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(Securities Code: 6730)  
May 22, 2017

**To Shareholders with Voting Rights:**

Kazunori Matsuura  
President & Representative Director  
AXELL CORPORATION  
14-1, Sotokanda 4-chome,  
Chiyoda-ku, Tokyo, Japan

## **NOTICE OF THE 22ND ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 22nd Ordinary General Meeting of Shareholders of AXELL CORPORATION (hereinafter “the Company”). The meeting will be held for the purposes as described below.

- 1. Date and Time:** 10:00 a.m. (doors open at 9:20 a.m.) on Saturday, June 17, 2017
- 2. Venue:** Banquet room “Yukyu” on second floor of Hotel Metropolitan Edmont located at 10-8, Iidabashi 3-chome, Chiyoda-ku, Tokyo, Japan
- 3. Meeting Agenda:**  
**Matters to be reported:** Business Report and Non-consolidated Financial Statements for FY 2016 (from April 1, 2016 to March 31, 2017)

**Proposals to be resolved:**

- Proposal No. 1:** Distribution of Surplus
- Proposal No. 2:** Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

© Any updates to the Reference Documents for the General Meeting of Shareholders, Business Report and Non-consolidated Financial Statements will be posted on the Company's website (<http://www.axell.co.jp/>).

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## Reference Documents for the General Meeting of Shareholders

### Proposal No. 1: Distribution of Surplus

The Company's policy on profit sharing for shareholders is to maximize it, while at the same time taking into account adequate levels of "realizing appropriate periodic profit returns to shareholders" and "maintenance of appropriate internal reserves that will enable flexible business operations." In terms of profit sharing, based on this policy, the amount of dividends is set at 50% of profit (payout ratio of 50%) as a general rule. However, if 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 an adequate level of internal reserves is secured.

Based on this policy, we propose a term-end dividend of 5 yen per share.

#### Year-end dividend

(1) Dividend asset type  
Cash

(2) Matters related to allotment of dividend assets and total amount of allotment  
5 yen per share of the Company's common stock      Total amount: 55,937,985 yen

(3) Effective date of dividends from surplus  
June 19, 2017

**Proposal No. 2: Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)**

The term of office of all four Directors (excluding Directors Serving as Audit and Supervisory Committee Members) will have expired at the close of this General Meeting of Shareholders.

We therefore propose that four Directors (excluding Directors serving as Audit and Supervisory Committee Members) are elected.

Additionally, it has been confirmed that the Audit and Supervisory Committee does not have any particular opinion with regard to this Proposal.

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

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)		Number of shares of the Company held
	Kazunori Matsuura (Jan. 25, 1970 47 years old)  Reappointment	April 1994 April 1998 April 2004 June 2006 June 2010 June 2012	Joined Nippon Steel Corp. (current NIPPON STEEL & SUMITOMO METAL CORPORATION) Joined the Company Appointed to Senior Manager of Engineering Department of the Company Appointed to Director & Assistant General Manager of Engineering Department of the Company Appointed to Director & General Manager of Engineering Department of the Company Appointed to President & Representative Director of the Company (to present)	388,800 shares
1	<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Kazunori Matsuura has a wealth of experience in semiconductor development at other companies, and beginning with development division, he is involved in business promotion and corporate management of the Company as President &amp; Representative Director. By integrating the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
2	Akihiro Saito (Aug. 4, 1966 50 years old)  Reappointment	<p>April 1989      Joined Nippon Steel Corp. (current NIPPON STEEL &amp; SUMITOMO METAL CORPORATION)</p> <p>May 1995      Seconded to Nippon Steel Semiconductor Corporation</p> <p>April 1999      Transferred to Nippon Foundry Inc.</p> <p>January 2002    Joined the Company</p> <p>April 2004      Appointed to Senior Manager of Sales &amp; Marketing Department of the Company</p> <p>June 2006      Appointed to Director &amp; Assistant General Manager of Sales &amp; Marketing Department of the Company</p> <p>June 2010      Appointed to Director &amp; General Manager of Sales &amp; Marketing Department of the Company</p> <p>June 2012      Executive Vice President &amp; Representative Director, General Manager of Sales &amp; Marketing Department of the Company (to present)</p>	18,000 shares
<p>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</p> <p>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member)</p> <p>Mr. Akihiro Saito has a wealth of experience in semiconductor sales and business promotion at numerous companies, and is involved in the management of sales and marketing divisions of the Company as Executive Vice President &amp; Representative Director. By integrating the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</p>			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)		Number of shares of the Company held
3	Nobuhiro Sendai (Sep. 26, 1952 64 years old)  Reappointment	April 1975 April 1998  August 2000  June 2002	Joined Toyo Engineering Corp. Seconded to National Space Development Agency of Japan (current Japan Aerospace Exploration Agency) Joined the Company Appointed to General Manager of Management Department Appointed to Director & General Manager of Management Department of the Company (to present)	41,600 shares
	<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Nobuhiro Sendai has a wealth of experience in management operations at numerous companies, etc., and is involved in the management of management divisions of the Company. By reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			
4	Koji Kanie (Sep. 30, 1976 40 years old)  Reappointment	April 2001 January 2009  June 2012	Joined the Company Appointed to Senior Manager of Engineering Department of the Company Appointed to Director & General Manager of Engineering Department of the Company (to present)	10,000 shares
	<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Koji Kanie was affiliated with a research laboratory that was in joint development with the Company during his time as a student, and after joining the Company, attained a wealth of operational experience in development, and is currently involved in development divisions. By reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			

(Notes) 1. None of the candidates for Director (excluding Directors serving as Audit and Supervisory Committee Members) have any special interest in the Company.

2. Ages of each candidate are as of the close of this General Meeting of Shareholders.



## **Business Report**

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

### **1. Company Overview**

#### **(1) Business in FY 2016**

##### **1) Business Progress and Results**

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 remains 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, continues 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 1) for customers in the embedded system market (Note 2), as well as new fields including software IP and middleware products such as “H2MD.” Aiming to transform its revenue structure in line with new business development, the Company actively considered initiatives including alliances and investments.

As a result, for fiscal 2016, the Company recorded net sales of 8,012 million yen, operating profit of 141 million yen, ordinary profit of 162 million yen and profit of 92 million yen.

(Note 1) “Graphics LSI products” 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.

