, depository for the Company's ADSs, as of March 31, 2012, 1,423,699 shares of the Company's common stock were held in the form of American Depositary Receipts (ADRs) and there were 81 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, 2012, there were 14,334 holders of common stock of record worldwide and the number of record holders in the United States was 106.

The major shareholders do not have voting rights that are different to the other shareholders of the Company.

To the knowledge of 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.

The Company recorded advertisement expenses of ¥ 2 million in FY2011 and ¥ 2 million in FY2012, 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 ¥ 53 million in FY2011 and ¥ 75 million in FY2012 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 ¥11 million and ¥ 2 million, as of March 31, 2011 and March 31, 2012, respectively.

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Makita recorded purchases of raw materials, production equipment and expense of workers on loan amounting to ¥ 470 million in FY2011 and ¥ 633 million in FY2012 as a result of business transactions with JTEKT Group, a corporation in which Motohiko Yokoyama, an Outside Director of the Company, serves as the Chairman and Representative Director. In connection with such transactions, Makita recorded trade accounts payable of ¥ 57 million and ¥ 44 million as of March 31, 2011 and March 31, 2012, respectively.

**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

There are no material pending legal or arbitration proceedings to which Makita is a party and which may have significant effects on Makita's financial position or profitability.

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 FY2012 of ¥ 15 per share and ADS. The Company has declared a year-end cash dividend of ¥ 57 per share and ADS, which was approved by the shareholders' meeting held on June 26, 2012.

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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, the U.S. dollar amounts being based on the exchange rates at the respective payment date, 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:

Fiscal year ended March 31,	Yen		U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2008	30	67	0.30	0.67
2009	30	50	0.31	0.53
2010	15	37	0.17	0.41
2011	15	51	0.18	0.61
2012	15	57	0.19	0.71

Note: Cash dividends in U.S. dollars are based on the exchange rates on the respective payment date, 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 ADRs, have been quoted since 1977 through the National Association of Securities Dealers Automated Quotation (currently NASDAQ Stock Market LLC, 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 ADS through the NASDAQ system.

Fiscal year ended March 31,	Tokyo Stock Exchange price per share of Common stock		NASDAQ price per American Depositary Share	
	High	Low	High	Low
	Yen		U.S. Dollars	
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
2011	3,875	2,340	46.95	25.55
2012	3,930	2,341	48.41	30.44
<b>Quarterly</b>				
<b>Fiscal year 2011</b>				
1 <sup>st</sup> quarter ended June 30, 2010	3,265	2,375	34.69	25.55
2 <sup>nd</sup> quarter ended September 30, 2010	2,790	2,340	32.02	26.65
3 <sup>rd</sup> quarter ended December 31, 2010	3,410	2,615	41.24	31.43
4 <sup>th</sup> quarter ended March 31, 2011	3,875	2,900	46.95	37.87
<b>Fiscal year 2012</b>				
1 <sup>st</sup> quarter ended June 30, 2011	3,930	3,225	47.57	39.72
2 <sup>nd</sup> quarter ended September 30, 2011	3,885	2,620	48.41	32.01
3 <sup>rd</sup> quarter ended December 31, 2011	3,140	2,341	41.12	30.44
4 <sup>th</sup> quarter ended March 31, 2012	3,605	2,413	43.20	31.82
<b>Monthly</b>				
January 2012	2,975	2,413	38.05	31.82
February 2012	3,410	2,806	42.31	37.63
March 2012	3,605	3,195	43.20	39.27
April 2012	3,460	3,030	41.58	37.35
May 2012	3,090	2,595	37.75	32.67
June 2012	2,930	2,468	36.67	31.96

**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

**Item 10. Additional Information**

**A. Share capital**

Not applicable

**B. Memorandum and articles of association**



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### **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 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.

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.

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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, or 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.

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.

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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, 2012, 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 such assets to shareholders, and the effective date of the distribution.

If a dividend from Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or, as the case may be, the Board of Directors, grant a right to the shareholders to require the Company to make such dividend in cash instead of in kind. If no such right is granted to shareholders, the relevant dividend from Surplus must be approved by a special shareholders resolution (see "Voting rights" with respect to a "special shareholders resolution").

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Under the Articles of Incorporation, year-end dividends and interim dividends may be distributed to shareholders appearing in the Company's register of shareholders as of March 31 and September 30 each year, respectively, in proportion to the number of shares of Common Stock held by each shareholder following approval by the general meeting of shareholders or the Board of Directors.

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The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of Common Stock generally goes ex-dividend on the second business day prior to the record date.

***Restriction on dividends from surplus***

When the Company makes a dividend from Surplus, the Company must, until the sum of its additional paid-in capital and legal reserve reaches one quarter of the stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year
- B = (if the Company has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by the Company less the book value thereof
- C = (if the Company has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)
- D = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)
- E = (if the Company has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock
- F = (if the Company has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed
- G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if the Company has distributed Surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice

The aggregate book value of Surplus distributed by the Company may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the following:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of the treasury stock disposed of by the Company after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

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If the Company has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), the Company shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of shareholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of shareholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Companies Act) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by the Company, during the period which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Statutory Auditors and Accounting Auditors, as required by ordinances of the Ministry of Justice.

### ***Capital and reserves***

The Company may generally reduce its additional paid-in capital or legal reserve by resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as stated capital. On the other hand, the Company may generally reduce its stated capital by a special resolution of a general meeting of shareholders and, if so decided by the same resolution, may account for the whole or any part of the amount of such reduction as additional paid-in capital. In addition, the Company may reduce its Surplus and increase either (i) stated capital or (ii) additional paid-in capital and/or legal reserve by the same amount, in either case by resolution of a general meeting of shareholders.

### ***Stock splits***

The Company may at any time split shares of Common Stock in issue into a greater number of shares by resolution of the Board of Directors, and may amend its Articles of Incorporation to increase the number of the authorized shares to be issued to allow such stock split pursuant to a resolution of the Board of Directors, so long as the Company's only class of outstanding stock is the Common Stock, rather than relying on a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation.

When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date therefore, at least 2 weeks prior to such record date.

Under the central book-entry transfer system operated by JASDEC, the Company must also give notice to JASDEC regarding a stock split at least 2 weeks prior to the relevant record date.

On the effective date of the stock split, the numbers of shares recorded in all accounts held by the Company's shareholders at account managing institutions or JASDEC will be increased in accordance with the applicable ratio.

### ***Consolidation of shares***

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in Voting Rights ).

When a consolidation of shares is to be made, the Company must give public notice or notice to each shareholder at least 2 weeks prior to the effective date of the consolidation of shares.

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Under the central book-entry transfer system operated by JASDEC, the Company must also give notice to JASDEC regarding the consolidation of shares at least 2 weeks prior to the effective date of the consolidation of shares.

On the effective date of the consolidation of shares, the numbers of shares recorded in all accounts held by the Company's shareholders at account managing institutions or JASDEC will be decreased in accordance with the applicable ratio. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

### ***General meeting of shareholders***

The ordinary general meeting of shareholders of the Company for each business year is normally held in June of each year in or near Anjo, Aichi Prefecture, Japan. In addition, the Company may hold an extraordinary general meeting of shareholders whenever necessary by giving notice of convocation thereof at least 2 weeks prior to the date set for the meeting.

Notice of convocation of a general meeting of shareholders setting forth the place, time and purpose thereof, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least 2 weeks prior to the date set for the meeting.

Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least 3 percent of the total number of voting rights for a period of 6 months or more may require the convocation of a general meeting of shareholders for a particular purpose. Unless such general meeting of shareholders is convened promptly or a convocation notice of a meeting which is to be held not later than 8 weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such general meeting of shareholders. Any shareholder or group of shareholders holding at least 300 voting rights or 1 percent of the total number of voting rights for a period of 6 months or more may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a Representative Director at least 8 weeks prior to the date set for such meeting.

If the Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

The Company's Articles of Incorporation currently do not include any such provisions.

### ***Voting rights***

So long as the Company maintains the unit share system (see "Unit share system" below; currently 100 shares of Common Stock constitute one unit), a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following 2 sentences. A corporate or certain other entity more than one-quarter of whose total voting rights are directly or indirectly owned by the Company may not exercise its voting rights with respect to shares of Common Stock of the Company that it owns. In addition, the Company may not exercise its voting rights with respect to shares of Common Stock that it owns. If the Company eliminates from its Articles of Incorporation the provisions relating to the unit of shares, holders of shares of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the total number of voting rights of all the shareholders represented at the meeting.

The Companies Act and the Company's Articles of Incorporation provide, however, that the quorum for the election of Directors and Statutory Auditors is one-third of the total number of voting rights of all the shareholders.

The Company's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders of the Company holding voting rights.

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The Company's shareholders also may cast their votes in writing, or exercise their voting rights by electronic means when the Board of Directors decides to permit such method of exercising voting rights.

The Companies Act and the Company's Articles of Incorporation provide that the quorum shall be one-third of the total voting rights of all the shareholders, and the approval by at least two-thirds of the voting rights of all the shareholders represented at the meeting is required (the special shareholders resolutions) in order to amend the Company's Articles of Incorporation (except for such amendments that may be made without the approval of shareholders under the Companies Act, such as (i) an increase in the number of authorized shares by the same ratio as that of a stock split, (ii) a reduction in the number of shares per unit of shares and (iii) termination of the unit share system) and in certain other instances, including:

- (1) acquisition of its own shares from specific persons other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares or existing shares held by the Company as treasury stock at a specially favorable price (or any offering of stock acquisition rights, or bonds with stock acquisition rights on specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Statutory Auditor;
- (5) the exemption of liability of a Director, Statutory Auditor or Accounting Auditor with certain exceptions;
- (6) a reduction of stated capital with certain exceptions in which a special shareholders' resolution is not required;
- (7) a distribution of Surplus in kind other than dividends which meets certain requirements;
- (8) dissolution, merger, consolidation or corporate split with certain exceptions in which a shareholders' resolution is not required;
- (9) the transfer of the whole or a material part of the business with certain exceptions in which a shareholders' resolution is not required;
- (10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required; or
- (11) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidary relationships with certain exceptions in which a shareholders' resolution is not required.

### ***Issue of additional shares and pre-emptive rights***

Holders of shares of Common Stock have no pre-emptive rights under the Articles of Incorporation of the Company. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the offering of new shares at a specially favorable price mentioned under *Voting rights* above. In the case of an issuance or transfer of shares of Common Stock of the Company or stock acquisition rights by way of an allotment to a third party that would dilute the outstanding voting shares by 25% or more or change the controlling shareholder, in addition to a resolution of the Board of Directors, the approval of the shareholders or an affirmative opinion from a person independent of the Company's management is required pursuant to the regulations of the Japanese stock exchanges on which shares of Common Stock of the Company are listed. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date of which not less than 2 weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least 2 weeks prior to the date on which such rights expire.

The Company may issue stock acquisition rights by a resolution of the Board of Directors, subject to the limitations as to the offering of stock acquisition rights on specially favorable conditions mentioned under *Voting rights* above. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights.

Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.



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In cases where a particular issue of new shares or stock acquisition rights (i) violates laws and regulations or the Company's Articles of Incorporation, or (ii) will be performed in a manner materially unfair, and shareholders may suffer disadvantages therefrom, such shareholder may file an injunction to enjoin such issue with a court.

### ***Liquidation rights***

In the event of a liquidation of the Company, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among shareholders in proportion to the respective numbers of shares of Common Stock held by them.

### ***Record date***

As mentioned above, March 31 is the record date for the Company's year-end dividends. So long as the Company maintains the unit share system, the shareholders who are registered or recorded as the holders of one or more full units of shares in the Company's registers of shareholders in writing or digitally (or electronically) at the end of each March 31 are also entitled to exercise shareholders' rights at the ordinary general meeting of shareholders with respect to the business year ending on such March 31. September 30 is the record date for interim dividends.

In addition, the Company may set a record date for determining the shareholders entitled to other rights pertaining to the Common Stock and for other purposes, by giving at least 2 weeks' prior public notice.

Under the Book-entry Transfer Act, the Company is required to give notice of each record date to JASDEC at least 2 weeks prior to such record date. JASDEC is required to promptly give the Company notice of the names and addresses of the Company's shareholders, the numbers of shares of Common Stock held by them and other relevant information as of such record date.

### ***Acquisition by the Company of Common stock***

The Company may acquire shares of Common Stock (i) from a specific shareholder other than any of its subsidiaries (pursuant to a special shareholders resolution), (ii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which Common Stock is listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Representative Director that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of shares of Common Stock may not exceed the Distributable Amount, as described in Dividends from Surplus' Restriction on dividends from Surplus.

Shares of Common Stock acquired by the Company may be held by it for any period or may be cancelled by resolution of the Board of Directors. The Company may also transfer to any person the shares of Common Stock held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in Issue of additional shares and pre-emptive rights' above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

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### ***Unit share system***

The Articles of Incorporation of the Company provide that 100 shares of Common Stock constitute one unit of shares. Although the number of shares constituting one unit is included in the Articles of Incorporation, any amendment to the Articles of Incorporation reducing (but not increasing) the number of shares constituting one unit or eliminating the provisions for the unit of shares may be made by the resolution of the Board of Directors rather than by a special shareholders resolution, which is otherwise required for amending the Articles of Incorporation. The number of shares constituting one new unit, however, cannot exceed 1,000 or 0.5 percent of total number of issued shares, whichever is greater.

Under the unit share system, shareholders shall have one voting right for each unit of shares that they hold. Any number of shares less than a full unit carries no voting rights.

Holders of shares constituting less than a full unit will have no other shareholder rights if the Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Companies Act or an ordinance of the Ministry of Justice, including the right to receive dividends from Surplus.

A holder of shares of Common Stock constituting less than a full unit may require the Company to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of the Company. In addition, the Articles of Incorporation of the Company provide that a holder of shares of Common Stock constituting less than a full unit may request the Company to sell to such holder such amount of shares of Common Stock which will, when added together with the shares of Common Stock constituting less than a full unit, constitute a full unit of shares, in accordance with the provisions of the Share Handling Regulations of the Company.

As prescribed in the Company's Share Handling Regulations, such requests must be made through an account management institution and JASDEC pursuant to the rules set by JASDEC.

Under the new book-entry transfer system described in *General*, Common Stock constituting less than a full unit are transferable. Under the rules of the Japanese stock exchanges, however, shares constituting less than a full unit do not comprise a trading unit, except in limited circumstances, and accordingly may not be sold on the Japanese stock exchanges.

The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

### ***Sales by the Company of shares held by shareholders whose location is unknown***

The Company is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company continuously for 5 years or more. In addition, the Company may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for 5 years or more at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive dividends from Surplus on the shares of Common Stock continuously for 5 years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company, the Company may sell or otherwise dispose of the shareholder's shares at the then market price of shares of Common Stock and after giving at least 3 months' prior public and individual notices, and hold or deposit the proceeds of such sale or disposal of shares of Common Stock for such shareholder.

### **Reporting of substantial shareholdings**

The Financial Instruments and Exchange Act of Japan and regulations thereunder require any person, regardless of residence, who has become, beneficially and solely or jointly, a holder of more than 5 percent of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market in Japan to file with the Director-General of a competent Local Finance Bureau of the Ministry of Finance within 5 business days a report concerning such shareholdings.

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A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Any such report shall be filed with the Director-General of the competent Local Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors Network (EDINET). Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed.

Except for the general limitation under Japanese anti-trust and anti-monopoly regulations against holding of shares of capital stock of a Japanese corporation which leads or may lead to a restraint of trade or monopoly, except for the limitations under the Foreign Exchange Regulations as described in D. Exchange controls below, and except for general limitations under the Companies Act or the Company's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to the Company or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of the Company or exercise voting rights thereon.

There is no provision in the Company's Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving the Company.

**C. Material contracts**

None

**D. Exchange controls**

The Foreign Exchange and Foreign Trade Act of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of Common Stock of the Company by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

- individuals who do not reside in Japan; and
- corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

- individuals who are exchange non-residents;
- corporations that are organized under the laws of foreign countries and areas or whose principal offices are located outside of Japan;
- corporations of which 50 percent or more of their shares are held by individuals who are exchange non-residents and/or corporations (1) that are organized under the laws of foreign countries and areas or (2) whose principal offices are located outside of Japan; or
- corporations a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

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In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding 100 million Japanese yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, or the date of the receipt of payment, whichever comes later, unless the transfer was made through a bank, or a financial instruments business operator registered under the Financial Instruments and Exchange Act of Japan.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of the Company) or that is traded on an over-the-counter market in Japan and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 percent or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company by the 15th day of the month immediately following the month in which such acquisition took place. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of Common Stock of the Company held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad. The acquisition of shares of Common Stock by exchange non-residents by way of stock split is not subject to any of the foregoing notification or reporting requirements.

### **E. Taxation**

*The discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to the ownership of shares of Common Stock or ADSs. Prospective purchasers of shares of Common Stock or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.*

The following is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of shares of Common Stock or ADSs. This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than such income taxation as limited to national taxes and inheritance and gift taxation.

This summary also does not cover any state or local, or non-U.S. non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of Common Stock or ADSs.

Also, this summary does not purport to address all the material tax consequences that may be relevant to the holders of shares of Common Stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for alternative minimum tax, investors that own or are treated as owning 10 percent or more of the Company's voting stock, investors that hold shares of Common Stock or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the federal income tax laws and regulations of the United States and tax laws of Japan, judicial decisions, published rulings and administrative pronouncements, all as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), all of which are subject to change (possibly with retroactive effect), and/or to differing interpretations.

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For purposes of this discussion, a "U.S. Holder" is any beneficial owner of shares of Common Stock or ADSs that is, for U.S. federal income tax purposes:

1. an individual citizen or resident of the United States;
2. a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any state thereof, or the District of Columbia;
3. an estate the income of which is subject to U.S. federal income tax without regard to its source; or
4. a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

An "Eligible U.S. Holder" is a U.S. Holder that:

1. is a resident of the United States for purposes of the Treaty;
2. does not maintain a permanent establishment in Japan (a) with which shares of Common Stock or ADSs are effectively connected and through which the U.S. Holder carries on or has carried on business and (b) of which shares of Common Stock or ADSs form part of the business property; and
3. is eligible for benefits under the Treaty with respect to income and gain derived in connection with shares of Common Stock or ADSs.

