Makita Corporation

Additional Information
for the year ended March 31, 2023

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, gardening equipment, pneumatic tools 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 will continue to be uncertain. Meanwhile, the Group believes that demand for environmental and human friendly tools that contribute to the solution of social issues, such as the labor shortage and environment conservation by increased efficiency of works, will continue to increase further both in emerging and developed countries.

To cope with these assumed conditions, Makita will:

- Strengthen its R&D and product development capabilities, mainly for the technologies of motors and technologies for discharge/charge of batteries, to take the initiative in cordless products market;
- Positioning cordless outdoor power equipment as the next pillar of our future business after power tools, we will contribute to the realization of a decarbonized society by promoting deep cultivation and development of the market.
- We will strengthen the development and sales expansion of new finished goods in new fields such as cleaning, outdoor activities, and disaster prevention, and work to evolve into a supplier of a comprehensive range of cordless products.
- Implement measures to strengthen and improve the efficiency of production, procurement and distribution, while further upgrading global production bases; 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.

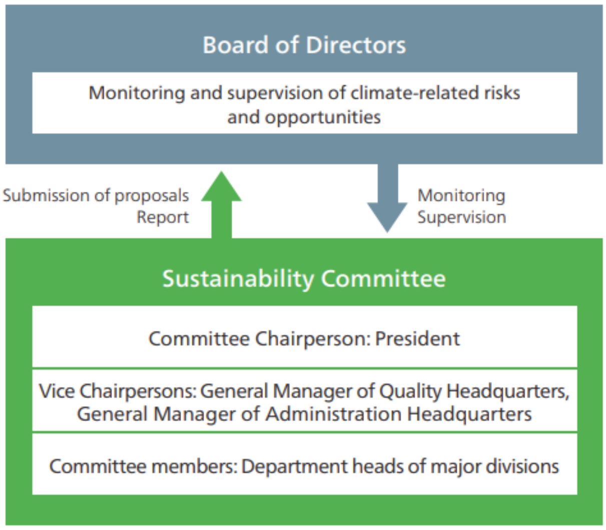
On the basis of these factors, the Group will strive to maintain a solid presence in the industry and contribute to achieve a sustainable society as a global supplier of a comprehensive range of tools for creating comfortable homes and living environments.

【Sustainability policy and procedures】

As a global supplier of a comprehensive range of tools for creating comfortable homes and living environments, Makita will focus on solving environmental problems and other social issues through our main business, and work to achieve a sustainable society.

[Governance]

In 2021, the Company established a Sustainability Committee (which met three times in fiscal 2021 (FYE 2022)), chaired by the President, to promote Companywide efforts to address sustainability issues through business activities. The committee considers climate change to be one of the most important sustainability issues, and deliberates on policies, measures, and plans to reduce GHG emissions. The Sustainability Committee reports and submits proposals on important matters to the Board of Directors, which deliberates on these matters and makes decisions in the course of monitoring and overseeing the Company’s climate-related risks and opportunities.



[Risk Management]

