



# Summary of Financial Statements (Non-consolidated) for the Year Ended March 31, 2017 (Japanese GAAP)

April 25, 2017

Name of listed company:	Axell Corporation	Stock Exchange: Tokyo
Code #: 6730		URL: <a href="http://www.axell.co.jp/">http://www.axell.co.jp/</a>
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Scheduled date of shareholders' meeting:	June 17, 2017	
Scheduled date of release of Securities Report:	June 19, 2017	
Scheduled date of dividend payment:	June 19, 2017	
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 2016 (April 1, 2016 to March 31, 2017)

### (1) Operating results

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

	Net sales		Operating profit		Ordinary profit		Profit	
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%
FY 2016	8,012	(10.8)	141	(41.9)	162	(26.2)	92	(18.4)
FY 2015	8,982	(18.9)	244	(85.2)	220	(86.7)	113	(89.8)

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit / Total assets	Operating profit / Net sales
	Yen	Yen	%	%	%
FY 2016	8.30	—	0.8	1.3	1.8
FY 2015	9.85	—	0.9	1.7	2.7

(Reference) Equity in earnings (losses) of non-consolidated subsidiaries and affiliates: — million yen (FY 2016); — million yen (FY 2015)

### (2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	millions of yen	millions of yen	%	Yen
FY 2016	12,029	11,457	95.3	1,024.16
FY 2015	12,156	11,256	92.6	1,006.14

(Reference) Equity capital                      FY 2016: 11,457 million yen                      FY 2015: 11,256 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 2016	1,273	(556)	(58)	8,738
FY 2015	(704)	(303)	(2,429)	8,063

## 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 2015	—	5.00	—	5.00	10.00	111	101.5	1.0
FY 2016	—	0.00	—	5.00	5.00	55	60.2	0.5
FY 2017 (Projection)	—	0.00	—	5.00	5.00		124.4	

## 3. Forecast Results for Fiscal Year 2017 (April 1, 2017 to March 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	millions of yen	%	millions of yen	%	millions of yen	%	millions of yen	%	Yen
1st Half	3,500	(12.7)	(300)	-	(300)	-	(120)	-	(10.72)
Full Year	9,900	23.5	20	(85.9)	20	(87.7)	45	(51.6)	4.02

### \* 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.: Yes
- 2) Changes to accounting policies other than 1) above: None
- 3) Changes to accounting estimates: None
- 4) Restatements: None

(Note) For details, please refer to [Appendix] P. 19 “5. Financial Statements and Primary Notes (5) Notes to Financial Statements (Changes in accounting policies).”

#### (2) Number of shares issued (common shares)

1) The number of shares issued at end of year (including treasury stock)	FY 2016	11,187,749 shares	FY 2015	11,187,749 shares
2) The number of shares of treasury stock at end of year	FY 2016	152 shares	FY 2015	0 shares
3) Average number of shares of common shares during year	FY 2016	11,187,611 shares	FY 2015	11,556,133 shares

\* These financial results are outside the scope of audit.

### \* 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. For assumed conditions of the earnings forecasts and precautions, etc. in using the earnings forecasts, please refer to [Appendix] P. 4 “1. Overview of Business Results, etc. (4) Future outlook.”

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

Supplementary explanatory materials on financial results are provided on TDnet on the same date.

The Company is planning to hold a briefing session for analysts and institutional investors on Wednesday, April 26, 2017. The video of the briefing session is scheduled to be posted on the Company’s website immediately after the session.

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## 1. Overview of Business Results, etc.

### (1) Overview of business results for the fiscal year under review

During fiscal 2016, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of improvements in overall personal consumption. However, the global economic outlook has remained uncertain due mainly to impact of volatility in the financial and capital markets, in addition to the escalation of uncertainties over the global economy such as Brexit and concerns over the rise of protectionism in European and American countries.

The pachinko and pachislot machine market, which is the primary market for the Company, continued to face a challenging environment, due to the effect of self-imposed regulations implemented by industry organizations in 2015 combined with the effect of restraint on new machine installation posed in tandem with the Ise-Shima Summit (held in May 2016), in addition to stagnation in the market resulting from the diversification of leisure, etc. Although there was a temporary demand to replace “pachinko machines whose performance may differ from the models submitted for inspection” within the fiscal year during the second and the third quarters, demand declined significantly in the fourth quarter due to the end of the replacement demand.

