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(Securities Code: 6730)
May 21, 2018

To Shareholders with Voting Rights:

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

NOTICE OF THE 23RD ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

You are cordially invited to attend the 23rd 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 16, 2018
- 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 2017 (from April 1, 2017 to March 31, 2018)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
- Proposal No. 2:** Partial Amendments to the Articles of Incorporation
- Proposal No. 3:** Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
- Proposal No. 4:** Election of Four 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 adequate internal reserves are 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.

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 18, 2018

Proposal No. 2: Partial Amendments to the Articles of Incorporation

1. Reason for proposal

In order to prepare for future business diversification and make business purpose reflect the current situation, necessary amendments will be made to Article 2 (Purpose) of the existing Articles of Incorporation.

2. Description of amendments

The description of the amendments is as follows.

(The amended sections are underlined.)

Existing Articles of Incorporation	Proposed Amendments
<p>CHAPTER I GENERAL PROVISIONS</p> <p>Article 2. (Purpose)</p> <p>The purpose of the Company shall be to engage in the following businesses:</p> <p>(1) Design, manufacture, and sales of semiconductor integrated circuits and printed circuit boards with embedded semiconductor integrated circuits;</p> <p>(2) <u>Design, manufacture, and sales of game consoles;</u></p> <p>(3) <u>Design, manufacture, and sales of office equipment;</u></p> <p>(Transferred from Item 5)</p> <p>(Newly established)</p> <p>(Newly established)</p> <p>(4) Various informational services using the Internet;</p> <p>(5) Development and sales of <u>compression and decompression</u> technologies relating to graphics and sound;</p> <p>(6) Development and sales of software;</p> <p>(Newly established)</p> <p>(Newly established)</p> <p>(7) All businesses incidental to any of the foregoing.</p>	<p>CHAPTER I GENERAL PROVISIONS</p> <p>Article 2. (Purpose)</p> <p>The purpose of the Company shall be to engage in the following businesses:</p> <p>(1) (Unchanged)</p> <p>(Deleted)</p> <p>(Deleted)</p> <p>(2) <u>Research, development, and sales of elemental technologies relating to graphics, sound, machine learning, etc.;</u></p> <p>(3) <u>Research, development, and sales of elemental technologies relating to information securities;</u></p> <p>(4) <u>Research, development, and sales of elemental technologies relating to blockchain;</u></p> <p>(5) (Unchanged)</p> <p>(Transferred to Item 2)</p> <p>(6) (Unchanged)</p> <p>(7) <u>Design, manufacture, and sales of applied equipment relating to any of the foregoing;</u></p> <p>(8) <u>Secondhand Articles trading business; and</u></p> <p>(9) (Unchanged)</p>

(Note) No amendments are made to clauses not shown above.

Proposal No. 3: 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 three out of four incumbent Directors (excluding Directors serving as Audit and Supervisory Committee Members) are reelected and one Director (excluding Director serving as Audit and Supervisory Committee Member) is newly 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
1	Kazunori Matsuura (Jan. 25, 1970 48 years old) Reappointment	<p>April 1994 Joined Nippon Steel Corp. (current NIPPON STEEL & SUMITOMO METAL CORPORATION)</p> <p>April 1998 Joined the Company</p> <p>April 2004 Appointed to Senior Manager of Engineering Department of the Company</p> <p>June 2006 Appointed to Director & Assistant General Manager of Engineering Department of the Company</p> <p>June 2010 Appointed to Director & General Manager of Engineering Department of the Company</p> <p>June 2012 Appointed to President & Representative Director of the Company (to present)</p> <p>April 2014 Visiting Professor of University of Tsukuba (to present)</p>	388,800 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. 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 & 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
2	Akihiro Saito (Aug. 4, 1966 51 years old) Reappointment	<p>April 1989 Joined Nippon Steel Corp. (current NIPPON STEEL & 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 & Marketing Department of the Company</p> <p>June 2006 Appointed to Director & Assistant General Manager of Sales & Marketing Department of the Company</p> <p>June 2010 Appointed to Director & General Manager of Sales & Marketing Department of the Company</p> <p>June 2012 Appointed to Executive Vice President & Representative Director, General Manager of Sales & 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 & 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	Koji Kanie (Sep. 30, 1976 41 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
	<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) 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).</p>			
4	Kazuki Kyakuno (Dec. 12, 1983 34 years old) New appointment	April 2006 March 2011 April 2013 April 2014	Joined the Company Completed Doctoral Program of Graduate School of Systems and Information Engineering of University of Tsukuba (Ph.D. in Engineering) Appointed to Senior Manager of Engineering Department of the Company (to present) Visiting Associate Professor of University of Tsukuba (to present)	1,100 shares
	<p>■ Record of attendance at Board of Directors meetings —</p> <p>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Kazuki Kyakuno 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, has consistently been involved in research and development of proprietary technologies as differentiators of the Company's LSI products, and is currently leading research and development divisions. He can be expected to play a leading role in business promotion in future new business fields. In addition, 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).</p>			