##### **(i) LSI products targeted at the pachinko and pachislot machines market**

For the pachinko and pachislot machines market, the Company sells Graphics LSI products (including integrated function products), LED driver LSI (Note 1) products, Memory-module (Note 2) products, etc. Its main products are Graphics LSI products. In fiscal 2016, sales of Graphics LSI products accounted for about 73% of the Company’s net sales.

As for products targeted at the pachinko and pachislot machines market for fiscal 2016, net sales decreased 904 million yen from the previous fiscal year to 7,838 million yen (down 10.3% year-on-year), 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 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.

(Note 1) “LED driver LSI product” refers to LSIs designed to efficiently control LED equipped in pachinko and pachislot machines.

(Note 2) “Memory-module” refers to the portion of the graphics-rendering circuit board of pachinko and pachislot machines that stores visual data.

- (ii) LSI products targeted at the embedded system market  
 For the embedded system market, which includes medical devices and industrial equipment, the Company sells Graphics LSI products. Currently, its product lineup is comprised of “AG10”, a Graphics LSI product for various embedded systems based on PC configuration, and the “AG9” series, which realize high-resolution graphic rendering in general embedded systems equipped with a relatively cheap CPU. In terms of Graphics LSI products targeted at the embedded system market for the fiscal 2016, 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.
- (iii) Other  
 Other than the aforementioned LSI products, the Company develops and sells the development evaluation board and software to support the development by customers along with software IP products and middleware products such as “H2MD”. Sales associated with such development-support environments and IP products decreased by 38.5% year-on-year to 57 million yen.

**(Orders received and sales generated by product category)**

(In millions of yen)

Product category	Outstanding orders at beginning of FY 2016	FY 2016 Orders received	FY 2016 Net sales	Outstanding orders at end of FY 2016
Pachinko and pachislot machines market	1,868	7,088	7,838	1,117
Embedded system market	27	133	117	43
Other	0	58	57	1
Total	1,896	7,279	8,012	1,163

**2) Capital investment**

Capital investment in fiscal 2016 totaled 225 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 170 million yen, equipment, etc. for management purposes amounting to 13 million yen and software, etc. for design and development purposes amounting to 37 million yen.

**3) Financing**

All capital investments, etc. were financed by the Company’s own funds in fiscal 2016.

**4) Transfer, absorption/merger, or spin-off of business**

N/A

**5) Assignment of other company’s business**

N/A

**6) Transfer of rights/obligations related to business of other corporations, etc. due to absorption/merger or spin-off**

N/A

**7) Acquisition or disposal of shares or other interest or stock acquisition rights, etc. of other companies**

N/A

## (2) Trends in Assets and Income over Past 3 Fiscal Years

Category	FY 2013	FY 2014	FY 2015	FY 2016
Orders received (million yen)	11,859	12,264	6,613	7,279
Net sales (million yen)	11,035	11,073	8,982	8,012
Ordinary profit (million yen)	2,070	1,659	220	162
Profit (million yen)	1,045	1,115	113	92
Basic earnings per share (yen)	84.26	89.91	9.85	8.30
Total assets (million yen)	14,002	14,562	12,156	12,029
Net assets (million yen)	13,130	13,556	11,256	11,457
Net assets per share (yen)	1,058.75	1,093.10	1,006.14	1,024.16

(Note) From FY 2014, business report is prepared on non-consolidated basis. Therefore, the above figures for the four fiscal years are also presented on non-consolidated basis.

## (3) Material Subsidiaries

N/A

## (4) 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.

**(5) Principal Business (as of March 31, 2017)**

The Company is mainly engaged in the development and sales of various LSI products, circuit board products and electronic devices.

**(6) Principal Offices and Plants (as of March 31, 2017)**

Name	Address
Head Office	14-1, Sotokanda 4-chome, Chiyoda-ku, Tokyo, Japan

**(7) Employees (as of March 31, 2017)**

Number of employees	Increase / decrease from previous fiscal year-end	Average age	Average years of service
86 (40) persons	Increase of 2 persons (Increase of 9 temporary staffs)	42.5 years old	8.7 years

(Note) Number of employees represents the number of employees on the Company's payroll; the figure in the parentheses represents the average number of temporary staff, etc. throughout the year, and is excluded from the number of employees.

**(8) Principal Lenders (as of March 31, 2017)**

N/A

**(9) Other Material Information on Current Status of the Company**

**1) CSR activities**

The Company acknowledges the social nature of a company, and based on the view that it is an important duty to engage in social contribution activities, it executes various CSR (Note) activities in a scale that is in line with its corporate capabilities. In fiscal 2016, the Company made social

contributions, including making donations to the Environmental Restoration and Conservation Agency, the Japan Heart Foundation and the Japanese Foundation For Cancer Research. The Company also made donations through the Japanese Red Cross Society to victims of natural disasters.

Furthermore, the Company is conducting an education program for university students at the University of Tsukuba with the aim of training embedded systems engineers. To the education program, which is operated based on donations from the Company, the Company's engineers are being dispatched as lecturers. In this program, the Company hopes to train engineers who will play a leading role in Japan in the future which will, in turn, bring about further progress in embedded systems technologies, which Japan can boast to the world.

Donations made by the Company to victims of natural disasters in fiscal 2016:

Donation for Disaster of the 2016 Kumamoto Earthquakes

Emergency Relief Donation for 2016 Ecuador earthquake

Emergency Relief Donation for 2016 Central Italy earthquakes

2016 Donation for Disaster of Typhoon No. 10, etc.

(Note) CSR is the acronym of Corporate Social Responsibility. It is a concept based on the idea that corporations should act responsibly with respect to society, environment and other such factors, in addition to economic activities, for the purpose of creating a sustainable society.

## **2) Reduction of Corporate Officer remuneration**

The Company takes the business results for fiscal 2016 and the business plan for fiscal 2017 announced today very seriously and has resolved a reduction of the amount of Corporate Officer remuneration at the Board of Directors Meeting held on April 25, 2017, as follows.

### **(i) Reduction of the amount of corporate officer remuneration**

President & Representative Director: 15% of monthly remuneration

Executive Vice President & Representative Director: 15% of monthly remuneration

Executive Directors (two directors): 10% of monthly remuneration

Please also be informed that the Company received an offer for a voluntary return of 5% of monthly remuneration from all of its four Directors serving as Audit and Supervisory Committee Members, in accordance with the reduction of the amount of Corporate Officer remuneration.

