

MAKITA CORP
Form 20-F
July 05, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2005
Commission file number 0-12602

KABUSHIKI KAISHA MAKITA

(Exact name of registrant as specified in its charter)

MAKITA CORPORATION

(Translation of registrant's name into English)

Japan

(Jurisdiction of incorporation or organization)

3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture, Japan
(Address of principal executive offices)

Securities registered or to be registered
pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
None	None

Securities registered or to be registered pursuant to
Section 12(g) of the Act.

* **American Depositary Shares**
(Title of Class)

** **Common Stock**
(Title of Class)

*

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American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the registrant's Common Stock.

** Effective October 1, 2001, no par value per share. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission. Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Title of Class	Outstanding as of	
	March 31, 2005 (Tokyo time)	March 31, 2005 (New York time)
Common Stock, excluding 4,231,153 shares of Treasury Stock	143,777,607	
American Depositary Shares, each representing one share of Common Stock		6,923,200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

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As used in this annual report, the term *fiscal* preceding a year means the twelve-month period ended March 31 of the year referred to. For example, *fiscal 2005* refers to the twelve-month period ended March 31, 2005. All other references to years refer to the applicable calendar year.

All information contained in this annual report is as of March 31, 2005 unless otherwise specified.

In parts of this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥107 = U.S.\$1.00, the approximate exchange rate on the noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2005. On June 15, 2005 the noon buying rate for yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥109.34 = \$1.00.

As used herein, the *Company* refers to Makita Corporation, and *Makita* or *Makita Group* refer to Makita Corporation and its consolidated subsidiaries unless the context otherwise indicates.

Cautionary Statement with Respect to Forward-Looking Statements

This annual report contains *forward-looking statements* that are based on current expectations, estimates, strategies and projections of the *Company's* management in light of the information currently available to it. The *Company* and its representatives may, from time to time, make written or verbal forward-looking statements, including statements contained in the *Company's* filings with the Securities and Exchange Commission and in its reports to shareholders, with respect to Makita's current plans, estimates, strategies and beliefs and other statements that are not historical. Generally, the inclusion of the words *plan*, *strategy*, *believe*, *expect*, *intend*, *estimate*, *anticipate*, *will*, similar expressions identify statements that constitute *forward-looking statements* within the meaning of Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934 and that are intended to come within the safe harbor protection provided by those sections. All statements addressing operating performance, events, or developments that Makita expects or anticipates to occur in the future, including statements relating to sales growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements. Makita undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

By their nature, all forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements for a number of reasons, including but not limited to:

- changes in economic conditions affecting the retail, housing and construction markets in different countries, particularly in Japan, the United States and Europe and, to a lesser extent, in Canada, Asia, Australia and the Middle East;
- Makita's ability to maintain mutually beneficial relationships with key distributors and to penetrate new channels of distribution;
- circumstances relating to inventory adjustments or changes in purchasing patterns by major customers and their impact on Makita's manufacturing volumes and inventory levels;
- uncertainties surrounding market acceptance of the new products introduced in fiscal 2005 and scheduled for introduction in fiscal 2006, as well as the level of sales generated from these new products, in connection with Makita's existing investments in productive capacity and commitments to fund its advertising and product promotions to introduce these new products;

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Makita's ability to develop and introduce new products at favorable margins;
adverse changes in currency exchange rates or raw material commodity prices, both in absolute terms and relative to competitors' risk profiles;
increased competition in both Japanese market and worldwide;
changes in consumer preference or loyalties;
price reductions taken by Makita in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, which may not result in anticipated sales levels;
Makita's ability to achieve projected levels of efficiencies and cost reduction measures and to avoid delays in or inefficiencies resulting from manufacturing and administrative reorganization actions in progress or contemplated;
the impact of various factors on Makita's foreign operations such as tariffs, nationalization, exchange controls, interest rate fluctuations, civil unrest, governmental changes, restrictions on Makita's foreign investment in local business and risks related to other political, economic, and regulatory instabilities;
the effects of litigation, environmental remediation matters, and product liability exposures;
Makita's ability to generate sufficient cash flows to support capital expansion, business acquisition plans and general operating activities, and Makita's ability to obtain necessary financing at favorable interest rates;
changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, both in Japan and in foreign jurisdictions in which Makita operates;
the impact of unforeseen events, including war or terrorist activities, on economic conditions and corporate and consumer confidence; and
interest rate fluctuations and other capital market conditions.

The foregoing list is not exhaustive. There can be no assurance that Makita has correctly identified and appropriately assessed all factors affecting its business or that the publicly available and other information with respect to these matters is complete and correct. Additional risks and uncertainties not presently known to Makita or that it currently believes to be immaterial also may adversely impact Makita. Should any risks and uncertainties develop into actual events, these developments could have material adverse effects on Makita's business, financial condition, and results of operations.

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Not applicable

Item 2. Offer Statistics and Expected Timetable

Not applicable

Item 3. Key Information**A. Selected Financial Data**

The following data for each of the five fiscal years ended March 31, 2005 has been derived from Makita's audited consolidated financial statements. It should be read in conjunction with Makita's audited consolidated balance sheets as of March 31, 2004 and 2005, the related consolidated statements of income, shareholder's equity and cash flows for each of the three years ended March 31, 2005, and the notes thereto that appear elsewhere in this annual report. Makita's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and were included in its Japanese Securities Reports filed with the Director of the Kanto Local Finance Bureau.

	(Millions of yen, except per share amounts)					U.S. Dollars (thousands)
	Fiscal year ended March 31,					
Income Statement Data:	2001	2002	2003	2004	2005	2005
Net sales	¥ 156,314	¥ 166,169	¥ 175,603	¥ 184,117	¥ 194,737	\$ 1,819,972
Operating income	7,093	5,873	12,468	14,696	31,398	293,439
Net income	2,133	133	6,723	7,691	22,136	206,879
Net income per share of Common stock and per ADS:						
Basic	13.6	0.9	45.3	53.2	153.9	1.44
Diluted	13.6	0.9	44.2	51.9	148.8	1.39

	(Millions of yen, except per share amounts)					U.S. Dollars (thousands)
	Fiscal year ended March 31,					
Balance Sheet Data:	2001	2002	2003	2004	2005	2005
Total assets	¥ 293,995	¥ 285,138	¥ 278,600	¥ 278,116	¥ 289,904	\$ 2,709,383
Cash and cash equivalents, time deposits and marketable securities	71,340	63,393	64,083	92,616	91,266	852,953
Net working capital	142,700	144,929	141,759	147,822	149,666	1,398,748

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Short-term borrowings	17,743	8,984	2,892	14,128	9,060	84,673
Long-term indebtedness	21,135	20,102	19,843	7,364	88	822
Common stock	23,803	23,803	23,803	23,803	23,805	222,477
Treasury stock		(2,229)	(5,110)	(3,316)	(3,517)	(32,869)
Shareholders equity	192,547	189,939	182,400	193,348	219,640	2,052,710
Total number of shares outstanding	153,006,992	149,673,742	145,967,876	143,893,191	143,777,607	143,777,607

Note: Net working capital equals current assets less current liabilities.

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Exchange rates (Japanese yen amounts per U.S. dollars)

The following table sets forth information concerning the exchange rates for Japanese yen and U.S. dollars based on the noon buying rates for cable transfers in Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York. The average Japanese yen exchange rates represent average noon buying rates on the last business day of each month during the previous period.

Fiscal year ended March 31	(Japanese Yen per U.S. \$1.00)			
	High	Low	Average	Year-end
2001	104.19	125.54	111.65	125.54
2002	115.89	134.77	125.64	132.70
2003	115.71	133.40	121.94	118.07
2004	104.18	120.55	113.07	104.18
2005	102.26	114.30	107.47	107.22

2005	(Japanese Yen per U.S. \$1.00)						June (through June 15)
	January	February	March	April	May		
High	102.26	103.7	103.87	104.64	104.41	106.64	
Low	104.93	105.84	107.49	108.67	108.17	109.58	

On June 15, 2005 the noon buying rate for yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥109.34 = U.S. \$1.00

Cash dividends declared per share of common stock and per ADS:

Fiscal year ended March 31	In Yen		In U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2001	9.0	9.0	0.07	0.07
2002	9.0	9.0	0.07	0.07
2003	9.0	9.0	0.07	0.07
2004	9.0	13.0	0.09	0.11
2005	11.0	36.0	0.10	0.34

Makita's basic dividend policy on the distribution of profits is to maintain a dividend payout ratio of 30% or greater, with a lower limit on annual cash dividends of 18 yen per share. However, in the event special circumstances arise, computation of the amount of dividends will be based on consolidated net income after certain adjustments.

Note:

Cash dividends in U.S. dollars are based on the exchange rates at the respective payment date, using the noon buying rates for cable transfers in yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York.

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

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The following is a summary of some of the significant risks that could affect Makita. Other risks that could affect Makita are also discussed elsewhere in this annual report. Additionally, some risks that may be currently unknown to Makita and other risks, currently believed to be immaterial, may become material. Some of these statements are forward-looking statements that are subject to the Cautionary Statement with Respect to Forward-Looking Statements appearing elsewhere in this annual report.

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

The demand for power tools, Makita's main products, is affected to a large extent by the levels of construction activities and capital investments in the relevant regions. Generally speaking, the levels of construction activities and capital investment depend largely on the economic conditions in the market. As a result, when economic conditions weaken in the principal markets for Makita's activities, including Japan, North America, Europe, and Asia, this may have an adverse impact on Makita's consolidated financial condition and results of operations.

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

Makita's principal management functions, including its headquarters, and the companies on which it relies on for supplying major parts are located in Aichi Prefecture (Aichi), Japan. Makita's manufacturing facilities in Aichi and Kunshan, Jiangsu Province, China, collectively account for approximately 76% of Makita's total production volume on a consolidated basis in fiscal 2005. Due to this geographic concentration of Makita's major functions, including plants and other operations in Japan and China, Makita's performance may be significantly affected by major natural disasters and other catastrophic events, including earthquakes, 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, currency appreciation, labor disputes, power outages resulting from inadequacies in infrastructure, and other factors. In the event that such developments cannot be foreseen or measures taken to alleviate their damaging impact are inadequate, Makita's consolidated financial condition and results of operations may be adversely affected.

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

Makita derives a majority of its sales in markets located outside of Japan, including North America, Europe, Asia, Oceania, the Middle East, and emerging markets such as Russia and Eastern Europe. In fiscal 2005, approximately 80% of Makita's consolidated net sales were derived from products sold overseas. On a volume basis, Makita depended on overseas markets for 87% of units sold. The high percentage of overseas sales gives rise to a number of risks. If such risks occur, they may have a material adverse impact on Makita's consolidated financial condition and results of operations. Such risks include the following:

- (1) Unexpected changes in laws and regulations;
- (2) Disadvantageous political and economic factors;
- (3) The outflow of technical know-how and knowledge due to personnel turnover enabling Makita's competitors to strengthen their position;
- (4) Potentially unfavorable tax systems; and
- (5) Terrorism, war, and other factors that lead to social turbulence.

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 activities in all the countries in which Makita operates. If Makita is unable to continue its compliance with existing regulations or is unable to comply with any new or amended regulations, it may be subject to fines and other penalties and its activities may be significantly restricted. The costs related to

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compliance with any new or amended regulations may also result in significant increases in overall costs. In any such case, Makita's consolidated financial condition and results of operations may be adversely affected.

Makita is currently working to achieve compliance with two EU directives announced on February 13, 2003. One of them, entitled Waste Electrical and Electronic Equipment (WEEE) requires recycling and reproduction of materials of almost all electrical products. The other is Restriction of the Use of Certain Hazardous Substances (RoHS), which forbids the sale in EU member countries products containing certain toxic substances, such as lead, mercury, cadmium, hexavalent chrome, polybrominated biphenyls, and polysbrominated diphenyl ethers, beginning on July 1, 2006. In order to comply with these directives, especially with RoHS, the cooperation of parts suppliers is essential. Makita is preparing measures to respond to the implementation of these directives including making requests to suppliers for eliminating such toxic substances in their products and providing guidance to assist them. Makita is also strengthening its systems for inspecting parts as they are delivered. However, the shift to alternative materials by Makita's suppliers is still not fully completed. It is not possible for Makita to detect whether the delivered parts that it accepts from its suppliers contains the prohibited substances. If Makita unknowingly or inadvertently manufactures its products using parts containing such prohibited substances and sells such products in the EU, Makita may be required to recall its products to replace the defective parts, may sustain damage to its reputation and may be subject to fines and penalties. In such cases, Makita's consolidated financial condition and results of operations may be adversely affected.

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

The functional currency for all of Makita's significant foreign operations is the local currency. The results of transactions denominated in local currencies of Makita's subsidiaries around the world are translated into yen using the average market conversion rate during each financial period. Assets and liabilities denominated in local currencies are converted into yen at the rate prevailing at the end of each financial period. As a result, Makita's operating results, assets, liabilities and shareholders' equity are affected by fluctuation in values of the Japanese yen against these local currencies.

Sales denominated in foreign currencies account for approximately 74% of Makita's consolidated net sales in fiscal 2005, and, accordingly, Makita's operating income is significantly affected by foreign exchange fluctuations.

In an effort to minimize the impact of short-term exchange rate fluctuations between major currencies, mainly the U.S. dollar, the euro, and the yen, Makita engages in hedging transactions. Makita is also increasing the percentage of products that it manufactures in China, which has resulted in an increase in foreign-currency denominated production costs. While Makita believes that such measures may help reduce the impact of some exchange rate fluctuations, it cannot assure you that it will be able to successfully hedge its exchange rate risks. In addition, medium-to-long-term fluctuations of exchange rates may make it difficult for Makita to execute procurement, production, logistics, and sales activities as planned and may have an adverse impact on Makita's consolidated financial condition and results of operations.

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

Makita holds certain Japanese equities and equity-linked financial products and records these securities as marketable securities on its consolidated financial statements. As of March 31, 2005, the aggregate carrying value of these securities was ¥24,594 million, which represents approximately 11.2% of Makita's net assets. The values of these investments are influenced by fluctuations in the quoted market prices. A significant depreciation in the value of these securities will have an adverse impact on Makita's consolidated financial condition and results of operations.

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If Makita cannot respond to changes in construction method and trends in demand, Makita's sales may be materially and adversely affected.

In recent years, market trends in demand for various power tools have been changing significantly due to the adoption of new construction methods, especially in Japan. For example, as prefabricated housing construction becomes more common, the use of power tools at construction sites has been decreasing substantially, while demand for fastening tools has increased. If Makita does not or is unable to respond to these rapid shifts in demand for various power tools, Makita's sales may decline and this may have an adverse effect on Makita's consolidated financial condition and results of operations.

The rapidly growing presence of China-based power tool manufacturers may harm Makita's sales results.

In recent years, power tool companies in China have expanded their presence in the world market. In particular, in certain markets in Asia where purchasing power is relatively low, competition with power tools made in China has intensified, with respect to lower end products. As the technology of Chinese power tool manufacturers improves, competition in the markets for high-end products for professional use may also intensify. As a result, Makita's market share consolidated financial condition and results of operations may be adversely affected.

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

Makita's principal competitive strengths are its diverse range of high-quality, high-performance power tools for professional use, and the good reputation of the MAKITA brand, both of which depend in part on Makita's ability to continue to develop attractive and innovative products that are well received by the market. There is no assurance that Makita will be able to continue to develop such products. If Makita is no longer capable of quickly developing new products that meet the changing needs of the market for high-end, professional users, it may have an adverse impact on Makita's consolidated financial condition and results of operations.

If Makita fails to maintain cooperative relationships with significant customers, Makita's sales may be seriously affected.

Makita has a number of significant customers. If Makita loses these customers and is unable to develop new sales channels to take their place, sales may decline and have an adverse impact on Makita's business performance and financial position. In fiscal 2004 major home center retailers in the United States began selling power tools, under their own brand name, which are supplied by Chinese manufacturers. If major customers of Makita select power tools and other items made in China and sell them under their own brand, this may have an adverse impact on Makita's consolidated financial condition and results of operations.

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

Makita's production activities are greatly dependent on the on-schedule delivery of materials and parts from its suppliers. Makita purchases some of its component parts from sole suppliers. The largest single source supplier of the Company accounted for approximately 6% of its aggregate purchases of raw materials and parts in fiscal 2005. There is no assurance that Makita will be able to find alternate suppliers that can provide materials and parts of similar quality and price in a sufficient quantity and in a timely manner. In the event that any of these suppliers cannot deliver the required quality and quantity of parts on schedule, this will have an adverse effect on Makita's production schedules and cause a delay in Makita's own product deliveries. This may cause Makita to lose some customers or require Makita to purchase replacement materials or parts from alternate sources at a higher price. Any of these occurrences may have a detrimental effect on Makita's consolidated financial condition and results of operations.

When the procurement of raw materials used by the Company becomes difficult or prices of these raw materials rise sharply, this may have an adverse impact on performance.

In manufacturing power tools, Makita Group purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts. In recent years, demand for these materials in China and

the rest of the world has risen substantially, and some suppliers are experiencing a shortage of capacity. Under these

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circumstances, if the Makita Group is unable to obtain the necessary quantities of these materials, this may have an effect on production schedules. In addition, the shortage of capacity among suppliers is a factor leading to increased prices of production materials. If the Makita Group experiences increases in prices of production materials, greater than what can be absorbed by increased productivity or through other internal efforts and prices of final products cannot be raised sufficiently, such circumstance may have a detrimental impact on the performance and financial position of the Makita Group.

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

Makita manufactures a wide range of power tools at factories worldwide according to ISO internationally accepted quality control standards. However, Makita cannot be certain that all of its products will be free of defects nor that it will not be subject to product recalls in the future. A large-scale recall or a substantial product liability suit brought against Makita may result in severe damage to Makita's brand image and reputation. In addition, a major product recall or product liability lawsuit is likely to be very costly and would require a significant amount of management time and attention. Any of these occurrences may have a major adverse impact on Makita's consolidated financial condition and results of operations.

Item 4. Information on the Company

A. History and development of the Company

The Company traces its origin to an electrical repair workshop founded in Nagoya in 1915, and was incorporated under the Commercial Code of Japan on December 10, 1938 under the name of Makita Electric Works, Ltd. as a joint stock corporation. Under the presidency of the late Mr. Jujiro Goto, in 1958, Makita commenced the manufacture of electric power tools and, by 1969, had reached its present leading position in the Japanese market. In 1970, the Company decided to take advantage of the large potential for growth in overseas markets for its products and established its first subsidiary in the United States. Since then, Makita has expanded its export activity and has established other overseas subsidiaries. In April 1991, the Company changed its name from Makita Electric Works, Ltd. to Makita Corporation. In April 1995, Makita established a holding company in the United Kingdom to better coordinate the overall activities of its European subsidiaries. At present, Makita sells its products in over 150 countries around the world.

As part of its efforts to minimize trade friction, Makita started manufacturing operations in Canada, Brazil and the United States in 1980, 1981 and 1985 respectively. Makita established a manufacturing subsidiary in the United Kingdom in 1989. In January 1991, Makita acquired all of the shares of Sachs-Dolmar GmbH, a German company, subsequently renamed Dolmar GmbH (Dolmar), which is primarily engaged in manufacturing engine driven chain saws. Makita established two manufacturing subsidiaries in China, Makita (China) Co., Ltd. and Makita (Kunshan) Co., Ltd. in December 1993 and in November 2000 respectively.

Makita presently manufactures power tools in seven countries globally: the United States, Canada, Brazil, the United Kingdom, Germany, China and Japan.

During the fiscal year under review, Makita General Services Co., Ltd., and Makita Fastening Corporation were newly included within the scope of consolidation. As a result, the number of consolidated subsidiaries increased to 44.

Makita Corporation's registered office is located at 3-11-8, Sumiyoshi-cho, Anjo, Aichi 446-8502, Japan, and its telephone number is +81-566-98-1711.

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Makita's principal activity is the manufacturing and sale of a wide range of power tools for professional users worldwide. Makita's power tools consist of portable woodworking tools, primarily saws and planers, and portable general purpose tools, primarily drills, grinders and sanders. Makita also produces a line of stationary woodworking machines. For the fiscal year ended March 31, 2005, approximately 80% of Makita's sales were outside of Japan. Makita estimates that most of its sales worldwide were made to commercial and professional users such as those engaged in timber and metal processing, carpentry, and concrete and masonry works.

Makita focuses on creating user and environment-friendly products that enhance the work environment, and have features such as low vibration, low noise and dust concentration.