In addition, this summary is based in part upon the representations of the depository and the assumption that each obligation in the deposit agreement for ADSs, and in any related agreement, will be performed in accordance with its terms.

In general, for purposes of the Treaty and for U.S. federal income and Japanese national income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of shares of Common Stock represented by those ADSs, and exchanges of shares of Common Stock for ADSs, and exchanges of ADSs for shares of Common Stock, will not be subject to U.S. federal income or Japanese national income tax.

## **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to non-residents of Japan or non-Japanese corporations without permanent establishments in Japan ("non-resident Holders"), who are holders of shares of Common Stock and/or of ADRs evidencing ADSs representing shares of Common Stock. Generally, a non-resident Holder is subject to Japanese withholding tax on dividends paid by Japanese corporations, and the Company will withhold such tax prior to payment of dividends as required by Japanese law. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident Holders is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as shares of Common Stock or ADSs) to non-resident Holders other than any individual shareholder who holds 5 percent or more of the total shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before December 31, 2013, and (ii) 15 percent for dividends due and payable on or after January 1, 2014. As of the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned 20 percent withholding tax rate is reduced, in most cases to 15 percent or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden and Switzerland and 10 percent under the income tax treaties with Australia, France, the U.K. and the United States.)

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Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10 percent of the gross amount actually distributed, and dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund are exempt from Japanese income taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on shares of Common Stock is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through the withholding agent to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service.

With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends and the other within 8 months after the record date concerning such payment of dividends). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary.

A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced rate which is lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the full amount of tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority, by complying with a certain subsequent filing procedure. The Company does not assume any responsibility to ensure withholding at the reduced rate, or exemption therefrom, for non-resident Holders who would be so eligible under an applicable tax treaty but where the required procedures as stated above are not followed.

Gains derived from the sale of shares of Common Stock or ADSs outside Japan by a non-resident Holder holding such shares of Common Stock or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of Common Stock or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of Common Stock or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

**U.S. Federal Income Taxation**

***U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to U.S. Holders that hold shares of common stock or ADSs as capital assets (generally, for investment purposes).

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### ***Taxation of Dividends***

Subject to the passive foreign investment company (PFIC) rules discussed below, under U.S. federal income tax law, the gross amount of any distribution made by Makita in respect of shares of Common Stock or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles.

The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when actually or constructively received by the U.S. Holder, in the case of shares of Common Stock, or by the depositary, in the case of ADSs.

Dividends paid by Makita will not be eligible for the dividends received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Under current law, dividends received on shares or ADSs of certain foreign corporations in taxable years beginning before January 1, 2013 by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to Common Stock or ADSs are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that dividend is included in the income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars on such date. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or the U.S. Holder otherwise disposed of the Japanese yen) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of Common Stock or ADSs exceeds Makita's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those shares or ADSs, and thereafter as U.S. source capital gain. Distributions of additional shares of Common Stock that are made to U.S. Holders with respect to their shares of Common Stock or ADSs and that are part of a pro rata distribution to all the Company's shareholders generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of Common Stock or ADSs will constitute income from sources outside the United States, will be passive category income or, in the case of certain U.S. Holders, general category income and will be subject to various classifications and other limitations. Any Japanese withholding tax imposed in respect of a Company dividend may be claimed either as a credit against the U.S. federal income tax liability of a U.S. Holder or, if the U.S. Holder does not take a credit for any foreign taxes that year, as a deduction from that U.S. Holder's taxable income.

Special rules will generally apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential U.S. federal income tax rates. Additionally, special rules may apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$ 300 (\$ 600 in the case of a joint return).

Further, under some circumstances, a U.S. Holder that:

has held shares of Common Stock or ADSs for less than a specified minimum period, or

is obligated to make payments related to Makita's dividends,

will not be allowed a foreign tax credit for foreign taxes imposed on Makita's dividends.

The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances, and accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.





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**Table of Contents*****Taxation of Capital Gains and Losses***

In general, upon a sale or other taxable disposition of shares of Common Stock or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sales or other taxable disposition and the U.S. Holder's adjusted tax basis in those Common Stock or ADSs. A U.S. Holder generally will have an adjusted tax basis in a share of Common Stock or an ADS equal to its U.S. dollar cost. In general, subject to the PFIC rules discussed below, such gain or loss recognized on a sale or other taxable disposition of shares of Common Stock or ADSs will be capital gain or loss and, if the U.S. Holder's holding period for those shares or ADSs exceeds one year, will be long-term capital gain or loss. Non-corporate U.S. Holders, including individuals, currently are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. Under U.S. federal tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other taxable disposition of shares of Common Stock or ADSs generally will be treated as derived from U.S. sources for U.S. foreign tax credit purposes.

Deposits and withdrawals of Common Stock in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

***PFIC***

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is passive income or (2) on average, at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interests, royalties, rents and gains from commodities and securities transaction. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and the composition of its income.

Makita does not believe that it was, for U.S. federal income tax purposes, a PFIC for the year ended March 31, 2012 and Makita intends to continue its operations in such a manner that it is highly unlikely that it would become a PFIC in the future.

However, there can be no assurance in this regard, because the PFIC determination is made annually and is based on the portion of Makita's assets (including goodwill) and the portion of Makita's income that is characterized as passive under the PFIC rules.

If Makita becomes a PFIC, unless a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to its shares of Common Stock or ADSs, any gain realized on a sale or other taxable disposition of shares of Common Stock or ADSs and certain excess distributions (generally distributions in excess of 125 percent of the average distribution over a three-year period, or, if shorter, the holding period for the shares of Common Stock or ADSs) would be treated as realized ratably over the U.S. Holder's holding period for the shares of Common Stock or ADSs; amounts allocated to prior years while Makita was a PFIC would be taxed at the highest tax rate in effect for each such year, and an additional interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Amounts allocated to the year of sale or distribution and to any year before Makita became a PFIC would be taxed as ordinary income in the year of sale or distribution. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above if Makita is a PFIC either in the taxable year of the distribution or the preceding taxable year.

If a market-to-market election were made, a U.S. Holder would take into account each year the appreciation or depreciation in value of its shares of Common Stock or ADS, which would be treated as ordinary income or (subject to limitations) ordinary loss, as would gains or losses on actual dispositions of Common Stock or ADSs. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to the shares of Common Stock or ADSs and the availability and advisability of making a mark-to-market election to avoid the adverse tax consequences of the PFIC rules should Makita be considered a PFIC for any taxable year.

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If a U.S. Holder owns shares of Common Stock or ADSs in any taxable year in which Makita is a PFIC, such U.S. Holder generally would be required to file Internal Revenue Service ( IRS ) Form 8621 (or other form specified by the U.S. Department of the Treasury) with the U.S. Holder's U.S. federal income tax return in each year that Makita is a PFIC.

### ***Non-U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial owners of shares of Common Stock or ADSs that are neither U.S. Holders nor partnerships, nor entities taxable as partnerships, for U.S. federal income tax purposes ( Non-U.S. Holders ).

A Non-U.S. Holder generally will not be subject to any U.S. federal income or withholding tax on distributions received in respect of shares of Common Stock or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, are attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of Common Stock or ADSs, unless:

- (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or
- (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder (and, if an applicable income tax treaty applicable income tax treaty applies, is attributable to a U.S. permanent establishment or a fixed base of such Non-U.S. Holder) generally will be taxed in the same manner as the income of a U.S. Holder.

In addition, under certain circumstances, any effectively connected earnings and profits realized by a corporate Non-U.S. Holder may be subject to additional branch profits tax at the rate of 30 percent or at a lower rate that may be prescribed by an applicable income tax treaty.

### ***Backup Withholding and Information Reporting***

In general, except in the case of certain exempt recipients, information reporting requirements will apply to dividends on shares of Common Stock or ADSs paid to U.S. Holders in the United States or through certain U.S. related financial intermediaries and to the proceeds received upon the sale, exchange or redemption of shares of Common Stock or ADSs by U.S. Holders within the United States or through certain U.S. related financial intermediaries.

Furthermore, backup withholding (currently at a rate of 28 percent) may apply to those amounts if a U.S. Holder fails to provide an accurate taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding or to otherwise comply with the applicable requirements of the backup withholding requirements.

Dividends paid to a Non-U.S. Holder in respect of shares of Common Stock or ADSs, and proceeds received in the sale, exchange or redemption of shares of Common Stock or ADSs by a Non-U.S. Holder, generally, are exempt from information reporting and backup withholding under current U.S. federal income tax law.

However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. persons, and on IRS Form W-8BEN, entitled Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding (or other appropriate IRS Form W-8), in the case of non-U.S. persons.

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Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment may be allowed as a credit against the holder's U.S. federal income tax liability provided that the required information is properly furnished to the IRS.

Certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include shares of Common Stock or ADSs) may be required to report information relating to such assets, subject to certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this reporting requirement on their ownership and disposition of shares of Common Stock or ADSs.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. INVESTORS IN THE COMMON STOCK OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF COMMON STOCK OR ADSs, BASED ON THEIR PARTICULAR CIRCUMSTANCES.

### **F. Dividends and paying agents**

Not applicable

### **G. Statement by experts**

Not applicable

### **H. Documents on display**

Makita files its annual report on Form 20-F and press releases or reports for shareholders or investors on Form 6-K with the SEC. You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>).

### **I. Subsidiary Information**

Not applicable

## **Item 11. Quantitative and Qualitative Disclosures about Market Risk**

### ***Market Risk Exposure***

Makita is exposed to various market risks, including those related to changes in foreign exchange rates, interest rates, and prices of short-term investments and investments. In order to hedge the risks of fluctuations in foreign exchange rates and interest rates, Makita uses derivative financial instruments. Makita does not hold or use derivative financial instruments for trading purposes.

Although the use of derivative financial instruments exposes Makita to the risk of credit-related losses in the event of nonperformance by counterparties, Makita believes that its counterparties are creditworthy because they are required to have a credit rating of a specified level or above, and Makita does not expect credit-related losses, if any, to be significant.

### ***Equity and Debt Securities Price Risk***

Makita classifies investments, which are available for current operations, in current assets. The other investments are classified as investments as a part of non-current investments and other assets in the consolidated balance sheets. Makita does not hold short-term investments and investments for trading purposes. The fair value of certain of these investments exposes Makita to equity price risks.

These investments are subject to changes in the market prices of the securities.

The pension liability decreased due to an excess of change in plan assets over change in projected benefit obligation and Makita holds sufficient surplus funds. Therefore, Makita is satisfied that its pension plans can be maintained.



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The maturities and fair values of such short-term investments and investments at March 31, 2011 and 2012 were as follows:

	Yen in millions				U.S. Dollars in thousands	
	2011		2012		2012	
	Carrying Amount	Fair value	Carrying Amount	Fair value	Carrying Amount	Fair value
Due within one year	¥ 173	¥ 173	¥3,897	¥3,894	\$47,524	\$47,488
Due after one year to five years	5,550	5,547	7,585	7,593	92,500	92,598
Due after five years	713	676	762	751	9,294	9,158
Indefinite periods	31,041	31,041	18,903	18,903	230,524	230,524
Equity securities	13,147	13,147	13,132	13,132	160,145	160,145
Total of short-term investments and investments	¥ 50,624	¥ 50,584	¥ 44,279	¥44,273	\$539,987	\$539,913

**Foreign Exchange Risk**

Makita's international operations expose Makita to the risk of fluctuation in foreign currency exchange rates. Makita is authorized to hedge the exposure to fluctuations in foreign currency exchange rates within the scope of actual demand in compliance with the Exchange rate fluctuation Risk management guideline as Makita's internal guidance to minimize the risk of exchange rate fluctuations. Hedging activities beyond actual demand and purchases of uncovered merchandise require the approval of the Board of Directors.

To manage this exposure, Makita enters into certain foreign exchange contracts with respect to a part of such international operations and indebtedness.

The following table provides information about Makita's derivative financial instruments related to foreign currency transactions as of March 31, 2011 and March 31, 2012. Figures are translated into Japanese yen at the rates prevailing at March 31, 2011 and March 31, 2012, together with the relevant weighted average contractual exchange rates at March 31, 2011 and March 31, 2012.

All of the foreign exchange contracts listed in the following table has contractual maturities in FY2011 and FY2012.

	Yen in millions, except average contractual rates						U.S. Dollars in thousands	
	2011		2012		2012		2012	
	Contract amounts	Fair value	Average contractual rates	Contract amounts	Fair value	Average contractual rates	Contract amounts	Fair value
<b>Foreign currency contracts</b>								
US\$/Yen	¥6,651	¥(47)	¥82.59	¥8,217	¥(108)	¥81.02	\$100,208	\$(1,318)
Euro/Yen	4,901	(163)	113.66	5,506	(107)	107.68	67,146	(1,305)
A\$/Yen	402	(18)	82.02	311	-	84.90	3,793	-
GBP/Yen	420	(2)	132.29	381	(15)	125.93	4,646	(183)
SFR/Yen	1,132	(46)	87.05	1,264	80	97.19	15,414	976
Euro/US\$	-	-	-	439	(2)	-	5,354	(24)
Euro/GBP	353	15	-	988	5	-	12,049	61
US\$/GBP	1,746	16	-	674	(3)	-	8,220	(37)
US\$/Euro	2,895	(95)	-	267	(1)	-	3,256	(12)
GBP/Euro	2	-	-	-	-	-	-	-
US\$/A\$	1,746	(49)	-	1,233	(9)	-	15,037	(110)
US\$/RMB	2,495	-	-	8,054	11	-	98,219	134
Other	93	1	-	116	(3)	-	1,414	(36)
Total	22,836	(388)	-	27,450	(152)	-	334,756	(1,854)



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**Item 12. Description of Securities Other Than Equity Securities**

**A. Debt Securities**

Not applicable

**B. Warrants and Rights**

Not applicable

**C. Other Securities**

Not applicable

**D. American Depositary Shares**

**D.3. Fees and Charges for Holders of American Depositary Receipts**

The Bank of New York Mellon, as depositary for the ADSs (the "Depositary") collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them.

The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

Persons depositing or withdrawing shares must pay:  
\$ 5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

For:  
; Issuance of ADSs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

; Cancellation of ADSs for the purpose of withdrawal including if the deposit agreement terminates

Registration or transfer fees

; Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS registered holders

Expenses of the depositary

; Registration of transfer of shares on Makita's share register to the name of the depositary or its nominee or the custodian or its nominee at the time of deposit or withdraw of shares  
; Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS

; Converting foreign currency to US dollars  
; As necessary

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**D.4. Fees and Other Payments Made by the Depositary to the Company**

From April 1, 2011 to March 31, 2012, no amounts were reimbursed by the Depositary to the Company.

As part of its service to the Company, the Depositary has agreed to waive its basic charges for the administration of the ADR program. From April 1, 2011 to March 31, 2012, such fees and expenses waived by the Depositary totaled \$132,648. Charges for any additional or special services that are not waived are paid for by the Company.

The Depositary has agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividends checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls.

**PART II**

**Item 13. Defaults, Dividend Arrearages and Delinquencies**

None

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None

**Item 15. Controls and Procedures**

**A. Disclosure controls and procedures**

Makita performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the FY2012. Disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended the Exchange Act ) are designed to ensure that the information required to be disclosed in the reports that Makita files under the Exchange Act is accumulated and communicated to its management including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

The Company's disclosure controls and procedures also ensure that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Makita's Chief Executive Officer and Makita's Chief Financial Officer. Makita's disclosure, controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Its Chief Executive Officer and Chief Financial Officer have concluded that Makita's disclosure controls and procedures are effective.

**B. Management's annual report on internal control over financial reporting**

Makita's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and





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(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Makita's management has evaluated the effectiveness of internal control over financial reporting as of March 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (the COSO criteria).

Based on its assessment, management concluded that, as of March 31, 2012, Makita's internal control over financial reporting was effective based on the COSO criteria.

KPMG AZSA LLC, an independent registered public accounting firm that audited the consolidated financial statements included in this report, has also audited the effectiveness of Makita's internal control over financial reporting as of March 31, 2012, as stated in this report included herein.

**C. Attestation report of the registered public accounting firm**

Makita's independent registered public accounting firm, KPMG AZSA LLC, has issued an audit report on internal control over financial reporting, which is included herein.

**D. Changes in internal control over financial reporting**

Not applicable.

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Makita Corporation:

We have audited Makita Corporation's internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Makita Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on Makita Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Makita Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Makita Corporation and subsidiaries as of March 31, 2011 and 2012, and the related consolidated statements of income, changes in equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2012, and our report dated June 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 29, 2012

**Table of Contents****Item 16A. Audit Committee Financial Expert**

Makita's Board of Directors has determined that Mr. Masafumi Nakamura is qualified as an audit committee financial expert as defined by the rules of the SEC. Mr. Nakamura is independent, as that term is defined in the listing standards of NASDAQ applicable to the Company. The Company has designated Messrs. Haruhito Hisatsune, Masafumi Nakamura and Michiyuki Kondo, Statutory Auditors, as the Outside Statutory Auditors as required by the regulations of the Tokyo Stock Exchange, Inc. and the Nagoya Stock Exchange, Inc. and made required notification therefore to these Stock Exchange.

Mr. Masafumi Nakamura, Statutory Auditor, is a certified public accountant and has a substantial amount of expertise in finance and accounting.

**Item 16B. Code of Ethics**

On May 20, 2003, Makita adopted a code of ethics. On March 17, 2004, Makita amended the code of ethics to: (1) ensure the protection of individuals who report questionable behavior to Makita's board of statutory auditors and (ii) clarify that waivers to its code of ethics for employees must be requested in writing to the board of statutory auditors and for executive officers, directors and statutory auditors can only be granted by the board of directors, only if truly necessary and warranted, and must be promptly disclosed to shareholders. Makita's code of ethics is publicly available on Makita's web site at [www.makita.co.jp/global/company/governance01.html](http://www.makita.co.jp/global/company/governance01.html). If Makita makes any substantive amendments to the code of ethics or grant any waivers, including any implicit waiver, from a provision of this code to the directors and executive officers, including the principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, Makita will disclose the nature of such amendment or waiver on the Company's website.

