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(Securities Code: 6730)
May 26, 2011

To Shareholders with Voting Rights:

Yuzuru Sasaki.
President & Director
AXELL CORPORATION
14-1, Sotokanda 4-chome,
Chiyoda-ku, Tokyo, Japan

NOTICE OF THE 16TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

We wish to convey our heartfelt condolences to the victims of the recent Great East Japan Earthquake. We sincerely hope that your safety is ensured, you regain peace of mind and that the afflicted areas achieve revitalization as soon as possible.

You are cordially invited to attend the 16th Ordinary General Meeting of Shareholders of AXELL CORPORATION (“the Company”). The meeting will be held for the purposes as described below.

- 1. Date and Time:** 10:00 a.m. (doors open at 9:30 a.m.) on Sunday, June 19, 2011
- 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 2010 (from April 1, 2010 to March 31, 2011)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
Proposal No. 2: Election of One Corporate Auditor

-
- 1) When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk on the day of the meeting.
 - 2) Any updates to the Reference Documents for the General Meeting of Shareholders, Business Report and/or Non-consolidated Financial Statements will be posted on the Company’s website (<http://www.axell.co.jp/>).

[Saving electricity at the meeting]

In order to save electricity, the Company plans to keep the illumination level low at the venue and to set the air-conditioning thermostats relatively high to keep the room temperature around 28 degrees Celsius. We sincerely apologize for your inconvenience, but would appreciate it if you would cooperate with us in saving electricity by, for example, coming to the meeting wearing light clothing.

[Management strategy presentation]

The management strategy presentation held after conclusion of the General Meeting of Shareholders in previous years will be incorporated into the General Meeting of Shareholders this year for more efficient management of the meeting. Your understanding will be appreciated.

Contents

(Appendix).....	4
Business Report	4
1. Overview of the Company.....	4
(1) Business in FY 2010.....	4
(2) Trends in Assets and Income over Past 3 Fiscal Years	7
(3) Subsidiaries	7
(4) Issues to be Addressed.....	7
(5) Principal Business	9
(6) Principal Offices and Plants	9
(7) Employees	9
(8) Principal Lenders.....	9
(9) Other Material Information on Current Status of the Company	9
2. Status of Shares	11
(1) Total Number of Shares Authorized to be Issued	11
(2) Total Number of Shares Issued.....	11
(3) Number of Shareholders.....	11
(4) Major Shareholders	11
3. Information on the Company's Stock Acquisition Rights, etc.....	12
(1) Stock Acquisition Rights, etc held by the Company's Officers as of March 31, 2011	12
(2) Stock Acquisition Rights Issued to Employees, etc during FY 2010	12
(3) Other Material Information on Stock Acquisition Rights, etc.	12
4. Company Officers	13
(1) Directors and Corporate Auditors	13
(2) Total Amount of Remuneration, etc. for Directors and Corporate Auditors.....	13
(3) Outside Officers.....	14
5. Accounting Auditor	15
(1) Name	15
(2) Amount of Fees, etc.....	15
(3) Description of Non-auditing Business.....	15
(4) Policy regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditor	15
(5) Outline of Liability Limitation Agreement.....	15
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.....	16
(1) Systems to ensure that Directors and employees comply with laws, regulations and the Articles of Incorporation in the execution of their duties.....	16
(2) Systems concerning storage and management of information on the execution of duties by Directors ...	16
(3) Internal regulations and other systems concerning risks of loss.....	16
(4) Systems to ensure the efficient execution of duties by Directors	17
(5) Systems to ensure the properness of business operations in the corporate group consisting of the Company, its parent company and subsidiaries.....	17
(6) Matters concerning employees to be posted as assistants to Auditor(s) for the execution of audit duties and matters concerning the independence of said employees from Directors.....	17
(7) Systems for Directors and employees to report to the Board of Corporate Auditors and other systems concerning reports to Corporate Auditors.....	17
(8) Other systems to ensure the effectiveness of auditing by Corporate Auditors	18
7. Policy for Determination of Distribution of Surplus, etc.....	18
8. Basic Policy regarding the Company's Control.....	18
Non-consolidated Balance Sheet.....	19
Non-consolidated Statement of Income.....	20
Non-consolidated Statement of Changes in Net Assets.....	21
Notes to Non-consolidated Financial Statements	23
Accounting Auditor's Report on Non-consolidated Financial Statements	31

Report of the Board of Corporate Auditors 32
Reference Documents for the General Meeting of Shareholders 34
 Proposal No. 1: Distribution of Surplus..... 34
 Proposal No. 2: Election of One Corporate Auditor 35

(Appendix)

Business Report

(From April 1, 2010 to March 31, 2011)

1. Overview of the Company

(1) Business in FY 2010

1) Business Progress and Results

During fiscal 2010, some sectors of the Japanese economy showed signs of recovery as reflected in the signs of improvements in corporate revenue and capital investments supported by improvements in overseas economies and the effects of various measures to stimulate domestic demand by the government and so forth. Nevertheless, the future outlook remains uncertain due to increasing downside risks to the economy stemming from a sense of slowdown of overseas economies and rising prices of primary products, such as soaring crude oil prices. Furthermore, the Great East Japan Earthquake, which turned out to be an unprecedented disaster, and the accident at the Fukushima Daiichi Nuclear Power Plant will have an incalculable impact on the domestic economy. As such, the situation remains unpredictable.

Also, the electrical machinery industry, to which the Company belongs, showed signs of recovery in some segments driven by an increase in exports backed by brisk demand in emerging countries, rush demand stemming from the eco-point scheme for electrical appliances and other factors. However, uncertainties remain about the future outlook because of such factors as damage to manufacturing facilities caused by the Great East Japan Earthquake and a decrease in production activities due to the rolling blackouts, in addition to the impact of chronic deflation.

The amusement device market (Note 1), which is the primary market for the Company's business at present, began to show positive signs in some segments, as exemplified by the recovery trend of pachislot machines which had been struggling as a result of the revision of amusement device regulations in previous years and the growth in the population of players for two consecutive years thanks to the wide popularization of one-yen pachinko and other low-price sales initiatives. However, owing to the consumers still opting persistently for budget saving due to a decrease in personal income and uncertainties about employment conditions, there is a strong tendency to curb amusement expenses on the whole. As such, a harsh profit environment persists for amusement facilities. For this reason, the replacement of amusement devices, which is one of vital means of attracting customers to amusement facilities, also concentrated on a few models such as well-established models and major projects that can attract many customers, and the number of units replaced, too, is following a downtrend on the whole. Furthermore, amusement facilities refrained from replacing their old units with new ones for a long period of time, considering the workload of authorities in conjunction with the hosting of the APEC meeting. Given this trend, according to our analysis, demand for new units of amusement devices hovered at low levels overall, showing a decrease of 800,000 units from the previous fiscal year to approximately 3,300,000 units.

