

HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2021



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Harmonic Drive Systems Inc.

### Opinion

We have audited the consolidated financial statements of Harmonic Drive Systems Inc. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Emphasis of matter

We draw attention to notes on the subsequent events, which describes an equity transfer agreement that the Group entered into with INCJ, Ltd on April 23, 2021. Under the agreement, the Group will acquire additional shares of GK HD Management for the purpose of making HDSE a wholly owned subsidiary.

Our opinion is not modified in respect of this matter.



## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment for non-current assets of Harmonic Drive SE Group Refer to Notes to consolidated financial statements "Significant accounting estimates"	
Key audit matter description	How our audit addressed the key audit matter
<p>In July 2002, the Group acquired shares of Harmonic Drive SE (HDSE), which made HDSE the Group's affiliated company. In March 2017, the Group acquired additional shares of HDSE, and HDSE has been the Group's subsidiary since then.</p> <p>The Group determines that a group of non-current assets related to HDSE and its eight sales subsidiaries (the HDSE Group) is the smallest unit that generates cash flows largely independent from the rest of the Group's operations. The group of assets mainly includes goodwill (15,532,775 thousand yen), customer related assets (19,840,708 thousand yen) and technical assets (5,299,162 thousand yen), and total non-current assets of the HDSE Group is 47,520,515 thousand yen (33.9% of total consolidated assets).</p> <p>In a business plan prepared when HDSE became the Group's subsidiary, increases in revenue and profit margin were expected due to increases in demand in the growing industrial robots market. However, operating results of HDSE for the years ended March 31, 2020 and March 31, 2021 fell short of the business plan and HDSE recorded operating losses due to temporary impact of inventory adjustments by HDSE's manufacturing clients resulting from significant fluctuations in demand for industrial robots and the spread of COVID-19.</p> <p>Considering the situation described above, the Group determined that there was an indication of an impairment of the HDSE Group's non-current assets. In determining whether impairment losses should be recognized, the Group compared total undiscounted future cash flows expected to be acquired by HDSE with the carrying value of non-currents of the HDSE</p>	<p>We performed the following procedures over the impairment assessment for the non-current assets of the HDSE Group:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the most recent business environment including the latest trend in the industrial robots market by conducting inquiries with management as well as inspecting board of directors meeting minutes and other related documents.</li> <li>• Performed the following procedures related to estimates of undiscounted future cash flows of the HDSE Group: <ul style="list-style-type: none"> <li>- Verified the consistency of the future cash flows with the mid-term business plan approved by the board of directors.</li> <li>- Compared the business plan which was prepared when HDSE became the Group's subsidiary with the actual results and examined the causes for failures to achieve the business plan and whether such causes are temporary, as well as verified that unachieved results are reflected in the mid-term business plan for this year and onwards</li> <li>- For future sales, involve specialists to verify consistency with forecast data provided by the external parties related to the industrial robots market growth rate and the financial statements of the comparable entities in the market, and assess whether sales forecast by customer is reasonable based on the Group's sales strategy.</li> <li>- For operating income, verified the consistency of the estimates with the trend in manufacturing and selling, general and administrative expenses historically as well as future sales forecasts and manufacturing capacity forecasted based on the future business environment.</li> </ul> </li> </ul>



<p>Group including goodwill. As a result, total undiscounted future cash flows expected to be derived from customer related assets and technical assets, which are the major components of the group of assets, over the remaining economic useful lives of the assets exceeded the carrying amount of non-current assets of the HDSE Group, and therefore, the Group did not record impairment losses for the year ended March 31, 2021.</p> <p>The Group forecasted total undiscounted future cash flows based on the mid-term business plan approved by the board of directors. The forecast includes estimates including future sales forecasts and operating income which were determined based principally on the external business environment, including management's estimates of future demand trends for the industrial robots market and the related sales strategy. These estimates involve management's subjective judgement and a high degree of estimation uncertainty. In addition, the non-current assets of the HDSE Group were quantitatively significant to the consolidated financial statements. Therefore, we considered the impairment assessment of non-current assets of the HDSE Group including estimates of future cash flows and assumptions used in such estimates were a key audit matter.</p>	<ul style="list-style-type: none"> <li>Performed our own calculation of total undiscounted future cash flows for this year and onwards where uncertainties are incorporated into the mid-term business plan and examine the impact it has on the impairment assessment for non-current assets performed by the Group.</li> </ul>
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**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in



Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the consolidated financial statement audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.




From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Convenience translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

#### **Interest required to be disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

千葉達哉 

Tatsuya Chiba  
Designated Engagement Partner  
Certified Public Accountant

June 30, 2021

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
	2020	2021	2021
Assets:			
Current assets -			
Cash and bank deposits (Notes 11(a) and 13(d))	¥19,554,409	¥21,142,106	\$190,968
Notes and accounts receivable, trade (Notes 13(d))	7,245,980	9,791,509	88,442
Marketable securities (Notes 11(a) and 14)	16,260	21,874	197
Finished products	1,153,655	916,359	8,277
Work in process	1,626,935	2,391,998	21,605
Raw materials and supplies	2,975,104	2,538,193	22,926
Other current assets	3,438,103	1,342,329	12,124
Allowance for doubtful accounts (Note 13(d))	(21,991)	(26,661)	(240)
Total current assets	<u>35,988,458</u>	<u>38,117,709</u>	<u>344,302</u>
Fixed assets -			
Tangible fixed assets (Notes 3, 7(b) and 12):			
Buildings and structures	21,304,222	20,509,415	185,253
Machinery and equipment	15,246,079	13,260,982	119,781
Land (Note 7(d))	3,210,624	3,108,646	28,079
Leased assets	3,224,010	3,039,349	27,453
Construction in progress	1,551,619	1,045,799	9,446
Others	963,900	1,027,701	9,282
Total tangible fixed assets	<u>45,500,456</u>	<u>41,991,895</u>	<u>379,296</u>
Intangible fixed assets:			
Goodwill (Note 19(f))	15,200,325	15,532,775	140,301
Software	377,521	274,489	2,479
Customer related assets	19,416,055	19,840,708	179,213
Technical assets	5,185,744	5,299,162	47,865
Others	32,995	56,201	507
Total intangible fixed assets	<u>40,212,642</u>	<u>41,003,338</u>	<u>370,367</u>
Investments and other assets:			
Investment securities (Notes 13(d) and 14)	352,970	17,091,091	154,377
Investment in affiliated companies (Notes 7(a), 13(d) and 14)	8,256,305	96,226	869
Net defined benefit assets (Note 16)	984,306	1,149,229	10,380
Deferred tax assets (Note 18)	420,973	470,140	4,246
Others	137,734	114,140	1,030
Allowance for doubtful accounts	(5,600)	(5,600)	(50)
Total investments and other assets	<u>10,146,690</u>	<u>18,915,227</u>	<u>170,853</u>
Total fixed assets	<u>95,859,790</u>	<u>101,910,461</u>	<u>920,517</u>
 Total assets	 <u>¥131,848,248</u>	 <u>¥140,028,170</u>	 <u>\$1,264,819</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
	2020	2021	2021
Liabilities:			
Current liabilities -			
Notes and accounts payable, trade (Note 13(d))	¥1,472,758	¥2,412,798	\$21,793
Short-term borrowings (Notes 7(c), 13(d) and 23(b))	237,336	226,668	2,047
Current portion of long-term debt (Notes 7(b), 7(c), 13(d) and 23(b))	734,707	881,261	7,960
Lease obligations – current (Note 23(b))	293,502	305,392	2,758
Accrued income taxes (Note 13(d))	128,791	837,683	7,566
Accrued bonuses for employees	634,691	765,136	6,911
Accrued bonuses for directors and audit & supervisory board members	96,055	107,064	967
Accrued warranty expenses	148,460	145,084	1,310
Other current liabilities	1,381,335	2,273,003	20,531
Total current liabilities	<u>5,127,639</u>	<u>7,954,093</u>	<u>71,846</u>
Long-term liabilities -			
Long-term debt (Notes 7(b), 7(c), 13(d) and 23(b))	5,991,294	5,220,859	47,157
Lease obligations – non-current (Note 23(b))	3,003,643	2,868,734	25,912
Deferred tax liabilities (Note 18)	9,278,394	12,075,672	109,074
Reserve for retirement benefits for directors and audit & supervisory board members	509,560	512,872	4,632
Reserve for retirement benefits for executive officers	124,869	134,089	1,211
Net defined benefit liabilities (Note 16)	930,637	1,049,268	9,477
Other long-term liabilities	163,721	152,765	1,379
Total long-term liabilities	<u>20,002,120</u>	<u>22,014,261</u>	<u>198,846</u>
Total liabilities	<u>¥25,129,759</u>	<u>¥29,968,354</u>	<u>\$270,692</u>

