

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2022



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, 2022, 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, 2022, 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 largely independent from the rest of the Group's operations. The group of assets mainly includes goodwill (15,336,072 thousand yen), customer related assets (19,589,451 thousand yen) and technical assets (5,232,055 thousand yen), and total non-current assets of the HDSE Group is 46,162,760 thousand yen (32% of total consolidated assets).</p> <p>In a 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. However, operating results of HDSE from the year ended March 31, 2020 to the year ended March 31, 2022 fell short of the business plan which was prepared when HDSE became the Group's subsidiary and HDSE recorded operating losses due to temporary impact of inventory adjustments by HDSE's manufacturing clients resulting from significant fluctuations in demand for industrial robots and the spread of COVID-19.</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</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 most recent business environment including the latest trend 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 future cash flows with the mid-term business plan approved by the board of directors. - Compared the plan figures for the current year in the mid-term business plan with the actual results to confirm whether or not there were any events that were not anticipated at the time of the mid-term business plan and the details of such events, including the necessity to revise the mid-term business plan. - Compared the business plan which was prepared when HDSE became the Group's subsidiary with the actual results and examined the causes for failures to achieve the business plan and whether such causes are temporary, as well as verified that unachieved results are reflected in the mid-term business plan for this year and onwards. - For future sales, verified consistency with forecast data provided by the external parties related to the industrial robots market growth rate and the financial statements of the comparable entities in the market, and assess whether sales forecast by customer is reasonable based on the Group's sales strategy.



<p>impairment losses should be recognized, the Group compared total undiscounted future cash flows expected to be acquired 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 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, 2021.</p> <p>The Group forecasted total undiscounted future cash flows based on the mid-term business plan approved by the board of directors. The forecast includes estimates including 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 subjective judgement and a high degree of estimation uncertainty. In addition, the non-current assets of the HDSE Group were 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 were a key audit matter.</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 our own calculation of total undiscounted future cash flows for this year and onwards where uncertainties are incorporated into the mid-term business plan and examine the impact it has on the impairment assessment for non-current assets performed by the Group.
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Other Information

Other information comprises information included in a 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, 2022 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, 2022

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
	2021	2022	2022
Assets:			
Current assets -			
Cash and bank deposits (Notes 11(a) and 13(d))	¥21,142,106	¥19,901,290	\$162,605
Notes and accounts receivable, trade (Notes 13(d))	9,791,509	-	-
Notes receivable (Note 13(d))	-	6,963,283	56,894
Accounts receivable, trade (Note 13(d))	-	8,621,584	70,443
Marketable securities (Notes 11(a), 13(d), 13(e) and 14)	21,874	27,616	225
Finished products	916,359	1,146,401	9,366
Work in process	2,391,998	3,883,587	31,731
Raw materials and supplies	2,538,193	4,374,176	35,739
Other current assets	1,342,329	976,918	7,982
Allowance for doubtful accounts (Note 13(d))	(26,661)	(22,146)	(180)
Total current assets	<u>38,117,709</u>	<u>45,872,713</u>	<u>374,807</u>
Fixed assets -			
Tangible fixed assets (Notes 3, 7(b) and 12):			
Buildings and structures	20,509,415	19,679,146	160,790
Machinery and equipment	13,260,982	14,068,453	114,947
Land (Note 7(d))	3,108,646	3,207,177	26,204
Leased assets	3,039,349	3,821,250	31,221
Construction in progress	1,045,799	1,545,561	12,628
Others	1,027,701	1,646,013	13,448
Total tangible fixed assets	<u>41,991,895</u>	<u>43,967,603</u>	<u>359,241</u>
Intangible fixed assets:			
Goodwill (Note 21(f))	15,532,775	15,336,072	125,304
Software	274,489	250,811	2,049
Customer related assets	19,840,708	19,589,451	160,057
Technical assets	5,299,162	5,232,055	42,749
Others	56,201	27,468	224
Total intangible fixed assets	<u>41,003,338</u>	<u>40,435,860</u>	<u>330,385</u>
Investments and other assets:			
Investment securities (Notes 13(d), 13(e) and 14)	17,091,091	11,129,188	90,932
Investment in affiliated companies (Notes 7(a) and 13(d))	96,226	90,821	742
Net defined benefit assets (Note 16)	1,149,229	1,207,717	9,867
Deferred tax assets (Note 18)	470,140	454,910	3,716
Others	114,140	136,704	1,116
Allowance for doubtful accounts	(5,600)	(5,600)	(45)
Total investments and other assets	<u>18,915,227</u>	<u>13,013,742</u>	<u>106,330</u>
Total fixed assets	<u>101,910,461</u>	<u>97,417,205</u>	<u>795,957</u>
Total assets	<u>¥140,028,170</u>	<u>¥143,289,918</u>	<u>\$1,170,764</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
	2021	2022	2022
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 13(d))	¥2,412,798	¥3,856,847	\$31,512
Contract liabilities	-	284,221	2,322
Short-term borrowings (Notes 7(c), 13(d) and 25(b))	226,668	327,135	2,672
Current portion of long-term debt (Notes 7(b), 7(c), 13(d) and 25(b))	881,261	1,942,662	15,872
Lease obligations – current (Note 25(b))	305,392	471,703	3,854
Accrued income taxes (Note 13(d))	837,683	2,604,300	21,278
Accrued bonuses for employees	765,136	1,342,333	10,967
Accrued bonuses for directors and audit & supervisory board members	107,064	305,941	2,499
Accrued warranty expenses	145,084	62,294	508
Other current liabilities	2,273,003	2,929,949	23,939
Total current liabilities	<u>7,954,093</u>	<u>14,127,390</u>	<u>115,429</u>
Long-term liabilities -			
Long-term debt (Notes 7(b), 7(c), 13(d) and 25(b))	5,220,859	14,617,513	119,433
Lease obligations – non-current (Note 25(b))	2,868,734	3,548,469	28,993
Deferred tax liabilities (Note 18)	12,075,672	9,938,302	81,201
Reserve for retirement benefits for directors and audit & supervisory board members	512,872	490,413	4,006
Reserve for retirement benefits for executive officers	134,089	129,193	1,055
Net defined benefit liabilities (Note 16)	1,049,268	1,009,659	8,249
Other long-term liabilities	152,765	572,673	4,679
Total long-term liabilities	<u>22,014,261</u>	<u>30,306,225</u>	<u>247,620</u>
Total liabilities	<u>¥29,968,354</u>	<u>¥44,433,616</u>	<u>\$363,049</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
	2021	2022	2022
Net assets (Note 23):			
Shareholders' equity (Note 10) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding:			
96,315,400 shares (March 31, 2021 and 2022)	¥7,100,036	¥7,100,036	\$58,011
Capital surplus	30,080,004	22,762,168	185,980
Retained earnings	54,642,698	59,361,329	485,017
Treasury stock, at cost	(38,731)	(38,897)	(317)
Total shareholders' equity	91,784,007	89,184,636	728,692
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 14)	10,056,041	5,911,738	48,302
Foreign currency translation adjustments	1,131,390	3,753,287	30,666
Remeasurements of defined benefit plans	(82,445)	6,640	54
Total accumulated other comprehensive income	11,104,985	9,671,666	79,023
Non-controlling interests	7,170,822	-	-
Total net assets	110,059,815	98,856,302	807,715
 Total liabilities and net assets	 ¥140,028,170	 ¥143,289,918	 \$1,170,764

