

HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019



## **Independent Auditor's Report**

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated financial statements of Harmonic Drive Systems Inc. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### *Convenience translation*

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2019 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

*PricewaterhouseCoopers Aarata LLC*

June 28, 2019

HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2018	2019	2019
Assets:			
Current assets -			
Cash and bank deposits (Notes 10(a) and 12(d))	¥29,423,941	¥18,805,569	\$169,434
Notes and accounts receivable, trade (Notes 6(e) and 12(d))	15,816,588	17,384,070	156,627
Marketable securities (Notes 10(a) and 13)	40,929	16,506	148
Finished products	1,196,363	1,856,807	16,729
Work in process	2,927,793	2,256,097	20,327
Raw materials and supplies	2,363,942	3,258,082	29,354
Other current assets	740,696	1,321,036	11,902
Allowance for doubtful accounts (Note 12(d))	(11,037)	(12,525)	(112)
Total current assets	52,499,217	44,885,646	404,411
Fixed assets -			
Tangible fixed assets (Notes 6(b) and 11):			
Buildings and structures	4,720,845	12,170,045	109,649
Machinery and equipment	9,430,427	17,300,831	155,877
Land (Note 6(d))	2,814,300	3,280,912	29,560
Leased assets	228,094	205,402	1,850
Construction in progress	2,913,073	6,615,529	59,604
Others	1,199,632	1,280,215	11,534
Total tangible fixed assets	21,306,373	40,852,936	368,077
Intangible fixed assets:			
Goodwill (Note 18(f))	13,153,263	11,891,973	107,144
Software	286,474	477,910	4,305
Customer related assets	23,691,533	21,419,711	192,987
Technical assets	6,327,661	5,720,891	51,544
Others	123,313	28,398	255
Total intangible fixed assets	43,582,246	39,538,885	356,238
Investments and other assets:			
Investment securities (Notes 12(d) and 13)	761,689	536,878	4,837
Investment in affiliated companies (Notes 6(a), 12(d) and 13)	13,571,462	10,708,217	96,479
Net defined benefit assets (Note 15)	1,047,271	1,074,157	9,677
Deferred tax assets (Note 17)	267,729	229,820	2,070
Others	159,793	174,754	1,574
Allowance for doubtful accounts	(5,600)	(5,600)	(50)
Total investments and other assets	15,802,345	12,718,227	114,588
Total fixed assets	80,690,966	93,110,049	838,904
Total assets	¥133,190,183	¥137,995,696	\$1,243,316

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2018	2019	2019
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 12(d))	¥3,162,055	¥3,513,122	\$31,652
Short-term borrowings (Notes 6(c), 12(d) and 22(b))	57,056	25,544	230
Current portion of long-term debt (Notes 6(b), 6(c), 12(d) and 22(b))	352,164	352,705	3,177
Lease obligations – current (Note 22(b))	48,785	52,932	476
Accrued income taxes (Note 12(d))	3,253,567	2,414,836	21,757
Accrued bonuses for employees	1,433,246	1,604,470	14,455
Accrued bonuses for directors and audit & supervisory board members	415,638	518,247	4,669
Accrued warranty expenses	92,806	179,233	1,614
Other current liabilities	4,364,706	7,283,448	65,622
Total current liabilities	13,180,028	15,944,541	143,657
Long-term liabilities -			
Long-term debt (Notes 6(b), 6(c), 12(d) and 22(b))	1,529,366	1,726,001	15,550
Lease obligations – non-current (Note 22(b))	181,379	154,801	1,394
Deferred tax liabilities (Note 17)	12,079,324	10,228,500	92,156
Reserve for retirement benefits for directors and audit & supervisory board members	400,375	462,345	4,165
Reserve for retirement benefits for executive officers	91,877	104,613	942
Net defined benefit liabilities (Note 15)	907,720	829,641	7,474
Other long-term liabilities	1,495,309	144,280	1,299
Total long-term liabilities	16,685,352	13,650,183	122,985
Total liabilities	¥29,865,380	¥29,594,724	\$266,643

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2018	2019	2019
Net assets (Note 20):			
Shareholders' equity (Note 9) -			
Common stock:			
- Authorized:	356,400,000 shares		
Issued and outstanding:			
96,315,400 shares (March 31, 2018 and 2019)	¥7,100,036	¥7,100,036	\$63,970
Capital surplus	30,225,361	30,225,361	272,325
Retained earnings	51,928,676	60,353,848	543,777
Treasury stock, at cost	(38,166)	(38,280)	(344)
Total shareholders' equity	89,215,907	97,640,965	879,727
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 13)	7,953,429	5,800,311	52,259
Foreign currency translation adjustments	2,508,363	748,985	6,748
Remeasurements of defined benefit plans	(13,118)	(4,089)	(36)
Total accumulated other comprehensive income	10,448,675	6,545,208	58,971
Stock subscription rights	625,511	625,511	5,635
Non-controlling interests	3,034,708	3,589,286	32,338
Total net assets	103,324,802	108,400,971	976,673
Total liabilities and net assets	¥133,190,183	¥137,995,696	\$1,243,316

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Net sales (Notes 18 and 22(d))	¥54,339,573	¥67,809,268	\$610,949
Cost of sales (Notes 7(b) and 18)	28,636,270	37,363,210	336,635
Gross profit	25,703,303	30,446,058	274,313
Selling, general and administrative expenses (Notes 7(a) and 7(b))	13,104,479	13,542,293	122,013
Operating profit	12,598,823	16,903,765	152,299
Other income:			
Interest income	17,908	24,543	221
Dividend income	252,061	251,297	2,264
Equity in income of affiliated companies	24,822	9,954	89
Gain on sales of securities	3,166	-	-
Foreign exchange gain	-	40,536	365
Others	243,514	341,517	3,077
	541,473	667,849	6,017
Other expenses:			
Interest expense	42,332	22,785	205
Sales discount	30,552	37,214	335
Devaluation loss on marketable securities	-	22,607	203
Stock issuance cost	180,279	-	-
Foreign exchange loss	578,070	-	-
Others	80,618	24,495	220
	911,853	107,103	964
Ordinary profit	12,228,443	17,464,511	157,352
Exceptional gains:			
Gain on sales of fixed assets (Note 7(c))	4,012	18,585	167
Subsidy income	100,000	160,410	1,445
	104,012	178,995	1,612
Exceptional losses:			
Loss on sales of fixed assets (Note 7(d))	17	44,585	401
Loss on disposal of fixed assets (Note 7(e))	10,614	201,961	1,819
Loss on fixed assets devaluation for subsidy income	100,000	160,410	1,445
	110,631	406,957	3,666
Income before income taxes	12,221,824	17,236,549	155,298
Income taxes:			
Current	5,005,284	5,233,796	47,155
Deferred	(1,105,607)	(508,058)	(4,577)
	3,899,677	4,725,738	42,578
Profit	8,322,147	12,510,811	112,720
Profit attributable to non-controlling interests	262,402	908,953	8,189
Profit attributable to owners of the parent (Notes 20 and 22(d))	¥8,059,744	¥11,601,858	\$104,530

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Profit	¥8,322,147	¥12,510,811	\$112,720
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	2,685,525	(2,153,117)	(19,399)
Foreign currency translation adjustments	3,688,438	(2,177,505)	(19,618)
Remeasurements of defined benefit plans	29,821	10,205	91
Total other comprehensive loss (income) (Note 8(a))	6,403,785	(4,320,417)	(38,926)
Comprehensive income	¥14,725,932	¥8,190,393	\$73,793
Attributable to -			
owners of the parent	¥13,847,194	¥7,698,391	\$69,361
non-controlling interests	878,737	492,002	4,432

