Makita Corporation

Additional Information
for the year ended March 31, 2020

General Overview of Business

(Partial translation of "YUKASHOKEN HOKOKUSHO"

originally issued in Japanese)

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【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 (mainly for DC type, gardening equipment, air tools, etc.) 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.

On the basis of these factors, we will contribute to the realization of a sustainable society as a global supplier of power tools that are useful for people's lives and used home-building, and strive to secure a company position in the industry.

(About Covid-19 infection)

Regarding Covid-19 infectious diseases, in the Makita Group that is a high overseas sales ratio, economic activity stagnation due to the spread of global infections led to a decline in demand for power tools, and sales activities were restricted in order to regulations in each country including going-out regulations.

In the current consolidated fiscal year, measures were taken to reduce production and suspend operations at some plants due to regulations in each country. If the infection spreads again, the production activities of the Group may be affected, including the reduction of production and suspension of operations at suppliers.
Despite this uncertain outlook, the Group will continue to make aggressive investments, including the measures described above, for future growth against the backdrop of its solid financial position. In addition, we will also engage in business activities adapted to Covid-19 infectious diseases, including efforts to ensure the safety of employees.

【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 such as Civid-19 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, epidemic of new infectious disease 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.

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

The consolidated financial statements of the Makita Group are prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”). 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 reliability.

Regarding the impact of COVID-19, in the Makita Group with a high overseas sales ratio, sales activities were restricted due to regulations in each country such as going out regulations in the fourth quarter of the current consolidated fiscal year, but the impact on business results was immaterial. On the other hand, the effect may continue for a certain period of the next consolidated fiscal year and sales revenue may decrease.

【Overview of operating results】

(1) Overview of operating results for the fiscal year ended March 31, 2020

General Overview

Makita’s principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, approximately 80% 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.

Net Sales

Makita’s consolidated net sales for FY2020 amounted to 492,617 million yen, an increase of 0.4%, or 2,039 million yen, from FY2019. In FY2020, the average Japanese yen-U.S. dollar exchange rate was 108.70 yen for U.S. $1.00, representing a 2.0% appreciation of the Japanese yen compared to the average exchange rate in FY2019. The average Japanese yen-euro exchange rate in FY2020 was 120.81 yen for 1.00 euro, representing a 5.9% appreciation of the Japanese yen compared to the average exchange rate in FY2019. During the year, the weighted average of the Japanese yen’s appreciation against other currencies was 4.9%. That unfavorable currency translation effect decreased Makita’s sales by 20,252 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 4.5% or 22,291 million yen in FY2020. Sales quantity increased by 1.7%.

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.

Looking at the global economic situation for the year ended March 31, 2020, 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, a decline in emerging-country currencies and impact of COVID-19 from the fourth quarter.

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 concentrated its efforts on expanding high-capacity lithium-ion battery product lines, such as cordless tools with equal or better work efficiency than AC-powered ones and cordless gardening equipment with performance equal to engine-powered products.

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.

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.

Review of Performance by Product Group

Power Tools

The power tools group offers a wide range of products such as drills, hammer drills, grinders, cordless impact drivers and circular saws. These products represent the largest portion of Makita's consolidated net sales. In FY2020, sales of power tools decreased by 2.5% from the previous fiscal year to 292,497 million yen, accounting for 59.4% of consolidated net sales. In Japan, sales of power tools increased by 15.0% to 48,741 million yen, accounting for 48.4% of domestic net sales. Overseas sales of power tools decreased by 5.4% to 243,756 million yen, accounting for 62.2% of overseas net sales.

New products launched during FY2020 included;

・Japan's first cordless slide compound miter saw (165mm) with the left and right tilt
・Cordless crimping tool (T-type) that greatly reduces work burden such as crimping, compressing and cutting
・Cordless tools such as impact driver, circular saw and driver drill that use "40V max Lithium-ion Battery (XGT)" with high power, long life and durability

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 FY2020, sales of gardening equipment, household and other products decreased by 4.3% to 112,678 million yen, which accounted for 22.8% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 1.4%, to 30,852 million yen, accounting for 30.6% of total domestic sales. Overseas sales in the product category increased by 5.4%, to 81,826 million yen, accounting for 20.9% of total overseas sales in FY2020.

