HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2010

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 consolidated subsidiaries as of March 31, 2010, and the related consolidated statements of income, changes in net assets and cash flows 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 consolidated subsidiaries as of March 31, 2010, 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, 2010 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

September 10, 2010

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
	2009	2010	2010
Assets:			
Current assets -			
Cash and bank deposits (Notes 7(a) and 9(d))	¥6,667,052	¥4,599,863	$49,439
Notes and accounts receivable, trade (Notes 4(c) , 9(d) and 17)	2,601,904	4,985,566	53,585
Marketable securities (Notes 7(a) and 10)	30,537	30,576	328
Finished products	118,830	103,836	1,116
Work in process	419,301	579,678	6,230
Raw materials and supplies	654,649	685,067	7,363
Deferred tax assets - current (Note 14)	200,738	209,010	2,246
Other current assets	468,946	242,673	2,608
Allowance for doubtful accounts (Note 9(d))	(4,621)	(5,601)	(60)
Total current assets	11,157,338	11,430,669	122,857
Fixed assets -			
Tangible fixed assets (Notes 4(b) and 8):			
Buildings and structures	1,624,166	1,493,192	16,048
Machinery and equipment	511,362	518,933	5,577
Land	872,455	872,455	9,377
Leased assets	240,198	274,305	2,948
Construction in progress	80,026	75,582	812
Other	549,707	347,724	3,737
Total tangible fixed assets	3,877,916	3,582,192	38,501
Intangible fixed assets (Note 8):			
Goodwill	5,980	3,987	42
Software	98,747	89,787	965
Other	10,157	9,702	104
Total intangible fixed assets	114,886	103,477	1,112
Investments and other assets:			
Investment securities (Notes 9(d) and 10)	2,573,270	4,408,803	47,386
Investment in affiliated companies (Note 4(a))	5,450,960	5,331,186	57,299
Long-term loans receivable (Note 9(d))	363,972	348,472	3,745
Long-term prepaid expenses (Note 12)	806,867	537,991	5,782
Long-term bank deposits (Note 9(d))	9,103	700,000	7,523
Deferred tax assets – non current (Note 14)	33,764	28,912	310
Others	77,600	65,118	699
Allowance for doubtful accounts	(6,000)	(6,000)	(64)
Total investment securities and other assets	9,309,539	11,414,484	122,683
Total fixed assets	13,302,342	15,100,154	162,297
Total assets	¥24,459,681	¥26,530,824	$285,155

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
	2009	2010	2010
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 9(d))	¥1,414,274	¥1,571,833	$16,894
Short-term borrowings (Note 20)	34,900	13,200	141
Current portion of long-term debt (Notes 4(b), 9(d) and 20)	736,086	742,756	7,983
Lease obligations – current (Note 20)	44,967	59,713	641
Accrued income taxes (Note 9(d))	2,703	103,612	1,113
Accrued bonuses for employees	337,453	330,348	3,550
Accrued bonuses for directors and corporate auditors	18,400	31,200	335
Accrued warranty expenses	-	21,929	235
Other current liabilities	544,322	640,941	6,888
Total current liabilities	3,133,107	3,515,535	37,785
Long-term liabilities -			
Long-term debt (Notes 4(b), 9(d) and 20)	2,985,623	2,291,489	24,629
Lease obligations – non current (Note 20)	195,629	214,973	2,310
Deferred tax liabilities – non current (Note 14)	281,562	964,951	10,371
Reserve for retirement benefits for employees (Note 12)	15,565	17,748	190
Reserve for retirement benefits for directors and corporate auditors	347,119	385,447	4,142
Reserve for retirement benefits for executive officers	55,795	71,175	764
Negative goodwill	16,631	11,087	119
Total long-term liabilities	3,897,926	3,956,872	42,528
Total liabilities	7,031,033	7,472,407	80,313
Net assets (Note 18):			
Shareholders' equity (Note 6) -			
Common stock:			
- Authorized: 396,000 shares			
Issued and outstanding: 105,277 shares	1,610,542	1,610,542	17,310
Capital surplus	5,203,709	5,203,709	55,929
Retained earnings	12,838,713	13,225,383	142,147
Treasury stock, at cost	(2,304,740)	(2,304,740)	(24,771)
Total shareholders' equity	17,348,224	17,734,894	190,615
Valuation and translation adjustments -			
Net unrealized gains (losses) on available-for-sale securities (Note 10)	(137,531)	961,819	10,337
Foreign currency translation adjustments	(272,769)	(226,648)	(2,436)
Total valuation and translation adjustments	(410,300)	735,171	7,901
Minority interest in consolidated subsidiaries	490,724	588,350	6,323
Total net assets	17,428,648	19,058,416	204,841
Total liabilities and net assets	¥24,459,681	¥26,530,824	$285,155

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
	2009	2010	2010
Net sales (Notes 16 and 17)	¥16,165,164	¥12,056,871	$129,588
Cost of sales (Notes 5(b), 12 and 16)	9,705,905	7,527,042	80,901
Gross profit	6,459,258	4,529,829	48,686
Selling, general and administrative expenses (Notes 5(a), 5(b), 8, 12 and 16)	4,031,862	3,457,976	37,166
Operating profit	2,427,395	1,071,852	11,520
Other income:			
Interest income	17,380	14,678	157
Dividend income	56,458	26,876	288
Amortization of negative goodwill	5,543	5,543	59
Equity in income of affiliated companies	227,066	-	-
Subsidies	42,393	56,561	607
Others	40,112	20,727	222
	388,955	124,388	1,336
Other expenses:			
Interest expenses	19,298	48,069	516
Equity in loss of affiliated companies	-	28,218	303
Commitment fees for credit facility contracts	-	19,625	210
Charges for syndicate loans	37,500	-	-
R&D costs related to subsidies	18,848	16,000	171
Loss on investment in investment fund	7,279	68	0
Foreign exchange loss	13,978	5,103	54
Others	9,806	13,047	140
	106,711	130,132	1,398
Ordinary income	2,709,640	1,066,109	11,458
Exceptional gains:			
Gain on sales of fixed assets (Note 5(c))	2,349	1,185	12
Gain on sales of investment securities	-	426	4
Gain on prior year adjustments	-	18,561	199
Gain on reversal of allowance for doubtful accounts	270	211	2
	2,619	20,385	219
Exceptional losses:			
Loss on disposal of fixed assets (Note 5(d))	42,749	4,472	48
Loss on devaluation of investment securities	7,845	-	-
Loss on compensation for finished product issues	32,136	61,884	665
Additional retirement benefits paid to directors	117,625	-	-
Additional retirement benefits paid to employees	22,689	-	-
Loss on cancellation of purchase commitment	18,679	-	-
	241,725	66,357	713
Income before income taxes and minority interest	2,470,534	1,020,136	10,964
Income taxes:			
Current	623,553	478,555	5,143
Reversal of prior year's accrued income taxes	(14,864)	(15,567)	(167)
Deferred	263,081	(68,287)	(733)
	871,771	394,699	4,242