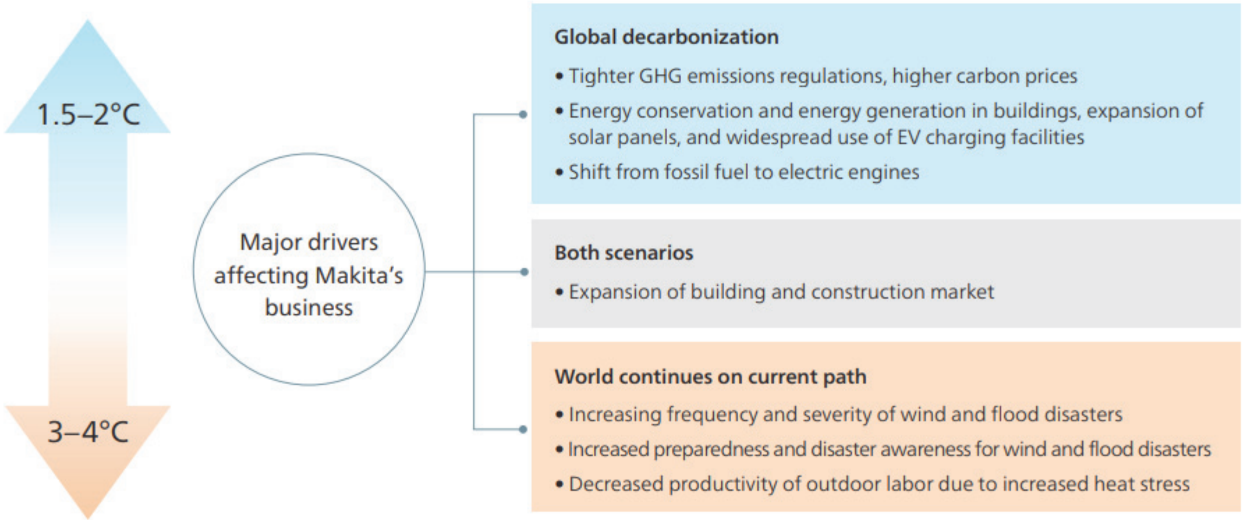
We hold annual Disclosure Committee meetings to identify and scrutinize risks in our business activities as well as to evaluate and manage risks related to climate change. The details of climate change risks and opportunities are assessed and managed under the Sustainability Committee. Recognizing that climate change is one of the most important external environmental risks we face, the Board of Directors discusses the impact of climate change on management and determines management strategies and measures that will contribute to decarbonization. We will further strengthen our climate change response by solidifying our systems and operations for managing these climate-related risks.

[Initiatives for the TCFD Recommendations]

The impact of climate change on society, such as frequent wind and flood disasters, is becoming more serious, and companies are playing an increasingly important role in realizing a decarbonized society. Our company views climate change as an important business issue.
For this reason, our company has prioritized contributing to the solution of climate change issues by, for example, focusing on cordless outdoor power equipment that does not emit exhaust gas when used. In order to further accelerate these efforts, we have newly set targets for reducing greenhouse gas (GHG) emissions. We are working on our targets are to reach net zero emissions by fiscal 2040 (FYE 2041).
In addition, recognizing the importance of dialogue with stakeholders on climate-related risks and opportunities, we disclosed information for the first time based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
See our website for more information. (https://www.makita.co.jp/company/sustainability/environment)

[Strategy]

In identifying climate-related risks and opportunities that could affect our business, we have used climate change scenarios from the International Energy Agency (IEA), the Intergovernmental Panel on Climate Change (IPCC), and other organizations to organize our views into (1) a 1.5°C to 2°C worldview in which decarbonization progresses and (2) a 3°C to 4°C worldview in which warming proceeds as it is now. The following is a summary of the results.



Based on these worldviews, we have identified our climate-related risks and opportunities and qualitatively assessed them. For more details, see our website.

Risks

Type	Category: Large	Category: Small	Risk	Relevant period	Possibility
Transition	Policies and regulations	Rising carbon price/ energy conservation and low-carbon regulations	Increased operating costs based on own GHG emissions	Short to medium term	Large
			Increased procurement costs of raw materials, energy, etc.		
			Increased capital expenditures to enhance energy efficiency	Short term	Large
			Increased renewable energy procurement costs		
		Battery regulations	Increased battery procurement costs	Medium to long term	Large
	Technology	Product technology development competition	Increased development costs for technologies and products with superior environmental performance (including portability and operational efficiency)	Short to medium term	Large
		Competition to develop next-generation battery technology	Increased development costs for next-generation batteries with superior capacity, voltage, life, safety, etc.		
	Market	Changes in market prices	Increased procurement costs due to increased battery demand	Short term	Large
			Increased procurement costs due to increased demand for semiconductors		
			Increased transportation costs due to decarbonization of transportation	Short to medium term	Large
	Reputation	Increased disclosure requests	Reputational damage due to inferiority of information disclosure compared to other companies	Short term	Medium
Physical	Acute	Increased frequency and severity of wind and flood disasters	Physical damage to our offices and facilities	Short term	Medium
			Losses due to business interruption		
			Losses due to supply chain disruptions		

Risk onset timing: Short-term: up to 3 years; Medium-term: over 3 years to 10 years; Long-term: over 10 years

