

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2011



Report of Independent Auditors

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated balance sheet of Harmonic Drive Systems Inc. ("the Company") and its consolidated subsidiaries as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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.

Emphasis of matter

We draw attention to Note 22 to the consolidated financial statements, effective from April 1, 2011, the Company split one common stock into 300 shares and adopted a unit-of-share system.

PricewaterhouseCoopers Aarata

December 14, 2011

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
	2010	2011	2011
Assets:			
Current assets -			
Cash and bank deposits (Notes 10(a) and 12(d))	¥4,599,863	¥6,988,064	\$84,041
Notes and accounts receivable, trade (Notes 12(d) and 20)	4,985,566	6,854,034	82,429
Marketable securities (Notes 10(a) and 13)	30,576	30,601	368
Finished products	103,836	129,164	1,553
Work in process	579,678	669,314	8,049
Raw materials and supplies	685,067	808,726	9,726
Deferred tax assets - current (Note 17)	209,010	516,661	6,213
Other current assets	242,673	177,903	2,139
Allowance for doubtful accounts (Note 12(d))	(5,601)	(4,706)	(56)
Total current assets	<u>11,430,669</u>	<u>16,169,764</u>	<u>194,464</u>
Fixed assets -			
Tangible fixed assets (Notes 6(b) and 11):			
Buildings and structures	1,493,192	2,126,505	25,574
Machinery and equipment	518,933	585,855	7,045
Land	872,455	993,769	11,951
Leased assets	274,305	362,424	4,358
Construction in progress	75,582	213,095	2,562
Other	347,724	535,755	6,443
Total tangible fixed assets	<u>3,582,192</u>	<u>4,817,405</u>	<u>57,936</u>
Intangible fixed assets (Note 11):			
Goodwill (Note 19(e))	3,987	1,993	23
Software	89,787	149,737	1,800
Other	9,702	22,555	271
Total intangible fixed assets	<u>103,477</u>	<u>174,286</u>	<u>2,096</u>
Investments and other assets:			
Investment securities (Notes 12(d) and 13)	4,408,803	7,394,508	88,929
Investment in affiliated companies (Note 6(a))	5,331,186	5,050,522	60,739
Long-term loans receivable (Note 12(d))	348,472	358,998	4,317
Long-term prepaid expenses (Note 15)	537,991	350,948	4,220
Long-term bank deposits (Note 12(d))	700,000	53,900	648
Deferred tax assets - non current (Note 17)	28,912	24,651	296
Others	65,118	59,036	709
Allowance for doubtful accounts (Note 12(e))	(6,000)	(185,671)	(2,232)
Total investment securities and other assets	<u>11,414,484</u>	<u>13,106,895</u>	<u>157,629</u>
Total fixed assets	<u>15,100,154</u>	<u>18,098,587</u>	<u>217,661</u>
Total assets	<u>¥26,530,824</u>	<u>¥34,268,352</u>	<u>\$412,126</u>

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
	2010	2011	2011
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 12(d))	¥1,571,833	¥2,059,546	\$24,769
Short-term borrowings (Note 23)	13,200	10,000	120
Current portion of long-term debt (Notes 6(b), 12(d) and 23)	742,756	740,752	8,908
Lease obligations – current (Note 23)	59,713	82,209	988
Accrued income taxes (Note 12(d))	103,612	2,100,899	25,266
Accrued bonuses for employees	330,348	613,288	7,375
Accrued bonuses for directors and corporate auditors	31,200	104,400	1,255
Accrued warranty expenses	21,929	23,845	286
Other current liabilities	640,941	1,366,964	16,439
Total current liabilities	<u>3,515,535</u>	<u>7,101,905</u>	<u>85,410</u>
Long-term liabilities -			
Long-term debt (Notes 6(b), 12(d) and 23)	2,291,489	1,558,205	18,739
Lease obligations – non current (Note 23)	214,973	277,570	3,338
Deferred tax liabilities – non current (Note 17)	964,951	1,880,494	22,615
Reserve for retirement benefits for employees (Note 15)	17,748	22,506	270
Reserve for retirement benefits for directors and corporate auditors	385,447	380,932	4,581
Reserve for retirement benefits for executive officers	71,175	83,630	1,005
Negative goodwill (Note 19(e))	11,087	5,543	66
Total long-term liabilities	<u>3,956,872</u>	<u>4,208,882</u>	<u>50,617</u>
Total liabilities	<u>7,472,407</u>	<u>11,310,788</u>	<u>136,028</u>
Net assets (Note 21):			
Shareholders' equity (Note 9) -			
Common stock:			
- Authorized:	396,000 shares		
Issued and outstanding:	105,277 shares		
	1,610,542	1,610,542	19,369
Capital surplus	5,203,709	5,203,709	62,582
Retained earnings	13,225,383	15,617,444	187,822
Treasury stock, at cost	(2,304,740)	(2,304,740)	(27,717)
Total shareholders' equity	<u>17,734,894</u>	<u>20,126,956</u>	<u>242,055</u>
Accumulated other comprehensive income -			
Net unrealized gains (losses) on available-for-sale securities (Note 13)	961,819	2,633,646	31,673
Foreign currency translation adjustments	(226,648)	(630,065)	(7,577)
Total accumulated other comprehensive income	<u>735,171</u>	<u>2,003,580</u>	<u>24,095</u>
Minority interest in consolidated subsidiaries	588,350	827,027	9,946
Total net assets	<u>19,058,416</u>	<u>22,957,563</u>	<u>276,098</u>
Total liabilities and net assets	<u>¥26,530,824</u>	<u>¥34,268,352</u>	<u>\$412,126</u>

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
	2010	2011	2011
Net sales (Notes 19 and 20)	¥12,056,871	¥22,001,131	\$264,595
Cost of sales (Notes 7(b), 15 and 19)	7,527,042	12,070,640	145,167
Gross profit	<u>4,529,829</u>	<u>9,930,490</u>	<u>119,428</u>
Selling, general and administrative expenses (Notes 7(a), 7(b), 11, 15 and 19)	3,457,976	4,082,170	49,094
Operating profit	<u>1,071,852</u>	<u>5,848,320</u>	<u>70,334</u>
Other income:			
Interest income	14,678	15,202	182
Dividend income	26,876	46,323	557
Amortization of negative goodwill	5,543	5,543	66
Equity in income of affiliated companies	-	88,832	1,068
Subsidies	56,561	2,731	32
Others	20,727	45,231	543
	<u>124,388</u>	<u>203,865</u>	<u>2,451</u>
Other expenses:			
Interest expense	48,069	36,642	440
Equity in loss of affiliated companies	28,218	-	-
Commitment fees for credit facility contracts	19,625	29,625	356
R&D costs related to subsidiaries	16,000	-	-
Loss on investment in investment fund	68	-	-
Foreign exchange loss	5,103	6,919	83
Others	13,047	15,003	180
	<u>130,132</u>	<u>88,190</u>	<u>1,060</u>
Ordinary income	1,066,109	5,963,995	71,725
Exceptional gains:			
Gain on sales of fixed assets (Note 7(c))	1,185	79	0
Gain on sales of investment securities (Note 13)	426	-	-
Gain on prior year adjustments	18,561	-	-
Gain on reversal of allowance for compensation for finished product issues	-	10,404	125
Gain on reversal of allowance for doubtful accounts	211	-	-
	<u>20,385</u>	<u>10,484</u>	<u>126</u>
Exceptional losses:			
Loss on prior year adjustments	-	1,930	23
Loss on sales of fixed assets (Note 7(d))	-	942	11
Loss on disposal of fixed assets (Note 7(e))	4,472	20,718	249
Loss on compensation for finished product issues	61,884	26,882	323
Loss on devaluation of investment securities	-	267,711	3,219
Provision of allowance for doubtful accounts	-	181,271	2,180
Donation	-	150,000	1,803
Others	-	24,413	293
	<u>66,357</u>	<u>673,869</u>	<u>8,104</u>
Income before income taxes and minority interest	1,020,136	5,300,610	63,747
Income taxes:			
Current	478,555	2,581,363	31,044
Reversal of prior year's accrued income taxes	(15,567)	-	-

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Continued)