**Item 16C. Principal Accountant Fees and Services**

KPMG AZSA LLC has served as Makita's independent public accountant for each of the financial years in the three-year period ended March 31, 2012, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by KPMG AZSA LLC and the various member firms of KPMG International, a Swiss Cooperative, to Makita in FY2011 and FY2012:

	Fiscal year/Yen in millions	
	FY2011	FY2012
Audit Fees (1), (4)	¥616	¥624
Audit-related Fees (2)	8	22
Tax Fees (3)	143	137
Total	¥767	¥783

Note:

- (1) Audit Fees consist of fees billed for the professional services rendered by the Independent Registered Public Accounting Firm for the audit of Makita's annual or interim financial statements and services that are normally provided by the Independent Registered Public Accounting Firm in connection with statutory and regulatory filings or engagement.
- (2) Audit-related Fees consist of fees billed for assurance and related services by the Independent Registered Public Accounting Firm that are reasonably related to employee benefit plan audits, and consultation concerning financial accounting and reporting standards.
- (3) Tax Fees include fees billed for the professional services rendered by the Independent Registered Public Accounting Firm for tax compliance and transfer pricing documentation.
- (4) Audit Fees in FY2012 are subject to change.

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**Policy on Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm**

The Board of Statutory Auditors of Makita Corporation, consisting of four members, including three outside corporate auditors, is responsible for the oversight of its Independent Registered Public Accounting Firm's work. The Board of Statutory Auditors has established Audit and Non-Audit Services Pre-approval Policies and Procedures, effective as of August 7, 2003. The policies and procedures stipulate three means by which audit and non-audit services may be preapproved, depending on the content of and the fee for the services.

Under the United States Sarbanes-Oxley Act of 2002 (the Act), the Board of Statutory Auditors is required to preapprove all audit and non-audit services to be provided by the Independent Registered Public Accounting Firm to the Company in order to assure that they do not impair their independence from the Company. To implement these provisions of the Act, the SEC has issued rules specifying the types of services that an Independent Registered Public Accounting Firm may not provide to its audit client, as well as the Board of Statutory Auditors' administration of the engagement of the Independent Registered Public Accounting Firm.

Accordingly, the Board of Statutory Auditors has adopted this Audit and Non-Audit Services Pre-approval Policies and Procedures, which sets forth the policies, procedures and the conditions for which such services proposed to be performed by the Independent Registered Public Accounting Firm may be pre-approved. Under this policy, the Board of Statutory Auditors authorizes general pre-approval of all such services, including Audit Services, Audit-related Services, Tax Services and All other Services. Under General Pre-approval protocol, the pre-approved services do not require specific pre-approval from the Board of Statutory Auditors or its delegated member on a case-by-case basis.

The term of any general pre-approval is 12 months from the date of pre-approval, unless the Board of Statutory Auditors considers a different period and states otherwise in the relevant appendix. The Board of Statutory Auditors will annually review this policy, including the services that may be provided by the Independent Registered Public Accounting Firm without obtaining specific pre-approval from the Board of Statutory Auditors, and make any necessary or appropriate changes to this policy. This policy is designed (1) to be detailed as to the particular services to be provided by the independent auditor, (2) to ensure that the Board of Statutory Auditors is informed of each service provided by the independent auditor and (3) to ensure that the policies and procedures set forth herein do not include delegation of the Board of Statutory Auditors' responsibilities under the US Securities Exchange Act of 1934 to management. Nothing in this policy shall be interpreted to be a delegation of the Board of Statutory Auditors' responsibilities under the Securities Exchange Act of 1934 to management of the Company.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Makita does not have an audit committee and is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from NASDAQ's listing standards relating to audit committees for foreign companies such as Makita, that has a board of corporate auditors. Makita's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets out all repurchases of common stock of the Company by the Company during FY2012. The Company did not resolve any repurchase mid to long term or continuous plan or program by the board of directors or Annual General Meeting of Shareholders. Therefore, there is no publicly announced mid to long term plan or program regarding repurchase of its own stock.

The Company executes the repurchase and retirement of treasury stock after the board of directors make the decision, considering the stock price and the payout ratio. The Company also repurchases the stock in response to the purchase requests of holders of shares of common stock constituting less than one full unit in accordance with the provisions of the Share Handling Regulations of the Company.

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In FY2012, the Company executed repurchases of two million shares of its common stock in December and January at an aggregate cost of ¥ 5,033 million in accordance with the resolution of the Board.

Period	Total number of shares purchased (Shares)	Average price paid per share (Yen)
April 2011	320	3,793
May 2011	92	3,725
June 2011	133	3,661
July 2011	5,111	3,777
August 2011	999	3,612
September 2011	71	2,806
October 2011	315	2,896
November 2011	101	2,710
December 2011	1,100,055	2,504
January 2012	900,157	2,532
February 2012	398	2,909
March 2012	155	3,347
Total number of shares purchased and average price paid per share	2,007,907	2,521

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable

**Item 16G. Corporate Governance**

**1. Independent Directors:** NASDAQ Listing Rule 5605(b)(1) by NASDAQ requires a majority of the Company's board of directors to be comprised of independent directors, and 5605(b)(2) requires periodical executive sessions held by these independent directors. Unlike the NASDAQ rules on corporate governance (the NASDAQ Rules), the Companies Act of Japan and related legislation (collectively, the Japanese Company Law) sets forth the legal concept of "Outside" directors. Under the Japanese Company Law, an "outside" director is defined as a director (i) who is not a director of the company or any of its subsidiaries engaged in the business operations of the company or such subsidiary, as the case may be, or an executive officer or a company manager or other employee of the company or any of its subsidiaries, and (ii) who has never been a director of the company or any of its subsidiaries engaged in the business operations of the company or such subsidiary, as the case may be, or an executive officer or a company manager or other employee of the company or any of its subsidiaries. Under Japanese law, a director's status as an "outside" director is unaffected by the director's compensation, his or her affiliation with business partners, or the board's affirmative determination of independence.

On the other hand, under Japanese law, a director who has had a career as a director responsible for the execution of business operations, executive officer, or other employee of the company or its subsidiaries is by definition not an "outside" director.

Further, the Japanese Company Law does not require Japanese companies with boards of statutory auditors such as the Company to have any independent directors on its board of directors. Although it is not required under the Japanese Company Law, the Company currently has an "outside" director.

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In addition, pursuant to the regulations of the Japanese stock exchanges on which shares of Common Stock of the Company are listed, the Company is required to have at least one independent director and one independent statutory auditor, defined respectively as an outside director unlikely to have a conflict of interest with shareholders of the Company and an outside statutory auditor unlikely to have a conflict of interest with shareholders of the Company.

The outside director of the Company satisfies the requirements of an independent director and each of the outside statutory auditors of the Company satisfies the requirements of an independent statutory auditor under these regulations.

According to the guideline of the Tokyo Stock Exchange, if a person falls in any of the categories listed below, such person, in principle, will be considered as those who have conflict of interest with shareholders of the listed company.

- (1) A person who manages the business of (a) the parent company or (b) a fellow subsidiary of the listed company;
- (2) (a) A person for which the listed company is a major client or a person who manages the business of a person for which the listed company is a major client, or (b) a major client of the listed company or a person who manages the business of a major client of the listed company;
- (3) Consultant, accounting professional, or legal professional (if such consultant, accounting professional, or legal professional is a juridical person, a member of such juridical person) of the listed company who receives a large amount of money or other consideration other than remuneration for directorship/auditorship from such listed company;
- (4) A person who has fallen in either of (1) through (3) listed above until recently; or
- (5) A close relative of a person who falls in either of (a) through (c) listed below (only if such person is significant):
  - (a) A person who falls in any of (1) through (4) listed above;
  - (b) A person who manages the business of the listed company or its subsidiary (in case outside statutory auditor (as defined in the Companies Act) is designated as independent statutory auditor, including a non-executive director or accounting counselor (if such an accounting counselor is a juridical person, partners who perform duties of accounting counselor) of the listed company or its subsidiary); or
  - (c) A person who has fallen in (b) above until recently.

- 2. Compensation of Officers:** NASDAQ Rule 5605(d)(1) requires that compensation of the chief executive officer or all other executive officers of the company must be determined, or recommended to the board for determination, either by (i) a majority of the independent directors, or (ii) a compensation committee comprised solely of independent directors.

Under the Japanese Company Law, in the case of a company which has elected to structure its corporate governance system as a company with board of statutory auditors like the Company, there is no statutory position exactly the same as the chief executive officer or other executive officers. Under the Japanese Company Law, the most similar executive position of the chief executive officer is a representative director, who is authorized to represent the company by virtue of law. Under the Japanese Company Law and the Company's Articles of Incorporation, the aggregate compensation of directors including representative directors must be approved by the Company's shareholders at a general meeting of shareholders. If an executive officer concurrently assumes office as director, compensation of such executive officer is subject to the shareholders' approval as mentioned above.

- 3. Nomination Committee and Nomination Committee Charter:** NASDAQ Rule 5605(e)(1) requires that director nominees must either be selected, or recommended for board's selection, either by (i) a majority of the independent directors, or (ii) a nomination committee comprised solely of independent directors, and NASDAQ Rule 5605(e)(2) requires that the Company must certify that it has adopted a formal written charter or board resolution, addressing the nominations process and required matters.

However, under the Japanese Company Law, a company which has elected to structure its corporate governance system as a company with board of statutory auditors like the Company, there are no such requirements or any other similar requirements in the nomination of directors. Consistent with the Japanese Company Law and generally accepted business practices in Japan, directors are elected by shareholders at a general meeting of shareholders upon nomination by the then board of directors.

4.

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**Audit Committee and Audit Committee Charter:** NASDAQ Rule 5605(c)(2) requires the Company to have, and certify that it has and will continue to have, an audit committee of at least three members, each of whom must (i) be independent, (ii) not have participated in the preparation of the financial statements of the company or any current subsidiary of the company at any time during the past three years and (iii) be able to read and understand fundamental financial statements. NASDAQ Rule 5605(c)(1) also requires the Company to adopt a formal written committee charter. In addition, at least one member of an audit committee needs to have a professional background in finance or accounting.

In compliance with the Japanese Company Law, the Company has elected to structure its corporate governance system as a company with board of statutory auditors. The statutory auditors constitute the Company's board of statutory auditors which has a formal written charter. Accordingly, the Company is not required to have and does not have an audit committee. The Company is relying on paragraph (c)(3) of Rule 10A-3 of the Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of statutory auditors, subject to certain requirements which continue to be applicable under Rule 10A-3. Generally for purposes of complying with NASDAQ Rules, the Company has interpreted the term audit committee appearing within NASDAQ Rules to mean the Company's board of statutory auditors, as appropriate.



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Under the Japanese Company Law, statutory auditors are not required to be certified public accountants. Statutory auditors have the statutory duty to examine the Company's consolidated and non consolidated financial statements and the business reports which are made available by the board of directors for reporting or approval purposes at the general meetings of shareholders and, based on such examination, to report their opinions to shareholders. They also have the statutory duty to supervise the administration by the board members of the Company's affairs. Statutory auditors are obligated to attend the meetings of the board of directors but are not entitled to vote.

Under the Japanese Company Law, the board of statutory auditors has a statutory duty to prepare and submit its audit report to the board of directors each year.

A statutory auditor may note an opinion in the audit report if his or her opinion differs from the opinion expressed in the audit report. The board of statutory auditors is empowered to establish audit principles, the method of examination by statutory auditors of a company's affairs and financial position, and other matters concerning the performance of the duties of statutory auditors. Under the Japanese Company Law, boards of statutory auditors consist solely of statutory auditors and statutory auditors may not be directors of the company. Accordingly, no member of the board of statutory auditors is an outside director.

Unlike the NASDAQ Rules, under the Japanese Company Law, at least half of the statutory auditors of the Company must be persons who have not been a director, accounting counselor, executive officer, company manager, or any other employee of the Company or any of its subsidiaries at any time prior to their election as statutory auditors. Statutory auditors may not at the same time be directors, company managers, or any other employees of the Company or any of its subsidiaries, or accounting counselors or executive officers of any of the Company's subsidiaries.

**5. Quorum:** NASDAQ Rule 5620(c) requires each issuer to provide for a quorum as specified in its by-laws for any meeting of the holders of common stock, which shall in no case be less than 33 1/3 percent of the outstanding shares of a company's common voting stock. Consistent with the Japanese Company Law and generally accepted business practices in Japan, the Company's Articles of Incorporation provide that except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of votes of all the shareholders represented at the meeting with no quorum requirement.

The Japanese Company Acts and the Company's Articles of Incorporation provide, however, that the quorum for the election of directors and statutory auditors shall be one-third of the total number of voting rights of all the shareholders. The Japanese Company Law and the Company's Articles of Incorporation also provide that in order to amend the Company's Articles of Incorporation and in certain other significant transactions specified in the Japanese Company Law, the quorum shall be one-third of the total number of voting rights of all the shareholders and the approval by at least two-thirds of the voting rights of all the shareholders represented at the meeting is required.

**6. Conflicts of Interest:** NASDAQ Rule 5630(a) requires that each issuer conduct an appropriate review of all related party transactions for potential conflict of interest situations on an ongoing basis by the company's audit committee or another independent body of the board of directors.

Unlike the NASDAQ Rules, the Japanese Company Law requires the full board of directors to approve (1) all transactions that a director, on his or her own behalf or on behalf of a third party, enters into with the Company, (2) guarantees by the Company of obligations of a director and (3) all transactions with any person other than directors with respect to which there is a conflict of interest between the Company and any director. In addition, under the Japanese Company Law, no director may vote on a resolution at a meeting of the board of directors if that director has a special interest in that resolution, including, but not limited to, resolutions with respect to transactions with the Company referred to in the immediately preceding sentence.

Under the Japanese Company Law, the quorum for meetings of the board of directors of the Company is a majority of all directors then in office and the approval of a majority of all directors present at the meeting is required. The number of directors who are not entitled to vote at a meeting by having a special interest in the subject resolution shall be excluded from the number of directors then in office and present at the meeting for such purpose.

The Japanese Company Law does not require related party transactions other than those with directors referred to above to be approved by the board of directors or any independent body at or outside of the Company.



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**7. Shareholder Approval:** NASDAQ Rule 5635 requires each issuer to obtain shareholder approval prior to the issuance of securities under certain circumstances.

However, under the Japanese Company Law, regardless of the purpose of the issuance, shareholder approval is required only in the cases of issuance of shares at a specially favorable price or of stock acquisition rights or bonds with stock acquisition rights under specially favorable price or specially favorable exercise conditions, except where such shares, stock acquisition rights or bonds with stock acquisition rights are granted to all of its shareholders on a pro rata basis.

Such shareholder approval must be obtained by a special resolution of a general meeting of shareholders, where the quorum is one-third of the total number of voting rights and the approval of at least two-thirds of the voting rights represented at the meeting is required. Accordingly, so far as the issue price or exercise conditions are not specially favorable, shareholder approval is not required under the Japanese Company Law for the matters specified in NASDAQ Rule 5635. The Company's practices taken in connection with such matters are consistent with the Japanese Company Law.

**8. Solicitation of Proxies:** NASDAQ Rule 5620(b) requires each issuer to solicit proxies and provide proxy statement for all meetings of shareholders and provide copies of such proxy solicitation to NASDAQ.

However, under the Japanese Company Law, the Company is required to send ballots to all shareholders meeting.

Although the Company may choose to solicit proxies from all shareholders with voting rights instead of voting by ballot, the Company, in common with the majority of public companies in Japan, provides its shareholders with the opportunity to vote directly by ballot.

**Item 16H. Mine Safety Disclosure**

None.

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**PART III**

**Item 17. Financial Statements**

Not applicable.

**Item 18. Financial Statements**

The following financial statements are filed as part of this annual report on Form 20-F.

**Item 19. Exhibits**

- 1.1 Articles of Incorporation, as amended and effective as of June 25, 2009 (English translation), incorporated by reference to Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on July 9, 2009.
- 1.2 Regulations of Board of Directors, as amended and effective as of June 25, 2009 (English translation), incorporated by reference to Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on July 9, 2009.
- 1.3 The Share Handling Regulations, as amended and effective as of April 1, 2012 (English translation), incorporated by reference to Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on June 29, 2012.
- 1.4 Regulations of Board of Statutory Auditors effective as of July 7, 2006 (English translation), incorporated by reference to Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on June 7, 2006.
- 12.1 302 Certification of Chief Executive Officer, President and Representative Director
- 12.2 302 Certification of Chief Financial Officer, Director and General Manager of Administration Headquarters
- 13.1 906 Certification of Chief Executive Officer and Chief Financial Officer

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**MAKITA CORPORATION**

By: /s/ Masahiko Goto  
Name: Masahiko Goto  
Title: President and Representative Director,  
Chief Executive Officer

Date: June 29, 2012

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**Makita Corporation and Subsidiaries**

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<u>Consolidated Statements of Income for the years ended March 31, 2010, 2011 and 2012</u>	F-5
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(Financial Statements of 50% or less owned persons accounted for by the equity method have been omitted because they are not applicable.)

**Schedules:**

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(All schedules not listed above have been omitted because they are not applicable, or are not required, or the information has been otherwise supplied in the consolidated financial statements.)

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Makita Corporation:

We have audited the accompanying consolidated balance sheets of Makita Corporation (a Japanese corporation) and subsidiaries as of March 31, 2011 and 2012, and the related consolidated statements of income, changes in equity and comprehensive income, and cash flows for each of the years in the three-year period ended March 31, 2012. In connection with our audits of the consolidated financial statements, we also have audited financial statement schedule of valuation and qualifying accounts and reserves for the years ended March 31, 2010, 2011 and 2012. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Makita Corporation and subsidiaries as of March 31, 2011 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements as of and for the year ended March 31, 2012 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements, expresses in yen, have been translated into dollars on the basis set forth in Note 4 in the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Makita Corporation's internal control over financial reporting as of March 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 29, 2012 expressed an unqualified opinion on the effectiveness of Makita Corporation's internal control over financial reporting.

