

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2016



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, 2016, 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, 2016, 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, 2016 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

June 30, 2016

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
	2015	2016	2016
Assets:			
Current assets -			
Cash and bank deposits (Notes 8(a) and 10(d))	¥12,117,107	¥12,876,388	\$114,273
Notes and accounts receivable, trade (Note 10(d))	8,486,611	8,397,678	74,526
Marketable securities (Notes 8(a) and 11)	30,678	30,688	272
Finished products	245,302	219,052	1,944
Work in process	786,740	783,955	6,957
Raw materials and supplies	866,561	904,611	8,028
Deferred tax assets - current (Note 15)	508,035	459,309	4,076
Other current assets	174,754	251,006	2,227
Total current assets	<u>23,215,791</u>	<u>23,922,690</u>	<u>212,306</u>
Fixed assets -			
Tangible fixed assets (Notes 4(b), 9 and 16(d)):			
Buildings and structures	2,263,366	2,702,084	23,980
Machinery and equipment	2,868,943	3,531,584	31,341
Land	1,023,611	1,023,657	9,084
Leased assets	145,972	212,474	1,885
Construction in progress	65,451	1,644,672	14,595
Others	778,641	692,853	6,148
Total tangible fixed assets	<u>7,145,987</u>	<u>9,807,326</u>	<u>87,036</u>
Intangible fixed assets:			
Software	169,222	167,803	1,489
Others	7,818	14,166	125
Total intangible fixed assets	<u>177,041</u>	<u>181,969</u>	<u>1,614</u>
Investments and other assets:			
Investment securities (Notes 10(d) and 11)	757,963	457,424	4,059
Investment in affiliated companies (Notes 4(a), 10(d), and 11)	16,956,042	13,166,373	116,847
Long-term loans receivable	360,375	-	-
Net defined benefit assets (Note 13)	1,024,406	1,012,664	8,987
Deferred tax assets – non current (Note 15)	28,894	29,626	262
Others	140,440	177,425	1,574
Allowance for doubtful accounts	(365,975)	(5,600)	(49)
Total investments and other assets	<u>18,902,147</u>	<u>14,837,914</u>	<u>131,681</u>
Total fixed assets	<u>26,225,177</u>	<u>24,827,209</u>	<u>220,333</u>
Total assets	<u>¥49,440,969</u>	<u>¥48,749,900</u>	<u>\$432,640</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
	2015	2016	2016
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 10(d))	¥2,159,842	¥2,308,174	\$20,484
Short-term borrowings (Note 20(b))	130,000	40,000	354
Current portion of long-term debt (Notes 4(b), 10(d) and 20(b))	154,668	211,519	1,877
Lease obligations – current (Note 20(b))	47,803	54,452	483
Accrued income taxes (Note 10(d))	1,541,906	756,273	6,711
Accrued bonuses for employees	783,801	808,405	7,174
Accrued bonuses for directors and audit & supervisory board members	165,336	178,152	1,581
Accrued warranty expenses	60,882	110,859	983
Other current liabilities	2,131,996	1,477,057	13,108
Total current liabilities	<u>7,176,238</u>	<u>5,944,892</u>	<u>52,759</u>
Long-term liabilities -			
Long-term debt (Notes 4(b), 10(d) and 20(b))	460,462	640,718	5,686
Long-term accounts payable, other	47,598	51,498	457
Lease obligations – non current (Note 20(b))	101,107	160,338	1,422
Deferred tax liabilities – non current (Note 15)	3,508,990	2,540,924	22,549
Reserve for retirement benefits for directors and audit & supervisory board members	348,069	384,550	3,412
Reserve for retirement benefits for executive officers	57,807	72,535	643
Net defined benefit liabilities (Note 13)	59,816	63,351	562
Total long-term liabilities	<u>4,583,852</u>	<u>3,913,916</u>	<u>34,734</u>
Total liabilities	<u>11,760,090</u>	<u>9,858,808</u>	<u>87,493</u>
Net assets (Note 18):			
Shareholders' equity (Note 7) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding: 94,749,300 shares	1,610,542	1,610,542	14,293
Capital surplus	5,203,709	5,203,709	46,181
Retained earnings	24,356,267	27,892,368	247,536
Treasury stock, at cost	(2,305,055)	(2,305,055)	(20,456)
Total shareholders' equity	<u>28,865,464</u>	<u>32,401,565</u>	<u>287,553</u>
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 11)	6,382,214	4,146,969	36,803
Foreign currency translation adjustments	781,690	508,205	4,510
Remeasurements of defined benefit plans	214,134	65,289	579
Total accumulated other comprehensive income	<u>7,378,040</u>	<u>4,720,465</u>	<u>41,892</u>
Non-controlling interests	1,437,374	1,769,060	15,699
Total net assets	<u>37,680,878</u>	<u>38,891,091</u>	<u>345,146</u>
Total liabilities and net assets	<u>¥49,440,969</u>	<u>¥48,749,900</u>	<u>\$432,640</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
	2015	2016	2016
Net sales (Notes 16 and 20(d))	¥25,951,062	¥28,278,413	\$250,962
Cost of sales (Notes 5(b) and 16)	13,829,327	14,992,154	133,050
Gross profit	<u>12,121,735</u>	<u>13,286,259</u>	<u>117,911</u>
Selling, general and administrative expenses (Notes 5(a) and 5(b))	5,054,923	5,667,943	50,301
Operating profit	<u>7,066,812</u>	<u>7,618,315</u>	<u>67,610</u>
Other income:			
Interest income	8,422	8,841	78
Dividend income	140,337	234,325	2,079
Equity in income of affiliated companies	299,861	58,635	520
Subsidiaries	9,484	5,114	45
Foreign exchange gain	18,458	-	-
Reversal of allowance for doubtful accounts	-	30,000	266
Others	35,968	15,859	140
	<u>512,532</u>	<u>352,776</u>	<u>3,130</u>
Other expenses:			
Interest expense	5,516	11,125	98
Commitment fees for credit facility contracts	5,999	6,006	53
R & D costs related to subsidiaries	7,957	3,616	32
Foreign exchange loss	-	82,476	731
Others	34,706	38,051	337
	<u>54,180</u>	<u>141,276</u>	<u>1,253</u>
Ordinary profit	7,525,164	7,829,815	69,487
Exceptional gains:			
Gain on sales of fixed assets (Note 5(c))	3,067	360	3
Gain on sales of investment securities	-	1,499	13
	<u>3,067</u>	<u>1,860</u>	<u>16</u>
Exceptional losses:			
Loss on disposal of fixed assets (Note 5(d))	13,926	27,725	246
Loss on compensation for finished products quality issues	44,768	-	-
	<u>58,695</u>	<u>27,725</u>	<u>246</u>
Income before income taxes (Note 20(d))	7,469,536	7,803,951	69,257
Income taxes:			
Current	2,555,092	2,283,708	20,267
Deferred	28,136	325,240	2,886
	<u>2,583,229</u>	<u>2,608,948</u>	<u>23,153</u>
Profit	4,886,307	5,195,002	46,104
Profit attributable to non-controlling interests	52,707	193,347	1,715
Profit attributable to owners of the parent (Notes 18 and 20(d))	<u>¥4,833,599</u>	<u>¥5,001,654</u>	<u>\$44,388</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2015	2016	2016
Profit	¥4,886,307	¥5,195,002	\$46,104
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	2,641,723	(2,235,244)	(19,837)
Foreign currency translation adjustments	511,141	(38,787)	(344)
Remeasurements of defined benefit plans	69,559	(133,120)	(1,181)
Equity in other comprehensive loss (income) of an affiliated company accounted for by equity method	36,156	(262,176)	(2,326)
Total other comprehensive loss (income) (Note 6(a))	3,258,581	(2,669,329)	(23,689)
Comprehensive income	¥8,144,888	¥2,525,672	\$22,414
Attributable to -			
owners of the parent	¥7,912,023	¥2,331,579	\$20,692
non-controlling interests	232,865	194,093	1,722