Products

The following table sets forth Makita's consolidated net sales by product categories for the periods presented:

	(Millions of yen, except for percentage amounts)						U.S.
	Consolidated Net Sales by Product Categories						Dollars
	Fiscal year ended March 31,						(thousands)
	2003		2004		2005		2005
Portable Woodworking Tools	¥ 33,637	19.1%	¥ 34,452	18.7%	¥ 34,507	17.7%	322,495
Portable General Purpose Tools	92,144	52.5%	98,176	53.3%	105,736	54.3%	988,187
Stationary Woodworking Machines	1,924	1.1%	1,711	1.0%	1,573	0.8%	14,701
Other Products	19,142	10.9%	19,548	10.6%	21,763	11.2%	203,393
Parts, Repairs and Accessories	28,756	16.4%	30,230	16.4%	31,158	16.0%	291,196
Total	175,603	100.0%	184,117	100.0%	194,737	100.0%	1,819,972

Portable Woodworking Tools

Portable woodworking tools consist mainly of saws, planers, mortisers, groove cutters, routers, trimmers, nailers and tackers. Circular saws, which are primarily sold to carpenters in the homebuilding industry, account for a substantial portion of Makita's sales of saws. The balance of saw sales is made up of jigsaws, sold primarily to carpenters and other woodworkers for delicate work, and reciprocating saws used for working in confined spaces unsuited to conventional saws. Planers, which are used exclusively for woodworking, are sold principally to carpenters. Apart from flat-surfaced planers, which are manufactured in varying widths, Makita also produces curved planers for use on concave surfaces. Mortisers are used for chiseling holes in wood and groove cutters are used to install sliding windows. Routers and trimmers are used principally by carpenters in the homebuilding industry for door and window cutting, pattern cutting and other interior decorative work. Nailers are used primarily for light woodwork in homebuilding. Tackers are used to make temporary attachments in house-finishing and for furniture-making. Almost all of the mortisers, groove cutters, routers and trimmers, nailers and tackers manufactured by Makita are sold within Japan.

Among Makita's newly developed products introduced during fiscal 2005 were the items in the Circular Saws Series, which incorporate high-powered motors and a blower function to remove sawdust along the line drawn to guide cutting operations and to remove sawdust and scraps from the rear of the cutting edge, thus making possible a cleaner working environment. Other new products introduced included the 190mm Slide Compound Saw, which is the first of its kind in the world to incorporate a cyclone-type dust and scrap box to improve its waste collection capacity. The Slide Compound Saw also features a new knob allowing for subtle adjustments of the saw blade angle, enabling the user to cut with higher precision.

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Portable General Purpose Tools

Portable general purpose tools include drills, hammer drills, rotary hammers, electric breakers (jackhammers), grinders, sanders, cutters, cutting machines, nibblers and shears, screwdrivers and impact wrenches. Most of these tools are used for working on metal and materials other than wood, although many may be used in woodworking as well.

Drills are typical power tools used for drilling in metals, woods and plastics. They are classified into pistol-grip drills, D-handle drills, spade-handle drills and angle drills, according to their configuration. Makita also manufactures various kinds of cordless drills. Some of them are equipped with a screwdriving mechanism and are called cordless driver drills. Hammer drills are equipped with a hammering function, but can also be used as conventional drills; these drills are used principally on metal and masonry in the civil engineering and electrical contracting industries. Rotary hammers, which are used exclusively on concrete by the construction industry, are equipped with a rotary function, but can also be used as ordinary hammers. Breakers are used for shattering hard surfaces, principally concrete.

Grinders and sanders are used for smoothing and finishing. Sanders may also be used for polishing. Grinders are used on metal and sanders are used on metal, wood, stone and concrete. Grinders are divided into portable disc grinders and bench grinders and sanders are classified into portable disc sanders and belt sanders.

Cutters and cutting machines have similar functions, although cutters are designed to be hand-held and cutting machines are stationary. Cutters have a diamond cutting surface and are used on tile, brick, concrete and stone. Cutting machines have a carborundum cutting surface and are used principally on metal.

Impact wrenches are used mainly in the construction industry and screwdrivers are used in construction work and by electricians.

Among Makita's newly developed products introduced during fiscal 2005 was a 14.4 volt cordless impact driver, which is equipped with a newly developed four-pole motor using ring-type, rare earth magnets and incorporating lithium ion batteries, that is substantially smaller and lighter. This impact driver also incorporates Makita's originally developed optimal battery charging system, which substantially increases total work capacity. Makita also introduced the Disc Grinder Series, which features 100mm, 115mm, and 125mm wheel diameter, that are easy to hold and have superior dust resistance.

Stationary Woodworking Machines

Makita's stationary woodworking machines consist mainly of planer-jointers, wood surfacers, band saws and table saws, all of which are installed in workshops and used for surfacing and cutting wood.

Other Products

Makita's other products include chain saws, hand-held vacuum cleaners for home use, industrial vacuum cleaners, submersible pumps and garden tools, such as hedge trimmers.

Among the Company's newly developed products during fiscal 2005 were hedge trimmers featuring a soft grip, which makes them easier to be hold and more slip-resistant, and a 320-watt motor available in a choice of natural green or rose red against a white background.

Parts, repairs and accessories

Makita manufactures and markets a variety of parts and accessories for its products and performs repair work as part of its after-sale services.

Table of Contents**Principal Markets, Distribution and After-Sale Services**

The following table sets forth Makita's consolidated net sales by geographic area based on customers' locations for the periods presented:

	(Millions of yen, except percentage amount)						U.S. Dollars
	Consolidated Net Sales by Geographic Area						(thousands)
	Fiscal year ended March 31,						
	2003		2004		2005		2005
Japan	¥ 38,781	22.1%	¥ 39,142	21.3%	¥ 39,379	20.2%	\$ 368,028
North America	45,573	26.0	41,853	22.7	38,490	19.8	359,720
Europe	57,648	32.8	66,369	36.0	75,263	38.6	703,392
Asia	13,774	7.8	14,245	7.7	16,341	8.4	152,720
Other	19,827	11.3	22,508	12.3	25,264	13.0	236,112
Total	¥ 175,603	100.0%	¥ 184,117	100.0%	¥ 194,737	100.0%	\$ 1,819,972

Japan

Makita believes that most of its domestic sales are made to commercial users. The Japanese Do-It-Yourself, or DIY, market for power tools is growing but the pace of growth is slow.

Makita attributes its leading position in the Japanese market to the close and frequent contact that it maintains with retailers and users of Makita products. While Makita's major competitors rely primarily on wholesalers for all aspects of distribution and servicing, Makita has approximately 700 employees directly responsible for the promotion, sale and delivery and after-sale servicing of its products. These employees, operating from 113 sales offices throughout Japan, are assigned sales territories and visit retail outlets in their area on an average of once a week.

In addition, Makita has two distribution centers in Osaka and Saitama prefecture. These distribution centers strengthen Makita's distribution and after-sale service functions.

The majority of Makita's products are sold through its 14 wholesalers. Each wholesaler bears the risk of any bad debts of the retailers for which it has responsibility. The payments by the wholesalers to Makita are in most cases made within 30 to 60 days after sale. The effect of this arrangement is that, while Makita has direct access to its customers for sales, deliveries and after-sale services, payments are collected from a small number of wholesalers. Makita believes that this unique sales and distribution system has been successful.

During the fiscal year ended March 31, 2005, Makita sold its products, directly or through wholesalers, to approximately 30,000 retail outlets, and no single retailer accounted for more than 2% of Makita's domestic sales. During the year, Makita's three largest wholesalers accounted, in the aggregate, for approximately 40% of Makita's domestic net sales.

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

Overseas

In the fiscal year ended March 31, 2005, 79.8% of Makita's net sales were made outside of Japan.

Overseas sales, distribution, and servicing are carried out through a network of 35 sales subsidiaries and 96 branch office or service centers located in the United States, Canada, Brazil, Mexico, Argentina, Chile, Australia, New Zealand, Singapore, Taiwan, China, Korea, the United Kingdom, France, The Netherlands, Belgium, Italy, Greece, Germany, Denmark, Austria, Poland, the Czech Republic, Hungary, Spain, the United Arab Emirates, Romania, Switzerland, Finland, Russia, Ukraine and Slovakia. In addition, the Company exports directly, as well as through trading companies, to various countries throughout the world. Makita products are sold principally under the Makita brand name and the remaining products are sold under the Dolmar and Maktec brand names.

Makita offers warranties to overseas customers. After-sales services and repairs overseas are provided by local sales subsidiaries, service depots designated by Makita, or by service stores designated by the applicable local importers. As of March 31, 2005, Makita has over 100 service depots outside of Japan. As of the fiscal year ended March 31, 2005, 26 of these service depots were located in the United States. The labor costs of service and repairs to products under warranty for overseas customers are borne by Makita and the local service agents, and parts are provided by Makita.

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Seasonality

Makita's business has no significant seasonality that affects sales or profits.

Competition

Both in Japan and overseas, the markets in which Makita sells its products are highly competitive. Makita believes that competition in the portable electric power tool market is based on price, product reliability, design and after-sale services and that its products are generally competitive as to price and enjoy competitive advantage due to their reputation for quality, product reliability and after-sale services. Makita is the largest manufacturer of portable electric power tools in Japan and, together with one other Japanese competitor, accounts for a substantial majority of the total sales of such products in Japan.

In overseas markets, Makita competes with a number of manufacturers, some of which are well established in their respective local markets as well as internationally. In recent years, in the U.S. power tool industry, some leading home centers have introduced their own brands of power tools for professionals, and a high level of M&A activity is in progress within the power tool industry. Moreover, in the Japanese market, U.S. and Japanese companies are forming business alliances, and competition is becoming more intense within a saturated market. Makita has also experienced increasing competition, particularly in countries with lower purchasing power, from China-based power tool manufacturers who often offer lower-priced products.

Raw Materials and Sources of Supply

Makita purchases raw materials and parts to manufacture its products. The principal raw materials and parts purchased by Makita include plastics, pressed steel plates, aluminum castings, copper wires, switches, gears, blades, batteries, and bearings. The Company procures most of its raw materials from multiple sources, although most components are obtained from single suppliers. The procurement cost of aluminum, copper, and certain other raw materials is affected by fluctuations in commodity markets, and these material prices were appreciation during fiscal 2005.

Makita's purchases of raw materials and parts in the fiscal year ended March 31, 2005, amounted to ¥ 90,495 million. Raw materials and parts are purchased from approximately 250 suppliers in Japan and a number of local suppliers in each country in which Makita performs manufacturing operations, with the largest single source accounting for approximately 6% of Makita's total purchases of raw materials and parts.

Makita also purchases from outside sources finished products such as vacuum cleaners, electric generators, brushcutters, cordless laser plumbs and levels, and wood surfacers.

Makita has not experienced any difficulty in obtaining raw materials, parts or finished products.

Government Regulations

Makita is subject to different government regulations in the countries in which it does business, such as required business and investment regulations approvals, export regulations based on national-security or other reasons, and other export and import regulations such as tariffs, as well as commercial, antitrust, patent, consumer and business taxation, exchange control, and environment and recycling laws and regulations.

If Makita is unable to comply with these regulations, it may be subject to significant fines or other penalties and its activities in such countries may be limited.

Intellectual Property Rights

As of March 31, 2005, Makita owned 325 patents and 54 utility model registrations in Japan and 287 patents outside Japan. A utility model registration is a right granted under Japanese law to inventions having a practical utility in terms of form, composition or assembly, but embodying less originality than that required for patents. As of

March 31, 2005, Makita had made 569 applications for additional patents and utility model registrations in Japan as well as 227 patent applications outside Japan. While Makita considers all of its intellectual property to be important, it does not consider any one or group of patents, trademarks or utility model registrations to be so significant that their expiration or termination would materially affect Makita's business.

Table of Contents**C. Organizational structure**

As of March 31, 2005, the Makita Group consisted of 44 consolidated subsidiaries. Makita Corporation (the Company) is the parent company of the Makita Group. The Company heads the development of products. Domestic sales are made by the Company and overseas sales are made almost entirely through sales subsidiaries and wholesalers. The following is a list of significant subsidiaries of the Makita Group.

Company Name	Country of Incorporation	Proportion of Ownership and Voting Interest
Makita U.S.A., Inc.	U.S.A	100.0%
Makita Corporation of America	U.S.A	100.0
Makita Canada Inc.	Canada	100.0
Makita Mexico, S.A. de C.V.	Mexico	100.0
Makita do Brasil Ferramentas Eletricas Ltda.	Brazil	99.9
Makita Herramientas Electricas de Argentina S.A.	Argentine	100.0
Makita Chile Ltda.	Chile	100.0
Makita (Australia) Pty. Ltd.	Australia	100.0
Makita (New Zealand) Ltd.	New Zealand	100.0
Makita International Europe Ltd.	U.K.	100.0
Makita (U.K.) Ltd.	U.K.	100.0
Makita Manufacturing Europe Ltd.	U.K.	100.0
Makita France S.A.	France	55.0
Makita Benelux B.V.	The Netherlands	100.0
Euro Makita Corporation B.V.	The Netherlands	100.0
S.A. Makita N.V.	Belgium	100.0
Makita S.p.A.	Italy	100.0
Makita Werkzeug GmbH	Germany	100.0
Dolmar GmbH	Germany	100.0
Makita Werkzeug Gesellschaft m.b.H.	Austria	100.0
Makita Sp.Z O.O.	Poland	100.0
Makita SA	Switzerland	100.0
Makita, S.A.	Spain	100.0
Makita Gulf FZE	U.A.E.	100.0
Makita Oy	Finland	100.0
Makita Singapore Pte. Ltd.	Singapore	100.0
Makita (Taiwan) Ltd.	Taiwan	100.0
Makita Power Tools (HK) Ltd.	China	100.0
Makita (China) Co., Ltd.	China	100.0
Makita (Kunshan) Co., Ltd.	China	100.0
Makita Korea Co., Ltd.	Korea	100.0
Joyama Kaihatsu Ltd.	Japan	100.0
Makita Ichinomiya Corporation and 11 other subsidiaries	Japan	100.0

Note: Proportion of ownership and voting interest includes indirect ownership and voting.
The management rights to Joyama Kaihatsu Ltd., were transferred to Tokyo Tatemono Co., Ltd., on May 31, 2005,
and it ceased to be a consolidated subsidiary as of that date.

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

The following table sets forth information relating to Makita's principal production facilities as of March 31, 2005.

Location	Floor space (Square meters)	Principal products manufactured
In Japan; Makita Corporation Okazaki Plants	82,782	Portable woodworking tools and portable general purpose tools
Makita Ichinomiya Corporation Overseas; Makita Corporation of America	5,325	Stationary woodworking machines
Makita (China) Co., Ltd.	24,053	Portable woodworking tools and portable general purpose tools
Makita (Kunshan) Co., Ltd.	32,770	Portable woodworking tools and portable general purpose tools
Makita Manufacturing Europe Ltd.	6,401	Portable woodworking tools and portable general purpose tools
Dolmar GmbH	11,520	Portable woodworking tools and portable general purpose tools
	17,747	Engine powered equipment

In addition, the Company owns an aggregate of 170,510 square meters of floor space occupied by the head office, warehouse facilities, a training center, dormitories and sales offices.

Makita's overseas manufacturing operations are conducted in the United States, Canada, Brazil, United Kingdom, Germany and China. All buildings and land in these countries, except for the properties in China, are owned by Makita.

None of the buildings or land that Makita owns in Japan is subject to any mortgage or lien. Makita leases 88 sales offices in Japan and all of its overseas sales offices and premises, except for the following locations, all of which are owned by the respective subsidiary companies;

Head office and certain branch offices of Makita U.S.A., Makita Canada, and Makita Australia; and

Head office of Makita Germany, Makita France, Makita Benelux (The Netherlands), Makita Belgium, Makita Italy, Makita Brazil, Makita Taiwan, and Makita Singapore.

Makita considers all of its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations. Makita does not maintain internal records of the exact production capacity and utilization rates of its manufacturing facilities as such data can not be obtained without unreasonable effort and expense. Makita adjusts the volume, quantity and nature of the products it manufactures based on its assessment of market needs and prospects. Makita believes that its manufacturing facilities are currently operating at utilization rates that are substantially in line with current market demand for its products.

Makita believes that there are no material environmental issues that may affect Makita's current use of its assets.

Table of Contents**Item 5. Operating and Financial Review and Prospect****A. Operating Results**

The following table sets forth a summary of our results of operations for each of the years ended March 31, 2003, 2004 and 2005.

	(Millions of yen, except for percentage amounts)						U.S. Dollars	Change
	2003		2004		2005			
		%		%			%	
Net sales	¥ 175,603	100.0	¥ 184,117	100.0	¥ 194,737	100.0	\$ 1,819,972	5.8
Cost of sales	110,226	62.8	110,322	59.9	113,323	58.2	1,059,093	2.7
Gross profit	65,377	37.2	73,795	40.1	81,414	41.8	760,879	10.3
Selling, general and administrative expenses	51,579	29.4	53,698	29.2	52,646	27.1	492,019	(2.0)
Loss (Gain) on disposals or sales of property, plant and equipment	1,330	0.7	(2,379)	(1.3)	1,234	0.6	11,533	
Impairment of long-lived assets			7,780	4.2	577	0.3	5,393	(92.6)
Transfer to the government of the substitutional portion of pension plan					(4,441)	(2.3)	(41,505)	
Operating income	12,468	7.1	14,696	8.0	31,398	16.1	293,439	113.6
Other income (expenses)								
Interest and dividend income	786	0.4	869	0.5	1,157	0.6	10,813	33.1
Interest expense	(665)	(0.4)	(605)	(0.3)	(588)	(0.3)	(5,495)	(2.8)
Exchange gains (losses) on foreign currency transactions, net	(1,460)	(0.8)	(202)	(0.1)	37	0.0	346	
Realized gains (losses) on securities, net	(2,590)	(1.5)	555	0.3	453	0.2	4,234	(18.4)
Other, net	753	0.5	857	0.4	161	0.1	1,504	(81.2)
Total	(3,176)	(1.8)	1,474	0.8	1,220	0.6	11,402	(17.2)
Income before income taxes	9,292	5.3	16,170	8.8	32,618	16.7	304,841	101.7
Provision for income taxes	2,569		8,479		10,482	5.3	97,962	23.6
Net income	6,723	3.8	7,691	4.2	22,136	11.4	206,879	187.8

General Overviews

Regarding economic trends overseas during the year under review, the U.S. showed a moderate expansionary trend supported by firm private consumption and private capital investment. In Europe, although the U.K. economy was strong, boosted by demand for construction, the economies of Germany and other major countries saw a weakening of export growth because of the appreciation of the euro. Asian economies outside Japan, especially China, continued to sustain high rates of economic growth.

In Japan, expansion of private capital investment continued, but as a result of sharp increases in prices of raw materials and other factors, the economy as whole lost robustness in the second half of the fiscal year, thus bringing only relatively weak recovery.

The principal business of Makita is the manufacture and sale of power tools and woodworking machines. Principal products include circular saws, jigsaws, planers, drills, rotary hammers, grinders and slide compound saws. Makita has nine manufacturing centers, two located in Japan, two in China and one each in the United States, Canada, Brazil, the United Kingdom, and Germany.

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During fiscal 2005, Makita worked to expand its production in China and proceeded with initiatives to develop high value-added products that accurately meet user needs. In its sales activities, Makita continued to implement a global marketing strategy founded on after sales service that is closely integrated into local areas.

On a consolidated basis, our net sales in fiscal 2005 amounted to ¥194,737 million, up 5.8% from the previous fiscal year, the highest level in Makita's history. Net income amounted to ¥22,136 million, 187.8% higher than the previous fiscal year. Factors accounting for this included Makita's cost to sales ratio improved because of expansion in production at plants in Japan and China. Moreover, during the previous year, Makita reported an impairment loss of ¥5,596 million related to its golf course subsidiary. The absence of this loss in the year under review and other special factors, including the reporting of a gain of ¥4,441 million in connection with the return of the substitutional portion of the Company's Employee Pension Fund to the government resulted in an increase in operating income of 2.1 times, to ¥31,398 million.

Fiscal Year (FY) 2005 compared to FY2004**Net sales**

Makita's consolidated net sales for the fiscal year ended March 31, 2005 (FY 2005) amounted to ¥194,737 million, an increase of 5.8%, or ¥ 10,620 million, from the fiscal year ended March 31, 2004 (FY 2004). In FY 2005, the average yen-dollar exchange rate was ¥107.5 for \$1.00, representing a 5.5% appreciation of the yen compared with the average level in FY 2004. The average level of the yen-euro exchange rate in FY 2005 was ¥135.2 for 1.00 euro, representing a 1.9% depreciation of the yen compared with the average level in FY 2004. Excluding the effect of appreciation of the euro and the depreciation of the U.S. dollar, consolidated net sales would have increased by 6.2% in FY 2005.

While Makita's consolidated net sales increased 5.8% in FY 2005, the overall number of units of products sold increased significantly in FY 2005, and excluding the effect of the decrease in prices of products, Makita's consolidated net sales would have increased by 7.5%, or by ¥ 13,798 million. The significant increase in the quantity of goods sold in FY 2005 primarily reflected strong sales of Makita's portable general-purpose tools, such as grinders, rotary hammers and hammer drills. Among others, Makita's new line-up cordless driver drill #6270 series were popular especially in Europe over Makita's competitors, in part reflecting the lower sales price resulting from the strength of the euro in FY 2005. The increase was partially offset by a decrease in sales in the North American market, as the North American home centers, as customers of Makita, continued to enhance their production and distribution of products under their own brand name. Among others, the number of drills sold in the North America market declined significantly in FY 2005.

