

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2020

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
	2019	2020	2020
Assets:			
Current assets -			
Cash and bank deposits (Notes 10(a) and 12(d))	¥18,805,569	¥19,554,409	\$179,678
Notes and accounts receivable, trade (Notes 6(e) and 12(d))	17,384,070	7,245,980	66,580
Marketable securities (Notes 10(a) and 13)	16,506	16,260	149
Finished products	1,856,807	1,153,655	10,600
Work in process	2,256,097	1,626,935	14,949
Raw materials and supplies	3,258,082	2,975,104	27,337
Other current assets	1,321,036	3,438,103	31,591
Allowance for doubtful accounts (Note 12(d))	(12,525)	(21,991)	(202)
Total current assets	<u>44,885,646</u>	<u>35,988,458</u>	<u>330,685</u>
Fixed assets -			
Tangible fixed assets (Notes 6(b) and 11):			
Buildings and structures	12,170,045	21,304,222	195,756
Machinery and equipment	17,300,831	15,246,079	140,090
Land (Note 6(d))	3,280,912	3,210,624	29,501
Leased assets	205,402	3,224,010	29,624
Construction in progress	6,615,529	1,551,619	14,257
Others	1,280,215	963,900	8,856
Total tangible fixed assets	<u>40,852,936</u>	<u>45,500,456</u>	<u>418,087</u>
Intangible fixed assets:			
Goodwill (Note 18(f))	16,768,935	15,200,325	139,670
Software	477,910	377,521	3,468
Customer related assets	21,419,711	19,416,055	178,407
Technical assets	5,720,891	5,185,744	47,649
Others	28,398	32,995	303
Total intangible fixed assets	<u>44,415,846</u>	<u>40,212,642</u>	<u>369,499</u>
Investments and other assets:			
Investment securities (Notes 12(d) and 13)	536,878	352,970	3,243
Investment in affiliated companies (Notes 6(a), 12(d) and 13)	10,708,217	8,256,305	75,864
Net defined benefit assets (Note 15)	1,074,157	984,306	9,044
Deferred tax assets (Note 17)	229,820	420,973	3,868
Others	174,754	137,734	1,265
Allowance for doubtful accounts	(5,600)	(5,600)	(51)
Total investments and other assets	<u>12,718,227</u>	<u>10,146,690</u>	<u>93,234</u>
Total fixed assets	<u>97,987,011</u>	<u>95,859,790</u>	<u>880,821</u>
 Total assets	 <u>¥142,872,657</u>	 <u>¥131,848,248</u>	 <u>\$1,211,506</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
	2019	2020	2020
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 12(d))	¥3,513,122	¥1,472,758	\$13,532
Short-term borrowings (Notes 6(c), 12(d) and 22(b))	25,544	237,336	2,180
Current portion of long-term debt (Notes 6(b), 6(c), 12(d) and 22(b))	352,705	734,707	6,750
Lease obligations – current (Note 22(b))	52,932	293,502	2,696
Accrued income taxes (Note 12(d))	2,414,836	128,791	1,183
Accrued bonuses for employees	1,604,470	634,691	5,831
Accrued bonuses for directors and audit & supervisory board members	518,247	96,055	882
Accrued warranty expenses	179,233	148,460	1,364
Other current liabilities	7,283,448	1,381,335	12,692
Total current liabilities	<u>15,944,541</u>	<u>5,127,639</u>	<u>47,116</u>
Long-term liabilities -			
Long-term debt (Notes 6(b), 6(c), 12(d) and 22(b))	1,726,001	5,991,294	55,051
Lease obligations – non-current (Note 22(b))	154,801	3,003,643	27,599
Deferred tax liabilities (Note 17)	10,228,500	9,278,394	85,255
Reserve for retirement benefits for directors and audit & supervisory board members	462,345	509,560	4,682
Reserve for retirement benefits for executive officers	104,613	124,869	1,147
Net defined benefit liabilities (Note 15)	829,641	930,637	8,551
Other long-term liabilities	144,280	163,721	1,504
Total long-term liabilities	<u>13,650,183</u>	<u>20,002,120</u>	<u>183,792</u>
Total liabilities	<u>¥29,594,724</u>	<u>¥25,129,759</u>	<u>\$230,908</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
	2019	2020	2020
Net assets (Note 20):			
Shareholders' equity (Note 9) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding:			
96,315,400 shares (March 31, 2019 and 2020)	¥7,100,036	¥7,100,036	\$65,239
Capital surplus	30,225,361	30,225,361	277,730
Retained earnings	59,792,408	55,905,466	513,695
Treasury stock, at cost	(38,280)	(38,280)	(351)
Total shareholders' equity	97,079,525	93,192,583	856,313
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 13)	5,800,311	4,084,638	37,532
Foreign currency translation adjustments	768,540	(513,267)	(4,716)
Remeasurements of defined benefit plans	(4,089)	(135,821)	(1,248)
Total accumulated other comprehensive income	6,564,763	3,435,550	31,568
Stock subscription rights	625,511	625,511	5,747
Non-controlling interests	9,008,132	9,464,843	86,969
Total net assets	113,277,932	106,718,488	980,598
Total liabilities and net assets	¥142,872,657	¥131,848,248	\$1,211,506

