

MAKITA CORP  
Form 20-F  
July 10, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**Form 20-F**

- o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
- þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 2008

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934
- o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) THE SECURITIES EXCHANGE ACT OF 1934

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)

**Minobu Kato**

**General Manager of Financial Department**

**Telephone: +81.566.97.1718 Facsimile: +81.566.98.6907**

**Address: 3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture, Japan**

(Name, telephone, e-mail and/or facsimile number and address of registrant's contact person)

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

Title of Class

Name of each exchange on which registered

\* **American Depositary Shares**

Nasdaq Global Select Market

\*\* **Common Stock**

\* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the registrant's

Common Stock.

\*\* No par value.  
Not for trading,  
but only in  
connection with  
the registration  
of American  
Depository  
Shares, pursuant  
to the  
requirements of  
the Securities  
and Exchange  
Commission.

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

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,<br>2008<br>(Tokyo time) | March 31, 2008<br>(New York<br>time) |
| Common Stock, excluding 235,135 shares of Treasury<br>Stock                | 143,773,625                       |                                      |
| American Depository Shares, each representing one<br>share of Common Stock |                                   | 2,562,744                            |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S.GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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As used in this annual report, the term "fiscal year" preceding a year means the twelve-month period ended March 31 of the year referred to. For example, "FY 2008" refers to the twelve-month period ended March 31, 2008. All other references to years refer to the applicable calendar year.

All information contained in this annual report is as of March 31, 2008 unless otherwise specified.

In parts of this annual report, amounts reported in Japanese yen have been translated into US dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥100 = U.S.\$1.00, the approximate exchange rate of the noon buying rate for Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2008. On July 7, 2008 the noon buying rate for Japanese yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥107.55= \$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. Such risks and uncertainties are generally set forth in Item 3.D. "Risk Factors" of this Form 20-F include but are not limited to:

- The levels of construction activities and capital investments in Makita's markets

- Fluctuations in currency exchange rates

- Intense competition in global power tools market for professional use

- Makita's inability to develop attractive products

- Geographic concentration of Makita's main facilities

- Failure to maintain cooperative relationships with significant customers

- Failure to deliver materials or parts required for production as scheduled

- Makita's overseas activities and entry into overseas markets

- Failure to protect Makita's intellectual property rights or infringing intellectual property rights of third parties

- Procurement of raw materials or their escalating prices

- Product liability litigation or recalls

- Fluctuations in stock market prices



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Environmental or other government regulations

The effectiveness of Makita's internal control over financial reporting and the related attestation provided by Makita's auditors

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.

**Table of Contents****PART I****Item 1. Identity of Directors, Senior Management and Advisers**

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, 2008 have been derived from Makita's audited consolidated financial statements. They should be read in conjunction with Makita's audited consolidated balance sheets as of March 31, 2007 and 2008, the related consolidated statements of income, shareholder's equity and cash flows for each of the three years ended March 31, 2008, 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.

|                        | Japanese yen<br>(millions)  |          |          |          |          | U.S. dollars<br>(thousands) |
|------------------------|-----------------------------|----------|----------|----------|----------|-----------------------------|
|                        | Fiscal year ended March 31, |          |          |          |          |                             |
| Income Statement Data: | 2004                        | 2005     | 2006     | 2007     | 2008     | 2008                        |
| Net sales              | ¥184,117                    | ¥194,737 | ¥229,075 | ¥279,933 | ¥342,577 | \$ 3,425,770                |
| Operating income       | 14,696                      | 31,398   | 45,778   | 48,176   | 67,031   | 670,310                     |
| Net income             | 7,691                       | 22,136   | 40,411   | 36,971   | 46,043   | 460,430                     |

| Net income per share of Common stock and per ADS: | Japanese yen                |      |       |       |       | U.S. dollars |      |
|---|-----------------------------|------|-------|-------|-------|--------------|------|
|   | Fiscal year ended March 31, |      |       |       |       |              |      |
|   | 2004                        | 2005 | 2006  | 2007  | 2008  | 2008         |      |
| Basic   |                             | 53.2 | 153.9 | 281.1 | 257.3 | 320.3        | 3.20 |
| Diluted   |                             | 51.9 | 148.8 | 281.1 | 257.3 | 320.3        | 3.20 |

|  | Japanese yen<br>(millions)  |             |             |             |             | U.S. dollars<br>(thousands) |
|--|-----------------------------|-------------|-------------|-------------|-------------|-----------------------------|
|  | Fiscal year ended March 31, |             |             |             |             |                             |
| Balance Sheet Data:  | 2004                        | 2005        | 2006        | 2007        | 2008        | 2008                        |
| Total assets   | ¥ 278,116                   | ¥ 289,904   | ¥ 326,038   | ¥ 368,494   | ¥ 386,467   | \$ 3,864,670                |
| Cash and cash equivalents, time deposits and marketable securities | 92,616                      | 91,189      | 88,672      | 102,211     | 98,142      | 981,420                     |
| Net working capital  | 147,822                     | 149,666     | 181,808     | 212,183     | 230,699     | 2,306,990                   |
| Short-term borrowings  | 14,128                      | 9,060       | 1,728       | 1,892       | 1,724       | 17,240                      |
| Long-term indebtedness   | 7,364                       | 88          | 104         | 53          | 908         | 9,080                       |
| Common stock   | 23,803                      | 23,805      | 23,805      | 23,805      | 23,805      | 238,050                     |
| Treasury stock   | (3,316)                     | (3,517)     | (258)       | (298)       | (263)       | (2,630)                     |
| Shareholders' equity   | 193,348                     | 219,640     | 266,584     | 302,675     | 316,498     | 3,164,980                   |
| Total number of shares outstanding                                 | 143,893,191                 | 143,777,607 | 143,711,766 | 143,701,279 | 143,773,625 | 143,773,625                 |



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

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 |
| 2004                        | 104.18                         | 120.55 | 113.07  | 104.18   |
| 2005                        | 102.26                         | 114.30 | 107.47  | 107.22   |
| 2006                        | 104.41                         | 120.93 | 113.15  | 117.48   |
| 2007                        | 110.07                         | 121.81 | 116.92  | 117.56   |
| 2008                        | 96.88                          | 124.09 | 114.31  | 99.85    |
| 2009 (through July 7, 2008) | 100.87                         | 108.29 | 104.76  | 107.55   |

| 2008 | (Japanese yen per U.S. \$1.00) |          |        |        |        |        |
|------|--------------------------------|----------|--------|--------|--------|--------|
|      | January                        | February | March  | April  | May    | June   |
| High | 105.42                         | 104.19   | 96.88  | 100.87 | 103.01 | 104.41 |
| Low  | 109.70                         | 108.15   | 103.99 | 104.56 | 105.52 | 108.29 |

On July 7, 2008 the noon buying rate for Japanese yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥107.55 = US\$1.00

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

| Fiscal year ended March 31, | Japanese yen |          | U.S. dollars |          |
|-----------------------------|--------------|----------|--------------|----------|
|                             | Interim      | Year-end | Interim      | Year-end |
| 2004                        | 9.0          | 13.0     | 0.09         | 0.11     |
| 2005                        | 11.0         | 36.0     | 0.10         | 0.34     |
| 2006                        | 19.0         | 38.0     | 0.16         | 0.32     |
| 2007                        | 19.0         | 55.0     | 0.16         | 0.47     |
| 2008                        | 30.0         | 67.0     | 0.30         | 0.67     |

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 Japanese 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 as of the respective payment date, using 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.

**Table of Contents****B. Capitalization and indebtedness**

Not applicable

**C. Reasons for the offer and use of proceeds**

Not applicable

**D. Risk factors**

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 that are 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, capital investment and consumption trends in the relevant regions. Generally speaking, the levels of construction activities and capital investment and consumption trends depend largely on the economic conditions in the market. As a result, when economic conditions weaken in the principal markets for Makita's activities, including Japan, Western Europe, Eastern Europe and Russia, North America, Asia, The Middle East, Central and South America, and Oceania, this may have an adverse impact on Makita's consolidated financial condition and results of operations. Specifically, the economic slowdown, caused by, among others, the sub-prime loan problem in the U.S. since the summer of 2007, the volatile stock market causing the global economic downturn and the soaring price of crude oil or mineral resources, may have a direct or indirect negative impact on Makita's financial condition.

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

The functional currency for all of Makita's significant foreign operations is the local currency. The results of transactions denominated in local currencies of Makita's subsidiaries around the world are translated into Japanese 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. Among others, Makita is affected by fluctuations in the value of the euro, the U.S. dollar and Chinese Renmin yuan, the euro and the U.S. dollar being the primary foreign currency on which Makita bases its foreign sales and the U.S. dollar and Chinese Renmin yuan being the primary foreign currency on which Makita bases its foreign costs and liabilities. In an effort to minimize the impact of short-term exchange rate fluctuations between major currencies, mainly the euro, the U.S. dollar, and the Japanese yen, Makita engages in hedging transactions. However, medium-to-long-term fluctuations of exchange rates may affect for Makita to execute procurement, production, logistics, and sales activities as planned and may have an impact on Makita's consolidated financial condition and results of operations.

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

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

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While Makita strives to ensure its position as a leading international supplier of power tools for professional use, there is no guarantee that it will be able to compete effectively in the future. If Makita is unable to compete effectively, it may lose market share and its earnings may be adversely affected. Moreover, economic slowdown tends to result in intensified competition and increased downward pressure. Accordingly if Makita is unable to compete effectively, Makita's sales volumes may decrease and inventories may increase, resulting in a downward pressure on the prices for Makita's products to sell the inventory, which in turn could have an adverse impact on Makita's consolidated financial condition and results of operations.

**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 strong 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 able to quickly develop new products that meet the changing needs and correspond the market price for high-end, professional users, it 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 most of suppliers on which it relies for supplying major parts are located in Aichi Prefecture ( Aichi ), Japan. Makita's manufacturing facilities in Aichi and Kunshan, Jiangsu Province, China, account for 23% and 58%, respectively, of Makita's total production volume on a consolidated basis during the year under review. 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, emerging infectious diseases, 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.

**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 addition, 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. Purchases of production-use materials from Chinese manufacturers have increased in recent years. When launching new products, sales commencement dates can slip if Chinese manufacturing technology does not satisfy our demands, or if it takes an inordinate amount of time in order to satisfy our demands. There is a concern that this can result in lost sales opportunities. Makita purchases its significant component parts from sole suppliers. 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.

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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.

**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 significant majority of its sales in markets located outside of Japan, including Western Europe, Eastern Europe and Russia, North America, Asia, the Middle East, Central and South America, and Oceania. During the year under review, approximately 85% of Makita's consolidated net sales were derived from products sold overseas. Moreover, 77% of global production volume were derived from overseas production. The high percentage of overseas sales and production 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.
- (6) The interruption of or disruption to Makita's operation due to labor disputes

**Makita may be unable to protect its intellectual property rights and could suffer significant liabilities, litigation costs or licensing expenses or be prevented from selling its products if it is infringing the intellectual property of third parties.**

In the area where our sales and production are significant, Makita applies for the patent, design and trademark, and strives for protection of intellectual property rights positively. However, Makita may be unable to eliminate completely the product of the third party who infringes on the intellectual property rights of our group, or the product of the party similar to our product. In that case, it may have a negative influence on the achievements of our group. Moreover, Makita corresponds so that it may not infringe on a third party's intellectual property rights, but it may be claimed that it is infringing on intellectual property rights from the third party. When infringement of intellectual property rights is investigated from a third party, the obligation of the payment of reparations may arise or halt in production and sales stop of a product may be ordered. In that case, it may have a negative influence on the business performance and the financial condition of our group.

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

In manufacturing power tools, Makita 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 has risen substantially. Some suppliers are operating at over-capacity and prices of certain production materials, especially crude oil, steel products and copper wire, have increased. Under these circumstances, if Makita is unable to obtain the necessary quantities of these materials, especially in China and Japan, this may have an adverse effect on production schedules. In addition, the shortage of capacity among suppliers is a factor leading to increased prices of production materials.

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If Makita 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 Makita.

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

Makita is developing a variety of products including power tools under the safety standard of each country, and is manufacturing them globally based on the quality standards of the factory. However, a large-scale recall and a large-scale product liability lawsuit may significantly damage Makita's brand image and reputation. In addition, the related cost and time incurred through the recall or lawsuit may affect business performance and financial condition of Makita in case insurance policy does not cover the related cost.

**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 and investment securities on its consolidated financial statements. The values of these investments are influenced by fluctuations in the quoted market prices. A fluctuation in the value of these securities will have an impact on Makita's consolidated financial condition and results of operations.

**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 and areas in which it 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 compliance with any new or amended regulations may also result in significant increases in overall costs.

**Investor confidence and the value of Makita's ADRs and ordinary shares may be adversely impacted if Makita's management concludes that Makita's internal control over financial reporting is not effective or if Makita's independent registered public accounting firm is unable to provide adequate attestation over the adequacy of the internal control over Makita's financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002**

The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report in its Annual Report that contains an assessment by management of the effectiveness of corporate internal control over financial reporting. In addition, Makita's independent registered public accounting firm must attest to the effectiveness of Makita's internal control over financial reporting. If Makita's management concludes that Makita's internal control over financial reporting is not effective, or if Makita's independent registered public accounting firm is not satisfied with Makita's internal control over its financial reporting or the level at which its controls are documented, designed, operated or reviewed, and declines to attest or issues a report that is qualified, there could be an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of Makita's financial statements, which ultimately could negatively impact the market price of Makita's ADRs and ordinary shares.



**Table of Contents****Item 4. Information on the Company****A. History and development of the Company**

The Company is a limited liability, joint-stock company incorporated under the Commercial Code of Japan and continues to exist under the Corporation Act of Japan. The Company traces its origin to an electrical repair workshop founded in Nagoya in 1915 and was incorporated on December 10, 1938 under the name of Makita Electric Works, Ltd. as a joint stock corporation. Under the presidency of Mr. Jujiro Goto, Makita commenced the manufacture of electric power tools in 1958 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.

In May 2005, Makita established a new subsidiary, Makita EU S.R.L. in Romania, as a location from which it can serve growing markets in Eastern Europe, Russia, Western Europe and the Middle East. As a result, the number of consolidated subsidiaries increased to 45.

Makita presently manufactures power tools in eight countries globally: Japan, China, the United Kingdom, the United States, Germany, Brazil, Canada and Romania. In 2007, Makita expanded production capacity of its China factory by constructing a second production facility. In addition, starting in April 2007, a new factory in Romania commenced production which should have the effect of reducing foreign exchange risks, and de-concentrating, the current high production volume in China and to seek stable supply capacity for the growing European market. Makita financed these investments through internal sources.

In 2007, Makita acquired all outstanding shares of Makita Numazu Corporation ( Makita Numazu ), formerly Fuji Robin Industries, Ltd., or Fuji Robin, for approximately ¥2.7 billion in cash and 81,456 Makita shares. Makita believes that the acquisition of Makita Numazu does not currently have a material impact on Makita. Fuji Robin s principal activity is to manufacture and distribute engines, agricultural and forestry machinery, and firefighting pumps. Makita Numazu s original engine technology includes the mini-4 cycle engine, which is globally recognized as an environmentally clean engine. Makita s agricultural and gardening equipments are expected to have synergistic effect with Makita Numazu s original engine.

For the period from May 15, 2007 to March 31, 2008, Makita Numazu Corporation had net sales of ¥8,031 million. Accordingly, Makita has 48 consolidated subsidiaries and 1 equity method affiliate as of March 31, 2008.

Makita Corporation s registered office is located at 3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture 446-8502, Japan, and its telephone number is +81.566.97.1718.

**Table of Contents****B. Business overview**

Makita's principal activity is the manufacture and sale of a wide range of power tools for professional users worldwide. Makita's power tools consist of drills, grinders and sanders and portable woodworking tools, primarily saws and planers. Makita also produces gardening and household products and provides parts, repairs and accessories. For FY2008, approximately 85% of Makita's sales were outside of Japan. Makita estimates that most of its worldwide sales were made to commercial and professional users such as those engaged in timber and metal processing, carpentry, forestry and concrete and masonry works.

Makita aims to improve performance not only by continuing efforts to increase its market share of the power tool market for professionals but also by expanding its market share of the air tools and gardening equipment markets. To achieve this, Makita is improving its global sales, service framework and developing hi-value-added products. 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 extraction.

**Products**

The following table sets forth Makita's consolidated net sales by product categories for periods presented. Effective FY2007, the following changes were made to product group classifications. Makita specializes in power tools manufacturing and sales, as a single line of business, and conducts its business globally. Makita also provides

Gardening and Household Products based on the mainstay products in that product category. Gardening products, including petrol brushcutter, sprayer, petrol blower, electric hedge trimmer, are used for agricultural and forestry operations. Household products, including vacuum cleaner and cordless cleaner, are used not only for housekeepers but also for professional cleaners. Makita is making efforts to extend the sales of cordless power tools to professional users and also to general users.

|                                  | (millions of Japanese yen, except for percentage amounts) |        |           |        |           |        | U.S. dollars |
|----------------------------------|---|--------|-----------|--------|-----------|--------|--------------|
|                                  | Consolidated Net Sales by Product Categories              |        |           |        |           |        | (thousands)  |
|                                  | Fiscal year ended March 31,                               |        |           |        |           |        |              |
|                                  | 2006  |        | 2007      |        | 2008      |        | 2008         |
| Power Tools                      | ¥ 171,376   | 74.8%  | ¥ 210,894 | 75.3%  | ¥ 255,869 | 74.7%  | 2,558,690    |
| Gardening and Household Products | 23,434  | 10.2%  | 28,123    | 10.0%  | 40,410    | 11.8%  | 404,100      |
| Parts, repairs and accessories   | 34,265  | 15.0%  | 40,916    | 14.7%  | 46,298    | 13.5%  | 462,980      |
| Total                            | 229,075   | 100.0% | 279,933   | 100.0% | 342,577   | 100.0% | 3,425,770    |

*Power Tools*

Power tools consist mainly of drills, grinders and sanders, rotary hammers and hammer drills, demolition hammers and electric breakers, cordless impact drivers, circular saws, slide compound saws, and cutters.

Drills are typical power tools used to drill 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.

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.

Rotary hammers, which are used primarily on concrete in the construction industry, are equipped with a rotary function, but can also be used as ordinary hammers.

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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. Demolition hammers and electric breakers are used to shatter hard surfaces, principally concrete. Makita aims to improve the working environment in the construction industry through the provision of power tools which incorporate Makita proprietary low vibration mechanisms. These tools meet the strong demand of drilling holes in stone and concrete, and of other uses.

Cordless impact drivers are particularly in high demand across Japanese construction sites. In February 2005, Makita introduced cordless impact drivers powered by lithium-ion batteries instead of conventional nickel- metal-hydrate batteries for the first time in the industry. Cordless impact drivers employing lithium-ion batteries are smaller and lighter, and batteries last much longer. Combined with Makita's proprietary Optimum Charging System, this new product has been well received within Japan by professional users. The Optimal Charge System communicates with individual batteries, when charging, and recognizes charging records, and analyzes the condition, such as the heat, over-discharge, and weakening of the battery. This is Makita's original technology, which can prolong the life of a battery through optimal and gradual charge carrying out Active Current Control, Active Thermal Control, and Active Voltage Control based on the above analysis result. It marks a strong addition to our Japanese product line-up of new 14.4V cordless power tools powered by lithium-ion batteries including cordless circular saws, cordless angle grinders, cordless nailers, cordless four-mode impact drivers, cordless hammer drills, cordless percussion drills, and cordless reciprocating saws. Makita began offering cordless power tools powered by lithium-ion batteries in the United States through major home centers in the fall of 2005. In addition to 14.4V cordless power tools available in Japan and the United States, Makita offers 18V Combo kits of cordless drills, cordless percussion drills, cordless circular saws, and cordless lights in the United States where users demand more powerful tools. Makita also rolled out its 18V cordless power tools powered by lithium-ion batteries across major European markets since the summer of 2006, amid a strong construction industry interest.

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 unsuitable for conventional saws.

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. Our angle cutters, used for precision wood cutting at construction sites, feature functions designed to meet precision carpentry needs in Japan. Subsequent to taking over the operations of Kanematsu-NNK Corp. in January 2006, Makita introduced into the Japanese market its Red Series of high-pressure air nailer, which are as popular as cordless impact drivers used in housing construction, completing our mainstay product line-up.

*Gardening and Household Products*

Gardening household products consist mainly of petrol brushcutters, chain saws, hand-held vacuum cleaners for home use, industrial vacuum cleaners, submersible pumps and gardening equipments such as hedge trimmers. There is a strong need for dust collectors at construction sites because cutting, drilling and grinding work using power tools generates debris. Small, light and high-suction power cleaners offered to home users are increasingly popular.

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Makita also offers engine-equipped grass cutters, lawn mowers in addition to gardening tools for trimming tree fences and cutting grass. Acquisition of Fuji Robin is contributing to strengthening Makita's lineup of gardening and engine-powered gardening tools.

*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. In particular, Makita offers a variety of parts and accessories with respect to high-quality and durable professional power tools, and at the same time commits major management resources to enhancing post-sales services. Makita is working hard toward strengthening its parts supply system and three-day repair program, while developing a worldwide sales network. Makita is also working to strengthen its range of authentic Makita accessories such as saw blades, drill bits, and grinding wheels.

**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 Japanese yen, except percentage amount) |        |           |        |           |        | U.S. dollars |
|------------------------|--|--------|-----------|--------|-----------|--------|--------------|
|                        | Consolidated Net Sales by Geographic Area            |        |           |        |           |        | (thousands)  |
|                        | Fiscal year ended March 31,                          |        |           |        |           |        |              |
|                        | 2006   |        | 2007      |        | 2008      |        | 2008         |
| Japan                  | ¥ 41,600   | 18.2%  | ¥ 46,860  | 16.7%  | ¥ 52,193  | 15.2%  | \$ 521,930   |
| Europe                 | 90,504   | 39.5   | 124,020   | 44.3   | 160,360   | 46.8   | 1,603,600    |
| North America          | 47,673   | 20.8   | 51,472    | 18.4   | 56,422    | 16.5   | 564,220      |
| Asia (excluding Japan) | 16,993   | 7.4    | 19,469    | 7.0    | 22,629    | 6.6    | 226,290      |
| Other                  | 32,305   | 14.1   | 38,112    | 13.6   | 50,973    | 14.9   | 509,730      |
| Total                  | ¥ 229,075  | 100.0% | ¥ 279,933 | 100.0% | ¥ 342,577 | 100.0% | \$ 3,425,770 |

*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 has maintained 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 786 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 prefectures. These distribution centers strengthen Makita's distribution and after-sale service functions.

The majority of Makita's products are sold through its 14 independent 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. In FY 2008, 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. In FY 2008, Makita's three largest wholesalers accounted, in the aggregate, for approximately 30% of Makita's domestic net sales.

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

To strengthen its business in Pneumatic Tools, Makita purchased the nailer business of Kanematsu NNK Corp in January 2006.

*Overseas*

As a leading manufacturer and marketer of power tools, Makita operates a network of production, with its offices in more than 30 countries and areas around the world. The ratio of overseas production exceeds 75% on a unit basis, and 85% of consolidated sales come from overseas market in FY2008. Overseas sales, distribution, and service are carried out through a network of 34 sales subsidiaries and 124 branch offices 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, Slovakia and Bulgaria. 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 or Maktec brand names.

Makita offers warranties to overseas customers. After-sale 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, 2008, Makita had over 100 service depots outside of Japan. As of March 31, 2008, 28 of these service depots were located in the United States and 19 of these service depots were located in China. 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.

**Seasonality**

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

**Competition**

The markets in which Makita sells its products are generally 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.

**Table of Contents****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 parts are obtained from single suppliers. The procurement cost of steel plates, copper, and certain other raw materials is affected by fluctuations in international commodity markets, and these material prices appreciated during fiscal 2008. Makita's purchases of raw materials and parts in FY 2008, amounted to ¥174,860 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 9.0% of Makita's total purchases of raw materials and parts.

Makita also purchases from outside sources finished products such as vacuum cleaners, electric generators, petrol brushcutters, and laser levels and resells to its customers under the Makita brand.

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 and areas 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 and areas may be limited.

**Intellectual Property Rights**

As of March 31, 2008, Makita owned 503 patents and 12 utility model registrations in Japan and 465 patents and 98 utility model registrations 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, 2008, Makita had made 641 applications for additional patents and utility model registrations in Japan as well as 427 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.

**C. Organizational structure**

As of March 31, 2008, the Makita Group consisted of 48 consolidated subsidiaries and 1 equity method affiliate. 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<br>Incorporation | Proportion of<br>Ownership<br>and<br>Voting<br>Interest |
|----------------------------------|-----------------------------|---|
| Makita Numazu Corporation        | Japan                       | 100.0%  |
| 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 International Europe Ltd. | U.K.                        | 100.0   |

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| Company Name                        | Country of Incorporation | Proportion of Ownership and Voting Interest |
|-------------------------------------|--------------------------|---|
| 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                                       |
| 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 Oy                           | Finland                  | 100.0                                       |
| Makita (China) Co., Ltd.            | China                    | 100.0                                       |
| Makita (Kunshan) Co., Ltd.          | China                    | 100.0                                       |
| Makita (Australia) Pty. Ltd.        | Australia                | 100.0                                       |
| Makita Gulf FZE                     | U.A.E.                   | 100.0                                       |

**D. Property, plant and equipment**

The following table sets forth information relating to Makita's principal production facilities as of March 31, 2008.

| Location                         | Floor space (Square meters) | Principal products manufactured                                     |
|----------------------------------|-----------------------------|---|
| Japan;                           |                             |   |
| Makita Corporation               |                             |   |
| Okazaki Plants                   | 174,508                     | Electric power tools, etc.  |
| Makita Numazu Corporation        | 21,199                      | Agricultural and gardening equipments                               |
| Overseas;                        |                             |   |
| Makita (China) Co., Ltd.         | 61,302                      | Electric power tools, etc.  |
| Makita Corporation of America    | 24,053                      | Electric power tools, etc.  |
| Makita (Kunshan) Co., Ltd.       | 17,969                      | Electric power tools, etc.  |
| Dolmar GmbH                      | 17,747                      | Electric power forestry equipments                                  |
| Makita Manufacturing Europe Ltd. | 11,520                      | Engine powered tools, etc.  |
| Makita EU S.R.L                  | 6,975                       | Electric power tools, etc. (Commencement of production: April 2007) |

In addition, the Company owns an aggregate of 142,097 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 China, United Kingdom, the United States, Brazil, Romania, Germany and Canada. All buildings and land in these countries, except for land in China which is held under long term land lease, are owned by Makita.

None of the buildings or land that Makita owns in Japan is subject to any mortgage or lien. Makita leases 89 sales offices in Japan and all of its overseas sales offices and premises, except for the following locations which are owned by the respective subsidiary companies;

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

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



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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 adjusts production capacity based on its assessment of markets demands and prospects for demands, according to market conditions and Makita's business objectives, by opening, closing, expanding or downsizing manufacturing facilities or by increasing or decreasing output from the facilities accordingly. Makita, therefore, believes that it is difficult and would require unreasonable effort to determine the exact productive capacity and the extent of utilization of each of its manufacturing facilities with a reasonable degree of accuracy. Makita, however, believes that its manufacturing facilities are currently operating at a normal capacity of production facility.

In 2007, Makita rebuilt the Okazaki Plant, and the R&D and office complexes at the head office in Japan, to meet new earthquake resistance standards. This reconstruction work was done in order to enhance resistance to seismic activities, and represents no significant change in production capacity. Makita believes that there are no material environmental issues that may affect Makita's current use of its assets. In December 2007, Makita transferred the production facilities of Makita Ichinomiya Corporation, its consolidated subsidiary as manufacturer of stationary woodworking machines, to the Okazaki Plant in order to streamline the production function in Japan.

**Item 4A. Unresolved Staff Comments**

None

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

The following table sets forth a summary of Makita's operations results for each of the years ended March 31, 2006, 2007 and 2008.

|  | (Millions of Japanese yen, except for percentage amounts) |       |          |       |          |       | U.S. dollars<br>(thousands) |             |
|--|---|-------|----------|-------|----------|-------|-----------------------------|-------------|
|  | 2006  |       | 2007     |       | 2008     |       | Change                      | 2008        |
|  |   | %     |          | %     |          | %     | %                           |             |
| NET SALES  | ¥229,075  | 100.0 | ¥279,933 | 100.0 | ¥342,577 | 100.0 | 22.4                        | \$3,425,770 |
| Cost of sales  | 132,897   | 58.0  | 163,909  | 58.6  | 199,220  | 58.2  | 21.5                        | 1,992,200   |
| GROSS PROFIT   | 96,178  | 42.0  | 116,024  | 41.4  | 143,357  | 41.8  | 23.6                        | 1,433,570   |
| Selling, general and administrative expenses                               | 58,726  | 25.6  | 66,802   | 23.9  | 76,198   | 22.2  | 14.1                        | 761,980     |
| Losses (gains) on disposals or sales of property, plant and equipment, net | (8,326)   | (3.6) | (249)    | (0.1) | 128      | 0.0   |                             | 1,280       |
| Impairment of long-lived assets  |   |       | 1,295    | 0.4   |          |       |                             |             |
| OPERATING INCOME   | 45,778  | 20.0  | 48,176   | 17.2  | 67,031   | 19.6  | 39.1                        | 670,310     |
| OTHER INCOME(EXPENSES)   |   |       |          |       |          |       |                             |             |
| Interest and dividend income   | 1,301   | 0.6   | 1,364    | 0.5   | 2,092    | 0.6   | 53.4                        | 20,920      |
| Interest expense   | (364)   | (0.2) | (316)    | (0.1) | (269)    | (0.1) | (14.9)                      | (2,690)     |
| Exchange gains (losses) on foreign currency transactions, net              | (258)   | (0.1) | (418)    | (0.2) | (1,233)  | (0.4) | 195.0                       | (12,330)    |
| Realized gains (losses) on securities, net                                 | 2,918   | 1.3   | 918      | 0.3   | (1,384)  | (0.4) |                             | (13,840)    |
| Other, net   | (232)   | (0.1) | (401)    | (0.1) | (466)    | (0.1) | 16.2                        | (4,660)     |
| Total  | 3,365   | 1.5   | 1,147    | 0.4   | (1,260)  | (0.4) |                             | (12,600)    |
| INCOME BEFORE INCOME TAXES   | 49,143  | 21.5  | 49,323   | 17.6  | 65,771   | 19.2  | 33.3                        | 657,710     |
| PROVISION FOR INCOME TAXES   | 8,732   | 3.8   | 12,352   | 4.4   | 19,728   | 5.8   | 59.7                        | 197,280     |
| NET INCOME   | 40,411  | 17.6  | 36,971   | 13.2  | 46,043   | 13.4  | 24.5                        | 460,430     |

**General Overview**

Makita's principal business is the manufacture and sale of power tools for professional use worldwide. Principal products include drills, rotary hammers, hammer drills, demolition hammers, grinders and cordless impact drivers. Makita has eleven manufacturing centers, three located in Japan, two in China and one each in the United States, Canada, Brazil, the United Kingdom, Germany, and Romania.