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





HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND NET ASSETS

(Continued)

	Thousands of yen		Thousands of U.S. dollars (Note 2)
	March 31		March 31
	2020	2021	2021
Net assets (Note 21):			
Shareholders' equity (Note 10) -			
Common stock:			
- Authorized: 356,400,000 shares			
Issued and outstanding:			
96,315,400 shares (March 31, 2020 and 2021)	¥7,100,036	¥7,100,036	\$64,131
Capital surplus	30,225,361	30,080,004	271,700
Retained earnings	55,905,466	54,642,698	493,566
Treasury stock, at cost	(38,280)	(38,731)	(349)
Total shareholders' equity	93,192,583	91,784,007	829,048
Accumulated other comprehensive income -			
Net unrealized gains on available-for-sale securities (Note 14)	4,084,638	10,056,041	90,832
Foreign currency translation adjustments	(513,267)	1,131,390	10,219
Remeasurements of defined benefit plans	(135,821)	(82,445)	(744)
Total accumulated other comprehensive income	3,435,550	11,104,985	100,306
Stock subscription rights	625,511	-	-
Non-controlling interests	9,464,843	7,170,822	64,771
Total net assets	106,718,488	110,059,815	994,127
 Total liabilities and net assets	¥131,848,248	¥140,028,170	\$1,264,819

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
	2020	2021	2021
Net sales (Note 19)	¥37,487,753	¥37,034,042	\$334,513
Cost of sales (Notes 8(b) and 19)	25,484,453	24,451,238	220,858
Gross profit	<u>12,003,299</u>	<u>12,582,804</u>	<u>113,655</u>
Selling, general and administrative expenses (Notes 8(a) and 8(b))	12,198,553	11,716,886	105,834
Operating profit (loss)	<u>(195,253)</u>	<u>865,918</u>	<u>7,821</u>
Other income:			
Interest income	33,358	38,568	348
Dividend income	251,491	252,292	2,278
Foreign exchange gain	1,205	-	-
Sundry income	51,510	277,232	2,504
Others	473,308	420,417	3,797
	<u>810,874</u>	<u>988,510</u>	<u>8,928</u>
Other expenses:			
Interest expense	113,165	106,293	960
Sales discount	41,472	14,801	133
Equity in losses of affiliated companies	68,461	13,904	125
Foreign exchange loss	-	139,202	1,257
Loss on valuation of inventories	-	184,266	1,664
Tax and dues	62,144	-	-
Others	93,978	29,157	263
	<u>379,222</u>	<u>487,624</u>	<u>4,404</u>
Ordinary profit	236,398	1,366,803	12,345
Exceptional gains:			
Gain on sales of fixed assets (Note 8(c))	10,539	949	8
Subsidy income	60,410	60,410	545
	<u>70,949</u>	<u>61,359</u>	<u>554</u>
Exceptional losses:			
Loss on sales of fixed assets (Note 8(d))	2,838	-	-
Impairment loss	307,829	-	-
Loss on disposal of fixed assets (Note 8(e))	46,840	26,320	237
Loss on fixed assets devaluation for subsidy income	60,410	60,410	545
Additional retirement benefits related to the compensation for early retirement program	26,569	285,047	2,574
Additional retirement benefits paid for a director	-	37,040	334
	<u>444,487</u>	<u>408,818</u>	<u>3,692</u>
Income (Loss) before income taxes	(137,139)	1,019,344	9,207
Income taxes:			
Current	646,141	957,980	8,653
Deferred	105,859	(492,264)	(4,446)
	<u>752,001</u>	<u>465,715</u>	<u>4,206</u>
Profit (Loss)	(889,141)	553,629	5,000
Profit (Loss) attributable to non-controlling interests	<u>206,169</u>	<u>(108,865)</u>	<u>(983)</u>
Profit (Loss) attributable to owners of the parent (Note 21)	<u>(¥1,095,310)</u>	<u>¥662,495</u>	<u>\$5,984</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>2020</u>	<u>2021</u>	<u>March 31</u>
			<u>2021</u>
Profit (Loss)	(¥889,141)	¥553,629	\$5,000
Other comprehensive income -			
Net unrealized losses (gains) on available-for-sale securities	(1,715,672)	5,971,402	53,937
Foreign currency translation adjustments	(1,810,253)	2,448,399	22,115
Remeasurements of defined benefit plans	(146,892)	36,361	328
Total other comprehensive loss (income) (Note 9(a))	(3,672,818)	8,456,163	76,381
Comprehensive income (loss)	(¥4,561,959)	¥9,009,792	\$81,381
Attributable to -			
owners of the parent	(¥4,224,523)	¥8,331,930	\$75,259
non-controlling interests	(337,435)	677,862	6,122

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
	2020	2021	2021
Shareholders' equity:			
Common Stock -			
Balance at the beginning of the year	¥7,100,036	¥7,100,036	\$64,131
Balance at the end of the year	<u>7,100,036</u>	<u>7,100,036</u>	<u>64,131</u>
Capital surplus -			
Balance at the beginning of the year	30,225,361	30,225,361	273,013
Changes during the year			
Purchase of shares of consolidated subsidiaries	-	(145,356)	(1,312)
Total changes	<u>-</u>	<u>(145,356)</u>	<u>(1,312)</u>
Balance at the end of the year	<u>30,225,361</u>	<u>30,080,004</u>	<u>271,700</u>
Retained earnings -			
Balance at the beginning of the year	59,792,408	55,905,466	504,972
Changes during the year			
Cash dividends	(2,791,632)	(1,925,263)	(17,390)
Profit (Loss) attributable to owners of the parent	<u>(1,095,310)</u>	<u>662,495</u>	<u>5,984</u>
Total changes	<u>(3,886,942)</u>	<u>(1,262,768)</u>	<u>(11,406)</u>
Balance at the end of the year	<u>55,905,466</u>	<u>54,642,698</u>	<u>493,566</u>
Treasury stock, at cost -			
Balance at the beginning of the year	(38,280)	(38,280)	(345)
Changes during the year			
Purchase of treasury stock	-	(450)	(4)
Total changes	<u>-</u>	<u>(450)</u>	<u>(4)</u>
Balance at the end of the year	<u>(38,280)</u>	<u>(38,731)</u>	<u>(349)</u>
Total shareholders' equity -			
Balance at the beginning of the year	97,079,525	93,192,583	841,772
Changes during the year			
Cash dividends	(2,791,632)	(1,925,263)	(17,390)
Purchase of shares of consolidated subsidiaries	-	(145,356)	(1,312)
Profit (Loss) attributable to owners of the parent	<u>(1,095,310)</u>	<u>662,495</u>	<u>5,984</u>
Purchase of treasury stock	<u>-</u>	<u>(450)</u>	<u>(4)</u>
Total changes	<u>(3,886,942)</u>	<u>(1,408,575)</u>	<u>(12,723)</u>
Balance at the end of the year	<u>¥93,192,583</u>	<u>¥91,784,007</u>	<u>\$829,048</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
	2020	2021	2021
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities -			
Balance at the beginning of the year	¥5,800,311	¥4,084,638	\$36,894
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,715,672)	5,971,402	53,937
Total changes	(1,715,672)	5,971,402	53,937
Balance at the end of the year	4,084,638	10,056,041	90,832
Foreign currency translation adjustments -			
Balance at the beginning of the year	768,540	(513,267)	(4,636)
Changes during the year			
Net changes in items other than those in shareholders' equity	(1,281,807)	1,644,657	14,855
Total changes	(1,281,807)	1,644,657	14,855
Balance at the end of the year	(513,267)	1,131,390	10,219
Remeasurements of defined benefit plans -			
Balance at the beginning of the year	(4,089)	(135,821)	(1,226)
Changes during the year			
Net changes in items other than those in shareholders' equity	(131,732)	53,375	482
Total changes	(131,732)	53,375	482
Balance at the end of the year	(135,821)	(82,445)	(744)
Total Accumulated other comprehensive income			
Balance at the beginning of the year	6,564,763	3,435,550	31,031
Changes during the year			
Net changes in items other than those in shareholders' equity	(3,129,213)	7,669,435	69,274
Total changes	(3,129,213)	7,669,435	69,274
Balance at the end of the year	3,435,550	11,104,985	100,306
Stock subscription rights			
Balance at the beginning of the year	625,511	625,511	5,649
Changes during the year			
Retirement of treasury subscription rights to shares		(625,511)	(5,649)
Net changes in items other than those in shareholders' equity	-	-	-
Total changes	-	(625,511)	(5,649)
Balance at the end of the year	¥625,511	¥ -	\$ -