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2009	2010	2010
Minority interest in income of consolidated subsidiaries	79,868	126,814	1,363
Net income (Note 18)	¥1,518,895	¥498,622	$5,359

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
	2009	2010	2010
Shareholders' equity:			
Common Stock -			
Balance at the end of previous year	¥1,610,542	¥1,610,542	$17,310
Changes during the year			
Total changes	-	-	-
Balance at the end of current year	1,610,542	1,610,542	17,310
Capital surplus -			
Balance at the end of previous year	5,203,709	5,203,709	55,929
Changes during the year			
Total changes	-	-	-
Balance at the end of current year	5,203,709	5,203,709	55,929
Retained earnings -			
Balance at the end of previous year	12,103,494	12,838,713	137,991
Changes during the year			
Cash dividends	(783,676)	(111,952)	(1,203)
Net income	1,518,895	498,622	5,359
Total changes	735,218	386,669	4,155
Balance at the end of current year	12,838,713	13,225,383	142,147
Treasury stock -			
Balance at the end of previous year	(2,304,188)	(2,304,740)	(24,771)
Changes during the year			
Purchases of treasury stock	(552)	-	-
Total changes	(552)	-	-
Balance at the end of current year	(2,304,740)	(2,304,740)	(24,771)
Total shareholders' equity -			
Balance at the end of previous year	16,613,558	17,348,224	186,459
Changes during the year			
Cash dividends	(783,676)	(111,952)	(1,203)
Net income	1,518,895	498,622	5,359
Purchases of treasury stock	(552)	-	-
Total changes	734,665	386,669	4,155
Balance at the end of current year	¥17,348,224	¥17,734,894	$190,615

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
	2009	2010	2010
Valuation and translation adjustments:			
Net unrealized gains (losses) on available-for-sale securities -			
Balance at the end of previous year	¥1,171,352	(¥137,531)	($1,478)
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,308,884)	1,099,351	11,815
Total changes	(1,308,884)	1,099,351	11,815
Balance at the end of current year	(137,531)	961,819	10,337
Foreign currency translation adjustments -			
Balance at the end of previous year	252,360	(272,769)	(2,931)
Changes during the year			
Net changes in items other than those in shareholders' equity	(525,129)	46,121	495
Total changes	(525,129)	46,121	495
Balance at the end of current year	(272,769)	(226,648)	(2,436)
Total valuation and translation adjustments -			
Balance at the end of previous year	1,423,712	(410,300)	(4,409)
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,834,013)	1,145,472	12,311
Total changes	(1,834,013)	1,145,472	12,311
Balance at the end of current year	(410,300)	735,171	7,901
Minority interest in consolidated subsidiaries:			
Balance at the end of previous year	542,735	490,724	5,274
Changes during the year			
Net changes in items other than those in shareholders' equity	(52,011)	97,626	1,049
Total changes	(52,011)	97,626	1,049
Balance at the end of current year	490,724	588,350	6,323
Total net assets:			
Balance at the end of previous year	18,580,007	17,428,648	187,324
Changes during the year			
Cash dividends	(783,676)	(111,952)	(1,203)
Net income	1,518,895	498,622	5,359
Purchases of treasury stock	(552)	-	-
Net changes in items other than those in shareholders' equity	(1,886,025)	1,243,098	13,360
Total changes	(1,151,359)	1,629,768	17,516
Balance at the end of current year	¥17,428,648	¥19,058,416	$204,841

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
	2009	2010	2010
Cash flows from operating activities:			
Income before income taxes and minority interest	¥2,470,534	¥1,020,136	$10,964
Adjustments to reconcile income before income taxes and minority interest to net cash (used in) provided by operating activities -			
Amortization of goodwill	1,993	2,063	22
Amortization of negative goodwill	(5,543)	(5,543)	(59)
Depreciation and amortization	801,172	747,749	8,036
Increase (decrease) in allowance for doubtful accounts	(41)	943	10
Increase in reserve for retirement benefits for employees	2,866	2,182	23
Increase (decrease) in reserve for retirement benefits for directors and corporate auditors	(85,557)	38,327	411
Increase in reserve for retirement benefits for executive officers	15,852	15,380	165
Increase (decrease) in accrued bonuses for directors and corporate auditors	(89,700)	12,800	137
Increase in accrued warranty expenses	-	21,929	235
Interest income	(17,380)	(14,568)	(156)
Dividend income	(56,458)	(26,876)	(288)
Interest expenses	19,298	48,069	516
Equity in loss (income) of affiliated companies	(227,066)	28,218	303
Loss on investment in investment fund	7,279	68	0
Gain on sales of investment securities	-	(426)	(4)
Loss on devaluation of investment securities	7,845	-	-
Gain on sales of fixed assets	(2,349)	(1,185)	(12)
Loss on disposal of fixed assets	42,749	4,472	48
(Increase) decrease in trade receivables	2,997,683	(2,381,033)	(25,591)
Increase in inventories	(8,897)	(172,603)	(1,855)
Increase (decrease) in trade payables	(543,930)	153,745	1,652
Others, net	(509,255)	430,400	4,625
Subtotal	4,821,093	(75,749)	(814)
Interest and dividends received	73,853	40,508	435
Dividends received from an affiliated company	161,600	126,740	1,362
Interest paid	(19,298)	(48,069)	(516)
Income taxes paid	(1,452,734)	(368,062)	(3,955)
Income taxes refunded	530	194,245	2,087
Net cash (used in) provided by operating activities	3,585,044	(130,387)	(1,401)

