



December 16, 2016

To whom it may concern

Company Name	Harmonic Drive Systems Inc.
Representative	President Akira Nagai (Stock code: 6324)
Inquiries	Executive Officer Kazutoshi Kamijo (TEL. 03-5471-7810)

## Notice of acquisition (subsidiarization) of Harmonic Drive AG through acquisition of additional shares

Harmonic Drive Systems, Inc. (the “Company” or “we” or “our”) is pleased to announce that our board of directors today resolved to jointly acquire additional shares of Harmonic Drive AG, our equity method affiliate, with Innovation Network Corporation of Japan (“INCJ”), thereby making it our subsidiary, and concluded a share transfer agreement on the same day. The share transfer is pending the approval of regulatory authorities and other requirements.

### 1. Background of the Acquisition

Our Group created the current medium-term management plan (FY2015-2017), and during the three years of this management plan, we have been implementing specific initiatives toward making each of our three main product lines (mechatronics products, precision planetary speed reducers, and strain wave gearing devices) more competitive and strengthening their business base, while expanding the business area of total motion control.

Our products are used as key components in applications mainly including industrial robots, working machines, semiconductor production equipment, and metalworking machines and, in addition to Japan, are sold mainly in Europe, North America, and China. Our overseas strategy is to develop our business in Europe through our equity method affiliate Harmonic Drive AG, in North America through our US subsidiary Harmonic Drive LLC, and in China through Harmonic Drive Systems (Shanghai) Co., Ltd.

We will be acquiring additional shares of Harmonic Drive AG, based in Limburg, Hessen, Germany, a company that has secured many blue-chip customers mainly in Europe, leveraging its excellent marketing and engineering capabilities.

Going forward, with the acceleration of Industry 4.0 as advocated by the German government, the manufacturing industry is expected to undergo major changes in Europe, such as an increase in factory automation equipment allowing for more flexible production, and expansion of the market for robots that can operate alongside human workers. Further, Harmonic Drive AG locally manufactures and develops precision control equipment such as Harmonic Drive® units, and serves as our principal base of operations for sales, manufacturing, and development in Europe.

In order to gain a solid foothold in the global market, we have come to the conclusion that it is necessary to further strengthen our capital relationship with Harmonic Drive AG by acquiring additional shares in the firm, thereby making it our subsidiary. By making Harmonic Drive AG our subsidiary, we aim to expand our cooperative relationship in terms of both development and sales operations, allowing us to provide products and services that meet increasingly sophisticated and diversified customer needs and, at the same time, move forward as a group with our strategy for improving the value of brands such as Harmonic Drive®. In addition, in terms of manufacturing, we will strengthen our support of Harmonic Drive AG through measures such as accelerating the transfer of production know-how to the company, and create synergies through management improvements such as improved production efficiency, shortened delivery lead time, and reduced cost and inventory.

Taking this acquisition as an opportunity to strengthen our global business base, we aim to improve our group’s competitiveness in the global market and secure our position as an innovative company that leads the areas of precision speed reducers and actuators, as we move closer towards the 50<sup>th</sup> anniversary of our founding in 2020.

INCJ, our partner in this acquisition of shares, is a corporation incorporated in 2009 under the Ordinance for Enforcement of the Act on Special Measures Concerning Revitalization of Industry and Innovation in Industrial Activities (later revised and enacted as the Industrial Competitiveness Enhancement Act on January 20, 2014). Jointly funded by the Japanese government and 26 Japanese private enterprises, INCJ aims to provide financial, technological and management support to promote the creation of next-generation businesses through “open innovation” achieved by increasing the flow of technology and expertise beyond the boundaries of existing organizational structures; therefore, INCJ fully appreciates and understands the importance of the Group's global expansion strategy. By investing in this acquisition, INCJ seeks to contribute to the creation of companies that are competitive in the global market of the precision speed reducer industry for industrial robots. Furthermore, INCJ expects to aid in the resolution of issues facing Japanese industry, such as an aging workforce and labor shortages, by promoting the dissemination of collaborative robots, for which significant future growth is expected, through support in the procurement of key components. As such, INCJ will provide Harmonic Drive AG with capital and support its governance functions by, for example, sending outside directors to its Supervisory Board.