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2010</u>	<u>2011</u>	<u>March 31</u>
			<u>2011</u>
Deferred	(68,287)	(524,200)	(6,304)
	<u>394,699</u>	<u>2,057,162</u>	<u>24,740</u>
Income before minority interest	-	3,243,447	39,007
Minority interest in income of consolidated subsidiaries	126,814	291,623	3,507
Net income (Note 21)	<u>¥498,622</u>	<u>¥2,951,824</u>	<u>\$35,499</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2010</u>	<u>2011</u>	<u>March 31</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Income before minority interest	¥ -	¥3,243,447	\$39,007
Other comprehensive income -			
Adjustments for unrealized gain on other securities	-	1,671,826	20,106
Foreign currency translation adjustments	-	(403,417)	(4,851)
Total other comprehensive income (Note 8(b))	-	1,268,408	15,254
Comprehensive income (Note 8(a))	-	4,511,856	54,261
Attributable to -			
Shareholders of HDS Inc.	-	¥4,220,232	50,754
Minority interest	-	291,623	3,507

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
	2010	2011	2011
Shareholders' equity:			
Common Stock -			
Balance at the end of previous year	¥1,610,542	¥1,610,542	\$19,369
Balance at the end of current year	1,610,542	1,610,542	19,369
Capital surplus -			
Balance at the end of previous year	5,203,709	5,203,709	62,582
Balance at the end of current year	5,203,709	5,203,709	62,582
Retained earnings -			
Balance at the end of previous year	12,838,713	13,225,383	159,054
Changes during the year			
Cash dividends	(111,952)	(559,762)	(6,731)
Net income	498,622	2,951,824	35,499
Total changes	386,669	2,392,061	28,768
Balance at the end of current year	13,225,383	15,617,444	187,822
Treasury stock -			
Balance at the end of previous year	(2,304,740)	(2,304,740)	(27,717)
Balance at the end of current year	(2,304,740)	(2,304,740)	(27,717)
Total shareholders' equity -			
Balance at the end of previous year	17,348,224	17,734,894	213,287
Changes during the year			
Cash dividends	(111,952)	(559,762)	(6,731)
Net income	498,622	2,951,824	35,499
Total changes	386,669	2,392,061	28,768
Balance at the end of current year	¥17,734,894	¥20,126,956	\$242,055

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		For the year ended
	March 31		March 31
	2010	2011	2011
Valuation and translation adjustments:			
Net unrealized gains (losses) on available-for-sale securities -			
Balance at the end of previous year	(¥137,531)	¥961,819	\$11,567
Changes during the year			
Net changes in items other than those in shareholders' equity	1,099,351	1,671,826	20,106
Total changes	1,099,351	1,671,826	20,106
Balance at the end of current year	961,819	2,633,646	31,673
Foreign currency translation adjustments -			
Balance at the end of previous year	(272,769)	(226,648)	(2,725)
Changes during the year			
Net changes in items other than those in shareholders' equity	46,121	(403,417)	(4,851)
Total changes	46,121	(403,417)	(4,851)
Balance at the end of current year	(226,648)	(630,065)	(7,577)
Total valuation and translation adjustments -			
Balance at the end of previous year	(410,300)	735,171	8,841
Changes during the year			
Net changes in items other than those in shareholders' equity	1,145,472	1,268,408	15,254
Total changes	1,145,472	1,268,408	15,254
Balance at the end of current year	735,171	2,003,580	24,095
Minority interest in consolidated subsidiaries:			
Balance at the end of previous year	490,724	588,350	7,075
Changes during the year			
Net changes in items other than those in shareholders' equity	97,626	238,676	2,870
Total changes	97,626	238,676	2,870
Balance at the end of current year	588,350	827,027	9,946
Total net assets:			
Balance at the end of previous year	17,428,648	19,058,416	229,205
Changes during the year			
Cash dividends	(111,952)	(559,762)	(6,731)
Net income	498,622	2,951,824	35,499
Net changes in items other than those in shareholders' equity	1,243,098	1,507,085	18,124
Total changes	1,629,768	3,899,147	46,892
Balance at the end of current year	¥19,058,416	¥22,957,563	\$276,098

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



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
	2010	2011	2011
Cash flows from operating activities:			
Income before income taxes and minority interest	¥1,020,136	¥5,300,610	\$63,747
Adjustments to reconcile income before income taxes and minority interest to net cash (used in) provided by operating activities -			
Amortization of goodwill	2,063	1,993	23
Amortization of negative goodwill	(5,543)	(5,543)	(66)
Depreciation and amortization	747,749	743,692	8,943
Increase in allowance for doubtful accounts	943	179,322	2,156
Increase in reserve for retirement benefits for employees	2,182	4,758	57
Increase (decrease) in reserve for retirement benefits for directors and corporate auditors	38,327	(4,514)	(54)
Increase in reserve for retirement benefits for executive officers	15,380	12,455	149
Increase in accrued bonuses for directors and corporate auditors	12,800	73,200	880
Increase in accrued warranty expenses	21,929	1,916	23
Interest income	(14,568)	(15,202)	(182)
Dividend income	(26,876)	(46,323)	(557)
Interest expense	48,069	36,642	440
Equity in loss (income) of affiliated companies	28,218	(88,832)	(1,068)
Loss (gain) on investment in investment fund	68	(1,328)	(15)
Gain on sales of investment securities	(426)	-	-
Loss on devaluation of investment securities	-	267,711	3,219
Loss(gain) on sales of fixed assets	(1,185)	863	10
Loss on disposal of fixed assets	4,472	20,718	249
Increase in trade receivables	(2,381,033)	(1,909,710)	(22,967)
Increase in inventories	(172,603)	(274,533)	(3,301)
Increase in trade payables	153,745	514,127	6,183
Others, net	430,400	873,957	10,510
Subtotal	(75,749)	5,685,979	68,382
Interest and dividends received	40,508	59,867	719
Dividends received from an affiliated company	126,740	56,931	684
Interest paid	(48,069)	(36,539)	(439)
Income taxes paid	(368,062)	(439,703)	(5,288)
Income taxes refunded	194,245	11,111	133
Net cash (used in) provided by operating activities	(130,387)	5,337,646	64,192

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



HARMONIC DRIVE SYSTEMS INC.
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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
	2010	2011	2011
Cash flows from investing activities:			
Payments for purchases of fixed assets	(334,246)	(1,472,427)	(17,708)
Proceeds from sales of fixed assets	3,637	3,851	46
Payments for purchases of software and other intangibles	(28,840)	(123,456)	(1,485)
Payments for purchases of investment securities	-	(456,275)	(5,487)
Proceeds from sales of investment securities	748	-	-
Payments for purchases of shares of a consolidated subsidiary by a consolidated subsidiary	(2,505)	-	-
Payments for time deposits with a deposit period of over three months	(2,802,400)	(321,650)	(3,868)
Proceeds from maturities of time deposits with a deposit period of over three months	409,357	4,250	51
Payments for guarantee deposits	(4,185)	(1,758)	(21)
Proceeds from collection of guarantee deposits	14,057	2,534	30
Payments for short-term loans receivable	(5,500)	(1,300)	(15)
Proceeds from collection of short-term loans receivable	500	5,659	68
Payments for long-term loans receivable	(4,340)	(5,100)	(61)
Proceeds from collection of long-term loans receivable	6,088	4,520	54
Others, net	8,841	16,068	193
Net cash used in investing activities	<u>(2,738,786)</u>	<u>(2,345,084)</u>	<u>(28,203)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	30,000	10,000	120
Repayments of short-term borrowings	(51,700)	(13,200)	(158)
Proceeds from long-term debt	80,000	20,000	240
Repayments of long-term debt	(767,463)	(755,288)	(9,083)
Repayments of lease obligations	(51,391)	(74,648)	(897)
Cash dividends paid	(111,952)	(559,762)	(6,731)
Cash dividends paid to minority shareholders	(30,196)	(110,085)	(1,323)
Net cash used in financing activities	<u>(902,703)</u>	<u>(1,482,985)</u>	<u>(17,835)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>2,327</u>	<u>(84,850)</u>	<u>(1,020)</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,769,549)</u>	<u>1,424,725</u>	<u>17,134</u>
Cash and cash equivalents at the beginning of year	<u>6,695,740</u>	<u>2,926,190</u>	<u>35,191</u>
Cash and cash equivalents at the end of year (Note 10(a))	<u>¥2,926,190</u>	<u>¥4,350,915</u>	<u>\$52,326</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacture and sale of harmonic drive gears and related motion control products. The Company’s manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, subsidiaries in the United States and an affiliated company in 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 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 ¥83.15 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2011. 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 year ended March 31, 2010 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.
- Winbel Co., Ltd.