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
	2019	2020	2020
Net sales (Note 18)	¥67,809,268	¥37,487,753	\$344,461
Cost of sales (Notes 7(b) and 18)	37,363,210	25,484,453	234,167
Gross profit	<u>30,446,058</u>	<u>12,003,299</u>	<u>110,294</u>
Selling, general and administrative expenses (Notes 7(a) and 7(b))	13,821,610	12,198,553	112,088
Operating profit (loss)	<u>16,624,448</u>	<u>(195,253)</u>	<u>(1,794)</u>
Other income:			
Interest income	24,543	33,358	306
Dividend income	251,297	251,491	2,310
Equity in income of affiliated companies	9,954	-	-
Foreign exchange gain	40,536	1,205	11
Others	341,517	524,818	4,822
	<u>667,849</u>	<u>810,874</u>	<u>7,450</u>
Other expenses:			
Interest expense	22,785	113,165	1,039
Sales discount	37,214	41,472	381
Equity in losses of affiliated companies	-	68,461	629
Devaluation loss on marketable securities	22,607	-	-
Tax and dues	-	62,144	571
Others	24,495	93,978	863
	<u>107,103</u>	<u>379,222</u>	<u>3,484</u>
Ordinary profit	17,185,194	236,398	2,172
Exceptional gains:			
Gain on sales of fixed assets (Note 7(c))	18,585	10,539	96
Subsidy income	160,410	60,410	555
	<u>178,995</u>	<u>70,949</u>	<u>651</u>
Exceptional losses:			
Loss on sales of fixed assets (Note 7(d))	44,585	2,838	26
Impairment loss	-	307,829	2,828
Loss on disposal of fixed assets (Note 7(e))	201,961	46,840	430
Loss on fixed assets devaluation for subsidy income	160,410	60,410	555
Additional retirement benefits related to the compensation for early retirement program	-	26,569	244
	<u>406,957</u>	<u>444,487</u>	<u>4,084</u>
Income (Loss) before income taxes	16,957,232	(137,139)	(1,260)
Income taxes:			
Current	5,233,796	646,141	5,937
Deferred	(508,058)	105,859	972
	<u>4,725,738</u>	<u>752,001</u>	<u>6,909</u>
Profit (Loss)	12,231,494	(889,141)	(8,169)
Profit attributable to non-controlling interests	<u>908,953</u>	<u>206,169</u>	<u>1,894</u>
Profit (Loss) attributable to owners of the parent (Note 20)	<u>¥11,322,541</u>	<u>(¥1,095,310)</u>	<u>(\$10,064)</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>2019</u>	<u>2020</u>	<u>March 31</u>
			<u>2020</u>
Profit (Loss)	¥12,231,494	(¥889,141)	(\$8,169)
Other comprehensive income -			
Net unrealized losses (gains) on			
available-for-sale securities	(2,153,117)	(1,715,672)	(15,764)
Foreign currency translation adjustments	(2,415,449)	(1,810,253)	(16,633)
Remeasurements of defined benefit plans	10,205	(146,892)	(1,349)
Total other comprehensive loss (income) (Note			
8(a))	(4,558,362)	(3,672,818)	(33,748)
Comprehensive income (loss)	¥7,673,132	(¥4,561,959)	(\$41,918)
Attributable to -			
owners of the parent	¥7,440,413	(¥4,224,523)	(\$38,817)
non-controlling interests	232,719	(337,435)	(3,100)

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
	2019	2020	2020
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥7,100,036	¥7,100,036	\$65,239
Balance at the end of the year	<u>7,100,036</u>	<u>7,100,036</u>	<u>65,239</u>
Capital surplus -			
Balance at the beginning of the year	30,225,361	30,225,361	277,730
Balance at the end of the year	<u>30,225,361</u>	<u>30,225,361</u>	<u>277,730</u>
Retained earnings -			
Balance at the beginning of the year	51,646,553	59,792,408	549,411
Changes during the year			
Cash dividends	(3,176,685)	(2,791,632)	(25,651)
Profit (Loss) attributable to owners of the parent	<u>11,322,541</u>	<u>(1,095,310)</u>	<u>(10,064)</u>
Total changes	<u>8,145,855</u>	<u>(3,886,942)</u>	<u>(35,715)</u>
Balance at the end of the year	<u>59,792,408</u>	<u>55,905,466</u>	<u>513,695</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(38,166)	(38,280)	(351)
Changes during the year			
Purchase of treasury stock	<u>(114)</u>	<u>-</u>	<u>-</u>
Total changes	<u>(114)</u>	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>(38,280)</u>	<u>(38,280)</u>	<u>(351)</u>
Total shareholders' equity -			
Balance at the beginning of the year	88,933,785	97,079,525	892,029
Changes during the year			
Cash dividends	(3,176,685)	(2,791,632)	(25,651)
Profit (Loss) attributable to owners of the parent	<u>11,322,541</u>	<u>(1,095,310)</u>	<u>(10,064)</u>
Purchase of treasury stock	<u>(114)</u>	<u>-</u>	<u>-</u>
Total changes	<u>8,145,740</u>	<u>(3,886,942)</u>	<u>(35,715)</u>
Balance at the end of the year	<u>¥97,079,525</u>	<u>¥93,192,583</u>	<u>\$856,313</u>

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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
	2019	2020	2020
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥7,953,429	¥5,800,311	\$53,296
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(2,153,117)</u>	<u>(1,715,672)</u>	<u>(15,764)</u>
Total changes	<u>(2,153,117)</u>	<u>(1,715,672)</u>	<u>(15,764)</u>
Balance at the end of the year	<u>5,800,311</u>	<u>4,084,638</u>	<u>37,532</u>
Foreign currency translation adjustments -			
Balance at the beginning of the year	2,506,580	768,540	7,061
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(1,738,039)</u>	<u>(1,281,807)</u>	<u>(11,778)</u>
Total changes	<u>(1,738,039)</u>	<u>(1,281,807)</u>	<u>(11,778)</u>
Balance at the end of the year	<u>768,540</u>	<u>(513,267)</u>	<u>(4,716)</u>
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	(13,118)	(4,089)	(37)
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>9,029</u>	<u>(131,732)</u>	<u>(1,210)</u>
Total changes	<u>9,029</u>	<u>(131,732)</u>	<u>(1,210)</u>
Balance at the end of the year	<u>(4,089)</u>	<u>(135,821)</u>	<u>(1,248)</u>
Total Accumulated other comprehensive income			
Balance at the beginning of the year	10,446,891	6,564,763	60,321
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>(3,882,128)</u>	<u>(3,129,213)</u>	<u>(28,753)</u>
Total changes	<u>(3,882,128)</u>	<u>(3,129,213)</u>	<u>(28,753)</u>
Balance at the end of the year	<u>6,564,763</u>	<u>3,435,550</u>	<u>31,568</u>
Stock subscription rights			
Balance at the beginning of the year	625,511	625,511	5,747
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>-</u>	<u>-</u>	<u>-</u>
Total changes	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>¥625,511</u>	<u>¥625,511</u>	<u>\$5,747</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
	2019	2020	2020
Non-controlling interests:			
Balance at the beginning of the year	¥8,712,838	¥9,008,132	\$82,772
Changes during the year			
Net changes in items other than those in shareholders' equity	295,294	456,711	4,196
Total changes	295,294	456,711	4,196
Balance at the end of the year	9,008,132	9,464,843	86,969
Total net assets:			
Balance at the beginning of the year	108,719,025	113,277,932	1,040,870
Changes during the year			
Cash dividends	(3,176,685)	(2,791,632)	(25,651)
Profit (Loss) attributable to owners of the parent	11,322,541	(1,095,310)	(10,064)
Purchase of treasury stock	(114)	-	-
Net changes in items other than those in shareholders' equity	(3,586,833)	(2,672,501)	(24,556)
Total changes	4,558,906	(6,559,444)	(60,272)
Balance at the end of the year	¥113,277,932	¥106,718,488	\$980,598

