Makita Corporation

Additional Information
for the year ended March 31, 2021

General Overview of Business

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

CONTENTS

【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 service structure of the power tools industry in Japan and in international regions. Especially having plenty stock in each region as we have production and sales sites in each country, that realizes not only marketing but also speedy after-sale service and distribution, and this leads to build the customer relationship.

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 contribute to realize the decarbonized society by promoting the shift from engine products;

・ Growth to “a global supplier of cordless tools” and strength its R&D, and expand new products to category such as cleaning, outdoor or disaster prevention;

・ 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, 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.

Due to the negative impact of the global pandemic on economic activity in each country, it may have an adverse impact in Makita's financial condition and results of operations. Even after the spread of the COVID-19 in various countries, Makita has continued its business activities, including production and sales activities, and has maintained its supply and service for customers at its production bases and sales companies around the world, taking strict measures in accordance with the policies of respective governments and local administrative agencies.

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.

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.

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 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 all over the world 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 or education to employees 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.

【Overview of operating results】

(1) Overview of operating results for the fiscal year ended March 31, 2021

General Overview

Makita's principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, 81.4% 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 FY2021 amounted to 608,331 million yen, an increase of 23.5%, or 115,714 million yen, from FY2020. In FY2021, the average Japanese yen-U.S. dollar exchange rate was 106.10 yen for U.S. $1.00, representing a 2.4% appreciation of the Japanese yen compared to the average exchange rate in FY2020. The average Japanese yen-euro exchange rate in FY2021 was 123.76 yen for 1.00 euro, representing a 2.4% devaluation of the Japanese yen compared to the average exchange rate in FY2020. During the year, the weighted average of the Japanese yen's appreciation against other currencies was 1.7%. That unfavorable currency translation effect decreased Makita's sales by 8,684 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 25.3% or 124,398 million yen in FY2021. Sales quantity increased by 21.6%.

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.

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, 2021, the economy is gradually returning to normal, supported by an economic or financial policy and expansion of vaccination. However, there were growing concerns over the slowing global economy and uncertainties about the future because of COVID-19 pandemic and escalating tensions between the U.S. and China over trade.

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

Under this situation;

On the development side, the Makita Group concentrated its efforts on expanding high-capacity lithium-ion battery product lines, such as “cordless tools powered by 40Vmax lithium-ion battery” with high-power, long-life and high-durability.

On the production side, we increased production in correspondence with increase of demand, continued to implement measures including the promotion of multi-polarized global production, and started to contribute to de-plasticization as we changed packing material from plastic to paper.

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 even under the confinement in business activities due to COVID-19 pandemic.

Regarding the profit, due to the increase of net sales, operating income increased by 38.1% to 88,464 million yen in FY2021, that the ratio of operating profit to net sales was 14.5%. Profit before tax increased by 32.1% to 87,199 million yen in FY2021, that the ratio of profit before tax to net sales was 14.3%. Profit attribute to owners of the parent increased by 29.9% to 62,018 million yen, that the ratio of profit attribute to owners of the parent was 10.2%.

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.

The global economic situation is gradually returning to normal, and we expect the steady demand in the market of our products. On the other hand we concern over the durability of the staying-at-home demand occurred in FY2021 and uncertainties about the future.

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 FY2021, sales of power tools increased by 21.8% from the previous fiscal year to 356,232 million yen, accounting for 58.6% of consolidated net sales. In Japan, sales of power tools increased by 12.1% to 54,653 million yen, accounting for 48.3% of domestic net sales. Overseas sales of power tools increased by 23.7% to 301,579 million yen, accounting for 60.9% of overseas net sales.

New products launched during FY2021 included;

・Cordless impact wrench that can fasten by the strongest torque in the class with “40V max Lithium-ion Battery (XGT)” and brushless motor.

・Cordless 100mm/125mm disc grinder that enables cordless connection to cleaner by Bluetooth

・Cordless 125mm circular saw that provides fastest cutting speed in the class.

・Cordless finish nailer that is compact and high power powered by 40V max li-ion battery.

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 FY2021, sales of gardening equipment, household and other products increased by 31.3% to 147,937 million yen, which accounted for 24.3% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 16.4%, to 35,924 million yen, accounting for 31.8% of total domestic sales. Overseas sales in the product category increased by 36.9%, to 112,013 million yen, accounting for 22.6% of total overseas sales in FY2021.

New products launched during FY2021 included;

・Cordless grass trimmer with split shaft that is powerful cutting equal to 30ml petrol engine and waterproof

・530mm Cordless lawn mower that can works large mowing area with high power.

・Cordless cooler and warmer box that enables to keep cold or warm no matter where.