For FY2008, 84.8% of Makita's sales were outside of Japan. Makita is therefore affected to a large extent by demand for power tools worldwide, which in turn is influenced by factors including new housing construction, demand for household renovations, public investment and private capital expenditures. The nature and the extent to which each of these factors influence Makita differ in each country and region in which Makita sells its products.

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In developed countries such as North America and Europe where there is an established DIY market, demand for power tools is relatively affected by changes in consumer spending. Demand for power tools in developing countries is expected to expand as economic growth increases.

Technological developments have also driven the market for power tools. In particular, in recent years the development of rechargeable electric tools featuring small, light and high-capacity lithium-ion batteries has resulted in increased demand as users began to replace their conventional power tools which used NiCad or nickel hydride batteries.

Makita has established a solid presence worldwide as a provider of portable power tools, however, competition is becoming more severe on a global basis.

Makita's business is subject to risks associated with cross-border transactions, and its business could be affected by governmental, economic, financial or tax-related or political policies or factors, including trade protection measures and import or export licensing requirements. Such factors may materially impact Makita's business and operation going forward.

**Currency Fluctuations**

Makita is affected by fluctuations in foreign currency exchange rates due to its place in the global market. Makita is primarily exposed to fluctuations of the Japanese yen against the euro, the U.S. dollar, as well as other currencies of countries where Makita does business. Makita's consolidated financial statements, presented in yen, are affected by currency exchange fluctuations through both translation and transaction risks.

Translation risk is the risk that Makita's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates between the yen and the currencies in which the subsidiaries prepare their financial statements. Even though the fluctuations of currencies against the Japanese yen can be substantial and, therefore, significantly impact comparisons with prior accounting periods and among various geographic markets, the translation effect is a reporting consideration and does not reflect Makita's underlying results of operations. Transaction risk is the risk that the currency structure of Makita's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Makita enters into foreign exchange forward contracts in order to hedge a portion of its transaction risk. Doing so has reduced, but not eliminated, the effects of exchange rate fluctuations against the Japanese yen, which in some years can be significant.

Generally, the depreciation of the Japanese yen against other currencies, particularly the euro, has a positive effect on Makita's operating income and net income. Conversely, the appreciation of the Japanese yen against other currencies, particularly the euro, has the opposite effect. The Japanese yen generally weakened against the euro from FY 2006 to FY 2008, but strengthened against the U.S. dollar in FY2008.

**Overview**

In Europe for FY 2008, Eastern Europe and Russia saw the highest economic growth, while signs of a slowdown in Western Europe became evident as consumer spending remained weak during the second half of the year. In the U.S., for FY 2008, a decline in residential property investments and turmoil in the financial markets in the wake of the sub-prime loan problem increased concerns of an economic slowdown.

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In Asia for FY 2008, business conditions for the most part remained strong, particularly in China where robust growth continues. In Oceania and Middle East for FY2008, net sales increased against the backdrop of high crude oil and natural resources prices. However, in Japan, the number of new housing constructions declined due to the tightening of the procedures for granting building permits under the revised Building Standard Law of Japan. Moreover, steep rises in the prices of crude oil, raw materials and sharp appreciation of the yen to the U.S. dollar have suppressed corporate earnings, and slowed down consumer spending in Japan.

Makita focused its product development efforts on meeting marketplace needs, such as creating and expanding its line up of lithium-ion battery products that have been highly rated by both domestic and overseas markets since the initial launch in February 2005. In its overseas operations in FY2008, Makita increased production at the China plant and expanded the Romania plant in order to enhance its ability to supply products to the markets to meet the strong demand. In Central and South Americas, Makita began construction of its second plant in Brazil. Moreover, Makita has devoted efforts to increase management efficiency and cooperation with group companies to take full advantage of the technical expertise of Makita Numazu which was acquired as a subsidiary in May 2007. Although Makita does not believe this acquisition has a material impact on its current year consolidated financial statements, it is essential to strengthen the business area of gardening tools including engine-powered tools in order to realize our growth strategies.

On a consolidated basis, Makita's net sales in FY 2008 amounted to ¥342,577 million, up 22.4% FY 2007. This is Makita's fourth consecutive year of record sales, and its seventh consecutive year of sales growth. In FY 2007, Makita's operating income climbed 39.1%, to ¥67,031 million and net income amounted to ¥46,043 million, 24.5% higher than FY 2007.

**FY 2008 compared to FY 2007****Net sales**

Makita's consolidated net sales for the fiscal year ended March 31, 2008 ( FY 2008 ) amounted to ¥342,577 million, an increase of 22.4%, or ¥62,644 million, from the fiscal year ended March 31, 2007 ( FY 2007 ). In FY 2008, the average yen-dollar exchange rate was ¥114.44 for \$1.00, representing a 2.2% appreciation of the yen compared with the average exchange rate in FY 2007. The average level of the Japanese yen-euro exchange rate in FY 2008 was ¥161.59 for 1.00 euro, representing a 7.7% depreciation of the yen compared with the average exchange rate in FY 2007.

Excluding the effect of currency fluctuations, consolidated net sales would have increased by 17.6% in FY 2008.

Makita's consolidated net sales of products increased by 24.0% in FY 2008, as did the overall number of units of products sold. The significant increase in the quantity of goods sold in FY 2008 primarily reflected strong sales of power tools such as drills, hammer drills, rotary hammers and grinders. In Europe, competitiveness improved due to the strength of the euro against the Japanese yen. In other regions, against the backdrop of high crude oil and natural resources prices, net sales increased in Oceania, Latin America and the Middle East. Sales of new products, such as lithium ion battery products, comprised 10.4% of consolidated net sales of Makita in FY 2008, or ¥35,798 million. In terms of product type, the sales of power tools increased by 21.3%, or ¥44,975 million, gardening and household products increased by 43.7%, or ¥12,287 million, and revenue from parts, repairs and accessories increased by 13.2%, or ¥5,382 million. In particular, sales of drills, hammer drills, rotary hammers and grinders increased.

**Table of Contents****Sales by region**

The increase in consolidated net sales in FY 2008 can be attributed to an increase in sales in Japan by 11.4%, or ¥5,333 million, to ¥52,193 million, an increase in sales in Europe by 29.3%, or ¥36,340 million, to ¥160,360 million and, an increase in sales in North America, by 9.6%, or ¥4,950 million, to ¥56,422 million, increased sales in Asia (excluding Japan) by 16.2%, or ¥3,160 million, to ¥22,629 million and an increase in sales in other regions, including Australia, Latin America and the Middle East, by 33.7% or ¥12,861 million, to ¥50,973 million.

The increased sales in Japan in FY 2008 primarily reflected strong sales of lithium ion battery based impact drivers. In addition, Makita Numazu, which became a subsidiary in May 2007 to strengthen the area of gardening tools including engine-powered tools, contributed to the overall increased sales in Japan.

The increased sales in Europe in FY 2008 primarily reflected the appreciation of the euro against the Japanese yen, as well as the introduction of new products, particularly rotary hammers with AVT(Anti Vibration Technology) and lithium ion battery products. Net sales in yen terms increased in Russia and Eastern Europe by 44.0%, in the United Kingdom by 24.6%, in Germany by 30.7% and in France by 18.4% compared to FY 2007. Excluding the effect of fluctuations of the local currencies, net sales in Europe would have increased by 20.4%, or ¥25,298 million in FY 2008.

The increased sales in North America in FY 2008 primarily reflected strong sales of lithium ion battery products, despite falls in housing investments in the wake of the sub-prime loan problem. Excluding the effect of fluctuations of the local currencies, net sales in North America would have increased by 9.7%, or ¥5,013 million in FY 2008, compared with FY 2007.

The increased sales in Asia excluding Japan in FY 2008 primarily reflected the increased sales in Singapore and Indonesia, particularly with respect to power tools, such as grinders and rotary hammers. Excluding the effect of fluctuations of the local currencies, net sales in Asia would have increased by 15.1%, or ¥2,947 million in FY 2008.

The increased sales in other regions including Australia, Latin America and the Middle East in FY 2008 were primarily due to an increase in the number of units sold, particularly with respect to power tools such as grinders, hammer drills and rotary hammers. With regard to other regions, construction investment was strong due to continued economic growth with a backdrop of an increase in the price of mineral resources and crude oil. Accordingly, excluding the effect of fluctuations of the local currencies, net sales in other regions would have increased by 27.9%, or ¥10,616 million in FY 2008.

**Review of Performance by Product Group****Power Tools**

The group offers a wide range of dependable drills, rotary hammers, hammer drills, demolition hammers, grinders, cordless impact driver and sanders. This group generates the largest portion of Makita's consolidated net sales. In FY 2008, sales of power tools grew by 21.3%, to ¥255,869 million, accounting for 74.7% of consolidated net sales. In Japan, sales of power tools decreased by 6.6%, to ¥23,605 million, accounting for 45.2% of total domestic sales. Overseas sales of power tools increased by 25.1%, to ¥232,264 million, or 80.0% of total overseas sales.

**Table of Contents****Gardening and Household Products**

Principal products in Makita's gardening and household products group include chain saws, petrol brushcutter, vacuum cleaners and cordless cleaners. In FY 2008, Makita recorded a 43.7% increase in sales of gardening and household products, to ¥40,410 million, or 11.8% of consolidated net sales. Domestic sales of gardening and household products increased by 69.0%, to ¥15,340 million, accounting for 29.4% of total domestic sales. Makita Numazu, which became a subsidiary in May 2007 to strengthen the area of gardening tools including engine-powered tools, contributed to increased sales in Japan. Makita recorded a 31.6% increase in overseas sales of gardening and household products, to ¥25,070 million, which accounted for 8.6% of total overseas sales in FY 2008.

**Parts, Repairs and Accessories**

Makita's after-sales services include the sales of parts, repairs and accessories. In FY 2008, parts, repairs and accessories sales increased by 13.2%, to ¥46,298 million, accounting for 13.5% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 5.9%, to ¥13,248 million, accounting for 25.4% of total domestic sales. Overseas sales of parts, repairs, and accessories grew by 16.4%, to ¥33,050 million, accounting for 11.4% of total overseas sales.

**Cost of Sales**

Cost of sales increased by 21.5%, or ¥35,311 million from FY 2007 to ¥199,220 million. The sales cost ratio improved by 0.4 points from 58.6% in FY 2007 to 58.2% due mainly to an increased production rate in China, as well as sales growth resulting from favorable exchange rate fluctuations, primarily the depreciation of the Japanese yen against the euro.

**Gross Profit**

Gross profit on sales increased by 23.6%, or ¥27,333 million to ¥143,357 million. Gross profit margin rose by 0.4 points from 41.4% in FY 2007 to 41.8%.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for FY 2008 increased by 14.1%, or ¥9,396 million from FY 2007 to ¥76,198 million. The main factors were a rise in shipping costs due to increased sales, increased personnel costs due to an increase in the number of employees, and increased advertising costs due to sales promotion activities by overseas subsidiaries. Additionally, selling, general and administrative expenses excluding the impact of currency fluctuations increased by 10.2%.

On the other hand, the ratio of selling, general and administrative expenses to sales fell by 1.7 points from 23.9% to 22.2%, due to increased sales.

**Losses (Gains) on Disposal or Sales of Property, Plant and Equipment**

In FY 2008, the Company demolished parts of its headquarters building. Also, certain subsidiaries recorded losses on disposal of fixed assets. Accordingly, Makita recognized net losses on disposal or sales of property, plant and equipment of ¥128 million in FY 2008, compared with net gains of ¥249 million in FY 2007.

**Operating Income**

As a result of the above, operating income for FY 2008 increased by 39.1% to ¥67,031 million. Operating income margin increased by 2.4 points, from 17.2% in FY 2007 to 19.6% in FY 2008.

**Table of Contents****Other Income (Expense)**

In FY 2008, other expense was ¥1,260 million, compared with other income of ¥1,147 million in FY 2007.

The major components of other expense were as follows:

(1) Realized losses on securities amounted to ¥1,384 million, compared with realized gains on securities of ¥918 million in FY 2007. This result was due mainly to the decline of stock prices.

(2) The amount of foreign exchange losses increased by ¥815 million, to ¥1,233 million, in FY 2008 due to foreign exchange losses mainly in China and Japan.

**Income before Income taxes**

Income before income taxes for FY 2008 increased by 33.3%, or ¥16,448 million as compared with FY 2007 to ¥65,771 million. The ratio of income before income taxes to sales for FY 2008 increased by 1.6 points, from 17.6% in FY 2007 to 19.2%.

**Provision for Income taxes**

Provision for income taxes for FY 2008 amounted to ¥19,728 million, an increase of 59.7%, or ¥7,376 million, as compared with FY 2007 due mainly to an increase in taxable income. In FY 2007, Makita reversed the valuation allowance on deferred tax assets in the amount of ¥2,701 million related to certain subsidiaries based on both improved performance in recent years and a steady outlook for the future performance of these subsidiaries, and thus the valuation allowance decreased by ¥2,655 million, including the effect of translation. However, in FY 2008, the balance of valuation allowance remained relatively unchanged compared with FY 2007. As a result, the effective tax rate for FY 2008 was 30.0%, a 5.0% increase from 25.0% for FY 2007.

**Net Income**

As a result of the above, net income for FY 2008 increased by 24.5%, or ¥9,072 million compared with FY 2007, to ¥46,043.

**Earnings per Share**

Basic earnings per share of common stock amounted to ¥320.3, compared with ¥257.3 in FY 2007.

**Regional Segments**

Segment information described below is based on the location of the Company and its relevant subsidiaries.

**Japan Segment**

In FY 2008, sales in the Japan segment grew by 12.9%, to ¥142,006 million. Sales to external customers increased by 17.3% to ¥72,466 million, which accounted for 21.2% of consolidated net sales. The increase reflects a 11.4% rise in sales in the domestic market as well as a 35.9% increase in export sales mainly to Africa and Asia. Segment operating expenses in Japan increased by 10.7%, to ¥120,020 million, operating income increased by 26.3%, to ¥21,986 million in FY 2008.

**Europe Segment**

In FY 2008, sales in the Europe segment grew by 26.9% to ¥165,824 million. Sales to external customers increased by 28.3%, to ¥160,218 million, which accounted for 46.8% of consolidated net sales.



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This increase is mainly due to strong sales of the rotary hammer and lithium ion battery products, and the high growth achieved in the Eastern Europe and Russian economies. Segment operating income increased by 49.4%, to ¥26,974 million.

**North America Segment**

In FY 2008, sales in the North America segment climbed by 8.3%, to ¥61,446 million. Sales to external customers increased by 9.3% to ¥56,234 million, which accounted for 16.4% of consolidated net sales. This increase was mainly due to higher sales of lithium ion battery products. However, operating income for FY 2008 decreased by 31.6%, to ¥1,719 million. This decrease is mainly due to a decrease in a gain on disposal of property, plant and equipment in FY 2008.

**Asia Segment (excluding Japan)**

In FY 2008, sales in the Asia segment increased by 46.6% to ¥112,482 million. The increase in sales in this segment is primarily due to higher inter-segment sales from two factories in China to Europe and North America. Sales to external customers increased by 16.2%, to ¥11,271 million, which accounted for 3.3% of consolidated net sales. This increase is primarily due to an increase in sales in Singapore. Segment operating income grew by 41.5%, to ¥14,014 million in FY 2008.

**Other Segment**

In FY 2008, sales in the other segment increased by 32.0% to ¥42,560 million. Sales to external customers increased by 32.0%, to ¥42,388 million, which accounted for 12.4% of consolidated net sales. Sales increase in this segment is primarily due to an increase in sales in Latin America and Middle East. Segment operating income grew by 61.5%, to ¥5,596 million, in FY 2008. The reason for this increase is mainly an improvement of cost ratio of sales in Oceania.

**FY 2007 Compared to FY 2006****Net sales**

Makita's consolidated net sales for the FY 2007 amounted to ¥279,933 million, an increase of 22.2%, or ¥50,858 million, from the fiscal year ended March 31, 2006( FY 2006 ). In FY 2007, the average yen-dollar exchange rate was ¥116.97 for \$1.00, representing a 3.2% depreciation of the yen compared with that in FY 2006. The average level of the yen-euro exchange rate in FY 2007 was ¥150.02 for 1.00 euro, representing an 8.8% depreciation of the yen compared with that in FY 2006. Excluding the effect of currency fluctuations, consolidated net sales would have increased by 16.0% in FY 2007.

The company's consolidated net sales increased by 22.2% in FY 2007, as well as the overall number of units of products sold. Excluding the effect of the decrease in prices of products and the currency fluctuations, Makita's consolidated net sales would have increased by 14.5%, or ¥33,311 million. The significant increase in the quantity of goods sold in FY 2007 primarily reflected strong sales of Makita's power tools, such as drills, grinders and rotary hammers, hammer drills. In Europe, competitiveness has improved due to the strength of the euro against the Japanese yen. Further, demand for the rotary hammer in Europe has been strong. In North America, sales increased in part due to the sales of lithium ion battery products.

The average price of Makita's products declined in FY 2007, and excluding the effect of the increase in the number of units sold, the price cutting would have decreased Makita's net sales by 0.6%, or ¥1,347 million.

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Sales of new products comprised 10.4% of consolidated net sales of Makita in FY 2007, or ¥29,209 million. In terms of product type, there was an increase in the sales of power tools by 23.1% or ¥39,518 million, gardening and household products increased by 20.0% or ¥4,689 million and income from parts, repairs and accessories increased by 19.4% or ¥6,651 million. In particular, sales of drills, grinders, rotary hammers and cordless impact drivers increased.

**Sales by region**

The increase in consolidated net sales in FY 2007 can be attributed to an increase in sales in Japan by 12.6%, or ¥5,260 million, to ¥46,860 million, an increase in sales in Europe by 37.0%, or ¥33,516 million, to ¥124,020 million and, an increase in sales in North America, by 8.0%, or ¥3,799 million, to ¥51,472 million, increased sales in Asia (excluding Japan) by 14.6%, or ¥2,476 million, to ¥19,469 million and an increase in sales in other regions including Australia, Latin America and Middle East by 18.0% or ¥5,807 million, to ¥38,112 million.

The increased sales in Japan in FY 2007 primarily reflected strong sales of lithium ion battery based impact drivers. In addition, the automatic nailer business acquired from Kanematsu-NNK Corp in January 2006, contributed to the increased sales in Japan.

The increased sales in Europe in FY 2007 primarily reflected the appreciation of the euro against the yen in addition to higher building demand in construction due to an unusual warm winter. Net sales in yen terms increased in Russia and Eastern Europe by 63.6%, in the United Kingdom by 27.0%, in Germany by 38.4% and in France by 30.3% compared to FY 2006. In addition, the introduction of new products, particularly lithium ion battery products contributed to the increase of sales in Europe. Excluding the effect of fluctuations of the local currencies, net sales in Europe would have increased by 26.0%, or ¥23,493 million in FY 2007.

The increased sales in North America in FY 2007 primarily reflected strong sales of lithium ion battery products despite the decline of new housing starts. Excluding the effect of fluctuations of the local currencies, net sales in North America would have increased by 3.7%, or ¥1,786 million in FY 2007, compared with FY 2006.

The increased sales in Asia excluding Japan in FY 2007 primarily reflected the increased sales in Singapore and Indonesia, particularly with respect to power tools, such as grinders, hammer drills and rotary hammers. Excluding the effect of fluctuations of the local currencies, net sales in Asia would have increased by 11.4%, or ¥1,937 million in FY 2007.

The increased sales in Other regions including Australia, Latin America and the Middle East in FY 2007 were primarily due to an increased number of units sold, particularly with respect to power tools such as grinders, hammer drills and rotary hammers sold. In FY 2007 Makita saw success in its sales efforts to new markets in the Middle East and Africa. The introduction of new products also contributed to the increase of sales in other regions, in particular, grinders. Excluding the effect of fluctuations of the local currencies, other net sales would have increased by 13.0%, or ¥4,203 million in FY 2007.

**Table of Contents****Review of Performance by Product Group****Power Tools**

The group offers a wide range of dependable drills, rotary hammers, hammer drills, demolition hammers, grinders, cordless impact driver and sanders. This group generates the largest portion of Makita's consolidated net sales. In FY 2007, sales of power tools grew by 23.1%, to ¥210,894 million, accounting for 75.3% of consolidated net sales. In Japan, sales of power tools increased by 7.2%, to ¥25,268 million, accounting for 53.9% of total domestic sales. Overseas sales of power tools increased by 25.6%, to ¥185,626 million, or 79.6% of total overseas sales.

**Gardening and Household Products**

Principal products in Makita's gardening and household products group include chain saws, petrol brushcutter, vacuum cleaners and cordless cleaners. In FY 2007, Makita recorded a 20.0% increase in sales of gardening and household products, to ¥28,123 million, or 10.0% of consolidated net sales. Domestic sales of gardening and household products increased by 8.5%, to ¥9,079 million, accounting for 19.4% of total domestic sales. Makita recorded a 26.4% increase in overseas sales of gardening and household products, to ¥19,044 million, which accounted for 8.2% of total overseas sales in FY 2007.

**Parts, Repairs and Accessories**

Makita's after-sales services include the sales of parts, repairs and accessories. In FY 2007, parts, repairs and accessories sales increased by 19.4%, to ¥40,916 million, accounting for 14.7% of consolidated net sales. Domestic sales of parts, repairs, and accessories increased by 29.4%, to ¥12,513 million, accounting for 26.7% of total domestic sales. Overseas sales of parts, repairs, and accessories grew by 15.5%, to ¥28,403 million, accounting for 12.2% of total overseas sales.

**Cost of Sales**

Cost of sales increased by 23.3%, or ¥31,012 million from FY 2006 to ¥163,909 million. The sales cost ratio increased by 0.6 points from 58.0% in FY 2006 to 58.6% as a result of the rise in materials costs and depreciation expenses.

**Gross Profit**

Gross profit on sales increased by 20.6%, or ¥19,846 million to ¥116,024 million. Gross profit margin fell by 0.6 points from 42.0% in FY 2006 to 41.4%, due to increasing cost of sales. The increasing cost of sales was primarily a result of rising raw material costs, which were subject to price fluctuation in the global market, partially offset by the positive effect of the weak yen.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses for FY 2007 increased by 13.8%, or ¥8,076 million from FY 2006 to ¥66,802 million. The main causes were increased personnel costs due to an increase in the number of employees, a rise in shipping costs due to increased sales, and increased advertising costs due to activities of sales promotion in overseas subsidiaries. Further, the decline of yen caused the yen conversion rate of selling expenses and administrative expenses of overseas subsidiaries to rise. Selling, general and administrative expenses excluding the effects of the low yen rose 8.7%.

On the other hand, the ratio of selling, general and administrative expenses to sales fell by 1.7 points from 25.6% to 23.9%, due to increased sales.

**Table of Contents****Losses (Gains) on Disposal or Sales of Property, Plant and Equipment**

In FY 2007, the expenses for demolishing some of the Company's headquarters buildings are recorded as loss on disposal of property, plant and equipment. Additionally, land and buildings selling with the review of American subsidiary's sales office are recorded as gain on disposal of property, plant and equipment. Accordingly, Makita recognized net gains on disposal or sales of property, plant and equipment of ¥249 million, a 97% decrease from ¥8,326 in FY 2006. The main reason for the decrease from FY 2006 was a gain from the sale of the golf course of the Joyama Kaihatsu Ltd. subsidiary.

**Impairment of Long lived assets**

In FY 2007, the Company decided to transfer the manufacturing business (stationary woodworking machines) of its consolidated subsidiary, Makita Ichinomiya Corporation to Makita's Okazaki plant in order to streamline the production function in Japan no later than December 2007.

As a result of this decision, the Company performed an impairment assessment pursuant to the provisions of SFAS No. 144 and estimated the carrying amounts would not be recovered by the future cash flows. Consequently, the Company recorded an impairment charge totaling ¥1,295 million, before tax, to reflect the estimated fair value of the assets.

**Operating Income**

As a result of the above, operating income for FY 2007 increased by 5.2% to ¥48,176 million. Operating income margin decreased by 2.8points, from 20.0% in FY 2006 to 17.2% in FY 2007.

**Other Income (Expenses)**

In FY 2007, other income was ¥1,147 million, a 65.9% decrease from FY 2006. The reasons for the decrease were as follows:

- (1) Realized gains on securities decreased by ¥2,000 million to ¥918 million due to the gain on securities, net, in the amount of ¥2,528 million resulting from the merger of UFJ Holdings Co., Ltd., and Mitsubishi Tokyo Financial Group Co., Ltd., in FY 2006 that did not reoccur in FY 2007.
- (2) The amount of foreign exchange losses increased by ¥160 million, to ¥418 million in FY 2007 due to foreign exchange losses in China caused by the appreciation of the Chinese Renmin yuan against the U.S. dollar.

**Income before Income taxes**

Income before income taxes for FY 2007 increased by 0.4% (¥180 million) as compared with the previous fiscal year to ¥49,323 million, while the ratio of income before income taxes to sales for current year decreased by 3.9 points, from 21.5% in FY 2006 to 17.6% in FY 2007.

**Provision for Income taxes**

Provision for income taxes for FY 2007 amounted to ¥12,352 million, an increase of 41.5% (¥3,620 million) as compared with the previous year due mainly to an increase in taxable income of Makita. In FY 2007, Makita reversed the valuation allowance on deferred tax assets in the amount of ¥2,701 million related to certain subsidiaries based on both improved performance in recent years and a steady outlook for the future performance of these subsidiaries, and thus the valuation allowance decreased by ¥2,655 million, including the effect of translation. However, in FY 2006, the valuation allowance of ¥5,782 million was reversed related to the sale of the golf course. As a result, the effective tax rate for FY 2007 was 25.0%, a 7.2% increase from 17.8% for FY 2006, due mainly to the above mentioned decrease in the reversal of the valuation allowance.

**Table of Contents****Net Income**

Primarily as a result of a gain of ¥8,479 million from the sale of the golf course in FY 2006, net income for FY 2007 fell by ¥3,440 million to ¥36,971 million, which is an 8.5% decrease from the previous fiscal year.

**Earnings per Share**

Basic earnings per share of common stock amounted to ¥257.3, compared with ¥281.1 in FY 2006.

**Regional Segments**

Segment information described below is based on the location of the Company and its relevant subsidiaries.

**Japan Segment**

In FY 2007, sales in the Japan segment grew by 12.7%, to ¥125,816 million. Sales to external customers increased by 14.9% to ¥61,776 million, which accounted for 22.1% of consolidated net sales. The increase reflects a 12.6% rise in sales in the domestic market as well as a 22.4% increase in export sales mainly to Asia. Even though segment operation expenses increased by 23.9%, to ¥108,403 million, operating income decreased by 27.9%, to ¥17,413 million in FY 2007. This was attributable to the ¥8,479 million gain on the sale of the golf course in FY 2006 and increase of depreciation cost in FY 2007.

**Europe Segment**

In FY 2007, sales in the Europe segment grew by 33.9% to ¥130,633 million. Sales to external customers increased by 36.9%, to ¥124,924 million, which accounted for 44.6% of consolidated net sales. This increase is mainly due to strong sales of the rotary hammer, and the high growth achieved in the Eastern Europe and Russian economies, both investment in plant and equipment, and consumer spending were brisk in Western Europe. Segment operating income increased by 49.8%, to ¥18,056 million.

**North America Segment**

In FY 2007, sales in the North America segment climbed by 8.5%, to ¥56,729 million. Sales to external customers increased by 7.2% to ¥51,432 million, which accounted for 18.4% of consolidated net sales. This increase in sales to external customers was mainly due to better sales of lithium ion battery products. As a result, operating income for FY 2007 increased by 34.8%, to ¥2,512 million.

**Asia Segment (excluding Japan)**

In FY 2007, sales in the Asia segment increased by 45.8% to ¥76,719 million. The increase in sales in this segment is primarily due to higher inter-segment sales from two factories in China to Europe. Sales to external customers increased by 12.2%, to ¥9,698 million, which accounted for 3.5% of consolidated net sales. This increase is primarily due to an increase in sales in Singapore. Segment operating income grew by 53.3%, to ¥9,904 million in FY 2007.

**Other Segment**

In FY 2007, sales in the other segment increased by 16.9% to ¥32,252 million. Sales to external customers increased by 17.1%, to ¥32,103 million, which accounted for 11.4% of consolidated net sales. Sales increase in this segment is primarily due to an increase in sales in Latin America and Middle East. Segment operating income grew by 36.1%, to ¥3,466 million, in FY 2007. The reason for this increase is mainly improved cost of sales in Latin America.

**Table of Contents*****CRITICAL ACCOUNTING POLICIES***

As disclosed in Note 3 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's judgment based on currently known facts, situations and plans for future activities, which may change 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 changes 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, Makita 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 tools. Makita's general revenue recognition policy follows the provisions of Staff Accounting Bulletin No. 104, SAB 104, Revenue Recognition, and Emerging Issues Task Force Issue, EITF No. 01-9, Accounting for consideration Given by a Customer (including a Reseller of the Vendor's Products). 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 EITF 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 with 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.