### **(ii) Applicable period for reduction**

From April 2017 to March 2018

## 2. Status of Shares (as of March 31, 2017)

- (1) **Total Number of Shares Authorized to be Issued** 23,112,000 shares
- (2) **Total Number of Shares Issued** 11,187,749 shares
- (3) **Number of Shareholders** 5,295 shareholders

### (4) Major Shareholders

Name of shareholder	Number of shares held	Controlling share
Yuzuru Sasaki	1,243,200 shares	11.11%
Midoriya Electric Co., Ltd.	849,000	7.58
BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Sub-portfolio)	821,200	7.34
Sumihiko Ichihara	595,800	5.32
Takayuki Shibata	594,800	5.31
Kazunori Matsuura	388,800	3.47
Tatsuaki Okumura	369,000	3.29
Kazuyoshi Moriya	335,600	2.99
AVAL DATA CORPORATION	260,000	2.32
Japan Trustee Services Bank, Ltd. (Trust Account)	213,700	1.91

(Note) Controlling shares are calculated after excluding treasury stock (152 shares).

## 3. Information on the Company's Stock Acquisition Rights, etc.

- (1) **Stock Acquisition Rights, etc. held by the Company's Officers as of March 31, 2017**  
N/A
- (2) **Stock Acquisition Rights Issued to Employees, etc. during FY 2016**  
N/A
- (3) **Other Material Information on Stock Acquisition Rights, etc.**  
N/A

## 4. Company Officers

### (1) Directors (as of March 31, 2017)

Title	Name	Responsibilities & material concurrent positions
President & Representative Director	Kazunori Matsuura	
Executive Vice President & Representative Director	Akihiro Saito	General Manager of Sales & Marketing Department
Director	Nobuhiro Sendai	General Manager of Management Department
Director	Koji Kanie	General Manager of Engineering Department
Director (Audit and Supervisory Committee Member, Full-time)	Yoshiki Yoshida	
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Certified Public Accountant & Tax Accountant Outside Director of INABA SEISAKUSHO Co., Ltd.
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Representative Director of Strategic Capital Partners, Co., Ltd. Representative Director of Ken Real Estate Investment Advisors Ltd. Corporate Auditor of Risseisha Inc.
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	Certified Public Accountant & Tax Accountant Representative Director of Cluster Accounting Co., Ltd. Outside Standing Auditor of TAIYO BUSSAN KAISHA, LTD. Outside Corporate Auditor of Shintokyo Group Co., Ltd.

- (Notes) 1. The Company transitioned to a Company with Audit and Supervisory Committee on June 18, 2016 based on the resolution of the 21st Ordinary General Meeting of Shareholders held on the same day.
2. Directors (Audit and Supervisory Committee Members) Yoshiki Yoshida, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima are Outside Directors.
3. Directors (Audit and Supervisory Committee Members) Yoshiki Yoshida, Katsuya Mitsumura and Shigeo Igashima have considerable financial and accounting expertise as described below.
- 1) Mr. Yoshiki Yoshida has a wealth of operational experience in the electrical device industry in which the Company operates, and experience in serving in audits, etc., as a Full-time Audit & Supervisory Board Member in the same industry, and therefore has considerable degree of financial and accounting expertise.
  - 2) Mr. Katsuya Mitsumura was elected as a Director (Audit and Supervisory Committee Member) based on his long years as a certified public accountant and tax accountant and his possession of extensive knowledge of finance and accounting.
  - 3) Mr. Shigeo Igashima was elected as a Director (Audit and Supervisory Committee Member) based on his long years of experience as a certified public accountant and tax accountant and his possession of extensive knowledge of the management of business corporations.
4. With the intent of increasing the effectiveness of information collection and other audits and strengthening the audit and supervisory functions, the Company has appointed Director (Audit and Supervisory Committee Member) Yoshiki Yoshida as a Full-time Audit and Supervisory Committee Member.
5. Chairman Yuzuru Sasaki, Vice Chairman Sumihiko Ichihara and Director Takayuki Shibata retired due to the expiration of their terms of office at the close of the 21st Ordinary General Meeting of Shareholders held on June 18, 2016.
6. The Company has designated Directors (Audit and Supervisory Committee Members) Yoshiki Yoshida, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima as Independent Corporate Officers under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect.

### (2) Outline of Liability Limitation Agreement

Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded an agreement with its Directors (Audit and Supervisory Committee Members) Yoshiki Yoshida, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima to limit their liability for damages under Article 423, Paragraph 1 of the said Act.

The cap on the liability for damages under the said agreement is the sum of the amounts set forth in the items of Article 425, Paragraph 1 of the Companies Act.

**(3) Total Amount of Remuneration, etc. for Directors**

Classification	Number of persons	Amount of remuneration, etc.
Director (excluding Audit and Supervisory Committee Member) (Outside Director)	8 persons (1 person)	112 million yen (1 million yen)
Director (Audit and Supervisory Committee Member) (Outside Director)	4 persons (4 persons)	26 million yen (26 million yen)
Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)	3 persons (3 persons)	4 million yen (4 million yen)
Total (Outside Officer)	15 persons (8 persons)	143 million yen (32 million yen)

- (Notes) 1. The above includes three Directors who retired at the close of the 21st Ordinary General Meeting of Shareholders held on June 18, 2016. Additionally, the Company transitioned from a Company with Audit & Supervisory Board to a Company with Audit and Supervisory Committee on June 18, 2016.
2. Total amount of remuneration, etc. of Directors does not include the portion of employee salary paid to Directors concurrently serving as employees.
3. Prior to transition to a Company with Audit and Supervisory Committee, the amount of remuneration of Directors was limited to the sum of: the fixed remuneration portion amounting to no more than 180 million yen per year (Outside Director portion amounting to no more than 20 million yen per year), which was approved at the 15th Ordinary General Meeting of Shareholders held on June 20, 2010 and the performance-linked remuneration portion amounting to no more than 100 million yen per year (not including Outside Director), which was approved at the 17th Ordinary General Meeting of Shareholders held on June 17, 2012. Furthermore, subsequent to transition to a Company with Audit and Supervisory Committee, the amount of remuneration of Directors (excluding Audit and Supervisory Committee Members) is limited to the sum of: the fixed remuneration portion amount to no more than 100 million yen per year and the performance-linked remuneration portion with a short-term performance-linked remuneration of no more than 65 million yen per year and a mid- to long-term performance-linked remuneration of no more than 50 million yen per year, which was approved at the 21st Ordinary General Meeting of Shareholders held on June 18, 2016.
4. At the 21st Ordinary General Meeting of Shareholders held on June 18, 2016, a resolution was adopted to limit the amount of remuneration of Directors (Audit and Supervisory Committee Members) to 40 million yen per year.
5. At the Inaugural General Meeting of Shareholders held on January 30, 1996, a resolution was adopted to limit the amount of remuneration of Audit & Supervisory Board Members to 20 million yen per year.

