

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018

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
	2017	2018	2018
Assets:			
Current assets -			
Cash and bank deposits (Notes 8(a) and 10(d))	¥12,039,904	¥29,423,941	\$276,957
Notes and accounts receivable, trade (Notes 4(e) and 10(d))	10,813,395	15,816,588	148,876
Marketable securities (Notes 8(a) and 11)	56,856	40,929	385
Finished products	682,988	1,196,363	11,260
Work in process	1,552,776	2,927,793	27,558
Raw materials and supplies	1,492,515	2,363,942	22,250
Deferred tax assets - current (Note 15)	515,829	894,383	8,418
Other current assets	596,195	740,696	6,971
Allowance for doubtful accounts (Note 10(d))	(13,712)	(11,037)	(103)
Total current assets	<u>27,736,750</u>	<u>53,393,600</u>	<u>502,575</u>
Fixed assets -			
Tangible fixed assets (Notes 4(b) and 9):			
Buildings and structures	4,259,917	4,720,845	44,435
Machinery and equipment	6,886,979	9,430,427	88,765
Land (Note 4(d))	1,960,010	2,814,300	26,490
Leased assets	166,740	228,094	2,146
Construction in progress	383,061	2,913,073	27,419
Others	987,888	1,199,632	11,291
Total tangible fixed assets	<u>14,644,599</u>	<u>21,306,373</u>	<u>200,549</u>
Intangible fixed assets:			
Goodwill (Notes 16 and 17(f))	17,918,635	18,547,485	174,580
Software	187,694	286,474	2,696
Customer related assets (Note 16)	22,888,275	23,691,533	223,000
Technical assets (Note 16)	6,113,123	6,327,661	59,560
Others	726,763	123,313	1,160
Total intangible fixed assets	<u>47,834,492</u>	<u>48,976,469</u>	<u>460,998</u>
Investments and other assets:			
Investment securities (Notes 10(d) and 11)	668,699	761,689	7,169
Investment in affiliated companies (Notes 4(a), 10(d), and 11)	9,775,564	13,571,462	127,743
Net defined benefit assets (Note 13)	933,968	1,047,271	9,857
Deferred tax assets – non-current (Note 15)	244,516	171,611	1,615
Others	166,578	159,793	1,504
Allowance for doubtful accounts	(5,600)	(5,600)	(52)
Total investments and other assets	<u>11,783,726</u>	<u>15,706,228</u>	<u>147,837</u>
Total fixed assets	<u>74,262,818</u>	<u>85,989,071</u>	<u>809,385</u>
Total assets	<u>¥101,999,569</u>	<u>¥139,382,671</u>	<u>\$1,311,960</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
	2017	2018	2018
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 10(d))	¥2,673,078	¥3,162,055	\$29,763
Short-term borrowings (Notes 4(c), 10(d) and 21(b))	15,025,509	57,056	537
Current portion of long-term debt (Notes 4(b), 4(c), 10(d) and 21(b))	191,448	352,164	3,314
Lease obligations – current (Note 21(b))	46,607	48,785	459
Accrued income taxes (Note 10(d))	1,599,892	3,253,567	30,624
Deferred tax liabilities – current (Note 15)	657,170	449,988	4,235
Accrued bonuses for employees	1,040,106	1,433,246	13,490
Accrued bonuses for directors and audit & supervisory board members	297,393	415,638	3,912
Accrued warranty expenses	99,978	92,806	873
Other current liabilities	2,303,525	4,364,706	41,083
Total current liabilities	<u>23,934,711</u>	<u>13,630,016</u>	<u>128,294</u>
Long-term liabilities -			
Long-term debt (Notes 4(b), 4(c), 10(d) and 21(b))	449,270	1,529,366	14,395
Lease obligations – non-current (Note 21(b))	122,322	181,379	1,707
Deferred tax liabilities – non-current (Note 15)	11,054,792	12,427,601	116,976
Reserve for retirement benefits for directors and audit & supervisory board members	1,118,900	400,375	3,768
Reserve for retirement benefits for executive officers	73,188	91,877	864
Net defined benefit liabilities (Note 13)	75,978	907,720	8,544
Other long-term liabilities	2,558,781	1,495,309	14,074
Total long-term liabilities	<u>15,453,233</u>	<u>17,033,629</u>	<u>160,331</u>
Total liabilities	<u>39,387,944</u>	<u>30,663,646</u>	<u>288,626</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

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2017	2018	2018
Net assets (Note 19):			
Shareholders' equity (Note 7) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding:			
94,749,300 shares (March 31, 2017)			
96,315,400 shares (March 31, 2018)	1,610,542	7,100,036	66,830
Capital surplus	5,203,709	30,225,361	284,500
Retained earnings	45,884,068	51,646,553	486,130
Treasury stock, at cost	(2,305,055)	(38,166)	(359)
Total shareholders' equity	50,393,265	88,933,785	837,102
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 11)	5,267,904	7,953,429	74,862
Foreign currency translation adjustments	(557,155)	2,506,580	23,593
Remeasurements of defined benefit plans	(49,523)	(13,118)	(123)
Total accumulated other comprehensive income	4,661,224	10,446,891	98,332
Stock subscription rights	-	625,511	5,887
Non-controlling interests	7,557,134	8,712,838	82,010
Total net assets	62,611,624	108,719,025	1,023,334
Total liabilities and net assets	¥101,999,569	¥139,382,671	\$1,311,960

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
	2017	2018	2018
Net sales (Notes 17 and 21(d))	¥30,069,057	¥54,339,573	\$511,479
Cost of sales (Notes 5(b) and 17)	16,202,282	28,636,270	269,543
Gross profit	<u>13,866,775</u>	<u>25,703,303</u>	<u>241,936</u>
Selling, general and administrative expenses (Notes 5(a) and 5(b))	6,052,853	13,386,602	126,003
Operating profit	<u>7,813,921</u>	<u>12,316,700</u>	<u>115,932</u>
Other income:			
Interest income	10,230	17,908	168
Dividend income	175,308	252,061	2,372
Equity in income of affiliated companies	145,534	24,822	233
Gain on sales of securities	-	3,166	29
Others	39,825	243,514	2,292
	<u>370,898</u>	<u>541,473</u>	<u>5,096</u>
Other expenses:			
Interest expense	6,698	42,332	398
Sales discount	-	30,552	287
Stock issuance cost	-	180,279	1,696
Commission fee	30,080	-	-
Foreign exchange loss	146,572	578,070	5,441
Others	42,595	80,618	758
	<u>225,947</u>	<u>911,853</u>	<u>8,582</u>
Ordinary profit	7,958,872	11,946,320	112,446
Exceptional gains:			
Gain on sales of fixed assets (Note 5(c))	1,075	4,012	37
Subsidy income	-	100,000	941
Gain on step acquisitions	13,963,373	-	-
	<u>13,964,448</u>	<u>104,012</u>	<u>979</u>
Exceptional losses:			
Loss on sales of fixed assets (Note 5(d))	-	17	0
Loss on disposal of fixed assets (Note 5(e))	19,116	10,614	99
Loss on fixed assets devaluation for subsidy income	-	100,000	941
Additional retirement benefits paid for a director	29,280	-	-
	<u>48,396</u>	<u>110,631</u>	<u>1,041</u>
Income before income taxes	21,874,925	11,939,701	112,384
Income taxes:			
Current	2,388,487	5,005,284	47,112
Deferred	(411,572)	(1,105,607)	(10,406)
	<u>1,976,915</u>	<u>3,899,677</u>	<u>36,706</u>
Profit	19,898,009	8,040,024	75,677
Profit attributable to non-controlling interests	<u>165,964</u>	<u>262,402</u>	<u>2,469</u>
Profit attributable to owners of the parent (Notes 19 and 21(d))	<u>¥19,732,045</u>	<u>¥7,777,621</u>	<u>\$73,208</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>2017</u>	<u>2018</u>	<u>March 31</u>
			<u>2018</u>
Profit	¥19,898,009	¥8,040,024	\$75,677
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	1,120,934	2,685,525	25,277
Foreign currency translation adjustments	(1,113,201)	4,153,451	39,094
Remeasurements of defined benefit plans	(130,537)	29,821	280
Equity in other comprehensive loss (income) of an affiliated company accounted for by equity method	(33,572)	-	-
Total other comprehensive loss (income) (Note 6(a))	(156,378)	6,868,798	64,653
Comprehensive income	<u>¥19,741,631</u>	<u>¥14,908,822</u>	<u>\$140,331</u>
Attributable to -			
owners of the parent	¥19,618,852	¥13,563,288	\$127,666
non-controlling interests	122,778	1,345,534	12,665