New products launched during FY2020 included;

・Top handle chain saw with power equivalent to engine-powered
・18V X2 LXT cordless vacuum cleaner with low noise and high suction power

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2020, the sales of parts, repairs and accessories increased by 6.1%, to 87,442 million yen, accounting for 17.8% of consolidated net sales. Domestic sales of parts, repairs, and accessories rose 9.2%, to 21,103 million yen, accounting for 21.0% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 5.1%, to 66,339 million yen, accounting for 16.9% of overseas net sales.

Gross Profit

For FY2020, gross profit on sales decreased 4.7%, or 8,381 million yen, to 168,841 million yen, compared to FY2019. The ratio of cost of sales increased by 1.8 points from 63.9% in FY2019 to 65.7% in FY2020, due to unfavorable currency translation effect. As a result, the gross profit margin deteriorated from 36.1% to 34.3% compared with FY2019.

Selling, general, administrative and others, net

The increase of wages and depreciation by adoption of IFRS16 increased our selling, general, administrative and others, net (hereinafter called "SGA expenses"). SGA expenses for FY2020 increased by 5.9%, or 5,878 million yen to 104,795 million yen compared with FY2019. SGA expenses excluding the impact of currency fluctuations increased by 9.9%, or 9,763 million yen compared with FY2019. The ratio of SGA expenses to sales is 21.3% in FY2020, increased by 1.2% from FY2019.

Operating Income

Operating income decreased by 18.2% to 64,046 million yen. Operating margin down by 3.0 points from 16.0% to 13.0% compared with FY2019.

Income before Income Taxes

Income before income taxes for FY2020 decreased by 17.4%, or 13,911 million yen, to 66,008 million yen. The ratio of income before income taxes to sales in FY2020 down 2.9 percent point, from 16.3% to 13.4%, compared with FY2019.

Income Taxes

Income taxes for FY2020 amounted to 17,957 million yen, decrease of 24.3%, or 5,771 million yen, compared with FY2019. The effective tax rate for FY2020 was 27.2%, down by 2.5 percent point from 29.7% for FY2019.

Net Income Attributable to Makita Corporation

As a result of the above, net income attributable to Makita Corporation's shareholders for FY2020 decreased by 14.4%, or 8,019 million yen, to 47,731 million yen compared with FY2019. The ratio of net income attributable to Makita Corporation's shareholders in FY2020 was 9.7%, down by 1.7 percent point from 11.4% for FY2019.

Basic earnings per Share

Basic earnings per share attributable to Makita Corporation's shareholders decreased to 175.80 yen in FY2020 from 205.37 yen in FY2019.

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 FY2020, the Japanese yen appreciated against the euro and the U.S. dollar.

Consolidated revenue by region are as follows:

Consolidated revenue in Japan increased by 9.3% to 100,697 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 1.4% to 216,320 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 0.3% to 72,304 million yen, although we tried to expand sales, mainly lithium-ion battery products, amid intensifying competition.

Consolidated revenue in Asia decreased by 4.7%. This was due to slowdown in Chinese economy and decreasing sales in India.

Consolidated revenue in Central and South America decreased by 6.5% to 26,000 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 has been expanded in lithium-ion battery products.

In Oceania, sales continued growing due to the sales promotion in gardening equipment, however, consolidated revenue declined by 6.0% to 28,421 million yen due to the yen's appreciation against local currencies.

Consolidated Revenue in the Middle East and Africa decreased by 27.6% to 9,967 million yen. This was due to the impact of the situation in the Middle East.

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, 2020, Makita held cash and cash equivalents amounting to 143,439 million yen and the Company's subsidiaries had credit lines up to 14,703 million yen, of which 7,997 million yen was used and 6,706 million yen was unused and available. As of March 31, 2020, Makita had 7,997 million yen in short-term borrowings, decreased 3,802 million yen compared to FY2019. 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 FY2020.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 143,439 million yen as of March 31, 2020, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2020 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 2019. At the Ordinary General Meeting of Shareholders held on June 25, 2020, the Company's shareholders approved a cash dividend of 43 yen per share. In June 2020, the Company paid cash dividends of 14,390 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.

