Annual Securities Report

36th Fiscal Year

(From April 1, 2023 to March 31, 2024)

Harmonic Drive Systems Inc.

(Translation purposes only)

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36th Fiscal Year Annual Securities Report

This is an English translation of the original Annual Securities Report (“Yukashoken Hokokusho”) filed with the Director-General of the Kanto Local Finance Bureau via Electronic Disclosure for Investors` NETwork (“EDINET”) pursuant to the Financial Instruments and Exchange Act of Japan. In the event of any discrepancy between Yukashoken Hokokusho and this English translation, Yukashoken Hokokusyo shall prevail.
The Independent Auditor's report that is included in Yukashoken Hokokusho is not translated to English.

（Translation purposes only）

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[Document Title]	Annual Securities Report
[Clause of Stipulation]	Article 24, paragraph (1) of the Financial Instruments and Exchange Act
[Place of Filing]	Director-General of the Kanto Local Finance Bureau
[Filing Date]	June 24, 2024
[Fiscal Year]	36th Fiscal Year (From April 1, 2023 to March 31, 2024)
[Company Name]	Kabushiki Kaisha Harmonic Drive Systems
[Company Name in English]	Harmonic Drive Systems Inc.
[Title and Name of Representative]	Akira Maruyama, President and Representative Director
[Address of Registered Head Office]	6-25-3 Minami-Oi, Shinagawa-ku, Tokyo, Japan
[Telephone Number]	+81-3-5471-7810
[Name of Contact Person]	Tetsuya Shiokawa, Executive Officer
[Nearest Place of Contact]	6-25-3 Minami-Oi, Shinagawa-ku, Tokyo, Japan
[Telephone Number]	+81-3-5471-7810
[Name of Contact Person]	Tetsuya Shiokawa, Executive Officer
[Place for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo, Japan)

Part I [Company Information]
I [Overview of Company]

1 [Key financial data]

(1) Key financial data of group

Fiscal year		32nd	33rd	34th	35th	36th
Year ended		March 2020	March 2021	March 2022	March 2023	March 2024
Net sales	(Thousands of yen)	37,487,753	37,034,042	57,087,914	71,527,316	55,796,455
Ordinary profit	(Thousands of yen)	236,398	1,366,803	9,108,243	10,757,728	570,333
Profit (loss) attributable to owners of parent	(Thousands of yen)	(1,095,310)	662,495	6,643,893	7,595,928	(24,806,996)
Comprehensive income	(Thousands of yen)	(4,561,959)	9,009,792	5,508,053	12,132,168	(21,661,579)
Net assets	(Thousands of yen)	106,718,488	110,059,815	98,856,302	103,955,658	79,401,665
Total assets	(Thousands of yen)	131,848,248	140,028,170	143,289,918	154,336,246	119,142,291
Net assets per share	(Yen)	1,003.79	1,068.83	1,026.94	1,093.53	836.02
Basic earnings (loss) per share	(Yen)	(11.38)	6.88	69.02	79.67	(261.00)
Diluted earnings per share	(Yen)	–	–	–	–	–
Equity ratio	(%)	73.3	73.5	69.0	67.4	66.6
Return on equity	(%)	(1.1)	0.7	6.6	7.5	(27.1)
Price-earnings ratio	(Times)	(415.3)	1,086.9	61.1	55.2	(15.3)
Net cash provided by (used in) operating activities	(Thousands of yen)	10,950,184	9,555,003	9,881,633	10,850,473	12,728,600
Net cash provided by (used in) investing activities	(Thousands of yen)	(12,537,222)	(1,230,204)	(4,703,089)	(8,663,281)	(5,950,405)
Net cash provided by (used in) financing activities	(Thousands of yen)	2,362,352	(6,561,849)	(6,663,893)	(1,599,848)	(8,122,296)
Cash and cash equivalents at end of period	(Thousands of yen)	18,342,443	19,996,738	18,767,531	19,921,977	18,941,712
Number of employees [average number of temporary employees]	(Persons)	1,097 [353]	1,104 [236]	1,145 [348]	1,324 [421]	1,349 [370]

(Notes) 1. The number of employees represents the number of full-time employees.
2. The amount of diluted earnings per share from the 33rd fiscal year (ended March 31, 2021) to the 36th fiscal year (ended March 31, 2024), is not stated, because dilutive shares did not exist.
3. The amount of diluted earnings per share for the 32nd fiscal year (ended March 31, 2020), is not stated, because the amount is recorded as diluted loss per share, although dilutive shares existed.
4. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the 34h fiscal year, and key financial data for the 34th fiscal year onward represent those after applying the accounting standard and relevant revised ASBJ regulations.

(2) Key financial data of reporting company

Fiscal year		32nd	33rd	34th	35th	36th
Year ended		March 2020	March 2021	March 2022	March 2023	March 2024
Net sales	(Thousands of yen)	19,788,300	24,264,898	41,120,072	50,883,969	28,577,533
Ordinary profit	(Thousands of yen)	848,602	2,764,064	8,702,593	9,378,859	2,288,996
Profit (loss)	(Thousands of yen)	(173,564)	1,868,012	6,545,851	6,880,487	(18,460,744)
Share capital	(Thousands of yen)	7,100,036	7,100,036	7,100,036	7,100,036	7,100,036
Total number of issued and outstanding shares	(Shares)	96,315,400	96,315,400	96,315,400	96,315,400	96,315,400
Net assets	(Thousands of yen)	80,133,028	85,421,219	85,897,339	85,678,586	62,736,973
Total assets	(Thousands of yen)	90,985,281	101,279,098	115,596,583	120,888,788	90,621,735
Net assets per share	(Yen)	825.94	887.37	892.32	901.27	660.55
Dividend paid per share (Interim dividend paid per share)	(Yen)	20 (10)	20 (10)	21 (10)	28 (11)	20 (10)
Basic earnings (loss) per share	(Yen)	(1.80)	19.41	68.00	72.17	(194.23)
Diluted earnings per share	(Yen)	–	–	–	–	–
Equity ratio	(%)	87.4	84.3	74.3	70.9	69.2
Return on equity	(%)	(0.2)	2.3	7.6	8.0	(24.9)
Price-earnings ratio	(Times)	(2,620.6)	385.5	62.1	60.9	(20.5)
Payout ratio	(%)	–	103.1	30.9	38.8	–
Number of employees [average number of temporary employees]	(Persons)	371 [175]	406 [100]	412 [138]	490 [156]	523 [148]
Total shareholder return [comparative indicator: TOPIX Total Return Index]	(%)	125.2 (99.6)	198.4 (141.5)	113.0 (144.3)	118.3 (152.7)	108.0 (215.9)
Highest stock price	(Yen)	5,630	9,510	8,270	5,530	5,160
Lowest stock price	(Yen)	3,270	4,190	3,700	3,015	3,115

(Notes) 1. The number of employees represents the number of full-time employees.

2. The amount of diluted earnings per share from the 33rd fiscal year (ended March 31, 2021) to the 36th fiscal year (ended March 31, 2024), is not stated, because dilutive shares did not exist.

3. The amount of diluted earnings per share for the 32nd fiscal year (ended March 31, 2020), is not stated, because the amount is recorded as diluted loss per share, although dilutive shares existed.

4. The highest and lowest stock prices are quoted from JASDAQ (standard) on the Tokyo Stock Exchange on and before April 3, 2022, and from Standard Market on the Tokyo Stock Exchange on and after April 4, 2022.

5. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and relevant revised ASBJ regulations from the beginning of the 34h fiscal year, and key financial data for the 34th fiscal year onward represent those after applying the accounting standard and relevant revised ASBJ regulations.

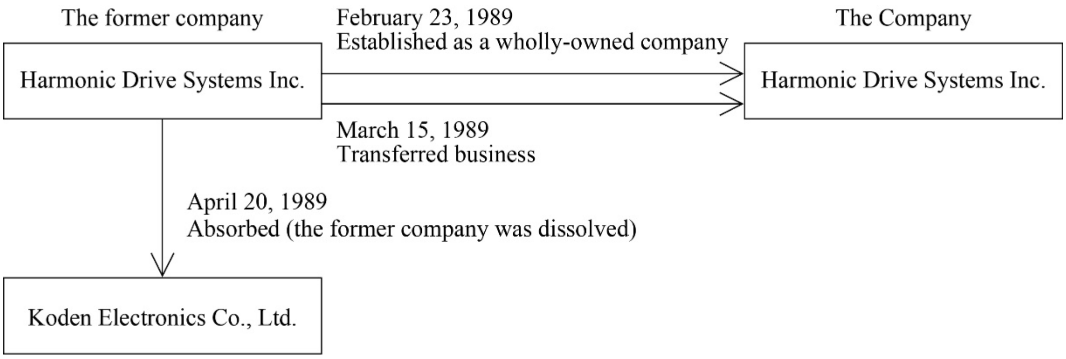
2 [History]

The Company (established as Harmonic Drive Systems Inc., the same trade name as its former company, on February 23, 1989, with a par value capital of ¥50,000) was established as a wholly-owned subsidiary of the former company (a substantial surviving company of business, established with the trade name of Harmonic Drive Systems Inc. on October 27, 1970, with a par value capital of ¥50). The whole business of the former company (excluding some assets) were transferred to the Company as of March 15, 1989, and after that, the Company fully took over the business operations of the former company, having operated to the present. All officers of the Company at the time of the establishment and business transfer took the same positions as they had in the former company. The former company was taken over by Koden Electronics Co., Ltd. and dissolved on April 20, 1989.

Accordingly, the descriptions below indicate the matters of the former company, a substantial surviving company of business, until the date before business transfer (March 14, 1989), unless otherwise stated. In addition, all employees of the former company were transferred to the Company with the same job positions, and the length of service of the Company is presented in total years including the length of service of the former company.

Fiscal years are counted anew for the Company without including those of the former company.

The following schematic diagram illustrates the relationship between the former company and the Company.



Month/Year	History
Oct. 1970	Established Harmonic Drive Systems Inc. at 3-24-13 Minami-Rokugo, Ota-ku, Tokyo, Japan, based on a joint venture agreement between Hasegawa Gear Works, Ltd. and USM Co., Ltd. (USM), a U.S. corporation (USM acquired capital in December 1970, with a share capital of ¥200 million and both companies having a 50% stake each). Hasegawa Gear Works, Ltd. handed over business rights of Harmonic Drive mechanisms that had been developed based on a technical tie-up agreement with USM, to the Company.
Nov. 1970	Started manufacturing Harmonic Drive speed reducers at the Matsumoto Plant (currently, Toyoshina, Azumino-shi, Nagano, Japan).
Nov. 1970	Concluded a non-exclusive agency agreement with Mitsui & Co., Ltd.
Sep. 1976	Reduced share capital to ¥100 million and the Company became a wholly-owned subsidiary of USM (with new share capital of ¥100 million).
Nov. 1977	Started manufacturing and selling FA equipment (current mechatronic products).
Nov. 1980	Concluded a distributorship agreement with Mitsui & Co., Ltd. for sales of the Company's products in Japan (the agency agreement was terminated).
Dec. 1984	Established sales agents in Taiwan and South Korea for market development.
Feb. 1987	Established subsidiary HD Systems, Inc. (currently, a consolidated subsidiary) for expanding into the U.S. market.
Apr. 1987	Concluded a distributorship agreement with Mitsui & Co., Ltd. for sales of the Company's products in South Korea.
Jun. 1988	Started manufacturing and selling Harmonic Drive speed reducers with the newly-developed IH tooth profile.
Feb. 1989	Established "new" Harmonic Drive Systems Inc. as a wholly-owned subsidiary of the former company.
Mar. 1989	Transferred business to the new Company from the former company.
Apr. 1989	The former company was taken over by Koden Electronics Co., Ltd. and became a wholly-owned subsidiary of Koden Electronics Co., Ltd.
Dec. 1990	Moved production base from the Matsumoto Plant to the Hotaka Plant (currently, Hotaka, Azumino-shi, Nagano, Japan), following the completion of the Hotaka Plant.
Mar. 1996	Concluded an exclusive distributorship agreement with Harmonic Drive Antriebstechnik GmbH (currently, Harmonic Drive SE, a consolidated subsidiary), a German corporation, for sales of the Company's products in the areas of Europe, the Middle East, Africa, India and Latin America.

Month/Year	History
Dec. 1996	Concluded a license and technical support agreement with Harmonic Drive Antriebstechnik GmbH (currently, Harmonic Drive SE, a consolidated subsidiary).
Mar. 1998	Listed on the Japan Securities Dealers Association over-the-counter market.
Apr. 1999	Established subsidiary HD Logistics, Inc. (currently, a consolidated subsidiary).
Jul. 1999	Established subsidiary Harmonic Precision Inc. (currently, a consolidated subsidiary).
Jul. 2002	Acquired 25% issued shares in Harmonic Drive AG (currently, Harmonic Drive SE, a consolidated subsidiary).
Apr. 2003	Established subsidiary Harmonic AD, Inc. (currently, a consolidated subsidiary).
Dec. 2004	Listed on Jasdaq Securities Exchange, Inc. (With the merger of Osaka Securities Exchange, Co., Ltd. and Jasdaq Securities Exchange, Inc. in April 2010, the market name was changed to JASDAQ market, Osaka Securities Exchange, Co., Ltd.)
Feb. 2005	Concluded an exclusive distributorship agreement with Mitsui & Co., Ltd. for sales of the Company’s products in Taiwan area.
Mar. 2005	Concluded an exclusive distributorship agreement with Mitsui & Co., Ltd. for sales of the Company’s products in South Korea area (the former distributorship agreement was terminated).
Dec. 2005	Established subsidiary Harmonic Drive L.L.C. (currently, a consolidated subsidiary) in the United States.
May 2007	Concluded a business and capital alliance agreement with Winbel Co., Ltd. (currently, Harmonic Winbel Inc., a consolidated subsidiary).
Sep. 2008	Expansively extended the exclusive distributorship agreement, and the license and technical support agreement, which were concluded in March and December 1996 respectively, with Harmonic Drive AG (currently, Harmonic Drive SE, a consolidated subsidiary). Acquired additional 10% of issued shares in Harmonic Drive AG (currently, Harmonic Drive SE, a consolidated subsidiary) (the shareholding ratio increased to 35% from 25%).
Oct. 2008	Concluded a business and capital alliance agreement with Ome Iron Casting Co., Ltd. (currently, a non-consolidated subsidiary with equity method).
Nov. 2008	Acquired 49.2% of issued shares in Ome Iron Casting Co., Ltd. (currently, a non-consolidated subsidiary with equity method) by acquiring shares from its existing shareholders and by subscribing to the third-party allotment of shares conducted by Ome Iron Casting Co., Ltd.
Feb. 2009	Terminated the following agreements concluded with Mitsui & Co., Ltd.: 1) the distributorship agreement for sales in Japan, which was concluded in November 1980; 2) the exclusive distributorship agreement for sales in Taiwan area, which was concluded in February 2005; 3) the exclusive distributorship agreement for sales in South Korea area, which was concluded in March 2005.
Oct. 2010	With the integration of markets of Hercules, JASDAQ and NEO in Osaka Securities Exchange (OSE), the Company listed its shares on JASDAQ (standard), OSE.
Jan. 2011	Established Harmonic Drive Systems (Shanghai) Co., Ltd. (currently, a consolidated subsidiary) with the aim of sales expansion and technical service enhancement in China.
Feb. 2013	Established SAMICK ADM Co., Ltd. (currently, a consolidated subsidiary), a joint venture company with SAMICK HDS Co., Ltd., in South Korea with the aim of sales expansion and the construction of production systems of precision planetary speed reducers in Eastern Asia markets, such as China and South Korea.
Jul. 2013	With the integration of cash equity markets of Tokyo Stock Exchange (TSE) and OSE, the Company listed its shares on JASDAQ (standard), TSE.
Mar. 2017	Jointly acquired additional 63.2% of issued shares in Harmonic Drive AG (currently, Harmonic Drive SE, a consolidated subsidiary) with Innovation Network Corporation of Japan (currently, INCJ, Ltd.) to make Harmonic Drive AG a subsidiary (the shareholding ratio increased to 74.7% from 36.8% in the Company and 25.3% in Innovation Network Corporation of Japan (currently, INCJ, Ltd.)).
Feb. 2021	HD Systems, Inc., a U.S. holding company, purchased all stakes in Harmonic Drive L.L.C., a U.S. subsidiary, held by a partner of joint venture and made Harmonic Drive L.L.C. a wholly-owned subsidiary.
Jun. 2021	Acquired additional shares in Winbel Co., Ltd. (currently, Harmonic Winbel Inc., a consolidated subsidiary) and made Winbel Co., Ltd. a wholly-owned subsidiary.
Jul. 2021	Acquired all stakes in GK HD Management, which was established jointly by the Company and INCJ, Ltd., held by the partner and made Harmonic Drive SE a wholly-owned subsidiary.
Apr. 2022	With the review of market divisions in TSE, the Company moved from JASDAQ (standard) to Standard Market, TSE.

3 [Description of business]

The Harmonic Drive Systems Group (the Company together with its affiliated companies, hereinafter "the Group") consists of twenty companies, including the Company, eighteen consolidated subsidiaries, and one equity method affiliate, and is solely engaged in the precision speed reducers business in which we mainly manufacture and sell speed reducers and their applied mechatronic products (precision actuators and motion control products).

The geographic markets of the products of the Company and its affiliated companies are Japan (including the Asia area), North America and Europe, and the Group consists of three reportable segments: Japan, North America and Europe, which are consistent with the geographic segments based on the manufacturing and sales of the products.

Overview and description of business of each company in the Group are as follows.

Company name	Address	Share capital or investment	Ownership ratio of voting rights	Segment	Description of business
Harmonic Drive Systems Inc.	Shinagawa-ku, Tokyo, Japan	¥7,100,036 thousand	The Company	Japan	・Manufacturing and sales of actuators made of motors, sensors, etc. combined with speed reducers, and controllers ・Manufacturing and sales of precision positioning devices and systems ・Manufacturing and sales of HarmonicDrive® strain wave gearings, and sales of precision planetary speed reducers
Consolidated subsidiaries					
HD Systems, Inc.	Beverly, Massachusetts, U.S.A.	US $100 thousand	100.0%	North America	Investment in Harmonic Drive L.L.C., and research and study of speed reducers and mechatronic products
Harmonic Drive L.L.C.	Beverly, Massachusetts, U.S.A.	US $6,000 thousand	100.0% (100.0%) (Note)	North America	Development and manufacturing of speed reducers and mechatronic products, and sales of these products in the North America area
HD Logistics, Inc.	Azumino-shi, Nagano, Japan	¥10,000 thousand	100.0%	Japan	Logistics operations for the Group
Harmonic Precision Inc.	Matsumoto-shi, Nagano, Japan	¥10,000 thousand	100.0%	Japan	Manufacturing and processing of cross roller bearings, which are key parts of speed reducer unit products of the Group
Harmonic AD, Inc.	Azumino-shi, Nagano, Japan	¥10,000 thousand	100.0%	Japan	Manufacturing of precision planetary speed reducers, which are sold by the Company
Harmonic Winbel Inc.	Komagane-shi, Nagano, Japan	¥45,000 thousand	100.0%	Japan	Development, mass production support, manufacturing and sales of various motors
Harmonic Drive Systems (Shanghai) Co., Ltd.	Shanghai, China	CNY 8,200 thousand	100.0%	Japan	Sales of speed reducers and mechatronic products, and provision of technical services for these items
SAMICK ADM Co., Ltd.	Daegu, Korea	KRW 5,000,000 thousand	51.0% (51.0%) (Note)	Japan	Manufacturing of precision planetary speed reducers
GK HD Management	Shinagawa-ku, Tokyo, Japan	¥1,000 thousand	100.0%	Japan	Holding company for the purpose of investment in Harmonic Drive SE

Harmonic Drive SE and its eight consolidated subsidiaries	Limburg a.d. Lahn, Hessen, Germany	EUR 1,550 thousand	100.0% (63.2%) (Note)	Europe	Development and manufacturing of speed reducers and mechatronic products, and sales of these items in the areas of Europe, the Middle East, Africa, India and Latin America

Non-consolidated subsidiary with equity method					
Ome Iron Casting Co., Ltd.	Nishitama-gun, Tokyo, Japan	¥60,000 thousand	49.2%	Japan	Development, manufacturing, and sales of cast products centering on high-strength cast iron

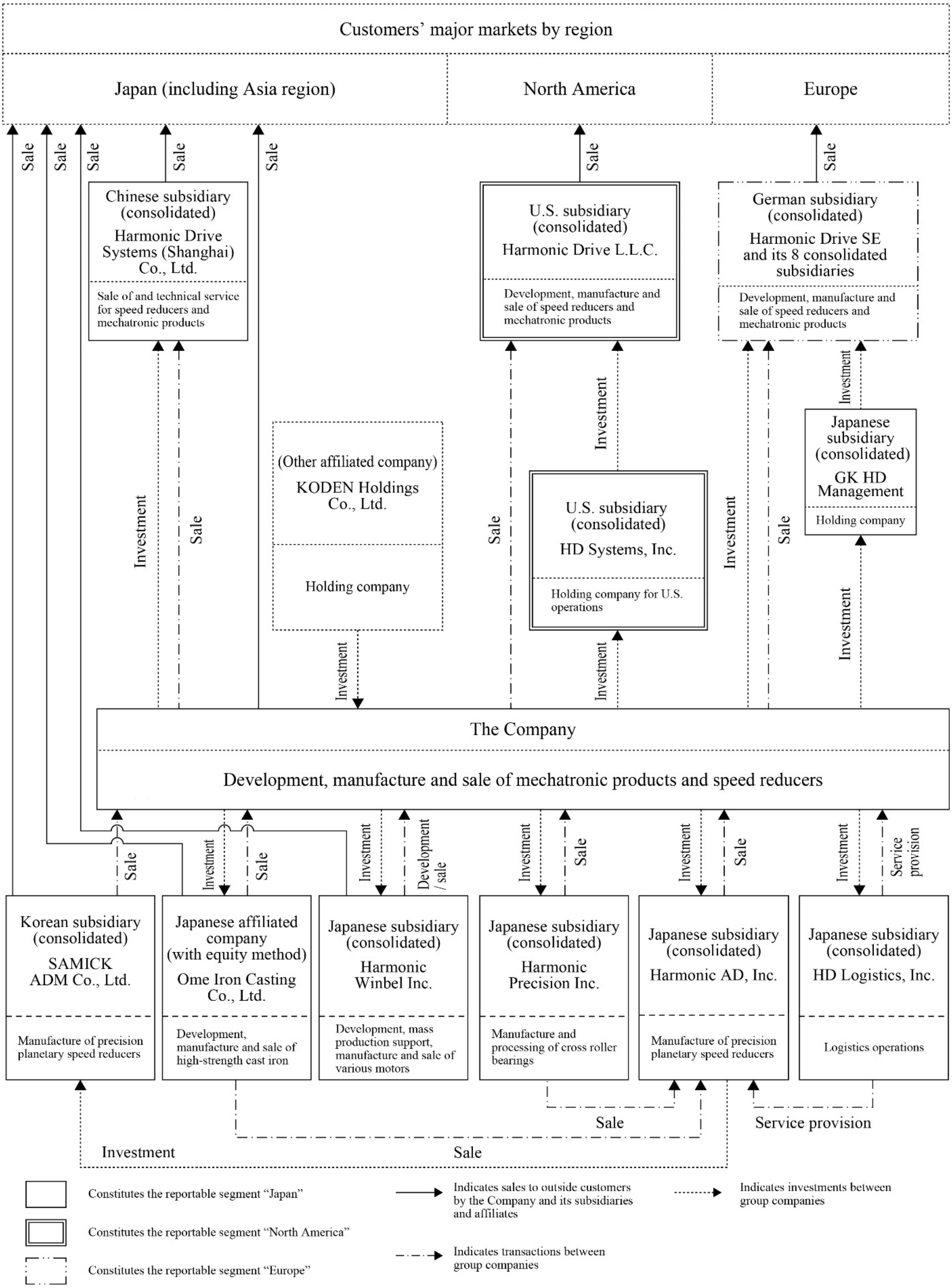
(Note) Figures in parentheses shown in the ownership ratio of voting rights represent the ratio of voting rights indirectly held.

(Other affiliated company)

Company name	Address	Share capital or investment	Ownership ratio of voting rights	Description of business
KODEN Holdings Co., Ltd.	Ota-ku, Tokyo	¥50,000 thousand	34.8%	Holding company for the purpose of investment in Koden group

(Translation purposes only)

A schematic diagram of the business is shown below.



4 [Subsidiaries and associates]

Company name	Address	Share capital or investment	Description of main business	Ownership ratio of voting rights and ratio of voting rights held (Note 3)		Relationship
				Ownership ratio (%)	Ratio held (%)	
(Consolidated subsidiaries)						
HD Systems, Inc.	Beverly, Massachusetts, U.S.A.	US $100 thousand	Precision speed reducers (operating holding company)	100.0	–	Holding company for the purpose of investment in Harmonic Drive L.L.C. Concurrent officers......Yes
Harmonic Drive L.L.C. (Notes) 1, 3, 4	Beverly, Massachusetts, U.S.A.	US $6,000 thousand	Precision speed reducers (manufacturing and sales)	100.0 (100.0)	–	Develops and manufactures HarmonicDrive® and mechatronic products, and sells them in the North America area. Concurrent officers......None
HD Logistics, Inc.	Azumino-shi, Nagano, Japan	¥10,000 thousand	Precision speed reducers (logistics)	100.0	–	Undertakes shipment, etc. of the Company. Concurrent officers......None
Harmonic Precision Inc. (Note) 1	Matsumoto-shi, Nagano, Japan	¥10,000 thousand	Precision speed reducers (processing of parts)	100.0	–	Manufactures and processes cross roller bearings, which are key parts of precision speed reducer units of the Company. Concurrent officers......None
Harmonic AD, Inc. (Note) 1	Azumino-shi, Nagano, Japan	¥10,000 thousand	Precision speed reducers (manufacturing of planetary speed reducers)	100.0	–	Manufactures precision planetary speed reducers, which are sold by the Company, and delivers them to the Company. Concurrent officers......Yes
Harmonic Winbel Inc.	Komagane-shi, Nagano, Japan	¥45,000 thousand	Precision speed reducers (development, manufacturing and sales)	100.0	–	Collaborative relationship in development and manufacturing, etc. of various motors. Concurrent officers......Yes
Harmonic Drive Systems (Shanghai) Co., Ltd.	Shanghai, China	CNY 8,200 thousand	Precision speed reducers (sales)	100.0	–	Imports the Company's products from the Company and sells them and provides technical services in China. Concurrent officers......None
SAMICK ADM Co., Ltd. (Note) 3	Daegu, Korea	KRW 5,000,000 thousand	Precision speed reducers (manufacturing of planetary speed reducers)	51.0 (51.0)	–	Manufactures precision planetary speed reducers and sells them mainly to agencies in Korea. Concurrent officers......Yes
GK HD Management	Shinagawa-ku, Tokyo, Japan	¥1,000 thousand	Precision speed reducers (holding company)	100.0	–	Holding company for the purpose of investment in Harmonic Drive SE. Concurrent officers......Yes
Harmonic Drive SE (Notes) 3, 5	Limburg a.d. Lahn, Hessen, Germany	EUR 1,550 thousand	Precision speed reducers (manufacturing and sales)	100.0 (63.2)	–	Develops and manufactures HarmonicDrive® and mechatronic products, and sells them in the areas of Europe, the Middle East, Africa, India and Latin America. Concurrent officers......Yes
Other 8 companies						
(Non-consolidated subsidiary with equity method) Ome Iron Casting Co., Ltd.	Nishitama-gun, Tokyo, Japan	¥60,000 thousand	Precision speed reducers (processing of parts)	49.2	–	Collaborative relationship in development, application, manufacturing, etc. of high-strength cast iron materials. Concurrent officers......None
(Other affiliate) KODEN Holdings Co., Ltd.	Ota-ku, Tokyo	¥50,000 thousand	Manufacturing and sales of electronic devices (holding company)	–	34.8	No business relationship with the Company. Concurrent officers......Yes

(Notes) 1. They are specific subsidiaries.

2. None of the above companies file securities registration statement or annual securities report.

3. Figures in parentheses shown in the ownership ratio of voting rights and ratio of voting rights held column represent the ratio of voting rights indirectly held.

4. Net sales (excluding internal net sales among consolidated companies) of Harmonic Drive L.L.C. account for more than 10% of consolidated net sales. However, since net sales (including inter-segment net sales or transfers) of said company account for more than 90% of net sales of the North America

segment reported for the most recent consolidated fiscal year, primary information of profit and loss, etc. have been omitted.

5. Net sales (excluding internal net sales among consolidated companies) of Harmonic Drive SE account for more than 10% of consolidated net sales. However, since net sales (including inter-segment net sales or transfers) of said company account for more than 90% of net sales of the Europe segment reported for the most recent consolidated fiscal year, primary information of profit and loss, etc. have been omitted.

5 [Employees]

(1) Information about group

As of March 31, 2024

Segment	Number of employees (Persons)
Japan	642 [330]
North America	205 [2]
Europe	362 [24]
Corporate (shared)	140 [14]
Total	1,349 [370]

(Notes) 1. The number of employees is the number of full-time employees. The average annual headcount of contract workers and temporary employees is separately presented in brackets.
2. Corporate (shared) employees consist of employees of the Company's fundamental research departments, and administrative departments, such as the General Affairs and Accounting Department, etc.

(2) Information about reporting company

As of March 31, 2024

Number of employees (Persons)	Average age (Years)	Average length of service (Years)	Average annual salary (Yen)
523 [148]	42.2	13.7	7,361,579

Segment	Number of employees (Persons)
Japan	383 [134]
Corporate (shared)	140 [14]
Total	523 [148]

(Notes) 1. The number of employees is the number of full-time employees, excluding those seconded to other companies, and including those seconded to the Company from other companies. The average headcount of contract workers and temporary employees during the fiscal year is separately presented in brackets.
2. Average annual salary includes bonuses and extra pay.
3. Corporate (shared) employees consist of employees of the Company's fundamental research departments, and administrative departments, such as the General Affairs and Accounting Department, etc.

(3) Labor union

The reporting company has an organized labor union, which is called JAM HDS Labor Union, and it belongs to JAM, an industrial union, and the number of union members was 335 as of March 31, 2024. Harmonic AD, Inc., a consolidated subsidiary, also has an organized labor union that belongs to the same industrial union as the labor union of the reporting company.

Other consolidated subsidiaries do not have organized labor union. There are no particular items concerning labor-management relations to be reported.

(4) Ratio of female employees in managerial positions, ratio of male employees taking childcare leave, and differences in wages between male and female

1) Reporting company

As of March 31, 2024

Ratio of female employees in managerial positions (%) (Note 1)	Ratio of male employees taking childcare leave (%) (Note 2)	Differences in wages between male and female (%) (Note 1)		
		All employees	Of which, regular employees	Of which, part-time and fixed-term employees
2.2	81.8	68.9	68.8	94.3

(Notes) 1. Calculated based on provisions of Act on Promotion of Women's Active Engagement in Professional Life (Act No. 64, 2015).

2. Calculated based on provisions of Article 71-4 item (1) of Ordinance for Enforcement of Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25, 1991), pursuant to the provisions of Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76, 1991).

2) Consolidated subsidiaries

As of March 31, 2024

Company name	Ratio of female employees in managerial positions (%) (Note 1)	Ratio of male employees taking childcare leave (%) (Note 2)	Differences in wages between male and female (%) (Note 1)		
			All employees	Of which, regular employees	Of which, part-time and fixed-term employees
Harmonic Precision Inc.	11.1	–	79.4	77.8	97.9

(Notes) 1. Calculated based on provisions of Act on Promotion of Women's Active Engagement in Professional Life (Act No. 64, 2015).

2. Calculated based on provisions of Article 71-4 item (1) of Ordinance for Enforcement of Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25, 1991), pursuant to the provisions of Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76, 1991).

II [Overview of Business]

1 [Management policy, business environment, issues to be addressed, etc.]

Forward-looking statements contained herein are based on the Group's judgment as of March 31, 2024.

(1) Basic policy for corporate management

The Company (referred to here as "HDSI") operates based on the following management principles:

(i) Respect for the Individual

HDSI aspires to be a company where the rights of every individual employee are respected, and where individuals can pursue a meaningful, cultural, and worthwhile life. We will make HDSI a company that believes in each employee's aspirations, supports independent activities, creates an environment where employees can maximize their abilities through work, and where abilities and performance are rewarded.

(ii) A Meaningful Company

HDSI wants to be recognized as a meaningful, superior company which manifests creativity, has personality and distinctive characteristics, and whose management foundation is based on ceaseless research and development activities and a constant emphasis on quality—a company where the entire organization finds meaning in making utmost efforts.

(iii) Coexistence and Co-prosperity

HDSI is supported by many different parties including our employees, customers, shareholders, materials and parts suppliers, affiliated companies and trading partners. We make our best efforts to create attractive products, services, compensation, working environments, and trading relations to satisfy all these concerned parties.

(iv) Contribution to Society

HDSI broadly contributes to society and industry through its corporate activities as a good corporate citizen. The products and services we provide directly and indirectly contribute to the betterment of society. We aspire to be a company that helps to improve the environment and the quality of the communities where we are located.

(2) The Group's business and products

As a group of technological and engineering experts providing total motion control, the Group (referred to here as "HDS Group") highly applies the core technologies making up total motion control with the human resources of our technological and engineering experts to deliver the products that enable the kind of "motion" customers want.

Combining the HarmonicDrive®, AccuDrive®, and HarmonicPlanetary® high-precision speed reducers with actuators made of motors, sensors and other parts, as well as the drivers, controllers, and other system elements for drawing out their top performance, we provide high-added-value products with clear advantages over competing products.

(3) The HDS Group's strengths and features

(i) Accumulated technologies and skills related to HarmonicDrive®

Prompted by our fateful encounter with HarmonicDrive®, we have been pursuing the endlessly expanding potential of this speed reducer for more than 50 years, since our company was founded. Development technologies, production technologies, processing and assembly skills, and production systems that we have built up over time are irreplaceable assets of the HDS Group, and we believe they are also our greatest strengths.

(ii) A product lineup providing compact size, lightweight, and high accuracy

The mechatronic products and speed reducers, which we manufacture and sell, are being chosen by customers who seek advanced levels of motion control and more compact, lightweight equipment. Among these products, the HarmonicDrive®, with its compact size, lightweight, and high precision, has won a high worldwide market share as a speed reducer built into the joints of industrial robots, which are used in manufacturing processes of automobiles, digital equipment, semiconductor wafers, and flat panel displays. Moreover, in wide-ranging applications such as machine tools, measuring and test equipment, space satellites, advanced medical equipment, and automotive, it is providing differentiated added value that would be difficult to achieve with any other mechanism.

(iii) Core technology enabling the provision of total motion control

The HDS Group has built up technologies and skills through research and development and production of speed reducers, motors, sensors, drivers, controllers, and other system elements. We believe that the resulting tangible and intangible technologies and skills related to core technology are essential for providing the advanced motion control our customers demand, and are the source of the competitive advantage of the HDS Group.

(iv) Business operations integrating sales, manufacturing, and development

In order to reflect customer needs in our product development and manufacturing, in the HDS Group's business operations the sales, manufacturing, and technology and development divisions work closely together. For example, these main functions are concentrated in Azumino-shi, Nagano Prefecture; and an efficient workflow operates from the initial contacts with customers to technical reviews, prototyping, order-taking, manufacturing, and shipment. A strength of the HDS Group is the system in place to quickly reflect customer needs and ideas of engineers in production and to timely provide new motion control.