Opportunities

Type	Category		Opportunity	Relevant period	Possibility
	Large	Small			
Transition	Energy sources	Increased carbon prices	Decrease operating costs by reducing GHG emissions to become carbon neutral	Short to medium term	Large
	Products and services	Product technology development competition	Differentiation from competitors' products through the development of products with superior environmental performance (including portability and work efficiency)	Short term	Large
		Competition to develop next-generation battery technology	Differentiation from competitors' products through the development of next-generation batteries with superior performance	Medium to long term	
	Market	Energy conservation and low-carbon regulations	Market expansion and product demand increase due to a shift from engine-powered to cordless products	Short term	Large
		Changes in the building and construction market	Increase in demand for products associated with ZEB*1/ZEH*2 conversion of buildings, installation of solar power generation equipment, and EV charging facilities, etc.		
		Increased disclosure requests	Improved reputation through enhanced disclosure information		Medium
Physical		Rising temperatures, climate and extreme weather	Increased demand for products in line with increased DIY demand due to longer time spent at home	Short to medium term	Large
	Resilience	Increased frequency and severity of wind and flood disasters	Expansion of the disaster readiness market, increase in product demand, and contribution to recovery and reconstruction in the affected areas	Short term	Large
		Rising temperatures	Increased demand for products to improve working conditions in hot environments	Short to medium term	

Opportunity onset timing: Short-term: up to 3 years; Medium-term: over 3 years to 10 years; Long-term: over 10 years
※1 Net Zero Energy Building ※2 Net Zero Energy House

[Indicators and Targets]
The Makita Group has set goals to reduce GHG emissions from its own business activities (Scope 1 and 2) to virtually zero by fiscal 2040 (FYE 2041) and from its entire supply chain (Scope 3) to virtually zero by fiscal 2050 (FYE 2051). The mid-term target for Scope 1 and 2 is to halve the fiscal 2020 (FYE 2021) level by fiscal 2030 (FYE 2031). GHG For more details, see our website.

[Initiatives related to utilization of human capital]
Our initiatives to the utilization of human capital are as follows. Please note that the strategies, indicators, and targets in the text are matters related to the Company on a non-consolidated basis.

[Basic approach and strategy to human capital]
After Makita's expansion into the U.S. in the 1970s, the Company has pressed forward and proactively grown internationally. In 2005, we launched our lithium-ion battery-powered professional-use cordless tools ahead of the competition and, more recently, with environmental issues globally growing into an important theme, we have been working towards evolving into a supplier of a comprehensive range of cordless products by shifting from engine-powered to battery-powered products. This ability to flexibly respond to global market environment changes is the source of Makita's growth. What supports our growth is nothing other than the talents of the people working at Makita.
Moving forward, Makita will comprehend changes in the global market environment and strive to grow with demand. To this end, we will advance the activities of diverse human resources and globalize Makita.

[Indicators and targets for human capital]

(1) Efficiently training new human resources to be competitive as quickly as possible

Makita is expanding its business on a global scale, and many of its employees have experience temporarily working or training abroad. As of March 31, 2023, approximately 23% of employees have worked overseas on temporary transfers, excluding those working at the Research and Development Headquarters or Domestic Sales Headquarters. For Makita to continue to grow sustainably, it is essential that newly hired human resources (both new graduates and mid-career employees) with diverse values gain international experience early on and receive training to be globally active. We are working to achieve the target we have set of 20% of employees sent for overseas training or temporary transfer having worked at Makita (non-consolidated) for five years or less by March 31, 2030.

	2021	2022	2023	2030
Percentage of employees sent for overseas training or temporary transfer that worked at Makita for five years or less	17%	17%	14%	20%

(Initiatives for achievement)

• Proactively accepting internships and building relationships with university laboratories to lay the groundwork for attracting excellent human resources

• Launching short-term overseas training programs to enable more young employees to gain overseas experience

(2) Promoting women's advancement

Makita is working to create an environment that is comfortable for women to work in and allows human resources with diverse values to demonstrate their abilities to the fullest. As a result, the average length of female employees working at Makita in Japan is almost the same as that of their male counterparts. We have set a target for the future to increase the percentage of female managers at Makita (non-consolidated) to at least 3% (10 or more people) by FYE 2030, so that every female employee can further play active roles, and we are advancing our efforts to achieve this target.

