

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2023



Independent Auditor's Report

To the Board of Directors of Harmonic Drive Systems Inc.

Opinion

We have audited the consolidated financial statements of Harmonic Drive Systems Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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



Key Audit Matters

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

Impairment assessment for non-current assets of Harmonic Drive SE Group Refer to Notes to consolidated financial statements "Significant accounting estimates"	
Key audit matter description	How our audit addressed the key audit matter
<p>In July 2002, the Group acquired shares of Harmonic Drive SE (HDSE), which made HDSE the Group's affiliated company. In March 2017, the Group acquired additional shares of HDSE, which made HDSE the Group's subsidiary. In July 2021, the Group acquired the remaining shares of HDSE, and HDSE has been the Group's wholly owned subsidiary since then.</p> <p>The Group determines that a group of non-current assets related to HDSE and its eight sales subsidiaries (the HDSE Group) is the smallest unit that generates cash flows. The group of assets mainly includes goodwill (15,258,139 thousand yen), customer related assets (19,489,904 thousand yen) and technical assets (5,205,468 thousand yen), and total non-current assets of the HDSE Group is 45,848,962 thousand yen (29% of total consolidated assets).</p> <p>In the business plan prepared when HDSE became the Group's subsidiary, increases in revenue and profit margin were expected due to increases in demand in the growing industrial robots market. The operating results were negatively impacted by the reduced order volume made by manufacturing clients resulting from significant fluctuations in demand for industrial robots. Although the operating results have improved from the prior year, the Group recorded an operating loss for the current year.</p> <p>Considering the situation described above, the Group determined that there was an indication of an impairment of the HDSE Group's non-current assets. In determining whether impairment losses should be recognized, the Group compared total undiscounted future cash flows expected to be generated by HDSE with the carrying value of non-currents of the HDSE Group, including goodwill. As a result, total undiscounted future cash flows expected to be derived from customer</p>	<p>We performed the following procedures over the impairment assessment for the non-current assets of the HDSE Group:</p> <ul style="list-style-type: none"> • Obtained an understanding of the current business environment including the latest trends in the industrial robots market by conducting inquiries with management as well as inspecting board of directors meeting minutes and other related documents. • Performed the following procedures related to estimates of undiscounted future cash flows of the HDSE Group: <ul style="list-style-type: none"> - Verified the consistency of the estimated future cash flows with the business plan approved by the board of directors. - Compared the plan figures for the current year in the business plan with the actual results and evaluated the differences. Verified whether or not there were any events that were not anticipated at the time of the business plan to consider if it is necessary to revise the business plan. - Compared the business plan prepared when HDSE became the Group's subsidiary with the actual results and examined the causes for not achieving the business plan and whether such causes are temporary, as well as verified that unachieved results are reflected in the business plan for the current year and onwards. - For future sales, verified consistency with forecast data provided by the industry association related to the industrial robots market growth rate and the financial information of the robotics vendors with support from experts in the robotic industry, and assessed whether sales forecasted by customer is reasonable based on the Group's



<p>related assets and technical assets, which are the major components of the group of assets, over the remaining economic useful lives of the assets exceeded the carrying amount of non-current assets of the HDSE Group, and therefore, the Group did not record impairment losses for the year ended March 31, 2023.</p> <p>The Group forecasted total undiscounted future cash flows based on the business plan approved by the board of directors. The forecast included estimates of future sales forecasts and operating income which were determined based principally on the external business environment, including management's estimates of future demand trends for the industrial robots market, and the related sales strategy. These estimates involve management's judgment and a high degree of estimation uncertainty. In addition, the balance of non-current assets of the HDSE Group is quantitatively significant to the consolidated financial statements. Therefore, we considered the impairment assessment of non-current assets of the HDSE Group, including estimates of future cash flows and assumptions used in such estimates, to be a key audit matter.</p>	<p>sales strategy.</p> <ul style="list-style-type: none"> - For operating income, verified the consistency of the estimates with the trend in manufacturing and selling, general and administrative expenses historically as well as future sales forecasts and manufacturing capacity forecasted based on the future business environment. • Performed an independent recalculation of undiscounted future cash flows for the current year and onwards, and examined the impact of different scenarios on the impairment assessment for non-current assets.
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Other Information

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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



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

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and



other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

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

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

千葉 達哉

Tatsuya Chiba

Designated Engagement Partner
Certified Public Accountant

June 30, 2023

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
	2022	2023	2023
Assets:			
Current assets -			
Cash and bank deposits (Notes 11(a) and 13(d))	¥19,901,290	¥20,783,570	\$155,647
Notes receivable (Notes 13(d) and 13(e))	6,963,283	7,408,386	55,481
Accounts receivable, trade (Notes 13(d) and 13(e))	8,621,584	10,165,121	76,126
Marketable securities (Notes 11(a), 13(d), 13(e) and 14)	27,616	28,840	215
Finished products	1,146,401	2,014,249	15,084
Work in process	3,883,587	3,658,753	27,400
Raw materials and supplies	4,374,176	6,828,695	51,139
Other current assets	976,918	1,307,220	9,789
Allowance for doubtful accounts (Note 13(d))	(22,146)	(19,356)	(144)
Total current assets	<u>45,872,713</u>	<u>52,175,480</u>	<u>390,739</u>
Fixed assets -			
Tangible fixed assets (Notes 3, 7(b) and 12):			
Buildings and structures	19,679,146	19,423,071	145,458
Machinery and equipment	14,068,453	17,337,080	129,836
Tools, furniture and fixtures	1,588,866	1,843,670	13,807
Land (Note 7(d))	3,207,177	3,329,452	24,934
Leased assets	3,821,250	4,153,614	31,106
Construction in progress	1,545,561	2,766,545	20,718
Others	57,146	73,415	549
Total tangible fixed assets	<u>43,967,603</u>	<u>48,926,847</u>	<u>366,410</u>
Intangible fixed assets:			
Goodwill (Note 20(f))	15,336,072	15,258,139	114,267
Software	250,811	191,453	1,433
Customer related assets	19,589,451	19,489,904	145,958
Technical assets	5,232,055	5,205,468	38,983
Others	27,468	187,939	1,407
Total intangible fixed assets	<u>40,435,860</u>	<u>40,332,904</u>	<u>302,051</u>
Investments and other assets:			
Investment securities (Notes 13(d), 13(e) and 14)	11,129,188	11,044,878	82,714
Investment in affiliated companies (Notes 7(a) and 13(d))	90,821	89,956	673
Net defined benefit assets (Note 16)	1,207,717	1,191,060	8,919
Deferred tax assets (Note 18)	454,910	439,351	3,290
Others	136,704	141,366	1,058
Allowance for doubtful accounts	(5,600)	(5,600)	(41)
Total investments and other assets	<u>13,013,742</u>	<u>12,901,013</u>	<u>96,615</u>
Total fixed assets	<u>97,417,205</u>	<u>102,160,765</u>	<u>765,077</u>
Total assets	<u>¥143,289,918</u>	<u>¥154,336,246</u>	<u>\$1,155,817</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
	2022	2023	2023
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Notes 13(d) and 13(e))	¥3,856,847	¥3,596,434	\$26,933
Contract liabilities	284,221	267,842	2,005
Short-term borrowings (Notes 7(c), 13(d) and 24(b))	327,135	2,610,183	19,547
Current portion of long-term debt (Notes 7(b), 7(c), 13(d), 13(e) and 24(b))	1,942,662	2,569,064	19,239
Lease obligations – current (Notes 13(d), 13(e) and 24(b))	471,703	583,255	4,367
Accrued income taxes (Notes 13(d) and 13(e))	2,604,300	1,046,412	7,836
Accrued bonuses for employees	1,342,333	1,471,732	11,021
Accrued bonuses for directors and audit & supervisory board members	305,941	351,669	2,633
Accrued warranty expenses	62,294	64,009	479
Other current liabilities	2,929,949	3,906,913	29,258
Total current liabilities	<u>14,127,390</u>	<u>16,467,518</u>	<u>123,324</u>
Long-term liabilities -			
Long-term debt (Notes 7(b), 7(c), 13(d), 13(e) and 24(b))	14,617,513	17,766,840	133,055
Lease obligations – non-current (Notes 13(d), 13(e) and 24(b))	3,548,469	3,836,603	28,732
Deferred tax liabilities (Note 18)	9,938,302	10,003,116	74,912
Reserve for retirement benefits for directors and audit & supervisory board members	490,413	12,000	89
Reserve for retirement benefits for executive officers	129,193	80,260	601
Net defined benefit liabilities (Note 16)	1,009,659	750,593	5,621
Other long-term liabilities	572,673	1,463,654	10,961
Total long-term liabilities	<u>30,306,225</u>	<u>33,913,069</u>	<u>253,973</u>
Total liabilities	<u>¥44,433,616</u>	<u>¥50,380,587</u>	<u>\$377,297</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
	2022	2023	2023
Net assets (Note 23):			
Shareholders' equity (Note 10) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding:			
96,315,400 shares (March 31, 2022 and 2023)	¥7,100,036	¥7,100,036	\$53,171
Capital surplus	22,762,168	22,773,595	170,550
Retained earnings	59,361,329	64,852,655	485,678
Treasury stock, at cost	(38,897)	(4,978,535)	(37,284)
Total shareholders' equity	89,184,636	89,747,751	672,116
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 14)	5,911,738	5,845,310	43,775
Foreign currency translation adjustments	3,753,287	8,146,088	61,005
Remeasurements of defined benefit plans	6,640	216,507	1,621
Total accumulated other comprehensive income	9,671,666	14,207,906	106,402
Total net assets	98,856,302	103,955,658	778,519
Total liabilities and net assets	¥143,289,918	¥154,336,246	\$1,155,817