Under such circumstances, the Company concentrated its efforts on promoting the sale of various products, focusing on "AG301", a Graphics LSI product (Note 2) for larger LCDs installed in amusement devices, and "AG333", an integrated LSI product that fulfills multiple functions including graphics-rendering, sound-generating and LED (Note 3) driver functions.

For the embedded system market (Note 4), the Company focused its efforts on sales activities for "AG10", a Graphics LSI product supporting various devices based on the configuration of personal computers (hereinafter referred to as "PCs"), together with its existing "AG-9" series.

As a result, for fiscal 2010, the Company recorded net sales of 8,199 million yen (down 47.1% year-on-year), operating income of 1,568 million yen (down 74.7%), ordinary income of 1,584 million yen (down 74.6%), and net income of 1,043 million yen (down 72.8%).

(Note 1) The term "amusement device market" refers to the market relating to the manufacture of pachinko and pachislot machines, etc.

(Note 2) "Graphics LSI" refers to LSIs 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.

(Note 4) "Embedded system market" refers to "the market relating to the manufacture of embedded systems

as broadly defined, excluding amusement devices.”

(i) LSI products targeted at the amusement device market

For the amusement device market, the Company sells Graphics LSI products, Sound LSI (Note 1) products, LED driver LSI products, LSI products with integrated graphics-rendering, sound-generating and LED control functions, memory-module (Note 2) products, etc. Its main products are Graphics LSI products (including LSI products with integrated functions). The amusement device market consists of the pachinko machine market and the pachislot machines market. The Company mainly sells products targeted at the pachinko machine market, as it accounts for a higher percentage of the amusement device market.

As for Graphics LSI products targeted at the amusement device market, the migration from “AG301” (which was the Company’s core products in the previous fiscal year) to “AG333” (high value-added LSI with integrated functions) have been progressing steadily in fiscal 2010. However, the sales of the Graphics LSI products decreased by about 1,200,000 units from the previous fiscal year to 1,420,000 units due to such factors as the re-use of amusement device components including the Company’s products being prevalent on a full scale, on top of the tough market conditions described above. Sales of Graphics LSI products decreased by 43% year-on-year to 7,345 million yen, which accounted for 90% of total sales. On the other hand, the sales volume of Sound LSI products has been falling, due to the migration to products with integrated functions and the impact of customers’ demand trends. The sales volume of other products targeted at the amusement device market fell year-on-year invariably due to the impact of customers’ demand trends. Aggregate sales of various products other than the Graphics LSI products targeted at the amusement device market decreased by 78% year-on-year to 519 million yen. As a result, total sales of products targeted at the amusement device market, including Graphics LSI products, decreased by 7,407 million yen, or 49%, to 7,864 million yen from the previous fiscal year.

(Note 1) “Sound LSI” refers to LSIs designed to reproduce digital sound data.

(Note 2) “Memory-module” refers to the portion of the graphics-rendering circuit board of amusement devices that stores visual data.

(ii) LSI products targeted at the embedded system market

For the embedded system market, 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 “AG-9” series, which realize high-resolution graphic rendering in general embedded systems equipped with a relatively cheap CPU. “AG10” was developed with the support of Intel Corporation as a Graphics LSI product intended for platforms for embedded systems equipped with Intel® Atom™ processors.

In contrast, sales of Graphics LSI products targeted at the embedded system market increased by approx. 40,000 units from the previous fiscal year to 90,000 units due in part to the completion of the inventory adjustment cycle for various embedded systems, especially industrial equipment, on the back of the increase in exports to emerging countries, etc.

As a result, sales generated from the embedded system market increased by 116 million yen, or 84%, to 254 million yen from the previous fiscal year.

(iii) Other

Other than the aforementioned products, the Company develops and sells development-support environments, etc. Sales of such development-support environments, etc. decreased by 5 million yen, or 6%, to 79 million yen from the previous fiscal year.

(Orders received and sales generated by product category)

(In millions of yen)

Product category	FY 2009 Outstanding orders	FY 2010 Orders received	FY 2010 Net sales	FY 2010 Outstanding orders
Amusement device market	2,606	7,309	7,864	2,051
Embedded system market	82	263	254	91
Other	2	81	79	4
Total	2,691	7,654	8,199	2,146

2) Capital investment

Capital investment in fiscal 2010 totaled 131 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 72 million yen, and software, etc. for design and development purposes amounting to 51 million yen, as well as an increase in assets due to new financial lease contracts amounting to 6 million yen.

3) Financing

All capital investments, etc. were financed by the Company's own funds in fiscal 2010.

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

The Company has established NEW ZONE CORPORATION, a wholly-owned subsidiary, effective December 1, 2010.

8) Other material information on current status of the Company

Filing of a lawsuit

Yamaha Corporation has filed a lawsuit against the Company effective April 14, 2010, for compensatory damages and product sale injunction, etc. for alleged infringement of Yamaha's patent rights.

(1) Location and date of filing of the lawsuit

Tokyo District Court: April 14, 2010 (complaint served on April 23, 2010)

(2) The party initiated the lawsuit

1) Trade name: Yamaha Corporation

2) Location: 10-1 Nakazawa-cho, Naka-ku, Hamamatsu, Shizuoka

3) Representative: President and Representative Director, Mitsuru Umemura

(3) Contents of the lawsuit and amount of claim

1) Contents of the lawsuit: Injunction demand, etc. for infringement of patent rights

2) Amount of claim: 550 million yen

(4) Prospect

The Company believes there is no such fact of infringement of Yamaha's patent rights alleged by Yamaha and will assert its legitimacy at the trial.

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

Category	FY 2007	FY 2008	FY 2009 (Note)	FY 2010
Orders received (million yen)	14,200	15,839	14,144	7,654
Net sales (million yen)	13,794	15,417	15,495	8,199
Ordinary income (million yen)	5,998	6,168	6,224	1,584
Net income (million yen)	3,629	3,800	3,840	1,043
Net income per share (yen)	28,993.53	30,387.47	309.72	84.15
Total assets (million yen)	14,049	13,960	15,850	13,332
Net assets (million yen)	10,770	11,734	13,562	12,501
Net assets per share (yen)	85,819.65	94,663.15	1,093.51	1,008.00

(Note) Effective July 1, 2009 (FY 2009), the Company split one common stock into 100 shares. Net income per share and net assets per share are calculated by hypothetically assuming that the stock split had been executed on the first day of the fiscal year.

(3) Subsidiaries

Company Name	Capital stock	AXELL's Share of Voting Rights	Principal Business
NEW ZONE CORPORATION	125 million yen	100.00 %	Development and sales of semiconductors and electronics

(Note) Effective December 1, 2010, the Company established a subsidiary.