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
	2009	2010	2010
Cash flows from investing activities:			
Payments for purchases of marketable securities	(480)	-	-
Proceeds from sales of marketable securities	480	-	-
Payments for purchases of fixed assets	(919,123)	(334,246)	(3,592)
Proceeds from sales of fixed assets	2,792	3,637	39
Payments for purchases of software and other intangibles	(44,086)	(28,840)	(309)
Payments for purchases of investment securities	(300,000)	-	-
Proceeds from sales of investment securities	-	748	8
Payments for purchases of shares of a consolidated subsidiary by a consolidated subsidiary	-	(2,505)	(26)
Payments for purchases of investment in affiliated companies	(3,766,470)	-	-
Payments for time deposits with a deposit period of over three months	(1,950)	(2,802,400)	(30,120)
Proceeds from maturities of time deposits with a deposit period of over three months	886,598	409,357	4,399
Payments for guarantee deposits	(9,990)	(4,185)	(44)
Proceeds from collection of guarantee deposits	2,335	14,057	151
Payments for short-term loans receivable	(175,000)	(5,500)	(59)
Proceeds from collection of short-term loans receivable	175,000	500	5
Payments for long-term loans receivable	(370,000)	(4,340)	(46)
Proceeds from collection of long-term loans receivable	596	6,088	65
Others, net	2,852	8,841	95
Net cash used in investing activities	(4,516,446)	(2,738,786)	(29,436)
Cash flows from financing activities:			
Proceeds from short-term borrowings	2,060,000	30,000	322
Repayments of short-term borrowings	(2,050,300)	(51,700)	(555)
Proceeds from long-term debt	3,560,000	80,000	859
Repayments of long-term debt	(30,803)	(767,463)	(8,248)
Repayments of lease obligations	(26,073)	(51,391)	(552)
Payments for purchases of treasury stock	(552)	-	-
Cash dividends paid	(783,676)	(111,952)	(1,203)
Cash dividends paid to minority shareholders	(20,393)	(30,196)	(324)
Net cash (used in) provided by financing activities	2,708,200	(902,703)	(9,702)
Effect of exchange rate changes on cash and cash equivalents	(65,580)	2,327	25
Net (decrease) increase in cash and cash equivalents	1,711,217	(3,769,549)	(40,515)
Cash and cash equivalents at the beginning of year	4,984,522	6,695,740	71,966
Cash and cash equivalents at the end of year (Note 7(a))	¥6,695,740	¥2,926,190	$31,450

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, manufacture and sale of harmonic drive gears and related motion control products. The Company's manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, subsidiaries 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 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 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 ¥93.04 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2010. 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, 2009 and 2010 are as follows:

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

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

The Company holds a 35% 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, 2009 and 2010. In addition, the Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is also accounted for by the equity method in the consolidated financial statements.

The Company's foreign subsidiaries (HD Systems, Inc. and Harmonic Drive L.L.C.) and affiliated company (Harmonic Drive AG) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material transactions occurring during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

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.

Investment in non-affiliated investment funds, which is regarded as securities prescribed under the Japanese Financial Instruments and Exchange Act and recorded as investment securities, is 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 moving average cost (reflecting write down of their book value to the net selling value regarded as decreased profitability of them, 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 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 depreciation 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 the 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.
For the finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee and that became effective prior to the initial year of adoption of new accounting standard for lease transactions, those continued to be accounted for in a manner similar to accounting treatment for ordinary rental transactions.

(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 corporate auditors:

The Company and its domestic subsidiaries provide an accrual for the estimated bonuses to directors and corporate auditors attributable to the current year. The actual amount to be paid will be approved at the shareholders’ meeting held subsequent to the end of the year.

④ Accrued warranty expenses:

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

⑤ Reserve for retirement benefits for directors and corporate auditors:

In accordance with the Companies' internal rule for retirement benefits for directors and corporate auditors, the reserve for retirement benefits for directors and corporate auditors of the Companies is calculated at the amount that would have been payable if all directors and corporate auditors 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) Reserve for retirement benefits for employees -

The reserve for retirement benefits 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 prior service costs and actuarial differences. If the fair value of the plan assets exceeds the estimated present value of projected benefit obligations, net of the unrecognized balance of prior service costs and actuarial differences, such excess is recorded as prepaid pension costs. Prepaid pension costs as of March 31, 2009 and 2010 were ¥806,870 thousand and ¥534,706 thousand ($5,747 thousand), respectively, and were included in "Long-term prepaid expenses" in the section of "Investments and other assets" of the consolidated balance sheets, while reserve for retirement benefits for employees were recognized at certain domestic subsidiaries and recorded in the section of "Long-term liabilities" of the consolidated balance sheets. Prior service costs are 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, 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 obligations.

(g) Foreign currency translation -

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

(h) Consumption tax -

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

(i) 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.

(j) Amortization of goodwill and negative goodwill -

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

(k) 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 their maturities that they present an insignificant risk of changes in value.

3. Accounting changes:

(a) From the year ended March 31, 2009 –

① Adoption of new accounting standard for valuation of inventories:

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No 9 issued on July 5, 2006), and changed their valuation method of inventories to the cost basis principally determined by the moving average method, reflecting write down of their book value to the net selling value regarded as decreased profitability of them, from the cost basis principally determined by the moving average method. The impact of this change on the consolidated statement of income for the year ended March 31, 2009 was immaterial.

② Adoption of new accounting standard for lease transactions and its implementation guidance:

Prior to the year ended March 31, 2009, finance leases that are deemed not to transfer ownership of the leased assets to the lessee had been accounted for in a manner similar to accounting treatment for ordinary rental transactions. However, effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No.13 – issued by the 1st committee of the Business Accounting Council on June 17, 1993 and revised on March 30, 2007) and the "Implementation Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16 – issued by the Accounting Practice Committee of the Japan Institute of Certified Public Accountants on January 18, 1994 and revised on March 30, 2007) and have accounted for those finance leases in a manner similar to accounting treatment for ordinary sale and purchase transactions and recorded the leased assets.

Depreciation expenses of those leased assets are computed based on the straight-line method over the lease period, assuming no residual value at the end of the lease period.