Under such circumstances, the Company continued to channel its energies into promoting the sale of various products targeted at the pachinko and pachislot machine market, and also focused on business activities for Graphics LSI products (Note 2) for customers in the embedded system market (Note 1), as well as new fields including software IP and middleware products such as the movie middleware “H2MD.” Aiming to transform its revenue structure in line with new business development, the Company actively considered initiatives including alliances and investments.

With regard to products targeted at the pachinko and pachislot machine market, net sales decreased 10.3% from the previous fiscal year to 7,838 million yen, affected by sluggish market conditions and sales trends of major customers. While the Company’s mainstay Graphics LSI products made smooth progress transitioning from traditional products to new products with high added value, sales were 870,000 units, compared to 1,080,000 units in the previous fiscal year. As for other products targeted at the said market, sales of LED driver LSI products (Note 3) decreased from the previous fiscal year, while sales of memory-module products increased from the previous fiscal year as a result of sales expansion of new products.

In terms of Graphics LSI products targeted at the embedded system market, net sales decreased 20.1% from the previous fiscal year to 117 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, software IP and middleware products such as “H2MD,” net sales decreased 38.5% from the previous fiscal year to 57 million yen.

As a result, for fiscal 2016, the Company recorded net sales of 8,012 million yen, a decrease of 10.8% from the previous fiscal year. Gross profit decreased 13.5% from the previous fiscal year to 3,546 million yen. Selling, general and administrative expenses decreased 11.7% from the previous fiscal year to 3,404 million yen, resulting mainly from a decrease in research and development expenses. Currently, although the Company is proactively carrying out investment in research and development aimed at future growth, compared to the previous fiscal year where prototype development expenses were incurred for next-generation mainstay products and multiple LSI products, research and development expenses for fiscal 2016 decreased by 12.6% to 2,453 million yen.

Consequently, for fiscal 2016, the Company recorded operating profit of 141 million yen (down 41.9% year-on-year), ordinary profit of 162 million yen (down 26.2% year-on-year) and profit of 92 million yen (down 18.4% year-on-year).

(Note 1) “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 2) “Graphics LSI” refers to LSI products that enable graphics to be shown on LCDs and other display devices.

(Note 3) “LED” is an acronym for “Light Emitting Diode.” It refers to semiconductor elements that emit light when electricity is applied. “LED driver LSI product” refers to the Company’s LSI products designed to efficiently control LED equipped in pachinko and pachislot machines.

**(2) Overview of financial position for the fiscal year under review**

Total assets as of the end of fiscal 2016 decreased 127 million yen from the end of the previous fiscal year to 12,029 million yen (down 1.1% year-on-year). This was due mainly to factors such as the increase of 674 million yen in cash and deposits and the increase of 537 million yen in investment securities, offset by the decrease of 286 million yen in accounts receivable - trade, the decrease of 556 million yen in merchandise and finished goods, and the decrease of 282 million yen in advance payments - trade.

Total liabilities as of the end of fiscal 2016 decreased 328 million yen from the end of the previous fiscal year to 571 million yen (down 36.5% year-on-year). This was due mainly to factors such as the decrease of 396 million yen in accounts payable - trade.

Total net assets as of the end of fiscal 2016 increased 201 million yen from the end of fiscal 2015 to 11,457 million yen (up 1.8% year-on-year). This was due mainly to factors such as the increase of 36 million yen in retained earnings and the increase of 164 million yen in valuation difference on available-for-sale securities.

**(3) Overview of cash flows for the fiscal year under review**

Cash and cash equivalents (hereinafter “funds”) as of the end of fiscal 2016 amounted to 8,738 million yen. The status of cash flows and their contributing factors are as follows.

**(Cash flows from operating activities)**

Funds provided by operating activities for fiscal 2016 amounted to 1,273 million yen (compared with funds used of 704 million yen in fiscal 2015). This was mainly attributable to factors such as profit before income taxes for fiscal 2016 (162 million yen), recording of depreciation (203 million yen), the decrease in notes and accounts receivable - trade (286 million yen), the decrease in inventories (556 million yen), and the decrease in other current assets (279 million yen), and the decrease/increase in consumption taxes receivable/payable (163 million yen), despite the decrease in notes and accounts payable - trade (396 million yen).

