

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015



Independent Auditor's Report

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated financial statements of Harmonic Drive Systems Inc. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2015, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2015 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.

PricewaterhouseCoopers Aarata

June 30, 2015

PricewaterhouseCoopers Aarata

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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
	2014	2015	2015
Assets:			
Current assets -			
Cash and bank deposits (Notes 9(a) and 11(d))	¥9,057,018	¥12,117,107	\$100,833
Notes and accounts receivable, trade (Notes 11(d))	6,707,564	8,486,611	70,621
Marketable securities (Notes 9(a) and 12)	30,665	30,678	255
Finished products	192,766	245,302	2,041
Work in process	569,122	786,740	6,546
Raw materials and supplies	729,788	866,561	7,211
Deferred tax assets - current (Note 16)	465,572	508,035	4,227
Other current assets	231,405	174,754	1,454
Allowance for doubtful accounts (Note 11(d))	(54,207)	-	-
Total current assets	<u>17,929,696</u>	<u>23,215,791</u>	<u>193,191</u>
Fixed assets -			
Tangible fixed assets (Notes 5(b), 10 and 17(d)):			
Buildings and structures	2,248,413	2,263,366	18,834
Machinery and equipment	1,799,848	2,868,943	23,874
Land	1,012,029	1,023,611	8,518
Leased assets	139,784	145,972	1,214
Construction in progress	60,105	65,451	544
Others	573,455	778,641	6,479
Total tangible fixed assets	<u>5,833,637</u>	<u>7,145,987</u>	<u>59,465</u>
Intangible fixed assets:			
Software	169,581	169,222	1,408
Others	9,403	7,818	65
Total intangible fixed assets	<u>178,984</u>	<u>177,041</u>	<u>1,473</u>
Investments and other assets:			
Investment securities (Notes 11(d) and 12)	769,549	757,963	6,307
Investment in affiliated companies (Notes 5(a), 11(d), and 12)	13,207,876	16,956,042	141,100
Long-term loans receivable	306,339	360,375	2,998
Long-term prepaid expenses (Note 14)	4,703	48,631	404
Long-term bank deposits	1,850	4,250	35
Net defined benefit assets (Note 14)	603,689	1,024,406	8,524
Deferred tax assets – non current (Note 16)	25,973	28,894	240
Others	75,415	87,559	728
Allowance for doubtful accounts	(311,767)	(365,975)	(3,045)
Total investments and other assets	<u>14,683,629</u>	<u>18,902,147</u>	<u>157,295</u>
Total fixed assets	<u>20,696,251</u>	<u>26,225,177</u>	<u>218,233</u>
 Total assets	 <u>¥38,625,948</u>	 <u>¥49,440,969</u>	 <u>\$411,425</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
	2014	2015	2015
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 11(d))	¥1,742,185	¥2,159,842	\$17,973
Short-term borrowings (Note 21(b))	10,000	130,000	1,081
Current portion of long-term debt (Notes 5(b) and 21(b))	52,143	154,668	1,287
Lease obligations – current (Note 21(b))	59,988	47,803	397
Accrued income taxes (Note 11(d))	1,134,314	1,541,906	12,831
Accrued bonuses for employees	664,693	783,801	6,522
Accrued bonuses for directors and audit & supervisory board members	115,126	165,336	1,375
Accrued warranty expenses	43,699	60,882	506
Other current liabilities	1,257,119	2,131,996	17,741
Total current liabilities	<u>5,079,270</u>	<u>7,176,238</u>	<u>59,717</u>
Long-term liabilities -			
Long-term debt (Notes 5(b) and 21(b))	155,519	460,462	3,831
Long-term accounts payable, other	47,598	47,598	396
Lease obligations – non current (Note 21(b))	81,565	101,107	841
Deferred tax liabilities – non current (Note 16)	2,345,913	3,508,990	29,200
Reserve for retirement benefits for directors and audit & supervisory board members	311,744	348,069	2,896
Reserve for retirement benefits for executive officers	36,637	57,807	481
Net defined benefit liabilities (Note 14)	46,807	59,816	497
Total long-term liabilities	<u>3,025,787</u>	<u>4,583,852</u>	<u>38,144</u>
Total liabilities	<u>8,105,058</u>	<u>11,760,090</u>	<u>97,862</u>
Net assets (Note 19):			
Shareholders' equity (Note 8) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding: 94,749,300 shares	1,610,542	1,610,542	13,402
Capital surplus	5,203,709	5,203,709	43,302
Retained earnings	20,503,247	24,356,267	202,681
Treasury stock, at cost	(2,304,883)	(2,305,055)	(19,181)
Total shareholders' equity	<u>25,012,616</u>	<u>28,865,464</u>	<u>240,205</u>
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 12)	3,740,491	6,382,214	53,109
Foreign currency translation adjustments	425,562	781,690	6,504
Remeasurements of defined benefit plans	144,575	214,134	1,781
Total accumulated other comprehensive income	<u>4,310,629</u>	<u>7,378,040</u>	<u>61,396</u>
Minority interest in consolidated subsidiaries	1,197,644	1,437,374	11,961
Total net assets	<u>30,520,889</u>	<u>37,680,878</u>	<u>313,563</u>
Total liabilities and net assets	<u>¥38,625,948</u>	<u>¥49,440,969</u>	<u>\$411,425</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
	2014	2015	2015
Net sales (Notes 17 and 21(d))	¥21,083,534	¥25,951,062	\$215,952
Cost of sales (Notes 6(b) and 17)	11,965,633	13,829,327	115,081
Gross profit	9,117,901	12,121,735	100,871
Selling, general and administrative expenses (Notes 6(a) and 6(b))	4,449,801	5,054,923	42,064
Operating profit	4,668,100	7,066,812	58,806
Other income:			
Interest income	5,775	8,422	70
Dividend income	118,292	140,337	1,167
Equity in income of affiliated companies	85,786	299,861	2,495
Subsidiaries	16,402	9,484	78
Foreign exchange gain	41,862	18,458	153
Others	13,477	35,968	299
	281,597	512,532	4,265
Other expenses:			
Interest expense	43,362	5,516	45
Commissions	32,559	-	-
Commitment fees for credit facility contracts	25,475	5,999	49
R & D costs related to subsidiaries	15,263	7,957	66
Others	10,454	34,706	288
	127,115	54,180	450
Ordinary profit	4,822,582	7,525,164	62,620
Exceptional gains:			
Gain on sales of fixed assets (Note 6(c))	-	3,067	25
	-	3,067	25
Exceptional losses:			
Loss on disposal of fixed assets (Note 6(d))	1,246	13,926	115
Loss on compensation for finished products quality issues	24,112	44,768	372
Additional retirement benefits paid for a director	19,800	-	-
Others	5,692	-	-
	50,851	58,695	488
Income before income taxes and minority interest (Note 21(d))	4,771,730	7,469,536	62,158
Income taxes:			
Current	1,752,149	2,555,092	21,262
Deferred	7,978	28,136	234
	1,760,127	2,583,229	21,496
Income before minority interest	3,011,603	4,886,307	40,661
Minority interest in income of consolidated subsidiaries	17,860	52,707	438
Net income (Note 19 and 21(d))	¥2,993,743	¥4,833,599	\$40,223