If expected sales levels are not achieved or achieved in levels higher than anticipated resulting in a greater magnitude of incentive, the result could have a material impact on Makita's financial statements.

Cooperative advertisements 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 advertisements 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.

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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. 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, 2006, 2007 and 2008:

|  | Japanese yen<br>(millions)   |         |         | U.S. dollars<br>(thousands) |
|--|------------------------------|---------|---------|-----------------------------|
|  | For the year ended March 31, |         |         |                             |
|  | 2006                         | 2007    | 2008    | 2008                        |
| Volume-based rebates:  |                              |         |         |                             |
| Actual payment for the year  | (5,104)                      | (6,342) | (9,280) | (92,800)                    |
| Income statement impact for the year                                     | 5,726                        | 7,477   | 9,897   | 98,970                      |
| Accrued expenses or deduction of account receivables (BS) as of March 31 | 2,724                        | 3,859   | 4,476   | 44,760                      |
| Cooperative advertisings:  |                              |         |         |                             |
| Actual payment for the year  | (2,127)                      | (2,646) | (3,521) | (35,210)                    |
| Income statement impact for the year                                     | 2,196                        | 3,026   | 3,517   | 35,170                      |
| Accrued expenses or deduction of account receivables (BS) as of March 31 | 577                          | 957     | 953     | 9,530                       |
| Cash discounts:  |                              |         |         |                             |
| Actual payment for the year  | (4,311)                      | (5,458) | (5,833) | (58,330)                    |
| Income statement impact for the year                                     | 4,371                        | 5,315   | 5,881   | 58,810                      |
| Accrued expenses or deduction of account receivables (BS) as of March 31 | 491                          | 348     | 396     | 3,960                       |

***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 microeconomic 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 profit 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.

***Impairment 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 uses significant judgment based on subjective as well as objective factors in determining when an investment is other-than-temporarily impaired.

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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, Makita's 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 loss.

***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 similar 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.

***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 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 or cash flow 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, if any, 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 discounting expected future cash flows, 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.



**Table of Contents*****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, expected return on plan assets, assumed rates of increase in future compensation levels, mortality rates and some other assumed rates. Discount rates employed by Makita are 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. 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.GAAP, actual results that differ from the assumptions are accumulated and amortized over the average remaining service 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 2.4% as of March 31, 2008. As of March 31, 2008, Makita allocated 45.7% and 36.8% of plan assets to equity securities and debt securities, respectively. The value of these plan assets are influenced by fluctuations in world securities markets. Significant depreciation or appreciation will have corresponding impact on future expenses.

The following table illustrates the sensitivity to changes in the discount rate and the expected return on pension plan assets, while holding all other assumptions constant, for Makita's pension plans as of March 31, 2008.

| Change in assumption  | Change in<br>projected benefit<br>obligation | Change in<br>pre-tax pension<br>expenses |
|---|--|--|
|   | Japanese yen (millions)                      |  |
| 50 basis point increase / decrease in discount rate             | -2,305 / +2,582                              | -2 / +1                                  |
| 50 basis point increase / decrease in expected return on assets |  | -171 / +171                              |

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.

**Table of Contents*****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 Makita's provision for income taxes, deferred income tax assets and liabilities and any valuation allowance recorded against Makita's gross deferred income tax assets. During FY 2007 and FY 2008 Makita reversed a portion of the valuation allowance in the amount of ¥2,701 million and ¥237 million, respectively. Makita has recorded a valuation allowance of ¥331 million as of March 31, 2008 against certain deferred income tax assets because of no tax planning strategy and an anticipated expiration of net operating loss carry forwards. 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.

***New Accounting Standards***

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 has been subsequently amended by FASB Staff Position FAS157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FASB Staff Position FAS157-2, Effective Date of FASB Statement No. 157. SFAS No. 157, as amended, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for instruments within its scope. SFAS No. 157, as amended, is effective from the fiscal period beginning after November 15, 2007, except for items that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually), for which it is effective from the fiscal period beginning after November 15, 2008. SFAS No. 157, as amended, is required to be adopted by Makita in the fiscal year beginning April 1, 2008. Makita does not expect the adoption of SFAS No. 157 will have a material impact on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings. SFAS No. 159 is effective for fiscal periods beginning after November 15, 2007 and is required to be adopted by Makita, in the fiscal year beginning April 1, 2008. Makita does not expect the adoption of SFAS No. 159 will have a material impact on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations, and No. 160, Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51. These statements aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of non-controlling interests in consolidated financial statements. These statements are effective for fiscal years beginning after December 15, 2008 and are required to be adopted by Makita, in the fiscal year beginning April 1, 2009.

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Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liability assumed in a transaction at the acquisition date at fair value with limited exceptions. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of non-controlling interests (minority interests) as equity in the consolidated financial statements and separates from the parent's equity. The amount of net income attributable to non-controlling interests will be included in consolidated net income on the face of the consolidated income statement. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. Makita is currently evaluating the effect that the adoption of these statements will have on its consolidated financial statements.

**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, 2008, Makita held cash and cash equivalents amounting to ¥46,306 million and the Company's subsidiaries have credit lines up to ¥24,246 million, of which ¥1,582 million was used and ¥22,664 million was unused and available. As of March 31, 2008, Makita had ¥1,724 million in short-term borrowing, which included bank borrowings and the current portion of capital lease obligations. Short-term borrowing was used for daily operations at the subsidiaries. The amount excluding current maturities of long-term indebtedness was ¥1,582 million, a decrease of 12.9% (¥234 million) from FY 2007. For further information regarding Makita's short-term borrowings, including the average interest rates see Note 11 to the accompanying consolidated financial statements.

As of March 31, 2008, Makita's total short-term borrowings and long-term indebtedness amounted to ¥2,632 million, representing an increase from ¥1,945 million reported for FY 2007. Makita's ratio of indebtedness to shareholders equity increased by 0.2 points to 0.8%, mainly due to an increase of long-term borrowing, which increased from ¥53 million to ¥908 million. Makita expects to continue to incur additional debt from time to time as required to finance working capital needs. Makita has no potentially significant refinancing requirements in FY 2009 and thereafter.

Makita has historically maintained a high level of liquid assets. Management estimates that the cash and cash equivalents level of ¥46,306 million as of March 31, 2008, together with Makita's available credit facilities, cash flow from operations and funds available from long-term and short-term debt financing, will be sufficient to satisfy its future working capital needs, capital expenditure and research and development through fiscal 2009 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 ¥10 billion annually. Please see Fiscal Year 2008 Capital Expenditures below in this section for a description of Makita's principal capital expenditures for fiscal 2008 and the main planned expenditures for fiscal 2008. At the Regular General Meeting of Shareholders held in June 2008, the Company's shareholders approved a cash dividend of ¥67 per share.

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The total cash dividend payments amount to ¥9,633 million, and were made in June 2008. In 2007, Makita acquired all outstanding shares of Makita Numazu for approximately ¥2.7 billion in cash and 81,456 Makita shares. Makita financed the cash portion of the purchase price from internal sources.

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.

**FY 2008****Cash Flows**

Net cash provided by operating activities decreased by ¥3,085 million from ¥32,360 million in FY 2007 to ¥29,275 million in FY 2008 as a result of the following:

¥65,664 million decrease due to higher levels of cash used in operating activities such as purchases of parts and raw materials, selling, general and administrative expenses, and income tax payments

¥62,579 million increase due to higher levels of cash received from customers as a result of net sales growth  
Net cash used in investing activities decreased by ¥22,768 million from ¥27,276 million in FY 2007 to ¥4,508 million in FY 2008 primarily as a result of the following:

¥6,357 million decrease due to lower purchases of available-for-sale securities and held-to-maturity securities

¥8,101 million decrease due to higher proceeds from sales and maturities of securities

¥9,266 million decrease due to withdrawals of time deposits

¥2,056 million increase due to higher capital expenditures for reconstruction of the Okazaki plant, improvements to the headquarters buildings, and new plant constructions of Makita China, Makita Brazil and Makita Romania

¥1,385 million increase due to an acquisition of Makita Numazu for ¥2,034 million, net of cash acquired  
Net cash used in financing activities increased by ¥5,508 million from ¥8,307 million in FY 2007 to ¥13,815 million in FY 2008 primarily as a result of the following:

¥4,025 million increase due to higher dividends paid

Accounting for all these activities and the effect of exchange rate changes, Makita's cash and cash equivalents increased by ¥9,178 million from ¥37,128 million as of the end of FY 2007 to ¥46,306 million as of the end of FY 2008.

**Capital Expenditures**

Makita has continued to allocate sizable amounts of funds for capital expenditures, which it believes is crucial for sustaining long-term growth. In light of the severity of the 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. This required Makita to increase the amount of its capital expenditures in FY 2008 compared to FY 2007, amounting to ¥11,383 million, ¥12,980 million and ¥15,036 million for FY 2006, 2007 and 2008, respectively.

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Capital expenditures in FY 2008 were mainly used for expansion and rebuilding of the Okazaki plant, improvements to the Company's headquarters buildings, purchases of metal molds for new products, construction of the China plant, Brazil plant and Romania plant along with purchases of manufacturing facilities which make it easier to increase production capacities or maintain high production capacities. Capital investments of the Company amounted to approximately ¥8.6 billion, while capital investment of overseas subsidiaries amounted to approximately ¥6.4 billion. All of Makita's capital expenditures in FY 2008 were funded through internal sources.

Under its investment plans for FY 2009, the Makita Group is scheduled to make capital investments totaling ¥25 billion, which is 66% higher than for FY 2008. Of this total, the Company plans to make direct investments of ¥8 billion and its consolidated subsidiaries will invest ¥17 billion.

In continuation from FY 2008, the Company's main capital investment plan is to rebuild the Okazaki plant, Nagoya Branch in Japan, and purchase of metal molds for new products. The main facilities investments by consolidated subsidiaries include production facilities for Makita (China) Co., Ltd., and Makita Romania S.R.L. and the purchase of metal molds for new products. Due to the expansion of its business in Europe, the Company plans to invest approximately ¥10 billion in upgrading and expanding of its European and Asian sales subsidiaries, including Makita France, Makita Switzerland, Makita Benelux, Makita Poland, Makita Germany and Makita Taiwan. The remaining ¥7 billion will continue to be invested in the construction of the Romania plant, China plant and Brazil factories. These are all scheduled to be funded with internal sources.

**FY 2007****Cash Flows**

Cash flow provided by operating activities is primarily composed of cash received from customers, and cash used in operating activities, principally payments by Makita for parts and materials, selling, general and administrative expenses, and income taxes.

For FY 2007, cash received from customers increased by 22.1% to ¥273,535 million, as a result of an increase in net sales.

This increase was within the range of the increase in all regions' net sales, as there were no significant changes in Makita's collection rates.

Cash used in operating activities increased by 21.2% to ¥241,175 million. This increase was caused by greater purchases of parts and raw materials, increased production as well as the increase in sales and administrative expenses, and the increase in income taxes paid.

As a result of these factors, net cash provided by operating activities increased by 29.1% (¥7,293 million) from ¥25,067 million in FY 2006 to ¥32,360 million in FY 2007.

In FY 2007, cash outflow for capital expenditures increased by ¥1,597 million to ¥12,980 million. This increase was caused by the followings:

Rebuilding of Okazaki plant,

Improvements to the Headquarters buildings,

Construction of Makita Romania plant,

Purchases of machine and equipment for Makita China plant,

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Purchases of metal molds used for new-production, and

Payments of the outstanding acquisition costs (¥649 million) of Kanematsu-NNK Corp.

To fund its investing activities, Makita realized proceeds of ¥18,611 million from sales and maturities of securities. In FY 2007, net cash inflow from sales and maturities of securities decreased by ¥15,739 million from ¥34,350 million.

The Company purchased available-for-sale securities and held-to-maturity securities with the money left over from financing activities and capital expenditures. Purchase of securities increased by ¥6,049 million to ¥27,297 million this year from ¥21,248 million last year.

As a result, net cash outflow resulting from investing activities were ¥27,276 million in FY 2007 compared to net cash inflow of ¥7,655 million in FY 2006.

Cash used for the payment of dividends increased by ¥285 million from ¥7,907 million during the previous fiscal year to ¥8,192 million in FY 2007. During FY 2006, Makita made aggregate payments of ¥12,525 million related to outstanding debt amounting to ¥6,375 million in connection with the civil rehabilitation proceedings of Joyama Kaihatsu, Ltd. and repayment of long-term indebtedness amounting to ¥6,150 million of the financing subsidiary company. There were no such payments in FY 2007.

As a result, net cash used in financing activities decreased by ¥11,241 million from ¥19,548 million in FY 2006 to ¥8,307 million in FY 2007.

As a result of these activities in addition to the effect of exchange rate changes, Makita's cash and cash equivalents as of March 31, 2007 amounted to ¥37,128 million, dropping by ¥1,926 million compared the end of FY 2006.

**Capital Expenditures**

Makita has continued to allocate sizable amounts of funds for capital expenditures, which it believes is crucial for sustaining long-term growth. In light of the severity of the 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. This required Makita to increase the amount of its capital expenditures in FY 2007 compared to FY 2006, amounting to ¥6,655 million, ¥11,383 million and ¥12,980 million for FY 2005, 2006 and 2007, respectively. Capital expenditures in FY 2007 were mainly for expansion and rebuilding of the Okazaki plant, improvements to the Company's headquarter buildings, construction of the Romania plant, and for the purchase of metal molds for new products, acquisition of production equipment in connection with facilities, such as China factories and Makita Romania S.R.L. Capital investments of the Company amounted to approximately ¥7.3 billion, while capital investments of overseas subsidiaries amounted to approximately ¥5.7 billion. All of Makita's capital expenditures in FY 2007 were funded through internal sources.

**Financial Position**

Total assets at the end of FY 2008 were ¥386,467 million, up 4.9% from the previous fiscal year-end. Total current assets increased by 9.0% to ¥290,355 million, owing to such factors as an increase of cash and cash equivalents, and inventories.

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Inventories increased by ¥19,387 million from ¥92,800 million at the end of FY 2007 to ¥112,187 million at the end of FY 2008. Since demand for Makita products is growing steadily, Makita increased inventories so that sales opportunities would not be lost.

Property, plant and equipment, at cost less accumulated depreciation, increased by 9.0%, to ¥69,058 million.

Investments and other assets decreased by 29.9%, to ¥27,054 million. Total current liabilities increased by 9.8%, to ¥59,656 million mainly due to increase in income taxes payable, trade notes and accounts payable.

Long-term liabilities decreased by 16.8%, to ¥7,797 million, mainly due to a decrease in deferred income tax liabilities incurred as a result of the decrease in unrealized gains on securities and long-term prepaid pension expenses.

The current ratio was 4.9 times as same as at March 31, 2007. Shareholders' equity increased by 4.6%, to ¥316,498 million. The main reasons for this increase are an increase in retained earnings, from ¥215,365 million in FY 2007 to ¥249,191 in FY2008.

Fluctuations in the accumulated other comprehensive income (losses) are due to the following reasons:

1. Accumulated other comprehensive income occurred through net unrealized holding gains on available-for-sale securities are due to the decrease in the unrealized gains on available-for-sale securities as a result of the depreciation of the market value of the Company's securities holding,
2. Accumulated other comprehensive losses occurred through pension liability adjustment are due to the increase in net actuarial loss as a result of the depreciation of the market value of the plan asset ,
3. Accumulated other comprehensive losses occurred through foreign currency translation adjustments are due to the decrease in foreign currency translation adjustments as a result of appreciation of the Japanese yen against the U.S. dollar, the British pound and the Chinese Renmin yuan.

As a result, the shareholders' equity ratio slightly decreased to 81.9%, from 82.1% in the previous fiscal year-end.

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

Approximately 660 of Makita's employees are engaged in research and development activities and product design. Makita also employs approximately 110 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 R&D of electric, electronic and other applications.

Makita regards R&D as a high priority 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 2008, Makita allocated ¥5,922 million to R&D, approximately 1.7% of net sales, up 8.5% from FY2007. In FY 2007, Makita allocated ¥5,460 million for R&D, up 13.1% from the ¥4,826 million allocated in FY 2006. The ratio of R&D expenses to net sales was approximately 2.0% in FY 2007 and 2.1% in FY 2006.

Makita is placing more emphasis on designing power tools that are smaller and lighter, featuring electronic controls, and that have internal power sources allowing for cordless operation. Additional design priorities include developing units that feature low level of noise and low vibration, measures to restrain dust emissions and new safety systems. 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 an 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.

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New products developed in FY 2008 included rotary hammer, 10.8V Li-ion impact driver and other products. Makita also created a medium-to-long-term program on priority categories which includes gardening tools.

Makita has developed a battery recharging system that employs digital communication functions to provide information on the state of a battery's charge. 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 adopted lithium ion batteries, which doubles the total volume of work in comparison with the old typed batteries. Makita also developed an original battery verification system using the previously mentioned digital communication functions. Using this system, customers can check the state of charge of their batteries and Makita can provide customers with information on how to make their batteries last longer.

**D. Trend information**

With regard to the outlook for the future, there is still an uncertain outlook for the business environment in which Makita operates, due to concerns including the state of the global economy, such as the down-turn in the U.S. economy and the sub-prime loan problem, the uncertainty with respect to the Western European economy, the weak Japanese housing investment, fluctuations in exchange rates and the prices of oil and raw materials.

In the light of this outlook, Makita aims to improve performance by not only continuing efforts to increase its market share of the power tool market for professionals but also to expand its share of the air tools and gardening equipment markets. To achieve this, Makita is improving its global sales, and service framework and developing high-value-added products.

In the North American market, Makita entered into a sales agreement in March 2008 with Home Depot U.S.A., Inc. which is the largest home improvement chain in the U.S.

Makita's goal is to continue to distribute its products through the home improvement channel which has a significant influence on the sales trend of electric power tools in the North American market and to consistently increase sales and raise awareness of Makita's brand name.

Accordingly, Makita aims to meet its goals by solidifying a business partnership with Home Depot in the North American market, through which new and innovative Makita products will be distributed in the home improvement channel.

Makita will seek to strengthen its relationship with important specialty stores such as independent construction supply and hardware stores which carry Makita products and offer enhanced after-sales services.

**E. Off-balance sheet arrangements**

Makita did not have any off-balance sheet arrangements as of March 31, 2008 except for certain operating leases entered into in the ordinary course of business. See Note 15 to the accompanying consolidated financial statements.



**Table of Contents****F. Tabular disclosure of contractual obligations**

|                                       | Total           | 2009            | Japanese yen (millions)                      |              |              |              | Thereafter   |
|---------------------------------------|-----------------|-----------------|--|--------------|--------------|--------------|--------------|
|                                       |                 |                 | Expected payment date, year ending March 31, |              |              |              |              |
|                                       |                 |                 | 2010   | 2011         | 2012         | 2013         |              |
| Capital lease                         | 550             | 142             | 117  | 57           | 16           | 218          |              |
| Interest expenses on capital lease    | 40              | 20              | 13   | 6            | 1            |              |              |
| Operating lease                       | 1,821           | 573             | 404  | 284          | 201          | 156          | 203          |
| Unsecured loans from bank             | 500             |                 |  |              | 500          |              |              |
| Contributions to defined benefit plan | 3,058           | 3,058           |  |              |              |              |              |
| Purchase obligation                   | 9,632           | 8,901           | 731  |              |              |              |              |
| <b>Total</b>                          | <b>¥ 15,601</b> | <b>¥ 12,694</b> | <b>¥ 1,265</b>                               | <b>¥ 347</b> | <b>¥ 718</b> | <b>¥ 374</b> | <b>¥ 203</b> |

|                                       | Total             | 2009              | U.S. dollars (thousands)                     |                 |                 |                 | Thereafter      |
|---------------------------------------|-------------------|-------------------|--|-----------------|-----------------|-----------------|-----------------|
|                                       |                   |                   | Expected payment date, year ending March 31, |                 |                 |                 |                 |
|                                       |                   |                   | 2010   | 2011            | 2012            | 2013            |                 |
| Capital lease                         | 5,500             | 1,420             | 1,170  | 570             | 160             | 2,180           |                 |
| Interest expenses on capital lease    | 400               | 200               | 130  | 60              | 10              |                 |                 |
| Operating lease                       | 18,210            | 5,730             | 4,040  | 2,840           | 2,010           | 1,560           | 2,030           |
| Unsecured loans from bank             | 5,000             |                   |  |                 | 5,000           |                 |                 |
| Contributions to defined benefit plan | 30,580            | 30,580            |  |                 |                 |                 |                 |
| Purchase obligation                   | 96,320            | 89,010            | 7,310  |                 |                 |                 |                 |
| <b>Total</b>                          | <b>\$ 156,010</b> | <b>\$ 126,940</b> | <b>\$ 12,650</b>                             | <b>\$ 3,470</b> | <b>\$ 7,180</b> | <b>\$ 3,740</b> | <b>\$ 2,030</b> |

Note: 1.Determination of contributions to defined benefit plan after 2009 is not practicable.  
2.The notional amount of derivative financial instruments that are expected to settle in FY 2009 is ¥26,519 million and their estimated fair value is ¥380 million at March 31, 2008. Please see note 17 to the consolidated financial statements for further information.

**G. Safe harbor**

All information that is not historical in nature disclosed under Item 5. Operating and Financial Review and Prospects-Trend Information and -Tabular disclosure of contractual obligations is deemed to be a forward-looking statement. See Cautionary Statement with Respect to Forward-Looking Statements for additional information.

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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 26, 2008 are as follows:

Masahiko Goto

Current Position: President, Representative Director since May 1989

Date of Birth: November 16, 1946

Director since: May 1984

Business Experience:

May 1984: Director, General Manager of General Planning Department

July 1987: Managing Director of Administration Headquarters

Masami Tsuruta

Current Position: Managing Director, in charge of Domestic Business since June 2007

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

June 2003: Managing Director, General Manager of Domestic Sales Marketing Headquarters

Yasuhiko Kanzaki

Current Position: Managing Director, General Manager of International Sales Headquarters (Europe Area) since June 2007

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

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

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:

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October 1998: General Manager of Production Department

June 2001: Director, General Manager of Quality Control Headquarters

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

Shiro Hori

Current Position: Director, General Manager of Overseas Sales Headquarters (America, Asia, and Oceania Area and International Administration) since September 2007

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

June 2003: Director, General Manager of International Sales Headquarters: America Area and International Administration

Tadashi Asanuma

Current Position: Director, General Manager of Domestic Sales Marketing Headquarters: Tokyo Area since July 2007

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

June 2003: Director, Assistant General Manager of Domestic Sales Marketing Headquarters: Osaka Area

Hisayoshi Niwa

Current Position: Director, General Manager of Quality Headquarters since April 2005

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

June 2003: Director, General Manager of Quality Control Headquarters

Zenji Mashiko

Current Position: Director, General Manager of Domestic Sales Marketing Headquarters: Nagoya Area since July 2007

Date of Birth: May 28, 1949

Director since: June 2003

Business Experience:

April 1995: Manager of Tokyo Branch Office

June 2003: Director, Assistant General Manager of Domestic Sales Marketing Headquarters: Tokyo Area

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Toshio Hyuga

Current Position: Director, General Manager of Domestic Sales Marketing Headquarters: Osaka Area since July 2007

Date of Birth: March 14, 1948

Director since: June 2007

Business Experience:

April 1992: Manager of Takamatsu Branch Office

October 1997: Manager of Osaka Branch Office

Shinichiro Tomita

Current Position: Director, Assistant General Manager of Production Headquarters: China Plant since June 2007

Date of Birth: January 11, 1951

Director since: June 2007

Business Experience:

October 2001: Manager of Production Engineering Department

September 2003: Transfer to Makita (China) Corporation

Tetsuhisa Kaneko

Current Position: Director, General Manager of Purchasing Headquarters since June 2007

Date of Birth: April 6, 1956

Director since: June 2007

Business Experience:

April 2004: Manager of Technical Research Department

August 2005: Manager of 2nd Production Department

October 2006: Manager of 1st Production Department

Motohiko Yokoyama

Current Position: Outside 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.

January 2006: Vice President and Representative Director of JTEKT Corporation, which is the entity created by the merger of Toyoda Machine Works, Ltd. with Koyo Seiko Co., Ltd.

June 2007: President and Representative Director of JTEKT Corporation

Toshihito Yamazoe

Current Position: Standing Statutory Auditor since June 2008

Date of Birth: October 16, 1949

Statutory Auditor since: June 2008

Business Experience:

April 1999: Assistant General Manager of Asia and Oceania Sales Department of International Sales Headquarters

August 2000: President of Makita (China) Co., Ltd.

April 2006: General Manager of Europe Sales Department of International Sales Headquarters

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Haruhito Hisatsune

Current Position: Outside Standing Statutory Auditor since June 2008

Date of Birth: February 7, 1947

Statutory Auditor since: June 2008

Business Experience:

May 1990: Manager of Government Securities Service Section of Operation Department of The Nippon Bank

May 1991: Officer of Examination Department of The Nippon Bank

April 1997: General Manager of Overseas Section of The Hekikai Shinkin Bank

January 2001: Managing Director of Business Center of The Hekikai Shinkin Bank

August 2003: Management Director and Corporate Officer, Director of Business Center

Masafumi Nakamura

Current Position: Outside Statutory Auditor since June 2007

Date of Birth: September 17, 1942

Outside Statutory Auditor since: June 2007

Business Experience:

May 1983: Representative partner of SAN-AI Audit Corporation

April 2001: Representative partner of Tohmatsu & Co.

January 2006: Representative partner of Masafumi Nakamura Accountancy Firm

April 2006: Associate professor in Graduate School of Business at Aichi Shukutoku University

June 2006: Outside Statutory Auditor for SUZUKEN CO., LTD.

June 2007: Outside Statutory Auditor for Taiyo Kagaku Co., Ltd.

Michiyuki Kondo

Current Position: Outside Statutory Auditor since June 2008

(Attorney-at-law, Kondo Michiyuki Law Firm)

Date of Birth: October 23, 1944

Outside Statutory Auditor since: June 2008

Business Experience:

April 1971: Attorney-at-law, Takasu Hiroo Law Firm

May 1977: Established Kondo Michiyuki Law Firm

May 2005: Outside Statutory Auditor for ELMO Co., Ltd.

The term of each director listed above expires in June 2009. The term of Mr. Masafumi Nakamura as Outside Statutory Auditor expires in June 2011. The terms of Mr. Toshihito Yamazoe as Statutory Auditor and of Mr. Haruhito Hisatsune and Michiyuki Kondo as Outside Statutory Auditor expire in June 2012.

There are no family relationships between any of the individuals 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.

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**B. Compensation**

The aggregate amount of remuneration, including bonuses but excluding retirement allowances, paid by the Company during FY 2008 to all Directors and Statutory Auditors, who served during FY 2008, totaled ¥348 million.

Remuneration paid by the Company during FY 2007 to all Directors and Statutory Auditors, who served during FY 2007, totaled ¥266 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 had 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 ¥501 million as of March 31, 2007 and was decreased to ¥468 million as of March 31, 2008. However, this Executive retirement and termination allowances program was abolished by the Annual General Meeting of Shareholders held on June 29, 2006, because the program featured minimal correlation with the Company's results while presenting strong seniority-based elements. With regard to retirement and termination allowances accrued through that day, the retirement allowance will be paid to eligible executives upon their retirement.

Beginning in July 2006, the Company introduced a new remuneration program which links the Directors' compensation to Makita's stock prices. Under this remuneration program, a portion or all of the directors' monthly compensation representing their retirement allowance will be contributed to the Executive Stock Ownership Plan, which in turn will acquire the Company's stock. The acquired stock will be retained for the duration of the Director's tenure. The purpose of this system is to effectively link a portion of the Directors' remuneration to the stock price, and thereby provide further transparency of directors' managerial responsibility with respect to improving the Company's value.

**C. Board practices**

Under the Company Law, the Company has elected to structure its corporate governance system as a company with a board of statutory auditors as set out below.

The Company's Articles of Incorporation provide for 15 or fewer Directors and 5 or fewer Statutory Auditors. All Directors and Statutory Auditors are elected at general meetings of shareholders. In general, the term of offices of Directors expires at the conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within two years from their election, and in the case of Statutory Auditors, within four years from their election; however, Directors and Statutory Auditors may serve any number of consecutive terms. With respect to each expiration date of the term of offices of current Directors and Statutory Auditors, see A. Directors and senior management of Item 6.A.

The Directors constitute the Board of Directors, which has the ultimate responsibility for administration of the affairs of the Company. 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 elects one or more Representative Directors. Each Representative Director has the authority to individually represent the Company in the conduct of the affairs of the Company.

The Statutory Auditors of the Company are not required to be certified public accountants. However, at least half of the Statutory Auditors are required to be persons who have never been in the past a director, accounting counselor, corporate executive officer, general manager or any other employee of the Company or any of its subsidiaries.

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The Statutory Auditors may not, while acting as such, be a director, accounting counselor, corporate executive officer, general manager or any other employee of the Company or any of its 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 Company's annual consolidated and non-consolidated financial statements and business report proposed to be submitted by a Representative Director at the general meeting of shareholders and, based on such examination and a report of an Accounting Auditor referred to below, to individually prepare their audit reports. 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 as Accounting Auditors. Such Accounting Auditors have, as their primary statutory duties, a duty to examine the Company's annual consolidated and non-consolidated financial statements proposed to be submitted by a Representative Director to general meetings of shareholders and to report their opinion thereon to certain Statutory Auditors designated by the Board of Statutory Auditors to receive such report (if such Statutory Auditors are not designated, all Statutory Auditors) and the Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements). The Statutory Auditors constitute the Board of Statutory Auditors. The Board of Statutory Auditors has a statutory duty to, based upon the reports prepared by respective Statutory Auditors, prepare its audit report and Statutory Auditors designated by the Board of Statutory Auditors to submit such report (if such Statutory Auditors are not designated, all Statutory Auditors) submit such report to the Accounting Auditors and Directors designated to receive such report (if such Directors are not designated, the Directors who prepared the financial statements and the business report). A Statutory Auditor may note his or her opinion in the audit report of the Board of Statutory Auditors if his or her opinion expressed in his or her audit report is different from the opinion expressed in the audit report of the Board of Statutory Auditors. The Board of Statutory Auditors shall elect one or more full-time Statutory Auditors from among its members. The Board of Statutory Auditors is empowered to establish audit principles, the method of examination by Statutory Auditors of the Company's affairs and financial position, and other matters concerning the performance of the Statutory Auditors duties. For names of the Statutory Auditors that constitute the current 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), 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). Setting 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 Company Law of Japan and related legislation 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 is relying on 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 committee 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.