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
	2021	2022	2022
Net sales (Notes 8(a), 20 and 21)	¥37,034,042	¥57,087,914	\$466,442
Cost of sales (Notes 8(c) and 21)	24,451,238	34,661,874	283,208
Gross profit	<u>12,582,804</u>	<u>22,426,040</u>	<u>183,234</u>
Selling, general and administrative expenses (Notes 8(b) and 8(c))	11,716,886	13,686,314	111,825
Operating profit	<u>865,918</u>	<u>8,739,726</u>	<u>71,408</u>
Other income:			
Interest income	38,568	12,979	106
Dividend income	252,292	264,278	2,159
Sundry income	277,232	261,404	2,135
Others	420,417	298,725	2,440
	<u>988,510</u>	<u>837,388</u>	<u>6,841</u>
Other expenses:			
Interest expense	106,293	138,182	1,129
Sales discount	14,801	10,091	82
Equity in losses of affiliated companies	13,904	5,404	44
Foreign exchange loss	139,202	44,280	361
Rental expenses	4,739	167,317	1,367
Loss on valuation of inventories	184,266	-	-
Others	24,417	103,595	846
	<u>487,624</u>	<u>468,870</u>	<u>3,830</u>
Ordinary profit	1,366,803	9,108,243	74,419
Exceptional gains:			
Gain on sales of fixed assets (Note 8(d))	949	2,848	23
Gain on sales of investment securities	-	21,579	176
Subsidy income	60,410	-	-
	<u>61,359</u>	<u>24,427</u>	<u>199</u>
Exceptional losses:			
Loss on sales of fixed assets (Note 8(e))	-	761	6
Impairment loss (Note 8(f))	-	54,724	447
Loss on disposal of fixed assets (Note 8(g))	26,320	47,125	385
Loss on fixed assets devaluation for subsidy income	60,410	-	-
Additional retirement benefits related to the compensation for early retirement program	285,047	1,792	14
Additional retirement benefits paid for a director	37,040	16,690	136
	<u>408,818</u>	<u>121,093</u>	<u>989</u>
Income before income taxes	1,019,344	9,011,578	73,630
Income taxes:			
Current	957,980	3,048,895	24,911
Deferred	(492,264)	(754,364)	(6,163)
	<u>465,715</u>	<u>2,294,531</u>	<u>18,747</u>
Profit	553,629	6,717,047	54,882
Profit (Loss) attributable to non-controlling interests	<u>(108,865)</u>	<u>73,154</u>	<u>597</u>
Profit attributable to owners of the parent (Note 23)	<u>¥662,495</u>	<u>¥6,643,893</u>	<u>\$54,284</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2021</u>	<u>2022</u>	<u>March 31</u>
			<u>2022</u>
Profit	¥553,629	¥6,717,047	\$54,882
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	5,971,402	(4,144,302)	(33,861)
Foreign currency translation adjustments	2,448,399	2,841,622	23,217
Remeasurements of defined benefit plans	36,361	93,686	765
Total other comprehensive loss (income) (Note 9(a))	8,456,163	(1,208,993)	(9,878)
Comprehensive income	¥9,009,792	¥5,508,053	\$45,004
Attributable to -			
owners of the parent	¥8,331,930	¥5,210,574	\$42,573
non-controlling interests	677,862	297,479	2,430

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
	2021	2022	2022
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥7,100,036	¥7,100,036	\$58,011
Balance at the end of the year	<u>7,100,036</u>	<u>7,100,036</u>	<u>58,011</u>
Capital surplus -			
Balance at the beginning of the year	30,225,361	30,080,004	245,771
Changes during the year			
Purchase of shares of consolidated subsidiaries	(145,356)	(7,317,836)	(59,791)
Total changes	<u>(145,356)</u>	<u>(7,317,836)</u>	<u>(59,791)</u>
Balance at the end of the year	<u>30,080,004</u>	<u>22,762,168</u>	<u>185,980</u>
Retained earnings -			
Balance at the beginning of the year	55,905,466	54,642,698	446,463
Changes during the year			
Cash dividends	(1,925,263)	(1,925,262)	(15,730)
Profit attributable to owners of the parent	662,495	6,643,893	54,284
Total changes	<u>(1,262,768)</u>	<u>4,718,631</u>	<u>38,554</u>
Balance at the end of the year	<u>54,642,698</u>	<u>59,361,329</u>	<u>485,017</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(38,280)	(38,731)	(316)
Changes during the year			
Purchase of treasury stock	(450)	(166)	(1)
Total changes	<u>(450)</u>	<u>(166)</u>	<u>(1)</u>
Balance at the end of the year	<u>(38,731)</u>	<u>(38,897)</u>	<u>(317)</u>
Total shareholders' equity -			
Balance at the beginning of the year	93,192,583	91,784,007	749,930
Changes during the year			
Cash dividends	(1,925,263)	(1,925,262)	(15,730)
Purchase of shares of consolidated subsidiaries	(145,356)	(7,317,836)	(59,791)
Profit attributable to owners of the parent	662,495	6,643,893	54,284
Purchase of treasury stock	(450)	(166)	(1)
Total changes	<u>(1,408,575)</u>	<u>(2,599,371)</u>	<u>(21,238)</u>
Balance at the end of the year	<u>¥91,784,007</u>	<u>¥89,184,636</u>	<u>\$728,692</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
	2021	2022	2022
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥4,084,638	¥10,056,041	\$82,163
Changes during the year			
Net changes in items other than those in shareholders' equity	5,971,402	(4,144,302)	(33,861)
Total changes	5,971,402	(4,144,302)	(33,861)
Balance at the end of the year	10,056,041	5,911,738	48,302
Foreign currency translation adjustments -			
Balance at the beginning of the year	(513,267)	1,131,390	9,244
Changes during the year			
Net changes in items other than those in shareholders' equity	1,644,657	2,621,897	21,422
Total changes	1,644,657	2,621,897	21,422
Balance at the end of the year	1,131,390	3,753,287	30,666
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	(135,821)	(82,445)	(673)
Changes during the year			
Net changes in items other than those in shareholders' equity	53,375	89,086	727
Total changes	53,375	89,086	727
Balance at the end of the year	(82,445)	6,640	54
Total Accumulated other comprehensive income			
Balance at the beginning of the year	3,435,550	11,104,985	90,734
Changes during the year			
Net changes in items other than those in shareholders' equity	7,669,435	(1,433,319)	(11,711)
Total changes	7,669,435	(1,433,319)	(11,711)
Balance at the end of the year	11,104,985	9,671,666	79,023
Stock subscription rights			
Balance at the beginning of the year	625,511	-	-
Changes during the year			
Retirement of treasury subscription rights to shares	(625,511)	-	-
Net changes in items other than those in shareholders' equity	-	-	-
Total changes	(625,511)	-	-
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>2021</u>	<u>2022</u>	<u>March 31</u>
			<u>2022</u>
Non-controlling interests:			
Balance at the beginning of the year	¥9,464,843	¥7,170,822	\$58,589
Changes during the year			
Purchase of shares of consolidated subsidiaries	(2,793,154)	(7,473,424)	(61,062)
Net changes in items other than those in shareholders' equity	499,132	302,602	2,472
Total changes	<u>(2,294,021)</u>	<u>(7,170,822)</u>	<u>(58,589)</u>
Balance at the end of the year	<u>7,170,822</u>	<u>-</u>	<u>-</u>
Total net assets:			
Balance at the beginning of the year	106,718,488	110,059,815	899,254
Changes during the year			
Cash dividends	(1,925,263)	(1,925,262)	(15,730)
Purchase of shares of consolidated subsidiaries	(2,938,510)	(14,791,260)	(120,853)
Profit attributable to owners of the parent	662,495	6,643,893	54,284
Purchase of treasury stock	(450)	(166)	(1)
Retirement of treasury subscription rights to shares	(625,511)	-	-
Net changes in items other than those in shareholders' equity	8,168,567	(1,130,716)	(9,238)
Total changes	<u>3,341,327</u>	<u>(11,203,512)</u>	<u>(91,539)</u>
Balance at the end of the year	<u>¥110,059,815</u>	<u>¥98,856,302</u>	<u>\$807,715</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
	2021	2022	2022
Cash flows from operating activities:			
Income before income taxes	¥1,019,344	¥9,011,578	\$73,630
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	6,464,279	7,278,201	59,467
Impairment loss	-	54,724	447
Depreciation of goodwill	925,175	976,482	7,978
Increase (Decrease) in allowance for doubtful accounts	4,207	(5,571)	(45)
Increase (Decrease) in net defined benefit liabilities	52,618	(109,045)	(890)
Increase (Decrease) in reserve for retirement benefits for directors and audit & supervisory board members	3,311	(22,458)	(183)
Increase (Decrease) in reserve for retirement benefits for executive officers	9,219	(4,895)	(39)
Increase in accrued bonuses for directors and audit & supervisory board members	10,287	197,891	1,616
Decrease in accrued warranty expenses	(4,016)	(83,454)	(681)
Interest income	(38,568)	(12,979)	(106)
Dividend income	(252,292)	(264,278)	(2,159)
Interest expense	106,293	138,182	1,129
Equity in losses of affiliated companies	13,904	5,404	44
Subsidy income	(60,410)	-	-
Gain on sales of investment securities	-	(21,579)	(176)
Gain on sales of fixed assets	(949)	(2,086)	(17)
Loss on disposal of fixed assets	26,320	47,125	385
Loss on fixed asset devaluation for subsidy income	60,410	-	-
Increase in trade receivables	(2,530,849)	(5,615,727)	(45,883)
Increase in inventories	(105,341)	(3,323,760)	(27,157)
Increase in trade payables	934,795	1,294,609	10,577
Others, net	902,707	1,264,426	10,331
Subtotal	7,540,448	10,802,789	88,265
Interest and dividends received	290,864	277,258	2,265
Sundry income received	60,410	-	-
Interest paid	(102,825)	(143,195)	(1,169)
Income taxes paid	(440,857)	(1,311,481)	(10,715)
Income taxes refunded	2,206,964	256,260	2,093
Net cash provided by operating activities	¥9,555,003	¥9,881,633	\$80,738