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥1,610,542	¥7,100,036	\$63,970
Changes during the year			
Issuance of new shares	5,489,493	-	-
Total changes	5,489,493	-	-
Balance at the end of the year	7,100,036	7,100,036	63,970
Capital surplus -			
Balance at the beginning of the year	5,203,709	30,225,361	272,325
Changes during the year			
Issuance of new shares	5,489,493	-	-
Disposal of treasury stock	19,532,158	-	-
Total changes	25,021,651	-	-
Balance at the end of the year	30,225,361	30,225,361	272,325
Retained earnings -			
Balance at the beginning of the year	45,884,068	51,928,676	467,868
Changes during the year			
Cash dividends	(2,015,136)	(3,176,685)	(28,621)
Profit attributable to owners of the parent	8,059,744	11,601,858	104,530
Total changes	6,044,607	8,425,172	75,909
Balance at the end of the year	51,928,676	60,353,848	543,777
Treasury stock, at cost -			
Balance at the beginning of the year	(2,305,055)	(38,166)	(343)
Changes during the year			
Purchase of treasury stock	-	(114)	(1)
Disposal of treasury stock	2,266,888	-	-
Total changes	2,266,888	(114)	(1)
Balance at the end of the year	(38,166)	(38,280)	(344)
Total shareholders' equity -			
Balance at the beginning of the year	50,393,265	89,215,907	803,819
Changes during the year			
Issuance of new shares	10,978,987	-	-
Cash dividends	(2,015,136)	(3,176,685)	(28,621)
Profit attributable to owners of the parent	8,059,744	11,601,858	104,530
Purchase of treasury stock	-	(114)	(1)
Disposal of treasury stock	21,799,047	-	-
Total changes	38,822,642	8,425,057	75,908
Balance at the end of the year	¥89,215,907	¥97,640,965	\$879,727

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





HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥5,267,904	¥7,953,429	\$71,658
Changes during the year			
Net changes in items other than those in shareholders' equity	2,685,525	(2,153,117)	(19,399)
Total changes	2,685,525	(2,153,117)	(19,399)
Balance at the end of the year	7,953,429	5,800,311	52,259
Accumulated other comprehensive income (continued)			
Foreign currency translation adjustments -			
Balance at the beginning of the year	(¥557,155)	¥2,508,363	\$22,599
Changes during the year			
Net changes in items other than those in shareholders' equity	3,065,519	(1,759,377)	(15,851)
Total changes	3,065,519	(1,759,377)	(15,851)
Balance at the end of the year	2,508,363	748,985	6,748
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	(49,523)	(13,118)	(118)
Changes during the year			
Net changes in items other than those in shareholders' equity	36,405	9,029	81
Total changes	36,405	9,029	81
Balance at the end of the year	(13,118)	(4,089)	(36)
Total Accumulated other comprehensive income			
Balance at the beginning of the year	4,661,224	10,448,675	94,140
Changes during the year			
Net changes in items other than those in shareholders' equity	5,787,450	(3,903,466)	(35,169)
Total changes	5,787,450	(3,903,466)	(35,169)
Balance at the end of the year	10,448,675	6,545,208	58,971
Stock subscription rights			
Balance at the beginning of the year	-	625,511	5,635
Changes during the year			
Net changes in items other than those in shareholders' equity	625,511	-	-
Total changes	625,511	-	-
Balance at the end of the year	¥625,511	¥625,511	\$5,635

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Non-controlling interests:			
Balance at the beginning of the year	¥2,345,801	¥3,034,708	\$27,342
Changes during the year			
Net changes in items other than those in shareholders' equity	688,906	554,577	4,996
Total changes	688,906	554,577	4,996
Balance at the end of the year	3,034,708	3,589,286	32,338
Total net assets:			
Balance at the beginning of the year	57,400,291	103,324,802	930,937
Changes during the year			
Issuance of new shares	10,978,987	-	-
Cash dividends	(2,015,136)	(3,176,685)	(28,621)
Profit attributable to owners of the parent	8,059,744	11,601,858	104,530
Purchase of treasury stock	-	(114)	(1)
Disposal of treasury stock	21,799,047	-	-
Net changes in items other than those in shareholders' equity	7,101,868	(3,348,889)	(30,172)
Total changes	45,924,510	5,076,168	45,735
Balance at the end of the year	¥103,324,802	¥108,400,971	\$976,673

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



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HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Cash flows from operating activities:			
Income before income taxes	¥12,221,824	¥17,236,549	\$155,298
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	5,164,219	5,566,008	50,148
Depreciation of goodwill	687,927	681,085	6,136
(Decrease) Increase in allowance for doubtful accounts	(3,689)	2,184	19
Increase (Decrease) in net defined benefit liabilities	761,621	(64,953)	(585)
(Decrease) Increase in reserve for retirement benefits for directors and audit & supervisory board members	(747,149)	61,970	558
Increase in reserve for retirement benefits for executive officers	18,688	12,736	114
Increase in accrued bonuses for directors and audit & supervisory board members	109,542	109,297	984
(Decrease) Increase in accrued warranty expenses	(8,966)	87,700	790
Interest income	(17,908)	(24,543)	(221)
Dividend income	(252,061)	(251,297)	(2,264)
Interest expense	42,332	22,785	205
Equity in income of affiliated companies	(24,822)	(9,954)	(89)
Subsidy income	(100,000)	(160,410)	(1,445)
Gain on sales of securities	(3,166)	-	-
(Gain) Loss on sales of fixed assets	(3,995)	26,000	234
Loss on disposal of fixed assets	10,614	201,961	1,819
Loss on fixed asset devaluation for subsidy income	100,000	160,410	1,445
Increase in trade receivables	(4,787,441)	(1,767,278)	(15,922)
Increase in inventories	(2,575,722)	(1,098,940)	(9,901)
Increase in trade payables	393,202	499,904	4,504
Others, net	1,367,970	(569,125)	(5,127)
Subtotal	12,353,019	20,722,090	186,702
Interest and dividends received	270,170	275,850	2,485
Sundry income received	100,000	160,410	1,445
Interest paid	(43,335)	(22,155)	(199)
Income taxes paid	(3,460,163)	(6,199,842)	(55,859)
Income taxes refunded	14,036	185,523	1,671
Net cash provided by operating activities	9,233,727	15,121,877	136,245

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2018	2019	2019
Cash flows from investing activities:			
Proceeds from sales of investment securities	3,166	-	-
Payments for purchases of tangible fixed assets	(9,175,004)	(21,040,315)	(189,569)
Proceeds from sales of tangible fixed assets	4,036	317,293	2,858
Payments for purchases of intangible fixed assets	(271,308)	(235,680)	(2,123)
Payments for time deposits with a deposit period of over three months	(1,186,506)	(349,857)	(3,152)
Proceeds from maturities of time deposits with a deposit period of over three months	2,453,567	255,466	2,301
Payments for purchase of shares of subsidiaries and affiliates	-	(1,321,400)	(11,905)
Payments for guarantee deposits	(3,476)	(35,550)	(320)
Proceeds from collection of guarantee deposits	5,261	9,660	87
Payments for short-term loans receivable	(1,566)	-	-
Proceeds from collection of short-term loans receivable	437	1,128	10
Others, net	321	(330)	(2)
Net cash used in investing activities	<u>(8,171,070)</u>	<u>(22,399,586)</u>	<u>(201,816)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	17,030,000	761,299	6,859
Repayments of short-term borrowings	(32,000,810)	(792,134)	(7,136)
Proceeds from long-term debt	1,477,436	573,176	5,164
Repayments of long-term debt	(236,624)	(376,000)	(3,387)
Proceeds from stock issuance	10,978,987	-	-
Repayments of lease obligations	(50,880)	(53,548)	(482)
Payments for treasury stock	-	(114)	(1)
Proceeds from disposal of treasury stock	21,799,047	-	-
Cash dividends paid	(2,014,695)	(3,173,977)	(28,596)
Cash dividends paid to non-controlling interests	(114,140)	(209,843)	(1,890)
Proceeds from stock subscription rights issuance	625,511	-	-
Net cash provided by financing activities	<u>17,493,829</u>	<u>(3,271,142)</u>	<u>(29,472)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>95,455</u>	<u>(171,569)</u>	<u>(1,545)</u>
Net (decrease) increase in cash and cash equivalents	<u>18,651,942</u>	<u>(10,720,420)</u>	<u>(96,589)</u>
Cash and cash equivalents at the beginning of year	<u>9,668,865</u>	<u>28,320,807</u>	<u>255,165</u>
Cash and cash equivalents at the end of year (Note 10(a))	<u>¥28,320,807</u>	<u>¥17,600,386</u>	<u>\$158,576</u>

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacturing and sales of harmonic drive gears and related motion control products. The manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, and by subsidiaries in the United States and Europe.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements of the Companies are prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects with regard to the application and disclosure requirements from International Financial Reporting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Companies in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the consolidated financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

In the consolidated financial statements, amounts have been rounded down to ¥1 thousand consistent with the original consolidated financial statements in Japanese. As a result, the total shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at

the rate of ¥110.99 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2019. This translation should not be construed as implying that the yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

(a) Basis of consolidation and accounting for investment in affiliated companies -

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the years ended March 31, 2018 and 2019 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.
- Winbel Co., Ltd.
- Harmonic Drive Systems (Shanghai) Co., Ltd.
- SAMICK ADM CO., LTD.
- Godo Kaisha HD Management
- Harmonic Drive AG and its nine subsidiaries

All significant intercompany transactions, accounts and unrealized intercompany profits are eliminated in consolidation.

The Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is accounted for using the equity method in the consolidated financial statements.

Some subsidiaries of the Company (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., SAMICK ADM CO., LTD., Godo Kaisha HD Management, Harmonic Drive AG and its nine subsidiaries of Harmonic Drive AG) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material transactions occurring during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Realized gains and losses on sales of those securities are determined using the moving average method and are reflected in the consolidated statements of income. Available-for-sale securities with market quotations are stated at fair value, with net unrealized gains or losses being reported as a separate component of net assets on a net-of-tax basis. Those securities without market quotations are stated at cost using the moving average method.

② Receivables and payables arising from derivatives:

All receivables and payables arising from derivatives are stated at fair value.

③ Inventories:

Finished products, work in process and raw materials are stated at moving average cost (reflecting the write down of their book value to the net selling value regarded as decreased profitability of any product, if any). Supplies are stated at cost, being determined by the last purchase price method.

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs, as well as minor renewals and improvements, are charged to income as incurred. Depreciation is computed using the declining balance method for the Company and its domestic subsidiaries, with the exception of buildings acquired on or after April 1, 1998, and accompanying facilities and structures acquired on or after April 1, 2016, respectively, which are depreciated using the straight-line method. For the foreign subsidiaries, depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

② Intangible fixed assets (excluding leased assets):

Amortization is calculated based on the straight-line method. Software for in-house use is amortized based on the straight-line method over the expected useful life of 5 years.



③ Leased assets:

Depreciation of leased assets, other than those of which ownership is deemed to be transferred to the lessee, is computed based on the straight-line method over the lease period with no residual value.

(d) Accounting for deferred charges -

Stock issue costs are not capitalized, but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

The allowance for doubtful accounts is comprised of a general reserve based on historical bad debt experience and a specific reserve for doubtful receivables considered by management to be irrecoverable.

② Accrued bonuses for employees:

The Company and its domestic subsidiaries provide accrued bonuses for the expected payments of employee bonuses attributable to the current year.

③ Accrued bonuses for directors and audit & supervisory board members:

The Company and its domestic subsidiaries provide an accrual for the estimated bonuses to directors and audit & supervisory board members attributable to the current year.

④ Accrued warranty expenses:

The Company and its domestic subsidiaries provide a reserve for warranty expenses based on the estimated warranty expenses to be incurred in the future.

⑤ Reserve for retirement benefits for directors and audit & supervisory board members:

In accordance with the Companies' internal rule for retirement benefits for directors and audit & supervisory board members, the reserve for retirement benefits for directors and audit & supervisory board members of the Companies is calculated at the amount that would have been payable if all directors and audit & supervisory board members had retired at the balance sheet date.

⑥ Reserve for retirement benefits for executive officers:

In accordance with the Companies' internal rule for retirement benefits for executive officers, the reserve for retirement benefits for executive officers of the Companies is calculated at the amount that would have been payable if all executive officers had retired at the balance sheet date.

(f) Accounting method for retirement benefits for employees -

The balance of retirement benefits for employees of the Company and its domestic subsidiaries represents the difference between the estimated present value of projected benefit obligations and the fair value of the plan assets. If the fair value of the plan assets exceeds the estimated present value of projected benefit obligations, such excess is recorded as net defined benefit assets, while if the estimated present value of projected benefit obligations exceeds the fair value of plan assets, such excess is recorded as net defined benefit liabilities. With regard to the calculation of defined benefits plan obligations, the benefit formula basis was used to attribute projected benefit obligations to the period up to the end of this year. Past service costs are mainly amortized over a period of 3 years from the year in which they occur. Actuarial differences are amortized on a straight-line basis over 3 years, mainly starting from the year following that in which they occur. Unrecognized actuarial differences and unrecognized past service costs, net of the related income taxes, have been recognized as "Remeasurements of defined benefit plans" of "Accumulated other comprehensive income" within the net assets section. Certain domestic subsidiaries have adopted the simplified accounting method in the calculation of their defined benefits plan obligations.

(g) Foreign currency translation -

Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, net asset accounts are translated at historical rates, and all income and expense accounts are translated at the average exchange rate during the year. Foreign currency translation adjustments resulting from such translation are recorded as a separate component of net assets in the consolidated balance sheets.

(h) Amortization of goodwill and negative goodwill -

Goodwill is amortized using the straight-line method over a period within 20 years.

(i) Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so close to their maturities that they present an insignificant risk of change in value.

(j) Consumption tax -

The consumption tax withheld upon sales of goods and the consumption tax paid upon purchases of goods and services by the Company and its domestic subsidiaries are not included in revenue and cost or expense items, respectively, in the accompanying consolidated statements of income.

3. Accounting changes:

(a) Adoption of IFRS 15

Effective from the year ended March 31, 2019, the Company's overseas consolidated subsidiaries adopted International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers". Effects to the consolidated financial statements of this adoption are immaterial.

4. Accounting standards not yet implemented, etc:

Domestic affiliated companies:

(a) ASBJ Statement No. 29 Accounting Standard for Revenue Recognition

ASBJ Guidance No. 30 Implementation Guidance on Accounting Standard for Revenue Recognition

① Overview:

Accounting Standard for Revenue Recognition is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when or as it satisfies performance obligations.

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2022.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of these accounting standards to the consolidated financial statements.

Foreign affiliated companies:

(a) ASU 2014-09 Revenues from contracts with customers -

① Overview:

The core principle of these accounting standards is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Therefore, these accounting standards requires more judgements and estimates than the current accounting standards. The judgment and estimates include identifying the performance obligations in the contract, estimating the amounts of variable consideration to which it will be entitled under the contract

and allocating the transaction price to the performance obligations.

② Planned adoption date:

ASU No. 2014-09 is to be adopted from the beginning of the fiscal year ending March 31, 2020.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of these accounting standards to the consolidated financial statements.

(b) IFRS 16 Leases and ASU 2016-02 Leases -

① Overview:

These accounting standards requires lessees to recognize assets and liabilities for all leases in principle.

② Planned adoption date:

IFRS No. 16 is to be adopted from the beginning of the fiscal year ending March 31, 2020.

ASU No. 2016-02 is to be adopted from the beginning of the fiscal year ending March 31, 2021.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of these accounting standards to the consolidated financial statements.

5. Change in presentation:

(a) Partial Amendments to Accounting Standard for Tax Effect Accounting -

The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018) has been applied from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets, while deferred tax liabilities are presented under long-term liabilities. The Company also updated the Notes related to tax effect accounting. As a result, the “Deferred tax assets - current” balance of ¥894,383 thousand (\$8,058 thousand) included in “Current assets” in the prior year has been reclassified into ¥96,117 thousand (\$865 thousand) of “Deferred tax assets” under “Investments and other assets” of ¥267,729 thousand (\$2,412 thousand). In addition, the rest of ¥798,265 thousand (\$7,192 thousand) offset against the “Deferred tax liabilities - current” balance of ¥449,988 thousand (\$4,054 thousand) included in “Current liabilities” in the prior year, and has also been reclassified into the “Deferred tax liabilities” under “Long-term liabilities” in calculation of the balance of ¥12,079,324 thousand (\$108,832 thousand).

6. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2018 and 2019 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Investment in affiliated companies	<u>¥168,637</u>	<u>¥178,592</u>	<u>\$1,609</u>

(b) Assets pledged as collateral and related secured liabilities -

The following assets were pledged as collateral to secure the long-term debt, including the current portion thereof, at March 31, 2018 and 2019:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Buildings	¥46,080	¥42,531	\$383
Land	<u>34,225</u>	<u>52,225</u>	<u>470</u>
	<u>¥80,305</u>	<u>¥94,756</u>	<u>\$853</u>
Secured long-term debt:			
Current portion of long-term debt	¥2,168	¥3,120	\$28
Long-term debt	<u>575</u>	<u>25,280</u>	<u>227</u>
	<u>¥2,743</u>	<u>¥28,400</u>	<u>\$255</u>

(c) Credit facility contracts -

The Company entered into credit facility contracts with its main banks.

The balance of unused portion based on the contracts at March 31, 2018 and 2019 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Total of credit facility contracts	¥6,619,280	¥6,524,000	\$58,780
Outstanding	121,446	114,300	1,029
The balance of unused credit facilities	<u>¥6,497,834</u>	<u>¥6,409,700</u>	<u>\$57,750</u>

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, ¥160,410 thousand (\$1,445 thousand) was deducted from the acquisition cost of the land for the year ended March 31, 2019.

(e) Accounting treatment of notes receivable matured on the consolidated balance sheet date -

Notes receivable maturing on the consolidated balance sheet date are accounted for as though they are settled on the day of actual clearance. Consequently, as March 31, 2018 and 2019 were bank holidays, notes receivable due on that date, totaling ¥68,399 thousand and ¥115,683 thousand (\$1,042 thousand) of notes receivable and ¥404,276 thousand and ¥747,622 thousand (\$6,735 thousand) of electronically recorded receivables, were included in the balance of notes receivable at March 31, 2018 and 2019, respectively.



7. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2018 and 2019 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Salaries and bonuses	¥3,112,296	¥3,305,540	\$29,782
Accrued bonuses for directors and audit & supervisory board members	313,221	521,533	4,698
Retirement benefit expenses	76,850	83,123	748
Reserve for retirement benefits for directors and audit & supervisory board members	55,846	91,587	825
Reserve for retirement benefits for executive officers	21,126	12,736	114
Research and development expenses	2,071,070	2,421,909	21,820
Depreciation	2,580,997	1,864,223	16,796

(b) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥2,114,993 thousand and ¥2,476,736 thousand (\$22,314 thousand) for the years ended March 31, 2018 and 2019, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2018 and 2019 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Gain on sales of:			
Machinery and equipment	¥ 4,012	¥ 2,750	\$ 24
Tools, furniture and fixtures	-	15,834	142
	<u>¥ 4,012</u>	<u>¥ 18,585</u>	<u>\$ 167</u>

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2018 and 2019 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Loss on sales of:			
Land	-	¥ 4,776	\$ 43
Buildings and structures	-	37,996	342
Machinery and equipment	-	1,812	16
Tools, furniture and fixtures	¥ 17	-	-
	<u>¥ 17</u>	<u>¥ 44,585</u>	<u>\$ 401</u>

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2018 and 2019 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Loss on disposal of:			
Buildings and structures	¥ 2,295	¥ 190,210	\$ 1,713
Machinery and equipment	2,582	2,264	20
Tools, furniture and fixtures	<u>5,736</u>	<u>9,487</u>	<u>85</u>
	<u>¥ 10,614</u>	<u>¥ 201,961</u>	<u>\$ 1,819</u>

8. Notes to consolidated statements of comprehensive income:

(a) Recycling adjustments and related tax effect related to other comprehensive income -

Recycling adjustments and related tax effect related to other comprehensive income for the years ended March 31, 2018 and 2019 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2018</u>	<u>2019</u>	<u>2019</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	¥3,864,065	(¥3,098,011)	(\$27,912)
Recycling adjustments	-	-	-
Before tax effect	3,864,065	(3,098,011)	(27,912)
Tax effect	(1,178,540)	944,893	8,513
Net unrealized losses (gains) on available-for-sale securities	<u>2,685,525</u>	<u>(2,153,117)</u>	<u>(19,399)</u>
Foreign currency translation adjustments			
Changes arising during the year	<u>3,688,438</u>	<u>(2,177,505)</u>	<u>(19,618)</u>
Remeasurements of defined benefit plans			
Changes arising during the year	¥ 58,483	(¥ 8,648)	(\$ 77)
Recycling adjustments	<u>(10,882)</u>	<u>21,312</u>	<u>192</u>
Before tax effect	47,600	12,663	114
Tax effect	<u>(17,779)</u>	<u>(2,458)</u>	<u>(22)</u>
Net unrealized losses on available-for-sale securities	<u>29,821</u>	<u>10,205</u>	<u>91</u>
Total other comprehensive loss (income)	<u>¥6,403,785</u>	<u>(¥4,320,417)</u>	<u>(\$ 38,926)</u>

9. Notes to consolidated statements of changes in net assets:

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2018</u>
Common stock (shares)	<u>94,749,300</u>	<u>1,566,100</u>	<u>-</u>	<u>96,315,400</u>

(Reason for the changes)

The increased number of 1,566,100 shares issued and outstanding is due to the public stock offering.

<u>Share type</u>	<u>April 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2019</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2018</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>3,100,000</u>	<u>52,193</u>

(Reason for the changes)

The decreased number of 3,100,000 shares is due to the disposition of the treasury stock caused by the public stock offering.

<u>Share type</u>	<u>April 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2019</u>
Common stock (shares)	<u>52,193</u>	<u>32</u>	<u>-</u>	<u>52,225</u>

(Reason for the changes)

The increased number of 32 shares of treasury stock is due to the purchase of common shares of less-than-one unit from shareholders.

(c) Stock subscription rights -

Company	Breakdown of stock subscription rights	Types of shares subject to stock subscription rights	Number of shares subject to stock subscription rights (Shares)				Balance as of March 31, 2018
			Balance as of March 31, 2017	Increase	Decrease	Balance as of March 31, 2018	Thousands of yen
The Company	No.1 subscription warrants	Common Stock	-	1,261,900	-	1,261,900	¥625,511

Company	Breakdown of stock subscription rights	Types of shares subject to stock subscription rights	Number of shares subject to stock subscription rights (Shares)				Balance as of March 31, 2019
			Balance as of March 31, 2018	Increase	Decrease	Balance as of March 31, 2019	Thousands of yen (Thousands of U.S.dollars)
The Company	No.1 subscription warrants	Common Stock	1,261,900	-	-	1,261,900	¥625,511 (\$5,635)

(Note 1) The number of shares subject to stock subscription rights is the number of shares that would be issued in the event that stock options were exercised.

(Note 2) The increased numbers of shares of No.1 subscription warrants is due to its issuance.