The average price of Makita's products declined in FY 2005, and excluding the effect of the increase in the number of units sold, the drop of prices would have decreased Makita's net sales by 1.9%, or by ¥ 3,537 million. The reduction in prices was caused primarily by increased price competition in the markets and reduced cost of production, reflecting primarily the transfer of a part of Makita's production from Japan to the People's Republic of China, where the overall costs of production, including labor, parts and equipment, are significantly less expensive than in Japan. A second factor contributing to the decrease in Makita's prices of goods was the increased sales volume of MAKTEC, Makita's lower end brand, which continued to sell particularly well in Asia.

Sales of new products comprised 10.8% of consolidated net sales of Makita in FY 2005, or ¥ 21,119 million. Among others, new models of drills, hammer drills and circular saws were introduced during FY 2005 in most of Makita's markets world-wide and contributed significantly to the increase of Makita's net

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sales in FY 2005. In particular, in overseas markets, especially in Europe, Makita's new products such as its new line-up cordless driver drill #6270 series proved very popular, in part because of the features and design and in part because of lower product prices reflecting the lower cost of production. In Japan, Makita's new cordless impact drivers and new circular saws sold well, responding to the increasing demand for renovation-related products in the market.

In terms of product type, there was an increase in the sales of portable general-purpose tools and income from parts, repairs and accessories by 6.3% or ¥ 9,692 million and 3.1% or ¥ 928 million, respectively. In particular, sales increased significantly in cordless impact drivers, circular saws and rotary hammers.

Sales by region

The increase in consolidated net sales in FY 2005 can be attributed primarily to increased sales in Asia (excluding Japan) increasing 14.7%, or ¥2,096 million, to ¥16,341 million and to increased sales in Europe increasing 13.4%, or ¥8,894 million, to ¥75,263 million and, to a lesser extent, increased sales in other regions including Australia, Latin America and Middle East increasing 12.2% or ¥2,756 million, to ¥25,264 million and increased sales in Japan increasing 0.6%, or ¥237 million, to ¥39,379 million. The increase was offset partially by decreased sales in North America falling 8.0%, or ¥3,363 million, to ¥38,490 million.

The increased sales in Asia (excluding Japan) in FY 2005 primarily reflected the increased number of units sold in Asia, particularly with respect to portable general-purpose tools, especially grinders and hammer drills. The increased quantity of units sold were mostly offset by the decreased price per product, resulting from the increased popularity of Makita's lower end brand, MAKTEC and, to a lesser extent, Makita's reduced cost of production. Net sales in yen terms increased in the People's Republic of China by 9.6% over amounts recorded in FY 2004. In addition, the introduction of new products contributed significantly to the increase of sales in Asia, in particular new models of drills and grinders. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 16.6%, or ¥2,371 million in FY 2005.

The increased sales in Europe in FY 2005 primarily reflected the appreciation of the euro against the yen. In addition, the increased number of units sold in Europe, particularly with respect to portable general purpose tools, in especially Russia, Eastern European countries, the United Kingdom, Germany and France contributed to increased sales in Europe, partially offset by the decreased price per product resulting from reduced cost of production. Net sales in yen terms increased in Russia and Eastern Europe by 24.3%, in the United Kingdom by 14.1%, in Germany by 6.9% and in France by 15.1% over amounts recorded in FY 2004. Among others, Makita's products such as drills and rotary hammers were particularly popular in countries such as Germany and the United Kingdom, partly reflecting the lower sales price resulting from the strength of the euro in FY 2005. Drills and rotary hammers increased by 13.5% and 13.6% respectively. In addition, the introduction of new products contributed significantly to the increase of sales in Europe, in particular new models of cordless driver-drills, rotary hammers and chain saws. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 11.0%, or ¥7,304 million in FY 2005.

The increased sales in other regions including Australia, Latin America and the Middle East in FY 2005 were primarily due to an increased number of units sold in such other regions, particularly with respect to portable general purpose tools such as grinders, impact driver drills and rotary hammers sold in the Middle East, Africa and Australia. In FY 2005 Makita saw significant success in its sales efforts to new markets in the Middle East and Africa. The increased number of Makita products sold in other regions was partially offset by the decreased price per product resulting from the reduced cost of production, especially in

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grinders. Overall, net sales of grinders increased by 11.8% over amounts recorded in FY 2004. In addition, the introduction of new products contributed significantly to the increase of sales in other regions, in particular new models of rotary hammers and grinders. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 14.3%, or ¥3,214 million in FY 2005.

The increased sales in Japan in FY 2005 primarily reflected the increased number of units sold with respect to its portable general purpose tools such as Makita's mainstay impact driver drills and circular saws, partially offset by the decline in the number of units sold in stationary woodworking machines and parts for repairs. On the other hand, continuing low levels of housing construction in Japan restrained the growth of demand for Makita's products and increased overall competition resulted in price pressure. In addition, the introduction of new products contributed significantly to the increase of sales in Japan, in particular new models of renovation-related products such as cordless impact driver drills and circular saws.

The decreased sales in North America in FY 2005 were primarily due to the depreciation of the dollar against the yen. To a lesser extent, decreased sales in North America were due to overall declining demand in North America, as home centers in the United States and Canada enhanced production and distribution of products under their own brand name and, as a result, Makita's sales to home centers declined. In addition, a part of the decrease in sales was attributable to the increase in competitive pressures resulting in enhanced sales incentives offered to professional user customers. The decline in sales in North America was despite Makita's successful marketing programs aimed at the professional user market in the United States and Canada, and Makita's reorganization of its distribution networks in the United States. In the United States, sales in dollar terms declined by 4.0%, as a result of weaker sales volume reflecting mainly the decrease in sales to home centers, such as sales of drills, circular saws and sanders. Overall, net sales of drills in North America decreased by 20.0% as compared to the amounts recorded in FY 2004. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have decreased by 4.2%, or ¥1,752 million in FY 2005.

Review of Performance by Product Group**Portable General Purpose Tools**

The portable general purpose tools group offers a wide range of dependable cordless drills, hammer drills, rotary hammers, demolition hammers, grinders, drills, sanders, screwdrivers, impact wrenches, shears, nibblers, and cutters. This group generates the largest portion of Makita's consolidated net sales. In FY 2005, sales of portable general purpose tools grew 7.7%, to ¥105,736 million, accounting for 54.3% of consolidated net sales. In Japan, sales of portable general purpose tools increased 1.5%, to ¥14,129 million, accounting for 35.9% of total domestic sales. Overseas sales of portable general purpose tools increased 8.7%, to ¥91,607 million, or 59.0% of total overseas sales.

Portable Woodworking Tools

Principal products in Makita's portable woodworking tools group include circular saws, jigsaws, reciprocating saws, planers, routers, trimmers, and pneumatic nailers. In FY 2005, Makita recorded a 0.2% increase in sales of portable woodworking tools, to ¥34,507 million, or 17.7% of consolidated net sales. Domestic sales of portable woodworking tools decreased 4.8%, to ¥6,744 million, accounting for 17.1% of total domestic sales. Makita posted a 1.5% increase in overseas sales of portable woodworking tools, to ¥27,763 million, which accounted for 17.9% of total overseas sales in FY 2005.

Stationary Woodworking Machines

Makita's extensive lineup of stationary woodworking machines encompasses table saws, planer-jointers, and band saws. Sales of stationary woodworking machines in FY 2005 fell 8.1%, to ¥1,573 million, accounting for 0.8% of consolidated net sales. Domestic sales of stationary woodworking machines dropped 8.4%, to ¥853 million,

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accounting for 2.2% of total domestic sales. Overseas sales of stationary woodworking machines were ¥720 million, a 6.5% decrease from the previous fiscal year, accounting for 0.5% of Makita's total overseas sales.

Other Products

Makita's other products category includes industrial-use dust collectors and generators as well as various products for garden and home use, including chain saws, brush cutters, grass cutters, hedge trimmers, blowers, and cordless cleaners. In FY 2005, sales of other products grew 11.3%, to ¥21,763 million, accounting for 11.2% of net sales. In Japan, Makita recorded a 3.8% rise in sales of other products, to ¥8,473 million, accounting for 21.5% of total domestic sales. Overseas sales of other products increased 16.7%, to ¥13,290 million, accounting for 8.6% of total overseas sales.

Parts, Repairs and Accessories

Makita's after-sales services include the sale of parts and accessories and repairs. In FY 2005, parts, repairs, and accessories sales edged up 5.5%, to ¥31,158 million, accounting for 16.0% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased 10.3% to ¥9,180 million and contributed 23.3% of total domestic sales. Overseas sales of parts, repairs, and accessories advanced 3.7%, to ¥21,978 million, accounting for 14.1% of total overseas sales.

Cost of sales

Cost of sales increased 2.7%, or ¥3,001 million, to ¥113,323 million, and the ratio of cost of sales to net sales decreased by 1.7%, falling from 59.9% to 58.2%. The ratio of cost of sales to net sales improved mainly due to Makita's strategy to expand production in China and to further develop high value-added products. As a result of this strategy, productivity in Makita's factories in China and Japan improved, accounting for 1.3% out of the 1.7% improvement in the ratio of cost of sales to net sales.

Gross profit

In addition to cost reductions, the appreciation of the euro against the yen and the dollar increased the profitability of products manufactured in Japan and China and marketed in Europe. As a result, gross profit in FY 2005 increased 10.3%, to ¥81,414 million. The ratio of gross profit to net sales improved 1.7 percentage points, from 40.1% to 41.8%.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses dropped 2.0%, or ¥1,052 million, to ¥52,646 million, in FY 2005, principally as a result of a decrease in pension cost due to an amendment and the transfer to the government of the substitutional portion of domestic pension plan, and depreciation expenses. In addition, the ratio of SG&A expenses to net sales decreased 2.1 percentage point, from 29.2% to 27.1%, principally as a result of reduced personnel expenses due to restructuring in the U.S.A. with the aim to reduce personnel expenses and depreciation expenses to net sales.

Loss/Gain on disposal or sales of property, plant and equipment

In FY2005, there was a loss of ¥1,234 million, versus a gain of ¥2,379 million in FY2004. In FY2004, the Company sold a portion of land and structures at its head office premises in Anjo, Aichi Prefecture in Japan. This gain is recorded in the Japan segment. In FY2005, Makita's factories disposed of or sold some equipment, and the Company sold a portion of land in Sapporo, Hokkaido in Japan. These dispositions and sales were recorded as a loss in the Japan segment. Most of the dispositions and sales resulting in the loss were in connection with Makita's ordinary course of business.

Impairment of long-lived assets

FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" requires an asset impairment adjustment if the sum of the estimated asset's related undiscounted future cash flows is less than the

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current carrying value of the asset. If an asset is deemed to be impaired, the value of the asset is written down to its estimated fair value.

Makita made a decision to discontinue the use of a certain information technology facility located in zoning area in Japan during FY 2005. In accordance with FASB No. 144, Makita recorded a ¥577 million impairment loss on this facility in the Japan segment. The estimated fair value of ¥196 million represents the fair value of the land as determined by a third party appraiser considering the estimated net cash flows from effecting the sale to a third party purchaser. Current zoning regulations require that a buyer utilize the Facility on substantially the same basis. Therefore, the combination of the limitations imposed by the zoning rules and the fact that the Facility is located in a rural, non industrial section of Japan has caused management to determine that the recoverable value on an as is basis will be most likely limited to the estimated fair value of the land.

Transfer to the government of the substitutional portion of pension plan

Until June, 2004, Makita had an employee pension fund in Japan, which was a defined benefit pension fund established under the Japanese pension law. This domestic contributory plan was composed of a corporate defined benefit portion established by the Company and a substitutional portion based on benefits prescribed by the Japanese government. The Company was exempted from contributing to the Japanese Pension Insurance program that would otherwise have been required if it had not elected to fund the government substitutional portion of the benefit through a domestic contributory plan arrangement. The plan assets of the domestic contributory plan were invested and managed as a single portfolio for the entire domestic contributory plan and were not separately attributed to the substitutional and corporate portions. In June 2001, the Japanese pension law was amended to permit an employer to elect to transfer the entire substitutional portion benefit obligation from the domestic contributory plan to the government together with a specified amount of plan assets pursuant to a government formula. After such transfer, the employer would be required to make periodic contributions to the Japanese Pension Insurance program, and the Japanese government would be responsible for all benefit payments. The corporate portion of the domestic contributory plan would continue to exist exclusively as a corporate defined benefit pension plan. Makita has accounted for the transfer in accordance with EITF 03-02 Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities . As specified in EITF 03-02, the entire separation process has been accounted for at the time of completion of the transfer to the government of the benefit obligation and related plan assets as a settlement in accordance with SFAS No.88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits . The aggregate effect of this separation was determined based on the Company s pension benefit obligation as of the date the transfer was completed and the amount of plan assets required to be transferred.

The Company received an approval of exemption from the Minister of Health, Labor and Welfare in January 2003, from the obligation for benefits related to future employee service with respect to the substitutional portion of its domestic contributory plan. The Company received government approval of exemption from the obligation for benefits related to past employee service in April 2004 with respect to the substitutional portion of its domestic contributory plan. The transfer to the government was completed on June 28, 2004.

As a result of the transfer, the Company recognized a subsidy from the Japanese government equal to the difference between the fair value of the obligation deemed settled with the Japanese government and the assets required to be transferred to the government in the amount of ¥9,128 million in FY2005. In addition, the Company recognized a settlement loss equal to the amount calculated as the ratio of the obligation settled to the total employee s pension fund obligation immediately prior to settlement, both of which exclude the effect of future salary progression relating to the substitutional portion, times the net unrecognized gain/loss immediately prior to settlement, which amounted to Yen 4,687 million. The resulting net gain of ¥4,441 million was recorded as a transfer to the government of the substitutional portion of pension plan in the accompanying consolidated income statement in FY 2005.

Operating income

As a result of the factors indicated above, operating income grew 113.6%, to ¥31,398 million, in FY 2005, and the ratio of operating income to net sales rose 8.1 percentage points, from 8.0% to 16.1%.

Other income (expenses)

Other income dropped 17.2%, or ¥254 million, to ¥1,220 million, in FY 2005. This decrease reflects a decrease in realized gains on securities and other income by 56.5%, or ¥798 million, to ¥614 million, in FY 2005. The foregoing decrease was partially offset by the following factors. (1) Interest and dividend income increased 33.1%, or ¥288 million, to ¥1,157 million, in FY 2005. This resulted from the increase in the amount of cash equivalents with foreign subsidiaries and the average balance of Securities. (2)As a result of decreases of weighted average interest rates on borrowings, interest expense decreased by 2.8%, or ¥17 million, to ¥588 million, in FY 2005. (3)The balance of foreign exchange gains and losses improved by ¥239 million to a ¥37 million gain in FY2005 from a ¥202 million loss

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in FY2004. This reflects the Euro appreciating against the Japanese yen and the U.S. dollar depreciating against the Japanese yen in this period.

Income before income taxes

Income before income taxes in FY 2005 increased by 101.7%, or ¥16,448 million, to ¥32,618 million, and the ratio of operating income to net sales rose 7.9 percentage points, from 8.8% in FY 2004 to 16.7% in FY 2005.

Provision for income taxes

Total provision for income taxes increased by 23.6% as compared with FY2004 and amounted to ¥10,482 million in FY 2005, mainly because of a rise in the taxable income of Makita.

The effective income tax rate was 32.1%, compared with the statutory income tax rate of 40.3%. The difference between these rates was mainly attributed to the effect of tax treaties, through which Japanese corporations can claim a tax credit against Japanese income taxes on income earned in certain countries, even through that income is exempted from income taxes or is reduced by special tax incentive measures in those countries, as if no special exemption or reduction was provided. The Company applied such tax sparing mainly to China with the indicated tax reduction effect.

Net income

As a result of the foregoing, net income for FY 2005 increased 187.8% or ¥14,445 million, to ¥22,136 million.

Earnings per share

Basic net income per share of common stock amounted to ¥153.9, compared with ¥53.2 in FY 2004. Diluted net income per share amounted to ¥148.8, compared with ¥51.9 in FY 2004.

Regional Segments

Segment information described below is determined by the location of the Company and its relevant subsidiaries.

Japan Segment

In FY 2005, sales in the Japan segment grew 10.9%, to ¥98,741 million. Sales to outside customers advanced 5.3% to ¥50,955 million, which accounted for 26.2% of consolidated net sales. The increase reflects a 0.6% rise in sales in the domestic market as well as a 24.9% surge in export sales mainly to Asia. Segment operating income climbed 11.0 times, to ¥15,915 million, owing to a 5.4% fall in operation expenses to ¥82,826 million. The decrease in operating expenses resulted from a gain of ¥4,441 million in connection with the return of the substitutional portion of the Company's Employee Pension Fund to the government in FY2005, versus an impairment loss of ¥5,996 million related to its golf course subsidiary in FY2004, and due to improved productivity in the Japanese factory and the Chinese factories.

North America Segment

In FY 2005, sales in the North America segment dropped 7.6%, to ¥42,190 million. Sales to outside customers fell 7.4% to ¥38,607 million, which accounted for 19.8% of consolidated net sales. This decline in sales to outside customers mainly due to overall declining demand in North America, as home centers in the United States and Canada enhanced production and distribution of products under their own brand name and, as a result, Makita's sales to home centers declined. Segment operating income surged 123.9% to ¥1,610 million, principally owing to a 9.7% fall in operating expenses to ¥40,580 million. The decrease in operating expenses reflected lower expenses due to restructuring measures that reduced personnel expenses and due to improved productivity in the Chinese factories.

Europe Segment

In FY 2005, sales in the Europe segment grew 13.7% to ¥81,666 million. Sales to outside customers advanced 13.0%,

to ¥75,864 million, which accounted for 39.0% of consolidated net sales. Segment operating income surged 35.4%, to ¥10,125 million, principally owing to a rise in net sales on a local currency basis as well as to a rise in

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operating profit rates resulting from the strength of the euro and the improved cost efficiency following the shift of a portion of our manufacturing processes to factories in China.

Asia Segment

In FY 2005, sales in the Asia segment increased 46.0% to ¥42,315 million. Sales to outside customers advanced 11.6%, to ¥7,378 million, which accounted for 3.8% of consolidated net sales. Segment operating income grew 68.2%, to ¥4,926 million in FY 2005. The decrease in operating expenses reflected improved productivity in the Chinese factories.

Other Segment

In FY 2005, sales in the other segment increased 8.3% to ¥22,101 million. Sales to outside customers increased by 8.1%, to ¥21,933 million, which accounted for 11.3% of consolidated net sales. Segment operating income fell 29.0%, to ¥955 million in FY 2005.

Fiscal Year (FY) 2004 compared to FY2003

Net sales

Makita's consolidated net sales for FY 2004 amounted to ¥184,117 million, an increase of 4.8%, or ¥ 8,514 million, from FY 2003. In FY 2004, the average yen-dollar exchange rate was ¥113.2 for \$1.00, representing a 7.2% appreciation of the yen compared with the average level in FY 2003. The average level of the yen-euro exchange rate in FY 2004 was ¥132.7 for 1.00 euro, representing a 9.7% depreciation of the yen compared with the average level in FY 2003. Excluding the effect of the appreciation of the euro and the depreciation of the U.S. dollar, consolidated net sales would have increased by 3.8% in FY 2004.

While Makita's consolidated net sales increased 4.8% in FY 2004, the overall number of units of products sold increased significantly in FY 2004, and excluding the effect of the decrease in prices of products, would have increased Makita's consolidated net sales by 5.6%, or by ¥ 9,834 million. The significant increase in the quantity of goods sold in FY 2004 primarily reflected strong sales of Makita's portable general purpose tools, such as hammer drills, grinders and cordless driver-drills. Among others, Makita's new line-up of 2kg rotary hammers were popular, especially in Europe, over Makita's competitors, in part reflecting the lower sales price resulting from the strength of the euro in FY 2004. The increase was partially offset by a decrease in sales in the North American market, as the North American home centers, as customers of Makita, enhanced their production and distribution of products under their own brand name. Among others, the number of table saws sold in the North American market declined significantly in FY 2004.

The average price of Makita's products declined in FY 2004, and excluding the effect of the increase in the number of units sold, the drop of prices would have decreased Makita's net sales by 1.8%, or by ¥ 3,400 million. The reduction in price was primarily a result of reduced cost of production, reflecting primarily the transfer of a part of Makita's production from Japan to the People's Republic of China, where the overall costs of production, including labor, parts and equipment, are significantly less expensive than in Japan. A second factor contributing to the decrease in Makita's prices of goods was the increased sales volume of MAKTEC, Makita's lower end brand, which sold particularly well in Asia. Finally, a portion of the downward price pressure on Makita's products is attributable to enhanced competition, particularly in Thailand, the People's Republic of China and Singapore, for products such as portable cut-off saws, grinders and hammer drills, resulting in price cuts and enhanced offers of sales incentives.