/s/ KPMG AZSA LLC

Tokyo, Japan

June 29, 2012

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## MAKITA CORPORATION AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

AS OF MARCH 31, 2011 AND 2012

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 51,833	¥ 44,812	\$ 546,488
Time deposits	15,719	13,504	164,683
Short-term investments	33,555	25,125	306,402
Trade receivables- Notes	1,914	1,769	21,573
- Accounts	46,785	48,445	590,793
Less- Allowance for doubtful receivables	(935)	(753)	(9,183)
Inventories	110,595	129,571	1,580,134
Deferred income taxes	6,039	5,898	71,927
Prepaid expenses and other current assets	9,990	8,392	102,342
<b>Total current assets</b>	<b>275,495</b>	<b>276,763</b>	<b>3,375,159</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST:</b>			
Land	20,065	20,498	249,976
Building and improvements	72,201	73,332	894,293
Machinery and equipment	73,195	75,460	920,243
Construction in progress	1,369	6,594	80,415
<b>Sub total</b>	<b>166,830</b>	<b>175,884</b>	<b>2,144,927</b>
Less- Accumulated depreciation and amortization	(94,792)	(98,146)	(1,196,903)
<b>Total net property, plant and equipment</b>	<b>72,038</b>	<b>77,738</b>	<b>948,024</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investments	17,069	19,154	233,585
Goodwill	721	721	8,793
Other intangible assets, net	4,595	4,515	55,061
Deferred income taxes	1,403	853	10,402
Other assets	1,186	3,512	42,830
<b>Total investments and other assets</b>	<b>24,974</b>	<b>28,755</b>	<b>350,671</b>
<b>Total assets</b>	<b>¥ 372,507</b>	<b>¥ 383,256</b>	<b>\$ 4,673,854</b>

The accompanying notes are an integral part of these consolidated financial statements.



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MAKITA CORPORATION AND SUBSIDIARIES  
**CONSOLIDATED BALANCE SHEETS, CONTINUED**

AS OF MARCH 31, 2011 AND 2012

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings	¥ 868	¥ 2,351	\$ 28,671
Trade notes and accounts payable	25,691	21,822	266,122
Other payables	4,386	4,313	52,598
Accrued expenses	6,125	6,314	77,000
Accrued payroll	7,543	7,803	95,159
Income taxes payable	4,317	5,293	64,549
Deferred income taxes	112	125	1,524
Other liabilities	7,183	5,697	69,475
<b>Total current liabilities</b>	<b>56,225</b>	<b>53,718</b>	<b>655,098</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term indebtedness	19	12	146
Accrued retirement and termination benefits	3,128	3,027	36,915
Deferred income taxes	746	130	1,585
Other liabilities	2,711	2,591	31,597
<b>Total long-term liabilities</b>	<b>6,604</b>	<b>5,760</b>	<b>70,243</b>
<b>Total liabilities</b>	<b>62,829</b>	<b>59,478</b>	<b>725,341</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)</b>	-	-	-
<b>EQUITY</b>			
<b>MAKITA CORPORATION SHAREHOLDERS EQUITY:</b>			
Common stock, authorized - 496,000,000 shares			
Issued and outstanding- 140,008,760 and 137,757,699 shares, respectively in 2011			
Issued and outstanding- 140,008,760 and 135,750,518 shares, respectively in 2012	23,805	23,805	290,305
Additional paid-in capital	45,420	45,421	553,915
Legal reserve	5,669	5,669	69,134
Retained earnings	293,532	316,937	3,865,085
Accumulated other comprehensive loss	(54,824)	(59,066)	(720,317)
Treasury stock, at cost 2,251,061 shares in 2011			
4,258,242 shares in 2012	(6,453)	(11,513)	(140,402)
<b>Total Makita Corporation shareholders equity</b>	<b>307,149</b>	<b>321,253</b>	<b>3,917,720</b>
<b>NONCONTROLLING INTEREST</b>	<b>2,529</b>	<b>2,525</b>	<b>30,793</b>
<b>Total equity</b>	<b>309,678</b>	<b>323,778</b>	<b>3,948,513</b>
<b>Total liabilities and equity</b>	<b>¥ 372,507</b>	<b>¥ 383,256</b>	<b>\$ 4,673,854</b>

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The accompanying notes are an integral part of these consolidated financial statements.

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## MAKITA CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

FOR THE YEARS ENDED MARCH 31, 2010, 2011 AND 2012

	Yen in millions			U.S. Dollars
	2010	2011	2012	in thousands 2012
<b>NET SALES</b>	¥ 245,823	¥ 272,630	¥ 295,711	\$ 3,606,232
Cost of sales	149,938	167,851	180,541	2,201,720
<b>GROSS PROFIT</b>	95,885	104,779	115,170	1,404,512
Selling, general, administrative and others, net	65,495	62,870	66,654	812,853
<b>OPERATING INCOME</b>	30,390	41,909	48,516	591,659
<b>OTHER INCOME (EXPENSE):</b>				
Interest and dividend income	881	1,313	1,491	18,183
Interest expense	(71)	(33)	(242)	(2,951)
Exchange gains (losses) on foreign currency transactions, net	2,044	(591)	(2,150)	(26,220)
Realized gains (losses) on securities, net	274	132	(652)	(7,951)
Total other income (expense), net	3,128	821	(1,553)	(18,939)
<b>INCOME BEFORE INCOME TAXES</b>	33,518	42,730	46,963	572,720
Provision for income taxes: Current	8,760	11,094	14,309	174,500
: Deferred	2,192	1,365	(135)	(1,646)
Total income tax expense	10,952	12,459	14,174	172,854
<b>NET INCOME</b>	22,566	30,271	32,789	399,866
Less-Net income attributable to the non-controlling interest	(308)	(366)	(292)	(3,561)
<b>NET INCOME ATTRIBUTABLE TO MAKITA CORPORATION</b>	¥ 22,258	¥ 29,905	¥ 32,497	\$ 396,305

	Yen			U.S. Dollars
	2010	2011	2012	2012
<b>PER SHARE OF COMMON STOCK AND ADS:</b>				
Earnings per share: Basic	¥ 161.6	¥ 217.1	¥ 236.8	\$ 2.89
Cash dividends per share paid for the year	65.0	52.0	66.0	0.80

The accompanying notes are an integral part of these consolidated financial statements.

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## MAKITA CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME**

FOR THE YEARS ENDED MARCH 31, 2010, 2011 AND 2012

	Makita Corporation shareholders' equity							Comprehensive income			
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Accumulated other comprehensive income	Treasury stock	Non-controlling interest	Total	Net income attributable to Makita Corporation	Net income attributable to non-controlling interest	Total
	Yen (millions)										
Balance as of April 1, 2009	23,805	45,420	5,669	257,487	(42,461)	(6,435)	2,261	285,746			
Purchases of treasury stock						(10)		(10)			
Cash dividends				(8,955)			(197)	(9,152)			
Capital transactions and other							181	181			
Comprehensive income (loss)											
Net income				22,258			308	22,566	22,258	308	22,566
Foreign currency translation adjustment					(2,931)		(87)	(3,018)	(2,931)	(87)	(3,018)
Unrealized holding gains on available-for-sale securities					2,430			2,430	2,430		2,430
Pension liability adjustment					930			930	930		930
Total comprehensive income									22,687	221	22,908
Balance as of March 31, 2010	23,805	45,420	5,669	270,790	(42,032)	(6,445)	2,466	299,673			
Purchases of treasury stock						(8)		(8)			
Cash dividends				(7,163)			(136)	(7,299)			
Comprehensive income (loss)											
Net income				29,905			366	30,271	29,905	366	30,271
Foreign currency translation adjustment					(11,549)		(167)	(11,716)	(11,549)	(167)	(11,716)
Unrealized holding losses on available-for-sale securities					(838)			(838)	(838)		(838)
Pension liability adjustment					(405)			(405)	(405)		(405)
Total comprehensive income									17,113	199	17,312

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Balance as of March 31, 2011	23,805	45,420	5,669	293,532	(54,824)	(6,453)	2,529	309,678			
Purchases and disposal of treasury stock, net		1				(5,060)		(5,059)			
Cash dividends				(9,092)			(150)	(9,242)			
Comprehensive income (loss)											
Net income				32,497			292	32,789	32,497	292	32,789
Foreign currency translation adjustment					(4,806)		(146)	(4,952)	(4,806)	(146)	(4,952)
Unrealized holding gains on available-for-sale securities					487			487	487		487
Pension liability adjustment					77			77	77		77
Total Comprehensive income									28,255	146	28,401

Balance as of March 31, 2012	23,805	45,421	5,669	316,937	(59,066)	(11,513)	2,525	323,778			
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Balance as of March 31, 2012 US\$ in thousands	290,305	553,915	69,134	3,865,085	(720,317)	(140,402)	30,793	3,948,513	344,573	1,781	346,354
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The accompanying notes are an integral part of these consolidated financial statements.

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## MAKITA CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED MARCH 31, 2010, 2011 AND 2012

	2010	Yen in millions 2011	2012	U.S. Dollars in thousands 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net income	¥ 22,566	¥ 30,271	¥ 32,789	\$ 399,866
Adjustments to reconcile net income to net cash provided by operating activities-				
Depreciation and amortization	8,308	7,557	7,237	88,256
Deferred income tax expense (benefit)	2,192	1,365	(135)	(1,646)
Realized (gains) losses on securities, net	(274)	(132)	652	7,951
Losses (gains) on disposal or sales of property, plant and equipment, net	284	(219)	(179)	(2,183)
Bad debt expense	152	223	131	1,597
Inventory write-downs	195	709	1,962	23,927
Impairment of goodwill and long-lived assets	1,605	262	214	2,610
Changes in assets and liabilities-				
Trade receivables	(181)	(5,249)	(3,430)	(41,829)
Inventories	20,543	(28,008)	(25,110)	(306,220)
Trade notes and accounts payable and accrued expenses	3,013	10,264	(3,554)	(43,342)
Income taxes payable	1,480	2,429	741	9,037
Accrued retirement and termination benefits	(1,615)	(1,167)	(1,235)	(15,061)
Other, net	(1,142)	1,312	(1,461)	(17,817)
Net cash provided by operating activities	57,126	19,617	8,622	105,146
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Capital expenditures, including interest capitalized	(10,837)	(9,742)	(13,481)	(164,402)
Purchases of available-for-sale securities	(4,996)	(2,677)	(1,473)	(17,963)
Purchases of held-to-maturity securities	(1,522)	(2,870)	(6,099)	(74,378)
Proceeds from sales of available-for-sale securities	1,967	1,156	13,507	164,719
Proceeds from maturities of available-for-sale securities	500	500	71	866
Proceeds from maturities of held-to-maturity securities	350	800	300	3,658
Proceeds from sales of property, plant and equipment	299	756	709	8,646
(Increase) decrease in time deposits, net	(3,375)	(7,274)	1,935	23,598
Other, net	(54)	17	31	378
Net cash used in investing activities	(17,668)	(19,334)	(4,500)	(54,878)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
(Decrease) increase in short-term borrowings, net	(7)	226	1,610	19,634
Purchase of treasury stock, net	(10)	(8)	(5,059)	(61,695)
Cash dividends paid	(8,955)	(7,163)	(9,092)	(110,878)
Other, net	(142)	(410)	(166)	(2,024)
Net cash used in financing activities	(9,114)	(7,355)	(12,707)	(154,963)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
	(2,269)	(3,385)	1,564	19,073
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>28,075</b>	<b>(10,457)</b>	<b>(7,021)</b>	<b>(85,622)</b>

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<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	34,215	62,290	51,833	632,110
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	¥ 62,290	¥ 51,833	¥ 44,812	\$ 546,488

**SUPPLEMENT DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the year for interest, net of amount capitalized	¥ 58	¥ 49	¥ 198	\$ 2,415
Cash paid during the year for income taxes	7,280	8,665	13,568	165,463

The accompanying notes are an integral part of these consolidated financial statements.

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MAKITA CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

Makita Corporation (the Company) and its subsidiaries' main products include drills, rotary hammers, demolition hammers, grinders and cordless impact drivers. The Company and its subsidiaries (collectively Makita) also manufacture and sell pneumatic tools and garden tools.

Domestic sales in Japan are made by the Company and domestic subsidiaries, while overseas sales are made almost entirely through sales subsidiaries and distributors under the Makita or Maktec brand name.

82.0% of consolidated net sales for the year ended March 31, 2012 were generated from customers outside Japan, with 41.7% from Europe, 12.7% from North America, 8.8% from Asia and 18.8% from other areas.

Makita's manufacturing and assembly operations are conducted primarily at two plants in Japan and seven plants overseas, located in the United States, Germany, the United Kingdom, Brazil, China (two plants) and Romania.

In 2011, the Company established Makita Manufacturing (Thailand) Co, Ltd. The production is scheduled to start in FY 2013.

The March 11, 2011 earthquake and resulting tsunami caused no significant disruption to Makita's business and no significant damage to the Makita's owned facilities and assets. Damage losses, which were charged to cost and expenses, for the year ended March 31, 2011 approximated ¥ 6 million. The most significant cost incurred as a result of the event pertains to cash donation totaling ¥ 50 million made by Makita to certain organization to assist it with restoration and repair activities in the affected areas. No significant costs and expenses related to the March 11, 2011 earthquake and tsunami were incurred for the year ended March 31, 2012.

As described above, 41.7% of consolidated net sales for the year ended March 31, 2012 were generated from European customers. Although the effect of the European sovereign debt crisis was limited in FY2012, if the European sovereign debt crisis prolongs, it is reasonably possible that it could have further adverse effects in the near term on the level of new housing construction, demand for household renovations, public investment and private investments due to the tightening of credit because of fears of failure of financial institutions or further decrease in public spending because of the austerity budget, resulting in possible decrease in its operating results. Makita cannot predict whether, when, or the manner in which the economic conditions will change.

**2. BASIS OF PRESENTING FINANCIAL STATEMENTS**

The accompanying consolidated financial statements are presented in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ).

**3. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

*(a) Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company, and all of its majority owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. Makita did not have any consolidated variable interest entities for any of the periods presented herein.

*(b) Foreign Currency Translation and Transactions*

Overseas subsidiaries' assets and liabilities denominated in their local foreign 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).

Gains and losses resulting from all foreign currency transactions, including foreign exchange contracts, and re-measurement of receivables and payables denominated in foreign currencies are included in other income (expenses).



*(c) Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand and time deposits with original maturities of three months or less.

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### ***(d) Short-term Investments and Investments***

Makita classifies investments in debt and marketable equity securities as available-for-sale or held-to-maturity securities. Makita does not hold any marketable or investment securities that are bought and held primarily for the purpose of sale in the near term.

Except for non-marketable equity securities, available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded as a separate component of accumulated other comprehensive income (loss), net of applicable income taxes. Non-marketable equity securities are carried at cost and reviewed periodically for impairment. Held-to-maturity securities are reported at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

A decline in fair value of any equity securities below the carrying amount that is deemed to be other-than-temporary results in a write-down of the carrying amount to the fair value as a new cost basis and the amount of the write-down is included in earnings.

For debt securities for which the declines are deemed to be other-than-temporary and there is no intent to sell, impairments are separated into the amount related to credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income (loss). For debt securities for which the declines are deemed to be other-than-temporary and there is an intent to sell, impairments in their entirety are recognized in earnings.

Available-for-sale securities are periodically reviewed for other-than-temporary declines on criteria that include the length and magnitude of decline, the financial condition and prospects of the issuer, Makita's intent and ability to retain the investment for a period of time to allow for recovery in market value and other relevant factors.

Held-to-maturity securities are periodically evaluated for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer.

Makita classifies investments, which are available for current operations, in current assets. The other investments are classified as investments as a part of non-current investments and other assets in the consolidated balance sheets.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income (loss) into earnings is determined by the average cost method.

### ***(e) Allowance for Doubtful Receivables***

Allowance for doubtful receivables represents the Makita's best estimate of the amount of probable credit losses in its existing receivables. The allowance is determined based on, but is not limited to, historical collection experience adjusted for the effects of the current economic environment, assessment of inherent risks, aging and financial performance. Account balances are charged off against the allowance after all means of collection have been exhausted and the potentiality for recovery is considered remote.

### ***(f) Inventories***

Inventory costs include raw materials, labor and manufacturing overheads. Inventories are valued at the lower of cost or market price, with cost determined principally based on the average cost method. Makita estimates the obsolescence of inventory based on the difference between the cost of inventory and its estimated market value reflecting certain assumptions about anticipated future demand. The carrying amount of inventory is then reduced to account for such obsolescence. Once inventory items are written-down or written-off, such items are not written-up subsequently. All existing and anticipated modifications to product models are evaluated against on-hand inventories, and are adjusted for potential obsolescence.

### ***(g) Property, Plant and Equipment and Depreciation and Amortization***

Property, plant and equipment is stated at cost. For the Company, depreciation is computed principally by using the declining-balance method over the estimated useful lives. Most of the subsidiaries have adopted the straight-line method for computing depreciation. The depreciation period generally ranges from 10 years to 60 years for buildings and improvements and from 3 years to 20 years for machinery and equipment. The cost and accumulated depreciation and amortization applicable to assets retired are removed from the accounts and any resulting gain or loss is recognized. Betterments, renewals and repairs that extend the life of the assets are capitalized. Other maintenance and repair costs are expensed as incurred.



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Depreciation and amortization expense for the years ended March 31, 2010, 2011 and 2012 amounted to ¥ 7,756 million, ¥ 6,910 million and ¥ 6,534 million (\$79,683 thousand), respectively, which included amortization of capitalized lease equipment.

Certain leased buildings, improvements, machinery and equipment are accounted for as capital leases. The aggregate cost included in property, plant and equipment and related accumulated amortization as of March 31, 2011 and 2012, was as follows:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Aggregate cost	¥ 238	¥ 188	\$ 2,293
Accumulated amortization	187	159	1,939

**(h) Goodwill**

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

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

**(i) Environmental Liabilities**

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

**(j) Research and Development Costs and Advertising Costs**

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

Advertising costs are also expensed as incurred.

