Makita Corporation

Additional Information
for the year ended March 31, 2019

General Overview of Business

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

CONTENTS

【Overview of operating results】

(1) Overview of operating results for the fiscal year ended March 31, 2019

We have adopted International Financial Reporting Standards (hereinafter "IFRS") instead of accounting principles generally accepted in the United States of America (hereinafter "U.S. GAAP") from the beginning of the fiscal year ending March 31, 2019. In addition, financial figures for the year ended March 31, 2018, which was prepared in accordance with U.S. GAAP in the reporting of those previous periods, are also reclassified in accordance with IFRS and used in the comparative analysis.

Looking at the global economic situation for the year ended March 31, 2019, the economy gradually expanded, supported by a strong employment and income situation and robust business performance in developed countries, principally the U.S. However, there were growing concerns over the slowing global economy and uncertainties about the future because of escalating tensions between the U.S. and China over trade and a decline in emerging-country currencies.

Under these circumstances, on the development side, the Makita Group concentrated its efforts on expanding lithium-ion battery product lines, such as cordless tools with equal or better work efficiency than AC-powered ones, and cordless gardening equipment, such as grass cutters or steel deck-type lawnmowers with performance equal to engine-powered products. Moreover, we established a technology development base in South Korea to enhance our capability to develop electrical technologies and accelerate development speed.

On the production side, we continued to implement measures including the promotion of multi-polarized global production, cost reduction through local procurement of components, and introduction of labor-saving or unmanned facilities.

On the sales side, we focused on expanding the sales of lithium-ion battery products, such as cordless gardening equipment. Furthermore, we worked hard to strengthen our community- and customer-based sales network by increasing sales and after-sales service bases.

Our consolidated revenue for this period increased by 2.8% from the previous year to 490,578 million yen, record-high sales, due to robust sales primarily in Japan, although the value of overseas net sales translated into yen was eroded by a fall in emerging-country currencies. Operating profit decreased by 2.4% to 78,305 million yen (operating profit ratio: 16.0%), owing to the deterioration of the cost-of-sales ratio due to the impact of the exchange rate, although net sales increased. Meanwhile, profit before income taxes increased by 0.1% to 79,919 million yen (profit before income taxes ratio: 16.3%) and profit attributable to owners of the parent increased by 1.5% to 55,750 million yen (ratio of profit attributable to owners of the parent: 11.4%).

Consolidated revenue by region are as follows:

Consolidated revenue in Japan increased by 11.6% to 92,129 million yen compared to the previous year. This was because sales of power tools and gardening equipment, particularly lithium-ion battery products, continued to be strong.

Consolidated revenue in Europe increased by 5.5% to 213,238 million yen, supported by solid demand for power tools in almost all areas and steady sales growth of cordless products, although sales of gardening equipment stagnated due to an extremely hot summer and droughts.

Consolidated revenue in North America decreased by 1.8% to 72,508 million yen, although we tried to expand sales, mainly lithium-ion battery products, amid intensifying competition.

Consolidated revenue in Asia decreased by 7.2% to 40,909 million yen. This was due to sluggish sales in countries other than China and India where the sales were robust.

Consolidated revenue in Central and South America decreased by 0.4% to 27,801 million yen. This was due to a sharp depreciation in each country's currency against the yen compared to the same period of the previous year, although sales in almost all countries remained robust.

In Oceania, sales continued growing at a level as high as the previous year, although the housing market, which had been overheated, showed signs of slowing down. However, consolidated revenue declined by 3.4% to 30,222 million yen due to the yen's appreciation against local currencies.

Consolidated Revenue in the Middle East and Africa decreased by 11.1% to 13,771 million yen. This was due to poor sales amid political and economic turmoil in the Middle East.

- **Analysis on cash flows and financial ratios**

Total cash and cash equivalents amounted to 146,512 million yen, decreased by 808 million yen compared to the end of the previous year. (Net Cash Provided by Operating Activities)

Net cash provided by operating activities amounted to 23,155 million yen (34,191 million yen in the previous year), down 11,036 million yen over the previous year.