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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
	2017	2018	2018
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥1,610,542	¥1,610,542	\$15,159
Changes during the year			
Issuance of new shares	-	5,489,493	51,670
Total changes	-	5,489,493	51,670
Balance at the end of the year	1,610,542	7,100,036	66,830
Capital surplus -			
Balance at the beginning of the year	5,203,709	5,203,709	48,980
Changes during the year			
Issuance of new shares	-	5,489,493	51,670
Disposal of treasury stock	-	19,532,158	183,849
Total changes	-	25,021,651	235,520
Balance at the end of the year	5,203,709	30,225,361	284,500
Retained earnings -			
Balance at the beginning of the year	27,892,368	45,884,068	431,890
Changes during the year			
Cash dividends	(1,740,345)	(2,015,136)	(18,967)
Profit attributable to owners of the parent	19,732,045	7,777,621	73,208
Total changes	17,991,700	5,762,485	54,240
Balance at the end of the year	45,884,068	51,646,553	486,130
Treasury stock, at cost -			
Balance at the beginning of the year	(2,305,055)	(2,305,055)	(21,696)
Changes during the year			
Disposal of treasury stock	-	2,266,888	21,337
Total changes	-	2,266,888	21,337
Balance at the end of the year	(2,305,055)	(38,166)	(359)
Total shareholders' equity -			
Balance at the beginning of the year	32,401,565	50,393,265	474,334
Changes during the year			
Issuance of new shares	-	10,978,987	103,341
Cash dividends	(1,740,345)	(2,015,136)	(18,967)
Profit attributable to owners of the parent	19,732,045	7,777,621	73,208
Disposal of treasury stock	-	21,799,047	205,186
Total changes	17,991,700	38,540,519	362,768
Balance at the end of the year	50,393,265	88,933,785	837,102
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	4,146,969	5,267,904	49,584
Changes during the year			
Net changes in items other than those in shareholders' equity	1,120,934	2,685,525	25,277
Total changes	1,120,934	2,685,525	25,277
Balance at the end of the year	¥5,267,904	¥7,953,429	\$74,862

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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
	2017	2018	2018
Accumulated other comprehensive income (continued)			
Foreign currency translation adjustments -			
Balance at the beginning of the year	¥508,205	(¥557,155)	(\$5,244)
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,065,361)	3,063,735	28,837
Total changes	(1,065,361)	3,063,735	28,837
Balance at the end of the year	(557,155)	2,506,580	23,593
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	65,289	(49,523)	(466)
Changes during the year			
Net changes in items other than those in shareholders' equity	(114,813)	36,405	342
Total changes	(114,813)	36,405	342
Balance at the end of the year	(49,523)	(13,118)	(123)
Total Accumulated other comprehensive income			
Balance at the beginning of the year	4,720,465	4,661,224	43,874
Changes during the year			
Net changes in items other than those in shareholders' equity	(59,241)	5,785,667	54,458
Total changes	(59,241)	5,785,667	54,458
Balance at the end of the year	4,661,224	10,446,891	98,332
Stock subscription rights			
Balance at the beginning of the year	-	-	-
Changes during the year			
Net changes in items other than those in shareholders' equity	-	625,511	5,887
Total changes	-	625,511	5,887
Balance at the end of the year	-	625,511	5,887
Non-controlling interests:			
Balance at the beginning of the year	1,769,060	7,557,134	71,132
Changes during the year			
Net changes in items other than those in shareholders' equity	5,788,073	1,155,703	10,878
Total changes	5,788,073	1,155,703	10,878
Balance at the end of the year	¥7,557,134	¥8,712,838	\$82,010

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)

	<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>2017</u>	<u>2018</u>	<u>March 31</u>
			<u>2018</u>
Total net assets:			
Balance at the beginning of the year	¥38,891,091	¥62,611,624	\$589,341
Changes during the year			
Issuance of new shares	-	10,978,987	103,341
Cash dividends	(1,740,345)	(2,015,136)	(18,967)
Profit attributable to owners of the parent	19,732,045	7,777,621	73,208
Disposal of treasury stock	-	21,799,047	205,186
Net changes in items other than those in shareholders' equity	5,728,832	7,566,881	71,224
Total changes	<u>23,720,532</u>	<u>46,107,401</u>	<u>433,992</u>
Balance at the end of the year	<u>¥62,611,624</u>	<u>¥108,719,025</u>	<u>\$1,023,334</u>

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



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

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2017	2018	2018
Cash flows from operating activities:			
Income before income taxes	¥21,874,925	¥11,939,701	\$112,384
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	1,774,457	5,164,219	48,608
Depreciation of goodwill	-	970,050	9,130
Increase (Decrease) in allowance for doubtful accounts	1,425	(3,689)	(34)
(Decrease) Increase in net defined benefit liabilities	(12,579)	761,621	7,168
Decrease in reserve for retirement benefits for directors and audit & supervisory board members	(26,752)	(747,149)	(7,032)
Increase in reserve for retirement benefits for executive officers	653	18,688	175
Increase in accrued bonuses for directors and audit & supervisory board members	42,677	109,542	1,031
Decrease in accrued warranty expenses	(26,218)	(8,966)	(84)
Interest income	(10,230)	(17,908)	(168)
Dividend income	(175,308)	(252,061)	(2,372)
Interest expense	6,698	42,332	398
Equity in income of affiliated companies	(145,534)	(24,822)	(233)
Subsidy income	-	(100,000)	(941)
Gain on sales of securities	-	(3,166)	(29)
Gain on sales of fixed assets	(1,075)	(3,995)	(37)
Loss on disposal of fixed assets	19,116	10,614	99
Loss on fixed asset devaluation for subsidy income	-	100,000	941
Gain on step acquisitions	(13,963,373)	-	-
Increase in trade receivables	(643,785)	(4,787,441)	(45,062)
Increase in inventories	(513,559)	(2,575,722)	(24,244)
(Decrease) Increase in trade payables	(138,442)	393,202	3,701
Others, net	229,666	1,367,970	12,876
Subtotal	8,292,759	12,353,019	116,274
Interest and dividends received	185,541	270,170	2,543
Dividends received from an affiliated company	546,950	-	-
Sundry income received	-	100,000	941
Interest paid	(6,438)	(43,335)	(407)
Income taxes paid	(1,838,850)	(3,460,163)	(32,569)
Income taxes refunded	45,740	14,036	132
Net cash provided by operating activities	¥7,225,701	¥9,233,727	\$86,913