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
	2020	2021	2021
Non-controlling interests:			
Balance at the beginning of the year	¥9,008,132	¥9,464,843	\$85,492
Changes during the year			
Purchase of shares of consolidated subsidiaries	-	(2,793,154)	(25,229)
Net changes in items other than those in shareholders' equity	456,711	499,132	4,508
Total changes	456,711	(2,294,021)	(20,720)
Balance at the end of the year	9,464,843	7,170,822	64,771
Total net assets:			
Balance at the beginning of the year	113,277,932	106,718,488	963,946
Changes during the year			
Cash dividends	(2,791,632)	(1,925,263)	(17,390)
Purchase of shares of consolidated subsidiaries	-	(2,938,510)	(26,542)
Profit (Loss) attributable to owners of the parent	(1,095,310)	662,495	5,984
Purchase of treasury stock	-	(450)	(4)
Retirement of treasury subscription rights to shares	-	(625,511)	(5,649)
Net changes in items other than those in shareholders' equity	(2,672,501)	8,168,567	73,783
Total changes	(6,559,444)	3,341,327	30,180
Balance at the end of the year	¥106,718,488	¥110,059,815	\$994,127

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
	2020	2021	2021
Cash flows from operating activities:			
Income (Loss) before income taxes	(¥137,139)	¥1,019,344	\$9,207
Adjustments to reconcile income before income taxes to net cash provided by operating activities -			
Depreciation and amortization	6,826,848	6,464,279	58,389
Impairment loss	307,829	-	-
Depreciation of goodwill	903,635	925,175	8,356
Increase in allowance for doubtful accounts	9,857	4,207	38
Increase in net defined benefit liabilities	84,654	52,618	475
Increase in reserve for retirement benefits for directors and audit & supervisory board members	47,215	3,311	29
Increase in reserve for retirement benefits for executive officers	20,256	9,219	83
Increase (Decrease) in accrued bonuses for directors and audit & supervisory board members	(417,794)	10,287	92
Decrease in accrued warranty expenses	(30,112)	(4,016)	(36)
Interest income	(33,358)	(38,568)	(348)
Dividend income	(251,491)	(252,292)	(2,278)
Interest expense	113,165	106,293	960
Equity in losses of affiliated companies	68,461	13,904	125
Subsidy income	(60,410)	(60,410)	(545)
Gain on sales of fixed assets	(7,701)	(949)	(8)
Loss on disposal of fixed assets	46,840	26,320	237
Loss on fixed asset devaluation for subsidy income	60,410	60,410	545
(Increase) Decrease in trade receivables	10,027,696	(2,530,849)	(22,860)
(Increase) Decrease in inventories	1,464,916	(105,341)	(951)
Increase (Decrease) in trade payables	(1,960,071)	934,795	8,443
Others, net	(1,249,500)	902,707	8,153
Subtotal	15,834,206	7,540,448	68,109
Interest and dividends received	284,860	290,864	2,627
Sundry income received	60,410	60,410	545
Interest paid	(112,384)	(102,825)	(928)
Income taxes paid	(5,347,138)	(440,857)	(3,982)
Income taxes refunded	230,230	2,206,964	19,934
Net cash provided by operating activities	¥10,950,184	¥9,555,003	\$86,306

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
	2020	2021	2021
Cash flows from investing activities:			
Payments for purchases of tangible fixed assets	(¥11,324,769)	(¥1,326,055)	(\$11,977)
Proceeds from sales of tangible fixed assets	13,128	130,009	1,174
Payments for purchases of intangible fixed assets	(59,578)	(59,602)	(538)
Payments for purchase of shares of subsidiaries and affiliates	(1,180,200)	(2,950,318)	(26,649)
Payments for time deposits with a deposit period of over three months	(256,892)	(265,399)	(2,397)
Proceeds from maturities of time deposits with a deposit period of over three months	236,445	275,745	2,490
Payments for guarantee deposits	(5,066)	(3,616)	(32)
Proceeds from collection of guarantee deposits	39,694	19,869	179
Payments for short-term loans receivable	(200)	-	-
Proceeds from collection of short-term loans receivable	71	128	1
Others, net	143	(1,283)	(11)
Net cash used in investing activities	<u>(12,537,222)</u>	<u>(4,180,523)</u>	<u>(37,761)</u>
Cash flows from financing activities:			
Proceeds from short-term borrowings	272,207	810,000	7,316
Repayments of short-term borrowings	(60,292)	(810,375)	(7,319)
Proceeds from long-term debt	5,000,000	120,000	1,083
Repayments of long-term debt	(352,705)	(743,881)	(6,719)
Repayments of lease obligations	(273,661)	(308,630)	(2,787)
Payments for treasury stock	-	(450)	(4)
Cash dividends paid	(2,790,510)	(1,926,259)	(17,399)
Proceeds from stock issuance to non-controlling shareholders	780,978	-	-
Cash dividends paid to non-controlling interests	(213,662)	(126,422)	(1,141)
Payments of treasury subscription rights to shares	-	(625,511)	(5,649)
Net cash (used in) provided by financing activities	<u>2,362,352</u>	<u>(3,611,531)</u>	<u>(32,621)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(33,258)</u>	<u>(108,653)</u>	<u>(981)</u>
Net increase in cash and cash equivalents	<u>742,056</u>	<u>1,654,295</u>	<u>14,942</u>
Cash and cash equivalents at the beginning of year	<u>17,600,386</u>	<u>18,342,443</u>	<u>165,680</u>
Cash and cash equivalents at the end of year (Note 11(a))	<u>¥18,342,443</u>	<u>¥19,996,738</u>	<u>\$180,622</u>

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





HARMONIC DRIVE SYSTEMS INC.  
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of operations:

Harmonic Drive Systems Inc. (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Companies”) are engaged in the development, manufacturing and sales of harmonic drive gears and related motion control products. The manufacturing facilities are located in Japan, the United States and Germany and its products are marketed by the Company in Japan, and by subsidiaries in the United States and Europe.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements of the Companies are prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects with regard to the application and disclosure requirements from International Financial Reporting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Companies in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the consolidated financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

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

U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated, as a matter of arithmetical computation only, at the rate of ¥110.71 = US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2021. 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, 2020 and 2021 are as follows:

- HD Systems, Inc.
- HD Logistics, Inc.
- Harmonic Precision Inc.
- Harmonic AD, Inc.
- Harmonic Drive L.L.C.
- Winbel Co., Ltd.
- Harmonic Drive Systems (Shanghai) Co., Ltd.
- SAMICK ADM CO., LTD.
- Godo Kaisha HD Management
- Harmonic Drive SE and its eight subsidiaries

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

The Company holds a 49.2% share in Ome Iron Casting Co., Ltd. The investment in Ome is accounted for using the equity method in the consolidated financial statements.

Some subsidiaries of the Company (HD Systems, Inc., Harmonic Drive L.L.C., Harmonic Drive Systems (Shanghai) Co., Ltd., SAMICK ADM CO., LTD., Godo Kaisha HD Management, Harmonic Drive SE and the eight subsidiaries of Harmonic Drive SE) have a year end date of December 31, which differs from that of the Company. The consolidation of the foreign subsidiaries and the application of equity method for the investment in the affiliated company are based on the respective financial statements of these entities for the year ended December 31. Any material intercompany transactions occurring during the period from January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(b) Valuation basis and method for major assets -

① Marketable securities and investment securities:

Realized gains and losses on sales of those securities are determined using the moving

average method and are reflected in the consolidated statements of income. Available-for-sale securities with 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 arising from derivatives:

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

③ Inventories:

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

(c) Depreciation and amortization method of depreciable assets -

① Tangible fixed assets (excluding leased assets):

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

② Intangible fixed assets (excluding leased assets):

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

③ Leased assets:

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

(d) Accounting for deferred charges -

Stock issue costs are not capitalized but expensed as incurred.