(4) Issues to be Addressed

With respect to future economic conditions, domestic economic conditions continue to be unpredictable because of such factors as the effects of damage caused by the Great East Japan Earthquake would have on economic activities, in addition to downside risks to the economy, such as soaring crude oil prices and the termination of economic stimulus measures such as the eco-point scheme.

The Company happened to have suffered neither personal nor physical loss by the recent Earthquake. However, the overall amusement device market, which is positioned as the main market for the Company's business, is feared to suffer some impact in the aftermath of this disaster, in addition to the prolonged slowdown in the domestic economy, resulting in a continuous severe business environment for the Company.

In these circumstances, the Company will carry out the following countermeasures.

1) Approach to the amusement device market

In the amusement device market, which is the Company's principal market, there has conventionally been demand for high-resolution graphics adapted to larger LCD displays installed in amusement devices, improved codec functions to accommodate increasing graphics data volume, enhanced technologies for generating diverse visual effects aimed at enriching game-playing experience, advanced technologies in the development-support environment for customers, etc. In regards to the enlargement of LCD displays in amusement devices, the Company believes that there are certain limitations to further enlarging LCD displays—e.g., panel constraints—and that the trend towards higher resolution would settle at the current condition. On the other hand, the Company continues to receive requests from the market to develop technologies that would improve the compression rate so that higher picture quality and larger graphics data would not be reflected in graphic ROM (a recording medium that retains graphics information) costs, as well as new visual effects functions for enriched game-playing experience, in addition to preparing and improving development-support environment that would alleviate developers' burden. The Company therefore believes that future product development activities, etc. would be focused on these technological areas. Furthermore, the Company recognizes that the deployment of products with integrated functions that reduce customers' manufacturing costs and manufacturing burden would be highly important in its future product strategy. Having concentrated its management resources on the development and sales of LSI products to date, the Company also acknowledges that it will be necessary to consider the possibility of system solutions in the future.

For the purposes including the reduction of component procurement cost, amusement devices manufacturers are currently carrying out a full-scale re-use of amusement device components including the Company's products. As a result, demands for some of the Company's LSI products are showing a declining trend. Although the Company anticipates severe market environment in the future as such re-use is expected to continue to some extent, it intends to pursue stable business activities in the market by promoting its efforts described above comprehensively.

2) Approach to the embedded system market

The Company has been concentrating its efforts on the development of graphics-rendering LSI products for information and control displays of embedded systems. Due to the high-mix, low-volume production of many of the embedded systems equipped with the Company's Graphics LSI products, business expansion has not been attained in this market. Currently, control systems configuration in embedded systems can broadly be divided into those based on PC configuration and those only equipped with a relatively cheap CPU. The Company had conventionally engaged in sales activities to establish its business base in the market by releasing Graphics LSI products adapted to the latter configuration, named "AG-9" series. As part of such activities, the Company gathered information and found that the market had a high percentage of embedded systems based on the former configuration, some of which were manufactured on a larger scale than those based on the latter configuration. The Company carefully examined such information, and as a result, launched the development of a Graphics LSI product based on PC configuration that enabled the demonstration of its technological prowess, named "AG10", and launched its mass production and sale in fiscal 2010. The Company is also seeking to expand its business scale and accelerate the pace of such expansion through its collaboration—from the development stage of "AG10"—with Intel Corporation, which has a solid track record in this market and is aiming to expand its market share in the future. "AG10" is intended for POS terminals, ticket-vending machines and other devices with multiple screen display requirements.

On top of this, the Company has started working on the development of "AG11", a Graphics LSI product that is positioned as the successor to "AG10". Like "AG10", it is a Graphics LSI intended to be used in combination with Intel's CPUs, but is targeted at a wider range of embedded systems than "AG10". It is a product intended to be deployed on a global scale, including Asia, which is currently the driving force of the world economy. The Company intends to prepare a framework in consideration of overseas business development as well as promote the expansion of its business scale in such field.

3) Cultivation of new market areas (business fields) and launch of new business initiatives

The Company recognizes that being less dependent on certain markets, diversifying its business, and establishing a corporate structure that can withstand changes in the economic environment are important in realizing stable growth in the future. As such, the Company considers that it is vital to establish new businesses following the development and sales of various LSI products currently targeted at the amusement device market and the embedded system market. At present, the Company believes that many new business opportunities are emerging in Japan due to such factors as changes in the social environment and easing of various regulations. As a means of seizing such business opportunities and realizing the early flow from product development to commercialization, the Company established NEW ZONE CORPORATION as its wholly-owned subsidiary. At present, NEW ZONE CORPORATION is promoting product development in the field of Digital Convenience Radio (DCR) as its first project, and undertaking product development with an eye to the full spectrum from LSI to the digital convenience radio system. The Company is intent on improving the corporate value as AXELL Group while promoting such strategic activities and sequentially expanding the scope of technical contribution to society.

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

Being a fabless semiconductor manufacturer whose main business activities are R&D activities, 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 building a close relationship with patent attorneys and conducting in-house seminars on intellectual property rights for the purpose of improving the working efficiency of R&D staff. The Company is also preparing a framework at the organizational level by clarifying the divisions in charge of intellectual property rights in general. For the future, the Company intends to enhance collaboration among R&D staff, divisions that oversee intellectual property rights and the patent attorneys in order to further boost their effectiveness.

5) Efforts to further enhance the Company's internal management system

Nowadays, companies are required to establish a framework for financial reporting including the timely disclosure of corporate information and an internal control system encompassing all aspects of corporate management. Fiscal 2010 was the third year in which the Company was audited by an accounting auditor pursuant to the provisions of the Financial Instruments and Exchange Act, the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting, etc., with the auditor's assessment being expressed in the form of unqualified opinions. The Company acknowledges that the task of developing a framework as required in a timely manner will be a crucial issue, based on the view that the nature of internal control system that needs to be developed will vary with the company's size and the nature of its businesses.

(5) Principal Business (as of March 31, 2011)

The Company's primary business is the design and sale of semiconductor integrated circuits and printed circuit boards incorporating semiconductor integrated circuits.

The Company's main products are as described in "1. Overview of the Company (1) Business in FY 2010 1) Business Progress and Results".

(6) Principal Offices and Plants (as of March 31, 2011)

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

(7) Employees (as of March 31, 2011)

Number of employees	Increase from previous fiscal year-end	Average age	Average years of service
73 (10) persons	3 (2) persons	37.8 years old	5.1 years

(Note) Number of employees represent 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, 2011)

N/A

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

CSR activities

The Company acknowledges the social nature of a company, and based on the view it is an important duty for a company to engage in social contribution activities, it executes various CSR (Note) activities including the appropriate payment of taxes. In fiscal 2010, the Company made social contributions in a scale commensurate with its business performance, including making donations to the Environmental Restoration and Conservation Agency, the Japan Heart Foundation and the Japanese Foundation For Cancer Research, whose status has changed to the Public Interest Incorporated Foundation as of April 1, 2011. The Company also makes donations to regions struck by natural disasters, etc. via the Japanese Red Cross Society and other such organizations. In fiscal 2010, the Company made donations for the Great East Japan Earthquake and New Zealand Earthquake, etc.

