



Summary of Financial Statements (Non-consolidated) for the Year Ended March 31, 2016 (Japanese GAAP)

April 25, 2016

Name of listed company: Axell Corporation Stock Exchange: Tokyo
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Scheduled date of release of Securities Report: June 20, 2016
Scheduled date of dividend payment: June 20, 2016
Availability of supplementary explanatory materials prepared for financial results: Available
Briefing session on financial results to be held: Yes (for analysts and institutional investors)

(Figures are rounded down to the nearest million yen.)

1. Business Results for Fiscal Year 2015 (April 1, 2015 to March 31, 2016)

(1) Operating results

(Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating income		Ordinary income		Profit	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2015	8,982	(18.9)	244	(85.2)	220	(86.7)	113	(89.8)
FY 2014	11,073	0.3	1,645	(20.4)	1,659	(19.9)	1,115	6.7

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary income / Total assets	Operating income / Net sales
	Yen	Yen	%	%	%
FY 2015	9.85	—	0.9	1.7	2.7
FY 2014	89.91	—	8.4	11.6	14.9

(Reference) Equity in earnings (losses) of non-consolidated subsidiaries and affiliates: — million yen (FY 2015); — million yen (FY 2014)

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
FY 2015	12,156	11,256	92.6	1,006.14
FY 2014	14,562	13,556	93.1	1,093.10

(Reference) Equity capital FY 2015: 11,256 million yen FY 2014: 13,556 million yen

(3) Status of cash flows

	Operating cash flow	Investment cash flow	Financing cash flow	Cash and cash equivalent at end of year
	millions of yen	millions of yen	millions of yen	millions of yen
FY 2015	(704)	(303)	(2,429)	8,063
FY 2014	2,597	(264)	(685)	11,500

2. Dividend Payments

	Annual Dividend					Total dividend cost (Annual)	Dividend payout ratio	Dividend/ Net assets
	1Q	2Q	3Q	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	millions of yen	%	%
FY 2014	—	25.00	—	30.00	55.00	682	61.2	5.1
FY 2015	—	5.00	—	5.00	10.00	111	101.5	1.0
FY 2016 (Projection)	—	0.00	—	10.00	10.00		56.0	

3. Forecast Results for Fiscal Year 2016 (April 1, 2016 to March 31, 2017)

(Percentage figures indicate the rate of year-on-year increase (decrease).)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
1st Half	3,400	(44.9)	(450)	(158.3)	(450)	(160.0)	(450)	(186.6)	(40.22)
Full Year	10,000	11.3	300	22.8	300	36.0	200	75.6	17.87

* Matters of Note

(1) Changes to accounting policies, changes to accounting estimates, and restatements:

- 1) Changes to accounting policies accompanying the revision of accounting standards, etc.: None
- 2) Changes to accounting policies other than 1) above: None
- 3) Changes to accounting estimates: None
- 4) Restatements: None

(2) Number of shares issued (common shares)

1) The number of shares issued at end of year (including treasury stock)	FY 2015	11,187,749 shares	FY 2014	12,402,252 shares
2) The number of shares of treasury stock at end of year	FY 2015	0 shares	FY 2014	54 shares
3) Average number of shares of common shares during year	FY 2015	11,556,133 shares	FY 2014	12,402,198 shares

* Presentation regarding execution status of audit procedures

These financial statements are outside the scope of audit procedures under the Financial Instruments and Exchange Act. As at the time of disclosure of these financial statements, audit procedures for the financial statements under the Financial Instruments and Exchange Act have not been completed.

* Explanation of appropriate use of results forecasts, other matters of note:

(Note on forward-looking statements, etc.)

The earnings forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the date of publication of this document. Actual results may differ significantly from these forecasts due to various factors. Please refer to [Appendix] P. 2 “1. Analysis of Business Results and Financial Position (1) Analysis of business results.”

(Method of obtaining supplementary explanatory materials and contents of briefing session on financial results)

The Company plans to hold a briefing session for analysts and institutional investors on April 26, 2016 (Tuesday). The video and presentation materials of this briefing session are scheduled to be promptly posted on the Company’s website following the briefing session.

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1. Analysis of Business Results and Financial Position

(1) Analysis of business results

1) Business results for fiscal year 2015

During the fiscal 2015, a moderate recovery trend continued in the Japanese economy including improvements in corporate earnings, the employment and income environment, along with steady personal consumption. However, the economic outlook remained uncertain, due to concerns of a global economic slowdown, particularly in emerging nations and resource-rich nations, and the effects this will have on financial and capital markets.

In the pachinko and pachislot machine market, which is the primary market for the Company, we acknowledge that while sales of the few popular models from which a certain level of operations could be expected remained strong, the condition continued to hover at low levels overall due to continuation of the cautious approach to the introduction of new machines at amusement facilities. Additionally, due mainly to the effect of self-imposed regulations by an industry group implemented in November (pachinko machines) and December (pachislot machines) 2015, new machine sales of pachinko machines and pachislot machines were on a declining trend through the second half of fiscal 2015.

Under such circumstances, the Company channeled its energies into promoting the sale of various products, focusing on Graphics LSI products targeted at the pachinko and pachislot machine market, which are the Company's mainstay products (including an integrated product that fulfills multiple functions such as sound-generating functions) (Note 1). Furthermore, regarding initiatives taken outside the pachinko and pachislot machine market, the Company has been striving to expand the adoption of Graphics LSI products for customers in the embedded system market (Note 2), and also focused on sales activities for various products intended for the Digital Convenience Radio market (Note 3) and software IP products such as the H2MD software movie codec that allows for playback in PC and smartphone browsers.

As for products targeted at the pachinko and pachislot machine market, which is the primary market of the Company, both self-imposed regulations by an industry group and sales trends of major customers affected sales, resulting in net sales decreasing 1,964 million yen from the previous fiscal year to 8,743 million yen (down 18.3% year-on-year). Additionally, of this 1,964 million yen decrease from the previous fiscal year, approximately 35% is due to a decrease in Graphics LSI product sales, while the remaining approximately 65% is due to a decrease in other product sales. While our mainstay Graphics LSI products made smooth progress transitioning from traditional products to new products with high added-value, sales were approximately 1,080,000 units, compared to approximately 1,260,000 units in the previous fiscal year.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 18.9% year-on-year to 146 million yen due to trends in demand of manufacturers which adopt the Company's products. As for other products, including development-support software for customers, evaluation circuit boards, products for Digital Convenience Radio, and software IP products such as "H2MD", net sales decreased 49.7% year-on-year to 92 million yen.

As a result, for fiscal 2015, the Company recorded net sales of 8,982 million yen (down 18.9% year-on-year). In terms of gross profit, the Company recorded 4,101 million yen (down 13.3% year-on-year). Gross profit ratio increased by 2.9 percentage points from fiscal 2014 to 45.7% due to an increase in the sales composition of products which have a relatively high profit margin. Additionally, selling, general and administrative expenses increased 25.0% year-on-year to 3,857 million yen due to proactive research and development expenses aimed at future growth. The research and development expenses increased 44.1% year-on-year to 2,807 million yen.

Consequently, for fiscal 2015, the Company recorded operating income of 244 million yen (down 85.2% year-on-year) and ordinary income of 220 million yen (down 86.7% year-on-year) and profit of 113 million yen (down 89.8% year-on-year).

(Note 1) "Graphics LSI" refers to LSI products that enable graphics to be shown on LCDs and other display devices.

(Note 2) "Embedded system market" refers to the market relating to the manufacture of embedded systems, excluding pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 3) Concerning the products intended for the Digital Convenience Radio market, various products were developed and sold under the NEWZONE brand, but after careful review of future growth possibilities, the Company has decided to stop selling these products as of fiscal 2015.

2) Forecast for fiscal year 2016

In the pachinko and pachislot machine market for fiscal year 2016, due to the November and December 2015 implementation of self-imposed regulations as well as future self-regulation of new machines expected to be implemented with the G7 Japan 2016 Ise-Shima (to be held in May 2016), a still difficult market environment is forecast. Comprehensively taking into consideration such market environment, the Company estimates yearly sales volume for pachinko and pachislot machines during fiscal 2016 to be about 2,500,000 units (estimated 2,900,000 units for fiscal 2015), and has used this figure as a basis for calculating forecast results.