**(Cash flows from investing activities)**

Funds used in investing activities for fiscal 2016 amounted to 556 million yen (up 83.3% year-on-year). This was mainly attributable to the purchase of property, plant and equipment (205 million yen) and the purchase of investment securities (310 million yen).

**(Cash flows from financing activities)**

Funds used in financing activities for fiscal 2016 amounted to 58 million yen (down 97.6% year-on-year). This was mainly attributable to cash dividends paid (56 million yen).

**(Cash flow-related indicators)**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Ratio of shareholders' equity to total assets (%)	83.9	93.7	93.1	92.6	95.3
Ratio of market capitalization to total assets (%)	169.7	151.3	134.4	77.8	75.4
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 2012 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.

**(4) Future outlook**

In the pachinko and pachislot machine market for fiscal year 2017, concerns over the effects of self-imposed regulations implemented by industry organizations persist, and the harsh market environment is expected to continue. In particular, for pachislot machines, as old standard machines with a relatively high utilization rate remain in the market, new machine sales which consist of new standard machines are anticipated to be sluggish. In addition, Integrated Resort Promotion Act enacted at the end of last year prompted the government to conduct a full-scale consideration of gambling addiction countermeasures, with the aim of realizing the construction of casinos. Therefore, depending on the regulations on speculation going forward, there are concerns that new machine sales of pachinko and pachislot machines may decrease further. Taking such a market environment into consideration, the Company estimates the yearly sales volume of pachinko and pachislot machines in fiscal 2017 to be 2,100,000 units (estimated 2,360,000 units for fiscal 2016), 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), although the market environment is expected to deteriorate, with the transition from traditional products to new products, as well as the sales expansion of circuit board products that incorporate new products, the Company has made plans to sell 880,000 units, an increase of approximately 10,000 units from the previous fiscal year. Of the sales of these 880,000 units, approximately 90,000 units with LSI-implemented circuit board products are planned to be sold. Additionally, although the number of units sold is expected to level off from the previous fiscal year, due to the sales of circuit board products with high unit sale prices, the Company plans for net sales of these products to increase. As for other products targeted at the pachinko and pachislot machine market, regarding memory-module products, the Company anticipates the sales expansion of high-performance generic products, and as a result of considering this alongside customer adoption forecasts and demand trends, the Company plans to sell significantly more units than the previous fiscal year. As for Graphics LSI products for embedded systems, in light of trends in customer demand, the Company plans on sales of approximately 32,000 units (actual sales in the previous fiscal year: 43,000 units). Meanwhile, concerning software IP and middleware products such as "H2MD," the Company expects an increase in sales compared to the previous fiscal year. Based on the foregoing analysis, the Company's net sales for fiscal 2017 are projected at 9,900 million yen (up 23.5% year-on-year).

Gross profit is expected to rise by 10.0% from the previous fiscal year to 3,900 million yen along with an increase in net sales. Gross profit ratio is expected to decrease by 4.9 percentage points to 39.4% due to a change in the product mix. Selling, general and administrative expenses are projected to rise by 14.0% from the previous fiscal year to 3,880 million yen, despite the promotion of overall cost reduction, which will be unable to offset the increase in research and development expenses. Research and development expenses are forecast to total 3,000 million yen, a 22.3% year-on-year increase, as recordings of prototype development expenses for next-generation mainstay products are expected to be concentrated in fiscal 2017.

Based on the above financial projections, the Company's forecasts for fiscal 2017 are: operating profit of 20 million yen (down 85.9% year-on-year), ordinary profit of 20 million yen (down 87.7% year-on-year), and profit of 45 million yen (down 51.6% 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 are 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.

**(5) Basic policy for profit sharing and dividends for fiscal year 2016 and fiscal year 2017****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 2016 and dividend projection for fiscal year 2017**

For fiscal 2016, 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 17, 2017. As no interim dividend was executed for fiscal 2016, the annual dividend per share will amount to 5 yen, with a dividend payout ratio of 60.2%.

