MAKITA CORP
Form 20-F
July 07, 2006

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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, 2006

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

For the transition period from __________ to __________

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

Date of event requiring this shell company report __________

For the transition period from April 1, 2005 to March 31, 2006
Commission file number 0-12602
KABUSHIKI KAISHA MAKITA
(Exact name of registrant as specified in its charter)
MAKITA CORPORATION
(Translation of registrant s name into English)
Japan
(Jurisdiction of incorporation or organization)
3-11-8, Sumiyoshi-cho, Anjo City, Aichi Prefecture, Japan
(Address of principal executive offices)
Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of Class	Name of each exchange on which registered
* **American Depositary Shares** ** **Common Stock**	Nasdaq Global Market

* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing one share of the

registrant s Common Stock.

** Effective October 1, 2001, no par value per share. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

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

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

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

None

(Title of Class)

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

	Outstanding as of	
Title of Class	March 31, 2006 (Tokyo time)	March 31, 2006 (New York time)
Common Stock, excluding 296,994 shares of Treasury Stock	143,711,766	
American Depositary Shares, each representing one share of Common Stock		3,160,984

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

þ Yes o 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.

o Yes þ No

Note Checking the box above will not relieve any registrant required to the 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.

þ Yes o 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 þ Accelerated filer o Non-accelerated filer o

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

Item 17 o Item 18 þ

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).

o Yes þ No

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As used in this annual report, the term fiscal preceding a year means the twelve-month period ended March 31 of the year referred to. For example, fiscal 2006 or FY2006 refers to the twelve-month period ended March 31, 2006. All other references to years refer to the applicable calendar year.

All information contained in this annual report is as of March 31, 2006 unless otherwise specified.

In parts of this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥117 = U.S.$1.00, the approximate exchange rate on the noon buying rate for yen in New York City as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2006. On June 15, 2006 the noon buying rate for yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥115.06= $1.00.

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

Cautionary Statement with Respect to Forward-Looking Statements

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

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

- changes in economic conditions affecting the retail, housing and construction markets in different countries, particularly in Japan, the United States and Europe and, to a lesser extent, in Canada, Asia, Australia and the Middle East;
- Makita s ability to maintain mutually beneficial relationships with key distributors and to penetrate new channels of distribution;
- circumstances relating to inventory adjustments or changes in purchasing patterns by major customers and their impact on Makita s manufacturing volumes and inventory levels;
- uncertainties surrounding market acceptance of new products introduced in fiscal 2006 and scheduled for introduction in fiscal 2007, as well as the level of sales generated from these new products, in connection with Makita s existing investments in productive capacity and commitments to fund its advertising and product promotions to introduce these new products;
- Makita s ability to develop and introduce new products at favorable margins;
- adverse changes in currency exchange rates or raw material commodity prices, both in absolute terms and relative to competitors risk profiles;
- increased competition in both Japanese market and worldwide;
- changes in consumer preference or loyalties;
- price reductions taken by Makita in response to customer and competitive pressures, as well as price reductions or promotional actions taken in order to drive demand, which may not result in anticipated sales levels;
- Makita s ability to achieve projected levels of efficiencies and cost reduction measures and to avoid delays in or inefficiencies resulting from manufacturing and administrative reorganization actions in progress or contemplated;

the impact of various factors on Makita s foreign operations such as tariffs, nationalization, exchange controls, interest rate fluctuations, civil unrest, governmental changes, restrictions on Makita s foreign investment in local business and risks related to other political, economic, and regulatory instabilities;

the effects of litigation, environmental remediation matters, and product liability exposures;

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- Makita s ability to generate sufficient cash flows to support capital expansion, business acquisition plans and general operating activities, and Makita s ability to obtain necessary financing at favorable interest rates;
- changes in laws and regulations, including changes in accounting standards, taxation requirements, including tax rate changes, new tax laws and revised tax law interpretations, and environmental laws, both in Japan and in foreign jurisdictions in which Makita operates;
- the impact of unforeseen events, including war or terrorist activities, on economic conditions and corporate and consumer confidence;
- fluctuations in stock market prices; and
- the effects of attestation on internal control over financial reporting to be expressed by the Company 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.

