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(Securities Code: 6730)

June 15, 2020

To Shareholders with Voting Rights:

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

**NOTICE OF
THE 25TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We hereby notify you that the 25th Ordinary General Meeting of Shareholders (the “Meeting”) of AXELL CORPORATION (hereinafter “the Company”) will be held as follows.

We recognize that currently we are at an extremely important stage for the complete and thorough containment of the spread of coronavirus disease (COVID-19). In light of this situation, we have decided to hold the Meeting upon implementing appropriate infection prevention measures as a result of careful consideration.

Please review the Reference Documents for the General Meeting of Shareholders and exercise your voting rights no later than 6:00 p.m. on Monday, June 29, 2020, Japan time.

The meeting will be held for the purposes as described below.

- 1. Date and Time:** 10:00 a.m. on Tuesday, June 30, 2020
- 2. Venue:** Banquet room “Kunpu” on the second floor of Hotel Metropolitan Edmont located at 10-8, Iidabashi 3-chome, Chiyoda-ku, Tokyo, Japan

3. Meeting Agenda:

- Matters to be reported:**
1. Business Report, Consolidated Financial Statements for FY 2019 (from April 1, 2019 to March 31, 2020) and results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
 2. Non-consolidated Financial Statements for FY 2019 (from April 1, 2019 to March 31, 2020)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
- Proposal No. 2:** Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
- Proposal No. 3:** Election of Four Directors Serving as Audit and Supervisory Committee Members
- Proposal No. 4:** Revision of the Amount of Remuneration, etc. for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
- Proposal No. 5:** Determination of Remuneration for Allotting Restricted Stock to Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

- © Any updates to the Reference Documents for the General Meeting of Shareholders, Business Report, Non-consolidated and Consolidated Financial Statements will be posted on the Company's website (<https://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 the return, while taking into account the adequate levels of "periodic profit returns to shareholders" and "maintenance of appropriate internal reserves that enables flexible business operations." 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 shall be considered with the level of prior dividends taken into account after adequate internal reserves are secured. Meantime, the Company bases its calculation of payout ratio on consolidated financial results instead of non-consolidated financial results.

Based on this policy, we propose a term-end dividend of 21 yen per share.

Year-end dividend

- (1) Dividend asset type
Cash
- (2) Allotment of dividend assets and its total amount
21 yen per share of the Company's common stock Total amount: 234,939,537 yen
- (3) Effective date of dividends from surplus
July 1, 2020

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

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

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

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 50 years old) Reappointment	April 1994 Joined Nippon Steel Corp. (current NIPPON STEEL CORPORATION) April 1998 Joined the Company April 2004 Appointed to Senior Manager of Engineering Department of the Company June 2006 Appointed to Director & Assistant General Manager of Engineering Department of the Company June 2010 Appointed to Director & General Manager of Engineering Department of the Company June 2012 Appointed to President & Representative Director of the Company (to present) April 2014 Visiting Professor of University of Tsukuba (to present)	388,800 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Kazunori Matsuura has a wealth of experience in semiconductor development at other companies, and 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). 			

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 53 years old) Reappointment	April 1989	Joined Nippon Steel Corp. (current NIPPON STEEL CORPORATION)	18,000 shares
		January 2002	Joined the Company	
April 2004	Appointed to Senior Manager of Sales & Marketing Department of the Company			
June 2006	Appointed to Director & Assistant General Manager of Sales & Marketing Department of the Company			
June 2010	Appointed to Director & General Manager of Sales & Marketing Department of the Company			
June 2012	Appointed to Executive Vice President & Representative Director, General Manager of Sales & Marketing Department of the Company			
June 2018	Appointed to Executive Vice President & Representative Director Supervising Sale & Marketing Department and Management Department of the Company			
		May 2019	Director of ax Inc. (to present)	
		April 2020	Appointed to Executive Vice President & Representative Director of the Company (to present)	
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Akihiro Saito has a wealth of experience in semiconductor sales and business promotion at other companies, and is involved in business promotion and corporate management 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). 			
3	Koji Kanie (Sep. 30, 1976 43 years old) Reappointment	April 2001	Joined the Company	10,000 shares
		January 2009	Appointed to Senior Manager of Engineering Department of the Company	
June 2012	Appointed to Director & General Manager of Engineering Department of the Company			
April 2019	Appointed to Director Supervising Engineering Department & General Manager of Information Security Section of the Company			
		April 2020	Appointed to Director & General Manager of Information Security Section of the Company (to present)	
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ 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 management overall, with a focus on information security 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). 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
4	Kazuki Kyakuno (Dec. 12, 1983 36 years old) Reappointment	<p>April 2006 Joined the Company</p> <p>March 2011 Completed Doctoral Program of Graduate School of Systems and Information Engineering of University of Tsukuba (Ph.D. in Engineering)</p> <p>April 2013 Appointed to Senior Manager of Engineering Department of the Company</p> <p>April 2014 Visiting Associate Professor of University of Tsukuba (to present)</p> <p>June 2018 Appointed to Director & General Manager of Strategic Planning Section, Team Leader of Algorithm Team of Engineering Department of the Company</p> <p>July 2018 Director of VIPPOOL Inc. (to present)</p> <p>April 2019 Appointed to Director Supervising Algorithm Team of Engineering Department & General Manager of Strategic Planning Section of the Company (to present)</p> <p>May 2019 Director of ax Inc. (to present)</p> <p>August 2019 Director of MotionPortrait, Inc. (to present)</p>	1,100 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ 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, led research and development divisions, and is currently involved in the management of new business fields. He can be expected to continue 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). 			