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
	2015	2016	2016
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥1,610,542	¥1,610,542	\$14,293
Balance at the end of the year	<u>1,610,542</u>	<u>1,610,542</u>	<u>14,293</u>
Capital surplus -			
Balance at the beginning of the year	5,203,709	5,203,709	46,181
Balance at the end of the year	<u>5,203,709</u>	<u>5,203,709</u>	<u>46,181</u>
Retained earnings -			
Balance at the beginning of the year	20,503,247	24,356,267	216,154
Cumulative effects of changes in accounting policies	<u>149,118</u>	<u>-</u>	<u>-</u>
Restated balance	20,652,365	24,356,267	216,154
Changes during the year			
Cash dividends	(1,129,698)	(1,465,553)	(13,006)
Profit attributable to owners of the parent	<u>4,833,599</u>	<u>5,001,654</u>	<u>44,388</u>
Total changes	<u>3,703,901</u>	<u>3,536,101</u>	<u>31,381</u>
Balance at the end of the year	<u>24,356,267</u>	<u>27,892,368</u>	<u>247,536</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(2,304,883)	(2,305,055)	(20,456)
Changes during the year			
Purchase of treasury stock	<u>(171)</u>	<u>-</u>	<u>-</u>
Total changes	<u>(171)</u>	<u>-</u>	<u>-</u>
Balance at the end of the year	<u>(2,305,055)</u>	<u>(2,305,055)</u>	<u>(20,456)</u>
Total shareholders' equity -			
Balance at the beginning of the year	25,012,616	28,865,464	256,172
Cumulative effects of changes in accounting policies	<u>149,118</u>	<u>-</u>	<u>-</u>
Restated balance	25,161,734	28,865,464	256,172
Changes during the year			
Cash dividends	(1,129,698)	(1,465,553)	(13,006)
Profit attributable to owners of the parent	<u>4,833,599</u>	<u>5,001,654</u>	<u>44,388</u>
Purchase of treasury stock	<u>(171)</u>	<u>-</u>	<u>-</u>
Total changes	<u>3,703,730</u>	<u>3,536,101</u>	<u>31,381</u>
Balance at the end of the year	<u>¥28,865,464</u>	<u>¥32,401,565</u>	<u>\$287,553</u>
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥3,740,491	¥6,382,214	\$56,640
Changes during the year			
Net changes in items other than those in shareholders' equity	<u>2,641,723</u>	<u>(2,235,244)</u>	<u>(19,837)</u>
Total changes	<u>2,641,723</u>	<u>(2,235,244)</u>	<u>(19,837)</u>
Balance at the end of the year	<u>6,382,214</u>	<u>4,146,969</u>	<u>36,803</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	For the years ended March 31		For the year ended March 31
	2015	2016	2016
Accumulated other comprehensive income (continued)			
Foreign currency translation adjustments -			
Balance at the beginning of the year	¥425,562	¥781,690	\$6,937
Changes during the year			
Net changes in items other than those in shareholders' equity	356,128	(273,484)	(2,427)
Total changes	356,128	(273,484)	(2,427)
Balance at the end of the year	781,690	508,205	4,510
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	144,575	214,134	1,900
Changes during the year			
Net changes in items other than those in shareholders' equity	69,559	(148,844)	(1,320)
Total changes	69,559	(148,844)	(1,320)
Balance at the end of the year	214,134	65,289	579
Total Accumulated other comprehensive income			
Balance at the beginning of the year	4,310,629	7,378,040	65,477
Changes during the year			
Net changes in items other than those in shareholders' equity	3,067,410	(2,657,574)	(23,585)
Total changes	3,067,410	(2,657,574)	(23,585)
Balance at the end of the year	7,378,040	4,720,465	41,892
Non-controlling interests:			
Balance at the beginning of the year	1,197,644	1,437,374	12,756
Changes during the year			
Net changes in items other than those in shareholders' equity	239,729	331,686	2,943
Total changes	239,729	331,686	2,943
Balance at the end of the year	1,437,374	1,769,060	15,699
Total net assets:			
Balance at the beginning of the year	30,520,889	37,680,878	334,406
Cumulative effects of changes in accounting policies	149,118	-	-
Restated balance	30,670,007	37,680,878	334,406
Changes during the year			
Cash dividends	(1,129,698)	(1,465,553)	(13,006)
Profit attributable to owners of the parent	4,833,599	5,001,654	44,338
Purchase of treasury stock	(171)	-	-
Net changes in items other than those in shareholders' equity	3,307,140	(2,325,887)	(20,641)
Total changes	7,010,870	1,210,213	10,740
Balance at the end of the year	¥37,680,878	¥38,891,091	\$345,146

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
	2015	2016	2016
Cash flows from operating activities:			
Income before income taxes	¥7,469,536	¥7,803,951	\$69,257
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	1,305,109	1,524,005	13,525
Decrease in allowance for doubtful accounts	-	(30,000)	(266)
Increase (Decrease) in net defined benefit liabilities	18,563	(21,666)	(192)
Increase in reserve for retirement benefits for directors and audit & supervisory board members	36,325	36,481	323
Increase in reserve for retirement benefits for executive officers	21,170	14,727	130
Increase in accrued bonuses for directors and audit & supervisory board members	50,209	12,816	113
Increase in accrued warranty expenses	17,182	49,976	443
Interest income	(8,422)	(8,841)	(78)
Dividend income	(140,337)	(234,325)	(2,079)
Interest expense	5,516	11,125	98
Equity in income of affiliated companies	(299,861)	(58,635)	(520)
Gain on sales of investment securities	-	(1,499)	(13)
Gain on sales of fixed assets	(3,067)	(360)	(3)
Loss on disposal of fixed assets	13,926	27,725	246
(Decrease) Increase in trade receivables	(1,679,475)	65,537	581
Increase in inventories	(333,172)	(14,833)	(131)
Increase in trade payables	348,492	169,124	1,500
Others, net	367,016	(394,281)	(3,499)
Subtotal	7,188,712	8,951,024	79,437
Interest and dividends received	148,606	243,336	2,159
Dividends received from an affiliated company	195,146	448,029	3,976
Interest paid	(16,144)	(11,183)	(99)
Income taxes paid	(2,041,202)	(3,154,416)	(27,994)
Income taxes refunded	19,386	22,340	198
Net cash provided by operating activities	5,494,504	6,499,130	57,677