**(4) Outside Officers****1) Concurrent position held at other companies, etc. (if officer is a business executive of other companies, etc.) and relationship between the Company and other such companies, etc.**

Title	Name	Company, etc. where concurrent position is held	Description of concurrent position
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Strategic Capital Partners, Co., Ltd. Ken Real Estate Investment Advisors Ltd.	Representative Director Representative Director
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	Cluster Accounting Co., Ltd.	Representative Director

(Note) There is no material business relationship between the Company and the aforementioned company.



**2) Concurrent position held by outside officers, etc. of other companies, etc. and relationship between the Company and other such companies, etc.**

Title	Name	Company, etc. where concurrent position is held	Description of concurrent position
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	INABA SEISAKUSHO Co., Ltd.	Outside Director
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Risseisha Inc.	Corporate Auditor
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	TAIYO BUSSAN KAISHA, LTD. Shintokyo Group Co., Ltd.	Outside Standing Auditor Outside Corporate Auditor

(Note) There is no material business relationship between the Company and the aforementioned companies.

**3) Main activities during FY 2016**

Classification	Name	Main activities
Director (Audit and Supervisory Committee Member)	Yoshiki Yoshida	Participated in all of the 14 Board of Directors meetings, in all of the 4 Audit & Supervisory Board meetings, and subsequent to transition to a Company with Audit and Supervisory Committee, in all of the 10 Audit and Supervisory Committee meetings during FY 2016, and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Participated in all of the 14 Board of Directors meetings, in all of the 4 Audit & Supervisory Board meetings, and subsequent to transition to a Company with Audit and Supervisory Committee, in all of the 10 Audit and Supervisory Committee meetings during FY 2016, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Participated in all of the 14 Board of Directors meetings, and subsequent to transition to a Company with Audit and Supervisory Committee, in all of the 10 Audit and Supervisory Committee meetings during FY 2016, and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	Participated in all of the 14 Board of Directors meetings, in all of the 4 Audit & Supervisory Board meetings, and subsequent to transition to a Company with Audit and Supervisory Committee, in all of the 10 Audit and Supervisory Committee meetings during FY 2016, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.

(Notes)1. The above includes the status of participation for Audit & Supervisory Board Members before the transition to a Company with Audit and Supervisory Committee.

2. The number of times the Board of Directors meetings had been held by written resolution was excluded.

## 5. Accounting Auditor

(1) **Name:** Ernst & Young ShinNihon LLC

(2) **Amount of Fees, etc.**

	Amount paid
Amount of fees, etc. for work prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Law	20 million yen
Total amount of monetary and other financial benefits payable by the Company to the Accounting Auditor	20 million yen

- (Note)
1. The amount of audit fees, etc. for audits conducted under the Companies Act and the amount of audit fees, etc. for audits conducted under the Financial Instruments and Exchange Act are not clearly distinguished from each other in the audit agreement concluded between the Company and the Accounting Auditor; nor are they distinguishable in practice. Therefore, the aggregate amount of such audit fees, etc. is shown as the amount of fees, etc. for fiscal 2016.
  2. Upon conducting required verification regarding matters such as the content of the audit plan, status of business execution of the accounting audit, and basis for calculating remuneration of the Accounting Auditor, the Audit and Supervisory Committee has determined and agreed that the amount of remuneration, etc., payable to the Accounting Auditor is appropriate.

(3) **Description of Non-auditing Business**

N/A

(4) **Policy regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditor**

In the event where there are issues with the execution of duties by the Accounting Auditor or if determined as such for other reasons, the Audit and Supervisory Committee will determine the content of a proposal to terminate or not renew appointment of the Accounting Auditor.

Additionally, if the Audit and Supervisory Committee determines that any of the Items in Article 340, Paragraph 1 of the Companies Act applies to the Accounting Auditor, the Accounting Auditor will be terminated upon agreement from all Audit and Supervisory Committee Members. In this case, the Audit and Supervisory Committee Member elected by the Audit and Supervisory Committee will report the termination of the Accounting Auditor and the reason for termination at the first General Meeting of Shareholders convened after the termination.

(5) **Outline of Liability Limitation Agreement**

N/A

(6) **Matters regarding Business Suspension Orders Received by the Accounting Auditor within the Past Two Years**

On December 22, 2015, the Accounting Auditor of the Company received a three-month business suspension regarding the conclusion of new contracts (From January 1, 2016 to March 31, 2016) from the Financial Services Agency.

## **6. Systems to Ensure Compliance with Laws, Regulations and the Articles of Incorporation in the Execution of Duties and Other Systems to Ensure the Properness of Operations and Operational Status of Said Systems**

### **(1) Systems to Ensure that Directors and Employees of the Company Comply with Laws, Regulations and the Articles of Incorporation in the Execution of Their Duties**

- 1) The Company's Directors and employees shall not only comply with the laws, regulations, the Articles of Incorporation and the like in accordance with the Corporate Philosophy and the Code of Conduct stipulated by the Company, but shall also firmly maintain the virtues and ethics required by society based on the social significance of corporate existence.
- 2) The Company shall establish a unit in charge of internal control directly under the President and Representative Director, appointing the head of said unit as the Internal Audit Implementer. The Internal Audit Implementer, incorporated into the internal organization, shall conduct audits on the status of Director and employee compliance with the laws, regulations, the Articles of Incorporation and the like from a perspective independent of the business execution organization.
- 3) The Board of Directors shall make a decision on or approve statutory matters and various matters relating to business execution in an appropriate and timely manner in accordance with the stipulations of laws, regulations, the Articles of Incorporation, and Board of Directors Regulations, and the Directors comprising the Board of Directors shall oversee each other's execution of duties. Furthermore, highly-independent Outside Directors shall be appointed.
- 4) The Company shall establish an internal reporting office for reporting violations of laws or regulations and other incidents relating to compliance, as well as an external reporting office where an outside counsel directly receives information.
- 5) The Company, pursuant to the "Insider Trading Management Rules," shall establish a system to prevent insider trading through thorough control over important undisclosed information as well as appropriate and timely disclosures of information.
- 6) The Company upholds the basic policy of eliminating any relationship with anti-social forces and stipulates in its Code of Conduct that "the Company shall deal with anti-social forces in a resolute attitude and shall never share profits with them." The Company also maintains and reinforces its system of cooperation with outside specialist organizations such as jurisdictional police departments and attorneys.