(d) Dividends -

For the year ended March 31, 2018:

- ① Dividends paid during the current year -
- (i) The following was resolved by the annual shareholders' meeting held on June 14, 2017:
- |  |                |
|--|----------------|
| Type of shares   | Common stock   |
| Total amount of dividends paid in cash<br>(Thousands of yen) | ¥915,971       |
| Cash dividend per share<br>(Yen)                             | ¥10            |
| Record date  | March 31, 2017 |
| Declaration date   | June 15, 2017  |
- (ii) The following was determined by the board of directors meeting held on November 9, 2017:
- |  |                    |
|--|--------------------|
| Type of shares   | Common stock       |
| Total amount of dividends paid in cash<br>(Thousands of yen) | ¥1,099,165         |
| Cash dividend per share<br>(Yen)                             | ¥12                |
| Record date  | September 30, 2017 |
| Declaration date   | December 11, 2017  |
- ② Dividends for the current year that are to be paid after the balance sheet date -
- The following was resolved by the annual shareholders' meeting held on June 21, 2018:
- |  |                   |
|--|-------------------|
| Type of shares   | Common stock      |
| Resource of the dividends to be paid                                 | Retained earnings |
| The total amount of the dividends in cash paid<br>(Thousands of yen) | ¥1,347,684        |
| Cash dividend per share<br>(Yen)                                     | ¥14               |
| Record date  | March 31, 2018    |
| Declaration date   | June 22, 2018     |

For the year ended March 31, 2019:

① Dividends paid during the current year -

(i) The following was resolved by the annual shareholders' meeting held on June 21, 2018:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,347,684
(Thousands of U.S. dollars)	\$12,142
Cash dividend per share	
(Yen)	¥14
(U.S. dollars)	\$0.12
Record date	March 31, 2018
Declaration date	June 22, 2018

(ii) The following was determined by the board of directors meeting held on November 8, 2018:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,829,000
(Thousands of U.S. dollars)	\$16,478
Cash dividend per share	
(Yen)	¥19
(U.S. dollars)	\$0.17
Record date	September 30, 2018
Declaration date	December 10, 2018

② Dividends for the current year that are to be paid after the balance sheet date -

The following was resolved by the annual shareholders' meeting held on June 21, 2019:

Type of shares	Common stock
Resource of the dividends to be paid	Retained earnings
The total amount of the dividends in cash paid	
(Thousands of yen)	¥1,829,000
(Thousands of U.S. dollars)	\$16,478
Cash dividend per share	
(Yen)	¥19
(U.S. dollars)	\$0.17
Record date	March 31, 2019
Declaration date	June 24, 2019

10. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2018 and 2019 comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash and bank deposits	¥29,423,941	¥18,805,569	\$169,434
Highly liquid investments	40,929	16,506	148
Time deposits with a deposit period of over three months	(1,144,063)	(1,221,689)	(11,007)
Cash and cash equivalents	<u>¥28,320,807</u>	<u>¥17,600,386</u>	<u>\$158,576</u>

11. Lease transactions (as lessee):

(a) Leased assets capitalized on the consolidated balance sheets -

Finance leased assets are mainly machinery and equipment. Depreciation expenses are calculated based on the straight-line method over the lease period, assuming no residual asset value at the end of the lease period.

(b) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2018 and 2019 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Due within 1 year	¥166,117	¥289,950	\$2,612
Due after 1 year	450,326	791,056	7,127
	<u>¥616,443</u>	<u>¥1,081,006</u>	<u>\$9,739</u>



12. Financial instruments:

(a) Policy for financial instruments -

The Companies invest excess funds, if any, in high quality and low risk financial instruments, while the Companies raise funds (necessary for business operations) through loans from financial institutions.

The Companies utilize derivative financial instruments such as foreign exchange forward contracts in order to reduce their exposure to fluctuations in foreign currency exchange rates during the normal course of business operations and do not hold or issue financial instruments for trading or speculative purposes.

(b) Description and risks of financial instruments and risk management for financial instruments -

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, and to mitigate foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts only with the financial institutions with high credit ratings (in accordance with the internal rules on assignment of authority and responsibility), the Companies believe their exposure to almost no contractual default risk to be close to nil. Marketable securities are short-term investment bonds which have almost no credit risk, and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

Notes and accounts payable, trade is due within one year.

Short-term borrowings and long-term debt are used to raise funds mainly for acquisition cost of a subsidiary and operating transactions. Floating-rate debt is exposed to the risk of fluctuations in interest rates.

Trade payables, and short-term borrowings and long-term debt are exposed to liquidity risk and the Companies monitor and manage that risk continuously in ways such as preparing cash flow projections periodically.

(c) Supplemental information on the fair value of financial instruments -

The notional amount of the derivative transactions discussed in “(d) Fair value of financial instruments” below is not indicative of the market risk associated with derivative transactions.

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2017 and 2018. Financial instruments, for which the fair value is difficult to determine, are not included in the following table (See (Note 2) below for additional information.).

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2018:			
(1) Cash and bank deposits	¥29,423,941	¥29,423,941	¥ -
(2) Notes and accounts receivable, trade	15,816,588		
Allowance for doubtful accounts (*1)	(11,037)		
	<u>15,805,551</u>	<u>15,805,551</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	757,889	757,889	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>13,402,825</u>	<u>13,402,825</u>	<u>-</u>
Assets total	<u>¥59,390,206</u>	<u>¥59,390,206</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,162,055	¥3,162,055	¥ -
(2) Accrued income taxes	3,253,567	3,253,567	-
(3) Short-term borrowings	57,056	57,056	-
(4) Current portion of long-term debt	352,164	352,164	-
(5) Long-term debt	<u>1,529,366</u>	<u>1,529,366</u>	<u>-</u>
Liabilities total	<u>¥8,354,208</u>	<u>¥8,354,208</u>	<u>¥ -</u>
Derivative transactions	<u>(¥159,402)</u>	<u>(¥159,402)</u>	<u>¥ -</u>

March 31, 2019:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥18,805,569	¥18,805,569	¥ -
(2) Notes and accounts receivable, trade	17,384,070		
Allowance for doubtful accounts (*1)	(12,525)		
	<u>17,371,545</u>	<u>17,371,545</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	533,078	533,078	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>10,529,625</u>	<u>10,529,625</u>	<u>-</u>
Assets total	<u>¥47,239,818</u>	<u>¥47,239,818</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,513,122	¥3,513,122	¥ -
(2) Accrued income taxes	2,414,836	2,414,836	-
(3) Short-term borrowings	25,544	25,544	-
(4) Current portion of long-term debt	352,705	352,705	-
(5) Long-term debt	<u>1,726,001</u>	<u>1,726,001</u>	<u>-</u>
Liabilities total	<u>¥8,032,210</u>	<u>¥8,032,210</u>	<u>¥ -</u>
Derivative transactions	<u>¥ 2,151</u>	<u>¥ 2,151</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Variance
March 31, 2019:			
(1) Cash and bank deposits	\$169,434	\$169,434	\$ -
(2) Notes and accounts receivable, trade	156,627		
Allowance for doubtful accounts (*1)	(112)		
	<u>156,514</u>	<u>156,514</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	4,802	4,802	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>94,870</u>	<u>94,870</u>	<u>-</u>
Assets total	<u><u>\$425,622</u></u>	<u><u>\$425,622</u></u>	<u><u>\$ -</u></u>
(1) Notes and accounts payable, trade	\$31,652	\$31,652	\$ -
(2) Accrued income taxes	21,757	21,757	-
(3) Short-term borrowings	230	230	-
(4) Current portion of long-term debt	3,177	3,177	-
(5) Long-term debt	<u>15,550</u>	<u>15,550</u>	<u>-</u>
Liabilities total	<u><u>\$72,368</u></u>	<u><u>\$72,368</u></u>	<u><u>\$ -</u></u>
Derivative transactions	<u><u>\$19</u></u>	<u><u>\$19</u></u>	<u><u>\$ -</u></u>

(\*1) For the calculation of the fair value of notes and accounts receivable, trade, allowances for doubtful accounts relating to these receivables are deducted.

(Note 1) Method for calculating the fair value of financial instruments, and matters related to securities and derivative transactions.

#### Assets

##### (1) Cash and bank deposits

The carrying amount approximates the fair value due to the short maturities of all bank deposits.

##### (2) Notes and accounts receivable, trade

The carrying amount approximates the fair value since notes and accounts receivable, trade are settled within a short period.

(3) Investment securities

The fair value is measured at the quoted market price of the stock exchange.

See “Note 13. Marketable securities and investment securities” for the footnote information by holding purpose.

(4) Investment in affiliated companies

The fair value is measured at the quoted market price of the stock exchange.

See “Note 13. Marketable securities and investment securities” for the footnote information by holding purpose.

