

HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2013



## Independent Auditor's Report

To the Board of Directors of Harmonic Drive Systems Inc.

We have audited the accompanying consolidated financial statements of Harmonic Drive Systems Inc. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statements audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2013, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### *Convenience translation*

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 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 2, 2013

*PricewaterhouseCoopers Aarata*

Sumitomo Fudosan Shiodome Hamarikyū Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

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
	2012	2013	2013
Assets:			
Current assets -			
Cash and bank deposits (Notes 10(a) and 12(d))	¥10,094,455	¥11,957,900	\$127,144
Notes and accounts receivable, trade (Notes 6(c) and 12(d))	5,864,691	5,058,012	53,780
Marketable securities (Notes 10(a) and 13)	30,626	30,647	325
Finished products	107,372	140,875	1,497
Work in process	548,173	491,011	5,220
Raw materials and supplies	648,912	643,942	6,846
Deferred tax assets - current (Note 17)	365,249	382,379	4,065
Other current assets	208,194	223,822	2,379
Allowance for doubtful accounts (Note 12(d))	(7,537)	(31,528)	(335)
Total current assets	<u>17,860,137</u>	<u>18,897,063</u>	<u>200,925</u>
Fixed assets -			
Tangible fixed assets (Notes 6(b), 11 and 18(d)):			
Buildings and structures	2,511,007	2,423,332	25,766
Machinery and equipment	952,614	1,438,876	15,299
Land	990,904	997,658	10,607
Leased assets	285,048	217,238	2,309
Construction in progress	172,897	93,784	997
Others	553,243	519,924	5,528
Total tangible fixed assets	<u>5,465,715</u>	<u>5,690,814</u>	<u>60,508</u>
Intangible fixed assets:			
Software	163,734	143,477	1,525
Others	8,949	8,572	91
Total intangible fixed assets	<u>172,683</u>	<u>152,049</u>	<u>1,616</u>
Investments and other assets:			
Investment securities (Notes 12(d) and 13)	535,294	461,672	4,908
Investment in affiliated companies (Notes 6(a) and 12(d))	10,398,971	11,324,691	120,411
Long-term loans receivable (Note 12(d))	354,707	337,254	3,585
Long-term prepaid expenses (Note 15)	277,152	341,506	3,631
Long-term bank deposits (Note 12(d))	756,050	900	9
Deferred tax assets – non current (Note 17)	24,214	31,877	338
Others	58,000	58,509	622
Allowance for doubtful accounts (Note 12(d))	(359,107)	(342,345)	(3,640)
Total investments and other assets	<u>12,045,283</u>	<u>12,214,067</u>	<u>129,867</u>
Total fixed assets	<u>17,683,681</u>	<u>18,056,931</u>	<u>191,992</u>
Total assets	<u>¥35,543,819</u>	<u>¥36,953,995</u>	<u>\$392,918</u>

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2012	2013	2013
<b>Liabilities:</b>			
<b>Current liabilities -</b>			
Notes and accounts payable, trade (Note 12(d))	¥1,477,935	¥1,498,114	\$15,928
Short-term borrowings (Note 22)	10,000	10,000	106
Current portion of long-term debt (Notes 6(b), 12(d) and 22)	1,752,572	1,750,888	18,616
Lease obligations – current (Note 22)	81,164	83,691	889
Accrued income taxes (Note 12(d))	90,113	525,208	5,584
Accrued bonuses for employees	547,557	540,718	5,749
Accrued bonuses for directors and corporate auditors	98,120	73,980	786
Accrued warranty expenses	63,761	65,286	694
Other current liabilities	1,055,311	1,094,491	11,637
Total current liabilities	<u>5,176,535</u>	<u>5,642,379</u>	<u>59,993</u>
<b>Long-term liabilities -</b>			
Long-term debt (Notes 6(b), 12(d) and 22)	4,909,578	3,158,689	33,585
Long-term accounts payable, other	37,938	37,938	403
Lease obligations – non current (Note 22)	201,192	132,779	1,411
Deferred tax liabilities – non current (Note 17)	1,291,079	1,553,384	16,516
Reserve for retirement benefits for employees (Note 15)	27,094	32,729	347
Reserve for retirement benefits for directors and corporate auditors	293,182	321,395	3,417
Reserve for retirement benefits for executive officers	73,497	88,130	937
Total long-term liabilities	<u>6,833,562</u>	<u>5,325,048</u>	<u>56,619</u>
Total liabilities	<u>12,010,098</u>	<u>10,967,427</u>	<u>116,612</u>
<b>Net assets (Note 20):</b>			
<b>Shareholders' equity (Note 9) -</b>			
<b>Common stock:</b>			
- Authorized:	118,800,000 shares		
Issued and outstanding:	31,583,100 shares		
	1,610,542	1,610,542	17,124
Capital surplus	5,203,709	5,203,709	55,329
Retained earnings	16,953,157	18,242,282	193,963
Treasury stock, at cost	(2,304,815)	(2,304,883)	(24,506)
Total shareholders' equity	<u>21,462,594</u>	<u>22,751,650</u>	<u>241,910</u>
<b>Accumulated other comprehensive income -</b>			
Net unrealized gains on available-for-sale securities (Note 13)	2,027,464	2,617,408	27,829
Foreign currency translation adjustments	(769,979)	(407,913)	(4,337)
Total accumulated other comprehensive income	<u>1,257,484</u>	<u>2,209,495</u>	<u>23,492</u>
Minority interest in consolidated subsidiaries	813,642	1,025,421	10,902
Total net assets	<u>23,533,721</u>	<u>25,986,567</u>	<u>276,305</u>
Total liabilities and net assets	<u>¥35,543,819</u>	<u>¥36,953,995</u>	<u>\$392,918</u>

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
	2012	2013	2013
Net sales (Notes 18 and 19)	¥20,159,123	¥18,130,644	\$192,776
Cost of sales (Notes 7(b), 15 and 18)	11,862,025	10,762,549	114,434
Gross profit	8,297,097	7,368,095	78,342
Selling, general and administrative expenses (Notes 7(a), 7(b), 11, 15 and 18)	3,963,503	3,931,994	41,807
Operating profit	4,333,594	3,436,100	36,534
Other income:			
Interest income	12,354	15,535	165
Dividend income	114,865	121,448	1,291
Amortization of negative goodwill (Note 18(f))	5,599	-	-
Equity in income of affiliated companies	77,423	77,012	818
Subsidies	7,115	8,234	87
Others	12,584	14,846	157
	229,943	237,076	2,520
Other expenses:			
Interest expense	35,262	57,162	607
Commitment fees for credit facility contracts	52,297	15,062	160
R & D costs related to subsidiaries	4,360	4,861	51
Foreign exchange loss	60,232	-	-
Others	12,902	20,021	212
	165,056	97,107	1,032
Ordinary profit	4,398,481	3,576,070	38,023
Exceptional gains:			
Gain on sales of fixed assets (Note 7(c))	7,253	849	9
	7,253	849	9
Exceptional losses:			
Loss on sales of fixed assets (Note 7(d))	2,041	189	2
Loss on disposal of fixed assets (Note 7(e))	31,508	44,873	477
Loss on compensation for finished product issues	127,993	73,237	778
Loss on devaluation of investment securities	32,288	214,455	2,280
Provision of allowance for doubtful accounts	180,356	-	-
Loss on disposal of inventories	17,869	-	-
Additional retirement benefits paid for a director and an executive officer	138,330	-	-
Others	-	14,870	158
	530,388	347,627	3,696
Income before income taxes and minority interest	3,875,345	3,229,291	34,335
Income taxes:			
Current	1,338,627	1,269,422	13,497
Deferred	242,373	(97,116)	(1,032)
	1,581,000	1,172,306	12,464
Income before minority interest	2,294,345	2,056,985	21,871