Net cash used in investing activities amounted to 15,329 million yen (15,708 million yen in the previous year), down 379 million yen over the previous year, due to a decrease in payments into time deposits, despite an increase in purchase of non-current assets.

Consequently, free cash flows (the sum of cash flows from operating activities and investing activities) amounted to 7,826 million yen (18,483 million yen in the previous year), down 10,657 million yen over the previous year.

Net cash used in financing activities amounted to 8,231 million yen (17,743 million yen in the previous year), down 9,512 million yen over the previous year, due to an increase in proceeds from loans payable.

【Production, Orders Received and Sales】

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

Production volume, based on selling price, for this fiscal year increased by 26,599 million yen (7.1%) to 399,409million yen compared to the previous year.

Consolidated net sales for this year increased by 2.8% to 490,578 million yen compared to the previous year.

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

【Management policies and Challenges the Company faces】

1. Basic Policies

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

2. Target Management Indicators

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

3. Medium-to-Long-Term Management Strategy

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

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

4. Preparing for the Future

In the future, the Makita Group expects that the prospect for the global economy, including markets where it has presence, will continue to be uncertain, as the international political situation is likely to remain deadlocked. Meanwhile, the Group believes that demand for products and services that contribute to the solution of social problems, such as the labor shortage and environment conservation, will increase further.
To cope with these assumed conditions, Makita will:
・ Strengthen its R&D and product development capabilities, mainly rechargeable batteries and motors, to take the initiative in expanding the market of cordless products;
・ Position cordless gardening tools as a future pillar of its business after power tools and focus its efforts on the development and sales expansion of new products;
・ Implement measures to strengthen and improve the efficiency of production, procurement and distribution, while further upgrading global production organizations; and
・ Strive to raise its brand power by promoting the establishment of a sales and after-sales service network to offer community-based and fine-tuned response to needs of customers around the world.
On the basis of these factors, the Group will strive to maintain a solid presence in the industry as a global supplier of power tools used in home-building and in everyday life.

【Risk factors】

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

【Material contracts】

Not applicable.

【Research and development】

As an global 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, 1,045 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 FY2019, Makita allocated 11,630 million yen (including the development cost that has been capitalized) to R&D, an increase of 5.9% compared with FY2019. As of March 31, 2019, Makita owned 4,162 patents, utility model registration and design rights (inclusive of 3,389 patents and utility model registration) in and outside of Japan.

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

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

New products launched during FY2019 included;
・World's first Cordless Portable Cut-off
・Cordless lawn mower with heavy duty durable steel deck and 2-speed mode
・Brushless cordless portable vacuum cleaner, it is compact, portable and easy-to-use
・Cordless Combination hammer with Auto-start wireless system

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

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

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

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

General Overview

Makita's principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, approximately 81% of Makita's sales were outside of Japan. Makita is affected to a large extent by demand for power tools worldwide, which in turn is influenced by factors including housing starts, demand for household renovations, public investment and private capital expenditures.

Makita's primary products are power tools such as drills, rotary hammers, hammer drills, demolition hammers, grinders and cordless impact drivers. Sales of these products accounted for more than 61% of Makita's total net sales.

Sales of gardening equipment and household products, such as engine equipped with brush-cutters and cordless cleaners accounted for about 22% of Makita's total net sales.

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

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

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

Our consolidated net sales for this period increased by 2.8% from the previous year to 490,578 million yen, record-high sales, due to sales revenue remained steady in the domestic market although it decline in emerging market due to currencies depreciation.

In Europe, strong sales remained, mainly for rechargeable products, due to strong demand for construction and favorable employment and income conditions. In Asia, while sales were strong in China, India but in other countries were sluggish. In Central and South America, although there was concern about the negative impact on the economy due to the decline in local currency, sales in each country remained steady. Although the housing market in Australia showing signs of slowing in recent years, sales grows at a high level and reached nearly 20% from the previous year. In Japan, a moderate rise in wages has led to a recovery in personal consumption, the recovery in the economy continues Gradually.