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2021, the sales of parts, repairs and accessories increased by 19.1%, to 104,162 million yen, accounting for 17.1% of consolidated net sales. Domestic sales of parts, repairs, and accessories rose 6.5%, to 22,471 million yen, accounting for 19.9% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 23.1%, to 81,691 million yen, accounting for 16.5% of overseas net sales.

Consolidated revenue by region are as follows:

Consolidated revenue in Japan increased by 12.3% to 113,048 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 supported by COVID-19 subsidy or staying-at-home demand.

Consolidated revenue in Europe increased by 30.8% to 282,725 million yen, supported by continuous supply from the sites in each country that is our advantage even under the COVID-19 confinement for corresponding to the positive demands.

Consolidated revenue in North America increased by 25.8% to 90,945 million yen, supported by high demands on tools according to the increase in housing starts and success of promotion in major cordless products.

Consolidated revenue in Asia increased by 0.9% to 39,331 million yen. This was due to slowdown in economy and decreasing sales in many countries in Asia due to COVID-19 pandemic, on the other hand sales in China or Taiwan increased.

Consolidated revenue in Central and South America increased by 13.1% to 29,403 million yen. This was due to positive sales in lithium-ion battery tools for corresponding to the staying-at-home demands and recovery from slowdown in economy due to COVID-19 pandemic .

In Oceania, sales continued growing due to the increase in sales of cordless products, supported by the staying-at home demands and economic assistance by government in Australia. As a result, the consolidated revenue increased by 45.3% to 41,304 million yen.

Consolidated Revenue in the Middle East and Africa increased by 16.1% to 11,575 million yen. This was due to the preparation for demands after COVID-19 even the impact of COVID-19 pandemic continues.

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 FY2021, sales in the Japan segment increased by 28.2% on a year-over-year basis, amounted to 378,714 million yen.

Sales to external customers increased by 10.5%, amounted to 131,329 million yen, which accounted for 21.6% of consolidated net sales. This was due to strong sales in the domestic market, and increase in intercompany transaction due to the strong sales all over the world. Due to more increase in net sales than the increase in operating expenses operating income ratio increased by 0.5 percent point to 8.2% in FY2021 from 7.7% in FY2020. Operating income increased by 36.9%, amounted to 31,102 million yen.

Europe Segment

In FY2021, sales in the Europe segment increased by 32.3% on a year-over-year basis, amounted to 297,016 million yen. Sales to external customers increased by 31.0%, amounted to 284,419 million yen, which accounted for 46.7% of consolidated net sales. The increase reflects our advantage that we could continue to supply even under the confinement in some country as we have sales sites in each country. More increase in net sales than the increase in operating expenses increased operating income ratio by 4.1 percent point to 10.0% in FY2021 from 5.9% in FY2020. Accordingly, segment income increased by 125.2%, amounted to 29,837 million yen for this year.

North America Segment

In FY2021, sales in the North America segment increased by 24.3%, amounted to 97,032 million yen. Sales to external customers increased by 25.2% to 92,812 million yen, which accounted for 15.3% of consolidated net sales. The increase is due strong sales supported by the staying-at-home demands or booming housing in the suburbs even under the competitive market situation. Due to more increase in net sales than the increase in operating expenses operating income ratio increased by 4.1 percent point to 3.8% in FY2021 from minus 0.3% in FY2020. As a result, segment income is increased to 3,681 million yen. (201 million yen loss in the previous year)

Asia Segment

In FY2021, sales in the Asia segment increased by 36.6%, amounted to 290,785 million yen. Sales to external customers increased by 1.3%, amounted to 25,238 million yen, which accounted for 4.1% of the consolidated net sales. This increase reflects the increase of the intercompany transaction due to the strong sales all over the world and the steady sales in China and Taiwan that quickly recovered from COVID-19 pandemic. Due to the appreciation of Chinese yen and the impact of rising transportation cost, operating income ratio deteriorated by 1.3 percent point to 7.1% in FY2021 from 8.4% in FY2020. Accordingly, segment income increased by 15.9%, amounted to 20,722 million yen in FY2021.

Other Segment

In FY2021, sales in the other segment increased by 28.9%, amounted to 75,101 million yen. Sales to external customers increased by 29.3%, to 74,533 million yen, which accounted for 12.3% of the consolidated net sales. This is due to the good sales. Due to more increase in net sales than the increase in operating expenses operating income ratio increased by 3.5 percent point to 5.8% in FY2021 from 2.3% in FY2020. As a result, segment income increased by 228.4%, amounted to 4,358 million yen in FY2021.

Financial Position

Million yen

	2020	2021	Increase/Decrease
Assets	674,564	812,878	138,314
Liabilities	98,816	149,552	50,736
Equity	575,748	663,326	87,578
Equity per share attributable to owners of the parent (yen)	2,104.01	2,422.80	318.79
Ratio of equity attributable to owners of the parent to total assets (%)	84.69%	80.93%	(3.76%)

Total assets increased by 138,314 million yen to 812,878 million yen in FY2021, mainly due to the increase in inventories and increase in property, plant and equipment.