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Sales of new products comprised 9.4% of consolidated net sales of Makita in FY 2004, or ¥ 17,374 million. Among others, new models of cordless driver-drills, circular saws and hammer drills were introduced during FY 2004 in most of Makita's markets world-wide and contributed significantly to the increase of Makita's net sales in FY 2004. In particular, in overseas markets, especially in Europe, Makita's new products such as its new line-up of 2kg rotary hammers proved very popular, in part because of the features and design and in part because of lower product prices reflecting the lower cost of production. In Japan, Makita's new circular saws and new cordless impact drivers sold well, responding to the increasing demand of renovation-related products in the market.

In terms of product type, there was an increase in the sales of portable general-purpose tools and income from parts, repairs and accessories by 6.5% or ¥ 6,032 million and 5.1% or ¥ 1,474 million, respectively. In particular, sales increased significantly in cordless impact drivers, circular saws and hammer drills. The increased sales of such products were offset in part by an 11.1% or ¥ 213 million decrease in sales of stationary woodworking machines.

Sales by region

The increase in consolidated net sales in FY 2004 can be attributed primarily to sales in Europe increasing 15.1%, or ¥8,721 million, to ¥66,369 million, to increased sales in other regions including Australia, Latin America and Middle East increasing 13.5% or ¥2,681 million, to ¥22,508 million and, to a lesser extent, sales in Asia (excluding Japan) increasing 3.4%, or ¥471 million, to ¥14,245 million and sales in Japan increasing 0.9%, or ¥361 million, to ¥39,142 million. The increase was offset partially by sales in North America falling 8.2%, or ¥3,720 million, to ¥41,853 million.

The increased sales in Europe in FY 2004 primarily reflected the appreciation of the euro against the yen. In addition, the increased number of units sold in Europe, particularly with respect to portable general purpose tools, in especially Russia, Eastern European countries, the United Kingdom, Germany and France contributed to increased sales in Europe, partially offset by the decreased price per product resulting from reduced cost of production. Net sales, denominated in local currency, increased in Russia by 27.6%, in Eastern Europe by 22.0%, in the United Kingdom by 8.4%, in Germany by 14.9% and in France by 20.5% over amounts recorded in FY 2003. Among others, Makita's products such as cordless driver-drills and 2 kg rotary hammers were particularly popular in countries such as Germany and the United Kingdom, partly reflecting the lower sales price resulting from the strength of the euro in FY 2004. Cordless driver-drills and hammer drills increased by 19.4% and 11.8% respectively. In addition, the introduction of new products contributed significantly to the increase of sales in Europe, in particular new models of cordless driver-drills, circular saws and hammer drills. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 7.2% in FY 2004.

The increased sales in other regions including Australia, Latin America and the Middle East in FY 2004 primarily reflected the increased number of units sold in other regions, particularly with respect to portable general purpose tools such as cordless driver-drills and hammer drills sold in the Middle East, Africa and Australia. Net sales, denominated in local currency, increased in Australia by 18.1%, in UAE by 23.5% and in New Zealand by 27.6% over amounts recorded in FY 2003. Among others, in FY 2004 Makita saw significant success in its sales efforts to new markets in the Middle East and Africa. The increased number of Makita products sold in other regions was partially offset by the decreased price per product resulting from the reduced cost of production, especially in cordless driver-drills. Overall, net sales of cordless driver-drills increased by 24.7% over amounts recorded in FY 2003. In addition, the introduction of new products contributed significantly to the increase of sales in other regions, in particular new models of cordless driver-drills, table saws and circular saws. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 12.5% in FY 2004.

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The increased sales in Asia (excluding Japan) in FY 2004 primarily reflected the increased number of units sold in Asia, particularly with respect to portable general purpose tools, especially hand drills and grinders. The increased quantity of units sold were mostly offset by the decreased price per product, resulting from the increased popularity of Makita's lower end brand, MAKTEC and, to a lesser extent, Makita's reduced cost of production. Net sales, denominated in local currency, increased in Taiwan by 5.1% and in Singapore by 3.8% over amounts recorded in FY 2003. In addition, the introduction of new products contributed significantly to the increase of sales in Asia, in particular new models of hammer drills, cordless driver-drills and grinders. Excluding the effect of fluctuations of the local currencies, consolidated net sales would have increased by 6.6% in FY 2004.

The increased sales in Japan in FY 2004 primarily reflected the increased number of units sold with respect to its portable general purpose tools such as Makita's mainstay impact driver products and portable woodworking tools, partially offset by the decline in the number of units sold in stationary woodworking machines and parts, repairs and accessories. Overall, net sales of cordless driver-drills including impact drivers increased by 4.9% over the amounts recorded in FY 2003. On the other hand, continuing low levels of housing construction in Japan restrained the growth of demand for Makita's products and increased overall competition resulted in price pressure. In addition, the introduction of new products contributed significantly to the increase of sales in Japan, in particular new models of renovation-related products such as cordless impact drivers and circular saws.

The decrease in sales in North America in FY 2004 was primarily due to the depreciation of the dollar against the yen. To a lesser extent, the decrease in sales in North America was due to overall declining demand, as home centers in the United States and Canada enhanced production and distribution of products under their own brand name and, as a result, Makita's sales to home centers declined. In addition, a part of the decrease in sales was attributable to the increase in competitive pressures resulting in enhanced sales incentives offered to professional user customers. The decline in sales in North America was despite Makita's successful marketing programs aimed at the professional user market in the United States and Canada, and Makita's reorganization of its distribution networks in the United States. In the United States, sales in dollar terms declined by 3.2%, as a result of weaker sales volume reflecting mainly the decrease in sales to home centers, such as sales of table saws. Overall, net sales of table saws in North America decreased by 30.8% as compared to the amounts recorded in FY 2003. In Canada, sales in Canadian dollar terms declined by 3.2%, as a result of weaker sales volume, also reflecting mainly the decrease in sales to home centers.

Review of Performance by Product Group**Portable General Purpose Tools**

The portable general purpose tools group offers a wide range of dependable cordless drills, hammer drills, rotary hammers, demolition hammers, grinders, drills, sanders, screwdrivers, impact wrenches, shears, nibblers, and cutters. This group generates the largest portion of Makita's consolidated net sales. In FY 2004, sales of portable general purpose tools grew 6.5%, to ¥98,176 million, accounting for 53.3% of consolidated net sales. In Japan, sales of portable general purpose tools increased 3.5%, to ¥13,922 million, accounting for 35.6% of total domestic sales. Overseas sales of portable general purpose tools increased 7.1%, to ¥84,254 million, or 58.1% of total overseas sales.

Portable Woodworking Tools

Principal products in Makita's portable woodworking tools group include circular saws, jigsaws, reciprocating saws, planers, routers, trimmers, and pneumatic nailers. In FY 2004, Makita recorded a 2.4% increase in sales of portable woodworking tools, to ¥34,452 million, or 18.7% of consolidated net sales. Domestic sales of portable woodworking tools increased 4.4%, to ¥7,086 million, accounting for 18.1% of total domestic sales. Makita posted a 1.9% increase in overseas sales of portable woodworking tools, to ¥27,366 million, which accounting for

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18.9% of total overseas sales in FY 2004.

Stationary Woodworking Machines

Makita's extensive lineup of stationary woodworking machines encompasses table saws, planer-jointers, and band saws. Sales of stationary woodworking machines in FY 2004 fell 11.1%, to ¥1,711 million, accounting for 1.0% of consolidated net sales. Domestic sales of stationary woodworking machines dropped 8.6%, to ¥941 million, accounting for 2.4% of total domestic sales. Overseas sales of stationary woodworking machines were ¥770 million, a 13.9% decrease from the previous fiscal year, accounting for 0.5% of Makita's total overseas sales.

Other Products

Makita's other products category includes industrial-use dust collectors and generators as well as various products for garden and home use, including chain saws, brush cutters, grass cutters, hedge trimmers, blowers, and cordless cleaners. In FY 2004, sales of other products grew 2.1%, to ¥19,548 million, accounting for 10.6% of net sales. In Japan, Makita recorded a 0.2% rise in sales of other products, to ¥8,160 million, accounting for 20.8% of total domestic sales. Overseas sales of other products increased 3.5%, to ¥11,388 million, accounting for 7.9% of total overseas sales.

Parts, Repairs and Accessories

Makita's after-sales services include the sale of parts and accessories and repairs. In FY 2004, parts, repairs, and accessories sales edged up 5.1%, to ¥30,230 million, accounting for 16.4% of consolidated net sales. Domestic sales of parts, repairs, and accessories declined 3.6% to ¥9,033 million and contributed 23.1% of total domestic sales. Overseas sales of parts, repairs, and accessories advanced 9.4%, to ¥21,197 million, accounting for 14.6% of total overseas sales.

Cost of sales

Cost of sales increased 0.1%, or ¥96 million, to ¥110,322 million. Previously, processes from processing stages through assembly stages were handled at each factory, but Makita has worked to reduce costs by shifting some processing work, such as that related to a portion of motors, to subsidiaries in China, which have lower labor costs than their factories in Japan; increasing efficiency; and reducing costs by positioning other overseas subsidiaries as specializing in assembly processes. In addition, Makita has concentrated its capabilities and developed the Maktec line of products that include a higher share of relatively inexpensive materials from China. Sales of Maktec products have been initiated in Asia, Oceania, and Europe. Consequently, the ratio of cost of sales to net sales improved by 2.9 percentage points, falling from 62.8% to 59.9%.

Gross profit

In addition to cost reductions, the appreciation of the euro against the yen and the dollar increased the profitability of products manufactured in Japan and China and marketed in Europe. As a result, gross profit in FY 2004 increased 12.9%, to ¥73,795 million. The ratio of gross profit to net sales improved 2.9 percentage points, from 37.2% to 40.1%.

Selling, general and administrative expenses

Selling, general and administrative (SG&A) expenses grew 4.1%, or ¥2,119 million, to ¥53,698 million, in FY 2004, principally as a result of an increase in personnel, product shipping, advertising and promotion, and R&D expenses. However, the ratio of SG&A expenses to net sales edged down 0.2 percentage points, from 29.4% to 29.2%, principally as a result of drops in the ratios of personnel and shipping costs and depreciation expenses to net sales.

Loss/Gain on disposal or sales of property, plant and equipment

Makita added a new line item, Gain on Sales of Property, Plant and Equipment, to its consolidated statements of income in FY2004 due to the increased significance of such gains in FY2004. Gains amounted to ¥2,379 million in FY2004, versus a loss of ¥1,330 million in FY2003.

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In FY2004, the Company sold a portion of land and structures of its head office premises in Anjo, Aichi Prefecture in Japan. The gain of ¥1,850 million is recorded in the Japan segment. In addition, a U.S.-based subsidiary sold its branches and warehouses due to the reorganization of its distribution network, which resulted in a recorded gain of ¥551 million in the North America segment.

Impairment of long-lived assets

In accordance with FASB Statement No. 144, Makita wrote down ¥7,780 million of property, plant and equipment in Japan and the United Kingdom in FY 2004, including a golf course and a certain R&D-facility in Japan and a production facility in the United Kingdom.

In December 2003, in connection with ongoing strategic revenue growth and cost cutting initiatives, specifically including an evaluation of its corporate wide marketing and promotional activities and the cost benefit relationship therefrom, and the continued rationalization of certain personnel related costs, Makita made a decision to no longer consider a golf course owned by a consolidated subsidiary as a corporate asset and curtailed utilizing such for promotional, entertainment and employee welfare purposes. As a result of this decision, Makita performed an impairment analysis by considering cash flows expected to be generated from the golf course on a stand alone basis and recorded an impairment charge of ¥5,996 million to reduce the carrying value to its estimated fair value, as determined on a discounted cash flow basis. Following a decision to discontinue the use of a certain research and development facility and a related administrative facility during fiscal 2004, Makita recorded a ¥1,541 million impairment loss on the subject long-lived asset in the Japan segment. In addition, Makita revalued a production facility owned by a subsidiary in the United Kingdom that it planned to sell, based on the estimated prospective selling price of a portion of the factory, less estimated cost to sell, which resulted in a ¥243 million impairment loss in the Europe segment. Such production facility was sold in April 2004.

Operating income

As a result of the factors indicated above, operating income grew 17.9%, to ¥14,696 million, in FY 2004, and the ratio of operating income to net sales rose 0.9 percentage points, from 7.1% to 8.0%.

Other income (expenses)

The balance of other income and expenses improved ¥4,650 million (income of ¥1,474 million in FY 2004 versus expense of ¥3,176 million in the previous year). This mainly resulted from ¥555 million of gains on the sale of securities, which was made possible by a recovery in stock prices, as compared to realized losses of securities of ¥2,590 million in the previous year. In addition, foreign exchange losses declined ¥1,258 million (FY 2004 ¥202 million loss versus FY 2003 ¥1,460 million loss). This reflected the earlier noted exchange movements (appreciating Euro and declining Dollar versus Yen) and Makita's increased use of risk hedging in FY2004.

Income before income taxes

Income before income taxes in FY 2004 surged 74.0%, or ¥6,878 million, to ¥16,170 million, and the ratio of operating income to net sales rose 3.5 percentage points, from 5.3% in FY 2003 to 8.8% in FY 2004.

Provision for income taxes

Total provision for income taxes increased 230.1%, to ¥8,479 million in FY 2004, mainly because of a rise in the taxable income of Makita. This higher percentage increase in provisions for income taxes as compared to the percentage increase in income before income taxes was primarily due to an increase in the effective tax rate.

The effective income tax rate was 52.4%, compared with a statutory income tax rate of 41.4%. The difference between those rates was mainly attributed to the increase in valuation allowance as a percentage of income before income taxes, which was caused by a 100% valuation allowance established on the impairment loss on long-lived assets of a subsidiary that operates a golf course in Japan.

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Net income

As a result of the foregoing, net income for fiscal 2004 increased 14.4% or ¥ 968 million, to ¥7,691 million.

Earnings per share

Basic net income per share of common stock amounted to ¥53.2, compared with ¥45.3 in FY 2003. Diluted net income per share amounted to ¥51.9, compared with ¥44.2 in FY 2003.

Regional Segments

Segment information described below is determined by the location of the Company and its relevant subsidiaries.

Japan Segment

In FY 2004, sales in the Japan segment grew 2.5%, to ¥89,046 million. Sales to outside customers advanced 3.2% to ¥48,413 million, which accounted for 26.3% of consolidated net sales. The increase reflects a 0.9% rise in sales in the domestic market as well as a 14.2% surge in export sales mainly to Asia. Segment operating income dropped 63.0%, to ¥1,452 million, due to the earlier noted ¥ 7,537 million impairment losses with respect to a research and development facility and a golf course that increased operating expenses by 5.6%, to ¥87,594 million. There were no similar impairment related charges in FY 2003.

North America Segment

In FY 2004, sales in the North America segment dropped 8.1%, to ¥45,677 million. Sales to outside customers fell 9.0% to ¥41,699 million, which accounted for 22.6% of consolidated net sales. This decline in sales to outside customers was attributed to competitive pressure that caused declines in sales volume and increase of offered sales incentives, though the economic conditions remained robust. Segment operating income surged 167.3% to ¥719 million, principally owing to a 9.1% fall in operating expenses to ¥44,958 million. The decrease in operating expenses reflected the improved profitability of products manufactured in Chinese factories as well as a ¥555 million gain mainly on the sale of marketing branches and warehouses due to the reorganization of the distribution network of Makita's U.S.-based marketing subsidiary. It also reflected lower expenses due to restructuring measures that reduced personnel expenses.

Europe Segment

In FY 2004, sales in the Europe segment grew 13.6% to ¥71,836 million. Sales to outside customers advanced 15.7%, to ¥67,110 million, which accounted for 36.4% of consolidated net sales. Segment operating income surged 92.8%, to ¥7,478 million, principally owing to a rise in net sales on a local currency basis as well as to a rise in operating profit rates resulting from the strength of the euro and the improved cost efficiency following the shift of a portion of our manufacturing processes to factories in China.

Asia Segment

In FY 2004, sales in the Asia segment increased 12.4% to ¥28,976 million. Sales to outside customers fell 5.7%, to ¥6,612 million, which accounted for 3.6% of consolidated net sales. Segment operating income grew 22.0%, to ¥2,928 million in FY 2004.

Other Segment

In FY 2004, sales in the other segment increased 8.3% to ¥20,406 million. Sales to outside customers advanced 8.1%, to ¥20,283 million, which accounted for 11.1% of consolidated net sales. Segment operating income grew 204.4%, to ¥1,345 million in FY 2005.

CRITICAL ACCOUNTING POLICIES

As disclosed in Note 3 of the Notes to the accompanying consolidated financial statements, the preparation of Makita's consolidated financial statements in accordance with U.S. generally accepted accounting principles requires

management to make certain estimates and assumptions. These estimates and assumptions were determined by management's judgment based on currently known facts, situations and plans for future activities, which may change

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in the future. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and accompanying notes and due to the possibility that future events affecting the estimates may differ significantly from management's current judgments. Accordingly, any change in the facts, situations, future plans or other factors on which management bases its estimates may result in a significant difference between earlier estimates and the actual results achieved. Makita believes that the following are the critical accounting policies and related judgments and estimates used in the preparation of its consolidated financial statements and accompanying notes.

Revenue Recognition

Makita believes that revenue recognition is critical for its financial statements because net income is directly affected by the estimation of sales incentives. In recognizing its sales incentives, is required to make estimates based on assumptions about matters that are highly uncertain at the time the estimate is made. Makita principally generates revenue through the sale of power tool products. Makita's general revenue recognition policy follows the provisions of Staff Accounting Bulletin No. 104 (SAB 104). In accordance with SAB 104 and as disclosed in the consolidated financial statements, Makita recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services are rendered, the sales price is fixed and determinable and collectibility is reasonably assured. Makita believes the foregoing conditions are satisfied upon the shipment or delivery of Makita's product.

With respect to Revenue Recognition, Makita offers sales incentives to qualifying customers through various incentive programs. Sales incentives primarily involve volume-based rebates, cooperative advertising and cash discounts, and are accounted for in accordance with the Emerging Issues Task Force Issue No. 01-9.

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

Cooperative advertisings are provided to certain customers as a contribution to or as sponsored funds for advertisements. Under cooperative advertising programs, Makita does not receive an identifiable benefit sufficiently separable from its customers. Accordingly, cooperative advertisings are also accounted as a reduction of revenue.

Cash discounts are provided as a certain percentage of the invoice price as predetermined by spot contracts or based on contractually agreed upon amounts with customers. Cash discounts are recognized as a reduction of revenue at the time the related revenue is recognized based on Makita's ability to reliably estimate such future discounts to be taken. Cash discounts are substantially all taken with 30 days following the date of sale. Estimates of expected cash discounts are evaluated and adjusted periodically based on actual sales transactions and historical trends.

The following table shows the changes in accruals for volume-based rebates, cooperative advertising and cash discounts for the years ended March 31, 2003, 2004 and 2005:

	Yen (millions)			U.S. Dollars (thousand)
	For the year ended March 31,			
	2003	2004	2005	2005
Volume-based rebates:				
Actual payment for the year	(4,200)	(3,934)	(4,450)	(41,589)
Income statement impact for the year	3,764	3,903	4,333	40,495
Accrued expenses (BS) as of March 31,	1,309	1,278	1,161	10,850

Cooperative advertisings:

Actual payment for the year	(1,841)	(2,076)	(1,900)	(17,757)
Income statement impact for the year	1,827	2,147	1,812	16,935
Accrued expenses (BS) as of March 31,	525	596	508	4,748

Cash discounts:

Actual payment for the year	(3,691)	(3,680)	(3,712)	(34,692)
Income statement impact for the year	3,669	3,661	3,684	34,430
Accrued expenses (BS) as of March 31,	271	252	224	2,093

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Inventory valuation and reserve

Inventories are valued at the lower of cost or market price, with cost determined based on the average cost method. The valuation of inventory requires Makita to estimate obsolete or excess inventory as well as inventory that is not of saleable quality. The determination of obsolete or excess inventory requires Makita to estimate the future demand for products taking into consideration such factors as macro and micro economic conditions, competitive pressures, technological obsolescence, changes in consumer buying habits and others. The estimates of future demand that Makita uses in the valuation of inventory are the basis for revenue forecasts, which are also consistent with short-term manufacturing plans. If demand forecast for specific products is greater than actual demand and Makita fails to reduce manufacturing output accordingly, Makita could be required to write down additional on-hand inventory, which would have a negative impact on gross margin and, consequently, a potential material adverse impact on net income. However, sales of previously written-down or written-off inventory is not significant to any of the periods presented and Makita believes that the gross profit of the resulting sales of such inventory items is similar to that realized on all of its sales for the respective periods presented. Accordingly, the impact on Makita's consolidated gross profit margin by sales of previously written-down or written-off inventory is not material. Makita usually sells or scraps remaining inventory items within a few years after write off and/or write down.