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Unlike the NASDAQ Rules, under the Company Law, at least half of the statutory auditors are required to be persons who have not been a director, accounting counselor, corporate executive officer, general manager or any other employee of the Company or any of its subsidiaries at any time prior to such statutory auditor's election. Statutory auditors may not at the same time be a director, accounting counselor, corporate executive officer, general manager, or any other employee of the Company or any of its 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 Company Law 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 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 Law and the Company's Articles of Incorporation also provide that 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 of the voting rights of all the shareholders represented at the meeting is required 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 other than its subsidiaries;
- (2) consolidation of shares;
- (3) any offering of new shares or existing shares held by the Company as treasury stock at a specially favorable price (or any offering of stock acquisition rights, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Statutory Auditor;
- (5) the exemption of liability of a Director, Statutory Auditor or Accounting Auditor with certain exceptions;
- (6) a reduction of stated capital with certain exceptions in which a special shareholders' resolution is not required;
- (7) a distribution of surplus in kind other than dividends which meets certain requirements;
- (8) dissolution, merger, consolidation or corporate split with certain exceptions in which a shareholders' resolution is not required;
- (9) the transfer of the whole or a material part of the business with certain exceptions in which a shareholders' resolution is not required;
- (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; or
- (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.

**D. Employees**

The following table sets forth information about number of employees:

As of March 31,



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|                                 | 2006  | 2007  | 2008   |
|---------------------------------|-------|-------|--------|
| Categorized by Geographic Areas |       |       |        |
| Japan                           | 3,038 | 3,007 | 3,206  |
| China                           | 2,325 | 2,443 | 3,190  |
| U.S.A.                          | 942   | 926   | 995    |
| Overseas                        | 5,591 | 6,055 | 7,230  |
| Total                           | 8,629 | 9,062 | 10,436 |

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During FY 2008, the Company hired on average approximately 2,200 temporary employees in China, and approximately 510 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 Workers 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.

The Company's employees are members of the labor union formed on September 13, 1947 that comprises, starting February 9, 1989, the Japanese Electrical Electronic & Information Union. As of March 31, 2008, there are 2,719 members of the labor 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, 2008 is as follows:

| Identity of Person or Group      | Number of Shares Owned | Percentage of voting right |
|----------------------------------|------------------------|----------------------------|
| Directors and Statutory Auditors | 2,123,335              | 1.48 %                     |

The following table lists the number of shares owned by the Directors and Statutory Auditors of the Company as of March 31, 2008.

| Name                                 | Position                           | Number of shares |
|--------------------------------------|------------------------------------|------------------|
| Masahiko Goto                        | President, Representative Director | 1,976,543        |
| Masami Tsuruta                       | Managing Director                  | 17,522           |
| Yasuhiko Kanzaki                     | Director                           | 10,669           |
| Kenichiro Nakai                      | Director                           | 12,700           |
| Tadayoshi Torii                      | Director                           | 13,700           |
| Tomoyasu Kato                        | Director                           | 12,872           |
| Shiro Hori                           | Director                           | 10,313           |
| Tadashi Asanuma                      | Director                           | 5,700            |
| Hisayoshi Niwa                       | Director                           | 6,900            |
| Zenji Mashiko                        | Director                           | 6,700            |
| Toshio Hyuga                         | Director                           | 9,000            |
| Tetsuhisa Kaneko                     | Director                           | 5,500            |
| Shinichiro Tomita                    | Director                           | 2,900            |
| Akio Kondo                           | Standing Statutory Auditor         | 6,700            |
| Hikomichi Murase                     | Standing Statutory Auditor         | 4,910            |
| Shoichi Hase                         | Outside Statutory Auditor          | 18,600           |
| Holding shares by Board of directors |                                    | 2,106            |

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

**Table of Contents****Item 7. Major Shareholders and Related Party Transactions****A. Major Shareholders**

Except for Masahiko Goto holding 1.37% of the Company's outstanding common stock as of March 31, 2008, none of the Company's Directors and Statutory Auditors owns more than one percent of the Company's Common Stock.

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 March 31, 2008, indicated in the reports described below.

| Name of Beneficial Owner                             | Number of Shares | Percentage |
|--|------------------|------------|
| Japan Trustee Services<br>Bank, Ltd. (Trust account) | 10,695,200       | 7.44%      |
| Master Trust Bank of Japan,<br>Ltd. (Trust account)  | 7,767,200        | 5.40%      |

Based on information made publicly available on or after April 1, 2003, 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.

| Name of Shareholder                        | Date of Transaction | Shares Owned Prior to Transaction | Percentage | Number of Shares Changed | Shares Owned After the Transaction | Percentage |
|--|---------------------|-----------------------------------|------------|--------------------------|------------------------------------|------------|
| 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%      | (293,559)                | 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%      | (1,520,000)              | 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%      |
| Barclays Global Investors, N.A.            | June 30, 2005       | 7,783,444                         | 5.26%      | (2,915,000)              | 4,868,444                          | 3.29%      |
|  |                     | 8,959,000                         | 6.05%      | (1,017,000)              | 7,942,000                          | 5.37%      |

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|  |                    |            |       |             |            |       |
|--|--------------------|------------|-------|-------------|------------|-------|
| Silchester International Investors Limited | September 23, 2005 |            |       |             |            |       |
| Goldman Sachs International                | September 30, 2005 | 8,899,979  | 6.01% | 1,591,162   | 10,491,141 | 7.08% |
| Mitsubishi UFJ Financial Group             | October 31, 2005   |            |       |             | 8,164,923  | 5.52% |
| Goldman Sachs International                | November 30, 2005  | 10,491,141 | 7.08% | (3,909,960) | 6,581,181  | 4.45% |
| Silchester International Investors Limited | January 6, 2006    | 7,942,000  | 5.37% | (588,400)   | 7,353,600  | 4.97% |

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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 |
|---------------------------------|---------------------|-----------------------------------|------------|--------------------------|------------------------------------|------------|
| Mitsubishi UFJ Financial Group  | January 31, 2006    | 8,164,923                         | 5.52%      | 857,200                  | 9,022,123                          | 6.10%      |
| Barclays Global Investors, N.A. | March 31, 2006      | 4,868,444                         | 3.38%      | 4,161,108                | 9,029,552                          | 6.27%      |
| Mitsubishi UFJ Financial Group  | April 30, 2006      | 9,022,123                         | 6.10%      | 1,556,200                | 10,578,323                         | 7.35%      |
| Barclays Global Investors, N.A. | June 30, 2006       | 9,029,552                         | 6.27%      | (905,026)                | 8,124,526                          | 5.64%      |
| Mitsubishi UFJ Financial Group  | July 31, 2006       | 10,578,323                        | 7.35%      | (625,100)                | 9,953,223                          | 6.91%      |
| Barclays Global Investors, N.A. | September 30, 2006  | 8,124,526                         | 5.64%      | (2,089,460)              | 6,035,066                          | 4.19%      |
| Nomura Asset Management         | January 15, 2007    |                                   |            |                          | 7,528,400                          | 5.23%      |
| Mitsubishi UFJ Financial Group  | January 22, 2007    | 9,953,223                         | 6.91%      | (1,408,800)              | 8,544,423                          | 5.93%      |
| Mitsubishi UFJ Financial Group  | April 14, 2008      | 8,544,423                         | 5.93%      | 1,478,577                | 10,023,000                         | 6.97%      |

As of March 31, 2008 the Company had 143,773,625, outstanding shares of common stock, excluding 235,135 shares of Treasury Stock. According to the Bank of New York, depository for the Company's ADSs, as of March 31, 2008, 2,562,744 shares of the Company's common stock were held in the form of ADRs and there were 85 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, 2008, there were 13,952 holders of common stock of record worldwide and the number of record holders in the United States was 107.

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**

In 2007, Makita acquired all outstanding shares of Makita Numazu for approximately ¥2.7 billion in cash and 81,456 Makita shares. 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

**Item 8. Financial Information****A. Consolidated financial statements and other financial information****1-3. Consolidated Financial Statements.**

Makita's audited consolidated financial statements are included under Item 18 Financial Statements.



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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 Japanese 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 FY 2008 of ¥30.0 per share and ADS. The Company has declared a cash dividend of ¥67.0 per share and ADS, which was approved by the shareholders' meeting held on June 26, 2008.

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 Japanese yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York:

| Fiscal year ended March 31 | In Japanese yen |          | In U.S. dollars |          |
|----------------------------|-----------------|----------|-----------------|----------|
|                            | Interim         | Year-end | Interim         | Year-end |
| 2003                       | 9               | 9        | 0.07            | 0.07     |
| 2004                       | 9               | 13       | 0.09            | 0.11     |
| 2005                       | 11              | 36       | 0.10            | 0.34     |
| 2006                       | 19              | 38       | 0.16            | 0.32     |
| 2007                       | 19              | 55       | 0.16            | 0.47     |
| 2008                       | 30              | 67       | 0.30            | 0.67     |

Note: Cash dividends in US dollars are based on the exchange rates at the respective payment date, using 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.

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To Makita's knowledge, except as disclosed in this annual report, no significant change has occurred since the date of the annual financial statements and/or since the date of the most recent interim financial statements.

**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. 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<br>Price<br>Per Share of Common<br>Stock<br>(Japanese Yen) |       | NASDAQ Price<br>Per American Depositary<br>Share<br>(U.S. dollars) |       |
|--|---|-------|--|-------|
|  | High  | Low   | High   | Low   |
| Fiscal year ended March 31,                      |   |       |  |       |
| 2004   | 1,343   | 834   | 15.45  | 10.00 |
| 2005   | 2,115   | 1,315 | 20.27  | 12.00 |
| 2006   | 3,820   | 1,755 | 34.19  | 16.15 |
| 2007   | 4,630   | 2,995 | 39.00  | 26.03 |
| 2008   | 5,920   | 2,885 | 50.60  | 27.28 |
| Quarterly  |   |       |  |       |
| Fiscal year 2007                                 |   |       |  |       |
| 1 <sup>st</sup> quarter ended June 30, 2006      | 3,830   | 2,995 | 34.34  | 26.03 |
| 2 <sup>nd</sup> quarter ended September 30, 2006 | 3,830   | 3,210 | 33.16  | 27.56 |
| 3 <sup>rd</sup> quarter ended December 31, 2006  | 3,730   | 3,110 | 31.49  | 26.78 |
| 4 <sup>th</sup> quarter ended March 31, 2007     | 4,630   | 3,570 | 39.00  | 30.23 |
| Fiscal year 2008                                 |   |       |  |       |
| 1 <sup>st</sup> quarter ended June 30, 2007      | 5,650   | 4,210 | 45.30  | 35.64 |
| 2 <sup>nd</sup> quarter ended September 30, 2007 | 5,820   | 4,030 | 47.44  | 35.20 |
| 3 <sup>rd</sup> quarter ended December 31, 2007  | 5,920   | 4,470 | 50.60  | 39.86 |



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|   | Tokyo Stock Exchange<br>Price<br>Per Share of Common<br>Stock<br>(Japanese Yen) |       | NASDAQ Price<br>Per American Depositary<br>Share<br>(U.S. dollars) |       |
|---|---|-------|--|-------|
|   | High  | Low   | High   | Low   |
| Fiscal year ended March 31,<br>4 <sup>th</sup> quarter ended March 31, 2008 | 4,510   | 2,885 | 42.13  | 27.28 |
| Monthly   |   |       |  |       |
| January 2008  | 4,510   | 3,340 | 42.13  | 31.38 |
| February 2008   | 4,230   | 3,640 | 39.38  | 33.83 |
| March 2008  | 3,870   | 2,885 | 35.90  | 27.28 |
| April 2008  | 3,810   | 3,000 | 36.19  | 29.94 |
| May 2008  | 4,440   | 3,600 | 42.47  | 36.03 |
| June 2008   | 4,780   | 3,860 | 45.76  | 36.73 |

**B. Plan of distribution**

Not applicable

**C. Markets**

See Item 9.A.

**D. Selling shareholders**

Not applicable

**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 Company Law (*kaishaho*) of Japan. It is registered in the Commercial Register (*shogyo tokibo*) maintained by the Kariya 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:

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Manufacture and sale of machine tools including electric power tools and 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 right, copyright and other intellectual property right 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 Company Law, 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 Company Law, 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.

Except as stated below, neither the Company Law 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 Company Law 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;

to establish, change or abolish material corporate organization such as a branch office;

to determine material conditions concerning offering of corporate bonds; and

to establish and maintain an internal control system.

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 or more to give a guarantee in an amount of ¥10 million or more.

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**Common stock**

***General***

Unless indicated otherwise, 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 Company Law of Japan and related legislation.

All issued shares are fully-paid and non-assessable, and are in registered form. Transfer of shares is effected by delivery of share certificates, but in order to assert shareholders' rights against the Company, a shareholder must, except as set forth below, 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 these purposes. Beneficial shareholders may at any time withdraw their shares from deposit and receive share certificates.

A 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. Currently, the effective date has not yet been determined but is expected to be January 5, 2009. 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, the Company will be deemed to become a company which shall not issue share certificates for its shares and all existing share certificates will become null and void. Thereafter, the transfer of such shares will be effected through entry in the records maintained under the new central clearing system. Only shares deposited with JASDEC will be immediately transferable under the new central clearing system. Upon the effective date, any requirement, reference and discussion relating to share certificates that are included in this section under "Common Stock" will no longer apply.

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***Authorized capital***

Under the current Articles of Incorporation of the Company, the Company may only issue shares of Common Stock. Article 6 of the Articles of Incorporation of the Company provides that the total number of shares authorized to be issued by the Company is 496,000,000 shares.

As of March 31, 2008, 144,008,760 shares of Common Stock were in issue.

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

***Dividends from Surplus***

**Dividends from Surplus - General**

Under the Company Law, distributions of cash or other assets by joint stock corporations to their shareholders, so called dividends, are referred to as dividends from Surplus ( Surplus is defined in Restriction on dividends from Surplus ). The Company may make dividends from Surplus to the shareholders any number of times per business year, subject to certain limitations described in Restriction on dividends from Surplus. Dividends from Surplus are required in principle to be authorized by a resolution of a general meeting of shareholders, but may also be made pursuant to a resolution of the Board of Directors if:

- (a) Articles of Incorporation of the Company so provide;
- (b) the normal term of office of the Directors is no longer than one year; and
- (c) its non-consolidated annual financial statements and certain documents for the latest business year present fairly its assets and profit or loss, as required by ordinances of the Ministry of Justice.

Under the current Articles of Incorporation of the Company, the requirements described in (a) and (b) are not met. Nevertheless, even under the current Articles of Incorporation, the Company may make dividends from Surplus in cash to the shareholders by resolutions of the Board of Directors once per business year. Such dividend from Surplus is called interim dividends .

Dividends from Surplus may be made in cash or in kind in proportion to the number of shares of Common Stock held by each shareholder. A resolution of a general meeting of shareholders or Board of Directors authorizing a dividend from Surplus must specify the kind and aggregate book value of the assets to be distributed, the manner of allocation of such assets to shareholders, and the effective date of the distribution. If a dividend from Surplus is to be made in kind, the Company may, pursuant to a resolution of a general meeting of shareholders or, as the case may be, the Board of Directors, grant a right to the shareholders to require the Company to make such dividend in cash instead of in kind. If no such right is granted to shareholders, the relevant dividend from Surplus must be approved by a special shareholders resolution (see Voting Rights with respect to a special shareholders resolution ).

Under the Articles of Incorporation, year-end dividends and interim dividends may be distributed to shareholders of record as of March 31 and September 30 each year, respectively, in proportion to the number of shares of Common Stock held by each shareholder following approval by the general meeting of shareholders or the Board of Directors. The Company is not obliged to pay any dividends unclaimed for a period of three years after the date on which they first became payable.

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In Japan, the ex-dividend date and the record date for dividends precede the date of determination of the amount of the dividends to be paid. The price of the shares of Common Stock generally goes ex-dividend on the third business day prior to the record date.

***Restriction on dividends from Surplus***

When the Company makes a dividend from Surplus, the Company must, until the sum of its additional paid-in capital and legal reserve reaches one quarter of the stated capital, set aside in its additional paid-in capital and/or legal reserve an amount equal to one-tenth of the amount of Surplus so distributed.

The amount of Surplus at any given time must be calculated in accordance with the following formula:

$$A + B + C + D - (E + F + G)$$

In the above formula:

- A = the total amount of other capital surplus and other retained earnings, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year
- B = (if the Company has disposed of its treasury stock after the end of the last business year) the amount of the consideration for such treasury stock received by the Company less the book value thereof
- C = (if the Company has reduced its stated capital after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to additional paid-in capital or legal reserve (if any)
- D = (if the Company has reduced its additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction less the portion thereof that has been transferred to stated capital (if any)
- E = (if the Company has cancelled its treasury stock after the end of the last business year) the book value of such treasury stock
- F = (if the Company has distributed Surplus to its shareholders after the end of the last business year) the total book value of the Surplus so distributed
- G = certain other amounts set forth in ordinances of the Ministry of Justice, including (if the Company has reduced Surplus and increased its stated capital, additional paid-in capital or legal reserve after the end of the last business year) the amount of such reduction and (if the Company has distributed surplus to the shareholders after the end of the last business year) the amount set aside in additional paid-in capital or legal reserve (if any) as required by ordinances of the Ministry of Justice

The aggregate book value of surplus distributed by the Company may not exceed a prescribed distributable amount (the Distributable Amount), as calculated on the effective date of such distribution. The Distributable Amount at any given time shall be equal to the amount of Surplus less the aggregate of the followings:

- (a) the book value of its treasury stock;
- (b) the amount of consideration for any of the treasury stock disposed of by the Company after the end of the last business year; and
- (c) certain other amounts set forth in ordinances of the Ministry of Justice, including (if the sum of one-half of goodwill and the deferred assets exceeds the total of stated capital, additional paid-in capital and legal reserve, each such amount being that appearing on the non-consolidated balance sheet as of the end of the last business year) all or certain part of such exceeding amount as calculated in accordance with the ordinances of the Ministry of Justice.

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If the Company has become at its option a company with respect to which consolidated balance sheets should also be considered in the calculation of the Distributable Amount (*renketsu haito kisei tekiyo kaisha*), the Company shall further deduct from the amount of Surplus the excess amount, if any, of (x) the total amount of stockholders' equity appearing on the non-consolidated balance sheet as of the end of the last business year and certain other amounts set forth by an ordinance of the Ministry of Justice over (y) the total amount of stockholders' equity and certain other amounts set forth by an ordinance of the Ministry of Justice appearing on the consolidated balance sheet as of the end of the last business year.

If the Company has prepared interim financial statements as described below, and if such interim financial statements have been approved by the Board of Directors or (if so required by the Company Law) by a general meeting of shareholders, then the Distributable Amount must be adjusted to take into account the amount of profit or loss, and the amount of consideration for any of the treasury stock disposed of by the Company, during the period which such interim financial statements have been prepared. The Company may prepare non-consolidated interim financial statements consisting of a balance sheet as of any date subsequent to the end of the last business year and an income statement for the period from the first day of the current business year to the date of such balance sheet. Interim financial statements prepared by the Company must be audited by the Statutory Auditors and Accounting Auditors, as required by ordinances of the Ministry of Justice.

***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 shareholders resolution, 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 therefore, at least 2 weeks prior to such record date.

***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 business 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.

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Notice of convocation of a general meeting of shareholders 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 of the total number of voting rights for a period of 6 months or more may require the convocation of a general meeting of shareholders for a particular purpose. Unless such general meeting of shareholders is convened promptly or a convocation notice of a meeting which is to be held not later than 8 weeks from the day of such demand is dispatched, the requiring shareholder may, upon obtaining a court approval, convene such general meeting of shareholders. Any shareholder or group of shareholders holding at least 300 voting rights or 1 percent of the total number of voting rights for a period of 6 months 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 prior to the date set for such meeting.

If the Articles of Incorporation so provide, any of the minimum voting rights or percentages, time periods and number of voting rights necessary for exercising the minority shareholder rights described above may be decreased or shortened.

***Voting rights***

So long as the Company maintains the unit share system (see *Unit share system* below; currently 100 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 or certain other entity more than one-quarter of whose total voting rights are directly or indirectly owned by the Company 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 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 Company Law and the Company's Articles of Incorporation provide that the quorum shall be one-third of the total voting rights of all the shareholders, and the approval by at least two-thirds of the voting rights of all the shareholders represented at the meeting is required (the special shareholders resolutions) 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 other than its subsidiaries;
- (2) consolidation of shares;

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- (3) any offering of new shares or existing shares held by the Company as treasury stock at a specially favorable price (or any offering of stock acquisition rights, or bonds with stock acquisition rights at specially favorable conditions) to any persons other than shareholders;
- (4) the removal of a Statutory Auditor;
- (5) the exemption of liability of a Director, Statutory Auditor or Accounting Auditor with certain exceptions;
- (6) a reduction of stated capital with certain exceptions in which a special shareholders resolution is not required;
- (7) a distribution of surplus in kind other than dividends which meets certain requirements;
- (8) dissolution, merger, consolidation or corporate split with certain exceptions in which a shareholders resolution is not required;
- (9) the transfer of the whole or a material part of the business with certain exceptions in which a shareholders resolution is not required;
- (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; or
- (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.

***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 specially 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 specially favorable 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.



**Table of Contents*****Record date***

As mentioned above, 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 business 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 pertaining to the Common Stock and for other purposes, by giving at least 2 weeks' prior public notice.

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

The Company may acquire shares of Common Stock (i) from a specific shareholder other than any of its subsidiaries (pursuant to a special shareholders resolution), (ii) from any of its subsidiaries (pursuant to a resolution of the Board of Directors), or (iii) by way of purchase on any Japanese stock exchange on which Common Stock is listed or by way of tender offer (in either case pursuant to an ordinary resolution of a general meeting of shareholders or a resolution of the Board of Directors). In the case of (i) above, any other shareholder may make a request to the Representative Director that such other shareholder be included as a seller in the proposed purchase, provided that no such right will be available if the purchase price or any other consideration to be received by the relevant specific shareholder will not exceed the last trading price of the shares on the relevant stock exchange on the day immediately preceding the date on which the resolution mentioned in (i) above was adopted (or, if there is no trading in the shares on the stock exchange or if the stock exchange is not open on such day, the price at which the shares are first traded on such stock exchange thereafter).

The total amount of the purchase price of shares of Common Stock may not exceed the Distributable Amount, as described in - Dividends from Surplus Restriction on dividends from Surplus.

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 100 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.

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 a full unit carries no voting rights.

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 a full unit, a share certificate for any number of shares of Common Stock constituting less than a full unit will in general not be issued.

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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. Moreover, holders of shares constituting less than a full unit will have no other shareholder rights if the Articles of Incorporation so provide, except that such holders may not be deprived of certain rights specified in the Company Law or an ordinance of the Ministry of Justice, including the right to receive dividends from Surplus.

A holder of shares of Common Stock constituting less than a 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 a 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 a full unit, constitute a 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 100 ADSs will indirectly own shares of Common Stock constituting less than a full unit. Although, as discussed above, under the unit share system holders of shares of Common Stock constituting less than a 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 a 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 a 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 a 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 from Surplus 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 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 notices, and hold or deposit the proceeds of such sale or disposal of shares of Common Stock for such shareholder.

**Table of Contents****Reporting of substantial shareholdings**

The Financial Instruments 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 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. Any such report shall be filed with the Director-General of the competent Local Finance Bureau of the Ministry of Finance through the Electronic Disclosure for Investors Network (EDINET). 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 Company Law 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 2007, Makita acquired all outstanding shares of Makita Numazu for approximately ¥2.7 billion in cash and 81,456 Makita shares.

**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.

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Foreign investors are:

- individuals who are exchange non-residents;
- corporations that are organized under the laws of foreign countries and areas or whose principal offices are located outside of Japan;
- corporations of which 50 percent or more of their shares are held by individuals who are exchange non-residents and/or corporations (1) that are organized under the laws of foreign countries and areas or (2) whose principal offices are located outside of Japan; or
- corporations 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 non-resident 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 Japanese 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) or that is traded on an over-the-counter market in Japan 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. 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. The acquisition of shares of Common Stock by exchange non-residents by way of stock split is not subject to any of the foregoing notification or reporting requirements.

**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.

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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 federal income tax laws and regulations of the United States and tax laws of Japan, judicial decisions, published rulings and 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. 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 through which the U.S. holder carries on or has carried on business 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 addition, this summary is based in part upon the representations of the depositary 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.

In general, for purposes of the Treaty and for U.S. federal income and Japanese national 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 national income tax.

**Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to non-residents of Japan or non-Japanese corporation without permanent establishments in Japan (non-resident Holders), who are holders of shares of Common Stock and of ADRs evidencing ADSs representing shares of Common Stock. Generally, a non-resident Holder, is subject to Japanese withholding tax on dividends paid by Japanese corporations, and the Company will withhold such tax prior to payment of dividends as required by Japanese law. Stock splits are, in general, not a taxable event.

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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 non-resident is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as shares of Common Stock) to non-resident Holders other than 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, 2009, and (ii) 15 percent for dividends due and payable on or after April 1, 2009. 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 or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Australia, Belgium, Canada, Denmark, Finland, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden and Switzerland and 10 percent under the income tax treaties with the U.K. and the United States).

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 reduced 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 non-resident Holder is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) 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 Depositary or its agent submits two Application Forms (one before payment of dividends and the other within 8 months after the Company's business year-end or semi-business 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 Depositary. 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 tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

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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 U.S. Holders 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 depository, in the case of ADSs.

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. corporations.

Under current law, dividends received on shares or ADSs of certain foreign corporations in taxable years beginning before January 1, 2011 by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to Common Stock or ADSs are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

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 capital to the extent of the U.S. Holder's adjusted tax basis in those shares or ADSs, and thereafter as U.S. source capital gain.

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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, will be passive category income or general category income and will be subject to various classifications and other limitations. 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 does not 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 may 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 (the 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, U.S. Holders 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.

***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 sale 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. Non-corporate 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.



**Table of Contents*****Passive Foreign Investment Companies***

A non-U.S. corporation generally will be classified as a passive foreign investment company (a PFIC ) for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75% of its gross income is passive income or (2) on average, at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interests, royalties, rents and gains from commodities and securities transaction. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation assets (including goodwill) and the composition of its income.

Based on current estimates of our income and assets, we do not believe that we are, for U.S. federal income tax purposes, 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) and 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, if shorter, the 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. Amounts allocated to the year of sale or distribution and to any year before we became a PFIC would be taxed as ordinary income in the year of sale or distribution. 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.

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, nor entities taxable as partnerships, for U.S. federal income tax purposes ( Non-U.S. Holders ).

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).