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Continued)

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2012</u>	<u>2013</u>	<u>March 31</u>
			<u>2013</u>
Minority interest in income of consolidated subsidiaries	<u>154,610</u>	<u>96,147</u>	<u>1,022</u>
Net income (Note 20)	<u>¥2,139,734</u>	<u>¥1,960,838</u>	<u>\$20,848</u>

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	<u>Thousands of yen</u>		<u>Thousands of U.S.</u>
	<u>For the years ended</u>		<u>dollars (Note 2)</u>
	<u>March 31</u>		<u>For the year ended</u>
	<u>2012</u>	<u>2013</u>	<u>March 31</u>
			<u>2013</u>
Income before minority interest	¥2,294,345	¥2,056,985	\$21,871
Other comprehensive income -			
Net unrealized gains (losses) on			
available-for-sale securities	(606,181)	589,944	6,272
Foreign currency translation adjustments	(81,978)	217,856	2,316
Share of other comprehensive income of			
affiliated companies accounted for by equity			
method	(94,786)	231,175	2,458
Total other comprehensive income (Note 8(a))	<u>(782,946)</u>	<u>1,038,975</u>	<u>11,047</u>
Comprehensive income	<u>¥1,511,398</u>	<u>¥3,095,961</u>	<u>\$32,918</u>
Attributable to -			
Shareholders of Harmonic Drive Systems Inc.	¥1,393,638	¥2,912,846	\$30,971
Minority interest	117,760	183,115	1,946

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
	2012	2013	2013
Shareholders' equity:			
Common Stock -			
Balance at the beginning of current year	¥1,610,542	¥1,610,542	\$17,124
Balance at the end of current year	<u>1,610,542</u>	<u>1,610,542</u>	<u>17,124</u>
Capital surplus -			
Balance at the beginning of current year	5,203,709	5,203,709	55,329
Balance at the end of current year	<u>5,203,709</u>	<u>5,203,709</u>	<u>55,329</u>
Retained earnings -			
Balance at the beginning of current year	15,617,444	16,953,157	180,256
Changes during the year			
Cash dividends	(804,021)	(671,713)	(7,142)
Net income	2,139,734	1,960,838	20,848
Total changes	<u>1,335,712</u>	<u>1,289,125</u>	<u>13,706</u>
Balance at the end of current year	<u>16,953,157</u>	<u>18,242,282</u>	<u>193,963</u>
Treasury stock, at cost -			
Balance at the beginning of current year	(2,304,740)	(2,304,815)	(24,506)
Changes during the year			
Purchase of treasury stock	(74)	(68)	(0)
Total changes	<u>(74)</u>	<u>(68)</u>	<u>(0)</u>
Balance at the end of current year	<u>(2,304,815)</u>	<u>(2,304,883)</u>	<u>(24,506)</u>
Total shareholders' equity -			
Balance at the beginning of current year	20,126,956	21,462,594	228,204
Changes during the year			
Cash dividends	(804,021)	(671,713)	(7,142)
Net income	2,139,734	1,960,838	20,848
Purchase of treasury stock	(74)	(68)	(0)
Total changes	<u>1,335,637</u>	<u>1,289,056</u>	<u>13,706</u>
Balance at the end of current year	<u>¥21,462,594</u>	<u>¥22,751,650</u>	<u>\$241,910</u>

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





HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended		For the year ended
	March 31		March 31
	2012	2013	2013
Accumulated other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities -			
Balance at the beginning of current year	¥2,633,646	¥2,027,464	\$21,557
Changes during the year			
Net changes in items other than those in shareholders' equity	(606,181)	589,944	6,272
Total changes	(606,181)	589,944	6,272
Balance at the end of current year	2,027,464	2,617,408	27,829
Foreign currency translation adjustments -			
Balance at the beginning of current year	(630,065)	(769,979)	(8,186)
Changes during the year			
Net changes in items other than those in shareholders' equity	(139,913)	362,066	3,849
Total changes	(139,913)	362,066	3,849
Balance at the end of current year	(769,979)	(407,913)	(4,337)
Total Accumulated other comprehensive income			
Balance at the beginning of current year	2,003,580	1,257,484	13,370
Changes during the year			
Net changes in items other than those in shareholders' equity	(746,095)	952,010	10,122
Total changes	(746,095)	952,010	10,122
Balance at the end of current year	1,257,484	2,209,495	23,492
Minority interest in consolidated subsidiaries:			
Balance at the beginning of current year	827,027	813,642	8,651
Changes during the year			
Net changes in items other than those in shareholders' equity	(13,384)	211,779	2,251
Total changes	(13,384)	211,779	2,251
Balance at the end of current year	813,642	1,025,421	10,902
Total net assets:			
Balance at the beginning of current year	22,957,563	23,533,721	250,225
Changes during the year			
Cash dividends	(804,021)	(671,713)	(7,142)
Net income	2,139,734	1,960,838	20,848
Purchase of treasury stock	(74)	(68)	(0)
Net changes in items other than those in shareholders' equity	(759,480)	1,163,789	12,374
Total changes	576,157	2,452,846	26,080
Balance at the end of current year	¥23,533,721	¥25,986,567	\$276,305

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
	2012	2013	2013
Cash flows from operating activities:			
Income before income taxes and minority interest	¥3,875,345	¥3,229,291	\$34,335
Adjustments to reconcile income before income taxes and minority interest to net cash provided by operating activities -			
Amortization of goodwill	1,993	-	-
Amortization of negative goodwill	(5,543)	-	-
Depreciation and amortization	1,011,801	1,119,874	11,907
Increase in allowance for doubtful accounts	176,347	7,185	76
Increase in reserve for retirement benefits for employees	4,587	5,634	59
(Decrease) increase in reserve for retirement benefits for directors and corporate auditors	(87,749)	28,212	299
(Decrease) increase in reserve for retirement benefits for executive officers	(10,132)	14,632	155
Decrease in accrued bonuses for directors and corporate auditors	(6,280)	(24,140)	(256)
Increase in accrued warranty expenses	39,915	1,525	16
Interest income	(12,354)	(15,535)	(165)
Dividend income	(114,865)	(121,448)	(1,291)
Interest expense	35,262	57,162	607
Equity in income of affiliated companies	(77,423)	(77,012)	(818)
Loss on investment in investment fund	15	2	0
Loss on devaluation of investment securities	32,288	214,455	2,280
Gain on sales of fixed assets	(5,211)	(659)	(7)
Loss on disposal of fixed assets	31,508	44,873	477
Decrease in trade receivables	973,880	838,000	8,910
Decrease in inventories	288,884	62,388	663
Decrease in trade payables	(571,662)	(13,602)	(144)
Others, net	(83,220)	(144,177)	(1,532)
Subtotal	5,497,388	5,226,666	55,573
Interest and dividends received	128,696	130,344	1,385
Dividends received from an affiliated company	170,170	147,924	1,572
Interest paid	(28,289)	(59,016)	(627)
Income taxes paid	(3,291,369)	(785,801)	(8,355)
Income taxes refunded	31	40,020	425
Net cash provided by operating activities	2,476,627	4,700,137	49,974