Liabilities

(1) Notes and accounts payable, trade, (2) Accrued income taxes and (3) Short-term borrowings

The carrying amount approximates the fair value since notes and accounts payable, trade, accrued income taxes and short-term borrowings are settled within a short period.

(4) Current portion of long-term debt and (5) Long-term debt

The fair value is determined by discounting the sum of the principal and interest using the interest rate assumed to be applied to the new debt with the same conditions. However, the fair value of long-term debt with a variable interest rate is deemed to approximate the carrying amount because the contracted interest rate is periodically renewed reflecting the current market interest rate.

Derivative transactions

See “Note 14. Derivative financial instruments”.

(Note 2) Financial instruments, of which the fair value is difficult to determine.

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$34</u>
Investment in affiliated companies			
Unlisted equity securities	<u>168,637</u>	<u>178,592</u>	<u>\$1,609</u>

Unlisted equity securities are not included in “(3) Investment securities” and “(4) Investment in affiliated companies” in the first table above because their fair values are difficult to determine since such securities do not have available market prices and the related future cash flows cannot be estimated.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2018 and 2019 are as follows:

	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2018:				
Cash and bank deposits	¥29,423,941	-	-	-
Notes and accounts receivable, trade	<u>15,816,588</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥45,240,529</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2019:				
Cash and bank deposits	¥18,805,569	-	-	-
Notes and accounts receivable, trade	<u>17,384,070</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥36,189,640</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2019:				
Cash and bank deposits	\$169,434	-	-	-
Notes and accounts receivable, trade	156,627	-	-	-
	<u>\$326,062</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2017 and 2018 are as follows:

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2018:						
Long-term debt	¥352,164	¥285,833	¥239,264	¥236,233	¥166,056	¥601,980
Total	<u>¥352,164</u>	<u>¥285,833</u>	<u>¥239,264</u>	<u>¥236,233</u>	<u>¥166,056</u>	<u>¥601,980</u>

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2019:						
Long-term debt	¥352,705	¥306,136	¥303,105	¥232,928	¥227,428	¥656,404
Total	<u>¥352,705</u>	<u>¥306,136</u>	<u>¥303,105</u>	<u>¥232,928</u>	<u>¥227,428</u>	<u>¥656,404</u>

	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2019:						
Long-term debt	\$3,177	\$2,758	\$2,730	\$2,098	\$2,049	\$5,914
Total	<u>\$3,177</u>	<u>\$2,758</u>	<u>\$2,730</u>	<u>\$2,098</u>	<u>\$2,049</u>	<u>\$5,914</u>

13. Marketable securities and investment securities:

The aggregate costs, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2018 and 2019 were as follows:

Thousands of yen				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2018				
Equity securities	<u>¥2,716,931</u>	<u>11,443,783</u>	<u>-</u>	<u>¥14,160,714</u>
Thousands of yen				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2019				
Equity securities	<u>¥2,716,931</u>	<u>8,345,772</u>	<u>-</u>	<u>¥11,062,703</u>
Thousands of U.S. dollars				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2019:				
Equity securities	<u>\$24,479</u>	<u>75,193</u>	<u>-</u>	<u>\$99,672</u>

In the cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of the fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the consolidated statement of income for that period. There are no impairment losses on available-for-sale securities with market quotations for the years ended March 31, 2018 and 2019.



14. Derivative financial instruments:

- (a) Notional amount, fair value and gains (losses) of derivative transactions for which hedge accounting was not adopted -

Thousands of Yen				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2018				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥287,700	¥ -	(¥ 9,905)	(¥9,905)
Chinese CNY	1,842,290	-	(123,892)	(123,892)
Euro	450,000	-	(25,604)	(25,604)
	<u>¥2,579,990</u>	<u>¥ -</u>	<u>(¥159,402)</u>	<u>(¥159,402)</u>

Thousands of Yen				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2019				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥292,800	¥ -	¥ 1,531	¥ 1,531
Chinese CNY	146,693	-	1,155	1,155
U.S. Dollars	220,470	-	(535)	(535)
	<u>¥659,963</u>	<u>¥ -</u>	<u>¥2,151</u>	<u>¥2,151</u>

Thousands of U.S. Dollars				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2019				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	\$2,638	\$ -	\$13	\$13
Chinese CNY	1,321	-	10	10
U.S. Dollars	1,986	-	(4)	(4)
	<u>\$5,946</u>	<u>\$ -</u>	<u>\$19</u>	<u>\$19</u>

Note: The fair value of forward exchange contracts is determined by the forward exchange rate.

15. Retirement benefits for employees:

Retirement benefits regulations, which cover substantially all employees of the Company and its subsidiaries, provide for funded or non-funded defined benefit plans or defined contribution plans based on the employee's length of service, position in the respective company and conditions under which the termination of employment occurs. The Companies may pay additional retirement benefits to their retired employees which are not covered by the retirement benefits regulations within the scope of actuarial computation of defined benefits plan obligations.

The Company has established a non-contributory defined benefit pension plan (a tax qualified plan) for a certain portion of the retirement benefits prescribed under the severance indemnity regulations for its employees. Under the pension plan, a retiring employee may elect either a lump-sum payment or annuity payments.

Certain domestic subsidiaries have recognized their defined benefits plan obligations and retirement benefit expenses using the simplified accounting method.

In addition, an overseas consolidated subsidiary has a defined benefit pension plan for the retirement benefits for directors.

The information for the defined benefit plans as of March 31, 2018 and 2019 and for the years then ended is as follows:

① Changes in balances of the defined benefits plan obligations at beginning and end of the year (excluding the plans recorded under the simplified accounting method) -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Defined benefits plan obligations at beginning of the year	¥1,886,121	¥2,858,380	\$25,753
Service cost	146,096	144,678	1,303
Interest cost	25,899	25,488	229
Actuarial differences	(43,521)	(25,362)	(228)
Retirement benefits paid	(107,465)	(206,777)	(1,863)
Transfer from reserve for retirement benefits for directors	884,680	-	-
Other	66,569	(46,444)	(418)
Defined benefits plan obligations at end of the year	<u>¥2,858,380</u>	<u>¥2,749,962</u>	<u>\$24,776</u>

② Changes in balances of the plan assets at beginning and end of the year -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Plan assets at beginning of the year	¥2,943,666	¥3,088,541	\$27,827
Expected return on plan assets	58,918	61,253	551
Actuarial differences	14,961	(34,010)	(306)
Employer contributions	116,804	126,325	1,138
Retirements benefits paid	(58,302)	(156,074)	(1,406)
Other	12,491	(8,213)	(73)
Plan assets at end of the year	<u>¥3,088,541</u>	<u>¥3,077,820</u>	<u>\$27,730</u>

③ Reconciliation between the balances of defined benefits plan obligations and plan assets at end of the year and net defined benefit assets recorded in the consolidated balance sheet -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Defined benefits plan obligations of funded plan	¥2,858,380	¥2,749,962	\$24,776
Plan assets	(3,088,541)	(3,077,820)	(27,730)
	(230,161)	(327,858)	(2,953)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(230,161)	(327,858)	(2,953)
Net defined benefit liabilities	817,110	746,299	6,724
Net defined benefit assets	(1,047,271)	(1,074,157)	(9,677)
Net liabilities or assets recorded in the consolidated balance sheet	(¥230,161)	(¥327,858)	(\$2,953)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Service cost	¥146,096	¥144,678	\$1,303
Interest cost	25,899	25,488	229
Expected return on plan assets	(58,918)	(61,253)	(551)
Actuarial differences	(10,882)	21,312	192
Retirement benefit expenses related to the defined benefit plans	¥102,194	¥130,226	\$1,173

⑤ Adjustments of defined benefit plans –

Adjustments of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Actuarial differences	(¥47,600)	(¥12,663)	(\$114)
Total	<u>(¥47,600)</u>	<u>(¥12,663)</u>	<u>(\$114)</u>

⑥ Unrecognized adjustments of remeasurements of defined benefit plans -

Unrecognized adjustments of remeasurements of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrecognized actuarial differences	¥23,656	¥10,993	\$99
Total	<u>¥23,656</u>	<u>¥10,993</u>	<u>\$99</u>

⑦ Plan assets -

1) Components of plan assets

Share by asset category in the total plan assets is as follows:

	2018	2019
Bonds	70%	69%
Equities	22%	24%
Other	8%	7%
Total	<u>100%</u>	<u>100%</u>

2) Method for determining the expected long-term rate of return on plan assets

Expected long-term rate of return on plan assets is determined by considering the current and projected plan asset allocations, as well as current and expected long-term investment returns from the various assets that compose the plan assets.