(e) Basis for recording provisions -

① Allowance for doubtful accounts:

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

② Accrued bonuses for employees:

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

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

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

④ Accrued warranty expenses:

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

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

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

⑥ Reserve for retirement benefits for executive officers:

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

at the balance sheet date.

(f) Accounting method for retirement benefits for employees -

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

(g) Foreign currency translation -

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

(h) Amortization of goodwill and negative goodwill -

Goodwill is amortized using the straight-line method over a period within 20 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 change 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. Significant accounting estimates:

Impairment loss of fixed assets of Harmonic Drive SE Group

(a) Amount of impairment loss of fixed assets for the year ended March 31, 2021

¥47,520,515 thousand (\$429,234 thousand)

(b) Other information

① Calculation method:

The Group determines that a group of non-current assets related to HDSE and its eight sales subsidiaries (the HDSE Group) is the smallest unit that generates cash flows largely independent from the rest of the Group's operations. The group of assets mainly includes goodwill (¥15,532,775 thousand (\$140,301 thousand)), customer related assets (¥19,840,708 thousand (\$179,213 thousand)) and technical assets (¥5,299,162 thousand (\$47,865 thousand)).

The Group determined that there was an indication of an impairment of the HDSE Group's non-current assets. In determining whether impairment losses should be recognized, the Group compared total undiscounted future cash flows expected to be acquired by HDSE with the carrying value of non-currents of the HDSE Group including goodwill.

As a result, total undiscounted future cash flows expected to be derived from customer related assets and technical assets, which are the major components of the group of assets, over the remaining economic useful lives of the assets exceeded the carrying amount of non-current assets of the HDSE Group, and therefore, the Group did not record impairment losses for the year ended March 31, 2021.

② Key assumptions

Future cash flows used for impairment assessment and value in use calculations are determined based on a business plan approved by management and growth rate for subsequent years.

③ Impact on consolidated financial statements for the year ending March 31, 2022.

Profitability projections are carefully considered in determining whether impairment losses should be recognized. However, if there are significant failures to achieve the business plan based on which future cash flows are determined or increases in future



uncertainties due to changes in the business or market environment, the recoverable amount decreases, which may result in recognition of impairment losses during the year ended March 31, 2022.

4. Accounting standards not yet implemented, etc:

Domestic affiliated companies:

(a) Accounting Standards Board of Japan (ASBJ) Statement No. 29 Accounting Standard for Revenue Recognition

ASBJ Guidance No. 30 Implementation Guidance on Accounting Standard for Revenue Recognition

① Overview:

Accounting Standard for Revenue Recognition is a comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps:

Step 1: Identify the contract with the customer.

Step 2: Identify the performance obligation in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when or as it satisfies performance obligations.

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2022.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of these accounting standards to the consolidated financial statements.

(b) ASBJ Statement No. 30 Accounting Standard for Fair Value Management

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

ASBJ Statement No.9 Accounting Standard for Measurement of Inventories.

ASBJ Statement No.10 Accounting for Financial Instruments

ASBJ Guidance No. 19 Implementation Guidance on Disclosures about Fair Value of Financial Instruments

① Overview:

To improve comparability with international accounting standards, “Accounting Standard for Fair Value Management” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter, “Accounting Standard for Fair Value Measurement, etc.”) have been developed by the ASBJ as guidance on how to measure fair value. “Accounting Standard for Fair Value Measurement, etc.” will be applied in determining the fair value of the following items:

- Financial instruments as set forth in “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes as set forth “Accounting Standard for Measurement of Inventories”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised to include notes such as breakdowns of market value of financial instruments by level.

② Planned adoption date:

The accounting standards are to be adopted from the beginning of the fiscal year ending March 31, 2022.

③ Impact of adoption of the accounting standards:

The Company is currently assessing the impact of application of these accounting standards to the consolidated financial statements.

5. Change in presentation:

(a) Significant accounting estimates -

Effective from the fiscal year ended March 31, 2021, the Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” and has included a note describing significant accounting estimates in the Notes to consolidated financial statements.

However, the notes do not include the details related to the previous consolidated fiscal year in accordance with the transitional measures as set forth in paragraph 11 of the accounting standards.

6. Additional information:

(a) Impact of COVID-19:

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

There have been no significant changes from the consolidated financial statements for the year ended March 31, 2020.

7. Notes to consolidated balance sheets:

(a) Investment in unconsolidated subsidiaries and affiliates -

Investment in unconsolidated subsidiaries and affiliates at March 31, 2020 and 2021 was as follows:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2020</u>	<u>2021</u>	<u>2021</u>
Investment in affiliated companies	<u>¥110,130</u>	<u>¥96,226</u>	<u>\$869</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, 2020 and 2021:

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2020</u>	<u>2021</u>	<u>2021</u>
Buildings	¥40,339	¥38,150	\$344
Land	<u>52,225</u>	<u>52,225</u>	<u>471</u>
	<u>¥92,564</u>	<u>¥90,376</u>	<u>\$816</u>
Secured long-term debt:			
Current portion of long-term debt	¥3,120	¥3,120	\$28
Long-term debt	<u>22,160</u>	<u>19,040</u>	<u>171</u>
	<u>¥25,280</u>	<u>¥22,160</u>	<u>\$200</u>

(c) Credit facility contracts -

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

The balance of unused portion based on the contracts at March 31, 2020 and 2021 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Total of credit facility contracts	¥9,970,480	¥10,658,150	\$96,270
Outstanding	<u>120,555</u>	<u>124,893</u>	<u>1,128</u>
The balance of unused credit facilities	<u>¥9,849,924</u>	<u>¥10,533,256</u>	<u>\$95,142</u>

(d) Fixed asset devaluation relating to government subsidies -

In relation to government subsidies, ¥60,410 thousand (\$545 thousand) was deducted from the acquisition cost of the land for the year ended March 31, 2021.

8. 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, 2020 and 2021 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Salaries and bonuses	¥2,955,904	¥2,526,109	\$22,817
Accrued bonuses for directors and audit & supervisory board members	30,491	82,965	749
Retirement benefit expenses	84,895	124,274	1,122
Reserve for retirement benefits for directors and audit & supervisory board members	132,895	68,044	614
Reserve for retirement benefits for executive officers	38,539	22,089	199
Research and development expenses	2,176,815	2,406,123	21,733
Depreciation	2,146,213	2,345,472	21,185

(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 ¥2,195,790 thousand and ¥2,444,211 thousand (\$22,077 thousand) for the years ended March 31, 2020 and 2021, respectively.

(c) Gain on sales of fixed assets -

Gain on sales of fixed assets for the years ended March 31, 2020 and 2021 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Gain on sales of:			
Buildings and structures	¥ -	¥ 316	\$ 2
Machinery and equipment	10,359	633	5
Tools, furniture and fixtures	179	-	-
	¥ 10,539	¥ 949	\$ 8

(d) Loss on sales of fixed assets -

Loss on sales of fixed assets for the years ended March 31, 2020 and 2021 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Loss on sales of:			
Buildings and structures	¥ 1,127	¥ -	\$ -
Machinery and equipment	1,201	-	-
Tools, furniture and fixtures	508	-	-
	<u>¥ 2,838</u>	<u>¥ -</u>	<u>\$ -</u>

(e) Loss on disposal of fixed assets -

Loss on disposal of fixed assets for the years ended March 31, 2020 and 2021 was as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Loss on disposal of:			
Buildings and structures	¥ 29,607	¥ 10,712	\$ 96
Machinery and equipment	12,200	6,218	56
Tools, furniture and fixtures	5,033	9,389	84
	<u>¥ 46,840</u>	<u>¥ 26,320</u>	<u>\$ 237</u>

9. Notes to consolidated statements of comprehensive income:

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

Recycling adjustments and related tax effect related to other comprehensive income for the years ended March 31, 2020 and 2021 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Net unrealized losses (gains) on available-for-sale securities			
Changes arising during the year	(¥2,567,358)	¥8,591,945	\$77,607
Recycling adjustments	-	-	-
Before tax effect	(2,567,358)	8,591,945	77,607
Tax effect	851,685	(2,620,543)	(23,670)
Net unrealized losses (gains) on available-for-sale securities	(1,715,672)	5,971,402	53,937
Foreign currency translation adjustments			
Changes arising during the year	(1,810,253)	2,448,399	22,115
Remeasurements of defined benefit plans			
Changes arising during the year	(230,269)	1,799	16
Recycling adjustments	15,035	58,931	532
Before tax effect	(215,233)	60,731	548
Tax effect	68,340	(24,370)	(220)
Remeasurements of defined benefit plans	(146,892)	36,361	328
Total other comprehensive (loss) income	(¥3,672,818)	¥8,456,163	\$ 76,381



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

(a) Shares issued and outstanding -

<u>Share type</u>	<u>April 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2020</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

<u>Share type</u>	<u>April 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2021</u>
Common stock (shares)	<u>96,315,400</u>	<u>-</u>	<u>-</u>	<u>96,315,400</u>

(b) Treasury stock -

<u>Share type</u>	<u>April 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31, 2020</u>
Common stock (shares)	<u>52,225</u>	<u>-</u>	<u>-</u>	<u>52,225</u>

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

(Reason for the changes)

The increased number of 75 shares of treasury stock is due to the purchase of common shares of less-than-one unit from shareholders.