Furthermore, the Company has reached an agreement with the University of Tsukuba to conduct an education program targeted at university students with the aim of training embedded systems engineers, and launched the program at the University in April 2009. In the education program, which is operated based on donations from the Company, education is provided by the

Company's engineers serving as lecturers. The Company hopes these efforts will lead to the training of engineers who will play a leading role in Japan in the future, and in turn, bring about further progress in embedded systems technologies, which Japan can boast to the world.

(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. Status of Shares (as of March 31, 2011)

- (1) **Total Number of Shares Authorized to be Issued** 23,112,000 shares
- (2) **Total Number of Shares Issued** 12,402,252 shares
- (3) **Number of Shareholders** 8,100 shareholders

(4) Major Shareholders

Name of shareholder	Number of shares held	Controlling share
Yuzuru Sasaki	1,255,900 shares	10.12%
BBH for Fidelity Low-Priced Stock Fund	809,500	6.52
Midoriya Electric Co., Ltd.	720,000	5.80
Sumihiko Ichihara	640,800	5.16
Takayuki Shibata	594,800	4.79
Tatsuaki Okumura	430,200	3.46
Kazuyoshi Moriya	414,400	3.34
Kazunori Matsuura	388,800	3.13
AVAL DATA CORPORATION	300,000	2.41
Internix Incorporated	222,000	1.78

(Note) The Company does not hold treasury stock.

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, 2011

1) Stock acquisition rights issued under special resolution of 10th Ordinary General Meeting of Shareholders held on June 18, 2005 (4th issue of stock acquisition rights)

- (i) Number of stock acquisition rights: 670
- (ii) Type and number of shares to be issued upon exercise of stock acquisition rights (Note): 67,000 shares of common stock
- (iii) Issue price of stock acquisition rights: Gratis
- (iv) Exercise price of stock acquisition rights (Note): 5,010 yen
- (v) Period of exercise of stock acquisition rights: From June 19, 2007 to June 18, 2011
- (vi) Terms of exercise of stock acquisition rights:
 - Stock acquisition rights shall not be exercised in part.
 - The acquiree of the stock acquisition rights are required to hold the position of officer or employee of the Company or an affiliate of the Company at the time such rights are exercised; provided, however, that this shall not apply to cases where the acquiree has retired at the expiration of his/her term of office, or the Board of Directors has exceptionally approved the survival of such rights.
 - The rights may not be transferred, pledged as collateral or otherwise disposed of in any manner.
 - Other terms of exercise of the rights shall be governed by the "Agreement on the Allotment of Stock Acquisition Rights" concluded between the Company and the person to whom stock acquisition rights are allotted.

(vii) Holdings of officers

	Number of stock acquisition rights	Number of shares to be issued upon exercise of rights (Note)	Number of holders
Directors (excluding Outside Directors)	140	14,000 shares	6

(Note) Both the number of shares to be issued upon exercise of stock acquisition rights and the exercise price of stock acquisition rights take into account the impact of stock split.

(2) Stock Acquisition Rights Issued to Employees, etc. during FY 2010

N/A

(3) Other Material Information on Stock Acquisition Rights, etc.

N/A

4. Company Officers

(1) Directors and Corporate Auditors (as of March 31, 2011)

Title	Name	Responsibilities & material concurrent positions
* President & Director	Yuzuru Sasaki	
Managing Director	Sumihiko Ichihara	
Director	Takayuki Shibata	
Director	Nobuhiro Sendai	General Manager of Management Department
Director	Kazunori Matsuura	General Manager of Engineering Department
Director	Akihiro Saito	General Manager of Sales & Marketing Department
Director	Masao Suzuki	President & Representative Director of Strategic Capital Partners, Co., Ltd.
Full-time Corporate Auditor	Yoshiki Yoshida	
Corporate Auditor	Katsuya Mitsumura	Certified Public Accountant & Tax Accountant
Corporate Auditor	Shigeo Igashima	Certified Public Accountant & Tax Accountant Outside Corporate Auditor of MTK Servicer Co., Ltd. Outside Corporate Auditor of Ejworks Corporation Outside Corporate Auditor of Lunascape Corporation

- (Note) 1. Asterisk indicates Representative Director.
2. Director Masao Suzuki is an Outside Director.
3. Full-time Corporate Auditor Yoshiki Yoshida, Corporate Auditor Katsuya Mitsumura and Corporate Auditor Shigeo Igashima are Outside Corporate Auditors.
4. Full-time Corporate Auditor Yoshiki Yoshida, Corporate Auditor Katsuya Mitsumura and Corporate Auditor Shigeo Igashima have considerable financial and accounting expertise as described below.
- 1) Full-time Corporate Auditor Yoshiki Yoshida has a total of 6 years of experience in closing procedures and the preparation and audit of financial statements at AVAL DATA CORPORATION as Managing Director and General Manager of Administration Division from June 1995 and full-time Corporate Auditor from June 1997, and therefore has considerable degree of financial and accounting expertise.
 - 2) Mr. Katsuya Mitsumura was elected as Corporate Auditor as a result of a comprehensive judgment made based mainly on his long years of experience as a certified public accountant and tax accountant and his knowledge of the management of business corporations.
 - 3) Mr. Shigeo Igashima was elected as Corporate Auditor as a result of a comprehensive judgment made based mainly on his long years of experience as a certified public accountant and tax accountant and his knowledge of the management of business corporations.
5. The Company has designated Director Masao Suzuki and full-time Corporate Auditor Yoshiki Yoshida as Independent Corporate Officers under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect.

(2) Total Amount of Remuneration, etc. for Directors and Corporate Auditors

Classification	Number of persons who received remuneration, etc.	Total amount of remuneration, etc.
Director (Outside Director)	7 persons (1 person)	155 million yen (4 million yen)
Corporate Auditor (Outside Corporate Auditor)	3 persons (3 persons)	14 million yen (14 million yen)
Total	10 persons	169 million yen

- (Note) 1. Total amount of remuneration, etc. of Directors does not include the portion of employee salary paid to Directors concurrently serving as employees.
2. At the 15th Ordinary General Meeting of Shareholders held on June 20, 2010, a resolution was adopted to limit the amount of remuneration of Directors to the sum of the fixed remuneration portion amounting to no more than 180 million yen per year, the inside and outside Director portion amounting to no more than 20 million yen per year (not including the employee salary portion), and the performance-linked remuneration portion (i.e., remuneration linked to the Company's performance) amounting to no more than 60 million yen per year.
3. At the Inaugural General Meeting of Shareholders held on January 30, 1996, a resolution was adopted to limit the amount of remuneration of Corporate Auditors to 20 million yen per year.