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
	2019	2020	2020
Cash flows from operating activities:			
Income (Loss) before income taxes	¥16,957,232	(¥137,139)	(\$1,260)
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	5,566,008	6,826,848	62,729
Impairment loss	-	307,829	2,828
Depreciation of goodwill	960,402	903,635	8,303
Increase in allowance for doubtful accounts	2,184	9,857	90
(Decrease) Increase in net defined benefit liabilities	(64,953)	84,654	777
Increase in reserve for retirement benefits for directors and audit & supervisory board members	61,970	47,215	433
Increase in reserve for retirement benefits for executive officers	12,736	20,256	186
Increase (Decrease) in accrued bonuses for directors and audit & supervisory board members	109,297	(417,794)	(3,838)
Increase (Decrease) in accrued warranty expenses	87,700	(30,112)	(276)
Interest income	(24,543)	(33,358)	(306)
Dividend income	(251,297)	(251,491)	(2,310)
Interest expense	22,785	113,165	1,039
Equity in (income) losses of affiliated companies	(9,954)	68,461	629
Subsidy income	(160,410)	(60,410)	(555)
Loss (Gain) on sales of fixed assets	26,000	(7,701)	(70)
Loss on disposal of fixed assets	201,961	46,840	430
Loss on fixed asset devaluation for subsidy income	160,410	60,410	555
(Increase) Decrease in trade receivables	(1,767,278)	10,027,696	92,140
(Increase) Decrease in inventories	(1,098,940)	1,464,916	13,460
Increase (Decrease) in trade payables	499,904	(1,960,071)	(18,010)
Others, net	(569,125)	(1,249,500)	(11,481)
Subtotal	20,722,090	15,834,206	145,494
Interest and dividends received	275,850	284,860	2,617
Sundry income received	160,410	60,410	555
Interest paid	(22,155)	(112,384)	(1,032)
Income taxes paid	(6,199,842)	(5,347,138)	(49,132)
Income taxes refunded	185,523	230,230	2,115
Net cash provided by operating activities	¥15,121,877	¥10,950,184	\$100,617

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
	2019	2020	2020
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(¥21,040,315)	(¥11,324,769)	\$104,059
Proceeds from sales of tangible fixed assets	317,293	13,128	120
Payments for purchases of intangible fixed assets	(235,680)	(59,578)	(547)
Payments for time deposits with a deposit period of over three months	(349,857)	(256,892)	(2,360)
Proceeds from maturities of time deposits with a deposit period of over three months	255,466	236,445	2,172
Payments for purchase of shares of subsidiaries and affiliates	(1,321,400)	(1,180,200)	(10,844)
Payments for guarantee deposits	(35,550)	(5,066)	(46)
Proceeds from collection of guarantee deposits	9,660	39,694	364
Payments for short-term loans receivable	-	(200)	(1)
Proceeds from collection of short-term loans receivable	1,128	71	0
Others, net	(330)	143	1
Net cash used in investing activities	<u>(22,399,586)</u>	<u>(12,537,222)</u>	<u>(115,200)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	761,299	272,207	2,501
Repayments of short-term borrowings	(792,134)	(60,292)	(554)
Proceeds from long-term debt	573,176	5,000,000	45,943
Repayments of long-term debt	(376,000)	(352,705)	(3,240)
Repayments of lease obligations	(53,548)	(273,661)	(2,514)
Payments for treasury stock	(114)	-	-
Cash dividends paid	(3,173,977)	(2,790,510)	(25,640)
Proceeds from stock issuance to non-controlling shareholders	-	780,978	7,176
Cash dividends paid to non-controlling interests	(209,843)	(213,662)	(1,963)
Net cash (used in) provided by financing activities	<u>(3,271,142)</u>	<u>2,362,352</u>	<u>21,706</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(171,569)</u>	<u>(33,258)</u>	<u>(305)</u>
Net (decrease) increase in cash and cash equivalents	<u>(10,720,420)</u>	<u>742,056</u>	<u>6,818</u>
Cash and cash equivalents at the beginning of year	<u>28,320,807</u>	<u>17,600,386</u>	<u>161,723</u>
Cash and cash equivalents at the end of year (Note 10(a))	<u>¥17,600,386</u>	<u>¥18,342,443</u>	<u>\$168,542</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 ¥108.83 = US\$1, the approximate exchange rate prevailing in the

Japanese foreign exchange market at March 31, 2020. 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, 2019 and 2020 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 SE and its eight subsidiaries

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

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

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

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

(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 changes:

(a) Adoption of IFRS 16

Some foreign subsidiaries of the Company have applied IFRS 16 “Leases” from the beginning of the current fiscal year. The Company adopted a method to recognize the cumulative effect of adoption of this new accounting standard, as a transitional measure, on the initial date of adoption.

As a result of having applied this standard, “Others” under tangible fixed assets increased by ¥2,726,809 thousand (\$25,055 thousand), “Lease obligations - current” under current liabilities increased by ¥195,553 thousand (\$1,796 thousand), and “Lease obligations – non-current” under long-term liabilities increased by ¥2,601,579 thousand (\$23,904 thousand).

Effects of this change to operating profit, ordinary profits and income before income taxes for the period are immaterial.

4. Accounting standards not yet implemented, etc:

Domestic affiliated companies:

(a) Accounting Standards Board of Japan (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.

(b) ASBJ Statement No. 30 Accounting Standard for Fair Value Management

ASBJ Guidance No. 31 Implementation Guidance on Accounting Standard for Fair Value Measurement

ASBJ Statement No.9 Accounting Standard for Measurement of Inventories.

ASBJ Statement No.10 Accounting for Financial Instruments

ASBJ Guidance No. 19 Implementation Guidance on Disclosures about Fair Value of Financial Instruments

① Overview:

To improve comparability with international accounting standards, “Accounting Standard for Fair Value Management” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter, “Accounting Standard for Fair Value Measurement, etc.”) have been developed by the ASBJ as guidance on how to measure fair value. “Accounting Standard for Fair Value Measurement, etc.” will be applied in determining the fair value of the following items:

- Financial instruments as set forth in “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes as set forth “Accounting Standard for Measurement of Inventories”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised to include notes such as breakdowns of market value of financial instruments by level.

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.

(c) ASBJ Statement No. 24 Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

① Overview:

The purpose of this accounting standard to outline the principles and procedures for accounting that have been adopted when the relevant accounting standards, etc. are not clear.