### **(2) Systems concerning Storage and Management of Information on the Execution of Duties by Directors of the Company**

- 1) As regards the storage and management of information on the execution of duties by the Directors, the following information shall be appropriately stored in accordance with laws, regulations and relevant internal regulations, and shall be managed in such a manner as to allow for inspection as necessary.
  - a. Minutes of the general meeting of shareholders; minutes of and relevant materials from the Board of Directors meetings;
  - b. Minutes and relevant materials from significant meetings organized by a Director or an important employee; and
  - c. Important documents relating to the execution of duties by Directors, such as requests for final decision and attachments thereto.
- 2) Important documents other than those listed above shall be appropriately stored and managed by the corresponding unit in charge in accordance with the relevant laws, regulations, and the like.
- 3) A backup system shall be built if information relating to the execution of duties by Directors and other important information are to be stored by electromagnetic means. The backup system built shall be enhanced in an ongoing manner.

### **(3) Internal Regulations and Other Systems concerning Risks of Loss of the Company**

- 1) Measures to avoid the risk of loss shall be devised by establishing Crisis Control Regulations. The Company shall respond promptly and appropriately, should the risk of loss materialize.
- 2) The teams and entities in charge comprising the Company shall continually study the risks that may arise in the course of business and report the results thereof to the Board of Directors.
- 3) Company-wide measures for responding to large-scale disasters and the like shall be considered from the perspective of the Business Continuity Plan.

**(4) Systems to Ensure the Efficient Execution of Duties by Directors of the Company**

- 1) The Company shall establish various regulations that define office organization, organizational bodies, segregation of duties, administrative authorities, etc., for the efficient execution of business by Directors.
- 2) The Company shall hold a regular Board of Directors meeting once monthly with the attendance, as a general rule, of all Directors for reports on the status of execution of duties by the Directors.
- 3) The Board of Directors clearly defines the job responsibilities of each Director by electing the Representative Director, the President, and Executive Officers. Further, responsibilities relating to business execution shall be clearly established through the election of Corporate Officers in charge of managing major business departments.
- 4) The Company holds GM Meetings composed primarily of Business Execution Directors, and while determining the execution of important duties entrusted to Directors from the Board of Directors, assistance is provided to the execution of duties by the President and Representative Director, and consensus-based decision procedures are conducted as necessary. Additionally, Full-time Audit and Supervisory Committee Members also attend GM Meetings, and survey, evaluate, and provide advice, etc., as necessary.
- 5) The Company shall formulate a medium-term business plan at the beginning of each fiscal year, pursuant to the instruction of the President and Representative Director and subject to the approval of the Board of Directors, for use as guidelines in the execution of duties.

**(5) Systems to Ensure the Properness of Business Operations in the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries**

Although the Company currently does not have any subsidiaries, in the event that it establishes subsidiaries, etc. in the future, a necessary system, etc. will be established based on regulations regarding management of subsidiaries.

**(6) Matters concerning Directors and Employees to be Posted as Assistants to the Audit and Supervisory Committee of the Company for the Execution of Audit Duties, Matters concerning the Independence of Said Directors and Employees from Directors (excluding Directors serving as Audit and Supervisory Committee members) and Matters concerning ensuring the Effectiveness of the Orders from the Audit and Supervisory Committee to Said Directors and Employees**

- 1) The Company shall, upon consultation with the Audit and Supervisory Committee, appoint appropriate assistants to the Audit and Supervisory Committee, should the Audit and Supervisory Committee request the appointment of Directors and employees (hereinafter “Assistant Employees, etc.”) to assist with their duties.
- 2) If Assistant Employees, etc., are stationed, in order to ensure the independence of Assistant Employees, etc., the Company shall, upon consultation with the Audit and Supervisory Committee, make decisions on various matters relating to said independence, such as the appointment and dismissal of employees assisting such Board Members.

**(7) Systems for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members) and Employees of the Company to Report to the Audit and Supervisory Committee**

- 1) The Audit and Supervisory Committee shall receive reports from the Directors (excluding Directors serving as Audit and Supervisory Committee Members) and employees on the following matters:
  - a. Matters subject to regular reporting
    - Corporate management, business and financial status; risk management and compliance status
  - b. Matters subject to extraordinary reporting
    - Occurrence of important facts concerning corporate management
    - Fraudulent acts relating to the execution of duties by the Directors; occurrence of material facts constituting violation of laws, regulations, or the Articles of Incorporation
- 2) Audit and Supervisory Committee Members shall attend the Board of Directors meetings in order to obtain the aforementioned information in an appropriate manner. The full-time Audit and Supervisory Committee Member shall attend internal meetings of high managerial significance, in addition to inspecting such important documents as requests for final decision.
- 3) The content of a report to the whistleblower hotline shall be promptly reported to the Audit and Supervisory Committee.

**(8) Systems to Ensure that Whistleblowers pursuant to the Preceding Item Do Not Suffer from Any Disadvantageous Treatment due to their Reports**

To ensure that whistleblowers do not receive harmful treatment as a result of making a report in the preceding Item, whistleblowers shall be appropriately protected based on the “Regulations Regarding Whistleblowing.”

**(9) Matters concerning the Policies for the Treatment of Expenses or Obligations to be Incurred for the Execution of Duties by Audit and Supervisory Committee Member(s)**

When an Audit and Supervisory Committee Member makes a request for prepayment of expenses or processing, etc. of liabilities that arise as a result of the execution of duties, such expenses or liabilities shall be processed promptly, based on the “Axell Corporation Audit and Supervisory Committee Auditing, etc. Standards.”