Unrealized Losses on Securities

Makita holds marketable securities and investment securities which are accounted for in accordance with SFAS No. 115. Makita believes that impairment on securities is critical because it holds significant amounts of securities and any resulting impairment loss could have a material adverse impact on net income. Makita utilizes significant judgment based on subjective as well as objective factors in determining when an investment is other-than-temporarily impaired. Makita regularly reviews available-for sale securities and held-to-maturity securities for possible impairment based on criteria that include, but are not limited to, the extent to which cost exceeds market value, the duration of a market decline, our intent and ability to hold to recovery and the financial health, specific prospects and creditworthiness of the issuer. Makita performs comprehensive market research and analysis and monitors market conditions to identify potential impairments.

Allowance for Doubtful Receivables

Makita performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by Makita's review of their current credit information. Makita continuously monitors collections and payments from its customers and maintains a provision for probable estimated credit losses based upon its historical experience and any specific customer collection issues that Makita has identified. Such credit losses have historically been within Makita's expectations and the provisions established. However, Makita cannot guarantee that it will continue to experience the same credit loss rates that it has in the past. Changes in the underlying financial condition of its customers could result in a material impact to Makita's consolidated results of operations and financial condition.

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Impairment of Long-Lived Assets

Makita believes that impairment of long-lived assets is critical for its financial statements because Makita has significant amounts of property, plant and equipment, the recoverability of which could significantly affect its operating results and financial condition.

Makita periodically performs an impairment review for long-lived assets held and used whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. This review is based upon Makita's projections of expected undiscounted future cash flows. Estimates of the future cash flows are based on the historical trends adjusted to reflect the best estimate of future operating conditions. Makita believes that its estimates are reasonable. However, different assumptions regarding such cash flows could materially affect Makita's evaluations. Recoverability of assets to be held and used is assessed by comparing the carrying amount of an asset or asset group to the expected future undiscounted cash flows of the asset or group of assets. If an asset or group of assets is considered to be impaired due to factors such as a significant decline in market value of an asset, current period operating cash outflows losses and significant changes in the manner of the use of an asset, the impairment charge to be recognized is measured as the amount by which the carrying amount of the asset or group of assets exceeds fair value. Long-lived assets meeting the criteria to be considered as held for sale are reported at the lower of their carrying amount or fair value less costs to sell.

Fair value is determined based on recent transactions involving sales of similar assets or on appraisals prepared internally or externally, or by using other valuation techniques. If actual market and operating conditions under which assets are operated are less favorable than those projected by management, resulting in lower expected future cash flows or a shorter expected future period to generate such cash flows, additional impairment charges may be required. In addition, changes in estimates resulting in lower fair values due to unanticipated changes in business or operating assumptions could adversely affect the valuations of long-lived assets and in turn affect Makita's consolidated results of operations and financial condition.

Accrued Retirement and Termination Benefits

Makita believes that pension accounting is critical for its financial statements because assumptions used to estimate pension benefit obligations and pension expenses can have a significant effect on its operating results and financial condition. Accrued retirement and termination benefits are determined based on consideration of the levels of retirement and termination liabilities and plan assets at the end of a given fiscal year. The levels of projected benefit obligations and net periodic benefit cost are calculated based on various annuity actuarial calculation assumptions. Principal assumptions include discount rates, assumed rates of increase in future compensation levels, mortality rates and some other assumed rates. Discount rates employed by Makita must be reflective of rates available on long-term, high quality fixed-income debt instruments. Discount rates are determined annually on the measurement date.

The expected long-term rate of return on plan assets is determined annually based on the composition of the pension asset portfolios and the expected long-term rate of return on these portfolios. The expected long-term rate of return on plan assets is designed to approximate the long-term rate of return actually earned on the plan assets over time to ensure that funds are available to meet the pension obligations that result from the services provided by employees.

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A number of factors are used to determine the reasonableness of the expected long-term rate of return, including actual historical returns on the asset classes of the plans' portfolios and independent projections of returns of the various asset classes.

Accordingly, these assumptions are evaluated annually and retirement and termination liabilities are recalculated at the end of each fiscal year based on the latest assumptions. In accordance with U.S. generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over the future periods and therefore, generally affect Makita's results of operations in such future periods.

Makita has a contributory retirement plan in Japan, which covers substantially all of the employees of the Company. The discount rate assumed to determine the pension obligation for the pension plan was 2.2% for the year ended March 31, 2005. Raising the discount rate for the pension plan by 0.5% would have decreased the projected benefit obligation by approximately ¥2.3 billion at the end of fiscal 2005, while reducing the discount rate by 0.5% would have resulted in increased projected benefit obligation by approximately ¥2.5 billion. See Note 9 to the accompanying consolidated financial statements.

While Makita believes that the assumptions are appropriate, significant differences in its actual experience or significant changes in its assumptions may materially affect Makita's accrued retirement and termination benefits and future expenses.

Realizability of Deferred Income Tax Assets

Makita is required to estimate its income taxes in each of the jurisdictions in which Makita operates. This process involves estimating Makita's current tax provision together with assessing temporary differences resulting from differing treatment of items for income tax reporting and financial accounting and reporting purposes. Such differences result in deferred income tax assets and liabilities, which are included within Makita's consolidated balance sheets. Makita must then assess the likelihood that Makita's deferred income tax assets will be recovered from future taxable income, and to the extent Makita believes that recovery is not more likely than not, Makita must establish a valuation allowance.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against our gross deferred income tax assets. We have recorded a valuation allowance of ¥8,211 million as of March 31, 2005 due to uncertainties about our ability to utilize certain deferred income tax assets mainly for net operating loss carry forwards before they expire and an impairment loss recognized for a golf course subsidiary. For the balance of deferred income taxes, although realization is not assured, management believes, judging from an authorized business plan, it is more likely than not that all of the deferred income tax assets, less the valuation allowance, will be realized. The amount of such net deferred income tax assets that are considered realizable, however, could change in the near term and any such change may have a material effect on Makita's consolidated results of operations and financial position if estimates of future taxable income are different.

B. Liquidity and capital resources

Makita's principal sources of liquidity are cash on hand, cash provided by operating activities and borrowings within credit lines. As of March 31, 2005, Makita held cash and cash equivalents amounting to ¥25,384 million and the Company's subsidiaries have credit lines up to ¥23,477 million. As of March 31, 2005, ¥1,968 million of its credit lines was used by overseas subsidiaries and ¥21,509 million was unused. As of March 31, 2005, Makita had ¥9,060 million in short-term borrowing, which included bank and insurance company borrowings and capital lease obligations. Borrowings of the Company's financial subsidiary amount to ¥6,000 million, and will become due in

September and November 2005. Makita is scheduled to repay this debt from its current holdings of securities, and highly liquid assets. For further information regarding our short-term borrowings, including the average interest rates see Note 10 to our accompanying consolidated financial statements.

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Makita made the decision to withdraw from golf course operations, and on September 8, 2004, petitioned the Nagoya District Court for the commencement of civil rehabilitation proceedings for its wholly owned subsidiary Joyama Kaihatsu, Ltd. On April 11, 2005, the court decided to approve the plan for rehabilitation. Going forward, after making final confirmation of the rehabilitation plan, Makita plans to settle obligations related to the rehabilitation and then plans to transfer its ownership interests of the company to a third party, Tokyo Tatemono Co., Ltd., towards the end of May 2005. As a result of this approval, Makita is scheduled to pay obligations of this subsidiary in the amount of ¥6,375 million, in respect of the ¥12,836 million of club members' deposits as of March 31, 2005, from its current holdings of securities, and highly liquid assets.

As of March 31, 2005, Makita's total short-term borrowings and long-term indebtedness amounted to ¥9,148 million, representing a decrease from the ¥21,492 million reported for the previous fiscal year-end. Makita's ratio of indebtedness to shareholders' equity declined 6.9%, to 4.2%. The reduction in the balance of indebtedness and the decline in the ratio of total indebtedness to shareholders' equity reflect the efforts of management to improve the efficiency of the usage of Makita's capital by reducing the level of unused net cash provided by operating activities.

Except as disclosed above, Makita has no potentially significant refinancing requirements in fiscal 2006. Makita expects to continue to incur additional debt from time to time as required to finance working capital needs.

Makita has historically maintained a high level of liquid assets. Management estimates that the cash and cash equivalents level of ¥25,384 million as of March 31, 2005, together with Makita's available credit facilities, cash flow from operations, funds available from long-term and short-term debt financing, will be sufficient to satisfy our future working capital needs, capital expenditure, research and development and debt service requirements through fiscal 2006 and thereafter.

Makita requires operating capital mainly to purchase materials required for production, to conduct research and development, to respond to cash flow fluctuations related to changes in inventory levels and to cover the payment cycle of receivables from wholesalers. Makita further requires funds for capital expenditures, mainly to expand production facilities and purchase metal molds. Makita also requires funds for financial expenditures, primarily to pay dividends and to repurchase treasury stock. Maintaining the level of Makita's production and marketing activities requires capital investments of approximately ¥5 billion to ¥7 billion annually. Please see "Fiscal Year 2005 Capital Expenditures" below in this section for a description of our principal capital expenditures for fiscal 2005 and the main planned expenditures for fiscal 2006. At the Regular General Meeting of Shareholders held in June 2005, the Company's shareholders approved a cash dividend of ¥36 yen per share. The total scheduled cash dividend payments amount to ¥5,176 million, which the Company paid in June 2005.

Makita believes it will continue to be able to access the capital markets on terms and for amounts that will be satisfactory to it and as necessary to support the business and to engage in hedging transactions on commercially acceptable terms.

Makita is rated at "A+" by Standard & Poor's at March 31, 2005.

Fiscal year 2005

Cash Flows

Net cash provided by operating activities in FY 2005 decreased by ¥12,099 million to ¥16,842 million from ¥28,941 million in the previous fiscal year. The cash inflow is primarily composed of cash received from customers, and the cash outflow is primarily composed of payments by Makita for parts and materials, selling, general and administrative expenses, and income taxes.

For FY 2005, cash inflow from cash received from customers increased, as a result of an increase in net sales. This increase in cash inflow was within the range of the increase in net sales, as there were no significant changes in

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Makita's collection rates. Cash inflow in operating activities increased by 5.6%, to ¥192,742 million, and cash outflow in operating activities increased by 14.5%, to ¥175,900 million.

Cash outflow for payments for parts and materials increased as a result of increased production. This increase was greater than the increase in net sales. Cash outflow for income taxes payments increased due to an increase in taxable income.

Net cash inflow from investing activities was ¥154 million, compared with a ¥17,262 million cash outflow in the previous year. The increase in net cash inflow resulted mainly from the ¥13,510 million of proceeds from maturities of held to maturity securities. Net cash inflow from sales and maturities of securities of purchase of securities for FY 2005 was ¥7,172 million, compared with ¥16,762 million of net securities purchase to accumulate funds in preparation for the payments needed to redeem our outstanding convertible bonds maturing in March 2005. In addition, Makita spent less cash on time deposits, at ¥38 million for FY 2005 compared with ¥1,162 million for FY 2004. The foregoing was partially offset by reduced proceeds from sales of property, plants and equipment at ¥320 million for FY 2005 compared with ¥5,154 million for FY 2004, and the increase in cash used for capital expenditure by ¥2,161 million, to ¥6,655 million.

Net cash used in financing activities amounted to ¥16,177 million, compared with ¥6,596 million in the previous fiscal year. This included ¥12,990 million used to redeem our outstanding convertible bond and ¥3,453 million used to pay cash dividends. In FY 2005, net cash outflow from financing activities increased by ¥9,581 million to ¥16,177 million mainly due to an increase in redemption of convertible bond, and an increase in payment of cash dividends.

As a result of these activities as well as the effects of exchange rate changes, our cash and cash equivalents as of March 31, 2005 amounted to ¥25,384 million, up ¥808 million from the end of fiscal 2004.

Capital Expenditures

Makita has continued to allocate sizable amounts of funds for capital expenditures, which Makita believes is crucial for sustaining long-term growth. In the light of the severity of its current market competition however, Makita has focused its capital investments on expanding its plant in China and purchasing metal molds for new products to be manufactured in Japan and China and in certain other areas, which required Makita to increase the amount of its capital expenditures in FY 2005 compared to FY 2004. Total capital expenditures amounted to ¥5,691 million, ¥4,494 million and ¥6,655 million for FY 2003, 2004 and 2005, respectively. Capital expenditures in FY 2005 were mainly for the purchase of molds for new products, acquisition of production equipment in the Chinese plant and the construction of a headquarters building for Makita (Australia) Pty. Ltd.

Capital investments of the Company amounted to approximately ¥2.0 billion, while the capital investments of overseas subsidiaries including manufacturing subsidiaries in such countries as Germany, China, and the United States amounted to approximately ¥4.7 billion. Capital expenditures for Makita's consolidated subsidiaries consisted primarily of the construction of a headquarters building for Makita (Australia) Pty. Ltd., the purchase of metal molds for new products of Dolmar GmbH, and the acquisition of production equipment by Makita (China) Co., Ltd. and Makita (Kunshan) Co., Ltd. All of Makita's capital expenditures in FY 2005 were funded through internal sources.

Under its investment plans for FY 2006, the Makita Group is scheduled to make capital investments totaling ¥11.0 billion, 65% higher than for FY 2005, which is scheduled to be funded through internal sources. Of this total, the Company plans to make direct investments of ¥7.0 billion and its consolidated subsidiaries will invest ¥4.0 billion.

Fiscal year 2004

Net cash provided by operating activities in FY 2004 increased by ¥1,800 million to ¥28,941 million from ¥27,141 million in the previous fiscal year. Of the Cash provided by operating activities, ¥19,643 million was provided by operations and ¥9,298 million was provided by changes in working capital. The working capital changes occurred principally from increases in inventories, and decrease in accounts payable and accrued expenses partially offset by a decrease in trade receivables.

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In FY 2004, our net cash used in investing activities increased by ¥7,603 million to ¥17,262 million, from ¥9,659 million in the previous fiscal year. Net cash outflow decreased by ¥5,154 million due to the sale of land and structures adjacent to the Company's head office in Japan as well as branches and warehouses in the United States and the reduction of cash used for capital investment to ¥4,494 million from ¥5,691 million in FY 2004. Cash usage increased because net securities purchases increased by ¥12,767 million to ¥16,762 million and our time deposits increased by ¥621 million to ¥1,162 million, as a result of an accumulation of funds in preparation for the payments due to redeem our ¥12,994 million of outstanding convertible bonds maturing in March 2005 as well as the management of funds on hand.

Net cash used in financing activities amounted to ¥6,596 million, compared with ¥13,381 million in the previous fiscal year. This included ¥2,220 million used to purchase and retire treasury stock (2,074,685 shares) and ¥2,610 million used to pay cash dividends. In FY 2004, net cash outflow from financing activities decreased by ¥6,785 million to ¥6,596 million mainly due to a decrease in net repayment of short-term borrowings, a decrease in the redemption of bonds and a decrease in the repayment of club members' deposits.

As a result of these activities as well as the effects of exchange rate changes, our cash and cash equivalents at March 31, 2004 amounted to ¥24,576 million, up ¥4,206 million from the end of fiscal 2003.

Financial Position

Total assets at the end of FY 2005 were ¥289,904 million, up 4.2% from the previous fiscal year-end. Total current assets increased 6.9% to ¥207,892 million, owing to such factors as an increase of inventories.

This increase was partially offset by a decrease in marketable securities.

Property, plant and equipment, at cost less accumulated depreciation, decreased 0.3%, to ¥52,824 million. Investments and other assets decreased 4.9%, to ¥29,188 million. Total current liabilities increased 24.9%, to ¥58,226 million mainly due to the reclassification of club members' deposits from long-term liabilities to current liabilities.

This increase was partially transferred by a decrease in convertible bond.

Long-term liabilities dropped 71.2%, to ¥10,639 million, mainly because of the shift of club membership and other liabilities of Joyama Kaihatsu, Ltd. and a decrease in accrued retirement and termination benefits due to the transfer to the government of the substitutional portion of the domestic pension plan. Working capital amounted to ¥149,666 million at the end of fiscal 2005. The current ratio was 3.6 times, compared with 4.2 at the previous year-end. Shareholders' equity grew 13.6%, to ¥219,640 million, because of the rise in net income as well as the decrease in the minimum pension liability adjustment due to the transfer to the government of the substitutional portion of the domestic pension plan, the recovery in stock markets, which increased the value of net unrealized holding gains on available-for-sale securities, and a decrease in foreign currency translation adjustments within total accumulated other comprehensive loss. As a result, the shareholders' equity ratio rose to 75.8%, from 69.5% at the previous fiscal year-end.

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

Approximately 440 of Makita's employees are engaged in research and development activities and product design. Makita also employs approximately 100 trained personnel in production engineering, and has developed a number of the machine tools currently used in its factories. The majority of such personnel are engaged in research and development of mechanical innovations, and the rest are engaged in the research and development of electric, electronic and other applications.

Makita places a high priority on R&D and believes that strong capability in R&D is crucial to its continuing development of high-quality, reliable products that meet users' needs. In FY 2005, Makita allocated ¥4,085 million to R&D. Approximately 2.1% of net sales. In FY 2004, Makita allocated ¥4,086 million for R&D, up 6.0% from the ¥3,856 million allocation in FY 2003. The ratio of R&D expenses to net sales in both FY 2004 and FY2003 was approximately 2.2%.

Makita is placing higher priority on designing power tools that are smaller and lighter, featuring electronic controls, and that have internal power sources allowing a cordless operation. Additional design priorities include developing units that feature low noise, low vibration, measures to restrain dust emissions and new safety features. Still another priority is to design units that can be recycled to address environmental concerns. In order to respond quickly to customers needs, Makita is also placing emphasis on shortening the time needed for new product development. To strengthen initiatives that reduce costs, Makita focused development activities on a more limited range of items and set objectives for developing models that use more standard parts. New products developed in FY 2005 included a rechargeable impact driver, an interior, right-angle circular saw and other products.

In addition, Makita expanded its development program for the MAKTEC series. Parts for this series are mostly procured locally in China. In addition, the MAKTEC series focuses on performance in practical work settings and limits the number of features to achieve an improved balance between cost and performance. The basic concept of this series is the development of products that offer sufficient durability along with quality and safety.

In fiscal 2005, Makita implemented initiatives to develop products that meet the European standards (WEEE, RoHS) for eliminating harmful substances. Makita developed a battery recharging system that employs digital communication functions to provide information on the state of battery charging. Through the use of this new system, the total volume of work can be increased substantially by enabling batteries to be used up to their capacity. In addition, Makita recently adopted lithium ion batteries, which doubles the total volume of work in comparison with Makita's batteries that must be inserted. Makita also developed an original battery checker system using the previously mentioned digital communication functions. Using this system, customers can check on the state of charging of their batteries and Makita can provide customers with information on how to make their batteries last longer.

D. Trend information

Despite expectations for a global trend toward modest economic recovery, sharp rises in oil prices and increased prices of other basic materials continue to make the corporate operating environment uncertain.

Regarding the previously announced plan to acquire the nailer business of Kanematsu-NNK Corp. on April 1, 2005, at the request of Kanematsu-NNK Corp., Makita postponed the acquisition on February 22, 2005. Makita is scheduled to announce further details regarding this acquisition when they have been decided.

Corporate reorganization procedures related to Makita's golf course management subsidiary, including the transfer of ownership interest, were completed by the end of May 2005.

Makita will continue working to improve its performance by expanding its share of the professional-use tool market, and it will seek to accomplish this by bolstering its marketing and service networks and developing high-value-added products. The outlook for the year ending March 31, 2006 is as follows:

- (1) Competition is expected to intensify in Japan, the U.S. and other markets for power tools.
- (2) In the European market, Makita is expected to achieve stable performance while maintaining its competitiveness.

E. Off-balance sheet arrangements

Makita did not have any off-balance sheet arrangements as of March 31, 2005.

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	Total	Yen (millions)					
		Expected payment date, year ending March 31,					
	2006	2007	2008	2009	2010	Thereafter	
Japanese yen loans from banks and insurance companies	6,205	¥ 6,205	¥	¥	¥	¥	¥
Japanese yen loans from Japanese companies (1)	150	150					
Club members' deposits (2)	6,375	6,375					
Capital lease	175	87	41	14	8	8	17
Operating lease	1,343	480	316	185	127	65	170
Purchase Obligation	5,639	5,639					
Total	¥ 19,877	¥ 18,936	¥ 357	¥ 199	¥ 135	¥ 73	¥ 187

	Total	U.S. Dollars (thousands)					
		Expected payment date, year ending March 31,					
	2006	2007	2008	2009	2010	Thereafter	
Japanese yen loans from banks and insurance companies	57,991	\$ 57,991	\$	\$	\$	\$	\$
Japanese yen loans from Japanese companies (1)	1,402	1,402					
Club members' deposits (2)	59,580	59,580					
Capital lease	1,635	812	383	131	75	75	159
Operating lease	12,551	4,486	2,953	1,729	1,187	607	1,589
Purchase Obligation	52,701	52,701					
Total	\$ 185,860	\$ 176,972	\$ 3,336	\$ 1,860	\$ 1,262	\$ 682	\$ 1,748

Note:

- (1) Of the ¥800 million in Japanese yen loans from Japanese companies outstanding as of March 31, 2005, Makita was released from ¥650 million (\$6,074 thousand), as a result of Makita paying ¥150 million (\$1,402 thousand) in full settlement of the amounts due to Japanese companies on May 31, 2005 following the confirmation of the civil rehabilitation plan for Joyama Kaihatsu, Ltd. on May 7, 2005.
- (2) Makita's club members' deposits consist of deposits from individuals or corporations who became members of Castle Hill Country Club, owned and operated by Joyama Kaihatsu Ltd., a subsidiary of the Company until May 31, 2005. On September 8, 2004, Joyama Kaihatsu, Ltd. petitioned the Nagoya District Court for the commencement of a civil rehabilitation plan. On April 11, 2005, the Nagoya District Court approved the civil rehabilitation plan for Joyama Kaihatsu, Ltd. and, because the creditors and club members did not object to the plan within the court designated deadline, the Nagoya District Court confirmed the plan on May 7, 2005. Upon confirmation of the civil rehabilitation plan, Makita was released from payment obligations in respect of the club members' deposits of ¥6,461 (\$60,383 thousand) and repaid of ¥6,375 million (\$59,580 thousand) on May 31, 2005 to fully settle the amounts outstanding.