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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.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder (and, if an applicable income tax treaty applies, is attributable to a U.S. permanent establishment or a fixed base of such Non-U.S. Holder) generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits realized by a corporate Non-U.S. Holder may be subject to additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

***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 may 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

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**G. Statement by experts**

Not applicable

**H. Documents on display**

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 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>)

**I. Subsidiary information**

Not applicable

**Table of Contents****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, 2007 and 2008 were as follows:

|  | Japanese yen (millions) |            |                    |            | U.S. dollars (thousands) |            |
|--|-------------------------|------------|--------------------|------------|--------------------------|------------|
|  | 2007                    |            | 2008               |            | 2008                     |            |
|  | Carrying<br>Amount      | Fair Value | Carrying<br>Amount | Fair Value | Carrying<br>Amount       | Fair Value |
| Due within one year                      | ¥ 6,323                 | ¥ 6,322    | ¥ 2,599            | ¥ 2,599    | \$ 25,990                | \$ 25,990  |
| Due after one year<br>through five years | 2,203                   | 2,195      | 2,677              | 2,675      | 26,770                   | 26,750     |
| Due after five years                     | 5,921                   | 5,822      | 2,950              | 2,881      | 29,500                   | 28,810     |
| Indefinite periods                       | 42,697                  | 42,697     | 40,735             | 40,735     | 407,350                  | 407,350    |
| Equity securities                        | 28,352                  | 28,352     | 18,516             | 18,516     | 185,160                  | 185,160    |
|  | ¥ 85,496                | ¥ 85,388   | ¥ 67,477           | ¥ 67,406   | \$674,770                | \$674,060  |

**Table of Contents****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, 2007 and March 31, 2008. Figures are translated into Japanese yen at the rates prevailing at March 31, 2007 and March 31, 2008, together with the relevant weighted average contractual exchange rates at March 31, 2008. All of the foreign exchange contracts listed in the following table have contractual maturities in FY 2008 and 2009.

|  | Japanese yen (millions) (except average contractual rates) |         |          |             |          |          | U.S. dollars<br>(thousands) |          |
|--|--|---------|----------|-------------|----------|----------|-----------------------------|----------|
|  | 2007   |         | 2008     |             | 2008     |          |                             |          |
|  | Contract   | Average | Contract | Average     | Contract | Fair     | Contract                    | Fair     |
|  | amounts  | Fair    | amounts  | contractual | Fair     | Value    | Amounts                     | Value    |
|  |  | Value   |          | rates       | Value    | rates    |                             |          |
| Foreign<br>currency<br>contracts;                      |  |         |          |             |          |          |                             |          |
| U.S.\$/yen   | ¥ 3,107  | ¥ 2     | ¥ 117.50 | ¥ 4,614     | ¥ 155    | ¥ 103.32 | \$ 46,140                   | \$ 1,550 |
| euro/yen   | 5,387  | (60)    | 115.15   | 5,816       | (37)     | 156.63   | 58,160                      | (370)    |
| A\$/yen  | 343  | (8)     | 92.69    | 418         | 7        | 92.83    | 4,180                       | 70       |
| STG/yen  | 58   |         | 230.96   | 228         | 10       | 206.88   | 2,280                       | 100      |
| euro/STG   | 1,579  | (1)     |          | 3,804       | (108)    |          | 38,040                      | (1,080)  |
| US\$/EUR   | 1,794  | (13)    |          | 1,288       | (36)     |          | 12,880                      | (360)    |
| Other  | 811  | (20)    |          | 450         | 4        |          | 4,500                       | 40       |
| Total  | ¥ 13,079   | ¥ (100) |          | ¥ 16,618    | ¥ (5)    |          | \$ 166,180                  | \$ (50)  |
| Foreign<br>currency swaps:                             |  |         |          |             |          |          |                             |          |
| U.S.\$/yen   | ¥ 2,853  | ¥ (30)  | ¥ 117.53 | ¥ 7,840     | ¥ 353    | ¥ 105.94 | \$ 78,400                   | \$ 3,530 |
| euro/yen   | 3,289  | (20)    | 156.64   | 1,860       | 32       | 161.73   | 18,600                      | 320      |
| A\$/yen  | 191  |         | 95.25    |             |          |          |                             |          |
| SFr./yen   | 191  | (3)     | 95.56    | 201         |          | 100.35   | 2,010                       |          |
| Total  | ¥ 6,524  | ¥ (53)  |          | ¥ 9,901     | ¥ 385    |          | \$ 99,010                   | \$ 3,850 |
| Options<br>purchased to<br>sell foreign<br>currencies: |  |         |          |             |          |          |                             |          |
| U.S.\$/yen   | ¥ 233  | ¥ 2     | ¥ 116.38 | ¥ 202       | ¥ 7      | ¥ 101.23 | \$ 2,020                    | \$ 70    |
| euro/yen   | 1,518  | 5       | 151.80   |             |          |          |                             |          |
| Total  | ¥ 1,751  | ¥ 7     |          | ¥ 202       | ¥ 7      |          | \$ 2,020                    | \$ 70    |

Options written  
to buy foreign  
currencies:

|            |       |       |          |       |       |          |          |         |
|------------|-------|-------|----------|-------|-------|----------|----------|---------|
| U.S.\$/yen | ¥ 239 | ¥ (1) | ¥ 119.15 | ¥ 208 | ¥ (2) | ¥ 103.99 | \$ 2,080 | \$ (20) |
| euro/yen   | 1,569 | (18)  | 156.92   |       |       |          |          |         |

|       |         |        |  |       |       |  |          |         |
|-------|---------|--------|--|-------|-------|--|----------|---------|
| Total | ¥ 1,808 | ¥ (19) |  | ¥ 208 | ¥ (2) |  | \$ 2,080 | \$ (20) |
|-------|---------|--------|--|-------|-------|--|----------|---------|

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**Table of Contents****Item 12. Description of Securities Other than Equity Securities**

Not applicable

**PART II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

None

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None

**Item 15. Controls and Procedures****A. Disclosure controls and procedures**

Makita performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the FY 2008. Disclosure controls and procedures (as such term is defined in Rules 13-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended the Exchange Act ) are designed to ensure that the material financial and non-financial information required to be disclosed in the reports that Makita files under the Exchange Act is accumulated and communicated to its management including the Chief Executive Officer and the Principal Accounting and Financial Officer, to allow timely decisions regarding required disclosure. The Company's disclosure controls and procedures also ensure that the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Masahiko Goto, Makita's Chief Executive Officer, President and Representative Director and Kenichiro Nakai, Makita's Chief Financial Officer and Director. Makita's disclosure, controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Masahiko Goto and Kenichiro Nakai have concluded that Makita's disclosure controls and procedures are effective.

**B. Management's annual report on internal control over financial reporting**

Makita's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

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(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Makita's management evaluated the effectiveness of internal control over financial reporting as of March 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework* (the COSO criteria).

Based on its assessment, management concluded that, as of March 31, 2008, Makita's internal control over financial reporting was effective based on the COSO criteria.

**C. Attestation report of the registered public accounting firm**

Makita's independent registered public accounting firm, KPMG AZSA & CO. has issued an audit report on internal control over financial reporting, which is included herein.

**D. Changes in internal control over financial reporting**

Not applicable



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

of Makita Corporation:

We have audited Makita Corporation's (a Japanese corporation) internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on Makita Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Makita Corporation maintained, in all material respects, effective internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Makita Corporation and its subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended March 31, 2008, expressed in Japanese yen, and our report dated July 10, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG AZSA & Co.

Tokyo, Japan

July 10, 2008

**Table of Contents****Item 16A. Audit Committee Financial Expert**

Makita's Board of Directors has determined that Masafumi Nakamura is qualified for an audit committee financial expert as defined by the rules of the SEC. Mr. Nakamura is independent, as that term is defined in the listing standards of Nasdaq applicable to the Company, and has a track record as a Certified Public Accountant from 1980.

Mr. Nakamura started his career at the Deloitte Haskins & Sells accountant's office (the present Deloitte Touche audit corporation) in January 1969. Thereafter Mr. Nakamura established the SAN-AI audit corporation in May 1983 and was inaugurated as the representative partner. The SAN-AI audit corporation was merged with the Tohmatsu & Co. which is a member of the Deloitte Touche in 2001. Mr. Nakamura served a representative partner of Tohmatsu & Co. from 2001 to 2005. See Item 6.A. for additional information regarding Mr. Nakamura.

**Item 16B. Code of Ethics**

On May 20, 2003, Makita adopted a code of ethics. On March 17, 2004, Makita amended the code of ethics to: (1) ensure the protection of individuals who report questionable behavior to our board of statutory auditors and (ii) clarify that waivers to its code of ethics for employees must be requested in writing to our board of statutory auditors and for executive officers, directors and statutory auditors can only be granted by the board of directors, only if truly necessary and warranted, and must be promptly disclosed to shareholders. Makita's code of ethics is publicly available on Makita's web site at [www.makita.co.jp/global/company/governance01.html](http://www.makita.co.jp/global/company/governance01.html). If Makita makes any substantive amendments to the code of ethics or grant any waivers, including any implicit waiver, from a provision of this code to the directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, Makita will disclose the nature of such amendment or waiver on the Company's website.

**Item 16C. Principal Accountant Fees and Services**

KPMG AZSA & Co. have served as our independent public accountants for each of the financial years in the three-year period ended March 31, 2008, for which audited financial statements appear in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by KPMG AZSA & Co. and the various member firms of KPMG International, a Swiss Cooperative to Makita in fiscal 2008 and fiscal 2007:

|                        | Japanese yen<br>(millions) |       |
|------------------------|----------------------------|-------|
|                        | 2007                       | 2008  |
| Audit Fees (1)         | ¥ 824                      | 738   |
| Audit-related Fees (2) | 6                          | 5     |
| Tax Fees (3)           | 86                         | 80    |
| All Other Fees (4)     | 25                         | 10    |
| Total                  | ¥ 941                      | ¥ 833 |

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- (1) Audit Fees consist of fees billed for the professional services rendered by the Independent Registered Public Accounting Firm for the audit of Makita's annual or interim financial statements and services that are normally provided by the Independent Registered Public Accounting Firm in connection with statutory and regulatory filings or engagement. Audit fees for fiscal 2008 include the part that has not yet been agreed by Makita, which amount to ¥132 million.
- (2) Audit-related Fees consist of fees billed for assurance and related services by the Independent Registered Public Accounting Firm that are

reasonably  
related to  
employee  
benefit plan  
audits, and  
consultation  
concerning  
financial  
accounting and  
reporting  
standards.

- (3) Tax Fees  
include fees  
billed for the  
professional  
services  
rendered by the  
Independent  
Registered  
Public  
Accounting  
Firm for tax  
compliance and  
transfer pricing  
documentation.

- (4) All Other Fees  
comprise fees  
for all other  
services not  
included in any  
of other  
categories noted  
above.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Registered Public Accounting Firm  
The Board of Statutory Auditors of Makita Corporation consisting of four members, including two outside corporate auditors, is responsible for the oversight of its Independent Registered Public Accounting Firm's work. The Board of Statutory Auditors has established Audit and Non-Audit Services Pre-approval Policies and Procedures, effective as of August 7, 2003. The policies and procedures stipulate three means by which audit and non-audit services may be pre-approved, depending on the content of and the fee for the services.

Under the United States Sarbanes-Oxley Act of 2002 (the Act), the Board of Statutory Auditors is required to pre-approve all audit and non-audit services to be provided by the Independent Registered Public Accounting Firm to the Company in order to assure that they do not impair their independence from the Company. To implement these provisions of the Act, the US Securities and Exchange Commission has issued rules specifying the types of services that an Independent Registered Public Accounting Firm may not provide to its audit client, as well as the Board of Statutory Auditors' administration of the engagement of the Independent Registered Public Accounting Firm. Accordingly, the Board of Statutory Auditors has adopted this Audit and Non-Audit Services Pre-approval Policy and Procedure, which sets forth the policies, procedures and the conditions for which such services proposed to be performed by the Independent Registered Public Accounting Firm may be pre-approved. Under this policy, the Board of Statutory Auditors authorizes general pre-approval of all such services, including Audit Services, Audit-related

Services, Tax Services and All other Services. Under General Pre-approval protocol, the pre-approved services do not require specific pre-approval from the Board of Statutory Auditors or its delegated member on a case-by-case basis. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Board of Statutory Auditors considers a different period and states otherwise in the relevant appendix. The Board of Statutory Auditors will annually review this policy, including the services that may be provided by the Independent Registered Public Accounting Firm without obtaining specific pre-approval from the Board of Statutory Auditors, and make any necessary or appropriate changes to this policy. This policy is designed (1) to be detailed as to the particular services to be provided by the independent auditor, (2) to ensure that the Board of Statutory Auditors is informed of each service provided by the independent auditor and (3) to ensure that the policies and procedures set forth herein do not include delegation of the Board of Statutory Auditors' responsibilities under the US Securities Exchange Act of 1934 to management. Nothing in this policy shall be interpreted to be a delegation of the Board of Statutory Auditors' responsibilities under the Securities Exchange Act of 1934 to management of the Company.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Makita does not have an audit committee and is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides and exemption from NASDAQ's listing standards relating to audit committees for foreign companies such as Makita, that has a board of corporate auditors.

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Makita's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets out all purchases of common stock of the Company by the Company during the fiscal year ended March 31, 2008. The Company did not resolve any repurchase plan or program by the board of directors or Annual General Meeting of Shareholders, therefore, there is no publicly announced plan or program regarding repurchase of common stock. The reason for these repurchases of common stock is the purchase requests of holders of shares of common stock constituting less than one full unit in accordance with the provisions of the Share Handling Regulations of the Company.

| Period  | Total Number<br>of<br>Shares<br>Purchased<br>(shares) | Average Price<br>Paid<br>per Share<br>(JPY) |
|---|---|---|
| April, 2007   | 1,090   | 4,393                                       |
| May, 2007   | 655   | 4,810                                       |
| June, 2007  | 609   | 5,221                                       |
| July, 2007  | 2,757   | 5,493                                       |
| August, 2007  | 758   | 5,038                                       |
| September, 2007   | 559   | 4,401                                       |
| October, 2007   | 1,248   | 5,201                                       |
| November, 2007  | 894   | 5,420                                       |
| December, 2007  | 862   | 4,747                                       |
| January, 2008   | 390   | 3,954                                       |
| February, 2008  | 141   | 4,040                                       |
| March, 2008   | 356   | 3,644                                       |
| Total Number of Shares Purchased and Average Price Paid per Share | 10,319  | 4,979                                       |

**Issue to be stated**

The Company executed repurchase of its common stock in May 2008 in accordance with the resolution by the board of directors on April 30, 2008 as follows:

|  |                  |
|--|------------------|
| The number of its common stock repurchased | 3,000,000 shares |
| Average price paid per share               | JPY 3,974        |
|  | 76               |

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**PART III**

**Item 17. Financial Statements**

We have responded to Item 18 in lieu of responding to this Item.

**Item 18. Financial Statements**

The following financial statements are filed as part of this annual report on Form 20-F.

**Item 19. Exhibits**

- 1.1 Articles of Incorporation, as amended and effective as of June 29, 2006 (English translation), incorporated by reference from Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on June 7, 2006.
- 1.2 Regulations of Board of Directors, as amended and effective as of June 29, 2006 (English translation), incorporated by reference from Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on June 7, 2006.
- 1.3 The Share Handling Regulations, as amended and effective as of October 1, 2007 (English translation).
- 1.4 Regulations of Board of Statutory Auditors effective as of July 7, 2006 (English translation), incorporated by reference from Makita's Annual Report on Form 20-F (Commission file no. 0-12602) filed on June 7, 2006.
- 12.1 302 Certification of President and Representative Director
- 12.2 302 Certification of Director, General Manager of Administration Headquarters
- 13.1 906 Certifications of President and Representative Director and Director, General Manager of Administration Headquarters

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**MAKITA CORPORATION**

By: /s/ Masahiko Goto

Name: Masahiko Goto

Title: President and Representative Director

Date: July 10, 2008



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**Makita Corporation and Consolidated Subsidiaries**

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| <u>Consolidated Balance Sheets as of March 31, 2007 and 2008</u>   | F-3 to F-4  |
| <u>Consolidated Statements of Income for the years ended March 31, 2006, 2007 and 2008</u>               | F-5         |
| <u>Consolidated Statements of Shareholders' Equity for the years ended March 31, 2006, 2007 and 2008</u> | F-6         |
| <u>Consolidated Statements of Cash Flows for the years ended March 31, 2006, 2007 and 2008</u>           | F-7 to F-8  |
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(Financial Statements of 50% or less owned persons accounted for by the equity method have been omitted because they are not applicable.)

Schedules:

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(All schedules not listed above have been omitted because they are not applicable, or are not required, or the information has been otherwise supplied in the consolidated financial statements.)

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
Makita Corporation:

We have audited the accompanying consolidated balance sheets of Makita Corporation (a Japanese corporation) and its subsidiaries as of March 31, 2007 and 2008, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Makita Corporation and its subsidiaries as of March 31, 2007 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Makita Corporation's internal control over financial reporting as of March 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated July 10, 2008 expressed an unqualified opinion on the effectiveness of Makita Corporation's internal control over financial reporting.

The accompanying consolidated financial statements as of and for the year ended March 31, 2008 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements, expressed in yen, have been translated into dollars on the basis set forth in Note 4 to the consolidated financial statements.

/s/ KPMG AZSA & Co.

Tokyo, Japan

July 10, 2008

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2007 AND 2008**  
**ASSETS**

|  | Yen<br>(millions) |             | U.S. dollars<br>(thousands) |
|--|-------------------|-------------|-----------------------------|
|  | 2007              | 2008        | 2008                        |
| <b>CURRENT ASSETS:</b>                             |                   |             |                             |
| Cash and cash equivalents                          | ¥ 37,128          | ¥ 46,306    | \$ 463,060                  |
| Time deposits                                      | 6,866             | 2,393       | 23,930                      |
| Marketable securities                              | 58,217            | 49,443      | 494,430                     |
| Trade receivables-                                 |                   |             |                             |
| Notes  | 3,125             | 2,950       | 29,500                      |
| Accounts   | 54,189            | 60,234      | 602,340                     |
| Less- Allowance for doubtful receivables           | (869)             | (1,018)     | (10,180)                    |
| Inventories  | 92,800            | 112,187     | 1,121,870                   |
| Deferred income taxes                              | 5,080             | 6,478       | 64,780                      |
| Prepaid expenses and other current assets          | 9,963             | 11,382      | 113,820                     |
| <br>Total current assets                           | <br>266,499       | <br>290,355 | <br>2,903,550               |
| <br><b>PROPERTY, PLANT AND EQUIPMENT, AT COST:</b> |                   |             |                             |
| Land   | 16,732            | 18,370      | 183,700                     |
| Buildings and improvements                         | 57,242            | 64,268      | 642,680                     |
| Machinery and equipment                            | 74,087            | 75,651      | 756,510                     |
| Construction in progress                           | 5,576             | 2,765       | 27,650                      |
|  | 153,637           | 161,054     | 1,610,540                   |
| Less- Accumulated depreciation                     | (90,257)          | (91,996)    | (919,960)                   |
|  | 63,380            | 69,058      | 690,580                     |
| <br><b>INVESTMENTS AND OTHER ASSETS:</b>           |                   |             |                             |
| Investment securities                              | 27,279            | 18,034      | 180,340                     |
| Goodwill   | 764               | 2,001       | 20,010                      |
| Other intangible assets, net                       | 1,527             | 2,240       | 22,400                      |
| Deferred income taxes                              | 1,367             | 1,826       | 18,260                      |
| Other assets                                       | 7,678             | 2,953       | 29,530                      |
|  | 38,615            | 27,054      | 270,540                     |
|  | ¥ 368,494         | ¥ 386,467   | \$ 3,864,670                |

The accompanying notes to consolidated financial statements are  
an integral part of these balance sheets.



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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**MARCH 31, 2007 AND 2008**  
**LIABILITIES AND SHAREHOLDERS EQUITY**

|  | Yen<br>(millions) |                | U.S. dollars<br>(thousands) |
|--|-------------------|----------------|-----------------------------|
|  | 2007              | 2008           | 2008                        |
| <b>CURRENT LIABILITIES:</b>  |                   |                |                             |
| Short-term borrowings  | ¥ 1,892           | ¥ 1,724        | \$ 17,240                   |
| Trade notes and accounts payable   | 16,025            | 23,372         | 233,720                     |
| Other payables   | 6,556             | 5,640          | 56,400                      |
| Accrued expenses   | 6,714             | 7,982          | 79,820                      |
| Accrued payroll  | 8,571             | 8,096          | 80,960                      |
| Income taxes payable   | 10,447            | 7,518          | 75,180                      |
| Deferred income taxes  | 28                | 58             | 580                         |
| Other liabilities  | 4,083             | 5,266          | 52,660                      |
| <b>Total current liabilities</b>   | <b>54,316</b>     | <b>59,656</b>  | <b>596,560</b>              |
| <b>LONG-TERM LIABILITIES:</b>  |                   |                |                             |
| Long-term indebtedness   | 53                | 908            | 9,080                       |
| Accrued retirement and termination benefits  | 3,227             | 3,716          | 37,160                      |
| Deferred income taxes  | 4,976             | 1,215          | 12,150                      |
| Other liabilities  | 1,112             | 1,958          | 19,580                      |
|  | 9,368             | 7,797          | 77,970                      |
| <b>MINORITY INTERESTS</b>  | <b>2,135</b>      | <b>2,516</b>   | <b>25,160</b>               |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)</b>  |                   |                |                             |
| <b>SHAREHOLDERS EQUITY:</b>  |                   |                |                             |
| Common stock,<br>Authorized - 496,000,000 shares in 2007<br>496,000,000 shares in 2008<br>Issued and outstanding<br>- 144,008,760 shares and 143,701,279 shares, respectively in 2007<br>144,008,760 shares and 143,773,625 shares, respectively in 2008 | 23,805            | 23,805         | 238,050                     |
| Additional paid-in capital   | 45,437            | 45,753         | 457,530                     |
| Legal reserve  | 5,669             | 5,669          | 56,690                      |
| Retained earnings  | 215,365           | 249,191        | 2,491,910                   |
| Accumulated other comprehensive income (loss)  | 12,697            | (7,657)        | (76,570)                    |
| Treasury stock, at cost: - 307,481 shares in 2007<br>235,135 shares in 2008  | (298)             | (263)          | (2,630)                     |
|  | <b>302,675</b>    | <b>316,498</b> | <b>3,164,980</b>            |

¥ 368,494      ¥ 386,467      \$ 3,864,670

The accompanying notes to consolidated financial statements are  
an integral part of these balance sheets.

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED MARCH 31, 2006, 2007 AND 2008**

|   |                 | Yen<br>(millions) |                 | U.S. dollars<br>(thousands) |
|---|-----------------|-------------------|-----------------|-----------------------------|
|   | 2006            | 2007              | 2008            | 2008                        |
| NET SALES   | ¥ 229,075       | ¥ 279,933         | ¥ 342,577       | \$ 3,425,770                |
| Cost of sales   | 132,897         | 163,909           | 199,220         | 1,992,200                   |
| <b>GROSS PROFIT</b>   | <b>96,178</b>   | <b>116,024</b>    | <b>143,357</b>  | <b>1,433,570</b>            |
| Selling, general and administrative expenses                                  | 58,726          | 66,802            | 76,198          | 761,980                     |
| Losses (gains) on disposals or sales of property,<br>plant and equipment, net | (8,326)         | (249)             | 128             | 1,280                       |
| Impairment of long-lived assets   |                 | 1,295             |                 |                             |
| <b>OPERATING INCOME</b>   | <b>45,778</b>   | <b>48,176</b>     | <b>67,031</b>   | <b>670,310</b>              |
| <b>OTHER INCOME (EXPENSES):</b>   |                 |                   |                 |                             |
| Interest and dividend income  | 1,301           | 1,364             | 2,092           | 20,920                      |
| Interest expenses   | (364)           | (316)             | (269)           | (2,690)                     |
| Exchange gains (losses) on foreign currency<br>transactions, net              | (258)           | (418)             | (1,233)         | (12,330)                    |
| Realized gains (losses) on securities, net                                    | 2,918           | 918               | (1,384)         | (13,840)                    |
| Other, net  | (232)           | (401)             | (466)           | (4,660)                     |
| Total   | 3,365           | 1,147             | (1,260)         | (12,600)                    |
| <b>INCOME BEFORE INCOME TAXES</b>   | <b>49,143</b>   | <b>49,323</b>     | <b>65,771</b>   | <b>657,710</b>              |
| <b>PROVISION FOR INCOME TAXES:</b>  |                 |                   |                 |                             |
| Current   | 9,365           | 16,486            | 19,148          | 191,480                     |
| Deferred  | (633)           | (4,134)           | 580             | 5,800                       |
| Total   | 8,732           | 12,352            | 19,728          | 197,280                     |
| <b>NET INCOME</b>   | <b>¥ 40,411</b> | <b>¥ 36,971</b>   | <b>¥ 46,043</b> | <b>\$ 460,430</b>           |

|   |         | Yen     |         | U.S.<br>dollars |
|---|---------|---------|---------|-----------------|
|   | 2006    | 2007    | 2008    | 2008            |
| <b>PER SHARE OF COMMON STOCK AND ADS:</b> |         |         |         |                 |
| Earnings per share:                       |         |         |         |                 |
| Basic                                     | ¥ 281.1 | ¥ 257.3 | ¥ 320.3 | \$ 3.20         |
| Cash dividends paid for the year          | 55.0    | 57.0    | 85.0    | 0.85            |

The accompanying notes to consolidated financial statements are  
an integral part of these statements.

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED MARCH 31, 2006, 2007 AND 2008**

|   | 2006      | Yen<br>(millions)<br>2007 | 2008      | U.S. dollars<br>(thousands)<br>2008 |
|---|-----------|---------------------------|-----------|-------------------------------------|
| <b>COMMON STOCK:</b>  |           |                           |           |                                     |
| Beginning balance   | ¥ 23,805  | ¥ 23,805                  | ¥ 23,805  | \$ 238,050                          |
| Ending balance  | ¥ 23,805  | ¥ 23,805                  | ¥ 23,805  | \$ 238,050                          |
| <b>ADDITIONAL PAID-IN CAPITAL:</b>                                    |           |                           |           |                                     |
| Beginning balance   | ¥ 45,430  | ¥ 45,437                  | ¥ 45,437  | \$ 454,370                          |
| Disposal of treasury stock  | 7         |                           | 316       | 3,160                               |
| Ending balance  | ¥ 45,437  | ¥ 45,437                  | ¥ 45,753  | \$ 457,530                          |
| <b>LEGAL RESERVE:</b>   |           |                           |           |                                     |
| Beginning balance   | ¥ 5,669   | ¥ 5,669                   | ¥ 5,669   | \$ 56,690                           |
| Ending balance  | ¥ 5,669   | ¥ 5,669                   | ¥ 5,669   | \$ 56,690                           |
| <b>RETAINED EARNINGS:</b>   |           |                           |           |                                     |
| Beginning balance   | ¥ 157,502 | ¥ 186,586                 | ¥ 215,365 | \$ 2,153,650                        |
| Net income  | 40,411    | 36,971                    | 46,043    | 460,430                             |
| Cash dividends  | (7,907)   | (8,192)                   | (12,217)  | (122,170)                           |
| Retirement of treasury stock  | (3,420)   |                           |           |                                     |
| Ending balance  | ¥ 186,586 | ¥ 215,365                 | ¥ 249,191 | \$ 2,491,910                        |
| <b>ACCUMULATED OTHER COMPREHENSIVE<br/>INCOME (LOSS), NET OF TAX:</b> |           |                           |           |                                     |
| Beginning balance   | ¥ (9,249) | ¥ 5,345                   | ¥ 12,697  | \$ 126,970                          |
| Other comprehensive income (loss) for the year                        | 14,594    | 7,515                     | (20,354)  | (203,540)                           |
| Adjustment to initially apply SFAS No.158, net of tax                 |           | (163)                     |           |                                     |
| Ending balance  | ¥ 5,345   | ¥ 12,697                  | ¥ (7,657) | \$ (76,570)                         |
| <b>TREASURY STOCK:</b>  |           |                           |           |                                     |
| Beginning balance   | ¥ (3,517) | ¥ (258)                   | ¥ (298)   | \$ (2,980)                          |
| Purchases   | (164)     | (40)                      | (51)      | (510)                               |
| Disposal  | 3,423     |                           | 86        | 860                                 |
| Ending balance  | ¥ (258)   | ¥ (298)                   | ¥ (263)   | \$ (2,630)                          |
| <b>DISCLOSURE OF COMPREHENSIVE INCOME:</b>                            |           |                           |           |                                     |

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|  |          |          |          |            |
|--|----------|----------|----------|------------|
| Net income for the year                        | ¥ 40,411 | ¥ 36,971 | ¥ 46,043 | \$ 460,430 |
| Other comprehensive income (loss) for the year | 14,594   | 7,515    | (20,354) | (203,540)  |
| Total comprehensive income for the year        | ¥ 55,005 | ¥ 44,486 | ¥ 25,689 | \$ 256,890 |

The accompanying notes to consolidated financial statements are  
an integral part of these statements.

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2006, 2007 AND 2008**

|   | 2006     | Yen<br>(millions)<br>2007 | 2008     | U.S. dollars<br>(thousands)<br>2008 |
|---|----------|---------------------------|----------|-------------------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |          |                           |          |                                     |
| Net income  | ¥ 40,411 | ¥ 36,971                  | ¥ 46,043 | \$ 460,430                          |
| Adjustments to reconcile net income to net cash provided by operating activities- |          |                           |          |                                     |
| Depreciation and amortization   | 5,922    | 8,773                     | 8,871    | 88,710                              |
| Provision for deferred income taxes   | (633)    | (4,134)                   | 580      | 5,800                               |
| Realized losses (gains) on securities, net  | (2,918)  | (918)                     | 1,384    | 13,840                              |
| Losses (gains) on disposals or sales of property, plant and equipment, net        | (8,326)  | (249)                     | 128      | 1,280                               |
| Impairment of long-lived assets   |          | 1,295                     |          |                                     |
| Changes in assets and liabilities-  |          |                           |          |                                     |
| Trade receivables   | (5,011)  | (6,398)                   | (6,463)  | (64,630)                            |
| Inventories   | (8,646)  | (7,979)                   | (22,499) | (224,990)                           |
| Trade notes and accounts payable and accrued expenses                             | 5,121    | 4,055                     | 6,896    | 68,960                              |
| Income taxes payable  | 272      | 2,198                     | (3,357)  | (33,570)                            |
| Accrued retirement and termination benefits                                       | (346)    | (1,702)                   | (2,053)  | (20,530)                            |
| Other, net  | (779)    | 448                       | (255)    | (2,550)                             |
| Net cash provided by operating activities   | 25,067   | 32,360                    | 29,275   | 292,750                             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |          |                           |          |                                     |
| Capital expenditures  | (11,383) | (12,980)                  | (15,036) | (150,360)                           |
| Purchases of available-for-sale securities  | (19,449) | (26,798)                  | (19,944) | (199,440)                           |
| Purchases of held-to-maturity securities  | (1,799)  | (499)                     | (996)    | (9,960)                             |
| Proceeds from sales of available-for-sale securities                              | 16,750   | 6,635                     | 4,382    | 43,820                              |
| Proceeds from maturities of available-for-sale securities                         | 17,400   | 10,476                    | 21,030   | 210,300                             |
| Proceeds from maturities of held-to-maturity securities                           | 200      | 1,500                     | 1,300    | 13,000                              |
| Proceeds from sales of property, plant and equipment                              | 1,012    | 739                       | 1,812    | 18,120                              |
| Decrease (increase) in time deposits  | 6,514    | (5,035)                   | 4,231    | 42,310                              |
| Cash paid for acquisition of business, net of cash acquired                       | (1,204)  | (649)                     | (2,034)  | (20,340)                            |
| Other, net  | (386)    | (665)                     | 747      | 7,470                               |
| Net cash provided by (used in) investing activities                               | 7,655    | (27,276)                  | (4,508)  | (45,080)                            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |          |                           |          |                                     |
| Increase (decrease) in short-term borrowings                                      | 1,073    | 135                       | (1,279)  | (12,790)                            |
| Repayment of long-term indebtedness   | (6,150)  |                           |          |                                     |

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|                                       |          |         |          |           |
|---------------------------------------|----------|---------|----------|-----------|
| Repayment of club members deposits    | (6,375)  |         |          |           |
| Purchases of treasury stock, net      | (154)    | (40)    | (47)     | (470)     |
| Cash dividends paid                   | (7,907)  | (8,192) | (12,217) | (122,170) |
| Other, net                            | (35)     | (210)   | (272)    | (2,720)   |
| Net cash used in financing activities | (19,548) | (8,307) | (13,815) | (138,150) |

The accompanying notes to consolidated financial statements are  
an integral part of these statements.