(v) Global business expansion

The HDS Group has operation sites in Japan, the US, Germany, South Korea, China, and Taiwan. Business strategies that conform to the characteristics of each region are promoted and each site mutually cooperates to provide optimal products and services to customers around the world.

(4) Medium- to long-term corporate management strategy of the Group

The Group is following its unwavering mission of contributing to social and technological innovation through motion control technology. Mechatronics and precision speed reducers, which we manufacture and sell, are contributing greatly to the emerging social and technological innovation, including the electrification of vehicles and surgical robots, and such demand is expected to continue to expand. At the same time, with the acceleration of automation as demand for collaborative robots in addition to a new market for "human-like robots" is expected to increase amid the worldwide labor shortage. To properly capture these growth opportunities, the Group aims to further strengthen its business foundation. We also pursue activities for achieving a sustainable society through our business, based on the new medium-term management plan (fiscal years 2024-2026) which was newly formulated, with the whole group united. Moreover, we aim to enhance corporate value over the medium to long term by maintaining a balance between defensive and offensive approaches in our management strategy in order to achieve our missions and new long-term vision.

■ Basic Policy of Sustainability

Based on our management principles on four pillars: 1) Respect for the individual, 2) a meaningful company, 3) coexistence and co-prosperity, and 4) contribution to society, the HDS Group, a group of technological and engineering experts providing total motion control, aims to realize sustainable society and increase its corporate value by contributing to technological innovation for better society.

■ Our Group's Mission

To contribute to innovation in the society by our motion control technology

■ Our Vision

The best provider of total motion control in harmony with the future

■ Materiality

- Maximize the value of human capital
- Achieve QCDS that goes beyond customer expectations
- Take on the challenge of developing new technologies and new skills that coordinate with changes in the environment
- Contribute to creating a sustainable society through corporate activities
- Establishment of a management foundation in harmony with the times

■ Medium-term Management Plan for fiscal years 2024–2026

– Take on the challenge of "value creation and transformation" –

Basic policies

(a) Sustainable growth of all businesses with an emphasis on profitability

- Develop new drivers for growth
- Thorough implementation of QCDS+Speed to meet customer expectations

(b) Strengthen management resources (people, things, money, information) that can adapt to changes in the environment

- Realize an organization where individual growth and diverse skills are demonstrated and respected
- Growth investment aware of capital efficiency
- Strengthen the financial foundation and governance

(c) Initiatives to enhance corporate value that will continue into the future

- Promote Net Zero
- Appoint and hire diverse personnel
- Develop products that promote the reduction of customers' environmental load

(5) Management policy and issues to be addressed

Amid expectations of further uncertainty in the global economy, such as resource and raw material prices remaining high due to instability of the international situation, and exchange rate fluctuations, in the business environment of the Group in the fiscal year 2024, product demand is expected to recover due to expanding investment in automation, such as robots to make up for the decline in the working population, and expanding demand for cutting-edge semiconductors, which are necessary for expanding data centers and generative AI. As a result, with inventory adjustments of our products by customers and distributors, we expect a recovery in orders received during the period. In order to respond to this business environment, we will continue to maintain our high production capacity and strengthen our supply chain system to ensure stable procurement of materials, further promote productivity improvement and operational efficiency through proactive investment in IT, and strive for further quality, cost, delivery, service; product power enhancement, cost reduction, and lead-time reduction, which were implemented in the previous medium-term management plan (fiscal years 2021-2023). In addition, we will promote the improvement of our ability to solve customer issues and the acceleration of our response through the integration of sales and development technology, and focus on further expanding our competitive advantage.

2 [Disclosure of sustainability-related financial information]

The Group's philosophies and initiatives for sustainability are as follows.

Forward-looking statements contained herein are based on the Group's judgment as of March 31, 2024.

The HDS Group's mission is to contribute to technological innovation through its business in order to help solve various social issues and improve society. In fulfilling this mission, we base our management philosophy, which was created in the early days of the Company and has been passed down from generation to generation as the corporate culture of the Group. We have formulated the Basic Policy of Sustainability based on the management philosophy, which was approved by the Board of Directors on March 25, 2022. The Group aims to strategically promote sustainability according to the basic policy.

Basic Policy of Sustainability
Based on our management principles on four pillars: 1) Respect for the individual, 2) a meaningful company, 3) coexistence and co-prosperity, and 4) contribution to society, the HDS Group, a group of technological and engineering experts providing total motion control, aims to realize sustainable society and increase its corporate value by contributing to technological innovation for better society.

(1) Overall sustainability

1) Governance

The Group recognizes that sustainability initiatives are a critical management issue. Accordingly, we have established a governance structure anchored by our Sustainability Committee and ensure oversight from the Board of Directors.

(i) Supervisory system of the Board of Directors

Our Board of Directors is responsible for, and holds authority over, oversight related to sustainability-related risks and opportunities encountered by the Group. The Board of Directors receives reports regarding critical issues discussed and addressed by the Sustainability Committee while also discussing and overseeing policies and implementation plans surrounding the management of sustainability-related risks and opportunities.

(ii) Managerial responsibilities with regard to sustainability

The president and representative director assumes ultimate responsibility for management decisions related to sustainability issues facing the Group.

(iii) Sustainability Committee

To strengthen its group-wide sustainability promotion system, the Company established its Sustainability Committee on April 1, 2023. This committee serves as an organization that promotes, oversees, and manages overall sustainability for the Group. The Sustainability Committee is chaired by our president and representative director, and its members are executive directors.

Primary responsibilities of the Sustainability Committee are as follows.

・Development and revision of sustainability-related policies and strategies
・Identification of materiality in sustainability
・Development and progressive monitoring of long-term sustainability goals and KPIs
・Planning and reporting on promotion of sustainability-related activities
・Identification and management of sustainability-related risks and opportunities
・Regular reporting to the Board of Directors and submission of proposals, basic policies, etc.

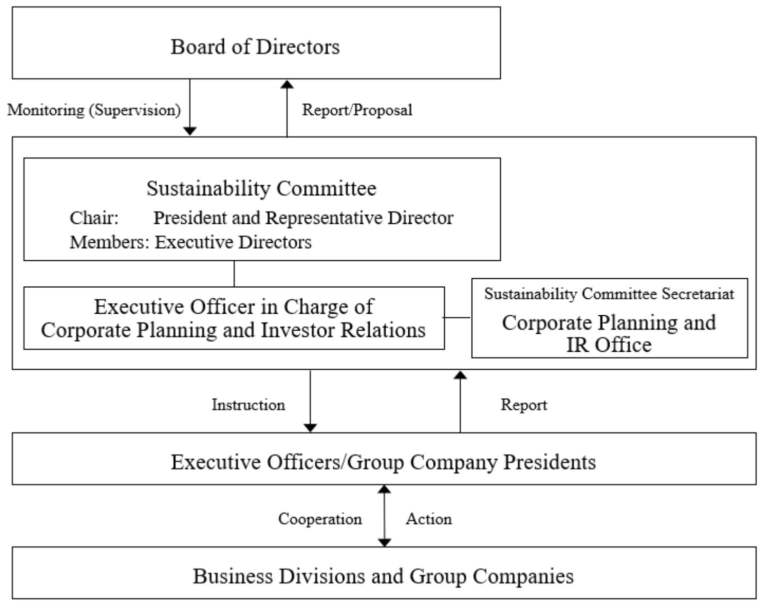
(iv) Executive officer meeting

To fulfill sustainability from the execution side, the status of initiatives for sustainability and sustainability-related trends, etc. are reported by the executive officer in charge of corporate planning and investor relations, at each monthly executive officer meeting that is also attended by directors and corporate auditors, which holds discussions from various perspectives.

(v) Sustainability Promotion Department

Supervised by the executive officer in charge of corporate planning and investor relations, the Corporate Planning and Investor Relations Office serves as a secretariat for the Sustainability Committee and takes a role of promoting the overall sustainability of the Group. In addition, the office provides the committee with recommendations concerning responses to sustainability-related materiality and proposals regarding the handling of associated risks and opportunities. The office also promotes sustainability-related activities throughout the Group, encouraging their implementation in all suitable divisions and Group companies.

HDS Group Organization Structure for Sustainability Promotion



<Record of primary discussions related to sustainability>

	Date of discussion	Primary items discussed
Board of Directors meetings	Mar. 25, 2022	Establishment of the Basic Policy of Sustainability
	Sep. 21, 2022	Establishment of sustainable procurement guidelines
	Mar. 24, 2023	Establishment of the Sustainability Committee
	Nov. 20, 2023	Identification of materiality (for fiscal year 2024 and onward)
Executive officer meetings	Jul. 13, 2021	Consideration of initiatives for sustainability
	Aug. 11, 2021	Details of initiatives for sustainability
	Nov. 11, 2021	Response to sustainability rating agencies required by customers
	Dec. 10, 2021	Consideration of the introduction of CO_2 free electricity to the Ariake Plant
	Jan. 14, 2022	・Introduction of PaperLab (internal recycling for reducing the waste volume of copy paper)
		・Planning of initiatives for sustainability
	Feb. 10, 2022	Report about the progress of actions for climate change, water resources, labor and human rights, ethics, sustainable procurement of materials
	Mar. 10, 2022	Report of assessment results (for fiscal year 2021) from sustainability rating agencies and the issues
	May 17, 2022	Identification of materiality
	Aug. 11, 2022	Issues on climate change, consideration of sustainable procurement guidelines
	Sep. 9, 2022	Consideration of sustainable procurement policies
	Dec. 9, 2022	Report about the progress of actions for labor and human rights, ethics, environment, sustainable procurement of materials
	Feb. 10, 2023	Obligation of the disclosure of sustainability-related information
	Mar. 10, 2023	Establishment of the Sustainability Committee, Net Zero target setting
	Apr. 14, 2023	Report of assessment results (for fiscal year 2022) from sustainability rating agencies and plans for initiatives in the fiscal year 2023
	May 17, 2023	Stakeholders' requests on sustainability-related actions
	Jun. 9, 2023	Consideration of preparing Integrated Reports
	Jul. 12, 2023	Group organization structure for sustainability promotion
	Aug. 10, 2023	Trends in regulations requiring the disclosure of sustainability-related information, scenario analyses on climate change and water security
	Feb. 14, 2024	Report of third-party evaluations on the Company's Integrated Report
Sustainability Committee meetings	Jun. 15, 2023	Matters to be reported in the Annual Securities Report for the fiscal year ended March 31, 2023
	Aug. 17, 2023	Future activity plans of the Sustainability Committee
	Oct. 17, 2023	Selection of materiality proposals (for fiscal year 2024 and onward)
	Nov. 2, 2023	Assessment of the importance of materiality proposals (for fiscal year 2024 and onward)
	Nov. 14, 2023	Decision on the final proposals of materiality (for fiscal year 2024 and onward)

2) Strategy

The Group is working on materiality and value creation process as part of strategies on overall sustainability.

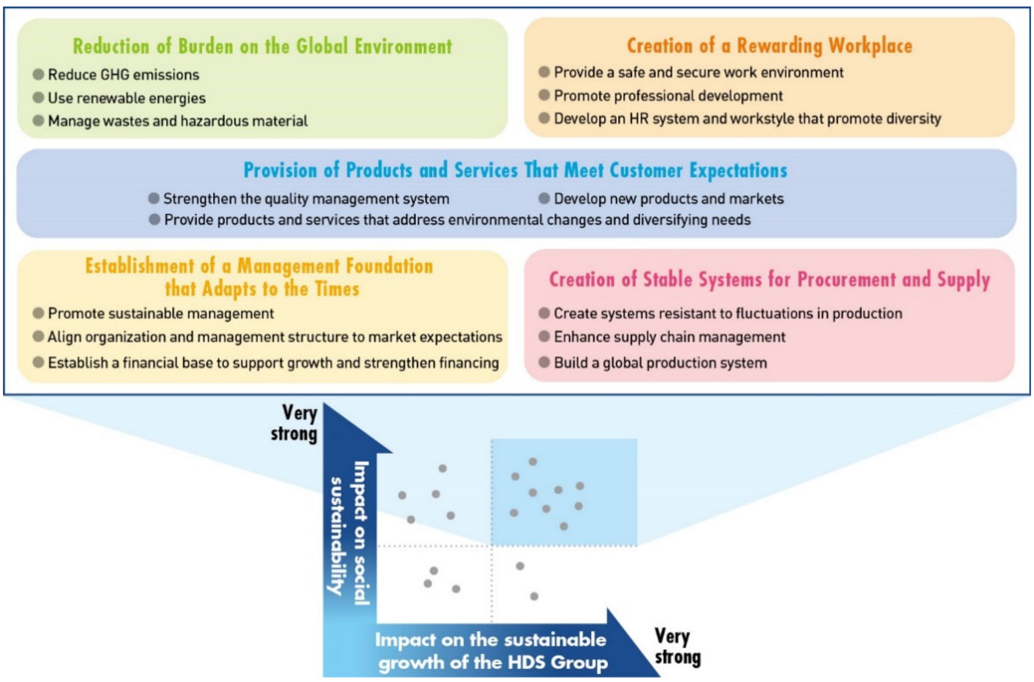
[Materiality to Achieve Aspirations]

Based on our management philosophy, we aim to bring a sustainable society into reality and grow our business by achieving our mission of "To contribute to technological innovation in society through motion control technology." In order to build a sustainable management foundation that can flexibly respond to short-, medium-, and long-term risks in the future and to contribute to the solution of social issues, we have identified material issues (materiality) for our business, as our priorities to be addressed from a medium- to long-term perspective in May 2022, and incorporated them into our business strategy and have been working on it until the end of March 2024. In identifying materiality, we focused on ensuring consistency with SDGs as well as management philosophy and business strategies. For evaluation, we looked at it from the perspective of social sustainability and sustainable growth of the HDS Group.

Process of extraction and identification of materiality

Step 1	Extracting sustainability-related issues	In addition to issues concerning the HDS Group's business strategy, issues that are related to sustainability are extracted comprehensively by going through case studies focusing on value chain companies and looking at global frameworks on sustainability such as the SASB Standards.
Step 2	Identification of materiality	Extracted issues are evaluated from the perspectives of "impact on social sustainability" and "impact on the sustainable growth of the HDS Group" and mapped on a materiality matrix. Among the issues, those that have particularly strong impacts are merged and classified into five material issues in the materiality matrix based on the HDS Group's business strategies.
Step 3	Confirming validity	Consistency between the identified materiality and the medium-term management plan is assessed. In addition, whether the selected materiality properly reflects stakeholder expectations is checked through engagement with shareholders and institutional investors.
Step 4	Approval by the Board of Directors	Five material issues (materiality) are discussed in a meeting body consisting of directors, corporate auditors, and executive officers, to confirm their validity. After the discussion and final approval by the Board of Directors, materiality is published on our website.

Materiality Matrix



Materiality identified in May 2022, on which we have been working until March 2024, consists of five items: 1) Creation of a rewarding workplace, 2) provision of products and services that meet customer expectations, 3) creation of stable systems for procurement and supply, 4) reduction of burden on the global environment, 5) establishment of a management foundation that adapts to the times. Among the materiality, “reduction of burden on the global environment” has a big impact on social sustainability. Similarly, “creation of a rewarding workplace,” “provision of products and services that meet customer expectations,” “creation of stable systems for procurement and supply,” and “establishment of a management foundation that adapts to the times” have a strong impact on the sustainable growth of the HDS Group.

For “reduction of burden on the global environment,” the HDS Group has made efforts to reduce GHG emissions from the Group (through the use of renewable energies and other ways). We have also addressed the issue by controlling water usage, reducing waste, and developing products based on consideration for reduction of burden on the global environment. HarmonicDrive® is an environmentally friendly product. Thanks to its strong point of “small and light,” devices equipped with it can be miniaturized. As a result, energy efficiency is improved in their usage and the environmental burden they create throughout their product life cycle from extraction of resource to disposal can be reduced. Going forward, we will focus on developing products that further help our customers reduce their environmental impact.

“Creation of a rewarding workplace” is strongly related to “respect for the individual,” the most important of our management philosophy. We have strengthened our human capital by providing a safe and secure work environment, promoting professional development, developing an HR system that promotes diversity, and encouraging male employees to take childcare leave, and have created a work environment that enables these measures to work.

In terms of “provision of products and services that meet customer expectations” and “creation of stable systems for procurement and supply,” in order to continue meeting diversified customer needs for performance, quality, and other aspects of our products, we worked on evolving the flagship product, the HarmonicDrive®, as well as focused on joint research with external research institutes, working to develop and commercialize elements for next-generation motion control technology with the aim of further improving total motion control. In addition, in order to meet customers’ delivery requirements, we have enhanced production capacities that reflect demand increases in the future in three locations of Japan, Germany, and the United States. Furthermore, we have improved the accuracy of our forecasts to deal with the large fluctuation of demand of the HDS Group’s business and proceed with the real-time management of the manufacturing process by introducing the manufacturing execution system (MES). We have also worked on the enhancement of our supply chain.

“Establishment of a management foundation that adapts to the times” is a base to achieve these materiality, and we have strengthened governance to improve the sustainability of our management system in addition to financial support.

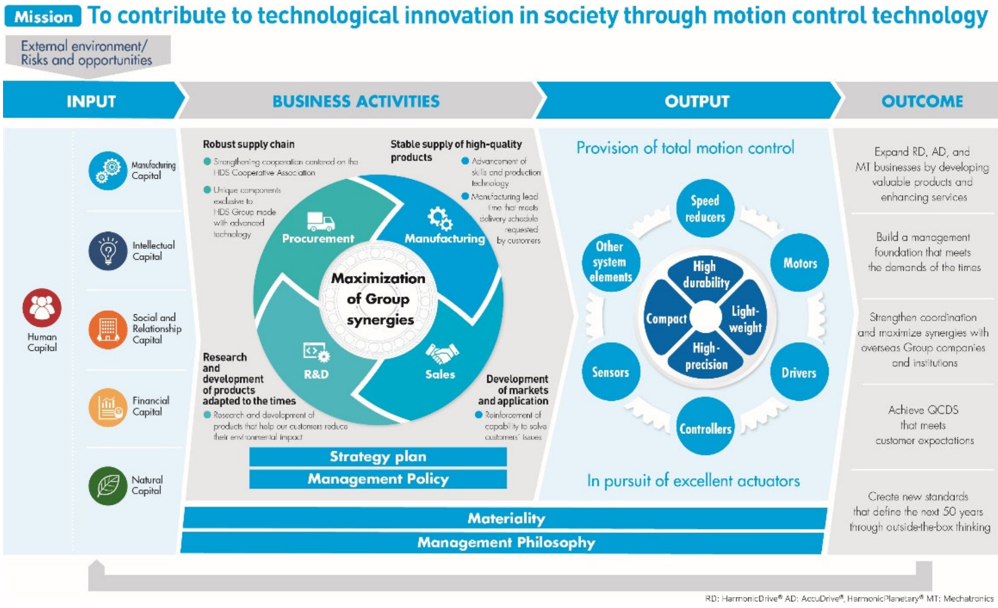
Materiality of the HDS Group

Materiality	Key Measures	Relevant SDGs
Creation of a Rewarding Workplace	● Provide a safe and secure work environment ● Promote professional development ● Develop an HR system and workstyle that promote diversity	4, 5, 8, 10, 16
Provision of Products and Services That Meet Customer Expectations	● Strengthen the quality management system ● Provide products and services that address environmental changes and diversifying needs ● Develop new products and markets	9, 12, 17
Creation of Stable Systems for Procurement and Supply	● Create systems resistant to fluctuations in production ● Enhance supply chain management ● Build a global production system	9, 17
Reduction of Burden on the Global Environment	● Reduce GHG emissions ● Use renewable energies ● Manage wastes and hazardous material	7, 12, 13
Establishment of a Management Foundation that Adapts to the Times	● Promote sustainable management ● Align organization and management structure to market expectations ● Establish a financial base to support growth and strengthen financing	17

[Value Creation Process]

In order for the HDS Group to achieve sustainable growth, we accurately identify social issues and the business environment, recognize risks and opportunities, and produce outcomes that lead to increased corporate value. These outcomes will be created from our inputs that are our strengths and through our unique business activities based on our management philosophy. This process will enable us to achieve our mission "to contribute to technological innovation in society through motion control technology," which is regarded as a value creation process.

[Illustration of Value Creation Process]



Global environmental issues such as decarbonization and resource recycling are global social issues, and our Group's customers are increasingly paying attention to these issues, including requests for information disclosure. Delays in addressing these issues may lead to a decrease in business opportunities for the HDS Group. On the other hand, the decline in the working population and the number of skilled workers will accelerate automation and lead to an increase in demand from robot manufacturers and others, who are our customers. The Group, which supplies precision speed reducers to robot manufacturers, will also need to strengthen its production system and establish a sustainable supply chain.

In order to address these external circumstances, as well as risks and opportunities, the HDS Group promotes initiatives that lead to five outcomes and value creation.

(i) Expand HD, AD, and MT businesses by developing valuable products and enhancing services

For business expansion to strengthen competitiveness, it is essential to develop products that cannot be imitated in precision speed reducers. In mechatronics, it is necessary to develop products that enable customers to bring their vision to life and that competitors would want to imitate. We believe that continuously promoting these two approaches will lead to the expansion of financial, manufacturing, intellectual, and social and relationship capital.

(ii) Build a management foundation that meets the demands of the times

To promote sustainable management, it is necessary to develop human resources capable of leading business expansion, establish personnel systems and work styles that enhance diversity, and shift away from a homogeneous corporate culture. In addition, we believe that the execution of an IT enhancement strategy, establishment of a financial base to support growth, and strengthening fundraising capabilities are vital as promoting them will lead to the enhancement of financial, human, and intellectual capital.

(iii) Strengthen coordination and maximize synergies with overseas Group companies and institutions

To pursue value through regional optimization and global optimization, we need to utilize management resources at each site, promote proactive coordination with overseas research institutions, and establish a global production system. We believe that fulfilling this will lead to the growth of manufacturing, human, intellectual, and social and relationship capital.

(iv) Achieve QCDS that meets customer expectations

QCDS stands for quality (Q), cost (C), delivery schedule (D) and service (S). We aim to achieve QCDS through zero non-conformances and zero complaints (Q), improved productivity (C), commitment to the delivery schedule requested by customers (D), and customer first (S). We believe that this approach for higher customer satisfaction will result in enhanced manufacturing, human, and social and relationship capital.

(v) Create new standards that define the next 50 years through outside-the-box thinking

In this approach, which will be conducted over a long period of time, our business activities will directly result in outcomes. Proactive challenges leveraging the strengths of the Group's products—compactness, lightweight, and high precision—are important to boost the value of the Group. This requires fostering a culture that is sensitive to changes in society and accepts variant perspectives. We believe that promoting this approach will lead to the expansion of human, intellectual, and natural capital over the long term.

*For information on materiality and value creation process, please also refer to the Integrated Report "HDS REPORT 2023," which is posted on the Company's website (https://www.hds.co.jp/english/csr/hdsreport/).

3) Risk management

As regards risks and opportunities, based on management policies (issues), managers of each department consider and link them to specific actions through management programs in each department.

Particularly, HDSI established its system to identify, evaluate, and respond to risks related to sustainability in accordance with the "Crisis and Risk Management Regulations." Risks are classified into company-wide risks and operational process risks, and risk evaluation is conducted once a year. The executive officer in charge of corporate planning and the corporate planning department jointly identify, analyze, and evaluate company-wide risks, while individual departments extract and identify operational process risks, which are then evaluated by the Internal Control and Audit Office from the perspectives of their frequency and the potential scales of damage they could inflict over short-, medium-, and long-term time frames. These efforts enable us to set policies from both legal and humanitarian perspectives and conduct comprehensive assessments that address all risks collectively. Following the completion of these activities, the executive officer in charge of human resources and administration, who also assumes responsibility for risk management, ranks individual risks by their levels of priority in accordance with assessment results. These determinations are then forwarded to the president and representative director for final approval.

We formulate policies for each individual risk while prioritizing both legal compliance and humanitarian objectives and our department managers set risk management targets accordingly. Depending on their specific characteristics, we determine whether to avoid, accept, reduce, or transfer each risk while also conducting appropriate risk mitigation activities. The executive officer in charge of human resources and administration reviews the progress of these activities on an annual basis, and our president and representative director outlines policies for the following year based on the results of these reviews. These policies are then implemented by all departments.

(2) Climate change

The HDS Group recognizes actions related to climate change as material issues on management and promotes these actions under the initiative of the Sustainability Committee.

1) Governance

The HDS Group's governance on climate change is incorporated into the governance for sustainability overall. For details, please refer to 1) Governance under (1) Overall sustainability.

2) Strategy

We identified risks and opportunities related to climate change that could potentially affect the HDS Group's business, and then conducted scenario analyses proposed by TCFD in each of two hypothetical worlds: a scenario that has a big impact on the policy transition, with the assumption of "holding the increase in temperature to below 1.5°C above pre-industrial-revolution levels," a target of Paris Agreement (1.5°C scenario); and another scenario that has a higher physical-risk without environmental regulations tightened (4.0°C scenario), after referring to multiple scenarios, which are published by International Energy Agency (IEA) and Intergovernmental Panel on Climate Change (IPCC). In these scenarios, we analyzed the degree of impact and the probability of occurrence, based on the timeframe for the conceivable emergence of each risk and opportunity on a short-, medium-, and long-term timeline. Based on the results of this scenario analysis, we promote efforts for opportunity creation and risk minimization.

・Referenced scenarios: IEA NZE2050 (1.5°C scenario), IPCC RCP8.5 (4.0°C scenario)
・Timeline definitions: short-term 0-3 years, medium-term 3-10 years, long-term 10-30 years, extremely long-term 31 years and over

Value chain	Scenario	Risk/ opportunity	Relevant business activity	Risk/ opportunity factor	Details	Timeframe in which it may emerge	Probability of occurrence	Degree of impact
Upstream	4.0°C	Risk	Procurement/ Transportation and distribution	Flooding, heavy rains, etc.	Supply chain disruptions due to more intense and frequent natural disasters (typhoons, heavy rains, etc.) cause delays and halt in procurement of raw materials	Short-term	Medium	Medium
		Opportunity	Procurement/ Transportation and distribution	Reputation	Gain greater trust from customers with transport and distribution more resilient to natural disasters by diversifying suppliers	Short-term	Low	High
Direct		Risk	Technology/ Production	Water shortage	Changes in precipitation patterns cause a decline in available water. Restricted water withdrawal, etc. cause a halt in operations. Increase in production costs due to surge in water prices	Medium- to long-term	Low	Medium
		Risk	Technology/ Production	Flooding, heavy rains, etc.	Increase in flooding damage at coastal operation sites due to elevation in sea level	Extremely long-term	Low	Low
		Risk	Technology/ Production	Flooding, heavy rains, etc.	Damage to operating sites, halt in operations, and lower production amounts occur due to more intense and frequent natural disasters	Short-term	Medium	Medium
		Risk	Technology/ Production	Rising temperatures	Labor productivity falls due to rising temperatures	Medium-term	Low	Low
		Risk	Technology/ Production	Rising temperatures	Costs increase to add/replace air conditioning equipment at operating sites and their running costs increase due to rising temperatures	Medium-term	Medium	High
Downstream		Opportunity	Procurement/ Transportation and distribution	Reputation	Gain greater trust from customers with transport and distribution more resilient to natural disasters by dispersing manufacturing sites	Short-term	Low	High

（Translation purposes only）

Value chain	Scenario	Risk/ opportunity	Relevant business activity	Risk/ opportunity factor	Details	Timeframe in which it may emerge	Probability of occurrence	Degree of impact
Upstream	1.5°C	Risk	Procurement/ Transportation and distribution	Surge in energy prices	Surge in energy prices due to the introduction of renewable energy	Short-term	Low	Medium
		Risk	Procurement/ Transportation and distribution	Surge in raw material prices	Surge in raw material prices for electrification and decarbonization (steel materials, aluminum, steel, rare earth elements, etc.)	Medium-term	Low	High
Direct		Risk	Technology/ Production	Development of low-carbon technology	If the competition to develop low-carbon products intensifies and the response is delayed, the competitiveness of products will be reduced	Medium-term	Low	High
		Risk	Technology/ Production	Tightening regulations	Increase in burden to respond to broadening and stricter regulations related to sustainability, and the possibility of failure to comply resulting in restriction on transactions and penalties	Short-term	Medium	High
		Risk	Technology/ Production	Spread of energy-saving technology	Increase in the burden of capital investment to reduce emissions and of energy-saving measures	Short-term	Medium	High
		Risk	Technology/ Production	Tightening regulations	Increase in expenditure with carbon pricing for emissions (tax)	Medium-term	High	High
		Risk	Technology/ Production	Development of low-carbon technology	Increase in costs for technology development to switch to low-carbon materials (green materials, recycled materials)	Medium-term	Low	High
		Opportunity	Technology/ Production	Spread of energy-saving technology	Reduced energy costs and lower burden of carbon taxes as a result of the switch to low emission facilities	Medium-term	Medium	High
		Opportunity	Technology/ Production	Spread of low-carbon technology	Increase in sales related to low-carbon products (EVs, etc.) due to the promotion of low-carbon trend in society	Medium-term	High	High
		Opportunity	Technology/ Production	Development of low-carbon technology	Increase in demand for low-carbon materials	Medium-term	High	High
		Risk	Technology/ Production	Decrease in demand for existing technologies	Decline in sales of products for applications related to petroleum, natural gas, and paper due to a decrease in demand for such material	Medium-term	Low	Low
		Risk/ Opportunity	Sales/ Reputation	Reputation	Reputational risk of response to climate change being deemed inadequate (society, consumers, employees)	Medium-term	Medium	High

3) Risk management

The management of risks and opportunities related to climate change is incorporated into risk management of overall sustainability (please refer to 3) Risk management under (1) Overall sustainability). Along with this, environment-related risks and opportunities are in comprehensive control on a company-wide basis. In deciding company-wide environmental targets, we consider risks and opportunities related to climate change and develop them across the Company through the environmental management program. Managers in each department work on concrete departmental activities from environmental aspects that are grasped in each department, based on the environmental management program.

4) Metrics, targets and results

(i) Metrics and targets

The HDS Group aims at Net Zero by 2050 as a long-term metric in relation to climate change. Specific short- to medium-term targets for reducing GHG emissions are currently under consideration to reflect the HDS Group's management strategy, business expansion, etc.

(ii) GHG emissions

As actual GHG emissions in the fiscal year ended March 31, 2024 are currently under calculation, GHG emissions in the fiscal year ended March 31, 2023 are presented below. Actual GHG emissions in the fiscal year ended March 31, 2024 will be disclosed on the ESG data page of the Company's website (https://www.hds.co.jp/csr/esg/) upon completion of the calculation.

Scope 1 and 2 emissions from the consolidated group companies (t-CO_2)

	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
	Scope 1	Scope 2	Scope 1	Scope 2
Japan	80	13,394	81	15,418
Asia	16	416	14	264
Europe	197	2,349	103	2,494
US	205	783	145	474
Total	498	16,942	342	18,650

* Scope 2 is location-based emissions

Scope 3 emissions from the consolidated group companies (t-CO_2)

	Category No.	Category name	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Upstream	1	Purchased goods and services	198,899	358,792
	2	Capital goods	17,054	11,237
	3	Fuel- and energy-related activities not included in Scope 1 or Scope 2	899	18,329
	4	Upstream transportation and distribution	3,951	8,466
	5	Waste generated in operations	455	1,322
	6	Business travel	104	702
	7	Employee commuting	212	613
	8	Upstream leased assets	0	0
	Upstream total		221,574	399,461
Downstream	9	Downstream transportation and distribution	–	3,837
	10	Processing of sold products	–	0
	11	Use of sold products	–	6,190,129
	12	End-of-life treatment of sold products	–	1,398
	13	Downstream leased assets	–	23
	14	Franchises	–	0
	15	Investments	–	0
	Downstream total		–	6,195,386
Scope 3 total			221,574	6,594,846

*1. The range covered in Categories 1, 4, 5, 6, and 7 in the fiscal year ended March 31, 2022 is on a non-consolidated basis.

*2. Categories 9, 11, 12, and 13 are newly calculated for data in the fiscal year ended March 31, 2023.

(3) Human capital and diversity

1) Policies and strategies for development of human resources and internal environment

The Company has set “respect for the individual” at the first place of our management principles, aspiring to be a company where the rights of every individual employee are respected, and where individuals can pursue a meaningful, cultural, and worthwhile life, as well as a company that believes in each employee’s aspirations, supports independent activities, creates an environment where employees can maximize their abilities through work, and where abilities and performance are rewarded. Based on the principle, we have developed a proper environment, including policies and systems related to human capital.

For management principles, please refer to “(1) Basic policy for corporate management under 1 [Management policy, business environment, issues to be addressed, etc.] in II [Overview of Business]” on page 13.

(i) Human resource development policy

The Company has a basic policy of developing human resources who can carry out our management principles, and is working on nurturing personnel, based on the human resource development policy divided into three stages as below.

- First stage: education and training
  Thoroughly educates people to meet basics required for individuals the Company seeks
- Second stage: putting into practice
  Supports individuals’ efforts while they aim to improve skills and develop expertise through practical work, and strategically nurtures future executive candidates.
- Third stage: employing expertise
  Individuals contribute to departmental operations and nurturing younger employees, employing management skills, expertise, etc. that are accumulated through their work experience (becoming the nurturer side).

(ii) Policies on development of internal environment

The Group has been working on the creation of a workplace in which diverse human resources can actively play roles, in order to construct an organization that enables individuals to work with higher motivation.

Philosophy for ensuring diversity

The Group aims to create a workplace in which all employees can demonstrate their abilities and actively play roles, regardless of gender, nationality, age, and disabilities. Target headcount is set for females in managerial positions, female officers, and foreign employees as part of measures to secure diversified personnel. In addition, mid-career employees are also positively promoted to managerial positions, and accounted for 55.4% of the Company’s managerial positions on a non-consolidated basis, as of March 31, 2024.

Philosophy for recruiting

In order to secure personnel who can share our management philosophy and have skills necessary for the Group, we actively hire mid-career employees who are expected to make an immediate contribution with their various experience, skills, qualifications, etc., as well as regular recruitments for new graduates, aiming at a diversified organization. The Group has promoted personnel to managerial positions according to their capabilities regardless of whether they were hired as new graduates or mid-career employees since earlier time, and the employment ratio and number in managerial positions of mid-career employees show sufficient figures, and therefore targets are not set for those items. Mid-career employees accounted for 59.6% of the Company's employees on a non-consolidated basis, as of March 31, 2024.

HR system

The Group has developed its HR system, based on a philosophy that the enhanced capabilities and higher motivation of employees enable the achievement of management visions and goals.

Various systems have been developed, including job rotation that is intended for professional development of individuals, a self-declaration system through which employees can directly declare their desired future career paths and professional development to officers in charge of human resources, childcare and caregiver leave systems available regardless of employment patterns, and other systems. Particularly, in order to strengthen support for work-childcare balance, we have worked on creating a comfortable workplace that provides systems including leave, leave of absence, and reinstatement systems, as well as reduced working hours and telework for childbirth and childcare cases. In addition, we have positively encouraged male employees to use the childcare leave system, as part of measures associated with women's active engagement and employees' work style reforms. As a result, the ratio of male employees taking childcare leave of the Company was 81.8% on a non-consolidated basis, as of March 31, 2024.