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
	2022	2023	2023
Net sales (Notes 8(a), 19 and 20)	¥57,087,914	¥71,527,316	\$535,664
Cost of sales (Notes 8(c) and 20)	34,661,874	45,741,012	342,552
Gross profit	<u>22,426,040</u>	<u>25,786,304</u>	<u>193,112</u>
Selling, general and administrative expenses (Notes 8(b) and 8(c))	13,686,314	15,561,495	116,539
Operating profit	<u>8,739,726</u>	<u>10,224,808</u>	<u>76,573</u>
Other income:			
Interest income	12,979	14,951	111
Dividend income	264,278	268,412	2,010
Foreign exchange gains	-	275,886	2,066
Sundry income	261,404	245,089	1,835
Others	298,725	212,596	1,592
	<u>837,388</u>	<u>1,016,936</u>	<u>7,615</u>
Other expenses:			
Commission for purchase of treasury stock	-	116,897	875
Interest expense	138,182	166,982	1,250
Sales discount	10,091	-	-
Equity in losses of affiliated companies	5,404	865	6
Foreign exchange losses	44,280	-	-
Rental expenses	167,317	144,211	1,079
Others	103,595	55,059	412
	<u>468,870</u>	<u>484,015</u>	<u>3,624</u>
Ordinary profit	9,108,243	10,757,728	80,564
Exceptional gains:			
Gain on sales of fixed assets (Note 8(d))	2,848	1,922	14
Gain on sales of investment securities	21,579	-	-
Subsidy income	-	2,000	14
	<u>24,427</u>	<u>3,922</u>	<u>29</u>
Exceptional losses:			
Loss on sales of fixed assets (Note 8(e))	761	-	-
Impairment loss (Note 8(f))	54,724	-	-
Loss on disposal of fixed assets (Note 8(g))	47,125	63,496	475
Loss on tax purpose reduction entry of fixed assets	-	2,000	14
Additional retirement benefits related to the compensation for early retirement program	1,792	-	-
Additional retirement benefits paid for a director	16,690	501,537	3,755
	<u>121,093</u>	<u>567,034</u>	<u>4,246</u>
Income before income taxes	9,011,578	10,194,617	76,347
Income taxes:			
Current	3,048,895	3,089,772	23,139
Deferred	(754,364)	(491,084)	(3,677)
	<u>2,294,531</u>	<u>2,598,688</u>	<u>19,461</u>
Profit	6,717,047	7,595,928	56,885
Profit attributable to non-controlling interests	73,154	-	-
Profit attributable to owners of the parent (Note 22)	<u>¥6,643,893</u>	<u>¥7,595,928</u>	<u>\$56,885</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended		For the year ended
	March 31		March 31
	2022	2023	2023
Profit	¥6,717,047	¥7,595,928	\$56,885
Other comprehensive income -			
Net unrealized gains on available-for-sale securities	(4,144,302)	(66,427)	(497)
Foreign currency translation adjustments	2,841,622	4,392,800	32,897
Remeasurements of defined benefit plans	93,686	209,867	1,571
Total other comprehensive loss (income) (Note 9(a))	(1,208,993)	4,536,240	33,971
Comprehensive income	¥5,508,053	¥12,132,168	\$90,857
Attributable to -			
owners of the parent	¥5,210,574	¥12,132,168	\$90,857
non-controlling interests	297,479	-	-

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
	2022	2023	2023
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥7,100,036	¥7,100,036	\$53,171
Balance at the end of the year	<u>7,100,036</u>	<u>7,100,036</u>	<u>53,171</u>
Capital surplus -			
Balance at the beginning of the year	30,080,004	22,762,168	170,464
Changes during the year			
Purchase of shares of consolidated subsidiaries	(7,317,836)	-	-
Restricted stock compensation	-	11,426	85
Total changes	<u>(7,317,836)</u>	<u>11,426</u>	<u>85</u>
Balance at the end of the year	<u>22,762,168</u>	<u>22,773,595</u>	<u>170,550</u>
Retained earnings -			
Balance at the beginning of the year	54,642,698	59,361,329	444,554
Changes during the year			
Cash dividends	(1,925,262)	(2,104,602)	(15,761)
Profit attributable to owners of the parent	<u>6,643,893</u>	<u>7,595,928</u>	<u>56,885</u>
Total changes	<u>4,718,631</u>	<u>5,491,326</u>	<u>41,124</u>
Balance at the end of the year	<u>59,361,329</u>	<u>64,852,655</u>	<u>485,678</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(38,731)	(38,897)	(291)
Changes during the year			
Purchase of treasury stock	(166)	(5,000,000)	(37,444)
Restricted stock compensation	-	60,361	452
Total changes	<u>(166)</u>	<u>(4,939,638)</u>	<u>(36,992)</u>
Balance at the end of the year	<u>(38,897)</u>	<u>(4,978,535)</u>	<u>(37,284)</u>
Total shareholders' equity -			
Balance at the beginning of the year	91,784,007	89,184,636	667,899
Changes during the year			
Cash dividends	(1,925,262)	(2,104,602)	(15,761)
Purchase of shares of consolidated subsidiaries	(7,317,836)	-	-
Profit attributable to owners of the parent	6,643,893	7,595,928	56,885
Purchase of treasury stock	(166)	(5,000,000)	(37,444)
Restricted stock compensation	-	71,788	537
Total changes	<u>(2,599,371)</u>	<u>563,115</u>	<u>4,217</u>
Balance at the end of the year	<u>¥89,184,636</u>	<u>¥89,747,751</u>	<u>\$672,116</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
	2022	2023	2023
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥10,056,041	¥5,911,738	\$44,272
Changes during the year			
Net changes in items other than those in shareholders' equity	(4,144,302)	(66,427)	(497)
Total changes	(4,144,302)	(66,427)	(497)
Balance at the end of the year	5,911,738	5,845,310	43,775
Foreign currency translation adjustments -			
Balance at the beginning of the year	1,131,390	3,753,287	28,108
Changes during the year			
Net changes in items other than those in shareholders' equity	2,621,897	4,392,800	32,897
Total changes	2,621,897	4,392,800	32,897
Balance at the end of the year	3,753,287	8,146,088	61,005
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	(82,445)	6,640	49
Changes during the year			
Net changes in items other than those in shareholders' equity	89,086	209,867	1,571
Total changes	89,086	209,867	1,571
Balance at the end of the year	6,640	216,507	1,621
Total Accumulated other comprehensive income			
Balance at the beginning of the year	11,104,985	9,671,666	72,430
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,433,319)	4,536,240	33,971
Total changes	(1,433,319)	4,536,240	33,971
Balance at the end of the year	9,671,666	14,207,906	106,402
Non-controlling interests:			
Balance at the beginning of the year	¥7,170,822	¥ -	\$ -
Changes during the year			
Purchase of shares of consolidated subsidiaries	(7,473,424)	-	-
Net changes in items other than those in shareholders' equity	302,602	-	-
Total changes	(7,170,822)	-	-
Balance at the end of the year	-	-	-

