HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2008

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated balance sheet of Harmonic Drive Systems Inc. ("the Company") and its subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, cash flows and supplementary schedules for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2008, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

October 2, 2008

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31,		March 31,
	2007	2008	2008
Assets:			
Current assets -			
Cash and bank deposits (Note 7(a))	¥4,744,449	¥5,879,201	$58,680
Notes and accounts receivable, trade (Notes 4(c) and 15)	5,487,110	5,665,975	56,552
Marketable securities (Notes 7(a) and 9)	42,355	30,418	303
Inventories	1,199,807	1,248,219	12,458
Deferred income taxes (Note 13)	195,523	348,034	3,473
Other current assets	690,096	95,893	957
Allowance for doubtful accounts	(3,918)	(5,750)	(57)
Total current assets	12,355,424	13,261,992	132,368
Fixed assets (Note 8) -			
Tangible fixed assets (Note 4(b)):			
Buildings and structures	1,436,478	1,508,739	15,058
Machinery and equipment	375,836	540,613	5,395
Land	803,912	872,455	8,708
Construction in progress	23,951	221,844	2,214
Other	540,608	545,952	5,449
Total tangible fixed assets	3,180,787	3,689,605	36,826
Intangible fixed assets:			
Goodwill	-	7,974	79
Software	97,751	93,743	935
Other	7,651	7,888	78
Total intangible fixed assets	105,402	109,606	1,093
Investment securities and other assets:			
Investment securities (Note 9)	5,076,733	4,491,226	44,827
Investment in affiliated company (Note 4(a))	1,808,988	1,981,135	19,773
Deferred income taxes (Note 13)	25,249	17,439	174
Long-term bank deposits	500,000	11,878	118
Others (Note 11)	79,654	859,600	8,579
Allowance for doubtful accounts	(6,000)	(6,000)	(59)
Total investment securities and other assets	7,484,625	7,355,280	73,413
Total fixed assets	10,770,816	11,154,492	111,333
Total assets	¥23,126,240	¥24,416,485	$243,701

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31,		March 31,
	2007	2008	2008
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade	¥1,801,890	¥2,019,833	$20,160
Short-term borrowings (Note 18)	370,530	25,200	251
Current portion of long-term debt (Note 18)	24,519	30,803	307
Accrued income taxes	1,224,787	644,717	6,434
Accrued bonuses for employees	552,111	518,042	5,170
Accrued bonuses for directors and statutory auditors	106,900	108,100	1,078
Other current liabilities	789,565	781,400	7,799
Total current liabilities	4,870,305	4,128,097	41,202
Long-term liabilities -			
Long-term debt (Note 18)	129,985	161,709	1,614
Deferred income taxes (Note 13)	796,005	1,039,177	10,372
Reserve for retirement allowances for employees (Note 11)	9,186	12,698	126
Reserve for retirement allowances for directors and statutory auditors	412,938	432,677	4,318
Reserve for retirement allowances for executive officers	70,653	39,942	398
Negative goodwill	-	22,175	221
Total long-term liabilities	1,418,769	1,708,380	17,051
Total liabilities	6,289,074	5,836,477	58,254
Net assets (Note 16):			
Shareholders' equity (Note 6) -			
Common stock:			
- Authorized: 396,000 shares			
Issued and outstanding: 105,277 shares	1,610,542	1,610,542	16,074
Capital surplus	5,203,709	5,203,709	51,938
Retained earnings	10,054,225	12,103,494	120,805
Treasury stock, at cost	(2,304,188)	(2,304,188)	(22,998)
Total shareholders' equity	14,564,289	16,613,558	165,820
Valuation and translation adjustments -			
Net unrealized gains on available-for-sale securities (Note 9)	1,473,278	1,171,352	11,691
Foreign currency translation adjustments	256,844	252,360	2,518
Total valuation and translation adjustments	1,730,123	1,423,712	14,210
Minority interest	542,753	542,735	5,417
Total net assets	16,837,165	18,580,007	185,447
Total liabilities and net assets	¥23,126,240	¥24,416,485	$243,701

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,
	2007	2008	2008
Net sales (Notes 14 and 15)	¥18,767,977	¥19,212,353	$191,759
Cost of sales (Notes 5(b) and 14)	10,053,175	10,520,724	105,007
Gross profit	8,714,801	8,691,628	86,751
Selling, general and administrative expenses (Notes 5(a), 5(b), 8, 11 and 14)	4,209,939	4,275,249	42,671
Operating profit	4,504,862	4,416,379	44,080
Other income:			
Interest income	52,037	44,482	443
Dividend income	-	39,104	390
Equity in income of affiliated company	195,647	268,008	2,674
R&D subsidies	19,800	16,478	164
Exchange gain	50,595	-	-
Other	55,073	15,052	150
	373,155	383,125	3,823
Other expenses:			
Interest paid	23,929	7,225	72
Charges for credit facility contract	30,000	-	-
R&D cost of subsidies	18,371	13,080	130
Charges for purchases of treasury stock	30,835	-	-
Loss on investment fund	4,281	2,743	27
Exchange loss	-	33,941	338
Other	9,046	4,479	44
	116,464	61,469	613
Ordinary income	4,761,553	4,738,035	47,290
Exceptional gains:			
Gain on sales of investment securities (Note 9)	0	-	-
Gain on sales of fixed assets (Note 5(c))	4,632	2,443	24
	4,632	2,443	24
Exceptional losses:			
Loss on sales of fixed assets (Note 5(d))	1,494	-	-
Loss on disposal of fixed assets (Note 5(e))	21,015	17,653	176
Additional payment of retirement allowance for executive officers	-	38,920	388
Loss on compensation of finished products	-	11,414	113
	22,510	67,987	678
Income before income taxes	4,743,676	4,672,491	46,636
Income taxes:			
Current	1,911,908	1,550,422	15,474
Reversal of prior years' income tax payable	-	(41,714)	(416)
Deferred	(82,938)	305,768	3,051
	1,828,969	1,814,476	18,110
Minority interest	103,305	116,664	1,164
Net income (Note 16)	¥2,811,401	¥2,741,350	$27,361