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>2021</u>	<u>2022</u>	<u>2022</u>
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(¥1,326,055)	(¥4,736,925)	(\$38,703)
Proceeds from sales of tangible fixed assets	130,009	7,531	61
Payments for purchases of intangible fixed assets	(59,602)	(76,306)	(623)
Proceeds from sales of investment securities	-	28,593	233
Payments for purchase of shares of subsidiaries and affiliates	(2,950,318)	(14,787,753)	(120,824)
Payments for time deposits with a deposit period of over three months	(265,399)	(247,314)	(2,020)
Proceeds from maturities of time deposits with a deposit period of over three months	275,745	348,589	2,848
Payments for guarantee deposits	(3,616)	(32,715)	(267)
Proceeds from collection of guarantee deposits	19,869	4,975	40
Proceeds from collection of short-term loans receivable	128	-	-
Others, net	(1,283)	481	3
Net cash used in investing activities	<u>(4,180,523)</u>	<u>(19,490,843)</u>	<u>(159,251)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	810,000	12,010,000	98,128
Repayments of short-term borrowings	(810,375)	(11,910,168)	(97,313)
Proceeds from long-term debt	120,000	11,342,000	92,670
Repayments of long-term debt	(743,881)	(883,945)	(7,222)
Repayments of lease obligations	(308,630)	(473,217)	(3,866)
Payments for treasury stock	(450)	(166)	(1)
Cash dividends paid	(1,926,259)	(1,927,297)	(15,747)
Cash dividends paid to non-controlling interests	(126,422)	(33,344)	(272)
Payments of treasury subscription rights to shares	(625,511)	-	-
Net cash (used in) provided by financing activities	<u>(3,611,531)</u>	<u>8,123,859</u>	<u>66,376</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(108,653)</u>	<u>256,144</u>	<u>2,092</u>
Net increase (decrease) in cash and cash equivalents	<u>1,654,295</u>	<u>(1,229,206)</u>	<u>(10,043)</u>
Cash and cash equivalents at the beginning of year	<u>18,342,443</u>	<u>19,996,738</u>	<u>163,385</u>
Cash and cash equivalents at the end of year (Note 11(a))	<u>¥19,996,738</u>	<u>¥18,767,531</u>	<u>\$153,342</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 ¥122.39 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2022. 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, 2021 and 2022 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:

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

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

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

② Intangible fixed assets (excluding leased assets):

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

③ Leased assets:

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

(d) Accounting for deferred charges -

Stock issue costs are not capitalized but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

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

② Accrued bonuses for employees:

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

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

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

④ Accrued warranty expenses:

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

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

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

⑥ Reserve for retirement benefits for executive officers:

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

(f) Accounting method for retirement benefits for employees -

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

(g) 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.

(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>2021</u>	<u>2022</u>	<u>2022</u>
Fixed assets	<u>¥47,520,515</u>	<u>¥46,162,760</u>	<u>\$377,177</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 (¥15,336,072 thousand (\$125,304 thousand)), customer related assets (¥19,589,451 thousand (\$160,057 thousand)) and technical assets (¥5,232,055 thousand (\$42,749 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, 2022.

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, 2023.

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, 2023.

4. Accounting changes:

(a) Adoption of Accounting Standard for Revenue Recognition, etc.

The Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) has been adopted from the beginning of the current consolidated fiscal year ended March 31, 2022, and revenue is recognized at the amount expected to be received in exchange for the promised goods or services when control of the promised goods or services has been transferred to the customer.

The Company also applied the alternative treatment stipulated in paragraph 98 of the "Guidelines for Applying Accounting Standards for Revenue Recognition". However, for domestic product revenue is exceptionally recognized at the time of shipment if the period from the time of shipment to the transfer of the product to the customer is not considered significant.