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
	2017	2018	2018
Cash flows from investing activities:			
Proceeds from sales of investment securities	¥-	¥3,166	\$29
Payments for purchases of tangible fixed assets	(3,797,955)	(9,175,004)	(86,361)
Proceeds from sales of tangible fixed assets	1,937	4,036	37
Payments for purchases of intangible fixed assets	(25,981)	(271,308)	(2,553)
Payments for time deposits with a deposit period of over three months	(2,017,527)	(1,186,506)	(11,168)
Proceeds from maturities of time deposits with a deposit period of over three months	2,024,598	2,453,567	23,094
Payments for guarantee deposits	(8,010)	(3,476)	(32)
Proceeds from collection of guarantee deposits	5,358	5,261	49
Payments for purchase of shares of subsidiary resulting in change in scope of consolidation	(28,705,438)	-	-
Payments for short-term loans receivable	-	(1,566)	(14)
Proceeds from collection of short-term loans receivable	-	437	4
Others, net	321	321	3
Net cash used in investing activities	<u>(32,522,695)</u>	<u>(8,171,070)</u>	<u>(76,911)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	15,065,000	17,030,000	160,297
Repayments of short-term borrowings	(95,000)	(32,000,810)	(301,212)
Proceeds from long-term debt	-	1,477,436	13,906
Repayments of long-term debt	(211,519)	(236,624)	(2,227)
Proceeds from stock issuance	-	10,978,987	103,341
Repayments of lease obligations	(55,736)	(50,880)	(478)
Proceeds from disposal of treasury stock	-	21,799,047	205,186
Cash dividends paid	(1,739,812)	(2,014,695)	(18,963)
Proceeds from stock issuance to non-controlling shareholders	11,817,369	-	-
Cash dividends paid to non-controlling interests	(131,988)	(114,140)	(1,074)
Proceeds from stock subscription rights issuance	-	625,511	5,887
Net cash provided by financing activities	<u>24,648,312</u>	<u>17,493,829</u>	<u>164,663</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(121,628)</u>	<u>95,455</u>	<u>898</u>
Net (decrease) increase in cash and cash equivalents	<u>(770,309)</u>	<u>18,651,942</u>	<u>175,564</u>
Cash and cash equivalents at the beginning of year	<u>10,439,174</u>	<u>9,668,865</u>	<u>91,009</u>
Cash and cash equivalents at the end of year (Note 8(a))	<u>¥9,668,865</u>	<u>¥28,320,807</u>	<u>\$266,573</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, and by subsidiaries in the United States and Europe.

2. Summary of significant accounting policies:

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

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

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at

the rate of ¥106.24 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2018. 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, 2017 and 2018 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.
- Godo Kaisha HD Management
- Harmonic Drive AG and its nine subsidiaries

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

The Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is accounted for using the equity method in the consolidated financial statements.

Some subsidiaries of the Company (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., SAMICK ADM CO., LTD., Godo Kaisha HD Management, Harmonic Drive AG and its nine subsidiaries of 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.

② Receivables and payables arising from derivatives:

All receivables and payables arising 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, and accompanying facilities and structures acquired on or after April 1, 2016, respectively, which are depreciated using the straight-line method. For the foreign subsidiaries, depreciation is computed on a straight-line basis over the estimated useful lives of the assets.

② Intangible fixed assets (excluding leased assets):

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

③ Leased assets:

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

(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, the benefit formula basis was used to attribute projected benefit obligations to the period up to the end of this year. Past service costs are mainly amortized over a period of 3 years from the year in which they occur. Actuarial differences are amortized on a straight-line basis over 3 years, mainly starting from the year following that in which they occur. Unrecognized actuarial differences and unrecognized past service costs, net of the related income taxes, have been recognized as "Remeasurements of defined benefit plans" of "Accumulated other comprehensive income" within the net assets section. Certain domestic subsidiaries have adopted the simplified accounting method in the calculation of their defined benefits plan obligations.

(g) 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 using the straight-line method over a period within 20 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 change 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 standards not yet implemented, etc:

Domestic affiliated companies:

(a) PITF No.36 Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions

ASBJ Guidance No.17 (revised 2018) Guidance on Accounting for Compound Financial Instruments with an Option to Increase Paid-in Capital -

① Overview:

In case of granting employees and others stock acquisition rights, which involve considerations, with vesting conditions, the stock acquisition rights are treated as the stock option based on the Article 2 (2) of the accounting standards for the stock options.

② Planned adoption date:

These accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2019.

③ Impact of adoption of the accounting standards:

No effect on the consolidated financial statements is anticipated as a result of the adoption of these accounting standards.

(b) ASBJ Guidance No. 28 Implementation Guidance on Tax Effect Accounting

ASBJ Guidance No. 26 (revised 2018) Implementation Guidance on Recoverability of Deferred Tax Assets

① Overview:

The treatment of future deductible temporary differences pertaining to stocks of subsidiaries in the non-consolidated financial statements has been revised, and treatment of recoverability of deferred tax assets in companies that fall under (Category 1) have been clarified.

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2019.

③ Impact of adoption of the accounting standards:

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

(c) PITF No. 38 Tentative Practical Solution on the Accounting for Cryptocurrencies under the Payment Services Act

① Overview:

Tentative practical solution and disclosures on the accounting for cryptocurrencies for those owned by cryptocurrency exchange agents or cryptocurrency users, and for the cryptocurrencies deposited to the cryptocurrency exchange agents by depositors

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2019.

③ Impact of adoption of the accounting standards:

No effect on the consolidated financial statements is anticipated as a result of the adoption of these accounting standards.

(d) ASBJ Statement No. 29 Accounting Standard for Revenue Recognition

ASBJ Guidance No. 30 Implementation Guidance on Accounting Standard for Revenue Recognition

① Overview:

Accounting Standard for Revenue Recognition is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when or as it satisfies performance obligations.

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year

ending March 31, 2022.

③ Impact of adoption of the accounting standards:

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

Foreign affiliated companies:

(a) IFRS 15 Revenues from Contracts with Customers

ASU 2014-09 Revenues from contracts with customers -

① Overview:

The core principle of these accounting standards is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Therefore, these accounting standards requires more judgements and estimates than the current accounting standards. The judgment and estimates include identifying the performance obligations in the contract, estimating the amounts of variable consideration to which it will be entitled under the contract and allocating the transaction price to the performance obligations.

② Planned adoption date:

IFRS No. 15 is to be adopted from the beginning of the fiscal year ending March 31, 2019.

ASU No. 2014-09 is to be adopted from the beginning of the fiscal year ending March 31, 2020.

③ Impact of adoption of the accounting standards:

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

(b) IFRS 16 Leases

ASU 2016-02 Leases -

① Overview:

These accounting standards requires lessees to recognize assets and liabilities for all leases in principle.

② Planned adoption date:

IFRS No. 16 is to be adopted from the beginning of the fiscal year ending March 31, 2020.

ASU No. 2016-02 is to be adopted from the beginning of the fiscal year ending March 31, 2021.