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>2014</u>	<u>2015</u>	<u>March 31</u>
			<u>2015</u>
Income before minority interest	¥3,011,603	¥4,886,307	\$40,661
Other comprehensive income -			
Net unrealized gains on available-for-sale securities	1,123,082	2,641,723	21,983
Foreign currency translation adjustments	509,144	511,141	4,253
Remeasurements of defined benefit plans	-	69,559	578
Equity in other comprehensive income of an affiliated company accounted for by equity method	521,182	36,156	300
Total other comprehensive income (Note 7(a))	<u>2,153,409</u>	<u>3,258,581</u>	<u>27,116</u>
Comprehensive income	<u>¥5,165,012</u>	<u>¥8,144,888</u>	<u>\$67,778</u>
Attributable to -			
Shareholders of Harmonic Drive Systems Inc.	¥4,950,301	¥7,912,023	\$65,840
Minority interest	214,710	232,865	1,937

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
	2014	2015	2015
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥1,610,542	¥1,610,542	\$13,402
Balance at the end of the year	<u>1,610,542</u>	<u>1,610,542</u>	<u>13,402</u>
Capital surplus -			
Balance at the beginning of the year	5,203,709	5,203,709	43,302
Balance at the end of the year	<u>5,203,709</u>	<u>5,203,709</u>	<u>43,302</u>
Retained earnings -			
Balance at the beginning of the year	18,242,282	20,503,247	170,618
Cumulative effects of changes in accounting policies	-	149,118	1,240
Restated balance	<u>18,242,282</u>	<u>20,652,365</u>	<u>171,859</u>
Changes during the year			
Cash dividends	(732,777)	(1,129,698)	(9,400)
Net income	2,993,743	4,833,599	40,223
Total changes	<u>2,260,965</u>	<u>3,703,901</u>	<u>30,822</u>
Balance at the end of the year	<u>20,503,247</u>	<u>24,356,267</u>	<u>202,681</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(2,304,883)	(2,304,883)	(19,180)
Changes during the year			
Purchase of treasury stock	-	(171)	(1)
Total changes	<u>-</u>	<u>(171)</u>	<u>(1)</u>
Balance at the end of the year	<u>(2,304,883)</u>	<u>(2,305,055)</u>	<u>(19,181)</u>
Total shareholders' equity -			
Balance at the beginning of the year	22,751,650	25,012,616	208,143
Cumulative effects of changes in accounting policies	-	149,118	1,240
Restated balance	<u>22,751,650</u>	<u>25,161,734</u>	<u>209,384</u>
Changes during the year			
Cash dividends	(732,777)	(1,129,698)	(9,400)
Net income	2,993,743	4,833,599	40,223
Purchase of treasury stock	-	(171)	(1)
Total changes	<u>2,260,965</u>	<u>3,703,730</u>	<u>30,820</u>
Balance at the end of the year	<u>¥25,012,616</u>	<u>¥28,865,464</u>	<u>\$240,205</u>
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥2,617,408	¥3,740,491	\$31,126
Changes during the year			
Net changes in items other than those in shareholders' equity	1,123,082	2,641,723	21,983
Total changes	<u>1,123,082</u>	<u>2,641,723</u>	<u>21,983</u>
Balance at the end of the year	<u>3,740,491</u>	<u>6,382,214</u>	<u>53,109</u>

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
	2014	2015	2015
Accumulated other comprehensive income (continued)			
Foreign currency translation adjustments -			
Balance at the beginning of the year	(¥407,913)	¥425,562	¥3,541
Changes during the year			
Net changes in items other than those in shareholders' equity	833,475	356,128	2,963
Total changes	833,475	356,128	2,963
Balance at the end of the year	425,562	781,690	6,504
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	-	144,575	1,203
Changes during the year			
Net changes in items other than those in shareholders' equity	144,575	69,559	578
Total changes	144,575	69,559	578
Balance at the end of the year	144,575	214,134	1,781
Total Accumulated other comprehensive income			
Balance at the beginning of the year	2,209,495	4,310,629	35,871
Changes during the year			
Net changes in items other than those in shareholders' equity	2,101,133	3,067,410	25,525
Total changes	2,101,133	3,067,410	25,525
Balance at the end of the year	4,310,629	7,378,040	61,396
Minority interest in consolidated subsidiaries:			
Balance at the beginning of the year	1,025,421	1,197,644	9,966
Changes during the year			
Net changes in items other than those in shareholders' equity	172,223	239,729	1,994
Total changes	172,223	239,729	1,994
Balance at the end of the year	1,197,644	1,437,374	11,961
Total net assets:			
Balance at the beginning of the year	25,986,567	30,520,889	253,980
Cumulative effects of changes in accounting policies	-	149,118	1,240
Restated balance	25,986,567	30,670,007	255,221
Changes during the year			
Cash dividends	(732,777)	(1,129,698)	(9,400)
Net income	2,993,743	4,833,599	40,223
Purchase of treasury stock	-	(171)	(1)
Net changes in items other than those in shareholders' equity	2,273,356	3,307,140	27,520
Total changes	4,534,322	7,010,870	58,341
Balance at the end of the year	¥30,520,889	¥37,680,878	\$313,563