## 2. Outline of the affiliate subject to change (Harmonic Drive AG)

(1)	Name of Company	Harmonic Drive AG		
(2)	Address	Hoenbergstrasse 14, 65555 Limburg an der Lahn, Germany		
(3)	Name and Title of Representative	Ekrem Sirman		
(4)	Business Description	Development, manufacture, and sale of speed reducers and mechatronics products to Europe, the Middle and Near East, Africa, India, and South America		
(5)	Amount of Capital	1,472,500 euros		
(6)	Established	October 1970		
(7)	Major Shareholders of the Company and Shareholder Ratios	INTERGLOBAL Industrieholding GmbH	63.2%	
		Harmonic Drive Systems Inc.	36.8%	
(8)	Relationship between the listed company and the relevant company			
	Capital	The Company owns 542,500 shares (shareholder ratio: 36.8%) of Harmonic Drive AG, and Harmonic Drive AG is the Company's equity method affiliate.		
	Human Resources	There is no notable personnel relationship between the Company and Harmonic Drive AG. Further, there is no notable personnel relationship between the related parties and affiliated companies of the Company and the related parties and affiliated companies of Harmonic Drive AG.		
	Business	The Company sells speed reducers and mechatronics products and provides technical support to Harmonic Drive AG.		
(9)	Operating results and financial positions in the past three years			
	Fiscal year ended	December 31, 2013	December 31, 2014	December 31, 2015
	Consolidated net assets	48 M euros	42 M euros	42 M euros
	Consolidated total assets	68 M euros	67 M euros	64 M euros
	Consolidated net sales	73 M euros	90 M euros	88 M euros
	Consolidated operating income	12 M euros	17 M euros	14 M euros
	Net income attributable to owners of the parent	9 M euros	12 M euros	9 M euros

(Note) Harmonic Drive AG sold two of its 11 consolidated subsidiaries during the fiscal year ended December 31, 2015, and these 2 subsidiaries were removed from the consolidated group of Harmonic Drive AG as of the end of December 2015.

## 3. Outline of the counterparty in the acquisition transaction

(1)	Name of Company	INTERGLOBAL Industrieholding GmbH
(2)	Address	Wilhelm-Reuter-Straße 1, 65817 Eppstein, Germany

(3)	Name and Title of Representative	Reinhard Ernst (Managing Director), Oliver Ickstadt (Managing Director)
(4)	Business Description	Maintenance and management of securities and real estate
(5)	Amount of Capital	151,000 euros
(6)	Established	July 1998
(7)	Major Shareholders of the Company and Shareholder Ratios	Reinhard Ernst: 90%; Reinhard & Sonja Ernst Foundation: 10%
(8)	Relationship between the listed company and the relevant company	
	Capital	There is no notable capital relationship between the Company and INTERGLOBAL Industrieholding GmbH.
	Human resources	There is no notable personnel relationship between the Company and INTERGLOBAL Industrieholding GmbH. Further, there is no notable personnel relationship between the related parties and affiliated companies of the Company and the related parties and affiliated companies of INTERGLOBAL Industrieholding GmbH.
	Business	There is no notable business relationship between the Company and INTERGLOBAL Industrieholding GmbH. Further, there is no notable business relationship between the related parties and affiliated companies of the Company and the related parties and affiliated companies of INTERGLOBAL Industrieholding GmbH.

#### 4. Outline of Acquisition

The Company and INCJ will establish a special purpose corporation (the “SPC”) in Japan for the acquisition of shares. The consideration for the acquisition of shares of Harmonic Drive AG will be paid to INTERGLOBAL Industrieholding GmbH through the SPC. Of the total acquisition cost, the amount to be borne by the Company is the amount corresponding to its shareholder ratio in the SPC (60%).

#### 5. Outline of the Special Purpose Corporation

(1)	Name of Company	HD Management Godo Kaisha
(2)	Address	6-25-3 Minami-Oi, Shinagawa-ku, Tokyo, Japan
(3)	Representative	Harmonic Drive Systems Inc., Representative Member <i>Akira Nagai, Shokumu Shikkosha</i>
(4)	Business Description	Acquisition and maintenance of securities and investment management
(5)	Amount of Capital	¥10,000 (Note 1)
(6)	Established	December 6, 2016
(7)	Major Shareholders of the Company and Shareholder Ratios	Harmonic Drive Systems Inc. 60% Innovation Network Corporation of Japan 40% (Note 2)
(8)	Relationship between the listed company and the relevant company	
	Capital	The Company will make a 60% investment in HD Management Godo Kaisha, making it the Company’s subsidiary.
	Human relations	The company will send executive member(s) to HD Management Godo Kaisha.
	Business	There is no notable business relationship between the Company and HD Management Godo Kaisha. Further, there is no notable business relationship between the related parties and affiliated companies of the Company and the related parties and affiliated companies of HD Management Godo Kaisha.