Any finance leases that are deemed not to transfer ownership of the leased assets to the lessee, of which inception date was prior to the fiscal year during which the above new accounting standard for lease transactions became effective, continued to be accounted for in a manner similar to accounting treatment for ordinary rental transactions.

As a result of this change, ¥240,198 thousand ($2,445 thousand) of leased assets was recognized as tangible fixed assets in the consolidated balance sheet as of March 31, 2009. The impact of this change on the consolidated statement of income for the year ended March 31, 2009 was immaterial.

③ Adoption of "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements":

Effective from the fiscal year ended March 31, 2009, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18 issued on May 17, 2006).
There were no necessary adjustments for the preparation of consolidated financial statements as a result of this adoption for the year ended March 31, 2009.

(b) From the year ended March 31, 2010 –

① Adoption of the Accounting Standard for Retirement Benefits (Part 3):

Effective from the year ended March 31, 2010, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefit (Part 3)" (ASBJ No.19 issued on July 31, 2008). There was no impact of this change on the consolidated statement of income for the year ended March 31, 2010.

4. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2009 and 2010 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Investment in affiliated companies	¥5,450,960	¥5,331,186	$57,299

(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, 2009 and 2010:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Buildings	¥1,053,893	¥978,902	$10,521
Structures	2,348	1,856	19
Land	537,664	537,664	5,778
	¥1,593,907	¥1,518,422	$16,320
Secured long-term debt:			
Current portion of long-term debt	¥703,828	¥703,828	$7,564
Long-term debt	2,840,861	2,137,033	22,968
	¥3,544,689	¥2,840,861	$30,533

Included in the above, the following assets were pledged as factory funded mortgage to secure the long-term debt at March 31, 2009 and 2010:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Buildings	¥107,436	¥97,166	$1,044
Structures	2,348	1,856	19
Land	49,168	49,168	528
	¥158,954	¥148,190	$1,592
Secured long-term debt:			
Current portion of long-term debt	¥700,000	¥700,000	$7,523
Long-term debt	2,800,000	2,100,000	22,570
	¥3,500,000	¥2,800,000	$30,094

(c) Notes receivable discounted -

Notes receivable discounted amounted to ¥1,926 thousand and zero at March 31, 2009 and 2010, respectively.

(d) Credit facility contracts -

On March 26, 2007 and March 25, 2010, the Company entered into credit facility contracts with four banks, totaling ¥3,000,000 thousand ($32,244 thousand) for 3 years (2007) and 1 year (2010), respectively. As of March 31, 2009 and 2010, there were no loans outstanding under these contracts.

5. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2009 and 2010 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Salaries and bonuses	¥1,126,373	¥1,013,748	$10,895
Accrued bonuses for directors and corporate auditors	16,800	29,600	318
Reserve for retirement benefits for directors and corporate auditors	42,190	35,701	383
Reserve for retirement bnefits for executive officers	15,852	15,380	165
Research and development expenses	1,230,984	996,423	10,709
Provision for allowance for doubtful accounts	655	2,032	21

(b) Research and development expenses -

Research and development expenses, which are charged to income when incurred, and are included in cost of sales and selling, general and administrative expenses, amounted to ¥1,245,690 thousand and ¥1,012,253 thousand ($10,879 thousand) for the years ended March 31, 2009 and 2010, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2009 and 2010 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Machinery and equipment	¥1,818	¥1,185	$12
Tools, furniture and fixtures	531	-	-
	¥2,349	¥1,185	$12

(d) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2009 and 2010 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Buildings and structures	¥22,926	¥762	$8
Machinery and equipment	1,372	230	2
Vehicles	-	20	0
Tools, furniture and fixtures	8,627	3,458	37
Other	9,822	-	-
	¥42,749	¥4,472	$48

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

(a) Shares issued and outstanding-

Share type	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock (shares)	105,277	-	-	105,277

Share type	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock (shares)	105,277	-	-	105,277

(b) Treasury stock -

Share type	March 31, 2008	Increase	Decrease	March 31, 2009
Common stock (shares)	3,500.4	1.6	-	3,502.0

Share type	March 31, 2009	Increase	Decrease	March 31, 2010
Common stock (shares)	3,502.0	-	-	3,502.0

The increase in common stock under treasury stock is due to the purchases of fractional shares based on the requests from the shareholders having those shares.

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2009 and 2010.

(d) Dividends -

For the year ended March 31, 2009:

① Dividends paid during the current year -

(i) The following was resolved by the annual shareholders' meeting held on June 20, 2008;

Type of shares	Common stock
Total amount of dividends paid in cash (Thousands of yen)	¥468,172
Cash dividend per share (Yen)	¥4,600
Record date	March 31, 2008
Effective date	June 23, 2008

(ii) The following was determined by the board of directors meeting held on November 14, 2008;

Type of shares	Common stock
Total amount of dividends paid in cash (Thousands of yen)	¥315,504
Cash dividend per share (Yen)	¥3,100
Record date	September 30, 2008
Effective date	December 12, 2008

② Dividends for the current year that are to be paid after the balance sheet date -

The following was approved by the annual shareholders' meeting held on June 19, 2009;

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)	¥111,952
Cash dividend per share (Yen)	¥1,100
Record date	March 31, 2009
Effective date	June 22, 2009

For the year ended March 31, 2010:

① Dividends paid during the current year -

The following was resolved by the annual shareholders' meeting held on June 19, 2009;

Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥111,952
(Thousands of U.S. dollars)	($1,203)
Cash dividend per share	
(Yen)	¥1,100
(U.S. dollars)	($11.82)
Record date	March 31, 2009
Effective date	June 22, 2009

② Dividends for the current year that are to be paid after the balance sheet date -

The following was approved by the annual shareholders' meeting held on June 17, 2010;

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)	¥183,195
(Thousands of U.S. dollars)	($1,968)
Cash dividend per share	
(Yen)	¥1,800
(U.S. dollars)	($19.34)
Record date	March 31, 2010
Effective date	June 18, 2010

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, 2009 and 2010 are comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Cash and bank deposits	¥6,667,052	¥4,599,863	$49,439
Highly liquid investments	30,537	30,576	328
Time deposits with a deposit period of over three months	(1,850)	(1,704,250)	(18,317)
Cash and cash equivalents	¥6,695,740	¥2,926,190	$31,450