Professional development systems

The Company has formulated human resource development programs planned over a medium- to long-term span for professional development of employees, and constructed systems that allow every individuals to efficiently and constantly enhance and develop capabilities required for the Company's employees.

Professional development trainings consist of the following: the training by layer, a required course based on each layer that is intended to enable individuals to perform their capabilities required for their roles; the basic training, a course needed to perform tasks and for career development; the professional area training, a course to enhance expertise on business and acquire professional skills necessary for career development; the special training, a course in which the Company supports further enrichment of employees' capabilities through self-development, including their receiving degrees, such as MBA and MOT at higher educational institutions, such as universities in Japan and overseas, as well as trainings at overseas affiliated companies, and language study in AEI programs at overseas universities, reflecting more sophisticated economic circumstances and technical levels, advancing globalization, etc. In addition, we actively back up technological and engineering experts who will support the Company's growth over the medium to long term to acquire certifications from internal qualification systems and external skill-certification tests.

Health care promotion

The Company regards employees' health as an important management resource and promotes measures for health and safety, and health care. Specific measures are as follows.

- Prevent employees' physical and mental disorders through regular health checkups, stress checks, etc.
- The Well-Being Center, a specialized unit relating to wellness promotion, was set up, and an internal occupational health nurse provides detailed health consultations and instructions
- Set up points of contact for reports and consultations on harassment, etc. inside and outside the Company
- Offer telework situations

(2) Description of metrics for development of human resources and internal environment, and targets and performance using such metrics

Metrics	Targets	Performance		
	Fiscal year ending March 31, 2025	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2024
Females in managerial positions (persons)	5	2	2	2
Female executive officers (persons)	1	1	1	2
Female directors (persons)	1	–	–	1
Foreign employees (persons)	6	3	6	7
Ratio of male employees taking childcare leave	30%	55.6%	56.3%	81.8%
Ratio of taking paid annual leaves	70%	74.6%	73.2%	82.0%

*1. The above metrics and targets are for Harmonic Drive Systems Inc. on a non-consolidated basis.

*2. The above targets (fiscal year ending March 31, 2025) are set for the covered period from April 1, 2022 to March 31, 2025, in March 2022.

*3. Metrics and targets on a consolidated basis are under consideration and will be disclosed on the Company's website upon finalization.

*4. Data relating to human capital other than the above are disclosed on the ESG data page of the Company's website (https://www.hds.co.jp/csr/esg/).

3 [Operational risks]

The following risks have the potential to impact the Group's operating results and financial conditions.

Forward-looking statements in the text are based on the Group's judgment as of the date of submission of the Annual Securities Report (June 24, 2024).

(i) Risks related to capital investment trends

Since the majority of the Group's products are sold as components for industrial machinery, including industrial robots as well as semiconductor manufacturing equipment and flat panel display manufacturing equipment, capital investment trends may have a negative impact on the Group's performance. These industries in particular may experience significant growth on upturns in the smartphone and semiconductor device and panel markets and technological innovations in manufacturing. If, conversely, the market unexpectedly contracts due to factors such as supply-demand adjustments, the Group's business performance and other results may be adversely affected.

(ii) Risks related to research and development

As a group of technological and engineering experts providing total motion control, the Group develops and brings to market high-value-added products with distinctive features through the focused allocation of resources to the R&D department. However, while we will continue our efforts to allocate resources to research and development and secure personnel, if we do not successfully develop appealing new products that keep pace with technological innovation and satisfy customer and market demand, or if we delay the launch or market penetration of new products that are the fruits of our R&D efforts, the Group's business performance and other results may be negatively impacted.

(iii) Risks related to quality

In the interest of enhancing customer satisfaction and market superiority, the Group is working to fortify its quality assurance system through measures such as the acquisition of ISO 9001 certification. However, the occurrence of issues such as unexpected product defects could affect the Group's business performance and other results.

(iv) Risks related to foreign exchange fluctuations

The Group has two consolidated subsidiaries in the U.S., one in China, one in Korea, and nine in Europe, and is actively promoting the internationalization of its business. As a result, exchange rate fluctuations may impact the Group's business activities. Moreover, exchange rate fluctuations may affect the yen value of the Group's revenues, expenses, assets, and liabilities associated with transactions denominated in foreign currencies, which could potentially have an adverse effect on the Group's business performance and financial position.

(v) Risks related to retirement benefit obligations

The Company and a portion of its consolidated subsidiaries have defined-benefit retirement pension plans or lump-sum payment plans. However, a review of the conditions that serve as the basis for retirement benefit obligation and expense calculations, or a deterioration in the pension asset investment environment, could have an impact on the Group's business performance and financial position.

Effective December 1, 2016, a portion of the defined-benefit pension plan was transferred to a defined-contribution pension plan.

(vi) Risks related to production

Although the Group is striving to improve and increase its production capacity, there is no guarantee that such capacity enhancements will be achieved as planned. Augmenting capacity requires the Group to hire employees for its production operations—particularly in the regions where its domestic factories are located. The Group's ability to satisfy its labor needs hinges on various external factors, including the availability of suitable employees in the regions where its factories are located, unemployment rates, salary levels, and local demographics. Even if the capacity increase is successfully achieved, there is no guarantee that production can be executed at the level or speed required to satisfy the customer.

On the other hand, if customer demand for the Group’s products falls below expectations, production capacity may not be fully utilized, and the Group may not be able to recover its invested capital, or recovery will require more time than initially anticipated.

In such cases, the Group’s business performance and financial position may be adversely affected.

(vii) Risks related to procurement

The Group purchases raw materials, components, and production equipment from a wide range of suppliers; however, factors such as shortages in materials available from suppliers or increased costs may limit the volume of materials available to the Group. Price increases or restrictions on the use of raw materials, components, and production equipment could negatively impact the Group’s business performance and other results.

(viii) Risks related to securing human resources

In the course of the Group’s business, it is necessary to secure skilled employees, including researchers and other technicians with in-depth knowledge of the business and technical expertise, as well as highly competent officers. Failure to secure such employees or officers could have a negative impact on the Group’s business performance and other results. In addition, if the Group’s human resources leave to join competitors, its technology and know-how may be leaked to those competitors, which may adversely affect the Group’s business performance and other results.

(ix) Risks related to overseas business development

As the Group operates globally, it is potentially exposed to the following risks related to overseas business development.

・Changes in political and economic conditions and social turmoil in various countries
・Economic slowdown or recession in related industries in overseas markets
・Unforeseen changes in laws and regulations in various countries including transfer pricing issues and the imposition or increase of withholding or other taxes on remittances or other payments by foreign subsidiaries and affiliates
・Challenges and uncertainties in securing and maintaining permits and approvals in various countries
・Changes in trade restrictions or tariffs
・Terrorism, war, natural disasters, extreme weather, infectious diseases, and other force majeure
・Deterioration in political or economic relations between or among the countries or regions in which the Group operates and Japan
・Implementation or heightening of investment restrictions and other regulations by governments in various countries
・Significant rise in labor costs and wages
・Labor disputes, contentious actions, general strikes, or other disturbances concerning work environment
・Unexpected accidents such as power outages brought about by underdeveloped infrastructure
・Difficulties in managing local personnel and operations due to factors such as cultural differences
・Limited protection of intellectual property in some countries

In addition, when developing business overseas, invested capital may not be recovered as initially planned, and expenses may increase at a faster pace than revenues. This could have a significant negative impact on the Group’s business performance and financial position.

(x) Risks related to M&A and business alliances

The Group has entered into various business and capital tie-ups and joint ventures, including the acquisition of the German subsidiary Harmonic Drive SE, and may engage in further merger and acquisition (M&A) activity and business alliances should appropriate opportunities arise. Although the Group carefully considers the profitability and projected return on investment when conducting such activities, the possibility exists that the activities may not progress as planned at the time of implementation, that synergies may not be realized, or that management of the acquired business may not be successful. In such cases, the Group’s business performance and financial position could be adversely affected through the impairment of goodwill and intangible assets related to acquisitions and business alliances.

(xi) Risks related to the realization of business strategies

The Group pursues business strategies that include augmenting production capacity while maintaining a sound financial base. However, since the realization of business strategies and the achievement of goals depend on factors including the general economic and market environments in the regions in which the Group operates, and the level of competition and demand, the possibility exists that the implementation of the Group's business strategies may not have the intended effect, that actual figures may differ from the assumptions in the business plan, or that the established objectives may not be achieved. It is further possible that such objectives may be further modified in the future.

(xii) Risks related to competition

The Group has a number of products that have a high market share in the speed reducers and mechatronics product markets. If new entrants lead to intensified competition, the Group's business performance may be adversely affected due to deterioration in profit margins on products and lost sales opportunities.

(xiii) Risks related to intellectual property

The Group strives to protect intellectual property rights, including patents and trademarks, and know-how such as confidential business information, as they are an important source of competitiveness. However, interference with the Group's rights could have a negative impact on our business performance. Moreover, should the Group unintentionally infringe upon the intellectual property rights of others in the course of its business activities, the Group's business performance could be adversely affected.

(xiv) Risks related to litigation and other legal proceedings

If unforeseen problems or issues arise in the course of the Group's business activities, it may be subject to damage claims or lawsuits arising from these issues, regardless of whether or not the Group in fact bears responsibility for them. Such litigation may arise in connection with, among other things, intellectual property issues such as product and environmental liability and claims of patent infringement. Should any of these events occur—depending on the details of the lawsuit, the extent of damages, and the outcome—the Group's social credibility could be harmed, and the Group's business performance and financial position may be adversely affected.

(xv) Legal and compliance-related risks

The Group's business activities are subject to regulations in various countries. These regulations include trade, antitrust, intellectual property, product liability, labor-related laws and regulations, corporate governance, protection of personal information, environmental laws and regulations, government licensing, taxation, interstate national security laws and regulations, and regulations on import and export for national security purposes. If the Group's efforts to maintain risk management, compliance, and internal control systems are ineffective or insufficient, the Group may be involved in fraudulent or corrupt activities—whether committed by the Group employees or third parties—and may be perceived as being noncompliant with laws and regulations. These could result in sanctions or fines being levied against the Group, thereby adversely affecting its business and reputation. Furthermore, if laws and regulations are tightened in the future, or if the Group expands the scope of its international operations, it may be required to incur additional costs to comply with laws and regulations. This could adversely affect the Group's business performance and financial position.

(xvi) Risks related to environmental laws and regulations and hazardous substances

The Group's operations are subject to a wide range of environmental laws and regulations in the countries in which it operates. This is particularly true in its manufacturing processes, which involve the use of chemical substances and other materials whose use, storage, discharge, and disposal are subject to strict regulations. Moreover, the Group is subject to various laws and industry standards regarding energy and resource conservation, recycling, global warming, pollution prevention, and environmental health and safety. Environmental laws and regulations may become increasingly strict. If and when this happens, it could result in restriction or prohibition on some of the Group's production and activities, or it may be forced to comply with corrective action orders. The costs associated with complying with such orders and the capital investment and other costs required to comply with applicable environmental laws and regulations could be substantial. These factors could have a negative impact on the Group's business performance and financial position.

(xvii) Risks related to financing

Some of the Group's loan contracts such as commitment line agreements include financial covenants. In the event of a violation of such financial covenants, the Group's financial position and operating results may be adversely affected. In addition, increased costs related to loans due to factors such as a surge in market interest rate may also affect the Group's financial position and operating results.

(xviii) Other risks

Unforeseen events, such as changes in the economic or political environment, terrorism, war, natural disasters, extreme weather, infectious diseases, or other force majeure that the Group alone has no control over, may adversely affect the Group's business performance.

4 [Management analysis of financial position, operating results and cash flows]

(1) Overview of operating results, etc.

Overview of financial position, operating results and cash flows (hereinafter, “operating results”) of the Group (the Company, consolidated subsidiaries, and an equity method affiliate) for the fiscal year under review are as follows.

(i) Financial position and operating results

Future of the world economy increased uncertainty during this fiscal year under review due to factors such as further instability of the international situation, strong inflationary pressures and surge in resource and raw material prices, in addition to the slower growth in the Chinese economy.

The situations concerning orders received by the Group generally became tough owing to continuous cutbacks in future orders received by customers who were concerned about demand trends, reflecting slower capital investment in China’s manufacturing industry, stagnancy of investment in new facilities for cutting-edge semiconductors, and others. On the other hand, although it cannot be said that Japan is experiencing a full-on recovery, it can be confirmed that orders received have bottomed out, and orders received from customers whose inventories of our products have been optimized have begun to return, albeit gradually. As a result, consolidated orders received decreased by 20.9% year on year to ¥44,104 million.

Consolidated net sales for the fiscal year under review have especially been significantly affected by sluggish orders received in Japan, which has continued from the previous fiscal year, and amounted to ¥55,796 million, down 22.0% year on year.

Regarding net sales trend by application, net sales for industrial robots decreased significantly, due to factors such as slower capital investment in China, the main market, in addition to cutbacks in capital investment in EVs. Net sales for semiconductor manufacturing equipment also decreased, especially in the cutting-edge area, where new indications of investment such as in data center application and generative AI application were shown; however, there was no full-scale progress in the fiscal year under review. On the other hand, net sales for advanced medical applications such as surgical robots rose reflecting steady demand growth, mainly from customers in the United States of America. Net sales for automotive applications steadily progressed, due to gradual improvement since the latter half of the previous fiscal year in production adjustment by customers caused by the semiconductor shortage.

In terms of profit and loss, depreciation cost increased as a result of investment made to enhance production capacity. In addition, the lower operating rates of production plants in Japan during the fiscal year under review also affected the results, and operating profit decreased to ¥124 million, down 98.8% year-on-year. In addition, loss attributable to owners of parent was ¥24,806 million (profit attributable to owners of parent of ¥7,595 million in the previous fiscal year) due to the recording of ¥28,159 million of impairment losses of intangible assets related to Harmonic Drive SE, a consolidated subsidiary, and other factors.

In terms of net sales by product group, speed reducers totaled ¥39,432 million, down 30.8% year on year and mechatronic products reached ¥16,363 million, up 12.6% year on year. They accounted for 70.7% and 29.3% of the total net sales, respectively.

Financial results by segment are as follows.

(Japan)

Net sales increased for automotive application resulting from a recovery of car production in line with a relaxation of the supply-demand balance for semiconductors. Meanwhile, demand declined for industrial robots, semiconductor manufacturing equipment, flat panel display manufacturing equipment, and other general industrial machinery applications owing to softness in capital investment trends in Chinese electronics and semiconductors, and the inventory adjustments of our products by customers and distributors of the Group. As a result, net sales decreased by 42.9% year on year to ¥25,971 million. Segment profit (ordinary profit) decreased by 64.6% year on year to ¥4,513 million due to the effect of decreased sales.

(North America)

Exchange rates of the yen remained weak, and demand increased for advanced medical applications (surgical robot-related) and amusement application. As a result, net sales increased by 22.3% year on year to ¥13,284 million. Segment profit (ordinary profit) increased by 21.4% year on year to ¥1,707 million due to the effect of increase in sales.

(Europe)

Exchange rates of the yen remained weak, and demand increased for cutting-edge semiconductor manufacturing equipment, despite a decrease in demand for industrial robots. As a result, net sales increased by 8.7% year on year to ¥16,540 million. Segment profit (ordinary profit) decreased by 65.7% year on year to ¥214 million due to depreciation of ¥1,898 million on intangible assets posted at the time of acquisition of shares in Harmonic Drive SE.

Financial position for the fiscal year under review is as follows.

Total assets decreased by ¥35,193 million, down 22.8% year on year to ¥119,142 million. This was primarily because of a 58.4% or ¥4,323 million decrease in notes receivable - trade from the end of the previous fiscal year resulting from a decrease in net sales, a 14.7% or ¥1,496 million decrease in accounts receivable - trade from the end of the previous fiscal year, and a 68.0% or ¥27,435 million decrease in intangible assets from the end of the previous fiscal year due to applying impairment accounting for some of the intangible assets (goodwill, customer related assets, and technical assets) that were recognized when Harmonic Drive SE became a subsidiary, as well as a 20.5% or ¥2,263 million decrease in investment securities from the end of the previous fiscal year due to a change in market capitalization of securities held by the Company, despite a 109.9% or ¥1,436 million increase in other current assets from the end of the previous fiscal year.

Liabilities decreased by ¥10,639 million, down 21.1% year on year to ¥39,740 million. This was primarily because of a 41.6% or ¥4,165 million decrease in deferred tax liabilities resulting from a reversal of the aforementioned impairment losses of intangible assets, as well as a 14.4% or ¥2,565 million decrease in long-term borrowings from the end of the previous fiscal year resulting from repayments of borrowings and a 73.2% or ¥1,909 million decrease in short-term borrowings from the end of the previous fiscal year.

Net assets decreased by ¥24,553 million, down 23.6% year on year to ¥79,401 million. This was primarily because of a 42.2% or ¥27,373 million decrease in retained earnings from the end of the previous fiscal year due to impacts of the aforementioned impairment losses of intangible assets, payment of dividends, and other factors, despite a 58.7% or ¥4,781 million increase in foreign currency translation adjustment from the end of the previous fiscal year due to the effect of exchange rate fluctuations.

As a result, equity ratio declined from 67.4% at the end of the previous fiscal year to 66.6%.

(ii) Status of cash flows

Cash and cash equivalents at the end of the fiscal year under review totaled ¥18,941 million, down ¥980 million from the end of the previous fiscal year.

The status of cash flows by category for the fiscal year under review is as follows.

(Cash Flows from Operating Activities)

Operating activities in the fiscal year under review provided net cash of ¥12,728 million, compared with net cash provided of ¥10,850 million in the previous fiscal year.

This was primarily because of recording impairment losses of ¥28,159 million, recording ¥9,189 million of depreciation, and a ¥6,234 million decrease in trade receivables, while the Company recorded loss before income taxes of ¥27,606 million and ¥3,892 million used for income taxes paid.

(Cash Flows from Investing Activities)

Investing activities in the fiscal year under review used net cash of ¥5,950 million, compared with net cash used of ¥8,663 million in the previous fiscal year.

This was primarily because of ¥4,935 million used for purchase of property, plant and equipment, and ¥2,188 million used for payments into time deposits, while there was ¥1,707 million in proceeds from withdrawal of time deposits.

(Cash Flows from Financing Activities)

Financing activities in the fiscal year under review used net cash of ¥8,122 million, compared with net cash used of ¥1,599 million in the previous fiscal year.

This was primarily because of ¥4,410 million used for repayments of short-term borrowings, ¥2,656 million used for repayments of long-term borrowings, and ¥2,566 million used in dividends paid, which was partially offset by ¥2,480 million provided from the proceeds from short-term borrowings.

(iii) Status of production, orders received and sales

a. Production

Production results for the fiscal year under review are as follows:

Segment name		Production output (Thousands of yen)	YoY change (%)
Japan	Speed reducers	25,367,761	(43.8)
	Mechatronic products	6,348,550	(12.3)
North America	Speed reducers	4,542,696	18.3
	Mechatronic products	5,870,712	32.6
Europe	Speed reducers	9,538,660	(9.7)
	Mechatronic products	4,874,168	52.9
Total		56,542,550	(24.0)

(Notes) 1. Inter-segment transactions are offset and eliminated.
2. The Group’s reportable segments are classified on a location basis (Japan, North America and Europe).
3. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.
4. The production results of Harmonic Winbel Inc., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.

b. Orders received

The results of orders received for the fiscal year under review are as follows:

Segment name		Orders received (Thousands of yen)	YoY change (%)	Order backlog (Thousands of yen)	YoY change (%)
Japan	Speed reducers	19,670,225	(4.7)	4,367,658	(41.5)
	Mechatronic products	1,661,663	(61.3)	550,970	(68.8)
North America	Speed reducers	4,733,360	(16.3)	4,114,616	(18.7)
	Mechatronic products	3,289,557	(54.2)	3,378,676	(53.7)
Europe	Speed reducers	9,762,430	(25.7)	6,045,652	(12.7)
	Mechatronic products	4,987,642	2.3	2,667,955	(12.6)
Total		44,104,880	(20.9)	21,125,530	(33.1)

(Notes)
1. Inter-segment transactions are offset and eliminated.
2. The Group’s reportable segments are classified on a location basis (Japan, North America and Europe).
3. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.
4. The results of orders received of Harmonic Winbel Inc., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.
5. The order backlog excludes ¥703,134 thousand of order cancellations. The cancellations took place during the fiscal year under review mainly in the Japan segment.

c. Sales

Sales results for the fiscal year under review are as follows:

Segment name		Sales volume (Thousands of yen)	YoY change (%)
Japan	Speed reducers	22,695,240	(44.4)
	Mechatronic products	3,276,318	(29.0)
North America	Speed reducers	5,698,189	12.7
	Mechatronic products	7,586,662	30.8
Europe	Speed reducers	11,039,465	(0.6)
	Mechatronic products	5,500,580	33.7
Total		55,796,455	(22.0)

(Notes)
1. Inter-segment transactions are offset and eliminated.
2. The Group's reportable segments are classified on a location basis (Japan, North America and Europe).
3. Although the Group is solely engaged in handling the same types and series of precision speed reducers and its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products, the above table presents figures by product for each segment.
4. The sales results of Harmonic Winbel Inc., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.
5. Sales by primary customer and the ratio of the sales to the total sales are as follows:

Customer	Previous fiscal year		Fiscal year under review	
	Sales (Thousands of yen)	Ratio (%)	Sales (Thousands of yen)	Ratio (%)
Haneda & Co., Ltd.	8,800,059	12.3	–	–
Nissan Motor Co., Ltd.	–	–	6,547,422	11.7

(Notes)
1. The sales to Haneda & Co., Ltd. are not presented for the fiscal year under review, since the ratio of the sales to the total sales is less than ten hundredths.
2. The sales to Nissan Motor Co., Ltd. are not presented for the previous fiscal year, since the ratio of the sales to the total sales is less than ten hundredths.

(2) Analysis and review of operating results, etc. from the perspective of the management

Recognition, analysis and review of the Group's operating results, etc. from the perspective of the management are as follows. Forward-looking statements in the text are based on the Group's judgment as of the date of submission of the Annual Securities Report (June 24, 2024).

(i) Significant accounting policies and estimates

The consolidated financial statements of the Group are prepared in accordance with accounting standards generally accepted as fair and valid in Japan. We have conducted accounting estimates deemed necessary for the preparation of this consolidated financial statements, based on reasonable standards. Details are described in "(Notes - Significant accounting policies for preparation of consolidated financial statements)" under V Financial Information, 1. (1) Consolidated financial statements.

(Deferred tax assets)

The Group reasonably estimates the occurrence time and amounts of future taxable income based on profit planning, and records deferred tax assets associated with deductible temporary differences which is judged collectible. As the collectability of deferred tax assets depends on estimated taxable income of the future, changes in conditions or assumptions on which the management's estimates are premised may result in decreased deferred tax assets for the next and subsequent fiscal years with tax expenses increasing.

(Impairment accounting for non-current assets)

The Group determines whether indications of impairment in non-current assets are seen or not, and after the process of recognizing and measuring impairment losses, the book value of non-current assets for which impairment is deemed necessary is decreased to the recoverable value, and such decreased amounts are recorded as impairment losses. In identifying the indications of impairment and recognizing and measuring impairment losses, judgments and estimates by the management are applied to the useful life, prospect of future use, future cash flows, setting of a discount rate, etc. of such assets. Changes in preconditions or assumptions for such estimates and judgments due to changes in future business plans and market environments may require impairment accounting and significantly affect financial positions and operating results for the next and subsequent fiscal years.

(ii) Analysis of financial position and operating results for the fiscal year under review

a. Financial position

(Current assets)

Current assets decreased by ¥4,717 million, down 9.0% year on year to ¥47,457 million. This was primarily because of a 58.4% or ¥4,323 million decrease in notes receivable - trade from the end of the previous fiscal year, and a 14.7% or ¥1,496 million decrease in accounts receivable - trade from the end of the previous fiscal year, despite a 109.9% or ¥1,436 million increase in other current assets from the end of the previous fiscal year.

(Non-current assets)

Non-current assets decreased by ¥30,476 million, down 29.8% year on year to ¥71,684 million. This was primarily because of a 68.0% or ¥27,435 million decrease in intangible assets from the end of the previous fiscal year due to applying impairment accounting for some of the intangible assets (goodwill, customer related assets, and technical assets) that were recognized when Harmonic Drive SE became a subsidiary, as well as a 20.5% or ¥2,263 million decrease in investment securities from the end of the previous fiscal year due to a change in market capitalization of securities held by the Company.

As a result, total assets decreased by ¥35,193 million, down 22.8% year on year to ¥119,142 million.

(Current liabilities)

Current liabilities decreased by ¥4,747 million, down 28.8% year on year to ¥11,719 million. This was primarily because of a 73.2% or ¥1,909 million decrease in short-term borrowings from the end of the previous fiscal year resulting from repayments of borrowings.

(Non-current liabilities)

Non-current liabilities decreased by ¥5,892 million, down 17.4% year on year to ¥28,020 million. This was primarily because of a 41.6% or ¥4,165 million decrease in deferred tax liabilities resulting from a reversal of the aforementioned impairment losses of intangible assets, as well as a 14.4% or ¥2,565 million decrease in long-term borrowings from the end of the previous fiscal year resulting from repayments of borrowings.

As a result, total liabilities decreased by ¥10,639 million, down 21.1% year on year to ¥39,740 million.

(Net assets)

Total net assets decreased by ¥24,553 million, down 23.6% year on year to ¥79,401 million. This was primarily because of a 42.2% or ¥27,373 million decrease in retained earnings from the end of the previous fiscal year due to impacts of the aforementioned impairment losses of intangible assets, payment of dividends, and other factors, despite a 58.7% or ¥4,781 million increase in foreign currency translation adjustment from the end of the previous fiscal year due to the effect of exchange rate fluctuations.

As a result, equity ratio declined from 67.4% at the end of the previous fiscal year to 66.6%.

b. Liquidity and sources of funds

(Cash flows)

The status of cash flows is as described in "(ii) Status of cash flows, 4 [Management analysis of financial position, operating results and cash flows] under II [Overview of Business]."

(Capital needs)

The Group's working capital needs primarily comprise material purchase expenses for product manufacturing, payments to outsourced processing, and manufacturing expenses, as well as operating expenses, such as selling, general and administrative expenses. A major part of the research and development expenses of the Group is personnel expenses for employees engaged in research and development.

For investment capital needs relating to capital investment, M&A, etc., various approaches for financing, such as direct and indirect financing are considered and conducted to cover a shortage of funds, while appropriation for own funds takes priority. Primary capital investments made during the fiscal year under review are for the acquisition of manufacturing equipment such as machine tools, various inspection equipment, cutting tools, and jigs. Accounting methods of purchases of property, plant and equipment or intangible assets, and lease transactions are applied in combination to these capital investments.

c. Operating results

(Net sales)

Net sales decreased by ¥15,730 million, down 22.0% year on year to ¥55,796 million. This was due to the effect of sluggish orders received continued from the previous fiscal year, while it can be confirmed that orders received have bottomed out in Japan, and orders received from customers whose inventories of our products have been optimized have begun to return gradually.

(Operating profit)

Operating profit decreased by ¥10,100 million, down 98.8% year on year to ¥124 million. This was due to the fact that depreciation cost increased as a result of investment made to enhance production capacity in the previous fiscal year, in addition to the effect of the substantially lower operating rates of plants in Japan.

(Non-operating income and expenses)

Non-operating income decreased by ¥147 million, down 14.5% year on year to ¥869 million. This was primarily because of a ¥134 million decrease in subsidy income.

Non-operating expenses decreased by ¥59 million, down 12.4% year on year to ¥424 million. This was primarily because of a ¥116 million decrease in commission for purchase of treasury shares.

As a result, ordinary profit decreased by ¥10,187 million, down 94.7% year on year to ¥570 million.

(Extraordinary income and losses)

Extraordinary income increased by ¥4 million, up 125.9% year on year to ¥8 million. Extraordinary losses increased by ¥27,618 million year on year to ¥28,185 million. This was primarily because of recording impairment losses of ¥28,159 million resulting from the aforementioned impairment of intangible assets.

(Profit attributable to owners of parent)

As a result of the above, loss attributable to owners of parent was ¥24,806 million (profit attributable to owners of parent of ¥7,595 million in the previous fiscal year).

d. Objective indicators to assess the status of the achievement of management policy and strategy, and managerial targets

The Group's target management indicators have been set at 20% or more for ratio of operating profit to net sales, and 10% or more for return on equity (ROE). In the medium-term management plan (fiscal years 2021-2023), beginning in fiscal year 2021, financial targets for the fiscal year 2023 were set at ¥70.0 billion for consolidated net sales, 21.4% for ratio of operating profit to net sales, and 10% or more for ROE. However, the results (net sales: ¥55,796 million, ratio of operating profit to net sales: 0.2%) largely fell short of the targets for the fiscal year under review, the last fiscal year of the medium-term management plan (fiscal years 2021-2023), due to worsening business circumstances. As mentioned in "1 [Management policy, business environment, issues to be addressed, etc.]" under II [Overview of Business], in the business environment of the Group in the fiscal year 2024, product demand is expected to gradually recover due to expanding capital investments, and with inventory adjustments of our products by customers and distributors, we expect a gradual recovery in orders received, while further uncertainty in the global economy is expected. In the new medium-term management plan (fiscal years 2024-2026), formulated based on these prospects, financial targets for fiscal year 2026, the last fiscal year, were set at ¥90.0 billion for consolidated net sales, 16.7% for ratio of operating profit to net sales, and 10% or more for ROE.

Consolidated net sales, ratio of operating profit to net sales, and ROE in the past five years are as follows:

	Fiscal year 2019	Fiscal year 2020	Fiscal year 2021	Fiscal year 2022	Fiscal year 2023
Consolidated net sales	¥37,487 million	¥37,034 million	¥57,087 million	¥71,527 million	¥55,796 million
Ratio of operating profit to net sales	(0.5)%	2.3%	15.3%	14.3%	0.2%
ROE	(1.1)%	0.7%	6.6%	7.5%	(27.1)%

5 [Material Contracts, Etc.]

Not applicable.

6 [Research and Development Activities]

The Group pursues the mission "to contribute to technological innovation in society through motion control technology," and aims to always be the best provider of total motion control in harmony with the future. To this end, we pursue both development on next-generation products through promoting basic research, and application development to reflect customer needs in products. In the speed reducer area, we seek mechanisms that are smaller and lighter with higher precision and higher torque capacity. In the mechatronic products area, we focus on the research and development of various actuators and controllers by applying the results gained in the speed reducer field and our original technologies of motors, sensors, and control systems. Research and development of the Group are conducted mainly with our unique technologies possessed by the Group. However, we have also focused on joint research with external research institutes, working to develop and commercialize elements that are potentially essential to next-generation motion control technology. As an outcome of the effort, our products are being adopted to applications such as advanced medical equipment (surgical robots), human-like robots, in the mobility, aviation and aerospace areas.

Among the Group, the Company is in charge of a primary part of research and development. Its R&D organization consists of three divisions: the Development and Engineering Division that develops standard catalogue products and develops and designs products based on customer requests; the New Mechanism Principle Laboratory that explores new principles and mechanisms beyond the boundaries of existing products, based on new and outside-the-box thinking; and the Harmonic Drive Gearing Laboratory that investigates deeply the basic technology supporting HarmonicDrive® to find possibilities for enhancing its performance. We have an office for the purpose of studies and research in Silicon Valley in the United States, and we gained a foothold in this region where the world's most advanced IT and robot technologies are concentrated. This will help us not only to meet various requests from customers, but also to conduct far-sighted research and development, to pursue basic technologies that underlie all research and development, and furthermore, to actively work on the research of new principles and mechanisms that can offer innovative value to customers in the future, and we will keep up with the accelerated changes in the times. In addition, at a research annex on the Hotaka Plant site, we are researching the production technologies and skills to manufacture and measure ultra-high-precision products.

Especially, in new development cases, we contributed to our customers' technological innovation through suggestions to which the latest lightweight technology and method development are applied. In the mechatronic products area, we have focused on developing torque sensors, in addition to next-generation drivers (control devices), and enhanced the added value of products, while strengthening a new technical base.

For the fiscal year under review, we had 146 R&D personnel and spent ¥3,613 million as research and development expenses.

III [Information about Facilities]

1 [Overview of capital investment]

The total amount of capital investment made by the Group during the fiscal year under review was ¥4,955 million, and the main items are as follows.

(1) Purchase of production tools and devices for addition or replacement
(2) Purchase of machinery and equipment
(3) Hardware and software of computer

The amounts of capital investment by segment are as follows.

The Group mainly manufactures and sells precision speed reducers and their applied products such as precision actuators and motion control devices, and is solely engaged in handling the same types and series of precision speed reducers. Therefore its business operations fall within a single industry segment based on the similarities in the types, natures, manufacturing methods and markets of their products.

(Japan)

The amount of capital investment made during the fiscal year under review was ¥3,548 million.

Harmonic Drive Systems Inc. completed the introduction of production machinery in March 2024. This investment did not make an increase in production capacity.

Harmonic Precision Inc., a Japanese subsidiary, completed the introduction of production machinery in March 2024. This investment did not make an increase in production capacity.

Harmonic AD, Inc., a Japanese subsidiary, completed the introduction of production machinery in March 2024. This investment did not make an increase in production capacity.

No retirement or sale of facilities that have a significant impact on production capacity were conducted.

(North America)

The amount of capital investment made during the fiscal year under review was ¥465 million.

HD Systems, Inc., an overseas subsidiary, completed the introduction of production machinery in December 2023. This investment did not make an increase in production capacity.

No retirement or sale of facilities that have a significant impact on production capacity were conducted.

(Europe)

The amount of capital investment made during the fiscal year under review was ¥941 million.

Harmonic Drive SE, an overseas subsidiary, completed the introduction of production machinery in December 2023. This investment made an increase of 8% in the production capacity of the company.

No retirement or sale of facilities that have a significant impact on production capacity were conducted.

