

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2024



Independent Auditor's Report

To the Board of Directors of Harmonic Drive Systems Inc.

Opinion

We have audited the consolidated financial statements of Harmonic Drive Systems Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2024, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment for non-current assets of Harmonic Drive SE Group Refer to Notes to consolidated financial statements “3. Significant accounting estimates” and “6. Notes to consolidated statements of income” (f)	
Key audit matter description	How our audit addressed the key audit matter
<p>In July 2002, the Group acquired shares of Harmonic Drive SE (hereinafter referred to as “HDSE”), which made HDSE the Group’s affiliated company. In March 2017, the Group acquired additional shares of HDSE, which resulted in HDSE becoming the Group’s subsidiary. In July 2021, the Group acquired the remaining shares of HDSE, and HDSE became the Group’s wholly owned subsidiary.</p> <p>The Group identifies a group of non-current assets related to HDSE, including goodwill, customer-related assets and technical assets (hereinafter referred to as “goodwill and others”) that were generated when HDSE and its eight subsidiaries (the HDSE Group) became its consolidated subsidiaries, and determines it to be the smallest unit that generates independent cash flows. In the current consolidated fiscal year, impairment losses on goodwill (15,245,574 thousand yen), impairment losses on customer-related assets (10,191,691 thousand yen) and impairment losses on technical assets (2,722,051 thousand yen) were recorded as losses. The total non-current assets of the HDSE Group after deducting impairment losses are 15,775,351 thousand yen (13% of total consolidated assets) which mainly consists of customer-related assets (9,663,394 thousand yen) and technical assets (2,580,951 thousand yen).</p> <p>The HDSE Group was expecting to increase revenues and profit margins by meeting demands in the growing industrial robot market. However, the Group’s performance became unstable as customers adjusted their inventories following the rapid change in demand for industrial robots. Amortization expense for goodwill and others exceeded operating profit of the HDSE Group for the</p>	<p>We performed the following procedures over the measurement of impairment losses on the HDSE Group’s non-current assets:</p> <ul style="list-style-type: none"> • Evaluated the design and operating effectiveness of internal controls related to the assessment of impairment indicators related to non-current assets and recognition of an impairment loss, as well as measurement of the recoverable amount. These procedures included evaluating processes to determine assumptions such as sales forecasts, operating profit, growth rate and discount rate used as a basis for future business plans. • Obtained an understanding of the current business environment including the latest trends in the industrial robots market by inquiring with management and inspecting board of directors meeting minutes and other related documents. • Performed the following procedures related to estimated future cash flows of the HDSE Group: <ul style="list-style-type: none"> - Verified the consistency of the estimated future cash flows with the business plan approved by the board of directors. - Compared the plan figures for the current year in the business plan with the actual results. Verified whether or not there were any events that were not anticipated at the time of preparing the business plan, and if relevant, verified the impact of such event was reflected in the business plan on which the future cash flows was based. - For forecasted sales, verified the consistency of the estimated future cash flows with forecasted growth rate data, such as those

<p>consecutive fiscal years ended March 2023 and March 2024.</p> <p>Based on the above, the Group determined that there was an indication of an impairment of the HDSE Group's assets and further assessed whether to recognize an impairment loss. As a result, the total undiscounted future cash flows expected to be derived from the major components of the assets, i.e. customer-related assets and technical assets, over the remaining economic useful lives exceeded the carrying amount of non-current assets of the HDSE Group including goodwill and others. Therefore, the Group reduced the carrying amount to the recoverable amount and recorded the reduction as an impairment loss.</p> <p>The recoverable amount is calculated as the present value of the future cash flows. The total undiscounted future cash flows are based on business plans approved by the board of directors and include assumptions related to forecasted sales and operating profit that consider the business environment (e.g. trends in demand in the industrial robot market) and sales strategies. They also include assumptions related to the growth rate for subsequent periods and discount rate used to calculate the discounted present value of future cash flows.</p> <p>These assumptions are subject to estimation uncertainty, and the amount of impairment losses recorded in HDSE Group's non-current asset account is significant to the consolidated financial statements. Based on the above, we determined that the measurement of impairment losses of the HDSE Group's non-current assets to be a key audit matter.</p>	<p>related to the industrial robots market, provided by external institutions and the financial information of the robotics vendors with support from experts in the robotic industry to assess whether sales forecast by customer is reasonable based on the Group's sales strategy.</p> <ul style="list-style-type: none"> - For operating profit, verified the consistency of the estimated future cash flows with the historical trend in manufacturing and selling, general and administrative expenses as well as sales forecasts and manufacturing capacity forecasted based on the future business environment. • Compared the growth rate for subsequent periods that are not covered by the business plan with available external reports on long-term market forecasts for the region in which the Group operates its business. • Evaluated the discount rate with the use of valuation experts.
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Other Information

The other information comprises the information included in the document containing audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon. We have determined that there is no other information and thus have not performed any work on other information.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal



control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial



statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

FEE-RELATED INFORMATION

In connection with our audit of the consolidated financial statements for the year ended March 31, 2024, the amounts of fees for the audit and the other services charged to Harmonic Drive Systems Inc. and its controlled entities by PricewaterhouseCoopers Japan LLC and other PwC Network firms are disclosed under Notes 23 "Details of audit fees, etc."

Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

千葉 達也
Tatsuya Chiba

Designated Engagement Partner
Certified Public Accountant

櫻井 良孝
Yoshitaka Sakurai

Designated Engagement Partner
Certified Public Accountant

July 5, 2024

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2023	2024	2024
Assets:			
Current assets -			
Cash and bank deposits (Notes 9(a) and 11(d))	¥20,783,570	¥20,318,343	\$134,194
Notes receivable (Notes 11(d) and 11(e))	7,408,386	3,085,175	20,376
Accounts receivable, trade (Notes 11(d) and 11(e))	10,165,121	8,668,982	57,255
Marketable securities (Notes 9(a), 11(d), 11(e) and 12)	28,840	37,156	245
Finished products	2,014,249	2,466,573	16,290
Work in process	3,658,753	3,481,346	22,992
Raw materials and supplies	6,828,695	6,681,866	44,130
Other current assets	1,307,220	2,743,454	18,119
Allowance for doubtful accounts (Note 11(d))	(19,356)	(24,906)	(164)
Total current assets	52,175,480	47,457,994	313,440
Fixed assets -			
Tangible fixed assets (Notes 3, 5(b) and 10):			
Buildings and structures	19,423,071	19,088,751	126,073
Machinery and equipment	17,337,080	16,104,298	106,362
Tools, furniture and fixtures	1,843,670	1,750,358	11,560
Land (Note 5(d))	3,329,452	3,486,870	23,029
Leased assets	4,153,614	5,035,872	33,259
Construction in progress	2,766,545	2,610,922	17,244
Others	73,415	70,248	463
Total tangible fixed assets	48,926,847	48,147,323	317,993
Intangible fixed assets (Notes 6 and 6(f)):			
Goodwill (Note 18(f))	15,258,139	-	-
Software	191,453	493,049	3,256
Customer related assets	19,489,904	9,663,394	63,822
Technical assets	5,205,468	2,580,951	17,046
Others	187,939	159,997	1,056
Total intangible fixed assets	40,332,904	12,897,391	85,181
Investments and other assets:			
Investment securities (Notes 11(d), 11(e) and 12)	11,044,878	8,780,932	57,994
Investment in affiliated companies (Notes 5(a) and 11(d))	89,956	48,112	317
Long-term loans to affiliated companies	-	200,000	1,320
Net defined benefit assets (Note 14)	1,191,060	1,372,071	9,061
Deferred tax assets (Note 16)	439,351	137,493	908
Others	141,366	106,571	703
Allowance for doubtful accounts	(5,600)	(5,600)	(36)
Total investments and other assets	12,901,013	10,639,581	70,270
Total fixed assets	102,160,765	71,684,297	473,444
Total assets	¥154,336,246	¥119,142,291	\$786,885

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2023	2024	2024
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Notes 11(d) and 11(e))	¥3,596,434	¥3,036,539	\$20,055
Contract liabilities	267,842	172,558	1,139
Short-term borrowings (Notes 5(c), 11(d) and 22(b))	2,610,183	700,629	4,627
Current portion of long-term debt (Notes 5(b), 5(c), 11(d), 11(e) and 22(b))	2,569,064	2,529,452	16,705
Lease obligations – current (Notes 11(d), 11(e) and 22(b))	583,255	700,049	4,627
Accrued income taxes (Notes 11(d) and 11(e))	1,046,412	101,581	670
Accrued bonuses for employees	1,471,732	949,714	6,272
Accrued bonuses for directors and audit & supervisory board members	351,669	66,165	436
Accrued warranty expenses	64,009	147,759	975
Other current liabilities	3,906,913	3,315,414	21,896
Total current liabilities	16,467,518	11,719,864	77,404
Long-term liabilities -			
Long-term debt (Notes 5(b), 5(c), 11(d), 11(e) and 22(b))	17,766,840	15,201,497	100,399
Lease obligations – non-current (Notes 11(d), 11(e) and 22(b))	3,836,603	4,681,840	30,921
Deferred tax liabilities (Note 16)	10,003,116	5,837,148	38,551
Reserve for retirement benefits for directors and audit & supervisory board members	12,000	12,000	79
Reserve for retirement benefits for executive officers	80,260	104,749	691
Net defined benefit liabilities (Note 14)	750,593	836,377	5,523
Other long-term liabilities	1,463,654	1,347,147	8,897
Total long-term liabilities	33,913,069	28,020,761	185,065
Total liabilities	¥50,380,587	¥39,740,626	\$262,470