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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, 2006 has been derived from Makita s audited consolidated financial statements. It should be read in conjunction with Makita s audited consolidated balance sheets as of March 31, 2005 and 2006, the related consolidated statements of income, shareholder s equity and cash flows for each of the three years ended March 31, 2006, and the notes thereto that appear elsewhere in this annual report. Makita s consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP, and were included in its Japanese Securities Reports filed with the Director of the Kanto Local Finance Bureau.

	(Millions of yen, except per share amounts)					U.S. Dollars (thousands)
	Fiscal year ended March 31,					
Income Statement Data:	2002	2003	2004	2005	2006	2006
Net sales	¥ 166,169	¥ 175,603	¥ 184,117	¥ 194,737	¥ 229,075	$ 1,957,906
Operating income	5,873	12,468	14,696	31,398	45,778	391,265
Net income	133	6,723	7,691	22,136	40,411	345,393
Net income per share of Common stock and per ADS:						
Basic	0.9	45.3	53.2	153.9	281.1	2.40
Diluted	0.9	44.2	51.9	148.8	281.1	2.40

	(Millions of yen, except per share amounts)					U.S. Dollars (thousands)
	Fiscal year ended March 31,					
Balance Sheet Data:	2002	2003	2004	2005	2006	2006
Total assets	¥ 285,138	¥ 278,600	¥ 278,116	¥ 289,904	¥ 326,038	$ 2,786,650
Cash and cash equivalents, time deposits and marketable securities	63,393	64,083	92,616	91,189	88,672	757,880
Net working capital	144,929	141,759	147,822	149,666	181,808	1,553,914
Short-term borrowings	8,984	2,892	14,128	9,060	1,728	14,769
Long-term indebtedness	20,102	19,843	7,364	88	104	889
Common stock	23,803	23,803	23,803	23,805	23,805	203,462
Treasury stock	(2,229)	(5,110)	(3,316)	(3,517)	(258)	(2,205)
Shareholders equity	189,939	182,400	193,348	219,640	266,584	2,278,496
Total number of shares outstanding	149,673,742	145,967,876	143,893,191	143,777,607	143,711,766	143,711,766

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

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

	(Japanese Yen per U.S. $1.00)			
Fiscal year ended March 31,	High	Low	Average	Year-end
2002	115.89	134.77	125.64	132.70
2003	115.71	133.40	121.94	118.07
2004	104.18	120.55	113.07	104.18
2005	102.26	114.30	107.47	107.22
2006	104.41	120.93	113.15	117.48

	(Japanese Yen per U.S. $1.00)					
2006	January	February	March	April	May	June (through June 15)
High	113.96	115.82	115.89	113.79	110.07	111.66
Low	117.55	118.95	119.07	118.66	113.46	115.06

On June 15, 2006 the noon buying rate for yen cable transfer in New York City as reported by the Federal Reserve Bank of New York was ¥115.06 = U.S. $1.00
Cash dividends declared per share of common stock and per ADS:

	In Yen		In U.S. Dollars	
Fiscal year ended March 31,	Interim	Year-end	Interim	Year-end
2002	9.0	9.0	0.07	0.07
2003	9.0	9.0	0.07	0.07
2004	9.0	13.0	0.09	0.11
2005	11.0	36.0	0.10	0.34
2006	19.0	38.0	0.16	0.32

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

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

B. Capitalization and indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

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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 and capital investments in the relevant regions. Generally speaking, the levels of construction activities and capital investment depend largely on the economic conditions in the market. As a result, when economic conditions weaken in the principal markets for Makita s activities, including Japan, North America, Europe, and Asia, this may have an adverse impact on Makita s consolidated financial condition and results of operations.

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

Makita s principal management functions, including its headquarters, and the companies on which it relies for supplying major parts are located in Aichi Prefecture (Aichi), Japan. Makita s manufacturing facilities in Aichi and Kunshan, Jiangsu Province, China, collectively account for approximately 76% of Makita s total production volume on a consolidated basis in fiscal 2006. 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 infections 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.