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2007

	Thousands of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance as of March 31, 2006	¥666,800	¥3,990,716	¥8,063,190	(¥393,048)	¥12,327,658
Changes in the period:					
Issuance of ordinary stock	943,742	943,737	-	-	1,887,480
Increase of treasury stock	-	-	-	(2,304,403)	(2,304,403)
Disposal of treasury stock	-	269,255	-	393,264	662,519
Cash dividends (Note)	-	-	(307,906)	-	(307,906)
Cash dividends	-	-	(413,538)	-	(413,538)
Bonuses to directors and statutory auditors (Note)	-	-	(98,922)	-	(98,922)
Net income	-	-	2,811,401	-	2,811,401
Net changes in items except shareholders' equity	-	-	-	-	-
Total changes in the period	943,742	1,212,993	1,991,035	(1,911,139)	2,236,631
Balance as of March 31, 2007	¥1,610,542	¥5,203,709	¥10,054,225	(¥2,304,188)	¥14,564,289

For the year ended March 31, 2007

	Thousands of yen				
	Valuation and translation adjustments				
	Net unrealized gains on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2006	¥1,349,845	¥168,982	¥1,518,827	¥379,103	¥14,225,589
Changes in the period:					
Issuance of ordinary stock	-	-	-	-	1,887,480
Increase of treasury stock	-	-	-	-	(2,304,403)
Disposal of treasury stock	-	-	-	-	662,519
Cash dividends (Note)	-	-	-	-	(307,906)
Cash dividends	-	-	-	-	(413,538)
Bonuses to directors and statutory auditors (Note)	-	-	-	-	(98,922)
Net income	-	-	-	-	2,811,401
Net changes in items except shareholders' equity	123,433	87,861	211,295	163,649	374,945
Total changes in the period	123,433	87,861	211,295	163,649	2,611,576
Balance as of March 31, 2007	¥1,473,278	¥256,844	¥1,730,123	¥542,753	¥16,837,165

Note: Approved by the annual shareholders' meeting in June, 2006

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

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2008

	Thousands of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance as of March 31, 2007	¥1,610,542	¥5,203,709	¥10,054,225	(¥2,304,188)	¥14,564,289
Changes in the period:					
Cash dividends	-	-	(692,080)	-	(692,080)
Net income	-	-	2,741,350	-	2,741,350
Net changes in items except shareholders' equity	-	-	-	-	-
Total changes in the period	-	-	2,049,269	-	2,049,269
Balance as of March 31, 2008	¥1,610,542	¥5,203,709	¥12,103,494	(¥2,304,188)	¥16,613,558

For the year ended March 31, 2008

	Thousands of yen				
	Valuation and translation adjustments				
	Net unrealized gains on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	¥1,473,278	¥256,844	¥1,730,123	¥542,753	¥16,837,165
Changes in the period:					
Cash dividends	-	-	-	-	(692,080)
Net income	-	-	-	-	2,741,350
Net changes in items except shareholders' equity	(301,926)	(4,484)	(306,410)	(17)	(306,427)
Total changes in the period	(301,926)	(4,484)	(306,410)	(17)	1,742,841
Balance as of March 31, 2008	¥1,171,352	¥252,360	¥1,423,712	¥542,735	¥18,580,007

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31, 2008

	Thousands of U.S. dollars (Note 2)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance as of March 31, 2007	$16,074	$51,938	$100,351	($22,998)	$145,366
Changes in the period:					
Cash dividends	-	-	(6,907)	-	(6,907)
Net income	-	-	27,361	-	27,361
Net changes in items except shareholders' equity	-	-	-	-	-
Total changes in the period	-	-	20,453	-	20,453
Balance as of March 31, 2008	$16,074	$51,938	$120,805	($22,998)	$165,820

For the year ended March 31, 2008

	Thousands of U.S. dollars (Note 2)				
	Valuation and translation adjustments				
	Net unrealized gains on other securities	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	$14,704	$2,563	$17,268	$5,417	$168,052
Changes in the period:					
Cash dividends	-	-	-	-	(6,907)
Net income	-	-	-	-	27,361
Net changes in items except shareholders' equity	(3,013)	(44)	(3,058)	(0)	(3,058)
Total changes in the period	(3,013)	(44)	(3,058)	(0)	17,395
Balance as of March 31, 2008	$11,691	$2,518	$14,210	$5,417	$185,447

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

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,
	2007	2008	2008
Cash flows from operating activities:			
Income before income taxes	¥4,743,676	¥4,672,491	$46,636
Adjustments for -			
Amortization of goodwill	-	1,993	19
Amortization of negative goodwill	-	(5,543)	(55)
Depreciation and amortization	534,680	652,109	6,508
Net provision of allowance for doubtful accounts	3,828	2,051	20
Net provision of reserve for retirement allowances for employees	1,727	3,512	35
Net provision of reserve for retirement allowances for directors and statutory auditors	35,993	19,738	197
Net provision of reserve for retirement allowances for executive officers	25,646	(30,711)	(306)
Net provision of reserve for bonuses for directors and statutory auditors	106,900	1,200	11
Interest income earned	(52,037)	(44,482)	(443)
Dividend income	-	(39,104)	(390)
Interest expense incurred	23,929	7,225	72
Equity in income of affiliated company	(195,647)	(268,008)	(2,674)
loss on investment fund	4,281	2,743	27
Charges for credit facility contracts	30,000	-	-
Charges for acquisition of the treasury stock	30,835	-	-
Gain on sales of investment securities	(0)	-	-
Gain on sales of fixed assets	(4,632)	(2,443)	(24)
Loss on sales of fixed assets	1,494	-	-
Loss on disposal of fixed assets	21,015	17,653	176
Bonuses for directors and statutory auditors appropriated from retained earnings	(98,922)	-	-
Increase in trade receivables	(953,140)	(133,035)	(1,327)
Increase in inventories	(229,611)	(53,264)	(531)
Increase in trade payables	210,257	172,687	1,723
Other	(36,245)	(212,166)	(2,117)
Subtotal	4,204,027	4,764,646	47,556
Interest and dividends received	86,312	81,666	815
Dividends received from affiliated company	140,820	161,830	1,615
Interest paid	(4,478)	(26,468)	(264)
Income taxes paid	(1,401,080)	(2,142,800)	(21,387)
Proceeds from refund of income taxes	-	41,714	416
Net cash provided by operating activities	3,025,601	2,880,587	28,751