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2023	2024	2024
Net assets (Note 20):			
Shareholders' equity (Note 8) -			
Common stock:			
- Authorized:	356,400,000 shares		
Issued and outstanding:			
96,315,400 shares (March 31, 2023 and 2024)	¥7,100,036	¥7,100,036	\$46,892
Capital surplus	22,773,595	22,778,711	150,443
Retained earnings	64,852,655	37,478,753	247,531
Treasury stock, at cost	(4,978,535)	(5,309,159)	(35,064)
Total shareholders' equity	89,747,751	62,048,341	409,803
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 12)	5,845,310	4,256,856	28,114
Foreign currency translation adjustments	8,146,088	12,927,929	85,383
Remeasurements of defined benefit plans	216,507	168,538	1,113
Total accumulated other comprehensive income	14,207,906	17,353,323	114,611
Total net assets	103,955,658	79,401,665	524,414
 Total liabilities and net assets	 ¥154,336,246	 ¥119,142,291	 \$786,885

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



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

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Net sales (Notes 6(a), 17 and 18)	¥71,527,316	¥55,796,455	\$368,512
Cost of sales (Notes 6(c) and 18)	45,741,012	40,189,989	265,438
Gross profit	25,786,304	15,606,465	103,074
Selling, general and administrative expenses (Notes 6(b) and 6(c))	15,561,495	15,481,886	102,251
Operating profit	10,224,808	124,579	822
Other income:			
Interest income	14,951	96,856	639
Dividend income	268,412	275,621	1,820
Foreign exchange gains	275,886	129,181	853
Sundry income	245,089	110,873	732
Others	212,596	257,261	1,699
	1,016,936	869,795	5,744
Other expenses:			
Commission for purchase of treasury stock	116,897	665	4
Interest expense	166,982	177,069	1,169
Equity in losses of affiliated companies	865	41,843	276
Rental expenses	144,211	116,151	767
Others	55,059	88,311	583
	484,015	424,041	2,800
Ordinary profit	10,757,728	570,333	3,766
Exceptional gains:			
Gain on sales of fixed assets (Note 6(d))	1,922	6,861	45
Subsidy income	2,000	2,000	13
	3,922	8,861	58
Exceptional losses:			
Loss on sales of fixed assets (Note 6(e))	-	440	2
Impairment loss (Note 6(f))	-	28,159,317	185,980
Loss on disposal of fixed assets (Note 6(g))	63,496	23,517	155
Loss on tax purpose reduction entry of fixed assets	2,000	2,000	13
Additional retirement benefits paid for a director	501,537	-	-
	567,034	28,185,276	186,152
Income (Loss) before income taxes	10,194,617	(27,606,080)	(182,326)
Income taxes:			
Current	3,089,772	1,094,861	7,231
Deferred	(491,084)	(3,893,945)	(25,717)
	2,598,688	(2,799,084)	(18,486)
Profit (Loss)	7,595,928	(24,806,996)	(163,839)
Profit attributable to non-controlling interests	-	-	-
Profit (Loss) attributable to owners of the parent (Note 20)	¥7,595,928	(¥24,806,996)	(\$163,839)

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



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

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Profit (Loss)	¥7,595,928	(¥24,806,996)	(\$163,839)
Other comprehensive income -			
Net unrealized gains on available-for-sale securities	(66,427)	(1,588,454)	(10,491)
Foreign currency translation adjustments	4,392,800	4,781,841	31,582
Remeasurements of defined benefit plans	209,867	(47,969)	(316)
Total other comprehensive income (Note 7(a))	4,536,240	3,145,417	20,774
Comprehensive income (loss)	¥12,132,168	(¥21,661,579)	(\$143,065)
Attributable to -			
owners of the parent	¥12,132,168	(¥21,661,579)	(\$143,065)
non-controlling interests	-	-	-

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥7,100,036	¥7,100,036	\$46,892
Balance at the end of the year	7,100,036	7,100,036	46,892
Capital surplus -			
Balance at the beginning of the year	22,762,168	22,773,595	150,410
Changes during the year			
Restricted stock compensation	11,426	5,115	33
Total changes	11,426	5,115	33
Balance at the end of the year	22,773,595	22,778,711	150,443
Retained earnings -			
Balance at the beginning of the year	59,361,329	64,852,655	428,324
Changes during the year			
Cash dividends	(2,104,602)	(2,566,906)	(16,953)
Profit (Loss) attributable to owners of the parent	7,595,928	(24,806,996)	(163,839)
Total changes	5,491,326	(27,373,902)	(180,793)
Balance at the end of the year	64,852,655	37,478,753	247,531
Treasury stock, at cost -			
Balance at the beginning of the year	(38,897)	(4,978,535)	(32,881)
Changes during the year			
Purchase of treasury stock	(5,000,000)	(397,294)	(2,623)
Restricted stock compensation	60,361	66,670	440
Total changes	(4,939,638)	(330,623)	(2,183)
Balance at the end of the year	(4,978,535)	(5,309,159)	(35,064)
Total shareholders' equity -			
Balance at the beginning of the year	89,184,636	89,747,751	592,746
Changes during the year			
Cash dividends	(2,104,602)	(2,566,906)	(16,953)
Profit (Loss) attributable to owners of the parent	7,595,928	(24,806,996)	(163,839)
Purchase of treasury stock	(5,000,000)	(397,294)	(2,623)
Restricted stock compensation	71,788	71,786	474
Total changes	563,115	(27,699,410)	(182,943)
Balance at the end of the year	¥89,747,751	¥62,048,341	\$409,803

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



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

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥5,911,738	¥5,845,310	\$38,605
Changes during the year			
Net changes in items other than those in shareholders' equity	(66,427)	(1,588,454)	(10,491)
Total changes	(66,427)	(1,588,454)	(10,491)
Balance at the end of the year	5,845,310	4,256,856	28,114
Foreign currency translation adjustments -			
Balance at the beginning of the year	3,753,287	8,146,088	53,801
Changes during the year			
Net changes in items other than those in shareholders' equity	4,392,800	4,781,841	31,582
Total changes	4,392,800	4,781,841	31,582
Balance at the end of the year	8,146,088	12,927,929	85,383
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	6,640	216,507	1,429
Changes during the year			
Net changes in items other than those in shareholders' equity	209,867	(47,969)	(316)
Total changes	209,867	(47,969)	(316)
Balance at the end of the year	216,507	168,538	1,113
Total Accumulated other comprehensive income			
Balance at the beginning of the year	9,671,666	14,207,906	93,837
Changes during the year			
Net changes in items other than those in shareholders' equity	4,536,240	3,145,417	20,774
Total changes	4,536,240	3,145,417	20,774
Balance at the end of the year	14,207,906	17,353,323	114,611
Non-controlling interests:			
Balance at the beginning of the year	¥ -	¥ -	\$ -
Changes during the year			
Purchase of shares of consolidated subsidiaries	-	-	-
Net changes in items other than those in shareholders' equity	-	-	-
Total changes	-	-	-
Balance at the end of the year	-	-	-

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



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

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Total net assets:			
Balance at the beginning of the year	98,856,302	103,955,658	686,583
Changes during the year			
Cash dividends	(2,104,602)	(2,566,906)	(16,953)
Profit (Loss) attributable to owners of the parent	7,595,928	(24,806,996)	(163,839)
Purchase of treasury stock	(5,000,000)	(397,294)	(2,623)
Restricted stock compensation	71,788	71,786	474
Net changes in items other than those in shareholders' equity	4,536,240	3,145,417	20,774
Total changes	5,099,355	(24,553,993)	(162,168)
Balance at the end of the year	<u>¥103,955,658</u>	<u>¥79,401,665</u>	<u>\$524,414</u>