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
	2015	2016	2016
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(1,878,073)	(4,286,826)	(38,044)
Proceeds from sales of tangible fixed assets	7,776	2,387	21
Payments for purchases of intangible fixed assets	(64,330)	(72,019)	(639)
Proceeds from sales of investment securities	-	1,500	13
Payments for time deposits with a deposit period of over three months	(1,708,795)	(2,046,559)	(18,162)
Proceeds from maturities of time deposits with a deposit period of over three months	1,595,000	1,995,979	17,713
Payments Proceeds for guarantee deposits	(11,079)	(25,763)	(228)
Proceeds from collection of guarantee deposits	1,154	7,118	63
Proceeds from collection of short-term loans receivable	170	172	1
Proceeds from collection of long-term loans receivable	166	-	-
Others, net	(45,882)	30,000	266
Net cash used in investing activities	<u>(2,103,894)</u>	<u>(4,394,009)</u>	<u>(38,995)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	550,000	690,000	6,123
Repayments of short-term borrowings	(430,000)	(780,000)	(6,922)
Proceeds from long-term debt	538,000	440,000	3,904
Repayments of long-term debt	(130,533)	(202,893)	(1,800)
Repayments of lease obligations	(61,852)	(64,405)	(571)
Purchase of treasury stock	(171)	-	-
Cash dividends paid	(1,129,698)	(1,465,553)	(13,006)
Proceeds from stock issuance to non-controlling shareholders	-	106,757	947
Cash dividends paid to non-controlling interests	(73,420)	(108,868)	(966)
Net cash used in financing activities	<u>(737,677)</u>	<u>(1,384,964)</u>	<u>(12,291)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>193,363</u>	<u>(11,228)</u>	<u>(99)</u>
Net increase in cash and cash equivalents	<u>2,846,296</u>	<u>708,927</u>	<u>6,291</u>
Cash and cash equivalents at the beginning of year	<u>6,883,951</u>	<u>9,730,247</u>	<u>86,352</u>
Cash and cash equivalents at the end of year (Note 8(a))	<u>¥9,730,247</u>	<u>¥10,439,174</u>	<u>\$92,644</u>

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



HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacturing and sales of harmonic drive gears and related motion control products. The manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, by subsidiaries in the United States and by 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 consolidated financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

In the consolidated financial statements, amounts have been rounded down to ¥1 thousand consistent with the original consolidated financial statements in Japanese. As a result, the total shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at

the rate of ¥112.68 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2016. 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, 2015 and 2016 are as follows:

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

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

The Company holds a 36.8% share in a sales distributor in Europe, Harmonic Drive AG, for the years ended March 31, 2015 and 2016. The investment in the shares of Harmonic Drive AG is accounted for using the equity method in the consolidated financial statements. 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:

Realized gains and losses on sales of those securities are determined using the moving average method and are reflected in the consolidated statements of income. Available-for-sale securities with 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.

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 audit & supervisory board members:

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

④ Accrued warranty expenses:

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

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

In accordance with the Companies' internal rule for retirement benefits for directors

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

⑥ Reserve for retirement benefits for executive officers:

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

(f) Accounting method for retirement benefits for employees -

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

(g) 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.

(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 changes:

(a) Adoption of Accounting Standard for Business Combinations, etc. -

Effective from the year ended March 31, 2016, the Company adopted the following accounting standards, “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21, September 13, 2013, hereafter “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013, hereafter “Consolidation Accounting Standard”), and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013, hereafter “Business Divestitures Accounting Standard”). As a result, the difference from changes in the Company’s equity interests in its subsidiaries that remain controlled by the Company is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year when they are incurred.

Also, for business combinations conducted from the beginning of the consolidated fiscal year, the Company has changed to a method to reflect the revisions to the allocated

amount of acquisition cost determined by the provisional accounting treatment in the consolidated financial statements for the consolidated fiscal year which the date of the business combination belongs. In addition, the Company has changed the presentation of net income and other related items, and the presentation of minority interests to non-controlling interests. To reflect this change in presentation, the Company reclassified its consolidated financial statements for the previous fiscal year.

For the application of the Business Combinations Accounting Standard and other standards, the Company follows the transitional treatment prescribed by Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard, and Article 57-4 (4) of the Business Divestitures Accounting Standard, applying such treatment from the beginning of the consolidated fiscal year and going forward.

Regarding the Consolidated Statement of Cash Flows for the consolidated fiscal year, cash flows relating to the acquisition or sales of shares of subsidiaries not resulting from changes in the scope of consolidation are recorded under the cash flows from financing activities, and cash flows associated with expenses related to the acquisition of shares in subsidiaries resulting from changes in the scope of consolidation, or the expenses arising from the acquisition or sales of shares of subsidiaries not resulting from changes in the scope of consolidation, are recorded under the cash flow from operating activities.

There is no effect on the consolidated financial statements and net income per share as a result of these changes.

4. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2015 and 2016 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Investment in affiliated companies	<u>¥5,593,842</u>	<u>¥4,918,983</u>	<u>\$43,654</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, 2015 and 2016:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Buildings	¥28,902	¥27,209	\$241
Land	<u>33,146</u>	<u>33,146</u>	<u>294</u>
	<u>¥62,048</u>	<u>¥60,356</u>	<u>\$535</u>
Secured long-term debt:			
Current portion of long-term debt	¥5,256	¥4,021	\$35
Long-term debt	<u>9,392</u>	<u>5,371</u>	<u>47</u>
	<u>¥14,648</u>	<u>¥9,392</u>	<u>\$83</u>

(c) Credit facility contracts -

The Company entered into credit facility contracts with four banks at March 31, 2014, totaling ¥5,000,000 thousand (\$44,373 thousand) for 3 years. In addition, the contract has been extended until March 29, 2019 for the source of the medium-term working capital. As of March 31, 2015 and 2016, 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, 2015 and 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Salaries and bonuses	¥1,614,077	¥1,802,547	\$15,997
Accrued bonuses for directors and audit & supervisory board members	184,329	199,616	1,771
Retirement benefit expenses	30,443	(10,557)	(93)
Reserve for retirement benefits for directors and audit & supervisory board members	35,365	36,481	323
Reserve for retirement benefits for executive officers	21,170	18,627	165
Research and development expenses	1,282,350	1,369,366	12,152