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	<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>2022</u>	<u>2023</u>	<u>March 31</u>
			<u>2023</u>
Total net assets:			
Balance at the beginning of the year	110,059,815	98,856,302	740,330
Changes during the year			
Cash dividends	(1,925,262)	(2,104,602)	(15,761)
Purchase of shares of consolidated subsidiaries	(14,791,260)	-	-
Profit attributable to owners of the parent	6,643,893	7,595,928	56,885
Purchase of treasury stock	(166)	(5,000,000)	(37,444)
Restricted stock compensation	-	71,788	537
Net changes in items other than those in shareholders' equity	(1,130,716)	4,536,240	33,971
Total changes	<u>(11,203,512)</u>	<u>5,099,355</u>	<u>38,188</u>
Balance at the end of the year	<u>¥98,856,302</u>	<u>¥103,955,658</u>	<u>\$778,519</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
	2022	2023	2023
Cash flows from operating activities:			
Income before income taxes	¥9,011,578	¥10,194,617	\$76,347
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	7,278,201	8,520,379	63,808
Impairment loss	54,724	-	-
Depreciation of goodwill	976,482	1,054,340	7,895
Decrease in allowance for doubtful accounts	(5,571)	(4,787)	(35)
Decrease in net defined benefit liabilities	(109,045)	(381,798)	(2,859)
Decrease in reserve for retirement benefits for directors and audit & supervisory board members	(22,458)	(478,413)	(3,582)
Decrease in reserve for retirement benefits for executive officers	(4,895)	(48,933)	(366)
Increase in accrued bonuses for directors and audit & supervisory board members	197,891	40,182	300
Decrease in accrued warranty expenses	(83,454)	(1,295)	(9)
Interest income	(12,979)	(14,951)	(111)
Dividend income	(264,278)	(268,412)	(2,010)
Interest expense	138,182	166,982	1,250
Equity in losses of affiliated companies	5,404	865	6
Subsidy income	-	(2,000)	(14)
Gain on sales of investment securities	(21,579)	-	-
Gain on sales of fixed assets	(2,086)	(1,922)	(14)
Loss on disposal of fixed assets	47,125	61,992	464
Loss on fixed asset devaluation for subsidy Income	-	2,000	14
Increase in trade receivables	(5,615,727)	(1,636,166)	(12,253)
Increase in inventories	(3,323,760)	(2,540,386)	(19,024)
Increase (Decrease) in trade payables	1,294,609	(458,470)	(3,433)
Others, net	1,264,426	1,347,695	10,092
Subtotal	10,802,789	15,551,518	116,464
Interest and dividends received	277,258	283,364	2,122
Sundry income received	-	2,000	14
Interest paid	(143,195)	(177,146)	(1,326)
Income taxes paid	(1,311,481)	(4,967,316)	(37,200)
Income taxes refunded	256,260	158,054	1,183
Net cash provided by operating activities	¥9,881,633	¥10,850,473	\$81,258

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
	<u>2022</u>	<u>2023</u>	<u>2023</u>
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(¥4,736,925)	(¥8,838,891)	(\$66,194)
Proceeds from sales of tangible fixed assets	7,531	2,698	20
Payments for purchases of intangible fixed assets	(76,306)	(229,709)	(1,720)
Proceeds from sales of investment securities	28,593	-	-
Payments for time deposits with a deposit period of over three months	(247,314)	(1,701,679)	(12,743)
Proceeds from maturities of time deposits with a deposit period of over three months	348,589	2,108,145	15,787
Payments for guarantee deposits	(32,715)	(8,836)	(66)
Proceeds from collection of guarantee deposits	4,975	4,509	33
Others, net	481	481	3
Net cash used in investing activities	<u>(4,703,089)</u>	<u>(8,663,281)</u>	<u>(64,878)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	12,010,000	9,910,000	74,215
Repayments of short-term borrowings	(11,910,168)	(7,610,179)	(56,992)
Proceeds from long-term debt	11,342,000	6,000,000	44,933
Repayments of long-term debt	(883,945)	(2,242,662)	(16,795)
Repayments of lease obligations	(473,217)	(551,912)	(4,133)
Payments for treasury stock	(166)	(5,000,000)	(37,444)
Cash dividends paid	(1,927,297)	(2,105,094)	(15,764)
Cash dividends paid to non — controlling interests	(33,344)	-	-
Payments for purchase of shares of subsidiaries and affiliates	(14,787,753)	-	-
Net cash used in financing activities	<u>(6,663,893)</u>	<u>(1,599,848)</u>	<u>(11,981)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>256,144</u>	<u>567,101</u>	<u>4,246</u>
Net (decrease) increase in cash and cash equivalents	<u>(1,229,206)</u>	<u>1,154,445</u>	<u>8,645</u>
Cash and cash equivalents at the beginning of year	<u>19,996,738</u>	<u>18,767,531</u>	<u>140,549</u>
Cash and cash equivalents at the end of year (Note 11(a))	<u>¥18,767,531</u>	<u>¥19,921,977</u>	<u>\$149,194</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 ¥133.53 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2023. 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, 2022 and 2023 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 intercompany transactions occurring during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Realized gains and losses on sales of those securities are determined using the moving

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

② Receivables and payables arising from derivatives:

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

③ Inventories:

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

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

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

② Intangible fixed assets (excluding leased assets):

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

③ Leased assets:

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

(d) Accounting for deferred charges -

Stock issue costs are not capitalized but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

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

② Accrued bonuses for employees:

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

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

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

④ Accrued warranty expenses:

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

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

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

⑥ Reserve for retirement benefits for executive officers:

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

(f) Accounting method for retirement benefits for employees -

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

(g) Recognition of significant revenues and expenses -

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

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

(h) Foreign currency translation -

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

(i) Amortization of goodwill and negative goodwill -

Goodwill is amortized using the straight-line method over a period within 20 years.

(j) Cash and cash equivalents -

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

3. Significant accounting estimates:

Impairment loss of fixed assets of Harmonic Drive SE Group

(a) Amount of impairment loss of fixed assets

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2022</u>	<u>2023</u>	<u>2023</u>
Fixed assets	<u>¥46,162,760</u>	<u>¥45,848,962</u>	<u>\$343,360</u>

(b) Other information

① Calculation method:

The group determines that a group of non-current assets related to HDSE and its eight sales subsidiaries (the HDSE Group) is the smallest unit that generates cash flows largely independent from the rest of the Group's operations. The group of assets mainly includes goodwill (¥15,258,139 thousand (\$114,267 thousand)), customer related assets (¥19,489,904 thousand (\$145,958 thousand)) and technical assets (¥5,205,468 thousand (\$38,983 thousand)).

The Group determined that there was an indication of an impairment of the HDSE Group's non-current assets. In determining whether impairment losses should be recognized, the Group compared total undiscounted future cash flows expected to be generated by HDSE with the carrying value of non-currents of the HDSE Group including goodwill.