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2006, 2007 AND 2008**

|  | 2006     | Yen<br>(millions)<br>2007 | 2008      | U.S. dollars<br>(thousands)<br>2008 |
|--|----------|---------------------------|-----------|-------------------------------------|
| EFFECT OF EXCHANGE RATE CHANGES ON<br>CASH AND CASH EQUIVALENTS                              | ¥ 496    | ¥ 1,297                   | ¥ (1,774) | \$ (17,740)                         |
| NET CHANGE IN CASH AND CASH<br>EQUIVALENTS   | 13,670   | (1,926)                   | 9,178     | 91,780                              |
| CASH AND CASH EQUIVALENTS, BEGINNING<br>OF YEAR  | 25,384   | 39,054                    | 37,128    | 371,280                             |
| CASH AND CASH EQUIVALENTS, END OF YEAR   | ¥ 39,054 | ¥ 37,128                  | ¥ 46,306  | \$ 463,060                          |
| SUPPLEMENTAL DISCLOSURES OF CASH<br>FLOW INFORMATION:  |          |                           |           |                                     |
| Cash paid during the year for-   |          |                           |           |                                     |
| Interest   | ¥ 458    | ¥ 316                     | ¥ 269     | \$ 2,690                            |
| Income taxes   | 9,093    | 14,289                    | 22,505    | 225,050                             |
| NON-CASH INVESTING AND FINANCING<br>ACTIVITIES:  |          |                           |           |                                     |
| Amount due seller in connection with business<br>acquisition                                 | ¥ 649    | ¥                         | ¥         | \$                                  |
| Release from obligation for club members' deposits   | 6,461    |                           |           |                                     |
| Reduction of short-term borrowings and long-term<br>indebtedness by disposal of a subsidiary | 2,177    |                           |           |                                     |
| Delivery of treasury stock in connection with the share<br>exchange                          |          |                           | 397       | 3,970                               |

The accompanying notes to consolidated financial statements are  
an integral part of these statements.

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**MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. DESCRIPTION OF BUSINESS**

Makita Corporation (the Company) is a recognized leader in the manufacture and sale of power tools. The Company and its consolidated subsidiaries' main products include drills, rotary hammers, demolition hammers, grinders and cordless impact drivers. The Company and its consolidated subsidiaries (collectively Makita) also manufacture and sell pneumatic tools and garden tools.

Domestic sales in Japan are made by the Company, while overseas sales are made almost entirely through sales subsidiaries and distributors under the Makita or Maktec brand name. Approximately 84.8% of consolidated net sales for the year ended March 31, 2008, were generated from customers outside Japan, with 46.8% from Europe, 16.5% from North America and 21.5% from Asia and other areas.

Makita's manufacturing and assembly operations are conducted primarily at three plants in Japan and eight plants overseas, located in the United States, Germany, the United Kingdom, Brazil, China (two plants), Canada and Romania.

**2. BASIS OF PRESENTING FINANCIAL STATEMENTS**

The books of the Company and its domestic subsidiaries are maintained in conformity with Japanese accounting principles, while foreign subsidiaries maintain their books in conformity with the standards of their countries of domicile.

The accompanying consolidated financial statements reflect all necessary adjustments, not recorded in the Company's and its consolidated subsidiaries' books, to present them in conformity with U.S. generally accepted accounting principles (U.S. GAAP).

**3. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

***(a) Principles of Consolidation***

The accompanying consolidated financial statements include the accounts of the Company, all of its majority owned subsidiaries and those variable interest entities where Makita is the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) (FIN 46R), Consolidation of Variable Interest Entities. All significant inter-company balances and transactions have been eliminated in consolidation. Makita did not have any consolidated variable interest entities as set out in FIN 46R for any of the periods presented herein.

***(b) Foreign Currency Translation***

Under the provisions of Statement of Financial Accounting Standards (SFAS) No. 52, Foreign Currency Translation, overseas subsidiaries' assets and liabilities denominated in their local foreign currencies are translated at the exchange rate in effect at each fiscal year-end and income and expenses are translated at the average rates of exchange prevailing during each fiscal year. The local currencies of the overseas subsidiaries are regarded as their functional currencies. The resulting currency translation adjustments are included in accumulated other comprehensive income (loss) in shareholders' equity.

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Gains and losses resulting from all foreign currency transactions, including foreign exchange contracts, and translation of receivables and payables denominated in foreign currencies are included in other income (expenses).

***(c) Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less.

***(d) Marketable and Investment Securities***

Makita accounts for marketable and investment securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, which requires all investments in debt and marketable equity securities to be classified as either trading, available-for-sale securities or held-to-maturity securities. Makita classifies investments in debt and marketable equity securities as available-for-sale or held-to-maturity securities. Makita does not hold any marketable and investment securities, which are bought and held primarily for the purpose of sale in the near term.

Except for non-marketable equity securities, available-for-sale securities are reported at fair value, and unrealized gains or losses are recorded as a separate component of accumulated other comprehensive income, net of applicable income taxes. Non-marketable equity securities are carried at cost and reviewed periodically for impairment. Held-to-maturity securities are reported at amortized cost, adjusted for the amortization or accretion of premiums or discounts.

A decline in fair value of any available-for-sale or held-to-maturity security below the amortized cost basis that is deemed to be other-than-temporary results in a write-down of the amortized cost basis to the fair value as a new cost basis and the amount of the write-down is included in earnings.

Available-for-sale securities are periodically reviewed for other-than-temporary declines on criteria that include the length and magnitude of decline, the financial condition and prospects of the issuer, Makita's intent and ability to retain the investment for a period of time to allow for recovery in market value and other relevant factors.

Held-to-maturity securities are periodically evaluated for possible impairment by taking into consideration the financial condition, business prospects and credit worthiness of the issuer. Impairment is measured based on the amount by which the carrying amount of the investment exceeds its fair value. Fair value is determined based on quoted market prices or other valuation techniques as appropriate.

Makita classifies marketable securities, which are available for current operations, in current assets. Other investments are classified as investment securities as a part of non-current investments and other assets in the consolidated balance sheets.

The cost of a security sold or the amount reclassified out of accumulated other comprehensive income into earnings is determined by the average cost method.

**Table of Contents****(e) Allowance for Doubtful Receivables**

Allowance for doubtful receivables represents the Makita's best estimate of the amount of probable credit losses in its existing receivables. The allowance is determined based on, but is not limited to, historical collection experience adjusted for the effects of the current economic environment, assessment of inherent risks, aging and financial performance. Account balances are charged off against the allowance after all means of collection have been exhausted and the potentiality for recovery is considered remote.

**(f) Inventories**

Inventory costs include raw materials, labor and manufacturing overheads. Inventories are valued at the lower of cost or market price, with cost determined principally based on the average cost method. Makita estimates the obsolescence of inventory based on the difference between the cost of inventory and its estimated market value reflecting certain assumptions about anticipated future demand. The carrying value of inventory is then reduced to account for such obsolescence. Once inventory items are written-down or written-off, such items are not written-up subsequently. All existing and anticipated modifications to product models are evaluated against on-hand inventories, and are adjusted for potential obsolescence.

**(g) Property, Plant and Equipment and Depreciation**

For the Company, depreciation of property, plant and equipment is computed principally by using the declining-balance method over the estimated useful lives. Most of the consolidated subsidiaries have adopted the straight-line method for computing depreciation. The depreciation period generally ranges from 10 years to 60 years for buildings and improvements and from 3 years to 20 years for machinery and equipment. The cost and accumulated depreciation and amortization applicable to assets retired are removed from the accounts and any resulting gain or loss is recognized. Betterments, renewals and extraordinary repairs that extend the life of the assets are capitalized. Other maintenance and repair costs are expensed as incurred.

Depreciation expense for the years ended March 31, 2006, 2007 and 2008 amounted to ¥5,710 million, ¥8,495 million and ¥8,519 million (\$85,190 thousand), respectively, which included amortization of capitalized lease equipment.

Certain leased buildings, improvements, machinery and equipment are accounted for as capital leases in conformity with SFAS No. 13, Accounting for Leases. The aggregate cost included in property, plant and equipment and related accumulated amortization as of March 31, 2007 and 2008, was as follows:

|                          | Yen<br>(millions) |      | U.S.<br>dollars<br>(thousands) |
|--------------------------|-------------------|------|--------------------------------|
|                          | 2007              | 2008 | 2008                           |
| Aggregate cost           | ¥ 348             | 986  | 9,860                          |
| Accumulated amortization | 220               | 437  | 4,370                          |

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**Table of Contents*****(h) Goodwill and Other Intangible Assets***

Makita follows the provisions of SFAS No. 141 Business Combinations and SFAS No. 142 Goodwill and Other Intangible Assets. SFAS No. 141 requires the use of only the purchase method of accounting for business combinations and refines the definition of intangible assets acquired in a purchase business combination. SFAS No. 142 eliminates the amortization of goodwill and instead requires annual impairment testing thereof. SFAS No. 142 also requires acquired intangible assets with a definite useful life to be amortized over their respective estimated useful lives and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Any acquired intangible asset determined to have an indefinite useful life is not amortized, but instead is tested for impairment based on its fair value until its life would be determined to be no longer indefinite. In connection with the impairment evaluation, SFAS No. 142 requires Makita to perform an assessment of whether there is an indication that goodwill is impaired. To accomplish this, Makita identifies its reporting units, determines the carrying value of each reporting unit by assigning the assets and liabilities, including existing goodwill and intangible assets to those reporting units, and determines the fair value of each reporting unit.

***(i) Environmental Liabilities***

Liabilities for environmental remediation and other environmental costs, if any, are accrued when environmental assessments or remedial efforts are probable and the costs can be reasonably estimated. Such liabilities are adjusted as further information develops or circumstances change. Costs of future obligations are not discounted to their present values unless the amount and timing of such payments are determinable.

***(j) Research and Development Costs and Advertising Costs***

Research and development costs, included in selling, general and administrative expenses in the consolidated statements of income, are expensed as incurred and totaled ¥4,826 million, ¥5,460 million and ¥5,922 million (\$59,220 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

Advertising costs are also expensed as incurred and totaled ¥5,138 million, ¥6,002 million and ¥6,860 million (\$68,600 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

***(k) Shipping and Handling Costs***

Shipping and handling costs, which mainly include transportation to customers, are included in selling, general and administrative expenses in the consolidated statements of income. Shipping and handling costs were ¥6,774 million, ¥7,637 million and ¥9,882 million (\$98,820 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

***(l) Income Taxes***

Makita accounts for income taxes in accordance with the provision of SFAS No. 109, Accounting for Income Taxes, which requires an asset and liability approach for financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. Deferred income tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years the temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of

a change in tax rates is recognized in income in the period that includes the enactment date.

Makita also adopted FASB Interpretation No. 48(FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 on April 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN48 requires that the tax effects of a position be recognized only when it is more likely than not to be sustained upon examination. Makita classifies penalties and interest related to unrecognized tax benefits in income taxes, if any, in provision for income taxes.

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**Table of Contents*****(m) Product Warranties***

A liability for the estimated product warranty related cost is established at the time revenue is recognized and is included in accrued expenses and cost of sales. Estimates for accrued product warranty costs are primarily based on historical experience, and are affected by ongoing product failure rates, specific product class failures outside of the baseline experience, material usage and service delivery costs incurred in correcting a product failure.

***(n) Pension Plans***

Makita accounts for pension plans in accordance with the provisions of SFAS No. 87, *Employers' Accounting for Pensions*. Under SFAS No. 87, changes in the amount of either the projected benefit obligation or plan assets resulting from actual results different from that assumed and from changes in assumptions can result in gains and losses to be recognized in the consolidated financial statements in the future periods. Amortization of an unrecognized net gain or loss is included as a component of the net periodic benefit plan cost for a year if, as of the beginning of the year, that unrecognized net gain or loss exceeds 10 percent of the greater of (1) the projected benefit obligation or (2) the fair value of that plan's assets. In such cases, the amount of amortization recognized is the resulting excess divided by the average remaining service period of active employees expected to receive benefits under the plan.

Effective March 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 requires, among other things, the recognition of the funded status of each defined pension benefit plan, retiree health care and other postretirement benefit plans and postemployment benefit plans on the balance sheet. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. The initial impact of the standard due to unrecognized prior service costs or credits and net actuarial gains or losses as well as subsequent changes in the funded status is recognized as a component of accumulated comprehensive income in shareholders' equity. Additional minimum pension liabilities (AML) and related intangible assets are also derecognized upon adoption of the new standard.

***(o) Earnings Per Share***

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during each year.

***(p) Impairment of Long-Lived Assets***

Makita accounts for impairment of long lived assets with finite useful lives in accordance with the provisions of SFAS No. 144. Long-lived assets, such as property, plant and equipment, and certain intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flow. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by independent third party appraisal, projected discounted cash flows or other valuation techniques as appropriate. Assets to be disposed of, if any, are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

**(q) *Derivative Financial Instruments***

Makita conforms to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* as amended. Makita recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheets and measures those instruments at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and on the type of hedging relationship.

Makita employs derivative financial instruments, including forward foreign currency exchange contracts, foreign currency options, interest rate swaps and currency swap agreements to manage its exposure to fluctuations in foreign currency exchange rates and interest rates.

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Makita does not use derivatives for speculation or trading purpose. Changes in the fair value of derivatives are recorded each period in current earnings depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized currently in operations.

***(r) Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Makita has identified the following areas where it believes assumptions and estimates are particularly critical to the consolidated financial statements. These are revenue recognition, determination of an allowance for doubtful receivables, impairment of long-lived assets, realizability of deferred income tax assets, the determination of unrealized losses on securities for which the decline in market value is considered to be other than temporary, the actuarial assumptions on retirement and termination benefit plans and valuation of inventories.

***(s) Revenue Recognition***

Makita recognizes revenue at the time of delivery or shipment when all of the following conditions are met. (1) The sales price is fixed and determinable, (2) Collectibility is reasonably assured, (3) The title and risk of loss pass to the customer, and (4) Payment terms are established consistent with Makita's normal payment terms.

Makita offers sales incentives to qualifying customers through various incentive programs. Sales incentives primarily involve volume-based rebates, cooperative advertisements and cash discounts, and are accounted for in accordance with the Emerging Issues Task Force Issue No. 01-9 ( EITF 01-9 ), Accounting for Consideration by a Vendor to a Customer (including a Reseller of vendor's product).

Volume-based rebates are provided to customers only if customers attain a pre-determined cumulative level of revenue transactions within a specified period of one year or less. Liabilities for volume-based rebates are recognized with a corresponding reduction of 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 advertising is provided to certain customers as contribution or sponsored fund for advertisements. Under cooperative advertising programs, Makita does not receive an identifiable benefit sufficiently separable from its customers. Accordingly, cooperative advertisements 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. Estimates of expected cash discounts are evaluated and adjusted periodically based on actual sales transactions and historical trend.

When repairs are made and charged to customers, the revenue from this source is recognized when the repairs have been completed and the item is shipped to the customer.

*(t) New Accounting Standards*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 has been subsequently amended by FASB Staff Position FAS157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 and FASB Staff Position FAS157-2, Effective Date of FASB Statement No. 157. SFAS No. 157, as amended, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements for instruments within its scope. SFAS No. 157, as amended, is effective from the fiscal period beginning after November 15, 2007, except for items that are not recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually),

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for which it is effective from the fiscal period beginning after November 15, 2008. SFAS No. 157, as amended, is required to be adopted by Makita in the fiscal year beginning April 1, 2008. Makita does not expect the adoption of SFAS No. 157 will have a material impact on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which permits an entity to measure many financial assets and financial liabilities at fair value that are not currently required to be measured at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings. SFAS No. 159 is effective for fiscal periods beginning after November 15, 2007 and is required to be adopted by Makita, in the fiscal year beginning April 1, 2008. Makita does not expect the adoption of SFAS No. 159 will have a material impact on its consolidated results of operations and financial condition.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, and No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51. These statements aim to improve, simplify, and converge internationally the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements. These statements are effective for fiscal years beginning after December 15, 2008 and are required to be adopted by Makita, in the fiscal year beginning April 1, 2009. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liability assumed in a transaction at the acquisition date at fair value with limited exceptions. SFAS No. 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of noncontrolling interests (minority interests) as equity in the consolidated financial statements and separates from the parent's equity. The amount of net income attributable to noncontrolling interests will be included in consolidated net income on the face of the consolidated income statement. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. Makita is currently evaluating the effect that the adoption of these statements will have on its consolidated financial statements.

***(u) Reclassifications***

Certain reclassifications have been made to the prior years' consolidated financial statements to conform with the presentation used for the year ended March 31, 2008.

**4. TRANSLATION OF FINANCIAL STATEMENTS**

Solely for the convenience of readers, the accompanying consolidated financial statement amounts for the year ended March 31, 2008, are also presented in U.S. dollars by arithmetically translating all yen amounts using the approximate prevailing exchange rate at the Federal Reserve Bank of New York of ¥100 to US\$1 at March 31, 2008. This translation should not be construed as a representation that the amounts shown could be or could have been converted into U.S. dollars at the rate indicated.

**Table of Contents****5. INVENTORIES**

Inventories as of March 31, 2007 and 2008 comprised the following:

|                 | Yen<br>(millions) |           | U.S. dollars<br>(thousands) |
|-----------------|-------------------|-----------|-----------------------------|
|                 | 2007              | 2008      | 2008                        |
| Finished goods  | ¥75,859           | ¥ 92,053  | \$ 920,530                  |
| Work in process | 2,308             | 2,607     | 26,070                      |
| Raw materials   | 14,633            | 17,527    | 175,270                     |
|                 | ¥92,800           | ¥ 112,187 | \$ 1,121,870                |

**6. IMPAIRMENT OF LONG LIVED ASSETS**

In December 2003, in connection with the evaluation of its corporate wide marketing, promotional activities, and the cost benefit relationship, Makita made a decision to no longer consider a golf course owned by its consolidated subsidiary, Joyama Kaihatsu, Ltd., as a corporate asset and to curtail utilizing such golf course for promotional, entertainment and employee welfare purposes. As a result of this decision, the Company 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 totaling ¥5,996 million to reduce the carrying value to its estimated fair value, as determined on a discounted cash flow basis for the year ended March 31, 2004. On May 7, 2005, the Nagoya District Court confirmed a civil rehabilitation plan for Joyama Kaihatsu. On May 31, 2005, upon confirmation of the civil rehabilitation plan, Makita completed the disposition of Joyama Kaihatsu. As a result, Makita recorded gains on disposals or sales of property, plant and equipment of ¥8,326 million for the year ended March 31, 2006. Such gains included ¥8,479 million of gain on sale of Makita's ownership interests of Joyama Kaihatsu to a third party.

During the year ended March 31, 2007, Makita decided to transfer the manufacturing business (stationary woodworking machines) of its consolidated subsidiary, Makita Ichinomiya Corporation, to Makita's Okazaki plant in order to streamline the production function in Japan no later than December 2007. Following the transfer in 2008, Makita planned to dispose of the facility. As a result of this decision, Makita performed an impairment assessment pursuant to the provisions of SFAS No. 144 and estimated the carrying amount of the facility would not be recovered by the future cash flows. Consequently, Makita recorded an impairment charge totaling ¥1,295 million for the year ended March 31, 2007. The fair value of the related assets was determined by independent third party appraisal considering the estimated net cash flows from the sale to a third party purchaser.



**Table of Contents****7. MARKETABLE SECURITIES AND INVESTMENT SECURITIES**

Marketable securities and investment securities consisted of available-for-sale securities and held-to-maturity securities.

The cost, gross unrealized holding gains and losses, fair value and carrying amount for such securities by major security type as of March 31, 2007 and 2008, were as follows:

| As of March 31, 2007                               | Cost     | Yen (millions) |        | Fair value | Carrying Amount |
|--|----------|----------------|--------|------------|-----------------|
|  |          | Gains          | Losses |            |                 |
| Available-for-sale:                                |          |                |        |            |                 |
| Marketable securities:                             |          |                |        |            |                 |
| Japanese and foreign government debt securities    | ¥ 1      | ¥              | ¥      | ¥ 1        | ¥ 1             |
| Corporate and bank debt securities                 | 6,437    | 10             | 1      | 6,446      | 6,446           |
| Investments in trusts                              | 45,115   | 2,025          | 64     | 47,076     | 47,076          |
| Marketable equity securities                       | 1,481    | 1,914          |        | 3,395      | 3,395           |
|  | ¥ 53,034 | ¥ 3,949        | ¥ 65   | ¥ 56,918   | ¥ 56,918        |
| Investment securities:                             |          |                |        |            |                 |
| Investments in trusts                              | ¥ 720    | ¥ 264          | ¥ 12   | ¥ 972      | ¥ 972           |
| Marketable equity securities                       | 10,546   | 13,856         | 12     | 24,390     | 24,390          |
| Non-marketable equity securities (carried at cost) | 567      |                |        | 567        | 567             |
|  | ¥ 11,833 | ¥ 14,120       | ¥ 24   | ¥ 25,929   | ¥ 25,929        |
| Held-to-maturity:                                  |          |                |        |            |                 |
| Marketable securities:                             |          |                |        |            |                 |
| Japanese government debt securities                | ¥ 299    | ¥              | ¥      | ¥ 299      | ¥ 299           |
| Japanese corporate debt securities                 | 1,000    |                | 1      | 999        | 1,000           |
|  | ¥ 1,299  | ¥              | ¥ 1    | ¥ 1,298    | ¥ 1,299         |
| Investment securities:                             |          |                |        |            |                 |
| Japanese corporate debt securities                 | ¥ 1,350  | ¥              | ¥ 107  | ¥ 1,243    | ¥ 1,350         |
|  | ¥ 1,350  | ¥              | ¥ 107  | ¥ 1,243    | ¥ 1,350         |
| Total marketable securities                        | ¥ 54,333 | ¥ 3,949        | ¥ 66   | ¥ 58,216   | ¥ 58,217        |
| Total investment securities                        | ¥ 13,183 | ¥ 14,120       | ¥ 131  | ¥ 27,172   | ¥ 27,279        |

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| As of March 31, 2008                               | Yen (millions) |                             |        |            | Carrying<br>Amount |
|--|----------------|-----------------------------|--------|------------|--------------------|
|  | Cost           | Gross Unrealized<br>Holding |        | Fair value |                    |
|  |                | Gains                       | Losses |            |                    |
| Available-for-sale:                                |                |                             |        |            |                    |
| Marketable securities:                             |                |                             |        |            |                    |
| Foreign government debt securities                 | ¥ 1            | ¥                           | ¥      | ¥ 1        | ¥ 1                |
| Corporate and bank debt securities                 | 3,410          | 83                          |        | 3,493      | 3,493              |
| Investments in trusts                              | 42,563         | 991                         | 616    | 42,938     | 42,938             |
| Marketable equity securities                       | 1,473          | 941                         | 2      | 2,412      | 2,412              |
|  | ¥47,447        | ¥2,015                      | ¥ 618  | ¥ 48,844   | ¥ 48,844           |
| Investment securities:                             |                |                             |        |            |                    |
| Investments in trusts                              | ¥ 184          | ¥ 4                         | ¥ 6    | ¥ 182      | ¥ 182              |
| Marketable equity securities                       | 9,662          | 5,977                       | 107    | 15,532     | 15,532             |
| Non-marketable equity securities (carried at cost) | 572            |                             |        | 572        | 572                |
|  | ¥10,418        | ¥5,981                      | ¥ 113  | ¥ 16,286   | ¥ 16,286           |
| Held-to-maturity:                                  |                |                             |        |            |                    |
| Marketable securities:                             |                |                             |        |            |                    |
| Japanese corporate debt securities                 | ¥ 599          | ¥                           | ¥      | ¥ 599      | ¥ 599              |
|  | ¥ 599          | ¥                           | ¥      | ¥ 599      | ¥ 599              |
| Investment securities:                             |                |                             |        |            |                    |
| Japanese corporate debt securities                 | ¥ 1,748        | ¥                           | ¥ 71   | ¥ 1,677    | ¥ 1,748            |
|  | ¥ 1,748        | ¥                           | ¥ 71   | ¥ 1,677    | ¥ 1,748            |
| Total marketable securities                        | ¥48,046        | ¥2,015                      | ¥ 618  | ¥ 49,443   | ¥ 49,443           |
| Total investment securities                        | ¥12,166        | ¥5,981                      | ¥ 184  | ¥ 17,963   | ¥ 18,034           |

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| As of March 31, 2008                               | U.S. dollars (thousands) |           |          |            | Carrying<br>Amount |
|--|--------------------------|-----------|----------|------------|--------------------|
|  | Cost                     | Gains     | Losses   | Fair value |                    |
| Available-for-sale:                                |                          |           |          |            |                    |
| Marketable securities:                             |                          |           |          |            |                    |
| Foreign government debt securities                 | \$ 10                    | \$        | \$       | \$ 10      | \$ 10              |
| Corporate and bank debt securities                 | 34,100                   | 830       |          | 34,930     | 34,930             |
| Investments in trusts                              | 425,630                  | 9,910     | 6,160    | 429,380    | 429,380            |
| Marketable equity securities                       | 14,730                   | 9,410     | 20       | 24,120     | 24,120             |
|  | \$ 474,470               | \$ 20,150 | \$ 6,180 | \$ 488,440 | \$ 488,440         |
| Investment securities:                             |                          |           |          |            |                    |
| Investments in trusts                              | \$ 1,840                 | \$ 40     | \$ 60    | \$ 1,820   | \$ 1,820           |
| Marketable equity securities                       | 96,620                   | 59,770    | 1,070    | 155,320    | 155,320            |
| Non-marketable equity securities (carried at cost) | 5,720                    |           |          | 5,720      | 5,720              |
|  | \$ 104,180               | \$ 59,810 | \$ 1,130 | \$ 162,860 | \$ 162,860         |
| Held-to-maturity:                                  |                          |           |          |            |                    |
| Marketable securities:                             |                          |           |          |            |                    |
| Japanese corporate debt securities                 | \$ 5,990                 | \$        | \$       | \$ 5,990   | \$ 5,990           |
|  | \$ 5,990                 | \$        | \$       | \$ 5,990   | \$ 5,990           |
| Investment securities:                             |                          |           |          |            |                    |
| Japanese corporate debt securities                 | \$ 17,480                | \$        | \$ 710   | \$ 16,770  | \$ 17,480          |
|  | \$ 17,480                | \$        | \$ 710   | \$ 16,770  | \$ 17,480          |
| Total marketable securities                        | \$ 480,460               | \$ 20,150 | \$ 6,180 | \$ 494,430 | \$ 494,430         |
| Total investment securities                        | \$ 121,660               | \$ 59,810 | \$ 1,840 | \$ 179,630 | \$ 180,340         |

Investments in trusts represent funds deposited with trust banks in multiple investor accounts and managed by the fund managers of the trust banks. As of March 31, 2007 and 2008, each fund consisted of marketable equity securities and interest-bearing bonds. Non-marketable equity securities are carried at cost and reviewed periodically for impairment. The fair value of the non-marketable equity securities is not readily determinable.

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The following table shows our investments' gross unrealized holding losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2008. The securities that are held to maturity each have a strong credit rating and Makita has both the intent and ability to hold such investments to maturity; therefore, Makita believes that it will not realize any losses on the held-to-maturity securities.

|                                    | Yen (millions)                       |  |                                    |  |
|------------------------------------|--------------------------------------|--|------------------------------------|--|
|                                    | Less than 12 months<br>Fair<br>value | Gross<br>Unrealized<br>Holding<br>Losses | 12 months or more<br>Fair<br>value | Gross<br>Unrealized<br>Holding<br>Losses |
| As of March 31, 2008               |                                      |  |                                    |  |
| Available-for-sale:                |                                      |  |                                    |  |
| Marketable securities:             |                                      |  |                                    |  |
| Investments in trusts              | ¥ 3,502                              | ¥ 616                                    | ¥                                  | ¥  |
| Marketable equity securities       | 168                                  | 2  |                                    |  |
|                                    | ¥ 3,670                              | ¥ 618                                    | ¥                                  | ¥  |
| Investment securities:             |                                      |  |                                    |  |
| Investments in trusts              | ¥ 156                                | ¥ 6                                      | ¥                                  | ¥  |
| Marketable equity securities       | 1,386                                | 107                                      |                                    |  |
|                                    | ¥ 1,542                              | ¥ 113                                    | ¥                                  | ¥  |
| Held-to-maturity:                  |                                      |  |                                    |  |
| Investment securities:             |                                      |  |                                    |  |
| Japanese corporate debt securities | ¥                                    | ¥  | ¥ 978                              | ¥ 71                                     |
|                                    | ¥                                    | ¥  | ¥ 978                              | ¥ 71                                     |
|                                    |                                      |  |                                    |  |
|                                    | U.S. dollars (thousands)             |  |                                    |  |
|                                    | Less than 12 months<br>Fair<br>value | Gross<br>Unrealized<br>Holding<br>Losses | 12 months or more<br>Fair<br>value | Gross<br>Unrealized<br>Holding<br>Losses |
| As of March 31, 2008               |                                      |  |                                    |  |
| Available-for-sale:                |                                      |  |                                    |  |
| Marketable securities:             |                                      |  |                                    |  |
| Investments in trusts              | \$ 35,020                            | \$ 6,160                                 | \$                                 | \$                                       |
| Marketable equity securities       | 1,680                                | 20                                       |                                    |  |
|                                    | \$ 36,700                            | \$ 6,180                                 | \$                                 | \$                                       |

|                                    |           |          |          |        |
|------------------------------------|-----------|----------|----------|--------|
| Investment securities:             |           |          |          |        |
| Investments in trusts              | \$ 1,560  | \$ 60    | \$       | \$     |
| Marketable equity securities       | 13,860    | 1,070    |          |        |
|                                    | \$ 15,420 | \$ 1,130 | \$       | \$     |
| <br>                               |           |          |          |        |
| Held-to-maturity:                  |           |          |          |        |
| Investment securities:             |           |          |          |        |
| Japanese corporate debt securities | \$        | \$       | \$ 9,780 | \$ 710 |
|                                    | \$        | \$       | \$ 9,780 | \$ 710 |

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Maturities of debt securities classified as available-for-sale and held-to-maturity as of March 31, 2008, regardless of their balance sheet classification, were as follows:

**Maturities of debt securities based on Cost as of March 31, 2008**

|                             | Yen (millions)     |                  |         | U.S.dollars (thousands) |                  |           |
|-----------------------------|--------------------|------------------|---------|-------------------------|------------------|-----------|
|                             | Available-for-sale | Held-to-maturity | Total   | Available-for-sale      | Held-to-maturity | Total     |
| Due within one year         | ¥ 1,999            | ¥ 599            | ¥ 2,598 | \$ 19,990               | \$ 5,990         | \$ 25,980 |
| Due after one to five years |                    | 1,148            | 1,148   |                         | 11,480           | 11,480    |
| Due after five to ten years | 1,412              |                  | 1,412   | 14,120                  |                  | 14,120    |
| Due after ten years         |                    | 600              | 600     |                         | 6,000            | 6,000     |
| Total                       | ¥ 3,411            | ¥ 2,347          | ¥ 5,758 | \$ 34,110               | \$ 23,470        | \$ 57,580 |

**Maturities of debt securities based on Fair Value as of March 31, 2008**

|                             | Yen (millions)     |                  |         | U.S.dollars (thousands) |                  |           |
|-----------------------------|--------------------|------------------|---------|-------------------------|------------------|-----------|
|                             | Available-for-sale | Held-to-maturity | Total   | Available-for-sale      | Held-to-maturity | Total     |
| Due within one year         | ¥ 2,000            | ¥ 599            | ¥ 2,599 | \$ 20,000               | \$ 5,990         | \$ 25,990 |
| Due after one to five years |                    | 1,146            | 1,146   |                         | 11,460           | 11,460    |
| Due after five to ten years | 1,494              |                  | 1,494   | 14,940                  |                  | 14,940    |
| Due after ten years         |                    | 531              | 531     |                         | 5,310            | 5,310     |
| Total                       | ¥ 3,494            | ¥ 2,276          | ¥ 5,770 | \$ 34,940               | \$ 22,760        | \$ 57,700 |

Gross realized gains on sales of marketable securities and investment securities for the years ended March 31, 2006, 2007 and 2008 amounted to ¥437 million and ¥1,096 million and ¥365 million (\$3,650 thousand), respectively.