2 [Major Facilities]

(1) Reporting company

As of March 31, 2024

Site name (address)	Segment name	Facilities	Book value (Thousands of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Thousand m^2)	Leased assets	Other	Total	
Hotaka Plant/Ariake Plant (Hotaka, Azumino-shi, Nagano, Japan)	Precision speed reducers (Japan)	Production facilities for speed reducers	9,615,864	9,657,552	1,228,024 (119)	2,164,765	2,749,625	25,415,832	406 [133]
Head Office and other offices (Shinagawa-ku, Tokyo, Japan, and other addresses)	Same as above	Administration and sales facilities	14,584	–	–	266	7,214	22,066	58 [5]
Former Matsumoto Plant (Toyoshina, Azumino-shi, Nagano, Japan)	–	Leased buildings, structures, sites, and others	175,788	0	49,168 (11)	–	14,970	239,928	6 [1]
Matsumoto Plant (Wada, Matsumoto-shi, Nagano, Japan, and other addresses)	–	Leased buildings, structures, sites, and others	5,342,551	1,303,970	1,097,949 (38)	67,571	53,361	7,865,405	25 [9]
Komagane Plant (Akaho, Komagane-shi, Nagano, Japan)	–	Production facilities, leased buildings, structures, sites, and others for mechatronic products	577,659	68,274	62,562 (5)	–	52,749	761,245	28 [–]

(2) Japanese subsidiaries

As of March 31, 2024

Company Name	Site name (address)	Segment name	Facilities	Book value (Thousands of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Thousand m^2)	Leased assets	Other	Total	
Harmonic Precision Inc.	Head office (Wada, Matsumoto-shi, Nagano, Japan)	Precision speed reducers (Japan)	Production facilities for parts of speed reducers	201,052	843,798	–	282,143	12,566	1,339,560	97 [140]
Harmonic AD, Inc.	Head office (Toyoshina, Azumino-shi, Nagano, Japan)	Same as above	Production facilities for planetary speed reducers	22,292	537,705	–	8,800	48,815	617,613	48 [7]
Harmonic Winbel Inc.	Head office (Akaho, Komagane-shi, Nagano, Japan)	Same as above	Production facilities for motors	36,763	5,481	58,388 (6)	1,402	1,380	103,416	46 [–]

(3) Overseas subsidiaries

As of March 31, 2024

Company Name	Site name (address)	Segment name	Facilities	Book value (Thousands of yen)						Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land (Thousand m^2)	Leased assets	Other	Total	
HD Systems, Inc.	Head office (Beverly, Massachusetts, U.S.A.)	Precision speed reducers (North America)	Production facilities for speed reducers and mechatronic products	2,272,081	1,719,439	996,941 (31)	74,684	1,334,797	6,397,945	205 [2]
Harmonic Drive Systems (Shanghai) Co., Ltd.	Head office (Shanghai, China)	Precision speed reducers (Japan)	Sales and technical services of mechatronic products and speed reducers	–	–	–	334	70,820	71,155	31 [–]
SAMICK ADM Co., Ltd.	Head office (Daegu, Korea)	Same as above	Production facilities for planetary speed reducers	–	1,464	–	–	15,922	17,386	16 [–]
Harmonic Drive SE	Head office (Limburg a.d. Lahn, Hessen, Germany)	Precision speed reducers (Europe)	Production facilities for speed reducers and mechatronic products	830,113	1,968,695	–	2,428,432	732,196	5,959,437	362 [24]

(Notes) 1. "Other" in book value presents the total amount of tools, furniture and fixtures, construction in progress and intangible assets.
2. Book value presents amounts after impairment losses are recorded.
3. Figures in brackets of the number of employees separately present the number of contract workers and temporary employees.
4. Buildings, structures and land belonging to the former Matsumoto Plant are lent to subsidiary Harmonic AD, Inc.
5. Some plots of land in the Matsumoto Rinku Industrial Park are lent to subsidiary Harmonic Precision Inc. as a site for a plant.
6. Buildings, structures and land belonging to the Komagane Plant are lent to subsidiary Harmonic Winbel Inc.
7. The presented status of HD Systems, Inc. includes the status of Harmonic Drive L.L.C., its subsidiary.
8. The presented status of Harmonic Drive SE includes the status of its eight consolidated subsidiaries.
9. Besides the above, facilities lent and leased by parties other than consolidated companies are as follows.

(i) Reporting company

Site name (address)	Segment name	Facilities	Rent and lease expenses
Hotaka Plant (Hotaka, Azumino-shi, Nagano, Japan)	Precision speed reducers (Japan)	Production machinery and appendage systems, etc.	Annual lease expenses ¥55,203 thousand
Hotaka Plant (Hotaka, Azumino-shi, Nagano, Japan)	Same as above	Production machinery and appendage systems, etc.	Annual rent expenses ¥4,583 thousand
Head Office and other offices (Shinagawa-ku, Tokyo, Japan, and other addresses)	Same as above	Offices	Annual rent expenses ¥74,224 thousand

(ii) Japanese subsidiaries

Company Name	Site name (address)	Segment name	Facilities	Rent and lease expenses
Harmonic Precision Inc.	Head office (Wada, Matsumoto-shi, Nagano, Japan)	Precision speed reducers (Japan)	Production machinery and appendage systems, etc.	Annual lease expenses ¥221,900 thousand
			Offices	Annual rent expenses ¥600 thousand
Harmonic AD, Inc.	Head office (Toyoshina, Azumino-shi, Nagano, Japan)	Same as above	Production machinery and appendage systems, etc.	Annual lease expenses ¥6,555 thousand
			Computers and peripheral devices	Annual lease expenses ¥252 thousand
Harmonic Winbel Inc.	Head office (Akaho, Komagane-shi, Nagano, Japan)	Same as above	Production machinery and appendage systems, etc.	Annual lease expenses ¥352 thousand
			Production machinery and appendage systems, etc.	Annual rent expenses ¥480 thousand
			Computers and peripheral devices	Annual lease expenses ¥1,987 thousand

3 [Planned addition, retirement, and other changes of facilities]

(1) Major addition, etc. of facilities

Major planned addition, etc. of facilities as of March 31, 2024 are as follows.

Company Name	Site name (address)	Segment name	Facilities	Planned investment amounts		Financing methods	Scheduled time of beginning and completion		Increased capacity after completion
				Budget (Thousands of yen)	Paid amounts (Thousands of yen)		Beginning	Completion	
Reporting company	Hotaka Plant/ Ariake Plant (Azumino-shi, Nagano, Japan)	Precision speed reducers (Japan)	IT/buildings	1,057,100	–	Own funds	Apr. 2024	Mar. 2025	14% increase in production capacity
			Production machinery	7,369,664	–	Own funds and borrowings	Apr. 2024	Mar. 2026	
			Tools, furniture and fixtures	2,146,258	–	Own funds	Apr. 2024	Mar. 2025	
Harmonic Precision Inc.	Head office (Matsumoto-shi, Nagano, Japan)	Same as above	IT/buildings	13,700	–	Own funds	Apr. 2024	Mar. 2025	2% increase in production capacity
			Production machinery	371,980	–	Own funds	Apr. 2024	Mar. 2025	
			Tools, furniture and fixtures	102,940	–	Own funds	Apr. 2024	Mar. 2025	
Harmonic AD, Inc.	Head office (Azumino-shi, Nagano, Japan)	Same as above	Production machinery	87,300	–	Own funds	Apr. 2024	Mar. 2025	5% increase in production capacity
			Tools, furniture and fixtures	127,236	–	Own funds	Apr. 2024	Mar. 2025	
HD Systems, Inc.	Head office (Beverly, Massachusetts, U.S.A.)	Precision speed reducers (US)	IT/buildings	228,900	–	Own funds	Jan. 2024	Dec. 2024	13% increase in production capacity
			Production machinery	578,900	–	Own funds	Jan. 2024	Dec. 2024	
			Tools, furniture and fixtures	14,000	–	Own funds	Jan. 2024	Dec. 2024	
Harmonic Drive SE	Head office (Limburg a.d. Lahn, Hessen, Germany)	Precision speed reducers (Europe)	IT/buildings	192,339	–	Own funds	Jan. 2024	Dec. 2024	9% increase in production capacity
			Production machinery	311,157	–	Own funds	Jan. 2024	Dec. 2024	
			Tools, furniture and fixtures	595,070	–	Own funds	Jan. 2024	Dec. 2024	

(Notes) 1. Own funds, a primary financing method, include those with non-ownership-transfer finance lease contracts. The amounts associated with non-ownership-transfer finance lease contracts of planned investment amounts are presented in the amount equivalent to the acquisition value of relevant facilities.

2. The planned investment amounts of an overseas subsidiary HD Systems, Inc. are calculated at the exchange rate of ¥140.00 to the dollar.

3. The planned investment amounts of overseas subsidiary Harmonic Drive SE are calculated at the exchange rate of ¥150.00 to the euro.

(2) Major retirement, etc. of facilities

Not applicable.

IV [Information about Reporting Company]

1 [Company's shares, etc.]

(1) [Total number of shares]

(i) [Authorized shares]

Class	Total number of authorized shares (Shares)
Common shares	356,400,000
Total	356,400,000

(ii) [Issued and outstanding shares]

Class	As of the end of the period March 31, 2024 (Shares)	As of the filing date June 24, 2024 (Shares)	Listed financial instruments exchange or registered approved financial instruments firms association	Details
Common shares	96,315,400	96,315,400	Standard Market, Tokyo Stock Exchange	Number of shares constituting one unit is 100 shares
Total	96,315,400	96,315,400	–	–

(2) [Share acquisition rights]

(i) [Employee share option plans]

Not applicable.

(ii) [Rights plans]

Not applicable.

(iii) [Share acquisition rights for other uses]

Not applicable.

(3) [Exercises of moving strike convertible bonds, etc.]

Not applicable.

(4) [Changes in total number of issued and outstanding shares, share capital and legal capital surplus]

Date	Changes in total number of issued and outstanding shares (Shares)	Balance of total number of issued and outstanding shares (Shares)	Changes in share capital (Thousands of yen)	Balance of share capital (Thousands of yen)	Changes in legal capital surplus (Thousands of yen)	Balance of legal capital surplus (Thousands of yen)
January 29, 2018 (Note)	1,566,100	96,315,400	5,489,493	7,100,036	5,489,493	9,697,431

(Note) Paid-in capital increase by public offering

Issue price	¥7,322.0
Issue value	¥7,010.4
Amount incorporated into capital	¥3,505.2

(5) [Shareholding by shareholder category]

As of March 31, 2024

Categories	Status of shares (number of shares constituting one unit is 100 shares)								Shares less than one unit (Shares)
	National and local governments	Financial institutions	Financial service providers	Other corporations	Foreign investors		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	–	12	18	105	304	28	6,879	7,346	–
Number of shares held (Number of units)	–	116,546	4,980	375,464	350,349	28,515	87,157	963,011	14,300
Percentage of shareholdings (%)	–	12.10	0.51	39.00	36.38	2.96	9.05	100.00	–

(Notes) 1. There are no shares in the name of Japan Securities Depository Center, Inc.
2. 1,339,057 shares of treasury shares are included in 13,390 units in "individuals and others" and 57 shares in "shares less than one unit."

(6) [Major shareholders]

As of March 31, 2024

Name	Address	Number of shares held (Shares)	Shareholding ratio (excluding treasury shares) (%)
KODEN Holdings Co., Ltd.	2-13-24 Tamagawa, Ota-ku, Tokyo	33,490,700	35.26
SSBTC CLIENT OMNIBUS ACCOUNT (standing proxy: Custody Service Department, Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	ONE CONGRESS STREET, SUITE 1, BOSTON, MASSACHUSETTS, U.S.A (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	7,058,264	7.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	1-8-1 Akasaka, Minato-ku, Tokyo	3,752,900	3.95
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	3,345,900	3.52
Norimitsu Ito	Minato-ku, Tokyo	3,041,600	3.20
Control trust (A030) trustee, SMBC Trust Bank Ltd.	1-3-2, Marunouchi, Chiyoda-ku, Tokyo	2,176,800	2.29
JP MORGAN CHASE BANK 385632 (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (2-15-1 Konan, Minato-ku, Tokyo)	1,986,230	2.09
STATE STREET BANK WEST CLIENT - TREATY 505234 (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1776 HERITAGE DRIVE, NORTH QUINCY, MA 02171, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	1,681,500	1.77
J.P.MORGAN BANK LUXEMBOURG S.A. 381572 (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	EUROPEAN BANK AND BUSINESS CENTER 6, ROUTE DE TREVES, L-2633 SENNINGERBERG, LUXEMBOURG (2-15-1 Konan, Minato-ku, Tokyo)	1,571,000	1.65
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (standing proxy: Custody Service Department, Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	50 BANK STREET CANARY WHARF LONDON E14 5NT, UK (3-11-1, Nihonbashi, Chuo-ku, Tokyo)	1,448,550	1.52
Total	–	59,553,444	62.70

(Notes) 1. Besides the above, there are 1,339,057 shares of treasury shares held by the Company.

2. In a statement of changes made available for public inspection as of October 20, 2023, two companies stated that they own 6,486,950 shares in their joint names; however, actual number of shares held in such corporation names cannot be confirmed as of March 31, 2024, and therefore they are not included in above [Major shareholders].
   1) Capital Research and Management Company
   2) Capital International K.K.

3. In a statement of changes made available for public inspection as of January 11, 2024, two companies stated that they own 7,955,200 shares in their joint names; however, actual number of shares held in such corporation names cannot be confirmed as of March 31, 2024, and therefore they are not included in above [Major shareholders].
   1) T. Rowe Price Japan, Inc.
   2) T. Rowe Price Associates, Inc.

(7) [Voting rights]

(i) [Issued and outstanding shares]

As of March 31, 2024

Categories	Number of shares (Shares)	Number of voting rights	Details
Shares with no voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (others)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common shares 1,339,000	–	Standard shares of the Company without any restrictions
Shares with full voting rights (others)	Common shares 94,962,100	949,621	Same as above
Shares less than one unit	Common shares 14,300	–	–
Total number of issued and outstanding shares	96,315,400	–	–
Number of voting rights held by all shareholders	–	949,621	–

(Note) Common shares in the category of shares less than one unit include 57 shares of treasury shares held by the Company.

(ii) [Treasury shares, etc.]

As of March 31, 2024

Name of shareholder	Address of shareholder	Number of shares held in own name (Shares)	Number of shares held under different names (Shares)	Total number of shares held (Shares)	Ratio of shares held to total number of shares issued and outstanding (%)
(Treasury shares) Harmonic Drive Systems Inc.	6-25-3 Minami-Oi, Shinagawa-ku, Tokyo, Japan	1,339,000	–	1,339,000	1.39
Total	–	1,339,000	–	1,339,000	1.39

2 [Acquisition and disposal of treasury shares]

[Class of shares, etc.] Acquisition of common shares pursuant to Article 155, items (iii) and (vii) of the Companies Act

(1) [Acquisition by resolution of general meeting of shareholders]

Not applicable.

(2) [Acquisition by resolution of Board of Directors meeting]

Categories	Number of shares (Shares)	Total value (Yen)
Resolution adopted by the Board of Directors (December 6, 2023) (acquisition period: December 8, 2023 to January 19, 2024)	700,000	2,000,000,000
Treasury shares acquired prior to the fiscal year under review	–	–
Treasury shares acquired during the fiscal year under review	104,800	397,260,500
Total number and total value of remaining resolution type of shares	595,200	1,602,739,500
Ratio of unexercised shares as of the end of the fiscal year under review (%)	85.03	80.14
Treasury shares acquired in the current fiscal year until the filing date	–	–
Ratio of unexercised shares as of the filing date (%)	85.03	80.14

(3) [Acquisition not based on resolution of general meeting of shareholders or Board of Directors meeting]

Categories	Number of shares (Shares)	Total value (Yen)
Treasury shares acquired during the fiscal year under review	8	33,680
Treasury shares acquired in the current fiscal year until the filing date	–	–

(Note) Treasury shares acquired in the current fiscal year until the filing date do not include the number of treasury shares of less than one unit purchased during the period from June 1, 2024 to the filing date of this Annual Securities Report.

(4) [Disposal of acquired treasury shares and number of treasury shares held]

Categories	Fiscal year under review		Current fiscal year until the filing date	
	Number of shares (Shares)	Total disposal value (Yen)	Number of shares (Shares)	Total disposal value (Yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares which were disposed of	–	–	–	–
Acquired treasury shares which were transferred in relation to merger, share exchange, share issuance or company split	–	–	–	–
Other (disposal of treasury shares as restricted stock payment)	16,753	71,786,605	–	–
Number of treasury shares held	1,339,057	–	1,339,057	–

(Note) Treasury shares held during the current fiscal year until the filing date do not include the number of treasury shares of less than one unit purchased or sold during the period from June 1, 2024 to the filing date of this Annual Securities Report.

3 [Dividend policy]

The Company distributes dividends according to its financial results, and has set a target consolidated payout ratio of 30% as a basic policy.

It is our basic policy to pay dividends of surplus twice a year, once as an interim and once as a year-end dividend. The decision regarding the payment of the interim dividend is the responsibility of the Board of Directors, while the decision regarding the year-end dividend is made by the general meeting of shareholders. The Company also has a policy to take necessary measures for implementing certain stable dividends in the event that large fluctuations in financial results occur in a short period of time.

In regard to the dividends of surplus for the fiscal year under review, taking into consideration the return of profits to shareholders, strengthening the business operation, and future business development, the Company determined to pay an interim dividend of ¥10 per share and year-end dividend of ¥10 per share. The Company invests its internal reserves in facilities to satisfy product demand, research and development of new products for opening up a new market, and enhancement of information management systems to increase productivity and operational efficiency, while preparing for the execution of flexible capital policies.

The Company’s Articles of Incorporation stipulates that it can pay an interim dividend set forth in Article 454, Paragraph 5 of the Companies Act.

(Note) Dividends of surplus of which record dates belong to the fiscal year under review are as follows:

Resolution date	Total dividends (Thousands of yen)	Dividends per share (Yen)
November 9, 2023 Board of Directors meeting	950,811	10
June 21, 2024 Ordinary General Meeting of Shareholders	949,763	10

4 [Corporate governance]

(1) [Overview of corporate governance]

(i) Basic views on corporate governance

The Company's fundamental policy for corporate governance is based upon ensuring sound and transparent corporate management and achieving swift and effective decision-making, with the aims to meet the expectations of our stakeholders, achieve sustainable growth, and enhance our corporate value over the long term. We do so through the implementation of our Management Principles, which consist of four pillars: Respect for the Individual, A Meaningful Company, Coexistence and Co-prosperity, and Contribution to Society.

(ii) Overview of corporate governance system and reasons for adoption thereof

The Company has adopted a Board of Corporate Auditors system, which is based on the institutional system under the Company with a Board of Corporate Auditors as stipulated in the Companies Act.

a. Board of Directors

In addition to formulating basic policies and strategies for the Group, the Board of Directors makes decisions on important matters, including matters stipulated by laws and regulations and the Articles of Incorporation, and supervises business execution.

The Board of Directors consists of ten (10) members and its meetings are chaired by Akira Nagai, Chairperson and Director. Other members are Directors: Akira Maruyama, Kazutoshi Kamijoh, Yoshihiro Tanioka, Naomi Shirasawa, Haruhiko Yoshida (Outside Director), Masanobu Nakamura (Outside Director), Yoshio Fukuda (Outside Director), Kazuhiko Hayashi (Outside Director), and Kaeko Kitamoto (Outside Director).

b. Corporate auditors (Board of Corporate Auditors)

Based on audit policies and plans established by the Board of Corporate Auditors, corporate auditors audit the execution of duties by directors, attend meetings of the Board of Directors and other important meetings, review important approval documents, and conduct onsite audits of business offices and subsidiaries, allowing for the regular auditing of the status of management execution.

The Board of Corporate Auditors consists of four (4) members: Yoshitsugu Yokogoshi, Full-time Outside Corporate Auditor; Hidefumi Iguchi, Full-time Corporate Auditor; Eisaku Imazato, Outside Corporate Auditor; and Nobuyuki Higashi, Corporate Auditor.

c. Advisory Members to the Board of Directors

Advisory Members to the Board of Directors, including experts from Japan and overseas, are appointed to advise the Board of Directors on management issues on a regular basis.

d. Executive officer meetings

In June 2003, the Company introduced an executive officer system to strengthen business execution supervisory functions and accelerate management decision-making. This clearly separated the policy and strategy formation, decision-making, and supervisory functions of the Board of Directors from the business execution functions of executive officers. In addition, monthly executive officer meetings are held to deliberate important matters and issues related to business execution.

The executive officer meeting has fifteen (15) members and are chaired by Akira Maruyama, Executive President. Other members are Akira Nagai, Executive Chairperson; Kazutoshi Kamijoh, Senior Managing Executive Officer; and Managing Executive Officers: Minoru Asano, Tetsuo Ikuta, Yoshihide Kiyosawa, Yoshihiro Tanioka, Michiya Yashiro, Naomi Shirasawa, Makiko Ono, Tsuyoshi Awaduhara, Hiroki Hanaoka, Osamu Asakura, Shizuka Yata, and Tetsuya Shiokawa. In addition to the above-mentioned executive officers, directors and corporate auditors attend the meetings to supervise and audit the status of business execution by the executive officers.

e. Nomination and Remuneration Advisory Committee (voluntary committee)

At the Board of Directors meeting held on March 25, 2024, the Company established a voluntary Nomination and Remuneration Advisory Committee. The committee stipulates in its regulations that a majority of the committee's members shall be outside directors. Currently, the committee has three (3) members of Directors: Haruhiko Yoshida, Outside Director; Masanobu Nakamura, Outside Director; and Akira Maruyama, President and Director. The committee meetings are chaired by Haruhiko Yoshida, Outside Director.

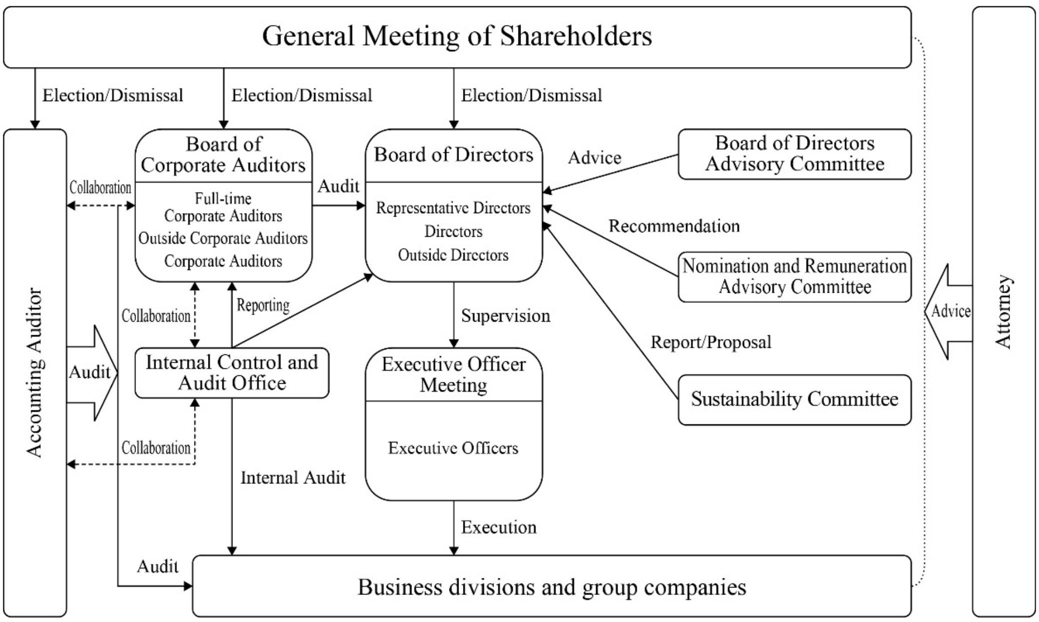
As an advisory body to the Board of Directors, the committee studies and deliberates on director candidates, candidates for directors with titles, director remuneration proposals, and other matters, and decides on matters to be reported to the Board of Directors.

f. Sustainability Committee

To strengthen the Group's overall sustainability promotion framework, the Company established the Sustainability Committee on April 1, 2023, as an organization to promote, oversee, and manage the Group's overall sustainability initiatives. The Sustainability Committee is chaired by our president and representative director, and its members are executive directors.

The Company believes that the above-mentioned corporate governance system is functioning effectively and it is appropriate to continue to improve its corporate governance system, based on the current system of Company with a Board of Corporate Auditors.

A diagram of the Company's corporate governance system is as follows.



(iii) Other matters on corporate governance

The Company is working to promote activities rooted in a high standard of corporate ethics, as well as to maintain and improve the internal control system and risk management framework.

Specifically, the Company established the “Harmonic Drive Systems Inc. Charter of Corporate Behavior” as well as the “Code of Conduct,” which is a guide for putting the Charter of Corporate Behavior into practice, in April 2004, thereby thoroughly raising awareness of every employee about corporate ethics. In addition, we have strived to ensure compliance with laws and regulations, and corporate ethics by conducting company-wide educational activities to make every employee well-acquainted with the purposes and contents of the Charter and Code. Moreover, we have continued to maintain and improve an efficient and effective internal control system, based on “Internal Control Manual,” which defines the fundamental framework of the internal control system.

As for our risk management framework, we disseminate the “Crisis Management—Code of Conduct in the Event of Crisis,” which specifies protocols for action in the event of a risk materializing and a crisis occurring. Additionally, we have developed a system for managing risks based on the “Crisis and Risk Management Regulations,” aiming to handle management risks and crisis responses in a safe and responsible manner.

In order to ensure the appropriateness of operations of the Group’s subsidiaries, we also make employees of subsidiaries’ well-acquainted with the above-mentioned “Harmonic Drive Systems Inc. Charter of Corporate Behavior” and “Code of Conduct,” and thereby maintain and increase their awareness of compliance. Furthermore, based on the Rules for Management of Affiliated Companies, we have established an appropriate management framework for our subsidiaries and, by holding regularly Affiliated Company Meeting, we continuously monitor the status of business execution and risks of our subsidiaries. In addition, the internal audit division periodically conducts operational audit of subsidiaries.

The Company has entered into agreements with outside directors and corporate auditors to limit their liability set forth in Article 423, Paragraph 1 of the Companies Act. An overview of the content of said agreements is as follows.

・If an outside director and corporate auditor causes damages to the Company owing to the neglect of his or her duties, his or her liability shall be limited to the minimum amount for liability set forth in Article 425, Paragraph 1 of the Companies Act, provided that he or she has performed his or her duties in good faith and without gross negligence.

The Company has concluded a directors and officers, etc. liability insurance agreement provided for in Article 430-3 of the Companies Act with an insurance company, and the said insurance agreement shall compensate for damages including compensation for damages and legal expenses to be borne by the insureds. Note that the insureds of said insurance agreement include the Company’s directors, corporate auditors, and executive officers, as well as officers of subsidiaries’, etc., and the Company bears the full cost of the insurance premiums associated with all insureds.

The Articles of Incorporation stipulates that the number of Company’s directors shall be fifteen (15) at most.

In order to enable flexible management which responds to changes in external circumstances, the Articles of Incorporation stipulates that the Company can acquire own shares through market transactions and other means prescribed by Article 165, Paragraph 1 of the Companies Act, subject to resolutions of the Board of Directors, pursuant to the provision of Article 165, Paragraph 2 of the same act.

As regards the election of directors at General Meeting of Shareholders, the Articles of Incorporation stipulates that the resolutions are passed by a majority of the votes of the shareholders present at the meeting, which must be attended by shareholders with at least one third of the voting rights of shareholders who are entitled to exercise voting rights, and cumulative voting is not employed.

As regards an extraordinary resolution at General Meeting of Shareholders prescribed by Article 309, Paragraph 2 of the Companies Act, the Articles of Incorporation stipulates that the resolutions are passed by two thirds or more of the votes of the shareholders present at the meeting, which must be attended by shareholders with at least one third of the voting rights of shareholders who are entitled to exercise voting rights. This is intended to make the proceedings of the meeting smooth by reducing a quorum for extraordinary resolutions at General Meeting of Shareholders.

Pursuant to the provision of Article 426, Paragraph 1 of the Companies Act, the Articles of Incorporation stipulates that the Company can exempt liability for damages caused by directors and corporate auditors (including a person who was a director or corporate auditor), owing to the neglect of his or her duties, within a limit set by laws and regulations, subject to resolutions of the Board of Directors. This is intended to enable them to make more aggressive managerial judgments, and to create an environment where the Company can invite capable personnel.

The Articles of Incorporation stipulates that the Company can pay an interim dividend to shareholders or registered pledgees of shares who are listed or registered in the shareholder registry as of September 30 every year, a last record date, subject to resolutions of the Board of Directors. This is intended to enable flexible profit returns to shareholders.

(iv) Status of the Board of Directors activities

The Company holds meetings of the Board of Directors at least once a month, and meetings were held a total of eighteen (18) times for the fiscal year under review. Attendance record of individual directors is as follows:

Name	Position	Number of meetings held	Number of meetings attended	Attendance rate
Mitsumasa Ito	Chairperson and Director	18	17	94.4
Akira Nagai	President and Representative Director	18	18	100.0
Akira Maruyama	Representative Director	18	18	100.0
Kazutoshi Kamijoh	Director	18	18	100.0
Yoshihiro Tanioka	Director	18	18	100.0
Haruhiko Yoshida	Outside Director	18	18	100.0
Masanobu Nakamura	Outside Director	18	18	100.0
Yoshio Fukuda	Outside Director	18	18	100.0
Kazuhiko Hayashi	Outside Director	18	18	100.0
Kaeko Kitamoto	Outside Director	13	12	92.3

* Ms. Kaeko Kitamoto was newly elected at the Ordinary General Meeting of Shareholders for fiscal 2022 held on June 21, 2023 and subsequently took office on July 1, 2023, and the numbers of meetings held and attended are presented for the Board of Directors meetings held on or after the date she took office.

Main agenda items of Board of Directors meetings in the fiscal year under review are as follows.

・Reports and deliberations on progress of Medium-term Management Plan/single-year plan, and status of business execution
・Deliberations on annual management plan and budget, R&D investment, etc.

・Reports and deliberations on internal audit, whistleblower system, effectiveness of business activities, and operational status of other internal control systems
・Business execution framework and revamp of organizational mechanisms
・Evaluation of Board of Directors’ effectiveness (analysis based on questionnaire survey conducted among all directors and corporate auditors)
・Acquisition of treasury shares, financing, offering of the Company shares to overseas
・Sustainability promotion

(2) [Directors and corporate auditors]

(i) List of directors and corporate auditors

Thirteen (13) males and one (1) female (ratio of female directors and corporate auditors is 7.1%)

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Chairperson and Director Executive Chairperson Group Management	Akira Nagai	March 26, 1948	Apr. 1972	Joined Mitsui & Co., Ltd.	(Note) 3	54,713
			Apr. 2002	Joined the Company		
			Apr. 2002	General Manager of Overseas Division, the Company		
			Jun. 2002	Chairperson and Director, HD Systems, Inc.		
			Jun. 2003	Executive Officer (Marketing and Sales), General Manager of Overseas Division, General Manager of Corporate Planning and IT Office, the Company		
			Dec. 2005	President and CEO, HD Systems, Inc. (incumbent)		
			Jun. 2007	Managing Executive Officer (Corporate Planning and IT), the Company		
			Apr. 2009	Managing Executive Officer (Corporate Planning and Finance), the Company		
			Jan. 2011	Corporate Auditor, Harmonic Drive Systems (Shanghai) Co., Ltd.		
			Jun. 2013	President and Representative Director, Executive President, the Company		
			May 2015	Director, Harmonic AD, Inc. (incumbent)		
			Jun. 2016	President and Representative Director, Chief Executive Officer, In charge of Marketing and Sales, the Company		
			Dec. 2016	Manager, GK HD Management (incumbent)		
			Mar. 2017	Chairperson of the Supervisory Board, Harmonic Drive AG		
			Jun. 2017	President and Representative Director, Chief Executive Officer, In charge of Marketing and Sales and Quality, the Company		
			Jun. 2019	President and Representative Director, Chief Executive Officer, In charge of Quality, the Company		
			Jan. 2020	Deputy Chairperson of the Supervisory Board, Harmonic Drive SE (incumbent)		
			Jun. 2020	President and Representative Director, Chief Executive Officer, the Company		
			Jun. 2024	Chairperson and Director and Executive Chairperson and Group Management, the Company (incumbent)		
				(Positions as representatives in other corporations or organizations) President and CEO, HD Systems, Inc. Manager, GK HD Management		

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
President and Director Representative Director Executive President Chief Executive Officer	Akira Maruyama	January 8, 1962	Apr. 1985 Apr. 2007 Apr. 2009 Sep. 2009 Sep. 2012 Jun. 2014 May 2015 Jun. 2016 Jun. 2018 Jun. 2019 Jun. 2019 Jun. 2021 Jun. 2022 May 2023 Jun. 2024	Joined the Company General Manager of Marketing and Sales Division, the Company General Manager of Marketing and Sales Division and General Manager of Sales Planning Department, the Company General Manager of Engineering Department, Precision Equipment Division, the Company General Manager of Engineering Division, the Company Executive Officer (Engineering), the Company Director, HD Logistics, Inc. Director and Executive Officer (Development Engineering), the Company Director and Executive Officer (Corporate Planning and IT), the Company Corporate Auditor, Winbel Co., Ltd. (currently Harmonic Winbel Inc.) Director and Executive Officer, General Manager of Corporate Planning Division, the Company Director and Executive Officer, General Manager of Corporate Planning Division and General Manager of ICT Promotion Office, the Company Representative Director and Senior Managing Executive Officer, General Manager of Corporate Planning Division and ICT Promotion Office, the Company Director, Harmonic Winbel Inc. (incumbent) President and Representative Director, Chief Executive Officer, the Company (incumbent)	(Note) 3	8,166

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director Representative Director Senior Managing Executive Officer General Manager of Finance Accounting, Finance and Tax Division	Kazutoshi Kamijoh	June 9, 1968	Apr. 1992	Joined the Company	(Note) 3	12,123
			Jul. 2003	Corporate Planning Manager of Corporate Planning and IT Office, and Administrative Manager, the Company		
			Jul. 2007	General Manager of Corporate Planning Department, Corporate Planning and IT Office, and General Manager of Administration Department, the Company		
			May 2012	Corporate Auditor, Ome Iron Casting Co., Ltd.		
			May 2013	Corporate Auditor, Harmonic Drive Systems (Shanghai) Co., Ltd.		
			Jun. 2014	Executive Officer, In charge of Corporate Planning and Finance, the Company		
			Jun. 2016	Executive Officer, In charge of Corporate Planning, Finance and Accounting, the Company		
			Mar. 2017	Manager, GK HD Management (incumbent)		
			Jun. 2019	Executive Officer, General Manager of Finance Accounting, Finance and Tax Division, the Company		
			Jun. 2020	Director and Executive Officer, General Manager of Finance Accounting, Finance and Tax Division, the Company		
			Jul. 2021	Member of the Supervisory Board, Harmonic Drive SE (incumbent)		
			Jun. 2022	Director and Executive Officer (Finance Accounting, Finance, Tax, Human Resources and Administration), General Manager of Finance Accounting, Finance and Tax Division, the Company		
			Jun. 2023	Director and Executive Officer, General Manager of Finance Accounting, Finance and Tax Division, the Company		
			Jun. 2024	Representative Director and Senior Managing Executive Officer, General Manager of Finance Accounting, Finance and Tax Division, the Company (incumbent) (Positions as representatives in other corporations or organizations) Manager, GK HD Management		

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director Executive Officer General Manager of Development and Engineering Division	Yoshihiro Tanioka	September 21, 1958	Apr. 1982 May 2003 Mar. 2006 May 2007 Jul. 2007 Oct. 2009 Jun. 2010 Sep. 2011 Sep. 2012 Apr. 2015 May 2015 May 2015 May 2017 May 2018 Jun. 2018 Jun. 2019 Jun. 2021	Joined the Company Manager of No.1 Development Department, Mechatronics Division, the Company General Manager of Engineering Department, Mechatronics Division, the Company Director, Winbel Co., Ltd. (currently Harmonic Winbel Inc.) General Manager of Mechatronics Division, the Company General Manager of Development Division, the Company Executive Officer and General Manager of Development Division, the Company Executive Officer (Engineering), the Company Executive Officer and General Manager of Overseas Business Division, the Company Executive Officer and General Manager of Sales Strategy Division, the Company Representative Director and President, Harmonic AD, Inc. Director of SAMICK ADM Co., Ltd. (incumbent) Executive Officer in charge of Harmonic Planetary Development, the Company Director, Harmonic AD, Inc. Executive Officer (Development and Engineering), the Company Executive Officer, General Manager of Development and Engineering Division, the Company Director and Executive Officer, General Manager of Development and Engineering Division, the Company (incumbent)	(Note) 3	6,279