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 For the years ended March 31,		Thousands of U.S. dollars (Note 2) For the year ended March 31,
	2007	2008	2008
Cash flows from investing activities:			
Payments for purchases of marketable securities	(11,787)	-	-
Proceeds from sale of marketable securities	-	11,936	119
Payments for purchases of fixed assets	(641,151)	(1,076,942)	(10,748)
Proceeds from sale of fixed assets	12,860	4,196	41
Payments for purchases of software and other intangibles	(48,974)	(29,137)	(290)
Payments for purchases of investment securities	-	(943,764)	(9,419)
Proceeds from sale of investment securities	0	-	-
Proceeds from maturities of government bonds	-	1,000,000	9,981
Payments for long-term bank deposits	-	(12,262)	(122)
Payments for time deposits with a deposit period of over three months	-	(414,992)	(4,142)
Payments for deposits and long-term loan	(7,128)	(2,150)	(21)
Proceeds from deposits and long-term loan	3,778	3,490	34
Proceeds from acquisition of shares of newly consolidated subsidiaries	-	42,105	420
Payments for purchase of subsidiary’s shares	-	(35,000)	(349)
Other	7,727	18,852	188
Net cash used in investing activities	(684,676)	(1,433,668)	(14,309)
Cash flows from financing activities:			
Proceeds from short-term borrowings	379,140	61,805	616
Payment of short-term borrowings	(30,000)	(450,611)	(4,497)
Payment of long-term debt	(24,519)	(37,617)	(375)
Payment of charges for credit facility contract	(30,000)	-	-
Payments for charges for acquisition of the treasury stock	(30,835)	-	-
Payments for purchases of treasury stock	(2,304,403)	-	-
Cash dividends paid	(721,444)	(692,080)	(6,907)
Cash dividends paid to minority shareholders	(700)	(72,645)	(725)
Net cash used in financing activities	(2,762,763)	(1,191,150)	(11,888)
Effect of exchange rate changes on cash and cash equivalents	12,050	(45,986)	(458)
Net increase (decrease) in cash and cash equivalents	(409,788)	209,782	2,093
Cash and cash equivalents at beginning of year	5,184,528	4,774,740	47,656
Cash and cash equivalents at end of year (Note 7)	¥4,774,740	¥4,984,522	$49,750

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 as the "Companies") are engaged in the development, manufacture and sale of harmonic drive gears and related motion control products. The Company's manufacturing facilities are located in Japan and its products are marketed by the Company in Japan, a subsidiary in the United States and an affiliated company in Europe.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements of the Companies are prepared based on the statutory books and records maintained by the Company and its domestic subsidiaries 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 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 less than ¥1 thousand have been omitted. 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 convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥100.19 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2008. 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 company -

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the year ended March 31, 2007 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.

The Company purchased 50% of Winbel Co., Ltd's stock on May, 2007 and Winbel Co., Ltd became a consolidated subsidiary. The accounts of Winbel Co., Ltd have been included in the consolidated financial statements together with the five previously-consolidated subsidiaries, effective from the acquisition date.

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

The Company holds a 25% share in a sales distributor in Europe named Harmonic Drive AG. The investment in the shares of Harmonic Drive AG is accounted for by the equity method in the consolidated financial statements for the years ended March 31, 2007 and 2008.

The Company's foreign subsidiaries (HD Systems, Inc. and Harmonic Drive L.L.C.) and affiliated company (Harmonic Drive AG) both 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 the equity method in accounting for the affiliated company are based on the respective financial statements of these entities for the years ended December 31. Any material transactions occurring in respect of these entities in the period January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation methods for major assets -

① Marketable securities and investment securities:

Securities are classified into two categories.

Held-to-maturity debt securities are expected to be held to maturity and are recognized at amortized cost in the consolidated balance sheet.

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

Subscriptions to non-affiliated investment funds that are included in investment securities are accounted for by the equity method based on the recent available financial information.

② Receivables and payables derived from derivatives:

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

③ Inventories:

Finished products, work in process and raw materials are stated at cost using the moving average method. Supplies are stated at cost, being determined by the last purchase price method.

(c) Depreciation and amortization method of major assets -

① Tangible fixed 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 by the declining balance method for the Company and its domestic subsidiaries, with the exception of buildings acquired on or after April 1, 1998, which are computed 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:

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.

(d) Treatment of deferred assets -

Stock issuance expense is not capitalized, but expensed as incurred.

(e) Basis of provision -

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 amounts 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 as of the end of the year.

③ Accrued bonuses for directors and statutory auditors:

The Company and its domestic subsidiaries estimate and provide an accrual for bonuses to directors and statutory auditors. The actual amount to be paid will be approved at the shareholders' meeting held subsequent to the end of the year.

④ Reserve for retirement allowances for directors and statutory auditors:

In accordance with the Company's "Rule for Retirement Allowances for Directors and Statutory Auditors," the reserve for retirement allowances for directors and statutory auditors of the Companies is calculated as 100% of the amount that would have been payable if all directors and statutory auditors had retired at the consolidated balance sheet date.