⑧ Principal actuarial assumptions -

The assumptions used in the above actuarial computations for the years ended March 31, 2018 and 2019 were as follows:

	<u>2018</u>	<u>2019</u>
Discount rate	0.94%	0.94%
Expected return ratio on plan assets	1.98%	1.98%

(a) Defined benefit plans recorded under the simplified accounting method -

① Changes in balances of the net defined benefit liabilities at beginning and end of the year for the plans recorded under the simplified accounting method -

	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
	<u>2018</u>	<u>2019</u>
Net defined benefit liabilities at beginning of the year	¥75,978	¥90,610
Retirement benefits expenses	14,632	8,172
Retirement benefits paid	-	(9,203)
Contributions to the plan	-	(6,237)
Net defined benefit liabilities at end of the year	<u>¥90,610</u>	<u>¥83,342</u>

② Reconciliation between the balances of defined benefits plan obligations and plan assets at end of the year and net defined benefit liabilities or assets recorded in the consolidated balance sheet -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	-	-	-
Defined benefits plan obligations of unfunded plan	90,610	83,342	750
Net liabilities or assets recorded in the consolidated balance sheet	90,610	83,342	750
Net defined benefit liabilities	90,610	83,342	750
Net liabilities or assets recorded in the consolidated balance sheet	¥90,610	¥83,342	\$750

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2018 and 2019 calculated by the simplified accounting method were ¥14,632 thousand and ¥8,172 thousand (\$73 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2018 and 2019 were ¥101,383 thousand and ¥120,723 thousand (\$1,087 thousand), respectively.

16. Stock options:

No stock options were granted during the years ended March 31, 2018 and 2019.



17. Income taxes:

Deferred tax assets and liabilities as of March 31, 2018 and 2019 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Deferred tax assets :			
Accrued enterprise taxes	¥204,399	¥170,629	\$1,537
Accrued bonuses	367,873	433,093	3,902
Inventory write-down	5,702	27,595	248
Unrealized intercompany profit in inventories	224,817	370,582	3,338
Accrued social insurance premium	38,706	42,068	379
Reserve for retirement benefits for directors and audit & supervisory board members	143,821	162,721	1,466
Net defined benefit liabilities	20,025	22,427	202
Devaluation loss on golf club memberships	5,733	5,733	51
Devaluation loss on investment securities	68,641	68,641	618
Reserve for retirement benefits for executive officers	34,485	38,370	345
Others	380,230	317,599	2,861
Deferred tax assets total	<u>¥1,494,437</u>	<u>¥1,659,463</u>	<u>\$14,951</u>
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(3,490,354)	(2,545,460)	(22,934)
Undistributed earnings of foreign subsidiaries and an affiliated company	(231,020)	(281,580)	(2,536)
Net defined benefit assets	(319,417)	(327,618)	(2,951)
Intangible assets identified by the business combination	(9,152,827)	(8,274,856)	(74,554)
Others	(112,413)	(228,627)	(2,059)
Deferred tax liabilities total	<u>(13,306,033)</u>	<u>(11,658,143)</u>	<u>(105,037)</u>
Net deferred tax liabilities	<u>(¥11,811,595)</u>	<u>(¥9,998,679)</u>	<u>(\$90,086)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2018 and 2019 are as follows:

	<u>2018</u>	<u>2019</u>
Statutory tax rate	-	30.5%
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	-	(0.3)
Tax credit relating to research and development expenses	-	(4.5)
Others, net	<u>-</u>	<u>1.7</u>
Actual effective tax rate	<u>-</u>	<u>27.4%</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2018 was omitted due to immateriality.

#### 18. Segment information:

##### (a) Overview of the reportable segments -

The reportable segments of the Company are business units of the Companies for which separate financial information can be obtained and the Board of Directors examines such information on a regular basis to determine the allocation of management resources and evaluate the business performance.

The Company is engaged in the manufacturing and sales of precision speed reducers, precision actuators and related motion control products, and the business operations fall within a single industry segment based on similarities in the type, nature, manufacturing method and markets of their products.

The geographic markets of the products of the Company are Japan (including the Asia area), North America and Europe, and the products are marketed by the Company and its subsidiaries in Japan, by subsidiaries in the United States and Europe.

As a result, the Company consists of three reportable segments: Japan, North America and Europe, which are consistent with the geographic segments based on the manufacturing and sale of the products.

(b) Accounting method of sales, profit/loss, assets and other items by each reportable segment -

Accounting methods used at the reportable segments are identical to the descriptions in “Summary of significant accounting policies”.

The profit by the reportable segment is based on the ordinary profit. The transfer prices of inter-segment transactions are based on the market price.

(c) Sales, profit/loss, assets and other items by each reportable segment -

For the year ended March 31, 2018	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥35,350,674	¥5,482,040	¥13,506,859	¥54,339,573	¥ -	¥54,339,573
Inter-segment	4,284,169	27,265	116,689	4,428,123	(4,428,123)	-
Total	<u>¥39,634,843</u>	<u>¥5,509,305</u>	<u>¥13,623,548</u>	<u>¥58,767,697</u>	<u>(¥4,428,123)</u>	<u>¥54,339,573</u>
Segment profit/(loss)	¥13,909,181	¥678,167	¥554,150	¥15,141,499	(¥2,913,056)	¥12,228,443
Segment assets	¥38,526,892	¥5,673,111	¥39,803,866	¥84,003,871	¥49,186,312	¥133,190,183
Others						
Investment in affiliated companies	¥168,637	¥ -	¥ -	¥168,637	¥ -	¥168,637
Increase in tangible and intangible fixed assets	5,363,393	442,981	1,126,667	6,933,042	-	6,933,042

- The adjustment for segment profit/(loss) of (¥2,913,056) thousand includes the eliminated profit of the inter-segment transactions of (¥1,421,295) thousand, the general administrative expenses of (¥1,491,760) thousand that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG (¥687,927) thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- “Europe” segment is covered by Harmonic Drive AG, which became a consolidated subsidiary through acquisition of additional shares at March 22, 2017. Therefore, the sales and profit/(loss) of Harmonic Drive AG on and after the 1st quarter of the year ended March 31, 2018 are included in the “Europe” segment
- The adjustment for segment assets of ¥49,186,312 thousand includes inter-segment elimination of (¥12,233,235) thousand, corporate assets of ¥36,953,077 thousand that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG of ¥13,153,263 thousand. The corporate assets consist mainly of

excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

For the year ended March 31, 2019	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥45,327,338	¥6,814,109	¥15,667,820	¥67,809,268	¥ -	¥67,809,268
Inter-segment	5,338,810	42,726	284,570	5,666,107	(5,666,107)	-
Total	¥50,666,148	¥6,856,835	¥15,952,391	¥73,475,376	(¥5,666,107)	¥67,809,268
Segment profit/(loss)	¥17,298,015	¥1,375,467	¥1,750,271	¥20,423,753	(¥2,959,242)	¥17,464,511
Segment assets	¥60,772,548	¥8,489,301	¥38,417,425	¥107,679,275	¥30,316,421	¥137,995,696
Others						
Investment in affiliated companies	¥178,592	¥ -	¥ -	¥178,592	¥ -	¥178,592
Increase in tangible and intangible fixed assets	20,364,831	1,473,250	2,038,522	23,876,604	-	23,876,604