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Item 6. Directors, Senior Management and Employees

A. Directors and senior management.

The Directors and Statutory Auditors of the Company as of June 29, 2005 are as follows:

Masahiko Goto

Current Position: President, Representative Director since May 1989

Date of Birth: November 16, 1946

Director since: May 1984

Masami Tsuruta

Current Position: Managing Director, General Manager of Domestic Sales Headquarters since June 2003

Date of Birth: December 26, 1942

Director since: June 1995

Business Experience:

June 1995: Director, Assistant General Manager of Domestic Sales Headquarters

June 1997: Director, General Manager of Domestic Sales Marketing Headquarters

Yasuhiko Kanzaki

Current Position: Director, General Manager of International Sales Headquarters (Europe Area) since June 2003

Date of Birth: July 9, 1946

Director since: June 1999

Business Experience:

April 1995: Director of Makita International Europe Ltd.

June 1999: Director, Assistant General Manager of International Sales Headquarters 1

Kenichiro Nakai

Current Position: Director, General Manager of Administration Headquarters since June 2001

Date of Birth: November 17, 1946

Director since: June 2001

Business Experience:

October 2000: Assistant General Manager of Production Headquarters

April 2001: General Manager of Personnel Department

Tadayoshi Torii

Current Position: Director, General Manager of Production Headquarters since June 2003

Date of Birth: December 10, 1946

Director since: June 2001

Business Experience:

October 1998: General Manager of Production Department

June 2001: Director, General Manager of Quality Control Headquarters

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Tomoyasu Kato

Current Position: Director, General Manager of Research and Development Headquarters since June 2001

Date of Birth: March 25, 1948

Director since: June 2001

Business Experience:

March 1999: General Manager of Technical Administration Department

Kazuya Nakamura

Current Position: Director, General Manager of International Sales Headquarters (Asia and Oceania Area) since June 2003

Date of Birth: April 13, 1948

Director since: June 2001

Business Experience:

October 2000: General Manager of Asia and Oceania Sales Department

June 2001: Director, General Manager of International Sales Headquarters 2

Masahiro Yamaguchi

Current Position: Director, General Manager of Purchasing Headquarters since June 2003

Date of Birth: May 9, 1945

Director since: June 2003

Business Experience:

April 1995: Assistant Manager of International Sales Department

August 1995: Transferred to Makita Manufacturing Europe Ltd.

May 2003: Assistant General Manager of Purchasing Headquarters (Makita Corporation)

Shiro Hori

Current Position: Director, General Manager of Overseas Sales Headquarters (America Area and International Administration) since June 2003

Date of Birth: February 24, 1948

Director since: June 2003

Business Experience:

April 1997: Assistant General Manager of Europe Sales Department

March 1999: General Manager of Europe Sales Department

Tadashi Asanuma

Current Position: Director, Assistant General Manager of Domestic Sales Marketing Headquarters since June 2003

Date of Birth: January 4, 1949

Director since: June 2003

Business Experience:

April 1995: Manager of Saitama Branch Office

April 2001: General Manager of Osaka Sales Department

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Hisayoshi Niwa

Current Position: Director, General Manager of Quality Control Headquarters since June 2003

Date of Birth: February 24, 1949

Director since: June 2003

Business Experience:

April 1995: Assistant General Manager of Production Control Department

October 1999: General Manager of Production Control Department

Zenji Mashiko

Current Position: Director, Assistant General Manager of Domestic Sales Marketing Headquarters since June 2003

Date of Birth: May 28, 1949

Director since: June 2003

Business Experience:

April 1995: Manager of Tokyo Branch Office

Motohiko Yokoyama

Current Position: Director, since June 2005

Date of Birth: May 13, 1944

Director since: June 2005

Business Experience:

June 2004: President and Representative Director of Toyoda Machine Works, Ltd.

Akio Kondo

Current Position: Standing Statutory Auditor since June 2004

Date of Birth: February 3, 1946

Statutory Auditor since: June 2004

Business Experience:

October 1995: General Manager of Accounting & Finance Department

Hiromichi Murase

Current Position: Standing Statutory Auditor since June 2004

Date of Birth: April 5, 1946

Statutory Auditor since: June 2004

Business Experience:

June 1998: General Manager of General Affairs Department

Keiichi Usui

Current Position: Outside Statutory Auditor since June 1994

Date of Birth: August 9, 1933

Statutory Auditor since: June 1994

Shoichi Hase

Current Position: Outside Statutory Auditor since June 2001

(Patent attorney, Hase International Patent office)

Date of Birth: March 30, 1934

Statutory Auditor since: June 2001

April 1967: Established Hase Patent Attorney Office

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The term of each director listed above expired in June 2005. The terms of Mr. Akio Kondo and Mr. Hiromichi Murase as Standing Statutory Auditors and Mr. Shoichi Hase as Statutory Auditor expire in June 2008. The term of Mr. Usui as Statutory Auditor expires in June 2007.

There is no family relationship between any of the persons named above. There is no arrangement or understanding with major shareholders, customers, suppliers, or others pursuant to which any person named above was selected as a Director or a Statutory Auditor.

B. Compensation

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during the fiscal year ended March 31, 2005 to all Directors and Statutory Auditors, who served during the fiscal year ended March 31, 2005, totaled ¥ 152 million. Remuneration paid by the Company during the fiscal year ended March 31, 2004 to all Directors and Statutory Auditors, who served during the fiscal year ended March 31, 2004, total ¥ 133 million. Some of the fringe benefits provided by the Company to its employees in Japan, such as medical and dental service insurance and welfare pension insurance are also made available to Directors and Standing Statutory Auditors.

The Company has an unfunded retirement and termination allowances program for Directors and Statutory Auditors. Under such program, the aggregate amount set aside as retirement allowances for Directors and Statutory Auditors was ¥369 million as of March 31, 2004 and was increased to ¥477 million as of March 31, 2005.

C. Board practices

The Company's Articles of Incorporation provide for a Board of Directors of 15 or less Directors and three to five Statutory Auditors. All Directors and Statutory Auditors are elected at general meetings of shareholders. In general, the term of office of Directors expires at the conclusion of the ordinary general meeting of shareholders held with respect to the last closing of accounts within two years after their assumption of office, and in the case of Statutory Auditors, within four years after their assumption of office; however, Directors and Statutory Auditors may serve any number of consecutive terms. With respect to each expiration date of the term of office of Directors and Statutory Auditors, see A. Directors and senior management in this Item above.

The Directors constitute the Board of Directors, which has the ultimate responsibility for administration of our affairs. The Board of Directors may elect from among its members a Chairman and Director, one or more Vice Chairmen and Directors, a President and Director, one or more Executive Vice Presidents and Directors, Senior Managing Directors and Managing Directors. From among the Directors referred to above, the Board of Directors may elect one or more Representative Directors. Each Representative Director has the authority individually to represent the Company in the conduct of the affairs of the Company.

The Statutory Auditors of the Company are not required to be and are not certified public accountants. However, at least one of the Statutory Auditors is required to be a person who has not been a director, executive officer, general manager or any other employee of the Company or any of its subsidiaries during the 5-year period prior to his election as a Statutory Auditor. After the conclusion of each ordinary general meeting of shareholders held for any fiscal year ending on or after May 1, 2005, at least half of the Statutory Auditors are required to be persons who have never been in the past a director, executive officer, general manager or any other employee of the Company or any of its subsidiaries. The Statutory Auditors may not, while acting as such, be directors, general managers or any other employees of the Company or any of its subsidiaries, or executive officers of any of the Company's subsidiaries. Each

Statutory Auditor has the statutory duty to supervise the administration by the Directors of the Company's affairs and also to examine the financial statements and business reports to be submitted by the Board of Directors at the general meeting of shareholders. They are required to attend meetings of the Board of Directors but are not entitled to vote. In addition to Statutory Auditors, independent certified public accountants or an audit corporation must be appointed by a general meeting of shareholders. Such independent certified public accountants or audit corporations have, as their primary statutory duties, a duty to examine the financial statements proposed to be

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submitted by the Board of Directors at general meetings of shareholders and to report their opinion thereon to the Statutory Auditors and the Directors.

The Statutory Auditors constitute the Board of Statutory Auditors. The Board of Statutory Auditors has a statutory duty to prepare and submit its audit report to the Board of Directors each year. A Statutory Auditor may note his or her opinion in the audit report if his or her opinion is different from the opinion expressed in the audit report. The Board of Statutory Auditors is empowered to establish audit principles, the method of examination by Statutory Auditors of the Company's affairs, and the financial position and other matters concerning the performance of the Statutory Auditors' duties. For names of the Statutory Auditors that constitute the Board of Statutory Auditors, see Item 6. A.

There are no contractual arrangements providing for benefits to Directors upon termination of service. Also see B. Memorandum and articles of association - Directors in Item 10.

Exemptions from certain NASDAQ Corporate Governance Rules

Pursuant to exemptions granted by the National Association of Securities Dealers Automated Quotations (the NASDAQ), Makita Corporation (the Company) is permitted to follow certain corporate governance practices complying with Japanese laws, regulations, stock exchange rules, or generally accepted business practices in lieu of the NASDAQ rules on corporate governance (the NASDAQ Rules). Set forth below are the corporate governance exemptions the Company currently receives from NASDAQ.

1. **Directors.** The Company is exempt from the NASDAQ requirement relating to directors that currently requires the Company's board of directors to be comprised of a majority of independent directors. Unlike the NASDAQ Rules, the Commercial Code of Japan and related legislation (including the Law for Special Exceptions to the Commercial Code concerning Audit, etc. of Kabushiki-Kaisha, and collectively, the Code) do not require Japanese companies with boards of statutory auditors such as the Company to have any independent directors on its board of directors.
2. **Audit Committee.** The Company plans to avail itself of paragraph (c)(3) of Rule 10A-3 of the Securities Exchange Act of 1934, as amended, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of statutory auditors, subject to certain requirements which continue to be applicable under Rule 10A-3. The Company is exempt from the NASDAQ requirement relating to audit committees that currently requires the Company to have, and certify that it has and will continue to have, an audit committee of at least three members, each of whom must be independent. Unlike the NASDAQ Rules, under the Code, at least one of the statutory auditors of the Company must be independent, which is such person who was not a director, executive officer, general manager, or any other employee of the Company or any of its subsidiaries during the five-year period prior to such statutory auditor's election. After the conclusion of the ordinary general meeting of shareholders to be held with respect to the first fiscal year ending on and after May 1, 2005, at least half of the statutory auditors will be required to be persons who have not been a director, executive officer, general manager, or any other employee of the Company or any of its subsidiaries at any time prior such statutory auditor's election. Statutory auditors may not at the same time be directors, general managers, or any other employees of the Company or any of its subsidiaries, or executive officers of any of the Company's subsidiaries.
3. **Meetings of Ordinary Shareholders.** The Company is exempt from the quorum requirement of the NASDAQ, which currently requires each issuer to provide for a quorum as specified in its by-laws for any meeting of the holders of common stock, which shall in no case be less than 33 1/3 percent of the outstanding shares of a company's common voting stock. In keeping with the Code and generally accepted business practices in Japan, the Company's Articles of Incorporation provide that except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the total number of voting rights of all the shareholders

represented at the meeting. The Code and the Company's Articles of Incorporation provide,

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however, that the quorum for the election of directors and statutory auditors shall not be less than one-third of the total number of voting rights of all the shareholders. The Code (or when the New Company Law (as defined in B. Memorandum and articles of association Directors in Item 10) becomes effective, the New Company Law) and the Company's Articles of Incorporation also provide that in order to amend the Company's Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from specific persons;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to subscribe for or acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Director or Statutory Auditor (when the New Company Law becomes effective, the removal of a Director who is elected by cumulative voting);
- (5) the exemption of liability of a Director or Statutory Auditor with certain exceptions;
- (6) a reduction of stated capital (when the New Company Law becomes effective, with certain exceptions in which a shareholders' resolution is not required);
- (7) (when the New Company Law becomes effective) a distribution of surplus other than dividends which meets certain requirements;
- (8) dissolution, merger, or consolidation with certain exceptions in which a shareholders' resolution is not required;
- (9) the transfer of the whole or a material part of the business;
- (10) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required;
- (11) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidary relationships with certain exceptions in which a shareholders' resolution is not required,
- (12) separating of the corporation into two or more corporations with certain exceptions in which a shareholders' resolution is not required,

the quorum shall be one-third of the total number of voting rights of all the shareholders and the approval by at least two-thirds (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a percentage more than two-thirds, such percentage) of the voting rights of all the shareholders represented at the meeting is required (in addition, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide that the approval by certain number of shareholders is required, such approval is also required).

D. Employees

The following table sets forth information about number of employees:

Categorized by Geographic Areas	As of March 31,		
	2003	2004	2005
Japan	3,057	3,041	2,996
Overseas	5,287	5,392	5,564
Total	8,344	8,433	8,560

During the fiscal year ended March 31, 2005, the Company hired on average approximately 750 temporary employees in China, and approximately 90 temporary employees in Japan who were not entitled to retirement or certain other fringe benefits which regular full-time employees receive.

The Company has a labor contract with the Makita Union covering wages and conditions of employment. All full-time employees of the Company in Japan, except management and certain other employees, must be union members. The Makita Union is affiliated with the Japanese Electrical Electronic & Information Union. The Company has not been materially affected by any work stoppages or difficulties in connection with labor negotiations in the past.

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Makita's employees are members of a labor union formed on September 13, 1947 that comprise, starting February 9, 1989, the Japanese Electrical Electronic & Information Union. As of March 31, 2005, there are 2,684 members of the union and Makita considers its relationship with the labor union to be good.

E. Share ownership

The total number of shares of the Company's Common Stock owned by the Directors and Statutory Auditors as a group as of March 31, 2005 is as follows:

Identity of Person or Group	Number of Shares Owned	Percentage of voting right
Directors and Statutory Auditors	2,097,463	1.42 %

The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2005.

Name	Position	Number of shares
Masahiko Goto	President, Representative Director	1,971,943
Masami Tsuruta	Managing Director	14,722
Yasuhiko Kanzaki	Director	10,469
Kenichiro Nakai	Director	11,270
Tadayoshi Torii	Director	12,000
Tomoyasu Kato	Director	11,672
Kazuya Nakamura	Director	6,000
Masahiro Yamaguchi	Director	5,000
Shiro Hori	Director	6,977
Tadashi Asanuma	Director	4,000
Hisayoshi Niwa	Director	5,000
Zenji Mashiko	Director	5,000
Akio Kondo	Standing Statutory Auditor	6,000
Hiromichi Murase	Standing Statutory Auditor	4,210
Keiichi Usui	Outside Statutory Auditor	7,200
Shoichi Hase	Outside Statutory Auditor	16,000

The shareholders listed above do not have voting rights that are different from other shareholders of the Company.

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

The following table sets forth holders of 5% or more of the Company's outstanding common stock as included in the list of shareholders as of March 31, 2005.

Identity of Person or Group	Number of Shares Owned	Percentage of voting right
The Chase Manhattan Bank , N. A. London	8,468,882	5.72%

Except for Masahiko Goto holding 1.33% of the Company's outstanding common stock as of March 31, 2005, none of the Company's Directors and Statutory Auditors owns more than one percent of the Company's Common Stock.

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Beneficial ownership of the Company's common stock in the table below was prepared from publicly available records of the filings made by the Company's shareholders regarding their ownership of the Company's common stock under the Securities and Exchange Law of Japan.

Under the Securities and Exchange Law of Japan, any person who becomes beneficially, solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares), must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of the Company's common stock as of the dates indicated in the reports described below.

Name of Beneficial Owner	Number of Shares	Percentage
Silchester International Investors Limited	8,959,000	6.05%
Goldman Sachs International	8,899,979	6.01%
Barclays Global Investors, N.A.	7,783,444	5.26%

Based on information made publicly available on or after April 1, 2002, the following table describes transactions resulting in a 1% or more change in the percentage ownership held by major beneficial owners of the Company's common stock.

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Name of Shareholder	Date of Transaction	Shares Owned Prior to Transaction	Percentage	Number of Shares Changed	Shares Owned After the Transaction	Percentage
Silchester International Investors Limited	June 21, 2002	7,661,000	5.01%	1,606,000	9,267,000	6.06%
Goldman Sachs International	March 31, 2002	9,095,000	5.94%	(2,762,100)	6,332,900	4.14%
Templeton Global Advisors Limited	September 30, 2002	7,683,976	5.02%	(1,657,000)	6,026,976	3.94%
Nippon Life Insurance Company	April 30, 2004				7,601,503	5.14%
Barclays Global Investors, N.A.	June 30, 2004				7,855,003	5.31%
Silchester International Investors Limited	September 29, 2004	9,267,000	6.06%	1,212,000	10,479,000	7.08%
Goldman Sachs International	September 30, 2004	6,332,900	4.14%	2,567,079	8,899,979	6.01%
Barclays Global Investors, N.A.	December 31, 2004	7,855,003	5.31%	(2,93,559)	7,561,444	5.11%
Nippon Life Insurance Company	January 31, 2005	7,601,503	5.14%	(3,503,000)	4,098,503	2.77%
Silchester International Investors Limited	February 15, 2005	10,479,000	7.08%		8,959,000	6.05%
Barclays Global Investors, N.A.	March 31, 2005	7,561,444	5.11%	222,000	7,783,444	5.26%

As of March 31, 2005, the Company had 143,777,607 outstanding shares of common stock. According to the Bank of New York, depository for the Company's ADSs, as of March 31, 2005, 6,923,200 shares of the Company's common stock were held in the form of ADRs and there were 48 ADR holders of record in the United States. According to the Company's register of shareholders and register of beneficial owners as of March 31, 2005, there were 10,200 holders of common stock of record worldwide and the number of record holders in the United States was 66.

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

As far as is known to the Company, there is no arrangement, the operation of which may at a subsequent date result in a change in control of the Company.

To the knowledge of the Company, it is not directly or indirectly owned or controlled by any other corporation or by the Japanese or any foreign government.

B. Related party transactions

Makita sells and purchases products, materials, supplies and services to and from affiliated companies in the ordinary course of business.

No Director or Statutory Auditor has been indebted to the Company or any of its subsidiaries at any time during the latest three fiscal years. Neither the Company nor any of its subsidiaries expects to make any loans to Directors or

Statutory Auditors in the future.

See Note 19 to the consolidated financial statements.

C. Interest of experts and counsel

Not applicable

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Item 8. Financial Information

A. Consolidated statements and other financial information

1-3. Consolidated Financial Statements.

Makita's audited consolidated financial statements are included under Item 18 Financial Statements. Except for Makita's consolidated financial statements included under Item 18, no other information included in this annual report has been audited by Makita's Independent Registered Public Accounting Firm.

4. Not applicable.

5. Not applicable.

6. Export Sales.

See Information on the Company Business Overview Principal Markets, Distribution and After-Sale Services.

7. Legal or arbitration proceedings

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

8. Dividend Policy

Makita's basic policy on the distribution of profits is to maintain a dividend payout ratio of 30% or greater, with a lower limit on annual cash dividends of 18 yen per share. However, in the event special circumstances arise, computation of the amount of dividends will be based on consolidated net income after certain adjustments. In addition, Makita aims to implement a flexible capital policy, augment the efficiency of its capital employment, and thereby boost shareholder profit. Makita continues to consider repurchases of its outstanding shares in light of trends in stock prices. The Company intends to retire treasury stock when necessary based on consideration of the balance of treasury stock and its capital policy.

Makita intends to maintain a financial position strong enough to withstand the challenges associated with changes in its operating environment and other changes and allocate funds for strategic investments aimed at expanding its global operations.

According to this basic policy, the Company paid interim cash dividends in fiscal 2005 of ¥11.0 per share and ADS. The Company has declared a cash dividend of ¥36.0 per share and ADS, including a special dividend of ¥25 per share, and a special commemorative 90th anniversary dividend per share of ¥4, all of which were approved by the shareholders' meeting held on June 29, 2005.