③ Impact of adoption of the accounting standards:

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

4. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2017 and 2018 was as follows:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Investment in affiliated companies	<u>¥143,814</u>	<u>¥168,637</u>	<u>\$1,587</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, 2017 and 2018:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Buildings	¥25,558	¥46,080	\$433
Land	<u>33,146</u>	<u>34,225</u>	<u>322</u>
	<u>¥58,704</u>	<u>¥80,305</u>	<u>\$755</u>
Secured long-term debt:			
Current portion of long-term debt	¥2,628	¥2,168	\$20
Long-term debt	<u>2,743</u>	<u>575</u>	<u>5</u>
	<u>¥5,371</u>	<u>¥2,743</u>	<u>\$25</u>

(c) Credit facility contracts -

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

The balance of unused portion based on the contracts at March 31, 2017 and 2018 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Total of credit facility contracts	¥7,269,950	¥6,619,280	\$62,304
Outstanding	<u>27,494</u>	<u>121,446</u>	<u>1,143</u>
The balance of unused credit facilities	<u>¥7,242,456</u>	<u>¥6,497,834</u>	<u>\$61,161</u>

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, ¥100,000 thousand (\$941 thousand) was deducted from the acquisition cost of the land for the year ended March 31, 2018.

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

Notes receivable maturing on the consolidated balance sheet date are accounted for as though they are settled on the day of actual clearance. Consequently, as March 31, 2018 was a bank holiday, notes receivable due on that date, totaling ¥68,399 thousand (\$643 thousand) of notes receivable and ¥404,276 thousand (\$3,805 thousand) of electronically recorded receivables, were included in the balance of notes receivable at March 31, 2018.

5. 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, 2017 and 2018 were as follows:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Salaries and bonuses	¥1,916,797	¥3,112,296	\$29,294
Accrued bonuses for directors and audit & supervisory board members	228,477	313,221	2,948
Retirement benefit expenses	11,179	76,850	723
Reserve for retirement benefits for directors and audit & supervisory board members	37,727	55,846	525
Reserve for retirement benefits for executive officers	19,673	21,126	198
Research and development expenses	1,333,927	2,071,070	19,494
Depreciation	127,374	2,580,997	24,294

(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 ¥1,383,313 thousand and ¥2,114,993 thousand (\$19,907 thousand) for the years ended March 31, 2017 and 2018, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2017 and 2018 was as follows:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Gain on sales of:			
Machinery and equipment	¥ 1,032	¥ 4,012	\$ 37
Tools, furniture and fixtures	43	-	-
	<u>¥ 1,075</u>	<u>¥ 4,012</u>	<u>\$ 37</u>

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2017 and 2018 was as follows:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Loss on sales of:			
Tools, furniture and fixtures	¥ -	¥ 17	\$ 0
	¥ -	¥ 17	\$ 0

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2017 and 2018 was as follows:

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Loss on disposal of:			
Buildings and structures	¥ 11,667	¥ 2,295	\$ 21
Machinery and equipment	4,843	2,582	24
Tools, furniture and fixtures	2,605	5,736	53
	¥ 19,116	¥ 10,614	\$ 99

6. 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, 2017 and 2018 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2017</u>	<u>2018</u>	<u>U.S. dollars</u>
			<u>2018</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	¥1,595,634	¥3,864,065	\$36,371
Recycling adjustments	-	-	-
Before tax effect	1,595,634	3,864,065	36,371
Tax effect	(474,700)	(1,178,540)	(11,093)
Net unrealized losses (gains) on available-for-sale securities	1,120,934	2,685,525	25,277
Foreign currency translation adjustments			
Changes arising during the year	(1,113,201)	4,153,451	39,094
Remeasurements of defined benefit plans			
Changes arising during the year	(¥ 104,505)	¥ 58,483	\$ 550
Recycling adjustments	(83,655)	(10,882)	(102)
Before tax effect	(188,160)	47,600	448
Tax effect	57,622	(17,779)	(167)
Net unrealized losses (gains) on available-for-sale securities	(130,537)	29,821	280
Equity in other comprehensive loss (income) of an affiliated company accounted for by the equity method			
Changes arising during the year	(¥ 44,965)	¥ -	\$ -
Recycling adjustments	11,392	-	-
Equity in other comprehensive loss (income) of an affiliated company accounted for by the equity method	(33,572)	-	-
Total other comprehensive loss (income)	<u>(¥156,378)</u>	<u>¥6,868,798</u>	<u>\$ 64,653</u>

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

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2017</u>
Common stock (shares)	<u>94,749,300</u>	<u>-</u>	<u>-</u>	<u>94,749,300</u>

<u>Share type</u>	<u>April 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2018</u>
Common stock (shares)	<u>94,749,300</u>	<u>1,566,100</u>	<u>-</u>	<u>96,315,400</u>

(Reason for the changes)

The increased number of 1,566,100 shares issued and outstanding is due to the public stock offering.

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2016</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2017</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>-</u>	<u>3,152,193</u>

<u>Share type</u>	<u>April 1, 2017</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2018</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>3,100,000</u>	<u>52,193</u>

(Reason for the changes)

The decreased number of 3,100,000 shares is due to the disposition of the treasury stock caused by the public stock offering.

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2017.

Company	Breakdown of stock subscription rights	Types of shares subject to stock subscription rights	Number of shares subject to stock subscription rights (Shares)			Balance as of March 31, 2018		
			Balance as of March 31, 2017	Increase	Decrease	Balance as of March 31, 2018	Thousands of yen	Thousands of U.S.dollars
The Company	No.1 subscription warrants	Common Stock	-	1,261,000	-	1,261,900	¥625,511	\$5,887

(Note 1) The number of shares subject to stock subscription rights is the number of shares that would be issued in the event that stock options were exercised.

(Note 2) The increased numbers of shares of No.1 subscription warrants is due to its issuance.

(d) Dividends -

For the year ended March 31, 2017:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 17, 2016:	
	Type of shares	Common stock
	Total amount of dividends paid in cash (Thousands of yen)	¥824,373
	Cash dividend per share (Yen)	¥9
	Record date	March 31, 2016
	Declaration date	June 20, 2016
(ii)	The following was determined by the board of directors meeting held on November 4, 2016:	
	Type of shares	Common stock
	Total amount of dividends paid in cash (Thousands of yen)	¥915,971
	Cash dividend per share (Yen)	¥10
	Record date	September 30, 2016
	Declaration date	December 5, 2016
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 14, 2017:	
	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)	¥915,971
	Cash dividend per share (Yen)	¥10
	Record date	March 31, 2017
	Declaration date	June 15, 2017

For the year ended March 31, 2018:

① Dividends paid during the current year -	
(i) The following was resolved by the annual shareholders' meeting held on June 14, 2017:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥915,971
(Thousands of U.S. dollars)	\$8,621
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.09
Record date	March 31, 2017
Declaration date	June 15, 2017
(ii) The following was determined by the board of directors meeting held on November 9, 2017:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,099,165
(Thousands of U.S. dollars)	\$10,346
Cash dividend per share	
(Yen)	¥12
(U.S. dollars)	\$0.11
Record date	September 30, 2017
Declaration date	December 11, 2017
② Dividends for the current year that are to be paid after the balance sheet date -	
The following was resolved by the annual shareholders' meeting held on June 21, 2018:	
Type of shares	Common stock
Resource of the dividends to be paid	Retained earnings
The total amount of the dividends in cash paid	
(Thousands of yen)	¥1,347,684
(Thousands of U.S. dollars)	\$12,685
Cash dividend per share	
(Yen)	¥14
(U.S. dollars)	\$0.13
Record date	March 31, 2018
Declaration date	June 22, 2018

8. 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, 2017 and 2018 comprised the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2017</u>	<u>2018</u>	<u>U.S. dollars</u>
			<u>2018</u>
Cash and bank deposits	¥12,039,904	¥29,423,941	\$276,957
Highly liquid investments	56,856	40,929	385
Time deposits with a deposit period of over three months	<u>(2,427,895)</u>	<u>(1,144,063)</u>	<u>(10,768)</u>
Cash and cash equivalents	<u>¥9,668,865</u>	<u>¥28,320,807</u>	<u>\$266,573</u>

9. Lease transactions (as lessee):

(a) 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.