	2021	2022	2023	2030
Percentage of female managers	0.7% (2 people)	0.7% (2 people)	1.0% (3 people)	3.0% or more (10 or more people)

(Initiatives for achievement)

・Creating systems that allow flexible work styles, such as through the expansion of the childcare reduced working-hours system

・Actively recruiting female new graduates and mid-career hires

・Encouraging women to take the exams for promotions to leadership and management positions

(3) Encouraging employees to take childcare leave

Creating a rewarding environment that allows human resources with diverse values to balance work and family is a vital component to Makita's continuous growth. We have put in place a childcare leave system and a childcare reduced-working-hours system. In recent years, the percentage of women who use these systems has remained high, but the percentage of men using them has room to improve. Therefore, we have set a target of having at least 90% of male employees at Makita (non-consolidated) use the childcare leave system by FYE 2030 and are working towards achieving this goal.

	2021	2022	2023	2030
Percentage of male employees using childcare leave system	4%	8%	25%	90% or more

(Initiatives for achievement)

・Making information on childcare leave available to workplace managers to promote the creation of an environment that encourages employees to the use of childcare leave

【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'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.

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.

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, material of plastic, 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.

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. Our service via internet access increases. 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.

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.

【Material contracts】

Not applicable.

【Analysis 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, 2023

General Overview

Makita’s principal business is manufacturing and sales of power tools for professional users worldwide. During this fiscal year, 83.9% 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 FY2023 amounted to 764,702 million yen, an increase of 3.4%, or 25,442 million yen, from FY2022. In FY2023, the average Japanese yen-U.S. dollar exchange rate was 135.50 yen for U.S. $1.00, representing a 20.6% devaluation of the Japanese yen compared to the average exchange rate in FY2022. The average Japanese yen-euro exchange rate in FY2023 was 140.99 yen for 1.00 euro, representing a 8.0% devaluation of the Japanese yen compared to the average exchange rate in FY2022. During the year, the weighted average of the Japanese yen’s devaluation against other currencies was 13.1%. That favorable currency translation effect increased Makita’s sales by 74,106 million yen. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 6.6% or 48,664 million yen in FY2023. Sales quantity decreased by 17.1%.

Developed countries in North America and Europe have mature markets for DIY products, and demand for power tools in developed countries is affected 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 international economic situation during the fiscal year, concerns over a global economic downturn have heightened against the backdrop of factors including high inflation, monetary tightening in various countries and the energy crisis associated with the prolongation of the war in Ukraine.

In this situation, the Makita Group focused on expanding its lineup of cordless products including power tools and outdoor power equipment in the “40Vmax Lithium-ion Battery” series.

With respect to production, we worked on building a production system and strengthening management functions to flexibly address changes in the demand environment and geopolitical risks, and improve the efficiency of the Group as a whole.

We also work to increase the level of the community-based and customer-oriented service framework in order to further strengthen trusting relationships with customers around the world. We strive to deepen and develop the market centered on cordless products.

In terms of profit, operating profit decreased 69.2% year-on-year to 28,246 million yen (an operating margin of 3.7%) due to the impact of exchange rate or higher material costs. Profit before tax decreased 74.2% year-on-year to

23,887 million yen (a profit before tax rate of 3.1%), and profit attributable to owners of the parent company decreased 81.9% year-on-year to 11,705 million yen (a profit rate attributable to owners of the parent company of 1.5%).

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 FY2023, sales of power tools decreased by 0.7% from the previous fiscal year to 419,012 million yen, accounting for 54.8% of consolidated net sales. In Japan, sales of power tools increased by 1.6% to 55,585 million yen, accounting for 45.2% of domestic net sales. Overseas sales of power tools decreased by 1.1% to 363,427 million yen, accounting for 56.6% of overseas net sales.

New products launched during FY2023 included;

・Cordless Impact Driver that enables efficient fasting powered by 40Vmax.
・Cordless Slide Compound Saw Miter Saw that 40Vmax series, improved visibility, and achieved high-precision cutting with high rigidity.
・Cordless Rotary Hammer that provides more efficiency.

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 FY2023, sales of gardening equipment, household and other products increased by 3.3% to 195,828 million yen, which accounted for 25.6% of consolidated net sales. Domestic sales of gardening equipment, household and other products increased by 3.6%, to 39,941 million yen, accounting for 32.5% of total domestic sales. Overseas sales in the product category increased by 3.2%, to 155,887 million yen, accounting for 24.3% of total overseas sales in FY2023.