Total liabilities increased by 50,736 million yen to 149,552 million yen in FY2021, mainly due to the increase in trade and other payables.

Total equity increased by 87,578 million yen to 663,326 million yen in FY2021, mainly due to the increase in retained earnings.

Cash Flows

Million yen

	2020	2021
Cash flows from operating activities	57,310	64,537
Cash flows from investing activities	(30,506)	(42,913)
Cash flows from financing activities	(22,931)	(23,036)
Increase (Decrease) in cash and cash equivalents	(3,073)	5,201
Cash and cash equivalents at end of period	143,439	148,640

Net cash provided by operating activities increased by 7,227 million yen from 57,310 million yen in FY2020 to 64,537 million yen in FY2021, primarily as a result of the increase in trade and other payables

Net cash used in investing activities increased by 12,407 million yen from 30,506 million yen in FY2020 to 42,913 million yen in FY2024 primarily as a result of the proceeds from withdrawal of time deposits or additions to intangible assets and property, plant and equipment.

Consequently, free cash flows (the sum of cash flows from operating activities and investing activities) amounted to 21,624 million yen (26,804 million yen in the previous year), decreased by 5,180 million yen from FY2020.

Net cash used in financing activities increased by 105 million yen from 22,931 million yen in FY2020 to 23,036 million yen in FY2021 primarily as a result of the increase in repayment of short-term debt.

The main source of liquidity of the Group consists of cash on hand, cash and deposits obtained from business activities, and borrowing within the credit limit.

Currently, we mainly raise funds within the group, and the surplus assets of subsidiaries will be financed to other subsidiaries with insufficient funds. We mainly operate with its own funds, and each subsidiary of the Group is also a lender within the group, so there is no materiality in interest expense.

We can raise funds at any time according to the demand for working capital. However, we have no significant potential demand for financing in the next consolidated fiscal year.

We have maintained a higher current ratio than before, and at the end of the current consolidated fiscal year, there were 148,640 million yen in cash and cash equivalents. We expect that these cash and the cash generated by our business activities will be sufficient for future demand for working capital, capital investment and research and development, and believe that working capital is sufficient according to the current needs.

【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 119,329 million yen (32.9%) to 482,499 million yen compared to the previous year.

Consolidated net sales for this year increased by 23.5% to 608,331 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, 1,286 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 FY2021, Makita allocated 13,491 million yen (including the development cost that has been capitalized) to R&D, an increase of 8.8% compared with FY2020. As of March 31, 2021, Makita owned 4,612 patents, utility model registration and design rights (inclusive of 3,657 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.

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 FY2021 included;

・Cordless impact wrench that can fasten by the strongest torque in the class with "40V max Lithium-ion Battery (XGT)" and brushless motor.
・Cordless 100mm/125mm disc grinder that enables cordless connection to cleaner by Bluetooth
・Cordless 125mm circular saw that provides fastest cutting speed in the class.
・Cordless finish nailer that is compact and high power powered by 40V max li-ion battery.
・Cordless grass trimmer with split shaft that is powerful cutting equal to 30ml petrol engine and waterproof
・530mm Cordless lawn mower that can works large mowing area with high power.
・Cordless cooler and warmer box that enables to keep cold or warm no matter where.

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, 2021

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	9,717	5,757	251 [40,330]	15,725	1,170
Okazaki Plant (Okazaki, Aichi)	Production	19,431	6,123	2,997 [188,269]	28,551	904
Nisshin (Nisshin, Aichi)	R&D	1,326	112	1,818 [43,102]	3,256	137
Tokyo Branch (Bunkyo, Tokyo)	Sales point	217	23	57 [323]	297	34
Nagoya Branch (Nakamura, Nagoya)	Same as above	211	2	352 [1,238]	565	31
Osaka Branch (Kita, Osaka)	Same as above	688	2	69 [335]	759	32

Note: Right-of-use assets are included.

(2)Overseas Subsidiaries

As of March 31, 2021

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	347	87 [230,825]	683	133 (308)
Makita (China) Co., Ltd.	Kunshan China	Same as above	3,987	9,877	727 ＜220,834＞	14,591	4,657 (460)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	2,681	2,802	206 ＜87,683＞	5,689	2,271 (250)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	549	471	152 [50,600]	1,172	396 (338)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	2,346	284	632 [58,366]	3,262	184 (236)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	11,281	3,897	705 [287,551]	15,883	1,828 (1,023)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	991	1,105	83 [151,053]	2,179	760 (269)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	1,749	1,943	1,162 [172,436]	4,854	571 (329)

(Attention)

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