**(10) Other Systems to Ensure the Effectiveness of Auditing by the Audit and Supervisory Committee of the Company**

- 1) Directors shall endeavor to improve the environment for audits by the Audit and Supervisory Committee in recognition of the importance thereof to the Directors and employees.
- 2) The Company shall ensure a system that allows the Audit and Supervisory Committee to collect the necessary information by regularly organizing meetings with the Audit and Supervisory Committee and Representative Directors, organizing meetings with Business Execution Directors, arranging for interviews of employees and others, and arranging for regular opportunities for exchange of opinions with the Accounting Auditor.

**(11) Systems to Ensure the Reliability of Financial Reporting**

The Company, in order to ensure the reliability of financial reporting, shall establish a basic policy on internal controls over financial reporting as well as various regulations, and develop and operate systems of company-wide internal controls and individual business process controls. The Company shall also assess the effectiveness of such systems and make ongoing improvements thereto.

Furthermore, the Company transitioned to a Company with Audit and Supervisory Committee on June 18, 2016. In line with the above, at Board of Directors Meeting held on the same day, a portion of the “Systems to Ensure the Properness of Business Operations” were revised, and the content of the above reflects these revisions.

**Summary of Operation Status of Systems to Ensure the Properness of Business Operations**

A summary of the operation status of systems to ensure the properness of business operations for fiscal 2016 is as follows.

Additionally, the Company transitioned to a Company with Audit and Supervisory Committee at the close of the 21st Ordinary General Meeting of Shareholders held on June 18, 2016 with the intent of strengthening the audit and supervisory functions of the Board of Directors and improving the effectiveness of internal control systems via the implementation of organizational audits that make use of internal audit divisions. Although “4) Audit Systems of the Audit and Supervisory Committee” below is a summary of the operation status subsequent to the transition, an identical system was maintained and operated for a Company with Board of Corporate Auditors.

**1) Systems for Execution of Duties of Directors**

A regular Board of Directors meeting was held once per month and extraordinary Board of Directors meetings were held as required to determine matters defined by the Articles of Incorporation and laws and regulations as well as important matters regarding management, and reports and supervision were conducted for the status of business execution. Additionally, GM Meetings were held at least once per month, and deliberations were conducted regarding important matters that serve as the backdrop for business execution and specific countermeasures, while decisions, etc., were made regarding important business execution entrusted to Directors by the Board of Directors.

**2) Compliance Systems**

To work toward arousing compliance awareness, compliance training through the use of real-world cases was conducted through invited corporate attorneys and outside instructors.

Additionally, a whistleblower hotline was established and a system to ensure appropriate response is in place.

Concerning internal audits, a periodic audit is implemented on each organizational unit (group) regarding matters such as the status of business execution, status of compliance, and status of risk management. Additionally, regarding information security, internal training and information audits, etc., are implemented by the Information Security Committee with the intent of securing, maintaining, and improving the effectiveness of information security countermeasures.

3) Risk Management Systems

At the regular Board of Directors meetings, each group submits a monthly report concerning risk, evaluation and regular revision of risk definition and countermeasures is made, and efforts are made in risk reduction and prevention. Additionally, a business continuity plan with disasters in mind has been defined, and revisions are implemented as required regarding its effectiveness. Furthermore, periodic checks are made on transaction partners to implement measures to eliminate transactions with anti-social forces.

4) Audit Systems of the Audit and Supervisory Committee

Audit and Supervisory Committee Members held an Audit and Supervisory Committee once per month, while also attending Board of Directors Meetings to exercise voting rights and audit and supervise the execution of business. Additionally, while determining audit policies and audit plans and supervising the status of execution of duties, the Audit and Supervisory Committee held regular communication meetings with internal audit divisions and the Accounting Auditor, exchanged information and opinions, and implemented audits. Furthermore, the Full-time Audit and Supervisory Committee Member attended management meetings with high corporate importance such as GM Meetings, and surveyed, evaluated, and provided advice, etc., as necessary.

## **7. Policy for Determination of Distribution of Surplus, etc.**

The Company's policy on profit sharing for shareholders is to maximize it, while at the same time taking into account adequate levels of "realizing appropriate periodic profit returns to shareholders" and "maintenance of appropriate internal reserves that will enable flexible business operations." In terms of profit sharing, based on this policy, the amount of dividends is set at 50% of profit (payout ratio of 50%) as a general rule. However, if 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 an adequate level of 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 new business developments in an effort to continually enhance corporate value.

## **8. Basic Policy regarding the Company's Control**

Although the Company has not established basic policies on requirements of entities to control decision making over financial and business policies of the Company, it believes that entities who are in control of determining the Company's financial and business policies should be those who contribute to the Company's corporate value as well as to the common interests of the shareholders. Moreover, such entities should understand the source of the Company's corporate value and develop smooth relationships with the Company's various stakeholders.

While the Company does not intend to adopt "anti-hostile-takeover measures" at the present time, it believes that it is obligated to its shareholders in all reason to take appropriate measures to defend itself from potential acquirers who may be detrimental to the Company's corporate value and the common interests of the shareholders. In regards to the adoption of "anti-hostile-takeover measures," the Company intends to take a flexible stance on proceeding with its deliberations by keeping abreast of changes in major shareholders and assessing various social trends.

## Non-consolidated Balance Sheet

(As of March 31, 2017)

(In millions of yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>10,508</b>	<b>Current liabilities</b>	<b>536</b>
Cash and deposits	8,738	Accounts payable - trade	284
Accounts receivable - trade	178	Accounts payable - other	148
Merchandise and finished goods	1,443	Accrued expenses	9
Raw materials and supplies	0	Accrued consumption taxes	77
Advance payments - trade	18	Deposits received	16
Prepaid expenses	109	<b>Non-current liabilities</b>	<b>34</b>
Income taxes receivable	11	Asset retirement obligations	34
Deferred tax assets	6	<b>Total liabilities</b>	<b>571</b>
Other	0	<b>(Net assets)</b>	
<b>Non-current assets</b>	<b>1,520</b>	<b>Shareholders' equity</b>	<b>11,254</b>
<b>Property, plant and equipment</b>	<b>342</b>	<b>Capital stock</b>	<b>1,018</b>
Buildings	103	<b>Capital surplus</b>	<b>861</b>
Tools, furniture and fixtures	238	Legal capital surplus	861
<b>Intangible assets</b>	<b>46</b>	<b>Retained earnings</b>	<b>9,373</b>
Patent right	0	Legal retained earnings	1
Trademark right	0	Other retained earnings	9,372
Software	45	General reserve	8,200
<b>Investments and other assets</b>	<b>1,131</b>	Retained earnings brought forward	1,172
Investment securities	888	<b>Treasury shares</b>	<b>(0)</b>
Long-term prepaid expenses	29	<b>Valuation and translation adjustments</b>	<b>203</b>
Lease and guarantee deposits	92	Valuation difference on available-for-sale securities	203
Deferred tax assets	101		
Other	20	<b>Total net assets</b>	<b>11,457</b>
<b>Total assets</b>	<b>12,029</b>	<b>Total liabilities and net assets</b>	<b>12,029</b>