(b) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2017 and 2018 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2017</u>	<u>2018</u>	<u>U.S. dollars</u>
			<u>2018</u>
Due within 1 year	¥54,138	¥166,117	\$1,563
Due after 1 year	<u>68,031</u>	<u>450,326</u>	<u>4,238</u>
	<u>¥122,170</u>	<u>¥616,443</u>	<u>\$5,802</u>

10. Financial instruments:

(a) Policy for financial instruments -

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

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

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

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, and to mitigate foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts only with the financial institutions with high credit ratings (in accordance with the internal rules on assignment of authority and responsibility), the Companies believe their exposure to almost no contractual default risk to be close to nil. Marketable securities are short-term investment bonds 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.

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

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

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

(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, 2017 and 2018. 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, 2017:			
(1) Cash and bank deposits	¥12,039,904	¥12,039,904	¥ -
(2) Notes and accounts receivable, trade	10,813,395		
Allowance for doubtful accounts (*1)	(13,712)		
	<u>10,799,683</u>	<u>10,799,683</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	664,899	664,899	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>9,631,750</u>	<u>9,631,750</u>	<u>-</u>
Assets total	<u>¥33,136,236</u>	<u>¥33,136,236</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,673,078	¥2,673,078	¥ -
(2) Accrued income taxes	1,599,892	1,599,892	-
(3) Short-term borrowings	15,025,509	15,025,509	-
(4) Current portion of long-term debt	191,448	191,448	-
(5) Long-term debt	<u>449,270</u>	<u>449,270</u>	<u>-</u>
Liabilities total	<u>¥19,939,197</u>	<u>¥19,939,197</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 81,532)</u>	<u>(¥ 81,532)</u>	<u>¥ -</u>

March 31, 2018:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥29,423,941	¥29,423,941	¥ -
(2) Notes and accounts receivable, trade	15,816,588		
Allowance for doubtful accounts (*1)	(11,037)		
	<u>15,805,551</u>	<u>15,805,551</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	757,889	757,889	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>13,402,825</u>	<u>13,402,825</u>	<u>-</u>
Assets total	<u>¥59,390,206</u>	<u>¥59,390,206</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,162,055	¥3,162,055	¥ -
(2) Accrued income taxes	3,253,567	3,253,567	-
(3) Short-term borrowings	57,056	57,056	-
(4) Current portion of long-term debt	352,164	352,164	-
(5) Long-term debt	<u>1,529,366</u>	<u>1,529,366</u>	<u>-</u>
Liabilities total	<u>¥8,354,208</u>	<u>¥8,354,208</u>	<u>¥ -</u>
Derivative transactions	<u>(¥159,402)</u>	<u>(¥159,402)</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
March 31, 2018:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$276,957	\$276,957	\$ -
(2) Notes and accounts receivable, trade	148,876		
Allowance for doubtful accounts (*1)	(103)		
	<u>148,772</u>	<u>148,772</u>	<u>-</u>
(3) Investment securities			
Available-for-sale securities	7,133	7,133	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>126,156</u>	<u>126,156</u>	<u>-</u>
Assets total	<u>\$559,019</u>	<u>\$559,019</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$29,763	\$29,763	\$ -
(2) Accrued income taxes	30,624	30,624	-
(3) Short-term borrowings	537	537	-
(4) Current portion of long-term debt	3,314	3,314	-
(5) Long-term debt	<u>14,395</u>	<u>14,395</u>	<u>-</u>
Liabilities total	<u>\$78,635</u>	<u>\$78,635</u>	<u>\$ -</u>
Derivative transactions	<u>(\$1,500)</u>	<u>(\$1,500)</u>	<u>\$ -</u>

(*1) For the calculation of the fair value of notes and accounts receivable, trade, allowances for doubtful accounts relating to these receivables 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 11. 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 11. Marketable securities and investment securities” for the footnote information by holding purpose.

Liabilities

(1) Notes and accounts payable, trade, (2) Accrued income taxes and (3) Short-term borrowings

The carrying amount approximates the fair value since notes and accounts payable, trade, accrued income taxes and short-term borrowings are settled within a short period.

(4) Current portion of long-term debt and (5) Long-term debt

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 debt with the same conditions. However, the fair value of long-term debt with a variable interest rate is deemed to approximate the carrying amount because the contracted interest rate is periodically renewed reflecting the current market interest rate.

Derivative transactions

See “Note 12. Derivative financial instruments”.

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

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$35</u>
Investment in affiliated companies			
Unlisted equity securities	<u>143,814</u>	<u>168,637</u>	<u>\$1,587</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, 2017 and 2018 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, 2017:				
Cash and bank deposits	¥12,039,904	-	-	-
Notes and accounts receivable, trade	<u>10,813,395</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥22,853,299</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, 2018:				
Cash and bank deposits	¥29,423,941	-	-	-
Notes and accounts receivable, trade	<u>15,816,588</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥45,240,529</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, 2018:				
Cash and bank deposits	\$276,957	-	-	-
Notes and accounts receivable, trade	148,876	-	-	-
	<u>\$425,833</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2017 and 2018 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, 2017:						
Long-term debt	¥191,448	¥186,108	¥119,777	¥73,208	¥70,177	¥ -
Total	<u>¥191,448</u>	<u>¥186,108</u>	<u>¥119,777</u>	<u>¥73,208</u>	<u>¥70,177</u>	<u>¥ -</u>

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2018:						
Long-term debt	¥352,164	¥285,833	¥239,264	¥236,233	¥166,056	¥601,980
Total	<u>¥352,164</u>	<u>¥285,833</u>	<u>¥239,264</u>	<u>¥236,233</u>	<u>¥166,056</u>	<u>¥601,980</u>

	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2018:						
Long-term debt	\$3,314	\$2,690	\$2,252	\$2,223	\$1,563	\$5,666
Total	<u>\$3,314</u>	<u>\$2,690</u>	<u>\$2,252</u>	<u>\$2,223</u>	<u>\$1,563</u>	<u>\$5,666</u>

11. Marketable securities and investment securities:

The aggregate costs, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2017 and 2018 were as follows:

Thousands of yen				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2017				
Equity securities	¥2,716,931	7,579,718	-	¥10,296,649
Thousands of yen				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2018				
Equity securities	¥2,716,931	11,443,783	-	¥14,160,714
Thousands of U.S. dollars				
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2018:				
Equity securities	\$25,573	107,716	-	\$133,289

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, 2017 and 2018.