Effective October 1, 2005, UFJ Holdings Co., Ltd., and Mitsubishi Tokyo Financial Group Co., Ltd., completed a merger in which, the shares of common stock owned by the Company in UFJ Holdings were exchanged for shares of common stock of the newly merged entity, Mitsubishi UFJ Financial Group Co., Ltd. As a result of this merger and common share exchange, the Company realized a gain on securities of ¥2,528 million for the year ended March 31, 2006.

Gross realized losses, which included the gross realized losses considered as other than temporary, during the years ended March 31, 2006, 2007 and 2008 amounted to ¥47 million, ¥178 million and ¥1,749 million (\$17,490 thousand), respectively. The cost of the securities sold was computed based on the average cost of all the shares of each such security held at the time of sale. Gross unrealized losses on marketable securities and investment securities of which declines in market value are considered to be other than temporary were charged to earnings as realized losses on securities, amounting to ¥47 million, ¥159 million and ¥1,662 million (\$16,620 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively. Proceeds from the sales and maturities of available-for-sale securities were ¥34,150 million, ¥17,111 million and ¥25,412 million (\$254,120 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively. Proceeds from maturities of the held-to-maturity securities were ¥200 million,

¥1,500 million and ¥1,300 million (\$13,000 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

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**Table of Contents****8. ACQUISITION**

To strengthen its position in the automatic nailer business as a comprehensive supplier of tools for professional use, Makita acquired the automatic nailer business of Kanematsu-NNK Corporation (the Business) on January 1, 2006 for total cash consideration of ¥1,853 million. The Company used the purchase method of accounting to account for the acquisition of the Business. Accordingly, the financial position and the results of the operation of the Business are included in the accompanying consolidated financial statements from the acquisition date. The Company has allocated the purchase price based on the fair value of the tangible and intangible assets acquired and liabilities assumed. The excess of purchase price compared to the fair value of the net assets acquired, or the goodwill, was ¥793 million.

The Goodwill is amortized and deductible for Japanese tax purpose.

At the Board of Directors meeting held on March 20, 2007, in order to strengthen the gardening tool business, the Board of the Company decided to make Fuji Robin Industries Ltd. (Fuji Robin, which manufactures and sells engines, machinery for agriculture, forestry and construction industries, etc. in Japan) a wholly-owned subsidiary of the Company through a tender offer. As a result, the Company purchased 10,279,375 shares of Fuji Robin's outstanding shares for total cash consideration of ¥2,673 million, and Fuji Robin became a consolidated subsidiary of the Company as of May 15, 2007. On May 25, 2007, in order to acquire all of the remaining shares of Fuji Robin, the Company entered into a share exchange agreement with Fuji Robin. On August 1, 2007, the Company acquired the remaining shares of Fuji Robin by exchanging 0.059 of the Company's treasury stock for each share of Fuji Robin's outstanding common stock. The Company and Fuji Robin obtained third party appraisals of the respective share prices which were used as a basis of negotiation over the share exchange ratio, and the Company issued 81,456 shares of treasury stock. Fuji Robin was renamed Makita Numazu Corporation (MNC) as of August 1, 2007. The total cost for acquiring MNC was ¥3,380 million. The Company, pursuant to SFAS No.141, used the purchase method to account for the acquisition of MNC.

The following table reflects the fair value of 100% of the assets and liabilities of Fuji Robin as of August 1, 2007:

|   | Yen<br>(millions) | U.S. dollars<br>(thousands) |
|---|-------------------|-----------------------------|
| Cash and cash equivalent                              | ¥ 788             | \$ 7,880                    |
| Receivables and other assets                          | 5,064             | 50,640                      |
| Property and equipment                                | 3,951             | 39,510                      |
| Intangible assets                                     | 162               | 1,620                       |
| Goodwill (not deductible for tax purposes)            | 1,251             | 12,510                      |
| Trade payables, bank borrowings and other liabilities | (7,836)           | (78,360)                    |
| Net assets  | ¥ 3,380           | \$ 33,800                   |

The results of operations and cash flows associated with MNC since May 15, 2007 have been included in the accompanying consolidated financial statements of Makita. Makita has not presented pro forma results of operations of the acquisition because the results are not material.



**Table of Contents****9. INCOME TAXES**

Income before income taxes and the provision for income taxes for the years ended March 31, 2006, 2007 and 2008 were as follows:

|   | 2006     | Yen<br>(millions)<br>2007 | 2008     | U.S.<br>dollars<br>(thousands)<br>2008 |
|---|----------|---------------------------|----------|--|
| Income before income taxes:             |          |                           |          |  |
| Domestic                                | ¥ 26,895 | ¥ 16,341                  | ¥ 19,896 | \$ 198,960                             |
| Foreign                                 | 22,248   | 32,982                    | 45,875   | 458,750                                |
|   | ¥ 49,143 | ¥ 49,323                  | ¥ 65,771 | \$ 657,710                             |
| Provision for income taxes:             |          |                           |          |  |
| Current-                                |          |                           |          |  |
| Domestic                                | ¥ 3,171  | ¥ 8,366                   | ¥ 6,957  | \$ 69,570                              |
| Foreign                                 | 6,194    | 8,120                     | 12,191   | 121,910                                |
|   | 9,365    | 16,486                    | 19,148   | 191,480                                |
| Deferred-                               |          |                           |          |  |
| Domestic                                | (166)    | (2,453)                   | 1,283    | 12,830                                 |
| Foreign                                 | (467)    | (1,681)                   | (703)    | (7,030)                                |
|   | (633)    | (4,134)                   | 580      | 5,800                                  |
| Consolidated provision for income taxes | ¥ 8,732  | ¥ 12,352                  | ¥ 19,728 | \$ 197,280                             |

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Total income taxes were allocated as follows:

|   | 2006     | Yen<br>(millions) | 2007     | 2008     | U.S.<br>dollars<br>(thousands) |
|---|----------|-------------------|----------|----------|--------------------------------|
| Provision for income taxes                                    | ¥ 8,732  | ¥ 12,352          | ¥ 19,728 | ¥ 19,728 | \$ 197,280                     |
| Shareholders equity:  |          |                   |          |          |                                |
| Foreign currency translation adjustments                      | 272      | 93                | (107)    | (107)    | (1,070)                        |
| Net unrealized holding gains on available-for-sale securities | 3,363    | (935)             | (4,320)  | (4,320)  | (43,200)                       |
| Minimum Pension liability adjustment                          | 1,360    | 66                |          |          |                                |
| Pension liability adjustment                                  |          |                   | (2,549)  | (2,549)  | (25,490)                       |
| Adjustment to initially apply SFAS No.158                     |          | (110)             |          |          |                                |
|   | ¥ 13,727 | ¥ 11,466          | ¥ 12,752 | ¥ 12,752 | \$ 127,520                     |

For the year ended March 31, 2006, residual tax effects of ¥336 million previously recorded in accumulated other comprehensive income (minimum pension liability adjustments) were released and recorded as a reduction to income tax expense in the consolidated statements of income as a result of the elimination of the minimum pension liability adjustment.

The Company and its domestic subsidiaries are subject to a National Corporate tax of 30.0%, an Inhabitant tax of approximately 5.6% and a deductible Enterprise tax of approximately 7.9%, which in the aggregate resulted in a combined statutory income tax rate of approximately 40.3% for the years ended March 31, 2006, 2007 and 2008. A reconciliation of the combined statutory income tax rates to the effective income tax rates was as follows:

|   | Year ended March 31, |        |        |
|---|----------------------|--------|--------|
|   | 2006                 | 2007   | 2008   |
| Combined statutory income tax rate in Japan | 40.3%                | 40.3%  | 40.3%  |
| Non-deductible expenses                     | 0.6                  | 0.8    | 0.6    |
| Non-taxable dividends received              | (0.2)                | (0.1)  | (0.1)  |
| Change in valuation allowance               | (11.3)               | (5.4)  | (0.4)  |
| Effect of changes in enacted tax rate       | (0.7)                |        |        |
| Tax sparing impact                          | (3.5)                | (2.1)  | (0.7)  |
| Effect of the foreign tax rate differential | (6.7)                | (10.4) | (11.1) |
| Other, net                                  | (0.7)                | 1.9    | 1.4    |
| Effective income tax rate                   | 17.8%                | 25.0%  | 30.0%  |

According to the provisions of the tax treaties which have been concluded between Japan and 15 countries, Japanese corporations can claim a tax credit against Japanese income taxes on income earned in one of those 15 countries, even though 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 were provided. The Company applied such tax sparing mainly to China with the indicated tax reduction effect. The effect of the tax sparing resulted in a decrease of tax expense by ¥1,706 million or 3.5%, ¥1,021 million or 2.1% and ¥453 million or 0.7% for the years ended March 31, 2006, 2007 and 2008, respectively.

For the year ended March 31, 2006, following the completion of the civil rehabilitation proceedings and the sale of the golf course, previously unrecognized deferred tax asset was realized in connection with the gain on sale of golf course and the related valuation allowance of ¥5,782 million was reversed. Therefore, the total valuation allowance for the year ended March 31, 2006 was a decrease of ¥5,238 million, including the effects of translation, resulting in a reduction of income tax expense. This decrease in valuation allowance as well as a decrease due to the tax sparing and other miscellaneous adjustments had the effect of decreasing Makita's effective tax rate by 22.5% to the effective rate of 17.8% from the statutory tax rate of 40.3% for the year ended March 31, 2006.

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For the year ended March 31, 2007, the Company reversed the valuation allowance on deferred tax assets related to certain subsidiaries based on the improved results of operation and a steady outlook for the future operations of these subsidiaries, resulting in a decrease the total valuation allowance, including the effects of translation, by ¥2,655 million. Also, an effect of the foreign tax rate differential of ¥5,133 million was recorded, almost half the amount was attributable to a profit growth of subsidiaries located in China where these Chinese subsidiaries have been granted tax holiday benefits. As a result, the effective tax rate for the year ended March 31, 2007 was 25.0%, a decrease of 15.3% as compared with the statutory income tax rate of 40.3%, due mainly to a decrease in valuation allowance and an effect of the foreign tax rate differential.

For the year ended March 31, 2008, an effect of the foreign tax rate differential of ¥7,334 million was recorded, which was attributable to a profit growth of subsidiaries. Due mainly to this effect, the effective tax rate for the year ended March 31, 2008 was 30.0%, a decrease of 10.3% as compared with the statutory income tax rate of 40.3%.

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The significant components of deferred income tax expense attributable to income before income taxes for the years ended March 31, 2006, 2007 and 2008 were as follows:

|   | 2006     | Yen<br>(millions)<br>2007 | 2008  | U.S.<br>dollars<br>(thousands)<br>2008 |
|---|----------|---------------------------|-------|--|
| Deferred tax expense (exclusive of the effects of other components below)                               | ¥(1,035) | ¥(1,467)                  | ¥ 765 | \$ 7,650                               |
| Increase (decrease) in beginning-of-the-year balance of the valuation allowance for deferred tax assets | 402      | (2,667)                   | (185) | (1,850)                                |
|   | ¥ (633)  | ¥(4,134)                  | ¥ 580 | \$ 5,800                               |

Significant components of deferred income tax assets and liabilities as of March 31, 2007 and 2008, were as follows:

|  | 2007      | Yen<br>(millions)<br>2008 | U.S. dollars<br>(thousands)<br>2008 |
|--|-----------|---------------------------|-------------------------------------|
| Deferred income tax assets:                      |           |                           |                                     |
| Marketable securities and investment securities  | ¥ 1,039   | ¥ 1,495                   | \$ 14,950                           |
| Accrued retirement and termination benefits      | 178       | 2,198                     | 21,980                              |
| Inventories                                      | 1,670     | 1,900                     | 19,000                              |
| Property, plant and equipment                    | 3,197     | 2,570                     | 25,700                              |
| Accrued payroll                                  | 2,043     | 1,906                     | 19,060                              |
| Net operating loss carryforwards                 | 772       | 774                       | 7,740                               |
| Other  | 1,105     | 1,713                     | 17,130                              |
| Total gross deferred income tax assets           | 10,004    | 12,556                    | 125,560                             |
| Valuation allowance                              | (318)     | (331)                     | (3,310)                             |
|  | ¥ 9,686   | ¥ 12,225                  | \$ 122,250                          |
| Deferred income tax liabilities:                 |           |                           |                                     |
| Undistributed earnings of overseas subsidiaries  | ¥ (183)   | ¥ (565)                   | \$ (5,650)                          |
| Unrealized gain on available-for-sale securities | (7,245)   | (2,929)                   | (29,290)                            |
| Property, plant and equipment                    | (796)     | (1,699)                   | (16,990)                            |
| Other  | (19)      | (1)                       | (10)                                |
| Total gross deferred income tax liabilities      | ¥ (8,243) | ¥ (5,194)                 | \$ (51,940)                         |
| Net deferred income tax assets                   | ¥ 1,443   | ¥ 7,031                   | \$ 70,310                           |

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Net deferred income taxes are recorded in the consolidated balance sheets as follows:

|                             | Yen<br>(millions) |         | U.S. dollars<br>(thousands) |
|-----------------------------|-------------------|---------|-----------------------------|
|                             | 2007              | 2008    | 2008                        |
| Deferred income taxes       |                   |         |                             |
| Current assets              | ¥ 5,080           | ¥ 6,478 | \$ 64,780                   |
| Investment and other assets | 1,367             | 1,826   | 18,260                      |
| Current liabilities         | (28)              | (58)    | (580)                       |
| Long-term liabilities       | (4,976)           | (1,215) | (12,150)                    |
|                             | ¥ 1,443           | ¥ 7,031 | \$ 70,310                   |

In assessing the realizability of deferred income tax assets, Makita considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and net operating loss carryforwards are utilized. Makita considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, Makita believes it is more likely than not that the benefits of these deductible differences and net operating loss carryforwards, net of the existing valuation allowance, will be realized. The actual amount of the deferred income tax assets realizable, however, would be reduced if estimates of future taxable income during the carryforward period were not achieved. Makita has recorded a valuation allowance of ¥331 million as of March 31, 2008 against certain deferred income tax assets because of no tax planning strategy and an anticipated expiration of net operating loss carry forwards.

As of March 31, 2008, certain subsidiaries had net operating loss carryforwards for income tax purposes of ¥3,391 million (\$33,910 thousand) which are available to offset future taxable income, if any. The net operating losses will expire as follows:

|                    | Yen<br>(millions) | U.S.<br>dollars<br>(thousands) |
|--------------------|-------------------|--------------------------------|
| Within 5 years     | 713               | 7,130                          |
| 6 to 20 years      | 758               | 7,580                          |
| Indefinite periods | 1,920             | 19,200                         |
|                    | 3,391             | 33,910                         |

Income taxes have not been accrued on undistributed earnings of domestic subsidiaries as the tax law provides a means by which the investment in a domestic subsidiary can be recovered tax free.

Makita has not recognized deferred tax liabilities for certain portions of undistributed earnings of foreign subsidiaries in the total amount of ¥91,961 million (\$919,610 thousand) as of March 31, 2008 because Makita considers these earnings to be indefinitely reinvested, and the calculation of the unrecognized deferred tax liabilities is not practicable. Makita adopted FASB Interpretation No. 48(FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 on April 1, 2007. The unrecognized tax benefits at April 1, 2007 and for the year ended March 31, 2008 were neither material nor expected to significantly increase or decrease within 12 months period subsequent to March 31, 2008. Makita classifies penalties and interest related to unrecognized tax benefits in income taxes, if any, in provision for income taxes, and the total amounts of penalties and interest related to unrecognized tax

benefits in income taxes recorded were not material as of April 1, 2007 and for the year ended March 31, 2008. Makita conducts business globally and, as a result, the Company and its subsidiaries file income tax returns in various jurisdictions all over the world. With few exceptions, the Company and its subsidiaries in Japan are no longer subject to income tax examinations for the periods prior to the fiscal year ended March 31, 2006, and its one of major subsidiaries in the United States remains subject to income tax examinations for the periods beginning in the fiscal year ended March 31, 2005.

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**Table of Contents****10. RETIREMENT AND TERMINATION BENEFIT PLANS**

The Company and certain of its consolidated subsidiaries have various contributory and noncontributory employee benefit plans covering substantially all of their employees. Under the plans, employees are entitled to lump-sum payments at the time of termination or retirement, or to pension payments. A domestic contributory plan covers substantially all of the employees of the Company.

The amounts of lump-sum or pension payments under the plans are generally determined on the basis of length of service and remuneration at the time of termination or retirement.

The net periodic pension costs (benefit) of the defined benefit plans for the years ended March 31, 2006, 2007 and 2008 consisted of the following components:

|   |         | Yen<br>(millions) |         | U.S. dollars<br>(thousands) |
|---|---------|-------------------|---------|-----------------------------|
|   | 2006    | 2007              | 2008    | 2008                        |
| Service cost-benefit earned during the year   | ¥ 1,592 | ¥ 1,611           | ¥ 1,410 | \$ 14,100                   |
| Interest cost on projected benefit obligation | 776     | 804               | 927     | 9,270                       |
| Expected return on plan assets                | (635)   | (1,268)           | (1,459) | (14,590)                    |
| Amortization of prior service cost            | (215)   | (215)             | (215)   | (2,150)                     |
| Amortization of net transition obligation     | 62      | 37                | 37      | 370                         |
| Recognized actuarial loss                     | 482     | 428               | 414     | 4,140                       |
| Net periodic pension costs (benefit)          | ¥ 2,062 | ¥ 1,397           | ¥ 1,114 | \$ 11,140                   |

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Reconciliations of beginning and ending balances of the benefit obligations and the fair value of the plan assets are as follows:

|   | Yen<br>(millions) |           | U.S. dollars<br>(thousands) |
|---|-------------------|-----------|-----------------------------|
|   | 2007              | 2008      | 2008                        |
| Change in benefit obligation:   |                   |           |                             |
| Benefit obligation at beginning of year                                   | ¥ 37,580          | ¥ 37,389  | \$ 373,890                  |
| Service cost  | 1,611             | 1,410     | 14,100                      |
| Interest cost   | 804               | 927       | 9,270                       |
| Plan amendment  |                   | 136       | 1,360                       |
| Actuarial gains   | (1,551)           | 104       | 1,040                       |
| Business acquired   |                   | 761       | 7,610                       |
| Benefits paid   | (1,306)           | (1,856)   | (18,560)                    |
| Foreign exchange impact   | 251               | 27        | 270                         |
| Benefit obligation at end of year   | 37,389            | 38,898    | 388,980                     |
| Change in plan assets:  |                   |           |                             |
| Fair value of plan assets at beginning of year                            | 34,922            | 38,456    | 384,560                     |
| Actual return on plan assets  | 1,785             | (4,803)   | (48,030)                    |
| Employer contributions  | 2,915             | 3,022     | 30,220                      |
| Business acquired   |                   |           |                             |
| Benefits paid   | (1,168)           | (1,659)   | (16,590)                    |
| Foreign exchange impact   | 2                 | 36        | 360                         |
| Fair value of plan assets at end of year                                  | 38,456            | 35,052    | 350,520                     |
| Funded status   | ¥ 1,067           | ¥ (3,846) | \$ (38,460)                 |
| Amounts recognized in accumulated other comprehensive income consisted of |                   |           |                             |
| Net actuarial loss  | ¥ 3,446           | ¥ 9,366   | \$ 93,660                   |
| Prior service cost  | (2,926)           | (2,575)   | (25,750)                    |
| Net transition obligation being recognized over 19 years                  | 41                | 4         | 40                          |
|   | ¥ 561             | ¥ 6,795   | \$ 67,950                   |
| Amounts recognized in the consolidated balance sheet consisted of;        |                   |           |                             |
| Non-current assets  | ¥ 4,465           | ¥         | \$                          |
| Current liabilities   | (171)             | (130)     | (1,300)                     |
| Non-current liabilities   | (3,227)           | (3,716)   | (37,160)                    |
|   | ¥ 1,067           | ¥ (3,846) | \$ (38,460)                 |

**Table of Contents**Measurement date

The Company uses a March 31 measurement date for all of its plans.

Assumptions

The weighted-average assumptions used to determine benefit obligations at March 31, 2007 and 2008, were as follows:

|  | 2007 | 2008 |
|--|------|------|
| Discount rate  | 2.5% | 2.4% |
| Assumed rate of increase in future compensation levels | 3.3% | 3.3% |

The weighted-average assumptions used to determine net periodic pension cost for each of the years in the three-year period ended March 31, 2008, were as follows:

|  | 2006 | 2007 | 2008 |
|--|------|------|------|
| Discount rate  | 2.2% | 2.2% | 2.5% |
| Assumed rate of increase in future compensation levels | 3.3% | 3.3% | 3.3% |
| Expected long-term rate of return on plan assets       | 2.3% | 4.2% | 4.2% |

Makita determines the discount rate based on long-term high quality fixed income debt securities that have the same maturity period as the period over which pension benefits are expected to be settled. In addition, Makita also takes into account estimates with respect to future changes that are expected by management in the interest rates on its debt securities when determining the discount rate.

Makita determines the expected long-term rate of return on plan assets based on the expected long-term return of the various asset categories in which the plan invests considering the current expectations for future returns and actual historical returns.

Plan Assets

The benefit plan weighted-average asset allocations at March 31, 2007, and 2008, by asset category were as follows:

|   | 2007   | 2008   |
|---|--------|--------|
| Asset Category                          |        |        |
| Equity securities                       | 54.9%  | 45.7%  |
| Debt securities                         | 31.2   | 36.8   |
| Real estate                             | 1.6    | 1.1    |
| Life insurance company general accounts | 9.5    | 11.4   |
| Other                                   | 2.8    | 5.0    |
|   | 100.0% | 100.0% |

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Makita's funding policy is to contribute monthly the amounts which would provide sufficient assets for future payments of pension benefits. The plans' assets are invested primarily in marketable equity securities and interest-bearing securities.

Makita determined the mix of equity securities and debt securities after taking into consideration the expected long-term yield on pension assets. To decide whether changes in the basic portfolio are necessary, Makita examines the divergence between the expected long-term income and the actual income from the portfolio on an annual basis. Makita revises the portfolio when it is deemed necessary to reach the expected long-term yield.

Equity securities included common stock of Makita in the amount of ¥4 million (\$40 thousand) at March 31, 2008.

**Information for pension plans with an accumulated benefit obligation in excess of plan assets**

|  | Yen<br>(millions) |         | U.S. dollars<br>(thousands) |
|--|-------------------|---------|-----------------------------|
|  | 2007              | 2008    | 2008                        |
| Projected benefit obligation                               | ¥ 3,853           | ¥ 3,989 | \$ 39,890                   |
| Accumulated benefit obligation                             | 3,705             | 3,890   | 38,900                      |
| Fair value of plan assets                                  | 456               | 370     | 3,700                       |
| An accumulated benefit obligation in excess of plan assets | 3,249             | 3,520   | 35,200                      |

**Cash flows****Contributions**

Makita expects to contribute ¥3,058 million (\$30,580 thousand) to its domestic and foreign defined benefit plan in the year ending March 31, 2009.

**Estimated future benefit payments**

At March 31, 2008, the benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter are as follows:

| Year ending March 31, | Yen<br>(millions) | U.S. dollars<br>(thousands) |
|-----------------------|-------------------|-----------------------------|
| 2009                  | ¥ 1,998           | \$ 19,980                   |
| 2010                  | 1,904             | 19,040                      |
| 2011                  | 1,962             | 19,620                      |
| 2012                  | 1,858             | 18,580                      |
| 2013                  | 1,958             | 19,580                      |
| 2014-2018             | 8,833             | 88,330                      |
| Total                 | ¥ 18,513          | \$ 185,130                  |

Certain foreign subsidiaries have defined contribution plans. The total expenses charged to income under these plans were ¥216 million, ¥223 million and ¥270 million (\$2,700 thousand) for the years ended March 31, 2006, 2007 and 2008, respectively.

The Company has unfunded retirement allowance programs for the Directors and the Statutory Auditors. Under such programs, the aggregate amount set aside as retirement allowances for the Directors and the Statutory Auditors was ¥501 million and ¥468 million (\$4,680 thousand) as of March 31, 2007 and 2008, respectively, which is included in other liabilities in the accompanying balance sheets. This Executive retirement and termination allowances program was abolished by the Annual General Meeting of Shareholders held in June 2006. The aggregate amount set aside will be paid to the Directors and the Statutory Auditors when they retire.

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**Table of Contents****11. SHORT-TERM BORROWINGS AND LONG-TERM INDEBTEDNESS**

As of March 31, 2007 and 2008, short-term borrowings consisted of the following:

|  | Yen<br>(millions) |         | U.S. dollars<br>(thousands) |
|--|-------------------|---------|-----------------------------|
|  | 2007              | 2008    | 2008                        |
| Bank borrowings                              | ¥ 1,816           | ¥ 1,582 | \$ 15,820                   |
| Current maturities of long-term indebtedness | 76                | 142     | 1,420                       |
| Total  | ¥ 1,892           | ¥ 1,724 | \$ 17,240                   |

Short-term borrowings, excluding current maturities of long-term indebtedness, amounting to ¥1,816 million and ¥1,582 million (\$15,820 thousand) as of March 31, 2007 and 2008, respectively, consisted primarily of bank borrowings of overseas subsidiaries denominated in foreign currencies. As of March 31, 2007 and 2008, the weighted average interest rate on the borrowings was 12.6% and 8.9%, respectively.

Certain subsidiaries of the Company had unused lines of credit available for immediate short-term borrowings without restrictions amounting to ¥18,800 million and ¥22,664 million (\$226,640 thousand) as of March 31, 2007 and 2008, respectively.

As of March 31, 2007 and 2008, long-term indebtedness consisted of the following:

|   | Yen<br>(millions) |       | U.S. dollars<br>(thousands) |
|---|-------------------|-------|-----------------------------|
|   | 2007              | 2008  | 2008                        |
| 1.9% (weighted average rate) unsecured loans from banks, due 2012 | ¥                 | ¥ 500 | \$ 5,000                    |
| Capital lease obligations (see Note 3(g))                         | 129               | 550   | 5,500                       |
| Less- Current maturities included in short-term borrowings        | (76)              | (142) | (1,420)                     |
|   | ¥ 53              | ¥ 908 | \$ 9,080                    |

There were no covenants or cross default provisions under the Makita's financing arrangements. Furthermore, there were no subsidiary level dividend restrictions under the financing arrangements.

The aggregate annual maturities of long-term indebtedness subsequent to March 31, 2008 are as summarized below:

| Year ending March 31, | Yen<br>(millions) | U.S. dollars<br>(thousands) |
|-----------------------|-------------------|-----------------------------|
| 2009                  | ¥ 142             | \$ 1,420                    |
| 2010                  | 117               | 1,170                       |
| 2011                  | 57                | 570                         |
| 2012                  | 516               | 5,160                       |
| 2013                  | 218               | 2,180                       |
| 2014 and thereafter   |                   |                             |
| Total                 | ¥ 1,050           | \$ 10,500                   |



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**12. SHAREHOLDERS EQUITY**

At the annual meeting of shareholders held on June 29, 2004, the shareholders of the Company resolved to amend the Company's Articles of Incorporation to permit the Company's Board of Directors to authorize a purchase option of the Company's common stock. At the Board of Directors' meeting held on February 17, 2006, the Company decided to retire treasury stock pursuant to the provisions of Article 212 of the Japanese commercial code. 4,000,000 shares of treasury stock were retired during the fiscal year ended March 31, 2006.