(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 ¥1,309,311 thousand and ¥1,404,658 thousand (\$12,465 thousand) for the years ended March 31, 2015 and 2016, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets by fixed assets category for the years ended March 31, 2015 and 2016 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Gain on sales of:			
Machinery and equipment	¥ 2,979	¥ 360	\$ 3
Tools, furniture and fixtures	87	-	-
	¥3,067	¥ 360	\$ 3

(d) Loss on disposal of fixed assets -

Loss on disposal of fixed assets by fixed assets category for the years ended March 31, 2015 and 2016 was as follows:

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
Loss on disposal of:			2016
Buildings and structures	¥ 2,065	¥ 20,730	\$ 183
Machinery and equipment	0	4,412	39
Tools, furniture and fixtures	11,860	2,581	22
	<u>¥ 13,926</u>	<u>¥ 27,725</u>	<u>\$ 246</u>

6. 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, 2015 and 2016 were as follows:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2015</u>	<u>2016</u>	<u>U.S. dollars</u>
			<u>2016</u>
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	¥3,600,221	(¥ 3,415,349)	(\$ 30,310)
Recycling adjustments	<u>-</u>	<u>-</u>	<u>-</u>
Before tax effect	<u>3,600,221</u>	<u>(3,415,349)</u>	<u>(30,310)</u>
Tax effect	<u>(958,497)</u>	<u>1,180,104</u>	<u>10,473</u>
Net unrealized losses (gains) on available-for-sale securities	<u>2,641,723</u>	<u>(2,235,244)</u>	<u>(19,837)</u>
Foreign currency translation adjustments			
Changes arising during the year	<u>511,141</u>	<u>(38,787)</u>	<u>(344)</u>
Remeasurements of defined benefit plans			
Changes arising during the year	¥174,562	(¥ 37,409)	(\$ 331)
Recycling adjustments	<u>(83,342)</u>	<u>(161,055)</u>	<u>(1,429)</u>
Before tax effect	<u>91,220</u>	<u>(198,464)</u>	<u>(1,761)</u>
Tax effect	<u>(21,660)</u>	<u>65,343</u>	<u>579</u>
Net unrealized losses (gains) on available-for-sale securities	<u>69,559</u>	<u>(133,120)</u>	<u>(1,181)</u>
Equity in other comprehensive loss (income) of an affiliated company accounted for by equity method			
Changes arising during the year	<u>36,156</u>	<u>(262,176)</u>	<u>(2,326)</u>
Total other comprehensive loss (income)	<u>¥3,258,581</u>	<u>(¥ 2,669,329)</u>	<u>(\$ 23,689)</u>

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

(a) Shares issued and outstanding-

<u>Share type</u>	<u>April 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2015</u>
Common stock (shares)	<u>31,583,100</u>	<u>63,166,200</u>	<u>-</u>	<u>94,749,300</u>

<u>Share type</u>	<u>April 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2016</u>
Common stock (shares)	<u>94,749,300</u>	<u>-</u>	<u>-</u>	<u>94,749,300</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2015</u>
Common stock (shares)	<u>1,050,687</u>	<u>2,101,506</u>	<u>-</u>	<u>3,152,193</u>

<u>Share type</u>	<u>April 1, 2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2016</u>
Common stock (shares)	<u>3,152,193</u>	<u>-</u>	<u>-</u>	<u>3,152,193</u>

(Notes)

- One common share held by shareholders was split into 3 shares effective from October 1, 2014.
- Increase of treasury stock for the year ended March 31, 2015 included an increase due to the share split into 3 shares above and purchases of less-than-one unit common shares from shareholders.

(c) Stock subscription rights -

The Company had no stock subscription rights at March 31, 2015 and 2016.

(d) Dividends -

For the year ended March 31, 2015:

- ① Dividends paid during the current year -
- (i) The following was resolved by the annual shareholders' meeting held on June 20, 2014:
- | | |
|--|----------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥457,986 |
| Cash dividend per share
(Yen) | ¥15 |
| Record date | March 31, 2014 |
| Declaration date | June 23, 2014 |
- (ii) The following was determined by the board of directors meeting held on November 12, 2014:
- | | |
|--|--------------------|
| Type of shares | Common stock |
| Total amount of dividends paid in cash
(Thousands of yen) | ¥671,712 |
| Cash dividend per share
(Yen) | ¥22 |
| Record date | September 30, 2014 |
| Declaration date | December 8, 2014 |
- 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 19, 2015:
- | | |
|--|-------------------|
| 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) | ¥641,179 |
| Cash dividend per share
(Yen) | ¥7 |
| Record date | March 31, 2015 |
| Declaration date | June 22, 2015 |

For the year ended March 31, 2016:

① Dividends paid during the current year -	
(i) The following was resolved by the annual shareholders' meeting held on June 19, 2015:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥641,179
(Thousands of U.S. dollars)	\$5,690
Cash dividend per share	
(Yen)	¥7
(U.S. dollars)	\$0.06
Record date	March 31, 2015
Declaration date	June 22, 2015
(ii) The following was determined by the board of directors meeting held on November 11, 2015:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥824,373
(Thousands of U.S. dollars)	\$7,316
Cash dividend per share	
(Yen)	¥9
(U.S. dollars)	\$0.07
Record date	September 30, 2015
Declaration date	December 7, 2015
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 17, 2016:	
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)	¥824,373
(Thousands of U.S. dollars)	\$7,316
Cash dividend per share	
(Yen)	¥9
(U.S. dollars)	\$0.07
Record date	March 31, 2016
Declaration date	June 20, 2016

8. 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, 2015 and 2016 were comprised of the following:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2015</u>	<u>2016</u>	<u>2016</u>
Cash and bank deposits	¥12,117,107	¥12,876,388	\$114,273
Highly liquid investments	30,678	30,688	272
Time deposits with a deposit period of over three months	<u>(2,417,538)</u>	<u>(2,467,901)</u>	<u>(21,901)</u>
Cash and cash equivalents	<u>¥9,730,247</u>	<u>¥10,439,174</u>	<u>\$92,644</u>

9. 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, 2015 and 2016 were ¥670 thousand and zero, 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, 2015 and 2016 and the consolidated statements of income for the years then ended:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Machinery and equipment	¥13,700	¥ -	\$ -
Less - Accumulated depreciation	(5,552)	-	-
	<u>¥8,147</u>	<u>¥ -</u>	<u>\$ -</u>

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Depreciation	¥514	¥ -	\$ -
Interest expenses	6	-	-

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, 2015 and 2016 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Due within 1 year	¥2,525	¥ -	\$ -
Due after 1 year	<u>6,238</u>	<u>-</u>	<u>-</u>
	<u>¥8,764</u>	<u>¥ -</u>	<u>\$ -</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, 2015 and 2016 were as follows:

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
	<u>2015</u>	<u>2016</u>	<u>2016</u>
Due within 1 year	¥165,788	¥71,325	\$632
Due after 1 year	<u>82,243</u>	<u>25,825</u>	<u>229</u>
	<u>¥248,032</u>	<u>¥97,151</u>	<u>\$862</u>

10. Financial instruments:

(a) Policy for financial instruments -

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

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

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

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, but to hedge foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts with the financial institutions with high credit ratings in accordance with the internal rules on assignment of authority and responsibility, 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 partner company's credit risk. The Companies monitor the financial conditions of the partner company periodically. Long-term loans receivable include the loans to employees, which are managed in accordance with the internal rules.