As a result, total undiscounted future cash flows expected to be derived from the use of the customer related assets and technical assets, over a number of years equivalent to the remaining economic useful lives of those assets, was shown to exceed the carrying amount of non-current assets of the HDSE Group including goodwill. Therefore, the Group did not record any impairment losses for the fiscal year ended March 31, 2023.

② Key assumptions

Key assumptions are the future cash flows used for impairment assessment and value in use calculations are determined based on a business plan approved by management, as well as the growth rate used for subsequent years' cash flows.

③ Impact on consolidated financial statements for the year ending March 31, 2024.

Profitability projections are carefully considered in determining whether impairment losses should be recognized. However, if there are significant failures to achieve the business plan on which future cash flows are determined, or increases in future uncertainties due to changes in the business or market environment, the recoverable amount would decrease and may result in recognition of impairment losses during the fiscal year ending March 31, 2024.

4. Accounting changes:

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

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Statement No. 31, June 17, 2021) has been adopted from the beginning of the current consolidated fiscal year ended March 31, 2023,

In accordance with the transitional treatment stipulated in Paragraph 27-2 of the Guidelines for Applying Accounting Standards for Fair Value Measurement, the new accounting policy stipulated in the Guidelines for Applying Accounting Standards for Fair Value Measurement will be applied prospectively.

This change had no effect on the Company's consolidated financial statements.

5. Accounting standards not yet implemented, etc.:

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

① Overview:

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

② Planned adoption date:

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

③ Impact of adoption of the accounting standards:

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

- (d) ASBJ Practical Solution No. 43, Practical Solution on the Accounting for and Disclosure of the issuance and holding of Electronically Recorded Transferable Rights That Must Be Indicated on Securities, etc.

① Overview:

It stipulates the accounting treatment and disclosure in case of issuance or possession of electronic record transfer securities display rights, etc. defined by Cabinet Office Order on Financial Instruments Business, etc." (2007 Cabinet Office Ordinance No. 52. Article 1, Paragraph 4, Item 17.

② Planned adoption date:

The accounting standard is to be adopted from the beginning of the fiscal year ending March 31, 2024.

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.

6. Additional information:

(a) Accounting estimates for the 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.

There have been no significant changes from the consolidated financial statements for the year ended March 31, 2022.

(b) Abolition of retirement benefits to directors and audit & supervisory board members:

The Company resolved at the Board of Directors to abolish the system for retirement benefits to directors, except for outside directors, and audit & supervisory board members and the termination payment in conjunction with discontinuation of the system for retirement benefits to directors and audit & supervisory board members was resolved and approved by the Regular General Meeting of the Shareholders of the Company held on June 22, 2022.

In accordance with this change, the Company has reversed the full amount of the retirement benefits to directors and audit & supervisory board members corresponding to the period until the conclusion of the Regular General Meeting of the Shareholders and disclosed the unpaid amount of ¥499,537 thousand (\$3,741 thousand) in conjunction with the termination payment by including the amount in Other long-term liabilities as long-term accrued expenses.

Some of the consolidated subsidiaries have continued to record reserve for directors' retirement benefits in the full amount payable at each fiscal year end in accordance with the bylaws of each subsidiary.

7. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Investment in affiliated companies	¥90,821	¥89,956	\$673

(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, 2022 and 2023:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings	¥34,931	¥32,765	\$245
Land	52,225	52,225	391
	¥87,156	¥84,990	\$636
Secured long-term debt:			
Current portion of long-term debt	¥3,120	¥3,120	\$23
Long-term debt	15,920	12,800	95
	¥19,040	¥15,920	\$119

(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, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Total of credit facility contracts	¥10,140,400	¥9,348,820	\$70,012
Outstanding	<u>134,486</u>	<u>130,955</u>	<u>980</u>
The balance of unused credit facilities	<u>¥10,005,913</u>	<u>¥9,217,864</u>	<u>\$69,032</u>

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, the balance deducted from the acquisition cost of the land for the years ended March 31, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
The balance deducted from the acquisition cost of land	<u>¥381,230</u>	<u>¥383,230</u>	<u>\$2,869</u>

8. Notes to consolidated statements of income:

(a) Revenue from Contracts with Customers

For sales, revenue from contracts with customers, and other revenue are not provided separately. The amount of revenue from contracts with customers is provided in “Notes 20. Segment information”.

(b) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2022 and 2023 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Salaries and bonuses	¥2,879,119	¥ -	\$ -
Salaries	-	2,494,548	18,681
Accrued bonus for employees	-	812,788	6,086
Accrued bonuses for directors and audit & supervisory board members	298,509	408,273	3,057
Retirement benefit expenses	158,788	182,435	1,366
Reserve for retirement benefits for directors and audit & supervisory board members	67,970	48,440	362
Reserve for retirement benefits for executive officers	23,261	21,166	158
Research and development expenses	2,914,481	3,172,035	23,755
Depreciation	2,412,024	2,424,683	18,158

(c) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥3,012,730 thousand and ¥3,274,102 thousand (\$24,519 thousand) for the years ended March 31, 2022 and 2023, respectively.

(d) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Gain on sales of:			
Machinery and equipment	¥ 2,815	¥ 1,922	\$ 14
Tools, furniture and fixtures	32	-	-
	<u>¥ 2,848</u>	<u>¥ 1,922</u>	<u>\$ 14</u>

(e) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Loss on sales of:			
Machinery and equipment	¥ 740	¥ -	\$ -
Tools, furniture and fixtures	21	-	-
	<u>¥ 761</u>	<u>¥ -</u>	<u>\$ -</u>

(f) Impairment loss -

The Company recorded impairment loss on the following asset groups for the year ended March 31, 2022.

① Assets for which impairment loss was recognized:

<u>Location</u>	<u>Use</u>	<u>Account</u>	<u>Amount</u>
Daegu, South Korea	Business assets	Machinery and equipment	¥26,759
		Tools, furniture and fixtures	27,965

② Background to the recognition of impairment losses:

The assets are located in Daegu, South Korea and are owned by SAMICK ADM CO., LTD, a consolidated subsidiary, and an indication of impairment was identified based on the continued operating losses recorded by the company. As a result of considering the recoverability of the assets' value, the book value of the assets was reduced to the recoverable amount, and the amount deducted recorded as an impairment loss.

③ Assets grouping method:

Asset grouping is based on the smallest unit that generates cash flows that are largely independent of other assets or asset groups.

④ Calculation method of recoverable value:

The recoverable amount is measured based on the value in use, and the recoverable amount is evaluated as zero because no positive future cash flow is expected.

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

(g) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2022 and 2023 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Loss on disposal of:			
Buildings and structures	¥ 33,247	¥ 39,706	\$ 297
Machinery and equipment	1,814	16,970	127
Tools, furniture and fixtures	12,063	6,819	51
	<u>¥ 47,125</u>	<u>¥ 63,496</u>	<u>\$ 475</u>

9. 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, 2022 and 2023 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Net unrealized gains on available-for-sale securities			
Changes arising during the year	(¥5,933,309)	(¥84,309)	(\$631)
Recycling adjustments	(21,579)	-	-
Before tax effect	(5,954,888)	(84,309)	(631)
Tax effect	1,810,585	17,882	133
Net unrealized gains on available-for-sale securities	(4,144,302)	(66,427)	(497)
Foreign currency translation adjustments			
Changes arising during the year	2,841,622	4,392,800	32,897
Remeasurements of defined benefit plans			
Changes arising during the year	49,751	209,536	1,569
Recycling adjustments	85,733	93,691	701
Before tax effect	135,484	303,228	2,270
Tax effect	(41,797)	(93,361)	(699)
Remeasurements of defined benefit plans	93,686	209,867	1,571
Total other comprehensive (loss) income	(¥1,208,993)	¥4,536,240	\$33,971

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

(a) Shares issued and outstanding -

<u>Share type</u>	<u>April 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2022</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, 2022</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2023</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2022</u>
Common stock (shares)	<u>52,300</u>	<u>36</u>	<u>-</u>	<u>52,336</u>

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

(Reason for the changes)

- The increased number of 36 shares of treasury stock is due to the purchase of common shares of less-than-one unit from shareholders for the year ended March 31, 2022.
- The increased number of 1,215,400 shares of treasury stock is due to the acquisition of treasury stock by resolution of the Board of Directors at May 13, 2022 for the year ended March 31, 2023.
- The decreased number of 16,734 shares of treasury stock is due to the issuance of common shares based on the stock compensation scheme of the restricted stock for directors (except for outside directors) for the year ended March 31, 2023.