- (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.

Proposal No. 4: Election of Four Directors Serving as Audit and Supervisory Committee Members

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

We therefore propose that three out of four incumbent Directors serving as Audit and Supervisory Committee Members are reelected and one Director serving as Audit and Supervisory Committee Member is newly elected.

The Audit and Supervisory Committee has previously given its approval on this Proposal.

The candidates for the positions of Director serving as Audit and Supervisory Committee Member 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
1	Katsuya Mitsumura (Jun. 18, 1951 66 years old) Reappointment Outsider Independent	<p>April 1974 Joined Showa Audit Corporation (current Ernst & Young ShinNihon LLC)</p> <p>March 1977 Registered as a Certified Public Accountant</p> <p>January 1982 Established Katsuya Mitsumura C.P.A. and Tax Accountant Office (to present)</p> <p>June 2008 Appointed to Audit & Supervisory Board Member of the Company</p> <p>June 2016 Appointed to Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>October 2016 Appointed to Outside Director of INABA SEISAKUSHO Co., Ltd. (to present)</p> <p>December 2017 Appointed to Outside Corporate Auditor of Mt. Fuji Springs Inc. (to present)</p>	0 shares
<p>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</p> <p>■ Record of attendance at Audit and Supervisory Committee meetings 100% (15 out of 15)</p> <p>■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member</p> <p>Although Mr. Katsuya Mitsumura has not previously been involved in corporate management other than as an Outside Executive, he possesses specialized knowledge and abundant experiences, etc., regarding finance and accounting as a certified public accountant and tax accountant, and by reflecting his experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside 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
2	Masao Suzuki (Feb. 9, 1953 65 years old) Reappointment Outsider Independent	<p>April 1975 Joined Heiwa Sogo Bank, K.K. (current Sumitomo Mitsui Banking Corporation)</p> <p>November 1981 Joined Yamaichi Securities Co., Ltd.</p> <p>November 1993 Joined Goldman Sachs (Japan) Ltd. Appointed to Vice president of Corporate Dept. of Investment Banking Division</p> <p>February 2000 Established Strategic Capital Partners, Co., Ltd. Appointed to Representative Director (to present)</p> <p>June 2010 Appointed to Director of the Company</p> <p>June 2016 Appointed to Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>November 2016 Appointed to Corporate Auditor of Risseisha Inc. (to present)</p> <p>March 2017 Appointed to President and Representative Director of Ken Real Estate Investment Advisors Ltd. (to present)</p> <p>June 2017 Appointed to President and Representative Director of Shibuya Television Co., Ltd. (to present)</p>	100 shares
<p>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</p> <p>■ Record of attendance at Audit and Supervisory Committee meetings 100% (15 out of 15)</p> <p>■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member Mr. Masao Suzuki has a wealth of operational experience at numerous companies and has a wealth of experience and wide knowledge, etc., as a manager, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside 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	Shigeo Igashima (Dec. 12, 1963 54 years old) Reappointment Outsider Independent	<p>October 1990 Joined Chuo Shinko Audit Corporation</p> <p>August 1995 Registered as a Certified Public Accountant</p> <p>January 1997 Joined Yano Seisakusho Co., Ltd.</p> <p>March 2003 Seconded to Yano Electronics (Thailand) Ltd. Appointed to Executive Vice President and Representative Director</p> <p>April 2004 Returned to Yano Seisakusho Co., Ltd.</p> <p>September 2004 Appointed to Representative of Igashima C.P.A. Office (to present)</p> <p>June 2005 Appointed to Corporate Auditor of MTK Servicer Co., Ltd.</p> <p>June 2008 Appointed to Audit & Supervisory Board Member of the Company</p> <p>Appointed to Corporate Auditor of ejworks corporation</p> <p>Appointed to Corporate Auditor of Lunascape Corporation</p> <p>December 2011 Appointed to Standing Auditor of TAIYO BUSSAN KAISHA, LTD.</p> <p>June 2012 Appointed to Outside Corporate Auditor of Shintokyo Group Co., Ltd. (to present)</p> <p>October 2015 Appointed to President and Representative Director of Cluster Accounting Co., Ltd. (to present)</p> <p>June 2016 Appointed to Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>December 2017 Appointed to Outside Director of TAIYO BUSSAN KAISHA, LTD. (to present)</p>	0 shares
<p>■ Record of attendance at Board of Directors meetings 100% (14 out of 14)</p> <p>■ Record of attendance at Audit and Supervisory Committee meetings 100% (15 out of 15)</p> <p>■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member In addition to specialized knowledge and abundant experiences, etc., regarding finance and accounting as a certified public accountant and tax accountant, Mr. Shigeo Igashima possesses views regarding corporate management, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member.</p>			