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

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

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

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2015 and 2016. 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.).

	Thousands of yen		
	Carrying amount	Fair value	Variance
March 31, 2015:			
(1) Cash and bank deposits	¥12,117,107	¥12,117,107	¥ -
(2) Notes and accounts receivable, trade	8,486,611	8,486,611	-
(3) Investment securities			
Available-for-sale securities	754,163	754,163	-
(4) Investment in affiliated companies			
Available-for-sale securities	<u>11,362,200</u>	<u>11,362,200</u>	<u>-</u>
Assets total	<u>¥32,720,082</u>	<u>¥32,720,082</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,159,842	¥2,159,842	¥ -
(2) Accrued income taxes	1,541,906	1,541,906	
(3) Current portion of long-term debt	154,668	154,668	
(4) Long-term debt	<u>460,462</u>	<u>460,462</u>	<u>-</u>
Liabilities total	<u>¥4,316,878</u>	<u>¥4,316,878</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 9,295)</u>	<u>(¥ 9,295)</u>	<u>¥ -</u>

March 31, 2016:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥12,876,388	¥12,876,388	¥ -
(2) Notes and accounts receivable, trade	8,397,678	8,397,678	-
(3) Investment securities			
Available-for-sale securities	453,624	453,624	-
(4) Investment in affiliated companies			
Available-for-sale securities	8,247,390	8,247,390	-
Assets total	<u>¥29,975,080</u>	<u>¥29,975,080</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,308,174	¥2,308,174	¥ -
(2) Accrued income taxes	756,273	756,273	
(3) Current portion of long-term debt	211,519	211,519	
(4) Long-term debt	640,718	640,718	-
Liabilities total	<u>¥3,916,684</u>	<u>¥3,916,684</u>	<u>¥ -</u>
Derivative transactions	<u>(¥ 3,749)</u>	<u>(¥ 3,749)</u>	<u>¥ -</u>

	Thousands of U.S. dollars		
March 31, 2016:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$114,273	\$114,273	\$ -
(2) Notes and accounts receivable, trade	74,526	74,526	-
(3) Investment securities			
Available-for-sale securities	4,025	4,025	-
(4) Investment in affiliated companies			
Available-for-sale securities	73,193	73,193	-
Assets total	<u>\$266,019</u>	<u>\$266,019</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$20,484	\$20,484	\$ -
(2) Accrued income taxes	6,711	6,711	
(3) Current portion of long-term debt	1,877	1,877	
(4) Long-term debt	5,686	5,686	-
Liabilities total	<u>\$34,759</u>	<u>\$34,759</u>	<u>\$ -</u>
Derivative transactions	<u>(\$ 33)</u>	<u>(\$ 33)</u>	<u>\$ -</u>

(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 11. Marketable securities and investment securities" for the footnote information by holding purpose.

(4) Investment in affiliated companies

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

See “Note 11. Marketable securities and investment securities” for the footnote information by holding purpose.

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 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 a variable interest rate is deemed to approximate the carrying amount because the contracted interest rate is periodically renewed reflecting the current market interest rate.

Derivative transactions

See “Note 12. Derivative financial instruments”.

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

	Thousands of yen		Thousands of U.S. dollars
	<u>2015</u>	<u>2016</u>	<u>2016</u>
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$33</u>
Investment in affiliated companies			
Unlisted equity securities	<u>5,593,842</u>	<u>4,918,983</u>	<u>\$43,654</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.

(Note 3) The redemption schedule for financial assets with maturity dates subsequent to March 31, 2015 and 2016 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, 2015:				
Cash and bank deposits	¥12,117,107	-	-	-
Notes and accounts receivable, trade	8,486,611	-	-	-
	<u>¥20,603,718</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Thousands of yen			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2016:				
Cash and bank deposits	¥12,876,388	-	-	-
Notes and accounts receivable, trade	8,397,678	-	-	-
	<u>¥21,274,066</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Thousands of U.S. dollars			
	Due within 1 year	Due after 1 year within 5 years	Due after 5 years within 10 years	Due after 10 years
March 31, 2016:				
Cash and bank deposits	\$ 114,273	-	-	-
Notes and accounts receivable, trade	74,526	-	-	-
	<u>\$ 188,800</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31,

2015 and 2016 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, 2015:							
Long-term debt		¥154,668	¥145,663	¥125,592	¥120,252	¥53,921	¥15,034
Total		<u>¥154,668</u>	<u>¥145,663</u>	<u>¥125,592</u>	<u>¥120,252</u>	<u>¥53,921</u>	<u>¥15,034</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, 2016:							
Long-term debt		¥211,519	¥191,448	¥186,108	¥121,129	¥71,856	¥70,177
Total		<u>¥211,519</u>	<u>¥191,448</u>	<u>¥186,108</u>	<u>¥121,129</u>	<u>¥71,856</u>	<u>¥70,177</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, 2016:							
Long-term debt		\$1,877	\$1,699	\$1,651	\$1,074	\$637	\$622
Total		<u>\$1,877</u>	<u>\$1,699</u>	<u>\$1,651</u>	<u>\$1,074</u>	<u>\$637</u>	<u>\$622</u>

11. 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, 2015 and 2016 were as follows:

		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2015				
Equity securities	¥2,716,931	9,399,432	-	¥12,116,363
		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2016				
Equity securities	¥2,716,931	5,984,083	-	¥8,701,014
		Thousands of U.S. dollars		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2016:				
Equity securities	\$24,111	53,106	-	\$77,218

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. There are no impairment losses on available-for-sale securities with market quotations for the years ended March 31, 2015 and 2016.