For the year ended March 31, 2019	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$408,391	\$61,393	\$141,164	\$610,949	\$ -	\$610,949
Inter-segment	48,101	384	2,563	51,050	(51,050)	-
Total	<u>\$456,492</u>	<u>\$61,778</u>	<u>\$143,728</u>	<u>\$661,999</u>	<u>(51,050)</u>	<u>\$610,949</u>
Segment profit/(loss)	\$155,852	\$12,392	\$15,769	\$184,014	(\$26,662)	\$157,352
Segment assets	\$547,549	\$76,487	\$346,134	\$970,170	\$273,145	\$1,243,316
Others						
Investment in affiliated companies	\$1,609	\$ -	\$ -	\$1,609	\$ -	\$1,609
Increase in tangible and intangible fixed assets	183,483	13,273	18,366	215,123	-	215,123

- The adjustment for segment profit/(loss) of (¥2,959,242) thousand ((\$26,662) thousand) includes the eliminated profit of the inter-segment transactions of (¥1,161,907) thousand ((\$10,468) thousand), the general administrative expenses of (¥1,797,334) thousand ((\$16,193) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG ((¥681,085) thousand ((\$6,136) thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥30,316,421 thousand (\$273,145 thousand) includes inter-segment elimination of (¥7,596,189) thousand ((\$68,440) thousand), corporate assets of ¥22,720,232 thousand (\$204,705 thousand) that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG of ¥11,891,973 thousand (\$107,144 thousand). The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate

departments.

(d) Related information –

① Information by products/service -

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Sales to third parties			
Speed reducers	¥ 44,643,631	¥ 56,885,512	\$512,528
Mechatronic products	9,695,942	10,923,756	98,421
	<u>¥54,339,573</u>	<u>¥67,809,268</u>	<u>\$610,949</u>

The sales of the subsidiary, Winbel Co., Ltd., which is engaged in the development, manufacturing and sales of the Magnetic application equipment, are classified as mechatronic products.

② Geographic information –

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2018:					
Total	<u>¥28,128,319</u>	<u>¥5,482,040</u>	<u>¥13,506,859</u>	<u>¥7,222,355</u>	<u>¥54,339,573</u>
For the year ended March 31, 2019:					
Total	<u>¥37,445,825</u>	<u>¥6,856,835</u>	<u>¥15,952,391</u>	<u>¥7,554,216</u>	<u>¥67,809,268</u>
	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2019:					
Total	<u>\$337,380</u>	<u>\$61,778</u>	<u>\$143,728</u>	<u>\$68,062</u>	<u>\$610,949</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2018:				
Total Assets	<u>¥16,372,940</u>	<u>¥1,544,656</u>	<u>¥3,388,776</u>	<u>¥21,306,373</u>
March 31, 2019:				
Total Assets	<u>¥33,055,767</u>	<u>¥3,267,961</u>	<u>¥4,529,207</u>	<u>¥40,852,936</u>
	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2019:				
Total Assets	<u>\$297,826</u>	<u>\$29,443</u>	<u>\$40,807</u>	<u>\$368,077</u>

③ Information of major customers -

Customer Name	Thousands of yen		Thousands of U.S. dollars	Related Segment
	2018	2019	2019	
Haneda & Co., Ltd.	¥5,693,809	¥ 6,658,638	\$ 59,993	Japan

(e) Impairment loss information of fixed assets by reportable segment -

No impairment loss was recognized on fixed assets for the years ended March 31, 2018 and 2019.



(f) Information regarding amortization and balance of goodwill by reportable segment

For the year ended March 31, 2018	Thousands of yen					
	Reportable segment					Consolidated
	Japan	North America	Europe	Total	Adjustment	
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 687,927	¥ 687,927
Balance of goodwill	-	-	-	-	13,153,263	13,153,263

For the year ended March 31, 2019	Thousands of yen					
	Reportable segment					Consolidated
	Japan	North America	Europe	Total	Adjustment	
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 681,085	¥ 681,085
Balance of goodwill	-	-	-	-	11,891,973	11,891,973

For the year ended March 31, 2019	Thousands of U.S. dollars					
	Reportable segment					Consolidated
	Japan	North America	Europe	Total	Adjustment	
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 6,136	\$6,136
Balance of goodwill	-	-	-	-	107,144	107,144

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2018 and 2019.

19. Transactions with related parties:

(a) Transactions with related parties –

There have been no transactions with related parties for the year ended March 31, 2018 and 2019.

(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the year ended March 31, 2018 and 2019.

20. Net income per share information:

The computation of net income per share is based on the weighted-average number of common shares outstanding during each year. Treasury stocks held during these years are excluded from the weighted-average number of common shares outstanding.

	Yen		U.S. dollars
	2018	2019	2019
Net assets per share	¥1,035.33	¥1,082.31	\$9.75
Net income per share	86.90	120.52	1.08

Net income used in the computation of basic net income per share is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2018	2019	2019
Profit attributable to owners of the parent	¥8,059,744	¥11,601,858	\$104,530
Profit attributable to common stock owners of the parent	<u>¥8,059,744</u>	<u>¥11,601,858</u>	<u>\$104,530</u>

The weighted average number of shares used in the computation of basic net income per share is as follows:

	Number of shares	
	2018	2019
Weighted average number of shares	<u>92,747,652</u>	<u>96,263,203</u>

Diluted net income per share is as follows:

	2018	2019
Diluted net income per share	-	-
Increase in number of common stock (Shares) (includes: Stock subscription rights)	1,261,900 (1,261,900)	1,261,900 (1,261,900)
Descriptions of potentially dilutive common stocks that were not included in the computation of diluted net income per share because of their non- dilutive effect	No.1 subscription warrants (Number of shares: 1,261,900)	No.1 subscription warrants (Number of shares: 1,261,900)

(Note)

- Diluted net income per share is not computed because the Company does not have any potentially dilutive shares.

21. Subsequent events:

There have been no significant subsequent events on or after April 1, 2019.

22. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2018 and 2019.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2018	Balance at March 31, 2019	Balance at March 31, 2019		
Short-term borrowings	¥57,056	¥25,544	\$230	1.5	-
Current portion of long-term debt	352,164	352,705	3,177	0.4	-
Current portion of lease obligations	48,785	52,932	476	0.9	-
Long-term debt (excluding current portion)	1,529,366	1,726,001	15,550	0.3	2020-2029
Lease obligations (excluding current portion)	181,378	154,801	1,394	0.7	2020-2025
Other	-	-	-	-	-
Total	¥2,168,750	¥2,311,984	\$20,830	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2019.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2019 are as follows:

	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2019				
Long-term debt	¥306,136	¥303,105	¥232,928	¥227,428
Lease obligations	53,261	49,995	22,676	17,628

	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2019				
Long-term debt	\$2,758	\$2,730	\$2,098	\$2,049
Lease obligations	479	450	204	158

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2018 and 2019 were omitted due to immateriality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2019 is as follows:

	Thousands of yen (Net income per share: yen)			
	3 months ended June 30, 2018	6 months ended September 30, 2018	9 months ended December 31, 2018	12 months ended March 31, 2019
Sales	¥16,438,835	¥34,474,045	¥52,274,868	¥67,809,268
Income before income taxes	4,770,854	9,275,854	14,335,231	17,236,549
Profit attributable to owners of the parent	3,063,215	5,908,099	9,167,906	11,601,858
Net income per share	¥31.82	¥61.37	¥95.24	¥120.52

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	3 months ended June 30, 2018	6 months ended September 30, 2018	9 months ended December 31, 2018	12 months ended March 31, 2019
Sales	\$148,110	\$310,604	\$470,987	\$610,949
Income before income taxes	42,984	83,573	129,157	155,298
Profit attributable to owners of the parent	27,599	53,230	82,601	104,530
Net income per share	\$0.28	\$0.55	\$0.85	\$1.08

	Yen			
	3 months ended June 30, 2018	3 months ended September 30, 2018	3 months ended December 31, 2018	3 months ended March 31, 2019
Net income per share	¥31.82	¥29.55	¥33.86	¥25.28

	U.S. Dollars			
	3 months ended June 30, 2018	3 months ended September 30, 2018	3 months ended December 31, 2018	3 months ended March 31, 2019
Net income per share	\$0.28	\$0.26	\$0.30	\$0.22