12. 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, 2017	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell U.S. Dollars	¥191,446	¥ -	¥ 3,383	¥3,383
Korean Won	265,740	-	(33,879)	(33,879)
Chinese CNY	734,524	-	(51,036)	(51,036)
	<u>¥1,191,710</u>	<u>¥ -</u>	<u>(¥81,532)</u>	<u>(¥81,532)</u>

Thousands of Yen				
March 31, 2018	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥287,700	¥ -	(¥ 9,905)	(¥9,905)
Chinese CNY	1,842,290	-	(123,892)	(123,892)
Euro	450,000	-	(25,604)	(25,604)
	<u>¥2,579,990</u>	<u>¥ -</u>	<u>(¥159,402)</u>	<u>(¥159,402)</u>

Thousands of U.S. Dollars				
March 31, 2018	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	\$2,708	\$ -	(\$93)	(\$93)
Chinese CNY	17,340	-	(1,166)	(1,166)
Euro	4,235	-	(241)	(241)
	<u>\$24,284</u>	<u>\$ -</u>	<u>(\$1,500)</u>	<u>(\$1,500)</u>

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

13. Retirement benefits for employees:

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

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

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

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

The information for the defined benefit plans as of March 31, 2017 and 2018 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
	2017	2018	U.S. dollars
			2018
Defined benefits plan obligations at beginning of the year	¥1,729,961	¥1,886,121	\$17,753
Service cost	133,148	146,096	1,375
Interest cost	10,196	25,899	243
Actuarial differences	82,632	(43,521)	(409)
Retirement benefits paid	(69,817)	(107,465)	(1,011)
Transfer from reserve for retirement benefits for directors	-	884,680	8,327
Other	-	66,569	626
Defined benefits plan obligations at end of the year	<u>¥1,886,121</u>	<u>¥2,858,380</u>	<u>\$26,904</u>

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

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Plan assets at beginning of the year	¥2,742,626	¥2,943,666	\$27,707
Expected return on plan assets	54,852	58,918	554
Actuarial differences	(21,873)	14,961	140
Employer contributions	114,301	116,804	1,099
Retirements benefits paid	(69,817)	(58,302)	(548)
Other	-	12,491	117
Plan assets at end of the year	<u>¥2,820,089</u>	<u>¥3,088,541</u>	<u>\$29,071</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
	2017	2018	U.S. dollars
			2018
Defined benefits plan obligations of funded plan	¥1,886,121	¥2,858,380	\$26,904
Plan assets	(2,820,089)	(3,088,541)	(29,071)
	<u>(933,968)</u>	<u>(230,161)</u>	<u>(2,166)</u>
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	<u>(933,968)</u>	<u>(230,161)</u>	<u>(2,166)</u>
Net defined benefit liabilities	-	817,110	7,691
Net defined benefit assets	<u>(933,968)</u>	<u>(1,047,271)</u>	<u>(9,857)</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>(¥933,968)</u>	<u>(¥230,161)</u>	<u>(\$2,166)</u>

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Service cost	¥133,148	¥146,096	\$1,375
Interest cost	10,196	25,899	243
Expected return on plan assets	(54,852)	(58,918)	(554)
Actuarial differences	<u>(83,655)</u>	<u>(10,882)</u>	<u>(102)</u>
Retirement benefit expenses related to the defined benefit plans	<u>¥4,837</u>	<u>¥102,194</u>	<u>\$961</u>

⑤ Adjustments of defined benefit plans –

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

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Actuarial differences	¥188,160	(¥47,600)	(\$448)
Total	¥188,160	(¥47,600)	(\$448)

⑥ Unrecognized adjustments of remeasurements of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Unrecognized actuarial differences	¥71,257	¥23,656	\$222
Total	¥71,257	¥23,656	\$222

⑦ Plan assets -

1) Components of plan assets

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

	2017	2018
Bonds	68%	70%
Equities	29%	22%
Cash and bank deposits	3%	-
Other	-	8%
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, 2017 and 2018 were as follows:

	<u>2017</u>	<u>2018</u>
Discount rate	0.59%	0.94%
Expected return ratio on plan assets	2.00%	1.98%

(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>2017</u>	<u>2018</u>	<u>2018</u>
Net defined benefit liabilities at beginning of the year	¥63,351	¥75,978	\$715
Retirement benefits expenses	<u>12,626</u>	<u>14,632</u>	<u>137</u>
Net defined benefit liabilities at end of the year	<u>¥75,978</u>	<u>¥90,610</u>	<u>\$852</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 -

	Thousands of yen		Thousands of
	2017	2018	U.S. dollars
			2018
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	-	-	-
Defined benefits plan obligations of unfunded plan	75,978	90,610	852
Net liabilities or assets recorded in the consolidated balance sheet	75,978	90,610	852
Net defined benefit liabilities	75,978	90,610	852
Net liabilities or assets recorded in the consolidated balance sheet	¥75,978	¥90,610	\$852

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2017 and 2018 calculated by the simplified accounting method were ¥12,626 thousand and ¥14,632 thousand (\$137 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2017 and 2018 were ¥54,840 thousand and ¥101,383 thousand (\$954 thousand), respectively.

14. Stock options:

No stock options were granted during the years ended March 31, 2017 and 2018.

15. Income taxes:

Deferred tax assets and liabilities as of March 31, 2017 and 2018 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Deferred tax assets - current:			
Accrued enterprise taxes	¥70,624	¥204,399	\$1,923
Accrued bonuses	279,909	367,873	3,462
Inventory write-down	7,832	5,702	53
Unrealized intercompany profit in inventories	100,935	224,817	2,116
Accrued social insurance premium	30,542	38,706	364
Others	25,984	52,882	497
Net deferred tax assets - current	<u>¥515,829</u>	<u>¥894,383</u>	<u>\$8,418</u>
Deferred tax assets – non-current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥7,066	¥8,347	\$78
Net defined benefit liabilities	18,226	20,025	188
Others	219,223	143,238	1,348
Net deferred tax assets - non-current	<u>¥244,516</u>	<u>¥171,611</u>	<u>\$1,615</u>

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Deferred tax liabilities - current:			
Intangible assets identified during business combination	¥ -	(¥481,887)	(\$4,535)
Others	(6,535)	31,898	300
Net deferred tax liabilities - current	<u>(¥6,535)</u>	<u>(¥449,988)</u>	<u>(\$4,235)</u>
Deferred tax liabilities - non-current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥123,767	¥135,473	\$1,275
Devaluation loss on golf club memberships	5,733	5,733	53
Devaluation loss on investment securities	68,641	68,641	646
Reserve for retirement benefits for executive officers	28,785	34,485	324
Unrealized gains on available-for- sale securities	(2,311,814)	(3,490,354)	(32,853)
Undistributed earnings of foreign subsidiaries and an affiliated company	(133,993)	(231,020)	(2,174)
Net defined benefit assets	(284,860)	(319,417)	(3,006)
Intangible assets identified by the business combination	-	(8,670,940)	(81,616)
Others	(147,897)	39,797	374
Net deferred tax liabilities - non- current	<u>(¥2,651,636)</u>	<u>(¥12,427,601)</u>	<u>(\$116,976)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2017 and 2018 are as follows:

	2017	2018
Statutory tax rate	30.7%	-
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	0.1	-
Tax credit relating to research and development expenses	(1.3)	-
Gain on step acquisitions	(19.6)	-
Others, net	(0.9)	-
Actual effective tax rate	<u>9.0%</u>	<u>-</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2018 was omitted due to immateriality.