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

Makita derives a majority of its sales in markets located outside of Japan, including North America, Europe, Asia, Oceania, the Middle East, and emerging markets such as Russia and Eastern Europe. In fiscal 2006, approximately 82% of Makita s consolidated net sales were derived from products sold overseas. On a volume basis, Makita depended on overseas markets for 88% of units sold. The high percentage of overseas sales gives rise to a number of risks. If such risks occur, they may have a material adverse impact on Makita s consolidated financial condition and results of operations. Such risks include the following:

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

Environmental or other government regulations may have a material adverse impact on Makita s business activities.

Makita maintains strict compliance with environmental, commercial, export and import, tax, safety and other regulations that are applicable to its activities in all the countries in which Makita operates. If Makita is unable to continue its compliance with existing regulations or is unable to comply with any new or amended regulations, it may be subject to fines and other penalties and its activities may be significantly restricted. The costs related to compliance with any new or amended regulations may also result in significant increases in overall costs.

Beginning on July 1, 2006, a European directive entitled Restriction of the Use of Certain Hazardous Substances (RoHS) takes effect which forbids the sale in EU member countries of products containing six toxic substances, including lead. In addressing RoHS, we have abolished nearly all restricted substances through the cooperation of our parts suppliers. In addition, the Makita Group itself is constantly reinforcing its system for inspecting parts as they are delivered and has addressed this issue nearly fully at the present time. However, if Makita s suppliers have not fully shifted to alternative materials and Makita is not able to detect the presence of the forbidden substances, then, if these substances are confirmed within the EU, Makita may face a number of risks, including the need to replace the defective parts, conduct recalls, and sustain damage to its brand image. In such cases, Makita s consolidated financial condition and results of operations may be adversely affected.

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

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

Sales denominated in foreign currencies accounted for approximately 76% of Makita s consolidated net sales in fiscal 2006, and, accordingly, Makita s operating income is significantly affected by foreign exchange fluctuations.

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

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

Makita holds certain Japanese equities and equity-linked financial products and records these securities as marketable securities on its consolidated financial statements. The values of these investments are influenced by fluctuations in the quoted market prices. A significant depreciation in the value of these securities will have an adverse impact on Makita s consolidated financial condition and results of operations.

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

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

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

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

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

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

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

Makita has a number of significant customers. If Makita loses these customers and is unable to develop new sales channels to take their place, sales may decline and have an adverse impact on Makita s business performance and financial position. In 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. Makita purchases some of its component parts from sole suppliers. The largest single source supplier of the Company accounted for approximately 5% of its aggregate purchases of raw materials and parts in fiscal 2006. There is no assurance that Makita will be able to find alternate suppliers that can provide materials and parts of similar quality and price in a sufficient quantity and in a timely manner. In the event that any of these suppliers cannot deliver the required quality and quantity of parts on schedule, this will have an adverse effect on Makita s production schedules and cause a delay in Makita s own product deliveries. This may cause Makita to lose some customers or require Makita to purchase replacement materials or parts from alternate sources at a higher price. Any of these occurrences may have a detrimental effect on Makita s consolidated financial condition and results of operations.

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

In manufacturing power tools, Makita Group purchases raw materials and components, including silicon steel plates, aluminum, steel products, copper wire, and electronic parts. In recent years, demand for these materials in China and the rest of the world has risen substantially, and some suppliers are experiencing a shortage of capacity. Under these circumstances, if the Makita Group is unable to obtain the necessary quantities of these materials, this may have an effect on production schedules. In addition, the shortage of capacity among suppliers is a factor leading to increased prices of production materials. If the Makita Group experiences increases in prices of production materials, greater than what can be absorbed by increased productivity or through other internal efforts and prices of final products cannot be raised sufficiently, such circumstance may have a detrimental impact on the performance and financial position of the Makita Group.