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
	2014	2015	2015
Cash flows from operating activities:			
Income before income taxes and minority interest	¥4,771,730	¥7,469,536	\$62,158
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities -			
Depreciation and amortization	1,170,661	1,305,109	10,860
Decrease in allowance for doubtful accounts	(7,971)	-	-
Increase in net defined benefit liabilities	13,116	18,563	154
(Decrease) Increase in reserve for retirement benefits for directors and audit & supervisory board members	(9,650)	36,325	302
(Decrease) Increase in reserve for retirement benefits for executive officers	(51,492)	21,170	176
Increase in accrued bonuses for directors and audit & supervisory board members	41,146	50,209	417
(Decrease) Increase in accrued warranty expenses	(21,586)	17,182	142
Interest income	(5,775)	(8,422)	(70)
Dividend income	(118,292)	(140,337)	(1,167)
Interest expense	43,362	5,516	45
Equity in income of affiliated companies	(85,786)	(299,861)	(2,495)
Gain on sales of fixed assets	-	(3,067)	(25)
Loss on disposal of fixed assets	1,246	13,926	115
Increase in trade receivables	(1,578,279)	(1,679,475)	(13,975)
Increase in inventories	(135,184)	(333,172)	(2,772)
Increase in trade payables	167,219	348,492	2,899
Others, net	363,470	367,016	3,054
Subtotal	4,557,934	7,188,712	59,821
Interest and dividends received	131,561	148,606	1,236
Dividends received from an affiliated company	136,111	195,146	1,623
Interest paid	(38,019)	(16,144)	(134)
Income taxes paid	(1,152,682)	(2,041,202)	(16,985)
Income taxes refunded	8,289	19,386	161
Net cash provided by operating activities	3,643,195	5,494,504	45,722

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
	2014	2015	2015
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(1,223,922)	(1,878,073)	(15,628)
Proceeds from sales of tangible fixed assets	-	7,776	64
Payments for purchases of intangible fixed assets	(81,763)	(64,330)	(535)
Payments for time deposits with a deposit period of over three months	(1,956,957)	(1,708,795)	(14,219)
Proceeds from maturities of time deposits with a deposit period of over three months	2,094,000	1,595,000	13,272
Payments for guarantee deposits	(14,927)	(11,079)	(92)
Proceeds from collection of guarantee deposits	743	1,154	9
Payments for short-term loans receivable	(350)	-	-
Proceeds from collection of short-term loans receivable	350	170	1
Proceeds from collection of long-term loans receivable	326	166	1
Others, net	79,793	(45,882)	(381)
Net cash provided by (used in) investing activities	<u>(1,102,707)</u>	<u>(2,103,894)</u>	<u>(17,507)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	20,000	550,000	4,576
Repayments of short-term borrowings	(20,000)	(430,000)	(3,578)
Proceeds from long-term debt	110,799	538,000	4,476
Repayments of long-term debt	(4,812,714)	(130,533)	(1,086)
Repayments of lease obligations	(85,089)	(61,852)	(514)
Purchase of treasury stock	-	(171)	(1)
Cash dividends paid	(732,777)	(1,129,698)	(9,400)
Cash dividends paid to minority shareholders	(71,550)	(73,420)	(610)
Net cash used in financing activities	<u>(5,591,332)</u>	<u>(737,677)</u>	<u>(6,138)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>221,214</u>	<u>193,363</u>	<u>1,609</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,829,629)</u>	<u>2,846,296</u>	<u>23,685</u>
Cash and cash equivalents at the beginning of year	<u>9,713,580</u>	<u>6,883,951</u>	<u>57,285</u>
Cash and cash equivalents at the end of year (Note 9(a))	<u>¥6,883,951</u>	<u>¥9,730,247</u>	<u>\$80,970</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, 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, by subsidiaries in the United States and by 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 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 ¥120.17 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2015. 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, 2014 and 2015 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.
- Winbel Co., Ltd.
- Harmonic Drive Systems (Shanghai) Co., Ltd.
- SAMICK ADM CO., LTD.

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

The Company holds a 35.0% and 36.8% share in a sales distributor in Europe named as Harmonic Drive AG for the years ended March 31, 2014 and 2015, respectively. The investment in the shares of Harmonic Drive AG is accounted for using the equity method in the consolidated financial statements. In addition, the Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is also accounted for using the equity method in the consolidated financial statements.

The Company's foreign subsidiaries (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., and SAMICK ADM 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:

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 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 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, 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.

Finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee and that were entered into before March 31, 2008, 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 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 the Companies' internal rule for retirement benefits for directors and audit & supervisory board members, the reserve for retirement benefits for directors and audit & supervisory board members of the Companies 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, 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) 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) Amortization of goodwill and negative goodwill -

Goodwill is amortized on a straight-line basis over a period of 5 years.

(i) 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.

(j) 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.

3. Accounting changes:

(a) Adoption of Accounting Standard for Retirement Benefits -

Effective from the year ended March 31, 2015, the Company adopted the “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012, hereinafter referred to as the “Accounting Standard”) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, March 26, 2015, hereinafter referred to as the “Guidance on Retirement Benefits”), under the stipulations in Article 35 of the Accounting Standard and Article 67 of the

Guidance on Retirement Benefits. The methods used to calculate retirement benefit obligations and service costs are revised, including changes in (a) the period allocation methodology, from a straight line basis to a benefit formula basis and (b) the method of discount rate calculation.

In accordance with the transitional treatment as stipulated in Article 37 of the Accounting Standard, the impact of those changes is reflected as additions to / subtractions from retained earnings at the beginning of the year ended March 31, 2015. As a result, net defined benefit assets increased by ¥231,190 thousand (\$1,923 thousand) and retained earnings increased by ¥149,118 thousand (\$1,240 thousand), respectively, at the beginning of the fiscal year. The impact on operating income, ordinary profit and income before income taxes for the year ended March 31, 2015 was immaterial.

The effect on net assets per share is to increase by ¥1.63 (\$0.01) and the impact on net income per share is immaterial.

4. Change in presentation:

(a) Retirement benefits -

With the revision to the Guidance on Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015), the Company has made a change to the previous method of presenting the notes to retirement benefits based on a multi-employer plan, and reclassifies the notes to the consolidated financial statements for the year ended March 31, 2014.

The contents of the reclassified consolidated financial statements and the corresponding amounts pertaining to the main items in the consolidated financial statements of the previous year are described in the relevant sections.

5. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2014 and 2015 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Investment in affiliated companies	<u>¥5,456,766</u>	<u>¥5,593,842</u>	<u>\$46,549</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, 2014 and 2015:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Buildings	¥28,245	¥28,902	\$240
Land	<u>33,146</u>	<u>33,146</u>	<u>275</u>
	<u>¥61,391</u>	<u>¥62,048</u>	<u>\$516</u>
Secured long-term debt:			
Current portion of long-term debt	¥8,692	¥5,256	\$43
Long-term debt	<u>22,228</u>	<u>9,392</u>	<u>78</u>
	<u>¥30,920</u>	<u>¥14,648</u>	<u>\$121</u>

(c) Credit facility contracts -

The Company entered into credit facility contracts with four banks at March 31, 2014, totaling ¥5,000,000 thousand (\$41,607 thousand) for 3 years. In addition, the contract has been extended until March 30, 2018 for the source of the medium-term working capital. As of March 31, 2014 and 2015, there were no loans outstanding under these contracts.

6. 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, 2014 and 2015 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Salaries and bonuses	¥1,436,447	¥1,614,077	\$13,431
Accrued bonuses for directors and audit & supervisory board members	98,826	184,329	1,533
Retirement benefit expenses	51,095	30,443	253
Reserve for retirement benefits for directors and audit & supervisory board members	34,485	35,365	294
Reserve for retirement benefits for executive officers	15,067	21,170	176
Research and development expenses	1,213,668	1,282,350	10,671

(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 ¥1,235,196 thousand and ¥1,309,311 thousand (\$10,895 thousand) for the years ended March 31, 2014 and 2015, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2014 and 2015 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Gain on sales of:			
Machinery and equipment	¥ -	¥ 2,979	\$ 24
Tools, furniture and fixtures	-	87	0
	¥ -	¥3,067	\$ 25

(d) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2014 and 2015 was as follows:

	Thousands of yen		Thousands of
	2014	2015	U.S. dollars
			2015
Loss on disposal of:			
Buildings and structures	¥185	¥2,065	\$17
Machinery and equipment	538	0	0
Tools, furniture and fixtures	522	11,860	98
	<u>¥1,246</u>	<u>¥13,926</u>	<u>\$115</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, 2014 and 2015 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2015</u>	<u>U.S. dollars</u>
			<u>2015</u>
Net unrealized gains on available-for-sale securities			
Changes arising during the year	¥1,741,213	¥3,600,221	\$29,959
Recycling adjustments	-	-	-
Before tax effect	1,741,213	3,600,221	29,959
Tax effect	(618,130)	(958,497)	(7,976)
Net unrealized gains on available-for-sale securities	1,123,082	2,641,723	21,983
Foreign currency translation adjustments			
Changes arising during the year	509,144	511,141	4,253
Remeasurements of defined benefit plans			
Changes arising during the year	-	¥174,562	\$1,452
Recycling adjustments	-	(83,342)	(693)
Before tax effect	-	91,220	759
Tax effect	-	(21,660)	(180)
Net unrealized gains on available-for-sale securities	-	69,559	578
Equity in other comprehensive income of an affiliated company accounted for by equity method			
Changes arising during the year	521,182	36,156	300
 Total other comprehensive income	 <u>¥2,153,409</u>	 <u>¥3,258,581</u>	 <u>\$27,116</u>

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

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2014</u>
Common stock (shares)	<u>31,583,100</u>	<u>-</u>	<u>-</u>	<u>31,583,100</u>

<u>Share type</u>	<u>April 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2015</u>
Common stock (shares)	<u>31,583,100</u>	<u>63,166,200</u>	<u>-</u>	<u>94,749,300</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2014</u>
Common stock (shares)	<u>1,050,687</u>	<u>-</u>	<u>-</u>	<u>1,050,687</u>

<u>Share type</u>	<u>April 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2015</u>
Common stock (shares)	<u>1,050,687</u>	<u>2,101,506</u>	<u>-</u>	<u>3,152,193</u>

(Notes)

- One common share held by shareholders was split into 3 shares effective from October 1, 2014.
- Increase of treasury stock for the year ended March 31, 2015 included an increase due to the share split into 3 shares above and purchases of less-than-one unit common shares from shareholders.

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2014 and 2015.

(d) Dividends -

For the year ended March 31, 2014:

- ① Dividends paid during the current year -
- (i) The following was resolved by the annual shareholders' meeting held on June 21, 2013:
- | | |
|--|----------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥305,324 |
| Cash dividend per share
(Yen) | ¥10 |
| Record date | March 31, 2013 |
| Declaration date | June 24, 2013 |
- (ii) The following was determined by the board of directors meeting held on November 12, 2013:
- | | |
|--|--------------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥427,453 |
| Cash dividend per share
(Yen) | ¥14 |
| Record date | September 30, 2013 |
| Declaration date | December 9, 2013 |
- 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 20, 2014:
- | | |
|--|-------------------|
| 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) | ¥457,986 |
| Cash dividend per share
(Yen) | ¥15 |
| Record date | March 31, 2014 |
| Declaration date | June 23, 2014 |

For the year ended March 31, 2015:

① Dividends paid during the current year -	
(i) The following was resolved by the annual shareholders' meeting held on June 20, 2014:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥457,986
(Thousands of U.S. dollars)	(\$3,811)
Cash dividend per share	
(Yen)	¥15
(U.S. dollars)	(\$0.12)
Record date	March 31, 2014
Declaration date	June 23, 2014
(ii) The following was determined by the board of directors meeting held on November 12, 2014:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥671,712
(Thousands of U.S. dollars)	(\$5,589)
Cash dividend per share	
(Yen)	¥22
(U.S. dollars)	(\$0.18)
Record date	September 30, 2014
Declaration date	December 8, 2014
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 19, 2015:	
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)	¥641,179
(Thousands of U.S. dollars)	(\$5,335)
Cash dividend per share	
(Yen)	¥7
(U.S. dollars)	(\$0.05)
Record date	March 31, 2015
Declaration date	June 22, 2015

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, 2014 and 2015 were comprised of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2015</u>	<u>U.S. dollars</u>
			<u>2015</u>
Cash and bank deposits	¥9,057,018	¥12,117,107	\$100,833
Highly liquid investments	30,665	30,678	255
Time deposits with a deposit period of over three months	<u>(2,203,732)</u>	<u>(2,417,538)</u>	<u>(20,117)</u>
Cash and cash equivalents	<u>¥6,883,951</u>	<u>¥9,730,247</u>	<u>\$80,970</u>