As for the dividend projection for fiscal year 2017, the Company determined its plan to pay an annual dividend of 5 yen per share (5 yen of year-end dividend), the same amount as this fiscal year. The dividend payout ratio relative to the profit projected at present is 124.4%.

## **(6) 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 2016.

### **1) The Company's dividend policy**

For the Company's dividend policy, please refer to "1. Overview of Business Results, etc. (5) Basic policy for profit sharing and dividends for fiscal year 2016 and fiscal year 2017 1) Basic policy for profit sharing" on page 4. 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. While in recent years, the effects of the diversification of leisure and self-imposed regulations implemented by industry organizations 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.

#### **(ii) Dependence on specified products**

In fiscal 2016, sales of Graphics LSI products targeted at the pachinko and pachislot machine market, our mainstay products, accounted for approximately 73% of the Company's net sales (fiscal 2016). 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 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 software IP and middleware products businesses. 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 2016, the Company consists of 86 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 20, 2016. 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 80% 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 20, 2016. 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**

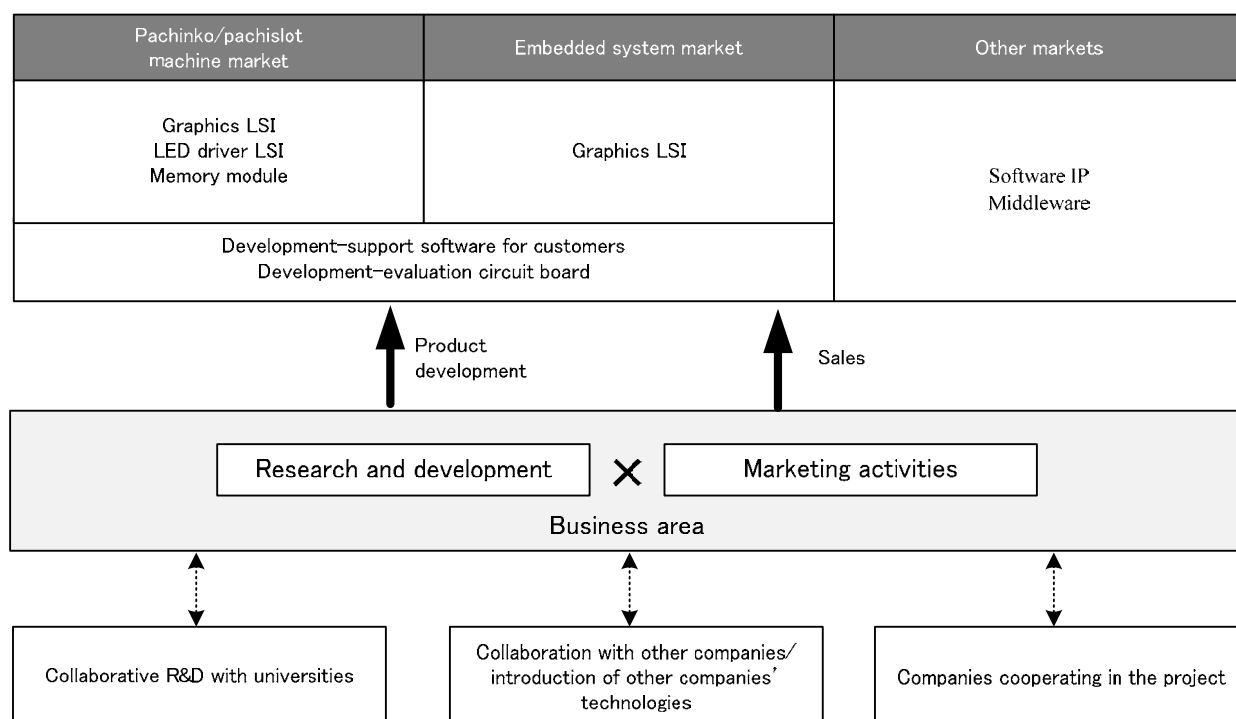
As the Company becomes increasingly global in development and product manufacturing, amounts settled in foreign currencies are increasing. Foreign transactions are currently being conducted using the US dollar, a leading currency, and measures such as foreign exchange contracts are being used to minimize 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 advanced 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, from fiscal 2015, the Company has been developing and selling software IP and middleware products such as the "H2MD" movie middleware that allows for playback in PC and smartphone browsers.