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



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

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Cash flows from operating activities:			
Income (Loss) before income taxes	¥10,194,617	(¥27,606,080)	(\$182,326)
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	8,520,379	9,189,813	60,694
Impairment loss	-	28,159,317	185,980
Depreciation of goodwill	1,054,340	1,172,736	7,745
(Decrease) Increase in allowance for doubtful accounts	(4,787)	3,428	22
Decrease in net defined benefit liabilities	(381,798)	(45,106)	(297)
Decrease in reserve for retirement benefits for directors and audit & supervisory board members	(478,413)	-	-
(Decrease) Increase in reserve for retirement benefits for executive officers	(48,933)	24,489	161
Increase (Decrease) in accrued bonuses for directors and audit & supervisory board members	40,182	(294,480)	(1,944)
(Decrease) Increase in accrued warranty expenses	(1,295)	79,428	524
Interest income	(14,951)	(96,856)	(639)
Dividend income	(268,412)	(275,621)	(1,820)
Interest expense	166,982	177,069	1,169
Equity in losses of affiliated companies	865	41,843	276
Subsidy income	(2,000)	(2,000)	(13)
Gain on sales of fixed assets	(1,922)	(6,421)	(42)
Loss on disposal of fixed assets	61,992	23,517	155
Loss on fixed asset devaluation for subsidy Income	2,000	2,000	13
(Increase) Decrease in trade receivables	(1,636,166)	6,234,839	41,178
(Increase) Decrease in inventories	(2,540,386)	603,355	3,984
Decrease in trade payables	(458,470)	(750,951)	(4,959)
Others, net	1,347,695	(469,579)	(3,101)
Subtotal	15,551,518	16,164,740	106,761
Interest and dividends received	283,364	371,459	2,453
Sundry income received	2,000	2,000	13
Interest paid	(177,146)	(183,325)	(1,210)
Income taxes paid	(4,967,316)	(3,892,940)	(25,711)
Income taxes refunded	158,054	266,666	1,761
Net cash provided by operating activities	¥10,850,473	¥12,728,600	\$84,067

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



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

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2023	2024	2024
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(¥8,838,891)	(¥4,935,243)	(\$32,595)
Proceeds from sales of tangible fixed assets	2,698	15,085	99
Payments for purchases of intangible fixed assets	(229,709)	(377,679)	(2,494)
Payments for time deposits with a deposit period of over three months	(1,701,679)	(2,188,275)	(14,452)
Proceeds from maturities of time deposits with a deposit period of over three months	2,108,145	1,707,348	11,276
Payments for guarantee deposits	(8,836)	(9,593)	(63)
Proceeds from collection of guarantee deposits	4,509	37,471	247
Payments for long-term loans to affiliated companies	-	(200,000)	(1,320)
Others, net	481	481	3
Net cash used in investing activities	(8,663,281)	(5,950,405)	(39,299)
Cash flows from financing activities:			
Proceeds from short-term borrowings	9,910,000	2,480,000	16,379
Repayments of short-term borrowings	(7,610,179)	(4,410,197)	(29,127)
Proceeds from long-term debt	6,000,000	70,000	462
Repayments of long-term debt	(2,242,662)	(2,656,564)	(17,545)
Repayments of lease obligations	(551,912)	(641,904)	(4,239)
Payments for treasury stock	(5,000,000)	(397,294)	(2,623)
Cash dividends paid	(2,105,094)	(2,566,337)	(16,949)
Net cash used in financing activities	(1,599,848)	(8,122,296)	(53,644)
Effect of exchange rate changes on cash and cash equivalents	567,101	363,836	2,402
Net increase (decrease) in cash and cash equivalents	1,154,445	(980,265)	(6,474)
Cash and cash equivalents at the beginning of year	18,767,531	19,921,977	131,576
Cash and cash equivalents at the end of year (Note 9(a))	¥19,921,977	¥18,941,712	\$125,102

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

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

2. Summary of significant accounting policies:

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

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

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at the rate of ¥151.41 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2024. This translation should not be construed as

implying that the yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

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

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the years ended March 31, 2023 and 2024 are as follows:

- 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.
- Godo Kaisha HD Management
- Harmonic Drive SE and its eight subsidiaries

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

The Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is excluded from the scope of consolidation as the effect of its total assets, revenues, profit or loss and retained earnings (each amount of profit or loss and retained earnings in proportion to the interest held by the Company) on the accompanying consolidated financial statements are not significant and accounted for using the equity method in the consolidated financial statements.

Some subsidiaries of the Company (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., SAMICK ADM CO., LTD., Godo Kaisha HD Management, Harmonic Drive SE and the eight subsidiaries of Harmonic Drive SE) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material intercompany transactions

occurring during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Investments in affiliates are stated at cost using the moving average method.

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

② Receivables and payables arising from derivatives:

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

③ Inventories:

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

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

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

② Intangible fixed assets (excluding leased assets):

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

③ Leased assets:

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

Some overseas consolidated subsidiaries prepare financial statements in accordance with International Financial Reporting Standards, and are subject to International Financial Reporting Standard No. 16 Leases ("IFRS 16"). In accordance with IFRS 16, all leases are recorded as assets and liabilities on the balance sheet by lessees, and the method of depreciation of capitalized right-of-use assets is based on the straight-line method. In addition, lease transactions based on IFRS 16 are classified as "(a) Leased assets capitalized on the consolidated balance sheets" in "10. Lease transaction (as lessee)".

(d) Accounting for deferred charges -

Stock issue costs are not capitalized but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

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

② Accrued bonuses for employees:

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

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

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

④ Accrued warranty expenses:

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

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

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

⑥ Reserve for retirement benefits for executive officers:

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

(f) Accounting method for retirement benefits for employees -

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

(g) Recognition of significant revenues and expenses -

The Company's main business is the manufacture and sale of speed reducers and mechatronics products. In respect of domestic sales, the Company recognizes revenue at the time of shipment, as the period from the time of shipment to the transfer of control of the product to the customer is considered insignificant. For export sales, transactions are mainly defined by Incoterms etc., and the Company recognizes revenue when the risk burden and control of products are transferred to the customer based on the conditions. For overseas consolidated subsidiaries, revenue is recognized when products are delivered to customers or when customer acceptance is received. Payment for transactions is usually due within a short period of time and no significant financial component has been identified within the Company's sales contracts.

The transaction price is based on the contract price with the customer, and there are no variable considerations or discounts.

(h) Foreign currency translation -

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

(i) Amortization of goodwill, customer related assets and technical assets -

Goodwill, customer related assets and technical assets are amortized using the straight-line method over a period within 20 years.

(j) Cash and cash equivalents -

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

3. Significant accounting estimates:

Impairment loss of fixed assets of Harmonic Drive SE Group

(a) Amount of impairment loss of fixed assets

	Thousands of yen	Thousands of U.S. dollars
	2024	2024
Book value	¥18,203,783	\$120,228
Impairment loss	28,159,317	185,980

(b) Other information

① Calculation method:

The group determines that a group of non-current assets related to HDSE and its eight subsidiaries (the HDSE Group) is the smallest unit that generates cash flows largely independent from the rest of the Group's operations.

At the end of the year ended March 31, 2024, the Company determined that there was an indication of an impairment on the fixed assets of the HDSE Group, and in order to determine whether it was necessary to recognize the impairment, the Company examined whether the total amount of future cash flow before discounts acquired by the HDSE Group would be less than the book value of the fixed assets of the HDSE Group, including goodwill. As the total amount of future cash flow before discounts on the remaining economic years of goodwill, customer related assets and technology assets was lower than the book value of the fixed assets of the HDSE Group, an impairment loss of ¥15,245,574 thousand (\$100,690 thousand) was recorded on goodwill and ¥12,913,743 thousand (\$85,289 thousand) on customer related assets and technology assets.

② Key assumptions

Future cash flows, which are used in determining whether or not to recognize impairment losses and calculating use value, are based on the business plan for the next 5 years approved by the management and the growth rate thereafter, etc., and this business plan includes assumptions such as sales forecast and operating profit that take into account the business environment and sales strategies, such as demand trends in the industrial robot market. In measuring impairment losses, the use value is calculated by discounting future cash flows to the present value at a discount rate of 13.0% based on the

weighted average cost of capital of the HDSE Group, and is used as the recoverable value. In addition, the growth rate from 6 years onwards has been determined to be 1.3%, taking into account the long-term growth rate of the market, industry, or country to which the HDSE Group belongs, and does not exceed the long-term growth rate of the market.

③ Impact on consolidated financial statements for the year ending March 31, 2025

Profitability projections are carefully considered in determining whether impairment losses should be recognized. However, if there are significant failures to achieve the business plan on which future cash flows are determined, or increases in future uncertainties due to changes in the business or market environment, the recoverable amount would decrease and may result in recognition of impairment losses during the fiscal year ending March 31, 2025.

4. Accounting standards not yet implemented, etc.:

- (a) ASBJ Statement No. 27 Accounting Standard for Current Income Taxes
- (b) ASBJ Statement No. 25 Accounting Standard for Presentation of Comprehensive Income
- (c) ASBJ Guidance No. 28 Implementation Guidance on Tax Effect Accounting

① Overview:

It stipulates the classification of recording corporate taxes when taxing other comprehensive income and the treatment of tax effects related to the sale of shares of subsidiaries when the group companies' taxation is applied.

② Planned adoption date:

The accounting standard is to be adopted from the beginning of the fiscal year ending March 31, 2025.