No.	Name (Date of birth)	Past experience and major concurrent positions	Number of shares of the Company held
	Teiichiro Nishizaka (Jan. 28, 1958 60 years old) New appointment Outsider Independent	<p>April 1982 Joined NEC Corporation</p> <p>January 2005 Appointed to General Manager of System Memory Business Division of NEC Electronics Corporation</p> <p>May 2007 Appointed to General Manager of Advanced ASIC Business Division of NEC Electronics Corporation</p> <p>July 2008 Appointed to General Manager of System ASIC Business Division of NEC Electronics Corporation</p> <p>April 2010 Appointed to General Manager of Imaging Device Business Division of Renesas Electronics Corporation</p> <p>October 2011 Appointed to General Manager of 2nd Industrial Network Business Division of Renesas Electronics Corporation</p> <p>October 2012 Retired from Renesas Electronics Corporation</p> <p>April 2014 Registered as a Small and Medium Enterprise Management Consultant</p> <p>April 2017 Joined Japan Science and Technology Agency</p>	0 shares
4	<p>■ Record of attendance at Board of Directors meetings —</p> <p>■ Record of attendance at Audit and Supervisory Committee meetings —</p> <p>■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member</p> <p>Although Mr. Teiichiro Nishizaka has not previously been involved in corporate management, he has a wealth of experience and wide knowledge, etc. necessary for business promotion including new business fields accumulated over many years through various operations in the semiconductor industry in which the Company operates, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member.</p> <p>The Company has purchase transactions related to outsourcing of manufacturing of the Company's products with Renesas Electronics Corporation, where Mr. Teiichiro Nishizaka had previously served. However, five years have passed since he retired from Renesas Electronics Corporation and he has currently no relationship with the company. Thus, the Company believes that such factor does not affect his objective, fair and neutral judgment as Outside Director serving as Audit and Supervisory Committee Member.</p>		

