

January 29, 2021

To whom it may concern

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**Notice Concerning Dissolution of Alliance with Nabtesco Corporation
and Change to “Other Affiliates”**

At its board of directors meeting held today, Harmonic Drive Systems Inc. (“the Company”) resolved to dissolve its alliance with Nabtesco Corporation (“Nabtesco”). In conjunction with the dissolution of this alliance, Nabtesco has notified the Company that it will exercise its right to request purchase of share acquisition rights it holds in the Company. Pursuant to these changes, Nabtesco will cease to qualify as an “other affiliate” of the Company with effect from today.

1. Reason for Dissolution of Alliance

As detailed in the notice concerning Nabtesco’s acquisition of additional shares in the Company dated December 11, 2008, the two companies established a joint venture in the United States in December 2005, and have since worked together in expanding strain wave gearing business in the North American market. They have also expanded the cooperation of the two companies into all areas of motion control and sought to create new markets. Although this alliance has produced certain results through joint business in the US relating to strain wave gearing devices, despite efforts to develop new markets it has not generated the synergy that the Company expected, due to factors including differences in the two companies’ respective technologies, manufacturing expertise, and marketability of their key products. Based on this background and these results, with the agreement of Nabtesco the Company resolved to dissolve the alliance with effect from today.

2. Details of Dissolution of Alliance

As set out above in Paragraph 1 “Reason for Dissolution of Alliance,” the Company has resolved to dissolve the alliance with effect from today. In conjunction with dissolution of the alliance,

there has been a change to the Company’s “other affiliates,” and the Company plans to purchase equity in the US joint venture and make it a wholly-owned subsidiary. Details of the changes are set out below.

(1) Change in “other affiliates”

Nabtesco is currently an “other affiliate” of the Company holding 18,320,400 shares (19.03% of total outstanding shares [excluding treasury stock]) in the Company, but the Company has today received notification from Nabtesco that, in conjunction with dissolution of the alliance, pursuant to the provisions of the relevant agreement it will exercise its right to request purchase of all first share acquisition rights it holds in the Company. As a result, Nabtesco will no longer qualify as an “other affiliate” of the Company. The Company has also received notice from Nabtesco that, in conjunction with dissolution of the alliance, it plans to sell a portion (9,160,200) of the shares it holds in the Company, while giving due consideration to market supply and demand for the Company’s shares and the impact of the sale on the price of the Company’s shares. The Company expects that Nabtesco’s sale of these shares in a way that will, as far as possible, enable avoidance of any impact on market supply and demand for the Company’s shares or the price of such shares, will improve liquidity of the Company’s shares and broaden the investor base.

For reference: Outline of First Share Acquisition Rights

| | | |
|-----|-------------------------------------------------------|------------------------------------------------------------------------|
| (1) | Date of record | February 6, 2018 |
| (2) | Total number of share acquisition rights | 12,619 |
| (3) | Issue price | 49,569 yen per share acquisition right (625,511,211 yen in total) |
| (4) | Number of latent shares resulting from this issue | 1,261,900 |
| (5) | Amount of funds raised | 9,795,143,011 yen (estimated net proceeds) |
| (6) | Initial exercise value | 7,322 yen |
| (7) | Method of solicitation or allocation (allotted party) | Third-party allocation with Nabtesco Corporation as the allotted party |

(2) Making US joint venture (Harmonic Drive L.L.C.) a wholly-owned subsidiary

The Company’s US subsidiary (HD Systems, Inc.) will purchase the 49.0% stake in the joint venture (Harmonic Drive L.L.C.) held by Nabtesco’s US subsidiary (Nabtesco USA Inc.) from Nabtesco USA Inc. pursuant to the provisions of the joint venture agreement. This will make Harmonic Drive L.L.C. a wholly-owned subsidiary of HD Systems, Inc. The Harmonic Drive Systems Group (the Group) regards the North American market as an important region expected to achieve high growth in applications including aerospace, semiconductor manufacturing equipment, service robots, amusement equipment, advanced medical devices, and next-generation mobility solutions. The Group will utilize the US subsidiary business platform

developed and strengthened through the alliance with Nabtesco in the aim of further enhancing corporate value.