On January 11, 2011, a further wholly-owned subsidiary, Harmonic Drive Systems (Shanghai) Co., Ltd., was established. The accounts of Harmonic Drive Systems (Shanghai) Co., Ltd. are included in the consolidated financial statements together with the six previously-consolidated subsidiaries, for the year ended March 31, 2011.

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

The Company holds a 35% share in a sales distributor in Europe named Harmonic Drive AG. The investment in the shares of Harmonic Drive AG is accounted for by the equity method in the consolidated financial statements for the years ended March 31, 2010 and 2011. In addition, the Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is also accounted for by the equity method in the consolidated financial statements.

The Company's foreign subsidiaries (HD Systems, Inc., Harmonic Drive L.L.C. and Harmonic Drive Systems (Shanghai) Co., Ltd.) and affiliated company (Harmonic Drive AG) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material transactions occurring

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

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Available-for-sale securities with market quotations are stated at fair value, with net unrealized gains or losses being reported as a separate component of net assets on a net-of-tax basis. Those securities without market quotations are stated at cost using the moving average method.

Investment in non-affiliated investment funds, which is regarded as securities prescribed under the Japanese Financial Instruments and Exchange Act and recorded as investment securities, is accounted for by the equity method based on the recent available financial information.

② Receivables and payables derived from derivatives:

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

③ Inventories:

Finished products, work in process and raw materials are stated at moving average cost (reflecting 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, which are depreciation 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.

For finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee and that became effective prior to the initial year of adoption of the new accounting standard for lease transactions, continue to be accounted for in a manner similar to the accounting treatment for ordinary rental transactions.

(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 corporate auditors:

The Company and its domestic subsidiaries provide an accrual for the estimated bonuses

to directors and corporate auditors attributable to the current year. The actual amount to be paid will be approved at the shareholders' meeting held subsequent to the end of the year.

④ Accrued warranty expenses:

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

⑤ Reserve for retirement benefits for directors and corporate auditors:

In accordance with the Companies' internal rule for retirement benefits for directors and corporate auditors, the reserve for retirement benefits for directors and corporate auditors of the Companies is calculated at the amount that would have been payable if all directors and corporate auditors 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) Reserve for retirement benefits for employees -

The reserve for retirement benefits for employees of the Company and its domestic subsidiaries represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, net of the unrecognized balance of prior service costs and actuarial differences. If the fair value of the plan assets exceeds the estimated present value of projected benefit obligations, net of the unrecognized balance of prior service costs and actuarial differences, such excess is recorded as prepaid pension costs. Prepaid pension costs as of March 31, 2010 and 2011 were ¥534,706 thousand and ¥344,705 thousand (\$4,145 thousand), respectively, and were included in "Long-term prepaid expenses" in the section of "Investments and other assets" of the consolidated balance sheets, while reserve for retirement benefits for employees were recognized at certain domestic subsidiaries and recorded in the section of "Long-term liabilities" of the consolidated balance sheets. Prior service costs are 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, starting from the year following that in which they occur. Certain domestic subsidiaries have adopted a simplified method in the calculation of their retirement benefit obligations.

(g) Foreign currency translation -

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

(h) Consumption tax -

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

(i) Valuation method for assets and liabilities of subsidiaries -

Assets and liabilities of the subsidiaries were measured at the fair values of the year in which they were consolidated.

(j) Amortization of goodwill and negative goodwill -

Goodwill is amortized on a straight-line basis over a period of 5 years and negative goodwill which occurred before April 1, 2010 is amortized on a straight-line basis over a period of 5 years.

(k) 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 changes in value.

3. Accounting changes:

(a) From the year ended March 31, 2010 –

① Adoption of the Accounting Standard for Retirement Benefits (Part 3):

Effective from the year ended March 31, 2010, the Company has adopted “Partial Amendments to Accounting Standard for Retirement Benefit (Part 3)” (ASBJ No.19 issued on July 31, 2008). There was no impact of this change on the consolidated statement of income for the year ended March 31, 2010.

(b) From the year ended March 31, 2011 –

① Adoption of the Accounting Standard for Equity Method of Accounting for Investments and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method:

Effective from the year ended March 31, 2011, the Company has adopted “Accounting Standards for Equity Method of Accounting for Investments” (ASBJ No.16 issued on March 10, 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ Practical Issued Task Force (PITF) No.24 issued on March 10, 2008). The effect of this change on income/loss is immaterial.

② Adoption of the Accounting Standard for Asset Retirement Obligations:

Effective from the year ended March 31, 2011, the Company has adopted “Accounting Standards for Asset Retirement Obligations” (ASBJ No.18 issued on March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21 issued on March 31, 2008). The effect of this change on income/loss is immaterial.

4. Change in presentation:

(a) From the year ended March 31, 2011 –

The Company has adopted “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No.5 issued on March 24, 2009 based on “Accounting Standards for Consolidated Financial Statements” (ASBJ No.22 issued on December 26, 2008), and the accounting item “Income

before minority interest” is presented as a result.

5. Additional information:

(a) From the year ended March 31, 2011 –

Effective from the year ended March 31, 2011, the Company has adopted “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No.25 issued on June 30, 2010). However, the amounts for “Valuation and translation adjustments” and “Total valuation and translation adjustments” are presented as the amounts of “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the year ended March 31, 2010.

6. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2010 and 2011 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Investment in affiliated companies	<u>¥5,331,186</u>	<u>¥5,050,522</u>	<u>\$60,739</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, 2010 and 2011:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Buildings	¥978,902	¥1,463,984	\$17,606
Structures	1,856	1,454	17
Land	<u>537,664</u>	<u>537,664</u>	<u>6,466</u>
	<u>¥1,518,422</u>	<u>¥2,003,103</u>	<u>\$24,090</u>

Secured long-term debt:			
Current portion of long-term debt	¥703,828	¥703,828	\$8,464
Long-term debt	<u>2,137,033</u>	<u>1,433,205</u>	<u>17,236</u>
	<u>¥2,840,861</u>	<u>¥2,137,033</u>	<u>\$25,700</u>

Included in the above, the following assets were pledged as factory funded mortgage to secure the long-term debt at March 31, 2010 and 2011:

	Thousands of yen		Thousands of
	<u>2010</u>	<u>2011</u>	<u>U.S. dollars</u>
			2011
Buildings	¥97,166	¥87,958	\$1,057
Structures	1,856	1,454	17
Land	<u>49,168</u>	<u>49,168</u>	<u>591</u>
	<u>¥148,190</u>	<u>¥138,580</u>	<u>\$1,666</u>
Secured long-term debt:			
Current portion of long-term debt	¥700,000	¥700,000	\$8,418
Long-term debt	<u>2,100,000</u>	<u>1,400,000</u>	<u>16,837</u>
	<u>¥2,800,000</u>	<u>¥2,100,000</u>	<u>\$25,255</u>

(c) Credit facility contracts -

On March 25, 2010 and March 24, 2011, the Company entered into credit facility contracts with four banks, totaling ¥3,000,000 thousand (\$36,079 thousand) for a year. As of March 31, 2010 and 2011, there were no loans outstanding under these contracts.

7. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2010 and 2011 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Salaries and bonuses	¥1,013,748	¥1,171,314	\$14,086
Accrued bonuses for directors and corporate auditors	29,600	101,200	1,217
Reserve for retirement benefits for directors and corporate auditors	35,701	30,581	367
Reserve for retirement benefits for executive officers	15,380	18,305	220
Research and development expenses	996,423	1,156,279	13,905
Provision for allowance for doubtful accounts	2,032	-	-

(b) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥1,012,253 thousand and ¥1,187,197 thousand (\$14,277 thousand) for the years ended March 31, 2010 and 2011, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2010 and 2011 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Machinery and equipment	¥1,185	¥79	\$0
	¥1,185	¥79	\$0

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets by fixed assets category for the years ended March 31, 2010 and 2011 was as follows:

	Thousands of yen		Thousands of
	2010	2011	U.S. dollars
			2011
Machinery and equipment	-	¥900	\$10
Tools, furniture and fixtures	-	42	0
	¥ -	¥942	\$11

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2010 and 2011 was as follows:

	Thousands of yen		Thousands of
	2010	2011	U.S. dollars
			2011
Buildings and structures	¥762	¥14,105	\$169
Machinery and equipment	230	1,545	18
Vehicles	20	-	-
Tools, furniture and fixtures	3,458	5,067	60
	¥4,472	¥20,718	\$249

8. Notes to consolidated statements of comprehensive income:

(a) Comprehensive income -

Comprehensive income for the year ended March 31, 2010 was as follows:

	Thousands of yen
	<u>2010</u>
Attributable to -	
Shareholders of HDS Inc.	1,644,095
Minority interest	<u>126,814</u>
	<u>¥1,770,909</u>

(b) Other comprehensive income -

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Thousands of yen
	<u>2010</u>
Adjustments for unrealized gain on other securities	1,099,351
Foreign currency translation adjustments	<u>46,121</u>
	<u>¥1,145,472</u>

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

(a) Shares issued and outstanding-

Share type	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock (shares)	<u>105,277</u>	<u>-</u>	<u>-</u>	<u>105,277</u>

Share type	March 31, 2010	Increase	Decrease	March 31, 2011
Common stock (shares)	<u>105,277</u>	<u>-</u>	<u>-</u>	<u>105,277</u>

(b) Treasury stock -

Share type	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock (shares)	3,502.0	-	-	3,502.0
Share type	March 31, 2010	Increase	Decrease	March 31, 2011
Common stock (shares)	3,502.0	-	-	3,502.0

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2010 and 2011.

(d) Dividends -

For the year ended March 31, 2010:

① Dividends paid during the current year -

The following was resolved by the annual shareholders' meeting held on June 19, 2009;

Type of shares	Common stock
Total amount of dividends paid in cash (Thousands of yen)	¥111,952
Cash dividend per share (Yen)	¥1,100
Record date	March 31, 2009
Effective date	June 22, 2009

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

The following was approved by the annual shareholders' meeting held on June 17, 2010;

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)	¥183,195
Cash dividend per share (Yen)	¥1,800
Record date	March 31, 2010
Effective date	June 18, 2010

For the year ended March 31, 2011:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 17, 2010;	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥183,195
	(Thousands of U.S. dollars)	(\$2,203)
	Cash dividend per share	
	(Yen)	¥1,800
	(U.S. dollars)	(\$21.64)
	Record date	March 31, 2010
	Effective date	June 18, 2010
(ii)	The following was determined by the board of directors meeting held on November 11, 2010;	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥376,567
	(Thousands of U.S. dollars)	(\$4,528)
	Cash dividend per share	
	(Yen)	¥3,700
	(U.S. dollars)	(\$44.49)
	Record date	September 30, 2010
	Effective date	December 10, 2010
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was approved by the annual shareholders' meeting held on June 17, 2011;	
	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)	¥376,567
	(Thousands of U.S. dollars)	(\$4,528)
	Cash dividend per share	
	(Yen)	¥3,700
	(U.S. dollars)	(\$44.49)
	Record date	March 31, 2011
	Effective date	June 20, 2011

10. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2010 and 2011 were comprised of the following:

	Thousands of yen		Thousands of
	2010	2011	U.S. dollars
Cash and bank deposits	¥4,599,863	¥6,988,064	\$84,041
Highly liquid investments	30,576	30,601	368
Time deposits with a deposit period of over three months	<u>(1,704,250)</u>	<u>(2,667,750)</u>	<u>(32,083)</u>
Cash and cash equivalents	<u>¥2,926,190</u>	<u>¥4,350,915</u>	<u>\$52,326</u>

11. Lease transactions (as lessee):

- (a) Finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee, of which inception dates were prior to the initial year of adoption of new accounting standard for lease transactions -

Prior to the year ended March 31, 2009, leased assets and related expenses in respect of the Companies' finance leases, other than those which transfer ownership of the leased assets to the lessee, had been accounted for using a method similar to that used for ordinary rental transactions. When the new accounting standard for lease transactions became effective on April 1, 2008, finance leases, which are deemed not to transfer ownership of the leased assets to the lessee, were required to be accounted for using a method similar to that used for ordinary sales and purchase transactions, however, those of which the inception dates were prior to April 1, 2008 were permitted to continue to be accounted for in a manner similar to the accounting treatment for ordinary rental transactions. Finance lease expenses of the Companies for the years ended March 31, 2010 and 2011 were ¥316,689 thousand and ¥238,321 thousand (\$2,866 thousand), respectively. Had these leases been capitalized on the consolidated balance sheets, the following would have been recognized on the consolidated balance sheets as of March 31, 2010 and 2011 and the consolidated statements of income for the years then ended:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Machinery and equipment	¥1,601,238	¥1,223,222	\$14,711
Tools, furniture and fixtures	27,770	23,798	286
Software	1,405	1,405	16
	<u>1,630,413</u>	<u>1,248,426</u>	<u>15,014</u>
Less - Accumulated depreciation	<u>(1,075,991)</u>	<u>(919,031)</u>	<u>(11,052)</u>
	<u>¥554,422</u>	<u>¥329,395</u>	<u>\$3,961</u>

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Depreciation	¥295,281	¥222,394	\$2,674
Interest expenses	17,644	11,387	136

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. Interest expenses are determined as the difference between the acquisition cost and the total lease fee. Total interest payments over the lease period are allocated to each period using the “interest method.”

The present values of future lease payments of the Companies as of March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Current portion	¥230,554	¥160,440	\$1,929
Long-term obligation	344,118	184,513	2,219
	<u>¥574,673</u>	<u>¥344,953</u>	<u>\$4,148</u>

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

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

(c) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Current portion	¥49,555	¥64,875	\$780
Long-term obligation	78,960	80,853	972
	<u>¥128,516</u>	<u>¥145,729</u>	<u>\$1,752</u>

There was no impairment loss allocated to leased assets for the years ended March 31, 2010 and 2011.

12. Financial instruments:

(Additional information)

From the year ended March 31, 2010, the Company has applied “Accounting Standards for Financial Instruments” (ASBJ Statement No.10 issued on March 10, 2008) and “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19 issued on March 10, 2008). The disclosure related to financial instruments for the year ended March 31, 2010 in accordance with those new accounting standards and guidance is as follows:

(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 are 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, but to hedge foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. The Accounting/Finance department is in charge of execution and management of the foreign exchange forward contracts and executes such contracts after the president’s approval in accordance with the internal rules on assignment of authority and responsibility. As the Companies enter into the foreign exchange forward contracts with the financial institutions with high credit ratings, the Companies believe it is exposed to almost no contractual default risk.

Marketable securities are money management funds which almost have no credit risk, and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

Long-term loans receivable is with the business transactions partner company and exposed to the company's credit risk. The Companies monitor the financial conditions of the company periodically.

Long-term bank deposits are time deposits with fixed interest rates and the Companies usually hold to the maturity dates. The approval by the board of directors meeting of the Company is needed for the long-term bank deposits and the Companies enter into the bank deposit transactions with financial institutions with high credit ratings.

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

Short-term borrowings are used to raise the funds mainly for operating transactions and long-term debt is used for capital investments and maintaining liquidity. Floating-rate debt is exposed to the risk of fluctuations in interest rates.

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

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheet, the fair value and the variance as of March 31, 2010 and 2011. Financial instruments, of which the fair value is difficult to determine, are not included in the following table (See Note 2 for additional information.).