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

- Messrs. Katsuya Mitsumura, Masao Suzuki, Shigeo Igashima and Teiichiro Nishizaka are candidates for Outside Directors serving as Audit and Supervisory Committee Members.
- Messrs. Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima are currently Outside Directors of the Company. The term of office of Mr. Masao Suzuki as Outside Director will be eight years at the close of this General Meeting of Shareholders, and the term of office of Messrs. Katsuya Mitsumura and Shigeo Igashima will be a total of ten years, including their term of office as Outside Corporate Auditors.
- Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded agreements with Messrs. 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 agreements is the sum of the amounts set forth in each item of Article 425, Paragraph 1 of the Companies Act. In the event that the above 3 persons are reelected, the Company plans to continue the Liability Limitation Agreement with them. Furthermore, in the event that Mr. Teiichiro Nishizaka is elected, as originally proposed, the Company plans to newly conclude a similar agreement with him.
- The Company has designated Messrs. 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. If the above 3 persons are reappointed as Directors serving as Audit and Supervisory Committee Members at this General Meeting of Shareholders, the Company plans to continue to submit them as Independent Corporate Officers. Furthermore, if Mr. Teiichiro Nishizaka is appointed, as originally proposed, the Company plans to newly submit him as Independent Corporate Officer.
- Ages of each candidate are as of the close of this General Meeting of Shareholders.

(Reference) The Company has defined standards for independence of Outside Directors as shown below.

As a policy regarding the independence of Outside Directors, persons elected as Independent Corporate Officers must satisfy the following conditions, in addition to satisfying standards for Outside Directors stipulated by the Companies Act.

1. If the following items apply, the person will be deemed unsuitable to be an “Independent Corporate Officer.”

<Transaction-related>

1) A business executor (Note 2) of a major transaction partner (Note 1) of the Group

<Major shareholders>

2) A shareholder or a business executor thereof that holds 10% or more of voting rights of the Group

3) A business executor of an entity of which the Group holds 10% or more of voting rights

<Advisor or provider of specialized services>

4) A staff member, partner, or employee of the Accounting Auditor that performs audits of the Group as required by law

5) A specialist such as a consultant, certified public accountant, tax accountant, attorney, judicial scrivener, or patent attorney that receives a significant amount of cash or other property (Note 3) from the Group aside from Corporate Officer remuneration

<Mutual appointment of Outside Corporate Officers-related>

6) If a business executor of the Group is an Outside Corporate Officer of another company, a business executor of said other company

<Receivers of donations>

7) A business executor of an organization that receives more than 10 million yen per year in donations or aid from the Group

<Relatives>

8) A spouse, relative within the second degree, or relative domiciled with a person to which any of 1) to 7) above apply

<Other>

9) A person to which any of 1) to 8) above applied within the past three years

2. Other than the explicit conditions above, substantial independence will be carefully taken into consideration.

3. In the event that any of the conditions in 1 above are to apply, Independent Corporate Officers must immediately notify the Company.

Notes: 1. “Major transaction partners” are those at which the annual amount of transactions in the most recent year exceeds 2% of the consolidated net sales of the Company or the counterparty.

2. “Business executors” are Executive Directors, Executives, Executive Officers, or other persons or employees that are significantly similar.

3. A “significant amount of cash or other property” is, in total amount, 10 million yen per fiscal year for individuals, or in excess of 2% of consolidated net sales for companies and organizations.

Business Report

(From April 1, 2017 to March 31, 2018)

1. Company Overview

(1) Business in FY 2017

1) Business Progress and Results

During fiscal 2017, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of moderate improvements in personal consumption. However, the global economic outlook has remained uncertain due mainly to impact of volatility in the financial and capital markets, in addition to the escalation of uncertainties over the global economy.

The pachinko and pachislot machine market, which is the main market for the Company, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of self-imposed regulations implemented in recent years by industry organizations as preventive measures against addictive gambling, leading to a gradual decrease in the population of players. In addition, as a result of the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force in February 2018, the current market environment is becoming increasingly harsh due to factors such as sluggish demand for new machines at amusement facilities reflecting uncertainty about the future prospects.

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 for customers in the embedded system market (Note), as well as new fields including software IP and middleware products such as “H2MD.” With a view to accelerating the transformation of its revenue structure in line with new business development, the Company actively considered initiatives including alliances and investments.

As a result, for fiscal 2017, the Company recorded net sales of 8,477 million yen, operating profit of 156 million yen, ordinary profit of 164 million yen and profit of 80 million yen.

(Note) “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 2017, sales of Graphics LSI products accounted for about 55% of the Company’s net sales.