② Planned adoption date:

The accounting standard is to be adopted from the end of the fiscal year ending March 31, 2021.

(d) ASBJ Statement No. 31 Accounting Standard for Disclosure of Accounting Estimates.

① Overview:

The purpose of this accounting standard is to provide for disclosure of information that contributes to the understanding of financial statement users regarding the risk of and basis for those accounting estimates which may have a significant impact on the financial statements in the current or following fiscal year.

② Planned adoption date:

The accounting standard is to be adopted from the end of the fiscal year ending March 31, 2021.

Foreign affiliated companies:

(a) ASU 2016-02 Leases -

① Overview:

This accounting standard requires lessees to recognize assets and liabilities for all leases in principle.

② Planned adoption date:

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 this accounting standard to the consolidated financial statements.

5. Additional information:

(a) Impact of COVID-19:

The impact of COVID-19, the new coronavirus infection is highly uncertain and it is difficult to reasonably predict the impact on the Company's business results in the future. Therefore, we make accounting estimates, such as the recoverability of deferred tax assets, based on the information available at the end of the fiscal year.

6. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2019 and 2020 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Investment in affiliated companies	¥178,592	¥110,130	\$1,011

(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, 2019 and 2020:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Buildings	¥42,531	¥40,339	\$370
Land	52,225	52,225	479
	¥94,756	¥92,564	\$850
Secured long-term debt:			
Current portion of long-term debt	¥3,120	¥3,120	\$28
Long-term debt	25,280	22,160	203
	¥28,400	¥25,280	\$232

(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, 2019 and 2020 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Total of credit facility contracts	¥6,524,000	¥9,970,480	\$91,615
Outstanding	114,300	120,555	1,107
The balance of unused credit facilities	¥6,409,700	¥9,849,924	\$90,507

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, ¥60,410 thousand (\$555 thousand) was deducted from the acquisition cost of the land for the year ended March 31, 2020.

(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, 2019 was a bank holiday, notes receivable due on that date, totaling ¥115,683 thousand of notes receivable and ¥747,622 thousand of electronically recorded receivables, were included in the balance of notes receivable at March 31, 2019.

7. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2019 and 2020 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2019</u>	<u>2020</u>	<u>2020</u>
Salaries and bonuses	¥3,305,540	¥2,955,904	\$27,160
Accrued bonuses for directors and audit & supervisory board members	521,533	30,491	280
Retirement benefit expenses	83,123	84,895	780
Reserve for retirement benefits for directors and audit & supervisory board members	91,587	132,895	1,221
Reserve for retirement benefits for executive officers	12,736	38,539	354
Research and development expenses	2,421,909	2,176,815	20,001
Depreciation	1,864,223	2,146,213	19,720

(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 ¥2,476,736 thousand and ¥2,195,790 thousand (\$20,176 thousand) for the years ended March 31, 2019 and 2020, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2019 and 2020 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2019</u>	<u>2020</u>	<u>2020</u>
Gain on sales of:			
Machinery and equipment	¥ 2,750	¥ 10,359	\$ 95
Tools, furniture and fixtures	15,834	179	1
	<u>¥ 18,585</u>	<u>¥ 10,539</u>	<u>\$ 96</u>

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2019 and 2020 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Loss on sales of:			
Land	¥ 4,776	¥ -	\$ -
Buildings and structures	37,996	1,127	10
Machinery and equipment	1,812	1,201	11
Tools, furniture and fixtures	-	508	4
	<u>¥ 44,585</u>	<u>¥ 2,838</u>	<u>\$ 26</u>

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2019 and 2020 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Loss on disposal of:			
Buildings and structures	¥ 190,210	¥ 29,607	\$ 272
Machinery and equipment	2,264	12,200	112
Tools, furniture and fixtures	9,487	5,033	46
	<u>¥ 201,961</u>	<u>¥ 46,840</u>	<u>\$ 430</u>

8. 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, 2019 and 2020 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2020</u>	<u>U.S. dollars</u>
			<u>2020</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	(¥3,098,011)	(¥2,567,358)	(\$23,590)
Recycling adjustments	-	-	-
Before tax effect	(3,098,011)	(2,567,358)	(23,590)
Tax effect	944,893	851,685	7,825
Net unrealized losses (gains) on available-for-sale securities	(2,153,117)	(1,715,672)	(15,764)
Foreign currency translation adjustments			
Changes arising during the year	(2,415,449)	(1,810,253)	(16,633)
Remeasurements of defined benefit plans			
Changes arising during the year	(8,648)	(230,269)	(2,115)
Recycling adjustments	21,312	15,035	138
Before tax effect	12,663	(215,233)	(1,977)
Tax effect	(2,458)	68,340	627
Net unrealized losses on available-for-sale securities	10,205	(146,892)	(1,349)
Total other comprehensive loss (income)	<u>(¥4,558,362)</u>	<u>(¥3,672,818)</u>	<u>(\$ 33,748)</u>

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

(a) Shares issued and outstanding -

<u>Share type</u>	<u>April 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2019</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

<u>Share type</u>	<u>April 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2020</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2019</u>
Common stock (shares)	<u>52,193</u>	<u>32</u>	<u>-</u>	<u>52,225</u>

(Reason for the changes)

The increased number of 32 shares of treasury stock is due to the purchase of common shares of less-than-one unit from shareholders.

<u>Share type</u>	<u>April 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2020</u>
Common stock (shares)	<u>52,225</u>	<u>-</u>	<u>-</u>	<u>52,225</u>

(c) Stock subscription rights -

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, 2019
			Balance as of April 1, 2018	Increase	Decrease	Balance as of March 31, 2019	Thousands of yen
The Company	No.1 subscription warrants	Common Stock	1,261,900	-	-	1,261,900	¥625,511

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, 2020
			Balance as of April 1, 2019	Increase	Decrease	Balance as of March 31, 2020	Thousands of yen (Thousands of U.S.dollars)
The Company	No.1 subscription warrants	Common Stock	1,261,900	-	-	1,261,900	¥625,511 (\$5,747)

(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.