As for the Company's mainstay Graphics LSI products targeted at the pachinko and pachislot machine market (including products with integrated functions), considering factors such as the market environment, the Company has made plans to sell 960,000 units, approximately 120,000 units less than sales for the previous fiscal year. Of the sales of these 960,000 units, approximately 50,000 units with LSI-implemented modules are planned to be sold. Additionally, although the number of units sold is expected to decrease compared to the previous fiscal year, due to the sales of module products with high unit sale prices, the Company plans for net sales of these products to only see a minor decrease. As for other products targeted at the pachinko and pachislot machine market, regarding memory module products traditionally sold to specific customers, the Company anticipates the sale of high-performance generic products, and as a result of considering this alongside customer adoption forecasts and demand trends, the Company plans to sell many more units than the previous fiscal year. As for Graphics LSI products for embedded systems, the Company, in the light of trends in customer demand, plans on sales of approximately 40,000 units (actual sales in the previous fiscal year: 50,000 units). Meanwhile, concerning software IP products such as "H2MD", the Company expects a slight increase in sales compared to the previous fiscal year. Based on the foregoing analysis, the Company's net sales for fiscal 2016 are projected at 10,000 million yen (up 11.3% year-on-year).

Gross profit is expected to decrease by 2.5% year-on-year to 4,000 million yen. As sales are projected to increase while gross profit is expected to decrease, this is due to a change in the product mix resulting in an expected decrease in gross profit ratio. Meanwhile, selling, general and administrative expenses are projected to be slightly lower compared to the previous fiscal year at 3,700 million yen (down 4.1% year-on-year). Plans are for research and development expenses to total 2,800 million yen (down 0.3% year-on-year), mainly for prototype development of next-generation Graphics LSI products.

Based on the above financial projection, the Company's forecasts for fiscal 2016 are: operating income of 300 million yen (up 22.8% year-on-year), ordinary income of 300 million yen (up 36.0% year-on-year), and profit of 200 million yen (up 75.6% year-on-year).

(Note) All forward-looking statements contained herein are based on information currently available to the Company and certain assumptions deemed to be reasonable by the Company, and subject to a number of uncertainties. The Company does not give assurances that these statements will come to fruition. Please be aware that actual results may differ significantly from these forecasts due to various factors.

(2) Analysis of financial position**1) Status of assets, liabilities, and net assets**

Total assets as of the end of fiscal 2015 decreased 2,405 million yen from the end of fiscal 2014 to 12,156 million yen (down 16.5% year-on-year). This was due mainly to factors such as the decrease of 437 million yen in cash and deposits and the decrease of 2,999 million yen in securities, offset by the increase of 516 million yen in merchandise and finished goods, the increase of 300 million yen in advance payments-trade, and the increase of 153 million yen in investment securities.

Total liabilities as of the end of fiscal 2015 decreased 105 million yen from the end of fiscal 2014 to 900 million yen (down 10.5% year-on-year). This was due mainly to factors such as the increase of 510 million yen in accounts payable-trade, despite the decrease of 264 million yen in accounts payable-other, the decrease of 137 million yen in income taxes payable, and the decrease of 152 million yen in accrued consumption taxes.

Total net assets as of the end of fiscal 2015 decreased 2,300 million yen from the end of fiscal 2014 to 11,256 million yen (down 17.0% year-on-year). This was due mainly to factors such as the decrease of 2,314 million yen in retained earnings following the purchase and retirement of treasury shares. All treasury shares owned by the Company were cancelled as of November 2, 2015.

2) Status of cash flows

Cash and cash equivalents (hereinafter “funds”) as of the end of fiscal 2015 amounted to 8,063 million yen. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds used in operating activities for fiscal 2015 amounted to 704 million yen. This was mainly attributable to the profit before income taxes (178 million yen), recording of depreciation (155 million yen), increase in notes and accounts payable-trade (510 million yen), despite an increase in inventories (516 million yen), increase in other current assets (320 million yen), decrease in other current liabilities (359 million yen), decrease in consumption taxes payable (239 million yen), and income taxes paid (271 million yen).

(Cash flows from investing activities)

Funds used in investing activities for fiscal 2015 amounted to 303 million yen. This was mainly attributable to the purchase of property, plant and equipment (165 million yen) and the purchase of investment securities (75 million yen).

(Cash flows from financing activities)

Funds used in financing activities for fiscal 2015 amounted to 2,429 million yen. This was mainly attributable to the purchase of treasury shares (2,000 million yen) and the cash dividends paid (428 million yen).

(Cash flow-related indicators)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Ratio of shareholders' equity to total assets (%)	92.1	83.9	93.7	93.1	92.6
Ratio of market capitalization to total assets (%)	189.5	169.7	151.3	134.4	77.8
Ratio of interest-bearing liabilities to cash flow (%)	—	—	—	—	—
Interest coverage ratio (%)	—	—	—	—	—

Calculation had been made on the basis of the consolidated financial data since FY 2011 until FY 2013. Additionally, calculation has been made on the basis of the non-consolidated financial data for FY 2014 and later.

Ratio of shareholders' equity to total assets: Shareholders' equity / total assets

Ratio of market capitalization to total assets: Market capitalization of stock / total assets

Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities / cash flow

Interest coverage ratio: Cash flow / interest expense

(Note 1) The market capitalization of stock was calculated based on the number of shares issued and outstanding, excluding treasury stock.

(Note 2) Operating cash flow is used for “cash flow” in the above calculations.

(Note 3) “Interest-bearing liabilities” in the above calculation refers to all liabilities recorded on the balance sheets for which the Company pays interests.

3) Outlook on the financial position for fiscal year 2016

Significant matters that may impact the financial position of the Company in fiscal 2016 are as follows:

- (i) The Company intends to record a profit of 200 million yen (Note) during fiscal 2016.
- (ii) 55 million yen in dividend payment is scheduled for fiscal 2016, which is the year-end dividend payout for fiscal 2015.

(Note) For the business results for fiscal 2016, please refer to “1. Business Results (1) Analysis of business results 2) Forecast for fiscal year 2016” on page 4.

(3) Basic policy for profit sharing and dividends for fiscal year 2015 and fiscal year 2016

1) Basic policy for profit sharing

The Company's policy for profit sharing to our shareholders is to maximize them, while at the same time taking into account adequate levels of “realizing periodic profit returns to shareholders” and “internal reserves that will enable flexible business operations.” In terms of profit sharing, based on this policy, the amount of dividends is determined as 50% of profit (payout ratio of 50%) as a general rule. However, when the amount of dividends calculated at the payout ratio of 50% falls below the amount for the previous fiscal year, the amount is determined in consideration of the level of prior dividends after the adequate internal reserves is secured.

As an appropriate level for the scope of its business, the Company aims to hold three years of selling, general and administrative expenses as internal reserves, but also emphasizes management that recognizes capital efficiency from the standpoint of improving corporate value, and will execute capital measures that adequately consider the balance of both. In accordance with the medium- to long-term growth strategies, internal reserves are used mainly as funds for R&D and for required funds for new business expansion in an effort to continually enhance corporate value.

2) Dividends for fiscal year 2015 and dividend projection for fiscal year 2016

For fiscal 2015, the amount of year-end dividend per share is 5 yen and is expected to be proposed at the ordinary general meeting of shareholders held on June 18, 2016. With an interim dividend of 5 yen per share already executed, the annual dividend per share will amount to 10 yen. Dividend payout ratio is 101.5%.

As for the dividend projection for fiscal year 2016, the Company determined its plan to pay an annual dividend of 10 yen per share (10 yen of year-end dividend), the same amount as this fiscal year. The dividend payout ratio relative to the profit projected at present is 56.0%. Also regarding the dividend for fiscal year 2016, due to the business plan having a focus on the second half of the fiscal year, after comprehensively taking into account the level of per-share dividend payments and the implementation cost of an interim dividend payment, the Company has decided to pay a lump-sum dividend at the end of the fiscal year instead of implementing an interim dividend payment.

(4) Risk factors

Matters related to business results, financial position, etc. stated herein that might significantly affect an investor's decision-making include the following. Additionally, the following does not comprise an exhaustive list of risks involving the Company, and business and other risks are not limited to the following. Forward-looking statements hereunder are based on the Company's judgment as at the end of fiscal 2015.

1) The Company's dividend policy

For the Company's dividend policy, please refer to “1. Business Results (3) Basic policy for profit sharing and dividends for fiscal year 2015 and fiscal year 2016 1) Basic policy for profit sharing” on page 6. As the Company determines the amount of dividend based on the aforementioned policy, there is a possibility of the amount of dividend being affected by the business results in each fiscal year and the state of internal reserves.

2) Pachinko and pachislot machine market

(i) Market trends

The pachinko and pachislot machine market accounts for over 95% of the Company's net sales, and trends in this market may have major effects on the Company's business. The number of new units sold in this market in fiscal 2014 was said to be approximately 3,250,000 units (Note). While in recent years, the effects of the diversification of leisure have resulted a downward trend in the number of new units sold, the Company engages in creating a business model that can secure profit even under such an environment. However, if this

market shows a significant contraction trend which is unforeseeable at this point in time due to various factors, the Company's business results may be severely affected.

(Note) Information compiled by Yano Research Institute Ltd.