As for products targeted at the pachinko and pachislot machine market for fiscal 2017, although sales of Graphics LSI products, which are the mainstay products in this market, slumped due to market conditions, net sales increased 452 million yen from the previous fiscal year to 8,291 million yen (up 5.8% year-on-year) as a result of the sales expansion of memory-module products. Sales of the Company’s mainstay Graphics LSI products were 630,000 units, compared to 870,000 units in the previous fiscal year, due to market conditions as well as the reuse of products by major customers. 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 significantly from the previous fiscal year, supported by favorable sales to customers who adopt the 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 2017, net sales decreased 2.7% from the previous fiscal year to 113 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 increased by 26.4% year-on-year to 72 million yen.

(Orders received and sales generated by product category)

(In millions of yen)

Product category	Outstanding orders at beginning of FY 2017	FY 2017 Orders received	FY 2017 Net sales	Outstanding orders at end of FY 2017
Pachinko and pachislot machines market	1,117	8,590	8,291	1,416
Embedded system market	43	110	113	40
Other	1	77	72	6
Total	1,163	8,778	8,477	1,464

2) Capital investment

Capital investment in fiscal 2017 totaled 70 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 62 million yen and software, etc. for design and development purposes amounting to 7 million yen.

3) Financing

All capital investments, etc. were financed by the Company’s own funds in fiscal 2017.

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 2014	FY 2015	FY 2016	FY 2017
Orders received (million yen)	12,264	6,613	7,279	8,778
Net sales (million yen)	11,073	8,982	8,012	8,477
Ordinary profit (million yen)	1,659	220	162	164
Profit (million yen)	1,115	113	92	80
Basic earnings per share (yen)	89.91	9.85	8.30	7.18
Total assets (million yen)	14,562	12,156	12,029	13,035
Net assets (million yen)	13,556	11,256	11,457	11,418
Net assets per share (yen)	1,093.10	1,006.14	1,024.16	1,020.67

(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 business diversification

In the pachinko and pachislot machine market, which is the Company's main market, a harsh market environment persists because, in addition to the decreasing trend in the market, the reuse of pachinko and pachislot machine components is causing a contraction in demand. With regard to future market trends, although long-term market recovery is anticipated, the situation is expected to remain uncertain for the time being. Under these circumstances, the Company believes that its most important task is to establish second and third business lines following this market in order to achieve sustainable growth.

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 accelerate the launch of new businesses by continuing to promote product development aimed at new business areas, as well as improving our structure including the organizational reform and the establishment of a new subsidiary with the role of new business promotion and development. Additionally, with a view to further accelerating the launch of new businesses, the Company will proactively continue to consider alliances, M&A, and business investment.

2) Approach to the pachinko and pachislot machine market

In the pachinko and pachislot machine market, a harsh market environment persists. However, the pachinko and pachislot market is a huge market where demand for electronic parts such as the Company's is in high demand. Additionally, there are 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 an important market.

For the pachinko and pachislot machine market, the Company will continue to expand into the system business with Graphics LSI products, our mainstay products, at its 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.

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, 2018)

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, 2018)

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

(7) Employees (as of March 31, 2018)

Number of employees	Increase / decrease from previous fiscal year-end	Average age	Average years of service
87 (32) persons	Increase of 1 person (Decrease of 8 temporary staffs)	43.5 years old	9.6 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, 2018)

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 2017, the Company made social

contributions, including making donations to 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 through the Campus OJT Industry-University Education Foundation, etc., 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 2017:

Donation for Disaster of Heavy Rain from July 5, 2017

2017 Donation for Disaster of Typhoon No. 18

2017 Donation for Disaster of Typhoon No. 21

(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 remuneration for Directors

The Company takes the business plan and dividend projection (no dividend) for fiscal 2018 very seriously and has resolved a reduction of the amount of remuneration for Directors at the Board of Directors Meeting held on April 25, 2018, as follows.