(d) Dividends -

For the year ended March 31, 2019:

- ① Dividends paid during the current year -
- (i) The following was resolved by the annual shareholders' meeting held on June 21, 2018:
- | | |
|--|----------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥1,347,684 |
| Cash dividend per share
(Yen) | ¥14 |
| Record date | March 31, 2018 |
| Declaration date | June 22, 2018 |
- (ii) The following was determined by the board of directors meeting held on November 8, 2018:
- | | |
|--|--------------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥1,829,000 |
| Cash dividend per share
(Yen) | ¥19 |
| Record date | September 30, 2018 |
| Declaration date | December 10, 2018 |
- 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, 2019:
- | | |
|--|-------------------|
| 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) | ¥1,829,000 |
| Cash dividend per share
(Yen) | ¥19 |
| Record date | March 31, 2019 |
| Declaration date | June 24, 2019 |

For the year ended March 31, 2020:

① Dividends paid during the current year -

(i) The following was resolved by the annual shareholders' meeting held on June 21, 2019:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,829,000
(Thousands of U.S. dollars)	\$16,806
Cash dividend per share	
(Yen)	¥19
(U.S. dollars)	\$0.17
Record date	March 31, 2019
Declaration date	June 24, 2019

(ii) The following was determined by the board of directors meeting held on November 12, 2019:

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥962,631
(Thousands of U.S. dollars)	\$8,845
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.09
Record date	September 30, 2019
Declaration date	December 9, 2019

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 24, 2020:

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)	¥962,631
(Thousands of U.S. dollars)	\$8,845
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.09
Record date	March 31, 2020
Declaration date	June 25, 2020

10. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2019 and 2020 comprised the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2020</u>	<u>U.S. dollars</u>
			<u>2020</u>
Cash and bank deposits	¥18,805,569	¥19,554,409	\$179,678
Highly liquid investments	16,506	16,260	149
Time deposits with a deposit period of over three months	<u>(1,221,689)</u>	<u>(1,228,226)</u>	<u>(11,285)</u>
Cash and cash equivalents	<u>¥17,600,386</u>	<u>¥18,342,443</u>	<u>\$168,542</u>

11. 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, 2019 and 2020 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2020</u>	<u>U.S. dollars</u>
			<u>2020</u>
Due within 1 year	¥289,950	¥319,027	\$2,931
Due after 1 year	<u>791,056</u>	<u>722,520</u>	<u>6,638</u>
	<u>¥1,081,006</u>	<u>¥1,041,547</u>	<u>\$9,570</u>

12. 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, 2019 and 2020. 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, 2019:			
(1) Cash and bank deposits	¥18,805,569	¥18,805,569	¥ -
(2) Notes and accounts receivable, trade	17,384,070		
Allowance for doubtful accounts (*1)	(12,525)		
	<u>17,371,545</u>	<u>17,371,545</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	16,506	16,506	-
(4) Investment securities			
Available-for-sale securities	533,078	533,078	-
(5) Investment in affiliated companies			
Available-for-sale securities	<u>10,529,625</u>	<u>10,529,625</u>	<u>-</u>
Assets total	<u>¥47,256,324</u>	<u>¥47,256,324</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,513,122	¥3,513,122	¥ -
(2) Accrued income taxes	2,414,836	2,414,836	-
(3) Short-term borrowings	25,544	25,544	-
(4) Current portion of long-term debt	352,705	352,705	-
(5) Long-term debt	<u>1,726,001</u>	<u>1,726,001</u>	<u>-</u>
Liabilities total	<u>¥8,032,210</u>	<u>¥8,032,210</u>	<u>¥ -</u>
Derivative transactions	<u>¥ 2,151</u>	<u>¥ 2,151</u>	<u>¥ -</u>

March 31, 2020:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥19,554,409	¥19,554,409	¥ -
(2) Notes and accounts receivable, trade	7,245,980		
Allowance for doubtful accounts (*1)	(21,991)		
	<u>7,223,989</u>	<u>7,223,989</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	16,260	16,260	-
(4) Investment securities			
Available-for-sale securities	349,170	349,170	-
(5) Investment in affiliated companies			
Available-for-sale securities	<u>8,146,175</u>	<u>8,146,175</u>	<u>-</u>
Assets total	<u>¥35,290,003</u>	<u>¥35,290,003</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥1,472,758	¥1,472,758	¥ -
(2) Accrued income taxes	128,791	128,791	-
(3) Short-term borrowings	237,336	237,336	-
(4) Current portion of long-term debt	734,707	734,707	-
(5) Long-term debt	<u>5,991,294</u>	<u>5,991,294</u>	<u>-</u>
Liabilities total	<u>¥8,564,888</u>	<u>¥8,564,888</u>	<u>¥ -</u>
Derivative transactions	<u>¥4,118</u>	<u>¥4,118</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
March 31, 2020:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$179,678	\$179,678	\$ -
(2) Notes and accounts receivable, trade	66,580		
Allowance for doubtful accounts (*1)	(202)		
	<u>66,378</u>	<u>66,378</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	149	149	-
(4) Investment securities			
Available-for-sale securities	3,208	3,208	-
(5) Investment in affiliated companies			
Available-for-sale securities	<u>74,852</u>	<u>74,852</u>	<u>-</u>
Assets total	<u>\$324,267</u>	<u>\$324,267</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$13,532	\$13,532	\$ -
(2) Accrued income taxes	1,183	1,183	-
(3) Short-term borrowings	2,180	2,180	-
(4) Current portion of long-term debt	6,750	6,750	-
(5) Long-term debt	<u>55,051</u>	<u>55,051</u>	<u>-</u>
Liabilities total	<u>\$78,699</u>	<u>\$78,699</u>	<u>\$ -</u>
Derivative transactions	<u>\$37</u>	<u>\$37</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 and (2) Notes and accounts receivable, trade

The carrying amount approximates the fair value since these accounts are settled within a short period.

- (3) Marketable securities, (4) Investment securities and (5) Investment in affiliated companies

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

See “Note 13. Marketable securities and investment securities” for the footnote information by 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 14. Derivative financial instruments”.