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director Executive Officer In charge of Marketing and Sales, General Manager of Domestic Sales Division	Naomi Shirasawa	November 2, 1960	Apr. 1983 Apr. 1996 Sep. 1998 Jul. 2001 Mar. 2003 May 2007 Jun. 2010 May 2011 Jun. 2013 Jul. 2016 Jun. 2018 Jun. 2019 Jun. 2021 Jun. 2023 Jun. 2024	Joined the Company Manager of Engineering Department, Precision Equipment Division, the Company General Manager in charge of Precision Equipment, Marketing Department, Marketing and Sales Division, the Company General Manager of AccuDrive Division, the Company Managing Director, Harmonic AD, Inc. Representative Director and President, Harmonic AD, Inc. Executive Officer and General Manager of AD Business Promotion Office, the Company Senior Managing Director, Harmonic AD, Inc. General Manager of Sales, Harmonic Drive Systems (Shanghai) Co., Ltd. Director, Harmonic Drive Systems (Shanghai) Co., Ltd. (incumbent) General Manager of Overseas Sales Division, the Company Director and General Manager of Domestic Sales Division, the Company Executive Officer and General Manager of Domestic Sales Division, the Company Executive Officer, In charge of Marketing and Sales, General Manager of Domestic Sales Division, the Company Director and Executive Officer, In charge of Marketing and Sales, General Manager of Domestic Sales Division, the Company (incumbent)	(Note) 3	7,099

（Translation purposes only）

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director	Haruhiko Yoshida	September 2, 1943	Apr. 1966 Feb. 1996 Apr. 1998 Jun. 1998 Jun. 2001 Apr. 2002 Jul. 2002 Jun. 2003 Jun. 2003 Jun. 2006 Jun. 2007	Joined Mitsui & Co., Ltd. Senior Executive Vice President, Mitsui & Co. (U.S.A.), Inc. General Manager of Communications, Transportation & Industrial Project Unit, Mitsui & Co., Ltd. Director and General Manager of Communications, Transportation & Industrial Project Unit, Mitsui & Co., Ltd. Representative Director, Executive Managing Director, and General Manager of Communications, Transportation & Industrial Project Unit, Mitsui & Co., Ltd. Executive Managing Officer and General Manager of Communications, Transportation & Industrial Project Unit, Mitsui & Co., Ltd. Executive Managing Officer and Assistant to President of Machinery and Information Group, Mitsui & Co., Ltd. Outside Director, Nagano Keiki Co., Ltd. Outside Director, the Company (incumbent) Corporate Auditor, Hakudo Co., Ltd. Outside Director, Hakudo Co., Ltd.	(Note) 3	22,011

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director	Masanobu Nakamura	August 23, 1946	May 1970	Joined The Sanwa Bank, Ltd. (present MUFG Bank, Ltd.)	(Note) 3	13,205
			Jun. 1999	Executive Officer and Nihonbashi Branch Manager, The Sanwa Bank, Ltd. (present MUFG Bank, Ltd.)		
			Apr. 2001	Executive Officer and New York Branch Manager, The Sanwa Bank, Ltd. (present MUFG Bank, Ltd.)		
			Jan. 2002	Managing Executive Officer and New York Branch Manager, UFJ Bank Limited (present MUFG Bank, Ltd.)		
			May 2002	Executive Operating Officer, Corporate Banking Company Director, UFJ Bank Limited (present MUFG Bank, Ltd.)		
			May 2004	Representative Director, Executive Operating Officer (Strategic Support Group), Company Director, UFJ Bank Ltd. (present MUFG Bank, Ltd.)		
			Jun. 2005	Special Advisor, Sanshin Co., Ltd.		
			Oct. 2005	President and Representative Director, BNP Paribas (Japan)		
			Nov. 2005	Director, Tokyo Branch, BNP Paribas Securities (Japan) Limited		
			Jun. 2007	Board of Directors Advisory Committee, the Company		
			May 2011	Chairperson, BNP Paribas Securities (Japan) Limited		
			Sep. 2011	Special Advisor, BNP Paribas Securities (Japan) Limited		
			Jun. 2013	Outside Director, the Company (incumbent)		
			Jul. 2013	Chairperson, Social Collaboration Council, The Mathematical Society of Japan		

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director	Yoshio Fukuda	March 1, 1953	Apr. 1976 Jul. 2006 May 2007 Jun. 2010 Jun. 2012 Jun. 2013 Apr. 2015 Jun. 2015 Jun. 2016 Jun. 2017 Jun. 2017 Jun. 2020 Jun. 2020 Mar. 2021	Joined Teijin Limited Corporate Officer, Teijin Group Member of the Board and General Manager of Raw Materials & Polymers Division, Teijin Fibers Ltd. President, P.T. Teijin Indonesia Fiber Corporation Tbk Corporate Officer and Member of the Board, General Manager of Corporate Planning Division, Teijin Limited Executive Officer and Member of the Board, General Manager of Electronics Materials and Performance Polymer Products Business Group, and General Manager of Resin and Plastic Processing Business Unit, Teijin Limited President, Teijin Chemicals Ltd. Chairperson, Global Policy Board, Teijin DuPont Films Global Joint Venture Senior Executive Officer and Member of the Board, General Manager of Electronics Materials and Performance Polymer Products Business Group, Teijin Limited Chairperson, Global Policy Board, Teijin DuPont Films Global Joint Venture Advisor, Member of the Board, Teijin Limited Advisor, Teijin Limited Outside Director, Toyo Construction Co., Ltd. Outside Corporate Auditor, the Company Auditor, Japan Indonesia Association, Inc. (incumbent) Director, Harmonic AD, Inc. Outside Director, the Company (incumbent) Auditor, Japan-Sri Lanka Association (incumbent)	(Note) 3	1,265

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Director	Kazuhiko Hayashi	April 25, 1954	Apr. 1978 Jan. 2001 Jan. 2004 Jan. 2005 Apr. 2007 Jan. 2010 Jan. 2012 Jun. 2015 Jul. 2019 Jun. 2022	Joined Toyota Motor Co., Ltd. (present Toyota Motor Corporation) Project General Manager of Leading-edge Vehicle Development Planning Office, Toyota Motor Corporation General Manager of Electronics Engineering Div. II, Toyota Motor Corporation General Manager of Electronics Engineering Div. I, Toyota Motor Corporation General Manager of BR Control Software Development Office, Toyota Motor Corporation Managing Executive Officer, Sumitomo Wiring Systems, Ltd. Executive Officer of Sumitomo Electric Industries, Ltd., Managing Executive Officer of Sumitomo Wiring Systems, Ltd., and Director of AutoNetworks Technologies, Ltd. Senior Managing Executive Officer of Sumitomo Wiring Systems, Ltd., Executive Officer of Sumitomo Electric Industries, Ltd., and Director of AutoNetworks Technologies, Ltd. Visiting Professor, Nagasaki Institute of Applied Science Outside Director, the Company (incumbent)	(Note) 3	234
Director	Kaeko Kitamoto	April 15, 1965	Apr. 1988 Oct. 1993 Jul. 2009 Sep. 2018 Jul. 2019 Jul. 2023 Jul. 2023	Joined Sapporo Breweries Limited Joined Ota Showa Audit Corporation (currently Ernst & Young ShinNihon LLC) Partner, Ernst & Young ShinNihon LLC Member of Electricity and Gas Market Surveillance Commission, Ministry of Economy, Trade and Industry (incumbent) Executive Board Member, Ernst & Young ShinNihon LLC Outside Director, the Company (incumbent) Audit & Supervisory Board Member (external), DAIKIN INDUSTRIES, LTD. (incumbent)	(Note) 3	–

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Full-time Corporate Auditor	Yoshitsugu Yokogoshi	November 16, 1953	Apr. 1977 Apr. 1995 May 2005 May 2007 Jan. 2009 Jun. 2014 Jun. 2017 Jun. 2020	Joined The Sanwa Bank, Ltd. (present MUFG Bank, Ltd.) Yoyogi Branch Manager, The Sanwa Bank, Ltd. (present MUFG Bank, Ltd.) Executive Officer, General Manager of Public Relations Department, UFJ Bank Ltd. (present MUFG Bank, Ltd.) Managing Executive Officer and Deputy Chief Executive of Retail Banking Business Unit, The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present MUFG Bank, Ltd.) Executive Vice President, Mitsubishi UFJ Asset Management Co., Ltd. President, The Midori Kai Co., Ltd. Full-time Audit & Supervisory Board Member, Cosmo Oil Co., Ltd. Full-time Outside Corporate Auditor, the Company (incumbent)	(Note) 4	–
Full-time Corporate Auditor	Hidefumi Iguchi	April 5, 1959	Apr. 1983 May 1999 Apr. 2009 Jun. 2011 May 2013 Jul. 2014 Jun. 2020 Apr. 2022 Jun. 2022	Joined the Company General Manager of Quality Assurance Promotion Office, the Company General Manager of Operational Process Innovation Department, the Company General Manager of Internal Control and Audit Office, the Company Corporate Auditor, Harmonic Precision Inc. Executive Officer (Corporate Governance), General Manager of Internal Control and Audit Office, the Company Executive Officer (Administration and Human Resource), General Manager of Administration and Human Resource and Manager of Environment, the Company Executive Officer, General Manager of Administration and Human Resource Division, Manager of Environment, and General Manager of Health Promotion Center, the Company Full-time Corporate Auditor, the Company (incumbent)	(Note) 4	5,470

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Corporate Auditor	Eisaku Imazato	March 2, 1956	Apr. 1979 Mar. 2002 Mar. 2003 Dec. 2004 Feb. 2005 Feb. 2007 Aug. 2008 Feb. 2009 May 2010 Jun. 2012 Jun. 2016 Mar. 2020 Jun. 2020	Joined The Nikko Securities Co., Ltd. (present SMBC Nikko Securities Inc.) General Manager of Corporate Clients Department II, Nikko Cordial Securities Inc. Executive Officer, General Manager of Tokyo Corporate Clients Department II, Nikko Cordial Securities Inc. Director in charge of sales planning and corporate clients, Nikko Cordial Securities Inc. Executive Managing Director in charge of planning and wholesale business promotion, Nikko Cordial Securities Inc. Senior Managing Director in charge of Wholesale Sales Division I, Nikko Cordial Securities Inc. Senior Executive Officer, Head of Institutional Client Coverage Division, Nikko Citigroup Limited Managing Executive Officer, Co-Head of Corporate & Institutional Business Unit, Mitsubishi UFJ Securities Co., Ltd. Managing Executive Officer, Head of Corporate & Institutional Business Unit, Head of Corporate Clients Group, and Co-Manager of Regional Executives, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. Managing Executive Officer in charge of corporate consolidation, Mitsubishi UFJ Securities Holdings Co., Ltd. Executive Officer, Mitsubishi UFJ Financial Group, Inc. Principal Executive Officer, Head of Corporate & Institutional Business Unit, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. Outside Director, Chairperson of the Board of Directors, Marusan Securities Co., Ltd. Outside Director, Marusan Securities Co., Ltd. (incumbent) Outside Corporate Auditor, the Company (incumbent)	(Note) 4	–

(Translation purposes only)

Positions and responsibilities	Name	Date of birth	Past experience		Term of office	Number of shares held (Shares)
Corporate Auditor	Nobuyuki Higashi	March 31, 1964	Apr. 1987	Joined Nomura Research Institute, Ltd.	(Note) 4	–
			Apr. 1998	Joined Nomura Securities Co., Ltd.		
			Jul. 2000	Seconded to Nomura Principal Finance Co., Ltd.		
			Apr. 2012	Managing Director of Investment Business Group, Innovation Network Corporation of Japan (currently Japan Investment Corporation)		
			Apr. 2017	Outside Director, JOLED Inc. (incumbent)		
			Apr. 2017	Outside Corporate Auditor, Harmonic Drive AG (currently Harmonic Drive SE)		
			Jun. 2017	External Director, Japan Display Inc. (retired in June 2018)		
			Sep. 2018	Executive Managing Director and Managing Director of Investment Business Group, INCJ, Ltd.		
			Mar. 2020	External Director, Japan Display Inc.		
			Jun. 2021	Senior Executive Managing Director and Managing Director of Investment Business Group, INCJ, Ltd. (incumbent)		
			Jun. 2024	Corporate Auditor, the Company (incumbent)		
Total						130,565

(Notes) 1. Directors Haruhiko Yoshida, Masanobu Nakamura, Yoshio Fukuda, Kazuhiko Hayashi and Kaeko Kitamoto are Outside Directors.
2. Corporate Auditors Yoshitsugu Yokogoshi and Eisaku Imazato are Outside Corporate Auditors.
3. The term of office of director is from the conclusion of Ordinary General Meeting of Shareholders associated with fiscal year ended March 31, 2024 to the conclusion of Ordinary General Meeting of Shareholders associated with fiscal year ending March 31, 2025.
4. The term of office of corporate auditor is from the conclusion of Ordinary General Meeting of Shareholders associated with fiscal year ended March 31, 2024 to the conclusion of Ordinary General Meeting of Shareholders associated with fiscal year ending March 31, 2028.
5. Corporate Auditor Nobuyuki Higashi used to serve as an External Director of Japan Display Inc. ("JDI"). JDI made corrections to its past annual securities reports and other financial documents associated with inappropriate accounting in April 2020. The documents subject to such corrections include those that belong to fiscal years during which he was an External Director of JDI. Also, an action for damages was brought against JDI and ten (10) former directors of JDI (including Nobuyuki Higashi) on the grounds that the plaintiffs incurred damages due to inappropriate accounting, and this case is on trial. Note that he has abundant experience in management research and investment business at major think tanks, major securities companies, investment companies, etc., and possesses considerable knowledge of finance and accounting. He also possesses a high level of insight into corporate management, having served as an outside director and an outside corporate auditor of several companies involved in investment business through public-private funds. In addition, in March 2017, the Company jointly acquired additional shares of Harmonic Drive AG (currently Harmonic Drive SE), a German equity method affiliate, with Innovation Network Corporation of Japan, and he served as an Outside Corporate Auditor of Harmonic Drive AG from April 2017 to July 2021, auditing and supervising the company's management, with a record that he sufficiently fulfilled his duties as an outside corporate auditor. Comprehensively taking these facts into consideration, the Company elected him as Corporate Auditor with the expectation that he will contribute to further strengthening our audit function.
6. The Company has introduced an executive officer system. Executive officers are elected by the Board of Directors and execute business in each area of which they are in charge with authority delegated by representative directors. This system is intended to enhance decision-making speed and supervisory functions of the Board of Directors, as well as decision-making speed in business execution.
The number of executive officers is fifteen (15) and members are Akira Nagai, Executive Chairperson, Group Management; Akira Maruyama, Executive President, Chief Executive Officer; Kazutoshi Kamijoh, Senior Managing Executive Officer, General Manager of Finance Accounting, Finance and Tax Division; Minoru Asano, Managing Executive Officer, General Manager of Supply Chain Division: Tetsuo Ikuta, Executive Officer, In Charge of Public Relations; Yoshihide Kiyosawa, Executive Fellow Officer (Chief Technical Officer), In Charge of Engineering and Quality, General Manager of Quality Assurance Division; Yoshihiro Tanioka, Executive Officer, General Manager of Development and Engineering Division; Michiya Yashiro, Executive Officer, General Manager of Sales Administrative Division and Overseas Sales Division; Naomi Shirasawa, Executive Officer, In Charge of Marketing and Sales, General Manager of Domestic Sales Division; Makiko Ono, Executive Officer, Head of Sustainability, Corporate Planning, and Investor Relations; Tsuyoshi Awaduhara, Executive Officer, In Charge of Production, Production Planning, General Manager of First Production Division; Hiroki Hanaoka, Executive Officer, General Manager of Production Technology Division; Osamu Asakura, Executive Officer, General Manager of Administration and Human Resource Division and Manager of Environment; Shizuka Yata, Executive Officer, Chief of Harmonic Drive Laboratory; and Tetsuya Shiokawa, Executive Officer, General Manager of Corporate Planning Division, In Charge of Business Development.
7. The number of shares held includes the portion held by the Officers' Shareholding Association.

(ii) Outside directors and outside corporate auditors

The number of Company's outside directors is five (5).

Outside Director Haruhiko Yoshida used to serve as a Representative Director, Executive Managing Director of Mitsui & Co., Ltd.; a Director of Nagano Keiki Co., Ltd.; and a Corporate Auditor and Director of Hakudo Co., Ltd. There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and each company.

Outside Director Masanobu Nakamura used to serve as a Representative Director, Executive Operating Officer of UFJ Bank Ltd. (present MUFG Bank, Ltd.); and President and Representative Director of BNP Paribas (Japan) (present BNP Paribas Securities (Japan) Limited). The Company and MUFG Bank, Ltd. have a business relationship, and the balance of borrowings from the bank is ¥6,982 million as of the filing date of this Annual Securities Report (June 24, 2024). There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and BNP Paribas Securities (Japan) Limited.

Outside Director Yoshio Fukuda used to work for Teijin Limited and its affiliated companies and serve as an Outside Director of Toyo Construction Co., Ltd. There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and Teijin Group, and Toyo Construction Co., Ltd. In addition, he currently serves as an Auditor of Japan Indonesia Association, Inc., and an Auditor of Japan-Sri Lanka Association. There are also no important matters in the personnel relationship, capital relationship and business relationship between the Company and the both corporate bodies.

Outside Director Kazuhiko Hayashi used to serve as a Senior Managing Executive Officer of Sumitomo Wiring Systems, Ltd.; an Executive Officer of Sumitomo Electric Industries, Ltd.; and a Director of AutoNetworks Technologies, Ltd. There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and each company.

Outside Director Kaeko Kitamoto used to serve as a Partner and Executive Board Member of Ernst & Young ShinNihon LLC. There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and the audit corporation. In addition, she currently serves as a Member of Electricity and Gas Market Surveillance Commission, Ministry of Economy, Trade and Industry; and an Audit & Supervisory Board Member (external) of DAIKIN INDUSTRIES, LTD. There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and Electricity and Gas Market Surveillance Commission, Ministry of Economy, Trade and Industry or DAIKIN INDUSTRIES, LTD.

The number of Company's outside corporate auditors is two (2).

Full-time Outside Corporate Auditor Yoshitsugu Yokogoshi used to serve as a Managing Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (present MUFG Bank, Ltd.); Executive Vice President of Mitsubishi UFJ Asset Management Co., Ltd.; President of The Midori Kai Co., Ltd.; and a Full-time Audit & Supervisory Board Member of Cosmo Oil Co., Ltd. The Company and MUFG Bank, Ltd. have a business relationship, and the balance of borrowings from the bank is ¥6,982 million as of the filing date of this Annual Securities Report (June 24, 2024). There are no important matters in the personnel relationship, capital relationship and business relationship between the Company and Mitsubishi UFJ Asset Management Co., Ltd., The Midori Kai Co., Ltd., or Cosmo Oil Co., Ltd.

Outside Corporate Auditor Eisaku Imazato used to serve as a Senior Managing Director of Nikko Cordial Securities Inc. (present SMBC Nikko Securities Inc.); a Senior Executive Officer of Nikko Citigroup Limited (present Citigroup Global Markets Japan Inc.); Principal Executive Officer of Mitsubishi UFJ Morgan

Stanley Securities Co., Ltd.; a Managing Executive Officer of Mitsubishi UFJ Securities Holdings Co., Ltd.; and an Executive Officer of Mitsubishi UFJ Financial Group, Inc., a parent company of MUFG Bank, Ltd. In addition, he currently serves as an Outside Director of Marusan Securities Co., Ltd. The Company and MUFG Bank, Ltd., a subordinate company of Mitsubishi UFJ Financial Group, Inc., have a business relationship, and the balance of borrowings from the bank is ¥6,982 million as of the filing date of this Annual Securities Report (June 24, 2024). There are no important matters associated with the personnel relationship, capital relationship and business relationship between the Company and the above-mentioned securities companies.

There are no important matters in the personnel relationship, capital relationship and business relationship between all of outside directors and outside corporate auditors, and the Company.

For election of outside directors and outside corporate auditors, the Company has set standards and policies relating to their independence of the Company. Comprehensively considering the personnel relationship, capital relationship and business relationship between candidates for the said outside officers themselves and companies or other bodies to which such candidates belong, and the Company, the Company proposes candidate outside officers to a General Meeting of Shareholders, subject to the judgment that the candidates can fulfill the functions and roles described in (iii) below independently of the Company.

An overall assessment is made for election, following determination of the applicability of each item of independence standards in reference to those set by the Tokyo Stock Exchange.

(iii) Cooperation between supervision or audits by outside directors or outside corporate auditors, and internal audits, corporate auditors' audits and the Accounting Auditor's audits as well as relationship with the internal control department

The relationship between supervision or audits by outside directors or outside corporate auditors, and internal audits is as follows.

Outside directors provide recommendations and supervision on overall management independently of the Company, based on their experience and knowledge, to strengthen the Company's management system and corporate governance system.

Outside corporate auditors reinforce the auditing system independently of the Company.

The Company also has a framework that enables outside directors and outside corporate auditors to attend meetings of the Board of Directors and other important meetings as necessary, to further enhance the effectiveness of supervision and auditing.

In addition, outside corporate auditors share information mutually with an internal audit department (Internal Control and Audit Office) and the Accounting Auditor for close cooperation.

With these frameworks, we believe that the above-mentioned functions and roles required for outside directors and outside corporate auditors are effectively performed.

(3) [Status of audits]

(i) Corporate auditors' audits

(a) Organization, members, procedures and activities

・The Company is a Company with a Board of Corporate Auditors and corporate auditors' audit for the fiscal year ended March 31, 2024 was conducted by a total of four (4) members that consist of two (2) full-time corporate auditors and two (2) part-time corporate auditors (of whom three (3) were outside corporate auditors).

・After the Ordinary General Meeting of Shareholders, the Board of Corporate Auditors determines audit policies, plans, and work assignments, and each corporate auditor audits the execution of duties by directors, executive officers, and others in accordance with the "Board of Corporate Auditors Regulations," "Board of Corporate Auditors Auditing Standards" and "Implementation Standards for Internal Control Systems."

・Specifically, the Board of Corporate Auditors audits the execution of duties by directors through attendance at important meetings, including Board of Directors meetings, executive officer meetings, Business Process Innovation meetings, Development Promotion meetings, affiliated company meetings, and the president's audit. Furthermore, the Board of Corporate Auditors meets with representative directors, shares information with outside directors, exchanges opinions with directors, executive officers, general managers, office managers, divisional sales managers, and presidents of domestic and overseas subsidiaries, and inspects important documents including approval requests and credit application forms. The Board of Corporate Auditors also plans and holds Group corporate auditor liaison meetings with auditors from affiliated companies to share information among Group companies and take the lead in improving knowledge related to auditing duties.

(b) Status of activities of Board of Corporate Auditors

・The Board of Corporate Auditors, in principle, holds ordinary meetings on the same day as Board of Directors meetings and convenes extraordinary meetings as necessary. The Board of Corporate Auditors held a total of seventeen (17) meetings in the fiscal year under review.

・Attendance record of individual corporate auditors for the fiscal year under review is as follows:

Name	Full-time/ Part-time	Internal/ Outside	Number of meetings held	Number of meetings attended	Attendance rate
Yoshitsugu Yokogoshi	Full-time	Outside	17	17	100%
Hidefumi Iguchi	Full-time	Internal	17	17	100%
Shigeto Ohashi	Part-time	Outside	17	17	100%
Eisaku Imazato	Part-time	Outside	17	17	100%

・The Board of Corporate Auditors specifically examines the goals and progress of each department in overall management based on its authority and responsibility, and monitors the establishment and operation of the internal control system resolved by the Board of Directors, as well as competitive transactions and transactions involving conflicts of interest.

・Corporate auditors exchange opinions with the Accounting Auditor regarding audit plans, receive reports on audit results, discuss and evaluate the content of audits, and ensure cooperation.

・As regards sustainability-related matters (the Sustainability Committee), which are resolved and reported to the Board of Directors at least four times a year, and are reported to and deliberated at executive officer meetings by an officer in charge, corporate auditors also provide necessary recommendations and share information.

・Besides the above, activities of full-time corporate auditors focus on overall matters related to corporate auditors' audit plans and policies, the audit firm, the Internal Control and Audit Office, integrated management of domestic and overseas subsidiaries, whistleblowing reports, president's audit and inventory, etc. and such information is properly handled for cooperation and sharing with part-time corporate auditors.

・Regarding key audit matters (KAM), corporate auditors held discussions with PricewaterhouseCoopers Japan LLC, received reports on the status of their audits, and requested explanations as necessary.

(ii) Status of internal audits

(a) Organization, members, procedures and activities

The Internal Control and Audit Office is responsible for internal audits, with one (1) General Manager and three (3) auditors conducting internal audits of the Company and its domestic and overseas subsidiaries throughout the year based on a pre-planned audit schedule. In addition, the Corporate Planning Division serves as secretariat and implements a "president's audit" twice a year in which the Company president directly oversees the status of business execution by those in charge of each division, and this framework works to monitor progress on the Company's business plan and the status of risk management.

(b) Cooperation among internal audits, corporate auditors' audits and the Accounting Auditors' audits

Matters identified by internal audits are reported as audit results to the president and the Board of Corporate Auditors through a dual reporting line system. The results are also reported to the Board of Directors. In the audit process, the Internal Control and Audit Office, the Board of Corporate Auditors, and the Accounting Auditor mutually share information and collaborate closely with each other, such as by meeting with General Manager of the Internal Control and Audit Office and the Corporate and Accounting Auditors.

(iii) Status of the Accounting Auditor

(a) Name of accounting firm, certified public accountants who performed the accounting audit, and structure of assistants relating to audits

In terms of accounting audits, PricewaterhouseCoopers Japan LLC conducts appropriate accounting audits based on an audit contract and the Company exchanges opinions on the audit results and receives recommendations for improvements. PricewaterhouseCoopers Aarata LLC from which the Company had received audit certification was merged with PricewaterhouseCoopers Kyoto on December 1, 2023 and changed the name to PricewaterhouseCoopers Japan LLC. The certified public accountants performing the accounting audit of the Company in the fiscal year under review were Mr. Tatsuya Chiba and Mr. Yoshitaka Sakurai, both of whom are partners of PricewaterhouseCoopers Japan LLC. Assistants related to audits of the Company are two (2) certified public accountants, one (1) associate member of the Japanese Institute of Certified Public Accountants, and eight (8) other staff members.

(b) Duration of audits

PricewaterhouseCoopers Japan LLC has continuously provided audit services to the Company since the fiscal year ended March 31, 2007. Also, former Aoyama Audit Corporation and former ChuoAoyama PricewaterhouseCoopers had continuously provided audit services to the Company at least from the fiscal year ended March 31, 1993 to the fiscal year ended March 31, 2006. Therefore the total audit period adds up to 32 years. Research about the period before the fiscal year ended March 31, 1993 was extremely difficult and there is a possibility that the duration of audits may exceed the aforementioned duration.

(c) Policies, reasons and assessment in selection of certified public accountants for audits

The Board of Corporate Auditors determined that the certified public accountants met each criterion of assessment and selection within adequate levels and their reappointments were reasonable, as a result of review based on a policy of comprehensive judgment based on the criteria of assessment and selection provided in "practical guidelines of auditors, etc. for the establishment of criteria for assessment and selection of certified public accountants" published by Japan Audit & Supervisory Board Members Association.

(d) Policies for the determination of dismissal or non-reappointment of Accounting Auditor

The Board of Corporate Auditors considers dismissal or non-reappointment of Accounting Auditor in the event of problems in execution of its duties and other cases, and resolves a proposal on dismissal or non-reappointment of the Accounting Auditor, if it is judged necessary. In the event that a violation and infringement of laws and regulations such as the Companies Act and the Certified Public Accountants Act by Accounting Auditor is recognized, the Board of Corporate Auditors considers dismissal of such Accounting Auditor, based on the facts, and dismisses the Accounting Auditor, if dismissal is judged appropriate.

(iv) Details of audit fees

(a) Fees to certified public accountants for audits

Categories	Previous fiscal year		Fiscal year under review	
	Audit fees (Thousands of yen)	Non-audit fees (Thousands of yen)	Audit fees (Thousands of yen)	Non-audit fees (Thousands of yen)
Reporting company	40,200	–	50,000	–
Consolidated subsidiaries	–	–	–	–
Total	40,200	–	50,000	–

Details of non-audit services provided to the reporting company by certified public accountants, etc. for audits

Previous fiscal year

Not applicable.

Fiscal year under review

Not applicable.

(b) Fees to PricewaterhouseCoopers GmbH, PwC Tax Japan, PricewaterhouseCoopers Sustainability LLC, and PricewaterhouseCoopers Consultants (Shenzhen) Limited, which belong to the same network as certified public accountants, etc. (excluding (a))

Categories	Previous fiscal year		Fiscal year under review	
	Audit fees (Thousands of yen)	Non-audit fees (Thousands of yen)	Audit fees (Thousands of yen)	Non-audit fees (Thousands of yen)
Reporting company	17,306	48,198	18,931	41,140
Consolidated subsidiaries	13,079	1,831	14,758	2,966
Total	30,386	50,029	33,690	44,106

(Details of non-audit services)

Previous fiscal year

Non-audit services provided to the Company and its consolidated subsidiaries are preparation support for income tax reports, administration of documents relating to transfer price, support for sustainability promotion, and consulting service of other tax affairs.

Fiscal year under review

Non-audit services provided to the Company and its consolidated subsidiaries are preparation support for income tax reports, administration of documents relating to transfer price, support for sustainability promotion, and consulting service of other tax affairs.

(c) Other important fees

Not applicable.

(d) Determination policy for audit fees

The Company considers plans, contents and duration of audits proposed by certified public accountants for audits and determines audit fees, comprehensively considering the size and characteristics of the Company.

(e) Reasons for corporate auditors' consent to audit fees

The Board of Corporate Auditors gave consent to the amount of audit fees set forth in Article 399, Paragraph 1 of the Companies Act, as a result of inspection of contents of audit for the fiscal year under review explained by the Accounting Auditor and audit results for the past fiscal years, as well as a close examination of calculation bases for fee estimation, taking account of "practical guidelines for cooperation with accounting auditors" published by Japan Audit & Supervisory Board Members Association.

(4) [Remuneration for directors and corporate auditors]

(i) Policy on determining remuneration amount and the calculation methods thereof

Director remuneration consists of fixed cash remuneration as base remuneration, restricted share-based remuneration as stock compensation, and bonuses linked to the Company's fiscal year performance as variable remuneration. It takes into consideration the responsibility of directors for increasing the Group's corporate value over the medium- to long-term as well as for improving performance in each fiscal year. Outside directors do not receive share-based remuneration but are paid base remuneration and bonuses in the form of cash. This policy was determined by the Board of Directors.

a. Policy on determining the amount of base remuneration for each individual

The base remuneration for directors shall be paid in the form of a fixed monthly remuneration, and it shall be set within the range of remuneration that was resolved at the Fiscal 2022 General Meeting of Shareholders held on June 21, 2023 (¥320 million including ¥100 million for outside directors. The number of directors appointed at this General Meeting of Shareholders is ten (10) including five (5) outside directors). The base remuneration shall be determined after comprehensively considering the Company's business performance and the level of employee salary, including for executive officers, etc., depending on whether they have representative rights or not, their position, and responsibilities.

b. Policy on determining the details and calculation method for performance-linked remuneration

In an attempt to raise awareness for improving business performance in each business year, performance-linked remuneration for directors shall be decided at the General Meeting of Shareholders following a resolution by the Board of Directors after comprehensively considering business results for each business year (approximately 4% of non-consolidated profit) and the degree of achievement of the annual business plan. The reason for employing non-consolidated profit as a metric to determine the amount of director bonuses is based on a belief that it is desirable to link director bonuses to business performance, comprehensively considering its clarity as a metric and high correlation with basic earnings per share. The payment is made once a year.

c. Policy on determining the ratio of base remuneration and performance-linked remuneration to the amount of remuneration for individual directors

The Company's director remuneration consists of base remuneration (cash remuneration and restricted share-based remuneration) and variable remuneration (performance-linked bonuses). Since non-consolidated profit, which becomes the source of bonuses, fluctuates along with the business performance, we do not determine the ratio of the different types of remuneration in advance but instead determine the ratio subsequently depending on the determined amount of bonus for each fiscal year calculated by the method described in paragraph b.

d. Policy on determining the amount of non-monetary remuneration, etc. (restricted share-based remuneration)

The total amount of monetary remuneration claims to be paid as restricted share-related remuneration, etc. to directors (excluding outside directors) shall be within the range of ¥100 million as resolved at the Fiscal 2021 General Meeting of Shareholders held on June 22, 2022. The amount of monetary remuneration claims to be paid to individual directors is calculated based on the standards provided by the directorregulations. Each director receives restricted shares by means of contributing all of such claims in kind to the Company after an annual resolution approved by the Board of Directors.

e. Matters concerning delegation of decisions of remuneration, etc. for individual directors

Decision-making authority on remuneration for individual directors (excluding outside directors) for the fiscal year under review is delegated to President and Representative Director (Mr. Akira Nagai for the period), taking into account factors such as if a director has the authority to represent the company, position, responsibilities, and contribution. In determining the remuneration amount, however, President and Representative Director consults with other representative directors and two (2) outside directors selected by the Board of Directors regarding a draft remuneration amount prepared in advance for each director, and decides after considering recommendations from these officers. Regarding the responsibilities, execution of duties, and contribution of directors (excluding outside directors), decision-making authority based on a comprehensive perspective is delegated to President and Representative Director after undergoing the aforementioned consultation and recommendation process since President and Representative Director has the most comprehensive understanding of these matters.

Remuneration for individual outside directors is determined after consideration and evaluation of factors such as the responsibilities of each outside director, the status of Board of Directors meeting attendance, and the contents of statements and proposals at various meetings. Decision-making authority on remuneration is delegated to President and Representative Director, who is supposed to determine it after consulting with each outside director. Regarding outside director remuneration, decision-making authority based on a comprehensive perspective is delegated to President and Representative Director after undergoing the aforementioned consulting with each outside director.

At the Board of Directors meeting held on March 25, 2024, the Company resolved to establish the Nomination and Remuneration Advisory Committee, the majority of which consists of independent outside directors. Accordingly, after the process of consultation to and recommendation from the committee, President and Representative Director (currently, Mr. Akira Maruyama) will make decisions of remuneration, etc. for individual directors for the fiscal year ending March 31, 2025 and onward, based on a resolution of the Board of Directors.

f. Reasons for judgment of the Board of Directors that the details of remuneration, etc. for individual directors for the fiscal year under review are in accordance with the policies

The details of remuneration, etc. for individual directors are determined by President and Representative Director, based on the above-mentioned policies and procedures, and therefore the Board of Directors judged the determined details are in accordance with the policies.

g. Activities of the Board of Directors associated with the determination process of remuneration amount for the fiscal year under review

At the Board of Directors meeting held on June 21, 2023, determination of fixed remuneration and performance-linked remuneration for directors was deliberated and resolved. At the Board of Directors meeting held on November 20, 2023, reduction of director remuneration (fixed remuneration) was deliberated and resolved, with business performance for the fiscal year under review taken into account. In addition, the Board of Directors held a series of discussions on the determination process of director remuneration, and resolved to establish the Nomination and Remuneration Advisory Committee at the Board of Directors meeting held on March 25, 2024.

Remuneration for corporate auditors consists solely of fixed basic remuneration in cash. The base remuneration for corporate auditors is set within the range of a remuneration of ¥100 million that was resolved at the Fiscal 2019 General Meeting of Shareholders held on June 24, 2020 (the number of corporate auditors at the conclusion of this General Meeting of Shareholders was four (4) including three (3) outside corporate auditors). The base remuneration is determined through discussions among corporate auditors after considering their duties and other factors.