**(k) Shipping and Handling Costs**

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

**(l) Income Taxes**

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years the temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates or laws is recognized in income in the period that includes the enactment date.



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

***(m) Product Warranties***

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

***(n) Pension Plans***

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

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

***(o) Earnings per Share***

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during each year.

***(p) Impairment of Long-lived Assets***

Long-lived assets, such as property, plant and equipment, and certain intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flow. Any acquired intangible asset determined to have an indefinite useful life is not amortized, but instead is tested for impairment based on its fair value until its life would be determined to be no longer indefinite. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by the projected discounted cash flows or other valuation techniques as appropriate. Assets to be disposed of, if any, are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

***(q) Derivative Financial Instruments***

Makita recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and on the type of hedging relationship.

Makita employs derivative financial instruments, including forward foreign currency exchange contracts, foreign currency options and currency swap agreements to manage its exposure to fluctuations in foreign currency exchange rates. Makita does not use derivatives for speculation or trading purpose. Changes in the fair value of derivatives are recorded each period in current earnings depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized currently in earnings.

**Table of Contents*****(r) Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Makita has identified the following areas where it believes assumptions and estimates are particularly critical to the consolidated financial statements. These are accounting for sales incentives, volume-based rebates and cooperative advertising, determination of an allowance for doubtful receivables, impairment of long-lived assets, realizability of deferred income tax assets, the determination of unrealized losses on securities for which the decline in market value is considered to be other than temporary, the actuarial assumptions on retirement and termination benefit plans and valuation of inventories.

***(s) Revenue Recognition***

Makita recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed or determinable and 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, and are accounted for in accordance with ASC 605-50 Customer's Payments and Incentives.

Volume-based rebates are provided to customers only if customers attain a pre-determined cumulative level of revenue transactions within a specified period of one year or less. Liabilities for volume-based rebates are recognized with a corresponding reduction of revenue for the expected sales incentive at the time the related revenue is recognized, and are based on the estimation of sales volume reflecting the historical performance of individual customers.

Cooperative advertising programs are provided to certain customers as a contribution to or as sponsored funds for advertisements.

Under cooperative advertising programs, Makita does not receive an identifiable benefit sufficiently separable from its customers. Accordingly, cooperative advertisements are also recognized as a reduction of revenue at the time the related revenue is recognized based on Makita's ability to reliably estimate such future advertising to be taken.

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

When repairs are made and charged to customers, the revenue from this source is recognized when the repairs have been completed and the item is shipped to the customer.

Taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from revenues in the consolidated statements of income.

***(t) New Accounting Standards Adopted***

Effective January 1, 2012, Makita adopted the provisions of ASU2011-04 (Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs). This amendment is intended to result in a consistent definition of fair value and common requirements for measuring fair value and for disclosures about fair value between U.S. GAAP and IFRSs. Consequently, this Amendment changes some fair value measurement principles and enhances the disclosure requirements. The adoption of ASU2011-04 did not have a material impact on our consolidated results of operation and financial conditions.

***(u) New Accounting Standards Not yet Adopted***

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. Under this ASU, an entity will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option in U.S. GAAP to present other comprehensive income in the statement of changes in equity. An

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entity should apply the ASU retrospectively. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 for public companies. Early adoption is permitted. In December 2011, the FASB decided to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update 2011-05.

The updated guidance will result in a change in the presentation of Makita's consolidated financial statements beginning in the first quarter of FY 2013. Management has not yet decided which method of presentation will be used when Makita adopts this ASU.

#### **4. TRANSLATION OF FINANCIAL STATEMENTS**

Solely for the convenience of readers, the accompanying consolidated financial statement amounts as of and for the year ended March 31, 2012, are also presented in U.S. dollars by arithmetically translating all yen amounts using the approximate prevailing exchange rate at the Federal Reserve Bank of New York of ¥ 82 to US \$ 1 at March 31, 2012. This translation should not be construed as a representation that the amounts shown could be or could have been converted into U.S. dollars at the rate indicated.



**Table of Contents****5. INVENTORIES**

Inventories as of March 31, 2011 and 2012 comprised the following:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Finished goods	¥ 91,059	¥ 108,875	\$ 1,327,744
Work in process	2,551	2,266	27,634
Raw materials	16,985	18,430	224,756
Total	¥ 110,595	¥ 129,571	\$ 1,580,134

Inventory write-downs, which are charged to cost of sales, amounted to ¥ 195 million, ¥ 709 million, and ¥ 1,962 million (\$ 23,927 thousand) for the years ended March 31, 2010, 2011 and 2012, respectively. Inventory write-downs for the year ended March 31, 2011 include ¥ 3 million (\$ 36 thousand) of damaged inventory caused by the March 11, 2011 earthquake and resulting tsunami in Japan.

**6. IMPAIRMENT OF LONG-LIVED ASSETS**

Makita recognized an impairment loss of ¥ 354 million for the year ended March 31, 2010 on long-lived assets related to the gardening tools asset group within the Japan operating segment.

Management assessed that impairment was caused by the economic downturn in Japan backdropped by the global recession, and the resulted un-suitable operations of its gardening tool unit for the year while it tried to minimize its operation losses.

The impairment losses were included in selling, general, administrative and others, net in the consolidated statements of income. The management estimated the fair value of the assets by the cost approach method and by the market approach method with the assistance of an independent third party appraiser. During the fourth quarter, management determined that certain planned initiatives related to a manufacturing facility would not produce the planned results. As a result, management revised its projections of future cash flows and recorded an impairment loss to write down the impacted assets to their estimated fair values.

Makita recognized an impairment loss of ¥ 262 million for the year ended March 31, 2011 on certain unused assets of machinery and equipments related to the gardening tools asset group within the Europe operating segment. The impairment losses were included in selling, general, administrative and others, net in the consolidated statements of income. The carrying value of those assets was reduced to zero on the basis that Makita anticipated no future use from those assets.

Management determined that no impairment of long-lived assets occurred as a result of the March 11, 2011 earthquake and resulting tsunami in Japan.

Makita recognized an impairment loss of ¥ 214 million (\$2,610 thousand) for the year ended March 31, 2012 on long-lived assets related to the gardening tools asset group within the Japan operating segment.

Management assessed that the impairment losses mainly consisted of the decrease in the fair value of the land for the plant, which was triggered by the continued unfavorable operating results of that asset group.

The impairment losses were included in selling, general, administrative and others, net in the consolidated statements of income. The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third party appraiser.

**Table of Contents****7. SHORT-TERM INVESTMENTS AND INVESTMENTS**

Short-term investments and investments consisted of available-for-sale securities and held-to-maturity securities and non-marketable equity securities (carried at cost).

The cost, gross unrealized holding gains and losses, fair value and carrying amount for such securities by major security type as of March 31, 2011 and 2012, were as follows:

	As of March 31, 2011	Yen in millions			Fair value	Carrying amount
		Cost	Gains	Losses		
<b>Short-term investments:</b>						
Available-for-sale:						
Corporate debt securities		¥ 588	¥ 3	¥ -	¥ 591	¥ 591
Investments in trusts		4,990	260	55	5,195	5,195
MMF and FFF		26,720	-	-	26,720	26,720
Marketable equity securities		671	277	-	948	948
<b>Sub total</b>		<b>32,969</b>	<b>540</b>	<b>55</b>	<b>33,454</b>	<b>33,454</b>
Held-to-maturity:						
Corporate debt securities		101	-	-	101	101
<b>Total Short-term investments</b>		<b>33,070</b>	<b>540</b>	<b>55</b>	<b>33,555</b>	<b>33,555</b>
<b>Investments:</b>						
Available-for-sale:						
Marketable equity securities		7,486	4,552	238	11,800	11,800
Held-to-maturity:						
Corporate debt securities		3,964	1	43	3,922	3,964
Government debt securities		200	1	-	201	200
Public debt securities (except Government debt securities)		706	1	-	707	706
<b>Sub total</b>		<b>4,870</b>	<b>3</b>	<b>43</b>	<b>4,830</b>	<b>4,870</b>
<b>Total Investments</b>		<b>¥ 12,356</b>	<b>¥ 4,555</b>	<b>¥ 281</b>	<b>¥ 16,630</b>	<b>¥ 16,670</b>

In addition to above investments, non-marketable equity securities (carried at cost) amounted to ¥ 399 million.

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As of March 31, 2012	Yen in millions			Fair value	Carrying amount
	Cost	Gains	Losses		
<b>Short-term investments:</b>					
Available-for-sale:					
Corporate debt securities	¥ 589	¥ 2	¥ -	¥ 591	¥ 591
Investments in trusts	6,074	451	13	6,512	6,512
MMF and FFF	13,336	-	-	13,336	13,336
Marketable equity securities	606	262	-	868	868
<b>Sub total</b>	<b>20,605</b>	<b>715</b>	<b>13</b>	<b>21,307</b>	<b>21,307</b>
Held-to-maturity:					
Corporate debt securities	3,517	1	3	3,515	3,517
Public debt securities (except Government debt securities)	301	-	1	300	301
<b>Sub total</b>	<b>3,818</b>	<b>1</b>	<b>4</b>	<b>3,815</b>	<b>3,818</b>
<b>Total Short-term investments</b>	<b>24,423</b>	<b>716</b>	<b>17</b>	<b>25,122</b>	<b>25,125</b>
<b>Investments:</b>					
Available-for-sale:					
Marketable equity securities	7,173	4,704	-	11,877	11,877
Held-to-maturity:					
Corporate debt securities	6,086	10	18	6,078	6,086
Government debt securities	200	1	-	201	200
Public debt securities (except Government debt securities)	604	4	-	608	604
<b>Sub total</b>	<b>6,890</b>	<b>15</b>	<b>18</b>	<b>6,887</b>	<b>6,890</b>
<b>Total Investments</b>	<b>¥ 14,063</b>	<b>¥ 4,719</b>	<b>¥ 18</b>	<b>¥ 18,764</b>	<b>¥ 18,767</b>

In addition to above investments, non-marketable equity securities (carried at cost) amounted to ¥ 387 million .

As of March 31, 2012	U.S. Dollars in thousands			Fair value	Carrying amount
	Cost	Gains	Losses		
<b>Short-term investments:</b>					
Available-for-sale:					
Corporate debt securities	\$ 7,183	\$ 24	\$ -	\$ 7,207	\$ 7,207
Investments in trusts	74,073	5,500	158	79,415	79,415
MMF and FFF	162,634	-	-	162,634	162,634
Marketable equity securities	7,390	3,195	-	10,585	10,585
<b>Sub total</b>	<b>251,280</b>	<b>8,719</b>	<b>158</b>	<b>259,841</b>	<b>259,841</b>
Held-to-maturity:					
Corporate debt securities	42,890	12	37	42,865	42,890
Public debt securities (except Government debt securities)	3,671	-	12	3,659	3,671
<b>Sub total</b>	<b>46,561</b>	<b>12</b>	<b>49</b>	<b>46,524</b>	<b>46,561</b>
<b>Total Short-term investments</b>	<b>297,841</b>	<b>8,731</b>	<b>207</b>	<b>306,365</b>	<b>306,402</b>
<b>Investments:</b>					
Available-for-sale:					
Marketable equity securities	87,476	57,365	-	144,841	144,841
Held-to-maturity:					

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Corporate debt securities	74,220	122	220	74,122	74,220
Government debt securities	2,439	12	-	2,451	2,439
Public debt securities (except Government debt securities)	7,366	49	-	7,415	7,366
Sub total	84,025	183	220	83,988	84,025
Total Investments	\$ 171,501	\$ 57,548	\$ 220	\$ 228,829	\$ 228,866

In addition to above investments, non-marketable equity securities (carried at cost) amounted to \$ 4,719 thousand.

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Investments in trusts represent funds deposited with trust banks in multiple investor accounts and managed by the fund managers of the trust banks. As of March 31, 2011 and 2012, each fund mainly consisted of marketable equity securities and interest-bearing bonds.

Investments to non-marketable equity securities are accounted for under cost method. Investments with an aggregate cost of ¥399 million and ¥387 million (\$4,719 thousand) were not evaluated for impairment at March 31, 2011 and 2012, respectively, because Makita did not identify any events or changes in circumstances that might have had significant adverse effects on the fair value of those investments.

The following table shows the gross unrealized holding losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011 and 2012.

The gross unrealized loss position of available-for-sale securities has been continuing for a relatively short period of time. Based on this and other relevant factors, management has determined that these investments are not considered other-than-temporarily impaired. Makita has not held unrealized losses for twelve months or more at March 31, 2011 and 2012 with respect to available-for-sale securities.

The securities that are held to maturity each have a strong credit rating and Makita has both the intent and ability to hold such investments to maturity; therefore, Makita believes that it will not realize any losses on the held-to-maturity securities.

As of March 31, 2011	Yen in millions			
	Fair value	Less than 12 months Gross unrealized holding losses	Fair value	12 months or more Gross unrealized holding losses
<b>Short-term investments:</b>				
<b>Available-for-sale:</b>				
Investment in trusts	¥ 1,669	¥ 55	¥ -	¥ -
<b>Held-to-maturity:</b>				
Corporate debt securities	101	-	-	-
<b>Investments:</b>				
<b>Available-for-sale:</b>				
Marketable equity securities	2,237	238	-	-
<b>Held-to-maturity:</b>				
Corporate debt securities	2,442	6	563	37
Public debt securities (except Government debt securities)	303	-	-	-

As of March 31, 2012	Yen in millions			
	Fair value	Less than 12 months Gross unrealized holding losses	Fair value	12 months or more Gross unrealized holding losses
<b>Short-term investments:</b>				
<b>Available-for-sale:</b>				
Corporate debt securities	¥ 490	¥ -	¥ -	¥ -
Investment in trusts	341	13	-	-
<b>Held-to-maturity:</b>				
Corporate debt securities	1,704	3	100	-
Public debt securities (except Government debt securities)	199	1	-	-
<b>Investments:</b>				
<b>Held-to-maturity:</b>				
Corporate debt securities	2,127	7	588	11

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As of March 31, 2012	U.S. Dollars in thousands			
	Fair value	Less than 12 months Gross unrealized holding losses	Fair value	12 months or more Gross unrealized holding losses
<b>Short-term investments:</b>				
<b>Available-for-sale:</b>				
Corporate debt securities	\$ 5,976	\$ -	\$ -	\$ -
Investment in trusts	4,159	158	-	-
<b>Held-to-maturity:</b>				
Corporate debt securities	20,780	37	1,220	-
Public debt securities (except Government debt securities)	2,427	12	-	-

**Investments:****Held-to-maturity:**

Corporate debt securities	25,939	86	7,171	134
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Maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2012, regardless of their balance sheet classification, were as follows:

**Maturities of debt securities based on Cost as of March 31, 2012**

	Yen in millions		
	Available -for-sale	Held-to -maturity	Total
Due within one year	¥ -	¥ 3,818	¥ 3,818
Due after one to five year	589	6,290	6,879
Due after five to ten year	-	600	600
Due after ten year	-	-	-
<b>Total</b>	<b>¥ 589</b>	<b>¥ 10,708</b>	<b>¥ 11,297</b>

**Maturities of debt securities based on fair value as of March 31, 2012**

	Yen in millions		
	Available -for-sale	Held-to -maturity	Total
Due within one year	¥ -	¥ 3,815	¥ 3,815
Due after one to five year	591	6,298	6,889
Due after five to ten year	-	589	589
Due after ten year	-	-	-
<b>Total</b>	<b>¥ 591</b>	<b>¥ 10,702</b>	<b>¥ 11,293</b>

Gross realized gains on sales of short-term investments and investments for the years ended March 31, 2010, 2011 and 2012 amounted to ¥ 502 million and ¥ 331 million and ¥ 14 million (\$ 171 thousand), respectively.

Gross realized losses, which included the gross realized losses considered as other than temporary, during the years ended March 31, 2010, 2011 and 2012 amounted to ¥ 228 million, ¥ 199 million and ¥ 666 million (\$ 8,122 thousand), respectively. The cost of the securities sold was computed based on the average cost of all the shares of each such security held at the time of sale. Gross unrealized losses on short-term investments and investments of which declines in market value are considered to be other than temporary were charged to earnings as realized losses on securities, amounting to ¥ 228 million, ¥ 199 million and ¥ 666 million (\$ 8,122 thousand) for the years ended March 31, 2010, 2011 and 2012, respectively.

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Proceeds from the sales and maturities of available-for-sale securities were ¥ 2,467 million, ¥ 1,656 million and ¥ 13,578 million (\$ 165,585 thousand) for the years ended March 31, 2010, 2011 and 2012, respectively. Proceeds from maturities of the held-to-maturity securities were ¥ 350 million, ¥ 800 million and ¥ 300 million (\$ 3,658 thousand) for the years ended March 31, 2010, 2011 and 2012, respectively.

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**Table of Contents****8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET**

Intangible assets developed or acquired during the year ended March 31, 2012 totaled ¥ 698 million (\$ 8,512 thousand), which are subject to amortization and primarily consist of software. The weighted average amortization period for software, other and total is approximately 5 years, 4 years and 5 years, respectively.

The components of intangible assets subject to amortization at March 31, 2011 and 2012 were as follows:

	Yen in millions				U.S. Dollars in thousands	
	2011		2012		2012	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Intellectual property rights	¥ 2,879	¥ 368	¥ 2,879	¥ 579	\$ 35,110	\$ 7,061
Software	3,040	2,044	3,400	2,251	41,463	27,451
Other	1,403	412	1,487	477	18,134	5,817
Total	¥ 7,322	¥ 2,824	¥ 7,766	¥ 3,307	\$ 94,707	\$ 40,329

Aggregate amortization expense for the years ended March 31, 2010, 2011 and 2012 was ¥ 552 million, ¥ 647 million and ¥ 703 million (\$ 8,573 thousand), respectively. Estimated amortization expense for intangible assets currently held for the next five years ending March 31 is ¥ 641 million in 2013, ¥ 581 million in 2014, ¥ 509 million in 2015, ¥ 480 million in 2016, and ¥ 305 million in 2017.