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
	2012	2013	2013
Cash flows from investing activities:			
Payments for purchases of fixed assets	(1,895,245)	(1,134,735)	(12,065)
Proceeds from sales of fixed assets	10,435	1,103	11
Payments for purchases of software and other intangibles	(50,976)	(34,820)	(370)
Proceeds from sales of investment securities	725	25	0
Payments for time deposits with a deposit period of over three months	(6,367,400)	(551,351)	(5,862)
Proceeds from maturities of time deposits with a deposit period of over three months	2,388,000	4,990,000	53,056
Payments for guarantee deposits	(3,279)	(2,766)	(29)
Proceeds from collection of guarantee deposits	3,215	2,718	28
Payments for short-term loans receivable	(400)	-	-
Proceeds from collection of short-term loans receivable	640	400	4
Payments for long-term loans receivable	-	(1,000)	(10)
Proceeds from collection of long-term loans receivable	5,792	2,230	23
Others, net	(619)	180	1
Net cash (used in) provided by investing activities	<u>(5,909,112)</u>	<u>3,271,984</u>	<u>34,789</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	10,000	10,000	106
Repayments of short-term borrowings	(10,000)	(10,000)	(106)
Proceeds from long-term debt	5,158,000	-	-
Repayments of long-term debt	(794,808)	(1,752,572)	(18,634)
Repayments of lease obligations	(82,765)	(84,051)	(893)
Purchase of treasury stock	(74)	(68)	(0)
Cash dividends paid	(804,021)	(671,713)	(7,142)
Proceeds from stock issuance to minority shareholders	-	131,620	1,399
Cash dividends paid to minority shareholders	(180,724)	(169,056)	(1,797)
Net cash provided by (used in) financing activities	<u>3,295,605</u>	<u>(2,545,842)</u>	<u>(27,069)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(33,954)</u>	<u>107,219</u>	<u>1,140</u>
Net (decrease) increase in cash and cash equivalents	<u>(170,834)</u>	<u>5,533,499</u>	<u>58,835</u>
Cash and cash equivalents at the beginning of year	<u>4,350,915</u>	<u>4,180,081</u>	<u>44,445</u>
Cash and cash equivalents at the end of year (Note 10(a))	<u>¥4,180,081</u>	<u>¥9,713,580</u>	<u>\$103,281</u>

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



HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacture and sale of harmonic drive gears and related motion control products. The manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, 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 ¥94.05 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2013. 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 year ended March 31, 2012 are as follows:

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

On February 20, 2013, a 51% owned subsidiary, SAMICK ADM CO., LTD., was established. The accounts of SAMICK ADM CO., LTD. are included in the consolidated financial statements together with the seven previously-consolidated subsidiaries, for the year ended March 31, 2013.

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 as Harmonic Drive AG. The investment in the shares of Harmonic Drive AG is accounted for using the equity method in the consolidated financial statements for the years ended March 31, 2012 and 2013. In addition, the Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is also accounted for using the equity method in the consolidated financial statements.

The Company's foreign subsidiaries (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., and SAMICK ADM CO., LTD.) 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 the write down of their book value to the net selling value regarded as decreased profitability of any product, if any). Supplies are stated at cost, being determined by the last purchase price method.

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

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

② Intangible fixed assets (excluding leased assets):

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

years.

③ Leased assets:

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

Finance lease transactions that are deemed not to transfer ownership of the leased assets to the lessee and that were entered into before March 31, 2008, continue to be accounted for in a manner similar to the 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 to be 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, while if the estimated present value of projected benefit obligations exceeds the fair value of plan assets, such excess is recorded as reserve for retirement benefits. Prepaid pension costs as of March 31, 2013 was ¥335,608 thousand (\$3,568 thousand), and was included in "Long-term prepaid expenses" in the section of "Investments and other assets" of the consolidated balance sheets, while the reserve for retirement benefits for employees was 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) Amortization of goodwill and negative goodwill -

Goodwill is amortized on a straight-line basis over a period of 5 years and negative goodwill which occurred before April 1, 2010 is amortized on a straight-line basis over a period of 5 years.

(i) Cash and cash equivalents -

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

(j) Consumption tax -

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

3. Accounting standards issued but not yet effective:

- "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)

- "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

(a) Overview:

Revisions are related to mainly to the accounting treatments for unrecognized actuarial gains and losses as well as unrecognized prior service costs, the calculation methods for retirement benefit obligations as well as service costs, and broadening disclosure taking into consideration improvements to financial reporting and international trends.

(b) Date of adoption:

The standard is scheduled to take effect from the end of the year ending March 31, 2014. However, revisions to the calculation methods for retirement benefit obligations and service costs are scheduled to take effect from the beginning of the year ending March 31, 2015.

(c) Impact of the adoption of the accounting standards:

The impact of the revised accounting standard on consolidated financial statements are currently under evaluation.

4. Accounting changes:

(a) Change in depreciation method -

Effective from the year ended March 31, 2013, pursuant to an amendment to the Corporate Tax Law, the Company and its domestic subsidiaries have changed the method of depreciating tangible fixed assets acquired on and after April 1, 2012 to the depreciation method stipulated in the amended Corporate Tax Law.

The effect of this change on operation income, ordinary income, and income before income taxes and minority interest in the current fiscal year is insignificant.

5. Change in presentation:

The Company had no changes in presentation.

6. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2012 and 2013 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Investment in affiliated companies	<u>¥4,855,001</u>	<u>¥5,006,916</u>	<u>\$53,236</u>

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

The following assets were pledged as collateral to secure the long-term debt, including the current portion thereof, at March 31, 2012 and 2013:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Buildings	¥1,489,224	¥1,667,504	\$17,729
Structures	1,125	901	9
Land	<u>537,664</u>	<u>537,664</u>	<u>5,716</u>
	<u>¥2,028,014</u>	<u>¥2,206,070</u>	<u>\$23,456</u>
Secured long-term debt:			
Current portion of long-term debt	¥1,703,828	¥1,703,828	\$18,116
Long-term debt	<u>4,729,377</u>	<u>3,025,549</u>	<u>32,169</u>
	<u>¥6,433,205</u>	<u>¥4,729,377</u>	<u>\$50,285</u>

Included in the above, the following assets were pledged as factory funded mortgage to secure the long-term debt at March 31, 2012 and 2013:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Buildings	¥ 90,466	¥ 81,532	\$866
Structures	1,125	901	9
Land	49,168	49,168	522
	<u>¥140,760</u>	<u>¥131,602</u>	<u>\$1,399</u>
Secured long-term debt:			
Current portion of long-term debt	¥1,440,000	¥1,440,000	\$15,311
Long-term debt	4,020,000	2,580,000	27,432
	<u>¥5,460,000</u>	<u>¥4,020,000</u>	<u>\$42,743</u>

(c) Accounting treatment of notes receivable matured on the consolidated balance sheet date -

Notes receivable maturing on the consolidated balance sheet date are accounted for as though they are settled at the consolidated balance sheet date. Consequently, although March 31, 2012 and 2013 were bank holidays, notes receivable due on that date, totaling ¥109,017 thousand and 100,566 thousand (\$1,069 thousand), were accounted for as settled on March 31, 2012 and 2013, and excluded from the balance of notes receivable at that date, respectively.

(d) Credit facility contracts -

The Company entered into credit facility contracts with four banks, totaling ¥3,000,000 thousand (\$31,897 thousand) for a year at March 31, 2012 and 2013. As of March 31, 2012 and 2013, there were no loans outstanding under these contracts.

7. Notes to consolidated statements of income:

(a) Selling, general and administrative expenses -

The major components included in selling, general and administrative expenses for the years ended March 31, 2012 and 2013 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Salaries and bonuses	¥1,107,015	¥1,195,649	\$12,712
Accrued bonuses for directors and corporate auditors	95,700	71,227	757
Reserve for retirement benefits for directors and corporate auditors	40,935	30,231	321
Reserve for retirement benefits for executive officers	15,737	14,632	155
Research and development expenses	1,199,683	1,120,062	11,909

(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 ¥1,240,064 thousand and ¥1,146,003 thousand (\$12,185 thousand) for the years ended March 31, 2012 and 2013, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2012 and 2013 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Machinery and equipment	¥6,670	¥813	\$8
Tools, furniture and fixtures	582	35	0
	¥7,253	¥849	\$9

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets by fixed assets category for the years ended March 31, 2012 and 2013 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Machinery and equipment	¥ 62	¥ -	\$ -
Tools, furniture and fixtures	1,978	189	2
	<u>¥2,041</u>	<u>¥189</u>	<u>\$2</u>

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2012 and 2013 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Buildings and structures	¥27,506	¥39,933	\$424
Machinery and equipment	657	900	9
Tools, furniture and fixtures	3,344	3,685	39
Software	-	354	3
	<u>¥31,508</u>	<u>¥44,873</u>	<u>\$477</u>

8. Notes to consolidated statements of comprehensive income:

(a) Recycling adjustments and related tax effect related to other comprehensive income -

Recycling adjustments and related tax effect related to other comprehensive income for the years ended March 31, 2012 and 2013 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Net unrealized gains (losses) on available-for-sale securities			
Gains (losses) arising during the year	(¥1,282,940)	700,186	\$7,444
Recycling adjustments	-	214,455	2,280
Before tax effect	(1,282,940)	914,641	9,725
Tax effect	676,758	(324,697)	(3,452)
Net unrealized gains (losses) on available-for-sale securities	(606,181)	589,944	6,272
Foreign currency translation adjustments			
Adjustments arising during the year	(81,978)	217,856	2,316
Share of other comprehensive income of affiliated companies accounted for by equity method			
Changes arising during the year	(94,786)	231,175	2,458
Total other comprehensive income	<u>(¥782,946)</u>	<u>1,038,975</u>	<u>\$11,047</u>

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

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2012</u>
Common stock (shares)	<u>105,277</u>	<u>31,477,823</u>	-	<u>31,583,100</u>
<u>Share type</u>	<u>April 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2013</u>
Common stock (shares)	<u>31,583,100</u>	-	-	<u>31,583,100</u>

(Note)

One common share held by shareholders registered on the shareholders list as of March 31, 2011 was split into 300 shares effective from April 1, 2011



(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2012</u>
Common stock (shares)	<u>3,502</u>	<u>1,047,143</u>	<u>-</u>	<u>1,050,645</u>
<u>Share type</u>	<u>April 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2013</u>
Common stock (shares)	<u>1,050,645</u>	<u>42</u>	<u>-</u>	<u>1,050,687</u>

(Notes)

- One common share held by shareholders registered on the shareholders list as of March 31, 2011 was split into 300 shares effective from April 1, 2011.
- Increase for the years ended March 31, 2012 and 2013 included an increase of 45 and 42 shares of treasury stock due to the purchase of less-than-one unit common shares from shareholders, respectively.

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2012 and 2013.

(d) Dividends -

For the year ended March 31, 2012:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 17, 2011:	
	Type of shares	Common stock
	Total amount of dividends paid in cash (Thousands of yen)	¥376,567
	Cash dividend per share (Yen)	¥3,700
	Record date	March 31, 2011
	Effective date	June 20, 2011
(ii)	The following was determined by the board of directors meeting held on November 10, 2011:	
	Type of shares	Common stock
	Total amount of dividends paid in cash (Thousands of yen)	¥427,454
	Cash dividend per share (Yen)	¥14
	Record date	September 30, 2011
	Effective date	December 12, 2011
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was resolved by the annual shareholders' meeting held on June 22, 2012:	
	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)	¥305,324
	Cash dividend per share (Yen)	¥10
	Record date	March 31, 2012
	Effective date	June 25, 2012

For the year ended March 31, 2013:

①	Dividends paid during the current year -	
	(i) The following was resolved by the annual shareholders' meeting held on June 22, 2012:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥305,324
	(Thousands of U.S. dollars)	(\$3,246)
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	(\$0.10)
	Record date	March 31, 2012
	Effective date	June 25, 2012
	(ii) The following was determined by the board of directors meeting held on November 13, 2012:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥366,388
	(Thousands of U.S. dollars)	(\$3,895)
	Cash dividend per share	
	(Yen)	¥12
	(U.S. dollars)	(\$0.12)
	Record date	September 30, 2012
	Effective date	December 10, 2012
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was resolved by the annual shareholders' meeting held on June 21, 2013:	
	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)	¥305,324
	(Thousands of U.S. dollars)	(\$3,246)
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	(\$0.10)
	Record date	March 31, 2013
	Effective date	June 24, 2013

10. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2012 and 2013 were comprised of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2012</u>	<u>2013</u>	<u>U.S. dollars</u>
			<u>2013</u>
Cash and bank deposits	¥10,094,455	¥11,957,900	\$127,144
Highly liquid investments	30,626	30,647	325
Time deposits with a deposit period of over three months	<u>(5,945,000)</u>	<u>(2,274,967)</u>	<u>(24,188)</u>
Cash and cash equivalents	<u>¥4,180,081</u>	<u>¥9,713,580</u>	<u>\$103,281</u>

11. 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 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 the inception dates were prior to April 1, 2008 were permitted to continue to be accounted for in a manner similar to the accounting treatment for ordinary rental transactions. Finance lease expenses of the Companies for the years ended March 31, 2012 and 2013 were ¥165,717 thousand and ¥128,725 thousand (\$1,368 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, 2012 and 2013 and the consolidated statements of income for the years then ended:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Machinery and equipment	¥864,469	¥559,822	\$5,952
Tools, furniture and fixtures	16,207	-	-
	<u>880,676</u>	<u>559,822</u>	<u>5,952</u>
Less - Accumulated depreciation	<u>(707,301)</u>	<u>(504,906)</u>	<u>(5,368)</u>
	<u>¥173,375</u>	<u>¥54,915</u>	<u>\$583</u>

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Depreciation	¥153,933	¥119,091	\$1,266
Interest expenses	6,840	3,659	38

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 using the “interest method.”