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

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

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 controls over financial reporting are not effective as of March 31, 2007, or if Makita s independent registered public accounting firm is unable to provide adequate attestation on management s assessment, or to provide unqualified opinion on the effectiveness of Makita s internal controls over 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 rule requiring public companies to include a report of management on Makita s internal controls over financial reporting in its Annual Report on Form 20-F that contains an assessment by management of the effectiveness of Makita s internal control over financial reporting. In addition, Makita s independent registered public accounting firm must attest to and report on management s assessment of the effectiveness of Makita s internal control over financial reporting. These requirements will first apply to Makita s Annual Report on Form 20-F for the fiscal year ending March 31, 2007. Although Makita intends to diligently and vigorously review its internal controls over financial reporting in order to ensure compliance with Section 404 requirements, Makita s management may conclude that Makita s internal controls over financial reporting are not effective. In addition, Makita s independent registered public accounting firm may be unable to attest to Makita s management s assessment or may issue a report that concludes that Makita s internal controls over financial reporting are not effective. Makita s failure to achieve and maintain effective internal controls over financial reporting, or Makita s independent registered public accounting firm s inability to attest to Makita s management s assessment, or the issuance of a report that concludes that Makita s internal controls over financial reporting are not effective, could result in the loss of investor confidence in the reliability of Makita s financial reporting process, which in turn could harm Makita s business and ultimately could negatively impact the market price of Makita s ADRs and ordinary shares.

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Item 4. Information on the Company

A. History and development of the Company

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

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

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. Construction began in April 2006 on a new Romanian factory in the suburbs of the capital, Bucharest, where production is scheduled to start by Summer 2007.

Makita presently manufactures power tools in seven countries globally: the United States, Canada, Brazil, the United Kingdom, Germany, China and Japan. By fiscal year 2008, when construction of the Romania factory is complete, Makita will have production facilities in eight countries, three of them in Europe.

During the fiscal year under review, Makita Ukraine LLC, and Makita EU S.R.L. were newly included within the scope of consolidation. On the other hand, golf course operator Joyama Kaihatsu Ltd. was dropped from the list of the company s consolidated subsidiaries because of the transfer of its ownership interests in Joyama Kaihatsu Ltd. to a third party. As a result, the number of consolidated subsidiaries increased to 45.

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

B. Business overview

Makita s principal activity is the manufacturing and sale of a wide range of power tools for professional users worldwide. Makita s power tools consist of portable general purpose tools, primarily drills, grinders and sanders and portable woodworking tools, primarily saws and planers. Makita also produces a line of stationary woodworking machines. For the fiscal year ended March 31, 2006, approximately 82% of Makita s sales were outside of Japan. Makita estimates that most of its sales worldwide were made to commercial and professional users such as those engaged in timber and metal processing, carpentry, and concrete and masonry works.

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

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Products

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

	(Millions of yen, except for percentage amounts) Consolidated Net Sales by Product Categories Fiscal year ended March 31,						U.S. Dollars (thousands)
	2004		2005		2006		2006
Portable woodworking tools	¥ 34,452	18.7%	¥ 34,507	17.7%	¥ 37,890	16.5%	323,846
Portable general purpose tools	98,176	53.3%	105,736	54.3%	128,215	56.0%	1,095,855
Stationary woodworking machines	1,711	1.0%	1,573	0.8%	2,009	0.9%	17,171
Other products	19,548	10.6%	21,763	11.2%	26,696	11.7%	228,171
Parts, repairs and accessories	30,230	16.4%	31,158	16.0%	34,265	14.9%	292,863
Total	184,117	100.0%	194,737	100.0%	229,075	100.0%	1,957,906

Portable Woodworking Tools

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

Among Makita s new products launched in Japan in the fiscal year under review was a 125mm rechargeable circular saw, featuring a small, lightweight, high-capacity lithium ion battery, a proprietary digital charge-optimization system, and a high-speed (4,300 rpm) motor.

Portable General Purpose Tools

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

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

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

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

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

Among Makita s new products launched in Japan in the fiscal year under review was a series of new products featuring lithium-ion batteries, including a high-cost-performance impact driver with a small, lightweight, high-capacity lithium ion battery, a newly developed four-pole motor, and a proprietary digital charge-optimization system. This series also includes a 16 mm rechargeable hammer drill that is 30% faster than any of our previous products, allowing the user to set the desired speed of rotation, impact, and fastening torque, and a 100 mm rechargeable disk grinder with a maximum speed of 10,000 rpm.

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Stationary Woodworking Machines

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

Other Products

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

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.

Principal Markets, Distribution and After-Sale Services

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

	(Millions of yen, except percentage amount) Consolidated Net Sales by Geographic Area Fiscal year ended March 31,					U.S. Dollars (thousands)
	2004		2005		2006	2006
Japan	¥39,142	21.3%	¥ 39			