12. Derivative financial instruments:

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

Thousands of Yen				
March 31, 2015	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell U.S. Dollar	¥228,532	¥ -	¥543	¥543
Sell Korean Won	312,460	-	(9,838)	(9,838)
	<u>¥540,992</u>	<u>¥ -</u>	<u>(¥9,295)</u>	<u>(¥9,295)</u>

Thousands of Yen				
March 31, 2016	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell Korean Won	¥289,070	¥ -	(¥3,749)	(¥3,749)
	<u>¥289,070</u>	<u>¥ -</u>	<u>(¥3,749)</u>	<u>(¥3,749)</u>

Thousands of U.S. Dollars				
March 31, 2016	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Sell Korean Won	\$2,565	\$ -	(\$33)	(\$33)
	<u>\$2,565</u>	<u>\$ -</u>	<u>(\$33)</u>	<u>(\$33)</u>

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

13. Retirement benefits for employees:

Retirement benefits regulations, which cover substantially all employees of the Company and its subsidiaries, provide for funded or non-funded defined benefit plans or defined contribution plans based on the employee's length of service, position in the respective company and conditions under which the termination of employment occurs. The Companies may pay additional retirement benefits to their retired employees which are not covered by the retirement benefits regulations within the scope of actuarial computation of defined benefits plan obligations.

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

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. This employees' pension fund plan is not subject to actuarial computation of accrued retirement benefits for employees recorded in the consolidated balance sheets, because the plan assets corresponding to the Companies' contribution to the plan cannot be computed in a reasonable way. The contributions to this plan are recognized as retirement benefit expenses.

Certain domestic subsidiaries have recognized their defined benefits plan obligations and retirement benefit expenses using the simplified accounting method.

The information for the defined benefit plans as of March 31, 2015 and 2016 and for the years then ended is as follows:

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

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
			2016
Defined benefits plan obligations at beginning of the year	¥1,859,111	¥1,690,333	\$15,001
Cumulative effects of changes in accounting policies	(231,190)	-	-
Restated balance	1,627,920	1,690,333	15,001
Service cost	128,621	128,701	1,142
Interest cost	9,594	9,963	88
Actuarial differences	2,275	(10,995)	(97)
Retirement benefits paid	(78,079)	(88,041)	(781)
Past service costs	-	-	-
Other	-	-	-
Defined benefits plan obligations at end of the year	<u>¥1,690,333</u>	<u>¥1,729,961</u>	<u>\$15,352</u>

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

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
			2016
Plan assets at beginning of the year	¥2,462,800	¥2,714,739	\$24,092
Expected return on plan assets	49,255	54,294	481
Actuarial differences	176,838	(48,404)	(429)
Employer contributions	103,923	110,037	976
Retirements benefits paid	(78,079)	(88,041)	(781)
Other	-	-	-
Plan assets at end of the year	<u>¥2,714,739</u>	<u>¥2,742,626</u>	<u>\$24,339</u>

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

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
			2016
Defined benefits plan obligations of funded plan	¥1,690,333	¥1,729,961	\$15,352
Plan assets	(2,714,739)	(2,742,626)	(24,339)
	<u>(1,024,406)</u>	<u>(1,012,664)</u>	<u>(8,987)</u>
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	<u>(1,024,406)</u>	<u>(1,012,664)</u>	<u>(8,987)</u>
Net defined benefit assets	<u>(1,024,406)</u>	<u>(1,012,664)</u>	<u>(8,987)</u>
Net liabilities or assets recorded in the consolidated balance sheet	<u>(¥1,024,406)</u>	<u>(¥1,012,664)</u>	<u>(\$8,987)</u>

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of
	2015	2016	U.S. dollars
			2016
Service cost	¥128,621	¥128,701	\$1,142
Interest cost	9,594	9,963	88
Expected return on plan assets	(49,255)	(54,294)	(481)
Actuarial differences	(83,342)	(161,055)	(1,429)
Past service costs	-	-	-
Other	-	-	-
Retirement benefit expenses related to the defined benefit plans	<u>¥5,617</u>	<u>(¥76,685)</u>	<u>(\$680)</u>

⑤ Components of defined benefit plans –

Components of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Past service costs	¥ -	¥ -	\$ -
Actuarial differences	(91,220)	198,464	1,761
Other	-	-	-
Total	<u>(¥91,220)</u>	<u>¥198,464</u>	<u>\$1,761</u>

⑥ Components of remeasurements of defined benefit plans -

Components of remeasurements of defined benefit plans (before net of tax effect) are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized past service costs	¥ -	¥ -	\$ -
Unrecognized actuarial differences	(315,367)	(116,903)	(1,037)
Total	<u>(¥315,367)</u>	<u>(¥116,903)</u>	<u>(\$1,037)</u>

⑦ Plan assets -

1) Components of plan assets

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

	2015	2016
Bonds	71%	70%
Equities	26%	27%
Cash and bank deposits	3%	3%
Other	-	-
Total	<u>100%</u>	<u>100%</u>

2) Method for determining the expected long-term rate of return on plan assets

Expected long-term rate of return on plan assets is determined by considering the current and projected plan asset allocations, as well as current and expected long-

term investment returns from the various assets that compose the plan assets.

⑧ Principal actuarial assumptions -

The assumptions used in the above actuarial computations for the years ended March 31, 2015 and 2016 were as follows:

	<u>2015</u>	<u>2016</u>
Discount rate	0.59%	0.59%
Expected return ratio on plan assets	2.00%	2.00%

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

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2015</u>	<u>2016</u>	<u>2016</u>
Net defined benefit liabilities at beginning of the year	¥46,807	¥59,816	\$530
Retirement benefits expenses	13,009	8,243	73
Retirement benefits paid	-	(4,708)	(41)
Contributions to the plan	-	-	-
Other	-	-	-
Net defined benefit liabilities at end of the year	<u>¥59,816</u>	<u>¥63,351</u>	<u>\$562</u>

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2015</u>	<u>2016</u>	<u>2016</u>
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	<u>-</u>	<u>-</u>	<u>-</u>
Defined benefits plan obligations of unfunded plan	<u>59,816</u>	<u>63,351</u>	<u>562</u>
Net liabilities or assets recorded in the consolidated balance sheet	59,816	63,351	562
Net defined benefit liabilities or assets recorded in the consolidated balance sheet	<u>59,816</u>	<u>63,351</u>	<u>562</u>
	<u>¥59,816</u>	<u>¥63,351</u>	<u>\$562</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2015 and 2016 calculated by the simplified accounting method were ¥13,009 thousand and ¥8,243 thousand (\$73 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2015 and 2016 were ¥25,363 thousand and ¥31,658 thousand (\$280 thousand), respectively.

(c) 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, 2015 and 2016 was as follows:

	Millions of yen		Millions of U.S. dollars
	2015	2016	2016
Plan assets	¥126,998	¥141,419	\$1,255
Total amount of actuarial the pension obligations and minimum reserve amount based on the calculation of pension financing in the scheme	146,473	157,293	1,395
Net balance	(¥19,475)	(¥15,874)	(\$140)

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

The Company's contributions to the multi-employer plan represented 1.54% and 1.63% of those in total to the plan for the years ended March 31, 2015 and 2016, respectively.