(ii) Dependence on specified products

In fiscal 2015, sales of Graphics LSI products targeted at the pachinko and pachislot machine market, our mainstay products, accounted for about 80% of the Company's net sales (fiscal 2015). The Company is seeking to differentiate itself in the market by taking initiatives such as enhancing the functions of such products and improving the support system that reduces the development burden on customers. However, if, for example, other LSI manufacturers, etc. enter the market with products that are superior to those of the Company in terms of performance, or the Company is dragged into price competition by other reasons, the Company's business results might be severely affected.

(iii) Legal regulations and self-imposed regulations by industry associations

Although the business conducted by the Company is not directly subject to legal regulations, the production and sale of pachinko and pachislot machines that feature the Company's products are subject to legal regulations including the "Act on Control and Improvement of Amusement Businesses, etc." and other related laws. Additionally, aside from legal regulations, with intent that includes controlling excessive speculation, industry associations may also implement self-imposed regulations. In the event that these legal regulations or new self-imposed regulations have a significant effect on sales trends of pachinko and pachislot machines, there may be a significant effect on the Company's business results.

(iv) Product deployment

The Company is seeking to stabilize and expand its business in the pachinko and pachislot machine market by enhancing and diversifying the functions of various LSI products as well as diversifying products such as memory-module products and LED driver LSI products. However, if the demand for enhanced and diversified functionality shows any tendency of stagnation/reversal in the amusement device market, or if the results expected of product diversification are not produced, the Company's business results may be severely affected.

(v) Reuse of the Company's products

In recent years, owing to increased cost awareness among manufacturers, reuse of amusement device components, including the Company's products are carrying out full-scale. The Company is looking to lower the impact level of reuse by such means as undertaking the development of next-generation products that satisfy customer needs and promoting the migration to new products. Furthermore, the Company intends to minimize this impact on business results overall through product diversification, including the development of products for new areas targeted at this market. Nevertheless, if there is a significant rise in the percentage of such reuse and a transition to next-generation products does not show progress, and if the results expected of product diversification are not produced, the Company's business results may be severely affected.

3) Diversification of business activities

The Company recognizes the risks of conducting business activities with a high degree of dependence on a single market and plans to conduct business in markets outside the pachinko and pachislot machine market. The Company is currently working to establish a business using Graphics LSI in the medical and industrial embedded systems market, as well as a software IP business using software movie codecs that are playable in PC and smartphone browsers. However, if the markets in which the Company is seeking to establish new businesses unexpectedly turn out to be smaller, or the pace of business development turns out to be extremely slow, the Company's business results could be severely affected.

4) Matters related to the organization

(i) Administrative organization proportionate to the current size of the Company

As of the end of fiscal 2015, the Company consists of 84 employees, and its internal management system is deemed to be commensurate with its size. The size of the Company's workforce is continually expanding in preparation for the future business development. If the internal management system fails to properly adapt to such increase in workforce and the resulting expansion in business scale in a timely manner, the Company's business development might be constrained and the Company's business results might be severely affected.

5) Research and development

(i) Recruitment of R&D personnel

The Company recognizes that ongoing recruitment of talented and experienced engineers is an important issue. It expects recruitment to be an uphill battle, however, given the scarcity of talented engineers in the fields of graphics-related technologies and LSI design technologies. If the Company fails to hire necessary engineers as planned, or loses engineers on its payroll to other companies, its business results might be severely affected.

(ii) Growing R&D expenditures

The Company is focused mainly on the research and development of various LSI products using state-of-the-art processes, and in line with refinement of processes, LSI development costs are on a rising trend. Accordingly, if expected profit of the products developed cannot be fully secured or if the timing of acceptance inspection for multiple LSI product development projects coincides, resulting in prototype development expenses and other such expenses being accounted for all at once, the Company's business results might be severely affected.

(iii) Technical trends

The market for Graphics LSI products, which are the Company's mainstay products, continues to demand advanced functionality to this day. It is therefore indispensable to ensure superior technological development capabilities and introduce the latest design environments, etc. To remain competitive in this regard, the Company continues to steer R&D into proprietary areas such as graphics rendering and graphics compression/decompression (codec) technologies. The Company also actively engages in collaborative research and development with universities. This approach has proven effective as a means of not only achieving specific research results but also fostering and recruiting R&D personnel via internships of students and other arrangements that are a part of such collaboration. The Company acknowledges that it may be necessary, in the future, to consider introducing superior graphics-related technologies as well as other companies' technologies that would complement its technologies, and forming an alliance and collaborating with companies with technologies that would be beneficial in expanding its business. However, if, for example, the Company falls behind in such research and development and thereby lags behind in technological development or fails to fulfill R&D targets, its business results might be severely affected.

6) Manufacturing and sales systems

(i) Outsourcing of manufacturing

The Company has adopted a business model based on the horizontal division of labor, and its business activities specialize mainly in R&D and sales strategies. Since the Company outsources the manufacturing of its products, the task of outsourcing is an extremely crucial factor. With this in mind, in view of securing the most appropriate contract manufacturers at all times, the Company believes that it is crucial to build and maintain a good relationship with semiconductor manufacturers, etc., who undertake the manufacturing of products. At present, the Company has a good relationship with the contract manufacturers, and no factors that might undermine the continuation of the business model adopted by the Company have arisen. At present, however, if the Company is unable to secure sufficient production capacity from contract manufacturers, problems arise in the contract manufacturers' facilities due to unforeseeable extraordinary events, or the manufacturing outsourcing agreement is terminated, the Company's business results may be severely affected. (Supplementary information)

Contract manufacturers that the Company has entered into operationally important contracts with are as described in "Part I Information on the Company 2. Business Overview 5. Important business contracts" in the securities report submitted on June 22, 2015. Although the general termination clause related to default and other events is set forth in the contract with such contract manufacturers, up to now there have been no facts that correspond to any of the situations set forth in the termination clause.

(ii) Sales system

The Company is currently active primarily in business activities conducted through sales agents, and among these, over 70% of total net sales consist of net sales to Midoriya Electric Co., Ltd. At present, the Company has a good relationship with sales agents, including Midoriya Electric Co., Ltd., and no factors that might undermine the business of the Company have arisen. However, if problems arise in a relationship with each sales agent in future, the Company's business results might be severely affected. (Supplementary information)

Sales agents that the Company has entered into operationally important contracts with are as described in "Part I Information on the Company 2. Business Overview 5. Important business contracts" in the securities report submitted on June 22, 2015. Although the general termination clause related to default and other events is set

forth in the contract with sales agents, up to now there have been no facts that correspond to any of the situations set forth in the termination clause.

7) Legal regulations

(i) Product quality and reliability

To date, the Company has never been sued for product liability under the Product Liability Law or any other law with respect to its products. There is no guarantee, however, that it will never be sued for such liabilities in the future. Generally speaking, moreover, there is no guarantee that it will necessarily be able to avoid supplying flawed LSI products, etc. which might cause damage to final customers, etc. Recognizing that losses from product liability constitute a major risk, the Company has established an independent division in charge of quality assurance that reports directly to the President. In addition, it acquired ISO9001:2000 certification in July 2005, and in July 2009 updated this certification to ISO9001:2008. Notwithstanding such efforts, in the event of an accident, etc. where the Company is sued for product liability due to a defect in its product, the Company's business results might be severely affected.

(ii) Protection and preservation of intellectual property rights

The Company's policy is to apply for the registration, etc. of intellectual property rights in relation to its LSI products or its technologies, etc. to the greatest extent possible, in an effort to protect its intellectual property under law. The Company's products or its technologies, etc. may be protected under the provisions of the Civil Code, the Unfair Competition Prevention Law, the Copyright Law and other statutes which confer rights without the need for filing an application for registration, but in cases where protection under such laws is insufficient or the Company has difficulty in exercising its rights, if the products, etc. similar to its products are developed and sold by other companies, its business results might be severely affected.

(iii) Intellectual property right infringement, etc.

The Company has developed a framework to prevent disputes arising from intellectual property right infringement, etc. by conducting clearance surveys upon developing LSI products, etc. as to whether there would be any infringement of intellectual property rights including peripheral patents. However, it is impossible to completely verify that there are no facts of infringement even by conducting the aforementioned clearance surveys. If, for example, an intellectual property right related to the Company's business is established in the name of a third party, or an intellectual property right related to its business is already in existence unbeknownst to it, it might be sued on the grounds that it has infringed the intellectual property right of a third party. In the event of such a lawsuit, the Company would have to expend enormous amounts of time, money and other management resources to deal with the lawsuit. In addition, if the Company consequently loses the lawsuit, its business results might be severely affected in that it might be forced to suspend the sale of the products comprised of the disputed technology and be held liable to pay substantial damages, or assume the obligation to pay the holder of the rights consideration for the granting of a license, etc.