Cash Flows

	2019	2020
Cash flows from operating activities	23,155	57,310
Cash flows from investing activities	(15,329)	(30,506)
Cash flows from financing activities	(8,231)	(22,931)
Effect of changes in exchange rates on cash and cash equivalents	(808)	(3,073)
Cash and cash equivalents at end of period	146,512	143,439

Net cash provided by operating activities increased by 34,155 million yen from 23,155 million yen in FY2019 to 57,310 million yen in FY2020, primarily as a result of the following:

Cash flow increasing/decreasing factors:

- Cash collected from customers increased 8,553 million yen due to the sales increase
- Disbursement decreased by 4,998 million yen due to decreased purchases
- 3,152 million yen increase in selling expenses due to the sales increase
- Tax payments decreased by 5,433 million yen

Net cash used in investing activities increased by 15,177 million yen from 15,329 million yen in FY2019 to 30,506 million yen in FY2020 primarily as a result of the following:

Increasing/decreasing factors of Cash flow used:

- 20,542 million yen increase in purchases of property, plant and equipment
- 8,745 million yen decrease in purchasing of investment
- 2,007 million yen increase in disposal and redemption of investments

Makita intends to strengthen its global production network.

Capital expenditures are expected to be higher in FY2021 compared to FY2020 due to distribution center in Japan and extension of Makita (China) Co., Ltd. and Makita EU S.R.L (Romania).

Net cash used in financing activities increased by 14,700 million yen from 8,231 million yen in FY2019 to 22,931 million yen in FY2020 primarily as a result of the following:

Increasing/decreasing factors of Cash flow used:

- 271 million yen increase in dividend paid
- 12,165 million yen increase in repayment of short-term debt

Consequently, free cash flows (the sum of cash flows from operating activities and investing activities) amounted to 26,804 million yen (7,826 million yen in the previous year), down 18,978 million yen over the previous year.

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents decreased by 3,073 million yen from 146,512 million yen as of the end of FY2019 to 143,439 million yen as of the end of FY2020.

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.

We evaluates the performance of all reportable segments using accounting standards generally accepted by IFRS. The method of calculating operating income for each segment is equivalent to the method of calculating operating income in the consolidated statement of income, not including interest income and dividends, interest expense, foreign exchange gains and losses, gains and losses on sales of financial assets and valuation gains and losses on financial assets and liabilities.

Japan Segment

In FY2020, sales in the Japan segment decreased by 11.1% on a year-over-year basis, amounted to 295,364 million yen. Sales to external customers increased by 5.9%, amounted to 118,797 million yen, which accounted for 24.1% of consolidated net sales. This was due to strong sales in the domestic market, while decrease of product distribution between intercompany due to inventory adjustment etc. The decrease of cost of sales by exchange decreased operating income ratio by 2.0 percent point to 7.7% in FY2020 from 9.7% in FY2019. Operating income decreased by 29.7%, amounted to 22,726 million yen.

Europe Segment

In FY2020, sales in the Europe segment increased by 2.1% on a year-over-year basis, amounted to 224,436 million yen. Sales to external customers increased by 1.5%, amounted to 217,113 million yen, which accounted for 44.1% 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 2.5 percent point to 5.9% in FY2020 from 8.4% in FY2019. Accordingly, segment income decreased by 28.1%, amounted to 13,252 million yen for this year.

North America Segment

In FY2020, sales in the North America segment decreased by 1.0%, amounted to 78,035 million yen. Sales to external customers decreased by 1.0% to 74,139 million yen, which accounted for 15.0% of consolidated net sales. The decrease is due to US-China trade friction and severe competition. Operating income ratio decreased by 0.6 percent point to minus 0.3% in FY2020 from 0.3% in FY2019. As a result, segment income is to minus 201 million yen. (267 million yen profit in the previous year)

Asia Segment

In FY2020, sales in the Asia segment decreased by 13.9%, amounted to 212,924 million yen. Sales to external customers decreased by 5.7%, amounted to 24,912 million yen, which accounted for 5.1% of the consolidated net sales. This decrease reflects the affection of the economic deceleration in China due to US-China trade friction and also reflect that our group's Chinese factory temporarily took measure such as production reduction and suspension of operation when the new COVID-19 spread in China in February 2020. The depreciation of local currency led to the Operating income ratio deteriorated by 0.9 percent point to 8.4% in FY2020 from 9.3% in FY2019. Accordingly, segment income decreased by 22.6%, amounted to 17,877 million yen in FY2020.

Other Segment

In FY2020, sales in the other segment decreased by 9.1%, amounted to 58,243 million yen. Sales to external customers decreased by 8.9%, to 57,656 million yen, which accounted for 11.7% of the consolidated net sales. This is because the sales 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 deteriorated by 6.6 percent point to 2.3% in FY2020 from 8.9% in FY2019. As a result, segment income decreased by 76.8%, amounted to 1,327 million yen in FY2020.

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, 2020, Makita held cash and cash equivalents amounting to 143,439 million yen and the Company's subsidiaries had credit lines up to 14,703 million yen, of which 7,997 million yen was used and 6,706 million yen was unused and available. As of March 31, 2020, Makita had 7,997 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 FY2020.