(c) Dividends -

For the year ended March 31, 2022:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 23, 2021:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥962,631
	Cash dividend per share	
	(Yen)	¥10
	Record date	March 31, 2021
	Declaration date	June 24, 2021
(ii)	The following was determined by the board of directors meeting held on November 12, 2021:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥962,631
	Cash dividend per share	
	(Yen)	¥10
	Record date	September 30, 2021
	Declaration date	December 6, 2021
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 22, 2022:	
	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)	¥1,058,893
	Cash dividend per share	
	(Yen)	¥11
	Record date	March 31, 2022
	Declaration date	June 23, 2022

For the year ended March 31, 2023:

①	Dividends paid during the current year -	
	(i) The following was resolved by the annual shareholders' meeting held on June 22, 2022:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥1,058,893
	(Thousands of U.S. dollars)	\$7,930
	Cash dividend per share	
	(Yen)	¥11
	(U.S. dollars)	\$0.08
	Record date	March 31, 2022
	Declaration date	June 23, 2022
	(ii) The following was determined by the board of directors meeting held on November 8, 2022:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥1,045,708
	(Thousands of U.S. dollars)	\$7,831
	Cash dividend per share	
	(Yen)	¥11
	(U.S. dollars)	\$0.08
	Record date	September 30, 2022
	Declaration date	December 5, 2022
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was resolved by the annual shareholders' meeting held on June 21, 2023:	
	Type of shares	Common stock
	Resource of the dividends to be paid	Retained earnings
	The total amount of the dividends in cash paid	
	(Thousands of yen)	¥1,616,094
	(Thousands of U.S. dollars)	\$12,102
	Cash dividend per share	
	(Yen)	¥17
	(U.S. dollars)	\$0.12
	Record date	March 31, 2023
	Declaration date	June 22, 2023

11. 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, 2022 and 2023 comprised the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>
			<u>2023</u>
Cash and bank deposits	¥19,901,290	¥20,783,570	\$155,647
Highly liquid investments	27,616	28,840	215
Time deposits with a deposit period of over three months	<u>(1,161,375)</u>	<u>(890,432)</u>	<u>(6,668)</u>
Cash and cash equivalents	<u>¥18,767,531</u>	<u>¥19,921,977</u>	<u>\$149,194</u>

12. 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, 2022 and 2023 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>
			<u>2023</u>
Due within 1 year	¥254,316	¥135,006	\$1,011
Due after 1 year	<u>177,891</u>	<u>62,390</u>	<u>467</u>
	<u>¥432,207</u>	<u>¥197,397</u>	<u>\$1,478</u>

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

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

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

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

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

raising funds related to capital investment, and the maximum redemption date is 11 years after fiscal year end.

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2022 and 2023.

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2022:			
(1) Notes receivable	¥6,963,283	¥6,963,283	¥ -
(2) Accounts receivable, trade	8,621,584		
Allowance for doubtful accounts			
(*2)	(22,146)		
	<u>8,599,437</u>	<u>8,599,437</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	<u>11,153,004</u>	<u>11,153,004</u>	<u>-</u>
Assets total	<u>¥26,715,726</u>	<u>¥26,715,726</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥3,856,847	¥3,856,847	¥ -
(2) Accrued income taxes	2,604,300	2,604,300	-
(3) Short-term borrowings	327,135	327,135	-
(4) Current portion of long-term debt	1,942,662	1,942,662	-
(5) Long-term debt	14,617,513	14,617,513	-
(6) Lease obligations	<u>4,020,172</u>	<u>4,154,360</u>	<u>134,187</u>
Liabilities total	<u>¥27,368,631</u>	<u>¥27,502,819</u>	<u>¥134,187</u>
Derivative transactions	<u>(¥63,215)</u>	<u>(¥63,215)</u>	<u>¥ -</u>

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

	Thousands of U.S. dollars		
March 31, 2023:	Carrying amount	Fair value	Variance
(1) Notes receivable	\$55,481	\$55,481	\$ -
(2) Accounts receivable, trade	76,126		
Allowance for doubtful accounts			
(*2)	(144)		
	<u>75,981</u>	<u>75,981</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	<u>82,902</u>	<u>82,902</u>	<u>-</u>
Assets total	<u>\$214,364</u>	<u>\$214,364</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$26,933	\$26,933	\$ -
(2) Accrued income taxes	7,836	7,836	-
(3) Short-term borrowings	19,547	19,547	-
(4) Current portion of long-term debt	19,239	19,239	-
(5) Long-term debt	133,055	132,035	(1,019)
(6) Lease obligations	<u>33,100</u>	<u>31,562</u>	<u>(1,537)</u>
Liabilities total	<u>\$239,712</u>	<u>\$237,155</u>	<u>(\$2,556)</u>
Derivative transactions	<u>(\$84)</u>	<u>(\$84)</u>	<u>\$ -</u>

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

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

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

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$28</u>
Investment in affiliated companies			
Unlisted equity securities	<u>90,821</u>	<u>89,956</u>	<u>\$673</u>

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

(Note 1) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2022 and 2023 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, 2022:				
Cash and bank deposits	¥19,901,290	-	-	-
Notes receivable	6,963,283			
Accounts receivable, trade	<u>8,621,584</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥35,486,158</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, 2023:				
Cash and bank deposits	¥20,783,570	-	-	-
Notes receivable	7,408,386			
Accounts receivable, trade	<u>10,165,121</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥38,357,077</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of 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, 2023:				
Cash and bank deposits	\$155,647	-	-	-
Notes receivable	55,481			
Accounts receivable, trade	76,126	-	-	-
	<u>\$287,254</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 2) Aggregate annual maturities of long-term debt subsequent to March 31, 2022 and 2023 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, 2022:						
Long-term debt	¥1,942,662	¥1,969,778	¥1,944,015	¥1,859,627	¥1,859,627	¥6,984,463
Lease obligations	471,703	455,022	446,289	420,768	434,233	1,792,155
Total	<u>¥2,414,365</u>	<u>¥2,424,800</u>	<u>¥2,390,304</u>	<u>¥2,280,395</u>	<u>¥2,293,861</u>	<u>¥8,776,619</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, 2023:						
Long-term debt	¥2,569,064	¥2,563,121	¥2,459,627	¥2,459,627	¥2,424,627	¥7,859,836
Lease obligations	583,255	582,585	548,270	555,396	532,852	1,617,497
Total	<u>¥3,152,319</u>	<u>¥3,145,706</u>	<u>¥3,007,898</u>	<u>¥3,015,023</u>	<u>¥2,957,480</u>	<u>¥9,477,333</u>

	Thousands of 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, 2023:						
Long-term debt	\$19,239	\$19,195	\$18,420	\$18,420	\$18,157	\$58,861
Lease obligations	4,367	4,362	4,105	4,159	3,990	12,113
Total	<u>\$23,607</u>	<u>\$23,558</u>	<u>\$22,526</u>	<u>\$22,579</u>	<u>\$22,148</u>	<u>\$70,975</u>

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

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

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

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

Level 3: Fair values measured by using unobservable inputs

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

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

	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2022:				
Marketable securities and Investment securities Available-for-sale securities Shares	¥11,153,004	-	-	¥11,153,004
Total assets	¥11,153,004	-	-	¥11,153,004
Derivative transaction related to currency	-	¥63,215	-	¥63,215
Total liabilities	-	¥63,215	-	¥63,215
	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2023:				
Marketable securities and Investment securities Available-for-sale securities Shares	¥11,069,918	-	-	¥11,069,918
Total assets	¥11,069,918	-	-	¥11,069,918
Derivative transaction related to currency	-	¥11,334	-	¥11,334
Total liabilities	-	¥11,334	-	¥11,334