(ii) Details of remuneration for directors and corporate auditors

a. Total amount of remuneration by category of position and by type, and number of recipients of the reporting company

Categories of position	Total amount of remuneration (Thousands of yen)	Total amount of remuneration by type			Number of recipients (Persons)
		Base remuneration	Performance-linked remuneration	Non-monetary remuneration, etc.	
Directors (excluding outside directors)	199,387	127,600	–	71,787	5
Corporate auditors (excluding outside corporate auditors)	28,800	28,800	–	–	1
Outside directors and corporate auditors	119,400	119,400	–	–	8

(Notes) 1. Remuneration paid to directors does not include the salary for employee duties of directors who concurrently serve as employees.

2. Performance-linked remuneration for directors was determined to be zero, after comprehensibly considering business performance of the fiscal year under review.

3. The above-mentioned amount in non-monetary remuneration, etc. is the amount of restricted stock payment recorded as expenses in the fiscal year under review.

4. Matters concerning non-monetary remuneration, etc.

The Company has introduced a stock compensation plan (restricted share-based remuneration plan), with the intention of raising the awareness of directors (excluding outside directors) to contribute to its business performance and corporate value over the medium- to long-term by sharing the benefits and risks of fluctuating stock price with our shareholders.

Details and the upper limit of number of restricted shares delivered to directors (excluding outside directors) are as follows.

1) Allotment and payment of restricted shares

The Company pays monetary remuneration claims to directors (excluding outside directors) as restricted share-related remuneration, etc. within the range of ¥100 million on an annual basis, in accordance with a resolution of the Board of Directors. Each director receives restricted shares by means of contributing all of such claims in kind to the Company.

The amount to be paid for restricted shares is determined by the Board of Directors on the basis of the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day immediately preceding the date on which the Board of Directors resolves on issuance or disposal of the restricted shares (or the closing price on the immediately preceding trading day if no trading was effected on that date), within the range of amount which is not particularly favorable to directors who receive such restricted shares.

The above-mentioned monetary remuneration claims are paid to directors (excluding outside directors), subject to the condition that directors agree with the above-mentioned contribution in kind and conclude the restricted shares allotment agreement, including contents provided for in 3) below.

2) Total amount of restricted shares

A total of 35,000 shares of restricted shares to be allotted to directors (excluding outside directors) is the upper limit of number of restricted shares to be allotted in each fiscal year.

However, in case of stock split (including gratis allocation of the Company’s common shares) or reverse stock split for the Company’s common shares, or in other similar cases that require adjustment to a total number of restricted shares to be allotted, the Company can reasonably adjust the total number.

3) Details of the restricted shares allotment agreement

In allotting restricted shares, the restricted shares allotment agreement to be concluded between the Company and directors who receive restricted shares in accordance with a resolution of the Board of Directors include the following items.

I. Details of restriction on transfer

Directors who receive restricted shares are not permitted to transfer, create a pledge, create a transfer security interest, make a gift inter vivos, bequeath or otherwise dispose the restricted shares allotted to such directors (the “Allotted Shares”) to a third party during the period from the delivery date of restricted shares until the date of retirement from the position of director (the “Restricted Period”) (“Transfer Restrictions”).

II. Free acquisition of restricted shares

If a director who receives restricted shares resigns from the position of Director on or after the commencement date of the Restricted Period and on or before the day preceding the first Ordinary General Meeting of Shareholders to be held after the date of commencement of the Restricted Period, the Company reasonably acquires the Allotted Shares without paying, except for cases in which the Board of Directors recognizes the cause as legitimate.

In addition, if there are shares of which restriction is not lifted among the Allotted Shares in accordance with the grounds for the lifting of Transfer Restrictions provided for in III. below, at the expiration of the Restricted Period described in I. above, the Company reasonably acquires such shares without paying.

III. Lifting of Transfer Restrictions

Subject to the condition that a director who receives restricted shares continues to be in the position of director until the date of the first Ordinary General Meeting of Shareholders to be held after the date of commencement of the Restricted Period, the Company lifts Transfer Restrictions from all the Allotted Shares at the expiration of the Restricted Period.

However, if such director resigns from the position of director on or before the day preceding the first Ordinary General Meeting of Shareholders to be held after the date of commencement of the Restricted Period on the grounds the Board of Directors recognizes as legitimate, the Company reasonably adjusts the number of the Allotted Shares subject to lifting and the time to lift Transfer Restrictions, as necessary.

IV. Handling of restricted shares in the event of reorganization

During the Restricted Period, in the event that proposals on reorganization, etc., including a merger agreement which defines the Company as a merged company, a share exchange agreement which defines the Company as a wholly-owned company, and a share transfer plan, are approved at the General Meeting of Shareholders (or at the Board of Directors in the cases which do not require the approval of the General Meeting of Shareholders) (only if the effective date of such reorganization, etc. is before the expiration of the Restricted Period. Hereinafter, the "Time of Approval for Reorganization, etc."), and directors who receive restricted shares retire from the position of director, as a result of such reorganization, etc., the Company lifts the Transfer Restrictions for the number of Allotted Shares to be reasonably decided based on the period from the beginning date of the Restricted Period to the date of approval for reorganization, etc., prior to the effective date of such reorganization, etc. by the resolution of the Board of Directors.

At the Time of Approval for Reorganization, etc., the Company reasonably acquires the Allotted Shares on the business day immediately preceding the date of such reorganization, etc., for the portion which remains under Transfer Restrictions as of the same day, without paying.

b. Total amount of remuneration paid by the Group to each director and corporate auditor of the reporting company

The information is not presented because there is no officer whose total remuneration amount totals to ¥100 million or more.

(iii) Salary for employee duties of officers who concurrently serve as employees

Total amount (Thousands of yen)	Officers who concurrently serve as employees (Persons)	Details
46,400	2	Salary for employee duties

(5) [Shareholdings]

(i) Criteria and principles on categories of investment shares

In categorizing investment shares according to shareholding purposes, the Company defines the investment shares held solely for capital gains from stock value fluctuation, or income gains from dividends on share as the investment shares held for pure investment, and investment shares held for other purposes as the investment shares held for purposes other than pure investment.

(ii) Investment shares held for purposes other than pure investment

a. Shareholding policy, methods to verify the reasonableness of shareholding, and details of examination by the Board of Directors, etc. on the appropriateness of holding individual issues

As regards policy for cross-shareholdings, which are investment shares held for purposes other than pure investment, based on a policy of not holding such shares more than necessary after careful selection, the Company comprehensively considers economic efficiency in cross-shareholdings, business strategies, business relationships, and other factors, and holds shares which are judged contributory to corporate value enhancement of the Group over the medium- to long-term. Accordingly, in light of the said policy, the Board of Directors examines the suitability of continuous shareholdings, both in a quantitative way such as comparison between actual dividends received and expected future dividends, and between the Company's cost of equity and counterparties' ROE, and in a qualitative way such as assessment from the aspect of business strategies and other factors.

b. Investment shares held for purposes other than pure investment

	Number of issues	Total balance sheet amount (Thousands of yen)
Unlisted shares	1	3,800
Shares other than those unlisted	3	8,777,132

(Issues whose number of shares increased in the fiscal year under review)

Not applicable.

(Issues whose number of shares decreased in the fiscal year under review)

Not applicable.

c. Information such as shareholding categories, issues, number of shares, balance sheet amounts of investment shares held for purposes other than pure investment

Issue	Fiscal year under review	Previous fiscal year	Purpose of shareholding, overview of business alliance, quantitative effects of shareholding and reason for increase in number of shares	Shareholding of the Company
	Number of shares	Number of shares		
	Balance sheet amount (Thousands of yen)	Balance sheet amount (Thousands of yen)		
NACHI-FUJIKOSHI CORP.	107,000	107,000	The Company has a strong business relationship primarily in terms of both sale of speed reducers and procurement of parts, etc. and holds its shares to stabilize and reinforce the business relationship. The Company judged the shareholding reasonable, comprehensively considering the stock price, dividends received, comparison between the ’counterparty’ ROE and the Company’s cost of equity, as well as the actual and prospect of business transactions, and other factors.	Yes
	373,430	422,650		
NANYO Corporation	17,600	17,600	The Company has a business relationship with the counterparty as a distributor of our products, as well as a strong business relationship in terms of material procurement, and therefore holds its shares to reinforce the business relationship. The Company judged the shareholding reasonable, comprehensively considering the stock price, dividends received, comparison between the counterparty’s ROE and the Company’s cost of equity, as well as the actual and prospect of business transactions, and other factors.	Yes
	45,302	39,828		
Nabtesco Corporation	3,265,000	3,265,000	The Company had a collaborative business relationship until January 2021, and therefore holds its shares. The Company has continued the shareholding, comprehensively considering the stock price, dividends received, comparison between the counterparty’s ROE and the Company’s cost of equity, and other factors. However, we have a policy to reduce the shareholding in the future, considering that the collaborative business relationship has already been dissolved.	None
	8,358,400	10,578,600		

(Notes) 1. Although the above-mentioned investment shares include issues of which balance sheet amounts are 1% less of share capital amount, all issues held are presented.
2. There are no deemed holdings of shares.

(iii) Investment shares held for pure investment

Not applicable.

V [Financial Information]

1. Preparation methods of consolidated financial statements and financial statements

(1) The Company's consolidated financial statements are prepared based on the "Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976).

(2) The Company's financial statements are prepared based on the "Regulation on Terminology, Forms, and Preparation Methods of Financial Statements" (Ministry of Finance Order No. 59 of 1963; hereinafter "Regulation on Financial Statements").

In addition, the Company falls under a special company submitting financial statements and prepares the financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Note on independent audit

Pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, the Company's consolidated financial statements and financial statements for the fiscal year (from April 1, 2023 to March 31, 2024) have been audited by PricewaterhouseCoopers Japan LLC.

PricewaterhouseCoopers Aarata LLC from which the Company had received audit certification was merged with PricewaterhouseCoopers Kyoto on December 1, 2023 and changed the name to PricewaterhouseCoopers Japan LLC.

3. Remarkable efforts to ensure fair presentation of consolidated financial statements, etc.

The Company makes remarkable efforts to ensure fair presentation of consolidated financial statements, etc. Specifically, in order to develop a system for properly understanding the details of accounting standards, etc. and operating such standards, the Company has joined the Financial Accounting Standards Foundation, while taking part in external training and study sessions to deepen understanding and exchanging opinions with its accounting auditor.

(Translation purposes only)

1. [Consolidated financial statements, etc.]

(1) [Consolidated financial statements]

1) [Consolidated balance sheets]

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	20,783,570	20,318,343
Notes receivable - trade	7,408,386	*5 3,085,175
Accounts receivable - trade	10,165,121	8,668,982
Securities	28,840	37,156
Merchandise and finished goods	2,014,249	2,466,573
Work in process	3,658,753	3,481,346
Raw materials and supplies	6,828,695	6,681,866
Other	1,307,220	2,743,454
Allowance for doubtful accounts	(19,356)	(24,906)
Total current assets	52,175,480	47,457,994
Non-current assets		
Property, plant and equipment		
Buildings and structures	*2 27,102,635	*2 28,050,179
Accumulated depreciation	(7,679,564)	(8,961,427)
Buildings and structures, net	19,423,071	19,088,751
Machinery, equipment and vehicles	41,046,656	44,620,810
Accumulated depreciation	(23,709,576)	(28,516,512)
Machinery, equipment and vehicles, net	17,337,080	16,104,298
Tools, furniture and fixtures	9,579,522	10,647,385
Accumulated depreciation	(7,735,852)	(8,897,026)
Tools, furniture and fixtures, net	1,843,670	1,750,358
Land	*2,*4 3,329,452	*2,*4 3,486,870
Leased assets	6,253,972	7,876,856
Accumulated depreciation	(2,100,357)	(2,840,983)
Leased assets, net	4,153,614	5,035,872
Construction in progress	2,766,545	2,610,922
Other	821,282	898,582
Accumulated depreciation	(747,867)	(828,333)
Other, net	73,415	70,248
Total property, plant and equipment	48,926,847	48,147,323
Intangible assets		
Goodwill	15,258,139	–
Software	191,453	493,049
Customer related assets	19,489,904	9,663,394
Technical assets	5,205,468	2,580,951
Other	187,939	159,997
Total intangible assets	40,332,904	12,897,391
Investments and other assets		
Investment securities	11,044,878	8,780,932
Shares of subsidiaries and associates	*1 89,956	*1 48,112
Long-term loans receivable from subsidiaries and associates	–	200,000
Retirement benefit asset	1,191,060	1,372,071
Deferred tax assets	439,351	137,493
Other	141,366	106,571
Allowance for doubtful accounts	(5,600)	(5,600)
Total investments and other assets	12,901,013	10,639,581
Total non-current assets	102,160,765	71,684,297
Total assets	154,336,246	119,142,291

(Thousands of yen)	As of March 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes and accounts payable - trade	3,596,434	3,036,539
Contract liabilities	267,842	172,558
Short-term borrowings	2,610,183	700,629
Current portion of long-term borrowings	*2 2,569,064	*2 2,529,452
Lease liabilities	583,255	700,049
Income taxes payable	1,046,412	101,581
Provision for bonuses	1,471,732	949,714
Provision for bonuses for directors (and other officers)	351,669	66,165
Provision for loss on compensation for after-care of products	64,009	147,759
Other	3,906,913	3,315,414
Total current liabilities	16,467,518	11,719,864
Non-current liabilities		
Long-term borrowings	*2 17,766,840	*2 15,201,497
Lease liabilities	3,836,603	4,681,840
Deferred tax liabilities	10,003,116	5,837,148
Provision for retirement benefits for directors (and other officers)	12,000	12,000
Provision for operating officers' retirement benefits	80,260	104,749
Retirement benefit liability	750,593	836,377
Other	1,463,654	1,347,147
Total non-current liabilities	33,913,069	28,020,761
Total liabilities	50,380,587	39,740,626
Net assets		
Shareholders' equity		
Share capital	7,100,036	7,100,036
Capital surplus	22,773,595	22,778,711
Retained earnings	64,852,655	37,478,753
Treasury shares	(4,978,535)	(5,309,159)
Total shareholders' equity	89,747,751	62,048,341
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,845,310	4,256,856
Foreign currency translation adjustment	8,146,088	12,927,929
Remeasurements of defined benefit plans	216,507	168,538
Total accumulated other comprehensive income	14,207,906	17,353,323
Total net assets	103,955,658	79,401,665
Total liabilities and net assets	154,336,246	119,142,291

2) [Consolidated statements of income and comprehensive income]
[Consolidated statements of income]

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Net sales	*1 71,527,316	*1 55,796,455
Cost of sales	*3 45,741,012	*3 40,189,989
Gross profit	25,786,304	15,606,465
Selling, general and administrative expenses	*2,*3 15,561,495	*2,*3 15,481,886
Operating profit	10,224,808	124,579
Non-operating income		
Interest income	14,951	96,856
Dividend income	268,412	275,621
Foreign exchange gains	275,886	129,181
Subsidy income	245,089	110,873
Other	212,596	257,261
Total non-operating income	1,016,936	869,795
Non-operating expenses		
Commission for purchase of treasury shares	116,897	665
Interest expenses	166,982	177,069
Share of loss of entities accounted for using equity method	865	41,843
Rental expenses	144,211	116,151
Other	55,059	88,311
Total non-operating expenses	484,015	424,041
Ordinary profit	10,757,728	570,333
Extraordinary income		
Gain on sale of non-current assets	*4 1,922	*4 6,861
Subsidy income	2,000	2,000
Total extraordinary income	3,922	8,861
Extraordinary losses		
Loss on sale of non-current assets	–	*5 440
Impairment losses	–	*6 28,159,317
Loss on retirement of non-current assets	*7 63,496	*7 23,517
Loss on tax purpose reduction entry of non-current assets	2,000	2,000
Special extra for retirement payments	501,537	–
Total extraordinary losses	567,034	28,185,276
Profit (loss) before income taxes	10,194,617	(27,606,080)
Income taxes - current	3,089,772	1,094,861
Income taxes - deferred	(491,084)	(3,893,945)
Total income taxes	2,598,688	(2,799,084)
Profit (loss)	7,595,928	(24,806,996)
Profit attributable to non-controlling interests	–	–
Profit (loss) attributable to owners of parent	7,595,928	(24,806,996)

[Consolidated statements of comprehensive income]

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Profit (loss)	7,595,928	(24,806,996)
Other comprehensive income		
Valuation difference on available-for-sale securities	(66,427)	(1,588,454)
Foreign currency translation adjustment	4,392,800	4,781,841
Remeasurements of defined benefit plans, net of tax	209,867	(47,969)
Total other comprehensive income	*1 4,536,240	*1 3,145,417
Comprehensive income	12,132,168	(21,661,579)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	12,132,168	(21,661,579)
Comprehensive income attributable to non-controlling interests	–	–

3) [Consolidated statements of changes in net assets]

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,100,036	22,762,168	59,361,329	(38,897)	89,184,636
Changes during period					
Dividends of surplus			(2,104,602)		(2,104,602)
Profit (loss) attributable to owners of parent			7,595,928		7,595,928
Purchase of treasury shares				(5,000,000)	(5,000,000)
Restricted stock payment		11,426		60,361	71,788
Net changes in items other than shareholders' equity					
Total changes during period	–	11,426	5,491,326	(4,939,638)	563,115
Balance at end of period	7,100,036	22,773,595	64,852,655	(4,978,535)	89,747,751

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	5,911,738	3,753,287	6,640	9,671,666	–	98,856,302
Changes during period						
Dividends of surplus						(2,104,602)
Profit (loss) attributable to owners of parent						7,595,928
Purchase of treasury shares						(5,000,000)
Restricted stock payment						71,788
Net changes in items other than shareholders' equity	(66,427)	4,392,800	209,867	4,536,240	–	4,536,240
Total changes during period	(66,427)	4,392,800	209,867	4,536,240	–	5,099,355
Balance at end of period	5,845,310	8,146,088	216,507	14,207,906	–	103,955,658

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	7,100,036	22,773,595	64,852,655	(4,978,535)	89,747,751
Changes during period					
Dividends of surplus			(2,566,906)		(2,566,906)
Profit (loss) attributable to owners of parent			(24,806,996)		(24,806,996)
Purchase of treasury shares				(397,294)	(397,294)
Restricted stock payment		5,115		66,670	71,786
Net changes in items other than shareholders' equity					
Total changes during period	–	5,115	(27,373,902)	(330,623)	(27,699,410)
Balance at end of period	7,100,036	22,778,711	37,478,753	(5,309,159)	62,048,341

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	5,845,310	8,146,088	216,507	14,207,906	–	103,955,658
Changes during period						
Dividends of surplus						(2,566,906)
Profit (loss) attributable to owners of parent						(24,806,996)
Purchase of treasury shares						(397,294)
Restricted stock payment						71,786
Net changes in items other than shareholders' equity	(1,588,454)	4,781,841	(47,969)	3,145,417	–	3,145,417
Total changes during period	(1,588,454)	4,781,841	(47,969)	3,145,417	–	(24,553,993)
Balance at end of period	4,256,856	12,927,929	168,538	17,353,323	–	79,401,665

4) [Consolidated statements of cash flows]

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Cash flows from operating activities		
Profit (loss) before income taxes	10,194,617	(27,606,080)
Depreciation	8,520,379	9,189,813
Impairment losses	–	28,159,317
Amortization of goodwill	1,054,340	1,172,736
Increase (decrease) in allowance for doubtful accounts	(4,787)	3,428
Increase (decrease) in retirement benefit liability	(381,798)	(45,106)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(478,413)	–
Increase (decrease) in provision for operating officers' retirement benefits	(48,933)	24,489
Increase (decrease) in provision for bonuses for directors (and other officers)	40,182	(294,480)
Increase (decrease) in provision for loss on compensation for after-care of products	(1,295)	79,428
Interest income	(14,951)	(96,856)
Dividend income	(268,412)	(275,621)
Interest expenses	166,982	177,069
Share of loss (profit) of entities accounted for using equity method	865	41,843
Subsidy income	(2,000)	(2,000)
Loss (gain) on sale of non-current assets	(1,922)	(6,421)
Loss on retirement of non-current assets	61,992	23,517
Loss on tax purpose reduction entry of non-current assets	2,000	2,000
Decrease (increase) in trade receivables	(1,636,166)	6,234,839
Decrease (increase) in inventories	(2,540,386)	603,355
Increase (decrease) in trade payables	(458,470)	(750,951)
Other, net	1,347,695	(469,579)
Subtotal	15,551,518	16,164,740
Interest and dividends received	283,364	371,459
Subsidies received	2,000	2,000
Interest paid	(177,146)	(183,325)
Income taxes paid	(4,967,316)	(3,892,940)
Income taxes refund	158,054	266,666
Net cash provided by (used in) operating activities	10,850,473	12,728,600
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,838,891)	(4,935,243)
Proceeds from sale of property, plant and equipment	2,698	15,085
Purchase of intangible assets	(229,709)	(377,679)
Payments into time deposits	(1,701,679)	(2,188,275)
Proceeds from withdrawal of time deposits	2,108,145	1,707,348
Payments of leasehold and guarantee deposits	(8,836)	(9,593)
Proceeds from refund of leasehold and guarantee deposits	4,509	37,471
Loan advances to subsidiaries and associates	–	(200,000)
Other, net	481	481
Net cash provided by (used in) investing activities	(8,663,281)	(5,950,405)

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Cash flows from financing activities		
Proceeds from short-term borrowings	9,910,000	2,480,000
Repayments of short-term borrowings	(7,610,179)	(4,410,197)
Proceeds from long-term borrowings	6,000,000	70,000
Repayments of long-term borrowings	(2,242,662)	(2,656,564)
Repayments of lease liabilities	(551,912)	(641,904)
Purchase of treasury shares	(5,000,000)	(397,294)
Dividends paid	(2,105,094)	(2,566,337)
Net cash provided by (used in) financing activities	(1,599,848)	(8,122,296)
Effect of exchange rate change on cash and cash equivalents	567,101	363,836
Net increase (decrease) in cash and cash equivalents	1,154,445	(980,265)
Cash and cash equivalents at beginning of period	18,767,531	19,921,977
Cash and cash equivalents at end of period	*1 19,921,977	*1 18,941,712

[Notes]

(Notes - Significant accounting policies for preparation of consolidated financial statements)

1. Disclosure of scope of consolidation

(1) Number of consolidated subsidiaries: 18 companies

Names of consolidated subsidiaries:

HD Systems, Inc.
HD Logistics, Inc.
Harmonic Precision Inc.
Harmonic AD, Inc.
Harmonic Drive L.L.C.
Harmonic Winbel Inc.
Harmonic Drive Systems (Shanghai) Co., Ltd.
SAMICK ADM Co., Ltd.
GK HD Management
Harmonic Drive SE and its eight consolidated subsidiaries

(2) Number of unconsolidated subsidiaries: 1 company

Names of unconsolidated subsidiaries:

Ome Iron Casting Co., Ltd.

Reasons for exclusion from consolidation:

The unconsolidated subsidiary is small in scale and its total assets, net sales, profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity), etc. do not have a significant impact on the consolidated financial statements.

2. Disclosure about application of equity method

Number of unconsolidated subsidiaries accounted for using equity method: 1 company

Names of unconsolidated subsidiaries accounted for using equity method: Ome Iron Casting Co., Ltd.

3. Disclosure about fiscal years, etc. of consolidated subsidiaries

The closing date of HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., SAMICK ADM Co., Ltd., GK HD Management and Harmonic Drive SE and its eight subsidiaries, among the Company's subsidiaries, is December 31 and the Company uses the financial statements as of the said closing date to prepare the consolidated financial statements. However, for significant transactions that occurred during the period up to the consolidated closing date, necessary adjustments are made for consolidation purposes.

4. Disclosure of accounting policies

(1) Valuation standards and methods for significant assets

1) Securities

a. Shares of subsidiaries and associates

The moving average cost method is applied.

b. Available-for-sale securities

- Securities other than shares, etc. that do not have a market value

The fair value method (with the entire amount of valuation differences inserted directly into net assets, and the cost of sales calculated using the moving average method) is applied.

- Shares, etc. that do not have a market value

The moving average cost method is applied.

2) Receivables and payables arising from derivative transactions

The fair value method is applied.

3) Inventories

Inventories held for normal sales purpose

Valuation standards are based on the cost method (the method of writing down the book value based on a decline in profitability).

a. Merchandise and finished goods, raw materials and work in process

The moving average method is applied.

b. Supplies

The last purchase cost method is applied.

(2) Depreciation methods for significant depreciable assets

1) Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries adopt the declining balance method.

However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and to facilities attached to buildings and to structures acquired on or after April 1, 2016. The overseas consolidated subsidiaries adopt the straight line method based on the estimated service life.

2) Intangible assets (excluding leased assets)

The straight-line method is applied.

However, for software (for internal use), the straight-line method is applied based on the expected usable period within the Company (five years).

3) Leased assets

Leased assets related to finance lease transactions with the right of ownership not transferred

The straight-line method is applied using the lease term as service life and a residual value of zero.

Some overseas consolidated subsidiaries prepare financial statements based on the International Financial Reporting Standards and adopt the International Financial Reporting Standards No. 16, “Leases” (hereinafter “IFRS 16”). In accordance with IFRS 16, for lessees of leases, in principle, all leases are recorded as assets and liabilities in the balance sheets and right-of-use assets recorded as assets are depreciated using the straight-line method. In addition, in (Notes - Leases), lease transactions based on IFRS 16 are classified as “1. Finance lease transactions.”

(3) Treatment of significant deferred assets

For share issuance costs, the full amount is treated as an expense at the time the disbursement is made.

(4) Recognition criteria for significant provisions

1) Allowance for doubtful accounts

To prepare for possible losses due to irrecoverable receivables, the estimated irrecoverable amount is recorded based on the historical default rate for general receivables, and individual consideration of collectability for certain receivables such as doubtful receivables.

2) Provision for bonuses

To prepare for the payment of bonuses to employees, the estimated amount of payment is recorded at the Company and its domestic consolidated subsidiaries.

3) Provision for bonuses for directors (and other officers)

To prepare for the payment of bonuses to directors (and other officers), the estimated amount of payment is recorded.

4) Provision for loss on compensation for after-care of products

To prepare for loss on compensation for after-care of products, the estimated amount of loss is recorded.

5) Provision for retirement benefits for directors (and other officers)

To prepare for the payment of retirement benefits to directors (and other officers), the full amount of payment required at the end of the fiscal year under review based on the internal rules is recorded at some consolidated subsidiaries.

6) Provision for operating officers' retirement benefits

To prepare for the payment of retirement benefits to operating officers, the full amount of payment required at the end of the fiscal year under review based on the internal rules is recorded.

(5) Accounting for retirement benefits

To prepare for the payment of retirement benefit to employees, the amount deemed to have accrued at the end of the fiscal year under review was recorded based on the estimated amount at the time. If the amount of plan assets is smaller than that of retirement benefit obligations, the difference is recorded as retirement benefit liability. If the amount of plan assets exceeds that of retirement benefit obligations, the amount exceeded is recorded as retirement benefit asset. In calculating retirement benefit obligations, the method for attributing the estimated amount of retirement benefits to the period until the end of the fiscal year under review is based on the benefit formula basis. For the past service costs, the amounts, prorated on the straight-line method over a fixed number of years (three years) that is within the average number of years of remaining service for employees at the time the costs are incurred, are primarily recorded as expenses. Also, actuarial differences are primarily recorded as expenses from the next fiscal year using the straight-line method over a fixed number of years (three years) that is within the average number of years of remaining service for employees at the time the differences arise. Unrecognized actuarial differences and unrecognized past service costs are adjusted for tax effect, and recorded under net assets as remeasurements of defined benefit plans in accumulated other comprehensive income. Some of the consolidated subsidiaries adopt the simplified method for calculating retirement benefit obligations.

(6) Recognition criteria for significant revenue and expenses

The Company's principal business is manufacturing and sales of speed reducers and mechatronic products. For the Company's domestic sale, revenue is recognized at the time of shipment, since the period from the time of shipment to the time when control of products is transferred to customers is normal. For export sale, revenue is recognized at the time when the burden of risk is transferred to customers mainly based on trade terms defined by Incoterms, etc. For the overseas consolidated subsidiaries, revenue is recognized at the time of delivery of products to customers or when the acceptance inspection is performed.

Under payment terms regarding the Company's transactions, in general, payment is due within a short period of time and significant financial elements are not included in contracts.

In addition, transaction prices are based on contract prices with customers and there is no variable consideration or discounting.

(7) Criteria for translating significant foreign-currency-denominated assets or liabilities into Japanese yen

Foreign-currency-denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rate on the consolidated closing date and the translation adjustment is treated as a profit or loss. In addition, assets and liabilities of the overseas subsidiaries, etc. are translated into Japanese yen at the spot exchange rate on the closing date and the revenue and expenses are translated into Japanese yen at the average exchange rate during the period. Translation adjustments are included in foreign currency translation adjustment under net assets.

(8) Amortization methods and periods of goodwill, customer related assets and technical assets

Goodwill, customer related assets and technical assets are amortized in equal amounts over their useful period of life within 20 years.

(9) Scope of funds in consolidated statements of cash flows

Funds (cash and cash equivalents) in consolidated statements of cash flows consist of cash on hand, deposits that can be withdrawn at any time and short-term investments with a maturity within three months from the date of acquisition that are easily converted into cash and subject to insignificant risk of value fluctuations.

(Notes - Significant accounting estimates)

Impairment losses of non-current assets of the Harmonic Drive SE Group

1) Amounts recorded in the consolidated financial statements for the fiscal year under review

・ Book value: ¥18,203,783 thousand

・ Impairment losses: ¥28,159,317 thousand

2) Other information

・ Calculation method

The Company accounts non-current assets related to Harmonic Drive SE and its eight subsidiaries (hereinafter “the HDSE Group”) as the smallest unit that generates cash flow.

As of the end of the fiscal year under review, it was determined that there were indications of impairment in non-current assets of the HDSE Group, and in order to determine whether impairment losses should be recognized, as a result of considering whether the total amount of undiscounted future cash flows to be earned by the HDSE Group is less than the book value of the HDSE Group’s non-current assets, including goodwill, ¥15,245,574 thousand in goodwill, and ¥12,913,743 thousand in customer related assets and technical assets were recorded as impairment losses because the total amount of undiscounted future cash flows of the remaining economic life of goodwill, customer related assets and technical assets was less than the book value of the HDSE Group’s non-current assets.

・ Key assumptions

For determining whether to recognize impairment losses and future cash flows used in calculating value in use, the estimated amount is calculated based on the business plan for the next five fiscal years approved by management and the growth rate, etc. thereafter. This business plan includes future sales forecasts and assumptions of operating profit, etc. in consideration of business environments including demand trends in the industrial robot market and marketing strategies. When measuring impairment losses, the value in use is calculated by discounting future cash flows to the present value using a discount rate of 13.0% based on the HDSE Group’s weighted average cost of capital, and the value is used as the recoverable value.

The growth rate from six fiscal years onward has been determined to be 1.3%, taking into account the long-term growth rate of the market, industry and countries to which the HDSE Group belongs, and will not exceed the long-term growth rate of the market.

・ How the consolidated financial statements for the next fiscal year will be affected

In recognizing impairment losses, the Company carefully examines future profitability, etc. However, if future changes in business and market conditions cause the Company’s business plan, on which the estimated future cash flows are based, to fall materially short of its projections, or if future uncertainties increase, the recoverable amount may decrease, and the occurrence of impairment losses in the following fiscal year may have a material impact on the Company’s financial position and results of operations.

(Notes - New accounting standards not yet applied)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

(1) Overview

These standards specify the classification of income taxes when other comprehensive income is taxed, and the treatment of tax effects related to sale of shares of subsidiaries, etc. when the group corporate tax system is applied.

(2) Scheduled date of application

These standards are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2025.

(3) Impact of adopting these accounting standards

The amount of impact is being evaluated at the time of preparation of these consolidated financial statements.

(Notes - Consolidated balance sheets)

*1. The item related to unconsolidated subsidiaries is as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Shares of subsidiaries and associates	89,956	48,112

*2. Assets pledged as collateral and corresponding liabilities are as follows:

(Thousands of yen)

(1) Assets pledged as collateral

	As of March 31, 2023	As of March 31, 2024
Buildings	32,765	30,695
Land	52,225	52,225
Total	84,990	82,920

(2) Corresponding liabilities

	As of March 31, 2023	As of March 31, 2024
Current portion of long-term borrowings	3,120	3,120
Long-term borrowings	12,800	9,680
Total	15,920	12,800

3. Commitment line agreement

The Company and its consolidated subsidiaries concluded a commitment line agreement with their main banks in order to improve the stability of fundraising and flexibly perform business.

The balance of unexecuted borrowings based on this agreement at the end of the fiscal year under review is as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Total amount of commitment line	9,348,820	9,442,720
Balance of borrowings outstanding	130,955	141,408
Balance of unexecuted borrowings	9,217,864	9,301,312

*4. Amounts of tax purpose reduction entry

The amount of tax purpose reduction entry deducted from the acquisition price of property, plant and equipment due to national subsidies, etc., and breakdown thereof are as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Amounts of tax purpose reduction entry (land)	383,230	385,230

*5. Promissory notes due on balance sheet date

Promissory notes due on balance sheet date are settled on their clearance date.

Since the end of the fiscal year under review was a holiday of financial institutions, the following promissory notes due on balance sheet date are included in the balance at the end of period.

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Notes receivable - trade	–	167
Electronically recorded monetary claims - operating	–	310,214

(Notes - Consolidated statements of income)

*1. Revenue from contracts with customers

For net sales, revenue from contracts with customers and other revenue are not separately presented. The amount of revenue from contracts with customers is presented in the consolidated financial statements “(Notes - Segment information, etc.).”

*2. Among selling, general and administrative expenses, major expense items and amounts are as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Salaries and allowances	2,494,548	2,562,428
Provision for bonuses	812,788	550,996
Provision for bonuses for directors (and other officers)	408,273	105,093
Retirement benefit expenses	182,435	(25,392)
Provision for retirement benefits for directors (and other officers)	48,440	43,196
Provision for retirement benefits for operating officers	21,166	24,489
Research and development expenses	3,172,035	3,543,473
Depreciation	2,424,683	2,626,355

*3. Research and development expenses included in general and administrative expenses and manufacturing costs for the period are as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Research and development expenses	3,274,102	3,613,612

*4. The breakdown of gain on sale of non-current assets is as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Machinery, equipment and vehicles	1,922	5,338
Land	–	1,522
Total	1,922	6,861

*5. The breakdown of loss on sale of non-current assets is as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Buildings and structures	–	440
Total	–	440

*6. Impairment losses

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Not applicable.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

The Group recorded impairment losses for the following asset groups.

(1) Breakdown of impairment losses

(Thousands of yen)

Location	Use	Type	Impairment losses
–	–	Goodwill	15,245,574
Germany	–	Customer related assets	10,191,691
		Technical assets	2,722,051
Total			28,159,317

(2) Method of grouping assets

The Group accounts non-current assets related to Harmonic Drive SE and its eight subsidiaries (hereinafter “the HDSE Group”) as the smallest unit that generates cash flow.