### 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 ensure 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 an 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 2016, due to proactive investment in research and development in order to realize mid- to long-term growth, ROE was at a low level of 0.8% (three-year average of 3.4%). However, the Company will continue to promote operations with an awareness of capital efficiency. With the aim of restoring ROE to 10% as soon as possible, the Company is implementing various management strategies including entering new fields.

#### **(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 the establishment of 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, its 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 that it has cultivated to enter new businesses where profitability and growth can be expected.

Current initiatives outside of this main market include efforts using Graphics LSI in the medical and industrial embedded systems market, and efforts to increase sales of software IP and middleware products. 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 is important.

In its Corporate Philosophy, the Company has set forth that it "shall establish a governance system that gives consideration to all stakeholders," placing importance on corporate governance for management. In line with its Corporate Philosophy, the Company believes that, while giving consideration to all stakeholders, establishing an appropriate corporate governance structure that fits factors such as the Company's business type and business scale 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 that it "shall establish a governance system that gives consideration to all stakeholders" in its Corporate Philosophy, 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 and Primary Notes****(1) Balance Sheets**

(In millions of yen)

	FY 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
Assets		
Current assets		
Cash and deposits	8,063	8,738
Accounts receivable - trade	465	178
Merchandise and finished goods	2,000	1,443
Raw materials and supplies	0	0
Advance payments - trade	300	18
Prepaid expenses	107	109
Income taxes receivable	35	11
Consumption taxes receivable	87	—
Deferred tax assets	—	6
Other	—	0
Total current assets	11,061	10,508
Non-current assets		
Property, plant and equipment		
Buildings	224	227
Accumulated depreciation	(110)	(124)
Buildings, net	113	103
Tools, furniture and fixtures	1,082	1,191
Accumulated depreciation	(862)	(952)
Tools, furniture and fixtures, net	220	238
Leased assets	4	—
Accumulated depreciation	(2)	—
Leased assets, net	1	—
Total property, plant and equipment	336	342
Intangible assets		
Patent right	1	0
Trademark right	0	0
Software	29	45
Total intangible assets	31	46
Investments and other assets		
Investment securities	350	888
Long-term prepaid expenses	37	29
Lease and guarantee deposits	92	92
Deferred tax assets	225	101
Other	20	20
Total investments and other assets	726	1,131
Total non-current assets	1,095	1,520
Total assets	12,156	12,029

(In millions of yen)

	FY 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	681	284
Lease obligations	1	—
Accounts payable - other	129	148
Accrued expenses	9	9
Accrued consumption taxes	—	77
Deposits received	19	16
Deferred tax liabilities	0	—
<b>Total current liabilities</b>	<b>843</b>	<b>536</b>
<b>Non-current liabilities</b>		
Lease obligations	0	—
Asset retirement obligations	34	34
Other	22	—
<b>Total non-current liabilities</b>	<b>56</b>	<b>34</b>
<b>Total liabilities</b>	<b>900</b>	<b>571</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	1,018	1,018
<b>Capital surplus</b>		
Legal capital surplus	861	861
<b>Total capital surpluses</b>	<b>861</b>	<b>861</b>
<b>Retained earnings</b>		
Legal retained earnings	1	1
<b>Other retained earnings</b>		
General reserve	8,200	8,200
Retained earnings brought forward	1,135	1,172
<b>Total retained earnings</b>	<b>9,336</b>	<b>9,373</b>
Treasury shares	—	(0)
<b>Total shareholders' equity</b>	<b>11,217</b>	<b>11,254</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	39	203
<b>Total valuation and translation adjustments</b>	<b>39</b>	<b>203</b>
<b>Total net assets</b>	<b>11,256</b>	<b>11,457</b>
<b>Total liabilities and net assets</b>	<b>12,156</b>	<b>12,029</b>

**(2) Statements of Income**

(In millions of yen)