Intangible assets not subject to amortization at March 31, 2011 and 2012 were as follows:

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
Gross carrying amount	¥ 97	¥ 56	\$ 683



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The changes in the carrying amount of goodwill at March 31, 2011 and 2012 were as follows:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Beginning balance	¥ 721	¥ 721	\$ 8,793
Impairment	-	-	-
Other	-	-	-
Ending balance	¥ 721	¥ 721	\$ 8,793

The above goodwill was included in the Japan operating segment.

Makita recognized a goodwill impairment loss for the year ended March 31, 2010 of ¥ 1,251 million, which was included in the results of the Japan operating segment. Management determined that no impairment of goodwill occurred at the Makita's Japan operating segment as a result of the March 11, 2011 earthquake and resulting tsunami in Japan.

This impairment loss was included in selling, general, administrative and others, net in the consolidated statements of income. The management estimated the fair value of the reporting unit based on weighted average value estimated by the income approach method and by the market approach method.

**Table of Contents****9. INCOME TAXES**

Income before income taxes and the provision for income taxes for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen in millions			U.S. Dollars in thousands
	2010	2011	2012	2012
Income before income taxes:				
Domestic	¥ 3,301	¥ 9,963	¥ 14,489	\$ 176,695
Foreign	30,217	32,767	32,474	396,025
Total	33,518	42,730	46,963	572,720
Provision for income taxes:				
Current - Domestic	1,647	2,369	4,920	60,000
- Foreign	7,113	8,725	9,389	114,500
Sub total	8,760	11,094	14,309	174,500
Deferred - Domestic	1,838	542	193	2,354
- Foreign	354	823	(328)	(4,000)
Sub total	2,192	1,365	(135)	(1,646)
Total provision for income taxes	¥ 10,952	¥ 12,459	¥ 14,174	\$ 172,854

Total income taxes were allocated as follows:

	Yen in millions			U.S. Dollars in thousands
	2010	2011	2012	2012
Net income	¥ 10,952	¥ 12,459	¥ 14,174	\$ 172,854
Other comprehensive income (loss):				
Foreign currency translation adjustment	5	(21)	(49)	(597)
Unrealized holding gains (losses) on available-for-sale securities	1,639	(566)	120	1,463
Pension liability adjustment	673	(288)	62	756
Total income taxes	¥ 13,269	¥ 11,584	¥ 14,307	\$ 174,476

The Company and its domestic subsidiaries are subject to a National Corporate tax of 30.0%, an Inhabitant tax of approximately 5.6% and a deductible Enterprise tax of approximately 7.9%, which in the aggregate resulted in a combined statutory income tax rate of approximately 40.3% for the years ended March 31, 2010, 2011 and 2012.

Amendments to the Japanese tax regulations were enacted into law on November 30, 2011. As a result of these amendments, the statutory income tax rate will be reduced from approximately 40.3% to 37.7% effective from the year beginning April 1, 2012, and to approximately 35.4% effective from the year beginning April 1, 2015 thereafter. Consequently, the statutory income tax rate utilized for deferred tax assets and liabilities expected to be settled or realized in the period from April 1, 2012 to March 31, 2015 is approximately 37.7% and for periods beginning April 1, 2015 the rate is approximately 35.4%. The adjustments of deferred tax assets and liabilities for this change in the tax rate amounted to ¥507 million and have been charged to income tax expense in the consolidated statement of income for the year ended March 31, 2012.

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

	Year ended March, 31		
	2010	2011	2012
Combined statutory income tax rate in Japan	40.3%	40.3%	40.3%
Non-deductible expenses	0.7	0.5	0.7
Non-taxable dividends received	(0.1)	(0.1)	(0.1)
Change in valuation allowance	5.0	(0.9)	(2.2)
Tax sparing impact	(0.7)	(0.9)	(1.0)
Effect of the foreign tax rate differential	(14.2)	(11.5)	(9.5)
Other, net	1.7	1.8	2.0
Effective income tax rate	32.7%	29.2%	30.2%

For the year ended March 31, 2010, an effect of the foreign tax rate differential of ¥ 4,763 million was recorded, which was attributable to proportionately higher profits in the overseas subsidiaries compared to those in the Company and domestic subsidiaries. Due mainly to this effect, the effective tax rate for the year ended March 31, 2010 was 32.7%, a decrease of 7.6% as compared with the statutory income tax rate of 40.3%.

For the year ended March 31, 2011, an effect of the foreign tax rate differential of ¥ 4,904 million was recorded, which was attributable to proportionately higher profits in the Company and domestic subsidiaries compared to those in the overseas subsidiaries. Due mainly to this effect, the effective tax rate for the year ended March 31, 2011 was 29.2%, a decrease of 11.1% as compared with the statutory income tax rate of 40.3%.

For the year ended March 31, 2012, an effect of the foreign tax rate differential of ¥ 4,460 million (\$54,390 thousand) was recorded, which was attributable to proportionately higher profits in the Company and domestic subsidiaries compared to those in the overseas subsidiaries. Due mainly to this effect, the effective tax rate for the year ended March 31, 2012 was 30.2%, a decrease of 10.1% as compared with the statutory income tax rate of 40.3%. The decrease of the valuation allowance for deferred income tax assets mainly related to change in the assessment of the ability to realize the deferred tax assets of a certain wholly owned subsidiary since the merger of the subsidiary in to the Company was deemed prudent during the year ended March 31, 2012.

According to the provisions of the tax treaties which have been concluded between Japan and 7 countries, Japanese corporations can claim a tax credit against Japanese income taxes on income earned in one of those 7 countries, even though that income is exempted from income taxes or is reduced by special tax incentive measures in those countries, as if no special exemption or reduction were provided. The Company applied such tax sparing mainly to China with the indicated tax reduction effect. The effect of the tax sparing resulted in a decrease of tax expense by ¥232 million or 0.7% and ¥367 million or 0.9% and ¥482 million (\$5,878 thousand) or 1.0% for the years ended March 31, 2001, 2011 and 2012, respectively.

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The significant components of deferred income tax expense attributable to income before income taxes for the years ended March 31, 2010, 2011 and 2012 were as follows:

	Yen in millions			U.S. Dollars in thousands
	2010	2011	2012	2012
Deferred tax expense (benefit) (exclusive of the effects of other components below)	¥1,172	¥1,499	¥ 766	\$ 9,342
Increase (decrease) in beginning-of-the-year balance of the valuation allowance for deferred tax assets	1,020	(134)	(901)	(10,988)
	¥2,192	¥1,365	¥ (135)	\$ (1,646)

Significant components of deferred income tax assets and liabilities as of March 31, 2011 and 2012 were as follows:

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
<b>Deferred income tax assets:</b>			
Marketable securities and investment securities	¥ 2,407	¥ 2,417	\$ 29,476
Accrued retirement and termination benefits	1,151	724	8,829
Accrued expenses	929	888	10,829
Inventories	1,584	1,755	21,402
Property, plant and equipment	1,898	1,682	20,512
Accrued payroll	1,642	1,731	21,110
Net operating loss carryforwards	742	666	8,122
Other	1,631	1,052	12,830
<b>Total gross deferred income tax assets</b>	<b>11,984</b>	<b>10,915</b>	<b>133,110</b>
Valuation allowance	(1,640)	(557)	(6,793)
<b>Sub total</b>	<b>¥ 10,344</b>	<b>¥ 10,358</b>	<b>\$ 126,317</b>
<b>Deferred income tax liabilities:</b>			
Undistributed earnings of overseas subsidiaries	¥ (371)	¥ (364)	\$ (4,439)
Accrued retirement and termination benefits	-	(321)	(3,915)
Unrealized gain on available-for-sale securities	(1,935)	(2,012)	(24,537)
Property, plant and equipment	(1,445)	(1,163)	(14,183)
Other	(9)	(2)	(23)
<b>Total gross deferred income tax liabilities</b>	<b>(3,760)</b>	<b>(3,862)</b>	<b>(47,097)</b>
<b>Net deferred income tax assets</b>	<b>¥ 6,584</b>	<b>¥ 6,496</b>	<b>\$ 79,220</b>

Net deferred income taxes are recorded in the consolidated balance sheets as follows:

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
<b>Deferred income taxes:</b>			
Current assets	¥6,039	¥5,898	\$ 71,927

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Investments and other assets	1,403	853	10,402
Current liabilities	(112)	(125)	(1,524)
Long-term liabilities	(746)	(130)	(1,585)
Total	¥6,584	¥6,496	\$ 79,220

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In assessing the realizability of deferred income tax assets, Makita considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss carryforwards are utilizable. Makita considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, Makita believes it is more likely than not that the benefits of these deductible differences and net operating loss carryforwards, net of the existing valuation allowance, will be realized. The actual amount of the deferred income tax assets realizable, however, would be reduced if estimates of future taxable income during the carryforward period are not achieved. Makita has recorded a valuation allowance of ¥ 557 million (\$ 6,793 thousand) as of March 31, 2012 against certain deferred income tax assets primarily associated with net operating loss carryforwards.

As of March 31, 2012, certain subsidiaries had net operating loss carryforwards for income tax purposes of ¥ 3,180 million (\$ 38,780 thousand) which are available to offset future taxable income, if any. The net operating losses will expire as follows:

	Yen in millions	U.S. Dollars in thousands
Within 5 years	¥ 150	\$ 1,829
6 to 20 years	1,961	23,915
Indefinite	1,069	13,036
Total	¥ 3,180	\$ 38,780

As of March 31, 2012, Makita had foreign tax credit carryforwards for income tax purposes of ¥ 143 million (\$ 1,744 thousand) which are available to reduce future income taxes payable, if any. The foreign tax credit carryforwards will expire within 1 year.

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as the tax law provides a means by which the investment in a domestic subsidiaries can be recovered tax free.

Makita has not recognized deferred tax liabilities for certain portions of undistributed earnings of foreign subsidiaries in the total amount of ¥ 169,470 million (\$ 2,066,707 thousand) as of March 31, 2012 because Makita considers these earnings to be indefinitely reinvested, and the calculation of the unrecognized deferred tax liabilities is not practicable.

The unrecognized tax benefits and for the years ended March 31, 2010, 2011 and 2012 were neither material nor expected to significantly increase or decrease within 12 months period subsequent to March 31, 2012. Makita classifies penalties and interest related to unrecognized tax benefits, if any, in provision for income taxes, and the total amounts of penalties and interest related to unrecognized tax benefits recorded were not material for the years ended March 31, 2010, 2011 and 2012. Makita conducts business globally and, as a result, the Company and its subsidiaries file income tax returns in various jurisdictions all over the world. The Company will no longer be subject to income tax examinations for the periods prior to the fiscal year ended March 31, 2009, and one of the Company's major subsidiaries in the United States remains subject to income tax examinations for the periods beginning in the year ended March 31, 2009.

**Table of Contents****10. RETIREMENT AND TERMINATION BENEFIT PLANS**

The Company and certain of its subsidiaries have various contributory and noncontributory employee benefit plans covering substantially all of their employees. Under the plans, employees are entitled to lump-sum payments at the time of termination or retirement, or to pension payments. A domestic noncontributory plan covers substantially all of the employees of the Company.

The amounts of lump-sum or pension payments under the plans are generally determined on the basis of length of service and remuneration at the time of termination or retirement.

The net periodic pension costs of the defined benefit plans for the years ended March 31, 2010, 2011 and 2012 consisted of the following components:

	Yen in millions			U.S. Dollars in thousands
	2010	2011	2012	2012
Service cost-benefit earned during the year	¥ 1,282	¥ 1,342	¥ 1,345	\$ 16,402
Interest cost on projected benefit obligation	902	864	833	10,159
Expected return on plan assets	(1,114)	(883)	(964)	(11,756)
Amortization of prior service cost	(208)	(208)	(221)	(2,695)
Recognized actuarial loss	180	291	441	5,378
Net periodic pension costs	¥ 1,042	¥ 1,406	¥ 1,434	\$ 17,488

Net actuarial loss and amortization of prior service cost which will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are as follows:

	Yen in millions	U.S. Dollars in thousands
	2013	2013
Net actuarial loss	¥ 575	\$ 7,012
Amortization of prior service cost	(230)	(2,805)

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

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	¥ 37,898	¥ 37,987	\$ 463,256
Service cost	1,342	1,345	16,402
Interest cost	864	833	10,159
Plan amendment	-	(10)	(122)
Actuarial loss (gain)	113	(26)	(317)
Benefits paid	(2,065)	(2,455)	(29,939)
Foreign exchange impact	(165)	(163)	(1,988)
Projected benefit obligation at end of year	37,987	37,511	457,451

Change in plan assets:

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Fair value of plan assets at beginning of year	33,929	34,625	422,256
Actual return on plan assets	161	854	10,415
Employer contributions	2,427	2,420	29,512
Benefits paid	(1,876)	(2,220)	(27,073)
Foreign exchange impact	(16)	(25)	(305)
Fair value of plan assets at end of year	34,625	35,654	434,805
Underfunded status	¥ (3,362)	¥ (1,857)	\$ (22,646)
Amounts recognized in accumulated other comprehensive income consisted of:			
Net actuarial loss	¥ 13,999	¥ 13,652	\$ 166,488
Prior service cost	(1,935)	(1,728)	(21,073)
	¥ 12,064	¥ 11,924	\$ 145,415
Amounts recognized in the consolidated balance sheet consisted of:			
Current liabilities	¥ (234)	¥ (122)	\$ (1,487)
Non-current liabilities	(3,128)	(3,027)	(36,,915)
Other assets	-	1,292	15,756
	¥ (3,362)	¥ (1,857)	\$ (22,646)

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Measurement date

The Company uses a March 31 measurement date for all of its plans.

The accumulated benefit obligation for all defined benefit plans was as follows:

	Yen in millions		U.S. Dollars in thousands
	2011	2012	2012
Accumulated benefit obligation	¥ 33,547	¥ 33,015	\$ 402,622

Assumptions

The weighted-average assumptions used to determine benefit obligations at March 31, 2011 and 2012 were as follows:

	2011	2012
Discount rate	2.3%	2.1%
Assumed rate of increase in future compensation levels	2.8%	2.8%

The weighted-average assumptions used to determine net periodic pension cost for each of the years in the three-year period ended March 31, 2012, were as follows:

	2010	2011	2012
Discount rate	2.5%	2.3%	2.2%
Assumed rate of increase in future compensation levels	2.8%	2.8%	2.8%
Expected long-term rate of return on plan assets	2.9%	2.2%	2.6%

The discount rate is determined by average coming service years and average payment period using an approximated curve developed from the rate of high quality corporate bonds with grade AA or better and long-term government securities as of measurement date.

The pension fund's expected long-term rate-of-return-on-assets assumption is derived from a review of actual historical returns achieved and anticipated future long-term performance of individual asset classes.

Plan Assets

The target allocations by asset class are as follows:

Asset Class:	Target Allocations
Equity securities	15%
Debt securities	41
Life insurance company general accounts	19
Short-term assets	2
Alternative investments	23
Total	100%



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The overall objective of Makita's pension assets is to earn a rate of return to satisfy the benefit obligations of the pension plans and to pay benefits. In order to meet this objective, Makita determines an optimal asset mix from a three-to-five year's medium and long-term standpoint. To avoid a sharp decline in the future, Makita updates the asset mix as necessary based on risk monitoring. Makita has an acceptable divergence indicator of the asset mix, the proportion of the temporary asset allocations will be updated promptly when the divergence occurs.

Makita determined the mix of equity securities and debt securities after taking into consideration the expected long-term yield on pension assets. To decide whether changes in the basic portfolio are necessary, Makita examines the divergence between the expected long-term income and the actual income from the portfolio on an annual basis. Makita revises the portfolio when it is deemed necessary to reach the expected long-term yield. The plans' equity securities include common stock of the Company in the amount of ¥ 9 million (\$ 110 thousand) at March 31, 2012.

The fair values of Makita's pension plan assets as of March 31, 2011 and 2012, by asset class, were as follows:

As of March 31, 2011	Total	Yen in millions		
		Level 1	Level 2	Level 3
<b>Equity securities:</b>				
Domestic				
Securities	¥ 2,043	¥ 2,043	¥ -	¥ -
Securities (commingled funds)	1,611	-	1,611	-
Overseas				
Securities	1,194	1,194	-	-
Securities (commingled funds)	4,263	-	4,263	-
<b>Debt securities:</b>				
Domestic				
Government bonds	531	-	531	-
Commingled funds	8,818	-	8,818	-
Overseas				
Government bonds	971	-	971	-
Commingled funds	5,340	-	5,340	-
Life insurance company general accounts	5,246	-	5,246	-
Short-term assets	1,961	1,878	83	-
<b>Alternative investments</b>				
Commingled funds	2,647	-	2,647	-
<b>Total</b>	<b>¥ 34,625</b>	<b>¥ 5,115</b>	<b>¥ 29,510</b>	<b>¥ -</b>

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As of March 31, 2012	Yen in millions				U.S. Dollars in thousands			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
	¥	¥	¥	¥	\$	\$	\$	\$
<b>Equity securities:</b>								
Domestic								
Securities	2,106	2,106	-	-	25,683	25,683	-	-
Securities (commingled funds)	1,637	-	1,637	-	19,963	-	19,963	-
Overseas								
Securities	1,296	1,296	-	-	15,805	15,805	-	-
Securities (commingled funds)	3,857	-	3,857	-	47,037	-	47,037	-
<b>Debt securities:</b>								
Domestic								
Government bonds	1,248	-	1,248	-	15,220	-	15,220	-
Commingled funds	7,209	-	7,209	-	87,915	-	87,915	-
Overseas								
Government bonds	561	-	561	-	6,841	-	6,841	-
Commingled funds	6,145	-	6,145	-	74,939	-	74,939	-
Life insurance company general accounts	6,128	-	6,128	-	74,732	-	74,732	-
Short-term assets	2,668	2,607	61	-	32,536	31,792	744	-
Alternative investments								
Commingled funds	2,799	-	2,279	520	34,134	-	27,793	6,341
<b>Total</b>	<b>¥ 35,654</b>	<b>¥ 6,009</b>	<b>¥ 29,125</b>	<b>¥ 520</b>	<b>\$ 434,805</b>	<b>\$ 73,280</b>	<b>\$ 355,184</b>	<b>\$ 6,341</b>

Domestic and overseas equity securities consist primarily of stocks that are listed on the securities exchanges. Debt securities consist primarily of domestic and overseas government and municipal bonds. Short-term assets consist primarily of bank deposits with a short term maturity.