(iv) Information management

The Company possesses an enormous amount of information required for the performance of business, such as management and administrative information, sales information, technical information and personal information. As a means of ensuring the protection of such information against security risks, the Company has established information management rules and built an information management system that comprises limitation on people who have access to internal information, etc. Additionally, based on the recognition that raising the awareness of those who handle information is important for information management, the Company is making an effort to raise such awareness among its officers and employees through outside seminars and training programs. However, despite the establishment of these systems, it is difficult to completely eliminate the possibility of information leaks. If for some reason confidential information is leaked to parties outside of the Company, its business results might be severely affected.

8) Large-scale disasters

The Company prepares the necessary countermeasures for the purpose of minimizing damage caused by large-scale disasters, including natural disasters such as major earthquakes and big typhoons, and widespread epidemics. Even in the event of a large-scale disaster, the Company has built a system that allows it to immediately establish a disaster control headquarters in accordance with the disaster countermeasures manual which is currently being formulated and BCP (Business Continuity Plan), as well as swiftly gathering information and implementing recovery and rehabilitation countermeasures according to the level of damage. Although the Company carries out such disaster prevention countermeasures, when a large-scale disaster or the like actually occurs, it may be forced to suspend or drastically curtail its business activities, and its business results might be severely affected.

9) Foreign exchange fluctuation risk

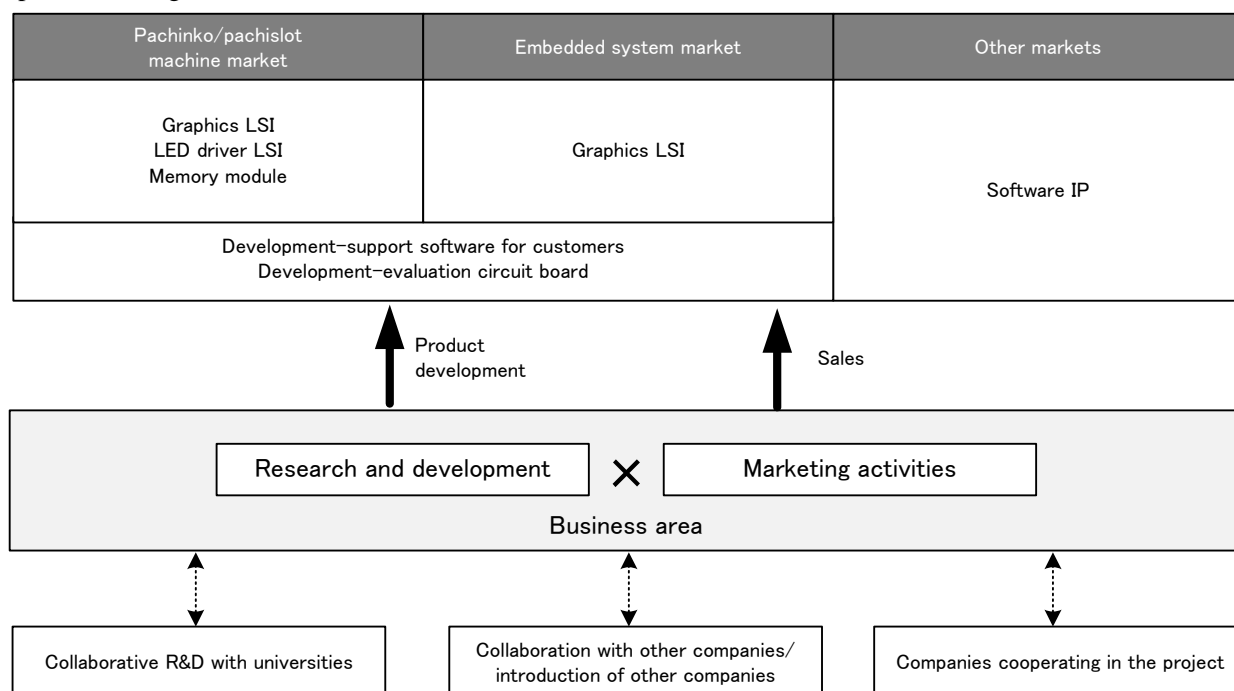
As the Company becomes increasingly global in development and product manufacturing, amounts settled in foreign currencies are increasing. Foreign transactions are currently being conducted using the US dollar, a leading currency, and measures such as foreign exchange contracts are being used to minimize short-term effects. However, as foreign exchange is constantly fluctuating as the result of international transactions taking place around the world, when costs and expenses in foreign currencies are settled, the Company may be affected by foreign exchange as a result of the conversion into yen. The Company's transactions in foreign currencies are currently considered an expense, and a weak yen will have a negative effect on the Company's results.

2. Corporate Group Overview

The Company is a research and development-type fabless semiconductor manufacturer, and operates a business specializing in research and development and marketing activities.

In the pachinko and pachislot machine market, which is currently the Company's main market, the Company, while positioning Graphics LSI products (including products with integrated functions) as its core products, sells various products including LED driver LSI products and memory-module products. In the embedded system market, the Company sells Graphics LSI products for LCD displays, etc. to be loaded onto FA machinery, medical devices, large construction equipment, etc. Additionally, in light of the increasing development burden on customers entailed by the increasingly high functions of the LSI, the Company has been focusing on the development of development-evaluation circuit boards and development-support software in order to mitigate such development burdens among its customers. Additionally, the Company also develops and sells software IP products such as the "H2MD" software movie codec that allows for playback in PC and smartphone browsers from fiscal 2015.

Operations Diagram



3. Management Policy

(1) Basic management policies of the Company

The Company shall uphold the following “Corporate Philosophy” as its basic management policies and promote activities with a constant awareness of compliance and of the Company’s social significance.

Corporate Philosophy

1. By employing the latest LSI design technologies, the Company is a revolutionary research and development-type semiconductor manufacturer which is engaged primarily in bringing graphics and sound-related products to market, and will secure the following items
 - (1) Be an elite think tank with a high level of specialized expertise
 - (2) Create proprietary new technologies and products
 - (3) Be a fabless company that does not have any factories
2. As a company group, the Company shall establish a governance system that gives consideration to all stakeholders, including the shareholders, employees, customers and business partners
3. The Company shall comply with laws and regulations, the Articles of Incorporation, and rules, and conduct timely and appropriate disclosures
4. While fully considering information management, the Company will maintain an open and free corporate culture, and will aim for business expansion alongside conducting social contributions in line with the Company’s businesses

(2) Targeted management indicators

In order to pursue management with awareness of enhancing corporate value, the Company has set ROE as a key management indicator, and a three-year-average ROE of over 10% will be used as an indicator for business activities. In fiscal 2015 and fiscal 2016, an increase in research and development expenses in order to realize mid- to long-term growth has created a situation where it is difficult to reach the current ROE target, but the Company will continue to pursue operations conscious of capital efficiency. ROE for fiscal 2015 is calculated to be 0.9% (three-year average of 5.6%) and ROE for fiscal 2016 is calculated to be 1.5% (three-year average of 3.6%), based on plans for profit in fiscal 2016.

The Company currently intends to place a greater focus on the deployment of new products for its primary market, the pachinko and pachislot machine market, in order to realize deep growth, and plans to expand its business scale with a target of 18.0 billion yen in net sales in fiscal 2018. Also, the Company’s ROE target for the same period is 15%.

(3) The Company’s medium- to long-term management strategies and issues to be addressed

In order to realize sustained growth, the Company will address the following issues:

1) Approach to the pachinko and pachislot machine market

The pachinko and pachislot machine market is the Company’s main market, and the Company recognizes that establishing a business model to secure stable profits and continuous growth in this market as an important issue.

In the pachinko and pachislot machine market, a harsh market environment persists because, in addition to a decreasing trend in the market, the reuse of pachinko and pachislot machine components is causing a contraction in demand. However, the pachinko and pachislot machine market is a huge market where demand for electronic parts such as the Company’s is in high demand. Additionally, there are still many areas in which the Company has not entered and are open to business possibilities for the Company. The Company recognizes that the pachinko and pachislot machine market will continue to be the core of the Company’s business in the future.

For the pachinko and pachislot machine market, the Company will continue to enhance the functions of Graphics LSI products, our mainstay products, and expand into the system business with such products at the core. Furthermore, the Company will diversify its products through product development for new areas in the pachinko and pachislot machine market. Also, the Company is intent on improving the development-support environment that would alleviate customers’ burden of development and providing more customer-oriented high-value-added solutions. Through the organic implementation of such measures, the Company intends to secure stable profits and achieve medium- to long-term growth in a harsh market environment.