In addition, "Notes and accounts receivable, trade" included in "Current assets" in the consolidated balance sheet of the previous consolidated fiscal year is shown as "Notes receivable" and "Accounts receivable, trade" from the current consolidated fiscal year. "Others" that was included in "Current liabilities" is shown as "Contract liabilities" and "Other current liabilities" from the current consolidated fiscal year. However, in accordance with the transitional treatment stipulated in paragraph 89-2 of the Accounting Standard for Revenue Recognition, the consolidated financial statements of the previous consolidated fiscal year have not been reclassified to conform to the new presentation method.

As a result, there is no impact on profit or loss for the current consolidated fiscal year and, no impact on the balance of retained earnings at the beginning of the period.

In accordance with the transitional treatment stipulated in paragraph 89-3 of the Accounting Standard for Revenue Recognition, the notes on “Revenue recognition” related to the previous consolidated fiscal year are not described.

(b) Adoption of Accounting Standards for Fair Value Measurement

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the “Fair Value Measurement Accounting Standard”), etc., is applied from the beginning of the current consolidated fiscal year, and a new accounting policy determined by the Fair Value Measurement Accounting Standard, etc., is applied prospectively in accordance with the transitional treatment prescribed in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). There was no impact on the consolidated financial statements for the year ended March 31, 2022.

Furthermore, in the notes to “Financial Instruments,” matters related to the breakdown, etc., of the fair value of financial instruments by level are to be stated. In accordance with the transitional treatment stipulated in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), however, the notes relating to the consolidated financial statements for the year ended March 31, 2021 are not included.

5. Accounting standards not yet implemented, etc:

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

① Overview:

The standard stipulates the calculation method to measure the market value of investment trusts and investments in partnerships, etc, the presentation requirement for these to be recorded on the balance sheet at the net amount of an entity’s equity interest, and the disclosure requirements regarding information to be included in the notes to the financial statements.

② Planned adoption date:

The accounting standard is to be adopted from the beginning of the fiscal year ending March 31, 2023.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of this accounting standard to the consolidated financial statements.

6. Additional information:

(a) Impact of COVID-19:

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

There have been no significant changes from the consolidated financial statements for the year ended March 31, 2021.

7. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2021 and 2022 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Investment in affiliated companies	<u>¥96,226</u>	<u>¥90,821</u>	<u>\$742</u>

(b) Assets pledged as collateral and related secured liabilities -

The following assets were pledged as collateral to secure the long-term debt, including the current portion thereof, at March 31, 2021 and 2022:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Buildings	¥38,150	¥34,931	\$285
Land	<u>52,225</u>	<u>52,225</u>	<u>426</u>
	<u>¥90,376</u>	<u>¥87,156</u>	<u>\$712</u>
Secured long-term debt:			
Current portion of long-term debt	¥3,120	¥3,120	\$25
Long-term debt	<u>19,040</u>	<u>15,920</u>	<u>130</u>
	<u>¥22,160</u>	<u>¥19,040</u>	<u>\$155</u>

(c) Credit facility contracts -

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

The balance of unused portion based on the contracts at March 31, 2021 and 2022 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2021</u>	<u>2022</u>	<u>U.S. dollars</u>
			<u>2022</u>
Total of credit facility contracts	¥10,658,150	¥10,140,400	\$82,853
Outstanding	<u>124,893</u>	<u>134,486</u>	<u>1,098</u>
The balance of unused credit facilities	<u>¥10,533,256</u>	<u>¥10,005,913</u>	<u>\$81,754</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, 2021 and 2022 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2021</u>	<u>2022</u>	<u>U.S. dollars</u>
			<u>2022</u>
The balance deducted from the acquisition cost of land	<u>¥381,230</u>	<u>¥381,230</u>	<u>\$3,114</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. Revenue recognition”.

(b) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2021 and 2022 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2021	2022	2022
Salaries and bonuses	¥2,526,109	¥2,879,119	\$23,524
Accrued bonuses for directors and audit & supervisory board members	82,965	298,509	2,438
Retirement benefit expenses	124,274	158,788	1,297
Reserve for retirement benefits for directors and audit & supervisory board members	68,044	67,970	555
Reserve for retirement benefits for executive officers	22,089	23,261	190
Research and development expenses	2,406,123	2,914,481	23,813
Depreciation	2,345,472	2,412,024	19,707

(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 ¥2,444,211 thousand and ¥3,012,730 thousand (\$24,615 thousand) for the years ended March 31, 2021 and 2022, respectively.

(d) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2021 and 2022 was as follows:

	Thousands of yen		Thousands of
	2021	2022	U.S. dollars
Gain on sales of:			2022
Buildings and structures	¥ 316	¥ -	\$ -
Machinery and equipment	633	2,815	23
Tools, furniture and fixtures	-	32	0
	<u>¥ 949</u>	<u>¥ 2,848</u>	<u>\$ 23</u>

(e) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2021 and 2022 was as follows:

	Thousands of yen		Thousands of
	2021	2022	U.S. dollars
Loss on sales of:			2022
Machinery and equipment	¥ -	¥ 740	\$ 6
Tools, furniture and fixtures	-	21	0
	<u>¥ -</u>	<u>¥ 761</u>	<u>\$ 6</u>

(f) Impairment loss -

No impairment loss was recognized on fixed assets for the year ended March 31, 2021.

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>	
			<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
Daegu, South Korea	Business assets	Machinery and equipment	¥26,759	\$218
		Tools, furniture and fixtures	27,965	228

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.

(g) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2021 and 2022 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2021	2022	2022
Loss on disposal of:			
Buildings and structures	¥ 10,712	¥ 33,247	\$ 271
Machinery and equipment	6,218	1,814	14
Tools, furniture and fixtures	9,389	12,063	98
	<u>¥ 26,320</u>	<u>¥ 47,125</u>	<u>\$ 385</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, 2021 and 2022 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2021</u>	<u>2022</u>	<u>U.S. dollars</u>
			<u>2022</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	¥8,591,945	(¥5,933,309)	(\$ 48,478)
Recycling adjustments	-	(21,579)	(176)
Before tax effect	8,591,945	(5,954,888)	(48,655)
Tax effect	(2,620,543)	1,810,585	14,793
Net unrealized losses (gains) on available-for-sale securities	<u>5,971,402</u>	<u>(4,144,302)</u>	<u>(33,861)</u>
Foreign currency translation adjustments			
Changes arising during the year	<u>2,448,399</u>	<u>2,841,622</u>	<u>23,217</u>
Remeasurements of defined benefit plans			
Changes arising during the year	1,799	49,751	406
Recycling adjustments	<u>58,931</u>	<u>85,733</u>	<u>700</u>
Before tax effect	60,731	135,484	1,106
Tax effect	<u>(24,370)</u>	<u>(41,797)</u>	<u>(341)</u>
Remeasurements of defined benefit plans	<u>36,361</u>	<u>93,686</u>	<u>765</u>
Total other comprehensive (loss) income	<u>¥8,456,163</u>	<u>(¥1,208,993)</u>	<u>(\$ 9,878)</u>

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

(a) Shares issued and outstanding -

<u>Share type</u>	<u>April 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2021</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, 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>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2021</u>
Common stock (shares)	<u>52,225</u>	<u>75</u>	<u>-</u>	<u>52,300</u>

<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>

(Reason for the changes)

The increased number of 75 and 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, 2021 and 2022, respectively.