③ Supplementary explanation -

The net balance at March 31, 2015 and 2016 on the schedule above resulted mainly from the past service cost of ¥21,774 million and ¥21,107 million (\$187 million), respectively. Amortization period of the past 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 multi-employer pension plan, which the Company has accounted for as if it were a defined contribution plan, for the years ended March 31, 2015 and 2016 were ¥103,769 thousand and ¥88,622 thousand (\$786 thousand), respectively.

14. Stock options:

No stock options were granted during the years ended March 31, 2015 and 2016.

15. Income taxes:

Deferred tax assets and liabilities as of March 31, 2015 and 2016 consist of the following:

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax assets - current:			
Accrued enterprise taxes	¥ 110,489	¥ 53,210	\$ 472
Accrued bonuses	257,086	248,180	2,202
Inventory write-down	11,375	8,436	74
Unrealized intercompany profit in inventories	72,829	88,756	787
Accrued social insurance premium	27,878	26,654	236
Others	28,375	34,069	302
Net deferred tax assets - current	¥508,035	¥459,309	\$4,076
Deferred tax assets - non current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥5,654	¥6,302	\$55
Net defined benefit liabilities	14,431	15,759	139
Others	8,808	7,564	67
Net deferred tax assets - non current	¥28,894	¥29,626	\$262

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Deferred tax liabilities - non current:			
Reserve for retirement benefits for directors and audit & supervisory board members	¥117,057	¥122,256	\$1,084
Devaluation loss on golf club memberships	6,034	5,771	51
Devaluation loss on investment securities	136,420	38,371	340
Allowance for doubtful accounts	115,680	-	-
Reserve for retirement benefits for executive officers	22,854	27,576	244
Unrealized gains on available-for-sale securities	(2,944,975)	(1,768,022)	(15,690)
Undistributed earnings of foreign subsidiaries and an affiliated company	(462,896)	(511,462)	(4,539)
Net defined benefit assets	(336,694)	(310,887)	(2,759)
Others	(162,470)	(144,526)	(1,282)
Net deferred tax liabilities - non current	<u>(¥3,508,990)</u>	<u>(¥2,540,924)</u>	<u>(\$22,549)</u>

Reconciliation of the differences between the normal statutory effective tax rate and the actual effective tax rate for the years ended March 31, 2015 and 2016 were omitted due to immateriality.

Adjustments to deferred tax assets, deferred tax liabilities, etc. due to a change in the income tax rate -

Due to the enactment by the Diet of the “Partial Amendment of the Income Tax Act, etc.” and “Partial Amendment of the Local Tax Law, etc.” on March 29, 2016, the statutory effective tax rate used to measure deferred tax assets and liabilities (limited to those to be settled on or after April 1, 2016) has been changed from 32.1% to 30.7% for temporary differences expected to be reversed during the period from April 1, 2016 to March 31, 2018, and to 30.5% for temporary differences expected to be reversed in the years beginning on or after April 1, 2018, respectively.

As a result of these changes in the tax rate, deferred tax liabilities (net of deferred tax assets) decreased by ¥92,684 thousand (\$822 thousand), and income taxes-deferred decreased by ¥7,271 thousand (\$64 thousand), net unrealized gains on available-for-

sale securities increased by ¥83,777 thousand (\$743 thousand) and remeasurements of defined benefit plans increased by ¥1,636 thousand (\$14 thousand), respectively.

16. Segment information:

(a) Overview of the reportable segments -

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

The Company is engaged in the manufacturing and sales of precision speed reducers, precision 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 manufacturing and sale of the products.

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

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

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

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

For the year ended March 31, 2015	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥22,534,000	¥3,417,062	¥ -	¥25,951,062	¥ -	¥25,951,062
Inter-segment	1,216,907	-	-	1,216,907	(1,216,907)	-
Total	<u>¥23,750,907</u>	<u>¥3,417,062</u>	<u>¥ -</u>	<u>¥27,167,970</u>	<u>(¥1,216,907)</u>	<u>¥25,951,062</u>
Segment profit/(loss)	¥8,075,875	¥364,930	¥279,270	¥8,720,077	(¥1,194,912)	¥7,525,164
Segment assets	¥20,073,607	¥3,978,428	¥5,468,039	¥29,520,076	¥19,920,892	¥49,440,969
Others						
Investment in affiliated companies	¥125,802	¥ -	¥5,468,039	¥5,593,842	¥ -	¥5,593,842
Increase in tangible and intangible fixed assets	2,294,270	181,457	-	2,475,727	-	2,475,727

- The adjustment for segment profit/(loss) of ¥1,194,912 thousand includes the eliminated profit of the inter-segment transactions of ¥194,466 thousand and the general administrative expenses of ¥1,000,446 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 uses the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥19,920,892 thousand includes inter-segment elimination of ¥458,356 thousand and corporate assets of ¥20,379,249 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, 2016	Japan	North America	Europe	Total	Adjustment	Consolidated
Sales:						
Third party	¥23,428,225	¥4,850,188	¥ -	¥28,278,413	¥ -	¥28,278,413
Inter-segment	1,592,253	-	-	1,592,253	(1,592,253)	-
Total	<u>¥25,020,478</u>	<u>¥4,850,188</u>	<u>¥ -</u>	<u>¥29,870,667</u>	<u>(¥1,592,253)</u>	<u>¥28,278,413</u>
Segment profit/(loss)	¥8,570,248	¥786,260	¥51,176	¥9,407,685	(¥1,577,870)	¥7,829,815
Segment assets	¥22,730,785	¥4,607,263	¥4,785,721	¥32,123,770	¥16,626,130	¥48,749,900
Others						
Investment in affiliated companies	¥133,262	¥ -	¥4,785,721	¥4,918,983	¥ -	¥4,918,983
Increase in tangible and intangible fixed assets	2,524,652	197,519	-	2,722,171	-	2,722,171
Thousands of U.S. dollars						
Reportable segment						
For the year ended March 31, 2016	Japan	North America	Europe	Total	Adjustment	Consolidated
Sales:						
Third party	\$207,918	\$43,043	\$ -	\$250,962	\$ -	\$250,962
Inter-segment	14,130	-	-	14,130	(14,130)	-
Total	<u>\$222,048</u>	<u>\$43,043</u>	<u>\$ -</u>	<u>\$265,092</u>	<u>(\$14,130)</u>	<u>\$250,962</u>
Segment profit/(loss)	\$76,058	\$6,977	\$454	\$83,490	(\$14,003)	\$69,487
Segment assets	\$201,728	\$40,888	\$42,471	\$285,088	\$147,551	\$432,640
Others						
Investment in affiliated companies	\$1,182	\$ -	\$42,471	\$43,654	\$ -	\$43,654
Increase in tangible and intangible fixed assets	22,405	1,752	-	24,158	-	24,158