(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. 3: 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 the four incumbent Directors serving as Audit and Supervisory Committee Members be reelected.

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 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	<p>Teiichiro Nishizaka (Jan. 28, 1958 62 years old)</p> <p>Reappointment Outsider Independent</p>	<p>April 1982 Joined NEC Corporation January 2005 Appointed to General Manager of System Memory Business Division of NEC Electronics Corporation May 2007 Appointed to General Manager of Advanced ASIC Business Division of NEC Electronics Corporation July 2008 Appointed to General Manager of System ASIC Business Division of NEC Electronics Corporation April 2010 Appointed to General Manager of Imaging Device Business Division of Renesas Electronics Corporation October 2011 Appointed to General Manager of 2nd Industrial Network Business Division of Renesas Electronics Corporation October 2012 Retired from Renesas Electronics Corporation April 2014 Registered as a Small and Medium Enterprise Management Consultant April 2017 Joined Japan Science and Technology Agency June 2018 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company June 2019 Appointed to Outside Director (Full-time Audit and Supervisory Committee Member) of the Company (to present)</p>	<p>0 shares</p>
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member Although Mr. Teiichiro Nishizaka has not previously been involved in corporate management other than as an outside officer, 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. 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, seven 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. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
2	<p>Katsuya Mitsumura (Jun. 18, 1951 69 years old)</p> <p>Reappointment Outsider Independent</p>	<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 Outside Audit & Supervisory Board Member of the Company</p> <p>June 2016 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company</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.</p> <p>June 2018 Appointed to Outside Director (Full-time Audit and Supervisory Committee Member) of the Company</p> <p>July 2018 Appointed to Outside Director of Mt. Fuji Springs Inc.</p> <p>June 2019 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>June 2019 Appointed to Audit & Supervisory Board Member of FANUC CORPORATION (to present)</p>	<p>0 shares</p>
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member Mr. Katsuya Mitsumura possesses specialized knowledge and abundant experiences, etc., regarding finance and accounting as a certified public accountant and tax accountant as well as experience in corporate management, 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. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
3	<p>Masao Suzuki (Feb. 9, 1953 67 years old)</p> <p>Reappointment Outsider Independent</p>	<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 Outside Director of the Company</p> <p>June 2016 Appointed to Outside 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.</p> <p>June 2017 Appointed to President and Representative Director of Shibuya Television Co., Ltd. (to present)</p>	100 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 92% (12 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 93% (13 out of 14) ■ 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. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
4	Shigeo Igashima (Dec. 12, 1963 56 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 2008 Appointed to Outside Audit & Supervisory Board Member of the Company Appointed to Corporate Auditor of ejworks corporation 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.</p> <p>June 2016 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>December 2017 Appointed to Outside Director of TAIYO BUSSAN KAISHA, LTD.</p> <p>January 2019 Appointed to Representative Partner of TIS Tax Accounting Corporation (to present)</p>	0 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 92% (12 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 93% (13 out of 14) ■ 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. 			

- (Notes) 1. None of the candidates for Director serving as Audit and Supervisory Committee Member have any special interest in the Company.
2. Messrs. Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima are candidates for Outside Directors serving as Audit and Supervisory Committee Members.
3. Messrs. Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima are currently Outside Directors serving as Audit and Supervisory Committee Members of the Company. At the close of this General Meeting of Shareholders, the terms of office of Mr. Teiichiro Nishizaka as Outside Director will be two years, Mr. Masao Suzuki as Outside Director will be 10 years (including four years as Outside Director serving as Audit and Supervisory Committee Member), and Messrs. Katsuya Mitsumura and Shigeo Igashima as Outside Directors will be four years, respectively. Messrs. Katsuya Mitsumura and Shigeo Igashima have served as Outside Audit & Supervisory Board Members of the Company in the past.
4. Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded agreements with Messrs. Teiichiro Nishizaka, 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 amount set forth in each item of Article 425, Paragraph 1 of the Companies Act. In the event that the above four persons are reelected, the Company plans to continue the Liability Limitation Agreement with them.
5. The Company has designated Messrs. Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki and Shigeo Igashima as Independent Directors under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect. If the above four 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 Directors.
6. 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.