	<u>Fair value (Thousands of U.S. dollars)</u>			
March 31, 2023:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities and Investment securities				
Available-for-sale securities				
Shares	<u>\$82,902</u>	<u>-</u>	<u>-</u>	<u>\$82,902</u>
Total assets	<u>\$82,902</u>	<u>-</u>	<u>-</u>	<u>\$82,902</u>
Derivative transaction related to currency	<u>-</u>	<u>\$84</u>	<u>-</u>	<u>\$84</u>
Total liabilities	<u>-</u>	<u>\$84</u>	<u>-</u>	<u>\$84</u>

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

	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2022:				
Notes receivable	-	¥6,963,283	-	¥6,963,283
Accounts receivable, trade	-	8,599,437	-	8,599,437
Total assets	-	¥15,562,721	-	¥15,562,721
Notes and accounts payable, trade	-	¥3,856,847	-	¥3,856,847
Short-term borrowings	-	327,135	-	327,135
Accrued income taxes	-	2,604,300	-	2,604,300
Long-term debt	-	16,560,175	-	16,560,175
Lease obligations	-	4,154,360	-	4,154,360
Total liabilities	-	¥27,502,819	-	¥27,502,819

	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
March 31, 2023:				
Notes receivable	-	¥7,408,386	-	¥7,408,386
Accounts receivable, trade	-	10,145,764	-	10,145,764
Total assets	-	¥17,554,150	-	¥17,554,150
Notes and accounts payable, trade	-	¥3,596,434	-	¥3,596,434
Short-term borrowings	-	2,610,183	-	2,610,183
Accrued income taxes	-	1,046,412	-	1,046,412
Long-term debt	-	20,199,823	-	20,199,823
Lease obligations	-	4,214,538	-	4,214,538
Total liabilities	-	¥31,667,393	-	¥31,667,393

March 31, 2023:	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Notes receivable	-	\$55,481	-	\$55,481
Accounts receivable, trade	-	75,981	-	75,981
Total assets	-	\$131,462	-	\$131,462
Notes and accounts payable, trade	-	\$26,933	-	\$26,933
Short-term borrowings	-	19,547	-	19,547
Accrued income taxes	-	7,836	-	7,836
Long-term debt	-	151,275	-	151,275
Lease obligations	-	31,562	-	31,562
Total liabilities	-	\$237,155	-	\$237,155

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

Marketable securities and Investment securities:

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

Derivative transaction:

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

Notes and accounts receivable, trade:

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

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

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

Long-term debt:

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

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

Lease obligations:

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

14. 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, 2022 and 2023 were as follows:

Thousands of yen				
March 31, 2022:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Securities whose consolidated carrying value exceeds their acquisition price				
Equity securities	¥2,709,916	8,415,471	-	¥11,125,388

Thousands of yen				
March 31, 2023:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Securities whose consolidated carrying value exceeds their acquisition price				
Equity securities	¥2,709,916	¥8,331,162	-	¥11,041,078

Securities whose consolidated carrying value does not exceed their acquisition price				
Bonds - Other	70,176	(41,336)	-	28,840
	¥2,780,092	¥8,289,826	-	¥11,069,918

Thousands of U.S. dollars				
March 31, 2023:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Securities whose consolidated carrying value exceeds their acquisition price				
Equity securities	\$20,294	62,391	-	\$82,686
Securities whose consolidated carrying value does not exceed their acquisition price				
Bonds - Other	525	(309)	-	215
	\$20,819	62,082	-	\$82,902

15. 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, 2022	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	¥338,174	¥ -	(¥ 25,302)	(¥ 25,302)
U.S. Dollars	526,325	-	(37,913)	(37,913)
	<u>¥864,499</u>	<u>¥ -</u>	<u>(¥63,215)</u>	<u>(¥63,215)</u>

Thousands of Yen				
March 31, 2023	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	¥639,260	¥ -	(¥8,199)	(¥8,199)
U.S. Dollars	938,315	-	(3,134)	(3,134)
	<u>¥1,577,576</u>	<u>¥ -</u>	<u>(¥11,334)</u>	<u>(¥11,334)</u>

Thousands of U.S. Dollars				
March 31, 2023	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Chinese CNY	\$4,787	\$ -	(\$61)	(\$61)
U.S. Dollars	7,026	-	(23)	(23)
	<u>\$11,814</u>	<u>\$ -</u>	<u>(\$84)</u>	<u>(\$84)</u>

16. 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, 2022 and 2023 and for the years then ended is as follows:

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

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Defined benefits plan obligations at beginning of the year	¥3,003,809	¥2,898,007	\$21,703
Service cost	150,159	147,469	1,104
Interest cost	19,900	30,854	231
Actuarial differences	(92,145)	(317,890)	(2,380)
Retirement benefits paid	(219,150)	(331,531)	(2,482)
Other	35,435	74,340	556
Defined benefits plan obligations at end of the year	<u>¥2,898,007</u>	<u>¥2,501,249</u>	<u>\$18,731</u>

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

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Plan assets at beginning of the year	¥3,200,446	¥3,204,318	\$23,996
Expected return on plan assets	64,159	21,008	157
Actuarial differences	(42,394)	(108,353)	(811)
Employer contributions	137,554	147,137	1,101
Retirements benefits paid	(167,657)	(215,094)	(1,610)
Other	12,209	11,122	83
Plan assets at end of the year	<u>¥3,204,318</u>	<u>¥3,060,139</u>	<u>\$22,917</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 -

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>
			<u>2023</u>
Defined benefits plan obligations of funded plan	¥2,898,007	¥2,501,249	\$18,731
Plan assets	(3,204,318)	(3,060,139)	(22,917)
	<u>(306,310)</u>	<u>(558,890)</u>	<u>(4,185)</u>
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	<u>(306,310)</u>	<u>(558,890)</u>	<u>(4,185)</u>
Net defined benefit liabilities	901,406	632,170	4,734
Net defined benefit assets	(1,207,717)	(1,191,060)	(8,919)
Net liabilities or assets recorded in the consolidated balance sheet	<u>(¥306,310)</u>	<u>(¥558,890)</u>	<u>(\$4,185)</u>

④ Components of retirement benefit expenses -

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>
			<u>2023</u>
Service cost	¥150,159	¥147,469	\$1,104
Interest cost	19,900	30,854	231
Expected return on plan assets	(64,159)	(21,008)	(157)
Actuarial differences	85,733	93,691	701
Retirement benefit expenses related to the defined benefit plans	<u>¥191,633</u>	<u>¥251,006</u>	<u>\$1,879</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
	2022	2023	2023
Actuarial differences	<u>(¥135,484)</u>	<u>(¥303,228)</u>	<u>(\$2,270)</u>
Total	<u>(¥135,484)</u>	<u>(¥303,228)</u>	<u>(\$2,270)</u>

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
	2022	2023	2023
Unrecognized actuarial differences	<u>¥30,010</u>	<u>(¥273,217)</u>	<u>(\$2,046)</u>
Total	<u>¥30,010</u>	<u>(¥273,217)</u>	<u>(\$2,046)</u>

⑦ Plan assets -

1) Components of plan assets

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

	2022	2023
Bonds	70%	72%
Equities	22%	21%
Other	8%	7%
Total	<u>100%</u>	<u>100%</u>

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, 2022 and 2023 were as follows:

	<u>2022</u>	<u>2023</u>
Discount rate	0.77%	1.58%
Expected return ratio on plan assets	1.98%	1.98%
Assumed wage increase rate	2.68%	2.94%

(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>2022</u>	<u>2023</u>	<u>2023</u>
Net defined benefit liabilities at beginning of the year	¥96,675	¥108,253	\$810
Retirement benefits expenses	12,624	14,513	108
Retirement benefits paid	<u>(1,047)</u>	<u>(4,343)</u>	<u>(32)</u>
Net defined benefit liabilities at end of the year	<u>¥108,253</u>	<u>¥118,422</u>	<u>\$886</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 U.S. dollars
	2022	2023	2023
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	-	-	-
Defined benefits plan obligations of unfunded plan	108,253	118,422	886
Net liabilities or assets recorded in the consolidated balance sheet	108,253	118,422	886
Net defined benefit liabilities	108,253	118,422	886
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥108,253</u>	<u>¥118,422</u>	<u>\$886</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2022 and 2023 calculated by the simplified accounting method were ¥12,624 thousand and ¥14,513 thousand (\$108 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2022 and 2023 were ¥117,713 thousand and ¥144,377 thousand (\$1,081 thousand), respectively.