## Non-consolidated Statement of Income

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

(In millions of yen)

Description	Amount	
<b>Net sales</b>		<b>8,012</b>
<b>Cost of sales</b>		<b>4,466</b>
<b>Gross profit</b>		<b>3,546</b>
<b>Selling, general and administrative expenses</b>		<b>3,404</b>
<b>Operating profit</b>		<b>141</b>
<b>Non-operating income</b>		
Interest income	0	
Dividend income	4	
Foreign exchange gains	18	
Other	5	28
<b>Non-operating expenses</b>		
Loss on investments in partnership	6	
Other	0	7
<b>Ordinary profit</b>		<b>162</b>
<b>Profit before income taxes</b>		<b>162</b>
Income taxes - current	26	
Income taxes - deferred	43	69
<b>Profit</b>		<b>92</b>



# Non-consolidated Statement of Changes in Net Assets

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

(In millions of yen)

(in millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings				Treasury shares	Total shareholders' equity
		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	8,200	1,135	9,336	—	11,217
Changes of items during period									
Dividends of surplus						(55)	(55)		(55)
Profit						92	92		92
Purchase of treasury shares								(0)	(0)
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	—	36	36	(0)	36
Balance at end of current period	1,018	861	861	1	8,200	1,172	9,373	(0)	11,254

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	39	39	11,256
Changes of items during period			
Dividends of surplus			(55)
Profit			92
Purchase of treasury shares			(0)
Net changes of items other than shareholders' equity	164	164	164
Total changes of items during period	164	164	201
Balance at end of current period	203	203	11,457

# Notes to Non-consolidated Financial Statements

## 1. Notes on significant accounting policies

### (1) Valuation standards and valuation methods of assets

#### 1) 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 statement according to the date of statement stipulated by the partnership agreement.

#### 2) Inventories

##### - Finished goods

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

##### - Supplies

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

### (2) Depreciation method of non-current assets

#### 1) Property, plant and equipment (excluding leased assets)

Declining balance method. However, buildings (excluding accompanying facilities) and buildings, which were acquired on or after April 1, 2016 utilize the straight-line method.

The useful lives of the assets are as follows:

Buildings: 3-15 years

Tools, furniture and fixtures: 2-20 years

#### 2) Intangible assets (excluding leased assets)

Straight-line depreciation

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

#### 3) Leased assets

Leased 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.

### (3) Other significant matters underlying the preparation of non-consolidated financial statements

### **-Accounting of consumption taxes**

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

## **2. Notes on 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 non-consolidated financial statements is insignificant.

## **3. 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.

## **4. Notes on changes in representation**

(Non-consolidated statements of income)

“Dividend income of life insurance” (1 million yen for fiscal 2016) that was separately posted for the previous fiscal year is included in “Other” of “Non-operating income” from fiscal 2016 since the amount is no longer significant.

“Loss on retirement of noncurrent assets” (0 million yen for fiscal 2016) that was separately posted for the previous fiscal year is included in “Other” of “Non-operating income” from fiscal 2016 since the amount is no longer significant.

## **5. Notes to non-consolidated balance sheets**

**Accumulated depreciation of property, plant and equipment:** 1,077 million yen

## **6. Notes to non-consolidated statements of income**

**Total amount of research and development expenditures:** 2,453 million yen

## **7. Notes to non-consolidated statements of changes in net assets**

### **(1) Type and total number of shares issued**

Type of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	11,187,749	—	—	11,187,749

**(2) Type and number of treasury share**

Type of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	—	152	—	152

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

**(3) Matters related to dividends of surplus****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**

Tentative 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

**(4) Matters related to stock acquisition rights as of March 31, 2017**

N/A

**8. Notes on 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 funds 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 one 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**

#### **▪ 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 have negligible credit risk as they are all in the form of highly secure treasury discount bills.

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 sheets.

#### **▪ 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 sheets, 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.

#### **▪ 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 in 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 market 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 sheets, market value and the difference between the two as of March 31, 2017 are as follows. Please note that they do not include financial instruments, etc. in cases where identification of market value was deemed extremely difficult.

	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 Available-for-sale securities	346	346	—
Total assets	9,275	9,275	—
Accounts payable - trade	284	284	—
Total liabilities	284	284	—

(Note 1) Calculation method of market value of financial instruments and matters related to 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 one 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. No investment securities were sold during fiscal 2016.

### Liabilities

#### Accounts payable - trade

Accounts payable - trade are settled within about one 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	Balance sheet amount
Unlisted stocks	60 million yen
Contributions to investment limited partnerships	482 million yen

As unlisted stocks and investment limited partnerships, with no market price, are deemed as extremely difficult to determine its 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

	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	—	—	—

## 9. Notes on tax effect accounting

### Deferred tax assets

Depreciation in excess of deductible amount	64 million yen
One-time depreciation of assets in excess of deductible amount	2 million yen
Accrued enterprise tax, currently not deductible	1 million yen
Asset retirement obligations	10 million yen
Deferred assets for tax purposes	131 million yen
Others	12 million yen
Subtotal deferred tax assets	223 million yen
Valuation allowance	(15) million yen
Total deferred tax assets	207 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(89) million yen
Asset retirement obligations	(8) million yen
Total deferred tax liabilities	(98) million yen
Net deferred tax assets	108 million yen

## 10. Notes on asset retirement obligations

### (1) Summary of the asset retirement obligations

They are 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

Balance at beginning of current period	34 million yen
Adjustments over time	<u>0 million yen</u>
Balance at end of current period	<u>34 million yen</u>