2) Approach to Business Diversification

Over 95% of the Company’s net sales are currently comprised of products for pachinko and pachislot machines, resulting in trends in the pachinko and pachislot machine market acting as a major variable in the Company’s business results. The Company recognizes that a major challenge facing it is that in order for the Company to realize a sustainable growth in profits, it must secure steady earnings in this main market while

also making effective use of the technology and know-how cultivated by the Company to enter new businesses where profitability and growth can be expected.

Current initiatives outside of this main market includes efforts using Graphics LSI in the medical and industrial embedded systems market, and efforts to increase sales of software IP products such as H2MD. The Company plans to continue to proactively search for opportunities to enter new business areas including through methods such as mergers and acquisitions, alliances, and more.

3) Efforts to acquire intellectual property rights and eliminate the risk of infringing the intellectual property rights of other companies

The Company recognizes that the task of preparing a framework to facilitate the acquisition of intellectual property rights for its various proprietary technologies is an important issue. The Company also believes that developing measures to prevent the infringement of intellectual property rights of other companies will become a critical issue, based on the view that the risk of infringement of other companies' rights will increase along with the expansion of its business scale. To address the aforementioned issues, the Company makes ongoing efforts, including establishing divisions in charge of intellectual property rights in general that report directly to the President, building a close relationship with its consulting patent attorneys and conducting in-house seminars on intellectual property rights. For the future, the Company will make an effort to enhance collaboration among R&D staff, divisions that oversee intellectual property rights and the consulting patent attorneys in order to further boost their effectiveness.

4) Enriching corporate governance

In order to continuously improve corporate value and realize sustainable growth, the Company believes that enriching corporate governance to be important.

In its corporate principles, the Company has set forth "Establishing a governance structure that considers all stakeholders," placing importance on corporate governance for management. In line with its corporate principles, the Company believes that, while considering all stakeholders, establishing an appropriate corporate governance structure that fit factors such as the Company's business type and business scope is an important issue.

Basic policy on corporate governance

The Company views corporate governance as an important management issue, and in addition to setting forth "Establishing a governance structure that considers all stakeholders" in its corporate principles, the Company has defined the "Axell Code of Conduct," and views this as an important management principle. The Company will work to enrich its corporate governance, and in addition to conducting business activities as a corporate entity with social ethics, by increasing the health, transparency, and efficiency of management, the Company will aim to improve corporate value and achieve continuous growth.

4. Basic Policy on Selection of Accounting Standards

In view of the Company's financial statements being utilized for calculation of possible dividend amounts under the Companies Act and calculation of taxation amounts for income taxes, concerning accounting standards, the Company applies Japanese accounting standards.

5. Financial Statements**(1) Balance Sheets**

	(In millions of yen)	
	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
Assets		
Current assets		
Cash and deposits	8,500	8,063
Accounts receivable-trade	550	465
Securities	2,999	—
Merchandise and finished goods	1,483	2,000
Raw materials and supplies	0	0
Advance payments-trade	0	300
Prepaid expenses	87	107
Income taxes receivable	—	35
Consumption taxes receivable	—	87
Deferred tax assets	66	—
Other	0	—
Total current assets	13,689	11,061
Non-current assets		
Property, plant and equipment		
Buildings	213	224
Accumulated depreciation	(109)	(110)
Buildings, net	103	113
Tools, furniture and fixtures	985	1,082
Accumulated depreciation	(794)	(862)
Tools, furniture and fixtures, net	190	220
Leased assets	4	4
Accumulated depreciation	(1)	(2)
Leased assets, net	3	1
Total property, plant and equipment	297	336
Intangible assets		
Patent right	4	1
Trademark right	0	0
Software	34	29
Total intangible assets	38	31
Investments and other assets		
Investment securities	197	350
Long-term prepaid expenses	21	37
Lease and guarantee deposits	92	92
Deferred tax assets	130	225
Other	95	20
Total investments and other assets	536	726
Total non-current assets	872	1,095
Total assets	14,562	12,156

(In millions of yen)

	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
Liabilities		
Current liabilities		
Accounts payable-trade	170	681
Lease obligations	1	1
Accounts payable-other	393	129
Accrued expenses	93	9
Income taxes payable	137	—
Accrued consumption taxes	152	—
Deposits received	21	19
Deferred tax liabilities	—	0
Total current liabilities	969	843
Non-current liabilities		
Lease obligations	1	0
Asset retirement obligations	33	34
Other	—	22
Total non-current liabilities	35	56
Total liabilities	1,005	900
Net assets		
Shareholders' equity		
Capital stock	1,018	1,018
Capital surplus		
Legal capital surplus	861	861
Total capital surpluses	861	861
Retained earnings		
Legal retained earnings	1	1
Other retained earnings		
General reserve	10,200	8,200
Retained earnings brought forward	1,449	1,135
Total retained earnings	11,650	9,336
Treasury shares	(0)	—
Total shareholders' equity	13,531	11,217
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	25	39
Total valuation and translation adjustments	25	39
Total net assets	13,556	11,256
Total liabilities and net assets	14,562	12,156

(2) Statements of Income

	(In millions of yen)	
	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Net sales	11,073	8,982
Cost of sales		
Beginning finished goods	1,551	1,483
Purchase of finished goods	6,274	5,397
Total	7,825	6,881
Ending finished goods	1,483	2,000
Cost of finished goods sold	6,342	4,880
Gross profit	4,731	4,101
Selling, general and administrative expenses	*1, *2 3,086	*1, *2 3,857
Operating income	1,645	244
Non-operating income		
Interest income	0	0
Interest on securities	0	0
Dividend income	2	2
Dividend income of life insurance	1	1
Interest on refund	3	—
Gain on investments in partnership	2	—
Other	3	0
Total non-operating income	15	5
Non-operating expenses		
Foreign exchange losses	0	3
Commission for purchase of treasury shares	—	10
Loss on retirement of non-current assets	0	3
Loss on investments in partnership	—	11
Other	0	0
Total non-operating expenses	1	29
Ordinary income	1,659	220
Extraordinary losses		
Loss on liquidation of business	—	*4 41
Loss on valuation of membership	2	—
Loss on liquidation of subsidiaries	*3 29	—
Total extraordinary losses	32	41
Profit before income taxes	1,627	178
Income taxes - current	313	98
Income taxes - deferred	198	(33)
Total income taxes	511	65
Profit	1,115	113

(3) Statements of Changes in Net Assets

FY 2014 (From April 1, 2014 to March 31, 2015)

(In millions of yen)

(in millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at beginning of current period	1,018	861	861	1	10,000	1,216	11,217
Changes of items during period							
Dividends of surplus						(682)	(682)
Provision of general reserve					200	(200)	—
Profit						1,115	1,115
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	200	233	433
Balance at end of current period	1,018	861	861	1	10,200	1,449	11,650

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(0)	13,098	32	32	13,130
Changes of items during period					
Dividends of surplus		(682)			(682)
Provision of general reserve		—			—
Profit		1,115			1,115
Net changes of items other than shareholders' equity			(6)	(6)	(6)
Total changes of items during period	—	433	(6)	(6)	426
Balance at end of current period	(0)	13,531	25	25	13,556

FY 2015 (From April 1, 2015 to March 31, 2016)

(In millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at beginning of current period	1,018	861	861	1	10,200	1,449	11,650
Changes of items during period							
Dividends of surplus						(428)	(428)
Provision of general reserve					(2,000)	2,000	—
Profit						113	113
Purchase of treasury shares							
Retirement of treasury shares						(2,000)	(2,000)
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	(2,000)	(314)	(2,314)
Balance at end of current period	1,018	861	861	1	8,200	1,135	9,336

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	(0)	13,531	25	25	13,556
Changes of items during period					
Dividends of surplus		(428)			(428)
Provision of general reserve		—			—
Profit		113			113
Purchase of treasury shares	(2,000)	(2,000)			(2,000)
Retirement of treasury shares	2,000	—			—
Net changes of items other than shareholders' equity			13	13	13
Total changes of items during period	0	(2,314)	13	13	(2,300)
Balance at end of current period	—	11,217	39	39	11,256

(4) Statements of Cash Flows

	(In millions of yen)	
	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Cash flows from operating activities		
Profit before income taxes	1,627	178
Depreciation	140	155
Interest and dividends income	(3)	(2)
Loss (gain) on investments in partnership	(2)	11
Loss (gain) on liquidation of subsidiaries	29	—
Decrease (increase) in notes and accounts receivable-trade	446	85
Decrease (increase) in inventories	99	(516)
Decrease (increase) in other current assets	82	(320)
Increase (decrease) in notes and accounts payable-trade	(187)	510
Increase (decrease) in other current liabilities	57	(359)
Decrease/increase in consumption taxes receivable/payable	229	(239)
Other, net	26	60
Subtotal	2,544	(435)
Interest and dividend income received	3	2
Income taxes paid	—	(271)
Income taxes refund	49	—
Net cash provided by (used in) operating activities	2,597	(704)
Cash flows from investing activities		
Purchase of property, plant and equipment	(159)	(165)
Purchase of intangible assets	(19)	(14)
Purchase of investment securities	—	(75)
Proceeds from distribution of investment in partnerships	7	3
Other, net	(93)	(51)
Net cash provided by (used in) investing activities	(264)	(303)
Cash flows from financing activities		
Purchase of treasury shares	—	(2,000)
Repayments of lease obligations	(2)	(1)
Cash dividends paid	(682)	(428)
Net cash provided by (used in) financing activities	(685)	(2,429)
Net increase (decrease) in cash and cash equivalents	1,647	(3,437)
Cash and cash equivalents at beginning of period	9,853	11,500
Cash and cash equivalents at end of period	* 11,500	* 8,063

(5) Notes to Financial Statements
(Notes regarding going concern assumption)
N/A

(Significant accounting policies)

1. Standard and method for evaluation of securities

Available-for-sale securities

Available-for-sale securities with market value

The market value method is applied, based on the market value as of the fiscal-end. The entire positive or negative valuation difference from the purchase price is booked directly as net assets, and the cost of securities sold is calculated using the moving-average method.