(3) Reason for recognition of impairment losses

For goodwill, customer related assets and technical assets (hereinafter, the “goodwill, etc.”) recognized at the time of incorporating subsidiaries, the amount of amortization of the goodwill, etc. has continued to exceed operating profit of HDSE Group, because the revenue plan estimated at the time of the acquisition is behind the schedule. Therefore, we determined that there is an indication of impairment and considered whether impairment losses should be recognized. As a result, the total amount of undiscounted future cash flows expected to be generated by customer related assets and technical assets that are major assets of Harmonic Drive SE Group over their remaining economic life was less than the book value of the Harmonic Drive SE Group’s non-current assets including the goodwill, etc. and accordingly, the book value was reduced to the recoverable value and the amount of reduction was recorded as an impairment loss.

(4) Calculation method of recoverable value

For determining future cash flows used in calculating value in use, the estimated amount is calculated based on the business plan for the next five fiscal years approved by management and the growth rate, etc. thereafter. The value in use is calculated by discounting these future cash flows to the present value using a discount rate of 13.0% based on the HDSE Group’s weighted average cost of capital, and the value is used as the recoverable value. The growth rate from six fiscal years onward has been determined to be 1.3%, taking into account the long-term growth rate of the market, industry and countries to which the HDSE Group belongs, and will not exceed the long-term growth rate of the market.

*7. The breakdown of loss on retirement of non-current assets is as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Buildings and structures	39,706	4,186
Machinery, equipment and vehicles	16,970	679
Tools, furniture and fixtures	6,819	16,291
Software	–	2,360
Total	63,496	23,517

(Notes - Consolidated statements of comprehensive income)

*1. Notes regarding reclassification adjustments and tax effects relating to other comprehensive income

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Valuation difference on available-for-sale securities		
Amount arising during the year	(84,309)	(2,263,946)
Reclassification adjustments	–	–
Before tax effect adjustments	(84,309)	(2,263,946)
Tax effects	17,882	675,491
Valuation difference on available-for-sale securities	(66,427)	(1,588,454)
Foreign currency translation adjustment		
Amount arising during the year	4,392,800	4,781,841
Remeasurements of defined benefit plans, net of tax		
Amount arising during the year	209,536	66,392
Reclassification adjustments	93,691	(132,419)
Before tax effect adjustments	303,228	(66,026)
Tax effects	(93,361)	18,057
Remeasurements of defined benefit plans, net of tax	209,867	(47,969)
Total other comprehensive income	4,536,240	3,145,417

(Notes - Consolidated statements of changes in net assets)

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

1. Issued and outstanding shares

Class of shares	Beginning of period	Increase	Decrease	End of period
Common shares	96,315,400	–	–	96,315,400

2. Treasury shares

Class of shares	Beginning of period	Increase	Decrease	End of period
Common shares	52,336	1,215,400	16,734	1,251,002

(Summary of reason for changes)

The increase in treasury shares (common shares) of 1,215,400 shares was due to the acquisition of treasury shares based on resolution at a meeting of the Board of Directors on May 13, 2022.

The decrease in treasury shares (common shares) of 16,734 shares was due to granting of the shares to Directors excluding Outside Directors based on the restricted stock payment scheme.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
June 22, 2022 Ordinary General Meeting of Shareholders	Common shares	1,058,893	11	March 31, 2022	June 23, 2022
November 8, 2022 Board of Directors meeting	Common shares	1,045,708	11	September 30, 2022	December 5, 2022

(2) Dividends for which record date is in the fiscal year under review with effective date in the next fiscal year

Resolution	Class of shares	Source of dividends	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2023 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	1,616,094	17	March 31, 2023	June 22, 2023

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

1. Issued and outstanding shares

Class of shares	Beginning of period	Increase	Decrease	End of period
Common shares	96,315,400	–	–	96,315,400

2. Treasury shares

Class of shares	Beginning of period	Increase	Decrease	End of period
Common shares	1,251,002	104,808	16,753	1,339,057

(Summary of reason for changes)

The increase in treasury shares (common shares) of 104,808 shares was due to the acquisition of treasury shares of 104,800 shares based on resolution at a meeting of the Board of Directors on December 6, 2023 and the increase of eight shares due to the purchase of shares less than one unit.

The decrease in treasury shares (common shares) of 16,753 shares was due to granting of the shares to Directors excluding Outside Directors based on the restricted stock payment scheme.

3. Dividends

(1) Dividends paid

Resolution	Class of shares	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2023 Ordinary General Meeting of Shareholders	Common shares	1,616,094	17	March 31, 2023	June 22, 2023
November 9, 2023 Board of Directors meeting	Common shares	950,811	10	September 30, 2023	December 4, 2023

(2) Dividends for which record date is in the fiscal year under review with effective date in the next fiscal year

Resolution	Class of shares	Source of dividends	Total dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date
June 21, 2024 Ordinary General Meeting of Shareholders	Common shares	Retained earnings	949,763	10	March 31, 2024	June 24, 2024

(Notes - Consolidated statements of cash flows)

*1. Relationship between cash and cash equivalents at end of period and the amount of items shown on the consolidated balance sheets

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Cash and deposits	20,783,570	20,318,343
Short-term securities (with maturity within three months)	28,840	37,156
Time deposits with a deposit period over three months	(890,432)	(1,413,787)
Cash and cash equivalents	19,921,977	18,941,712

(Notes - Leases)

1. Finance lease transactions

Finance lease transactions with the right of ownership not transferred

(1) Details of leased assets

・Property, plant and equipment

Mainly offices and other buildings and production facilities (machinery)

(2) Depreciation method of leased assets

The straight-line method using the lease term as service life and a residual value of zero

2. Operating lease transactions

Future lease payments in non-cancelable operating lease transactions

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Within one year	135,006	50,328
Over one year	62,390	56,357
Total	197,397	106,686

(Notes - Financial instruments)

1. Status of financial instruments

(1) Policy for financial instruments

As a policy, the Group invests temporary surplus funds in highly secure financial instruments and uses bank loans for fund raising. Derivatives are used to mitigate foreign currency risk arising from business activities and as a policy, speculative transactions are not carried out.

(2) Details and risk of financial instruments and risk management system

Notes receivable - trade and accounts receivable - trade which are operating receivables are exposed to customer credit risk. For such risk, we have a system in place to control credit risk pursuant to internal rules and periodically identify credit status of major business partners. Also, although foreign-currency-denominated operating receivables are exposed to foreign currency risk, some of receivables are hedged using a forward exchange contract. Exchange contracts are executed and controlled pursuant to internal rules that specify transaction authority and such transactions are carried out only with highly creditworthy financial institutions. As counterparties of transactions are highly creditworthy financial institutions, we determined that credit risk resulting from default of contracts by counterparties is extremely small.

Although shares which are securities and investment securities are exposed to risk of market price fluctuations, etc., they are mainly shares of companies with which we have business relationships and of which fair value is periodically identified.

Notes and accounts payable – trade which are operating payables are due within one year.

Short-term borrowings and long-term borrowings are intended to raise working capital, funds for equipment, funds for acquiring treasury shares and funds related to additional purchase of investments in capital of subsidiaries. Borrowings with variable interest rates are exposed to interest rate risks.

Also, operating payables and borrowings are exposed to liquidation risk, which we continue to identify and control by periodically developing funding plans.

Lease liabilities related to finance lease transactions are mainly intended to raise funds for capital investment and the longest maturity date is 20 years after the closing date.

(3) Supplementary explanation on fair value of financial instruments, etc.

For the contract amounts, etc., related to derivative transactions in “Notes -Derivatives,” the amounts themselves do not indicate the market risk related to derivative transactions.

2. Fair value of financial instruments, etc.

The consolidated balance sheet amount, fair value and their differences are as follows:

For the fiscal year ended March 31, 2023 (March 31, 2023)

(Thousands of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Notes receivable - trade	7,408,386	7,408,386	–
(2) Accounts receivable - trade	10,165,121		
Allowance for doubtful accounts (*2)	(19,356)		
	10,145,764	10,145,764	–
(3) Securities and investment securities			
Available-for-sale securities	11,069,918	11,069,918	–
Total assets	28,624,069	28,624,069	–
(1) Notes and accounts payable - trade	3,596,434	3,596,434	–
(2) Income taxes payable	1,046,412	1,046,412	–
(3) Short-term borrowings	2,610,183	2,610,183	–
(4) Current portion of long-term borrowings	2,569,064	2,569,064	–
(5) Long-term borrowings	17,766,840	17,630,759	(136,080)
(6) Lease liabilities	4,419,858	4,214,538	(205,320)
Total liabilities	32,008,794	31,667,393	(341,400)
Derivative transactions (*4)	[11,334]	[11,334]	–

(*1) "Cash and deposits" are omitted because their fair value approximates their book value as they are cash and deposits are settled in a short period of time.

(*2) For accounts receivable - trade, the corresponding allowance for doubtful accounts is deducted.

(*3) Shares, etc. that do not have a market value are not included in "(3) Securities and investment securities." The consolidated balance sheet amounts of these financial instruments are as follows:

Categories	For the fiscal year ended March 31, 2023 (Thousands of yen)
Investment securities Unlisted shares	3,800
Shares of subsidiaries and associates Unlisted shares	89,956

(*4) Net receivables and payables arising from derivative transactions are shown at net amounts and items that are net payables in total are shown in square brackets.

For the fiscal year ended March 31, 2024 (March 31, 2024)

(Thousands of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Notes receivable - trade	3,085,175	3,085,175	–
(2) Accounts receivable - trade	8,668,982		
Allowance for doubtful accounts (*2)	(24,906)		
	8,644,076	8,644,076	–
(3) Securities and investment securities			
Available-for-sale securities	8,814,288	8,814,288	–
Total assets	20,543,540	20,543,540	–
(1) Notes and accounts payable - trade	3,036,539	3,036,539	–
(2) Income taxes payable	101,581	101,581	–
(3) Short-term borrowings	700,629	700,629	–
(4) Current portion of long-term borrowings	2,529,452	2,529,452	–
(5) Long-term borrowings	15,201,497	15,074,426	(127,070)
(6) Lease liabilities	5,381,889	4,923,251	(458,638)
Total liabilities	26,951,589	26,365,881	(585,708)
Derivative transactions (*4)	[33,267]	[33,267]	–

(*1) "Cash and deposits" are omitted because their fair value approximates their book value as they are cash and deposits are settled in a short period of time.

(*2) For accounts receivable - trade, the corresponding allowance for doubtful accounts is deducted.

(*3) Shares, etc. that do not have a market value are not included in "(3) Securities and investment securities." The consolidated balance sheet amounts of these financial instruments are as follows:

Categories	For the fiscal year ended March 31, 2024 (Thousands of yen)
Investment securities Unlisted shares	3,800
Shares of subsidiaries and associates Unlisted shares	48,112

(*4) Net receivables and payables arising from derivative transactions are shown at net amounts and items that are net payables in total are shown in square brackets.

(Notes) 1. Scheduled redemption amounts of monetary receivables after the consolidated closing date

For the fiscal year ended March 31, 2023 (March 31, 2023)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	20,783,570	–	–	–
Notes receivable - trade	7,408,386	–	–	–
Accounts receivable - trade	10,165,121	–	–	–
Total	38,357,077	–	–	–

For the fiscal year ended March 31, 2024 (March 31, 2024)

(Thousands of yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	20,318,343	–	–	–
Notes receivable - trade	3,085,175	–	–	–
Accounts receivable - trade	8,668,982	–	–	–
Total	32,072,502	–	–	–

2. Scheduled repayment amounts of long-term borrowings after the consolidated closing date

For the fiscal year ended March 31, 2023 (March 31, 2023)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term borrowings	2,569,064	2,563,121	2,459,627	2,459,627	2,424,627	7,859,836
Lease liabilities	583,255	582,585	548,270	555,396	532,852	1,617,497
Total	3,152,319	3,145,706	3,007,898	3,015,023	2,957,480	9,477,333

For the fiscal year ended March 31, 2024 (March 31, 2024)

(Thousands of yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term borrowings	2,529,452	2,465,064	2,465,064	2,430,064	2,347,445	5,493,860
Lease liabilities	700,049	662,290	661,284	630,879	450,104	2,277,281
Total	3,229,501	3,127,354	3,126,348	3,060,943	2,797,549	7,771,141

3. Breakdown by level of fair value of financial instruments

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1 fair value: Fair value measured using observable inputs, i.e. quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using unobservable inputs.

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at fair value

For the fiscal year ended March 31, 2023 (March 31, 2023)

Categories	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities Available-for-sale securities Shares	11,069,918	–	–	11,069,918
Total assets	11,069,918	–	–	11,069,918
Derivative transactions Currency-related transactions	–	11,334	–	11,334
Total liabilities	–	11,334	–	11,334

For the fiscal year ended March 31, 2024 (March 31, 2024)

Categories	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities Available-for-sale securities Shares	8,814,288	–	–	8,814,288
Total assets	8,814,288	–	–	8,814,288
Derivative transactions Currency-related transactions	–	33,267	–	33,267
Total liabilities	–	33,267	–	33,267

(2) Financial instruments other than those measured at fair value

For the fiscal year ended March 31, 2023 (March 31, 2023)

Categories	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Notes receivable - trade	–	7,408,386	–	7,408,386
Accounts receivable - trade	–	10,145,764	–	10,145,764
Total assets	–	17,554,150	–	17,554,150
Notes and accounts payable - trade	–	3,596,434	–	3,596,434
Income taxes payable	–	1,046,412	–	1,046,412
Short-term borrowings	–	2,610,183	–	2,610,183
Long-term borrowings	–	20,199,823	–	20,199,823
Lease liabilities	–	4,214,538	–	4,214,538
Total liabilities	–	31,667,393	–	31,667,393

For the fiscal year ended March 31, 2024 (March 31, 2024)

Categories	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Notes receivable - trade	–	3,085,175	–	3,085,175
Accounts receivable - trade	–	8,644,076	–	8,644,076
Total assets	–	11,729,252	–	11,729,252
Notes and accounts payable - trade	–	3,036,539	–	3,036,539
Income taxes payable	–	101,581	–	101,581
Short-term borrowings	–	700,629	–	700,629
Long-term borrowings	–	17,603,878	–	17,603,878
Lease liabilities	–	4,923,251	–	4,923,251
Total liabilities	–	26,365,881	–	26,365,881

(Note) A description of the valuation technique(s) and inputs used in the fair value measurements

Securities and investment securities

Listed shares are valued using quoted prices. As listed shares are traded in active markets, their fair value is classified as Level 1.

Derivative transactions

The fair value of derivative transactions is measured based on the fair value quoted by the partner financial institutions and is classified as Level 2.

Notes and accounts receivable - trade

Because they are settled in a short period of time, the fair value approximates their book value. Therefore, based on the book value, the fair value is classified as Level 2.

Notes and accounts payable - trade, income taxes payable and short-term borrowings

Because they are settled in a short period of time, the fair value approximates their book value. Therefore, based on the book value, the fair value is classified as Level 2.

Long-term borrowings

Long-term borrowings with variable interest rates reflect the market rates and credit risk in a short period of time and the fair value approximates the book value. Therefore, the book value is deemed as fair value. The fair value of long-term borrowings with fixed interest rates is measured by the present value calculated by discounting the sum of the principal and interest by an interest rate expected to be applied if similar new borrowings were made, and classified as Level 2.

Lease liabilities

The fair value is measured by the present value calculated by discounting the sum of the principal and interest by an interest rate expected to be applied if similar new lease transactions were conducted, and classified as Level 2.

(Notes - Securities)

Available-for-sale securities

For the fiscal year ended March 31, 2023 (as of March 31, 2023)

(Thousands of yen)

Categories	Type	Consolidated balance sheet amount	Acquisition costs	Difference
Securities for which consolidated balance sheet amount exceeds the acquisition cost	(1) Shares	11,041,078	2,709,916	8,331,162
	(2) Bonds			
	National government bonds and local government bonds	–	–	–
	Corporate bonds	–	–	–
	Other	–	–	–
	(3) Other	–	–	–
	Subtotal	11,041,078	2,709,916	8,331,162
Securities for which consolidated balance sheet amount does not exceed the acquisition cost	(1) Shares	–	–	–
	(2) Bonds			
	National government bonds and local government bonds	–	–	–
	Corporate bonds	–	–	–
	Other	28,840	70,176	(41,336)
	(3) Other	–	–	–
	Subtotal	28,840	70,176	(41,336)
Total		11,069,918	2,780,092	8,289,826

For the fiscal year ended March 31, 2024 (as of March 31, 2024)

(Thousands of yen)

Categories	Type	Consolidated balance sheet amount	Acquisition costs	Difference
Securities for which consolidated balance sheet amount exceeds the acquisition cost	(1) Shares	8,777,132	2,709,916	6,067,215
	(2) Bonds			
	National government bonds and local government bonds	–	–	–
	Corporate bonds	–	–	–
	Other	–	–	–
	(3) Other	–	–	–
	Subtotal	8,777,132	2,709,916	6,067,215
Securities for which consolidated balance sheet amount does not exceed the acquisition cost	(1) Shares	–	–	–
	(2) Bonds			
	National government bonds and local government bonds	–	–	–
	Corporate bonds	–	–	–
	Other	37,156	70,176	(33,020)
	(3) Other	–	–	–
	Subtotal	37,156	70,176	(33,020)
Total		8,814,288	2,780,092	6,034,195

(Notes - Derivatives)

Derivative transactions for which hedge accounting is not applied

Currency-related transactions

For the fiscal year ended March 31, 2023 (March 31, 2023)

(Thousands of yen)

Categories	Type	Contract amounts, etc.	Contract amount over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts				
	Buying				
	Buying Japanese yen, selling Chinese yuan	639,260	–	(8,199)	(8,199)
	Buying Japanese yen, selling US dollar	938,315	–	(3,134)	(3,134)
Total		1,577,576	–	(11,334)	(11,334)

For the fiscal year ended March 31, 2024 (March 31, 2024)

(Thousands of yen)

Categories	Type	Contract amounts, etc.	Contract amount over one year	Fair value	Unrealized gain (loss)
Non-market transactions	Forward exchange contracts				
	Buying				
	Buying Japanese yen, selling Chinese yuan	704,244	–	(12,063)	(12,063)
	Buying Japanese yen, selling US dollar	541,326	–	(19,490)	(19,490)
	Buying Japanese yen, selling euro	600,000	–	(1,713)	(1,713)
Total		1,845,570	–	(33,267)	(33,267)

(Notes - Retirement benefits)

1. Overview of retirement benefit plan applied

The Company and its consolidated subsidiaries have adopted funded or unfunded defined benefit plans and defined contribution plans to provide retirement benefits to employees. Under the defined benefit plan, lump-sum or pension benefits are paid based on their position and length of service. In addition, upon the retirement, etc. of employees, additional retirement payments not subject to retirement benefit obligations based on actuarial calculations in accordance with retirement benefit accounting may be paid.

Also, some of the consolidated subsidiaries calculate retirement benefit liability and retirement benefit expenses using the simplified method, in computing retirement benefit obligations.

In addition, some of the overseas subsidiaries have adopted a defined benefit plan to provide retirement benefits to directors (and other officers) of the subsidiaries.

2. Defined benefit plans (excluding a plan to which the simplified method is applied)

(1) Reconciliation of the beginning balance and the ending balance of retirement benefit obligations

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Beginning balance of retirement benefit obligations	2,898,007	2,501,249
Service cost	147,469	148,865
Interest cost	30,854	39,706
Actuarial gains and losses	(317,890)	81,380
Retirement benefits paid	(331,531)	(379,563)
Other	74,340	86,065
Ending balance of retirement benefit obligations	2,501,249	2,477,704

(2) Reconciliation of the beginning balance and the ending balance of plan assets

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Beginning balance of plan assets	3,204,318	3,060,139
Expected return	21,008	60,961
Actuarial gains and losses	(108,353)	147,773
Contribution from the employer	147,137	158,037
Retirement benefits paid	(215,094)	(302,210)
Other	11,122	12,821
Ending balance of plan assets	3,060,139	3,137,522

(3) Reconciliation of the ending balances of retirement benefit obligations and plan assets and the retirement benefit liability and retirement benefit asset reported on the consolidated balance sheets

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Retirement benefit obligations under the funded plans	2,501,249	2,477,704
Plan assets	(3,060,139)	(3,137,522)
	(558,890)	(659,817)
Retirement benefit obligations under the unfunded plans	–	–
Net liabilities and assets recorded on the consolidated balance sheets	(558,890)	(659,817)
Retirement benefit liability	632,170	712,253
Retirement benefit asset	(1,191,060)	(1,372,071)
Net liabilities and assets recorded on the consolidated balance sheets	(558,890)	(659,817)

(4) Amounts of retirement benefit expenses and their components

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Service cost	147,469	148,865
Interest cost	30,854	39,706
Expected return	(21,008)	(60,961)
Amortization of actuarial gains and losses	93,691	(132,419)
Retirement benefit expenses related to defined benefit plan	251,006	(4,809)

(5) Remeasurements of defined benefit plans, net of tax

The breakdown of items recorded in remeasurements of defined benefit plans, net of tax (before deducting tax effects) is as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Actuarial differences	(303,228)	66,026
Total	(303,228)	66,026

(6) Remeasurements of defined benefit plans

The breakdown of items recorded in remeasurements of defined benefit plans (before deducting tax effects) is as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Unrecognized actuarial differences	(273,217)	(207,190)
Total	(273,217)	(207,190)

(7) Matters related to plan assets

1) Major breakdown of plan assets

The breakdown of plan assets by major category is as follows:

	As of March 31, 2023	As of March 31, 2024
Bonds	72 %	69 %
Shares	21 %	24 %
Other	7 %	7 %
Total	100 %	100 %

2) Method of setting the long-term expected rate of return

To determine the long-term expected rate of return on plan assets, we consider the current and expected allocation of plan assets and the current and expected future long-term rate of return from the various assets comprising the plan assets.

(8) Matters related to actuarial calculation basis

Major actuarial calculation basis (indicated by weighted average)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Discount rate	1.58 %	1.56 %
Long-term expected rate of return	1.98 %	1.98 %
Expected wage increase rate	2.94 %	2.77 %

3. Defined benefit plans to which the simplified method is applied

(1) Reconciliation of the beginning balance and the ending balance of retirement benefit liability of plans to which the simplified method is applied

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Beginning balance of retirement benefit liability	108,253	118,422
Retirement benefit expenses	14,513	21,063
Retirement benefits paid	(4,343)	(4,581)
Contributions to the plan	–	(10,780)
Ending balance of retirement benefit liability	118,422	124,124

(2) Reconciliation of the ending balances of retirement benefit obligations and plan assets and the retirement benefit liability reported on the consolidated balance sheets

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Retirement benefit obligations under the funded plans	–	–
Plan assets	–	–
Retirement benefit obligations under the unfunded plans	118,422	124,124
Net liabilities and assets recorded on the consolidated balance sheets	118,422	124,124
Retirement benefit liability	118,422	124,124
Net liabilities and assets recorded on the consolidated balance sheets	118,422	124,124

(3) Retirement benefit expenses

Retirement benefit expenses calculated by the simplified method

For the fiscal year ended March 31, 2023 ¥14,513 thousand

For the fiscal year ended March 31, 2024 ¥21,063 thousand

4. Defined contribution plans

The amount of contribution required for the defined contribution plans at the Company and its consolidated subsidiaries was ¥144,377 thousand for the previous fiscal year and ¥169,585 thousand for the fiscal year under review.

(Notes - Share options, etc.)

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Not applicable, because the Group has not adopted a share option plan.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

Not applicable, because the Group has not adopted a share option plan.

(Notes - Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major causes

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Deferred tax assets		
Tax loss carried forward	208,827	808,995
Accrued enterprise tax	96,100	–
Inventory valuation loss	5,406	95,170
Provision for bonuses	372,988	214,266
Accrued social insurance premium	43,398	33,598
Unrealized gain on sale of inventory	311,530	–
Software development expenses	59,793	79,267
Provision for retirement benefits for directors (and other officers)	311,324	311,324
Provision for operating officers' retirement benefits	38,004	45,473
Stock compensation expenses for directors (and other officers)	15,924	37,819
Retirement benefit liability	29,632	40,905
Loss on valuation of investment securities	65,409	65,409
Loss on valuation of golf club membership	5,733	5,733
Impairment losses	60,140	52,575
Loss on valuation of loans to subsidiaries and associates	–	39,974
Other	141,818	384,274
Subtotal of deferred tax assets	1,766,032	2,214,786
Valuation allowance (Note)	(436,981)	(1,169,477)
Total deferred tax assets	1,329,051	1,045,308
Deferred tax liabilities		
Enterprise tax receivable	–	(39,553)
Valuation difference on available-for-sale securities	(2,485,851)	(1,810,359)
Undistributed profit of overseas subsidiaries and associates	(402,315)	(447,410)
Retirement benefit asset	(363,273)	(418,481)
Intangible assets identified by the business combination	(7,392,278)	(3,731,497)
Other	(249,098)	(297,660)
Total deferred tax liabilities	(10,892,816)	(6,744,963)
Net deferred tax liabilities	(9,563,765)	(5,699,654)

(Note) The valuation allowance increased by ¥732,496 thousand. This increase is because we recognized additional valuation allowance of ¥663,011 thousand related to tax loss carried forward at our consolidated subsidiary Harmonic Precision Inc.

2. Breakdown of major causes of differences between the effective statutory tax rate and income tax burden rate after the application of tax effect accounting

(%)

	As of March 31, 2023	As of March 31, 2024
Effective statutory tax rate	30.5	–
(Adjustment)		
Permanent difference items such as dividend income	0.3	–
Tax credit (research and development expenses, etc.)	(8.2)	–
Inhabitant tax on per capita basis	0.1	–
Amortization of goodwill	3.2	–
Other	(0.3)	–
Income tax burden rate after the application of tax effect accounting	25.5	–

(Note) Notes for the fiscal year under review is omitted because loss before income taxes was recorded.

(Notes - Revenue recognition)

1. Revenue from contracts with customers

Information on the disaggregation of revenue from contracts with customers is as presented in "(Notes - Segment information, etc.)."

2. Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue is as presented in "(Notes - Significant accounting policies for preparation of consolidated financial statements), 4. Disclosure of accounting policies, (6) Recognition criteria for significant revenue and expenses."

3. Reconciliation of satisfaction of performance obligations within contracts with customers and cash flows arising from such contracts, and the amount and timing of revenue arising from contracts with customers existing at the end of the fiscal year under review expected to be recognized in and after the next fiscal year

(1) Balance of receivables from contracts with customers and contract liabilities

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Receivables from contracts with customers (beginning balance)		
Notes receivable - trade	6,963,283	7,408,386
Accounts receivable - trade	8,621,584	10,165,121
	15,584,868	17,573,507
Receivables from contracts with customers (ending balance)		
Notes receivable - trade	7,408,386	3,085,175
Accounts receivable - trade	10,165,121	8,668,982
	17,573,507	11,754,158
Contract liabilities (beginning balance)	284,221	267,842
Contract liabilities (ending balance)	267,842	172,558

(Notes) 1. Contract liabilities are mainly advances received from customers based on payment terms under contracts with customers. Contract liabilities are reversed upon recognition of revenue.

2. Revenue recognized in the previous fiscal year that was included in the contract liability balance at the beginning of the fiscal year was ¥284,221 thousand.

3. There is no significant amount of revenue recognized in the previous fiscal year from performance obligations that were satisfied in previous periods.

4. Revenue recognized in the fiscal year under review that was included in the contract liability balance at the beginning of the fiscal year was ¥267,842 thousand.

5. There is no significant amount of revenue recognized in the fiscal year under review from performance obligations that were satisfied in previous periods.

(2) Transaction price allocated to the remaining performance obligations

The disclosure of information about the remaining performance obligations is omitted by applying the practical expedient because the Group has no significant contracts with an original expected duration exceeding one year. In addition, there are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Notes - Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The reportable segments of the Company are business units of the Company 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 mainly manufactures and sells precision speed reducers and their applied products such as precision actuators and motion control devices, and is solely engaged in handling the same types and series of precision speed reducers based on similarities in the type, nature, manufacturing method and markets of their products. The main geographic markets of the products of the Company are Japan (including the Asia area: hereinafter the same), North America and Europe. In the Japan market, products are manufactured and sold by the Company and its domestic subsidiaries, and its local subsidiaries in the Asia area. In the North America market and the Europe market, the products are manufactured and sold by its local subsidiaries in the United States and in Europe, respectively.

Accordingly, 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.

2. Accounting method of net sales, profit/loss, assets and other items by each reportable segment

Accounting methods used for reportable segments are identical to the descriptions in “Notes - Significant accounting policies for preparation of consolidated financial statements.”

Profit by reportable segment is based on ordinary profit. Inter-segment profit and transfers are based on the market price.

3. Net sales, profit/loss, assets, other items and information on disaggregation of revenue, by each reportable segment

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Net sales Revenue from contracts with customers	51,792,678	10,877,240	15,965,906	78,635,825	(7,108,508)	71,527,316
Net sales to third parties	45,445,979	10,858,472	15,222,864	71,527,316	–	71,527,316
Inter-segment net sales or transfers	6,346,698	18,767	743,041	7,108,508	(7,108,508)	–
Total	51,792,678	10,877,240	15,965,906	78,635,825	(7,108,508)	71,527,316
Segment profit	12,748,650	1,406,763	624,801	14,780,215	(4,022,486)	10,757,728
Segment assets	67,342,909	14,450,002	42,537,872	124,330,784	30,005,461	154,336,246
Others						
Depreciation	4,909,330	612,005	2,999,043	8,520,379	–	8,520,379
Interest income	89,903	5,107	7,079	102,089	(87,138)	14,951
Interest expenses	88,792	84,950	77,857	251,601	(84,618)	166,982
Share of loss of entities accounted for using equity method	(865)	–	–	(865)	–	(865)
Investments in entities accounted for using equity method	89,956	–	–	89,956	–	89,956
Increase in property, plant and equipment and intangible assets	8,150,824	675,758	409,671	9,236,254	–	9,236,254

(Notes) 1. The segment profit adjustment of ¥(4,022,486) thousand consists of the eliminated inter-segment transaction profit of ¥(1,465,634) thousand, and the general administrative expenses that are not allocated to any reportable segment, totaling ¥(2,556,852) thousand. The general administrative expenses that are not allocated to any reportable segment include the basic research and development expenses, certain administrative expenses related to the General Affairs and Accounting Department, and the amortization of the goodwill recorded in connection with the acquisition of shares of Harmonic Drive SE, amounting to ¥1,054,340 thousand.

2. The "Japan" segment includes the net sales and expenses related to the European and Asian markets, in addition to the Japanese market.

3. The segment asset adjustment of ¥30,005,461 thousand consists of an inter-segment elimination of ¥11,082,141 thousand, and corporate assets that are not allocated to any reportable segment, which amounted to ¥18,923,319 thousand. The corporate assets include excess funds (including cash, bank deposits and securities), long-term investments (such as investment securities and assets categorized as "Others" under "Investments and other assets"), certain assets related to corporate departments, and a goodwill of ¥15,258,139 thousand recorded in connection with the acquisition of shares of Harmonic Drive SE.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Net sales						
Revenue from contracts with customers	30,510,177	13,303,687	16,741,606	60,555,471	(4,759,015)	55,796,455
Net sales to third parties	25,971,558	13,284,851	16,540,045	55,796,455	–	55,796,455
Inter-segment net sales or transfers	4,538,618	18,835	201,561	4,759,015	(4,759,015)	–
Total	30,510,177	13,303,687	16,741,606	60,555,471	(4,759,015)	55,796,455
Segment profit	4,513,802	1,707,414	214,367	6,435,584	(5,865,251)	570,333
Segment assets	59,751,761	16,233,037	30,689,427	106,674,225	12,468,065	119,142,291
Others						
Depreciation	5,243,389	677,682	3,268,741	9,189,813	–	9,189,813
Interest income	95,316	32,025	57,553	184,895	(88,038)	96,856
Interest expenses	96,061	86,911	79,749	262,722	(85,652)	177,069
Share of loss of entities accounted for using equity method	(41,843)	–	–	(41,843)	–	(41,843)
Investments in entities accounted for using equity method	48,112	–	–	48,112	–	48,112
Increase in property, plant and equipment and intangible assets	3,548,332	465,298	941,633	4,955,263	–	4,955,263

(Notes) 1. The segment profit adjustment of ¥(5,865,251) thousand consists of the eliminated inter-segment transaction profit of ¥(3,419,035) thousand, and the general administrative expenses that are not allocated to any reportable segment, totaling ¥(2,446,215) thousand. The general administrative expenses that are not allocated to any reportable segment include the basic research and development expenses, certain administrative expenses related to the General Affairs and Accounting Department, and the amortization of the goodwill recorded in connection with the acquisition of shares of Harmonic Drive SE, amounting to ¥1,172,736 thousand.

2. The "Japan" segment includes the net sales and expenses related to the European and Asian markets, in addition to the Japanese market.

3. The segment asset adjustment of ¥12,468,065 thousand consists of an inter-segment elimination of ¥(3,932,664) thousand, and corporate assets that are not allocated to any reportable segment, which amounted to ¥16,400,730 thousand. The corporate assets include excess funds (including cash, bank deposits and securities), long-term investments (such as investment securities and assets categorized as "Others" under "Investments and other assets"), and certain assets related to corporate departments.

[Notes - Information associated with reportable segments]

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

1. Information by product/service

(Thousands of yen)

	Speed reducers	Mechatronic products	Total
Net sales to third parties	57,000,038	14,527,278	71,527,316

(Note) The sales of Harmonic Winbel Inc., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.

2. Information by geographic area

(1) Net sales

(Thousands of yen)

Japan	North America	Europe	Other	Total
38,431,914	10,858,472	15,222,864	7,014,065	71,527,316

(Notes) 1. Net sales are classified into the countries and geographical areas as shown in the schedule above based on the locations of the customers.

2. The “North America” segment includes net sales of ¥9,386,137 thousand originating from the United States of America, which represents greater than 10% of net sales recorded on the consolidated statements of income.

(2) Property, plant and equipment

(Thousands of yen)

Japan	North America	Europe	Total
37,114,517	5,966,324	5,846,005	48,926,847

(Notes) 1. Property, plant and equipment are classified into the countries and geographical areas as shown in the schedule above based on their locations.

2. The “North America” segment includes ¥5,966,324 thousand worth of property, plant and equipment located in the United States of America, which represents greater than 10% of the total value of property, plant and equipment recorded on the consolidated balance sheets.

3. The “Europe” segment includes ¥5,846,005 thousand worth of property, plant and equipment located in Germany, which represents greater than 10% of the total value of property, plant and equipment recorded on the consolidated balance sheets.

3. Information on major customers

(Thousands of yen)

Customer name	Net sales	Related segment
Haneda & Co., Ltd.	8,800,059	Japan

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

1. Information by product/service

(Thousands of yen)

	Speed reducers	Mechatronic products	Total
Net sales to third parties	39,432,894	16,363,561	55,796,455

(Note) The sales of Harmonic Winbel Inc., a subsidiary engaged in the development, manufacturing and sales of magnetic application equipment, are classified, counted and presented as mechatronic products.

2. Information by geographic area

(1) Net sales

(Thousands of yen)

Japan	North America	Europe	Other	Total
20,617,344	13,284,851	16,540,045	5,354,214	55,796,455

(Notes) 1. Net sales are classified into the countries and geographical areas as shown in the schedule above based on the locations of the customers.
2. The "North America" segment includes net sales of ¥11,954,835 thousand originating from the United States of America, which represents greater than 10% of net sales recorded on the consolidated statements of income.
3. The "Europe" segment includes net sales of ¥6,505,463 thousand originating from Germany, which represents greater than 10% of net sales recorded on the consolidated statements of income.