⑤ Reserve for retirement allowances for executive officers:

In accordance with the Company's "Rule for Retirement Allowances for Executive Officers," the reserve for retirement allowances for executive officers of the Companies is calculated as 100% of the amount that would have been payable if all executive officers had retired at the consolidated balance sheet date.

(f) Reserve for retirement allowances for employees -

The reserve for retirement allowances for employees of the Company and its domestic subsidiaries represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, net of the unrecognized balance of actuarial differences. As of March 31, 2007 and 2008 this results in debit balances of ¥598,692 thousand and ¥780,787 thousand ($7,793 thousand), respectively, which are recorded as prepaid pension costs in investment securities and other assets - others in the consolidated balance sheet. Prior service costs are amortized over a period of approximately 3 years from the year in which they occur. Actuarial differences are amortized on a straight-line basis over 3 years, starting from the year following that in which they occur. Certain domestic subsidiaries have adopted a simplified method in the calculation of their retirement benefit obligation and recorded as reserve for retirement allowances for employees in the consolidated balance sheet.

(g) Foreign currency translation -

Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, net assets 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 procedures are recorded in the consolidated balance sheet as a separate component of net assets.

(h) Accounting for leases -

Leases that do not meet the criteria for capitalization are accounted for either as financing or operating leases.

(i) Consumption tax -

The consumption tax withheld upon sales of goods and the consumption tax paid by the Companies upon purchases of goods and services are not included in revenue and cost or expense items, respectively, in the accompanying consolidated statements of income.

(j) Valuation method for assets and liabilities of subsidiaries -

Assets and liabilities of the subsidiaries were measured at the fair values of the year in which they were consolidated.

(k) Amortization of goodwill and negative goodwill -

Goodwill and negative goodwill are amortized on a straight-line basis over a period of 5 years.

(l) Cash and cash equivalents -

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

3. Accounting changes:

Depreciation method of tangible fixed assets -

In accordance with the amendment of the Corporation Tax Law in Japan ((Partial Amendment of Income Tax Law etc., March 30, 2007, Law No.6) and (Partial Amendment of the Corporation Tax Enforcement Ordinance, March 30, 2007, Ordinance No. 83)), the Company and its domestic consolidated subsidiaries have changed the depreciation method for those property and equipment acquired after April 1, 2007 to the method based on the amended Corporation Tax Law. The impact of this change on the Consolidated Statement of Income is immaterial.

In addition, in accordance with the amendment of the Corporate Tax Law in Japan, with respect to any tangible assets acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries have included the depreciation expenses of such tangible assets amounts representing the difference between the amounts of carrying costs and the residual value as derived from application of the depreciation method used prior to the legal revisions. Such amounts are being depreciated in equal amounts over 5 years, starting in year after the fiscal year in which accumulated depreciation base on the pre-revision method reached residual value. The impact of this change on the Consolidated Statement of Income is immaterial.

4. Notes to consolidated balance sheet:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31 is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Investment in affiliated company	¥1,808,988	¥1,981,135	$19,773

(b) Assets pledged as collateral and liabilities secured by the collateral -

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

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Buildings	¥1,141,971	¥1,122,848	$11,207
Structures	3,705	2,955	29
Land	504,518	537,664	5,366
	¥1,650,195	¥1,663,469	$16,603
Secured long-term debt:			
Current portion of long-term loans	-	¥3,828	$38
Long-term loans	-	44,689	446
	-	¥48,517	$484

Included in the above, the following assets are pledged to secure factory funded bonds at March 31:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Buildings	¥131,637	¥118,939	$1,187
Structures	3,705	2,955	29
Land	49,168	49,168	490
	¥184,512	¥171,063	$1,707

(c) Notes receivable discounted -

The amount of notes receivable discounted are zero and ¥3,242 thousand ($32 thousand) for the years ended March 31, 2007 and 2008, respectively.

(d) Credit facility contracts -

On March 26, 2007, the Company entered into credit facility contracts totaling ¥3,000,000 thousand ($29,943 thousand) for 3 years with four banks. As of March 31, 2007 and 2008, there are no loans outstanding under these contracts.

5. Notes to consolidated statement of income:

(a) Selling, general and administrative expenses -

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

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Salaries and bonuses	¥976,758	¥1,255,757	$12,533
Reserve for bonuses for employees	248,831	-	-
Reserve for bonuses for directors and statutory auditors	106,900	106,100	1,058
Reserve for retirement allowance for directors and statutory auditors	38,640	52,288	521
Reserve for retirement allowance for executive officers	25,646	18,848	188
Research and development	1,236,738	1,150,382	11,482
Allowance for doubtful accounts	-	2,300	22

(b) Research and development expenditures -

Research and development expenditures, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥1,264,020 thousand and ¥1,185,457 thousand ($11,832 thousand) for the years ended March 31, 2007 and 2008, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31 is comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Machinery equipment	¥4,632	¥2,443	$24

(d) Loss on sale of fixed assets -

Loss on sales of fixed assets for the years ended March 31 is comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Vehicles	¥1,494	¥ -	$ -

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31 is comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Building and structures	¥6,376	¥1,280	$12
Machinery equipment	1,725	1,214	12
Vehicles	-	94	0
Furniture and fixtures	12,540	14,516	144
Other	305	547	5
Software	67	-	-
	¥21,015	¥17,653	$176

6. Notes to consolidated statement of changes in net assets:

(a) Shares issued -

Share type	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock (shares)	33,108	72,169	-	105,277

The increase in common stock is due to the following:

- 66,216 shares - three-for-one stock split at April 1, 2006
- 5,953 shares - issuance of new stock upon the exercise of warrants

Share type	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock (shares)	105,277	-	-	105,277