(c) Stock subscription rights -

Company	Breakdown of stock subscription rights	Types of shares subject to stock subscription rights	Number of shares subject to stock subscription rights (Shares)				Balance as of March 31, 2021
			Balance as of April 1, 2020	Increase	Decrease	Balance as of March 31, 2021	Thousands of yen (Thousands of U.S. dollars)
The Company	No.1 subscription warrants	Common Stock	1,261,900	-	1,261,900	-	¥ - (\$ -)

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

(Reason for the changes)

The decrease of stock subscription warrants is due to the purchase of 1,261,900 shares of No.1 subscription warrants.

The Company had no stock subscription rights at March 31, 2022.

(d) Dividends -

For the year ended March 31, 2021:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 24, 2020:	
	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, 2020
	Declaration date	June 25, 2020
(ii)	The following was determined by the board of directors meeting held on November 11, 2020:	
	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, 2020
	Declaration date	December 7, 2020
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 23, 2021:	
	Type of shares	Common stock
	Resource of the dividends to be paid	Retained earnings
	The total amount of the dividends in cash paid	
	(Thousands of yen)	¥962,631
	Cash dividend per share	
	(Yen)	¥10
	Record date	March 31, 2021
	Declaration date	June 24, 2021

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
(Thousands of U.S. dollars)	\$7,865
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.08
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
(Thousands of U.S. dollars)	\$7,865
Cash dividend per share	
(Yen)	¥10
(U.S. dollars)	\$0.08
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
(Thousands of U.S. dollars)	\$8,651
Cash dividend per share	
(Yen)	¥11
(U.S. dollars)	\$0.08
Record date	March 31, 2022
Declaration date	June 23, 2022

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, 2021 and 2022 comprised the following:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Cash and bank deposits	¥21,142,106	¥19,901,290	\$162,605
Highly liquid investments	21,874	27,616	225
Time deposits with a deposit period of over three months	<u>(1,167,243)</u>	<u>(1,161,375)</u>	<u>(9,489)</u>
Cash and cash equivalents	<u>¥19,996,738</u>	<u>¥18,767,531</u>	<u>\$153,342</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, 2021 and 2022 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Due within 1 year	¥310,843	¥254,316	\$2,077
Due after 1 year	<u>422,757</u>	<u>177,891</u>	<u>1,453</u>
	<u>¥733,601</u>	<u>¥432,207</u>	<u>\$3,531</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 a subsidiary and operating transactions. Floating-rate debt is exposed to the risk of fluctuations in interest rates.

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

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2021 and 2022.

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2021:			
(1) Notes and accounts receivable, trade	9,791,509		
Allowance for doubtful accounts (*2)	(26,661)		
	<u>9,764,847</u>	<u>9,764,847</u>	<u>-</u>
(2) Marketable securities			
Available-for-sale securities	21,874	21,874	-
(3) Investment securities			
Available-for-sale securities	17,087,291	17,087,291	-
Assets total	<u>¥26,874,013</u>	<u>¥26,874,013</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,412,798	¥2,412,798	¥ -
(2) Accrued income taxes	837,683	837,683	-
(3) Short-term borrowings	226,668	226,668	-
(4) Current portion of long-term debt	881,261	881,261	-
(5) Long-term debt	5,220,859	5,220,859	-
Liabilities total	<u>¥9,579,270</u>	<u>¥9,579,270</u>	<u>¥ -</u>
Derivative transactions	<u>(¥16,522)</u>	<u>(¥16,522)</u>	<u>¥ -</u>

March 31, 2022:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Notes receivable	¥6,963,283	¥6,963,283	¥ -
(2) Accounts receivable, trade	8,621,584		
Allowance for doubtful accounts (*3)	(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	<u>14,617,513</u>	<u>14,617,513</u>	<u>-</u>
Liabilities total	<u>¥23,348,458</u>	<u>¥23,348,458</u>	<u>¥ -</u>
Derivative transactions	<u>(¥63,215)</u>	<u>(¥63,215)</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
March 31, 2022:	Carrying amount	Fair value	Variance
(1) Notes receivable	\$56,894	\$56,894	\$ -
(2) Accounts receivable, trade	70,443		
Allowance for doubtful accounts			
(*3)	(180)		
	<u>70,262</u>	<u>70,262</u>	<u>-</u>
(3) Marketable securities and investment securities			
Available-for-sale securities	91,126	91,126	-
	<u>91,126</u>	<u>91,126</u>	<u>-</u>
Assets total	<u>\$218,283</u>	<u>\$218,283</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$31,512	\$31,512	\$ -
(2) Accrued income taxes	21,278	21,278	-
(3) Short-term borrowings	2,672	2,672	-
(4) Current portion of long-term debt	15,872	15,872	-
(5) Long-term debt	119,433	119,433	-
	<u>119,433</u>	<u>119,433</u>	<u>-</u>
Liabilities total	<u>\$190,770</u>	<u>\$190,770</u>	<u>\$ -</u>
Derivative transactions	<u>(\$516)</u>	<u>(\$516)</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 notes and accounts receivable, trade, allowances for doubtful accounts relating to these receivables are deducted.

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

(*4) 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
	2021	2022	2022
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$31</u>
Investment in affiliated companies			
Unlisted equity securities	<u>96,226</u>	<u>90,821</u>	<u>\$742</u>

(*5) 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, 2021 and 2022 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, 2021:				
Cash and bank deposits	¥21,142,106	-	-	-
Notes and accounts receivable, trade	<u>9,791,509</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥30,933,615</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, 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 U.S. dollars			
	Due	Due	Due	Due
	within 1 year	after 1 year within 5 years	after 5 years within 10 years	after 10 years
March 31, 2022:				
Cash and bank deposits	\$162,605	-	-	-
Notes receivable	56,894			
Accounts receivable, trade	70,443	-	-	-
	<u>\$289,943</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 2) Aggregate annual maturities of long-term debt subsequent to March 31, 2021 and 2022 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, 2021:						
Long-term debt	¥881,261	¥810,454	¥837,570	¥791,807	¥769,735	¥2,011,291
Total	<u>¥881,261</u>	<u>¥810,454</u>	<u>¥837,570</u>	<u>¥791,807</u>	<u>¥769,735</u>	<u>¥2,011,291</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, 2022:						
Long-term debt	¥1,942,662	¥1,969,778	¥1,944,015	¥1,859,627	¥1,859,627	¥6,984,463
Total	<u>¥1,942,662</u>	<u>¥1,969,778</u>	<u>¥1,944,015</u>	<u>¥1,859,627</u>	<u>¥1,859,627</u>	<u>¥6,984,463</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, 2022:						
Long-term debt	\$15,872	\$16,094	\$15,883	\$15,194	\$15,194	\$57,067
Total	<u>\$15,872</u>	<u>\$16,094</u>	<u>\$15,883</u>	<u>\$15,194</u>	<u>\$15,194</u>	<u>\$57,067</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:

	<u>Fair value (Thousands of yen)</u>			
March 31, 2022:	<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	¥11,153,004	-	-	¥11,153,004
Total assets	<u>¥11,153,004</u>	<u>-</u>	<u>-</u>	<u>¥11,153,004</u>
Derivative transaction related to currency	-	¥63,215	-	¥63,215
Total liabilities	<u>-</u>	<u>¥63,215</u>	<u>-</u>	<u>¥63,215</u>
	<u>Fair value (Thousands of U.S. dollars)</u>			
March 31, 2022:	<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	\$91,126	-	-	\$91,126
Total assets	<u>\$91,126</u>	<u>-</u>	<u>-</u>	<u>\$91,126</u>
Derivative transaction related to currency	-	\$516	-	\$516
Total liabilities	<u>-</u>	<u>\$516</u>	<u>-</u>	<u>\$516</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
Total liabilities	-	¥23,348,458	-	¥23,348,458

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
March 31, 2022:				
Notes receivable	-	\$56,894	-	\$56,894
Accounts receivable, trade	-	70,262	-	70,262
Total assets	-	\$127,156	-	\$127,156
Notes and accounts payable, trade	-	\$31,512	-	\$31,512
Short-term borrowings	-	2,672	-	2,672
Accrued income taxes	-	21,278	-	21,278
Long-term debt	-	135,306	-	135,306
Total liabilities	-	\$190,770	-	\$190,770

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 values of interest rate swaps and exchange contracts are calculated by the discounted present value method using observable inputs such as interest rates and exchange rates, and are classified as level 2 fair values.

Notes and accounts receivable, trade:

The fair values are calculated by the discounted present value method based on the interest rate that takes into account the amount of the receivable, the period until maturity, and credit risk for each receivable classified by period, and are classified as level 2 fair values.

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

The fair values are calculated by the discounted present value method based on future cash flows, the period until the repayment date, and an interest rate which takes into account credit risk for each debt classified by period, and are classified as level 2 fair values.

Long-term debt:

The fair values are calculated by the discounted present value method based on the total of principal and interest, using an interest rate that reflects the long-term debt's remaining period and credit risk, and are classified as level 2 fair values.

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, 2021 and 2022 were as follows:

Thousands of yen				
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2021:				
Equity securities	<u>¥ 2,716,931</u>	<u>14,370,360</u>	<u>-</u>	<u>¥17,087,291</u>
Thousands of yen				
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2022:				
Equity securities	<u>¥ 2,709,916</u>	<u>8,415,471</u>	<u>-</u>	<u>¥11,125,388</u>
Thousands of U.S. dollars				
	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
March 31, 2022:				
Equity securities	<u>\$22,141</u>	<u>68,759</u>	<u>-</u>	<u>\$90,901</u>

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, 2021	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥289,200	¥ -	(¥ 3,733)	(¥ 3,733)
U.S. Dollars	485,170	-	(12,559)	(12,559)
Euro	300,000	-	(230)	(230)
	<u>¥1,074,370</u>	<u>¥ -</u>	<u>(¥16,522)</u>	<u>(¥16,522)</u>

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 U.S. Dollars				
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	\$2,763	\$ -	(\$206)	(\$206)
U.S. Dollars	4,300	-	(309)	(309)
	<u>\$7,063</u>	<u>\$ -</u>	<u>(\$516)</u>	<u>(\$516)</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, 2021 and 2022 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
	2021	2022	U.S. dollars
			2022
Defined benefits plan obligations at beginning of the year	¥2,812,133	¥3,003,809	\$24,542
Service cost	143,184	150,159	1,226
Interest cost	19,001	19,900	162
Actuarial differences	204,267	(92,145)	(752)
Retirement benefits paid	(200,472)	(219,150)	(1,790)
Other	25,695	35,435	289
Defined benefits plan obligations at end of the year	<u>¥3,003,809</u>	<u>¥2,898,007</u>	<u>\$23,678</u>

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

	Thousands of yen		Thousands of
	2021	2022	U.S. dollars
			2022
Plan assets at beginning of the year	¥2,957,375	¥3,200,446	\$26,149
Expected return on plan assets	59,262	64,159	524
Actuarial differences	206,067	(42,394)	(346)
Employer contributions	134,393	137,554	1,123
Retirements benefits paid	(153,117)	(167,657)	(1,369)
Other	(3,533)	12,209	99
Plan assets at end of the year	<u>¥3,200,446</u>	<u>¥3,204,318</u>	<u>\$26,181</u>

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

	Thousands of yen		Thousands of
	2021	2022	U.S. dollars
			2022
Defined benefits plan obligations of funded plan	¥3,003,809	¥2,898,007	\$23,678
Plan assets	(3,200,446)	(3,204,318)	(26,181)
	(196,637)	(306,310)	(2,502)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(196,637)	(306,310)	(2,502)
Net defined benefit liabilities	952,592	901,406	7,365
Net defined benefit assets	(1,149,229)	(1,207,717)	(9,867)
Net liabilities or assets recorded in the consolidated balance sheet	(¥196,637)	(¥306,310)	(\$2,502)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2021	2022	U.S. dollars
			2022
Service cost	¥143,184	¥150,159	\$1,226
Interest cost	19,001	19,900	162
Expected return on plan assets	(59,262)	(64,159)	(524)
Actuarial differences	58,931	85,733	700
Retirement benefit expenses related to the defined benefit plans	¥161,855	¥191,633	\$1,565

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
	2021	2022	2022
Actuarial differences	<u>(¥60,731)</u>	<u>(¥135,484)</u>	<u>(\$1,106)</u>
Total	<u>(¥60,731)</u>	<u>(¥135,484)</u>	<u>(\$1,106)</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
	2021	2022	2022
Unrecognized actuarial differences	<u>¥165,494</u>	<u>¥30,010</u>	<u>\$245</u>
Total	<u>¥165,494</u>	<u>¥30,010</u>	<u>\$245</u>

⑦ Plan assets -

1) Components of plan assets

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

	2021	2022
Bonds	69%	70%
Equities	24%	22%
Other	7%	8%
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, 2021 and 2022 were as follows:

	<u>2021</u>	<u>2022</u>
Discount rate	0.59%	0.77%
Expected return ratio on plan assets	1.98%	1.98%

(a) Defined benefit plans recorded under the simplified accounting method -

① Changes in balances of the net defined benefit liabilities at beginning and end of the year for the plans recorded under the simplified accounting method -

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Net defined benefit liabilities at beginning of the year	¥91,572	¥96,675	\$789
Retirement benefits expenses	9,589	12,624	103
Retirement benefits paid	<u>(4,486)</u>	<u>(1,047)</u>	<u>(8)</u>
Net defined benefit liabilities at end of the year	<u>¥96,675</u>	<u>¥108,253</u>	<u>\$884</u>

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Defined benefits plan obligations of unfunded plan	<u>96,675</u>	<u>108,253</u>	<u>884</u>
Net liabilities or assets recorded in the consolidated balance sheet	96,675	108,253	884
Net defined benefit liabilities	<u>96,675</u>	<u>108,253</u>	<u>884</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥96,675</u>	<u>¥108,253</u>	<u>\$884</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2021 and 2022 calculated by the simplified accounting method were ¥9,589 thousand and ¥12,624 thousand (\$103 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2021 and 2022 were ¥113,512 thousand and ¥117,713 thousand (\$961 thousand), respectively.