March 31, 2010:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥4,599,863	¥4,599,863	-
(2) Notes and accounts receivable, trade	4,985,566		
Allowance for doubtful accounts (*1)	(5,601)		
	<u>4,979,964</u>	<u>4,979,964</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	4,092,524	4,092,524	-
(4) Long-term loans receivable	348,472	348,472	-
(5) Long-term bank deposits	700,000	700,000	-
Assets total	<u>¥14,720,825</u>	<u>¥14,720,825</u>	<u>-</u>
(1) Notes and accounts payable, trade	¥1,571,833	¥1,571,833	-
(2) Accrued income taxes	103,612	103,612	-
(3) Current portion of long-term debt	742,756	742,756	-
(4) Long-term debt	2,291,489	2,291,489	-
Liabilities total	<u>¥4,709,692</u>	<u>¥4,709,692</u>	<u>-</u>
Derivative transactions	<u>(¥ 4,391)</u>	<u>(¥ 4,391)</u>	<u>-</u>

March 31, 2011:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥6,988,064	¥6,988,064	-
(2) Notes and accounts receivable, trade	6,854,034	6,854,034	
Allowance for doubtful accounts (*1)	(4,706)	(4,706)	
	<u>6,849,327</u>	<u>6,849,327</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	7,357,683	7,357,683	-
(4) Long-term loans receivable	358,998	358,998	
Allowance for doubtful accounts (*1)	(181,271)	(181,271)	
	<u>177,727</u>	<u>177,727</u>	<u>-</u>
Assets total	<u>¥21,372,802</u>	<u>¥21,372,802</u>	<u>-</u>
(1) Notes and accounts payable, trade	¥2,059,546	¥2,059,546	-
(2) Accrued income taxes	2,100,899	2,100,899	-
(3) Current portion of long-term debt	740,752	740,752	-
(4) Long-term debt	1,558,205	1,558,205	-
Liabilities total	<u>¥6,459,403</u>	<u>¥6,459,403</u>	<u>-</u>
Derivative transactions	<u>(¥ 358)</u>	<u>(¥ 358)</u>	<u>-</u>

	Thousands of U.S. dollars		
March 31, 2011:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$84,041	\$84,041	-
(2) Notes and accounts receivable, trade	82,429	82,429	
Allowance for doubtful accounts (*1)	(56)	(56)	
	<u>\$82,373</u>	<u>\$82,373</u>	-
(3) Investment securities			
Available-for-sale securities	88,486	88,486	-
(4) Long-term loans receivable	4,317	4,317	
Allowance for doubtful accounts (*1)	(2,180)	(2,180)	
	<u>2,137</u>	<u>2,137</u>	-
Assets total	<u>\$257,039</u>	<u>\$257,039</u>	-
(1) Notes and accounts payable, trade	\$24,769	\$24,769	-
(2) Accrued income taxes	25,266	25,266	-
(3) Current portion of long-term debt	8,908	8,908	-
(4) Long-term debt	18,739	18,739	-
Liabilities total	<u>\$77,683</u>	<u>\$77,683</u>	-
Derivative transactions	<u>(\$ 4)</u>	<u>(\$ 4)</u>	

(*1) For computation of fair value of notes and accounts receivable, trade and long-term loans receivable, allowance for doubtful accounts of notes and accounts receivable, trade and long-term loans receivable are deducted.

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

Assets

(1) Cash and bank deposits

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

(2) Notes and accounts receivable, trade

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

(3) Investment securities

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

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

(4) Long-term loans receivable

The fair value is determined by discounting the sum of the principal and interest using the interest rate assumed to be applied to the new loans receivable with the same conditions (March 31, 2010).

The carrying amount, net of allowance for doubtful accounts, approximated the fair value at the year-end date since the allowance for doubtful account is estimated based on an expected recoverable amount (March 31, 2011)

(5) Long-term bank deposits

The fair value, which is determined by discounting the sum of the principal and interest using the interest rate assumed to be applied to the new deposits with the same conditions, approximates the carrying amount because the deposit date is close to the year-end date.

Liabilities

(1) Notes and accounts payable, trade

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

(2) Accrued income taxes

The carrying amount approximates the fair value since accrued income taxes are paid within a short period.

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

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

Derivative transactions

See “Note 14. Derivative financial instruments”

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

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Unlisted equity securities	<u>¥316,278</u>	<u>¥36,825</u>	<u>\$442</u>

Unlisted equity securities are not included in “(3) Investment securities” in the above table because their fair values are difficult to determine since such securities do not have available market prices and the related future cash flows cannot be estimated. The impairment losses for the years ended March 31, 2010 and 2011 were zero and ¥267,711 thousand (\$3,219 thousand), respectively on the unlisted equity securities.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2010 and 2011 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, 2010:				
Cash and bank deposits	¥2,295,000	-	-	-
Notes and accounts receivable, trade	4,979,964	-	-	-
Long-term loans receivable	-	¥251,568	¥96,903	-
Long-term bank deposits	-	700,000	-	-
	<u>¥ 7,274,964</u>	<u>¥951,568</u>	<u>¥96,903</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, 2011:				
Cash and bank deposits	¥3,257,837	-	-	-
Notes and accounts receivable, trade	6,854,034	-	-	-
Long-term loans receivable	-	¥149,855	¥209,143	-
	<u>¥10,111,871</u>	<u>¥149,855</u>	<u>¥209,143</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, 2011:				
Cash and bank deposits	\$ 39,180	-	-	-
Notes and accounts receivable, trade	82,429	-	-	-
Long-term loans receivable	-	\$ 1,802	\$ 2,515	-
	<u>\$ 121,609</u>	<u>\$ 1,802</u>	<u>\$ 2,515</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2010 and 2011 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, 2010:						
Long-term debt	¥742,756	¥738,944	¥736,080	¥736,080	¥32,578	¥47,806
Total	<u>¥742,756</u>	<u>¥738,944</u>	<u>¥736,080</u>	<u>¥736,080</u>	<u>¥32,578</u>	<u>¥47,806</u>

		Thousands of yen					
March 31, 2011:		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
Long-term debt		¥740,752	¥740,752	¥739,068	¥30,580	¥27,834	¥19,972
Total		<u>¥740,752</u>	<u>¥740,752</u>	<u>¥739,068</u>	<u>¥30,580</u>	<u>¥27,834</u>	<u>¥19,972</u>

		Thousands of U.S. dollars					
March 31, 2011:		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
Long-term debt		\$8,908	\$8,908	\$8,888	\$367	\$334	\$240
Total		<u>\$8,908</u>	<u>\$8,908</u>	<u>\$8,888</u>	<u>\$367</u>	<u>\$334</u>	<u>\$240</u>

13. Marketable securities and investment securities:

The aggregate cost, gross unrealized gains and losses, and carrying amount on the consolidated balance sheet (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2010 and 2011 were as follows:

		Thousands of yen			
March 31, 2010:		Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities		<u>¥2,475,111</u>	<u>1,618,346</u>	<u>(932)</u>	<u>¥4,092,524</u>

		Thousands of yen			
March 31, 2011:		Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities		<u>¥2,931,386</u>	<u>4,426,296</u>	<u>-</u>	<u>¥7,357,683</u>

	Thousands of U.S. dollars			
March 31, 2011:	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
Equity securities	<u>\$35,254</u>	<u>53,232</u>	<u>-</u>	<u>\$88,486</u>

In the cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of the fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the consolidated statement of income for that period. The impairment losses for the years ended March 31, 2010 and 2011 were zero, on available-for-sale securities with market quotations.

The proceeds from sales of available-for-sale securities for the years ended March 31, 2010 and 2011 were ¥748 thousand and zero, respectively. The gross realized gains and losses on these sales for the years ended March 31, 2010 and 2011 were ¥426 thousand and zero, and no gains and losses, respectively.