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The following table sets forth cash dividends per share of Common Stock declared in Japanese yen and as translated into U.S. dollars, the U.S. dollar amounts being based on the exchange rates at the respective payment date, using the noon buying rates for cable transfers in yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York:

Fiscal year ended March 31	In Yen		In U.S. Dollars	
	Interim	Year-end	Interim	Year-end
2001	9.0	9.0	0.07	0.07
2002	9.0	9.0	0.07	0.07
2003	9.0	9.0	0.07	0.07
2004	9.0	13.0	0.07	0.11
2005	11.0	36.0	0.10	0.34

Note:

Cash dividends in U.S. dollars are based on the exchange rates at the respective payment date, using the noon buying rates for cable transfers in yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York.

B. Significant changes

On April 11, 2005, the Nagoya District Court approved the civil rehabilitation plan for the Company's subsidiary, Joyama Kaihatsu, Ltd., including its payment obligation of the club members' deposits and such plan was confirmed on May 7, 2005. The Company has paid its obligations under the civil rehabilitation plan of Joyama Kaihatsu, Ltd., and sold Joyama Kaihatsu, Ltd., to a third party, Tokyo Tatemono Co. Ltd., on May 31, 2005.

As a result of this sale, Makita no longer has any contractual obligations to refund club members' deposits to members of the Castle Hill Country Club, owned and operated by Joyama Kaihatsu, Ltd.

Item 9. The Offer and Listing**A. Offer and listing details**

The shares of common stock of the Company were listed on the First Section of the Tokyo Stock Exchange, the Osaka Securities Exchange and the Nagoya Stock Exchange in 1970. The Company decided to discontinue its listing on the Osaka Securities Exchange due to the low level of trading volume in its shares on that exchange, and it was delisted from that exchange at the end of February 2003. The shares of common stock of the Company were listed on the Amsterdam Stock Exchange (Euronext Amsterdam) in 1973, initially in the form of Continental Depositary Receipts. The Company decided to discontinue its listing on the Euronext Amsterdam Stock Exchange due to the extremely low level of trading volume in its shares on that exchange, and it was delisted from that exchange at the end of January 2005.

The Company's American Depositary Shares, each representing one share (prior to April 1, 1991, five shares) of common stock and evidenced by American Depositary Receipts (ADRs), have been quoted since 1977 through the National Association of Securities Dealers Automated Quotation (NASDAQ) System under MKTAY.

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The following table shows the high and low sales prices of the Common Stock on the Tokyo Stock Exchange for the periods indicated and the reported high and low bid prices of American Depositary Shares through the NASDAQ system.

	Tokyo Stock Exchange Price Per Share of Common Stock (Yen)		NASDAQ Price Per American Depositary Share (U.S. Dollars)	
	High	Low	High	Low
Fiscal year ended March 31,				
2001	1,100	711	9.88	5.94
2002	871	615	6.85	4.88
2003	909	654	7.55	5.35
2004	1,343	834	15.45	10.00
2005	2,115	1,315	20.27	12.00
Quarterly				
Fiscal year 2004				
1 st quarter ended June 30, 2003	978	834	8.30	7.07
2 nd quarter ended September 30, 2003	1,109	906	9.33	7.62
3 rd quarter ended December 31, 2003	1,109	937	10.24	8.73
4 th quarter ended March 31, 2004	1,343	1,040	13.09	10.00
Fiscal year 2005				
1 st quarter ended June 30, 2004	1,686	1,315	15.34	12.00
2 nd quarter ended September 30, 2004	1,675	1,463	15.45	13.20
3 rd quarter ended December 31, 2004	1,874	1,379	17.75	13.17
4 th quarter ended March 31, 2005	2,115	1,705	20.27	16.56
Monthly				
January 2005	1,889	1,705	18.21	16.56
February 2005	2,010	1,815	19.34	17.56
March 2005	2,115	1,889	20.27	17.66
April 2005	1,965	2,010	19.00	16.15
May 2005	1,980	2,200	19.97	18.22
June 2005(through June 15)	2,245	2,075	20.69	19.33

B. Plan of distribution

Not applicable.

C. Markets

See Item 9. A

D. Selling shareholders

Not applicable.

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E. Dilution

Not applicable.

F. Expenses of the issue

Not applicable.

Item 10. Additional Information

A. Share capital

Not applicable.

B. Memorandum and articles of association

Organization

The Company is a joint stock corporation (*kabushiki kaisha*) incorporated in Japan under the Commercial Code (*shoho*) of Japan. It is registered in the Commercial Register (*shogyo tokibo*) maintained by the Anjo Branch Office of the Nagoya Legal Affairs Bureau of the Ministry of Justice of Japan.

Objects and purposes

Article 2 of the Articles of Incorporation of the Company provides that the purposes of the Company are to engage in the following businesses:

- Manufacture and sale of machine tools including electric power tools, pneumatic tools, etc., and wood-working tools;
- Manufacture and sale of electric machinery and equipment and various other machinery and equipment;
- Manufacture and sale of interior furnishings and household goods and their installation work;
- Purchase, sale, lease and management of real estate;
- Operation of sporting and recreational facilities;
- Casualty insurance agency and business relating to offering of life insurance;
- Tourist business under the Travel Agency Law;
- Acquisition, assignment and licensing of industrial property rights, copyrights and other intellectual property rights and provision of technical guidance;
- Investment in various kinds of business; and
- All other business incidental or relative to any of the preceding items.

Directors

Under the Commercial Code, each Director has executive powers and duties to manage the affairs of the Company and each Representative Director, who is elected from among the Directors by the Board of Directors, has the statutory authority to represent the Company in all respects. Under the Commercial Code, the Directors must refrain from engaging in any business competing with the Company unless approved by the Board of Directors and any

Director who has a material interest in the subject matter of a resolution to be taken by the Board of Directors cannot vote on such resolution. The total amount of remuneration to Directors and that to Statutory Auditors are subject to the approval of the general meeting of shareholders. Within such authorized amounts the Board of Directors and the Board of Statutory Auditors respectively determine the compensation to each Director and Statutory Auditor.

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Except as stated below, neither the Commercial Code nor the Company's Articles of Incorporation make special provisions as to:

- the Directors' or Statutory Auditors' power to vote in connection with their compensation;
- the borrowing power exercisable by a Representative Director (or a Director who is given power by a Representative Director to exercise such power);
- the Directors' or Statutory Auditors' retirement age; or
- requirement to hold any shares of capital stock of the Company.

The Commercial Code specifically requires the resolution of the Board of Directors for a company:

- to acquire or dispose of material assets;
- to borrow a substantial amount of money;
- to employ or discharge from employment important employees, such as general managers; and
- to establish, change or abolish material corporate organization such as a branch office.

The Regulations of the Board of Directors and operational regulations thereunder of the Company require a resolution of the Board of Directors for the Company to borrow money in an amount of 100 million yen or more or to give a guarantee in an amount of 10 million yen or more.

Common stock

General

Except as otherwise stated, set forth below is information relating to the Company's Common Stock, including brief summaries of the relevant provisions of the Company's Articles of Incorporation and Share Handling Regulations, as currently in effect, and of the Commercial Code of Japan and related legislation.

A bill to modernize and make overall amendments to the Commercial Code by replacing the current provisions with regard to corporations with a new company law (the New Company Law) was submitted to the Diet on March 22, 2005. The New Company Law was enacted on June 29, 2005 and will come into effect within one year and half after its promulgation; currently, it is expected that it will take effect in April 2006.

In order to assert shareholders' rights against the Company, a shareholder must have its name and address registered or recorded on the Company's register of shareholders in writing or digitally (or electronically), in accordance with the Company's Share Handling Regulations. The registered beneficial holder of deposited shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able to directly assert shareholders' rights against the Company.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with the Japan Securities Depository Center, Inc. (JASDEC). If a holder is not a participating institution in JASDEC, it must participate through a participating institution, such as a securities company or a commercial bank having a clearing account with JASDEC. All shares of Common Stock deposited with JASDEC will be registered in the name of JASDEC on the Company's register of shareholders. Each participating shareholder will in turn be registered on the Company's register of beneficial shareholders and be treated in the same way as shareholders registered on the Company's register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by JASDEC for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial shareholders may exercise the rights attached to the shares, such as voting rights, and will

receive dividends (if any) and notices to shareholders directly from the Company. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial shareholder are aggregated for

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these purposes. Beneficial shareholders may at any time withdraw their shares from deposit and receive share certificates.

A new law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of Common Stock of the Company, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void; the companies are not required to withdraw those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

Authorized capital

Article 5 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is 500,000,000 shares.

As of March 31,2005, 148,008,760 shares of Common Stock were in issue.

All shares of Common Stock of the Company have no par value.

Dividends

Dividends General

The Articles of Incorporation of the Company provide that the accounts shall be closed on March 31 of each year and that year-end cash dividends, if any, shall be paid to shareholders, beneficial shareholders and pledgees of record as of the end of such day. After the close of the fiscal period, the Board of Directors prepares, among other things, a proposed allocation of profits for dividends and other purposes; this proposal is submitted to the Board of Statutory Auditors of the Company and to independent certified public accountants and then submitted for approval to the ordinary general meeting of shareholders, which is normally held in June each year. In addition to provisions for dividends, if any, and for the legal reserve and other reserves, the allocation of profits customarily includes a bonus to Directors and Statutory Auditors.

Under the New Company Law, subject to certain limitations on the distributable surplus as described below, dividends, if any, may be paid to shareholders, beneficial shareholders, and pledgees of record as of a record date as set forth by the Articles of Incorporation of the Company or as determined by the Board of Directors from time to time. Dividends shall be paid by way of distribution of surplus. Dividends may be distributed in cash or in kind. In distributing dividends the Company may determine the kind of assets to be distributed, the book value of such assets, matters regarding allocation of such assets, and the effective date of such dividends, by a resolution of a general meeting of shareholders. However, the Company may generally determine such matters by a resolution of the Board of Directors if (a) the Articles of Incorporation of the Company so provide, (b) the term of its Directors is set to be until the conclusion of the ordinary general meeting of shareholders held with respect to the last closing of accounts within one year after such Director's assumption of office, and (c) certain requirements regarding the financial statements and certain documents of the Company as set forth in an ordinance of the Ministry of Justice are met; provided, however, that when the Company is to make in-kind dividends without giving shareholders the right to request payment of cash dividends in lieu of in-kind dividends, it shall determine such matters by a special shareholders resolution (as defined in *Voting Rights*). When the Company makes payment of dividends, it shall allocate such dividends in proportion to the number of shares of any specific class held by each shareholder.

Dividends **Interim cash dividends**

In addition to year-end cash dividends, the Board of Directors may by its resolution declare a cash distribution pursuant to Article 293-5 of the Commercial Code (an interim dividend) to shareholders, beneficial shareholders

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and pledgees of record as of the end of September 30 of each year, without shareholders' approval, but subject to the limitations described below.

Under the New Company Law, as described above, notwithstanding the necessity of obtaining approval of a general meeting of shareholders, the Company is allowed to make payment of interim dividends during a fiscal year by way of distribution of surplus by resolution of the Board of Directors; provided, however, that such payment of interim dividends shall be limited to cash dividends and also limited to once per any fiscal year.

Dividends – Legal reserve

The Commercial Code provides that a company may not make any distribution of profit by way of year-end or interim dividends for any fiscal period unless it has set aside in its legal reserve an amount equal to at least one-tenth of the amount paid by way of appropriation of retained earnings for such fiscal period or equal to one-tenth of the amount of such interim dividends until the aggregate amount of its additional paid-in capital and its legal reserve equals to one-quarter of its stated capital.

The New Company Law provides that when a stock company like the Company makes a distribution of surplus, it shall set aside in its legal reserve an amount equal to 10 percent of the amount of the surplus to be decreased as a result of such distribution of surplus in accordance with the provisions set forth in an ordinance of the Ministry of Justice.

Dividends – Distributable amount

Under the Commercial Code, the Company is permitted to distribute profits by way of year-end or interim dividends out of the excess of its net assets, on a non-consolidated basis, over the aggregate of:

- (i) its stated capital;
- (ii) its additional paid-in capital;
- (iii) its accumulated legal reserve;
- (iv) the legal reserve to be set aside in respect of the fiscal period concerned; and
- (v) such other amounts as are provided for by an ordinance of Ministry of Justice of Japan.

In the case of interim dividends, the net assets are calculated by reference to the non-consolidated balance sheet as of the last date of the preceding fiscal year, but adjusted to reflect (a) any subsequent payment by way of appropriation of retained earnings and transfer to legal reserve in respect thereof; (b) any subsequent transfer of retained earnings to stated capital; (c) if the Company has been authorized, pursuant to a resolution of an ordinary general meeting of shareholders and/or a resolution of the Board of Directors, to purchase shares of Common Stock (see "Acquisition by the Company of Common Stock" below), the total amount of the purchase price of such shares so authorized by such resolution that may be paid by the Company; and (d) such other amounts as are set out in an ordinance of the Ministry of Justice of Japan, provided that (x) if the Company reduces the amount of its stated capital, additional paid-in capital or accumulated legal reserve after the end of the preceding fiscal year, the amount so reduced, less the amount paid to shareholders upon such reduction and certain other amounts, and (y) such other amounts as are set out in an ordinance of the Ministry of Justice of Japan, shall be added to the amount distributable as interim dividends as described above. Interim dividends may not be paid if it is anticipated that at the end of the fiscal year net assets, on a non-consolidated basis, will be less than the aggregate of the amounts referred to in (i) through (v) above. Under the New Company Law, the Company is permitted to make a distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the Distributable Amount (as defined below) as at the effective date of such distribution of surplus.

Under the New Company Law, the Distributable Amount would include amounts incurred as a result of certain events occurring after the end of the Company's last fiscal year. In addition, under the New Company Law, the Company will be permitted to prepare extraordinary financial statements (the Extraordinary Financial Statements) as of a certain date during the fiscal year immediately after the Company's last fiscal year (the Extraordinary Account Settlement Date) which must be audited by Statutory Auditors and accounting auditors and approved by the Company's Board of Directors and, in certain cases, the general meeting of shareholders of the Company. Once the Extraordinary Financial Statements are so audited and approved, the Company can make adjustments to the Distributable Amount by adding net income or by deducting loss for the period after the end of the Company's last fiscal year until the Extraordinary Account Settlement Date.

The amount of surplus at any given time shall be the amount of the Company's assets and the book value of the Company's treasury stock after subtracting the amounts of the following items (1) through (4) as they appear on the Company's non-consolidated balance sheet as at the end of the Company's last fiscal year, and after reflecting the changes in the Company's surplus after the end of the Company's last fiscal year, by adding the amounts of the following items (5), (6) and (7) and/or subtracting the amounts of the following items (8), (9) and (10):

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- (1) its liabilities;
- (2) its stated capital;
- (3) its additional paid-in capital and accumulated legal reserve;
- (4) other amounts as provided for by an ordinance of the Ministry of Justice;
- (5) (if the Company transferred its treasury stock after the end of the last fiscal year) the transfer price of its treasury stock after subtracting the book value thereof;
- (6) (if the Company decreased its stated capital after the end of the last fiscal year) the amount of decrease in its stated capital (excluding the amount transferred to the additional paid-in capital or legal reserve);
- (7) (if the Company decreased its additional paid-in capital or legal reserve after the end of the last fiscal year) the amount of decrease in its additional paid-in capital or legal reserve (excluding the amount transferred to the stated capital);
- (8) (if the Company cancelled its treasury stock after the end of the last fiscal year) the book value of its treasury stock so cancelled;
- (9) (if the Company distributed surplus to shareholders after the end of the last fiscal year) the assets distributed to shareholders by way of such distribution of surplus; and
- (10) other amounts as provided for by an ordinance of the Ministry of Justice.

The Distributable Amount of the Company at any given time shall be the aggregate amount of (a) the surplus, (b) (if the Company prepares Extraordinary Financial Statements) the amount of profit as recorded for the period after the end of the Company's last fiscal year until Extraordinary Account Settlement Date as provided for in an ordinance of the Ministry of Justice and (c) (if the Company prepares Extraordinary Financial Statements) the transfer price of its treasury stock in the same period, after subtracting the amounts of the following items:

- (1) the book value of its treasury stock;
- (2) (if the Company transferred its treasury stock after the end of the last fiscal year) the transfer price of its treasury stock;
- (3) (if the Company prepares Extraordinary Financial Statements) the losses as recorded for the period after the end of the Company's last fiscal year until Extraordinary Account Settlement Date as provided for in an ordinance of the Ministry of Justice; and
- (4) other amounts as provided for by an ordinance of the Ministry of Justice.

Dividends Ex-dividend date and prescription

In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividend to be paid.

Under its Articles of Incorporation, the Company is not obligated to pay any dividends which are left unclaimed for a period of 3 years after the date on which they first became payable.

Dividends Liabilities

Under the Commercial Code, if the Company makes interim dividends and at the end of the fiscal year there is no excess of net assets over the aggregate of the amounts referred to in (i) through (v) in *Dividends Distributable amount* above, Directors who have made such interim dividends shall be jointly and severally liable to the Company for the smaller of the amount of such deficit or such dividends unless such Directors prove that they did not fail to exercise due care in determining such interim dividends.

Under the New Company Law, in cases where the distribution of surplus was made, if the aggregate amount of the following items (1), (2) and (3) as at the end of the relevant fiscal year exceeds the amount of surplus, the Directors who have distributed such dividends, shall be liable to the Company for the smaller of such amount in excess or the amount of money or book value of such distributed surplus unless such Directors prove that they did not fail to

exercise due care in determining such distribution:

- (1) the book value of the Company's treasury stock;
- (2) (if the Company transferred its treasury stock after the end of the last fiscal year) the transfer price of its treasury stock after the end of the Company's last fiscal year; and

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(3) other amounts as provided for by an ordinance of the Ministry of Justice.

However, the Directors shall not be liable to the Company for the distributions of surplus made pursuant to the resolution of the ordinary general meeting of shareholders.

Stock splits

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

In the event of a stock split, generally, shareholders will not be required to exchange share certificates for new share certificates, but certificates representing the additional shares resulting from the stock split will be issued to shareholders. When a stock split is to be made, the Company must give public notice of the stock split, specifying the record date therefor, at least 2 weeks prior to such record date. In addition, promptly after the stock split takes effect, the Company must give notice to each shareholder specifying the number of shares of Common Stock to which such shareholder is entitled by virtue of the stock split. After the New Company Law becomes effective, no such notice to each shareholder is required.

Consolidation of Shares

The Company may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in *Voting Rights*). When a consolidation of shares is to be made, the Company must give public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to the Company for exchange. The Company must disclose the reason for the consolidation of shares at the general meeting of shareholders.

General meeting of shareholders

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

Notice of convocation of a shareholders meeting setting forth the place, time and purpose thereof, must be mailed to each shareholder having voting rights (or, in the case of a non-resident shareholder, to his or her standing proxy or mailing address in Japan) at least 2 weeks prior to the date set for the meeting. Such notice may be given to shareholders by electronic means, subject to the consent of the relevant shareholders. The record date for an ordinary general meeting of shareholders is March 31 of each year.

Any shareholder or group of shareholders holding at least 3 percent (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a percentage lower than 3 percent, such percentage) of the total number of voting rights for a period of 6 months (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a period shorter than 6 months, such period) or more may require the convocation of a general meeting of shareholders for a particular purpose. Unless such shareholders meeting is convened promptly or a convocation notice of a meeting which is to be held not later than 8 weeks (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a period shorter than 8 weeks, such period) from the day of such demand is

dispatched, the requiring shareholder may, upon obtaining a court approval, convene such shareholders meeting. Any shareholder or group of shareholders holding at least 300 (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a number less than 300, such

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number) voting rights or 1 percent (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a percentage lower than one percent, such percentage) of the total number of voting rights for a period of 6 months (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a period shorter than 6 months, such period) or more may propose a matter to be considered at a general meeting of shareholders by submitting a written request to a Representative Director at least 8 weeks (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a period shorter than 8 weeks, such period) prior to the date set for such meeting.

Voting rights

So long as the Company maintains the unit share system (see *Unit share system* below; currently 1,000 shares of Common Stock constitute one unit), a holder of shares constituting one or more full units is entitled to one voting right per unit of shares subject to the limitations on voting rights set forth in the following 2 sentences. A corporate shareholder more than one-quarter of whose total voting rights are directly or indirectly owned by the Company (or when the New Company Law becomes effective, management of which is being controlled in substance by the Company as provided for by an ordinance of the Ministry of Justice) may not exercise its voting rights with respect to shares of Common Stock of the Company that it owns. In addition, the Company may not exercise its voting rights with respect to shares of Common Stock that it owns. If the Company eliminates from its Articles of Incorporation the provisions relating to the unit of shares, holders of shares of Common Stock will have one voting right for each share they hold. Except as otherwise provided by law or by the Articles of Incorporation, a resolution can be adopted at a general meeting of shareholders by a majority of the total number of voting rights of all the shareholders represented at the meeting. The Commercial Code (or when the New Company Law becomes effective, the New Company Law) and the Company's Articles of Incorporation provide, however, that the quorum for the election of Directors and Statutory Auditors shall not be less than one-third of the total number of voting rights of all the shareholders. The Company's shareholders are not entitled to cumulative voting in the election of Directors. Shareholders may exercise their voting rights through proxies, provided that the proxies are also shareholders of the Company holding voting rights. The Company's shareholders also may cast their votes in writing, or exercise their voting rights by electronic means when the Board of Directors decides to permit such method of exercising voting rights.