8. Lease transactions (as lessee):

(a) Finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee, of which inception dates were prior to the initial year of adoption of new accounting standard for lease transactions -

Prior to the year ended March 31, 2009, 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, had been accounted for using a method similar to that used for ordinary rental transactions. When the new accounting standard for lease transactions became effective on April 1, 2008, finance leases, which are deemed not to transfer ownership of the leased assets to the lessee, were required to be accounted for using a method similar to that used for ordinary sales and purchase transactions, however, those of which inception dates were prior to April 1, 2008 were permitted to continue to be accounted for in a manner similar to accounting treatment for ordinary rental transactions. Finance lease expenses of the Companies for the years ended March 31, 2009 and 2010 were ¥383,041 thousand and ¥316,689 thousand ($3,403 thousand), respectively. Had these leases been capitalized on the consolidated balance sheets, the following would have been recognized on the consolidated balance sheets as of March 31, 2009 and 2010 and the consolidated statements of income for the years then ended:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Machinery and equipment	¥1,726,305	¥1,601,238	$17,210
Tools, furniture and fixtures	53,699	27,770	298
Software	2,828	1,405	15
	1,782,832	1,630,413	17,523
Less - Accumulated depreciation	(973,858)	(1,075,991)	(11,564)
	¥808,974	¥554,422	$5,958

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Depreciation	¥356,964	¥295,281	$3,173
Interest expenses	23,666	17,644	189

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. Interest expenses are 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, 2009 and 2010 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Current portion	¥288,028	¥230,554	$2,478
Long-term obligation	545,951	344,118	3,698
	¥833,980	¥574,673	$6,176

(b) 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.

(c) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2009 and 2010 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Current portion	¥54,292	¥49,555	$532
Long-term obligation	50,047	78,960	848
	¥104,340	¥128,516	$1,381

There was no impairment loss allocated to leased assets for the years ended March 31, 2009 and 2010.

9. Financial instruments:

(Additional information)

From the year ended March 31, 2010, the Company has applied "Accounting Standards for Financial Instruments" (ASBJ Statement No.10 issued on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 issued on March 10, 2008). The disclosure related to financial instruments for the year ended March 31, 2010 in accordance with those new accounting standards and guidance is as follows:

(a) Policy for financial instruments -

The Companies investment 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 are 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, but to hedge foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. The Accounting / Finance department is in charge for execution and management of the foreign exchange forward contracts and executes after the president's approval in accordance with the internal rules on assignment of authority and responsibility. As the Companies enter into the foreign exchange forward contracts with the financial institutions with high credit ratings, the Companies believe it is exposed to almost no contractual default risk.

Marketable securities are money management funds which almost have no credit risk, and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

Long-term loans receivable is with the business transactions partner company and exposed to the company's credit risk. The Companies monitor the financial conditions of the company periodically.

Long-term bank deposits are time deposits with fixed interest rates and the Companies usually hold to the maturity dates. The approval by the board of directors meeting of the Company is needed for the long-term bank deposits and the Companies enter into the bank deposit transactions with financial institutions with high credit ratings.

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

Short-term borrowings are used to raise the funds mainly for operating transactions and long-term debt is used for capital investments and maintaining liquidity. 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 sheet, the fair value and the variance as of March 31, 2010. Financial instruments, of which the fair value is difficult to determine, are not included in the following table (See Note 2 for additional information.).

March 31, 2010:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥4,599,863	¥4,599,863	-
(2) Notes and accounts receivable, trade	4,985,566		
Allowance for doubtful accounts (*1)	(5,601)		
	4,979,964	4,979,964	-
(3) Investment securities			
Available-for-sale securities	4,092,524	4,092,524	-
(4) Long-term loans receivable	348,472	348,472	-
(5) Long-term bank deposits	700,000	700,000	-
Assets total	¥14,720,825	¥14,720,825	-
(1) Notes and accounts payable, trade	¥1,571,833	¥1,571,833	-
(2) Accrued income taxes	103,612	103,612	-
(3) Current portion of long-term debt	742,756	742,756	-
(4) Long-term debt	2,291,489	2,291,489	-
Liabilities total	¥4,709,692	¥4,709,692	-
Derivative transactions	(¥ 4,391)	(¥ 4,391)	

(*1) For computation of fair value of notes and accounts receivable, trade, an allowance for doubtful accounts of notes and accounts receivable, trade is deducted.

March 31, 2010:	Thousands of U.S. dollars		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	$49,439	$49,439	-
(2) Notes and accounts receivable, trade	53,585		
Allowance for doubtful accounts (*1)	(60)		
	$53,524	$53,524	-
(3) Investment securities			
Available-for-sale securities	43,986	43,986	-
(4) Long-term loans receivable	3,745	3,745	-
(5) Long-term bank deposits	7,523	7,523	-
Assets total	$158,220	$158,220	-
(1) Notes and accounts payable, trade	$16,894	$16,894	-
(2) Accrued income taxes	1,113	1,113	-
(3) Current portion of long-term debt	7,983	7,983	-
(4) Long-term debt	24,629	24,629	-
Liabilities total	$50,620	$50,620	-
Derivative transactions	($ 47)	($ 47)	

(Note1) Method for calculating the fair value of financial instruments, and matters related to securities and derivative transactions

Assets

(1) Cash and bank deposits

The carrying amount approximates the fair value due to the short maturities of all bank deposits.

(2) Notes and accounts receivable, trade

The carrying amount approximates the fair value since notes and accounts receivable, trade are settled within a short period.

(3) Investment securities

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

See “Note 10. Marketable securities and investment securities” for the footnote information by purpose to hold the securities.

(4) Long-term loans receivable

The fair value is determined by discounting sum of the principal and interest using the interest rate assumed to be applied to the new loans receivable with the same conditions.

(5) Long-term bank deposits

The fair value, which is determined by discounting sum of the principal and interest using the interest rate assumed to be applied to the new deposits with the same conditions, approximates the carrying amount because the deposit date is close to the year-end date

Liabilities

(1) Notes and accounts payable, trade

The carrying amount approximates the fair value since notes and accounts payable, trade are settled within a short period.