(Note 1) The amount provided in “(5) Amount of Capital” above is the amount of capital at present. The amount of capital is expected to increase by an estimated ¥29.7 billion prior to the share transfer. Further, in addition to using cash on hand, the increase in the amount of capital to be borne the Company in accordance with its

shareholder ratio (60%) is planned to be financed by a short-term loan (bridge loan) of ¥15 billion from The Bank of Tokyo-Mitsubishi UFJ, Ltd. Medium- and long-term financing will be considered as necessary.  
 (Note 2) The shareholder ratios provided in “(7) Major shareholders of the Company and Shareholder ratios” and “(8) Relationship between the listed company and the relevant company” above are the ratios estimated to be in effect when the share transfer is executed.

6. Number of shares, acquisition price and percentage of shareholding before and after the transfer

(1)	Number of owned shares before the transfer	Common stock: 542,500 shares (Note 1) (Shareholder Ratio: 36.8%)
(2)	Number of shares to be acquired	Common stock: 930,000 shares (Note 2)
(3)	Acquisition Price	Consideration for acquisition EUR 260 million (Note 2) Advisory expenses (estimated) EUR 3 million Total (estimated) EUR 263 million
(4)	Number of shares to be held after the transfer	Common stock: 1,472,500 shares (Note 3) (Shareholder Ratio: 100%)

(Note 1) The number of shares already owned by the Company

(Note 2) The total number of shares of Harmonic Drive AG to be acquired by the Company and INCJ through HD Management Godo Kaisha and the total acquisition price. In accordance with the share transfer agreement, of this acquisition price, EUR 240 million will be paid at the time of the transfer of shares, and EUR 10 million will be paid during both the fiscal year ending 2019 and the fiscal year ending 2020.

(Note 3) The total of the number of shares of Harmonic Drive AG already owned by the Company and the number of shares to be acquired by HD Management Godo Kaisha.

7. Schedule

(1)	Date of the Board of Directors resolution	December 16, 2016
(2)	Date of the agreement	December 16, 2016
(3)	Date of the stock transfer	January 2017 (tentative)

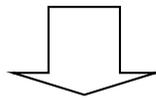
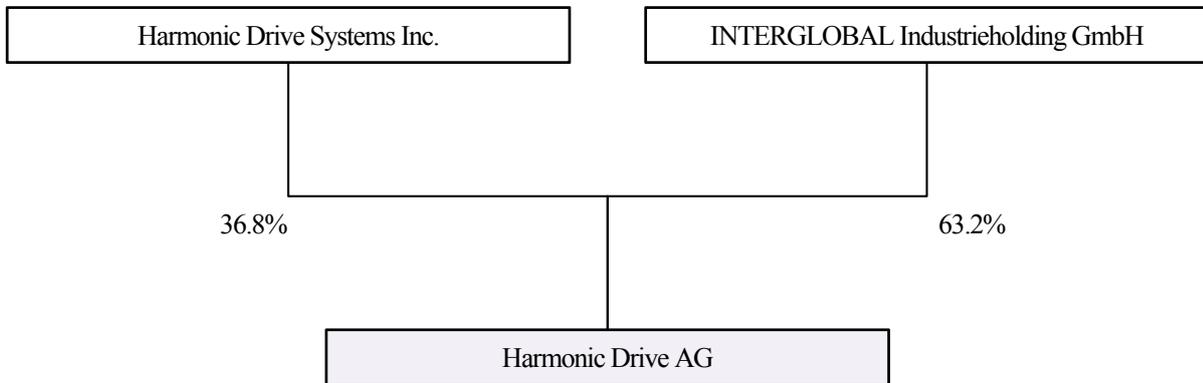
(Note) The execution of the share transfer is pending the approval of regulatory authorities and other requirements.

8. Future Prospects

The effect of the acquisition on the consolidated financial results for the fiscal year ending March 31, 2017 will be announced as it is determined.

(Reference) Corporate structure before and after the acquisition

Before the acquisition



After the acquisition