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2019</u>	<u>2020</u>	<u>2020</u>
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$34</u>
Investment in affiliated companies			
Unlisted equity securities	<u>178,592</u>	<u>110,130</u>	<u>\$1,011</u>

Unlisted equity securities are not included in “(4) Investment securities” and “(5) 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, 2019 and 2020 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, 2019:				
Cash and bank deposits	¥18,805,569	-	-	-
Notes and accounts receivable, trade	17,384,070	-	-	-
	<u>¥36,189,640</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, 2020:				
Cash and bank deposits	¥19,554,409	-	-	-
Notes and accounts receivable, trade	7,245,980	-	-	-
	<u>¥26,800,389</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, 2020:				
Cash and bank deposits	\$179,678	-	-	-
Notes and accounts receivable, trade	66,580	-	-	-
	<u>\$246,259</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2019 and 2020 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, 2019:							
Long-term debt		¥352,705	¥306,136	¥303,105	¥232,928	¥227,428	¥656,404
Total		<u>¥352,705</u>	<u>¥306,136</u>	<u>¥303,105</u>	<u>¥232,928</u>	<u>¥227,428</u>	<u>¥656,404</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, 2020:							
Long-term debt		¥734,707	¥871,253	¥807,636	¥798,856	¥783,236	¥2,730,313
Total		<u>¥734,707</u>	<u>¥871,253</u>	<u>¥807,636</u>	<u>¥798,856</u>	<u>¥783,236</u>	<u>¥2,730,313</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, 2020:							
Long-term debt		\$6,750	\$8,005	\$7,421	\$7,340	\$7,196	\$25,087
Total		<u>\$6,750</u>	<u>\$8,005</u>	<u>\$7,421</u>	<u>\$7,340</u>	<u>\$7,196</u>	<u>\$25,087</u>

13. 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, 2019 and 2020 were as follows:

		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2019:				
Equity securities	¥2,716,931	8,345,772	-	¥11,062,703
		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2020:				
Equity securities	¥2,716,931	5,778,414	-	¥8,495,345
		Thousands of U.S. dollars		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2020:				
Equity securities	\$24,964	53,095	-	\$78,060

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, 2019 and 2020.

14. Derivative financial instruments:

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

Thousands of Yen				
March 31, 2019	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥292,800	¥ -	¥ 1,531	¥ 1,531
Chinese CNY	146,693	-	1,155	1,155
U.S. Dollars	220,470	-	(535)	(535)
	<u>¥659,963</u>	<u>¥ -</u>	<u>¥2,151</u>	<u>¥2,151</u>

Thousands of Yen				
March 31, 2020	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥262,800	¥ -	(¥ 4,483)	(¥ 4,483)
U.S. Dollars	475,570	-	9,552	9,552
Euro	100,000	-	(841)	(841)
Buy U.S. Dollars				
Sell Euro	10,727	-	(109)	(109)
	<u>¥849,097</u>	<u>¥ -</u>	<u>¥4,118</u>	<u>¥4,118</u>

March 31, 2020	Thousands of U.S. Dollars			
	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	\$2,414	\$ -	(\$41)	(\$41)
U.S. Dollars	4,369	-	87	87
Euro	918	-	(7)	(7)
Buy U.S. Dollars				
Sell Euro	98	-	(1)	(1)
	<u>\$7,802</u>	<u>\$ -</u>	<u>\$37</u>	<u>\$37</u>

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

15. 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, 2019 and 2020 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
	2019	2020	U.S. dollars
			2020
Defined benefits plan obligations at beginning of the year	¥2,858,380	¥2,749,962	\$25,268
Service cost	144,678	144,964	1,332
Interest cost	25,488	20,251	186
Actuarial differences	(25,362)	87,864	807
Retirement benefits paid	(206,777)	(215,074)	(1,976)
Other	(46,444)	24,164	222
Defined benefits plan obligations at end of the year	<u>¥2,749,962</u>	<u>¥2,812,133</u>	<u>\$25,839</u>

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

	Thousands of yen		Thousands of
	2019	2020	U.S. dollars
			2020
Plan assets at beginning of the year	¥3,088,541	¥3,077,820	\$28,280
Expected return on plan assets	61,253	61,132	561
Actuarial differences	(34,010)	(142,404)	(1,308)
Employer contributions	126,325	133,093	1,222
Retirements benefits paid	(156,074)	(167,618)	(1,540)
Other	(8,213)	(4,649)	(42)
Plan assets at end of the year	<u>¥3,077,820</u>	<u>¥2,957,375</u>	<u>\$27,174</u>

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

	Thousands of yen		Thousands of
	2019	2020	U.S. dollars
			2020
Defined benefits plan obligations of funded plan	¥2,749,962	¥2,812,133	\$25,839
Plan assets	(3,077,820)	(2,957,375)	(27,174)
	(327,858)	(145,242)	(1,334)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(327,858)	(145,242)	(1,334)
Net defined benefit liabilities	746,299	839,064	7,709
Net defined benefit assets	(1,074,157)	(984,306)	(9,044)
Net liabilities or assets recorded in the consolidated balance sheet	(¥327,858)	(¥145,242)	(\$1,334)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2019	2020	U.S. dollars
			2020
Service cost	¥144,678	¥144,964	\$1,332
Interest cost	25,488	20,251	186
Expected return on plan assets	(61,253)	(61,132)	(561)
Actuarial differences	21,312	15,035	138
Retirement benefit expenses related to the defined benefit plans	¥130,226	¥119,118	\$1,094

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
	2019	2020	2020
Actuarial differences	(¥12,663)	¥215,233	\$1,977
Total	(¥12,663)	¥215,233	\$1,977

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
	2019	2020	2020
Unrecognized actuarial differences	¥10,993	¥226,226	\$2,078
Total	¥10,993	¥226,226	\$2,078

⑦ Plan assets -

1) Components of plan assets

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

	2019	2020
Bonds	69%	75%
Equities	24%	17%
Other	7%	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, 2019 and 2020 were as follows:

	<u>2019</u>	<u>2020</u>
Discount rate	0.94%	0.70%
Expected return ratio on plan assets	1.98%	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>2019</u>	<u>2020</u>	<u>2020</u>
Net defined benefit liabilities at beginning of the year	¥90,610	¥83,342	\$765
Retirement benefits expenses	8,172	9,342	85
Retirement benefits paid	(9,203)	(1,112)	(10)
Contributions to the plan	(6,237)	-	-
Net defined benefit liabilities at end of the year	<u>¥83,342</u>	<u>¥91,572</u>	<u>\$841</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.S. dollars</u>
	<u>2019</u>	<u>2020</u>	<u>2020</u>
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Defined benefits plan obligations of unfunded plan	<u>83,342</u>	<u>91,572</u>	<u>841</u>
Net liabilities or assets recorded in the consolidated balance sheet	83,342	91,572	841
Net defined benefit liabilities	<u>83,342</u>	<u>91,572</u>	<u>841</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥83,342</u>	<u>¥91,572</u>	<u>\$841</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2019 and 2020 calculated by the simplified accounting method were ¥8,172 thousand and ¥9,342 thousand (\$85 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2019 and 2020 were ¥120,723 thousand and ¥121,791 thousand (\$1,119 thousand), respectively.

16. Stock options:

No stock options were granted during the years ended March 31, 2019 and 2020.