(3) 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	Masao Suzuki	Strategic Capital Partners, Co., Ltd.	President & Representative Director

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

2) Concurrent position held by outside officers 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
Corporate Auditor	Shigeo Igashima	MTK Servicer Co., Ltd. Ejworks Corporation Lunandscape Corporation	Outside Corporate Auditor Outside Corporate Auditor Outside Corporate Auditor

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

3) Main activities during FY 2010

Classification	Name	Main activities
Director	Masao Suzuki	Participated in 10 out of the 11 Board of Directors meetings held after his appointment on June 20, 2010 and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Full-time Corporate Auditor	Yoshiki Yoshida	Participated in all of the 15 Board of Directors meetings and in all of the 14 Board of Corporate Auditors meetings during FY 2010, and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Corporate Auditor	Katsuya Mitsumura	Participated in all of the 15 Board of Directors meetings and in all of the 14 Board of Corporate Auditors meetings during FY 2010, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.
Corporate Auditor	Shigeo Igashima	Participated in 13 out of the 15 Board of Directors meetings and in 13 out of the 14 Board of Corporate Auditors meetings during FY 2010, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.

(Note) 1. The number times the Board of Directors meetings had been held by written resolution was excluded.

2. The total number of the Board of Directors meeting for Director Masao Suzuki is different because he was elected at the 15th Ordinary General Meeting of Shareholders held on June 20, 2010.

4) 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 Outside Director and Outside Corporate Auditors 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.

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) 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 2010.

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

N/A

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

The Company's policy is to dismiss the accounting auditor if the Board of Corporate Auditors determines that the accounting auditor falls into any of the situations set forth in the items of Article 340, Paragraph 1 of the Companies Act.

It is also the Company's policy to determine whether or not to reappoint the accounting auditor in consideration of such factors as the number of years the accounting auditor has continually conducted audits.

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

N/A

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

The Board of Directors of the Company has passed a resolution on “systems to ensure the properness of operations” set forth in the Companies Act and the Ordinance for Enforcement of the Companies Act, as summarized below.

(1) Systems to ensure that Directors and employees comply with laws, regulations and the Articles of Incorporation in the execution of their duties

(Article 362, Paragraph 4, Item 6 of the Companies Act; Article 100, Paragraph 1, Item 4 of the Ordinance for Enforcement of the Companies Act)

- 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. Furthermore, the Directors comprising the Board of Directors shall prevent conduct that are in violation of laws, regulations, or the Articles of Incorporation through the mutual confirmation of the execution of duties, as well as through check and balance.
- 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.

(2) Systems concerning storage and management of information on the execution of duties by Directors

(Article 100, Paragraph 1, Item 1 of the Ordinance for Enforcement of the Companies Act)

- 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

(Article 100, Paragraph 1, Item 2 of the Ordinance for Enforcement of the Companies Act)

- 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 GM Meeting (Note) and the Board of Directors.
- 3) Company-wide measures for responding to large-scale disasters and the like shall be considered from the perspective of business continuity plans.

(Note) GM Meetings are meetings held periodically by the President, Business Execution Directors, General

Managers of Groups and respective leaders of teams in Groups.

(4) Systems to ensure the efficient execution of duties by Directors

(Article 100, Paragraph 1, Item 3 of the Ordinance for Enforcement of the Companies Act)

- 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 Outside Corporate Auditors and 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) For the purpose of sharing various information on material facts concerning corporate management, the Company stipulates the participation of all Directors in the GM meetings as a general rule, in addition to requiring the circulation of all requests for final decision among all Directors for approval.
- 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

(Article 100, Paragraph 1, Item 5 of the Ordinance for Enforcement of the Companies Act)

- 1) The Company shall establish the Corporate Philosophy and the Code of Conduct of the corporate group necessary to ensure the properness of business operations in the corporate group consisting of the Company and its subsidiaries. The subsidiaries shall be monitored and audited by the Company's Corporate Auditors and also subject to internal audit by Internal Control Affairs of the Company.
- 2) The Company shall establish regulations regarding management of subsidiaries, and important business execution of subsidiaries shall be subject to prior approval of the Company's Board of Directors. Furthermore, the subsidiaries shall report monthly status of business execution to the Company's Board of Directors.

(6) Matters concerning employees to be posted as assistants to Auditor(s) for the execution of audit duties and matters concerning the independence of said employees from Directors

(Article 100, Paragraph 3, Items 1 and 2 of the Ordinance for Enforcement of the Companies Act)

- 1) The Company shall appoint appropriate assistants to Corporate Auditors, should Corporate Auditors request the appointment of employees to assist with their duties.
- 2) In order to ensure the independence of assistants to Corporate Auditors, the Company shall respect the opinions of the Board of Corporate Auditors in making decisions on various matters relating to said independence, such as the appointment and dismissal of employees assisting such Auditors.

(7) Systems for Directors and employees to report to the Board of Corporate Auditors and other systems concerning reports to Corporate Auditors

(Article 100, Paragraph 3, Item 3 of the Ordinance for Enforcement of the Companies Act)

- 1) Corporate Auditors shall receive reports from the Directors 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) Corporate Auditors shall attend the Board of Directors meetings in order to obtain the aforementioned information in an appropriate manner. The full-time Corporate Auditor shall attend internal meetings of high managerial significance, in addition to inspecting such important documents as requests for final decision.

(8) Other systems to ensure the effectiveness of auditing by Corporate Auditors

(Article 100, Paragraph 3, Item 4 of the Ordinance for Enforcement of the Companies Act)

- 1) Directors shall endeavor to improve the environment for audits by Corporate Auditors in recognition of the importance thereof to the Directors and employees.
- 2) The Company shall ensure a system that allows Corporate Auditors to collect the necessary information by regularly organizing meetings with Corporate Auditors 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.

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

The Company recognizes that returning profits to shareholders is an important management task.

The Company's basic policy is to use the amount of dividends according to financial performance based on dividend payout ratio as a general rule (target dividend payout ratio: 50%) as the basis of calculation, while proactively considering stable dividends with reference to actual dividends paid in the past for the portion exceeding internal reserves (generally three years of selling, general and administrative expenses) deemed necessary in consideration of future business plans, among other things.

8. Basic Policy regarding the Company's Control

Based on the following policy, the Company has not adopted generally employed anti-takeover measures.

The Company believes that it should desirably be controlled by entities that support its Corporate Philosophy. The policy of the Company is to consider necessary and appropriate measures to protect the Company's Corporate Philosophy, as well as the interests of its shareholders and other stakeholders, should an entity deemed inappropriate in view of its Corporate Philosophy express the intent to acquire control thereof.