Adjustment to deferred tax assets and deferred tax liabilities due to changes in corporate income tax rate:

The Tax Cuts and Jobs Act was enacted on December 22, 2017 in the U.S. and the rate of federal corporate income tax applicable is to be reduced from 35% to 21%. As a result, Deferred tax liabilities – non-current decreased by ¥24,860 thousand (\$233 thousand), while Income taxes - deferred increased by ¥24,681 thousand (\$232 thousand) for the year ended March 31, 2018.

16. Business combination:

(a) Name of acquired company and description of the business -

Name of the acquired company:

Harmonic Drive AG

Description of the business:

Development, manufacture, and sale of speed reducers and mechatronics products in Europe (Germany)

(b) Finalization of the tentative accounting treatment for business combination -

With regard to the business combination of Harmonic Drive AG, which took place on March 22, 2017 and was accounted for using tentative accounting treatment for the year ended March 31, 2017, the following items were finalized during the year ended March 31, 2018.

	Thousands of yen	Thousands of U.S. dollars
Goodwill (before adjustments)	¥33,338,073	\$313,799
Adjustments:		
Intangible assets (customer related assets)	(22,888,275)	(215,439)
Intangible assets (technical assets)	(6,113,123)	(57,540)
Intangible assets (received orders related)	(683,162)	(6,430)
Non-controlling interests	5,211,332	49,052
Deferred tax liabilities	9,147,510	86,102
Foreign currency translation adjustment	(93,720)	(882)
Total adjusted amount	(15,419,437)	(145,137)
Goodwill (after adjustments)	¥17,918,635	\$168,661

(c) Amount of goodwill generated, reasons for the goodwill, and amortization method and amortization period of goodwill –

- ① Amount of goodwill generated: ¥17,918,635 thousand (\$ 168,661 thousand)
- ② Reasons for the goodwill:
The acquisition cost exceeded the net amount allocated between assets acquired and liabilities assumed, and the excess amount was treated as goodwill.
- ③ Amortization method and period of goodwill:
The straight-line method over 20 years
- ④ Amounts allocated to intangible assets other than for goodwill, category and amortization method and period:

Category	Thousands of yen	Thousands of U.S. dollars	Amortization method and period
Customer related assets	¥22,888,275	\$215,439	The straight line method over 20 years
Technical assets	6,113,123	57,540	The straight line method over 20 years
Received orders related	683,162	6,430	1 year

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 actuators 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 Europe.

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

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

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

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

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

For the year ended March 31, 2017	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥25,494,531	¥4,574,526	¥ -	¥30,069,057	¥ -	¥30,069,057
Inter-segment	1,331,302	2,040	-	1,333,342	(1,333,342)	-
Total	<u>¥26,825,834</u>	<u>¥4,576,566</u>	<u>¥ -</u>	<u>¥31,402,400</u>	<u>(¥1,333,342)</u>	<u>¥30,069,057</u>
Segment profit/(loss)	¥8,877,688	¥704,995	¥134,981	¥9,717,666	(¥1,758,794)	¥7,958,872
Segment assets	¥26,293,525	¥5,053,210	¥36,640,883	¥67,987,620	¥34,011,948	¥101,999,569
Others						
Investment in affiliated companies	¥143,814	¥ -	¥ -	¥143,814	¥ -	¥143,814
Increase in tangible and intangible fixed assets	5,255,204	304,789	30,275,244	35,835,238	17,918,635	53,753,874

- The adjustment for segment profit/(loss) of (¥1,758,794) thousand includes the eliminated profit of the inter-segment transactions of (¥664,813) thousand and the general administrative expenses of (¥1,093,980) 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 Harmonic Drive AG, which became a consolidated subsidiary through acquisition of additional shares at March 22, 2017. Therefore, the “segment profit/(loss)” is the aggregation of the “Equity in income of affiliated companies” of the terms applied by the equity method.
- The adjustment for segment assets of ¥34,011,948 thousand includes inter-segment elimination of (¥17,675,863) thousand and corporate assets of ¥16,336,085 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.

- Segment assets of “Europe” segment includes the assets of Harmonic Drive AG, which was a company to which the equity method was applied for the year ended March 31, 2016, and subsequently became a consolidated subsidiary through acquisition of additional shares at March 22, 2017.

For the year ended March 31, 2018	Thousands of yen					Adjustment	Consolidated
	Reportable segment						
	Japan	North America	Europe	Total			
Sales:							
Third party	¥35,350,674	¥5,482,040	¥13,506,859	¥54,339,573	¥ -	¥54,339,573	
Inter-segment	4,284,169	27,265	116,689	4,428,123	(4,428,123)	-	
Total	<u>¥39,634,843</u>	<u>¥5,509,305</u>	<u>¥13,623,548</u>	<u>¥58,767,697</u>	<u>(¥4,428,123)</u>	<u>¥54,339,573</u>	
Segment profit/(loss)	¥13,909,181	¥678,167	¥554,150	¥15,141,499	(¥3,195,178)	¥11,946,320	
Segment assets	¥39,325,157	¥5,673,111	¥39,803,866	¥84,802,136	¥54,580,535	¥139,382,671	
Others							
Investment in affiliated companies	¥168,637	¥ -	¥ -	¥168,637	¥ -	¥168,637	
Increase in tangible and intangible fixed assets	5,363,393	442,981	1,126,667	6,933,042	-	6,933,042	

Thousands of U.S. dollars						
For the year ended March 31, 2018	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$332,743	\$51,600	\$127,135	\$511,479	\$ -	\$511,479
Inter-segment	40,325	256	1,098	41,680	(41,680)	-
Total	\$373,068	\$51,857	\$128,233	\$553,159	(\$41,680)	\$511,479
Segment profit/(loss)	\$130,922	\$6,383	\$5,216	\$142,521	(\$30,075)	\$112,446
Segment assets	\$370,153	\$53,399	\$374,659	\$798,212	\$513,747	\$1,311,960
Others						
Investment in affiliated companies	\$1,587	\$ -	\$ -	\$1,587	\$ -	\$1,587
Increase in tangible and intangible fixed assets	50,483	4,169	10,604	65,258	-	65,258

- The adjustment for segment profit/(loss) of (¥3,195,178) thousand ((\$30,075) thousand) includes the eliminated profit of the inter-segment transactions of (¥1,703,418) thousand ((\$16,033) thousand), the general administrative expenses of (¥1,491,760) thousand ((\$14,041) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG ((¥970,050) thousand ((\$9,130) thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- “Europe” segment is covered by Harmonic Drive AG, which became a consolidated subsidiary through acquisition of additional shares at March 22, 2017. Therefore, the sales and profit/(loss) of Harmonic Drive AG on and after the 1st quarter of the year ended March 31, 2018 are included in the “Europe” segment
- The adjustment for segment assets of ¥54,580,535 thousand (\$513,747 thousand) includes inter-segment elimination of (¥17,627,458) thousand ((\$165,921) thousand), corporate assets of ¥36,953,077 thousand (\$347,826

thousand) that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive AG of ¥18,547,485 thousand (\$174,580 thousand). The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