(b) Treasury stock -

Share type	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock (shares)	696.8	4,894.2	2,090.6	3,500.4

The increase in common stock is due to the following:

- 1,393.6 shares - three-for-one stock split at April 1, 2006
- 3,500 shares -
  purchase of treasury stock at March 22, 2007
- 0.6 shares - purchase of fractional shares upon the exercise of warrants of bonds with detachable warrants

The decrease in common stock is due to the following:

- 2,090.6 shares - treasury stock granted upon the exercise of warrants in place of issuance of new stock

Share type	March 31, 2007	Increase	Decrease	March 31, 2008
Common stock (shares)	3,500.4	-	-	3,500.4

(c) Stock subscription rights -

Company	Harmonic Drive Systems Inc.
Description	Unsecured zero coupon bonds, due 2009 with detachable warrants
Type of shares to be issued	Common stock

	March 31, 2006	Increase	Decrease	March 31, 2007
Number of shares to be issued	2,682	5,365	8,047	-

- The increase in the number of shares to be issued is due to the three-for-one stock split at April 1, 2006. The decrease in the number of shares reflects the exercise of certain warrants.
- The balance of unsecured zero coupon bonds, due 2009 with detachable warrants, is zero at March 31, 2007.
- Number of shares to be issued represents the shares to be exercised.

The Company had no stock subscription rights at March 31, 2008.

(d) Dividends -

① Dividends paid during the current year

(i) The following were resolved by the annual shareholders' meeting held on June 23, 2006

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥307,906
Cash dividend per share	
(Yen)	¥9,500
Record date	March 31, 2006
Effective date	June 23, 2006

(ii) The following were determined by the Board of Directors meeting held on November 17, 2006

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥413,538
Cash dividend per share	
(Yen)	¥4,000
Record date	September 30, 2006
Effective date	December 14, 2006

② Dividends for the current year that are to be paid after the consolidated balance sheets date

The following have been approved by the annual shareholders' meeting held on June 22, 2007

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)	¥346,040
Cash dividend per share	
(Yen)	¥3,400
Record date	March 31, 2007
Effective date	June 25, 2007

① Dividends paid during the current year

(i) The following were resolved by the annual shareholders' meeting held on June 22, 2007

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥346,040
(Thousands of U.S. dollars)	($3,453)
Cash dividend per share	
(Yen)	¥3,400

(U.S. dollars)	($33.93)
Record date	March 31, 2007
Effective date	June 25, 2007

(ii) The following were determined by the Board of Directors meeting held on November 16, 2007

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥346,040
(Thousands of U.S. dollars)	($3,453)
Cash dividend per share	
(Yen)	¥3,400
(U.S. dollars)	($33.93)
Record date	September 30, 2007
Effective date	December 13, 2007

② Dividends for the current year that are to be paid after the consolidated balance sheets date

The following have been approved by the annual shareholders' meeting held on June 20, 2008

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)	¥468,172
(Thousands of U.S. dollars)	($4,672)
Cash dividend per share	
(Yen)	¥4,600
(U.S. dollars)	($45.91)
Record date	March 31, 2008
Effective date	June 23, 2008

7. 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 are comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Cash and bank deposits	¥4,744,449	¥5,879,201	$58,680
Highly liquid investments	30,290	30,418	303
Time deposits - maturities exceeding three months	-	(925,097)	(9,233)
Cash and cash equivalents	¥4,774,740	¥4,984,522	$49,750

(b) Supplemental consolidated cash flow information -

In May 2007, the Company acquired 50% of the shares of Winbel Co., Ltd for ¥50,000 thousand ($499 thousand). As a result, assets and liabilities of Winbel Co., Ltd are included in the Company's consolidated financial statements effective from the acquisition date.

	Thousands of yen	Thousands of U.S. dollars
Current assets	¥185,962	$1,856
Fixed assets	82,223	820
Goodwill	9,967	99
Current liabilities	(113,786)	(1,135)
Long-term liabilities	(74,335)	(741)
Minority interest	(40,032)	(399)
Payment for purchase of Winbel Co., Ltd shares	50,000	499
Cash and cash equivalents owned by Winbel Co., Ltd	92,105	919
Acquisition of cash owned by Winbel Co., Ltd, net of payment for purchase of subsidiary's shares	¥42,105	$420

(c) Significant non-cash activities -

The following summary represents significant non-cash activities for the year ended March 31.

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Decrease in treasury stock due to exercise of warrants	¥393,264	¥ -	$ -
Increase in capital surplus (gains on sales of treasury stock) due to exercise of warrants	269,255	-	-
Increase in common stock due to exercise of warrants	943,742	-	-
Increase in capital surplus due to exercise of warrants	943,737	-	-
Decrease in bonds with warrants due to exercise of warrants	¥2,550,000	¥ -	$ -

8. Finance leases:

Leased assets and related expenses in respect of the Companies' finance leases, other than those which transfer ownership of the leased assets to the lessee, are accounted for using a method similar to that used for operating leases. Finance lease charges of the Companies for the years ended March 31, 2007 and 2008 are ¥427,363 thousand and ¥395,502 thousand ($3,947 thousand), respectively. Had these leases been capitalized on the consolidated balance sheet, the following would have been recognized on the consolidated balance sheet and the consolidated statements of income as of March 31 and for the years then ended:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Machinery and equipment	¥2,165,468	¥2,100,309	$20,963
Tools, furniture and vehicles	97,674	85,427	852
Software	10,660	10,649	106
	2,273,802	2,196,385	21,922
Less - Accumulated depreciation	(1,281,040)	(1,027,270)	(10,253)
	¥992,762	¥1,169,115	$11,668

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Depreciation	¥400,329	¥372,665	$3,719
Interest expense	24,467	24,240	241

Depreciation expense is calculated based on the straight-line method over the lease period, assuming no residual asset value at the end of the lease period. Interest expense is determined as the difference between the acquisition cost and the total lease fee. Total interest payments over the lease period are allocated to each period by the "interest method."