Non-consolidated Balance Sheet

(As of March 31, 2011)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
I. Current assets		I. Current liabilities	
1. Cash and deposits	6,428	1. Accounts payable–trade	429
2. Accounts receivable–trade	853	2. Lease obligations	1
3. Short-term investment securities	3,999	3. Accounts payable–other	312
4. Merchandise and finished goods	206	4. Accrued expenses	26
5. Raw materials and supplies	0	5. Deposits received	49
6. Advance payments–trade	0	Total current liabilities	819
7. Prepaid expenses	47	I. Noncurrent liabilities	
8. Income taxes receivable	682	1. Lease obligations	4
9. Consumption taxes receivable	153	2. Asset retirement obligations	7
10. Deferred tax assets	19	Total noncurrent liabilities	11
11. Other	8	Total liabilities	831
Total current assets	12,398	(Net assets)	
II. Noncurrent assets		I. Shareholders' equity	
1. Property, plant and equipment		1. Capital stock	1,018
(1) Buildings	61	2. Capital surplus	
(2) Tools, furniture and fixtures	151	Legal capital surplus	861
(3) Lease assets	5	Total capital surpluses	861
Total property, plant and equipment	217	3. Retained earnings	
2. Intangible assets		(1) Legal retained earnings	1
(1) Patent right	24	(2) Other retained earnings	
(2) Right of trademark	2	General reserve	9,000
(3) Software	124	Retained earnings brought forward	1,595
Total intangible assets	152	Total retained earnings	10,596
3. Investments and other assets		Total shareholders' equity	12,477
(1) Investment securities	107	II. Valuation and translation adjustments	
(2) Stocks of subsidiaries and affiliates	250	Valuation difference on available-for-sale securities	24
(3) Long–term prepaid expenses	53	Total valuation and translation adjustments	24
(4) Lease and guarantee deposits	95		
(5) Deferred tax assets	37		
(6) Other	20		
Total investment and other assets	564		
Total noncurrent assets	934	Total net assets	12,501
Total assets	13,332	Total liabilities and net assets	13,332

Non-consolidated Statement of Income

(From April 1, 2010 to March 31, 2011)

(In millions of yen)

Description	Amount	
I. Net sales		8,199
II. Cost of sales		3,742
Gross profit		4,456
III. Selling, general and administrative expenses		2,888
Operating income		1,568
IV. Non-operating income		
Interest income	4	
Interest on securities	4	
Dividends income	2	
Gain on disposal of unpaid dividend	1	
Miscellaneous income	3	16
V. Non-operating expenses		
Stock issuance cost	0	
Loss on retirement of noncurrent assets	0	0
Ordinary income		1,584
VI. Extraordinary loss		
Loss on adjustment for changes of accounting standard for asset retirement obligations	1	1
Income before income taxes		1,582
Income taxes—current	481	
Income taxes—deferred	57	539
Net income		1,043

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2010 to March 31, 2011)

(In millions of yen)

Shareholders' equity	
Capital stock	
Balance at the end of previous period	1,018
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	1,018
Capital surplus	
Legal capital surplus	
Balance at the end of previous period	861
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	861
Total capital surplus	
Balance at the end of previous period	861
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	861
Retained earnings	
Legal retained earnings	
Balance at the end of previous period	1
Changes of items during the period	
Total changes of items during the period	-
Balance at the end of current period	1
Other retained earnings	
General reserve	
Balance at the end of previous period	8,500
Changes of items during the period	
Provision of general reserve	500
Total changes of items during the period	500
Balance at the end of current period	9,000
Retained earnings brought forward	
Balance at the end of previous period	3,761
Changes of items during the period	
Provision of general reserve	(500)
Dividends from surplus	(2,108)
Net income	1,043
Retirement of treasury stock	(600)
Total changes of items during the period	(2,165)
Balance at the end of current period	1,595

(In millions of yen)

Total retained earnings	
Balance at the end of previous period	12,262
Changes of items during the period	
Provision of general reserve	—
Dividends from surplus	(2,108)
Net income	1,043
Retirement of treasury stock	(600)
Total changes of items during the period	<u>(1,665)</u>
Balance at the end of current period	<u>10,596</u>
Treasury stock	
Balance at the end of previous period	(600)
Changes of items during the period	
Retirement of treasury stock	600
Total changes of items during the period	<u>600</u>
Balance at the end of current period	<u>—</u>
Total shareholders' equity	
Balance at the end of previous period	13,541
Changes of items during the period	
Dividends from surplus	(2,108)
Net income	1,043
Retirement of treasury stock	—
Total changes of items during the period	<u>(1,064)</u>
Balance at the end of current period	<u>12,477</u>
Valuation and translation adjustments	
Valuation difference on available-for-sale securities	
Balance at the end of previous period	20
Changes of items during the period	
Net changes of items other than shareholders' equity	4
Total changes of items during the period	<u>4</u>
Balance at the end of current period	<u>24</u>
Total valuation and translation adjustments	
Balance at the end of previous period	20
Changes of items during the period	
Net changes of items other than shareholders' equity	4
Total changes of items during the period	<u>4</u>
Balance at the end of current period	<u>24</u>
Total net assets	
Balance at the end of previous period	13,562
Changes of items during the period	
Dividends from surplus	(2,108)
Net income	1,043
Net changes of items other than shareholders' equity	4
Total changes of items during the period	<u>(1,060)</u>
Balance at the end of current period	<u>12,501</u>

Notes to Non-consolidated Financial Statements

1. Notes on significant accounting policies

(1) Valuation standards and valuation methods of assets

1) Valuation standards and valuation methods of securities

- Stocks of subsidiaries and affiliates

Stated at cost using the moving average method.

- Other securities

Other 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.

Other securities without market value

Stated at cost using the moving average method.

2) Valuation standards and valuation methods of inventories

- 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).

- 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).

(2) Depreciation method of noncurrent assets

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

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

The useful lives of the assets are as follows:

Buildings: 3-15 yrs

Tools, furniture and fixtures: 2-20 yrs

2) Intangible assets (excluding lease 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) Lease assets

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

(3) Accounting of deferred tax assets

Stock issuance cost: Recognized in full at time of expenditure.

(4) Accounting of consumption taxes

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

(5) Changes in accounting policies

(Application of Accounting Standard for Asset Retirement Obligations)

From this fiscal year onwards, "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008) were applied.

In line with the application, operating income and ordinary income decreased by 0 million yen, respectively, and income before income taxes of this fiscal year decreased by 1 million yen.

2. Notes to non-consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: 606 million yen

(2) Monetary claims/liabilities regarding affiliates is as follows

Monetary claims: 0 million yen

3. Notes to non-consolidated statement of income

(1) Total amount of research and development expenditures: 1,767 million yen

(2) Amount of transaction with affiliates

Amount of transaction other than business transaction: 1 million yen

4. Notes to non-consolidated statement of change in net assets

(1) 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	12,570,000	—	167,748	12,402,252

The decrease in the total number of shares issued is 167,748 shares attributable to the retirement of treasury stock effective September 30, 2010.