## 11. Notes on transactions with related parties

N/A

## 12. Notes on per share information

(1) Net assets per share	1,024.16 yen
(2) Basic earnings per share	8.30 yen

## 13. Notes on major subsequent events

### Sale of investment securities

The Company determined to sell a portion of investment securities held 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



Report of Independent Auditor

April 25, 2017

To the Board of Directors  
AXELL CORPORATION

Ernst & Young ShinNihon LLC

Certified Public Accountant  
Designated Limited Liability Partner  
Engagement Partner

Kaoru Kashima [Seal]

Certified Public Accountant  
Designated Limited Liability Partner  
Engagement Partner

Tatsuya Yokouchi [Seal]

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in net assets, the notes to non-consolidated financial statements and the related supplementary schedules of AXELL CORPORATION (hereinafter the "Company") applicable to fiscal 2016, from April 1, 2016 to March 31, 2017.

Management responsibility in respect of non-consolidated financial statements

Management of the Company is responsible for the preparation and appropriate presentation of non-consolidated financial statements and the related supplementary schedules, pursuant to the corporate accounting standards generally accepted in Japan. This includes development and operation of internal control as deemed necessary by the management in ensuring preparation and appropriate presentation of the non-consolidated financial statements and the related supplementary schedules that are free from any material misstatements due to fraud or error.

Responsibility of Accounting Auditor

We as Accounting Auditor are responsible for expressing our opinion in respect of the non-consolidated financial statements and the related supplementary schedules from an independent standpoint, based on the audit we conducted. Our audit was conducted in accordance with auditing standards generally accepted in Japan. The auditing standards require us to develop audit plan and conduct our audit according to the plan in order to obtain reasonable assurance whether any material misstatement exists in the non-consolidated financial statements and the related supplementary schedules or not.

Our audit involves the procedures to obtain audit evidence that verifies if the accurate amounts were duly disclosed in the non-consolidated financial statements and the related supplementary schedules. Audit procedures are selected and applied at our discretion, based on the risk assessment of material misstatements in the non-consolidated financial statements and the related supplementary schedules due to fraud or error. Although expressing our opinion in respect of the effectiveness of the Company's internal control does not constitute the purpose of accounting audit, we examine the internal control in respect of the preparation and appropriate presentation of the non-consolidated financial statements and the related supplementary schedules, with the purpose to develop appropriate audit procedures depending on the situation, when we implement the risk assessment. Our audit also involves examination of the overall presentation of the non-consolidated financial statements and the related supplementary schedules, including assessment of the accounting policies and its application methods as adopted by the management, along with the estimates made by the management.

We believe we have obtained sufficient and appropriate audit evidence that serves as the basis for expression of our opinion.

#### Audit opinion

In our opinion, the non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in every significant aspect, the financial position and operating results of the Company for fiscal 2016 in conformity with corporate accounting standards generally accepted in Japan.

#### Interest

Neither Ernst & Young ShinNihon LLC nor any of the Engagement Partners has any interest in the Company which should be disclosed under the provisions of the Certified Public Accountants Act.

## **Audit Report**

The Audit and Supervisory Committee, upon deliberation, prepared this audit report regarding the Directors' execution of their duties during fiscal 2016, from April 1, 2016 to March 31, 2017, based on the audit records prepared by each Audit and Supervisory Committee Member and hereby reports as follows:

### **1. Auditing Method and Details**

The Audit and Supervisory Committee received reports periodically from Directors and employees concerning the details of resolution of the Board of Directors concerning matters set forth in Article 399-13, Paragraph 1, Item 1 (b) and (c), of the Companies Act, as well as the establishment and operation of internal control systems based on such resolutions, requested explanations as necessary, expressed opinions, and conducted audits by the following methods.

- 1) Pursuant to audit policies and division of duties, etc., established by the Audit and Supervisory Committee and in cooperation with the corporate internal audit divisions, Audit and Supervisory Committee Members attended important meetings, received reports from Directors and employees, etc., regarding their execution of duties, requested explanations as necessary, viewed important decision-making documents, etc., and surveyed the conditions of operations and assets at the head office.
- 2) While monitoring and evaluating whether or not the Accounting Auditor is maintaining an independent standpoint and implementing appropriate audits, reports were received from the Accounting Auditor that it maintains "systems for ensuring appropriate execution of duties" (matters listed in each item of Article 131 of the Ordinance on Accounting of Companies) pursuant to the "Quality Control Standards for Auditing" (dated October 28, 2005 by Business Accounting Council), etc., and explanations were requested as necessary.

Based on the foregoing methods, we examined the Business Report and the related supplementary schedules, and the non-consolidated financial statements (the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in net assets, and the notes to non-consolidated financial statements) and the related supplementary schedules for fiscal 2016.

### **2. Audit Results**

- (1) Results of Audit of Business Report, etc.
  - 1) In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
  - 2) No inappropriate conduct concerning the execution of duties by Directors or material facts in violation of laws, regulations or the Articles of Incorporation were found.
  - 3) We found that the Board of Directors' resolutions concerning the internal control system are appropriate in content. We also found no matters requiring note on our part with respect to the description of the Business Report and the execution of duties by Directors concerning the said internal control system.
  - 4) The basic views on the composition of persons to control decision making over financial and business policies of the Company stated in the Business Report are appropriate.
- (2) Results of Audit of Non-consolidated Financial Statements and Related Supplementary Schedules  
We found that the methods and the results of the audit conducted by Accounting Auditor, Ernst & Young ShinNihon LLC, are appropriate.

### 3. Subsequent Events

Although a sale of a portion of the Company's shareholdings was conducted in early April 2017 and it is stated that profits from said transaction will be recorded in the first quarter of the fiscal 2017, there are no issues.

April 25, 2017

#### Audit and Supervisory Committee AXELL CORPORATION

Full-time & Audit and Supervisory Committee Member	Yoshiki Yoshida
Audit and Supervisory Committee Member	Katsuya Mitsumura
Audit and Supervisory Committee Member	Masao Suzuki
Audit and Supervisory Committee Member	Shigeo Igashima

(Note) The four Audit and Supervisory Committee Members are Outside Directors as stipulated in Article 2, Item 15 and Article 331, Paragraph 6 of the Companies Act.