The Commercial Code (or when the New Company Law becomes effective, the New Company Law) and the Company's Articles of Incorporation provide that in order to amend the Company's Articles of Incorporation and in certain other instances, including:

- (1) acquisition of its own shares from specific persons;
- (2) consolidation of shares;
- (3) any offering of new shares at a specially favorable price (or any offering of stock acquisition rights to subscribe for or acquire shares of capital stock, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Director or Statutory Auditor (when the New Company Law becomes effective, the removal of a Director who is elected by cumulative voting);
- (5) the exemption of liability of a Director or Statutory Auditor with certain exceptions;
- (6) a reduction of stated capital (when the New Company Law becomes effective, with certain exceptions in which a shareholders' resolution is not required);
- (7) (when the New Company Law becomes effective) a distribution of surplus other than dividends which meets certain requirements;
- (8) dissolution, merger, or consolidation with certain exceptions in which a shareholders' resolution is not required;
- (9) the transfer of the whole or a material part of the business;
- (10)

the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders' resolution is not required;

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(11) share exchange or share transfer for the purpose of establishing 100 percent parent-subsidary relationships with certain exceptions in which a shareholders' resolution is not required; or

(12) separating of the corporation into two or more corporations with certain exceptions in which a shareholders' resolution is not required,

the quorum shall be one-third of the total voting rights of all the shareholders and the approval by at least two-thirds (or, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide for a percentage more than two-thirds, such percentage) of the voting rights of all the shareholders represented at the meeting is required (in addition, when the New Company Law becomes effective and in the event that the Company's Articles of Incorporation provide that the approval by certain number of shareholders is required, such approval is also required) (the special shareholders resolutions).

Issue of additional shares and pre-emptive rights

Holders of shares of Common Stock have no pre-emptive rights under the Articles of Incorporation of the Company. Authorized but unissued shares may be issued at such times and upon such terms as the Board of Directors determines, subject to the limitations as to the offering of new shares at a substantially favorable price mentioned under *Voting rights* above. The Board of Directors may, however, determine that shareholders shall be given subscription rights regarding a particular issue of new shares, in which case such rights must be given on uniform terms to all shareholders as at a record date of which not less than 2 weeks' prior public notice must be given. Each of the shareholders to whom such rights are given must also be given notice of the expiry thereof at least 2 weeks prior to the date on which such rights expire.

The Company may issue stock acquisition rights by a resolution of the Board of Directors, subject to the limitations as to the offering of stock acquisition rights on substantially favorable exercise conditions mentioned under *Voting rights* above. Holders of stock acquisition rights may exercise their rights to acquire a certain number of shares within the exercise period as prescribed in the terms of their stock acquisition rights. Upon exercise of stock acquisition rights, the Company will be obliged to issue the relevant number of new shares or alternatively to transfer the necessary number of treasury stock held by it.

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

Liquidation rights

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

Record date

March 31 is the record date for the Company's year-end dividends. So long as the Company maintains the unit share system, the shareholders and beneficial shareholders who are registered or recorded as the holders of one or more full units of shares in the Company's registers of shareholders and/or beneficial shareholders in writing or digitally (or electronically) at the end of each March 31 are also entitled to exercise shareholders' rights at the ordinary general meeting of shareholders with respect to the fiscal year ending on such March 31. September 30 is the record date for interim dividends. In addition, the Company may set a record date for determining the shareholders and/or beneficial shareholders entitled to other rights and for other purposes by giving at least 2 weeks' prior public notice.

The price of shares of Common Stock generally goes ex-dividend or ex-rights on Japanese stock exchanges on the third business day prior to a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

Table of Contents***Acquisition by the Company of Common Stock***

The Company may acquire shares of Common Stock: (a) through a stock exchange on which such shares are listed (pursuant to an ordinary resolution of an ordinary general meeting of shareholders or a resolution of the Board of Directors) or by way of tender offer (pursuant to an ordinary resolution of an ordinary general meeting of shareholders or a resolution of the Board of Directors); (b) by purchase from a specific party other than a subsidiary of the Company (pursuant to a special resolution of an ordinary general meeting of shareholders); or (c) by purchase from a subsidiary of the Company (pursuant to a resolution of the Board of Directors). Under the New Company Law, not only ordinary general meetings of shareholders but also extraordinary general meetings of shareholders will be able to approve the acquisition by the Company of its own shares in the cases of (a) and (b) above. When such acquisition is made by the Company from a specific party other than a subsidiary of the Company, any other shareholder may make a request to a Representative Director, more than 5 calendar days prior to the relevant shareholders' meeting, to include him/her as the seller in the proposed purchase. However, under the New Company Law, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase. Any such acquisition of shares must satisfy certain requirements, including that, in cases other than the acquisition by the Company of shares of Common Stock pursuant to a resolution of the Board of Directors, the total amount of the purchase price may not exceed the amount of the retained earnings available for dividend payments after taking into account any reduction, if any, of the stated capital, additional paid-in capital or legal reserve (if such reduction of the stated capital, additional paid-in capital or legal reserve has been authorized pursuant to a resolution of the relevant ordinary general meeting of shareholders), minus the amount to be paid by way of appropriation of retained earnings for the relevant fiscal year and the amount to be transferred from retained earnings to stated capital. If the Company purchases shares of Common Stock pursuant to a resolution of the Board of Directors, the total amount of the purchase price may not exceed the amount of the retained earnings available for an interim dividend payment minus the amount of any interim dividend the Company actually paid. However, if it is anticipated that the net assets on the non-consolidated balance sheet as at the end of the relevant fiscal year will be less than the aggregate amount of the stated capital, additional paid-in capital and other items as described in (i) through (v) in *Dividends Distributable amount* above, the Company may not acquire such shares. Under the New Company Law, the restriction on the source of funds for the acquisition by the Company of its own shares will be integrated into those for the distribution of surplus to the shareholders. See *Dividends*. Shares of Common Stock acquired by the Company may be held by it for any period or may be cancelled by resolution of the Board of Directors. The Company may also transfer to any person the shares of Common Stock held by it, subject to a resolution of the Board of Directors, and subject also to other requirements similar to those applicable to the issuance of new shares, as described in *Issue of additional shares and pre-emptive rights* above. The Company may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

Unit share system

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

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

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Unless the Company's shareholders amend the Articles of Incorporation of the Company by a special shareholders resolution to eliminate the provision not to issue share certificates for shares of Common Stock constituting less than one full unit, a share certificate for any number of shares of Common Stock constituting less than one full unit will in general not be issued. As the transfer of shares normally requires the delivery of the share certificates therefor, any fraction of a unit for which no share certificates are issued is not transferable.

A holder of shares of Common Stock constituting less than one full unit may require the Company to purchase such shares at their market value in accordance with the provisions of the Share Handling Regulations of the Company.

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

A holder who owns ADRs evidencing less than 1,000 ADSs will indirectly own shares of Common Stock constituting less than one full unit. Although, as discussed above, under the unit share system holders of shares of Common Stock constituting less than one full unit have the right to require the Company to purchase such shares held by them or sell shares of Common Stock held by the Company to such holders, holders of ADRs evidencing ADSs that represent other than integral multiples of full units are unable to withdraw the underlying shares of Common Stock constituting less than one full unit and, therefore, are unable, as a practical matter, to exercise the rights to require the Company to purchase such underlying shares or sell shares of Common Stock held by the Company to such holders, unless the Company's Articles of Incorporation are amended to eliminate the provision not to issue share certificates for shares of Common Stock constituting less than one full unit. As a result, access to the Japanese markets by holders of ADRs through the withdrawal mechanism will not be available for dispositions of shares of Common Stock in lots less than one full unit. The unit share system does not affect the transferability of ADSs, which may be transferred in lots of any size.

Sale by the Company of shares held by shareholders whose location is unknown

The Company is not required to send a notice to a shareholder if a notice to such shareholder fails to arrive at the registered address of the shareholder in the Company's register of shareholders or at the address otherwise notified to the Company continuously for 5 years or more.

In addition, the Company may sell or otherwise dispose of shares of Common Stock for which the location of the shareholder is unknown. Generally, if (i) notices to a shareholder fail to arrive continuously for 5 years or more at the shareholder's registered address in the Company's register of shareholders or at the address otherwise notified to the Company, and (ii) the shareholder fails to receive dividends on the shares of Common Stock continuously for 5 years or more at the address registered in the Company's register of shareholders or at the address otherwise notified to the Company, the Company may, by a resolution of the Board of Directors, sell or otherwise dispose of the shareholder's shares at the then market price of shares of Common Stock and after giving at least 3 months' prior public and individual notice, and hold or deposit the proceeds of such sale or disposal of shares of Common Stock for such shareholder.

Reporting of substantial shareholdings

The Securities and Exchange Law of Japan and regulations thereunder require any person, regardless of residence, who has become, beneficially and solely or jointly, a holder of more than 5 percent of the total issued shares of capital stock of a company listed on any Japanese stock exchange or whose shares are traded on the over-the-counter market

in Japan to file with the Director-General of a competent Local Finance Bureau of the Ministry of Finance within 5 business days a report concerning such shareholdings.

A similar report must also be filed in respect of any subsequent change of one percent or more in any such holding or any change in material matters set out in reports previously filed, with certain exceptions. For this purpose, shares issuable to such person upon conversion of convertible securities or exercise of share subscription warrants or stock

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acquisition rights are taken into account in determining both the number of shares held by such holder and the issuer's total issued share capital. Copies of such report must also be furnished to the issuer of such shares and all Japanese stock exchanges on which the shares are listed.

Except for the general limitation under Japanese anti-trust and anti-monopoly regulations against holding of shares of capital stock of a Japanese corporation which leads or may lead to a restraint of trade or monopoly, and except for general limitations under the Commercial Code or the Company's Articles of Incorporation on the rights of shareholders applicable regardless of residence or nationality, there is no limitation under Japanese laws and regulations applicable to the Company or under its Articles of Incorporation on the rights of non-resident or foreign shareholders to hold the shares of Common Stock of the Company or exercise voting rights thereon. There is no provision in the Company's Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to merger, consolidation, acquisition or corporate restructuring involving the Company.

C. Material contracts

In connection with the civil rehabilitation process of Makita's consolidated subsidiary, Joyama Kaihatsu, Ltd. (Joyama), Makita entered into a Sponsorship Agreement (the Sponsorship Agreement) dated January 17, 2005 with Tokyo Tatemono, Ltd. (Tokyo Tatemono) and Joyama, in order to rehabilitate Joyama's golf club. Under the Sponsorship Agreement, Joyama is to satisfy at least 50% of the outstanding debt obligations in connection with its rehabilitation, Joyama will retire and extinguish all Joyama shares held by Makita for no consideration to Makita, and, as a result of issuing new Joyama shares to Tokyo Tatemono, Makita will transfer its management of Joyama to Tokyo Tatemono. In addition, in order to execute the Joyama rehabilitation plan, a memorandum of understanding regarding the Sponsorship Agreement was executed on May 26, 2005.

Makita entered into a share purchase agreement with Kanematsu-NNK Corp. (Kanematsu) on December 24, 2004. The agreement sets forth the transfer of Kanematsu's nailer business to Makita Fastening, Ltd., and Makita's purchase of shares of common stock of Makita Fastening, Ltd. then held by Kanematsu. As a result, Makita acquired Kanematsu's nailer business. The closing date was set for April 1, 2005, with a purchase price of 3.2 billion yen (subject to adjustment). Subsequently, the issue of Kanematsu's forgery of the Ministry of Land Infrastructure and Transport of Japan's certificate of performance of its screws came to light, and as a result, Makita cancelled the planned purchase and on February 22, 2005, executed a cancellation agreement with Kanematsu.

D. Exchange Controls

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

Exchange non-residents are:

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

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

as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

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

In general, the acquisition of shares of a Japanese company (such as the shares of Common Stock of the Company) by an exchange nonresident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of Common Stock of the Company) for consideration exceeding 100 million yen to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of Common Stock of the Company) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10 percent or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on and the proceeds from sales in Japan of shares of Common Stock of the Company held by non-residents of Japan may generally be converted into any foreign currency and repatriated abroad.

E. Taxation

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

The following is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of shares of Common Stock or ADSs. This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than such income taxation as limited to national taxes and inheritance and gift taxation. This summary also does not cover any state or local, or non-U.S. non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of Common Stock or ADSs. Also, this summary does not purport to address all the material tax consequences that may be relevant to the holders of shares of Common Stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for alternative minimum tax, investors that own or are treated as owning 10 percent or more

of the Company's voting stock, investors that hold shares of Common Stock or ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction, and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the tax laws and regulations of the United States and Japan, judicial decisions, published rulings and

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administrative pronouncements, all as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), all of which are subject to change (possibly with retroactive effect), and/or to differing interpretations.

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

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

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

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

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

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

Japanese Taxation

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of Common Stock and of ADRs evidencing ADSs representing shares of Common Stock who are either individuals who are non residents of Japan or non-Japanese corporations, without a permanent establishment in Japan (non-resident Holders).

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits in themselves are not subject to Japanese income tax.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to individuals who are non-residents of Japan or non-Japanese corporations is 20 percent. With respect to dividends paid on listed shares issued by a Japanese corporation (such as shares of Common Stock) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or Japanese non-resident individuals, such as non-resident Holders), except for any individual shareholder who holds 5 percent or more of the total shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2008, and (ii) 15 percent for dividends due and payable on or after April 1, 2008. As of the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding

tax rate is reduced, in most cases to 15 percent for portfolio investors with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland, and the U.K.

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

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by the Company to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such nonresident Holder is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends in advance through the Company to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depository or its agent submits two Application Forms (one before payment of dividends and the other within 8 months after the Company's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depository. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced rate which is lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the full amount of tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

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

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

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

U.S. Federal Income Taxation

U.S. Holders

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

Taxation of Dividends

Subject to the passive foreign investment company rules discussed below, under U.S. federal income tax law, the gross amount of any distribution made by us in respect of shares of Common Stock or ADSs (without reduction for

Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when actually or constructively received by the U.S. Holder, in the case of shares of Common Stock, or by the depositary, in the case of ADSs.

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

Subject to certain exceptions for short-term and hedged positions, and provided that we are not a passive foreign investment company (as discussed below), dividends received by certain U.S. Holders (including individuals) prior to January 1, 2009 with respect to the Common Stock or ADSs will be subject to U.S. federal income taxation at a maximum rate of 15 percent. Investors should be aware that the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs or Common Stock should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

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

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

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of Common Stock or ADSs will constitute income from sources outside the United States and generally will be treated separately, together with other items of passive income (or, in the case of some holders, financial services income) in computing foreign tax credit limitations. Subject to generally applicable limitations under U.S. federal income tax law and the Prior or New Treaty, any Japanese withholding tax imposed in respect of a company dividend may be claimed either as a credit against the U.S. federal income tax liability of a U.S. Holder or, if the U.S. Holder elects not to take a credit for any foreign taxes that year, as a deduction from that U.S. Holder's taxable income. Special rules will generally apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential U.S. federal income tax rates. Additionally, special rules apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

- has held shares of Common Stock or ADSs for less than a specified minimum period, or
- is obligated to make payments related to our dividends,

will not be allowed a foreign tax credit for foreign taxes imposed on our dividends. The rules with respect to foreign tax credits are complex and involve the application of rules that depend on a U.S. Holder's particular circumstances, and accordingly, U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The Internal Revenue Service (IRS) has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, investors should be aware that the discussion above regarding the creditability of Japanese

withholding tax on dividends could be affected by future actions that may be taken by the IRS.

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

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

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

Passive Foreign Investment Companies

Based on current estimates of our income and assets, we do not believe that we are, for U.S. federal income tax purposes, a passive foreign investment company (a PFIC), and we intend to continue our operations in such a manner that it is highly unlikely that we would become a PFIC in the future. However, there can be no assurance in this regard, because the PFIC determination is made annually and is based on the portion of our assets (including goodwill) or the portion of our income that is characterized as passive under the PFIC rules. If we become a PFIC, unless a U.S. Holder elects to be taxed annually on a mark-to-market basis with respect to its shares of Common Stock or ADSs, any gain realized on a sale or other taxable disposition of shares of Common Stock or ADSs and certain excess distributions (generally distributions in excess of 125 percent of the average distribution over a three-year period, or shorter holding period for the shares of Common Stock or ADSs) would be treated as realized ratably over the U.S. Holder's holding period for the shares of Common Stock or ADSs; amounts allocated to prior years while we are a PFIC would be taxed at the highest tax rate in effect for each such year, and an additional interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above if we are a PFIC either in the taxable year of the distribution or the preceding taxable year (and instead will be taxable at rates applicable to ordinary income).

If a market-to-market election were made, a U.S. Holder would take into account each year the appreciation or depreciation in value of its shares of Common Stock or ADS, which would be treated as ordinary income or (subject to limitations) ordinary loss, as would gains or losses on actual dispositions of Common Stock or ADSs. Any U.S. Holder who owns shares of Common Stock or ADSs during any year that we are a PFIC would be required to file IRS Form 8621. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to the shares of Common Stock or ADSs and the availability and advisability of making an election to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year.

Non-U.S. Holders

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

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

Subject to the discussion below under **Backup Withholding and Information Reporting**, a Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of Common Stock or ADSs, unless:

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

Backup Withholding and Information Reporting

In general, except in the case of certain exempt recipients (such as corporations), information reporting requirements will apply to dividends on shares of Common Stock or ADSs paid to U.S. Holders in the United States or through certain U.S. related financial intermediaries and to the proceeds received upon the sale, exchange or redemption of shares of Common Stock or ADSs by U.S. Holders within the United States or through certain U.S. related financial intermediaries. Furthermore, backup withholding (currently at a rate of 28 percent) may apply to those amounts if a U.S. Holder fails to provide an accurate tax identification number, to certify that such holder is not subject to backup withholding or to otherwise comply with the applicable requirements of the backup withholding requirements.

Dividends paid to a Non-U.S. Holder in respect of shares of Common Stock or ADSs, and proceeds received in the sale, exchange or redemption of shares of Common Stock or ADSs by a Non-U.S. Holder, generally, are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. persons, and on IRS Form W-8BEN, entitled Certificate of Foreign Status (or other appropriate IRS Form W-8), in the case of non-U.S. persons.

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

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

F. Dividends and paying agents

Not applicable

G. Statement by experts

Not applicable

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Makita files its annual report on Form 20-F and press releases or reports for shareholders or investors on Form 6-K with the SEC. You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>)

I. Subsidiary information

Not applicable

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

Makita is exposed to various market risks, including those related to changes in foreign exchange rates, interest rates, and the prices of marketable securities and investment securities. In order to hedge the risks of fluctuations in foreign exchange rates and interest rates, Makita uses derivative financial instruments. Makita does not hold or use derivative financial instruments for trading purposes. Although the use of derivative financial instruments exposes Makita to the risk of credit-related losses in the event of nonperformance by counterparties, Makita believes that its counterparties are creditworthy because they are required to have a credit rating of a specified level or above, and Makita does not expect credit-related losses, if any, to be significant.

Equity and Debt Securities Price Risk

Makita classified investments of debt securities for current operations as marketable securities within current assets. Other investments are classified as investment securities as a part of investments and other assets in the consolidated balance sheets. Makita does not hold marketable securities and investment securities for trading purposes. The fair value of certain of these investments expose Makita to equity price risks. These investments are subject to changes in the market prices of the securities. The maturities and fair values of such marketable securities and investment securities at March 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)			
	2004	2005	2004	2005		
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Due within one year	¥ 58,523	¥ 58,530	¥ 53,581	¥ 53,581	\$ 500,757	\$ 500,757
Due after one year through five years	2,268	2,267	2,610	2,615	24,393	24,439
Due after five years	3,182	3,180	2,150	2,144	20,092	20,037
Indefinite periods	1,600	1,600	1,614	1,614	15,084	15,084
Equity securities	20,556	20,556	20,433	20,433	190,963	190,963
	¥ 86,129	¥ 86,134	¥ 80,388	¥ 80,387	\$ 751,289	\$ 751,280

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Foreign Exchange Risk

Makita's international operations and indebtedness denominated in foreign currencies expose Makita to the risk of fluctuation in foreign currency exchange rates. To manage this exposure, Makita enters into certain foreign exchange contracts with respect to a part of such international operations and indebtedness. The following table provides information about Makita's major derivative financial instruments related to foreign currency transactions as of March 31, 2004 and March 31, 2005. Figures are translated into yen at the rates prevailing at March 31, 2004 and March 31, 2005, together with the relevant weighted average contractual exchange rates at March 31, 2005. All of the foreign exchange contracts listed in the following table have contractual maturities in FY 2005 and 2006.