(2) Number of treasury stock

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	167,748	—	167,748	—

The decrease in the number of treasury stock is 167,748 shares attributable to the retirement of treasury stock effective September 30, 2010.

(3) Matters pertaining to dividends from surplus

1) Dividend payout amounts

Matters pertaining to dividends based on resolution of 15th Ordinary General Shareholders' Meeting

held on June 20, 2010

- Total amount of dividends 1,116 million yen
- Dividend per share 90 yen
- Record date March 31, 2010
- Effective date June 21, 2010

Matters pertaining to dividends based on resolution of Board of Directors meeting held on October 25, 2010

- Total amount of dividends 992 million yen
- Dividend per share 80 yen
- Record date September 30, 2010
- Effective date November 19, 2010

2) Payout amount of dividends with reference date in FY 2010 but effective date in FY 2011

The following will be proposed at the 16th Ordinary General Shareholders' Meeting to be held on June 19, 2011.

- Total amount of dividends 992 million yen
- Dividend per share 80 yen
- Record date March 31, 2011
- Effective date June 20, 2011

(4) Matters pertaining stock acquisition rights as at March 31, 2011

	Stock acquisition rights resolved at the Ordinary General Shareholders' Meeting held on June 18, 2005
Type of shares to be issued upon exercise	Common stock
Number of shares to be issued upon exercise	67,000 shares

5. Notes on tax effect accounting

Deferred tax assets

Depreciation in excess of deductible amount	29 million yen
One-time depreciation of assets in excess of deductible amount	4 million yen
Non-deductible accrued business office tax	0 million yen
Allowance for bonuses in excess of tax limit	2 million yen
Experiment and research expenses, currently not deductible	61 million yen
Other	<u>24 million yen</u>

Total deferred tax assets 122 million yen

Deferred tax liabilities

Enterprise tax receivable	(46 million yen)
Unrealized gains (losses) on other securities	(16 million yen)
Other	<u>(2 million yen)</u>
Total deferred tax liabilities	(65 million yen)
Net deferred tax assets	<u>57 million yen</u>

6. Notes on financial instruments

(1) Matters concerning 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 not to engage in risky speculative transactions such as derivative 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.

Short-term investment securities consist of treasury discount bills purchased by using funds regarded as temporary surplus funds out of bank deposits, etc. currently held by the Company. It is the Company's policy 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 are exposed to risks of fluctuations in market price.

3) Risk management system 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 for managing such receivables. The Administration Group is in charge of conducting a credit check of new counterparties upon the commencement of transactions. In conjunction with periodic checks conducted by the Administration Group, the Sales Group manages receivables from counterparties in ongoing transactions by confirming the 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 short-term investment securities are all in the form of highly secure treasury

discount bills, with negligible credit risk.

The maximum amount of credit risk as of March 31, 2011 is shown as the amount of financial assets exposed to credit risks in the balance sheet.

▪ **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. 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 making the Financial Affairs Team and the Accounting Team jointly confirm 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 concerning 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

Specific large-lot customers accounted for 96% of operating receivables as of March 31, 2011.

(2) Matters concerning market value, etc. of financial instruments

The amount declared in the balance sheet, market value and the difference between the two as of March 31, 2011 are as follows. Please note that it does not include financial instruments, etc. in cases where identification of market value was deemed extremely difficult. (Refer to [Note 2])

	Balance sheet amount (million yen)	Market value (million yen)	Difference (million yen)
1) Cash and deposits	6,428	6,428	—
2) Accounts receivable-trade	853	853	—
3) Short-term investment securities			
Other securities	3,999	3,999	—
4) Income taxes receivable	682	682	—
5) Investment securities			
Other securities	107	107	—
Total assets	12,070	12,070	—

* The Company does not perform any derivative transactions.

(Note 1) Calculation method of market value of financial instruments and matters concerning Short-term investment 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

Accounts receivable-trade at the Company are generally settled in a one-month period, and their market value is deemed to be approximately the same as the book value, in consideration of credit risk management being executed; therefore, the book value is stated.

3) Short-term investment securities and 5) Investment securities

The Company's short-term investment securities are all in the form of treasury discount bills, and in consideration of the risks and other such factors, the market value is stated at the price presented by the corresponding financial institution. The market value of investment securities is stated at the price quoted on the stock exchange or other relevant market.

Notes on securities by holding purpose are as follows. No investment securities were sold during fiscal 2010.

4) Income taxes receivable

As income taxes receivable are settled in a short period of time, the market value in consideration of the Company's status of funds and other such factors is deemed to be approximately the same as the book value; therefore, the book value is stated.

Other securities

	Type	Balance sheet amount (million yen)	Acquisition cost (million yen)	Difference (million yen)
Other securities whose amounts recorded on the balance sheet exceed their acquisition costs	(1) Stocks	107	66	41
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	—	—	—
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	107	66	41
Other securities whose amounts recorded on the balance sheet do not exceed their acquisition costs	(1) Stocks	—	—	—
	(2) Bonds and debentures			
	1) JGBs, municipal bonds, etc.	3,999	3,999	(0)
	2) Corporate debentures	—	—	—
	3) Others	—	—	—
	(3) Others	—	—	—
	Subtotal	3,999	3,999	(0)
	Total	4,106	4,065	40

(Note 2) Financial instruments whose market value is deemed extremely difficult to capture

Category	Balance sheet amount (million yen)
Stocks of subsidiaries and affiliates	250

Stocks of subsidiaries and affiliates are not subject to the disclosure of market value because there is no market price and it is deemed extremely difficult to capture their market value.

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

	Within 1 yr (million yen)	Over 1 yr, within 5 yrs (million yen)	Over 5 yrs, within 10 years (million yen)	Over 10 yrs (million yen)
Cash and deposits	6,427	—	—	—
Accounts receivable-trade	853	—	—	—
Short-term investment securities and investment securities		—	—	—
Other securities with maturity	4,000	—	—	—
Income taxes receivable	682	—	—	—
Total	11,963	—	—	—

7. Notes on asset retirement obligations

Of asset retirement obligations, those recorded on the balance sheet

(1) Outline of asset retirement obligations

Obligations to restore the building to its original condition under the building lease contract for the head office.

(2) Method used to calculate the amount of asset retirement obligations

With the period of use estimated to be 50 years, the discount rate of 2.301% is applied to calculate the amount of asset retirement obligations.

(3) Change in total asset retirement obligations during fiscal 2010

Balance at the beginning of year (Note)	7 million yen
Increase due to the purchase of property, plant and equipment	— million yen
Adjustment due to passage of time	<u>0 million yen</u>
Balance at the end of year	<u>7 million yen</u>

(Note) Since the “Accounting Standards for Asset Retirement Obligations” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standards for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008) have been applied from fiscal 2010 onwards, the balance at the beginning of year is stated.