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

On the development side, the Makita Group launched new products, mainly rechargeable tools that have achieved working efficiencies equivalent to or better than AC machines. Rechargeable horticultural equipment such as mowers and steel deck type lawn mowers that have the same feeling as engine type, In addition to focusing on expanding the lineup of lithium ion battery products, the Makita Group established a development base in Korea for the purpose of improving the development capability and speed of electrical equipment technology.

On the production side, the Makita Group still made efforts to promote the multipolarization on global production, cost reduction such as local procurement of materials, lead-in labor-saving and unmanned facilities.

On the sales side, in addition to focusing on expanding sales of rechargeable lithium-ion battery horticultural products, the Makita Group also expanded the sales and service bases and worked to strengthen the regional and customer-oriented sales system.

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

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

As part of the Company's policy to maximize shareholders returns, the Company paid an interim dividend of 10 yen per share in November 2018 and a year-end dividend of 52 yen per share was approved at the Ordinary General Meeting of Shareholders held on June 26, 2019.

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 FY2019, the Japanese yen appreciated against euro and depreciated against the U.S. dollar.

Net Sales

Makita's consolidated net sales for FY2019 amounted to 490,578 million yen, a increase of 2.8%, or 13,280million yen, from FY2018. In FY2019, the average Japanese yen-U.S. dollar exchange rate was 110.92 yen for U.S. $1.00, representing a 0.1% depreciation of the Japanese yen compared to the average exchange rate in FY2018. The average Japanese yen-euro exchange rate in FY2019 was 128.44 yen for 1.00 euro, representing a 0.9% depreciation of the Japanese yen compared to the average exchange rate in FY2018. During the year, the weighted average of the Japanese yen's appreciation against other currencies was 2.6%. That unfavorable currency translation effect decreased Makita's sales by 10,673 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 5.0% or 23,953 million yen in FY2019. Sales quantity increased by 2.4%.

In terms of product group, the sales of power tools increased by 0.3%, or 854 million yen; the sales of gardening equipment, household and other products increased by 8.1%, or 8,070 million yen; and revenue from parts, repairs and accessories increased by 5.6%, or 4,356 million yen. The ratio of sales of cordless power tools to total sales of products increased to 56.4% in FY2019 from 52.6% in FY2018.

Sales by region

In Japan, Makita witnessed an increase in sales of 11.6%, or 9,554 million yen, to 92,129 million yen compared to the FY2018. Sales in Europe after translation into Japanese yen increased by 5.5%, or 11,184 million yen, to 213,238 million yen. In North America, sales decreased by 1.8%, or 1,365 million yen, to 72,508 million yen. In Asia, excluding Japan, sales decreased by 7.2%, or 3,185 million yen, to 40,909 million yen. In Other regions, including Central and South America, Oceania, Middle East and Africa, sales decreased by 3.9%, or 2,908 million yen, to 71,794 million yen.

Net sales in Japan increased by 11.6% to 92,129 million yen compared to the previous year. This was due to robust sales of power tools and gardening equipment, mainly lithium-ion battery products.

Net sales in Europe increased by 5.5% amounted to 213,238 million yen. This was due to a rise in sales in Western Europe, Eastern Europe/Russia(almost in all regions) and the depreciation of the yen against the euro from a year earlier. Net sales in local currencies increased by 5.2% in Western Europe and by 6.1% in Eastern Europe/Russia. Excluding the effect of currency translation, sales in Western Europe increased by 6.2% and by 10.6% in Eastern Europe/Russia. Sales in Europe increased by 7.8%, or 15,728 million yen.

Net sales in North America decreased by 1.8% to 72,508 million yen due to the effects of tariffs on China and increased competition. Excluding the effect of currency translation, sales in North America decreased by 1.6%, or 1,195 million yen.