New products launched during FY2023 included;

・Cordless Pruning Saw with automatic chain oil supplying system and automatic chain tension adjustment, yet lightweight and compact for pruning garden trees and fruit trees.
・Cordless Grass Trimmer that achieves the same power as the 23mL engine type, but is lighter in weight.
・Cordless Cultivator that enables tilling work equivalent to that of a 50mL class engine machine by 40V max.
・Power-assisted bicycle driven by 40Vmax lithium-ion battery

Parts, Repairs and Accessories

Makita's after-sales services include the sales of parts, repairs and accessories. In FY2023, the sales of parts, repairs and accessories increased by 17.4%, to 149,862 million yen, accounting for 19.6% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 10.7%, to 27,452 million yen, accounting for 22.3% of domestic net sales. Overseas sales of parts, repairs and accessories increased by 19.1%, to 122,410 million yen, accounting for 19.1% of overseas net sales.

Consolidated revenue by region are as follows:

In Japan, although stay-at-home demand subsided, we mainly secured sales of cordless outdoor power equipment and the new XGT series of products, resulting in a 4.2% increase year on year to 122,978 million yen.

In Europe, as sales decreased by 1.0% year on year to 348,994 million yen due to deteriorating business confidence caused by high inflation, monetary tightening, and uncertainty concerning energy supply. Sales in Western Europe decreased by 6.4%, in Eastern Europe increased by 7.7% compared with the same period of previous year. Excluding the effect of currency fluctuations, net sales in Western Europe decreased by 13.2%, in Eastern Europe decreased by 5.9%, and Europe in total, decreased by 10.4%.

In North America, while sales decreased as stay-at-home demand subsided and monetary tightening created wariness of a recession, revenue increased 6.1% year on year to 119,064 million yen due to the depreciation of the yen against local currencies. Excluding the effect of currency fluctuations, net sales in North America decreased by 11.5%

In Asia, although there was market turmoil around China's zero COVID-19 policy and impacts from monetary tightening in various countries, sales were strong in Taiwan and other countries and the depreciation of the yen against local currencies contributed to revenue increasing by 8.3% year-on-year to 53,276 million yen. Excluding the effect of currency fluctuations, net sales in Asia decreased by 5.6%.

In Central and South America, while sales decreased due to accelerating inflation and increased uncertainty concerning the future in each country, revenue increased 13.1% year on year to 47,256 million yen due to the depreciation of the yen against local currencies. Excluding the effect of currency fluctuations, net sales in Central and South America decreased by 2.6%.

In Oceania, despite negative economic factors such as surging construction material prices and monetary tightening, strong sales of new products and outdoor power equipment resulted in a 13.6% year on year increase to 58,593 million yen. Excluding the effect of currency fluctuations, net sales in Oceania increased by 2.4%.

In the Middle East and Africa, despite continuing unstable political and economic conditions, revenue increased 4.2% year on year to 14,541 million yen due to the depreciation of the yen against local currencies. Excluding the effect of currency fluctuations, net sales in Middle East and Africa decreased by 11.1%.

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 FY2023, sales in the Japan segment decreased by 22.7% on a year-over-year basis, amounted to 415,087 million yen. Sales to external customers increased by 3.6%, amounted to 146,364 million yen, which accounted for 19.2% of consolidated net sales. This was due to the decrease in intercompany transaction due to the sales in overseas market decreased, and on the other hand, we secured sales of cordless outdoor power equipment and the new XGT series of products in the domestic market even stay-at-home demand subsided. Due to the fluctuation of exchange rate, increase in transportation cost or material cost, operating income ratio decreased by 6.3 percent point to (0.5%) in FY2023 from 5.8% in FY2022. Operating loss amounted to 2,119 million yen. (Operating income amounted to 31,127 million yen in the previous FY.)