(i) Reduction of the amount of remuneration for Directors

President & Representative Director	15% of monthly remuneration
Executive Vice President & Representative Director:	15% of monthly remuneration
Directors (excluding Audit and Supervisory Committee Members) (two directors):	10% of monthly remuneration

(ii) Applicable period for reduction

From April 2018 to March 2019

2. Status of Shares (as of March 31, 2018)

- (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** 4,654 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)	767,800	6.86
Sumihiko Ichihara	595,800	5.32
Takayuki Shibata	594,800	5.31
Kazunori Matsuura	388,800	3.47
Tatsuaki Okumura	369,000	3.29
HSBC BANK PLC A/C MARATHON FUSION JAPAN PARTNERSHIP LP	360,000	3.21
Kazuyoshi Moriya	335,600	2.99
AVAL DATA CORPORATION	260,000	2.32

(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, 2018**
N/A
- (2) **Stock Acquisition Rights Issued to Employees, etc. during FY 2017**
N/A
- (3) **Other Material Information on Stock Acquisition Rights, etc.**
N/A

4. Company Officers

(1) Directors (as of March 31, 2018)

Title	Name	Responsibilities & material concurrent positions
President & Representative Director	Kazunori Matsuura	Visiting Professor of University of Tsukuba
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. Outside Corporate Auditor of Mt. Fuji Springs Inc.
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. Representative Director of Shibuya Television Co., 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 Director of TAIYO BUSSAN KAISHA, LTD. Outside Corporate Auditor of Shintokyo Group Co., Ltd.

- (Notes) 1. Directors (Audit and Supervisory Committee Members) Yoshiki Yoshida, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima are Outside Directors.
2. 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.
3. 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.
4. 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)	4 persons (— persons)	81 million yen (— million yen)
Director (Audit and Supervisory Committee Member) (Outside Director)	4 persons (4 persons)	33 million yen (33 million yen)
Total (Outside Officer)	8 persons (4 persons)	114 million yen (33 million yen)

- (Notes) 1. Total amount of remuneration, etc. of Directors does not include the portion of employee salary paid to Directors concurrently serving as employees.
2. 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.
3. 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.

(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. Shibuya Television Co., Ltd.	Representative Director 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 companies.

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. Mt. Fuji Springs Inc.	Outside Director Outside Corporate Auditor
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 Director Outside Corporate Auditor

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

3) Main activities during FY 2017

Classification	Name	Main activities
Director (Audit and Supervisory Committee Member)	Yoshiki Yoshida	Participated in all of the 14 Board of Directors meetings and in all of the 15 Audit and Supervisory Committee meetings during FY 2017, 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 and in all of the 15 Audit and Supervisory Committee meetings during FY 2017, 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 in all of the 15 Audit and Supervisory Committee meetings during FY 2017, 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 and in all of the 15 Audit and Supervisory Committee meetings during FY 2017, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.

(Note) 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	19 million yen
Total amount of monetary and other financial benefits payable by the Company to the Accounting Auditor	19 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 2017.
 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. 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.

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 2017 is as follows.

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 adequate internal reserves are 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, 2018)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	11,492	Current liabilities	1,580
Cash and deposits	6,868	Accounts payable - trade	1,344
Accounts receivable - trade	3,304	Accounts payable - other	82
Merchandise and finished goods	480	Accrued expenses	18
Raw materials and supplies	0	Income taxes payable	43
Advance payments - trade	707	Accrued consumption taxes	67
Prepaid expenses	117	Advances received	0
Deferred tax assets	13	Deposits received	23
Other	0	Non-current liabilities	35
Non-current assets	1,542	Asset retirement obligations	35
Property, plant and equipment	266	Total liabilities	1,616
Buildings	91	(Net assets)	
Tools, furniture and fixtures	174	Shareholders' equity	11,278
Intangible assets	32	Capital stock	1,018
Trademark right	0	Capital surplus	861
Software	32	Legal capital surplus	861
Investments and other assets	1,243	Retained earnings	9,398
Investment securities	1,044	Legal retained earnings	1
Long-term prepaid expenses	18	Other retained earnings	9,396
Lease and guarantee deposits	92	General reserve	8,200
Deferred tax assets	69	Retained earnings brought forward	1,196
Other	19	Treasury shares	(0)
		Valuation and translation adjustments	140
		Valuation difference on available-for-sale securities	140
		Total net assets	11,418
Total assets	13,035	Total liabilities and net assets	13,035