10. 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 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, 2014 and 2015 were ¥59,120 thousand and ¥670 thousand (\$5 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, 2014 and 2015 and the consolidated statements of income for the years then ended:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2014</u>	<u>2015</u>	<u>2015</u>
Machinery and equipment	¥35,300	¥13,700	\$114
Less - Accumulated depreciation	<u>(24,105)</u>	<u>(5,552)</u>	<u>(46)</u>
	<u>¥11,194</u>	<u>¥8,147</u>	<u>\$67</u>
	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2014</u>	<u>2015</u>	<u>2015</u>
Depreciation	¥54,401	¥514	\$4
Interest expenses	710	6	0

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, 2014 and 2015 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Due within 1 year	¥3,026	¥2,525	\$21
Due after 1 year	8,764	6,238	51
	<u>¥11,790</u>	<u>¥8,764</u>	<u>\$72</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, 2014 and 2015 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Due within 1 year	¥173,217	¥165,788	\$1,379
Due after 1 year	213,085	82,243	684
	<u>¥386,302</u>	<u>¥248,032</u>	<u>\$2,064</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, but to hedge 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 with the financial institutions with high credit ratings in accordance with the internal rules on assignment of authority and responsibility, the Companies believe it is exposed to almost no contractual default risk.

Marketable securities are money management funds which have almost 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 partner company's credit risk. The Companies monitor the financial conditions of the partner company periodically. Long-term loans receivable include the loans to employees, which are managed in accordance with the internal rules.

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

Short-term borrowings and long-term debt are used to raise funds mainly for 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.

(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, 2014 and 2015. Financial instruments, for which the fair value is difficult to determine, are not included in the following table (See (Note 2) below for additional information.).

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2014:			
(1) Cash and bank deposits	¥9,057,018	¥9,057,018	¥ -
(2) Notes and accounts receivable, trade	6,707,564	6,707,564	-
(3) Investment securities			
Available-for-sale securities	765,032	765,032	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>7,751,110</u>	<u>7,751,110</u>	<u>-</u>
Assets total	<u>¥24,280,726</u>	<u>¥24,280,726</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥1,742,185	¥1,742,185	¥ -
(2) Accrued income taxes	<u>1,134,314</u>	<u>1,134,314</u>	<u>-</u>
Liabilities total	<u>¥2,876,499</u>	<u>¥2,876,499</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 1,181)</u>	<u>(¥ 1,181)</u>	<u>¥ -</u>

March 31, 2015:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥12,117,107	¥12,117,107	¥ -
(2) Notes and accounts receivable, trade	8,486,611	8,486,611	-
(3) Investment securities			
Available-for-sale securities	754,163	754,163	-
(4) Investment in affiliated companies			
Available-for-sale securities	11,362,200	11,362,200	-
Assets total	<u>¥32,720,082</u>	<u>¥32,720,082</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,159,842	¥2,159,842	¥ -
(2) Accrued income taxes	1,541,906	1,541,906	-
Liabilities total	<u>¥3,701,749</u>	<u>¥3,701,749</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 9,295)</u>	<u>(¥ 9,295)</u>	<u>¥ -</u>
	Thousands of U.S. dollars		
March 31, 2015:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$100,833	\$100,833	\$ -
(2) Notes and accounts receivable, trade	70,621	70,621	-
(3) Investment securities			
Available-for-sale securities	6,275	6,275	-
(4) Investment in affiliated companies			
Available-for-sale securities	94,551	94,551	-
Assets total	<u>\$272,281</u>	<u>\$272,281</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$17,973	\$17,973	\$ -
(2) Accrued income taxes	12,831	12,831	-
Liabilities total	<u>\$30,804</u>	<u>\$30,804</u>	<u>\$ -</u>
Derivative transactions	<u>(\$ 77)</u>	<u>(\$ 77)</u>	<u>\$ -</u>

(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 12. Marketable securities and investment securities" for the footnote information by holding purpose.

(4) Investment in affiliated companies

The fair value is measured at the quoted market price of the stock exchange. See "Note 12. Marketable securities and investment securities" for the footnote information by holding purpose.

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.

Derivative transactions

See "Note 13. Derivative financial instruments".

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

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Investment securities			
Unlisted equity securities	<u>¥4,516</u>	<u>¥3,800</u>	<u>\$31</u>
Investment in affiliated companies			
Unlisted equity securities	<u>5,456,766</u>	<u>5,593,842</u>	<u>\$46,549</u>

Unlisted equity securities are not included in “(3) Investment securities” and “(4) Investment in affiliated companies” in the first table above 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.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2014 and 2015 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, 2014:				
Cash and bank deposits	¥9,057,018	-	-	-
Notes and accounts receivable, trade	<u>6,707,564</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥15,764,583</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, 2015:				
Cash and bank deposits	¥12,117,107	-	-	-
Notes and accounts receivable, trade	<u>8,486,611</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥20,603,718</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, 2015:				
Cash and bank deposits	\$ 100,833	-	-	-
Notes and accounts receivable, trade	70,621	-	-	-
	<u>\$ 171,454</u>	<u>-</u>	<u>-</u>	<u>-</u>

12. Marketable securities and investment securities:

The aggregate cost, 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, 2014 and 2015 were as follows:

		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2014				
Equity securities	¥2,716,931	5,799,211	-	¥8,516,142
		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2015				
Equity securities	¥2,716,931	9,399,432	-	¥12,116,363
		Thousands of U.S. dollars		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2015:				
Equity securities	\$22,609	78,217	-	\$100,826

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. There are no impairment losses on available-for-sale securities with market quotations for the years ended March 31, 2014 and 2015.

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				
March 31, 2014	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	¥132,564	¥ -	¥131,369	(¥1,194)
Sell Korean Won	190,580	-	190,592	12
	<u>¥323,144</u>	<u>¥ -</u>	<u>¥321,962</u>	<u>(¥1,181)</u>

Thousands of Yen				
March 31, 2015	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	¥228,532	¥ -	¥229,075	¥543
Sell Korean Won	312,460	-	302,621	(9,838)
	<u>¥540,992</u>	<u>¥ -</u>	<u>¥531,696</u>	<u>(¥9,295)</u>

Thousands of U.S. Dollars				
March 31, 2015	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	\$1,901	\$ -	\$1,906	\$4
Sell Korean Won	2,600	-	2,518	(81)
	<u>\$4,501</u>	<u>\$ -</u>	<u>\$4,424</u>	<u>(\$77)</u>

Note: The fair value of forward exchange contracts is determined by the forward exchange rate.

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.