17. Stock options:

No stock options were granted during the years ended March 31, 2022 and 2023.

18. Income taxes:

Deferred tax assets and liabilities as of March 31, 2022 and 2023 consist of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>
			<u>2023</u>
Deferred tax assets:			
Tax loss carryforwards	¥263,927	¥208,827	\$1,563
Accrued enterprise taxes	170,149	96,100	719
Inventory write-down	30,437	5,406	40
Accrued bonuses	359,059	372,988	2,793
Accrued social insurance premium	42,660	43,398	325
Unrealized intercompany profit in inventories	202,573	311,530	2,333
Software development expenses	-	59,793	447
Reserve for retirement benefits for directors and audit & supervisory board members	165,488	311,324	2,331
Reserve for retirement benefits for executive officers	43,452	38,004	284
Stock compensation expenses for directors	-	15,924	119
Net defined benefit liabilities	27,456	29,632	221
Devaluation loss on investment securities	65,409	65,409	489
Devaluation loss on golf club memberships	5,733	5,733	42
Impairment loss	69,854	60,140	450
Others	259,451	141,818	1,062
Deferred tax assets sub-total	¥1,705,654	¥1,766,032	\$13,225
Valuation allowance	(327,607)	(436,981)	(3,272)
Deferred tax assets total	<u>¥1,378,046</u>	<u>¥1,329,051</u>	<u>\$9,953</u>

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(¥2,503,733)	(¥2,485,851)	(\$18,616)
Undistributed earnings of foreign subsidiaries and an affiliated company	(341,504)	(402,315)	(3,012)
Net defined benefit assets	(368,353)	(363,273)	(2,720)
Intangible assets identified by the business combination	(7,430,749)	(7,392,278)	(55,360)
Others	(217,097)	(249,098)	(1,865)
Deferred tax liabilities total	<u>(10,861,438)</u>	<u>(10,892,816)</u>	<u>(81,575)</u>
Net deferred tax liabilities	<u>(¥9,483,392)</u>	<u>(¥9,563,765)</u>	<u>(\$71,622)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2022 and 2023 are as follows:

	2022	2023
Statutory tax rate	30.5%	30.5%
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	(0.7)	0.3
Tax credit relating to research and development expenses	(5.5)	(8.2)
Inhabitant tax on per capita	0.2	0.1
Depreciation of goodwill	3.3	3.2
Equity in (income) loss of affiliated companies	(0.0)	0.0
Others, net	<u>(2.3)</u>	<u>(0.3)</u>
Actual effective tax rate	<u>25.5%</u>	<u>25.5%</u>

19. Revenue recognition:

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

Information on the breakdown of income arising from the contracts with customers is provided in “Note 20. Segment information”.

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

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

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

① Outstanding Contract Liabilities, etc.

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Receivables arising from contracts with customers (opening balance):			
Notes receivable	¥4,321,626	¥6,963,283	\$52,147
Accounts receivable, trade	5,469,882	8,621,584	64,566
	<u>¥9,791,509</u>	<u>¥15,584,868</u>	<u>116,714</u>
Receivables arising from contracts with customers (closing balance)			
Notes receivable	¥6,963,283	¥7,408,386	\$55,481
Accounts receivable, trade	8,621,584	10,165,121	76,126
	<u>¥15,584,868</u>	<u>¥17,573,507</u>	<u>\$131,607</u>
Contract liabilities (opening balance)	<u>¥151,490</u>	<u>¥284,221</u>	<u>\$2,128</u>
Contract liabilities (closing balance)	<u>284,221</u>	<u>267,842</u>	<u>2,005</u>

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

(Note 2) For revenues recognized in the previous consolidated fiscal year, the amount included in contract liabilities as of the beginning of the period was ¥151,490 thousand (\$1,134 thousand).

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

(Note 4) For revenues recognized in the current consolidated fiscal year, the amount included in contract liabilities as of the beginning of the period was ¥284,221 thousand (\$2,128 thousand).

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

② Transaction price allocated to remaining performance obligations

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

20. 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 for the products manufactured and sold by the Company are Japan (including the Asia area), North America and Europe, and the products are marketed by the Company, its subsidiaries and affiliated companies in Japan and Asia, and 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, 2022	Thousands of yen					Adjustment	Consolidated
	Reportable segment						
	Japan	North America	Europe	Total			
Sales:							
Revenue from							
Contracts with							
Customers	¥42,033,740	¥6,660,013	¥13,293,826	¥61,987,581	(¥4,899,666)	¥57,087,914	
Third party	37,273,495	6,643,427	¥13,170,991	¥57,087,914	¥ -	¥57,087,914	
Inter-segment	4,760,244	16,586	122,835	4,899,666	(4,899,666)	-	
Total	¥42,033,740	¥6,660,013	¥13,293,826	¥61,987,581	(¥4,899,666)	¥57,087,914	
Segment profit/(loss)	¥11,889,694	¥701,580	¥171,574	¥12,762,849	(¥3,654,605)	¥9,108,243	
Segment assets	¥61,425,916	¥11,212,583	¥39,886,140	¥112,524,640	¥30,765,278	¥143,289,918	
Others							
Depreciation	¥3,960,645	¥483,186	¥2,834,369	¥7,278,201	¥ -	¥7,278,201	
Interest income	75,204	7,464	4,368	87,038	(74,059)	12,979	
Interest expenses	59,551	72,773	78,238	210,563	(72,381)	138,182	
Equity in losses of affiliated companies	(5,404)	-	-	(5,404)	-	(5,404)	
Investment in affiliated companies	90,821	-	-	90,821	-	90,821	
Increase in tangible and intangible fixed assets	5,337,964	4,199	348,333	5,690,496	-	5,690,496	

- The adjustment for segment profit/(loss) of (¥3,654,605) thousand includes the eliminated profit of the inter-segment transactions of (¥1,237,115) thousand, the general administrative expenses of (¥2,417,489) 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 ¥976,482 thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.