③ Impact of adoption of the accounting standards:

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

5. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Investment in affiliated companies	<u>¥89,956</u>	<u>¥48,112</u>	<u>\$317</u>

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

The following assets were pledged as collateral to secure the long-term debt, including the current portion thereof, at March 31, 2023 and 2024:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Buildings	¥32,765	¥30,695	\$202
Land	<u>52,225</u>	<u>52,225</u>	<u>344</u>
	<u>¥84,990</u>	<u>¥82,920</u>	<u>\$547</u>
Secured long-term debt:			
Current portion of long-term debt	¥3,120	¥3,120	\$20
Long-term debt	<u>12,800</u>	<u>9,680</u>	<u>63</u>
	<u>¥15,920</u>	<u>¥12,800</u>	<u>\$84</u>

(c) Credit facility contracts -

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

The balance of unused portion based on the contracts at March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Total of credit facility contracts	¥9,348,820	¥9,442,720	\$62,365
Outstanding	130,955	141,408	933
The balance of unused credit facilities	<u>¥9,217,864</u>	<u>¥9,301,312</u>	<u>\$61,431</u>

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, the balance deducted from the acquisition cost of the land for the years ended March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
The balance deducted from the acquisition cost of land	<u>¥383,230</u>	<u>¥385,230</u>	<u>\$2,544</u>

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

Notes receivable maturing on the consolidated balance sheet date are accounted for as though they are settled on the day of actual clearance.

As March 31, 2024 was a bank holiday, notes receivable and electronically recorded receivables due on that date as follows were included in the balance of notes receivable at March 31, 2024.

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Notes receivable	¥ -	¥167	\$1
Electronically recorded receivables	-	310,214	2,048

6. Notes to consolidated statements of income:

(a) Revenue from Contracts with Customers

For sales, revenue from contracts with customers, and other revenue are not provided separately. The amount of revenue from contracts with customers is provided in “Notes 18. Segment information”.

(b) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2023 and 2024 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Salaries	¥2,494,548	¥2,562,428	\$16,923
Accrued bonus for employees	812,788	550,996	3,639
Accrued bonuses for directors and audit & supervisory board members	408,273	105,093	694
Retirement benefit expenses	182,435	(25,392)	(167)
Reserve for retirement benefits for directors and audit & supervisory board members	48,440	43,196	285
Reserve for retirement benefits for executive officers	21,166	24,489	161
Research and development expenses	3,172,035	3,543,473	23,403
Depreciation	2,424,683	2,626,355	17,345

(c) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2023 and 2024 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Research and development expenses	<u>¥3,274,102</u>	<u>¥3,613,612</u>	<u>\$23,866</u>

(d) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Gain on sales of:			
Machinery and equipment	¥ 1,922	¥ 5,338	\$ 35
Land	-	1,522	10
	<u>¥ 1,922</u>	<u>¥ 6,861</u>	<u>\$ 45</u>

(e) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Loss on sales of:			
Buildings and structures	¥ -	¥ 440	\$ 2
	<u>¥ -</u>	<u>¥ 440</u>	<u>\$ 2</u>

(f) Impairment loss -

No impairment loss was recognized on fixed assets for the year ended March 31, 2023.

The Company recorded impairment loss on the following asset groups for the year ended March 31, 2024.

① Assets for which impairment loss was recognized:

Location	Use	Account	Thousands of yen	Thousands of U.S. dollars
-	-	Goodwill	¥ 15,245,574	\$ 100,690
Germany	-	Customer related assets	10,191,691	67,311
		Technical assets	2,722,051	17,978
		Total	<u>¥ 28,159,317</u>	<u>\$ 185,980</u>

② Assets grouping method:

The Company considers a group of non-current assets related to the HDSE Group to be the smallest unit of cash flow generated.

③ Reasons for the recognition of impairment losses:

With regard to goodwill, customer related assets and technical assets (“goodwill and others”), which were recognized at the time of acquisition, they were determined that there was an indication of an impairment, due to delays in the earnings plan envisaged at the time of acquisition and amortization expense for goodwill and others exceeded operating profit of the HDSE Group for the consecutive fiscal years. As a result of the determination of the recognition of impairment losses, the total amount of future cash flows before discounts, which are expected to be acquired over the remaining economic years of the customer related assets and technical assets, which are the main assets of the HDSE Group, was less than the book value of the non-current assets including goodwill and others of the HDSE Group, and the book value was reduced to a recoverable amount. The amount of the decrease was recorded as impairment loss.

④ Calculation method of recoverable value:

The future cash flow used in the calculation of value in use is based on the business plan for the next 5 years approved by the management of the Company and the growth rate thereafter. The future cash flow is calculated by discounting the future cash flow to the

present value at a discount rate of 13.0% based on the weighted average cost of capital of the HDSE Group, and it is used as the recoverable value. In addition, the growth rate after 6 years onwards has been determined to be 1.3%, taking into account the long-term growth rate of the market, industry, or country to which the HDSE Group belongs, and does not exceed the long-term growth rate of the market.

(g) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2023 and 2024 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Loss on disposal of:			
Buildings and structures	¥ 39,706	¥ 4,186	\$ 27
Machinery and equipment	16,970	679	4
Tools, furniture and fixtures	6,819	16,291	107
Software	-	2,360	15
	<u>¥ 63,496</u>	<u>¥ 23,517</u>	<u>\$ 155</u>

7. Notes to consolidated statements of comprehensive income:

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

Recycling adjustments and related tax effect related to other comprehensive income for the years ended March 31, 2023 and 2024 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2023</u>	<u>2024</u>	<u>2024</u>
Net unrealized gains on available-for-sale securities			
Changes arising during the year	(¥84,309)	(¥2,263,946)	(\$14,952)
Recycling adjustments	-	-	-
Before tax effect	(84,309)	(2,263,946)	(14,952)
Tax effect	17,882	675,491	4,461
Net unrealized gains on available-for-sale securities	(66,427)	(1,588,454)	(10,491)
Foreign currency translation adjustments			
Changes arising during the year	4,392,800	4,781,841	31,582
Remeasurements of defined benefit plans			
Changes arising during the year	209,536	66,392	438
Recycling adjustments	93,691	(132,419)	(874)
Before tax effect	303,228	(66,026)	(436)
Tax effect	(93,361)	18,057	119
Remeasurements of defined benefit plans	209,867	(47,969)	(316)
Total other comprehensive income	<u>¥4,536,240</u>	<u>¥3,145,417</u>	<u>\$20,774</u>

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

(a) Shares issued and outstanding -

<u>Share type</u>	<u>April 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2023</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

<u>Share type</u>	<u>April 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2024</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2023</u>
Common stock (shares)	<u>52,336</u>	<u>1,215,400</u>	<u>16,734</u>	<u>1,251,002</u>

<u>Share type</u>	<u>April 1, 2023</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2024</u>
Common stock (shares)	<u>1,251,002</u>	<u>104,808</u>	<u>16,753</u>	<u>1,339,057</u>

(Reason for the changes)

- The increased number of 1,215,400 shares of treasury stock is due to the acquisition of treasury stock by resolution of the Board of Directors at May 13, 2022 for the year ended March 31, 2023.
- The increased number of 104,808 shares of treasury stock is due to 104,800 shares of acquisition of treasury stock by resolution of the Board of Directors at December 6, 2023 and 8 shares of the purchase of common shares of less-than-one unit from shareholders for the year ended March 31, 2024.
- The decreased number of 16,734 and 16,753 shares of treasury stock is due to the issuance of common shares based on the stock compensation scheme of the restricted stock for directors (except for outside directors) for the year ended March 31, 2023 and 2024, respectively.

(c) Dividends -

For the year ended March 31, 2023:

① Dividends paid during the current year -

- (i) The following was resolved by the annual shareholders' meeting held on June 22, 2022:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,058,893
Cash dividend per share	
(Yen)	¥11
Record date	March 31, 2022
Declaration date	June 23, 2022

- (ii) The following was determined by the board of directors meeting held on November 8, 2022:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,045,708
Cash dividend per share	
(Yen)	¥11
Record date	September 30, 2022
Declaration date	December 5, 2022

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

The following was resolved by the annual shareholders' meeting held on June 21, 2023:

Type of shares	Common stock
Resource of the dividends to be paid	Retained earnings
The total amount of the dividends in cash paid	
(Thousands of yen)	¥1,616,094
Cash dividend per share	
(Yen)	¥17
Record date	March 31, 2023
Declaration date	June 22, 2023

For the year ended March 31, 2024:

① Dividends paid during the current year -

- (i) The following was resolved by the annual shareholders' meeting held on June 21, 2023:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,616,094
(Thousands of U.S. dollars)	\$10,673
Cash dividend per share	
(Yen)	¥17
(U.S. dollars)	\$0.11
Record date	March 31, 2023
Declaration date	June 22, 2023

- (ii) The following was determined by the board of directors meeting held on November 9, 2023:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥950,811
(Thousands of U.S. dollars)	\$6,279
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.06
Record date	September 30, 2023
Declaration date	December 4, 2023

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

The following was resolved by the annual shareholders' meeting held on June 21, 2024:

Type of shares	Common stock
Resource of the dividends to be paid	Retained earnings
The total amount of the dividends in cash paid	
(Thousands of yen)	¥949,763
(Thousands of U.S. dollars)	\$6,272
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.06
Record date	March 31, 2024
Declaration date	June 24, 2024

9. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2023 and 2024 comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Cash and bank deposits	¥20,783,570	¥20,318,343	\$134,194
Highly liquid investments	28,840	37,156	245
Time deposits with a deposit period of over three months	(890,432)	(1,413,787)	(9,337)
Cash and cash equivalents	<u>¥19,921,977</u>	<u>¥18,941,712</u>	<u>\$125,102</u>

10. Lease transactions (as lessee):

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

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

(b) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2023 and 2024 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Due within 1 year	¥135,006	¥50,328	\$332
Due after 1 year	<u>62,390</u>	<u>56,357</u>	<u>372</u>
	<u>¥197,397</u>	<u>¥106,686</u>	<u>\$704</u>

11. Financial instruments:

(a) Policy for financial instruments -

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

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

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

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, and to mitigate foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts only with financial institutions with high credit ratings (in accordance with the internal rules on assignment of authority and responsibility), the Companies believe their exposure of contractual default risk to be close to nil.