2. Property, plant and equipment

(Thousands of yen)

Japan	North America	Europe	Total
35,887,862	6,395,440	5,864,021	48,147,323

(Notes) 1. Property, plant and equipment are classified into the countries and geographical areas as shown in the schedule above based on their locations.
2. The "North America" segment includes ¥6,395,440 thousand worth of property, plant and equipment located in the United States of America, which represents greater than 10% of the total value of property, plant and equipment recorded on the consolidated balance sheets.
3. The "Europe" segment includes ¥5,864,021 thousand worth of property, plant and equipment located in Germany, which represents greater than 10% of the total value of property, plant and equipment recorded on the consolidated balance sheets.

3. Information on major customers

(Thousands of yen)

Customer name	Net sales	Related segment
Nissan Motor Co., Ltd.	6,547,422	Japan

[Impairment loss information of non-current assets by reportable segment]

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Not applicable.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Impairment losses	–	–	12,913,743	12,913,743	15,245,574	28,159,317

(Note) As the excess earning power of goodwill, customer related assets and technical assets of the Company's consolidated subsidiary, Harmonic Drive SE, that had been originally expected was diminished, the book value was reduced to the recoverable value for goodwill due to the adjustment and for customer related assets and technical assets due to the Europe segment, and this reduction was recorded as impairment losses under extraordinary losses.

[Information regarding amortization and balance of goodwill by reportable segment]

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	–	–	–	–	1,054,340	1,054,340
Balance at end of period	–	–	–	–	15,258,139	15,258,139

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	–	–	–	–	1,172,736	1,172,736
Balance at end of period	–	–	–	–	–	–

[Gain on negative goodwill by reportable segment]

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Not applicable.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

Not applicable.

[Notes - Related parties]

1. Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

Directors (and other officers) and major shareholders (only in the case of individuals) of the company submitting consolidated financial statements

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Type	Name of the company, etc.	Address	Share capital or investment	Description of business	Percentage of voting rights holding (held) (%)	Relationship with related parties	Description of transaction	Amount of transaction	Account	Balance at end of period
Companies in which directors (and other officers) and their close relatives hold a majority of voting rights (including subsidiaries of such companies)	Tokyo Aircraft Instrument Co., Ltd. (Note 1)	Machida-shi, Tokyo	¥100,000 thousand	Manufacturing and sale of aviation-related equipment	None	Acceptance of manufacturing personnel on loan Concurrent officers......Yes	Payment of labor costs for personnel on loan, etc.	140,412	Accounts payable - other	9,403

(Notes) 1. This is a subsidiary of a company in which the Company’s Chairperson and Director Mitsumasa Ito and his relatives hold a majority of voting rights.
2. Based on a memorandum of understanding regarding secondment, the Company pays an amount equivalent to labor costs of seconded personnel as their salaries.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

Type	Name of the company, etc.	Address	Share capital or investment	Description of business	Percentage of voting rights holding (held) (%)	Relationship with related parties	Description of transaction	Amount of transaction	Account	Balance at end of period
Companies in which directors (and other officers) and their close relatives hold a majority of voting rights (including subsidiaries of such companies)	Tokyo Aircraft Instrument Co., Ltd. (Note 1)	Machida-shi, Tokyo	¥100,000 thousand	Manufacturing and sale of aviation-related equipment	None	Acceptance of manufacturing personnel on loan Outsourcing of development-related work Concurrent officers......Yes	Payment of labor costs for personnel on loan, etc.	14,777	–	–
							Payment of business consignment fees	36,916	–	–

(Notes) 1. This is a subsidiary of a company in which the Company’s Chairperson and Director Mitsumasa Ito and his relatives hold a majority of voting rights.
2. Based on a memorandum of understanding regarding secondment, the Company pays an amount equivalent to labor costs of seconded personnel as their salaries.
3. The amount of business consignment fees is determined upon consultation based on the nature of the work to be performed.

2. Notes on significant affiliates

Summary financial information of significant affiliates

For the fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

Not applicable.

For the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

There are no companies which fall under significant affiliates.

(Notes - Per share information)

The basis for the calculation of net assets per share, profit (loss) per share and diluted earnings per share is as follows.

Items	As of March 31, 2023	As of March 31, 2024
(1) Net assets per share	¥1,093.53	¥836.02

Items	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
(2) Profit (loss) per share	¥79.67	¥(261.00)
(Basis for calculation)		
Profit (loss) attributable to owners of parent recorded on the consolidated statements of income (Thousands of yen)	7,595,928	(24,806,996)
Amount not attributable to common shareholders (Thousands of yen)	–	–
Profit (loss) attributable to owners of parent relating to common shares (Thousands of yen)	7,595,928	(24,806,996)
Average number of common shares outstanding during the period	95,338,168	95,047,417

(Note) The amount of diluted earnings per share for the fiscal year ended March 31, 2024, is not stated, because dilutive shares did not exist.

(Notes - Significant subsequent events)

Not applicable.

5) [Annexed consolidated detailed schedules]

[Annexed consolidated detailed schedule of corporate bonds]
Not applicable.

[Annexed consolidated detailed schedule of borrowings]

Categories	Balance at beginning of period (Thousands of yen)	Balance at end of period (Thousands of yen)	Average interest rate (%)	Repayment due
Short-term borrowings	2,610,183	700,629	0.3	–
Current portion of long-term borrowings	2,569,064	2,529,452	0.4	–
Current portion of lease liabilities	583,255	700,049	2.0	–
Long-term borrowings (excluding current portion)	17,766,840	15,201,497	0.4	2025 to 2032
Lease liabilities (excluding current portion)	3,836,603	4,681,840	1.6	2025 to 2043
Other interest-bearing liabilities	–	–	–	–
Total	27,365,946	23,813,468	–	–

(Notes) 1. "Average interest rate" indicates a weighted-average interest rate applicable to the ending balances of borrowings.
2. The total amount of scheduled repayment of long-term borrowings and lease liabilities (excluding current portion) for each year within five years after the consolidated closing date is as follows:

(Thousands of yen)

Categories	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term borrowings	2,465,064	2,465,064	2,430,064	2,347,445
Lease liabilities	662,290	661,284	630,879	450,104

[Annexed consolidated detailed schedule of asset retirement obligations]

This is omitted, as the amounts of asset retirement obligations at the beginning and end of the fiscal year under review are not more than 1% of the total amount of liabilities and net assets at the beginning and end of the fiscal year under review.

(2) [Other]

Quarterly information for the fiscal year ended March 31, 2024

Cumulative period	Three months ended June 30, 2023	Six months ended September 30, 2023	Nine months ended December 31, 2023	36th fiscal year ended March 31, 2024
Net sales (Thousands of yen)	15,008,880	28,765,131	41,926,813	55,796,455
Profit (loss) before income taxes (Thousands of yen)	1,113,353	1,165,523	756,579	(27,606,080)
Profit (loss) attributable to owners of parent (Thousands of yen)	232,200	313,022	(402,036)	(24,806,996)
Profit (loss) per share (Yen)	2.44	3.29	(4.23)	(261.00)

Accounting period	First quarter (From April 1, 2023 to June 30, 2023)	Second quarter (From July 1, 2023 to September 30, 2023)	Third quarter (From October 1, 2023 to December 31, 2023)	Fourth quarter (From January 1, 2024 to March 31, 2024)
Profit (loss) per share (Yen)	2.44	0.85	(7.52)	(256.96)

(Translation purposes only)

2. [Financial statements, etc.]

(1) [Financial statements]

1) [Balance sheets]

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Assets		
Current assets		
Cash and deposits	7,743,620	7,487,739
Notes receivable - trade	31,780	*4 11,887
Electronically recorded monetary claims - operating	7,151,507	*4 2,858,483
Accounts receivable - trade	*1 8,090,662	*1 4,718,476
Merchandise and finished goods	290,236	302,438
Work in process	1,672,755	1,504,667
Raw materials and supplies	2,496,813	2,193,263
Prepaid expenses	176,422	213,307
Other	*1 375,544	*1 1,653,575
Total current assets	28,029,342	20,943,840
Non-current assets		
Property, plant and equipment		
Buildings	21,618,535	21,958,925
Accumulated depreciation	(6,127,027)	(7,051,973)
Buildings, net	15,491,507	14,906,952
Structures	1,602,825	1,617,525
Accumulated depreciation	(693,092)	(798,028)
Structures, net	909,732	819,496
Machinery and equipment	23,038,918	24,201,931
Accumulated depreciation	(10,969,330)	(13,172,571)
Machinery and equipment, net	12,069,587	11,029,360
Vehicles	2,686	1,902
Accumulated depreciation	(2,338)	(1,465)
Vehicles, net	347	436
Tools, furniture and fixtures	6,989,827	8,024,943
Accumulated depreciation	(5,983,380)	(6,907,660)
Tools, furniture and fixtures, net	1,006,446	1,117,282
Land	*3 2,344,461	*3 2,437,704
Leased assets	2,103,828	3,226,995
Accumulated depreciation	(702,205)	(994,391)
Leased assets, net	1,401,623	2,232,604
Construction in progress	1,582,512	1,225,768
Total property, plant and equipment	34,806,219	33,769,605
Intangible assets		
Software	133,069	393,701
Other	177,095	141,170
Total intangible assets	310,164	534,872
Investments and other assets		
Investment securities	11,044,878	8,780,932
Shares of subsidiaries and associates	8,939,548	8,825,026
Investments in capital of subsidiaries and associates	34,148,233	13,635,231
Long-term loans receivable from subsidiaries and associates	2,439,854	3,019,972
Prepaid pension costs	1,114,728	1,192,386
Leasehold and guarantee deposits	41,927	39,887
Other	19,490	16,642
Allowance for doubtful accounts	(5,600)	(136,662)
Total investments and other assets	57,743,061	35,373,417
Total non-current assets	92,859,446	69,677,895
Total assets	120,888,788	90,621,735

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Liabilities		
Current liabilities		
Notes payable - trade	1,692,920	1,273,819
Accounts payable - trade	*1 1,986,935	*1 1,429,613
Short-term borrowings	4,376,428	2,376,428
Lease liabilities	264,184	311,036
Accounts payable - other	*1 1,142,183	*1 1,128,309
Accrued expenses	396,248	372,152
Income taxes payable	883,951	–
Contract liabilities	85,764	76,389
Deposits received	45,344	119,137
Provision for bonuses	1,018,953	545,443
Provision for bonuses for directors (and other officers)	254,635	–
Provision for loss on compensation for after-care of products	21,753	111,669
Notes payable - facilities	1,021,213	325,246
Other	16,863	178,846
Total current liabilities	13,207,379	8,248,092
Non-current liabilities		
Long-term borrowings	17,142,145	14,765,717
Provision for operating officers' retirement benefits	80,260	104,749
Lease liabilities	1,147,726	1,939,359
Long-term accounts payable - other	1,371,646	1,261,685
Deferred tax liabilities	2,261,043	1,565,158
Total non-current liabilities	22,002,822	19,636,669
Total liabilities	35,210,202	27,884,762
Net assets		
Shareholders' equity		
Share capital	7,100,036	7,100,036
Capital surplus		
Legal capital surplus	9,697,431	9,697,431
Other capital surplus	20,539,357	20,544,472
Total capital surplus	30,236,788	30,241,904
Retained earnings		
Legal retained earnings	166,700	166,700
Other retained earnings		
General reserve	11,000,000	11,000,000
Retained earnings brought forward	36,308,286	15,280,636
Total retained earnings	47,474,986	26,447,336
Treasury shares	(4,978,535)	(5,309,159)
Total shareholders' equity	79,833,275	58,480,117
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	5,845,310	4,256,856
Total valuation and translation adjustments	5,845,310	4,256,856
Total net assets	85,678,586	62,736,973
Total liabilities and net assets	120,888,788	90,621,735

2) [Statements of income]

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Net sales	*1 50,883,969	*1 28,577,533
Cost of sales		
Beginning finished goods inventory	214,270	290,236
Cost of products manufactured	31,896,521	20,748,308
Cost of purchased goods	2,897,765	2,021,833
Total	35,008,556	23,060,379
Ending finished goods inventory	290,236	302,438
Total cost of sales	*1 34,718,319	*1 22,757,940
Gross profit	16,165,650	5,819,593
Selling, general and administrative expenses	*1, *2 7,237,797	*1, *2 6,362,341
Operating profit (loss)	8,927,852	(542,748)
Non-operating income		
Interest income	*1 87,478	*1 89,158
Dividend income	*1 387,620	*1 2,761,176
Foreign exchange gains	142,645	221,527
Rental income from real estate	*1 253,507	*1 283,997
Subsidy income	224,877	25,261
Other	*1 70,104	*1 61,277
Total non-operating income	1,166,234	3,442,399
Non-operating expenses		
Interest expenses	79,912	88,255
Rental expenses on real estate	*1 445,942	*1 418,277
Commission for purchase of treasury shares	116,897	665
Other	*1 72,474	*1 103,456
Total non-operating expenses	715,227	610,654
Ordinary profit	9,378,859	2,288,996
Extraordinary income		
Gain on sale of non-current assets	–	1,622
Subsidy income	2,000	2,000
Total extraordinary income	2,000	3,622
Extraordinary losses		
Loss on retirement of non-current assets	20,983	593
Loss on tax purpose reduction entry of non-current assets	2,000	2,000
Loss on valuation of shares of subsidiaries and associates	–	114,521
Loss on valuation of investments in capital of subsidiaries and associates	–	*3 20,513,001
Special extra for retirement payments	501,537	–
Provision of allowance for doubtful accounts	–	131,062
Total extraordinary losses	524,520	20,761,179
Profit (loss) before income taxes	8,856,338	(18,468,559)
Income taxes - current	1,934,492	12,577
Income taxes - deferred	41,358	(20,393)
Total income taxes	1,975,850	(7,815)
Profit (loss)	6,880,487	(18,460,744)

3) [Statements of changes in net assets]

Fiscal year ended March 31, 2023 (from April 1, 2022 to March 31, 2023)

(Thousands of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings: General reserve	Other retained earnings: Retained earnings brought forward	Total retained earnings
Balance at beginning of period	7,100,036	9,697,431	20,527,930	30,225,361	166,700	11,000,000	31,532,401	42,699,101
Changes during period								
Dividends of surplus							(2,104,602)	(2,104,602)
Profit (loss)							6,880,487	6,880,487
Purchase of treasury shares								
Restricted stock payment			11,426	11,426				
Net changes in items other than shareholders' equity								
Total changes during period	–	–	11,426	11,426	–	–	4,775,885	4,775,885
Balance at end of period	7,100,036	9,697,431	20,539,357	30,236,788	166,700	11,000,000	36,308,286	47,474,986

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(38,897)	79,985,601	5,911,738	5,911,738	85,897,339
Changes during period					
Dividends of surplus		(2,104,602)			(2,104,602)
Profit (loss)		6,880,487			6,880,487
Purchase of treasury shares	(5,000,000)	(5,000,000)			(5,000,000)
Restricted stock payment	60,361	71,788			71,788
Net changes in items other than shareholders' equity			(66,427)	(66,427)	(66,427)
Total changes during period	(4,939,638)	(152,325)	(66,427)	(66,427)	(218,753)
Balance at end of period	(4,978,535)	79,833,275	5,845,310	5,845,310	85,678,586

Fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024)

(Thousands of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of period	7,100,036	9,697,431	20,539,357	30,236,788	166,700	11,000,000	36,308,286	47,474,986
Changes during period								
Dividends of surplus							(2,566,906)	(2,566,906)
Profit (loss)							(18,460,744)	(18,460,744)
Purchase of treasury shares								
Restricted stock payment			5,115	5,115				
Net changes in items other than shareholders' equity								
Total changes during period	–	–	5,115	5,115	–	–	(21,027,650)	(21,027,650)
Balance at end of period	7,100,036	9,697,431	20,544,472	30,241,904	166,700	11,000,000	15,280,636	26,447,336

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(4,978,535)	79,833,275	5,845,310	5,845,310	85,678,586
Changes during period					
Dividends of surplus		(2,566,906)			(2,566,906)
Profit (loss)		(18,460,744)			(18,460,744)
Purchase of treasury shares	(397,294)	(397,294)			(397,294)
Restricted stock payment	66,670	71,786			71,786
Net changes in items other than shareholders' equity			(1,588,454)	(1,588,454)	(1,588,454)
Total changes during period	(330,623)	(21,353,158)	(1,588,454)	(1,588,454)	(22,941,612)
Balance at end of period	(5,309,159)	58,480,117	4,256,856	4,256,856	62,736,973

[Notes]

(Notes - Significant accounting policies)

1. Valuation standards and methods for securities
   (1) Shares of subsidiaries
       The moving average cost method is applied.
   (2) Available-for-sale securities
       1) Securities other than shares, etc. that do not have a market value
          The fair value method (with the entire amount of valuation differences inserted directly into net assets, and the cost of sales calculated using the moving average method) is applied.
       2) Shares, etc. that do not have a market value
          The moving average cost method is applied.

2. Valuation standards and methods for net receivables (and payables) arising from derivative transactions
   The fair value method is applied.

3. Valuation standards and methods for inventories
   Inventories held for normal sales purpose
   Valuation standards are based on the cost method (the method of writing down the book value based on a decline in profitability).
   (1) Merchandise and finished goods, raw materials and work in process
       The moving average method is applied.
   (2) Supplies
       The last purchase cost method is applied.

4. Depreciation method of non-current assets
   (1) Property, plant and equipment (excluding leased assets)
       The declining-balance method is applied.
       However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and to facilities attached to buildings and to structures acquired on or after April 1, 2016.
   (2) Intangible assets (excluding leased assets)
       The straight-line method is applied.
       However, for software (for internal use), the straight-line method is applied based on the expected usable period within the Company (five years).
   (3) Leased assets
       Leased assets related to finance lease transactions with the right of ownership not transferred
       The straight-line method is applied using the lease term as service life and a residual value of zero.

5. Criteria for translating foreign-currency-denominated assets and liabilities into Japanese yen
   Foreign-currency-denominated monetary receivables are translated into Japanese yen at the spot exchange rate, etc. on the closing date and the translation adjustment is treated as a profit or loss.

6. Recognition criteria for provisions

(1) Allowance for doubtful accounts

To prepare for possible losses due to irrecoverable receivables, the estimated irrecoverable amount is recorded based on the historical default rate for general receivables, and individual consideration of collectability for certain receivables such as doubtful receivables.

(2) Provision for bonuses

To prepare for the payment of bonuses to employees, the estimated amount of payment is recorded.

(3) Provision for bonuses for directors (and other officers)

To prepare for the payment of bonuses to directors (and other officers), the estimated amount of payment is recorded.

(4) Provision for loss on compensation for after-care of products

To prepare for loss on compensation for after-care of products, the estimated amount of loss is recorded.

(5) Provision for operating officers' retirement benefits

To prepare for the payment of retirement benefits to operating officers, the full amount of payment required at the end of the fiscal year based on the internal rules is recorded.

7. Recognition criteria for revenue and expenses

The Company's principal business is manufacturing and sales of speed reducers and mechatronic products. For the Company's domestic sale, revenue is recognized at the time of shipment, since the period from the time of shipment to the time when control of products is transferred to customers is normal. For export sale, revenue is recognized at the time when the burden of risk is transferred to customers mainly based on trade terms defined by Incoterms, etc.

Under payment terms regarding the Company's transactions, in general, payment is due within a short period of time and significant financial elements are not included in contracts.

In addition, transaction prices are based on contract prices with customers and there is no variable consideration or discounting.

8. Accounting for retirement benefits

To prepare for the payment of retirement benefit to employees, the amount deemed to have accrued at the end of the fiscal year under review was recorded based on the estimated amount at the time. If the amount of plan assets is smaller than that of retirement benefit obligations to or from which unrecognized actuarial differences and unrecognized past service costs are added or deducted, the difference is recorded as provision for retirement benefits. If the amount of plan assets exceeds that of retirement benefit obligations calculated in the same way above, the amount exceeded is recorded as prepaid pension costs. In calculating retirement benefit obligations, the method for attributing the estimated amount of retirement benefits to the period until the end of the fiscal year under review is based on the benefit formula basis. In addition, for the past service costs, the amounts, prorated on the straight-line method over a fixed number of years (three years) that is within the average number of years of remaining service for employees at the time the costs are incurred, are recorded as expenses. Also, actuarial differences are recorded as expenses from the next fiscal year using the straight-line method over a fixed number of years (three years) that is within the average number of years of remaining service for employees at the time the differences arise.

9. Other significant accounting policies for preparation of consolidated financial statements

(1) Accounting for retirement benefits

The accounting for unrecognized actuarial differences related to retirement benefits and unrecognized past service costs differs from that for these items in the consolidated financial statements.

(2) Treatment of deferred assets

For share issuance costs, the full amount is treated as an expense at the time the disbursement is made.

(Notes - Significant accounting estimates)

Investments in capital of subsidiaries and associates: valuation of equity interests in GK HD Management

1) Amounts recorded in the financial statements for the fiscal year under review

- Book value: ¥13,635,231 thousand
- Loss on valuation of investments in capital of subsidiaries and associates: ¥20,513,001 thousand

2) Other information

- Calculation method

GK HD Management, one of the Company's consolidated subsidiaries, has acquired HDSE's shares at the price exceeding net assets per share obtained from the HDSE Group, reflecting the excess earning power of the HDSE Group. Such shares of HDSE are significant assets which represent the majority of assets of GK HD Management and valuation of HDSE's shares significantly affects valuation of investments in capital of GK HD Management made solely by the Company.

As a result of consideration of undiscounted future cash flows obtained by the HDSE Group in recording impairment losses of intangible assets related to the HDSE Group in the fiscal year under review, it was determined that the excess earning power related to HDSE's shares recognized by GK HD Management has also decreased and therefore valuation loss on HDSE's shares held by GK HD Management was recorded. Due to the deteriorating financial condition of GK HD Management, we recorded loss on valuation of investments in capital of subsidiaries and associates to write down value of investments in capital of GK HD Management made solely by the Company.

- Key assumptions

In the case where the excess earning power of the HDSE Group is reflected in the valuation as the effective market value, if a significant decrease in the effective market value resulting from a decrease in such excess earning power is expected to continue over a future period and the excess earning power is no longer expected, resulting in a significant decrease in the effective market value, the Company recognizes impairment losses up to the amount of effective market value. Major assumptions for estimation of undiscounted future cash flows obtained by the HDSE Group which were considered in valuation of the excess earning power are as stated in the consolidated financial statements, etc. "(Notes - Significant accounting estimates)."

- How the financial statements for the next fiscal year will be affected

Although the excess earning power is being carefully considered, in the case where future forecast or contents and feasibility of the business plan itself change due to shifts in the management and market environment, etc. in the future, resulting in a decrease in the excess earning power, the amount recognized in the following fiscal year may be significantly affected.

(Notes - Balance sheets)

*1. Notes on subsidiaries and associates

Major items related to subsidiaries and associates included in each account other than those which are separately stated are as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Short-term receivables	2,645,680	1,995,810
Short-term payables	800,739	540,374

2. Commitment line agreement

The Company concluded a commitment line agreement with its main banks in order to improve the stability of fundraising and flexibly perform business.

The balance of unexecuted borrowings based on this agreement at the end of the fiscal year under review is as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Total amount of commitment line	8,500,000	8,500,000
Balance of borrowings outstanding	–	–
Balance of unexecuted borrowings	8,500,000	8,500,000

*3. Amounts of tax purpose reduction entry

The amount of tax purpose reduction entry deducted from the acquisition price of property, plant and equipment due to national subsidies, etc., and breakdown thereof are as follows:

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Amounts of tax purpose reduction entry (land)	383,230	385,230

*4. Promissory notes due on balance sheet date

Promissory notes due on balance sheet date are settled on their clearance date.

Since the end of the fiscal year under review was a holiday of financial institutions, the following promissory notes due on balance sheet date are included in the balance at the end of period.

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Notes receivable - trade	–	167
Electronically recorded monetary claims - operating	–	310,214

(Notes - Statements of income)

*1. The total amount of operating transactions and non-operating transactions with subsidiaries and associates is as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Operating transactions (revenue)	10,273,795	7,457,328
Operating transactions (expenses)	10,496,729	5,012,338
Non-operating transactions (revenue)	484,657	2,863,135
Non-operating transactions (expenses)	344,200	359,040

*2. Selling, general and administrative expenses

Major expense items, amounts and approximate percentages are as follows:

(Thousands of yen)

	For the fiscal year ended March 31, 2023	For the fiscal year ended March 31, 2024
Salaries and allowances	826,123	910,694
Provision for bonuses	519,415	256,863
Provision for bonuses for directors (and other officers)	307,699	30,365
Provision for retirement benefits for directors (and other officers)	9,123	–
Provision for operating officers' retirement benefits	21,166	24,489
Research and development expenses	2,342,734	2,276,277
Depreciation	333,708	331,558
Approximate percentages		
Selling expenses	26%	26%
General and administrative expenses	74%	74%

*3. Loss on valuation of investments in capital of subsidiaries and associates

Loss on valuation of investments in capital of subsidiaries and associates was recorded mainly due to the valuation of equity interests in GK HD Management.

(Notes - Securities)

1. As shares of subsidiaries and affiliates and investments in capital of subsidiaries and associates are shares, etc. that do not have a market value, fair values of shares of subsidiaries, shares of associates, and investments in capital of subsidiaries and associates are not stated.
   The amounts recorded on the balance sheets for shares of subsidiaries, shares of associates, and investments in capital of subsidiaries and associates which are shares, etc. that do not have a market value are as follows:

(Thousands of yen)

Categories	As of March 31, 2023	As of March 31, 2024
Shares of subsidiaries	8,753,948	8,825,026
Shares of affiliates	185,600	–
Investments in capital of subsidiaries and associates	34,148,233	13,635,231
Total	43,087,781	22,460,258

(Note) Ome Iron Casting Co., Ltd., an unconsolidated subsidiary of the Company accounted for using equity method, is included in “shares of subsidiaries” from the fiscal year under review.

2. Securities for which impairment losses were recorded

For the fiscal year ended March 31, 2023 (March 31, 2023)

Not applicable.

For the fiscal year ended March 31, 2024 (March 31, 2024)

For the fiscal year under review, we recorded impairment losses of ¥114,521 thousand on shares of subsidiaries and ¥20,513,001 thousand on investments in capital of subsidiaries and associates.

In the case where the fair value at the end of the fiscal year declines by 50% or more compared to the acquisition cost, all such declines are treated as impairment losses; and in the case of a decline by approximately 30-50%, impairment losses are recorded for the amount deemed necessary, taking into consideration the recoverability and other factors.

For securities which are shares, etc. that do not have a market value and of which effective market value declined by, in principle, 50% or more compared to the book value, impairment losses are recorded, excluding those of which recoverability of effective market value is sufficiently supported by evidence, after taking into account trends of business performance for a certain period of time and other factors.

(Notes - Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by major causes

(Thousands of yen)

	As of March 31, 2023	As of March 31, 2024
Deferred tax assets		
Tax loss carried forward	–	197,733
Accrued enterprise tax	95,378	–
Inventory valuation loss	3,920	93,662
Provision for bonuses	310,780	166,360
Accrued social insurance premium	31,717	24,501
Accrued defined contribution pension	1,553	1,600
Provision for loss on compensation for after-care of products	6,611	34,059
Accrued expenses	176	–
Software development expenses	59,793	79,267
Provision for retirement benefits for directors (and other officers)	307,664	307,664
Provision for operating officers' retirement benefits	38,004	45,473
Stock compensation expenses for directors (and other officers)	15,924	37,819
Excess amortization of deferred assets	209	187
Loss on valuation of investment securities	65,409	65,409
Loss on transfer of receivables	49,091	49,091
Loss on valuation of shares of subsidiaries and associates	75,672	110,601
Loss on valuation of investments in capital of subsidiaries and associates	–	6,256,465
Loss on valuation of golf club membership	5,733	5,733
Loss on valuation of loans to subsidiaries and associates	–	39,974
Impairment losses	54,657	46,570
Leasehold and guarantee deposits	974	1,121
Subtotal of deferred tax assets	1,123,273	7,563,296
Valuation allowance	(558,473)	(6,919,353)
Total deferred tax assets	564,799	643,942
Deferred tax liabilities		
Enterprise tax receivable	–	(35,063)
Prepaid pension costs	(339,992)	(363,677)
Valuation difference on available-for-sale securities	(2,485,851)	(1,810,359)
Total deferred tax liabilities	(2,825,843)	(2,209,101)
Net deferred tax liabilities	(2,261,043)	(1,565,158)

2. Breakdown of major causes of differences between the effective statutory tax rate and income tax burden rate after the application of tax effect accounting

(%)

	As of March 31, 2023	As of March 31, 2024
Effective statutory tax rate	30.5	–
(Adjustment)		
Permanent difference items such as dividend income	1.0	–
Tax credit (research and development expenses, etc.)	(9.5)	–
Other	0.3	–
Income tax burden rate after the application of tax effect accounting	22.3	–

(Note) Notes for the fiscal year under review is omitted because loss before income taxes was recorded.

(Notes - Revenue recognition)

Useful information in understanding revenue from contracts with customers is omitted as the same information is presented in the consolidated financial statements “(Notes - Revenue recognition).”

(Notes - Significant subsequent events)

Not applicable.

4) [Annexed detailed schedules]

[Annexed detailed schedule of property, plant and equipment, etc.]

(Thousands of yen)

Asset type	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period	Accumulated depreciation/ amortization at end of period	Depreciation/ amortization during period	Balance at the end of period
Property, plant and equipment							
Buildings	21,618,535	340,390	–	21,958,925	7,051,973	924,945	14,906,952
Structures	1,602,825	14,700	–	1,617,525	798,028	104,935	819,496
Machinery and equipment	23,038,918	1,194,585	31,572	24,201,931	13,172,571	2,234,804	11,029,360
Vehicles	2,686	455	1,240	1,902	1,465	366	436
Tools, furniture and fixtures	6,989,827	1,220,424	185,309	8,024,943	6,907,660	1,109,506	1,117,282
Land	2,344,461	98,981	5,739	2,437,704	–	–	2,437,704
Leased assets	2,103,828	1,123,166	–	3,226,995	994,391	292,185	2,232,604
Construction in progress	1,582,512	603,542	960,286	1,225,768	–	–	1,225,768
Total	59,283,595	4,596,247	1,184,147	62,695,696	28,926,090	4,666,744	33,769,605
Intangible assets							
Software	1,558,106	355,305	1,373	1,912,038	1,518,337	94,673	393,701
Other	179,809	226,166	262,091	143,885	2,714	–	141,170
Total	1,737,915	581,472	263,464	2,055,923	1,521,051	94,673	534,872

(Notes) 1. The increase during period for machinery and equipment was due to the renewal of manufacturing equipment at Hotaka Plant and Matsumoto Plant.

2. Tax purpose reduction entry due to national subsidies, etc.
The amount of tax purpose reduction entry deducted directly from the acquisition cost of property, plant and equipment for the fiscal year under review was ¥2,000 thousand for land.

[Annexed detailed schedule of provisions]

(Thousands of yen)

Account	Balance at beginning of period	Increase during period	Decrease during period (used for purposes)	Decrease during period (other)	Balance at end of period
Allowance for doubtful accounts	5,600	131,062	–	–	136,662
Provision for bonuses	1,018,953	545,443	1,018,953	–	545,443
Provision for bonuses for directors (and other officers)	254,635	–	254,635	–	–
Provision for loss on compensation for after-care of products	21,753	129,799	21,730	18,153	111,669
Provision for operating officers' retirement benefits	80,260	24,489	–	–	104,749

(Note) The decrease (other) of provision for loss on compensation for after-care of products is a reversal as a result of the revision of individual estimates.

(2) [Components of major assets and liabilities]

This is omitted as the consolidated financial statements are prepared.

(3) [Other information]

Not applicable.

VI [Outline of Share-Related Administration of Reporting Company]

Fiscal year	From April 1 to March 31
Ordinary General Meeting of Shareholders	During June
Record date	March 31
Record date for dividends of surplus	September 30 and March 31
Number of shares per unit	100 shares
Purchase or additional purchase of shares less than one unit Place of handling Shareholder register administrator Agency Purchase or additional purchase fees	 (Special account) Stock Transfer Agency Department at Mizuho Trust & Banking 1-3-3 Marunouchi, Chiyoda-ku, Tokyo, Japan (Special account) Mizuho Trust & Banking 1-3-3 Marunouchi, Chiyoda-ku, Tokyo, Japan Head Office and nationwide branches of Mizuho Trust & Banking Free
Method of public notice	Public notices of the Company is made by electronic public notice. However, in case that it is not possible to make electronic public notices due to an incident or other unavoidable reason, public notices will be made in the Nikkei newspaper. Electronic public notices are posted on the Company's website of which the URL is as follows: https://www.hds.co.jp/english/#1
Benefits for shareholders	None

(Note) The Company's shareholders may not exercise rights other than the following rights with respect to their shares less than one unit.

Rights set forth in each item of Article 189, Paragraph 2 of the Companies Act

Rights to make a demand under provisions of Article 166, Paragraph 1 of the Companies Act

Rights to receive an allotment of shares to be offered and an allotment of share acquisition rights to be offered according to the number of shares held by shareholders

Rights to demand sale of shares in a number that, together with the number of shares less than one unit held by the shareholder, will constitute one unit (loss) of shares.

VII [Reference Information of the Reporting Company]

1 [Information about parent of reporting company]

The Company has no parent company as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2 [Other reference information]

The Company submitted the following documents during the period from the beginning date of the fiscal year under review to the filing date of the annual securities report.

(1) Annual securities report and its attachments and confirmation letter
35th fiscal year (from April 1, 2022 to March 31, 2023): Filed with the Director-General of the Kanto Local Finance Bureau on June 22, 2023

(2) Internal control report
35th fiscal year (from April 1, 2022 to March 31, 2023): Filed with the Director-General of the Kanto Local Finance Bureau on June 22, 2023

(3) Quarterly securities report and its confirmation letter
First quarter, 36th fiscal year (from April 1, 2023 to June 30, 2023): Filed with the Director-General of the Kanto Local Finance Bureau on August 9, 2023
Second quarter, 36th fiscal year (from July 1, 2023 to September 30, 2023): Filed with the Director-General of the Kanto Local Finance Bureau on November 13, 2023
Third quarter, 36th fiscal year (from October 1, 2023 to December 31, 2023): Filed with the Director-General of the Kanto Local Finance Bureau on February 13, 2024

(4) Extraordinary report
Extraordinary report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs
Filed with the Director-General of the Kanto Local Finance Bureau on June 22, 2023
Extraordinary report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 1 of the Cabinet Office Order on Disclosure of Corporate Affairs
Filed with the Director-General of the Kanto Local Finance Bureau on December 6, 2023
Extraordinary report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Items 12 and 19 of the Cabinet Office Order on Disclosure of Corporate Affairs
Filed with the Director-General of the Kanto Local Finance Bureau on May 7, 2024

(5) Amendment to the extraordinary report
Extraordinary report based on provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 1 of the Cabinet Office Order on Disclosure of Corporate Affairs
Filed with the Director-General of the Kanto Local Finance Bureau on December 8, 2023

(6) Share buyback report
Filed with the Director-General of the Kanto Local Finance Bureau on January 15, 2024 and February 9, 2024

(7) Securities registration statement (reference method) and its attachments
Disposal of treasury shares as restricted stock payment
Filed with the Director-General of the Kanto Local Finance Bureau on July 19, 2023

Part II [Information About Reporting Company's Guarantor, Etc.]

Not applicable.