- The adjustment for segment assets of ¥30,765,278 thousand includes inter-segment elimination of ¥11,547,126 thousand, corporate assets of ¥19,218,152 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 ¥15,336,072 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, 2023	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	¥51,792,678	¥10,877,240	¥15,965,906	¥78,635,825	(¥7,108,508)	¥71,527,316
Third party	45,445,979	10,858,472	¥15,222,864	¥71,527,316	¥ -	¥71,527,316
Inter-segment	6,346,698	18,767	743,041	7,108,508	(7,108,508)	-
Total	¥51,792,678	¥10,877,240	¥15,965,906	¥78,635,825	(¥7,108,508)	¥71,527,316
Segment profit/(loss)	¥12,748,650	¥1,406,763	¥624,801	¥14,780,215	(¥4,022,486)	¥10,757,728
Segment assets	¥67,342,909	¥14,450,002	¥42,537,872	¥124,330,784	¥30,005,461	¥154,336,246
Others						
Depreciation	¥4,909,330	¥612,005	¥2,999,043	¥8,520,379	¥ -	¥8,520,379
Interest income	89,903	5,107	7,079	102,089	(87,138)	14,951
Interest expenses	88,792	84,950	77,857	251,601	(84,618)	166,982
Equity in losses of affiliated companies	(865)	-	-	(865)	-	(865)
Investment in affiliated companies	89,956	-	-	89,956	-	89,956
Increase in tangible and intangible fixed assets	8,150,824	675,758	409,671	9,236,254	-	9,236,254

For the year ended March 31, 2023	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	\$387,872	\$81,459	\$119,567	\$588,900	(\$53,235)	\$535,664
Third party	340,342	81,318	114,003	535,664	-	535,664
Inter-segment	47,530	140	5,564	53,235	(53,235)	-
Total	<u>\$387,872</u>	<u>\$81,459</u>	<u>\$119,567</u>	<u>\$588,900</u>	<u>(\$53,235)</u>	<u>\$535,664</u>
Segment profit/(loss)	\$95,474	\$10,535	\$4,679	\$110,688	(\$30,124)	\$80,564
Segment assets	\$504,327	\$108,215	\$318,564	\$931,107	\$224,709	\$1,155,817
Others						
Depreciation	\$36,765	\$4,583	\$22,459	\$63,808	\$ -	\$63,808
Interest income	673	38	53	764	(652)	111
Interest expenses	664	636	583	1,884	(633)	1,250
Equity in losses of affiliated companies	(6)	-	-	(6)	-	(6)
Investment in affiliated companies	673	-	-	673	-	673
Increase in tangible and intangible fixed assets	61,041	5,060	3,068	69,169	-	69,169

- The adjustment for segment profit of (¥4,022,486) thousand ((\$30,124) thousand) includes the eliminated profit of the inter-segment transactions of (¥1,465,634) thousand ((\$10,976) thousand), the general administrative expenses of (¥2,556,852) thousand ((\$19,148) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE (¥1,054,340 thousand (\$7,895 thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥30,005,461 thousand (\$224,709 thousand)

includes inter-segment elimination of ¥11,082,141 thousand (\$82,993 thousand), corporate assets of ¥18,923,319 thousand (\$141,715 thousand) that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥15,258,139 thousand (\$114,267 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
	2022	2023	2023
Sales to third parties			
Speed reducers	¥ 47,235,882	¥ 57,000,038	\$426,870
Mechatronic products	9,852,032	14,527,278	108,794
	<u>¥57,087,914</u>	<u>¥71,527,316</u>	<u>\$535,664</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, 2022:					
Total	<u>¥31,180,543</u>	<u>¥6,643,427</u>	<u>¥13,170,991</u>	<u>¥6,092,951</u>	<u>¥57,087,914</u>
For the year ended March 31, 2023:					
Total	<u>¥38,431,914</u>	<u>¥10,858,472</u>	<u>¥15,222,864</u>	<u>¥7,014,065</u>	<u>¥71,527,316</u>
	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2023:					
Total	<u>\$287,814</u>	<u>\$81,318</u>	<u>\$114,003</u>	<u>\$52,528</u>	<u>\$535,664</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 ¥5,783,447 thousand and ¥9,386,137 thousand (\$70,292 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, 2022 and 2023, respectively.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2022:				
Total Assets	<u>¥33,021,966</u>	<u>¥4,996,222</u>	<u>¥5,949,413</u>	<u>¥43,967,603</u>
March 31, 2023:				
Total Assets	<u>¥37,114,517</u>	<u>¥5,966,324</u>	<u>¥5,846,005</u>	<u>¥48,926,847</u>
	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2023:				
Total Assets	<u>\$277,948</u>	<u>\$44,681</u>	<u>\$43,780</u>	<u>\$366,410</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 ¥4,996,222 thousand and ¥5,966,324 thousand (\$44,681 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, 2022 and 2023, respectively.
- “Europe” segment includes ¥5,949,413 thousand and ¥5,846,005 thousand (\$43,780 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, 2022 and 2023, respectively.

③ Information of major customers -

<u>Customer Name</u>	<u>Thousands of yen</u>		<u>Thousands of</u>	<u>Related</u>
	<u>2022</u>	<u>2023</u>	<u>U.S. dollars</u>	
			<u>2023</u>	<u>Segment</u>
Haneda & Co., Ltd.	¥ 5,748,575	¥ 8,800,059	\$ 65,903	Japan

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

	<u>Thousands of yen</u>					
	<u>Reportable segment</u>					
	<u>Japan</u>	<u>North</u>	<u>Europe</u>	<u>Total</u>	<u>Adjustment</u>	<u>Consolidated</u>
<u>For the year</u> <u>ended</u> <u>March 31, 2022</u>						
Impairment loss	¥ 54,724	¥ -	¥ -	¥ 54,724	¥ -	¥ 54,724

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

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

For the year ended March 31, 2022	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 976,482	¥ 976,482
Balance of goodwill	-	-	-	-	15,336,072	15,336,072

For the year ended March 31, 2023	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 1,054,340	¥ 1,054,340
Balance of goodwill	-	-	-	-	15,258,139	15,258,139

For the year ended March 31, 2023	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 7,895	\$ 7,895
Balance of goodwill	-	-	-	-	114,267	114,267

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2022 and 2023.

21. Transactions with related parties:

(a) Transactions with related parties –

The director and major shareholder of the Company.

There were no transactions with related parties for the year ended March 31, 2022.

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

Category	The Company in which a director and his/her close relatives owns a majority of voting rights (including subsidiaries of the Company).
Entity name	Tokyo Aircraft Instrument Co., Ltd.
Location	Machida-shi, Tokyo, Japan
Capital	¥100,000 thousand
Description of business	Manufacturing and sales of Aerospace products.
Share of shareholders voting rights	None.
Description of relationship	
- Business relationship	Acceptance of dispatched seconded manufacturing personnel
- Sharing of directors	Yes
For the year: Transaction	Payment of personal expenses subject to seconded employees, etc.
Amounts	¥140,412 thousand (\$1,051 thousand)
At year-end: Accounts	Accounts payable
Amounts	¥ 9,403 thousand (\$70 thousand)

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

(Note 2) The payment of seconded employees' salaries is based on a memorandum of understanding regarding secondment, and an amount equivalent to the personnel costs related to seconded employees is paid.

(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the years ended March 31, 2022 and 2023.

22. 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
	2022	2023	2023
Net assets per share	¥1,026.94	¥1,093.53	\$8.18
Net income per share	69.02	79.67	0.59

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

	Thousands of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit attributable to owners of the parent	¥6,643,893	¥7,595,928	\$56,885
Profit attributable to common stock owners of the parent	¥6,643,893	¥7,595,928	\$56,885

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

	Number of shares	
	2022	2023
Weighted average number of shares	96,263,094	95,338,168

(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, 2022 and 2023.

23. Subsequent events:

There have been no significant subsequent events on or after April 1, 2023.

24. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2022 and 2023.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2022	Balance at March 31, 2023	Balance at March 31, 2023		
Short-term borrowings	¥327,135	¥2,610,183	\$19,547	0.2	-
Current portion of long-term debt	1,942,662	2,569,064	19,239	0.3	-
Current portion of lease obligations	471,703	583,255	4,367	2.1	-
Long-term debt (excluding current portion)	14,617,513	17,766,840	133,055	0.3	2023-2032
Lease obligations (excluding current portion)	3,548,469	3,836,603	28,732	2.2	2023-2033
Other	-	-	-	-	-
Total	<u>¥20,907,483</u>	<u>¥27,365,946</u>	<u>\$204,942</u>	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2023.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2023 are as follows:

March 31, 2023	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	¥2,563,121	¥2,459,627	¥2,459,627	¥2,424,627
Lease obligations	582,585	548,270	555,396	532,852

March 31, 2023	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	\$19,195	\$18,420	\$18,420	\$18,157
Lease obligations	4,362	4,105	4,159	3,990

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2022 and 2023 were omitted due to immateriality.