The present values of future lease payments of the Companies as of March 31, 2012 and 2013 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Current portion	¥125,059	¥59,195	\$629
Long-term obligation	58,522	5,317	56
	<u>¥183,582</u>	<u>¥64,512</u>	<u>\$685</u>

(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, 2012 and 2013 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Current portion	¥270,631	¥282,343	\$3,002
Long-term obligation	468,671	335,313	3,565
	<u>¥739,302</u>	<u>¥617,656</u>	<u>\$6,567</u>

12. Financial instruments:

(a) Policy for financial instruments -

The Companies invest excess funds, if any, in high quality and low risk financial instruments, while the Companies raise funds (necessary for business operations) through loans from financial institutions.

The Companies utilize derivative financial instruments such as foreign exchange forward contracts in order to reduce their exposure to fluctuations in foreign currency exchange rates during the normal course of business operations and do not hold or issue financial instruments for trading or speculative purposes.

(b) Description and risks of financial instruments and risk management for financial instruments -

Notes and accounts receivable, trade 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 of execution and management of the foreign exchange forward contracts and executes such contracts 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 have almost no credit risk, and investment securities, consisting primarily of the equity securities of corporations with which the Companies do business, are exposed to the risk of fluctuations in market price. The Companies manage this risk by periodically monitoring market prices.

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.

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 sheets, the fair value and the variance as of March 31, 2012 and 2013. Financial instruments, for which the fair value is difficult to determine, are not included in the following table (See Note 2 below for additional information.).



March 31, 2012:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥10,094,455	¥10,094,455	-
(2) Notes and accounts receivable, trade	5,864,691	5,864,691	
Allowance for doubtful accounts (*1)	(589)	(589)	
	<u>5,864,102</u>	<u>5,864,102</u>	-
(3) Investment securities			
Available-for-sale securities	530,772	530,772	-
(4) Investment in affiliated companies			
Available-for-sale securities	5,543,970	5,543,970	-
(5) Long-term loans receivable	354,707	354,707	
Allowance for doubtful accounts (*1)	(354,707)	(354,707)	
	<u>0</u>	<u>0</u>	-
(6) Long-term bank deposits	<u>756,050</u>	<u>756,050</u>	-
Assets total	<u>¥22,789,350</u>	<u>¥22,789,350</u>	-
(1) Notes and accounts payable, trade	¥1,477,935	¥1,477,935	-
(2) Accounts payable, other	399,483	399,483	-
(3) Current portion of long-term debt	1,752,572	1,752,572	-
(4) Long-term debt	4,909,578	4,909,578	-
Liabilities total	<u>¥8,539,568</u>	<u>¥8,539,568</u>	-
Derivative transactions	<u>(¥ 2,122)</u>	<u>(¥ 2,122)</u>	-

March 31, 2013:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥11,957,900	¥11,957,900	-
(2) Notes and accounts receivable, trade	5,058,012	5,058,012	-
Allowance for doubtful accounts (*1)	(566)	(566)	-
	<u>5,057,445</u>	<u>5,057,445</u>	-
(3) Investment securities			
Available-for-sale securities	457,153	457,153	-
(4) Investment in affiliated companies			
Available-for-sale securities	6,317,775	6,317,775	-
(5) Long-term loans receivable	337,254	337,254	-
Allowance for doubtful accounts (*1)	(336,745)	(336,745)	-
	<u>509</u>	<u>509</u>	-
Assets total	<u>¥23,790,783</u>	<u>¥23,790,783</u>	-
(1) Notes and accounts payable, trade	¥1,498,114	¥1,498,114	-
(2) Accounts payable, other	379,254	379,254	-
(3) Accrued income taxes	525,208	525,208	-
(4) Current portion of long-term debt	1,750,888	1,750,888	-
(5) Long-term debt	3,158,689	3,158,689	-
Liabilities total	<u>¥7,312,156</u>	<u>¥7,312,156</u>	-
Derivative transactions	<u>(¥ 1,499)</u>	<u>(¥ 1,499)</u>	-

March 31, 2013:	Thousands of U.S. dollars		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$127,144	\$127,144	-
(2) Notes and accounts receivable, trade	53,780	53,780	-
Allowance for doubtful accounts (*1)	(6)	(6)	-
	<u>\$53,774</u>	<u>\$53,774</u>	-
(3) Investment securities			
Available-for-sale securities	4,860	4,860	-
(4) Investment in affiliated companies			
Available-for-sale securities	67,174	67,174	-
(5) Long-term loans receivable	3,585	3,585	-
Allowance for doubtful accounts (*1)	(3,580)	(3,580)	-
	<u>5</u>	<u>5</u>	-
Assets total	<u>\$252,958</u>	<u>\$252,958</u>	-
(1) Notes and accounts payable, trade	\$15,928	\$15,928	-
(2) Accounts payable, other	4,032	4,032	-
(3) Accrued income taxes	5,584	5,584	-
(4) Current portion of long-term debt	18,616	18,616	-
(5) Long-term debt	33,585	33,585	-
Liabilities total	<u>\$77,747</u>	<u>\$77,747</u>	-
Derivative transactions	<u>(\$ 15)</u>	<u>(\$ 15)</u>	-

(\*1) For computation of fair value of notes and accounts receivable, trade and long-term loans receivable, allowances for doubtful accounts of notes and accounts receivable, trade and long-term loans receivable are deducted.

(Note 1) Method for calculating the fair value of financial instruments, and matters related to securities and derivative transactions.

Assets

(1) Cash and bank deposits

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 13. Marketable securities and investment securities" for the footnote information by purpose to hold the securities.

(4) Investment in affiliated companies

The fair value is measured at the quoted market price of the stock exchange. See "Note 13. Marketable securities and investment securities" for the footnote information by purpose to hold the securities.

(5) Long-term loans receivable

For the loans to the capital or business tie-up company, the carrying amount, net of allowance for doubtful accounts, approximates the fair value at the year-end date since the allowance for doubtful account is estimated based on an expected recoverable amount. The loans to employees are calculated by discounting the amount by the interest rate for the financial support program to employees.