Marketable securities and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

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

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

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

Lease obligations related to finance lease transactions are mainly for the purpose of

raising funds related to capital investment, and the maximum redemption date is 20 years after fiscal year end.

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2023 and 2024.

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2023:			
(1) Notes receivable	¥7,408,386	¥7,408,386	¥ -
(2) Accounts receivable, trade	10,165,121		
Allowance for doubtful accounts			
(*2)	(19,356)		
	<u>10,145,764</u>	<u>10,145,764</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	<u>11,069,918</u>	<u>11,069,918</u>	<u>-</u>
Assets total	<u>¥28,624,069</u>	<u>¥28,624,069</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,596,434	¥3,596,434	¥ -
(2) Accrued income taxes	1,046,412	1,046,412	-
(3) Short-term borrowings	2,610,183	2,610,183	-
(4) Current portion of long-term debt	2,569,064	2,569,064	-
(5) Long-term debt	17,766,840	17,630,759	(136,080)
(6) Lease obligations	<u>4,419,858</u>	<u>4,214,538</u>	<u>(205,320)</u>
Liabilities total	<u>¥32,008,794</u>	<u>¥31,667,393</u>	<u>(¥341,400)</u>
Derivative transactions (*4)	<u>(¥11,334)</u>	<u>(¥11,334)</u>	<u>¥ -</u>

March 31, 2024:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Notes receivable	¥3,085,175	¥3,085,175	¥ -
(2) Account receivable, trade	8,668,982		
Allowance for doubtful accounts	(24,906)		
(*2)	<u>8,644,076</u>	<u>8,644,076</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	<u>8,814,288</u>	<u>8,814,288</u>	<u>-</u>
Assets total	<u>¥20,543,540</u>	<u>¥20,543,540</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,036,539	¥3,036,539	¥ -
(2) Accrued income taxes	101,581	101,581	-
(3) Short-term borrowings	700,629	700,629	-
(4) Current portion of long-term debt	2,529,452	2,529,452	-
(5) Long-term debt	15,201,497	15,074,426	(127,070)
(6) Lease obligations	<u>5,381,889</u>	<u>4,923,251</u>	<u>(458,638)</u>
Liabilities total	<u>¥26,951,589</u>	<u>¥26,365,881</u>	<u>(¥585,708)</u>
Derivative transactions (*4)	<u>(¥33,267)</u>	<u>(¥33,267)</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Variance
March 31, 2024:			
(1) Notes receivable	\$20,376	\$20,376	\$ -
(2) Accounts receivable, trade	57,255		
Allowance for doubtful accounts			
(*2)	(164)		
	<u>57,090</u>	<u>57,090</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	<u>58,214</u>	<u>58,214</u>	<u>-</u>
Assets total	<u>\$135,681</u>	<u>\$135,681</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$20,055	\$20,055	\$ -
(2) Accrued income taxes	670	670	-
(3) Short-term borrowings	4,627	4,627	-
(4) Current portion of long-term debt	16,705	16,705	-
(5) Long-term debt	100,399	99,560	(839)
(6) Lease obligations	<u>35,545</u>	<u>32,516</u>	<u>(3,029)</u>
Liabilities total	<u>\$178,004</u>	<u>\$174,135</u>	<u>(\$3,868)</u>
Derivative transactions (*4)	<u>(\$219)</u>	<u>(\$219)</u>	<u>\$ -</u>

(*1) "Cash and bank deposits" is omitted because the market value is close to the book value since the deposits are settled in a short period of time.

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

(*3) Unlisted equity securities are not included in "(3) Market securities and investment securities" in the first table above because such securities do not have available market prices. Those financial instruments without available market prices are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$25</u>
Investment in affiliated companies			
Unlisted equity securities	<u>¥89,956</u>	<u>¥48,112</u>	<u>\$317</u>

(*4) Net receivables and payables arising from derivative transactions are stated at net values, and if the values are negative, they are indicated in parentheses.

(Note 1) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2023 and 2024 are as follows:

Thousands of yen				
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2023:				
Cash and bank deposits	¥20,783,570	-	-	-
Notes receivable	7,408,386			
Accounts receivable, trade	<u>10,165,121</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥38,357,077</u>	<u>-</u>	<u>-</u>	<u>-</u>
Thousands of yen				
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2024:				
Cash and bank deposits	¥20,318,343	-	-	-
Notes receivable	3,085,175			
Accounts receivable, trade	<u>8,668,982</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥32,072,502</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2024:				
Cash and bank deposits	\$134,194	-	-	-
Notes receivable	20,376			
Accounts receivable, trade	57,255	-	-	-
	<u>\$211,825</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 2) Aggregate annual maturities of long-term debt subsequent to March 31, 2023 and 2024 are as follows:

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2023:						
Long-term debt	¥2,569,064	¥2,563,121	¥2,459,627	¥2,459,627	¥2,424,627	¥7,859,836
Lease obligations	583,255	582,585	548,270	555,396	532,852	1,617,497
Total	<u>¥3,152,319</u>	<u>¥3,145,706</u>	<u>¥3,007,898</u>	<u>¥3,015,023</u>	<u>¥2,957,480</u>	<u>¥9,477,333</u>

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2024:						
Long-term debt	¥2,529,452	¥2,465,064	¥2,465,064	¥2,430,064	¥2,347,445	¥5,493,860
Lease obligations	700,049	662,290	661,284	630,879	450,104	2,277,281
Total	<u>¥3,229,501</u>	<u>¥3,127,354</u>	<u>¥3,126,348</u>	<u>¥3,060,943</u>	<u>¥2,797,549</u>	<u>¥7,771,141</u>

	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2024:						
Long-term debt	\$16,705	\$16,280	\$16,280	\$16,049	\$15,503	\$36,284
Lease obligations	4,623	4,374	4,367	4,166	2,972	15,040
Total	<u>\$21,329</u>	<u>\$20,654</u>	<u>\$20,648</u>	<u>\$20,216</u>	<u>\$18,476</u>	<u>\$51,325</u>

(e) Breakdown, etc. of market value of financial instruments by level

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the input used in the fair value measurement.

Level 1: Fair value measured by using quoted prices in active markets for identical assets or liabilities

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

Level 3: Fair values measured by using unobservable inputs

When more than one input that has a significant effect on the calculation of fair value is used, the resulting fair value is classified as the lowest priority level for fair value calculation from among the levels of the input used.

① Financial instruments stated on the consolidated balance sheet at fair value:

	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2023:				
Marketable securities and Investment securities				
Available-for-sale securities				
Shares	¥11,069,918	-	-	¥11,069,918
Total assets	¥11,069,918	-	-	¥11,069,918
Derivative transaction related to currency	-	¥11,334	-	¥11,334
Total liabilities	-	¥11,334	-	¥11,334
	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2024:				
Marketable securities and Investment securities				
Available-for-sale securities				
Shares	¥8,814,288	-	-	¥8,814,288
Total assets	¥8,814,288	-	-	¥8,814,288
Derivative transaction related to currency	-	¥33,267	-	¥33,267
Total liabilities	-	¥33,267	-	¥33,267

	Fair value (Thousands of U.S. dollars)			
March 31, 2024:	Level 1	Level 2	Level 3	Total
Marketable securities and Investment securities Available-for-sale securities Shares	\$58,214	-	-	\$58,214
Total assets	\$58,214	-	-	\$58,214
Derivative transaction related to currency	-	\$219	-	\$219
Total liabilities	-	\$219	-	\$219

② Financial instruments other than those whose fair values are stated on the consolidated balance sheets:

	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2023:				
Notes receivable	-	¥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
Accrued income taxes	-	1,046,412	-	1,046,412
Short-term borrowings	-	2,610,183	-	2,610,183
Long-term debt	-	20,199,823	-	20,199,823
Lease obligations	-	4,214,538	-	4,214,538
Total liabilities	-	¥31,667,393	-	¥31,667,393
	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2024:				
Notes receivable	-	¥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
Accrued income taxes	-	101,581	-	101,581
Short-term borrowings	-	700,629	-	700,629
Long-term debt	-	17,603,878	-	17,603,878
Lease obligations	-	4,923,251	-	4,923,251
Total liabilities	-	¥26,365,881	-	¥26,365,881

	Fair value (Thousands of U.S. dollars)			
March 31, 2024:	Level 1	Level 2	Level 3	Total
Notes receivable	-	\$20,376	-	\$20,376
Accounts receivable, trade	-	57,090	-	57,090
Total assets	-	\$77,466	-	\$77,466
Notes and accounts payable, trade	-	\$20,055	-	\$20,055
Accrued income taxes	-	670	-	670
Short-term borrowings	-	4,627	-	4,627
Long-term debt	-	116,266	-	116,266
Lease obligations	-	32,516	-	32,516
Total liabilities	-	\$174,135	-	\$174,135

Note: Explanation of evaluation method used to calculate fair value and inputs for calculating fair value

Marketable securities and Investment securities:

Listed stock is valued using market prices. These fair values are classified as level 1 fair values because listed securities are traded in an active market.