Net sales in Asia decreased by 7.2% amounted to 40,909 million yen. This was due to sales to distributors decline although sales increased in China and India and the depreciation of the yen against local currencies compared to the previous year. Excluding the effect of currency translation, sales in Asia decreased by 6.2%, or 2,743million yen.

Sales situations in other regions are as follows. Net sales in Oceania decreased by 3.4% to 30,222 million yen due to the appreciation of the yen against local currency compared to the previous year. Excluding the effect of currency translation, net sales in Oceania increased by 2.2%, due to the steady sales of lithium-ion battery products. Net sales in Central and South America decreased by 0.4% amounted to 27,801 million yen due to the continuing appreciation of Yen. Net sales in the Middle East and Africa decreased by 11.1% amounted to 13,771 million yen. This was because a fall in crude oil prices affected the economy and political uncertainty continued. Excluding the effect of currency translation, sales in other regions increased by 3.5%, or 2,609 million yen.

Review of Performance by Product Group

Power Tools

The power tools group offers a wide range of products such as drills, grinders and sanders, rotary hammers and hammer drills, cordless impact drivers, cutters and circular saws. These products represent the largest portion of Makita's consolidated net sales. In FY2019, sales of power tools increased by 0.3% from the previous fiscal year to 300,118 million yen, accounting for 61.2% of consolidated net sales. In Japan, sales of power tools increased by 4.1% to 42,372 million yen, accounting for 46.0% of domestic net sales. Overseas sales of power tools decreased by 0.3% to 257,745 million yen, accounting for 64.7% of overseas net sales.

New products launched during FY2019 included;

・World's first Cordless Portable Cut-off
・AVT Cordless hammer with highest speed and low vibration
・Brushless screwdriver, compact and lightweight, achieving high speed rotation same as AC product
・Brushless and automatic speed shift metal cutter with chip saw, can easily cut 12mm iron plate in a single pass

Gardening Equipment, Household and Other Products

Principal products in Makita's gardening equipment and household products group include chain-saws, brush-cutters, vacuum cleaners and cordless cleaners. In FY2019, sales of gardening equipment, household and other products increased by 8.1% to 108,046 million yen, which accounted for 22.0% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 23.7%, to 30,427 million yen, accounting for 33.0% of total domestic sales. Overseas sales in the product category increased by 3.0%, to 77,620 million yen, accounting for 19.5% of total overseas sales in FY2019.

New products launched during FY2019 included;

・Cordless lawn mower with heavy duty durable steel deck and 2-speed mode
・Brushless cordless 7.5L HEPA portable vacuum cleaner
・18V X2 LXT brushless cordless HEPA backpack vacuum cleaner, can increase suction power for improved dust collection when connected with Makita power tools

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2019, the sales of parts, repairs and accessories increased by 5.6%, to 82,414 million yen, accounting for 16.8% of consolidated net sales. Domestic sales of parts, repairs, and accessories rose 11.9%, to 19,323 million yen, accounting for 21.0% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 3.8%, to 63,091 million yen, accounting for 15.8% of overseas net sales.

Gross Profit

For FY2019, gross profit on sales rose 0.7%, or 1,316 million yen, to 177,222 million yen, compared to FY2018. The ratio of cost of sales increased by 0.8 points from 63.1% in FY2018 to 63.9% in FY2019, due to unfavorable currency translation effect. As a result, the gross profit margin deteriorated from 36.9% to 36.1% compared with FY2018.

Selling, general, administrative and others, net

The effect of exchange rate and the increase of advertising expenses and wages increased our selling, general, administrative and others, net (hereinafter called "SGA expenses"). SGA expenses for FY2019 increased by 3.4%, or 3,242 million yen to 98,917 million yen compared with FY2018. SGA expenses excluding the impact of currency fluctuations increased by 5.2%, or 4,989 million yen compared with FY2018. The ratio of SGA expenses to sales is 20.1% in FY2019, almost the same with FY2018.