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) Accounts payable, other

The carrying amount approximates the fair value since accounts payable, other are paid within a short period.

(3) Accrued income taxes

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

(4) Current portion of long-term debt and (5) Long-term debt

The fair value is determined by discounting the sum of the principal and interest using the interest rate assumed to be applied to the new debt with the same conditions. However, the fair value of long-term debt with 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 13. Derivative financial instruments”.

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

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Investment securities			
Unlisted equity securities	<u>¥4,521</u>	<u>¥4,518</u>	<u>\$48</u>
Investment in affiliated companies			
Unlisted equity securities	<u>4,855,001</u>	<u>5,006,916</u>	<u>\$53,236</u>

Unlisted equity securities are not included in “(3) Investment securities” and “(4) Investment in affiliated companies” in the first table above because their fair values are difficult to determine since such securities do not have available market prices and the related future cash flows cannot be estimated. The impairment losses on the unlisted equity securities for the years ended March 31, 2012 and 2013 were ¥32,288 thousand and zero, respectively.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2012 and 2013 are as follows:

	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2012:				
Cash and bank deposits	¥10,094,455	-	-	-
Notes and accounts receivable, trade	5,864,691	-	-	-
Long-term loans receivable	-	¥204,149	¥150,557	-
Long-term bank deposits	-	756,050	-	-
	<u>¥15,959,146</u>	<u>¥960,199</u>	<u>¥150,557</u>	<u>-</u>

	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2013:				
Cash and bank deposits	¥11,957,900	-	-	-
Notes and accounts receivable, trade	5,058,012	-	-	-
Long-term loans receivable	-	¥316,320	¥20,934	-
	<u>¥17,015,912</u>	<u>¥316,320</u>	<u>¥20,934</u>	<u>-</u>

	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2013:				
Cash and bank deposits	\$ 127,144	-	-	-
Notes and accounts receivable, trade	53,780	-	-	-
Long-term loans receivable	-	\$ 3,363	\$ 222	-
	<u>\$ 180,924</u>	<u>\$ 3,363</u>	<u>\$ 222</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2012 and 2013 are as follows:

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2012:						
Long-term debt	¥1,752,572	¥1,750,888	¥1,042,400	¥1,039,907	¥1,017,296	¥59,087
Total	<u>¥1,752,572</u>	<u>¥1,750,888</u>	<u>¥1,042,400</u>	<u>¥1,039,907</u>	<u>¥1,017,296</u>	<u>¥59,087</u>

	Thousands of yen					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2013:						
Long-term debt	¥1,750,888	¥1,042,400	¥1,039,907	¥1,017,296	¥13,824	¥45,263
Total	<u>¥1,750,888</u>	<u>¥1,042,400</u>	<u>¥1,039,907</u>	<u>¥1,017,296</u>	<u>¥13,824</u>	<u>¥45,263</u>

	Thousands of U.S. dollars					
	Due within 1 year	Due after 1 year but within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years	Due after 5 years
March 31, 2013:						
Long-term debt	\$18,616	\$11,083	\$11,056	\$10,816	\$146	\$481
Total	<u>\$18,616</u>	<u>\$11,083</u>	<u>\$11,056</u>	<u>\$10,816</u>	<u>\$146</u>	<u>\$481</u>

13. Marketable securities and investment securities:

The aggregate cost, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2012 and 2013 were as follows:

		Thousands of yen		
March 31, 2012:	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
Equity securities	<u>¥2,931,386</u>	<u>3,143,355</u>	<u>-</u>	<u>¥6,074,742</u>
		Thousands of yen		
March 31, 2013	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
Equity securities	<u>¥2,716,931</u>	<u>4,057,997</u>	<u>-</u>	<u>¥6,774,928</u>
		Thousands of U.S. dollars		
March 31, 2013:	<u>Cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Carrying amount</u>
Equity securities	<u>\$28,888</u>	<u>43,147</u>	<u>-</u>	<u>\$72,035</u>

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 on available-for-sale securities with market quotations for the years ended March 31, 2012 and 2013 were zero and ¥214,455 thousand (\$2,280 thousand), respectively.

The proceeds from sales of available-for-sale securities for the years ended March 31, 2012 and 2013 were zero.



14. Derivative financial instruments:

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

		Thousands of Yen			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2012					
Forward exchange contracts:					
Sell U.S. Dollar		¥38,960	¥ -	(¥2,122)	(¥2,122)
		<u>¥38,960</u>	<u>¥ -</u>	<u>(¥2,122)</u>	<u>(¥2,122)</u>
		Thousands of Yen			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2013					
Forward exchange contracts:					
Sell U.S. Dollar		¥56,413	¥ -	(¥1,499)	(¥1,499)
		<u>¥56,413</u>	<u>¥ -</u>	<u>(¥1,499)</u>	<u>(¥1,499)</u>
		Thousands of U.S. Dollars			
		Notional amount	Notional amount (Over 1 year)	Fair value	Gains (Losses)
March 31, 2013					
Forward exchange contracts:					
Sell U.S. Dollar		\$599	\$ -	(\$15)	(\$15)
		<u>\$599</u>	<u>\$ -</u>	<u>(\$15)</u>	<u>(\$15)</u>

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

15. 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 defined benefit pension plan (a tax qualified plan) for a certain portion of the retirement benefits prescribed under the severance indemnity regulations for its employees. Under the pension plan, a retiring employee may elect either a lump-sum payment or annuity payments.

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 the Japanese Welfare Pension Insurance Law.

Certain 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 receives 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, 2011 and 2012 was as follows:

	Millions of yen		Millions of U.S. dollars
	2011	2012	2012
Plan assets	¥105,046	¥104,458	\$1,110
Benefit obligations	132,729	132,612	1,410
Net balance	(¥27,683)	(¥28,154)	(\$299)

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

The Company's contributions to the multi-employer plan represented 1.50% and 1.46% of those in total to the plan for the year ended March 31, 2011 and 2012, respectively.

③ Supplementary explanation -

The net balance at March 31, 2011 and 2012 on the schedule above resulted mainly from the prior service cost of ¥26,082 million and ¥25,506 million (\$271 million), respectively. Amortization period of the prior service cost is 20 years. The share as described in 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, 2012 and 2013 were ¥96,709 thousand and ¥94,101 thousand (\$1,000 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, 2012 and 2013 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Projected benefit obligations (PBO)	(¥1,735,840)	(¥1,727,959)	(\$18,372)
Plan assets	2,004,338	2,202,041	23,413
Excess of plan assets over PBO	268,498	474,082	5,040
Prior service cost	(8,294)	-	-
Unrecognized actuarial differences	7,359	(138,473)	(1,472)
Prepaid pension cost	<u>¥ 267,563</u>	<u>¥ 335,608</u>	<u>\$ 3,568</u>
Reserve for retirement benefits for employees	<u>¥ 27,094</u>	<u>¥ 32,729</u>	<u>\$ 347</u>

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

The components of the net periodic retirement benefit cost for the years ended March 31, 2012 and 2013 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Service cost	¥108,077	¥116,712	\$1,240
Interest cost	31,841	29,509	313
Expected return on plan assets	(38,110)	(40,086)	(426)
Amortization of unrecognized prior service cost	(8,294)	(8,294)	(88)
Amortization of unrecognized actuarial differences	99,058	(48,956)	(520)
Net periodic retirement benefit cost	<u>¥192,572</u>	<u>¥48,884</u>	<u>\$519</u>

(Note) All of the net periodic retirement benefit cost for domestic subsidiaries adopting the simplified method is included in “Service cost” on the above schedule.