Level 1 assets are comprised principally of equity securities which are valued based on quoted prices in active markets for identical assets. Level 2 assets are comprised principally of government bonds, commingled funds that invest in equity and debt securities, investments in life insurance company general accounts and alternative investments. Investments in life insurance company general accounts are valued at the amounts that are the conventional interest adding to the principle amounts calculated by Life Insurance Company. See note 16 for additional information about fair value hierarchies and valuation techniques.

Regarding to the debt securities selection, Makita has a good research and analysis on issuance conditions, such as rating, coupon, maturity date, and issuer. Makita appropriately diversified investments by maturity and issuer.

The equity securities are selected primarily from stocks that are listed on securities exchanges. Makita has a good research and analysis on the business scope and growth potential of investment companies, and appropriately diversified investments by type of industry. Regarding to investments in overseas investment vehicles, Makita has investigated the political stability and the economic stability of the investment markets, the market characteristics such as settlement systems and the taxation systems. For each such investment, Makita has selected appropriate investment country and currency. For commingled funds, Makita selected those that have a defined investment objects and operating style to invest. Makita also has alternative investments on J-REIT, G-REIT, commodities, high-yield debt and hedge-fund (Market neutral and relative value), etc.

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The following table summarizes the changes in Level 3 plan assets measured at fair value for the years ended March 31, 2011 and 2012:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Balance at beginning of year	¥ -	¥ -	\$ -
Actual return on plan assets relating to assets held at year end	-	20	244
Purchases	-	500	6,097
Balance at end of year	-	520	6,341

Level 3 assets consist of hedge funds investment (relative value). They are valued using the net asset value as determined by the administrator of the fund.

**Information for pension plans with an accumulated benefit obligation in excess of plan assets**

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Projected benefit obligation	¥ 3,659	¥ 3,596	\$ 43,854
Accumulated benefit obligation	3,627	3,526	43,000
Fair value of plan assets	432	447	5,451
Accumulated benefit obligation in excess of plan assets	3,195	3,079	37,549

Cash flows

Contributions:

Makita expects to contribute ¥ 2,482 million (\$ 30,268 thousand) to its domestic and foreign defined benefit plans in the year ending March 31, 2013.

Estimated future benefit payments

At March 31, 2012, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five years thereafter are as follows:

Year ending March 31,	Yen in millions
2013	¥ 2,004
2014	1,785
2015	1,779
2016	1,760
2017	1,389
2018-2022	9,375
<b>Total</b>	<b>¥ 18,092</b>

Certain foreign subsidiaries have defined contribution plans. The total expenses charged to income under these plans were ¥ 188 million, ¥ 183 million and ¥ 185 million (\$ 2,256 thousand) for the years ended March 31, 2010, 2011 and 2012, respectively.



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The Company has unfunded retirement allowance programs for the Directors and the Statutory Auditors. Under such programs, the aggregate amount set aside as retirement allowances for the Directors and the Statutory Auditors was ¥ 384 million and ¥ 384 million (\$ 4,683 thousand) as of March 31, 2011 and 2012, respectively, which is included in other liabilities in the accompanying balance sheets. This Executive retirement and termination allowances program was abolished by the Annual General Meeting of Shareholders held in June 2006. The aggregate amount set aside will be paid to the Directors and the Statutory Auditors when they retire.

**11. SHORT-TERM BORROWINGS AND LONG-TERM INDEBTEDNESS**

As of March 31, 2011 and 2012, short-term borrowings consisted of the following:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
Bank borrowings	¥ 338	¥ 2,335	\$ 28,476
Current maturities of long-term indebtedness	530	16	\$ 195
<b>Total</b>	<b>¥ 868</b>	<b>¥ 2,351</b>	<b>\$ 28,671</b>

Short-term borrowings, excluding current maturities of long-term indebtedness, consisted primarily of bank borrowings of overseas subsidiaries denominated in foreign currencies.

As of March 31, 2011 and 2012, the weighted average interest rate on short-term bank borrowings was 2.0% and 13.7%, respectively.

Certain subsidiaries of the Company had unused lines of credit available for immediate short-term borrowings without restrictions amounting to ¥ 14,588 million and ¥ 15,280 million (\$ 186,341 thousand) as of March 31, 2011 and 2012, respectively.

As of March 31, 2011 and 2012, long-term indebtedness consisted of the following:

	Yen in millions		U.S. Dollars
	2011	2012	in thousands 2012
1.9% (weighted average rate) unsecured loans from banks, due 2012	¥ 500	¥ -	\$ -
Capital lease obligations (see Note 3 (g))	49	28	341
Less- Current maturities included in short-term borrowings	(530)	(16)	(195)
<b>Total</b>	<b>¥ 19</b>	<b>¥ 12</b>	<b>\$ 146</b>

There were no covenants or cross default provisions under the Makita's financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements.

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The aggregate annual maturities of long-term indebtedness subsequent to March 31, 2012 are as summarized below:

	Year ending March 31,	Yen in millions
2013		¥ 16
2014		7
2015		3
2016		1
2017		1
2018 and after		-
<b>Total</b>		<b>¥ 28</b>

**12. SHAREHOLDERS EQUITY**

The Companies Act of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company should be appropriated as capital reserve or earned reserve (hereinafter called reserve). No further appropriations are required when the total amount of the reserve exceed 25% of capital stock.

After shareholders approval of the declaration of a cash dividend in the amount of ¥ 7,738 million (\$ 94,366 thousand) at the annual meeting of shareholders held on June 26, 2012 based on a resolution of the Board of Directors, cash dividends will be paid to shareholders of record as of March 31, 2012. The declaration of this dividend has not been reflected in the consolidated financial statements as of March 31, 2012.

The amount of retained earnings available for dividends distribution is recorded in the Company's non-consolidated books and amounted to ¥ 131,316 million (\$ 1,601 million) as of March 31, 2012.

**13. OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive loss as of March 31, 2010, 2011 and 2012, were as follows:

	Yen in millions			U.S. Dollars in thousands
	2010	2011	2012	2012
<b>Foreign currency translation adjustment:</b>				
Beginning balance	¥ (35,561)	¥ (38,492)	¥ (50,041)	\$ (610,256)
Adjustments to for the year	(2,931)	(11,549)	(4,806)	(58,610)
Ending balance	(38,492)	(50,041)	(54,847)	(668,866)
<b>Unrealized holding gains on available-for-sale securities:</b>				
Beginning balance	820	3,250	2,412	29,415
Adjustments to for the year	2,430	(838)	487	5,939
Ending balance	3,250	2,412	2,899	35,354
<b>Pension liability adjustment:</b>				
Beginning balance	(7,720)	(6,790)	(7,195)	(87,744)
Adjustments to for the year	930	(405)	77	939
Ending balance	(6,790)	(7,195)	(7,118)	(86,805)
<b>Total other accumulated comprehensive loss:</b>				
Beginning balance	(42,461)	(42,032)	(54,824)	(668,585)
Adjustments to for the year	429	(12,792)	(4,242)	(51,732)



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Ending balance	¥ (42,032)	¥ (54,824)	¥ (59,066)	\$ (720,317)
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Tax effects allocated to each component of other comprehensive income (loss) were as follows:

	Pretax amount	Yen in millions Tax benefit (expense)	Net of tax amount
<b>For the year ended March 31, 2010</b>			
Foreign currency translation adjustment	¥ (2,926)	¥ (5)	¥ (2,931)
Unrealized holding gains on available-for-sale securities:			
Unrealized holding gains arising during the year	4,343	(1,750)	2,593
Less-Reclassification adjustment for gains realized in net income	(274)	111	(163)
Net unrealized gains	4,069	(1,639)	2,430
Pension liability adjustment:			
Unrealized gains arising during the year	1,622	(682)	940
Less-Reclassification adjustment for gains realized in net income	(19)	9	(10)
Net unrealized gains	1,603	(673)	930
Other comprehensive income	¥ 2,746	¥ (2,317)	¥ 429
<b>For the year ended March 31, 2011</b>			
Foreign currency translation adjustment	¥ (11,570)	¥ 21	¥ (11,549)
Unrealized holding gains on available-for-sale securities:			
Unrealized holding losses arising during the year	(1,272)	513	(759)
Less-Reclassification adjustment for gains realized in net income	(132)	53	(79)
Net unrealized losses	(1,404)	566	(838)
Pension liability adjustment:			
Unrealized losses arising during the year	(776)	321	(455)
Add-Reclassification adjustment for losses realized in net income	83	(33)	50
Net unrealized losses	(693)	288	(405)
Other comprehensive losses	¥ (13,667)	¥ 875	¥ (12,792)
<b>For the year ended March 31, 2012</b>			
Foreign currency translation adjustment	¥ (4,855)	¥ 49	¥ (4,806)
Unrealized holding gains on available-for-sale securities:			
Unrealized holding losses arising during the year	(45)	143	98
Add-Reclassification adjustment for losses realized in net income	652	(263)	389
Net unrealized gains	607	(120)	487
Pension liability adjustment:			
Unrealized losses arising during the year	(81)	27	(54)
Add-Reclassification adjustment for losses realized in net income	220	(89)	131
Net unrealized gains	139	(62)	77
Other comprehensive losses	¥ (4,109)	¥ (133)	¥ (4,242)

U.S. Dollars in thousands

Pretax amount	Tax benefit (expense)	Net of tax amount
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**For the year ended March 31, 2012**

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Foreign currency translation adjustment	\$(59,207)	\$597	\$(58,610)
Unrealized holding gains on available-for-sale securities:			
Unrealized holding losses arising during the year	(549)	1,744	1,195
Add-Reclassification adjustment for losses realized in net income	7,951	(3,207)	4,744
Net unrealized gains	7,402	(1,463)	5,939
Pension liability adjustment:			
Unrealized losses arising during the year	(988)	329	(659)
Add-Reclassification adjustment for losses realized in net income	2,683	(1,085)	1,598
Net unrealized gains	1,695	(756)	939
Other comprehensive losses	\$(50,110)	\$(1,622)	\$(51,732)

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**Table of Contents****14. EARNINGS PER SHARE**

Basic earnings per share computations were as follows. There were no diluted effects during the years ended March 31, 2010, 2011 and 2012.

Numerator	2010	Yen in millions		U.S. Dollars
		2011	2012	in thousands
Net income available to common share-holders- Basic	¥22,258	¥29,905	¥32,497	\$ 396,305
Denominator	Number of shares			U.S.
Weighted average common shares outstanding- Basic	137,762,051	137,759,272	137,244,683	Dollars
Earnings per share: Basic	¥161.6	¥217.1	¥236.8	\$ 2.89

**15. COMMITMENTS AND CONTINGENT LIABILITIES**

At March 31, 2012, the Company was contingently liable as a guarantor for housing and education loans to employees in the amount of ¥ 3 million (\$ 37 thousand). The Company will be required to satisfy the outstanding loan commitments of certain employees in the event those employees are not able to fulfill their repayment obligations. The fair value of the liabilities for the Company's obligations under the guarantees described above as of March 31, 2012, was insignificant.

Makita's purchase obligations, mainly for raw materials, were ¥ 7,973million (\$ 97,232 thousand) as of March 31, 2012.

Makita is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Makita's consolidated financial position, results of operations, or cash flows.

Makita made rental payments of ¥ 2,264 million, ¥ 2,103 million and ¥ 2,407 million (\$ 29,354 thousand) under cancelable and noncancelable operating lease agreements for offices, warehouses, automobiles and office equipment during the years ended March 31, 2010, 2011 and 2012, respectively.

The minimum rental payments required under noncancelable operating lease agreements as of March 31, 2012, were as follows:

Year ending March 31,	Yen in millions
2013	¥ 811
2014	726
2015	515
2016	318
2017	233
2018 and after	135
Total	¥ 2,738

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Makita generally guarantees the performance of products delivered and services rendered for a certain period or term. Estimates for product warranty cost are made based on historical warranty claim experience. The change in accrued product warranty cost for the years ended March 31, 2010, 2011 and 2012 was summarized as follows:

	Yen in millions			U.S. Dollars
	2010	2011	2012	in thousands
Balance at beginning of year	¥ 1,677	¥ 1,835	¥ 2,015	\$ 24,573
Addition	1,484	1,601	1,482	18,073
Utilization	(1,373)	(1,344)	(1,404)	(17,122)
Foreign exchange impact	47	(77)	(61)	(744)
Balance at end of year	¥ 1,835	¥ 2,015	¥ 2,032	\$ 24,780

**16. FAIR VALUE MEASUREMENTS**

ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1: Inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2: Inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair values measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

*Assets and liabilities measured at fair value on a recurring basis*

The following table presents the placement in the fair value hierarchy of Makita's assets and liabilities that are measured at fair value on a recurring basis as of March 31, 2011 and 2012:

As of March 31, 2011	Yen in millions		
	Level 1	Level 2	Level 3
Assets:	¥	¥	¥
Short-term investments:			
Corporate debt securities	-	591	-
Investments in trusts	4,156	1,039	-
MMF and FFF	-	26,720	-
Marketable equity securities	948	-	-
Derivatives Investments:	-	45	-
Marketable equity securities	11,800	-	-
Liabilities:			
Derivatives	¥ -	¥ (433)	¥ -

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As of March 31, 2012	Yen in millions			U.S. Dollars in thousands		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:	¥	¥	¥	\$	\$	\$
Short-term investments:						
Corporate debt securities	-	591	-	-	7,207	-
Investments in trusts	5,596	916	-	68,244	11,171	-
MMF and FFF	-	13,336	-	-	162,634	-
Marketable equity securities	868	-	-	10,585	-	-
Derivatives Investments:	-	129	-	-	1,573	-
Marketable equity securities	11,877	-	-	144,841	-	-
Liabilities:						
Derivatives	¥ -	¥ (281)	¥ -	\$ -	\$ (3,427)	\$ -

Level 1: Short-term investments are comprised principally of investment in trusts. Investments are comprised of marketable equity securities. They are valued using an unadjusted quoted market price in active markets with sufficient volume and frequency of transactions.

Level 2: Investments in trusts are comprised principally of domestic stock investment funds, domestic bonds investment funds, and international bonds investment funds, which are estimated by using observable inputs, such as net asset value per share. Almost all investments in trusts can be liquidated within 30 days.

MMF and FFF are acronyms for Money Management Funds and Free Financial Funds. They are comprised principally of domestic public bonds, domestic corporate bonds, commercial papers, international public bonds and international corporate bonds, which are operated to accrue stable capital gain.

Debt securities are valued using observable market data obtained from the financial institutions other than quoted prices that are observable.

Derivatives are comprised of foreign currency contracts which are estimated by using observable market inputs, such as foreign currency exchange rates, interest rate and volatility.

*Assets and liabilities measured at fair value on a nonrecurring basis*

During the year ended March 31, 2010, Makita recognized an impairment loss of ¥ 354 million on long-lived assets and ¥ 1,251 million on goodwill. It was included in the results of the Japan segment. Management assessed that the impairment were caused by the economic downturn in Japan backdropped by the global recession, etc. The management estimated the fair value of the long-lived assets by the cost approach method and by the market approach method, and the fair value of the goodwill by the weighted average value estimated by the income approach method and by the market approach method, with the assistance of an independent third party appraiser. These values were presented in Level 3 because these were valued based on unobservable inputs.

The following table presents the placement in the fair value hierarchy of Makita's assets that are measured at fair value on a non-recurring basis as of March 31, 2010:

As of March 31, 2010	Yen in millions			
	Level 1	Level 2	Level 3	Impairment loss
Assets:				
Long-lived assets	¥-	¥-	¥ 2,762	¥ 354
Goodwill	-	-	-	1,251

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During the year ended March 31, 2011, Makita recognized an impairment loss of ¥ 262 million on certain unused assets of machinery and equipments. The carrying value of those assets was reduced to zero on the basis that Makita anticipated no future use from those assets. The impairment loss was included in the result of Europe operating segment. Makita classified them as Level 3 because these were valued based on unobservable inputs.

During the year ended March 31, 2012, Makita recognized an impairment loss of ¥ 214 million (\$2,610 thousand) on long-lived assets. The impairment loss was included in the results of the Japan segment. The management estimated the fair value of the land for the plant by the market approach method and that of the other long-lived assets by the cost approach method and the income approach method with the assistance of an independent third party appraiser. These values were presented in Level 3 because these were valued based on unobservable inputs.

The following table presents the placement in the fair value hierarchy of Makita's assets that are measured at fair value on a non-recurring basis as of March 31, 2012:

		Yen in millions			
		Fair Value			
As of March 31, 2012		Level 1	Level 2	Level 3	Impairment loss
<b>Assets:</b>					
Long-lived assets		¥ -	¥ -	¥ 2,630	¥ 214
		U.S. Dollars in thousands			
		Fair Value			
As of March 31, 2012		Level 1	Level 2	Level 3	Impairment loss
<b>Assets:</b>					
Long-lived assets		\$ -	\$ -	\$ 32,073	\$ 2,610

**17. DERIVATIVES AND HEDGING ACTIVITIES****(a) Risk management policy**

Makita is exposed to market risks, such as changes in currency exchange rates and interest rates. Derivative financial instruments are principally comprised of foreign exchange contracts, currency swaps and currency options contracts utilized by the Company and certain of its subsidiaries to reduce these risks. Makita does not use derivative instruments for trading or speculation purpose.

Makita is also exposed to a risk of credit-related losses in the event of nonperformance by counter parties to the financial instrument contracts; however it is not expected that any counter parties will fail to meet their obligations, because the contracts are diversified among a number of major internationally recognized credit worthy financial institutions.

**Table of Contents****(b) Foreign currency exchange rate risk management**

Makita operates internationally, giving rise to significant exposures to market risks from changes in foreign exchange rates, and enters into foreign currency contracts, currency swaps and currency option contracts to hedge the foreign currency exposure.

These derivative instruments are principally intended to protect against foreign exchange exposure related to intercompany transfer of inventories and financing activities.