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. This employees' pension fund plan is not subject to actuarial computation of accrued retirement benefits for employees recorded in the consolidated balance sheets, because the plan assets corresponding to the Companies' contribution to the plan cannot be computed in a reasonable way. The contributions to this plan are recognized as retirement benefit expenses.

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

The information for the defined benefit plans as of March 31, 2014 and 2015 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
	2014	2015	U.S. dollars
			2015
Defined benefits plan obligations at beginning of the year	¥1,727,959	¥1,859,111	\$15,470
Cumulative effects of changes in accounting policies	-	(231,190)	(1,923)
Restated balance	1,727,959	1,627,920	13,546
Service cost	100,471	128,621	1,070
Interest cost	31,103	9,594	79
Actuarial differences	1,663	2,275	18
Retirement benefits paid	(2,085)	(78,079)	(649)
Past service costs	-	-	-
Other	-	-	-
Defined benefits plan obligations at end of the year	<u>¥1,859,111</u>	<u>¥1,690,333</u>	<u>\$14,066</u>

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

	Thousands of yen		Thousands of
	2014	2015	U.S. dollars
			2015
Plan assets at beginning of the year	¥2,202,041	¥2,462,800	\$20,494
Expected return on plan assets	44,040	49,255	409
Actuarial differences	115,475	176,838	1,471
Employer contributions	103,315	103,923	864
Retirements benefits paid	(2,085)	(78,079)	(649)
Other	13	-	-
Plan assets at end of the year	<u>¥2,462,800</u>	<u>¥2,714,739</u>	<u>\$22,590</u>

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

	Thousands of yen		Thousands of
	2014	2015	U.S. dollars
			2015
Defined benefits plan obligations of funded plan	¥1,859,111	¥1,690,333	\$14,066
Plan assets	(2,462,800)	(2,714,739)	(22,590)
	(603,689)	(1,024,406)	(8,524)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(603,689)	(1,024,406)	(8,524)
Net defined benefit assets	(603,689)	(1,024,406)	(8,524)
Net liabilities or assets recorded in the consolidated balance sheet	(¥603,689)	(¥1,024,406)	(\$8,524)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2014	2015	U.S. dollars
			2015
Service cost	¥100,471	¥128,621	\$1,070
Interest cost	31,103	9,594	79
Expected return on plan assets	(44,040)	(49,255)	(409)
Actuarial differences	(28,138)	(83,342)	(693)
Past service costs	-	-	-
Other	(13)	-	-
Retirement benefit expenses related to the defined benefit plans	¥59,382	¥5,617	\$46

⑤ Components of defined benefit plans –

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

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Past service costs	¥ -	¥ -	\$ -
Actuarial differences	-	(91,220)	(759)
Other	-	-	-
Total	¥ -	(¥91,220)	(\$759)

⑥ Components of remeasurements of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Unrecognized past service costs	¥ -	¥ -	\$ -
Unrecognized actuarial differences	(224,147)	(315,367)	(2,624)
Total	(¥224,147)	(¥315,367)	(\$2,624)

⑦ Plan assets -

1) Components of plan assets

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

	2014	2015
Bonds	68%	71%
Equities	29%	26%
Cash and bank deposits	3%	3%
Other	-	-
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, 2014 and 2015 were as follows:

	<u>2014</u>	<u>2015</u>
Discount rate	1.80%	0.59%
Expected return ratio on plan assets	2.00%	2.00%

(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.S. dollars</u>
	<u>2014</u>	<u>2015</u>	<u>2015</u>
Net defined benefit liabilities at beginning of the year	¥32,729	¥46,807	\$389
Retirement benefits expenses	7,955	13,009	108
Retirement benefits paid	-	-	-
Contributions to the plan	-	-	-
Other	6,122	-	-
Net defined benefit liabilities at end of the year	<u>¥46,807</u>	<u>¥59,816</u>	<u>\$497</u>

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

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2014</u>	<u>2015</u>	<u>U.S. dollars</u>
			<u>2015</u>
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Defined benefits plan obligations of unfunded plan	<u>46,807</u>	<u>59,816</u>	<u>497</u>
Net liabilities or assets recorded in the consolidated balance sheet	46,807	59,816	497
Net defined benefit liabilities	<u>46,807</u>	<u>59,816</u>	<u>497</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥46,807</u>	<u>¥59,816</u>	<u>\$497</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2014 and 2015 calculated by the simplified accounting method were ¥7,955 thousand and ¥13,009 thousand (\$108 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of the Company and its certain subsidiaries for the year ended March 31, 2014 and 2015 were ¥20,894 thousand and ¥25,363 thousand (\$211 thousand), respectively.

(c) 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, 2014 and 2015 was as follows:

	Millions of yen		Millions of U.S. dollars
	2014	2015	2015
Plan assets	¥116,171	¥126,998	\$1,056
Total amount of actuarial the pension obligations and minimum reserve amount based on the calculation of pension financing in the scheme (Note)	140,708	146,473	1,218
Net balance	<u>(¥24,537)</u>	<u>(¥19,475)</u>	<u>(\$162)</u>

Notes: In the previous year, there was an item that was presented separately as “Benefit obligations based on the pension plan funding formula.”

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

The Company’s contributions to the multi-employer plan represented 1.44% and 1.54% of those in total to the plan for the years ended March 31, 2014 and 2015, respectively.

③ Supplementary explanation -

The net balance at March 31, 2014 and 2015 on the schedule above resulted mainly from the past service cost of ¥23,841 million and ¥21,774 million (\$181 million), respectively. Amortization period of the past service cost is 20 years. The share as described in ② above does not represent the Company’s actual share in the obligations of the plan.

The Company’s contributions to the multi-employer pension plan, which the Company has accounted for as if it were a defined contribution plan, for the years ended March 31, 2014 and 2015 were ¥95,935 thousand and ¥103,769 thousand (\$863 thousand), respectively.

15. Stock options:

No stock options were granted during the years ended March 31, 2014 and 2015.