	FY 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Net sales	8,982	8,012
Cost of sales		
Beginning finished goods	1,483	2,000
Purchase of finished goods	5,397	3,926
Total	6,881	5,927
Ending finished goods	2,000	1,460
Cost of finished goods sold	4,880	4,466
Gross profit	4,101	3,546
Selling, general and administrative expenses	*1, *2 3,857	*1, *2 3,404
Operating profit	244	141
Non-operating income		
Interest income	0	0
Interest on securities	0	—
Dividend income	2	4
Foreign exchange gains	—	18
Other	2	5
Total non-operating income	5	28
Non-operating expenses		
Loss on investments in partnership	11	6
Commission for purchase of treasury shares	10	—
Foreign exchange losses	3	—
Other	3	0
Total non-operating expenses	29	7
Ordinary profit	220	162
Extraordinary losses		
Loss on liquidation of business	*3 41	—
Total extraordinary losses	41	—
Profit before income taxes	178	162
Income taxes - current	98	26
Income taxes - deferred	(33)	43
Total income taxes	65	69
Profit	113	92



**(3) Statements of Changes in Net Assets**

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

(In millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Total capital surplus		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)
Reversal 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)
Reversal 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

FY 2016 (From April 1, 2016 to March 31, 2017)

(In millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	
Balance at beginning of current period	1,018	861	861	1	8,200	1,135	9,336
Changes of items during period							
Dividends of surplus						(55)	(55)
Profit						92	92
Purchase of treasury shares							
Net changes of items other than shareholders' equity							
Total changes of items during period	—	—	—	—	—	36	36
Balance at end of current period	1,018	861	861	1	8,200	1,172	9,373

	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	—	11,217	39	39	11,256
Changes of items during period					
Dividends of surplus		(55)			(55)
Profit		92			92
Purchase of treasury shares	(0)	(0)			(0)
Net changes of items other than shareholders' equity			164	164	164
Total changes of items during period	(0)	36	164	164	201
Balance at end of current period	(0)	11,254	203	203	11,457

**(4) Statements of Cash Flows**

(In millions of yen)

	FY 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Cash flows from operating activities		
Profit before income taxes	178	162
Depreciation	155	203
Interest and dividends income	(2)	(4)
Loss (gain) on investments in partnership	11	6
Decrease (increase) in notes and accounts receivable - trade	85	286
Decrease (increase) in inventories	(516)	556
Decrease (increase) in other current assets	(320)	279
Increase (decrease) in notes and accounts payable - trade	510	(396)
Increase (decrease) in other current liabilities	(359)	35
Decrease/increase in consumption taxes receivable/payable	(239)	163
Other, net	60	(18)
Subtotal	(435)	1,274
Interest and dividend income received	2	4
Income taxes paid	(271)	(5)
Net cash provided by (used in) operating activities	(704)	1,273
Cash flows from investing activities		
Purchase of property, plant and equipment	(165)	(205)
Purchase of intangible assets	(14)	(34)
Purchase of investment securities	(75)	(310)
Proceeds from distribution of investment in partnerships	3	2
Other, net	(51)	(8)
Net cash provided by (used in) investing activities	(303)	(556)
Cash flows from financing activities		
Purchase of treasury shares	(2,000)	(0)
Repayments of lease obligations	(1)	(1)
Cash dividends paid	(428)	(56)
Net cash provided by (used in) financing activities	(2,429)	(58)
Effect of exchange rate change on cash and cash equivalents	—	15
Net increase (decrease) in cash and cash equivalents	(3,437)	674
Cash and cash equivalents at beginning of period	11,500	8,063
Cash and cash equivalents at end of period	* 8,063	* 8,738

**(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 facilities attached to buildings] and facilities attached to buildings acquired on and after April 1, 2016).

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.

**(Changes in accounting policies)**

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In line with the revisions to the Corporation Tax Act, “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issues Task Force (PITF) No.32, June 17, 2016) has been applied from the fiscal year under review, and the method of depreciation for facilities attached to buildings acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of the above on the financial statements is insignificant.

**(Changes in representation)**

(Statements of income)

The amount of “Dividend income of life insurance” in “Non-operating income” that was presented as a separate line item during fiscal 2015 has become an amount that is 10/100 or less of total non-operating income, and is included in “Other” from this fiscal year. For the purpose of reflecting this change in representation, the financial statements for fiscal 2015 are reclassified.

As a result, 1 million yen posted as “Dividend income of life insurance” of “Non-operating income” in the statements of income for fiscal 2015 is now reclassified as “Other”.