17. Income taxes:

Deferred tax assets and liabilities as of March 31, 2019 and 2020 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax assets :			
Tax loss carryforwards	¥ -	¥590,755	\$5,428
Accrued enterprise taxes	170,629	-	-
Inventory write-down	27,595	8,092	74
Accrued bonuses	433,093	162,980	1,497
Accrued social insurance premium	42,068	19,161	176
Unrealized intercompany profit in inventories	370,582	122,165	1,122
Reserve for retirement benefits for directors and audit & supervisory board members	162,721	177,122	1,627
Reserve for retirement benefits for executive officers	38,370	48,955	449
Net defined benefit liabilities	22,427	23,325	214
Devaluation loss on investment securities	68,641	68,641	630
Allowance for doubtful accounts	-	46,511	427
Devaluation loss on golf club memberships	5,733	5,733	52
Impairment loss	-	92,945	854
Others	317,599	415,130	3,814
Deferred tax assets sub-total	¥1,659,463	¥1,781,521	\$16,369
Valuation allowance	-	(468,413)	(4,304)
Deferred tax assets total	¥1,659,463	¥1,313,107	\$12,065

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Deferred tax liabilities:			
Enterprise tax receivable	¥ -	(¥79,233)	(\$728)
Unrealized gains on available-for-sale securities	(2,545,460)	(1,762,416)	(16,194)
Undistributed earnings of foreign subsidiaries and an affiliated company	(281,580)	(273,333)	(2,511)
Net defined benefit assets	(327,618)	(300,213)	(2,758)
Intangible assets identified by the business combination	(8,274,856)	(7,500,521)	(68,919)
Others	(228,627)	(254,809)	(2,341)
Deferred tax liabilities total	<u>(11,658,143)</u>	<u>(10,170,528)</u>	<u>(93,453)</u>
Net deferred tax liabilities	<u>(¥9,998,679)</u>	<u>(¥8,857,420)</u>	<u>(\$81,387)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2019 and 2020 are as follows:

	2019	2020
Statutory tax rate	30.5%	30.5%
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	(0.3)	9.4
Tax credit relating to research and development expenses	(4.5)	-
Inhabitant tax on per capita	0.1	10.7
Increase of valuation allowance	-	372.7
Depreciation of goodwill	1.2	155.5
Equity in (income) loss of affiliated companies	(0.0)	16.6
Others, net	0.4	3.0
Actual effective tax rate	<u>27.4%</u>	<u>598.4%</u>

18. Segment information:

(a) Overview of the reportable segments -

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

The Company is engaged in the manufacturing and sales of precision speed reducers, precision actuators and related motion control products, and the business operations fall 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, 2019	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥45,327,338	¥6,814,109	¥15,667,820	¥67,809,268	¥ -	¥67,809,268
Inter-segment	5,338,810	42,726	284,570	5,666,107	(5,666,107)	-
Total	<u>¥50,666,148</u>	<u>¥6,856,835</u>	<u>¥ 15,952,391</u>	<u>¥73,475,376</u>	<u>(¥5,666,107)</u>	<u>¥67,809,268</u>
Segment profit/(loss)	¥17,298,015	¥1,375,467	¥1,750,271	¥20,423,753	(¥3,238,559)	¥17,185,194
Segment assets	¥60,772,548	¥8,489,301	¥38,417,425	¥107,679,275	¥35,193,382	¥142,872,657
Others						
Investment in affiliated companies	¥178,592	¥ -	¥ -	¥178,592	¥ -	¥178,592
Increase in tangible and intangible fixed assets	20,364,831	1,473,250	2,038,522	23,876,604	-	23,876,604

- The adjustment for segment profit/(loss) of (¥3,238,559) thousand includes the eliminated profit of the inter-segment transactions of (¥1,441,224) thousand, the general administrative expenses of (¥1,797,334) thousand that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE (¥960,402) thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥35,193,382 thousand includes inter-segment elimination of (¥12,473,150) thousand, corporate assets of ¥22,720,232 thousand that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥16,768,935 thousand. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

For the year ended March 31, 2020	Thousands of yen				Adjustment	Consolidated
	Reportable segment					
	Japan	North America	Europe	Total		
Sales:						
Third party	¥18,612,597	¥6,240,525	¥12,634,630	¥37,487,753	¥ -	¥37,487,753
Inter-segment	3,106,312	17,870	109,706	3,233,889	(3,233,889)	-
Total	<u>¥21,718,909</u>	<u>¥6,258,395</u>	<u>¥ 12,744,337</u>	<u>¥40,721,642</u>	<u>(¥3,233,889)</u>	<u>¥37,487,753</u>
Segment profit/(loss)	¥2,488,396	¥954,665	(¥800,409)	¥2,642,653	(¥2,406,254)	¥236,398
Segment assets	¥51,199,021	¥9,662,430	¥37,840,261	¥98,701,712	¥33,146,535	¥131,848,248
Others						
Investment in affiliated companies	¥110,130	¥ -	¥ -	¥110,130	¥ -	¥110,130
Increase in tangible and intangible fixed assets	4,374,671	2,091,800	1,426,388	7,892,860	-	7,892,860

Thousands of U.S. dollars						
For the year ended March 31, 2020	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$171,024	\$57,341	\$116,095	\$344,461	\$ -	\$344,461
Inter-segment	28,542	164	1,008	29,715	(29,715)	-
Total	\$199,567	\$57,506	\$117,103	\$374,176	(29,715)	\$344,461
Segment profit/(loss)	\$22,864	\$8,772	(\$7,354)	\$24,282	(\$22,110)	\$2,172
Segment assets	\$470,449	\$88,784	\$347,700	\$906,934	\$304,571	\$1,211,506
Others						
Investment in affiliated companies	\$1,011	\$ -	\$ -	\$1,011	\$ -	\$1,011
Increase in tangible and intangible fixed assets	40,197	19,220	13,106	72,524	-	72,524

- The adjustment for segment profit/(loss) of (¥2,406,254) thousand ((\$22,110) thousand) includes the eliminated profit of the inter-segment transactions of (¥650,314) thousand ((\$5,975) thousand), the general administrative expenses of (¥1,755,939) thousand ((\$16,134) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE ((¥903,635) thousand ((\$8,303) thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥33,146,535 thousand (\$304,571 thousand) includes inter-segment elimination of (¥12,166,877) thousand ((\$111,797) thousand), corporate assets of ¥20,979,657 thousand (\$192,774 thousand) that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥15,200,325 thousand (\$139,670 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 -