16. Income taxes:

Deferred tax assets and liabilities as of March 31, 2014 and 2015 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred tax assets - current:			
Accrued enterprise taxes	¥ 80,189	¥ 110,489	\$ 919
Accrued bonuses	236,777	257,086	2,139
Inventory write-down	9,103	11,375	94
Unrealized intercompany profit in inventories	71,329	72,829	606
Accrued social insurance premium	27,604	27,878	231
Others	40,568	28,375	236
	¥465,572	¥508,035	\$4,227
Net deferred tax assets - current			
Deferred tax assets - non current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥14,689	¥5,654	\$47
Net defined benefit liabilities	13,397	14,431	120
Net defined benefit assets	(9,771)	-	-
Others	7,656	8,808	73
	¥25,973	¥28,894	\$240
Net deferred tax assets - non current			

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Deferred tax liabilities - non current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥108,123	¥117,057	\$974
Devaluation loss on golf club memberships	6,673	6,034	50
Devaluation loss on investment securities	106,500	136,420	1,135
Allowance for doubtful accounts	108,689	115,680	962
Reserve for retirement benefits for executive officers	17,759	22,854	190
Unrealized gains on available-for-sale securities	(1,978,826)	(2,944,975)	(24,506)
Undistributed earnings of foreign subsidiaries and an affiliated company	(394,388)	(462,896)	(3,852)
Net defined benefit assets	(204,538)	(336,694)	(2,801)
Others	(115,906)	(162,470)	(1,352)
Net deferred tax liabilities - non current	<u>(¥2,345,913)</u>	<u>(¥3,508,990)</u>	<u>(\$29,200)</u>

Reconciliation of the differences between the normal statutory effective tax rate and the actual effective tax rate for the years ended March 31, 2014 and 2015 were omitted due to immateriality.

Adjustments to deferred tax assets, deferred tax liabilities etc. due to a change in the income tax rate -

Due to promulgation of the “Partial Amendment of the Income Tax Act, etc.” and “Partial Amendment of the Local Tax Law, etc.” on March 31, 2015, the statutory effective tax rate used to measure deferred tax assets and liabilities (limited to those to be settled on or after April 1, 2015) has been changed from 35.5% to 32.8% for temporary differences expected to be reversed during the period from April 1, 2015 to March 31, 2016, and to 32.1% for temporary differences expected to be reversed in the years beginning on or after April 1, 2016, respectively.

As a result of these changes in the tax rate, deferred tax liabilities (net of deferred tax assets) decreased by ¥305,853 thousand (\$2,545 thousand), and income taxes-deferred increased by ¥24,440 thousand (\$203 thousand), net unrealized gains on available-

for-sale securities increased by ¥319,580 thousand (\$2,659 thousand) and remeasurements of defined benefit plans increased by ¥10,722 thousand (\$89 thousand), respectively.

17. 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 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 markets of the products of 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, by subsidiaries in the United States and by 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 manufacturing and sale of the products.

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

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 and other items by each reportable segment -

For the year ended March 31, 2014	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥17,899,277	¥3,184,257	¥ -	¥21,083,534	¥ -	¥21,083,534
Inter-segment	1,262,967	-	-	1,262,967	(1,262,967)	-
Total	<u>¥19,162,245</u>	<u>¥3,184,257</u>	<u>¥ -</u>	<u>¥22,346,502</u>	<u>(¥1,262,967)</u>	<u>¥21,083,534</u>
Segment profit/(loss)	¥5,523,090	¥269,752	¥99,854	¥5,892,698	(¥1,070,115)	¥4,822,582
Segment assets	¥15,628,804	¥3,451,662	¥5,351,554	¥24,432,020	¥14,193,927	¥38,625,948
Others						
Investment in affiliated companies	¥105,212	¥ -	¥5,351,554	¥5,456,766	¥ -	¥5,456,766
Increase in tangible and intangible fixed assets	1,212,923	91,495	-	1,304,418	-	1,304,418

- The adjustment for segment profit/(loss) of ¥1,070,115 thousand includes the eliminated profit of the inter-segment transactions of ¥176,582 thousand and the general administrative expenses of ¥893,533 thousand that are not allocated to any reportable segment. 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 (to an affiliated company) and Asian market.
- “Europe” segment is covered by the affiliated company in Germany. Therefore, the Company uses the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥14,193,927 thousand includes inter-segment elimination of ¥536,397 thousand and corporate assets of ¥14,730,324 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.

Thousands of yen						
For the year ended March 31, 2015	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥22,534,000	¥3,417,062	¥ -	¥25,951,062	¥ -	¥25,951,062
Inter-segment	1,216,907	-	-	1,216,907	(1,216,907)	-
Total	¥23,750,907	¥3,417,062	¥ -	¥27,167,970	(¥1,216,907)	¥25,951,062
Segment profit/(loss)	¥8,075,875	¥364,930	¥279,270	¥8,720,077	(¥1,194,912)	¥7,525,164
Segment assets	¥20,073,607	¥3,978,428	¥5,468,039	¥29,520,076	¥19,920,892	¥49,440,969
Others						
Investment in affiliated companies	¥125,802	¥ -	¥5,468,039	¥5,593,842	¥ -	¥5,593,842
Increase in tangible and intangible fixed assets	2,294,270	181,457	-	2,475,727	-	2,475,727
Thousands of U.S. dollars						
For the year ended March 31, 2015	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$187,517	\$28,435	\$ -	\$215,952	\$ -	\$215,952
Inter-segment	10,126	-	-	10,126	(10,126)	-
Total	\$197,644	\$28,435	\$ -	\$226,079	(\$10,126)	\$215,952
Segment profit/(loss)	\$67,203	\$3,036	\$2,323	\$72,564	(\$9,943)	\$62,620
Segment assets	\$167,043	\$33,106	\$45,502	\$245,652	\$165,772	\$411,425
Others						
Investment in affiliated companies	\$1,046	\$ -	\$45,502	\$46,549	\$ -	\$46,549
Increase in tangible and intangible fixed assets	19,091	1,510	-	20,601	-	20,601

- The adjustment for segment profit/(loss) of ¥1,194,912 thousand (\$9,943 thousand) includes the eliminated profit of the inter-segment transactions of ¥194,466 thousand (\$1,618 thousand) and the general administrative expenses of ¥1,000,446 thousand (\$8,325 thousand) that are not allocated to any reportable segment. 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 (to an affiliated company) and Asian market.
- “Europe” segment is covered by the affiliated company in Germany. Therefore, the Company uses the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥19,920,892 thousand (\$165,772 thousand) includes inter-segment elimination of ¥458,356 thousand (\$3,814 thousand) and corporate assets of ¥20,379,249 thousand (\$169,586 thousands) 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 -

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Sales to third parties			
Speed reducers	¥ 16,518,474	¥ 21,302,557	\$ 177,270
Mechatronic products	4,565,060	4,648,505	38,682
	<u>¥21,083,534</u>	<u>¥25,951,062</u>	<u>\$215,952</u>