The present values of future lease payments of the Companies as of March 31 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Current portion	¥328,974	¥357,356	$3,566
Long-term obligation	686,020	832,441	8,308
	¥1,014,995	¥1,189,798	$11,875

Future operating lease payments under non-cancelable lease contracts as of March 31 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Current portion	¥117,382	¥87,673	$875
Long-term obligation	154,992	151,223	1,509
	¥272,374	¥238,896	$2,384

There is no impairment loss allocated to leased assets for the years ended March 31, 2007 and 2008.

9. Marketable securities and investment securities:

The carrying amount on the consolidated balance sheets, gross unrealized gains and losses, and the relevant fair value of held-to-maturity debt securities with market quotations at March 31 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Carrying amount	¥998,023	¥ -	$ -
Gross unrealized gains	-	-	-
Gross unrealized losses	(2,043)	-	-
Fair value	¥995,980	¥ -	$ -

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

	Thousands of yen			
March 31, 2007:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥1,539,513	¥2,471,086	-	¥4,010,599

	Thousands of yen			
March 31, 2008:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥2,483,277	¥1,971,419	(2,855)	¥4,451,841

	Thousands of U.S. dollars			
March 31, 2008:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	$24,785	$19,676	($28)	$44,433

In cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the statement of income for that period. No impairment losses for the years ended March 31, 2007 and 2008 are recognized on available-for-sale securities with market quotations.

The proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2008 are ¥0 thousand and ¥11,936 thousand ($119 thousand), respectively. The gross realized gains and losses on these sales for the years ended March 31, 2007 and 2008 are ¥0 thousand and zero, and no gains and losses, respectively.

The carrying amounts of available-for-sale securities without market quotations at March 31 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Equity securities	¥15,864	¥3,800	$37
Money management funds	30,290	30,418	303
Subscriptions to investment funds	64,309	35,584	355
	¥110,464	¥69,802	$696

The redemption schedule for "Other securities" with maturity dates, and "Held-to-maturity debt securities" at March 31 are as follows:

	Thousands of yen			
	March 31, 2007			
	Due Within 1 year	Due After 1 year within 5 years	Due After 5 years within 10 years	Due After 10 years
Bonds:				
Government bonds, Municipal bonds, etc.	¥ -	¥1,000,000	¥ -	¥ -
Corporate bonds	-	-	-	-
Other	-	-	-	-
Others:	-	-	-	-
	¥ -	¥1,000,000	¥ -	¥ -

	Thousands of yen			
	March 31, 2008			
	Due Within 1 year	Due After 1 year within 5 years	Due After 5 years within 10 years	Due After 10 years
Bonds:				
Government bonds, Municipal bonds, etc.	¥ -	¥ -	¥ -	¥ -
Corporate bonds	-	-	-	-
Other	-	-	-	-
Others:	-	35,584	-	-
	¥ -	¥35,584	¥ -	¥ -

	Thousands of U.S. dollars			
	March 31, 2008			
	Due Within 1 year	Due After 1 year within 5 years	Due After 5 years within 10 years	Due After 10 years
Bonds:				
Government bonds, Municipal bonds, etc.	$ -	$ -	$ -	$ -
Corporate bonds	-	-	-	-
Other	-	-	-	-
Others:	-	355	-	-
	$ -	$355	$ -	$ -

10. Derivative financial instruments:

(a) Types and purpose of transactions -

The Companies utilize derivative financial instruments such as foreign exchange contracts in order to reduce its exposure to fluctuations in foreign currency exchange rates while conducting regular operations.

(b) Derivative transactions policies -

The Companies utilize the foreign exchange contracts in order to reduce its exposure to fluctuations in foreign currency exchange rates while conducting regular operations and do not enter into contracts for speculative purposes.

(c) Description of risks relating to derivative transactions -

There is the risk of foreign currency exchange fluctuations on the foreign exchange contracts. The management of the Companies believes that the credit risk is insignificant as the Companies enter into foreign exchange contracts only with financial institutions with sound credit profiles.

(d) Risk management for derivative transactions -

Derivative transactions are executed and managed by the accounting / finance department in accordance with the president's approval.

The Company had no derivative financial instruments and no contracts at March 31, 2007 and 2008, respectively.

11. Retirement benefits and reserve for employees:

Severance indemnity regulations, which cover substantially all employees of the Company and its domestic subsidiaries, provide for benefit payments based on the employee's eligible salary, length of service, position in the respective company and conditions under which the termination of employment occurs.

The Company has established a non-contributory funded, defined benefit, and tax qualified pension plan for the benefit payments established 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.

Foreign subsidiaries maintain a simplified employee plan (the "SEP Plan"). All employees are eligible to participate in the SEP Plan upon completion of one year of service and after attaining the age of 21. The SEP Plan provides for discretionary contributions by the subsidiaries. Participants vest in the subsidiaries' contributions based on their annual compensation and length of service.

(a) Funded status of the multi-employer pension plan -

The funded status as of March 31, 2008 of the multi-employer pension plan is as follows:

	Millions of yen	Millions of U.S. dollars
	2008	2008
Plan assets	¥132,459	$1,322
Benefit obligation	139,971	1,397
Net balance	(¥7,512)	($74)

(b) Percentage -

The percentage of the Companies of the contribution of the multi-employer plan is 1.09% for the year ended March 31, 2007.

(c) Supplementary explanation -

The principal reason for the net balance above is related to the prior service cost of ¥34,122 million ($340 million). Amortization of the prior service cost is 20 years. The percentage of (b) above is not agreed with the actual obligation of the Companies.