(c) Stock subscription rights -

Company	Breakdown of stock subscription rights	Types of shares subject to stock subscription rights	Number of shares subject to stock subscription rights (Shares)				Balance as of March 31, 2020
			Balance as of April 1, 2019	Increase	Decrease	Balance as of March 31, 2020	Thousands of yen
The Company	No.1 subscription warrants	Common Stock	1,261,900	-	-	1,261,900	¥625,511

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

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

(Reason for the changes)

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

(d) Dividends -

For the year ended March 31, 2020:

① Dividends paid during the current year -	
(i) The following was resolved by the annual shareholders' meeting held on June 21, 2019:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥1,829,000
Cash dividend per share	
(Yen)	¥19
Record date	March 31, 2019
Declaration date	June 24, 2019
(ii) The following was determined by the board of directors meeting held on November 12, 2019:	
Type of shares	Common stock
Total amount of dividends paid in cash	
(Thousands of yen)	¥962,631
Cash dividend per share	
(Yen)	¥10
Record date	September 30, 2019
Declaration date	December 9, 2019
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 24, 2020:	
Type of shares	Common stock
Resource of the dividends to be paid	Retained earnings
The total amount of the dividends in cash paid	
(Thousands of yen)	¥962,631
Cash dividend per share	
(Yen)	¥10
Record date	March 31, 2020
Declaration date	June 25, 2020

For the year ended March 31, 2021:

①	Dividends paid during the current year -	
(i)	The following was resolved by the annual shareholders' meeting held on June 24, 2020:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥962,631
	(Thousands of U.S. dollars)	\$8,695
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	\$0.09
	Record date	March 31, 2020
	Declaration date	June 25, 2020
(ii)	The following was determined by the board of directors meeting held on November 11, 2020:	
	Type of shares	Common stock
	Total amount of dividends paid in cash	
	(Thousands of yen)	¥962,631
	(Thousands of U.S. dollars)	\$8,695
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	\$0.09
	Record date	September 30, 2020
	Declaration date	December 7, 2020
②	Dividends for the current year that are to be paid after the balance sheet date -	
	The following was resolved by the annual shareholders' meeting held on June 23, 2021:	
	Type of shares	Common stock
	Resource of the dividends to be paid	Retained earnings
	The total amount of the dividends in cash paid	
	(Thousands of yen)	¥962,631
	(Thousands of U.S. dollars)	\$8,695
	Cash dividend per share	
	(Yen)	¥10
	(U.S. dollars)	\$0.09
	Record date	March 31, 2021
	Declaration date	June 24, 2021

11. Notes to consolidated statements of cash flows:

(a) Cash and cash equivalents -

Cash and cash equivalents, for the purpose of the consolidated statements of cash flows, at March 31, 2020 and 2021 comprised the following:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and bank deposits	¥19,554,409	¥21,142,106	\$190,968
Highly liquid investments	16,260	21,874	197
Time deposits with a deposit period of over three months	<u>(1,228,226)</u>	<u>(1,167,243)</u>	<u>(10,543)</u>
Cash and cash equivalents	<u>¥18,342,443</u>	<u>¥19,996,738</u>	<u>\$180,622</u>

12. Lease transactions (as lessee):

(a) Leased assets capitalized on the consolidated balance sheets -

Finance leased assets are mainly machinery and equipment. Depreciation expenses are calculated based on the straight-line method over the lease period, assuming no residual asset value at the end of the lease period.

(b) Operating lease transactions -

Future operating lease payments under non-cancelable lease contracts as of March 31, 2020 and 2021 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within 1 year	¥319,027	¥310,843	\$2,807
Due after 1 year	<u>722,520</u>	<u>422,757</u>	<u>3,818</u>
	<u>¥1,041,547</u>	<u>¥733,601</u>	<u>\$6,626</u>

13. Financial instruments:

(a) Policy for financial instruments -

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

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

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

Notes and accounts receivable, trade is exposed to customer credit risk. To mitigate the credit risk, the Companies control the collection terms, the receivable balances and the credit limits for each customer and monitor the financial conditions of the major customers periodically in accordance with the internal customer credit management rules. The trade receivables denominated in foreign currencies are exposed to the risk resulting from fluctuations in foreign currency exchange rates, and to mitigate foreign currency exchange risk, the Companies utilize foreign exchange forward contracts for portions of the trade receivables. As the Companies enter into the foreign exchange forward contracts only with the financial institutions with high credit ratings (in accordance with the internal rules on assignment of authority and responsibility), the Companies believe their exposure to almost no contractual default risk to be close to nil.

Marketable securities are short-term investment bonds 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.

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

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

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

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

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

(d) Fair value of financial instruments -

The following table indicates the carrying amount of financial instruments recorded in the consolidated balance sheets, the fair value and the variance as of March 31, 2020 and 2021. 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, 2020:			
(1) Cash and bank deposits	¥19,554,409	¥19,554,409	¥ -
(2) Notes and accounts receivable, trade	7,245,980		
Allowance for doubtful accounts (*1)	(21,991)		
	<u>7,223,989</u>	<u>7,223,989</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	16,260	16,260	-
(4) Investment securities			
Available-for-sale securities	349,170	349,170	-
(5) Investment in affiliated companies			
Available-for-sale securities	<u>8,146,175</u>	<u>8,146,175</u>	<u>-</u>
Assets total	<u>¥35,290,003</u>	<u>¥35,290,003</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥1,472,758	¥1,472,758	¥ -
(2) Accrued income taxes	128,791	128,791	-
(3) Short-term borrowings	237,336	237,336	-
(4) Current portion of long-term debt	734,707	734,707	-
(5) Long-term debt	<u>5,991,294</u>	<u>5,991,294</u>	<u>-</u>
Liabilities total	<u>¥8,564,888</u>	<u>¥8,564,888</u>	<u>¥ -</u>
Derivative transactions	<u>¥4,118</u>	<u>¥4,118</u>	<u>¥ -</u>

March 31, 2021:	Thousands of yen		
	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	¥21,142,106	¥21,142,106	¥ -
(2) Notes and accounts receivable, trade	9,791,509		
Allowance for doubtful accounts (*1)	(26,661)		
	<u>9,764,847</u>	<u>9,764,847</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	21,874	21,874	-
(4) Investment securities			
Available-for-sale securities	17,087,291	17,087,291	-
(5) Investment in affiliated companies			
Available-for-sale securities	-	-	-
Assets total	<u>¥48,016,120</u>	<u>¥48,016,120</u>	<u>¥ -</u>
(1) Notes and accounts payable, trade	¥2,412,798	¥2,412,798	¥ -
(2) Accrued income taxes	837,683	837,683	-
(3) Short-term borrowings	226,668	226,668	-
(4) Current portion of long-term debt	881,261	881,261	-
(5) Long-term debt	<u>5,220,859</u>	<u>5,220,859</u>	<u>-</u>
Liabilities total	<u>¥9,579,270</u>	<u>¥9,579,270</u>	<u>¥ -</u>
Derivative transactions	<u>(¥16,522)</u>	<u>(¥16,522)</u>	<u>¥ -</u>



	Thousands of U.S. dollars		
March 31, 2021:	Carrying amount	Fair value	Variance
(1) Cash and bank deposits	\$190,968	\$190,968	\$ -
(2) Notes and accounts receivable, trade	88,442		
Allowance for doubtful accounts (*1)	(240)		
	<u>88,202</u>	<u>88,202</u>	<u>-</u>
(3) Marketable securities			
Available-for-sale securities	197	197	-
(4) Investment securities			
Available-for-sale securities	154,342	154,342	-
(5) Investment in affiliated companies			
Available-for-sale securities	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Assets total	<u>\$433,710</u>	<u>\$433,710</u>	<u>\$ -</u>
(1) Notes and accounts payable, trade	\$21,793	\$21,793	\$ -
(2) Accrued income taxes	7,566	7,566	-
(3) Short-term borrowings	2,047	2,047	-
(4) Current portion of long-term debt	7,960	7,960	-
(5) Long-term debt	47,157	47,157	-
	<u>47,157</u>	<u>47,157</u>	<u>-</u>
Liabilities total	<u>\$86,525</u>	<u>\$86,525</u>	<u>\$ -</u>
Derivative transactions	<u>(\$149)</u>	<u>(\$149)</u>	<u>\$ -</u>

(\*1) For the calculation of the fair value of notes and accounts receivable, trade, allowances for doubtful accounts relating to these receivables 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 and (2) Notes and accounts receivable, trade

The carrying amount approximates the fair value since these accounts are settled within a short period.