Europe Segment

In FY2023, sales in the Europe segment decreased by 3.2% on a year-over-year basis, amounted to 363,062 million yen. Sales to external customers decreased by 0.9%, amounted to 351,252 million yen, which accounted for 45.9% of consolidated net sales. This was due to a decline in sales due to a deterioration in business confidence caused by high inflation, tightened monetary policy, and uncertain energy supply. Additionally, due to the increase in transportation cost or material cost, operating income ratio decreased by 8.0 percent point to 2.5% in FY2023 from 10.5% in FY2022. Accordingly, segment operating income decreased by 76.9%, amounted to 9,088 million yen in FY2023.

North America Segment
In FY2023, sales in the North America segment increased by 4.0%, amounted to 125,134 million yen. Sales to external customers increased by 6.1% to 121,685 million yen, which accounted for 15.9% of consolidated net sales. Sales amount increased due to the impact of the weaker yen, but decreased on a local currency basis due to the worsening market conditions due to high inflation and rising interest rates. Due to the increase in transportation cost or material cost, operating income ratio decreased by 1.4 percent point to (0.7%) in FY2023 from 0.7% in FY2022. Accordingly, segment operating loss amounted to 912 million yen in FY2023. (Operating income amounted to 803 million yen in the previous FY.)

Asia Segment
In FY2023, sales in the Asia segment decreased by 24.3%, amounted to 335,886 million yen. Sales to external customers increased by 11.9%, amounted to 34,477 million yen, which accounted for 4.5% of the consolidated net sales. This is due to the decrease in the intercompany transaction due to the oversea sales decreased, on the other hand the sales amount increased due to the depreciation of the yen against local currencies. Due to the price revision, operating income ratio increased by 5.4 percent point to 9.8% in FY2023 from 4.4% in FY2022. Accordingly, segment income increased by 70.2%, amounted to 33,028 million yen in FY2023.

Other Segment
In FY2023, sales in the other segment increased by 13.1%, amounted to 111,368 million yen. Sales to external customers increased by 13.2%, to 110,924 million yen, which accounted for 14.5% of the consolidated net sales. This is mainly due to the depreciation of the yen against local currencies. Due to the increase in transportation cost or material cost and the exchange rate fluctuation, operating income ratio decreased by 7.9 percent point to 2.1% in FY2023 from 10.0% in FY2022. Accordingly, segment income decreased by 76.5%, amounted to 2,318 million yen in FY2023.

Financial Position

Million yen

	2022	2023	Increase/Decrease
Assets	1,007,497	1,099,351	91,854
Liabilities	254,967	323,652	68,685
Equity	752,530	775,699	23,169
Equity per share attributable to owners of the parent (yen)	2,748.46	2,832.89	84.25
Ratio of equity attributable to owners of the parent to total assets (%)	74.1%	70.0%	4.1%

Total assets as of the end of the year increased by 91,854 million yen to 1,099,351 million yen compared to the balance as of March 31, 2022. This increase was mainly due to the rise in “Cash and cash equivalents “.

Total liabilities increased by 68,685 million yen to 323,652 million yen compared to the balance as of March 31, 2022. This increase was mainly due to the rise in “Borrowings.”

Total equity increased by 23,169 million yen to 775,699 million yen compared to the balance as of March 31, 2022. This increase was mainly due to exchange gain or loss recognized in “Exchange differences on translating foreign operations” included in the “Other components of equity”.

Cash Flows

Million yen

	2022	2023
Cash flows from operating activities	(103,660)	44,430
Cash flows from investing activities	(27,891)	(37,680)
Cash flows from financing activities	52,626	80,970
Increase (Decrease) in cash and cash equivalents	(77,583)	91,663
Cash and cash equivalents at end of period	71,057	162,720

Total cash and cash equivalents amounted to 162,720 million yen, increased by 91,663 million yen compared to the end of the previous year.

Net cash provided by operating activities amounted to 44,430 million yen (net cash used in operating activities amounted to 103,660 million yen in the previous year), due mainly to a decrease in inventories.

Net cash used in investing activities increased by 9,789 million yen from the previous period to 37,680 million yen (27,891 million yen in the previous period), due to income reduction after withdrawal of time deposit, sale and redemption of investment.

Consequently, free cash flows (the sum of cash flows from operating activities and investing activities) amounted to 6,750 million yen (-131,551 million yen in the previous year).

Net cash provided by financing activities amounted to 80,970 million yen (net cash used in financing activities amounted to 52,626 million yen in the previous year), up 28,344 million yen over the previous year, due to proceeds from short-term loans.