The Corporation Law of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company should be appropriated as capital reserve or earned reserve (hereinafter called reserve). No further appropriations are required when the total amount of the reserve exceed 25% of capital stock.

Based on a resolution of the Board of Directors, at the annual meeting of shareholders to be held on June 26, 2008, the shareholders will be asked to approve the declaration of a cash dividend in the amount of ¥9,633 million, which will be paid to shareholders of record as of March 31, 2008. The declaration of this dividend has not been reflected in the consolidated financial statements as of March 31, 2008.

The amount of retained earnings available for dividends distribution is recorded in the Company's non-consolidated books and amounted to ¥152,756 million (\$1,528 million) as of March 31, 2008.

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**Table of Contents****13. OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (loss) as of March 31, 2006, 2007 and 2008, were as follows:

|  | 2006       | Yen<br>(millions)<br>2007 | 2008      | U.S.dollars<br>(thousands)<br>2008 |
|--|------------|---------------------------|-----------|------------------------------------|
| Foreign currency translation adjustments:                      |            |                           |           |                                    |
| Beginning balance  | ¥ (14,486) | ¥ (6,043)                 | ¥ 2,764   | \$ 27,640                          |
| Adjustments for the year                                       | 8,443      | 8,807                     | (10,274)  | (102,740)                          |
| Ending balance   | ¥ (6,043)  | ¥ 2,764                   | ¥ (7,510) | \$ (75,100)                        |
| Net unrealized holding gains on available-for-sale securities: |            |                           |           |                                    |
| Beginning balance  | ¥ 6,680    | ¥ 11,666                  | ¥ 10,280  | \$ 102,800                         |
| Adjustments for the year                                       | 4,986      | (1,386)                   | (6,395)   | (63,950)                           |
| Ending balance   | ¥ 11,666   | ¥ 10,280                  | ¥ 3,885   | 38,850                             |
| Minimum pension liability adjustment:                          |            |                           |           |                                    |
| Beginning balance  | ¥ (1,443)  | ¥ (278)                   | ¥         | \$                                 |
| Adjustments for the year                                       | 1,165      | 94                        |           |                                    |
| Adjustments to initially apply SFAS No.158                     |            | 184                       |           |                                    |
| Ending balance   | ¥ (278)    | ¥                         | ¥         | \$                                 |
| Pension liability adjustment:                                  |            |                           |           |                                    |
| Beginning balance  | ¥          | ¥                         | ¥ (347)   | \$ (3,470)                         |
| Adjustments for the year                                       |            |                           | (3,685)   | (36,850)                           |
| Adjustments to initially apply SFAS No.158                     |            | (347)                     |           |                                    |
| Ending balance   | ¥          | ¥ (347)                   | ¥ (4,032) | \$ (40,320)                        |
| Total other accumulated comprehensive income (loss):           |            |                           |           |                                    |
| Beginning balance  | ¥ (9,249)  | ¥ 5,345                   | ¥ 12,697  | \$ 126,970                         |
| Adjustments for the year                                       | 14,594     | 7,515                     | (20,354)  | (203,540)                          |
| Adjustments to initially apply SFAS No.158                     |            | (163)                     |           |                                    |



|                |         |          |           |             |
|----------------|---------|----------|-----------|-------------|
| Ending balance | ¥ 5,345 | ¥ 12,697 | ¥ (7,657) | \$ (76,570) |
|----------------|---------|----------|-----------|-------------|

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Tax effects allocated to each component of other comprehensive income were as follows:

|  | Pretax<br>amount | Yen (millions)<br>Tax<br>benefit<br>(expense) | Net of tax<br>amount |
|--|------------------|---|----------------------|
| <u>For the year ended March 31, 2006</u>                           |                  |   |                      |
| Foreign currency translation adjustment                            | ¥ 8,715          | ¥ (272)                                       | ¥ 8,443              |
| Unrealized gains on available-for-sale securities:                 |                  |   |                      |
| Unrealized holding gains arising during the year                   | 11,267           | (4,539)                                       | 6,728                |
| Less- Reclassification adjustment for gains realized in net income | (2,918)          | 1,176   | (1,742)              |
| Net unrealized gains   | 8,349            | (3,363)                                       | 4,986                |
| Minimum pension liability adjustment                               | 2,525            | (1,360)                                       | 1,165                |
| Other comprehensive income   | ¥ 19,589         | ¥ (4,995)                                     | ¥ 14,594             |

|  | Pretax<br>amount | Yen (millions)<br>Tax<br>benefit<br>(expense) | Net of tax<br>amount |
|--|------------------|---|----------------------|
| <u>For the year ended March 31, 2007</u>                           |                  |   |                      |
| Foreign currency translation adjustment                            | ¥ 8,900          | ¥ (93)  | ¥ 8,807              |
| Unrealized holding losses on available-for-sale securities:        |                  |   |                      |
| Unrealized holding losses arising during the year                  | (1,403)          | 565   | (838)                |
| Less- Reclassification adjustment for gains realized in net income | (918)            | 370   | (548)                |
| Net unrealized losses  | (2,321)          | 935   | (1,386)              |
| Minimum pension liability adjustment                               | 160              | (66)  | 94                   |
| Other comprehensive income   | ¥ 6,739          | ¥ 776   | ¥ 7,515              |

|   | Pretax<br>amount | Yen (millions)<br>Tax<br>benefit<br>(expense) | Net of tax<br>amount |
|---|------------------|---|----------------------|
| <u>For the year ended March 31, 2008</u>                            |                  |   |                      |
| Foreign currency translation adjustment                             | ¥(10,381)        | ¥ 107   | ¥ (10,274)           |
| Unrealized holding losses on available-for-sale securities:         |                  |   |                      |
| Unrealized holding losses arising during the year                   | (12,099)         | 4,878   | (7,221)              |
| Less- Reclassification adjustment for losses realized in net income | 1,384            | (558)   | 826                  |
| Net unrealized losses   | (10,715)         | 4,320   | (6,395)              |

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|   |           |         |            |
|---|-----------|---------|------------|
| Pension liability adjustment  |           |         |            |
| Unrealized losses arising during the year                           | (6,470)   | 2,633   | (3,837)    |
| Less- Reclassification adjustment for losses realized in net income | 236       | (84)    | 152        |
| Net unrealized losses   | (6,234)   | 2,549   | (3,685)    |
| Other comprehensive losses  | ¥(27,330) | ¥ 6,976 | ¥ (20,354) |

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|   | U.S. dollars (thousands) |                       |                   |
|---|--------------------------|-----------------------|-------------------|
|   | Pretax amount            | Tax benefit (expense) | Net of tax amount |
| <u>For the year ended March 31, 2008</u>                            |                          |                       |                   |
| Foreign currency translation adjustment                             | \$ (103,810)             | \$ 1,070              | \$ (102,740)      |
| Unrealized holding losses on available-for-sale securities:         |                          |                       |                   |
| Unrealized holding losses arising during the year                   | (120,990)                | 48,780                | (72,210)          |
| Less- Reclassification adjustment for losses realized in net income | 13,840                   | (5,580)               | 8,260             |
| Net unrealized gains  | (107,150)                | 43,200                | (63,950)          |
| Pension liability adjustment  |                          |                       |                   |
| Unrealized losses arising during the year                           | (64,700)                 | 26,330                | (38,370)          |
| Less- Reclassification adjustment for losses realized in net income | 2,360                    | (840)                 | 1,520             |
| Net unrealized losses   | (62,340)                 | 25,490                | (36,850)          |
| Other comprehensive losses  | \$ (273,300)             | \$ 69,760             | \$ (203,540)      |

**14. EARNINGS PER SHARE**

A reconciliation of the numerators and denominators of basic earnings per share computations is as follows, there are no diluted effect during the representing fiscal years.

| <u>Numerator</u>                                   | 2006        | Yen (millions) 2007 | 2008        | U.S. dollars (thousands) 2008 |
|--|-------------|---------------------|-------------|-------------------------------|
| Net income available to common share holders Basic | ¥ 40,411    | ¥ 36,971            | ¥ 46,043    | \$ 460,430                    |
| <u>Denominator</u>                                 |             | Number of shares    |             |                               |
| Weighted average common shares outstanding Basic   | 143,736,927 | 143,706,789         | 143,749,824 |                               |
| Earnings per share:                                |             | Yen                 |             | U.S. dollars                  |
| Basic  | ¥ 281.1     | ¥ 257.3             | ¥ 320.3     | \$ 3.20                       |

**Table of Contents****15. COMMITMENTS AND CONTINGENT LIABILITIES**

At March 31, 2008, the Company was contingently liable as a guarantor for housing and education loans to employees in the amount of ¥6 million (\$60 thousand). The Company will be required to satisfy the outstanding loan commitments of certain employees in the event those employees are not able to fulfill their repayment obligations. The fair value of the liabilities for the Company's obligations under the guarantees described above as of March 31, 2008, was insignificant.

At March 31, 2008, the Company was contingently liable as a guarantor for the union organized by customers in the amount of ¥530 million (\$5,300 thousand). The fair value of the liabilities for the Company's obligations under the guarantees described above as of March 31, 2008, was insignificant.

Makita's purchase obligations, mainly for raw materials, were ¥9,632 million (\$96,320 thousand) as of March 31, 2008.

Makita is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on Makita's consolidated financial position, results of operations, or cash flows.

Makita made rental payments of ¥1,714 million, ¥1,881 million and ¥2,132 million (\$21,320 thousand) under cancelable and noncancelable operating lease agreements for offices, warehouses, automobiles and office equipment during the years ended March 31, 2006, 2007 and 2008, respectively. The minimum rental payments required under noncancelable operating lease agreements as of March 31, 2008, were as follows:

| Year ending March 31, | Yen<br>(millions) | U.S. dollars<br>(thousands) |
|-----------------------|-------------------|-----------------------------|
| 2009                  | ¥ 573             | \$ 5,730                    |
| 2010                  | 404               | 4,040                       |
| 2011                  | 284               | 2,840                       |
| 2012                  | 201               | 2,010                       |
| 2013                  | 156               | 1,560                       |
| 2014 and thereafter   | 203               | 2,030                       |
|                       | ¥ 1,821           | \$ 18,210                   |

Makita generally guarantees the performance of products delivered and services rendered for a certain period or term. Estimates for product warranty cost are made based on historical warranty claim experience. The change in accrued product warranty cost for the years ended March 31, 2006, 2007 and 2008 was summarized as follows:

|                              | Yen<br>(millions) |         |         | U.S. dollars<br>(thousands) |
|------------------------------|-------------------|---------|---------|-----------------------------|
|                              | 2006              | 2007    | 2008    | 2008                        |
| Balance at beginning of year | ¥ 804             | ¥ 928   | ¥ 1,306 | \$ 13,060                   |
| Addition                     | 853               | 1,476   | 2,117   | 21,170                      |
| Utilization                  | (779)             | (1,163) | (1,357) | (13,570)                    |
| Foreign exchange impact      | 50                | 65      | (102)   | (1,020)                     |
| Balance at end of year       | ¥ 928             | ¥ 1,306 | ¥ 1,964 | \$ 19,640                   |



**Table of Contents****16. DERIVATIVES AND HEDGING ACTIVITIES*****(a) Risk management policy***

Makita is exposed to market risks, such as changes in currency exchange rates and interest rates. Derivative financial instruments are comprised principally of foreign exchange contracts, currency swaps, currency options contracts and interest rate swaps utilized by the Company and certain of its consolidated subsidiaries to reduce these risks. Makita does not use derivative instruments for trading or speculation purpose.

Makita is also exposed to a risk of credit-related losses in the event of nonperformance by counter parties to the financial instrument contracts; however it is not expected that any counter parties will fail to meet their obligations, because the contracts are diversified among a number of major internationally recognized credit worthy financial institutions.

***(b) Foreign currency exchange rate risk management***

Makita operates internationally, giving rise to significant exposures to market risks from changes in foreign exchange rates, and enters into forward exchange contracts, currency swaps and currency options to hedge the foreign currency exposure.

These derivative instruments are principally intended to protect against foreign exchange exposure related to intercompany transfer of inventories and financing activities. The fair values of these derivative instruments as of March 31, 2007 and 2008 of ¥50 million and ¥601 million (\$6,010 thousand), respectively, were recorded as assets and of ¥215 million and ¥216 million (\$2,160 thousand), respectively as liabilities, and the changes in their fair values for the years ended March 31, 2007 and 2008 amounting to a gain of ¥45 million and ¥550 million (\$5,500 thousand), respectively, were recorded in exchange gains on foreign currency transactions, net.

***(c) Interest rate risk management***

Makita executes financing and investing activities through the Company. To manage the variability in cash flows caused by interest rate change of time deposit, the Company enters into interest rate swaps as a cash flow hedge.

The Company had interest rate swaps with a fair value of ¥3 million as of March 31, 2007. The interest rate swaps matured during the year ended March 31, 2008. The Company did not have interest rate swaps as of March 31, 2008. These interest swaps were recorded as current liabilities. As the interest rate swaps did not meet the hedge accounting criteria, the changes in fair value of the hedging interest rate swaps which amounted to a gain of ¥2 million and ¥3 million were recorded in earnings and classified in other income for the years ended March 31, 2007 and 2008, respectively.

**17. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following methods and significant assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate a fair value:

***(a) Cash and Cash Equivalents, Time Deposits, Trade Notes and Accounts Receivable, Short-term Borrowings, Trade Notes and Accounts Payable, Other payables, and Other Accrued Expenses***

The carrying amounts approximate fair value because of the short maturities of those instruments.

**(b) *Long-term Time Deposits***

The fair value is estimated by discounting future cash flows using the current rates that Makita would be offered for deposits with similar terms and remaining maturities.

**(c) *Marketable Securities and Investment Securities***

The fair value of marketable and investment securities is estimated based on quoted market prices. For certain investments such as non-marketable securities, since there are no quoted market prices existing, a reasonable estimation of a fair value could not be made without incurring excessive cost.

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Non-marketable securities amounted to ¥567 million and ¥572 million (\$5,720 thousand) as of March 31, 2007 and 2008, respectively.

**(d) Long-term Indebtedness**

The fair value of long-term indebtedness is a present value of future cash flows associated with each instrument discounted using Makita's current borrowing rates for similar debt instruments of comparable maturities.

**(e) Interest Rate Swap Agreements**

The fair values of interest rate swap agreements are based on the estimated amount that Makita would receive or pay to terminate the swap agreements which are based on quoted prices obtained from brokers.

**(f) Other Derivative Financial Instruments**

The fair values of other derivative financial instruments, foreign currency contracts, currency swaps and currency option contracts, all of which are used for hedging purposes, are estimated by obtaining quotes and other relevant information from brokers.

The estimated fair value of the financial instruments was as follows:

|   | 2007               |            | Yen<br>(millions)  |            | 2008               |            | U.S. dollars<br>(thousands) |            |
|---|--------------------|------------|--------------------|------------|--------------------|------------|-----------------------------|------------|
|   | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value | Carrying<br>Amount          | Fair Value |
| Marketable securities                               | ¥58,217            | ¥58,216    | ¥49,443            | ¥49,443    | \$494,430          | \$494,430  |                             |            |
| Investment securities                               | 27,279             | 27,172     | 18,034             | 17,963     | 180,340            | 179,630    |                             |            |
| Long-term time deposits                             | 2,207              | 2,207      | 2,207              | 2,207      | 22,070             | 22,070     |                             |            |
| Long-term indebtedness including current maturities | (129)              | (129)      | (1,050)            | (1,050)    | (10,500)           | (10,500)   |                             |            |
| Interest rate swap agreements:                      |                    |            |                    |            |                    |            |                             |            |
| Assets  |                    |            |                    |            |                    |            |                             |            |
| Liabilities   | (3)                | (3)        |                    |            |                    |            |                             |            |
| Foreign currency contracts:                         |                    |            |                    |            |                    |            |                             |            |
| Assets  | 25                 | 25         | 186                | 186        | 1,860              | 1,860      |                             |            |
| Liabilities   | (125)              | (125)      | (191)              | (191)      | (1,910)            | (1,910)    |                             |            |
| Currency swaps:                                     |                    |            |                    |            |                    |            |                             |            |
| Assets  | 18                 | 18         | 408                | 408        | 4,080              | 4,080      |                             |            |
| Liabilities   | (71)               | (71)       | (23)               | (23)       | (230)              | (230)      |                             |            |

Currency option  
contracts:

|             |      |      |     |     |      |      |
|-------------|------|------|-----|-----|------|------|
| Assets      | 7    | 7    | 7   | 7   | 70   | 70   |
| Liabilities | (19) | (19) | (2) | (2) | (20) | (20) |

**(g) Limitation**

The fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and are matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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**Table of Contents****18. OPERATING SEGMENT INFORMATION**

The operating segments presented below are defined as components of the enterprise for which separate financial information is available and regularly reviewed by the Company's chief operating decision maker. The Company's chief operating decision maker utilizes various measurements to assess segment performance and allocate resources to the segments.

During the three years ended March 31, 2006, 2007 and 2008, Makita's operating structure included the following geographical operating segments: Japan Group, Europe Group, North America Group, Asia Group, and Other Group.

Makita evaluates the performance of each operating segment based on U.S. GAAP.

**Segment Products and Services**

Makita is a manufacturer and wholesaler of electric power tools and other tools. The operating segments derive substantially all of their revenues from the sale of electric power tools and parts and repairs.

Year ended March 31, 2006

|                               | Yen<br>(millions) |          |                  |          |          |           | Corporate<br>and<br>Eliminations | Consolidated |
|-------------------------------|-------------------|----------|------------------|----------|----------|-----------|----------------------------------|--------------|
|                               | Japan             | Europe   | North<br>America | Asia     | Other    | Total     |                                  |              |
| Sales:                        |                   |          |                  |          |          |           |                                  |              |
| External customers            | ¥ 53,788          | ¥ 91,249 | ¥ 47,979         | ¥ 8,645  | ¥ 27,414 | ¥ 229,075 | ¥                                | ¥ 229,075    |
| Intersegment                  | 57,826            | 6,306    | 4,321            | 43,979   | 181      | 112,613   | (112,613)                        |              |
| Total                         | ¥ 111,614         | ¥ 97,555 | ¥ 52,300         | ¥ 52,624 | ¥ 27,595 | ¥ 341,688 | ¥ (112,613)                      | ¥ 229,075    |
| Operating expenses            | ¥ 87,468          | ¥ 85,505 | ¥ 50,437         | ¥ 46,162 | ¥ 25,048 | ¥ 294,620 | ¥ (111,323)                      | ¥ 183,297    |
| Operating income              | 24,146            | 12,050   | 1,863            | 6,462    | 2,547    | 47,068    | (1,290)                          | 45,778       |
| Long-lived assets             | 36,578            | 7,529    | 3,732            | 9,170    | 2,371    | 59,380    | (177)                            | 59,203       |
| Identifiable assets           | 243,553           | 85,858   | 44,814           | 42,275   | 21,556   | 438,056   | (112,018)                        | 326,038      |
| Depreciation and amortization | 2,917             | 1,217    | 656              | 923      | 269      | 5,982     | (60)                             | 5,922        |
| Capital expenditures          | 6,398             | 1,549    | 620              | 2,537    | 426      | 11,530    | (147)                            | 11,383       |
| Year ended March 31, 2007     |                   |          |                  |          |          |           |                                  |              |

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(millions)

|                               | Japan     | Europe    | North<br>America | Asia     | Other    | Total     | Corporate<br>and<br>Eliminations | Consolidated |
|-------------------------------|-----------|-----------|------------------|----------|----------|-----------|----------------------------------|--------------|
| Sales:                        |           |           |                  |          |          |           |                                  |              |
| External customers            | ¥ 61,776  | ¥ 124,924 | ¥ 51,432         | ¥ 9,698  | ¥ 32,103 | ¥ 279,933 | ¥                                | ¥ 279,933    |
| Intersegment                  | 64,040    | 5,709     | 5,297            | 67,021   | 149      | 142,216   | (142,216)                        |              |
| Total                         | ¥ 125,816 | ¥ 130,633 | ¥ 56,729         | ¥ 76,719 | ¥ 32,252 | 422,149   | ¥ (142,216)                      | ¥ 279,933    |
| Operating expenses            | ¥ 108,403 | ¥ 112,577 | ¥ 54,217         | ¥ 66,815 | ¥ 28,786 | ¥ 370,798 | ¥ (139,041)                      | ¥ 231,757    |
| Operating income              | 17,413    | 18,056    | 2,512            | 9,904    | 3,466    | 51,351    | (3,175)                          | 48,176       |
| Long-lived assets             | 36,831    | 10,345    | 3,381            | 10,296   | 2,690    | 63,543    | (163)                            | 63,380       |
| Identifiable assets           | 257,735   | 110,158   | 38,756           | 50,934   | 26,535   | 484,118   | (115,624)                        | 368,494      |
| Depreciation and amortization | 5,270     | 1,432     | 637              | 1,233    | 261      | 8,833     | (60)                             | 8,773        |
| Capital expenditures          | 7,266     | 2,820     | 451              | 2,235    | 351      | 13,123    | (143)                            | 12,980       |

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Year ended March 31, 2008

|                               | Yen<br>(millions) |           |                  |           |          |           | Corporate<br>and<br>Eliminations | Consolidated |
|-------------------------------|-------------------|-----------|------------------|-----------|----------|-----------|----------------------------------|--------------|
|                               | Japan             | Europe    | North<br>America | Asia      | Other    | Total     |                                  |              |
| Sales:                        |                   |           |                  |           |          |           |                                  |              |
| External customers            | ¥ 72,466          | ¥ 160,218 | ¥ 56,234         | ¥ 11,271  | ¥ 42,388 | ¥ 342,577 | ¥                                | ¥ 342,577    |
| Intersegment                  | 69,540            | 5,606     | 5,212            | 101,211   | 172      | 181,741   | (181,741)                        |              |
| Total                         | ¥ 142,006         | ¥ 165,824 | ¥ 61,446         | ¥ 112,482 | ¥ 42,560 | ¥ 524,318 | ¥ (181,741)                      | ¥ 342,577    |
| Operating expenses            | ¥ 120,020         | ¥ 138,850 | ¥ 59,727         | ¥ 98,468  | ¥ 36,964 | ¥ 454,029 | ¥ (178,483)                      | ¥ 275,546    |
| Operating income              | 21,986            | 26,974    | 1,719            | 14,014    | 5,596    | 70,289    | (3,258)                          | 67,031       |
| Long-lived assets             | 42,752            | 10,563    | 2,656            | 9,961     | 3,313    | 69,245    | (187)                            | 69,058       |
| Identifiable assets           | 264,721           | 126,428   | 39,523           | 52,890    | 31,556   | 515,118   | (128,651)                        | 386,467      |
| Depreciation and amortization | 4,874             | 1,653     | 691              | 1,397     | 320      | 8,935     | (64)                             | 8,871        |
| Capital expenditures          | 8,637             | 2,453     | 713              | 2,220     | 1,113    | 15,136    | (100)                            | 15,036       |
| Year ended March 31, 2008     |                   |           |                  |           |          |           |                                  |              |

U.S. dollars  
(thousands)

|                    | U.S. dollars<br>(thousands) |              |                  |              |            |              | Corporate<br>and<br>Eliminations | Consolidated |
|--------------------|-----------------------------|--------------|------------------|--------------|------------|--------------|----------------------------------|--------------|
|                    | Japan                       | Europe       | North<br>America | Asia         | Other      | Total        |                                  |              |
| Sales:             |                             |              |                  |              |            |              |                                  |              |
| External customers | \$ 724,660                  | \$ 1,602,180 | \$ 562,340       | \$ 112,710   | \$ 423,880 | \$ 3,425,770 | \$                               | \$ 3,425,770 |
| Intersegment       | 695,400                     | 56,060       | 52,120           | 1,012,110    | 1,720      | 1,817,410    | (1,817,410)                      |              |
| Total              | \$ 1,420,060                | \$ 1,658,240 | \$ 614,460       | \$ 1,124,820 | \$ 425,600 | \$ 5,243,180 | \$(1,817,410)                    | \$ 3,425,770 |
| Operating expenses | \$ 1,200,200                | \$ 1,388,500 | \$ 597,270       | \$ 984,680   | \$ 369,640 | \$ 4,540,290 | \$(1,784,830)                    | \$ 2,755,460 |
|                    | 219,860                     | 269,740      | 17,190           | 140,140      | 55,960     | 702,890      | (32,580)                         | 670,310      |

|                               |           |           |         |         |         |           |             |           |
|-------------------------------|-----------|-----------|---------|---------|---------|-----------|-------------|-----------|
| Operating income              |           |           |         |         |         |           |             |           |
| Long-lived assets             | 427,520   | 105,630   | 26,560  | 99,610  | 33,130  | 692,450   | (1,870)     | 690,580   |
| Identifiable assets           | 2,647,210 | 1,264,280 | 395,230 | 528,900 | 315,560 | 5,151,180 | (1,286,510) | 3,864,670 |
| Depreciation and amortization | 48,740    | 16,530    | 6,910   | 13,970  | 3,200   | 89,350    | (640)       | 88,710    |
| Capital expenditures          | 86,370    | 24,530    | 7,130   | 22,200  | 11,130  | 151,360   | (1,000)     | 150,360   |

Long-lived assets shown above consist of property, plant and equipment.

Transfers between segments are made at estimated arm's-length prices. No single external customer accounted for 10% or more of Makita's net sales for each of the years ended March 31, 2006, 2007 and 2008.

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

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Makita's current revenues from external customers by each group of products are set forth below.

|                                     | (Yen millions, except for percentage amounts) |        |                      |        |                      |        | U.S. dollars |
|-------------------------------------|---|--------|----------------------|--------|----------------------|--------|--------------|
|                                     | Consolidated Net Sales by Product Categories  |        |                      |        |                      |        | (thousands)  |
|                                     | Year ended March 31,                          |        | Year ended March 31, |        | Year ended March 31, |        | 2008         |
|                                     | 2006  |        | 2007                 |        | 2008                 |        |              |
| Power Tools                         | ¥ 171,376                                     | 74.8%  | ¥ 210,894            | 75.3%  | ¥ 255,869            | 74.7%  | \$ 2,558,690 |
| Gardening and<br>Household Products | 23,434  | 10.2   | 28,123               | 10.0   | 40,410               | 11.8   | 404,100      |
| Parts, Repairs and<br>Accessories   | 34,265  | 15.0   | 40,916               | 14.7   | 46,298               | 13.5   | 462,980      |
| Total                               | ¥ 229,075                                     | 100.0% | ¥ 279,933            | 100.0% | ¥ 342,577            | 100.0% | \$ 3,425,770 |

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**19. RELATED PARTY TRANSACTIONS**

The transactions between the Company and Maruwa Co., Ltd. ( Maruwa ), for which a director of the Company and certain of his family members have a majority of the voting rights, amounted to ¥2 million for advertising expenses for each of the years ended March 31, 2006, 2007 and 2008.

The Company's purchases of raw materials and production equipment from Toa Co., Ltd., for which a director of the Company and certain of his family members have a majority of the voting rights, were ¥223 million, ¥129 million and ¥96 million during the years ended March 31, 2006, 2007 and 2008, respectively. The accounts payable of the Company related to these transactions were ¥10 million, ¥6 million and ¥15 million as of March 31, 2006, 2007 and 2008, respectively.

The president of Toyoda Machine Works Ltd. was elected as an outside director of the Company as of June 29, 2005. The Company's purchases of raw materials and production equipment from Toyoda Machine Works Ltd. were ¥4 million from July 1 to December 31, 2005. The outside director became a vice president of JTEKT Corporation, which was formed as the result of a business combination between Toyoda Machine Works Ltd. and Koyo Seiko Co., Ltd., occurring on January 1, 2006, became an outside director of the Company. The Company's purchases of raw materials and production equipment from JTEKT Corporation, were ¥151 million from January 1, 2006 to March 31, 2006, ¥498 million during the year ended March 31, 2007 and ¥658 million during the year ended March 31, 2008. The accounts payable of the Company related to these transactions were ¥53 million, ¥35 million and ¥65 million as of March 31, 2006, 2007, and 2008 respectively.

**20. SUBSEQUENT EVENTS**

On April 30, 2008, the Board of Directors of the Company approved a plan to repurchase up to 3 million shares of the Company's common stock at a cost of up to ¥12,000 million for the period from May 1, 2008 to May 26, 2008. Such repurchases were intended to perform flexible capital strategies and enhance shareholders' value. As a result, the Company repurchased 3 million shares of the Company's common stock for ¥11,923 million.

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MAKITA CORPORATION AND CONSOLIDATED SUBSIDIARIES  
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS AND RESERVES  
FOR THE YEARS ENDED MARCH 31, 2006, 2007 AND 2008

| Descriptions                                      | Japanese Yen (millions)                  |  |                                    |                                |                            | Balance<br>at<br>end of<br>year |
|---|--|--|------------------------------------|--------------------------------|----------------------------|---------------------------------|
|   | Balance<br>at<br>beginning<br>of<br>year | Additions<br>Charged<br>to<br>costs<br>and<br>expenses | Charged<br>to<br>Other<br>Accounts | Deductions<br>from<br>reserves | Translation<br>adjustments |                                 |
| 2006:   |  |  |                                    |                                |                            |                                 |
| Allowance for doubtful<br>receivables             | 1,178                                    | 114  |                                    | (356)                          | 80                         | 1,016                           |
| Deferred income tax assets<br>valuation allowance | 8,211                                    | 698  |                                    | (6,228)                        | 292                        | 2,973                           |
| 2007:   |  |  |                                    |                                |                            |                                 |
| Allowance for doubtful<br>receivables             | 1,016                                    | 175  |                                    | (386)                          | 64                         | 869                             |
| Deferred income tax assets<br>valuation allowance | 2,973                                    | 34   |                                    | (2,701)                        | 12                         | 318                             |
| 2008:   |  |  |                                    |                                |                            |                                 |
| Allowance for doubtful<br>receivables             | 869                                      | 269  |                                    | (73)                           | (47)                       | 1,018                           |
| Deferred income tax assets<br>valuation allowance | 318                                      |  | 251                                | (237)                          | (1)                        | 331                             |

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