- (3) Marketable securities, (4) Investment securities and (5) Investment in affiliated companies

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

See “Note 14. Marketable securities and investment securities” for the footnote information by holding purpose.

#### Liabilities

- (1) Notes and accounts payable, trade, (2) Accrued income taxes and (3) Short-term borrowings

The carrying amount approximates the fair value since notes and accounts payable, trade, accrued income taxes and short-term borrowings are settled 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 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 15. 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>2020</u>	<u>2021</u>	<u>2021</u>
Investment securities			
Unlisted equity securities	<u>¥3,800</u>	<u>¥3,800</u>	<u>\$34</u>
Investment in affiliated companies			
Unlisted equity securities	<u>110,130</u>	<u>96,226</u>	<u>\$869</u>

Unlisted equity securities are not included in “(4) Investment securities” and “(5) 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, 2020 and 2021 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, 2020:				
Cash and bank deposits	¥19,554,409	-	-	-
Notes and accounts receivable, trade	<u>7,245,980</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥26,800,389</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, 2021:				
Cash and bank deposits	¥21,142,106	-	-	-
Notes and accounts receivable, trade	<u>9,791,509</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>¥30,933,615</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Thousands of 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, 2021:				
Cash and bank deposits	\$190,968	-	-	-
Notes and accounts receivable, trade	<u>88,442</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$279,411</u>	<u>-</u>	<u>-</u>	<u>-</u>

(Note 4) Aggregate annual maturities of long-term debt subsequent to March 31, 2020 and 2021 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, 2020:							
Long-term debt		¥734,707	¥871,253	¥807,636	¥798,856	¥783,236	¥2,730,313
Total		<u>¥734,707</u>	<u>¥871,253</u>	<u>¥807,636</u>	<u>¥798,856</u>	<u>¥783,236</u>	<u>¥2,730,313</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, 2021:							
Long-term debt		¥881,261	¥810,454	¥837,570	¥791,807	¥769,735	¥2,011,291
Total		<u>¥881,261</u>	<u>¥810,454</u>	<u>¥837,570</u>	<u>¥791,807</u>	<u>¥769,735</u>	<u>¥2,011,291</u>

		Thousands of 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, 2021:							
Long-term debt		\$7,960	\$7,320	\$7,565	\$7,152	\$6,952	\$18,167
Total		<u>\$7,960</u>	<u>\$7,320</u>	<u>\$7,565</u>	<u>\$7,152</u>	<u>\$6,952</u>	<u>\$18,167</u>

14. Marketable securities and investment securities:

The aggregate costs, gross unrealized gains and losses, and carrying amount on the consolidated balance sheets (which are re-valued to the related fair value) of available-for-sale securities with market quotations at March 31, 2020 and 2021 were as follows:

		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2020:				
Equity securities	¥2,716,931	5,778,414	-	¥8,495,345
		Thousands of yen		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2021:				
Equity securities	¥ 2,716,931	14,370,360	-	¥17,087,291
		Thousands of U.S. dollars		
	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
March 31, 2021:				
Equity securities	\$24,540	129,801	-	\$154,342

15. Derivative financial instruments:

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

Thousands of Yen				
March 31, 2020	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥262,800	¥ -	(¥ 4,483)	(¥ 4,483)
U.S. Dollars	475,570	-	9,552	9,552
Euro	100,000	-	(841)	(841)
Buy U.S. Dollars				
Sell Euro	10,727	-	(109)	(109)
	<u>¥849,097</u>	<u>¥ -</u>	<u>¥4,118</u>	<u>¥4,118</u>

Thousands of Yen				
March 31, 2021	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	¥289,200	¥ -	(¥ 3,733)	(¥ 3,733)
U.S. Dollars	485,170	-	(12,559)	(12,559)
Euro	300,000	-	(230)	(230)
	<u>¥1,074,370</u>	<u>¥ -</u>	<u>(¥16,522)</u>	<u>(¥16,522)</u>

Thousands of U.S. Dollars				
March 31, 2021	Notional amount	Notional amount (With maturities over 1 year)	Fair value	Gains (Losses)
Forward exchange contracts:				
Buy Japanese Yen				
Sell Korean Won	\$2,612	\$ -	(\$33)	(\$33)
U.S. Dollars	4,382	-	(113)	(113)
Euro	2,709	-	(2)	(2)
	<u>\$9,704</u>	<u>\$ -</u>	<u>(\$149)</u>	<u>(\$149)</u>

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

16. Retirement benefits for employees:

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

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

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

In addition, an overseas consolidated subsidiary has a defined benefit pension plan for the retirement benefits for directors.

The information for the defined benefit plans as of March 31, 2020 and 2021 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
	2020	2021	U.S. dollars
			2021
Defined benefits plan obligations at beginning of the year	¥2,749,962	¥2,812,133	\$25,400
Service cost	144,964	143,184	1,293
Interest cost	20,251	19,001	171
Actuarial differences	87,864	204,267	1,845
Retirement benefits paid	(215,074)	(200,472)	(1,810)
Other	24,164	25,695	232
Defined benefits plan obligations at end of the year	<u>¥2,812,133</u>	<u>¥3,003,809</u>	<u>\$27,132</u>

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

	Thousands of yen		Thousands of
	2020	2021	U.S. dollars
			2021
Plan assets at beginning of the year	¥3,077,820	¥2,957,375	\$26,712
Expected return on plan assets	61,132	59,262	535
Actuarial differences	(142,404)	206,067	1,861
Employer contributions	133,093	134,393	1,213
Retirements benefits paid	(167,618)	(153,117)	(1,383)
Other	(4,649)	(3,533)	(31)
Plan assets at end of the year	<u>¥2,957,375</u>	<u>¥3,200,446</u>	<u>\$28,908</u>

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

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Defined benefits plan obligations of funded plan	¥2,812,133	¥3,003,809	\$27,132
Plan assets	(2,957,375)	(3,200,446)	(28,908)
	(145,242)	(196,637)	(1,776)
Defined benefits plan obligations of unfunded plan	-	-	-
Net liabilities or assets recorded in the consolidated balance sheet	(145,242)	(196,637)	(1,776)
Net defined benefit liabilities	839,064	952,592	8,604
Net defined benefit assets	(984,306)	(1,149,229)	(10,380)
Net liabilities or assets recorded in the consolidated balance sheet	(¥145,242)	(¥196,637)	(\$1,776)

④ Components of retirement benefit expenses -

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Service cost	¥144,964	¥143,184	\$1,293
Interest cost	20,251	19,001	171
Expected return on plan assets	(61,132)	(59,262)	(535)
Actuarial differences	15,035	58,931	532
Retirement benefit expenses related to the defined benefit plans	¥119,118	¥161,855	\$1,461

⑤ Adjustments of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Actuarial differences	¥215,233	(¥60,731)	(\$548)
Total	¥215,233	(¥60,731)	(\$548)

⑥ Unrecognized adjustments of remeasurements of defined benefit plans -

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

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized actuarial differences	¥226,226	¥165,494	\$1,494
Total	¥226,226	¥165,494	\$1,494

⑦ Plan assets -

1) Components of plan assets

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

	2020	2021
Bonds	75%	69%
Equities	17%	24%
Other	8%	7%
Total	100%	100%

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, 2020 and 2021 were as follows:

	<u>2020</u>	<u>2021</u>
Discount rate	0.70%	0.59%
Expected return ratio on plan assets	1.98%	1.98%

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

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

	<u>Thousands of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2020</u>	<u>2021</u>	<u>2021</u>
Net defined benefit liabilities at beginning of the year	¥83,342	¥91,572	\$827
Retirement benefits expenses	9,342	9,589	86
Retirement benefits paid	<u>(1,112)</u>	<u>(4,486)</u>	<u>(40)</u>
Net defined benefit liabilities at end of the year	<u>¥91,572</u>	<u>¥96,675</u>	<u>\$873</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 -

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Defined benefits plan obligations of funded plan	¥ -	¥ -	\$ -
Plan assets	-	-	-
Defined benefits plan obligations of unfunded plan	91,572	96,675	873
Net liabilities or assets recorded in the consolidated balance sheet	91,572	96,675	873
Net defined benefit liabilities	91,572	96,675	873
Net liabilities or assets recorded in the consolidated balance sheet	<u>¥91,572</u>	<u>¥96,675</u>	<u>\$873</u>

③ Retirement benefit expenses -

Retirement benefit expenses for the year ended March 31, 2020 and 2021 calculated by the simplified accounting method were ¥9,342 thousand and ¥9,589 thousand (\$86 thousand), respectively.