14. Derivative financial instruments:

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

		Thousands of Yen			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2010		<u>Notional amount</u>	<u>(Over 1 year)</u>	<u>Fair value</u>	<u>Gains (Losses)</u>
Forward exchange contracts:					
Sell U.S. Dollar		¥218,831	¥ -	(¥4,391)	(¥4,391)
		<u>¥218,831</u>	<u>¥ -</u>	<u>(¥4,391)</u>	<u>(¥4,391)</u>
		Thousands of Yen			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2011		<u>Notional amount</u>	<u>(Over 1 year)</u>	<u>Fair value</u>	<u>Gains (Losses)</u>
Forward exchange contracts:					
Sell U.S. Dollar		¥24,582	¥ -	(¥358)	(¥358)
		<u>¥24,582</u>	<u>¥ -</u>	<u>(¥358)</u>	<u>(¥358)</u>
		Thousands of U.S. Dollars			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2011		<u>Notional amount</u>	<u>(Over 1 year)</u>	<u>Fair value</u>	<u>Gains (Losses)</u>
Forward exchange contracts:					
Sell U.S. Dollar		\$295	\$ -	(\$4)	(\$4)
		<u>\$295</u>	<u>\$ -</u>	<u>(\$4)</u>	<u>(\$4)</u>

Note: Calculation of fair value

Forward exchange contracts ∙ ∙ ∙ Forward exchange rate

15. Reserve for retirement benefits for employees:

Severance indemnity regulations, which cover substantially all employees of the Company and its domestic subsidiaries, provide for benefit payments based on the

employee's eligible salary, length of service, position in the respective company and conditions under which the termination of employment occurs.

The Company has established a non-contributory funded, defined benefit, and tax qualified pension 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. In January 2011, The Company and its domestic subsidiaries' tax qualified pension plan was converted to a defined benefit pension plan.

In addition, the Company has sponsored the employees' pension fund plan for substantially all of its employees, together with other companies engaged in the business similar to that of the Company, which is a multi-employer defined benefit pension plan established under the Japanese Welfare Pension Insurance Law.

Foreign subsidiaries maintain a simplified employee plan (the "SEP Plan"), which is considered a defined contribution pension plan. All employees are eligible to participate in the SEP Plan upon completion of one year of service and after attaining the age of 21. The SEP Plan provides for discretionary contributions by the subsidiaries. Participants vest in the subsidiaries' contributions based on their annual compensation and length of service.

(a) Multi-employer pension plan -

① Funded status of the multi-employer pension plan -

The funded status of the multi-employer pension plan as of March 31, 2009 and 2010 was as follows:

	Millions of yen		Millions of U.S. dollars
	2009	2010	2010
Plan assets	¥93,997	¥108,492	\$1,304
Benefit obligations	148,468	136,167	1,637
Net balance	(¥54,471)	(¥27,675)	(\$332)

② The Company's share in contributions to the plan -

The Company's contributions to the multi-employer plan represented 1.16% and 1.38% of those in total to the plan for the year ended March 31, 2009 and 2010, respectively.

③ Supplementary explanation -

The net balance at March 31, 2009 and 2010 on the schedule above resulted mainly from the prior service cost of ¥32,845 million and ¥25,571 million (\$307 thousand), respectively. Amortization period of the prior service cost is 20 years. The share of ② above does not represent the Company's actual share in the obligations of the plan.

The Company's contributions to the plan for the years ended March 31, 2010 and 2011 were ¥80,799 thousand and ¥88,768 thousand (\$1,067 thousand), respectively.

(b) Defined benefit plans -

The prepaid pension cost and reserve for retirement benefits for employees recorded in the consolidated balance sheets as of March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of
	2010	2011	U.S. dollars
			2011
Projected benefit obligations (PBO)	(¥1,579,242)	(¥1,592,073)	(\$19,146)
Plan assets	1,901,220	1,905,524	22,916
Excess of plan assets over PBO	321,978	313,450	3,769
Prior service cost	-	(16,588)	(199)
Unrecognized actuarial differences	212,728	47,844	575
Prepaid pension cost	¥ 534,706	¥ 344,705	\$ 4,145
Reserve for retirement benefits for employees	¥ 17,748	¥ 22,506	\$ 270

(Note) Domestic subsidiaries have adopted a simplified method in the calculation of their projected benefit obligations.

The components of the net periodic benefit cost for the years ended March 31, 2010 and 2011 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Service cost	¥103,787	¥104,621	\$1,258
Interest cost	30,019	31,584	379
Expected return on plan assets	(31,068)	(38,024)	(457)
Amortization of unrecognized prior service cost	-	(8,294)	(99)
Amortization of unrecognized actuarial differences	284,444	216,685	2,605
Net periodic benefit cost	<u>¥387,182</u>	<u>¥306,573</u>	<u>\$3,686</u>

(Note) All of the net periodic benefit cost for domestic subsidiaries adopting the simplified method are included in "Service cost" on the above schedule.

The assumptions used in the above actuarial computations for the years ended March 31, 2010 and 2011 were as follows:

	2010	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing pension benefits to employee service periods	Straight-line basis	Straight-line basis
Amortization of net transition obligation for pension benefits	3 years	3 years
Amortization of unrecognized actuarial differences	3 years	3 years
Amortization of unrecognized prior service cost	3 years	3 years

16. Stock options:

No stock options were granted during the years ended March 31, 2010 and 2011.

17. Income taxes:

Deferred tax assets and liabilities as of March 31, 2010 and 2011 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax assets - current:			
Accrued enterprise taxes	¥ 10,575	¥ 160,715	\$ 1,932
Accrued bonuses	133,559	248,328	2,986
Inventory write-down	4,560	10,700	128
Unrealized intercompany profit	35,682	55,573	668
Accrued social insurance premium	15,481	30,692	369
Others	9,150	10,650	128
	<u>¥209,010</u>	<u>¥516,661</u>	<u>\$6,213</u>
Net deferred tax assets - current			
Deferred tax assets - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥6,072	¥16,099	\$193
Reserve for retirement benefits for employees	7,099	9,002	108
Tax loss carryforwards	11,831	-	-
Prepaid pension cost	-	(6,608)	(79)
Foreign tax credit carried forward	50,662	54,362	653
Others	3,909	6,158	74
	<u>79,575</u>	<u>79,014</u>	<u>950</u>
Valuation allowance	<u>(50,662)</u>	<u>(54,362)</u>	<u>(653)</u>
Net deferred tax assets - non current	<u>¥28,912</u>	<u>¥24,651</u>	<u>\$296</u>

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Deferred tax liabilities - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥149,850	¥145,769	\$1,753
Devaluation of golf club memberships	7,775	8,129	97
Depreciation	936	597	7
Devaluation of investment securities	4,291	112,714	1,355
Loss on investment in investment fund	5,509	-	-
Allowance for doubtful accounts	-	73,414	882
Reserve for retirement benefits for executive officers	28,825	33,870	407
Unrealized gains on available-for-sale securities	(655,052)	(1,792,650)	(21,559)
Undistributed earnings of foreign subsidiaries and an affiliated company	(291,448)	(311,152)	(3,742)
Prepaid pension cost	(216,414)	(132,914)	(1,598)
Others	773	(18,272)	(219)
Net deferred tax liabilities - non current	<u>(¥964,951)</u>	<u>(¥1,880,494)</u>	<u>(\$22,615)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2010 and 2011 were omitted due to materiality.

18. Investment and rental property:

The Company had no investment and rental property.

19. Segment information:

(a) For the year ended March 31, 2010 -

① Industry segment information -

The Companies' business operations for the year ended March 31, 2010 fall within a single industry segment (the precision speed reducers business), based on similarities in the type, nature, manufacturing method and markets of their products.

② Geographic segment information and export sales information -

	Thousands of yen				
	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
For the year ended March 31, 2010:					
Sales:					
Third party	¥9,975,546	¥2,081,325	¥12,056,871	¥ -	¥12,056,871
Intersegment	638,023	-	638,023	(638,023)	-
Total	<u>10,613,569</u>	<u>2,081,325</u>	<u>12,694,894</u>	<u>(638,023)</u>	<u>12,056,871</u>
Operating expenses	<u>9,525,061</u>	<u>1,882,222</u>	<u>11,407,284</u>	<u>(422,265)</u>	<u>10,985,018</u>
Operating profit	<u>¥1,088,507</u>	<u>¥199,103</u>	<u>¥1,287,610</u>	<u>(¥215,757)</u>	<u>¥1,071,852</u>
At March 31, 2010:					
Total Assets	<u>¥18,279,270</u>	<u>¥1,574,176</u>	<u>¥19,853,447</u>	<u>¥6,677,376</u>	<u>¥26,530,824</u>

- Countries and areas are segmented based on their geographical proximity.
- Major countries and areas which belong to each segment except for Japan are as follows:

(1) North America The United States

- Operating expenses amounting to ¥226,990 thousand for the year ended March 31, 2010, which cannot be allocated to any particular geographical segment, are included in the “Elimination and/or Corporate” column. These represent expenses incurred for basic research and development activities, and certain expenses incurred by corporate departments, such as the General Affairs and Accounting Department.
- Assets of ¥7,039,350 thousand as of March 31, 2010, respectively, which cannot be allocated to any particular geographical segment, are included in the “Elimination and/or Corporate” column. These assets represent excess funds including cash and bank deposits, long-term investments such as investment securities, others included in investments and other assets, and certain assets used by corporate departments.