17. Stock options:

No stock options were granted during the years ended March 31, 2021 and 2022.

18. Income taxes:

Deferred tax assets and liabilities as of March 31, 2021 and 2022 consist of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2021</u>	<u>2022</u>	<u>U.S. dollars</u>
			<u>2022</u>
Deferred tax assets:			
Tax loss carryforwards	¥320,671	¥263,927	\$2,156
Accrued enterprise taxes	58,698	170,149	1,390
Inventory write-down	3,771	30,437	248
Accrued bonuses	220,173	359,059	2,933
Accrued social insurance premium	29,850	42,660	348
Unrealized intercompany profit in inventories	109,184	202,573	1,655
Reserve for retirement benefits for directors and audit & supervisory board members	167,912	165,488	1,352
Reserve for retirement benefits for executive officers	53,069	43,452	355
Net defined benefit liabilities	10,499	27,456	224
Devaluation loss on investment securities	68,641	65,409	534
Devaluation loss on golf club memberships	5,733	5,733	46
Impairment loss	94,777	69,854	570
Others	366,638	259,451	2,119
Deferred tax assets sub-total	¥1,509,622	¥1,705,654	\$13,936
Valuation allowance	<u>(354,497)</u>	<u>(327,607)</u>	<u>(2,676)</u>
Deferred tax assets total	<u>¥1,155,125</u>	<u>¥1,378,046</u>	<u>\$11,259</u>

	Thousands of yen		Thousands of U.S. dollars
	2021	2022	2022
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(¥4,314,318)	(¥2,503,733)	(\$20,457)
Undistributed earnings of foreign subsidiaries and an affiliated company	(288,853)	(341,504)	(2,790)
Net defined benefit assets	(353,057)	(368,353)	(3,009)
Intangible assets identified by the business combination	(7,535,601)	(7,430,749)	(60,713)
Others	(268,827)	(217,097)	(1,773)
Deferred tax liabilities total	<u>(12,760,658)</u>	<u>(10,861,438)</u>	<u>(88,744)</u>
Net deferred tax liabilities	<u>(¥11,605,532)</u>	<u>(¥9,483,392)</u>	<u>(\$77,485)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2021 and 2022 are as follows:

	2021	2022
Statutory tax rate	30.5%	30.5%
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	(8.1)	(0.7)
Tax credit relating to research and development expenses	-	(5.5)
Inhabitant tax on per capita	1.1	0.2
Increase (decrease) of valuation allowance	(3.3)	-
Depreciation of goodwill	27.7	3.3
Equity in (income) loss of affiliated companies	0.4	(0.0)
Others, net	(2.7)	(2.3)
Actual effective tax rate	<u>45.7%</u>	<u>25.5%</u>

19. Business combination:

Transaction under common control

Additional acquisition of subsidiary's shares.

(a) Outline of the transactions -

① Name of acquired company and description of the business:

Name of the acquired company: Godo Kaisha HD Management

Description of the business:

Special purpose company for the purpose of investing in Harmonic drive SE

② Date of the business combination:

July 28, 2021

③ Legal form of the business combination:

Share acquisition from non-controlling shareholders

④ Name of the company after the business combination:

No change

⑤ Acquired ownership:

Ratio of ownership acquired on the date of additional acquisition 40%

Ratio of ownership after acquisition 100%

As a result of this transaction, Harmonic Drive SE, a subsidiary in Germany, became a wholly owned subsidiary of the Company.

(b) Overview of the accounting treatment:

This transaction is treated as a transaction with non-controlling shareholders, which falls under the category of a transaction under common control, etc., based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Statement No. 10, January 16, 2019).

(c) Matters concerning additional acquisition of special purpose company's shares:

		Thousands of yen	Thousands of U.S. dollars
Purchase consideration	cash	<u>¥14,724,713</u>	<u>\$120,309</u>
Purchase price		<u>¥14,724,713</u>	<u>\$120,309</u>

(d) Matters concerning changes in the Company's equity interest as a result of transaction with non-controlling shareholders:

① Main cause for change in Capital surplus:

Additional acquisition of special purpose company's shares.

② Decreased amount of capital surplus as a result of transaction with non-controlling shareholders:

¥7,314,019 thousand (\$59,759 thousand)

20. Revenue recognition:

Information on the breakdown of income arising from the contracts with customers is provided in "Note 21. Segment information".

21. Segment information:

(a) Overview of the reportable segments -

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

The Company is engaged in the manufacturing and sales of precision speed reducers, precision actuators and related motion control products, and the business operations fall within a single industry segment based on similarities in the type, nature, manufacturing method and markets of their products.

The geographic markets of the products of the Company are Japan (including the Asia area), North America and Europe, and the products are marketed by the Company and its subsidiaries in Japan, by subsidiaries in the United States and Europe.

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

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

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

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

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

For the year ended March 31, 2021	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥22,113,575	¥5,144,915	¥9,775,551	¥37,034,042	¥ -	¥37,034,042
Inter-segment	2,863,725	5,913	43,436	2,913,076	(2,913,076)	-
Total	<u>¥24,977,301</u>	<u>¥5,150,829</u>	<u>¥ 9,818,988</u>	<u>¥39,947,119</u>	<u>(¥2,913,076)</u>	<u>¥37,034,042</u>
Segment profit/(loss)	¥4,809,307	¥310,083	(¥920,704)	¥4,198,686	(¥2,831,882)	¥1,366,803
Segment assets	¥50,643,122	¥9,184,394	¥38,458,126	¥98,285,644	¥41,742,526	¥140,028,170
Others						
Investment in affiliated companies	¥96,226	¥ -	¥ -	¥96,226	¥ -	¥96,226
Increase in tangible and intangible fixed assets	754,636	683,161	514,349	1,952,147	-	1,952,147

- The adjustment for segment profit/(loss) of (¥2,831,882) thousand includes the eliminated profit of the inter-segment transactions of (¥835,697) thousand, the general administrative expenses of (¥1,996,185) 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 (¥925,175) 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 ¥41,742,526 thousand includes inter-segment elimination of ¥12,560,904 thousand, corporate assets of ¥29,181,621 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 ¥15,532,775 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, 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						
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

For the year ended March 31, 2022	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Revenue from						
Contracts with						
Customers	\$343,440	\$54,416	\$108,618	\$506,475	(\$40,033)	\$466,442
Third party	304,546	54,280	107,614	466,442	-	466,442
Inter-segment	38,894	135	1,003	40,033	(40,033)	-
Total	<u>\$343,440</u>	<u>\$54,416</u>	<u>\$108,618</u>	<u>\$506,475</u>	<u>(\$40,033)</u>	<u>\$466,442</u>
Segment profit/(loss)	\$97,145	\$5,732	\$1,401	\$104,280	(\$29,860)	\$74,419
Segment assets	\$501,886	\$91,613	\$325,893	\$919,394	\$251,370	\$1,170,764
Others						
Investment in affiliated companies	\$742	\$ -	\$ -	\$742	\$ -	\$742
Increase in tangible and intangible fixed assets	43,614	34	2,846	46,494	-	46,494

- The adjustment for segment profit of (¥3,654,605) thousand ((\$29,860) thousand) includes the eliminated profit of the inter-segment transactions of (¥1,237,115) thousand ((\$10,107) thousand), the general administrative expenses of (¥2,417,489) thousand ((\$19,752) 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 ((\$7,978) 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 (\$251,370 thousand) includes inter-segment elimination of ¥11,547,126 thousand (\$94,346 thousand), corporate assets of ¥19,218,152 thousand (\$157,023 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 (\$125,304 thousand). The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”,

and certain assets related to corporate departments.