(2) Accrued income taxes

The carrying amount approximates the fair value since accrued income taxes are paid within a short period.

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

The fair value is measured by discounting sum of the principal and interest using the interest rate assumed to be applied to similar new debt. However, the fair value of long-term debt with variable interest rate is deemed to approximate the carrying amount because the contracted interest rate is periodically renewed reflecting market interest rate.

Derivative transactions

See “Note 11. Derivative financial instruments”

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

	Carrying amount	
March 31, 2010:	Thousands of yen	Thousands of U.S. dollars
Unlisted equity securities	¥316,278	$3,399

Unlisted equity securities are not included in “(3) Investment securities” on the above table because their fair values are difficult to determine under the situation where such securities do not have available market prices and the related future cash flows cannot be estimated. .

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2010 is as follows:

March 31, 2010:	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
Cash and bank deposits	¥2,295,000	-	-	-
Notes and accounts receivable, trade	4,979,964	-	-	-
Long-term loans receivable	-	¥251,568	¥96,903	-
Long-term bank deposits	-	700,000	-	-
	¥ 7,274,964	¥951,568	¥96,903	-

March 31, 2010:	Thousands of U.S. dollars Due Within 1 year	Due After 1 year within 5 years	Due After 5 years within 10 years	Due After 10 years
Cash and bank deposits	$ 24,666	-	-	-
Notes and accounts receivable, trade	53,524	-	-	-
Long-term loans receivable	-	$ 2,703	$ 1,041	-
Long-term bank deposits	-	7,523	-	-
	$ 78,191	$ 10,227	$ 1,041	-

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2010 are as follows:

March 31, 2010:	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
Long-term debt	¥742,756	¥738,944	¥736,080	¥736,080	¥32,578	¥47,806
Total	¥742,756	¥738,944	¥736,080	¥736,080	¥32,578	¥47,806

March 31, 2010:	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
Long-term debt	$7,983	$7,942	$7,911	$7,911	$350	$513
Total	$7,983	$7,942	$7,911	$7,911	$350	$513

10. Marketable securities and investment securities:

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, 2009 and 2010 were as follows:

	Thousands of yen			
March 31, 2009:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥2,483,277	10,171	(248,085)	¥2,245,362

	Thousands of yen			
March 31, 2010:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥2,475,111	1,618,346	(932)	¥4,092,524

	Thousands of U.S. dollars			
March 31, 2010:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	$26,602	17,394	(10)	$43,986

In the cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of the fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the consolidated statement of income for that period. The impairment losses for the years ended

March 31, 2009 and 2010 were ¥7,845 thousand and zero, respectively, on available-for-sale securities with market quotations.

The proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2010 were ¥480 thousand and ¥748 thousand ($8 thousand), respectively. The gross realized gains and losses on these sales for the years ended March 31, 2009 and 2010 were no gains and losses, and ¥426 thousand ($4 thousand) and zero, respectively.

The carrying amount of available-for-sale securities without market quotations at March 31, 2009 was as follows:

	Thousands of yen
	March 31, 2009
Equity securities	¥303,800
Money management funds	30,537
Investment in investment funds	24,107
Total	¥358,444

The redemption schedule for available-for-sale securities with maturity dates, and the held-to-maturity debt securities at March 31, 2009 are as follows:

	Thousands of yen			
	March 31, 2009			
	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:	-	24,107	-	-
	¥ -	¥24,107	¥ -	¥ -

11. Derivative financial instruments:

For the year ended March 31, 2009:

(a) Types and purpose of transactions -

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.

(b) Derivative transactions policies -

The Companies utilize 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 enter into contracts for trading or speculative purposes.

(c) Description of risks relating to derivative transactions -

There remains the risk of foreign currency exchange fluctuations on the foreign exchange forward contracts. The management of the Companies believes that the credit risk is insignificant as the Companies enter into foreign exchange forward 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.

(e) Notional amount, fair value and gains (losses) of derivative transactions -

	Thousands of Yen			
	March 31, 2009			
	Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	¥63,760	¥ -	¥68,728	(¥4,968)
	¥63,760	¥ -	¥68,728	(¥4,968)

Note: Calculation of fair value

Forward exchange contracts ··· Forward exchange rate

For the year ended March 31, 2010:

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

	Thousands of Yen			
	March 31, 2010			
	Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	¥218,831	¥ -	(¥4,391)	(¥4,391)
	¥218,831	¥ -	(¥4,391)	(¥4,391)

	Thousands of U.S. Dollars			
	March 31, 2010			
	Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	$2,352	$ -	($47)	($47)
	$2,352	$ -	($47)	($47)

Note: Calculation of fair value

Forward exchange contracts ··· Forward exchange rate

12. Reserve for retirement benefits 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 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.

In addition, the Company has sponsored the employees' pension fund plan for substantially all of its employees, together with other companies engaged in the business similar to that of the Company, which is a multi-employer defined benefit pension plan established under he Japanese Welfare Pension Insurance Law.

Foreign subsidiaries maintain a simplified employee plan (the "SEP Plan"), which is considered a defined contribution pension 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) Multi-employer pension plan -

① Funded status of the multi-employer pension plan -

The funded status of the multi-employer pension plan as of March 31, 2008 and 2009 was as follows:

	Millions of yen		Millions of U.S. dollars
	2008	2009	2009
Plan assets	¥116,372	¥93,997	$1,010
Benefit obligations	147,188	148,468	1,595
Net balance	(¥30,815)	(¥54,471)	($585)

② The Company's share in contributions to the plan -

The Company's contributions to the multi-employer plan represented 1.15% and 1.16% of those in total to the plan for the year ended March 31, 2008 and 2009, respectively.

③ Supplementary explanation -

The net balance at March 31, 2008 and 2009 on the schedule above resulted mainly from the prior service cost of ¥34,179 million and ¥32,845 million ($353 thousand), respectively. Amortization period of the prior service cost is 20 years. The share of ② above does not represent the Company's actual share in the obligations of the plan.

The Company's contributions to the plan for the years ended March 31, 2009 and 2010 were ¥86,301 thousand and ¥80,799 thousand ($868 thousand), respectively.