③ Export sales -

Export sales by major area for the years ended March 31, 2010 were as follows:

For the year ended March 31, 2010	Thousands of yen			
	Europe	North America	Other	Total
Overseas sales	¥979,582	¥2,081,325	¥875,491	¥3,936,400
Consolidated sales				12,056,871
Overseas sales as a ratio of consolidated sales (%)	8.1	17.3	7.3	32.6

- Countries and areas are segmented based on their geographical proximity.
- Major countries and areas which belong to each segment except for Japan are as follows:
 - (1) EuropeGermany
 - (2) North AmericaThe United States
- Export sales consist of export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign subsidiaries.
- Effective from the fiscal year ended March 31, 2010, sales to Korea, Taiwan and China is included in “Other” on the above schedule because of the change in the sales distribution. These sales were not classified as export sales prior to the fiscal year ended March 31, 2010.

(b) For the year ended March 31, 2011 -

① Overview of the reportable segments -

The reportable segments of the Company are constituent 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 manufacture and sale of precision speed reducers, precision actuator and related motion control products and the business operations fall within a single industry segment, based on similarities in the type, nature, manufacturing method and markets of their products.

The geographic market of the products of the Company are Japan (including Asia area),

North America and Europe and the products are marketed by the Company and its subsidiaries in Japan, subsidiaries in the United States and an affiliated company in Europe, respectively.

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

② Accounting method of sales, profit/loss, assets and other items by each reportable segments -

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

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

③ Sales, profit/loss, assets and other items by each reportable segments -

	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
For the year ended March 31, 2010	Japan	North America	Europe	Total		
Sales:						
Third party	¥9,975,546	¥2,081,325	¥ -	¥12,056,871	¥ -	¥12,056,871
Intersegment	642,669	-	-	642,669	(642,669)	-
Total	<u>¥10,618,215</u>	<u>2,081,325</u>	<u>-</u>	<u>12,669,541</u>	<u>(642,669)</u>	<u>12,056,871</u>
Segment profit/(loss)	1,223,405	199,268	(11,017)	1,411,657	(345,548)	1,066,109
Segment assets	¥13,106,846	¥1,574,176	¥5,172,424	¥19,853,447	¥6,677,376	¥26,530,824
Other						
Investment in affiliated companies	158,761	-	5,172,424	5,331,186	-	5,331,186
Increase of tangible and intangible fixed assets	280,173	110,881	-	391,055	-	391,055

- Adjustment for segment profit/(loss) of ¥345,548 thousand is included in the elimination of the intersegment ¥118,557 thousand and the general

administration expenses of ¥226,990 thousand that are not allocated to any reportable segment. The general administration expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administration expenses related to the General Affairs and Accounting Department.

- “Japan” includes the sales and expenses to the Japan market, European market (to affiliated company) and Asian market.
- “Europe” consists of the sales to the affiliated company and the segment profit/(loss) is recorded the “Equity in income/loss of affiliated companies”.
- Adjustment for segment assets of ¥6,677,376 thousand includes intersegment elimination of (¥361,973) thousand and corporate assets of ¥7,039,350 thousand that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits, long-term investments such as “Investment securities”, “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
For the year ended March 31, 2011	Japan	North America	Europe	Total		
Sales:						
Third party	¥18,562,370	¥3,438,761	¥ -	¥22,001,131	¥ -	¥22,001,131
Intersegment	1,043,264	-	-	1,043,264	(1,043,264)	-
Total	<u>19,605,634</u>	<u>3,438,761</u>	<u>-</u>	<u>23,044,395</u>	<u>(1,043,264)</u>	<u>22,001,131</u>
Segment profit/(loss)	5,579,665	863,631	93,898	6,537,195	(573,199)	5,963,995
Segment assets	¥15,291,665	¥2,281,039	¥4,896,826	¥22,469,531	¥11,798,820	¥34,268,352
Other						
Investment in affiliated companies	153,695	-	4,896,826	5,050,522	-	5,050,522
Increase of tangible and intangible fixed assets	1,607,112	304,190	-	1,911,302	-	1,911,302

Thousands of U.S. dollars						
For the year ended March 31, 2011	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$223,239	\$41,356	\$ -	\$264,595	\$ -	\$264,595
Intersegment	12,546	-	-	12,546	(12,546)	-
Total	235,786	41,356	-	277,142	(12,546)	264,595
Segment profit/(loss)	67,103	10,386	1,129	78,619	(6,893)	71,725
Segment assets	\$183,904	\$27,432	\$58,891	\$270,228	\$141,898	\$412,126
Other						
Investment in affiliated companies	1,848	-	58,891	60,739	-	60,739
Increase of tangible and intangible fixed assets	19,327	3,658	-	22,986	-	22,986

- Adjustment for segment profit/(loss) of ¥573,199 thousand (\$6,893 thousand) is included in the elimination of the intersegment ¥86,300 thousand (\$1,037 thousand) and the general administration expenses of ¥486,899 thousand (\$5,855 thousand) that are not allocated to any reportable segment. The general administration expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administration expenses related to the General Affairs and Accounting Department.
- “Japan” includes the sales and expenses to the Japan market, European market (to affiliated company) and Asian market.
- “Europe” consists of the sales to the affiliated company and the segment profit/(loss) is recorded the “Equity in income/loss of affiliated companies”.
- Adjustment for segment assets of ¥11,798,820 thousand (\$141,898 thousand) includes inter-segment elimination of (¥574,063) thousand ((\$6,903) thousands) and corporate assets of ¥12,372,884 thousand (\$148,801 thousands) that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits, long-term investments such as

“Investment securities”, “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

(Additional information)

From the year ended March 31, 2011, The Company has adopted ASBJ No.17 “Accounting Standard for disclosures about segments of an Enterprise and Related Information” issued on March 27, 2009 and ABSJ Guidance No.20 “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” issued on March 21, 2008.”

(c) Related information -

① Information by products/service -

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
Sales to third party			
Speed reducers	¥ 9,654,577	¥ 18,069,703	\$ 217,314
Mechatronic products	2,402,294	3,931,427	47,281
	<u>¥12,056,871</u>	<u>¥22,001,131</u>	<u>\$264,595</u>

The sales of the subsidiary, Winbel Co., Ltd. which is related to the development, manufacturing and sales of the Magnetic application equipment is classified into the mechatronic products.

② Geographic information -

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2010:					
Total Assets	<u>¥8,120,471</u>	<u>¥2,081,325</u>	<u>¥979,582</u>	<u>¥875,491</u>	<u>¥12,056,871</u>
For the year ended March 31, 2011:					
Total Assets	<u>¥15,655,353</u>	<u>¥3,438,761</u>	<u>¥1,570,653</u>	<u>¥1,336,362</u>	<u>¥22,001,131</u>

	Thousands of U.S.dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2011:					
Total Assets	<u>\$188,278</u>	<u>\$41,356</u>	<u>\$18,889</u>	<u>\$16,071</u>	<u>\$264,595</u>

- Sales are classified based on the location of the customers and classified into Countries and areas.
- Sales to Europe represent the sales to the affiliated company, Harmonic Drive AG.

Tangible fixed assets

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2010:				
Total Assets	<u>¥3,178,020</u>	<u>¥404,172</u>	<u>¥ -</u>	<u>¥3,582,192</u>
March 31, 2011:				
Total Assets	<u>¥4,209,163</u>	<u>¥608,242</u>	<u>¥ -</u>	<u>¥4,817,405</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2011:				
Total Assets	<u>\$50,621</u>	<u>\$7,314</u>	<u>\$ -</u>	<u>\$57,936</u>

③ Information of major customers -

Disclosure of major customers as of March 31, 2010 and 2011 were omitted due to materiality.