Operating Income

Operating income decreased by 2.4% to 78,305 million yen. Operating margin down by 0.8 points from 16.8% to 16.0% compared with FY2018.

Income before Income Taxes

Income before income taxes for FY2019 increased 0.1%, or 54 million yen, to 79,919 million yen. The ratio of income before income taxes to sales in FY2019 down 0.4 percent point, from 16.7% to 16.3%, compared with FY2018.

Income Taxes

Income taxes for FY2019 amounted to 23,728 million yen, decrease of 2.8%, or 678 million yen, compared with FY2018. The effective tax rate for FY2019 was 29.7%, down by 0.9 percent point from 30.6% for FY2018.

Net Income Attributable to Makita Corporation

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2019 increased by 1.5%, or 807 million yen, to 55,750 million yen compared with FY2018. The ratio of net income attributable to Makita Corporation's shareholders in FY2019 was 11.4%, down by 0.1 percent point from 11.5% for FY2018.

Basic earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders increased to 205.37 yen in FY2019 from 202.39 yen in FY2018.

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.

Japan Segment

In FY2019, sales in the Japan segment increased by 7.3% on a year-over-year basis, to 332,254 million yen. Sales to external customers increased by 4.9% on a year-over-year basis to 112,143 million yen, which accounted for 22.9% of consolidated net sales. The increase reflects the increase of product distribution between intercompany by the continued strong sales in the oversea market and the continued strong sales mainly on new products in the domestic market. The decrease of cost of sales by exchange decreased operating income ratio by 0.5 percent point to 10.2% in FY2019 from 9.7% in FY2018. Operating income increased by 2.1% on a year-over-year basis, to 32,330 million yen.

Europe Segment

In FY2019, sales in the Europe segment increased by 6.1% to 219,805 million yen. Sales to external customers increased by 5.7%, to 213,903 million yen, which accounted for 43.6% of consolidated net sales. The increase reflects the continued strong sales in Europe. The purchase currency U.S. dollar appreciated against the euro decreased operating income ratio by 0.9 percent point to 9.3% in FY2019 from 8.4% in FY2018. Accordingly, segment income decreased by 4.1%, to 18,424 million yen for this year.

North America Segment

In FY2019, sales in the North America segment decreased by 2.4%, to 78,795 million yen. Sales to external customers decreased by 2.0% to 74,854 million yen, which accounted for 15.2% of consolidated net sales. The decrease is due to US-China trade friction and severe competition. Operating income ratio decreased by 2.5 percent point to 0.3% in FY2019 from 2.8% in FY2018 due to US-China tariffs. As a result, segment income decreased by 88.1%, to 267 million yen.

Asia Segment

In FY2019, sales in the Asia segment increased by 3.6% to 247,413 million yen. Sales to external customers increased by 1.1%, to 26,414 million yen, which accounted for 5.4% of the consolidated net sales. This was due to robust sales in China. The depreciation of local currency led to the Operating income ratio deteriorated by 1.0 percent point to 9.3% in FY2019 from 10.3% in FY2018. Accordingly, segment income decreased by 6.0%, to 23,094 million yen in FY2019.

Other Segment

In FY2019, sales in the Other segment decreased by 4.6% to 64,070 million yen. Sales to external customers decreased by 3.6%, to 63,264 million yen, which accounted for 12.9% of the consolidated net sales. This is because the sales in in the Middle East and Africa stagnated and Oceania and Central and South America down by the effective of currency. The operating income ratio in Central and South America improved from 8.2% in FY2018 to 8.9% in FY2019. As a result, segment income increased by 4.2%, to 5,715 million yen, in FY2019.