The proportionate share of the plan assets of the multi-employer plan is ¥1,289,632 thousand as of March 31, 2007. (Accounting Standards Board of Japan Statement No. 14, The second Amendment of "Accounting Standard for Retirement Benefits" issued on May 15, 2007 have been adopted effective for the year ended March 31, 2008.) Contributions to the plan for the years ended March 31, 2007 and 2008 are ¥66,170 thousand and ¥78,398 thousand ($782 thousand), respectively.

The prepaid pension cost recorded in the consolidated balance sheet as of March 31 is calculated as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Projected benefit obligations (PBO)	(¥1,338,349)	(¥1,417,629)	($14,149)
Plan assets	2,240,435	1,948,942	19,452
Excess of plan assets over PBO	902,086	531,313	5,303
Unrecognized actuarial differences	(306,468)	247,937	2,474
Unrecognized prior service cost	3,078	1,539	15
Prepaid pension cost	598,695	780,790	7,793
Reserve for retirement allowances for employees	9,186	12,698	126

- Domestic subsidiaries have adopted a simplified method in the calculation of their retirement benefit obligation.

The net periodic pension cost relating to retirement benefits for the years ended March 31 is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Service cost	¥76,617	¥80,098	$799
Interest cost	25,528	26,766	267
Expected return on plan assets	(41,962)	(44,808)	(447)
Amortization of unrecognized losses	(171,120)	(149,722)	(1,494)
Amortization of unrecognized prior service cost	1,539	1,539	15
Net periodic pension cost	(¥109,398)	(¥86,126)	($859)

- Retirement benefit expenses for domestic subsidiaries adopting the simplified method are included in "Service cost."

The assumptions used in the above actuarial computations for the years ended March 31 are as follows:

	2007	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing pension benefits to employee service periods	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial Differences	3 years	3 years
Amortization of unrecognized prior service cost	3 years	3 years

12. Stock options:

No stock options were granted during the years ended March 31, 2007 and 2008.

13. Income taxes:

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

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Deferred tax assets - current:			
Accrued enterprise taxes	¥95,462	¥61,253	$611
Accrued bonuses	223,125	209,550	2,091
Inventory write-down	9,299	10,859	108
Supplies write-down	23,665	-	-
Unrealized intercompany profit	58,794	39,209	391
Accrued social expenses	22,724	23,605	235
Prepaid pension costs	(242,049)	-	-
Other	4,501	3,556	35
Net deferred tax assets – current	¥195,523	¥348,034	$3,473
Deferred tax assets – non current:			
Reserve for retirement allowances for directors and statutory auditors	¥20,643	¥9,582	95
Foreign tax credit carried forward	-	57,124	570
Other	4,605	7,857	78
	25,249	74,563	744
Valuation allowance	-	(57,124)	(570)
Net deferred tax assets - non-current	¥25,249	¥17,439	$174
Deferred tax liabilities - non-current:			
Reserve for retirement allowances for directors and statutory auditors	¥146,338	¥165,477	$1,651
Devaluation of golf club memberships	7,775	7,775	77
Depreciation	425	340	3
Devaluation of investment securities	22,256	22,256	222
Loss on investment fund	7,129	6,893	68
Reserve for retirement allowances for executive officers	28,614	16,176	161
Unrealized gains on available-for-sale securities	(1,002,820)	(797,307)	(7,957)
Undistributed earnings of foreign subsidiary	(1,965)	(147,680)	(1,473)
Prepaid pension costs	-	(316,014)	(3,154)

Other	4,015	2,906	29
	(788,230)	(1,039,177)	(10,372)
Valuation allowance	(7,775)	-	-
Net deferred tax liabilities - non-current	(796,005)	(1,039,177)	(10,372)

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31 is omitted due to the materiality.

14. Segment information:

(a) Industry segment information -

The Companies' business operations fall within a single business segment, based on similarities in the type and nature of the businesses.

(b) Geographic area information and export sales information -

	Thousands of yen				
	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
For the year ended March 31, 2007:					
Sales:					
Third party	¥15,562,087	¥3,205,889	¥18,767,977	¥ -	¥18,767,977
Intersegment	939,355	-	939,355	(939,355)	-
Total	16,501,442	3,205,889	19,707,332	(939,355)	18,767,977
Operating expenses	11,737,444	3,000,178	14,737,622	(474,508)	14,263,114
Operating profit	¥4,763,998	¥205,711	¥4,969,709	(¥464,847)	¥4,504,862
At March 31, 2007:					
Total Assets	¥15,650,255	¥2,076,266	¥17,726,522	¥5,399,718	¥23,126,240

	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
	Thousands of yen				
For the year ended March 31, 2008:					
Sales:					
Third party	¥16,127,314	¥3,085,039	¥19,212,353	¥ -	¥19,212,353
Intersegment	899,918	-	899,918	(899,918)	-
Total	17,027,232	3,085,039	20,112,271	(899,918)	19,212,353
Operating expenses	12,432,825	2,901,698	15,334,524	(538,550)	14,795,973
Operating profit	¥4,594,406	¥183,340	¥4,777,747	(¥361,368)	¥4,416,379
At March 31, 2008:					
Total Assets	¥17,999,669	¥1,640,806	¥19,640,475	¥4,776,009	¥24,416,485

	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
	Thousands of U.S. dollars				
For the year ended March 31, 2008:					
Sales:					
Third party	$160,967	$30,791	$191,759	$ -	$191,759
Intersegment	8,982	-	8,982	(8,982)	-
Total	169,949	30,791	200,741	(8,982)	191,759
Operating expenses	124,092	28,961	153,054	(5,375)	147,679
Operating profit	$45,856	$1,829	$47,686	($3,606)	$44,080
At March 31, 2008:					
Total Assets	$179,655	$16,376	$196,032	$47,669	$243,701

- Countries and areas are segmented based on their geographical proximity.