Derivative transaction:

The fair value of derivative transactions is based on the price provided by financial institutions with which the Company has business relationships and are classified as level 2 fair values.

Notes and accounts receivable, trade:

The carrying amount approximates the fair value since these accounts are settled within a short period and are classified as level 2 fair values.

Notes and accounts payable, trade, Accrued income taxes and Short-term borrowings:

The carrying amount approximates the fair value since these accounts are settled within a short period and are classified as level 2 fair values.

Long-term debt:

The fair value of long-term debt, to which variable rates are applied, approximates the carrying amount because the variable rates reflect market interest rates and credit risks over a short term.

Those with fixed interest rates, on the other hand, are based on the method of calculating by discounting the sum total amount of principal and interest by the estimated interest rate in the case that the same type of debt is undertaken. Both are classified as level 2 fair values.

Lease obligations:

The total amount of principal and interest is calculated based on the present value discounted at the interest rate assumed to apply to similar new lease transactions, etc., and is classified as a level 2 fair value.

12. Marketable securities and investment securities:

The aggregate costs, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2023 and 2024 were as follows:

Thousands of yen			
	Cost	Gross unrealized gains / (losses)	Carrying amount
March 31, 2023:			
Securities whose consolidated carrying value exceeds their acquisition price			
Equity securities	¥2,709,916	¥8,331,162	¥11,041,078
Securities whose consolidated carrying value does not exceed their acquisition price			
Bonds - Other	70,176	(41,336)	28,840
	<u>¥2,780,092</u>	<u>¥8,289,826</u>	<u>¥11,069,918</u>

Thousands of yen			
	Cost	Gross unrealized gains / (losses)	Carrying amount
March 31, 2024:			
Securities whose consolidated carrying value exceeds their acquisition price			
Equity securities	¥2,709,916	¥6,067,215	¥8,777,132
Securities whose consolidated carrying value does not exceed their acquisition price			
Bonds – Other	70,176	(33,020)	37,156
	<u>¥2,780,092</u>	<u>¥6,034,195</u>	<u>¥8,814,288</u>

Thousands of U.S. dollars			
	Cost	Gross unrealized gains / (losses)	Carrying amount
March 31, 2024:			
Securities whose consolidated carrying value exceeds their acquisition price			
Equity securities	\$17,897	40,071	\$57,969
Securities whose consolidated carrying value does not exceed their acquisition price			
Bonds - Other	463	(218)	245
	<u>\$18,361</u>	<u>39,853</u>	<u>\$58,214</u>

13. Derivative financial instruments:

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

Thousands of Yen				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2023				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	¥639,260	¥ -	(¥8,199)	(¥8,199)
U.S. Dollars	938,315	-	(3,134)	(3,134)
	<u>¥1,577,576</u>	<u>¥ -</u>	<u>(¥11,334)</u>	<u>(¥11,334)</u>
Thousands of Yen				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2024				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	¥704,244	¥ -	(¥12,063)	(¥12,063)
U.S. Dollars	541,326		(19,490)	(19,490)
Euro	600,000	-	(1,713)	(1,713)
	<u>¥1,845,570</u>	<u>¥ -</u>	<u>(¥33,267)</u>	<u>(¥33,267)</u>
Thousands of U.S. Dollars				
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
March 31, 2024				
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	\$4,651	\$ -	(\$79)	(\$79)
U.S. Dollars	3,575		(128)	(128)
Euro	3,962	-	(11)	(11)
	<u>\$12,189</u>	<u>\$ -</u>	<u>(\$219)</u>	<u>(\$219)</u>

14. Retirement benefits for employees:

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

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

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

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

The information for the defined benefit plans as of March 31, 2023 and 2024 and for the years then ended is as follows:

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Defined benefits plan obligations at beginning of the year	¥2,898,007	¥2,501,249	\$16,519
Service cost	147,469	148,865	983
Interest cost	30,854	39,706	262
Actuarial differences	(317,890)	81,380	537
Retirement benefits paid	(331,531)	(379,563)	(2,506)
Other	74,340	86,065	568
Defined benefits plan obligations at end of the year	<u>¥2,501,249</u>	<u>¥2,477,704</u>	<u>\$16,364</u>

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Plan assets at beginning of the year	¥3,204,318	¥3,060,139	\$20,210
Expected return on plan assets	21,008	60,961	402
Actuarial differences	(108,353)	147,773	975
Employer contributions	147,137	158,037	1,043
Retirements benefits paid	(215,094)	(302,210)	(1,995)
Other	11,122	12,821	84
Plan assets at end of the year	<u>¥3,060,139</u>	<u>¥3,137,522</u>	<u>\$20,722</u>

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Defined benefits plan obligations of funded plan	¥2,501,249	¥2,477,704	\$16,364
Plan assets	(3,060,139)	(3,137,522)	(20,722)
	(558,890)	(659,817)	(4,357)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(558,890)	(659,817)	(4,357)
Net defined benefit liabilities	632,170	712,253	4,704
Net defined benefit assets	(1,191,060)	(1,372,071)	(9,061)
Net liabilities or assets recorded in the consolidated balance sheet	(¥558,890)	(¥659,817)	(\$4,357)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Service cost	¥147,469	¥148,865	\$983
Interest cost	30,854	39,706	262
Expected return on plan assets	(21,008)	(60,961)	(402)
Actuarial differences	93,691	(132,419)	(874)
Retirement benefit expenses related to the defined benefit plans	¥251,006	(¥4,809)	(\$31)

⑤ Adjustments of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Actuarial differences	(¥303,228)	¥66,026	\$436
Total	(¥303,228)	¥66,026	\$436

⑥ Unrecognized adjustments of remeasurements of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Unrecognized actuarial differences	(¥273,217)	(¥207,190)	(\$1,368)
Total	(¥273,217)	(¥207,190)	(\$1,368)

⑦ Plan assets -

1) Components of plan assets

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

	2023	2024
Bonds	72%	69%
Equities	21%	24%
Other	7%	7%
Total	100%	100%

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

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

⑧ Principal actuarial assumptions -

The assumptions used in the above actuarial computations for the years ended March 31, 2023 and 2024 were as follows:

	<u>2023</u>	<u>2024</u>
Discount rate	1.58%	1.56%
Expected return ratio on plan assets	1.98%	1.98%
Assumed wage increase rate	2.94%	2.77%

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

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

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2023</u>	<u>2024</u>	<u>U.S. dollars</u>
			<u>2024</u>
Net defined benefit liabilities at beginning of the year	¥108,253	¥118,422	\$782
Retirement benefits expenses	14,513	21,063	139
Retirement benefits paid	(4,343)	(4,581)	(30)
Contributions to the plan	-	(10,780)	(71)
Net defined benefit liabilities at end of the year	<u>¥118,422</u>	<u>¥124,124</u>	<u>\$819</u>

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	-	-	-
Defined benefits plan obligations of unfunded plan	118,422	124,124	819
Net liabilities or assets recorded in the consolidated balance sheet	118,422	124,124	819
Net defined benefit liabilities	118,422	124,124	819
Net liabilities or assets recorded in the consolidated balance sheet	¥118,422	¥124,124	\$819

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2023 and 2024 calculated by the simplified accounting method were ¥14,513 thousand and ¥21,063 thousand (\$139 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2023 and 2024 were ¥144,377 thousand and ¥169,585 thousand (\$1,120 thousand), respectively.

15. Stock options:

No stock options were granted during the years ended March 31, 2023 and 2024.