Sales to third parties	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Speed reducers	¥ 56,885,512	¥ 28,031,430	\$257,570
Mechatronic products	10,923,756	9,456,323	86,890
	<u>¥67,809,268</u>	<u>¥37,487,753</u>	<u>\$344,461</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				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2019:					
Total	<u>¥37,445,825</u>	<u>¥6,856,835</u>	<u>¥15,952,391</u>	<u>¥7,554,216</u>	<u>¥67,809,268</u>

For the year ended March 31, 2020:					
Total	<u>¥14,056,814</u>	<u>¥6,240,525</u>	<u>¥12,634,630</u>	<u>¥4,555,782</u>	<u>¥37,487,753</u>

	Thousands of U.S. dollars				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2020:					
Total	<u>\$129,163</u>	<u>\$57,341</u>	<u>\$116,095</u>	<u>\$41,861</u>	<u>\$344,461</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- “North America” segment includes ¥5,459,637 thousand (\$50,166 thousand) of sales originating from the United States of America, which represents greater than 10% of sales recorded on the consolidated statements of income for the year ended March 31, 2020.
- “Europe” segment includes ¥4,808,297 thousand (\$44,181 thousand) of sales originating from Germany which represents greater than 10% of sales recorded

on the consolidated statements of income for the year ended March 31, 2020.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2019:				
Total Assets	<u>¥33,055,767</u>	<u>¥3,267,961</u>	<u>¥4,529,207</u>	<u>¥40,852,936</u>
March 31, 2020:				
Total Assets	<u>¥33,161,875</u>	<u>¥4,918,573</u>	<u>¥7,420,007</u>	<u>¥45,500,456</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2020:				
Total Assets	<u>\$304,712</u>	<u>\$45,195</u>	<u>\$68,179</u>	<u>\$418,087</u>

- Tangible fixed assets are classified into the countries and geographical areas as shown in the schedule above based on their location.
- “North America” segment includes ¥4,918,573 thousand (\$45,195 thousand) of tangible fixed assets located in the United States of America, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for the year ended March 31, 2020.
- “Europe” segment includes ¥4,514,170 thousand and ¥7,374,192 thousand (\$67,758 thousand) of tangible fixed assets located in Germany, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for both the years ended March 31, 2019 and 2020, respectively.

③ Information of major customers -

For the year ended March 31, 2019

<u>Customer Name</u>	<u>Thousands of yen</u>	<u>Related segment</u>
Haneda & Co., Ltd.	¥6,658,638	Japan

Information of major customers for the year ended March 31, 2020 is not presented, since no individual customers account for greater than 10% of the net sales recorded on the consolidated statements of income.

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

No impairment loss was recognized on fixed assets for the year ended March 31, 2019.

		Thousands of yen					
		Reportable segment					
For the year ended	March 31, 2020	Japan	North America	Europe	Total	Adjustment	Consolidated
Impairment loss		¥ 307,829	¥ -	¥ -	¥ 307,829	¥ -	¥ 307,829

		Thousands of U.S. dollars					
		Reportable segment					
For the year ended	March 31, 2020	Japan	North America	Europe	Total	Adjustment	Consolidated
Impairment loss		\$ 2,828	\$ -	\$ -	\$ 2,828	\$ -	\$2,828

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

		Thousands of yen					
		Reportable segment					
For the year ended	March 31, 2019	Japan	North America	Europe	Total	Adjustment	Consolidated
Amortization of goodwill		¥ -	¥ -	¥ -	¥ -	¥ 960,402	¥ 960,402
Balance of goodwill		-	-	-	-	16,768,935	16,768,935

		Thousands of yen					
		Reportable segment					
For the year ended	March 31, 2020	Japan	North America	Europe	Total	Adjustment	Consolidated
Amortization of goodwill		¥ -	¥ -	¥ -	¥ -	¥ 903,635	¥ 903,635
Balance of goodwill		-	-	-	-	15,200,325	15,200,325

For the year ended March 31, 2020	Thousands of U.S. dollars					
	<u>Reportable segment</u>				<u>Adjustment</u>	<u>Consolidated</u>
	<u>Japan</u>	<u>North America</u>	<u>Europe</u>	<u>Total</u>		
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 8,303	\$8,303
Balance of goodwill	-	-	-	-	139,670	139,670

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2019 and 2020.

19. Transactions with related parties:

(a) Transactions with related parties –

There have been no transactions with related parties for the years ended March 31, 2019 and 2020.

(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the years ended March 31, 2019 and 2020.

20. Net income per share information:

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

	Yen		U.S. dollars
	2019	2020	2020
Net assets per share	¥1,076.68	¥1,003.79	\$9.22
Net income (loss) per share	117.62	(11.38)	(0.10)

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

	Thousands of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit (Loss) attributable to owners of the parent	¥11,322,541	(¥1,095,310)	(\$10,064)
Profit (Loss) attributable to common stock owners of the parent	¥11,322,541	(¥1,095,310)	(\$10,064)

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

	Number of shares	
	2019	2020
Weighted average number of shares	96,263,203	96,263,175

Diluted net income per share is as follows:

	<u>2019</u>	<u>2020</u>
Diluted net income per share	-	-
Increase in number of common stock (Shares) (includes: Stock subscription rights)	1,261,900 (1,261,900)	1,261,900 (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)	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 for the year ended March 31, 2019. Potentially dilutive shares existed at March 31, 2020, however fully diluted net profit per share for the year ended March 31, 2020 is not stated since a net loss per share was recorded.

21. Subsequent events:

There have been no significant subsequent events on or after April 1, 2020.

22. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2019 and 2020.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2019	Balance at March 31, 2020	Balance at March 31, 2020		
Short-term borrowings	¥25,544	¥237,336	\$2,180	0.4	-
Current portion of long-term debt	352,705	734,707	6,750	0.3	-
Current portion of lease obligations	52,932	293,502	2,696	2.5	-
Long-term debt (excluding current portion)	1,726,001	5,991,294	55,051	0.3	2021-2029
Lease obligations (excluding current portion)	154,801	3,003,643	27,599	2.4	2021-2033
Other	-	-	-	-	-
Total	¥2,311,984	¥10,260,483	\$94,279	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2020.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2020 are as follows:

March 31, 2020	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	¥871,253	¥807,636	¥798,856	¥783,236
Lease obligations	281,649	248,387	234,095	240,953

March 31, 2020	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	\$8,005	\$7,421	\$7,340	\$7,196
Lease obligations	2,587	2,282	2,151	2,214

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2019 and 2020 were omitted due to immateriality.