The assumptions used in the above actuarial computations for the years ended March 31, 2012 and 2013 were as follows:

	2012	2013
Discount rate	1.7%	1.8%
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

16. Stock options:

No stock options were granted during the years ended March 31, 2012 and 2013.

17. Income taxes:

Deferred tax assets and liabilities as of March 31, 2012 and 2013 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Deferred tax assets - current:			
Accrued enterprise taxes	¥ 14,204	¥ 46,388	\$ 493
Accrued bonuses	208,071	205,472	2,184
Inventory write-down	10,092	11,109	118
Unrealized intercompany profit	53,314	54,817	582
Accrued social insurance premium	22,760	23,144	246
Others	56,805	41,447	440
Net deferred tax assets - current	¥365,249	¥382,379	\$4,065
Deferred tax assets - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥13,079	¥18,989	\$201
Reserve for retirement benefits for employees	9,618	11,618	123
Prepaid pension cost	(5,274)	(7,772)	(82)
Others	6,791	9,041	96
Net deferred tax assets - non current	¥24,214	¥31,877	\$338

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Deferred tax liabilities - non current:			
Reserve for retirement benefits for directors and corporate auditors	¥93,346	¥103,821	\$1,103
Devaluation loss on golf club memberships	6,247	6,673	70
Depreciation	214	88	0
Devaluation loss on investment securities	110,261	186,393	1,981
Allowance for doubtful accounts	125,921	121,532	1,292
Reserve for retirement benefits for executive officers	30,845	36,039	383
Unrealized gains on available-for-sale securities	(1,115,891)	(1,440,589)	(15,317)
Undistributed earnings of foreign subsidiaries and an affiliated company	(328,599)	(361,190)	(3,840)
Prepaid pension cost	(89,710)	(111,368)	(1,184)
Others	(123,714)	(94,785)	(1,007)
Net deferred tax liabilities - non current	<u>¥1,291,079</u>	<u>¥1,553,384</u>	<u>(\$16,516)</u>

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2012 and 2013 were omitted due to materiality.

18. Segment information:

(a) Overview of the reportable segments -

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

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

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

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

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

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

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

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

For the year ended March 31, 2012	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥17,131,210	¥3,027,912	¥ -	¥20,159,123	¥ -	¥20,159,123
Intersegment	1,115,782	-	-	1,115,782	(1,115,782)	-
Total	<u>18,246,993</u>	<u>3,027,912</u>	<u>-</u>	<u>21,274,906</u>	<u>(1,115,782)</u>	<u>20,159,123</u>
Segment profit/(loss)	4,757,411	463,762	78,402	5,299,577	(901,096)	4,398,481
Segment assets	¥13,863,207	¥2,393,150	¥4,702,284	¥20,958,642	¥14,585,177	¥35,543,819
Others						
Investment in affiliated companies	152,716	-	4,702,284	4,855,001	-	4,855,001
Increase in tangible and intangible fixed assets	1,481,895	280,694	-	1,762,589	-	1,762,589

- The adjustment for segment profit/(loss) of ¥901,096 thousand includes the elimination of the intersegment transactions of ¥188,427 thousand and the general administrative expenses of ¥712,668 thousand that are not allocated to any reportable segment. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market (to an affiliated company) and Asian market.
- “Europe” segment is covered by the affiliated company in Germany. Therefore, the Company records the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥14,585,177 thousand includes intersegment elimination of ¥590,993 thousand and corporate assets of ¥15,176,171 thousand that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.



Thousands of yen						
Reportable segment						
For the year ended March 31, 2013	Japan	North America	Europe	Total	Adjustment	Consolidated
<b>Sales:</b>						
Third party	¥15,361,737	¥2,768,906	¥ -	¥18,130,644	¥ -	¥18,130,644
Intersegment	1,084,523	-	-	1,084,523	(1,084,523)	-
Total	<u>16,446,260</u>	<u>2,768,906</u>	<u>-</u>	<u>19,215,167</u>	<u>(1,084,523)</u>	<u>18,130,644</u>
Segment profit/(loss)	4,133,834	294,575	110,448	4,538,858	(962,788)	3,576,070
Segment assets	¥13,373,598	¥2,686,831	¥4,887,636	¥20,948,066	¥16,005,928	¥36,953,995
Others						
Investment in affiliated companies	119,280	-	4,887,636	5,006,916	-	5,006,916
Increase in tangible and intangible fixed assets	1,327,485	50,427	-	1,377,912	-	1,377,912
Thousands of U.S. dollars						
Reportable segment						
For the year ended March 31, 2013	Japan	North America	Europe	Total	Adjustment	Consolidated
<b>Sales:</b>						
Third party	\$163,335	\$29,440	\$ -	\$192,776	\$ -	\$192,776
Intersegment	11,531	-	-	11,531	(11,531)	-
Total	<u>174,867</u>	<u>29,440</u>	<u>-</u>	<u>204,307</u>	<u>(11,531)</u>	<u>192,776</u>
Segment profit/(loss)	43,953	3,132	1,174	48,260	(10,236)	38,023
Segment assets	\$142,196	\$28,568	\$51,968	\$222,733	\$170,185	\$392,918
Others						
Investment in affiliated companies	1,268	-	51,968	53,236	-	53,236
Increase in tangible and intangible fixed assets	14,114	536	-	14,650	-	14,650

- The adjustment for segment profit/(loss) of ¥962,788 thousand (\$10,236 thousand) includes the elimination of the intersegment transactions of ¥160,406 thousand (\$1,705 thousand) and the general administrative expenses of ¥802,381 thousand (\$8,531 thousand) that are not allocated to any reportable segment. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market (to an affiliated company) and Asian market.
- “Europe” segment is covered by the affiliated company in Germany. Therefore, the Company records the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥16,005,928 thousand (\$170,185 thousand) includes inter-segment elimination of ¥567,820 thousand (\$6,037 thousand) and corporate assets of ¥16,573,749 thousand (\$176,222 thousands) that are not allocated to any reportable segment. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

(d) Related information –

① Information by products/service -

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
Sales to third parties			
Speed reducers	¥ 16,047,586	¥ 14,486,395	\$ 154,028
Mechatronic products	4,111,536	3,644,249	38,747
	¥20,159,123	¥18,130,644	\$192,776