16. Income taxes:

Deferred tax assets and liabilities as of March 31, 2023 and 2024 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Deferred tax assets:			
Tax loss carryforwards	¥208,827	¥808,995	\$5,343
Accrued enterprise taxes	96,100	-	-
Inventory write-down	5,406	95,170	628
Accrued bonuses	372,988	214,266	1,415
Accrued social insurance premium	43,398	33,598	221
Unrealized intercompany profit in inventories	311,530	-	-
Software development expenses	59,793	79,267	523
Reserve for retirement benefits for directors and audit & supervisory board members	311,324	311,324	2,056
Reserve for retirement benefits for executive officers	38,004	45,473	300
Stock compensation expenses for directors	15,924	37,819	249
Net defined benefit liabilities	29,632	40,905	270
Devaluation loss on investment securities	65,409	65,409	431
Devaluation loss on golf club memberships	5,733	5,733	37
Impairment loss	60,140	52,575	347
Devaluation loss on loans to affiliated companies	-	39,974	264
Others	141,818	384,274	2,537
Deferred tax assets sub-total	¥1,766,032	¥2,214,786	\$14,627
Valuation allowance (Note)	(436,981)	(1,169,477)	(7,723)
Deferred tax assets total	<u>¥1,329,051</u>	<u>¥1,045,308</u>	<u>\$6,903</u>

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Deferred tax liabilities:			
Enterprise tax receivable	¥ -	(¥39,553)	(\$261)
Unrealized gains on available-for-sale securities	(¥2,485,851)	(1,810,359)	(11,956)
Undistributed earnings of foreign subsidiaries and an affiliated company	(402,315)	(447,410)	(2,954)
Net defined benefit assets	(363,273)	(418,481)	(2,763)
Intangible assets identified by the business combination	(7,392,278)	(3,731,497)	(24,644)
Others	(249,098)	(297,660)	(1,965)
Deferred tax liabilities total	(10,892,816)	(6,744,963)	(44,547)
Net deferred tax liabilities	(¥9,563,765)	(¥5,699,654)	(\$37,643)

Note: Valuation allowance increased by ¥732,496 thousand (\$4,837 thousand) for the year ended March 31, 2024. The main reason for this increase was the recognition of an additional ¥663,011 thousand (\$4,378 thousand) in valuation allowance for tax loss carried forward by Harmonic Precision Inc., a consolidated subsidiary,

Reconciliation of the differences between the statutory tax rate and the actual effective tax rate for the year ended March 31, 2023 and 2024 are as follows:

	2023	2024
Statutory tax rate	30.5%	-
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	0.3	-
Tax credit relating to research and development expenses	(8.2)	-
Inhabitant tax on per capita	0.1	-
Depreciation of goodwill	3.2	-
Others, net	(0.3)	-
Actual effective tax rate	25.5%	-

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2024 was omitted due to loss before income taxes being recorded.

17. Revenue recognition:

(a) Information on the breakdown of revenue arising from the contracts with customers

Information on the breakdown of revenue arising from the contracts with customers is provided in “Note 18. Segment information”.

(b) Information that is fundamental to understanding revenue from contracts with customers

Information that is fundamental to understanding revenue is provided in “ 2. Summary of significant accounting policies: (g) Recognition of significant revenues and expenses”.

- (c) Information on the relationship between the satisfaction of performance obligations under contracts with customers and the cash flow arising from the contract, and the amount and timing of revenue that is expected to be recognized from the contracts with the customers existing at the end of the current consolidated fiscal year to the following consolidated fiscal year and beyond.

① Receivables arising from contracts with customers and outstanding Contract liabilities, etc.

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Receivables arising from contracts with customers (opening balance):			
Notes receivable	¥6,963,283	¥7,408,386	\$48,929
Accounts receivable, trade	8,621,584	10,165,121	67,136
	<u>¥15,584,868</u>	<u>¥17,573,507</u>	<u>116,065</u>
Receivables arising from contracts with customers (closing balance)			
Notes receivable	¥7,408,386	¥3,085,175	\$20,376
Accounts receivable, trade	10,165,121	8,668,982	57,255
	<u>¥17,573,507</u>	<u>¥11,754,158</u>	<u>\$77,631</u>
Contract liabilities (opening balance)	<u>¥284,221</u>	<u>¥267,842</u>	<u>\$1,768</u>
Contract liabilities (closing balance)	<u>267,842</u>	<u>172,558</u>	<u>1,139</u>

(Note 1) Contract liabilities are advances received from customers primarily under payment terms under contracts with customers. Contract liabilities are reversed upon recognition of revenue.

(Note 2) For revenues recognized in the previous consolidated fiscal year, the amount included in contract liabilities as of the beginning of the period was ¥284,221 thousand (\$1,877 thousand).

(Note 3) In the previous consolidated fiscal year, there is no significant amount of revenue recognized from performance obligations fulfilled in the past period.

(Note 4) For revenues recognized in the current consolidated fiscal year, the amount included in contract liabilities as of the beginning of the period was ¥267,842 thousand (\$1,768 thousand).

(Note 5) In the current consolidated fiscal year, there is no significant amount of revenue recognized from performance obligations fulfilled in the past period.

② Transaction price allocated to remaining performance obligations

Since there are no important contracts with an initially expected contract period of more than one year, the Companies apply the practical expedient and omit disclosure of information regarding remaining performance obligations. In addition, there is no significant amount of consideration arising from contracts with customers that is not included in the transaction price.

18. Segment information:

(a) Overview of the reportable segments -

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

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

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

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

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

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

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

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

For the year ended March 31, 2023	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	¥51,792,678	¥10,877,240	¥15,965,906	¥78,635,825	(¥7,108,508)	¥71,527,316
Third party	45,445,979	10,858,472	¥15,222,864	¥71,527,316	¥ -	¥71,527,316
Inter-segment	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
Equity in losses of affiliated companies	(865)	-	-	(865)	-	(865)
Investment in affiliated companies	89,956	-	-	89,956	-	89,956
Increase in tangible and intangible fixed assets	8,150,824	675,758	409,671	9,236,254	-	9,236,254

- The adjustment for segment profit/(loss) of (¥4,022,486) thousand includes the eliminated profit of the inter-segment transactions of (¥1,465,634) thousand, the general administrative expenses of (¥2,556,852) thousand that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE ¥1,054,340 thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.

- The adjustment for segment assets of ¥30,005,461 thousand includes inter-segment elimination of ¥11,082,141 thousand, corporate assets of ¥18,923,319 thousand that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥15,258,139 thousand. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

For the year ended March 31, 2024	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	¥30,510,177	¥13,303,687	¥16,741,606	¥60,555,471	(¥4,759,015)	¥55,796,455
Third party	¥25,971,558	¥13,284,851	¥16,540,045	¥55,796,455	¥ -	¥55,796,455
Inter-segment	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
Equity in losses of affiliated companies	(41,843)	-	-	(41,843)	-	(41,843)
Investment in affiliated companies	48,112	-	-	48,112	-	48,112
Increase in tangible and intangible fixed assets	3,548,332	465,298	941,633	4,955,263	-	4,955,263

For the year ended March 31, 2024	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	\$201,507	\$87,865	\$110,571	\$399,943	(\$31,431)	\$368,512
Third party	171,531	87,740	109,240	368,512	-	368,512
Inter-segment	29,975	124	1,331	31,431	(31,431)	-
Total	\$201,507	\$87,865	\$110,571	\$399,943	(\$31,431)	\$368,512
Segment profit	\$29,811	\$11,276	\$1,415	\$42,504	(\$38,737)	\$3,766
Segment assets	\$394,635	\$107,212	\$202,690	\$704,538	\$82,346	\$786,885
Others						
Depreciation	\$34,630	\$4,475	\$21,588	\$60,694	\$ -	\$60,694
Interest income	629	211	380	1,221	(581)	639
Interest						
expenses	634	574	526	1,735	(565)	1,169
Equity in losses						
of affiliated						
companies	(276)	-	-	(276)	-	(276)
Investment in						
affiliated						
companies	317	-	-	317	-	317
Increase in						
tangible and						
intangible fixed						
assets	23,435	3,073	6,219	32,727	-	32,727

- The adjustment for segment profit of (¥5,865,251) thousand ((\$38,737) thousand) includes the eliminated profit of the inter-segment transactions of (¥3,419,035) thousand ((\$22,581) thousand), the general administrative expenses of (¥2,446,215) thousand ((\$16,156) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE (¥1,172,736 thousand (\$7,745 thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥12,468,065 thousand (\$82,346 thousand) includes inter-segment elimination of (¥3,932,664 thousand (\$25,973 thousand)),

corporate assets of ¥16,400,730 thousand (\$108,319 thousand) that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

(d) Related information –

① Information by products/service -

Sales to third parties	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Speed reducers	¥ 57,000,038	¥ 39,432,894	\$260,437
Mechatronic products	14,527,278	16,363,561	108,074
	<u>¥71,527,316</u>	<u>¥55,796,455</u>	<u>\$368,512</u>

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

② Information by geographic region -

Sales:

	Thousands of yen			
	Japan	North America	Europe	Other
For the year ended March 31, 2023:				
Total	<u>¥38,431,914</u>	<u>¥10,858,472</u>	<u>¥15,222,864</u>	<u>¥7,014,065</u>

For the year ended March 31, 2024:				
Total	<u>¥20,617,344</u>	<u>¥13,284,851</u>	<u>¥16,540,045</u>	<u>¥5,354,214</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Other
For the year ended March 31, 2024:				
Total	<u>\$136,168</u>	<u>\$87,740</u>	<u>\$109,240</u>	<u>\$35,362</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- “North America” segment includes ¥9,386,137 thousand and ¥11,954,835

thousand (\$78,956 thousand) of sales originating from the United States of America, which represents greater than 10% of sales recorded on the consolidated statements of income for the years ended March 31, 2023 and 2024, respectively.

- “Europe” segment includes ¥6,505,463 thousand (\$42,965 thousand) of sales originating from Germany, which represents greater than 10% of sales recorded on the consolidated statements of income for the year ended March 31, 2024.