Cash Flows

Net cash provided by operating activities decreased by 11,036 million yen from 34,191 million yen in FY2018 to 23,155 million yen in FY2019, primarily as a result of the following:

Cash flow increasing factors:

- Cash collected from customers increased 22,348 million yen due to the sales increase

Cash flow decreasing factors:

- Disbursement increased by 13,371 million yen due to increased purchases
- 3,167 million yen increase in selling expenses due to an increase in sales
- Tax payments increased by 3,906 million yen

Net cash used in investing activities increased by 379 million yen from 15,708 million yen in FY2018 to 15,329 million yen in FY2019, primarily as a result of the following:

Increasing factors of Cash flow used:

- 8,822 million yen increase in purchases of property, plant and equipment

Decreasing factors of Cash flow used:
- 4,002 million yen increase in purchasing of investment
- 10,559 million yen decrease in disposal and redemption of investments

Net cash used in financing activities decreased by 9,512 million yen from 17,743 million yen in FY2018 to 8,231million yen in FY2019 primarily as a result of the following:

Increasing factors of Cash flow used:
- 2,715 million yen increase in dividend paid

Decreasing factors of Cash flow used:
- 12,371 million yen increase in Procurement of short-term debt

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents decreased by 808 million yen from 147,320 million yen as of the end of FY2018 to 146,512 million yen as of the end of FY2019.

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

Capital expenditures are expected to be higher in FY2019 compared to FY2018 due to Okazaki Factory Distribution Center and extension of Makita (China) Co., Ltd., Makita cooperation of America and Makita EU S.R.L (Romania).

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, 2019, Makita held cash and cash equivalents amounting to 146,512 million yen and the Company's subsidiaries had credit lines up to 15,757 million yen, of which 11,799 million yen was used and 3,958 million yen was unused and available. As of March 31, 2019, Makita had 11,799 million yen in short-term borrowings, Short-term borrowing was used for daily operations at the subsidiaries. For further information regarding Makita's short-term borrowings, including the average interest rates, please see notes13 Borrowings 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.

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 FY2019.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 146,512 million yen as of March 31, 2019, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2019 and thereafter. In the opinion of management, the working capital is sufficient for Makita's present requirements.

As part of the Company's policy to maximize shareholder returns, the Company distributed to its shareholders an interim dividend of 10 yen per share in November 2018. At the Ordinary General Meeting of Shareholders held on June 26, 2019, the Company's shareholders approved a cash dividend of 52 yen per share. In June 2019, the Company paid cash dividends of 16,831 million yen in the aggregate.

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

【Facilities and Equipment】

(1)Head Office

As of March 31, 2019

Office Name (Location)	Content of Facilities	Net Book Value (Millions of Yen)				Number of Employees
		Buildings	Machinery and Equipment	Land [Square Meters]	Total	
Makita Corp (Anjo, Aichi)	R&D	4,256	3,846	251 [40,330]	8,353	1,075
Okazaki Plant (Okazaki, Aichi)	Production	8,708	3,256	2,995 [188,269]	14,959	925
Nisshin (Nisshin, Aichi)	R&D	1,099	112	1,818 [43,102]	3,029	126
Tokyo Branch (Bunkyo, Tokyo)	Sales point	219	20	57 [323]	296	28
Nagoya Branch (Nakamura, Nagoya)	Same as above	232	3	352 [1,238]	587	25
Osaka Branch (Kita, Osaka)	Same as above	734	3	69 [335]	806	29

(2)Overseas Subsidiaries

As of March 31, 2019

Company Name	Location	Contents of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees (average number of temporary staff)
Makita Corporation of America	Atlanta U.S.A.	Production	261	233	87 [230,825]	581	131 (180)
Makita (China) Co., Ltd.	Kunshan China	Same as above	3,081	9,495	- [-] ＜156,484＞	12,576	4,415 (401)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	1,665	2,424	- [-] ＜87,683＞	4,089	1,933 (205)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	552	281	145 [50,600]	978	324 (128)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	68	251	607 [58,336]	926	173 (11)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	4,928	2,786	514 [249,325]	8,228	1,220 (443)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	920	717	121 [141,876]	1,758	672 (63)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	1,940	902	995 [172,436]	3,837	422 (204)

(Attention)

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