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

② Geographic information –

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2012:					
Total	<u>¥14,495,471</u>	<u>¥3,027,912</u>	<u>¥1,628,767</u>	<u>¥1,006,971</u>	<u>¥20,159,123</u>
For the year ended March 31, 2013:					
Total	<u>¥12,124,565</u>	<u>¥2,768,906</u>	<u>¥1,391,159</u>	<u>¥1,846,012</u>	<u>¥18,130,644</u>

	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2013:					
Total	<u>\$128,916</u>	<u>\$29,440</u>	<u>\$14,791</u>	<u>\$19,627</u>	<u>\$192,776</u>

- Sales are classified based on the location of the customers and classified into the Countries and areas as shown in the schedule above.
- Sales to Europe represent the sales to the affiliated company, Harmonic Drive AG.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2012:				
Total Assets	<u>¥4,736,512</u>	<u>¥729,203</u>	<u>¥ -</u>	<u>¥5,465,715</u>
March 31, 2013:				
Total Assets	<u>¥4,961,771</u>	<u>¥729,042</u>	<u>¥ -</u>	<u>¥5,690,814</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2013:				
Total Assets	<u>\$52,756</u>	<u>\$7,751</u>	<u>\$ -</u>	<u>\$60,508</u>

③ Information of major customers -

Information of major customers is not presented since no individual customer accounts for more than 10% of Net Sales on the consolidated statements of income for the year ended March 31, 2012.

For the year ended March 31, 2013:

Customer Name	Sales		Related segment
	Thousands of Yen	Thousands of U.S. dollars	
Haneda & Co., Ltd.	¥2,531,646	\$26,918	Japan

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

No impairment loss was recognized on fixed assets for the years ended March 31, 2012 and 2013.

(f) Amortization expense and unamortized balance of goodwill -

For the year ended March 31, 2012	Thousands of yen				Elimination and/or Corporate	Total
	Reportable segment					
	Japan	North America	Europe	Total		
Goodwill:						
Amortization	¥1,993	¥ -	¥ -	¥1,993	¥ -	¥1,993
Balance	-	-	-	-	-	-
Negative goodwill:						
Amortization	¥5,599	¥ -	¥ -	¥5,599	¥ -	¥5,599
Balance	-	-	-	-	-	-

No amortization expense and unamortized balance of goodwill was recognized for the year ended March 31, 2013.

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2012 and 2013.

19. 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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
For the year:			
Sales to the affiliated company	¥1,628,767	¥1,391,159	\$14,791
At year-end:			
Notes and accounts receivable, trade	344,241	277,801	2,953

Sales of the Company's products to Harmonic Drive AG are executed on the terms and conditions based on the offer of Company's sales prices to Harmonic Drive AG by taking the market into consideration and the negotiation with Harmonic Drive AG.

(b) Notes to a significant affiliated company -

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

	Thousands of yen		Thousands of U.S. dollars
	2012	2013	2013
At year-end:			
Current assets	¥5,982,500	¥5,879,075	\$62,510
Fixed assets	978,503	1,244,912	13,236
Investments and other assets	1,055,119	1,201,794	12,778
Current liabilities	2,997,367	2,135,476	22,705
Long-term liabilities	807,170	795,742	8,460
Net assets	4,211,585	5,394,564	57,358
For the year:			
Sales	7,745,055	6,348,115	67,497
Income before income taxes	1,302,626	1,225,680	13,032
Net income	853,549	945,110	10,049

20. 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.

	<u>Yen</u>		<u>U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Net assets per share	¥744.13	¥817.53	\$8.69
Earnings per share	70.08	64.22	0.68

(Note)

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

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2012</u>	<u>2013</u>	<u>2013</u>
Net income	¥2,139,734	¥1,960,838	\$20,848
Net income attributable to common shareholders	<u>¥2,139,734</u>	<u>¥1,960,838</u>	<u>\$20,848</u>

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

	<u>Number of shares</u>	
	<u>2012</u>	<u>2013</u>
Weighted average number of shares	<u>30,532,477.4</u>	<u>30,532,429.3</u>

21. Subsequent events:

There have been no significant subsequent events on or after April 1, 2013.

22. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2013.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at April 1, 2012	Balance at March 31, 2013	Balance at March 31, 2013		
Short-term borrowings	¥10,000	¥10,000	\$106	2.8	-
Current portion of long-term debt	1,752,572	1,750,888	18,616	0.8	-
Current portion of lease obligations	81,164	83,691	889	1.7	-
Long-term debt (excluding current portion)	4,909,578	3,158,689	33,585	0.8	2014-2021
Lease obligations (excluding current portion)	201,192	132,779	1,411	1.3	2014-2018
Total	<u>¥6,954,507</u>	<u>¥5,136,047</u>	<u>\$54,609</u>	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2013 are as follows:

March 31, 2013	Thousands of yen			
	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	¥1,042,400	¥1,039,907	¥1,017,296	¥13,824
Lease obligation	57,964	35,873	23,987	13,831



March 31, 2013	Thousands of U.S. dollars			
	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	\$11,083	\$11,056	\$10,816	\$146
Lease obligation	616	381	255	147

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

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2012 and 2013 were omitted due to materiality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2013 is as follows:

	Thousands of yen (Net income per share: yen)			
	1 <sup>st</sup> quarter ended June 30, 2012 (3 months)	2 <sup>nd</sup> quarter ended September 30, 2012 (6 months)	3 <sup>rd</sup> quarter ended December 31, 2012 (9 months)	4 <sup>th</sup> quarter ended March 31, 2013 (12 months)
Sales	¥4,957,192	¥9,847,101	¥14,004,788	¥18,130,644
Income before income taxes and minority interest	1,170,766	1,971,850	2,612,812	3,229,291
Net income	721,734	1,202,599	1,582,554	1,960,838
Net income per share	¥23.64	¥39.39	¥51.83	¥64.22

	Thousands of U.S. Dollars			
	(Net income per share: U.S. Dollars)			
	1 <sup>st</sup> quarter ended June 30, 2012 (3 months)	2 <sup>nd</sup> quarter ended September 30, 2012 (6 months)	3 <sup>rd</sup> quarter ended December 31, 2012 (9 months)	4 <sup>th</sup> quarter ended March 31, 2013 (12 months)
Sales	\$52,708	\$104,700	\$148,907	\$192,776
Income before income taxes and minority interest	12,448	20,965	27,781	34,335
Net income	7,673	12,786	16,826	20,848
Net income per share	\$0.25	\$0.41	\$0.55	\$0.68

	Yen			
	1 <sup>st</sup> quarter ended June 30, 2012	2 <sup>nd</sup> quarter ended September 30, 2012	3 <sup>rd</sup> quarter ended December 31, 2012	4 <sup>th</sup> quarter ended March 31, 2013
Net income per share	¥23.64	¥15.75	¥12.44	¥12.39

	U.S. Dollars			
	1 <sup>st</sup> quarter ended June 30, 2012	2 <sup>nd</sup> quarter ended September 30, 2012	3 <sup>rd</sup> quarter ended December 31, 2012	4 <sup>th</sup> quarter ended March 31, 2013
Net income per share	\$0.25	\$0.16	\$0.13	\$0.13