Available-for-sale securities without market value

Stated at cost using the moving-average method.

Contributions to investment limited partnerships and partnerships similar thereto, which are deemed as securities under Article 2-2 of Financial Instruments and Exchange Act, are posted by the method where the amount equivalent to equity is included on a net basis, based on the most recent available financial statements according to the date of statements stipulated by the partnership agreement.

2. Standards and method for evaluation of inventory

1) Finished goods

Stated at cost using the periodic average method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

2) Supplies

Stated at cost using the last purchase price method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

3. Depreciation methods of non-current assets

1) Property, plant and equipment (excluding lease assets)

Declining balance method (however, the straight-line method for buildings [excluding accompanying facilities]).

The useful lives of the assets are as follows:

Buildings: 3-15 years

Tools, furniture and fixtures: 2-20 years

2) Intangible assets (excluding lease assets)

Patent right

Straight-line depreciation over 8 year period

Trademark right

Straight-line depreciation over 10 year period

Software

Software for internal use is amortized on a straight-line basis based on its estimated useful life of 3-5 years.

3) Lease assets

Lease assets pertaining to financial leases other than those in which the title of the leased property transfers to the lessee

The straight-line method, substituting the lease term for the useful life, assuming no residual value.

4. The range of cash within the statements of cash flows

Cash within the statements of cash flows include cash at hand, demand deposits and short-term investments that are easily converted into cash, with little risk of fluctuation in value and reach maturity within 3 months from acquisition.

5. Other important items regarding the basis for preparation of financial statements

Accounting of consumption taxes

All transactions are recorded net of consumption taxes and local consumption taxes.

(New accounting standards not yet applied)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Implementation Guidance No. 26, December 28, 2015)

(1) Summary

The “Implementation Guidance on Recoverability of Deferred Tax Assets” is guidance issued by the ASBJ upon the transfer of the Japan Institute of Certified Professional Accountants (JICPA)’s practical guidance on the accounting and auditing (where applicable to accounting) of tax effect accounting to the ASBJ primarily regarding the guidance established in JICPA Audit Committee Report No. 66 “Audit Treatment Related to the Judgment of the Recoverability of Deferred Tax Assets” relating to the recoverability of deferred tax assets that categorizes companies into five categories and estimates the recorded amount of deferred tax assets based on said categories; upon the necessary reconsideration of classification requirements and treatment of some recorded amounts of deferred tax assets, this guidance has been established for when “Accounting Standard for Tax Effect Accounting” (Business Accounting Council) are applied regarding the recoverability of deferred tax assets.

(Reconsideration of classification requirements and treatment of recorded amounts of deferred tax assets)

- Treatment of companies that do not fulfill either of the requirements for classification from (Category 1) to (Category 5)
- Requirements for classification as (Category 2) and (Category 3)
- Treatment of temporary differences in future temporary differences that cannot be scheduled for companies applicable to (Category 2)
- Treatment of concerning the reasonable estimable period of temporary differences in future pre-adjusted taxable income for companies applicable to (Category 3)
- Treatment in cases where a company fulfilling the requirements of (Category 4) is also applicable to (Category 2) or (Category 3)

(2) Scheduled date of application

The application is scheduled to take place at the beginning of fiscal years that begin on or after April 1, 2016.

(3) Impact of the application of the accounting standard, other standards

The impact of the application of “Implementation Guidance on Recoverability of Deferred Tax Assets” was being assessed at the time the consolidated financial statements for the current fiscal year under review were prepared.

(Changes in representation)

(Statements of income)

The amount of “Gain on forfeiture of unclaimed dividends” in “Non-operating expenses” that was presented as a separate line item during fiscal 2014 has become an amount that is no longer significant, and is included in “Other” from this fiscal year. For the purpose of reflecting this change in representation, the consolidated financial statements for fiscal 2014 are reclassified.

As a result, 1 million yen posted as “Gain on forfeiture of unclaimed dividends” of “Non-operating expenses” in the consolidated statements of income for fiscal 2014 is now reclassified as “Other”.

(Statements of income)

*1 Approximate ratios of expenses associated with selling expenses are 24% for fiscal 2014 and 24% for fiscal 2015, and approximate ratios of expenses associated with general and administrative expenses (excluding research and development expenses) are 76% for fiscal 2014 and 76% for fiscal 2015.

The major components and amounts of selling, general and administrative expenses are as follows:

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Compensation to Directors and Audit & Supervisory Board Members	245 million yen	185 million yen
Salary and bonuses	316	289
Depreciation	32	32
Commission fee	115	130
Research and development expenses	1,948	2,807

***2 Total amount of research and development expenses included in general and administrative expenses**

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Research and development expenses included in general and administrative expenses	1,948 million yen	2,807 million yen

***3 Loss on liquidation of subsidiaries**

FY 2014 (From April 1, 2014 to March 31, 2015)

A loss on liquidation of 29 million yen was recorded for NEWZONE CORPORATION, previously a consolidated subsidiary.

FY 2015 (From April 1, 2015 to March 31, 2016)

N/A

***4 Loss on liquidation of business**

FY 2014 (From April 1, 2014 to March 31, 2015)

N/A

FY 2015 (From April 1, 2015 to March 31, 2016)

The loss on abandonment of inventories resulting from the cessation of the NEWZONE brand's business activities is 41 million yen.

(Statements of changes in net assets)**FY 2014 (From April 1, 2014 to March 31, 2015)****1. Type and number of shares issued and type and number of treasury stock**

	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Type of shares issued				
Common stock	12,402,252	—	—	12,402,252
Total	12,402,252	—	—	12,402,252
Type of shares of treasury stock				
Common stock	54	—	—	54
Total	54	—	—	54

2. Matters related to dividends**(1) Dividend payout amounts**

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 21, 2014	Common stock	372	30	March 31, 2014	June 23, 2014
Board of Directors Meeting, October 24, 2014	Common stock	310	25	September 30, 2014	November 19, 2014

(2) Payout amount of dividends with reference date in FY 2014 but effective date in FY 2015

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 21, 2015	Common stock	372	Retained earnings	30	March 31, 2015	June 22, 2015

FY 2015 (From April 1, 2015 to March 31, 2016)**1. Type and number of shares issued and type and number of treasury stock**

	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Type of shares issued				
Common stock	12,402,252	—	1,214,503	11,187,749
Total	12,402,252	—	1,214,503	11,187,749
Type of shares of treasury stock				
Common stock	54	1,214,449	1,214,503	—
Total	54	1,214,449	1,214,503	—

- (Notes)
1. The increase of 1,214,449 shares of treasury stock in common stock consists of an increase of 1,214,400 shares resulting from an acquisition of treasury stock as resolved by the Board of Directors and an increase of 49 shares resulting from the purchase of fractional shares.
 2. The decrease of 1,214,503 shares of treasury stock in common stock consists of a retirement of 1,214,503 shares of treasury stock.

2. Matters related to dividends**(1) Dividend payout amounts**

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 21, 2015	Common stock	372	30	March 31, 2015	June 22, 2015
Board of Directors Meeting, October 23, 2015	Common stock	55	5	September 30, 2015	November 19, 2015

(2) Payout amount of dividends with reference date in FY 2015 but effective date in FY 2016

(Resolution)	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 18, 2016	Common stock	55	Retained earnings	5	March 31, 2016	June 20, 2016

(Statements of cash flows)*** Reconciliation between the fiscal year-end balance of cash and cash equivalents and the amounts of the accounts and amounts shown in the balance sheets:**

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Cash and deposits	8,500 million yen	8,063 million yen
Securities	2,999	—
Cash and cash equivalents	11,500	8,063

(Lease transactions)**(As lessee)****1. Finance lease transactions**

Non-ownership-transfer finance lease transactions

(1) Leased assets

Property, plant and equipment
Company vehicles.