- Major countries and areas which belong to segments other than Japan are as follows:

  (1) North America …… The United States

- Operating expenses amounting to ¥452,328 thousand and ¥406,854 thousand ($4,060 thousand) for the years ended March 31, 2007 and 2008, respectively, which cannot be allocated to any particular geographical area, are included in the "Elimination and/or Corporate" column. These represent expenses incurred for research and development activities, and certain expenses incurred by corporate departments, such as the General Affairs and Accounting Department.

- Assets of ¥5,704,330 thousand and ¥5,122,272 thousand ($51,125 thousand) as of March 31, 2007 and 2008, respectively, which cannot be allocated to any particular geographical area, are included in the "Elimination and/or Corporate" column. These assets represent excess cash at banks, long-term investments such as investment securities, other investments and other assets and those used by corporate departments.

- Effective from the year ended March 31, 2007, the Companies changed accounting policies as stated in Note 3(a) Accounting standard for directors' bonuses. As a result of these changes, operating expenses included in the "Elimination and /or Corporate" and "Japan" columns for the year ended March 31, 2007 increased by ¥4,800 thousand and ¥102,100 thousand, respectively, while operating profit decreased by the same amount.

(c) Export sales -

Export sales by major area for the years ended March 31 are as follows:

	Thousands of yen			
	March 31, 2007			
	Europe	North America	Other	Total
Overseas sales	¥1,418,596	¥3,205,889	¥105,716	¥4,730,202
Consolidated sales:				18,767,977
Overseas sales as a ratio of consolidated sales (%)	7.6	17.1	0.6	25.2

	Thousands of yen			
	March 31, 2008			
	Europe	North America	Other	Total
Overseas sales	¥1,361,116	¥3,085,039	¥94,366	¥4,540,521
Consolidated sales:				19,212,353
Overseas sales as a ratio of consolidated sales (%)	7.1	16.1	0.5	23.6

	Thousands of U.S. dollars			
	March 31, 2008			
	Europe	North America	Other	Total
Overseas sales	$13,585	$30,791	$941	$45,319
Consolidated sales:				191,759
Overseas sales as a ratio of consolidated sales (%)	7.1	16.1	0.5	23.6

- Countries and areas are segmented based on their geographical proximity.
- Major countries and areas which belong to segments other than Japan are as follows:

  (1) Europe ……………Germany

  (2) North America ……The United States

- Export sales consist of export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the foreign subsidiaries.

15. Transactions with related parties:

Category	Affiliate company
Entity name	Harmonic Drive AG
Location	Land Hessen, Germany
Capital or investment in capital	Euro 1,550 thousand
Description of business	Manufacturing and sales of precision speed reducers
The group's interest in entity	25.0% directly owned
Description of relationship	
- Shared director	-
- Business relationship	Seller of the Company's products in Europe, Middle and Near East, Africa, India and South America
Business relationship	Seller of the Company's products

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Sales to the affiliated company	¥1,418,596	¥1,361,116	$13,585
Notes and accounts receivable, trade	497,316	445,989	4,451

Transactions are made at arm's-length, at prices that are considered to be equivalent to market prices.

16. Earnings per share information:

The computation of earnings per share is based on the weighted-average number of common shares outstanding during each year. Treasury stocks held during these years are excluded.

	Yen		U.S. dollars
	2007	2008	2008
Net assets per share	¥160,099.80	¥177,224.15	$1,768.88
Earnings per share	27,643.96	26,934.97	268.83

Diluted net earnings per share was not recorded because the Company does not have potential dilutive shares.

The following is a reconciliation of basic earnings per share to diluted earnings per share.

	Thousands of yen		Thousands of U.S. dollars
	2007	2008	2008
Net income	¥2,811,401	¥2,741,350	$27,361
Net income attributable to common shareholders	¥2,811,401	¥2,741,350	$27,361

The weighted average number of shares used in the computation of basic and diluted earnings per share are as follows:

	Number of shares	
	2007	2008
Weighted average number of shares	101,700.4	101,776.6

17. Subsequent events:

In accordance with the resolution of the Board of Directors dated September 17, 2008, the Company will purchase an additional 10% of Harmonic Drive A.G.'s stock on September 29, 2008.

The purpose of the additional acquisition is to further promote growth and develop into a Group that is capable of achieving great success in the global market and the intensification of collaboration with Harmonic Drive A.G..

The details of the capital transaction are as follows:

Numbers of shares before additional acquisition	Common stock 387,500 shares
Ratio of shareholding before additional acquisition	25%
Numbers of shares by additional acquisition	Common stock 155,000 shares
Acquisition cost	23 million Euro (About 3.5 billion yen)
Numbers of shares after additional acquisition	Common stock 542,500 shares
Ratio of shareholding after additional acquisition	35%

18. Consolidated supplemental schedules:

Schedules of borrowing -

Category	Thousands of yen — Balance at March 31, 2007	Thousands of yen — Balance at March 31, 2008	Average interest rate (%)	Maturity
Short-term borrowings	¥370,530	¥25,200	2.5	-
Current portion of long-term debt	24,519	30,803	2.4	-
Long-term debt (excluding current portion)	129,985	161,709	2.3	2009-2020
Total	¥525,034	¥217,712	-	-

Category	Thousands of U.S. dollars — Balance at March 31, 2007	Thousands of U.S. dollars — Balance at March 31, 2008	Average interest rate (%)	Maturity
Short-term borrowings	$3,698	$251	2.5	-
Current portion of long-term debt	244	307	2.4	-
Long-term debt (excluding current portion)	1,297	1,614	2.3	2009-2020
Total	$5,240	$2,172	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2008 are as follows:

	Thousands of yen			
	March 31, 2008			
	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
Long-term debt	¥27,518	¥24,664	¥20,852	¥17,988

	Thousands of U.S. dollars			
	March 31, 2008			
	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
Long-term debt	$274	$246	$208	$179

- The average interest rate represents the weighted-average rate applicable to the year-end balance.