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

② Geographic information –

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2014:					
Total	<u>¥14,634,576</u>	<u>¥3,184,257</u>	<u>¥1,511,619</u>	<u>¥1,753,081</u>	<u>¥21,083,534</u>
For the year ended March 31, 2015:					
Total	<u>¥17,565,962</u>	<u>¥3,417,062</u>	<u>¥1,611,569</u>	<u>¥3,356,468</u>	<u>¥25,951,062</u>

	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2015:					
Total	<u>\$146,175</u>	<u>\$28,435</u>	<u>\$13,410</u>	<u>\$27,930</u>	<u>\$215,952</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- 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, 2014:				
Total Assets	<u>¥5,083,189</u>	<u>¥750,447</u>	<u>¥ -</u>	<u>¥5,833,637</u>
March 31, 2015:				
Total Assets	<u>¥6,304,108</u>	<u>¥841,879</u>	<u>¥ -</u>	<u>¥7,145,987</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2015:				
Total Assets	<u>\$52,459</u>	<u>\$7,005</u>	<u>\$ -</u>	<u>\$59,465</u>

③ Information of major customers -

<u>Customer Name</u>	<u>Thousands of yen</u>		<u>Thousands of</u>	<u>Related Segment</u>
	<u>2014</u>	<u>2015</u>	<u>U.S. dollars</u>	
			<u>2015</u>	
Haneda & Co., Ltd.	¥ 2,854,555	¥ 3,567,617	\$ 29,688	Japan

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

No impairment loss was recognized on fixed assets for the years ended March 31, 2014 and 2015.

(f) Amortization expense and unamortized balance of goodwill -

No amortization expense and unamortized balance of goodwill was recognized for the years ended March 31, 2014 and 2015.

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2014 and 2015.

18. 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 (2014) 36.8% directly owned (2015)
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>2014</u>	<u>2015</u>	<u>2015</u>
For the year:			
Sales to the affiliated company	¥1,511,619	¥1,611,569	\$13,410
At year-end:			
Accounts receivable, trade	289,584	279,833	2,328

Sales of the Company's products to Harmonic Drive AG are executed on the terms and conditions based on the offer of Company's sales prices to Harmonic Drive AG by taking the market into consideration and the negotiation with Harmonic Drive AG.

(b) Notes to a significant affiliated company -

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

	Thousands of yen		Thousands of
	2014	2015	U.S. dollars
			2015
March 31:			
Current assets	¥5,895,700	¥4,725,228	\$39,321
Fixed assets	1,783,055	1,982,656	16,498
Investments and other assets	1,574,055	1,604,864	13,354
Current liabilities	849,775	699,807	5,823
Long-term liabilities	993,426	1,260,989	10,493
Net assets	7,409,608	6,351,953	52,858
For the year ended March 31:			
Sales	7,829,001	10,030,946	83,472
Income before income taxes	1,280,774	1,984,847	16,516
Net income	914,841	1,437,998	11,966

19. Net income per share information:

The computation of net income 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
	2014	2015	2015
Net assets per share	¥320.13	¥395.68	\$3.29
Net income per share	32.68	52.77	0.43

(Note)

- Diluted net income per share are not computed because the Company does not have any potential dilutive shares.
- The Company split one common share into 3 shares effective from October 1, 2014. Net assets per share and net income per share were restated to reflect the effects from the stock split on October 1, 2014, assuming that the stock split had been made at the beginning of the prior year.

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

	Thousands of yen		Thousands of U.S. dollars
	2014	2015	2015
Net income	¥2,993,743	¥4,833,599	\$40,223
Net income attributable to common shareholders	¥2,993,743	¥4,833,599	\$40,223

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

	Number of shares	
	2014	2015
Weighted average number of shares	91,597,239	91,597,135

20. Subsequent events:

There have been no significant subsequent events on or after April 1, 2015.

21. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2014 and 2015.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2014	Balance at March 31, 2015	Balance at March 31, 2015		
Short-term borrowings	¥10,000	¥130,000	\$1,081	0.6	-
Current portion of long-term debt	52,143	154,668	1,287	0.5	-
Current portion of lease obligations	59,988	47,803	397	1.4	-
Long-term debt (excluding current portion)	155,519	460,462	3,831	0.5	2016-2021
Lease obligations (excluding current portion)	81,565	101,107	841	1.0	2016-2021
Other	-	-	-	-	-
Total	<u>¥359,218</u>	<u>¥894,041</u>	<u>\$7,439</u>	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2015 are as follows:

March 31, 2015	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
Long-term debt	¥145,663	¥125,592	¥120,252	¥53,921
Lease obligations	36,764	26,056	11,912	9,107

March 31, 2015	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
Long-term debt	\$1,212	\$1,045	\$1,000	\$448
Lease obligations	305	216	99	75

- 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, 2014 and 2015 were omitted due to immateriality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2015 is as follows:

	Thousands of yen (Net income per share: yen)			
	3 months ended June 30, 2014	6 months ended September 30, 2014	9 months ended December 31, 2014	12 months ended March 31, 2015
Sales	¥6,154,868	¥12,700,200	¥19,192,805	¥25,951,062
Income before income taxes and minority interest	1,790,549	3,830,354	5,631,905	7,469,536
Net income	1,113,204	2,483,359	3,659,059	4,833,599
Net income per share	¥12.15	¥27.11	¥39.95	¥52.77

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	3 months ended June 30, 2014	6 months ended September 30, 2014	9 months ended December 31, 2014	12 months ended March 31, 2015
Sales	\$51,218	\$105,685	\$159,713	\$215,952
Income before income taxes and minority interest	14,900	31,874	46,866	62,158
Net income	9,263	20,665	30,449	40,223
Net income per share	\$0.10	\$0.22	\$0.33	\$0.43

	Yen			
	3 months ended June 30, 2014	3 months ended September 30, 2014	3 months ended December 31, 2014	3 months ended March 31, 2015
Net income per share	¥12.15	¥14.96	¥12.84	¥12.82
	U.S. Dollars			
	3 months ended June 30, 2014	3 months ended September 30, 2014	3 months ended December 31, 2014	3 months ended March 31, 2015
Net income per share	\$0.10	\$0.12	\$0.10	\$0.10

(Note)

- The Company split one common share into 3 shares effective from October 1, 2014. Net income per share amounts were restated to reflect the effects from the stock split on October 1, 2014, assuming that the stock split had been made at the beginning of the year.