(b) Defined contribution plans -

Required contributions to the defined contribution plans of certain subsidiaries for the year ended March 31, 2020 and 2021 were ¥121,791 thousand and ¥113,512 thousand (\$1,025 thousand), respectively.

17. Stock options:

No stock options were granted during the years ended March 31, 2020 and 2021.

18. Income taxes:

Deferred tax assets and liabilities as of March 31, 2020 and 2021 consist of the following:

	<u>Thousands of yen</u>		<u>Thousands of</u>
	<u>2020</u>	<u>2021</u>	<u>U.S. dollars</u>
			<u>2021</u>
Deferred tax assets:			
Tax loss carryforwards	¥590,755	¥320,671	\$2,896
Accrued enterprise taxes	-	58,698	530
Inventory write-down	8,092	3,771	34
Accrued bonuses	162,980	220,173	1,988
Accrued social insurance premium	19,161	29,850	269
Unrealized intercompany profit in inventories	122,165	109,184	986
Reserve for retirement benefits for directors and audit & supervisory board members	177,122	167,912	1,516
Reserve for retirement benefits for executive officers	48,955	53,069	479
Net defined benefit liabilities	23,325	10,499	94
Devaluation loss on investment securities	68,641	68,641	620
Devaluation loss on golf club memberships	5,733	5,733	51
Impairment loss	92,945	94,777	856
Others	415,130	366,638	3,311
Deferred tax assets sub-total	¥1,735,010	¥1,509,622	\$13,635
Valuation allowance	(421,902)	(354,497)	(3,202)
Deferred tax assets total	<u>¥1,313,107</u>	<u>¥1,155,125</u>	<u>\$10,433</u>

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Deferred tax liabilities:			
Enterprise tax receivable	(¥79,233)	¥ -	\$ -
Unrealized gains on available-for-sale securities	(1,762,416)	(4,314,318)	(38,969)
Undistributed earnings of foreign subsidiaries and an affiliated company	(273,333)	(288,853)	(2,609)
Net defined benefit assets	(300,213)	(353,057)	(3,189)
Intangible assets identified by the business combination	(7,500,521)	(7,535,601)	(68,066)
Others	(254,809)	(268,827)	(2,428)
Deferred tax liabilities total	(10,170,528)	(12,760,658)	(115,262)
Net deferred tax liabilities	(¥8,857,420)	(¥11,605,532)	(\$104,828)

Reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2020 and 2021 are as follows:

	2020	2021
Statutory tax rate	30.5%	30.5%
Increase (decrease) in taxes resulting from:		
Permanent differences - dividend income, etc.	9.4	(8.1)
Inhabitant tax on per capita	10.7	1.1
Increase (decrease) of valuation allowance	372.7	(3.3)
Depreciation of goodwill	155.5	27.7
Equity in (income) loss of affiliated companies	16.6	0.4
Others, net	3.0	(2.7)
Actual effective tax rate	598.4%	45.7%

19. Segment information:

(a) Overview of the reportable segments -

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

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

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

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

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

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

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



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

For the year ended March 31, 2020	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	¥18,612,597	¥6,240,525	¥12,634,630	¥37,487,753	¥ -	¥37,487,753
Inter-segment	3,106,312	17,870	109,706	3,233,889	(3,233,889)	-
Total	<u>¥21,718,909</u>	<u>¥6,258,395</u>	<u>¥12,744,337</u>	<u>¥40,721,642</u>	<u>(¥3,233,889)</u>	<u>¥37,487,753</u>
Segment profit/(loss)	¥2,488,396	¥954,665	(¥800,409)	¥2,642,653	(¥2,406,254)	¥236,398
Segment assets	¥51,199,021	¥9,662,430	¥37,840,261	¥98,701,712	¥33,146,535	¥131,848,248
Others						
Investment in affiliated companies	¥110,130	¥ -	¥ -	¥110,130	¥ -	¥110,130
Increase in tangible and intangible fixed assets	4,374,671	2,091,800	1,426,388	7,892,860	-	7,892,860

- The adjustment for segment profit/(loss) of (¥2,406,254) thousand includes the eliminated profit of the inter-segment transactions of (¥650,314) thousand, the general administrative expenses of (¥1,755,939) thousand that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE (¥903,635) thousand. The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥33,146,535 thousand includes inter-segment elimination of ¥12,166,877 thousand, corporate assets of ¥20,979,657 thousand that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥15,200,325 thousand. The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

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

For the year ended March 31, 2021	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Sales:						
Third party	\$199,743	\$46,471	\$88,298	\$334,513	\$ -	\$334,513
Inter-segment	25,866	53	392	26,312	(26,312)	-
Total	<u>\$225,610</u>	<u>\$46,525</u>	<u>\$88,691</u>	<u>\$360,826</u>	<u>(\$26,312)</u>	<u>\$334,513</u>
Segment profit/(loss)	\$43,440	\$2,800	(\$8,316)	\$37,925	(\$25,579)	\$12,345
Segment assets	\$457,439	\$82,959	\$347,377	\$887,775	\$377,043	\$1,264,819
Others						
Investment in affiliated companies	\$869	\$ -	\$ -	\$869	\$ -	\$869
Increase in tangible and intangible fixed assets	6,816	6,170	4,645	17,632	-	17,632

- The adjustment for segment profit/(loss) of (¥2,831,882) thousand ((\$25,579) thousand) includes the eliminated profit of the inter-segment transactions of (¥835,697) thousand ((\$7,548) thousand), the general administrative expenses of (¥1,996,185) thousand ((\$18,030) thousand) that are not allocated to any reportable segment and amortization of the goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE ((¥925,175) thousand ((\$8,356) thousand)). The general administrative expenses that are not allocated to any reportable segment consist mainly of the basic research and development expenses and certain administrative expenses related to the General Affairs and Accounting Department.
- “Japan” segment includes the sales and expenses to the Japan market, European market and Asian market.
- The adjustment for segment assets of ¥41,742,526 thousand (\$377,043 thousand) includes inter-segment elimination of ¥12,560,904 thousand (\$113,457 thousand), corporate assets of ¥29,181,621 thousand (\$263,586 thousand) that are not allocated to any reportable segment and goodwill recorded in connection with the acquisition of the shares of Harmonic Drive SE of ¥15,532,775 thousand (\$140,301 thousand). The corporate assets consist mainly of excess funds including cash and bank deposits and long-term investments such as “Investment securities” or “Others” included in “Investments and other assets”, and certain assets related to corporate departments.

(d) Related information –

① Information by products/service -

Sales to third parties	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Speed reducers	¥ 28,031,430	¥ 29,319,650	\$264,832
Mechatronic products	9,456,323	7,714,392	69,681
	<u>¥37,487,753</u>	<u>¥37,034,042</u>	<u>\$334,513</u>

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

② Geographic information –

Sales:

	Thousands of yen				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2020:					
Total	<u>¥14,056,814</u>	<u>¥6,240,525</u>	<u>¥12,634,630</u>	<u>¥4,555,782</u>	<u>¥37,487,753</u>

For the year ended March 31, 2021:					
Total	<u>¥18,421,653</u>	<u>¥5,144,915</u>	<u>¥9,775,551</u>	<u>¥3,691,922</u>	<u>¥37,034,042</u>

	Thousands of U.S. dollars				Total
	Japan	North America	Europe	Other	
For the year ended March 31, 2021:					
Total	<u>\$166,395</u>	<u>\$46,471</u>	<u>\$88,298</u>	<u>\$33,347</u>	<u>\$334,513</u>

- Sales are classified into the countries and areas as shown in the schedule above based on the location of the customers.
- “North America” segment includes ¥5,459,637 thousand and ¥4,473,780 thousand (\$40,409 thousand) of sales originating from the United States of America, which represents greater than 10% of sales recorded on the consolidated statements of income for the year ended March 31, 2020 and 2021, respectively.
- “Europe” segment includes ¥4,808,297 thousand of sales originating from

Germany which represents greater than 10% of sales recorded on the consolidated statements of income for the year ended March 31, 2020.