The derivative instruments as of March 31, 2011 and 2012 were as follows.

Derivatives not designated as hedging instruments	Balance sheet Location	Yen in millions		U.S. Dollars in thousands	
		2011	2012	2012	
<b>Assets</b>					
<b>Current assets</b>					
Foreign currency contracts	Other current assets	¥ 45	¥ 129	\$	1,573
Total		¥ 45	¥ 129	\$	1,573
<b>Liabilities</b>					
<b>Current liabilities</b>					
Foreign currency contracts	Other liabilities	(433)	(281)		(3,427)
Total		¥ (433)	¥ (281)	\$	(3,427)

The amount of gains or (losses) recognized in income on derivative for the year ended March 31, 2010, 2011, and 2012 were as follows.

**Amount of gains (losses) recognized in income on derivative**

Derivatives not designated as hedging instruments	Location of gains (losses) recognized in income on derivative	Yen in millions			U.S. Dollars in thousands	
		Amount of gains (losses) recognized in income on derivative				
		2010	2011	2012	2012	
Foreign currency contracts	Exchange gains (losses)	¥ 565	¥ (112)	¥ 236	\$	2,878
Currency swaps	Exchange gains (losses)	321	-	-		-
Currency option contracts	Exchange gains (losses)	3	4	-		-
Total		¥ 889	¥ (108)	¥ 236	\$	2,878



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Total gross notional amounts for outstanding derivatives (recorded at fair value) were as follows:

	Yen in millions		U.S. Dollars in thousands	
	2011	2012	2011	2012
Foreign currency contracts	¥ 22,836	¥ 27,450	\$	334,756
Total	¥ 22,836	¥ 27,450	\$	334,756

The notional amounts for Foreign currency contracts presented by currency, were as follows:

	Yen in millions		U.S. Dollars in thousands	
	2011	2012	2011	2012
U.S. Dollars	¥15,533	¥ 18,445	\$	224,939
Euro	5,254	6,933		84,549
Other	2,049	2,072		25,268
Total	¥ 22,836	¥ 27,450	\$	334,756

**(c) Interest rate risk management**

Makita executes financing and investing activities through the Company. As Makita's subsidiaries are financed by loans within the Group from subsidiaries with surplus funds to subsidiaries that lack funds, interest expense variation is insignificant.

**18. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and significant assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a fair value:

**(a) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivable, Short-term Borrowings, Trade Notes and Accounts Payable, Other Payables, and Accrued Expenses**

The carrying amounts approximate fair value because of the short or no maturities of those instruments.

**(b) Long-term Time Deposits**

The fair value is estimated by discounting future cash flows using the current rates that Makita would be offered for deposits with similar terms and remaining maturities.

**(c) Short-term Investments and Investments**

The fair value of short-term investments and investments is estimated based on quoted market prices. For certain investments such as non-marketable securities, since there are no quoted market prices existing, a reasonable estimation of a fair value could not be made without incurring excessive cost, and such securities have been excluded from fair value disclosure. The fair value of such securities is estimated if and when there are indications that the investment may be impaired.

Non-marketable securities amounted to ¥ 399 million and ¥ 387 million (\$ 4,719 thousand) as of March 31, 2011 and 2012, respectively.

**(d) Long-term Indebtedness**

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The fair value of long-term indebtedness is a present value of future cash flows associated with each instrument discounted using Makita's current borrowing rates for similar debt instruments of comparable maturities.

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**Table of Contents****(e) Derivatives**

The fair values of other derivative financial instruments, foreign currency contracts and currency option contracts, all of which are used for hedging purposes, are estimated by obtaining quotes and other relevant information from brokers.

The estimated fair value of the financial instruments was as follows:

	Yen in millions				U.S. Dollars in thousands			Fair Value Levels
	2011		2012		2012			
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value		
Short-term investments (see Note 16)	¥ 33,555	¥ 33,555	¥ 25,125	¥ 25,122	\$ 306,402	\$ 306,365	1 or 2	
Investments (see Note 16)	16,670	16,630	18,767	18,764	228,866	228,829	1 or 2	
Long-term time deposits	11	11	15	15	183	183	2	
Long-term indebtedness including current maturities	(549)	(550)	(28)	(28)	(341)	(341)	2	
Foreign currency contracts:								
Assets (see Note 16)	45	45	129	129	1,573	1,573	2	
Liabilities (see Note 16)	¥ (433)	¥ (433)	¥ (281)	¥ (281)	\$ (3,427)	\$ (3,427)	2	

**(f) Limitation**

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments.

These estimates are subjective in nature and involve uncertainties and are matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Table of Contents****19. OPERATING SEGMENT INFORMATION**

The operating segments presented below are defined as components of the enterprise for which separate financial information is available and regularly reviewed by the Company's chief operating decision maker. The Company's chief operating decision maker utilizes various measurements to assess segment performance and allocate resources to the segments.

During the three years ended March 31, 2010, 2011 and 2012, Makita's operating structure included the following geographical operating segments: Japan Group, Europe Group, North America Group, Asia Group, and Other Regions Group. Segment information is determined by the location of the Company and its relevant subsidiaries, as reported to the Company's chief operating decision maker.

Major countries or regions in each geographic area:

Europe:	Germany, United Kingdom, Italy, France, Finland
North America:	United States, Canada
Asia:	China, Singapore, Thailand
Other regions:	Australia, Brazil, United Arab Emirates

Makita evaluates the performance of each operating segment based on U.S. GAAP information. Segment profit and loss is measured in a consistent manner with consolidated operating income, which 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. Segment assets are based on total assets attributable to the segment.

The accounting policies used by the segments are the same as those used in the preparation of the consolidated financial statements. Inter-segment sales are made at estimated arm's-length prices and are included as a reconciling item to total consolidated sales in the below tables. Eliminations include intercompany sales between operating segments, net intercompany receivables and intercompany profit in inventory from products sold between segments.

**Segment Products and Services**

Makita is a manufacturer and wholesaler of electric power tools and other tools. The operating segments derive substantially all of their revenues from the sale of electric power tools and parts and repairs.

Year ended March 31, 2010

	Yen in millions					Total	Corporate and	Consolidated
	Japan	Europe	North America	Asia	Other regions	Segment	Eliminations	
Sales:								
External customers	¥ 55,767	¥ 109,484	¥ 34,547	¥ 9,007	¥ 37,018	¥ 245,823	¥ -	¥ 245,823
Inter-segment	33,309	2,809	1,847	57,820	98	95,883	(95,883)	-
Total	89,076	112,293	36,394	66,827	37,116	341,706	(95,883)	245,823
Operating expenses	89,719	99,418	36,034	57,947	34,942	318,060	(102,627)	215,433
Segment income	(643)	12,875	360	8,880	2,174	23,646	6,744	30,390
Other income (expense), net	-	-	-	-	-	-	-	3,128
Income before income taxes	-	-	-	-	-	-	-	33,518
Long-lived assets	41,214	14,887	1,983	10,732	4,543	73,359	(159)	73,200
Segment assets	232,226	110,009	30,281	58,148	39,229	469,893	(120,054)	349,839
Capital expenditures	3,800	4,817	198	1,541	543	10,899	(62)	10,837
Write-down of inventories	87	-	-	45	63	195	-	195
Depreciation and amortization	4,693	1,351	431	1,497	397	8,369	(61)	8,308
Impairment loss	1,605	-	-	-	-	1,605	-	1,605

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Government Grants	¥	-	¥	-	¥	-	¥	-	¥	339	¥	339	¥	-	¥	339
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Year ended March 31, 2011

	Yen in millions								
	Japan	Europe	North America	Asia	Other regions	Total Segment	Corporate and Eliminations	Consolidated	
<b>Sales:</b>									
External customers	¥ 62,194	¥ 115,554	¥ 37,573	¥ 12,365	¥ 44,944	¥ 272,630	¥ -	¥ 272,630	
Inter-segment	51,230	3,171	2,979	101,216	116	158,712	(158,712)	-	
<b>Total</b>	<b>113,424</b>	<b>118,725</b>	<b>40,552</b>	<b>113,581</b>	<b>45,060</b>	<b>431,342</b>	<b>(158,712)</b>	<b>272,630</b>	
Operating expenses	102,905	105,361	38,698	100,575	38,646	386,185	(155,464)	230,721	
Segment income	10,519	13,364	1,854	13,006	6,414	45,157	(3,248)	41,909	
Other income (expense), net	-	-	-	-	-	-	-	821	
Income before income taxes	-	-	-	-	-	-	-	42,730	
Long-lived assets	39,400	15,630	1,732	11,210	4,166	72,138	(100)	72,038	
Segment assets	236,821	123,140	30,539	72,264	47,145	509,909	(137,402)	372,507	
Capital expenditures	2,781	3,718	214	2,878	235	9,826	(84)	9,742	
Write-down of inventories	-	308	4	83	314	709	-	709	
Depreciation and amortization	4,225	1,226	355	1,432	377	7,615	(58)	7,557	
Impairment loss	-	262	-	-	-	262	-	262	
Government Grants	¥ -	¥ -	¥ -	¥ -	¥ 1,327	¥ 1,327	¥ -	¥ 1,327	

Year ended March 31, 2012

	Yen in millions								
	Japan	Europe	North America	Asia	Other regions	Total Segment	Corporate and Eliminations	Consolidated	
<b>Sales:</b>									
External customers	¥ 71,499	¥ 123,537	¥ 38,073	¥ 12,887	¥ 49,715	¥ 295,711	¥ -	¥ 295,711	
Inter-segment	54,183	4,094	3,145	108,288	351	170,061	(170,061)	-	
<b>Total</b>	<b>125,682</b>	<b>127,631</b>	<b>41,218</b>	<b>121,175</b>	<b>50,066</b>	<b>465,772</b>	<b>(170,061)</b>	<b>295,711</b>	
Operating expenses	110,086	113,726	38,921	110,396	43,614	416,743	(169,548)	247,195	
Segment income	15,596	13,905	2,297	10,779	6,452	49,029	(513)	48,516	
Other income (expense), net	-	-	-	-	-	-	-	(1,553)	
Income before income taxes	-	-	-	-	-	-	-	46,963	
Long-lived assets	39,765	15,407	1,898	16,847	3,956	77,873	(135)	77,738	
Segment assets	236,620	121,502	30,966	82,859	52,647	524,594	(141,338)	383,256	
Capital expenditures	3,991	2,182	492	6,589	320	13,574	(93)	13,481	
Write-down of inventories	14	1,326	34	12	576	1,962	-	1,962	
Depreciation and amortization	3,791	1,244	366	1,486	406	7,293	(56)	7,237	
Impairment loss	214	-	-	-	-	214	-	214	
Government Grants	¥ -	¥ -	¥ -	¥ -	¥ 954	¥ 954	¥ -	¥ 954	

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Year ended March 31, 2012

	U.S. Dollars in thousands								
	Japan	Europe	North America	Asia	Other regions	Total Segment	Corporate and Eliminations	Consolidated	
<b>Sales:</b>									
External customers	\$ 871,939	\$ 1,506,549	\$ 464,305	\$ 157,159	\$ 606,280	\$ 3,606,232	\$ -	\$ 3,606,232	
Inter-segment	660,768	49,927	38,354	1,320,585	4,281	2,073,915	(2,073,915)	-	
<b>Total</b>	<b>1,532,707</b>	<b>1,556,476</b>	<b>502,659</b>	<b>1,477,744</b>	<b>610,561</b>	<b>5,680,147</b>	<b>(2,073,915)</b>	<b>3,606,232</b>	
Operating expenses	1,342,512	1,386,903	474,647	1,346,293	531,877	5,082,232	(2,067,659)	3,014,573	
Segment income	190,195	169,573	28,012	131,451	78,684	597,915	(6,256)	591,659	
Other income (expense), net	-	-	-	-	-	-	-	(18,939)	
Income before income taxes	-	-	-	-	-	-	-	572,720	
Long-lived assets	484,939	187,890	23,146	205,451	48,245	949,671	(1,647)	948,024	
Segment assets	2,885,610	1,481,732	377,634	1,010,476	642,036	6,397,488	(1,723,634)	4,673,854	
Capital expenditures	48,671	26,610	6,000	80,354	3,902	165,537	(1,135)	164,402	
Write-down of inventories	171	16,171	415	146	7,024	23,927	-	23,927	
Depreciation and amortization	46,232	15,171	4,463	18,122	4,951	88,939	(683)	88,256	
Impairment loss	2,610	-	-	-	-	2,610	-	2,610	
Government Grants	\$ -	\$ -	\$ -	\$ -	\$ 11,634	\$ 11,634	\$ -	\$ 11,634	

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

**Consolidated Net Sales by Geographic Area**

	Yen in millions, except for percentage amounts							U.S. Dollars in thousands
	Year ended March 31,							
	2010		2011		2012		2012	
Japan	¥ 42,697	17.4%	¥ 46,065	16.9%	¥ 53,175	18.0%	\$ 648,476	
Europe	109,106	44.4	115,977	42.5	123,251	41.7	1,503,061	
United States	26,292	10.7	27,691	10.2	28,660	9.7	349,512	
North America (excluding United States)	8,217	3.3	9,420	3.4	8,815	3.0	107,500	
Asia (excluding Japan)	18,373	7.5	23,073	8.5	26,013	8.8	317,232	
Other	41,138	16.7	50,404	18.5	55,797	18.8	680,451	
<b>Total</b>	<b>¥ 245,823</b>	<b>100%</b>	<b>¥ 272,630</b>	<b>100%</b>	<b>295,711</b>	<b>100%</b>	<b>\$ 3,606,232</b>	

No single external customer accounted for 10% or more of Makita's net sales for each of the year ended Mar 31, 2010, 2011 and 2012.

**Table of Contents****Consolidated Net Sales by Product Categories**

Fiscal year	Yen in millions, except for percentage amounts						U.S. Dollars
	2010		2011		2012		in thousands
Power Tools	¥ 173,998	70.8%	¥ 195,952	71.9%	¥ 213,274	72.1%	\$ 2,600,903
Gardening Equipments, Household and Other Products	34,145	13.9	37,145	13.6	39,827	13.5	485,695
Parts, Repairs and Accessories	37,680	15.3	39,533	14.5	42,610	14.4	519,634
Total	¥ 245,823	100%	¥ 272,630	100%	¥ 295,711	100%	\$ 3,606,232

**20. RELATED PARTY TRANSACTIONS**

The transactions between the Company and Maruwa Co., Ltd. ( Maruwa ), for which the representative director of the Company, Masahiko Goto, and certain of his family members have a majority of the voting rights, amounted to ¥ 2 million (\$ 24 thousand) for advertising expenses for each of the years ended March 31, 2010, 2011 and 2012.

The Company's purchases of raw materials, production equipment and expense of workers on loan from Toa Co., Ltd., for which a representative director of the Company, Masahiko Goto, and certain of his family members have a majority of the voting rights, were ¥ 28 million, ¥ 53 million and ¥ 75 million (\$ 915 thousand) during the years ended March 31, 2010, 2011 and 2012, respectively. The accounts payable of the Company related to these transactions were ¥ 2 million, ¥ 11 million and ¥ 2 million (\$ 24 thousand) as of March 31, 2010, 2011 and 2012, respectively.

The outside director, Motohiko Yokoyama is a chairman of JTEKT Corporation. The Company's purchases of raw materials and production equipment from JTEKT Corporation, were ¥ 311 million during March 31, 2010, ¥ 470 million during the year ended March 31, 2011 and ¥ 633 million (\$ 7,720 thousand) during the year ended March 31, 2012. The accounts payables of the Company related to these transactions were ¥ 24 million, ¥ 57 million and ¥ 44 million (\$ 537 thousand) as of March 31, 2010, 2011, and 2012 respectively.

**21. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENTS OF INCOME**

The following amounts were included in selling, general, administrative and others, net for the years ended March 31, 2010, 2011 and 2012:

	Yen in millions			U.S. Dollars
	2010	2011	2012	in thousands
Research and Development Costs	¥ 6,782	¥ 7,283	¥ 7,603	\$ 92,720
Advertising Costs	4,203	4,462	4,713	57,476
Shipping and Handling Costs	5,492	5,770	6,180	75,366
Government Grants *	(339)	(1,327)	(954)	(11,634)

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



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## MAKITA CORPORATION AND SUBSIDIARIES

**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

FOR THE YEARS ENDED MARCH 31, 2010, 2011 AND 2012

Descriptions	Yen in millions					Translation adjustments	Balance at end of year
	Balance at beginning of year	Charged to costs and expenses	Charged to other accounts	Deductions	Additions		
<b>2010:</b>							
Allowance for doubtful receivables	¥ 1,129	¥ 152	¥ -	¥ (289)	¥ 18	¥ 1,010	
Deferred income taxes assets valuation allowance	329	1,704	-	(15)	3	2,021	
Volume-based rebates	3,064	-	7,738	(7,672)	(117)	3,013	
Cooperative advertisings	189	-	1,704	(1,544)	7	356	
Cash discounts	¥ 340	¥ -	¥ 4,420	¥ (4,281)	¥ 8	¥ 487	
<b>2011:</b>							
Allowance for doubtful receivables	¥ 1,010	¥ 223	¥ -	¥ (235)	¥ (63)	¥ 935	
Deferred income taxes assets valuation allowance	2,021	621	-	(1,010)	8	1,640	
Volume-based rebates	3,013	-	8,736	(7,835)	(111)	3,803	
Cooperative advertisings	356	-	2,296	(2,209)	(30)	413	
Cash discounts	¥ 487	¥ -	¥ 5,069	¥ (5,184)	¥ (28)	¥ 344	
<b>2012:</b>							
Allowance for doubtful receivables	¥ 935	¥ 131	¥ -	¥ (269)	¥ (44)	¥ 753	
Deferred income taxes assets valuation allowance	1,640	40	-	(1,085)	(38)	557	
Volume-based rebates	3,803	-	10,223	(9,770)	(113)	4,143	
Cooperative advertisings	413	-	2,269	(2,252)	(14)	416	
Cash discounts	¥ 344	¥ -	¥ 5,310	¥ (5,170)	¥ (2)	¥ 482	

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