(b) Defined benefit plans -

The prepaid pension cost and reserve for retirement benefits for employees recorded in the consolidated balance sheets as of March 31, 2009 and 2010 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Projected benefit obligations (PBO)	(¥1,500,984)	(¥1,579,242)	($16,973)
Plan assets	1,553,435	1,901,220	20,434
Excess of plan assets over PBO	52,451	321,978	3,460
Unrecognized actuarial differences	754,418	212,728	2,286
Prepaid pension cost	¥ 806,870	¥ 534,706	$ 5,747
Reserve for retirement benefits for employees	¥ 15,565	¥ 17,748	$ 190

(Note) Domestic subsidiaries have adopted a simplified method in the calculation of their projected benefit obligations.

The component of the net periodic benefit cost for the years ended March 31, 2009 and 2010 is as follows:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Service cost	¥89,950	¥103,787	$1,115
Interest cost	28,352	30,019	322
Expected return on plan assets	(38,978)	(31,068)	(333)
Amortization of unrecognized actuarial differences	(3,861)	284,444	3,057
Amortization of unrecognized prior service cost	1,539	-	-
Net periodic benefit cost	¥77,001	¥387,182	$4,161

(Note) All of the net periodic benefit cost for domestic subsidiaries adopting the simplified method are included in "Service cost" on the above schedule.

The assumptions used in the above actuarial computations for the years ended March 31, 2009 and 2010 were as follows:

	2009	2010
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 net transition obligation for pension benefits	3 years	3 years
Amortization of unrecognized actuarial differences	3 years	3 years
Amortization of unrecognized prior service cost	3 years	3 years

13. Stock options:

No stock options were granted during the years ended March 31, 2009 and 2010.

14. Income taxes:

Deferred tax assets and liabilities as of March 31, 2009 and 2010 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Deferred tax assets - current:			
Accrued enterprise taxes	¥ -	¥ 10,575	$ 113
Accrued bonuses	136,473	133,559	1,435
Inventory write-down	5,133	4,560	49
Unrealized intercompany profit	34,926	35,682	383
Accrued social insurance premium	16,356	15,481	166
Others	7,848	9,150	98
Net deferred tax assets - current	¥200,738	¥209,010	$2,246
Deferred tax assets - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥5,520	¥6,072	$65
Reserve for retirement benefits for employees	6,226	7,099	76
Tax loss carryforwards	18,108	11,831	127
Foreign tax credit carried forward	-	50,662	544
Others	3,909	3,909	42
	33,764	79,575	855
Valuation allowance	-	(50,662)	(544)
Net deferred tax assets - non current	¥33,764	¥28,912	$310

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Deferred tax liabilities - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥134,912	¥149,850	$1,610
Devaluation of golf club memberships	7,775	7,775	83
Depreciation	255	936	10
Devaluation of investment securities	25,433	4,291	46
Loss on investment in investment fund	6,506	5,509	59
Reserve for retirement benefits for executive officers	22,596	28,825	309
Unrealized (gains) losses on available-for-sale securities	93,613	(655,052)	(7,040)
Undistributed earnings of foreign subsidiaries and an affiliated company	(240,494)	(291,448)	(3,132)
Prepaid pension cost	(326,555)	(216,414)	(2,326)
Others	(5,607)	773	8
Net deferred tax liabilities - non current	(¥281,562)	(¥964,951)	($10,371)

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2009 was as follows:

	2009
Normal effective statutory tax rate	40.5%
Increase (decrease) in taxes resulting from:	
Tax credit relating to research and development expenses	(7.0)
Undistributed earnings of foreign subsidiaries and an affiliated company	3.7
Others, net	(1.9)
Actaul effective tax rate	35.3%

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2010 was omitted due to materiality.

15. Investment and rental property:

The Company had no investment and rental property.

16. Segment information:

(a) Industry segment information -

The Companies' business operations for the years ended March 31, 2009 and 2010 fall within a single industry segment (the precision speed reducers business), based on similarities in the type, nature, manufacturing method and markets of their products.

(b) Geographic segment information and export sales information -

	Thousands of yen				
	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
For the year ended March 31, 2009:					
Sales:					
Third party	¥13,764,293	¥2,400,871	¥16,165,164	¥ -	¥16,165,164
Intersegment	748,545	-	748,545	(748,545)	-
Total	14,512,838	2,400,871	16,913,709	(748,545)	16,165,164
Operating expenses	11,809,110	2,301,728	14,110,839	(373,070)	13,737,768
Operating profit	¥2,703,727	¥99,142	¥2,802,870	(¥375,474)	¥2,427,395
At March 31, 2009:					
Total Assets	¥18,511,780	¥1,439,717	¥19,951,498	¥4,508,182	¥24,459,681

	Thousands of yen				
	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
For the year ended March 31, 2010:					
Sales:					
Third party	¥9,975,546	¥2,081,325	¥12,056,871	¥ -	¥12,056,871
Intersegment	638,023	-	638,023	(638,023)	-
Total	10,613,569	2,081,325	12,694,894	(638,023)	12,056,871
Operating expenses	9,525,061	1,882,222	11,407,284	(422,265)	10,985,018
Operating profit	¥1,088,507	¥199,103	¥1,287,610	(¥215,757)	¥1,071,852
At March 31, 2010:					
Total Assets	¥18,279,270	¥1,574,176	¥19,853,447	¥6,677,376	¥26,530,824

	Thousands of U.S. dollars				
	Japan	North America	Combined	Elimination and /or Corporate	Consolidated
For the year ended March 31, 2010:					
Sales:					
Third party	$107,217	$22,370	$129,588	$ -	$129,588
Intersegment	6,857	-	6,857	(6,857)	-
Total	114,075	22,370	136,445	(6,857)	129,588
Operating expenses	102,375	20,230	122,606	(4,538)	118,067
Operating profit	$11,699	$2,139	$13,839	($2,318)	$11,520
At March 31, 2010					
Total Assets	$196,466	$16,919	$213,386	$71,768	$285,155

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

- Major countries and areas which belong to each segment except for Japan are as follows:

  (1) North America …… The United States

- Operating expenses amounting to ¥360,880 thousand and ¥226,990 thousand ($2,439 thousand) for the years ended March 31, 2009 and 2010, respectively, which cannot be allocated to any particular geographical segment, are included in the "Elimination and/or Corporate" column. These represent expenses incurred for basic research and development activities, and certain expenses incurred by corporate departments, such as the General Affairs and Accounting Department.