Outline of Joint Venture

| | | |
|------|-------------------------|----------------------------------------------------------------------------|
| (1) | Company name | Harmonic Drive L.L.C. |
| (2) | Location | Peabody, Massachusetts, USA |
| (3) | Representative director | Douglas Olson, President and CEO |
| (4) | Business domain | Production and sales of precision reduction gears and mechatronic products |
| (5) | Capital | US\$6,000,000 |
| (6) | Date of establishment | December 13, 2005 |
| (7) | Fiscal year-end | December |
| (8) | Net assets | 6,355 million yen (as of December 31, 2019) |
| (9) | Total assets | 6,845 million yen (as of December 31, 2019) |
| (10) | Percentage stakes | HD Systems, Inc. 51% Nabtesco USA Inc. 49% |

(3) Plan for the Company's shareholding in Nabtesco

In conjunction with dissolution of the alliance, the Company plans to proceed with sale of the 3,265,000 shares (2.63% of total outstanding shares [excluding treasury stock]) it holds in Nabtesco. Details including the specific method and timing of sale have not yet been determined, and the sale will be implemented after proper consideration.

3. Outline of Counterparty Involved in Dissolution of the Alliance and Changes in "Other Affiliates"

| | | |
|--------------------------------------------------------------------|-------------------------------------------------------------------------|-------|
| (1) Company name | Nabtesco Corporation | |
| (2) Location | 7-9, Hirakawacho 2-chome, Chiyoda-ku, Tokyo | |
| (3) Representative director | Katsuhiko Teramoto, Representative Director, President & CEO | |
| (4) Business domain | Component solutions, transport solutions, accessibility solutions, etc. | |
| (5) Capital | 10 billion yen (as of June 30, 2020) | |
| (6) Date of establishment | September 29, 2003 | |
| (7) Major shareholders and percentage stakes (as of June 30, 2020) | The Master Trust Bank of Japan, Ltd (Trust Account) | 7.01% |
| | Japan Trustee Services Bank, Ltd. (Trust Account) | 5.45% |
| | Central Japan Railway Company | 4.16% |
| | FANUC Corporation | 3.02% |
| | SSBTC Client Omnibus Account | 2.70% |
| | Harmonic Drive Systems Inc. | 2.63% |
| | Japan Trustee Services Bank, Ltd. (Trust Account 7) | 2.44% |
| | SMBC Nikko Securities Inc. | 1.96% |
| | Japan Trustee Services Bank, Ltd. (Trust Account 5) | 1.93% |
| | Standard Life Assurance Limited – Pension Funds | 1.87% |

(8) Relationship between the listed company and the relevant company

| | |
|-------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Capital relationship | The relevant company holds 18,320,400 ordinary shares (19.03% of total outstanding shares [excluding treasury stock]) in the Company. The Company holds 3,265,000 ordinary shares (2.63% of total outstanding shares [excluding treasury stock]) in the relevant company. |
| Personnel relationship | There are no personnel relationship between the Company and the relevant company to be disclosed. |
| Transactional relationship | No significant sales relationship exists between the Company and the relevant company. |
| Status of relationship with related party | The relevant company qualifies as an “other affiliate” of the Company. |

(9) Consolidated financial results and consolidated financial position of the relevant company over the last three years (Unit: million yen)

| Fiscal year (consolidated) | FYE December 2017 | FYE December 2018 | FYE December 2019 |
|-------------------------------------------------------------|-------------------|-------------------|-------------------|
| Total capital | 177,002 | 189,255 | 199,133 |
| Total assets | 301,557 | 328,568 | 344,558 |
| Per-share equity attributable to owners of the parent (yen) | 1,355.72 | 1,438.64 | 1,508.53 |
| Consolidated net sales | 282,422 | 294,626 | 289,808 |
| Consolidated operating income | 29,468 | 21,889 | 25,320 |
| Net income attributable to owners of the parent | 25,146 | 21,029 | 17,931 |
| Basic earnings per share (yen) | 203.48 | 169.42 | 144.42 |
| Per-share dividend (yen) | 72.00 | 73.00 | 73.00 |

Note: The relevant company has adopted International Financial Reporting Standards.

4. Schedule for Dissolution of Alliance

(1) Date of board of directors' resolution: January 29, 2021

(2) Dissolution of alliance: January 29, 2021

5. Outlook

The dissolution of this alliance is judged to have no significant impact on the Company's business activities or performance in the current fiscal year (ending March 31, 2021). If any matters to be disclosed arise, the Company will promptly disclose them.