(d) Related information –

① Information by products/service -

Sales to third parties	Thousands of yen		Thousands of U.S. dollars
	2021	2022	2022
Speed reducers	¥ 29,319,650	¥ 47,235,882	\$385,945
Mechatronic products	7,714,392	9,852,032	80,497
	<u>¥37,034,042</u>	<u>¥57,087,914</u>	<u>\$466,442</u>

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

② Geographic information –

Sales:

	Thousands of yen				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2021:					
Total	<u>¥18,421,653</u>	<u>¥5,144,915</u>	<u>¥9,775,551</u>	<u>¥3,691,922</u>	<u>¥37,034,042</u>

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>

	Thousands of U.S. dollars				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2022:					
Total	<u>\$254,763</u>	<u>\$54,280</u>	<u>\$107,614</u>	<u>\$49,783</u>	<u>\$466,442</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 ¥4,473,780 thousand and ¥5,783,447 thousand (\$47,254 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, 2021 and 2022, respectively.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2021:				
Total Assets	<u>¥30,635,216</u>	<u>¥4,571,605</u>	<u>¥6,785,072</u>	<u>¥41,991,895</u>
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>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2022:				
Total Assets	<u>\$269,809</u>	<u>\$40,822</u>	<u>\$48,610</u>	<u>\$359,241</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 ¥4,571,605 thousand and ¥4,996,222 thousand (\$40,822 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, 2021 and 2022, respectively.
- “Europe” segment includes ¥6,785,072 thousand and ¥5,949,413 thousand (\$48,610 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, 2021 and 2022, respectively.

③ Information of major customers -

Information of major customers for the year ended March 31, 2021 and 2022 are not presented, since no individual customers account for greater than 10% of the net sales recorded on the consolidated statements of income.

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

No impairment loss was recognized on fixed assets for the year ended March 31, 2021.

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

For the year ended March 31, 2022	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Impairment loss	\$ 447	\$ -	\$ -	\$ 447	\$ -	\$ 447

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

For the year ended March 31, 2021	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 925,175	¥ 925,175
Balance of goodwill	-	-	-	-	15,532,775	15,532,775

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, 2022	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 7,978	\$ 7,978
Balance of goodwill	-	-	-	-	125,304	125,304

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2021 and 2022.

22. Transactions with related parties:

(a) Transactions with related parties –

The following transactions occurred in the fiscal year ended March 31, 2021.

Category	Other affiliated company
Entity name	Nabtesco Corporation
Location	Chiyoda-ku, Tokyo, Japan
Capital	¥10,000,000 thousand
Description of business	Manufacturing and sales of precision equipment, transportation equipment, aircraft/hydraulic equipment and industrial equipment
Share of shareholders voting rights	The Company owned 2.6.% directly Nabtesco Corporation owned 9.5% directly
Description of relationship	
- Sharing of directors	None
- Business relationship	Few transactions
For the year: Transaction	Purchase of subscription warrants
Amounts	¥625,511 thousand
At year-end: Accounts / Amounts	– / ¥ – thousand

(Note) Policy for determining trading conditions and trading conditions, etc.

- The above includes transactions related to the exercise of the right to request purchase of subscription warrants issued based on a resolution of the Board of Directors held on January 5, 2018.

The transaction amount above contains the amount paid by exercising the right to request the purchase of subscription warrants during the year ended March 31, 2021.

- Nabtesco Corporation is no longer an affiliate following the purchase of subscription warrants on February 2, 2021. The amounts above are the transaction amounts during the period for which it was a related party.

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

(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the years ended March 31, 2021 and 2022.

23. 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
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Net assets per share	¥1,068.83	¥1,026.94	\$8.39
Net income per share	6.88	69.02	0.56

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

	Thousands of yen		Thousands of U.S. dollars
	<u>2021</u>	<u>2022</u>	<u>2022</u>
Profit attributable to owners of the parent	¥662,495	¥6,643,893	\$54,284
Profit attributable to common stock owners of the parent	<u>¥662,495</u>	<u>¥6,643,893</u>	<u>\$54,284</u>

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

	Number of shares	
	<u>2021</u>	<u>2022</u>
Weighted average number of shares	<u>96,263,117</u>	<u>96,263,094</u>

(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, 2021 and 2022.

24. Subsequent events:

(Acquiring the Company's treasury stock)

The Company resolved at the meeting of its Board of Directors on May 13, 2022, to acquire its treasury stock under Article 156, as applied pursuant to paragraph 3, Article 165, of the Companies Act as follows;

(a) Reasons for purchasing treasury stock -

Considering the current share price levels, the Company decided to execute the transaction in order to implement an agile action to conform to its capital policy.

(b) Details of matters related to the acquisition -

① Types of shares to be acquired:

Ordinary shares

② Total number of shares to be acquired:

2,000,000 shares (maximum) (Ratio to the total number of issued shares (excluding treasury stock): 2.07%)

③ Total acquisition price of shares:

¥5,000,000 thousand (\$40,853 thousand) (maximum)

④ Acquisition period:

From May 16, 2022 to September 30, 2022.

⑤ Acquisition method:

Purchases at Tokyo Stock Exchange

(c) Status of the purchase of treasury stock -

As a result of the purchase at Tokyo Stock Exchange, the Company acquired 199,900 shares of the Company's ordinary shares (purchase price: ¥689,812 thousand (\$5,636 thousand)) from May 16, 2022 to May 31, 2022.

25. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2021 and 2022.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2021	Balance at March 31, 2022	Balance at March 31, 2022		
Short-term borrowings	¥226,668	¥327,135	\$2,672	0.3	-
Current portion of long-term debt	881,261	1,942,662	15,872	0.3	-
Current portion of lease obligations	305,392	471,703	3,854	2.2	-
Long-term debt (excluding current portion)	5,220,859	14,617,513	119,433	0.3	2022-2032
Lease obligations (excluding current portion)	2,868,734	3,548,469	28,993	2.2	2022-2033
Other	-	-	-	-	-
Total	¥9,502,914	¥20,907,483	\$170,826	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2022.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2022 are as follows:

March 31, 2022	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	¥1,969,778	¥1,944,015	¥1,859,627	¥1,859,627
Lease obligations	455,022	446,289	420,768	434,233

March 31, 2022	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	\$16,094	\$15,883	\$15,194	\$15,194
Lease obligations	3,717	3,646	3,437	3,547

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2021 and 2022 were omitted due to immateriality.