- The adjustment for segment profit/(loss) of ¥1,577,870 thousand (\$14,003 thousand) includes the eliminated profit of the inter-segment transactions of ¥488,397 thousand (\$4,334 thousand) and the general administrative expenses of ¥1,089,472 thousand (\$9,668 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 uses the “Equity in income of affiliated companies” as the “segment profit/(loss)”.
- The adjustment for segment assets of ¥16,626,130 thousand (\$147,551 thousand) includes inter-segment elimination of ¥439,388 thousand (\$3,899 thousand) and corporate assets of ¥17,065,519 thousand (\$151,451 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
	2015	2016	2016
Sales to third parties			
Speed reducers	¥ 21,302,557	¥ 22,362,820	\$ 198,463
Mechatronic products	4,648,505	5,915,593	52,499
	<u>¥25,951,062</u>	<u>¥28,278,413</u>	<u>\$250,962</u>

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

② Geographic information –

Sales:

	Thousands of yen				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2015:					
Total	<u>¥17,565,962</u>	<u>¥3,417,062</u>	<u>¥1,611,569</u>	<u>¥3,356,468</u>	<u>¥25,951,062</u>
For the year ended March 31, 2016:					
Total	<u>¥17,082,280</u>	<u>¥4,850,188</u>	<u>¥2,174,963</u>	<u>¥4,170,981</u>	<u>¥28,278,413</u>

	Thousands of U.S. dollars				
	Japan	North America	Europe	Other	Total
For the year ended March 31, 2016:					
Total	<u>\$151,599</u>	<u>\$43,043</u>	<u>\$19,302</u>	<u>\$37,016</u>	<u>\$250,962</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- 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, 2015:				
Total Assets	<u>¥6,304,108</u>	<u>¥841,879</u>	<u>¥ -</u>	<u>¥7,145,987</u>
March 31, 2016:				
Total Assets	<u>¥8,955,958</u>	<u>¥851,367</u>	<u>¥ -</u>	<u>¥9,807,326</u>

	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2016:				
Total Assets	<u>\$79,481</u>	<u>\$7,555</u>	<u>\$ -</u>	<u>\$87,036</u>

③ Information of major customers -

<u>Customer Name</u>	<u>Thousands of yen</u>		<u>Thousands of</u> <u>U.S. dollars</u>	<u>Related</u> <u>Segment</u>
	<u>2015</u>	<u>2016</u>	<u>2016</u>	
Haneda & Co., Ltd.	¥ 3,567,617	¥ 3,899,892	\$ 34,610	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, 2015 and 2016.

(f) Amortization expense and unamortized balance of goodwill -

No amortization expense and unamortized balance of goodwill was recognized for the years ended March 31, 2015 and 2016.

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2015 and 2016.

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	36.8% 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>2015</u>	<u>2016</u>	<u>2016</u>
For the year:			
Sales to the affiliated company	¥1,611,569	¥2,174,963	\$19,302
At year-end:			
Accounts receivable, trade	279,833	512,326	4,546

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
	2015	2016	U.S. dollars
			2016
March 31:			
Current assets	¥4,725,228	¥4,840,251	\$42,955
Fixed assets	1,982,656	2,393,092	21,237
Investments and other assets	1,604,864	444,498	3,944
Current liabilities	699,807	1,486,403	13,191
Long-term liabilities	1,260,989	907,831	8,056
Net assets	6,351,953	5,283,606	46,890
For the year ended March 31:			
Sales	10,030,946	9,933,039	88,152
Income before income taxes	1,984,847	1,404,780	12,466
Net income	1,437,998	761,471	6,757

18. Net income per share information:

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

	Yen		U.S. dollars
	2015	2016	2016
Net assets per share	¥395.68	¥405.28	\$3.59
Net income per share	52.77	54.60	0.48

(Note)

- Diluted net income per share are not computed because the Company does not have any potential dilutive shares.
- The Company split one common share into 3 shares effective from October 1, 2014. Net assets per share and net income per share were restated to reflect the effects from the stock split on October 1, 2014, assuming that the stock split had been made at the beginning of the prior year.

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

	Thousands of yen		Thousands of U.S. dollars
	2015	2016	2016
Profit attributable to owners of the parent	¥4,833,599	¥5,001,654	\$44,388
Profit attributable to common stock owners of the parent	¥4,833,599	¥5,001,654	\$44,388

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

	Number of shares	
	2015	2016
Weighted average number of shares	91,597,135	91,597,107

19. Subsequent events:

There have been no significant subsequent events on or after April 1, 2016.

20. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2015 and 2016.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2015	Balance at March 31, 2016	Balance at March 31, 2016		
Short-term borrowings	¥130,000	¥40,000	\$354	0.5	-
Current portion of long-term debt	154,668	211,519	1,877	0.5	-
Current portion of lease obligations	47,803	54,452	483	1.2	-
Long-term debt (excluding current portion)	460,462	640,718	5,686	0.5	2017-2022
Lease obligations (excluding current portion)	101,107	160,338	1,422	0.8	2017-2022
Other	-	-	-	-	-
Total	<u>¥894,041</u>	<u>¥1,107,027</u>	<u>\$9,824</u>	-	-

- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2016 are as follows:

	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2016				
Long-term debt	¥191,448	¥186,108	¥121,129	¥71,856
Lease obligations	44,657	30,727	28,140	28,214

	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
March 31, 2016				
Long-term debt	\$1,699	\$1,651	\$1,074	\$637
Lease obligations	396	272	249	250

- 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, 2015 and 2016 were omitted due to immateriality.

(d) Others -

The condensed financial information of each quarter for the year ended March 31, 2016 is as follows:

	Thousands of yen (Net income per share: yen)			
	3 months ended June 30, 2015	6 months ended September 30, 2015	9 months ended December 31, 2015	12 months ended March 31, 2016
Sales	¥7,216,511	¥13,919,391	¥20,580,274	¥28,278,413
Income before income taxes	2,479,456	4,034,284	5,754,648	7,803,951
Profit attributable to owners of the parent	1,653,621	2,594,206	3,723,931	5,001,654
Net income per share	¥18.05	¥28.32	¥40.66	¥54.60

	Thousands of U.S. Dollars (Net income per share: U.S. Dollars)			
	3 months ended June 30, 2015	6 months ended September 30, 2015	9 months ended December 31, 2015	12 months ended March 31, 2016
Sales	\$64,044	\$123,530	\$182,643	\$250,962
Income before income taxes	22,004	35,803	51,070	69,257
Profit attributable to owners of the parent	14,675	23,022	33,048	44,388
Net income per share	\$0.16	\$0.25	\$0.36	\$0.48

	Yen			
	3 months ended June 30, 2015	3 months ended September 30, 2015	3 months ended December 31, 2015	3 months ended March 31, 2016
Net income per share	¥18.05	¥10.27	¥12.33	¥13.95
	U.S. Dollars			
	3 months ended June 30, 2015	3 months ended September 30, 2015	3 months ended December 31, 2015	3 months ended March 31, 2016
Net income per share	\$0.16	\$0.09	\$0.10	\$0.12