(d) Impairment of fixed assets information by the reportable segment -

There were no impairments of fixed assets for the year ended March 31, 2010 and 2011.

(e) Amortization of goodwill and the balance to be amortized -

For the year ended March 31, 2010	Thousands of yen					
	Reportable segment				Elimination and /or Corporate	Total
	Japan	North America	Europe	Total		
Goodwill:						
Amortization	¥2,063	¥ -	¥ -	¥2,063	¥ -	¥2,063
Balance	3,987	-	-	3,987	-	3,987
Negative goodwill:						
Amortization	¥5,543	¥ -	¥ -	¥5,543	¥ -	¥5,543
Balance	11,087	-	-	11,087	-	11,087

For the year ended March 31, 2011	Thousands of yen					
	Reportable segment				Elimination and /or Corporate	Total
	Japan	North America	Europe	Total		
Goodwill:						
Amortization	¥1,993	¥ -	¥ -	¥1,993	¥ -	¥1,993
Balance	1,993	-	-	1,993	-	1,993
Negative goodwill:						
Amortization	¥5,543	¥ -	¥ -	¥5,543	¥ -	¥5,543
Balance	5,543	-	-	5,543	-	5,543

For the year ended March 31, 2011	Thousands of U.S. dollars					
	Reportable segment				Elimination and /or Corporate	Total
	Japan	North America	Europe	Total		
Goodwill:						
Amortization	\$23	\$ -	\$ -	\$23	\$ -	\$23
Balance	23	-	-	23	-	23
Negative goodwill:						
Amortization	\$66	¥\$ -	\$ -	\$66	\$ -	\$66
Balance	66	-	-	66	-	66

(f) Gains on negative goodwill by the reportable segment -

There were no gains on negative goodwill for the year ended March 31, 2010 and 2011.

20. Transactions with related parties:

(a) Transactions with related parties -

Category	Affiliated company
Entity name	Harmonic Drive AG
Location	Land Hessen, Germany
Capital	Euro 1,550 thousand
Description of business	Manufacturing and sales of precision speed reducers
Share of shareholders voting rights	35.0% directly owned
Description of relationship	
- Sharing of directors	None
- Business relationship	Sales of the Company's products and the OEM products in Europe, Middle and Near East, Africa, India and South America
Business relationship	Sales of the Company's products

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
For the year:			
Sales to the affiliated company	¥979,582	¥1,570,638	\$18,889
At year-end:			
Notes and accounts receivable, trade	452,298	522,802	6,287

Sales of the Company's products to Harmonic Drive AG are executed on the terms and conditions similar to those for arm's-length transactions.

(b) Notes to significant affiliates -

The condensed financial information of the significant affiliated company, Harmonic Drive AG, is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2010	2011	2011
At year-end:			
Current assets	¥3,622,983	¥5,268,418	\$63,360
Fixed assets	1,314,532	1,010,925	12,157
Investments and other assets	655,286	507,053	6,098
Current liabilities	654,122	1,851,636	22,268
Long-term liabilities	724,745	819,706	9,858
Net assets	4,339,421	4,115,055	49,489
For the year:			
Sales	5,637,887	6,869,870	82,620
Income before income taxes	1,143,990	1,334,255	16,046
Net income	598,076	897,823	10,797

21. Earnings per share information:

The computation of earnings 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.

	<u>Yen</u>		<u>U.S. dollars</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Net assets per share	¥181,479.41	¥217,445.71	\$2,615.10
Earnings per share	4,899.26	29,003.43	348.80

Diluted earnings per share are not computed because the Company does not have potential dilutive shares.

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Net income	¥498,622	¥2,951,824	\$35,499
Net income attributable to common shareholders	<u>¥498,622</u>	<u>¥2,951,824</u>	<u>\$35,499</u>

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

	<u>Number of shares</u>	
	<u>2010</u>	<u>2011</u>
Weighted average number of shares	<u>101,775.0</u>	<u>101,775.0</u>

22. Subsequent events:

(a) For the year ended March 31, 2010 –

There have been no significant events after April 1, 2010.

(b) For the year ended March 31, 2011 -

Effective from April 1, 2011, the Company split one common stock into 300 shares and adopted a unit-of-share system based on the resolution approved at the meeting of the Board of Directors held on February 8, 2011

① Purposes of the stock split and adoption of a unit-of-share system -

By lowering the unit of the Company's stock investment through stock split, we aim to improve liquidity and broaden our investor base. In addition, in light of the purpose of the Action Plan for Consolidated Stock Trading Units announced by the Japanese Stock Exchange Conference, the Company will adopt a unit-of-share system with a trading unit of 100 shares becoming one share unit.

As a result of the stock split and the adoption of a unit-of-share system, the unit of investment will effectively be a third.

② Overview of stock split -

Method of the stock split:

One common share held by shareholders recorded on the shareholders list as of March 31, 2011 will be split into 300 shares.

Number of shares to be increased by the stock split:

Total number of shares and outstanding shares before the stock split	105,277 shares
Numbers of shares to be increased by the stock split	31,477,823 shares
Total number of shares after the stock split	31,583,100 shares
Total number of authorized shares after the stock split	118,800,000 shares

Schedule of the stock split:

Record date	March 31, 2011
Effective date	April 1, 2011

③ Adoption of a unit-of share system -

Number of shares constituting one unit of shares to be adopted:

The Company will adopt a unit-of-share system and the number of shares constituting one unit of shares shall be 100 shares.

Effective date: April 1, 2011

Earnings per share information on a pro forma basis assuming that the stock split had occurred on the April 1, 2009 and April 1, 2010 would be as follows:

	Yen		U.S. dollars
	<u>2010</u>	<u>2011</u>	<u>2011</u>
Net assets per share	¥604.93	¥724.82	\$8.71
Earnings per share	16.33	96.68	1.16

Diluted earnings per share are not computed because the Company does not have potential dilutive shares.

23. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2011.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2010	Balance at March 31, 2011	Balance at March 31, 2011		
Short-term borrowings	¥13,200	¥10,000	\$120	3.0	-
Current portion of long-term debt	742,756	740,752	8,908	0.9	-
Current portion of lease obligations	59,713	82,209	988	2.0	-
Long-term debt (excluding current portion)	2,291,489	1,558,205	18,739	1.0	2012-2020
Lease obligations (excluding current portion)	214,973	277,570	3,338	1.6	2012-2018
Total	<u>¥3,322,133</u>	<u>¥2,668,737</u>	<u>\$32,095</u>	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2011 are as follows:

March 31, 2011	Thousands of yen			
	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
Long-term debt	¥740,752	¥739,068	¥30,580	¥27,834
Lease obligation	80,117	79,037	53,247	31,093

March 31, 2011	Thousands of U.S. dollars			
	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
Long-term debt	\$8,908	\$8,888	\$367	\$334
Lease obligation	963	950	640	373

- The average interest rate represents the weighted-average rate applicable to the year-end balance.

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2010 and 2011 were omitted due to materiality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2011 is as follows:

	Thousands of yen (Net income per share: yen)			
	1 st quarter ended June 30, 2010	2 nd quarter ended September 30, 2010	3 rd quarter ended December 31, 2010	4 th quarter ended March 31, 2011
Sales	¥5,146,577	¥5,568,563	¥5,661,534	¥5,624,455
Income before income taxes and minority interest	1,495,425	1,298,991	1,539,456	966,736
Net income	840,993	740,844	859,225	510,761
Net income per share	¥8,263.26	¥7,279.24	¥8,442.40	¥5,018.53

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	1 st quarter ended June 30, 2010	2 nd quarter ended September 30, 2010	3 rd quarter ended December 31, 2010	4 th quarter ended March 31, 2011
Sales	\$61,895	\$66,970	\$68,088	\$67,642
Income before income taxes and minority interest	17,984	15,622	18,514	11,626
Net income	10,114	8,909	10,333	6,142
Net income per share	\$99.37	\$87.54	\$101.53	\$60.35