(d) Related information –

① Information by products/service -

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Sales to third parties			
Speed reducers	¥ 24,059,318	¥ 44,643,631	\$420,214
Mechatronic products	6,009,739	9,695,942	91,264
	<u>¥30,069,057</u>	<u>¥54,339,573</u>	<u>\$511,479</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, 2017:					
Total	<u>¥19,506,623</u>	<u>¥4,574,526</u>	<u>¥1,798,840</u>	<u>¥4,189,068</u>	<u>¥30,069,057</u>

For the year ended March 31, 2018:					
Total	<u>¥28,128,319</u>	<u>¥5,482,040</u>	<u>¥13,506,859</u>	<u>¥7,222,355</u>	<u>¥54,339,573</u>

	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2018:					
Total	<u>\$264,762</u>	<u>\$51,600</u>	<u>\$127,135</u>	<u>\$67,981</u>	<u>\$511,479</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, 2017:				
Total Assets	<u>¥11,080,345</u>	<u>¥1,105,642</u>	<u>¥ 2,458,611</u>	<u>¥14,644,599</u>
March 31, 2018:				
Total Assets	<u>¥16,372,940</u>	<u>¥1,544,656</u>	<u>¥3,388,776</u>	<u>¥21,306,373</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2018:				
Total Assets	<u>\$154,112</u>	<u>\$14,539</u>	<u>\$31,897</u>	<u>\$200,549</u>

③ Information of major customers -

Customer Name	Thousands of yen		Thousands of U.S. dollars	Related Segment
	2017	2018	2018	
Haneda & Co., Ltd.	¥ 4,104,872	¥5,693,809	\$53,593	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, 2017 and 2018.

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

		Thousands of yen					
		Reportable segment					
For the year ended		Japan	North America	Europe	Total	Adjustment	Consolidated
March 31, 2017	Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -
	Balance of goodwill	-	-	-	-	17,918,635	17,918,635

		Thousands of yen					
		Reportable segment					
For the year ended		Japan	North America	Europe	Total	Adjustment	Consolidated
March 31, 2018	Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 970,050	¥ 970,050
	Balance of goodwill	-	-	-	-	18,547,485	18,547,485

		Thousands of U.S. dollars					
		Reportable segment					
For the year ended		Japan	North America	Europe	Total	Adjustment	Consolidated
March 31, 2018	Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 9,130	\$9,130
	Balance of goodwill	-	-	-	-	174,580	174,580

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2017 and 2018.

18. Transactions with related parties:

(a) Transactions with related parties –

For the year ended March 31, 2017:

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	36.8% 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

	Thousands of yen	Thousands of U.S. dollars
	<u>2017</u>	<u>2017</u>
For the year:		
Sales to the affiliated company	¥1,798,840	\$16,931
At year-end:		
Accounts receivable, trade	306,833	2,888

- 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.
- Harmonic Drive AG, which was a company to which the equity method was applied for the year ended March 31, 2016, became a consolidated subsidiary through acquisition of additional shares during the year ended March 31, 2017. The above is the aggregation of the transaction of the terms applied by the equity method.

For the year ended March 31, 2018:

There have been no transactions with related parties for the year ended March 31, 2018.

(b) Notes to a significant affiliated company -

For the year ended March 31, 2017:

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

	Thousands of yen	Thousands of U.S. dollars
	<u>2017</u>	<u>2017</u>
March 31:		
Current assets	¥4,280,792	\$40,293
Fixed assets	2,543,262	23,938
Investments and other assets	279,051	2,626
Current liabilities	1,375,576	12,947
Long-term liabilities	930,502	8,758
Net assets	4,797,027	45,152
For the year ended March 31:		
Sales	11,415,287	107,448
Income before income taxes	1,739,938	16,377
Net income	1,108,960	10,438

(Note)

- Harmonic Drive AG became a consolidated subsidiary at March 22, 2017 and its balance sheet has been consolidated for the year ended March 31, 2017.

For the year ended March 31, 2018:

There have been no significant affiliated companies for the year ended March 31, 2018.

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
	2017	2018	2018
Net assets per share	¥601.05	¥1,032.38	\$9.71
Net income per share	215.42	83.86	0.78

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

	Thousands of yen		Thousands of U.S. dollars
	2017	2018	2018
Profit attributable to owners of the parent	¥19,732,045	¥7,777,621	\$73,208
Profit attributable to common stock owners of the parent	¥19,732,045	¥7,777,621	\$73,208

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

	Number of shares	
	2017	2018
Weighted average number of shares	91,597,107	92,747,652

Diluted net income per share is as follows:

	<u>2017</u>	<u>2018</u>
Diluted net income per share	-	-
Increase in number of common stock (Shares)	-	1,261,000
(includes: Stock subscription rights)	-	(1,261,900)
Descriptions of potentially dilutive common stocks that were not included in the computation of diluted net income per share because of their non-dilutive effect	-	No.1 subscription warrants (Number of shares: 1,261,900)

(Note)

- Diluted net income per share is not computed because the Company does not have any potentially dilutive shares.

20. Subsequent events:

There have been no significant subsequent events on or after April 1, 2018.

21. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2017 and 2018.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2017	Balance at March 31, 2018	Balance at March 31, 2018		
Short-term borrowings	¥15,025,509	¥57,056	\$537	0.9	-
Current portion of long-term debt	191,448	352,164	3,314	0.4	-
Current portion of lease obligations	46,607	48,785	459	1.0	-
Long-term debt (excluding current portion)	449,270	1,529,366	14,395	0.3	2019-2027
Lease obligations (excluding current portion)	122,322	181,379	1,707	0.8	2019-2024
Other	-	-	-	-	-
Total	¥15,835,156	¥2,168,750	\$20,413	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2018.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2018 are as follows:

	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2018				
Long-term debt	¥285,833	¥239,264	¥236,233	¥166,056
Lease obligations	46,386	46,649	44,318	18,077

	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2018				
Long-term debt	\$2,690	\$2,252	\$2,223	\$1,563
Lease obligations	436	439	417	170

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2017 and 2018 were omitted due to immateriality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2018 is as follows:

	Thousands of yen (Net income per share: yen)			
	3 months ended June 30, 2017	6 months ended September 30, 2017	9 months ended December 31, 2017	12 months ended March 31, 2018
Sales	¥12,511,900	¥25,014,349	¥39,622,090	¥54,339,573
Income before income taxes	2,698,857	5,500,216	9,028,240	11,939,701
Profit attributable to owners of the parent	1,699,277	3,526,436	5,746,677	7,777,621
Net income per share	¥18.55	¥38.50	¥62.74	¥83.86

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	3 months ended June 30, 2017	6 months ended September 30, 2017	9 months ended December 31, 2017	12 months ended March 31, 2018
Sales	\$117,770	\$235,451	\$372,948	\$511,479
Income before income taxes	25,403	51,771	84,979	112,384
Profit attributable to owners of the parent	15,994	33,193	54,091	73,208
Net income per share	\$0.17	\$0.36	\$0.59	\$0.78

	Yen			
	3 months ended June 30, 2017	3 months ended September 30, 2017	3 months ended December 31, 2017	3 months ended March 31, 2018
Net income per share	¥18.55	¥19.95	¥24.24	¥21.10

	U.S. Dollars			
	3 months ended June 30, 2017	3 months ended September 30, 2017	3 months ended December 31, 2017	3 months ended March 31, 2018
Net income per share	\$0.17	\$0.18	\$0.22	\$0.19