(2) Depreciation method for leased assets

As shown in “3. Depreciation methods of non-current assets” of Significant Accounting Policies.

2. Operating lease transactions

Unexpired lease fees associated with irrevocable operating lease transactions

(In millions of yen)

	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
Within 1 year	50	50
Over 1 year	95	45
Total	145	95

(Financial instruments)**1. Matters related to status of financial instruments****(1) Policy for efforts directed at financial instruments**

The Company holds necessary funds (bank deposits, etc.) in light of its business plan primarily to conduct the research and development of LSI products and execute the sales business. It is the Company's policy to raise funds if more funds than it currently holds is deemed necessary in consideration of the circumstances and other factors at that time.

The Company seeks to not only utilize but also protect financial assets by investing temporary surplus funds out of bank deposits and other financial assets held by the Company in highly secure financial assets. It is also the Company's policy to use derivative transactions in order to avoid foreign currency risks, and it does not conduct speculative transactions.

(2) Description of financial instruments and risks associated with such financial instruments

Accounts receivable-trade (i.e., operating receivables) are exposed to customers' credit risk. However, the Company seeks to reduce this risk by making the settlement period as short as possible, by closing the accounts at the end of each month and settling transactions in the following month as a fundamental rule.

Securities consist of treasury discount bills purchased by using funds regarded as temporary surplus out of bank deposits, etc. held by the Company. The Company's policy is not to hold financial instruments that are generally riskier than treasury discount bills.

Investment securities are shares held for the purpose of confirming the tie-up with counterparty companies and also held as contributions to investment limited partnerships, and are exposed to risks of fluctuations in market price.

Accounts payable-trade (i.e., operating payables) are generally settled within 1 month by closing the accounts at the end of each month and settling transactions in the following month as a fundamental rule, similarly to accounts receivable-trade (i.e., operating receivables).

(3) Risk management for financial instruments

1) Management of credit risk (risk of nonperformance of contract by counterparty, etc.)

The Company manages operating receivables according to the credit management rules it has established to manage such receivables. The Management Department is in charge of conducting a credit check of new counterparties upon the commencement of transactions. In conjunction with regular checks conducted by the Management Department, the Sales and Marketing Department manages receivables from counterparties in ongoing transactions by confirming their financial position of such counterparties, as well as the due date, balance and other matters regarding receivables in transactions with such counterparties.

The Company seeks to promptly identify and reduce concerns over the collection of operating receivables mainly by managing them as described above. Receivables comprising securities are all in the form of highly secure treasury discount bills, with negligible credit risk.

The maximum amount of credit risk as of March 31, 2016 is shown as the amount of financial assets exposed to credit risks in the balance sheet.

2) Management of market risk

Shares of companies listed on securities exchanges and markets are held by the Company for the purpose of confirming its tie-up with counterparty companies, and are declared as investment securities in the balance sheet, along with contributions to investment limited partnerships. The Company periodically identifies the market value of the investment securities and the financial position, etc. of the issuer (counterparty company) and reviews such investment securities on an ongoing basis, in consideration of such factors as the status of tie-up with the counterparty company.

3) Management of liquidity risk in financing (risk of not being able to execute payment on due date)

The Company manages liquidity risks by executing fund settlement in consideration of security, by confirming the fund settlement status and the trends in the balance during the month, as well as the fund settlement forecast and the projected trends in the balance for the following month.

(4) Supplementary explanation of market value and other matters related to financial instruments

The market value of financial instruments includes mark-to-market value, and in cases where there is no market price, it includes the value reasonably calculated. As the calculation of such value takes variables into account, the value may change if different assumptions, etc. are adopted.

(5) Concentration of credit risks

Two large-lot customers account for 86% of operating receivables as of March 31, 2016.

2. Matters related to market value, etc. of financial instruments

The amounts declared in the balance sheet, market value and the difference between the two are as follows. Please note that they do not include financial instruments, etc. in cases where identification of market value was deemed extremely difficult (See (Note 2) below.)

FY 2014 (As of March 31, 2015)

	Balance sheet amount (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	8,500	8,500	—
(2) Accounts receivable-trade	550	550	—
(3) Securities	2,999	2,999	—
(4) Investment securities	99	99	—
Total assets	12,150	12,150	—
(1) Accounts payable-trade	170	170	—
(2) Income taxes payable	137	137	—
Total liabilities	307	307	—

* The Company does not perform any derivative transactions.

FY 2015 (As of March 31, 2016)

	Balance sheet amount (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	8,063	8,063	—
(2) Accounts receivable-trade	465	465	—
(3) Income taxes receivable	35	35	—
(4) Investment securities	116	116	—
Total assets	8,681	8,681	—
(1) Accounts payable-trade	681	681	—
Total liabilities	681	681	—

* There is no year-end balance of derivative transactions.

(Note 1) Matters related to Calculation method of market value of financial instruments and matters concerning securities

Assets**(1) Cash and deposits**

Deposits are all short-term and their market value is approximately the same as the book value; therefore, the book value is stated.

(2) Accounts receivable-trade

As accounts receivable-trade are settled within about 1 month and their credit risk is under management, their market value is deemed to be almost the same as the book value; therefore, the book value is stated.

(3) Securities and (4) Investment securities

The securities are all in the form of treasury discount bills, and in consideration of the risks and other factors, the market value is stated at the price presented by the corresponding financial institutions. The market value of investment securities is stated at the price quoted at the stock exchange or in other relevant markets.

Please see the note, "Securities," for matters related to securities by holding purpose.

(5) Income taxes receivable

As income taxes receivable are settled in a short period of time, their market value is deemed to be almost the same as the book value; therefore, the book value is stated.

Liabilities**(1)Accounts payable-trade**

Accounts payable-trade are settled within about 1 month, and their market value in view of state of finance, etc. is deemed to be almost the same as the book value; therefore, the book value is stated.

(2)Income taxes payable

As income taxes payable are settled in a short period of time, their market value in view of state of finance, etc. is deemed to be almost the same as the book value; therefore, the book value is stated.

(Note 2) Financial instruments of which market value is deemed as extremely difficult to determine

Classification	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
Contributions to investment limited partnerships	98 million yen	233 million yen

As investment limited partnerships, with no market price, is deemed as extremely difficult to determine its market value, this item is not included in "(4) Investment securities."

(Note 3) Monetary claims and future redemption amounts of securities with maturity after settlement date

FY 2014 (As of March 31, 2015)

	Within 1 year (millions of yen)	Over 1 year, within 5 years (millions of yen)	Over 5 years, within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	8,500	—	—	—
Accounts receivable-trade	550	—	—	—
Securities and investment securities				
Available-for-sale securities with maturity				
JGBs, municipal bonds, etc.	3,000	—	—	—
Total	12,051	—	—	—

FY 2015 (As of March 31, 2016)

	Within 1 year (millions of yen)	Over 1 year, within 5 years (millions of yen)	Over 5 years, within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	8,062	—	—	—
Accounts receivable-trade	465	—	—	—
Total	8,528	—	—	—

(Securities)**1. Available-for-sale securities with market value****FY 2014 (As of March 31, 2015)**

	Type	Balance sheet amount (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Available-for-sale securities whose amounts recorded on the balance sheets exceed their acquisition costs	(1) Stocks	99	66	33
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	—	—	—
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	99	66	33
Available-for-sale securities whose amounts recorded on the balance sheets do not exceed their acquisition costs	(1) Stocks	—	—	—
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	2,999	2,999	(0)
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	2,999	2,999	(0)
Total		3,099	3,066	32

(Note) As contributions to investment limited partnerships (amount posted in balance sheet: 98 million yen), with no market price, is deemed as extremely difficult to determine its market value, this item is not included in “Available-for-sale securities with market value” in the table above.

FY 2015 (As of March 31, 2016)

	Type	Balance sheet amount (millions of yen)	Acquisition cost (millions of yen)	Difference (millions of yen)
Available-for-sale securities whose amounts recorded on the balance sheets exceed their acquisition costs	(1) Stocks	116	66	50
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	—	—	—
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	116	66	50
Available-for-sale securities whose amounts recorded on the balance sheets do not exceed their acquisition costs	(1) Stocks	—	—	—
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	—	—	—
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	—	—	—
Total		116	66	50

(Note) As contributions to investment limited partnerships (amount posted in balance sheet: 233 million yen), with no market price, is deemed as extremely difficult to determine its market value, this item is not included in “Available-for-sale securities with market value” in the table above.