Makita has historically maintained a high level of current asset ratio. Management estimates that the cash and cash equivalents level of 143,439 million yen as of March 31, 2020, together with cash flow from future operations, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through FY2020 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 2019. At the Ordinary General Meeting of Shareholders held on June 25, 2020, the Company's shareholders approved a cash dividend of 43 yen per share. In June 2020, the Company paid cash dividends of 14,390 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.

Cash Flows

Net cash provided by operating activities increased by 34,155 million yen from 23,155 million yen in FY2019 to 57,310 million yen in FY2020, primarily as a result of the following:

- Cash collected from customers increased 8,553 million yen due to the sales increase
- Disbursement decreased by 4,998 million yen due to decreased purchases with decrease in production volume
- Tax payments decreased by 5,433 million yen
- 3,152 million yen increase in selling expenses due to an increase in sales

Net cash used in investing activities increased by 15,177 million yen from 15,329 million yen in FY2019 to 30,506 million yen in FY2020, primarily as a result of the following :

- 20,542 million yen increase in purchases of property, plant and equipment
- 2,007 million yen increase in disposal and redemption of investments
- 8,745 million yen increase in purchasing of investment

Makita intends to strengthen its global production network.
Capital expenditures are expected to be higher in FY2020 compared to FY2019 due to Distribution Center in Japan and extension of Makita (China) Co., Ltd. and Makita EU S.R.L (Romania).

Net cash used in financing activities increased by 14,700 million yen from 8,231 million yen in FY2019 to 22,931 million yen in FY2020 primarily as a result of the following:

- 271 million yen increase in dividend paid
- 12,165 million yen increase in Repayment of short-term debt

As a result, Free Cash Flow (the total of "Net cash provided by operating activities" and "Net cash used in investing activities") decreased by 18,978 million yen to 26,804 million yen in FY2020. (cf. 7,826 million yen in FY2019)

Accounting for all these activities and the effect of exchange rate fluctuations, Makita's cash and cash equivalents decreased by 3,073 million yen to 143,439 million yen as of the end of FY2020.

【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 decreased by 36,239 million yen (9.1%) to 363,170 million yen compared to the previous year.

Consolidated net sales for this year increased by 0.4% to 492,617 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.

【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, 1,148 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 FY2020, Makita allocated 12,404 million yen (including the development cost that has been capitalized) to R&D, an increase of 6.7% compared with FY2019. As of March 31, 2020, Makita owned 4,319 patents, utility model registration and design rights (inclusive of 3,495 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 start ability 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 FY2020 included;

・Japan's first cordless slide compound miter saw (165mm) with the left and right tilt
・Cordless crimping tool (T-type) that greatly reduces work burden such as crimping, compressing and cutting
・Cordless tools such as impact driver, circular saw and driver drill that use "40V max Lithium-ion Battery" with high power, long life and high durability

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.

【Facilities and Equipment】

(1)Head Office

As of March 31, 2020

Office Name (Location)	Content of Facilities	Net Book Value (Millions of Yen) Buildings	Machinery and Equipment	Land [Square Meters]	Total	Number of Employees
Makita Corp (Anjo, Aichi)	R&D	8,298	4,943	251 [40,330]	13,492	1,125
Okazaki Plant (Okazaki, Aichi)	Production	8,308	4,111	2,997 [188,269]	15,416	906
Nisshin (Nisshin, Aichi)	R&D	1,411	101	1,818 [43,102]	3,330	128
Tokyo Branch (Bunkyo, Tokyo)	Sales point	211	23	57 [323]	291	34
Nagoya Branch (Nakamura, Nagoya)	Same as above	221	3	352 [1,238]	576	28
Osaka Branch (Kita, Osaka)	Same as above	711	2	69 [335]	782	29

Note: Right-of-use assets are included.

(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	249	241	86 [230,825]	576	128 (160)
Makita (China) Co., Ltd.	Kunshan China	Same as above	3,005	8,919	680 <220,834>	12,604	4,356 (396)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	1,591	2,574	193 <87,683>	4,358	2,038 (227)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	500	347	133 [50,600]	980	313 (100)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	25	302	582 [58,366]	909	181 (62)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	10,585	3,388	616 [273,959]	14,589	1,356 (222)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	900	815	91 [151,053]	1,806	727 (86)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	1,863	1,511	1,096 [172,436]	4,470	542 (226)

(Attention)

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