8. Notes on equity in earnings (losses) of non-consolidated subsidiaries and affiliates

Description is omitted because the information only refers to the non-consolidated subsidiary which is deemed to be immaterial under the income and retained earnings standards.

9. Notes on transactions with related parties

Description is omitted due to its insignificance.

10. Notes on per share information

(1) Net assets per share	1,008.00 yen
(2) Net income per share	84.15 yen

11. Notes on major subsequent events

N/A

12. Notes on company subject to consolidated dividend restriction

N/A

13. Other notes

N/A

Report of Independent Auditor

April 28, 2011

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC

Certified Public Accountant		
Designated Limited Liability Partner	Tomofumi Watanabe	[Seal]
Engagement Partner		
Certified Public Accountant		
Designated Limited Liability Partner	Yuji Anzai	[Seal]
Engagement Partner		
Certified Public Accountant		
Designated Limited Liability Partner	Toru Iizuka	[Seal]
Engagement Partner		

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 sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, the notes to the non-consolidated financial statements and the related supplementary schedules of AXELL CORPORATION (the "Company") applicable to fiscal 2010, from April 1, 2010 to March 31, 2011. Responsibility for preparing these financial statements and the related supplementary schedules lies with the Company's management. Our responsibility is to express an opinion on these financial statements and the related supplementary schedules from an independent standpoint.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require that we obtain reasonable assurance about whether the non-consolidated financial statements and the related supplementary schedules are free of material misstatement. The audit was conducted on a test basis, including assessing the accounting policies and their implementation methods adopted by the management and estimates made by the management, as well as examining the overall presentation of the non-consolidated financial statements and the related supplementary schedules. We believe that the audit results have provided us with a reasonable basis for expressing our opinion.

In our opinion, the non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and operating results of the Company for fiscal 2010 in conformity with corporate accounting standards generally accepted in Japan.

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 Board of Corporate Auditors, upon deliberation, prepared this audit report regarding the Directors' execution of their duties during fiscal 2010, from April 1, 2010 to March 31, 2011, based on the audit reports prepared by each Corporate Auditor and hereby reports as follows:

1. Auditing Method Employed by Corporate Auditors and the Board of Corporate Auditors and Details Thereof

The Board of Corporate Auditors established audit policies, audit plans, etc. and received reports from all the Corporate Auditors regarding the execution of audits and the results thereof. In addition, we received reports, and explanations as necessary, from Directors, etc. and the Accounting Auditor regarding the execution of their duties.

In accordance with the audit policies, audit plans, etc. established by the Board of Corporate Auditors, we attended the Board of Directors' meetings and other important meetings, received reports from the Directors, the internal auditing division and other employees, etc. regarding the execution of their duties, inspected documents related to important decisions, and examined the operations and assets at the Company's head office.

Furthermore, with respect to the resolution of the Board of Directors concerning the development of the system to ensure the compliance of Directors with laws, regulations and the Articles of Incorporation in the execution of their duties and other systems required to ensure the properness of the operations of joint stock company (kabushiki-kaisha) as stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act, as well as the system (internal control system) developed based on the resolution of the Board of Directors, we received regular reports regarding the status of formulation and operation from the Directors and other employees, sought explanations as necessary, and expressed opinion thereon.

We additionally verified internal controls over financial reporting under the Financial Instruments and Exchange Act from the Corporate Auditors' standpoint. Based on the foregoing methods, we examined the Business Report and the related supplementary schedules for fiscal 2010.

Moreover, we monitored and verified whether the Accounting Auditor had maintained its independence and conducted audits appropriately, and received reports, and sought explanations as necessary, from the Accounting Auditor regarding the execution of its duties, based on which we examined the non-consolidated financial statements (the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets, and the notes to the non-consolidated financial statements) and the related supplementary schedules for fiscal 2010.

The Board of Corporate Auditors received notification from the Accounting Auditor to the effect that "systems for ensuring appropriate execution of duties" (matters listed in each item of Article 131 of the Ordinance on Accounting of Companies) has been established in accordance with "Quality Control Standards for Auditing" (dated October 28, 2005 by Business Accounting Council), etc.

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. Furthermore, there are no particular matters to add as Corporate Auditors regarding the internal controls over financial reporting.
4. No matters requiring note on our part were found with respect to the basic policies on the composition of person to control decision making over financial and business policies of the Company stated in the Business Report.

(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.

April 28, 2011

Board of Corporate Auditors
AXELL CORPORATION

Full time & Outside Corporate Auditor	Yoshiki Yoshida
Outside Corporate Auditor	Katsuya Mitsumura
Outside Corporate Auditor	Shigeo Igashima

Proposal No. 2: Election of One Corporate Auditor

The term of office of Corporate Auditor Yoshiki Yoshida will have expired at the close of this General Meeting of Shareholders. We therefore propose that one Corporate Auditor be elected.

The candidate for the position of Corporate Auditor is as follows.

The Board of Corporate Auditors has previously given its approval.

Name (Date of birth)	Past experience and positions in the Company (major concurrent positions)		Number of shares of the Company held
Yoshiki Yoshida (Sep. 24, 1937)	April 1962	Joined NIKON CORPORATION	9,000 shares
	June 1995	Managing Director and General Manager of Administration Division, AVAL DATA CORPORATION	
	June 1997	Full-time Corporate Auditor of AVAL DATA CORPORATION	
	February 2001	Full-time Corporate Auditor of AXELL CORPORATION (to present)	

- (Notes)
1. The candidate for Corporate Auditor has no special interest in the Company.
 2. Mr. Yoshiki Yoshida is a candidate for Outside Corporate Auditor. The Company has designated Mr. Yoshiki Yoshida as Independent Corporate Officer under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect.
 3. Mr. Yoshiki Yoshida is selected as candidate for Outside Corporate Auditor because he has a total of 6 years of experience in closing procedures and the preparation and audit of financial statements at AVAL DATA CORPORATION as Managing Director and General Manager of Administration Division from June 1995 and full-time Corporate Auditor from June 1997, and therefore has considerable degree of financial and accounting expertise. In addition, he is selected based on the judgment that he would be able to reflect his extensive experience and knowledge concerning the electrical machinery industry, to which the Company belongs, as well as his experience as a full-time Corporate Auditor in the industry in auditing the Company.
 4. Mr. Yoshiki Yoshida is currently the Outside Corporate Auditor of the Company, and his term of office as Outside Corporate Auditor will be 10 years and 4 months at the close of this Ordinary General Meeting of Shareholders.
 5. Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded an agreement with Mr. Yoshiki Yoshida to limit his 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 each item of Article 425, Paragraph 1 of the Companies Act. In the event that he is reelected, the Company plans to continue the Liability Limitation Agreement with him.