The amount of “Loss on retirement of non-current assets” in “Non-operating expenses” that was presented as a separate line item during fiscal 2015 has become an amount that is 10/100 or less of total non-operating expenses, and is included in “Other” from this fiscal year. For the purpose of reflecting this change in representation, the financial statements for fiscal 2015 are reclassified.

As a result, 3 million yen posted as “Loss on retirement of non-current assets” of “Non-operating income” in the statements of income for fiscal 2015 is now reclassified as “Other”.

**(Additional information)**

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Implementation Guidance No. 26, March 28, 2016) has been applied from the fiscal year under review.

**(Statements of income)**

\*1 Approximate ratios of expenses associated with selling expenses are 24% for fiscal 2015 and 26% for fiscal 2016, and approximate ratios of expenses associated with general and administrative expenses (excluding research and development expenses) are 76% for fiscal 2015 and 74% for fiscal 2016.

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

	FY 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Compensation to Directors and Audit & Supervisory Board Members	185 million yen	143 million yen
Salary and bonuses	289	282
Depreciation	32	28
Commission fee	130	134
Research and development expenses	2,807	2,453

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

	FY 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Research and development expenses included in general and administrative expenses	2,807 million yen	2,453 million yen

**\*3 Loss on liquidation of business**

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.

FY 2016 (From April 1, 2016 to March 31, 2017)

N/A

**(Statements of changes in net assets)****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 (Note 1)	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 (Note 2, 3)	54	1,214,449	1,214,503	–
Total	54	1,214,449	1,214,503	–

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

**FY 2016 (From April 1, 2016 to March 31, 2017)****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	11,187,749	–	–	11,187,749
Total	11,187,749	–	–	11,187,749
Type of shares of treasury stock				
Common stock (Note)	–	152	–	152
Total	–	152	–	152

(Note) The increase of treasury stock consists of an increase of 152 shares resulting from the purchase of fractional shares.

**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 18, 2016	Common stock	55	5	March 31, 2016	June 20, 2016

**(2) Payout amount of dividends with reference date in FY 2016 but effective date in FY 2017**

(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 17, 2017	Common stock	55	Retained earnings	5	March 31, 2017	June 19, 2017

**(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 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Cash and deposits	8,063 million yen	8,738 million yen
Securities	–	–
Cash and cash equivalents	8,063	8,738

**(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 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
Within 1 year	50	45
Over 1 year	45	–
Total	95	45

**(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 shall 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. As receivables comprising securities consist of all in the form of highly secure treasury discount bills, credit risk is negligible.

The maximum amount of credit risk as of March 31, 2017 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 84% of operating receivables as of March 31, 2017.

**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 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.

**FY 2016 (As of March 31, 2017)**

	Balance sheet amount (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	8,738	8,738	—
(2) Accounts receivable - trade	178	178	—
(3) Income taxes receivable	11	11	—
(4) Investment securities	346	346	—
Total assets	9,275	9,275	—
(1) Accounts payable - trade	284	284	—
Total liabilities	284	284	—

\* 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) 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.

**(4) Investment securities**

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.

**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.

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

Classification	FY 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
Unlisted stocks	-	60 million yen
Contributions to investment limited partnerships	233 million yen	482 million yen

As unlisted stocks and investment limited partnerships, with no market price, are deemed as extremely difficult to determine their market value, these items are not included in "(4) Investment securities."

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

**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	–	–	–
Income taxes receivable	35	–	–	–
Total	8,564	–	–	–

**FY 2016 (As of March 31, 2017)**

	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	8,737	–	–	–
Accounts receivable - trade	178	–	–	–
Income taxes receivable	11	–	–	–
Total	8,928	–	–	–

**(Securities)****1. Available-for-sale securities with market value****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	–	–	–
	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	–	–	–
	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.