(Tax effect accounting)**1. Breakdown of major factors leading to the occurrence of deferred tax assets and deferred tax liabilities**

	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
	(millions of yen)	(millions of yen)
Deferred tax assets		
Depreciation in excess of deductible amount	91	88
One-time depreciation of assets in excess of deductible amount	3	3
Accrued enterprise tax, currently not deductible	14	—
Allowance for bonuses in excess of tax limit	50	—
Asset retirement obligations	10	10
Deferred assets for tax purposes	44	149
Others	2	1
Total deferred tax assets	218	253
Deferred tax liabilities		
Enterprise tax receivable	—	(2)
Valuation difference on available-for-sale securities	(12)	(17)
Asset retirement obligations	(9)	(8)
Total deferred tax liabilities	(21)	(28)
Net deferred tax assets	196	225

Valuation allowance of 5 million yen (5 million yen in the previous fiscal year) has been deducted from deferred tax assets.

2. Breakdown of major items that caused a difference between the statutory tax rate and the effective tax rate after the application of tax effect accounting

	FY 2014 (As of March 31, 2015)	FY 2015 (As of March 31, 2016)
Statutory tax rate	35.6%	33.1%
(Adjustments)		
Items not qualifying for deductible expense such as entertainment expenses	1.3%	11.3%
Special deduction of experiment and research expenses	(5.3%)	(17.1%)
Revision in deferred tax assets due to tax rate change	1.2%	8.9%
Others	(1.4%)	0.1%
Income tax rate after application of tax effect accounting	31.5%	36.3%

3. Revision to the amount of deferred tax assets and deferred tax liabilities due to changes in the rate of income taxes

The “Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) and Act to Amend the Local Taxation Act, etc.” (Act No. 13 of 2016) were promulgated in the Diet on March 29, 2016, and income taxes, etc., will be lowered for fiscal years that begin on or after April 1, 2016. As a result, the statutory tax rate, which is used in the calculation of deferred tax assets and deferred tax liabilities, will be changed from the previous 33.1% to 30.9% for the fiscal year beginning on April 1, 2016 and the fiscal year beginning on April 1, 2017 due to the resolution of temporary discrepancies, and to 30.6% for fiscal years beginning on April 1, 2018 and later due to the resolution of temporary discrepancies.

As a result of this change to the tax rate, the amount of deferred tax assets (amount after deferred tax liabilities are eliminated) decreased by 11 million yen, and income taxes – deferred and valuation difference on available-for-sale securities increased by 12 million yen and 0 million yen, respectively.

(Gains or losses on affiliates)

N/A

(Asset retirement obligations)**Asset retirement obligations that are posted in the balance sheet****1. Summary of the asset retirement obligations**

They are mainly restitution obligations in line with a building lease agreement for the head office.

2. Calculation method for the amount of the asset retirement obligations

The amount of asset retirement obligations is calculated at estimated period of use of 42.75 years to 50 years and discount rate of 1.820% to 2.301%.

3. Increase and decrease in the total amount of the asset retirement obligations

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Balance at the beginning of current period	32 million yen	33 million yen
Adjustments over time	0	0
Balance at the end of current period	33	34

(Segment information, etc.)**a. Segment information**

Description is omitted because the Company operates in a single segment of development and sales of semiconductor products.

b. Related information**FY 2014 (From April 1, 2014 to March 31, 2015)****1. Information by product and service**

Description is omitted because net sales of semiconductor products to outside customers account for more than 90% of net sales in the statements of income.

2. Information by region**1) Net sales**

Description is omitted because domestic net sales to outside customers account for more than 90% of net sales in the statements of income.

2) Property, plant and equipment

Description is omitted because there are no subsidiaries or overseas branches in countries or regions outside Japan.

3. Information by major customer

(In millions of yen)

Customer name	Net sales	Related segment
Midoriya Electric Co., Ltd.	10,648	Semiconductor products

FY 2015 (From April 1, 2015 to March 31, 2016)**1. Information by product and service**

Description is omitted because net sales of semiconductor products to outside customers account for more than 90% of net sales in the statements of income.

2. Information by region**1) Net sales**

Description is omitted because domestic net sales to outside customers account for more than 90% of net sales in the statements of income.

2) Property, plant and equipment

Description is omitted because there are no subsidiaries or overseas branches in countries or regions outside Japan.

3. Information by major customer

(In millions of yen)

Customer name	Net sales	Related segment
Midoriya Electric Co., Ltd.	6,655	Semiconductor products
OKAYA ELECTRONICS CORP.	1,289	Semiconductor products

c. Information on impairment of noncurrent assets by reported segment

N/A

d. Information on amortization and unamortized balance of goodwill by reported segment

N/A

e. Information on gain on negative goodwill by reported segment

N/A

(Per share information)

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Net assets per share	1,093.10 yen	1,006.14 yen
Basic earnings per share	89.91 yen	9.85 yen

(Notes) 1. Diluted earnings per share is omitted because there were no residual shares.

2. The basis of calculation of the basic earnings per share is as follows:

	FY 2014 (From April 1, 2014 to March 31, 2015)	FY 2015 (From April 1, 2015 to March 31, 2016)
Basic earnings per share		
Profit (millions of yen)	1,115	113
Amount not attributable to common shareholders (millions of yen)	—	—
Profit on common stock (millions of yen)	1,115	113
Average number of shares of common stock during the period (shares)	12,402,198	11,556,133

(Major subsequent events)

N/A

(Omission of disclosure)

Disclosure is omitted for items other than the above, as the need to disclose such information in the summary of financial statements was deemed to be limited.

6. Others**(1) Notice regarding transition to a company with audit and supervisory committee**

Given approval at the 21st Ordinary General Shareholders' Meeting scheduled to be held on June 18, 2016, the Company expects to transition to a company with audit and supervisory committee. For details, please see the announcement on April 18, 2016 entitled "Notice Regarding Transition to a Company with Audit and Supervisory Committee and Partial Amendments to the Articles of Incorporation."

(2) Changes to Directors and Audit & Supervisory Committee Members**1) Change in Representative Director**

N/A

2) Changes in other Executives

- The candidates for the positions of Director (excluding Directors serving as Audit and Supervisory Committee Members)

Kazunori Matsuura (Currently President & Representative Director)

Akihiro Saito (Currently Executive Vice President & Representative Director, General, Manager of Sales & Marketing Department)

Nobuhiro Sendai (Currently Director and General Manager of Management Group)

Koji Kanie (Currently Director and General Manager of Engineering Group)

- The candidates for the positions of Director serving as Audit and Supervisory Committee Member

Yoshiki Yoshida (Currently Full-time Audit & Supervisory Board Member and Outside Audit & Supervisory Board Member)

Masao Suzuki (Currently Outside Director)

Katsuya Mitsumura (Currently Outside Audit & Supervisory Board Member)

Shigeo Igashima (Currently Outside Audit & Supervisory Board Member)

- Directors scheduled to retire

Yuzuru Sasaki (Currently Chairman)

Sumihiko Ichihara (Currently Vice Chairman)

Takayuki Shibata (Currently Director)

3) Date of appointments and resignations

June 18, 2016

(3) Production, orders and sales status**1) Production**

Production results for FY 2015 are as follows:

(In millions of yen)

Classification	FY 2015 (From April 1, 2015 to March 31, 2016)	Change (%)
LSI products targeted at the pachinko and pachislot machine market	9,753	(8.8)
LSI products targeted at the embedded system market	106	(62.4)
Other	65	(74.2)
Total	9,926	(11.6)

(Notes) 1. Amounts are according to sales price.

2. Above figures are stated net of consumption taxes.

2) Orders

Orders for FY 2015 are as follows:

(In millions of yen)

Classification	FY 2015 (From April 1, 2015 to March 31, 2016)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products targeted at the pachinko and pachislot machine market	6,382	(46.4)	1,868	(55.8)
LSI products targeted at the embedded system market	138	(22.8)	27	(23.0)
Other	92	(46.5)	0	(55.6)
Total	6,613	(46.1)	1,896	(55.5)

- (Notes) 1. Amounts are according to sales price.
 2. Above figures are stated net of consumption taxes.

3) Sales

Sales during FY 2015 are as follows:

(In millions of yen)

Classification	FY 2015 (From April 1, 2015 to March 31, 2016)	Change (%)
LSI products targeted at the pachinko and pachislot machine market	8,743	(18.3)
LSI products targeted at the embedded system market	146	(18.9)
Other	92	(49.7)
Total	8,982	(18.9)

- (Notes) 1. Above figures are stated net of consumption taxes.
 2. Sales to the Company's main sales agent and the proportion of such sales to total sales over the past two fiscal years are as follows:

(In millions of yen)

Sales agent	FY 2014 (From April 1, 2014 to March 31, 2015)		FY 2015 (From April 1, 2015 to March 31, 2016)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	10,648	96.2	6,655	74.1
OKAYA ELECTRONICS CORP.	182	1.6	1,289	14.4

(Note) Above figures are stated net of consumption taxes.