- Assets of ¥4,798,105 thousand and ¥7,039,350 thousand ($75,659 thousand) as of March 31, 2009 and 2010, respectively, which cannot be allocated to any particular geographical segment, are included in the "Elimination and/or Corporate" column. These assets represent excess funds including cash and bank deposits, long-term investments such as investment securities, others included in investments and other assets, and certain assets used by corporate departments.

(c) Export sales -

Export sales by major area for the years ended March 31, 2009 and 2010 were as follows:

	Thousands of yen			
	March 31, 2009			
	Europe	North America	Other	Total
Overseas sales	¥1,275,029	¥2,400,871	¥119,726	¥3,795,627
Consolidated sales				16,165,164
Overseas sales as a ratio of consolidated sales (%)	7.9	14.9	0.7	23.5

	Thousands of yen			
	March 31, 2010			
	Europe	North America	Other	Total
Overseas sales	¥979,582	¥2,081,325	¥875,491	¥3,936,400
Consolidated sales				12,056,871
Overseas sales as a ratio of consolidated sales (%)	8.1	17.3	7.3	32.6

	Thousands of U.S. dollars			
	March 31, 2010			
	Europe	North America	Other	Total
Overseas sales	$10,528	$22,370	$9,409	$42,308
Consolidated sales				129,588
Overseas sales as a ratio of consolidated sales (%)	8.1	17.3	7.3	32.6

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

- Major countries and areas which belong to each segment except for 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.

- Effective from the fiscal year ended March 31, 2010, sales to Korea, Taiwan and China is included in "Other" on the above schedule because of the change in the sales distribution. These sales were not classified as export sales prior to the fiscal year ended March 31, 2010.

17. Transactions with related parties:

(a) Transactions with related parties -

Category	Affiliated company
Entity name	Harmonic Drive AG
Location	Land Hessen, Germany
Capital	Euro 1,550 thousand
Description of business	Manufacturing and sales of precision speed reducers
Share of shareholders voting rights	35.0% directly owned
Description of relationship	
- Sharing of directors	None
- Business relationship	Sales of the Company's products and the OEM products in Europe, Middle and Near East, Africa, India and South America
Business relationship	Sales of the Company's products

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
For the year:			
Sales to the affiliated company	¥1,275,029	¥979,582	$10,528
At year-end:			
Notes and accounts receivable, trade	381,288	452,298	4,861

Sales of the Company's products to Harmonic Drive AG are executed on the terms and conditions similar to those for arm's-length transactions.

(b) Notes to significant affiliates -

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

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
At year-end:			
Current assets	¥3,898,039	¥3,622,983	$38,940
Fixed assets	960,636	1,314,532	14,128
Investments and other assets	700,490	655,286	7,043
Current liabilities	697,220	654,122	7,030
Long-term liabilities	852,921	724,745	7,789
Net assets	4,009,023	4,339,421	46,640
For the year:			
Sales	8,507,212	5,637,887	60,596
Income before income taxes	2,262,048	1,143,990	12,295
Net income	1,384,998	598,076	6,428

18. 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 from the weighted-average number of common shares outstanding.

	Yen		U.S. dollars
	2009	2010	2010
Net assets per share	¥166,425.19	¥181,479.41	$1,950.55
Earnings per share	14,923.97	4,899.26	52.65

Diluted earnings per share are not computed because the Company does not have potential dilutive shares.

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

	Thousands of yen		Thousands of U.S. dollars
	2009	2010	2010
Net income	¥1,518,895	¥498,622	$5,359
Net income attributable to common shareholders	¥1,518,895	¥498,622	$5,359

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

	Number of shares	
	2009	2010
Weighted average number of shares	101,775.5	101,775.0

19. Subsequent events:

There have been no significant events after April 1, 2010.

20. Consolidated supplementary schedules:

(a) Schedule of borrowings -

Category	Thousands of yen: Balance at March 31, 2009	Thousands of yen: Balance at March 31, 2010	Thousands of U.S. dollars: Balance at March 31, 2010	Average interest rate (%)	Maturity
Short-term borrowings	¥34,900	¥13,200	$141	2.5	-
Current portion of long-term debt	736,086	742,756	7,983	1.1	-
Current portion of lease obligations	44,967	59,713	641	2.1	-
Long-term debt (excluding current portion)	2,985,623	2,291,489	24,629	1.1	2011-2020
Lease obligations (excluding current portion)	195,629	214,973	2,310	1.3	2011-2016
Total	¥3,997,205	¥3,322,133	$35,706	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2010 are as follows:
-

	Thousands of yen			
	March 31, 2010			
	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	¥738,944	¥736,080	¥736,080	¥32,578
Lease obligation	60,512	57,940	56,554	30,657

	Thousands of U.S. dollars			
	March 31, 2010			
	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	$7,942	$7,911	$7,911	$350
Lease obligation	650	622	607	329

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

(b) Others -

The condensed financial information of each quarter for the year ended March 31, 2010 is as follows:

	Thousands of yen (Net income (loss) per share: yen)			
	1st quarter ended June 30, 2009	2nd quarter ended September 30, 2009	3rd quarter ended December 31, 2009	4th quarter ended March 31, 2010
Sales	¥1,828,623	¥2,490,189	¥3,341,102	¥4,396,956
Income (loss) before income taxes and minority interest	(383,560)	(46,351)	461,488	988,559
Net income (loss)	(372,718)	(78,326)	226,423	723,244
Net income (loss) per share	(¥3,662.18)	(¥769.61)	¥2,224.74	¥7,106.31

	Thousands of U.S. Dollars (Net income (loss) per share: U.S. Dollars)			
	1st quarter ended June 30, 2009	2nd quarter ended September 30, 2009	3rd quarter ended December 31, 2009	4th quarter ended March 31, 2010
Sales	$19,654	$26,764	$35,910	$47,258
Income (loss) before income taxes and minority interest	(4,122)	(498)	4,960	10,625
Net income (loss)	(4,005)	(841)	2,433	7,773
Net income (loss) per share	($39.36)	($8.27)	$23.91	$76.37