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 raise the funds by putting in place the cash management system within the group and we are also leveraged in order to ensure the enough liquidity as a group.

There were 162,720 million yen in cash and cash equivalents at the end of the current consolidated fiscal year and 267,963 million yen in credit limit, which was partly used 186,390 million yen and unspent 81,573 million yen. There were 186,390 million yen in short-term borrowings, which was used for our daily business activities.

Part of borrowings is on a variable rate basis, there is no materiality in impact on our profit by the fluctuation in market interest ratio as it is all short-term. In terms of average interest rate of borrowings, refer to the note 13.

We have maintained a higher current ratio than before, and at the end of the current consolidated fiscal year, there were 162,720 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 decreased by 199,697 million yen (29.8%) to 469,728 million yen compared to the previous year.

Consolidated net sales for this year increased by 3.4% to 764,702 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, gardening equipment and pneumatic tools in its own Research and Development division, 1,326 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 FY2023, Makita allocated 15,088 million yen (including the development cost that has been capitalized) to R&D, an increase of 2.1% compared with FY2022. As of March 31, 2023, Makita owned 5,432 patents, utility model registration and design rights (inclusive of 4,273 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 FY2023 included;

・Cordless Impact Driver that enables efficient fasting powered by 40Vmax.
・Cordless Slide Compound Saw Miter Saw that 40Vmax series, improved visibility, and achieved high-precision cutting with high rigidity.
・Cordless Rotary Hammer that provides more efficiency.
・Cordless Pruning Saw with automatic chain oil supplying system and automatic chain tension adjustment, yet lightweight and compact for pruning garden trees and fruit trees.
・Cordless Grass Trimmer that achieves the same power as the 23mL engine type, but is lighter in weight.
・Cordless Cultivator that enables tilling work equivalent to that of a 50mL class engine machine by 40V max.
・Power-assisted bicycle driven by 40Vmax lithium-ion battery

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, 2023

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	13,571	6,332	251 [40,330]	20,154	1,277 (235)
Okazaki Plant (Okazaki, Aichi)	Production	19,932	6,550	2,997 [188,269]	29,479	914 (154)
Nisshin (Nisshin, Aichi)	R&D	1,516	127	1,818 [43,102]	3,461	170 (46)
Saitama Distribution Center (Kazo, Saitama)	Distribution	10,656	1,871	1,533 [34,833]	14,060	3 (0)
Okayama Distribution Center (Okayama, Okayama)	Distribution	10,202	3,089	1,982 [70,572]	15,273	4 (0)
Tokyo Branch (Bunkyo, Tokyo)	Sales point	202	31	57 [323]	290	33 (0)
Nagoya Branch (Nakamura, Nagoya)	Same as above	202	2	352 [1,238]	556	35 (0)
Osaka Branch (Kita, Osaka)	Same as above	642	2	69 [335]	713	35 (1)

Note:

1. Right-of-use assets are included.
2. ( ) means average numbers of temporary staff for this Fiscal Year.

(2)Overseas Subsidiaries

As of March 31, 2023

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	330	524	105 [230,825]	959	139 (119)
Makita (China) Co., Ltd.	Kunshan China	Same as above	15,410	15,229	791 ＜220,834＞	31,430	4,911 (199)
Makita (Kunshan) Co., Ltd.	Kunshan China	Same as above	2,380	2,027	223 ＜87,683＞	4,630	1,401 (70)
Makita Manufacturing Europe Ltd.	Telford U.K.	Same as above	828	803	166 [50,600]	1,797	379 (22)
Makita Engineering Germany GmbH	Hamburg Germany	Same as above	7,408	730	710 [58,366]	8,848	216 (27)
Makita EU S.R.L. (Romania)	Branesti Romania	Same as above	16,848	6,920	1,151 [291,166]	24,919	1,855 (0)
Makita do Brasil Ferramentas Eletricas Ltda.	PontaGrossa Brazil	Same as above	1,237	2,069	602 [280,118]	3,908	811 (95)
Makita Manufacturing (Thailand) Co., Ltd.	Sriracha, Thailand	Same as above	6,617	2,690	1,248 [172,436]	10,555	557 (174)

Note:

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