Non-consolidated Statement of Income

(From April 1, 2017 to March 31, 2018)

(In millions of yen)

Description	Amount	
Net sales		8,477
Cost of sales		5,335
Gross profit		3,142
Selling, general and administrative expenses		2,985
Operating profit		156
Non-operating income		
Interest income	1	
Dividend income	6	
Gain on investments in partnership	13	
Subsidy income	5	
Other	2	29
Non-operating expenses		
Foreign exchange losses	21	
Other	0	21
Ordinary profit		164
Extraordinary income		
Gain on sales of investment securities	164	164
Extraordinary losses		
Loss on valuation of investment securities	149	
Loss on valuation of membership	1	150
Profit before income taxes		178
Income taxes - current	44	
Income taxes - deferred	53	97
Profit		80

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2017 to March 31, 2018)

(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	1,172	9,373	(0)	11,254
Changes of items during period									
Dividends of surplus						(55)	(55)		(55)
Profit						80	80		80
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	—	24	24	—	24
Balance at end of current period	1,018	861	861	1	8,200	1,196	9,398	(0)	11,278

	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	203	203	11,457
Changes of items during period			
Dividends of surplus			(55)
Profit			80
Net changes of items other than shareholders' equity	(63)	(63)	(63)
Total changes of items during period	(63)	(63)	(38)
Balance at end of current period	140	140	11,418

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 to non-consolidated balance sheets

Accumulated depreciation of property, plant and equipment: 1,098 million yen

3. Notes to non-consolidated statements of income

Total amount of research and development expenditures: 2,134 million yen

4. 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

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

2) Payout amount of dividends with reference date in FY 2017 but effective date in FY 2018

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 16, 2018	Common stock	55	Retained earnings	5	March 31, 2018	June 18, 2018

(4) Matters related to stock acquisition rights as of March 31, 2018

N/A

5. 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, 2018 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 91% of operating receivables as of March 31, 2018.

(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, 2018 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	6,868	6,868	—
(2) Accounts receivable - trade	3,304	3,304	—
(3) Investment securities Available-for-sale securities	213	213	—
Total assets	10,386	10,386	—
(1) Accounts payable - trade	1,344	1,344	—
(2) Income taxes payable	43	43	—
Total liabilities	1,387	1,387	—

(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) Investment securities

The market value of investment securities is stated at the price quoted at the stock exchange or in other relevant markets.

Liabilities

(1) 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.

(2) Income taxes payable

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

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

Classification	Balance sheet amount
Unlisted stocks	354 million yen
Contributions to investment limited partnerships	476 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 “(3) 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	6,867	—	—	—
Accounts receivable - trade	3,304	—	—	—
Total	10,172	—	—	—

6. Notes on tax effect accounting

Deferred tax assets

Depreciation in excess of deductible amount	36 million yen
One-time depreciation of assets in excess of deductible amount	1 million yen
Accrued enterprise tax, currently not deductible	5 million yen
Asset retirement obligations	10 million yen
Loss on valuation of investment securities	45 million yen
Deferred assets for tax purposes	98 million yen
Others	17 million yen
Subtotal deferred tax assets	215 million yen
Valuation allowance	(62) million yen
Total deferred tax assets	153 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(61) million yen
Asset retirement obligations	(8) million yen
Total deferred tax liabilities	(70) million yen
Net deferred tax assets	82 million yen

7. 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>35 million yen</u>

8. Notes on transactions with related parties

N/A

9. Notes on per share information

(1) Net assets per share	1,020.67 yen
(2) Basic earnings per share	7.18 yen

Report of Independent Auditor

April 25, 2018

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Tatsuya Yokouchi [Seal]

Toru Iizuka [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 2017, from April 1, 2017 to March 31, 2018.

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 2017 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 2017, from April 1, 2017 to March 31, 2018, 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 2017.

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.

April 25, 2018

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.