**FY 2016 (As of March 31, 2017)**

	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	346	66	280
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	—	—	—
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	346	66	280
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		346	66	280

(Note) As unlisted stocks (amount posted in balance sheet: 60 million yen) and contributions to investment limited partnerships (amount posted in balance sheet: 482 million yen), with no market price, are deemed as extremely difficult to determine their market value, these items are 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 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
	(millions of yen)	(millions of yen)
Deferred tax assets		
Depreciation in excess of deductible amount	88	64
One-time depreciation of assets in excess of deductible amount	3	2
Accrued enterprise tax, currently not deductible	—	1
Asset retirement obligations	10	10
Deferred assets for tax purposes	149	131
Others	6	12
Subtotal deferred tax assets	258	223
Valuation allowance	(5)	(15)
Total deferred tax assets	253	207
Deferred tax liabilities		
Enterprise tax receivable	(2)	—
Valuation difference on available-for-sale securities	(17)	(89)
Asset retirement obligations	(8)	(8)
Total deferred tax liabilities	(28)	(98)
Net deferred tax assets	225	108

**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 2015 (As of March 31, 2016)	FY 2016 (As of March 31, 2017)
Statutory tax rate	33.1%	30.9%
(Adjustments)		
Items not qualifying for deductible expense such as entertainment expenses	11.3%	8.3%
Special deduction of experiment and research expenses	(17.1)%	(5.1)%
Revision in deferred tax assets due to tax rate change	8.9%	0.8%
Increase (decrease) in valuation allowance	(0.2)%	6.5%
Others	0.3%	1.6%
Income tax rate after application of tax effect accounting	36.3%	42.9%

**(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 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Balance at the beginning of current period	33 million yen	34 million yen
Adjustments over time	0	0
Balance at the end of current period	34	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 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

**FY 2016 (From April 1, 2016 to March 31, 2017)****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.	6,430	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 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Net assets per share	1,006.14 yen	1,024.16 yen
Basic earnings per share	9.85 yen	8.30 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 2015 (From April 1, 2015 to March 31, 2016)	FY 2016 (From April 1, 2016 to March 31, 2017)
Basic earnings per share		
Profit (millions of yen)	113	92
Amount not attributable to common shareholders (millions of yen)	-	-
Profit on common stock (millions of yen)	113	92
Average number of shares of common stock during the period (shares)	11,556,133	11,187,611

**(Major subsequent events)****Sale of investment securities**

The Company had decided the sale of a portion of investment securities owned by the Company and sold them on April 3, 2017. Accordingly the Company will record gain on sales of investment securities (extraordinary income) in the first quarter of FY 2017.

## (1) Reason for the sale

To improve asset efficiency through the reduction of strategic shareholdings

## (2) Details of the sale

Stocks sold	Listed securities of a corporation
Date of the sale	April 3, 2017
Number of shares that have been sold	37,000 shares
Proceeds from the sale	80 million yen
Gain on sales of investment securities	64 million yen

**6. Others****(1) Production, orders and sales status****1) Production**

Production results for FY 2016 are as follows:

(In millions of yen)

Classification	FY 2016 (From April 1, 2016 to March 31, 2017)	
	Amount	Change (%)
LSI products targeted at the pachinko and pachislot machine market	6,910	(29.1)
LSI products targeted at the embedded system market	77	(27.4)
Other	63	(2.8)
<b>Total</b>	<b>7,052</b>	<b>(29.0)</b>

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

**2) Orders**

Orders for FY 2016 are as follows:

(In millions of yen)

Classification	FY 2016 (From April 1, 2016 to March 31, 2017)			
	Orders received	Change (%)	Outstanding orders	Change (%)
LSI products targeted at the pachinko and pachislot machine market	7,088	11.1	1,117	(40.2)
LSI products targeted at the embedded system market	133	(3.7)	43	57.6
Other	58	(36.7)	1	441.0
<b>Total</b>	<b>7,279</b>	<b>10.1</b>	<b>1,163</b>	<b>(38.6)</b>

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

**3) Sales**

Sales during FY 2016 are as follows:

(In millions of yen)

Classification	FY 2016 (From April 1, 2016 to March 31, 2017)	
	Amount	Change (%)
LSI products targeted at the pachinko and pachislot machine market	7,838	(10.3)
LSI products targeted at the embedded system market	117	(20.1)
Other	57	(38.5)
<b>Total</b>	<b>8,012</b>	<b>(10.8)</b>

- (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 2015 (From April 1, 2015 to March 31, 2016)		FY 2016 (From April 1, 2016 to March 31, 2017)	
	Amount	Percentage (%)	Amount	Percentage (%)
Midoriya Electric Co., Ltd.	6,655	74.1	6,430	80.3

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