Tangible fixed assets:

	Thousands of yen			
	Japan	North America	Europe	Total
March 31, 2020:				
Total Assets	<u>¥33,161,875</u>	<u>¥4,918,573</u>	<u>¥7,420,007</u>	<u>¥45,500,456</u>
March 31, 2021:				
Total Assets	<u>¥30,635,216</u>	<u>¥4,571,605</u>	<u>¥6,785,072</u>	<u>¥41,991,895</u>
	Thousands of U.S. dollars			
	Japan	North America	Europe	Total
March 31, 2021:				
Total Assets	<u>\$276,715</u>	<u>\$41,293</u>	<u>\$61,286</u>	<u>\$379,296</u>

- Tangible fixed assets are classified into the countries and geographical areas as shown in the schedule above based on their location.
- “North America” segment includes ¥4,918,573 thousand and ¥4,571,605 thousand (\$41,293 thousand) of tangible fixed assets located in the United States of America, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for the year ended March 31, 2020 and 2021, respectively.
- “Europe” segment includes ¥7,374,192 thousand and ¥6,785,072 thousand (\$61,286 thousand) of tangible fixed assets located in Germany, which represents greater than 10% of tangible fixed assets recorded on the consolidated balance sheets for both the years ended March 31, 2020 and 2021, respectively.

③ Information of major customers -

Information of major customers for the year ended March 31, 2020 and 2021 are not presented, since no individual customers account for greater than 10% of the net sales recorded on the consolidated statements of income.

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

For the year ended	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
March 31, 2020	Japan	North America	Europe	Total		
Impairment loss	¥ 307,829	¥ -	¥ -	¥ 307,829	¥ -	¥ 307,829

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

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

For the year ended March 31, 2020	Thousands of yen					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ 903,635	¥ 903,635
Balance of goodwill	-	-	-	-	15,200,325	15,200,325

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

For the year ended March 31, 2021	Thousands of U.S. dollars					
	Reportable segment				Adjustment	Consolidated
	Japan	North America	Europe	Total		
Amortization of goodwill	\$ -	\$ -	\$ -	\$ -	\$ 8,356	\$8,356
Balance of goodwill	-	-	-	-	140,301	140,301

(g) Gain on negative goodwill by reportable segment -

No gain on negative goodwill was recognized for the years ended March 31, 2020 and 2021.

20. Transactions with related parties:

(a) Transactions with related parties –

There were no transactions with related parties for the year ended March 31, 2020.  
The following transactions occurred in the fiscal year ended March 31, 2021.

Category	Other affiliated company
Entity name	Nabtesco Corporation
Location	Chiyoda-ku, Tokyo, Japan
Capital	¥10,000,000 thousand (\$90,326 thousand)
Description of business	Manufacturing and sales of precision equipment, transportation equipment, aircraft/hydraulic equipment and industrial equipment
Share of shareholders voting rights	The Company owned 2.6.% directly Nabtesco Corporation owned 9.5% directly
Description of relationship	
- Sharing of directors	None
- Business relationship	Few transactions
For the year: Transaction	Purchase of subscription warrants
Amounts	¥625,511 thousand (\$5,649 thousand)
At year-end: Accounts / Amounts	– / ¥ – thousand

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

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

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

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



(b) Notes to a significant affiliated company -

There have been no significant affiliated companies for the years ended March 31, 2020 and 2021.

21. Net income per share information:

The computation of net income (loss) 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
	2020	2021	2021
Net assets per share	¥1,003.79	¥1,068.83	\$9.65
Net income (loss) per share	(11.38)	6.88	(0.06)

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

	Thousands of yen		Thousands of U.S. dollars
	2020	2021	2021
Profit (Loss) attributable to owners of the parent	(¥1,095,310)	¥662,495	\$5,984
Profit (Loss) attributable to common stock owners of the parent	(¥1,095,310)	¥662,495	\$5,984

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

	Number of shares	
	2020	2021
Weighted average number of shares	96,263,175	96,263,117

Diluted net income per share is as follows:

	2020	2021
Diluted net income per share	-	-
Increase in number of common stock (Shares)	1,261,900	-
(includes: Stock subscription rights)	(1,261,900)	-
Descriptions of potentially dilutive common stocks that were not included in the computation of diluted net income per share because of their non-dilutive effect	No.1 subscription warrants (Number of shares: 1,261,900)	-

(Note)

- Potentially dilutive shares existed at March 31, 2020, however fully diluted net profit per share for the year ended March 31, 2020 is not stated since a net loss per share was recorded.
- Diluted net income per share is not computed because the Company does not have any potentially dilutive shares for the year ended March 31, 2021.

## 22. Subsequent events:

(Significant conclusion of contract)

The Company announced that at a Board of Directors meeting held on April 23, 2021, it resolved to acquire from INCJ, Ltd (“INCJ”) its stake in GK HD Management (“HDM”), a special purpose company established by the two companies, with the aim of acquiring shares in the European subsidiary Harmonic Drive SE (“HDSE”) and objective to make HDSE a wholly owned subsidiary. The two companies concluded a share transfer agreement on the same day.

### (a) Background to, and reasons for additional share acquisition (and making HDSE a wholly owned subsidiary) -

The Company and INCJ jointly established the special purpose company HDM to acquire additional shares in HDSE during December 2016. On March 22, 2017, HDSE, which had been an equity-method affiliate, became a subsidiary of the Company.

The Company and INCJ jointly participated in the management of HDSE, working to improve HDSE’s competitiveness in manufacturing, sales, and development and

strengthen its governance structure, thereby increasing corporate value based on a positive working relationship.

At this time, the Company resolved to make HDSE a wholly owned subsidiary to further accelerate decision-making and promote more integrated group management.

(b) Contract counterparty -

INCJ, Ltd.

(c) Date of the conclusion of the contract -

April 23, 2021

(d) Contents of the contract -

Additional acquisition of shares in special purpose company.

(e) Significant impact of contract conclusion on business activities -

The impact of the above share transfer on the Company's consolidated financial results will be minimal, because HDSE is already a consolidated subsidiary of the Company.

23. Consolidated supplementary schedules:

(a) Schedule of bonds -

No bonds were issued by the Company as of March 31, 2020 and 2021.

(b) Schedule of borrowings -

Category	Thousands of yen		Thousands of U.S. dollars	Average interest rate (%)	Maturity
	Balance at March 31, 2020	Balance at March 31, 2021	Balance at March 31, 2021		
Short-term borrowings	¥237,336	¥226,668	\$2,047	0.3	-
Current portion of long-term debt	734,707	881,261	7,960	0.3	-
Current portion of lease obligations	293,502	305,392	2,758	2.5	-
Long-term debt (excluding current portion)	5,991,294	5,220,859	47,157	0.3	2021-2031
Lease obligations (excluding current portion)	3,003,643	2,868,734	25,912	2.4	2021-2033
Other	-	-	-	-	-
Total	<u>¥10,260,483</u>	<u>¥9,502,914</u>	<u>\$85,836</u>	-	-

- The average interest rate represents the weighted-average rate applicable to the borrowings balance at March 31, 2021.
- Aggregate annual maturities of long-term debt for the 5 years subsequent to March 31, 2021 are as follows:

March 31, 2021	Thousands of yen			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
Long-term debt	¥810,454	¥837,570	¥791,807	¥769,735
Lease obligations	275,732	259,570	265,734	243,069

March 31, 2021	Thousands of U.S. dollars			
	Due after 1 year within 2 years	Due after 2 years within 3 years	Due after 3 years within 4 years	Due after 4 years within 5 years
Long-term debt	\$7,320	\$7,565	\$7,152	\$6,952
Lease obligations	2,490	2,344	2,400	2,195

(c) Schedule of asset retirement obligations -

Disclosure of asset retirement obligations as of March 31, 2020 and 2021 were omitted due to immateriality.