Tangible fixed assets:

Thousands of yen				
	Japan	North America	Europe	Total
March 31, 2023:				
Total Assets	<u>¥37,114,517</u>	<u>¥5,966,324</u>	<u>¥5,846,005</u>	<u>¥48,926,847</u>
March 31, 2024:				
Total Assets	<u>¥35,887,862</u>	<u>¥6,395,440</u>	<u>¥5,864,021</u>	<u>¥48,147,323</u>

Thousands of U.S. dollars				
	Japan	North America	Europe	Total
March 31, 2024:				
Total Assets	<u>\$237,024</u>	<u>\$42,239</u>	<u>\$38,729</u>	<u>\$317,993</u>

- Tangible fixed assets are classified into the countries and geographical areas as shown in the schedule above based on their location.
- “North America” segment includes ¥5,966,324 thousand and ¥6,395,440 thousand (\$42,239 thousand) of tangible fixed assets located in the United States of America, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for the years ended March 31, 2023 and 2024, respectively.
- “Europe” segment includes ¥5,846,005 thousand and ¥5,864,021 thousand (\$38,729 thousand) of tangible fixed assets located in Germany, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for both the years ended March 31, 2023 and 2024, respectively.

③ Information of major customers -

Customer Name	Thousands of yen		Thousands of U.S. dollars	Related Segment
	2023	2024	2024	
Haneda & Co., Ltd.	¥8,800,059	¥ -	\$ -	Japan
Nissan Motor Co., Ltd.	-	6,547,422	43,242	Japan

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

No impairment loss was recognized on fixed assets for the year ended March 31, 2023.

For the year ended March 31, 2024	Thousands of yen					
	Reportable segment					Consolidated
	Japan	North America	Europe	Total	Adjustment	
Impairment loss	¥ -	¥ -	¥12,913,743	¥12,913,743	¥ 15,245,574	¥ 28,159,317

For the year ended March 31, 2024	Thousands of U.S. dollars					
	Reportable segment					Consolidated
	Japan	North America	Europe	Total	Adjustment	
Impairment loss	\$ -	\$ -	\$85,289	\$85,289	\$ 100,690	\$185,980

- Due to the fact that the excess profitability of goodwill, customer related assets, and technical assets related to Harmonic Drive SE, a consolidated subsidiary of the Company, is no longer expected to be in excess of the originally anticipated profitability, goodwill will be reduced from the “Adjustment” above, and the carrying value of customer related assets and technical assets will be reduced from “Europe” segment to recoverable value. The reduction is included as “Impairment loss” included in “Exceptional losses” on the consolidated statement of income for the year ended March 31, 2024.

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

For the year ended 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 of goodwill	-	-	-	-	15,258,139	15,258,139

For the year ended 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 of goodwill	-	-	-	-	-	-

For the year ended March 31, 2024	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 7,745	\$ 7,745
Balance of goodwill	-	-	-	-	-	-

(g) Information regarding gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2023 and 2024.

19. Transactions with related parties:

(a) Transactions with related parties –

The director and major shareholder of the Company.

The following transactions occurred in the fiscal year ended March 31, 2023 and 2024.

Category	The Company in which a director and his/her close relatives owns a majority of voting rights (including subsidiaries of the Company).	
Entity name	Tokyo Aircraft Instrument Co., Ltd.	
Location	Machida-shi, Tokyo, Japan	
Capital	¥100,000 thousand	
Description of business	Manufacturing and sales of Aerospace products.	
Share of shareholders voting rights	None.	
Description of relationship		
- Business relationship	Acceptance of dispatched seconded manufacturing personnel (2023 / 2024) Outsourcing of development-related work (2024)	
- Sharing of directors	Yes (2023 / 2024)	
For the year: Transaction	Payment of personal expenses subject to seconded employees, etc.	
Amounts	(2023) ¥140,412 thousand (2024) ¥14,777 thousand (\$97 thousand)	
Transaction	Payment of consignment fees	
Amounts	(2023) ¥ - (2024) ¥36,916 thousand (\$243 thousand)	
At year-end: Accounts	Accounts payable	
Amounts	(2023) ¥ 9,403 thousand (2024) ¥ - (\$ -)	

(Note 1) It is a subsidiary of Mitsumasa Ito, Chairman of the Board of Directors of the Company, and his close relatives, who own a majority of voting rights.

(Note 2) The payment of seconded employees' salaries is based on a memorandum of

understanding regarding secondment, and an amount equivalent to the personnel costs related to seconded employees is paid.

(Note 3) The amount of the consignment fees are determined after negotiation based on the content of the work.

(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the year ended March 31, 2023.

There have been no companies treated as significant affiliated companies for the year ended March 31, 2024.

20. Net income (loss) per share information:

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

	Yen		U.S. dollars
	2023	2024	2024
Net assets per share	¥1,093.53	¥836.02	\$5.52
Net income (loss) per share	79.67	(261.00)	(1.72)

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

	Thousands of yen		Thousands of U.S. dollars
	2023	2024	2024
Profit (Loss) attributable to owners of the parent	¥7,595,928	(¥24,806,996)	(\$163,839)
Profit (Loss) attributable to common stock owners of the parent	¥7,595,928	(¥24,806,996)	(\$163,839)

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

	Number of shares	
	2023	2024
Weighted average number of shares	<u>95,338,168</u>	<u>95,047,417</u>

(Note)

- Diluted net income per share is not computed because the Company does not have any potentially dilutive shares for the year ended March 31, 2023 and 2024.

21. Subsequent events:

There have been no significant subsequent events on or after April 1, 2024.

22. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2023 and 2024.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2023	Balance at March 31, 2024	Balance at March 31, 2024		
Short-term borrowings	¥2,610,183	¥700,629	\$4,627	0.3	-
Current portion of long-term debt	2,569,064	2,529,452	16,705	0.4	-
Current portion of lease obligations	583,255	700,049	4,623	2.0	-
Long-term debt (excluding current portion)	17,766,840	15,201,497	100,399	0.4	2025-2032
Lease obligations (excluding current portion)	3,836,603	4,681,840	30,921	1.6	2025-2043
Other	-	-	-	-	-
Total	<u>¥27,365,946</u>	<u>¥23,813,468</u>	<u>\$157,278</u>	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2024.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2024 are as follows:

	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2024				
Long-term debt	¥2,465,064	¥2,465,064	¥2,430,064	¥2,347,445
Lease obligations	662,290	661,284	630,879	450,104

	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2024				
Long-term debt	\$16,280	\$16,280	\$16,049	\$15,503
Lease obligations	4,374	4,367	4,166	2,972

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2023 and 2024 were omitted due to immateriality.

23. Details of audit fees, etc.:

(a) Details of fees to the certified public accountant auditor -

	Thousands of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Audit fees	Non audit fees	Audit fees	Non audit fees	Audit fees	Non audit fees
The Company	¥40,200	¥ -	¥50,000	¥ -	\$330	\$ -
Consolidated subsidiaries	-	-	-	-	-	-
Total	<u>¥40,200</u>	<u>¥ -</u>	<u>¥50,000</u>	<u>¥ -</u>	<u>\$330</u>	<u>\$ -</u>

There was no non-audit service for the Company by the certified public accountant auditor for the year ended March 31, 2023 and 2024.

(b) Details of fees paid to the member firms of PricewaterhouseCoopers GmbH, PwC TAX Japan, PricewaterhouseCoopers Sustainability LLC and PricewaterhouseCoopers Consultants (Shenzhen) Limited which belong to the same network to which PricewaterhouseCoopers Japan LLC belongs (except for (a)) -

	Thousands of yen				Thousands of U.S. dollars	
	2023		2024		2024	
	Audit fees	Non audit fees	Audit fees	Non audit fees	Audit fees	Non audit fees
The Company	¥17,306	¥48,198	¥18,931	¥41,140	\$125	\$271
Consolidated subsidiaries	13,079	1,831	14,758	2,966	97	19
Total	<u>¥30,386</u>	<u>¥50,029</u>	<u>¥33,690</u>	<u>¥44,106</u>	<u>\$222</u>	<u>\$291</u>

The non-audit services of the Company and its consolidated subsidiaries include support of the preparation of tax returns for corporate and other taxes, document management related to transfer pricing, support for sustainability advancement, and consulting services related to other tax matters for the year ended March 31, 2023 and 2024.

(c) Details of other significant fees -

There are no other significant fees.

(d) Policy for determining audit fees -

The Company determines audit fees based on comprehensive consideration of the size and characteristics of the Company, after examining the audit plan, audit contents, and estimates of audit time presented by auditing certified public accountant auditor, etc.

(e) Reason for the audit & supervisory board's consent to audit fees -

The audit & supervisory board of the Company carefully examined the contents of the audit plan for the current fiscal year as explained by the accounting auditor, the verification of the audit results of previous years, and the calculation basis for estimating the amount of remuneration for the accounting auditor, based on the "Practical Guidelines for Cooperation with Accounting Auditors" published by Japan Audit & Supervisory Board Members Association. As a result, the audit & supervisory board of the Company has agreed to Article 399, Paragraph 1 of the Companies Act.