Proposal No. 4: Revision of the Amount of Remuneration, etc. for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

To the present day, the amount of remuneration, etc. of Directors (excluding Directors serving as Audit and Supervisory Committee Members) comprises the payment of the fixed remuneration portion capped at 100 million yen per year, the performance-linked remuneration portion (short-term performance-linked remuneration) capped at 65 million yen per year (excluding non-executive Directors) and the performance-linked remuneration portion (mid- to long-term performance-linked remuneration) capped at 50 million yen per year, provided that the average return on equity (ROE) for the three most recent fiscal years is 10% or greater (limited to Executive Directors that were in office for the entire period of the three most recent fiscal years), as approved at the 21st Ordinary General Meeting of Shareholders held on June 18, 2016. We have recently reviewed our executive remuneration system; while the remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) will be composed of remuneration portion and performance-linked remuneration portion same as before, the Company proposes to increase the fixed remuneration portion to prepare for future increases in executive headcount, and for the performance-linked remuneration portion, change short-term performance-linked remuneration to a remuneration system considerate of capital costs, and replace the current mid- to long-term performance-linked remuneration with a new stock remuneration system. The introduction of the stock remuneration system will be submitted in Proposal No. 5.

Additionally, as has always been the case, the amount of remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) shall not include the portion of employee salary paid to Directors concurrently serving as employees and the payment of the performance-linked remuneration will not apply to Non-executive Directors.

The number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company is currently four, and the number of eligible Directors will be the same at four even if Proposal No. 2 is approved.

The calculation methods of the fixed remuneration portion and the performance-linked remuneration portion, which are to be revised, and the reason why such a change is reasonable are as follows.

1. Fixed remuneration portion

To prepare for future increases in Directors (excluding Directors serving as Audit and Supervisory Committee Members), the Company proposes to change the current fixed remuneration portion for Directors (excluding Directors serving as Audit and Supervisory Committee Members) of a maximum of 100 million yen per year to a maximum of 150 million yen per year. Additionally, the Company proposes the establishment of conditions to reduce amounts of fixed remuneration as follows.

(Conditions to reduce amounts of fixed remuneration) *These shall only apply to Executive Directors.

- 1) If a net loss is recorded (based on consolidated financial results instead of non-consolidated financial results), the fixed remuneration for the following fiscal year shall be reduced by an amount equivalent to 30-20% for six months depending on the position
- 2) The above reductions to fixed remuneration are the minimum amounts, and deliberation will be made by the Board of Directors to expand the range of reduction as conditions require

2. Performance-linked remuneration portion (Short-term performance-linked remuneration)

In addition to the change to a remuneration system considerate of capital costs, in order to further enhance the linkage between remuneration and performance, the Company proposes to revise the current performance-linked remuneration portion (short-term performance-linked remuneration) of a maximum of 65 million yen per year, to a remuneration portion calculated by the calculation method below.

(Calculation method)

The performance-linked remuneration portion shall be based on the Return on Equity (ROE) as per the following.

(The amended sections are underlined.)

Existing		Proposed Amendments	
Return on equity (ROE)	Remuneration portion	Return on equity (ROE; <u>based on consolidated financial results instead of non-consolidated financial results</u>)	Remuneration portion
Less than 5%	—	Less than 5%	—
Greater than 5% but less than 8%	<u>20 million yen</u>	Greater than 5% but less than 8%	—
Greater than 8% but less than 12%	<u>40 million yen</u>	Greater than 8% but less than 12%	<u>50 million yen</u>
Greater than 12%	<u>65 million yen</u>	Greater than 12% <u>but less than 16%</u>	<u>80 million yen</u>
—	—	<u>For every 4% increase greater than 16%</u>	<u>additional 20 million yen</u>

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

The introduction of the performance-linked stock remuneration system for Directors (excluding Directors serving as Audit and Supervisory Committee Members) is submitted in Proposal No. 5 below.

Proposal No. 5: Determination of Remuneration for Allotting Restricted Stock to Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

The Company, up to now, has paid Directors (excluding Directors serving as Audit and Supervisory Committee Members) 50 million yen in total as a mid- to long-term performance-linked remuneration if the average ROE is 10% or greater during the three most recent fiscal years, with the goal of raising awareness of contributing to improving mid- to long-term business results and corporate value. However, at this time, in order to share the merits and risks of stock price fluctuations with shareholders, and to further increase their motivation to contribute to the rise in stock prices and improving corporate value, for the performance-linked remuneration portion, the Company proposes to replace the current mid- to long-term performance-linked remuneration with a new stock remuneration system that allots to Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company (hereinafter, "Eligible Directors") common stock of the Company (hereinafter, "Restricted Stock") that are subject to conditions including a certain transfer restriction period and cases where the Company may acquire them without consideration, provided that Proposal No. 4: Revision of the Amount of Remuneration, etc. for Directors (excluding Directors serving as Audit and Supervisory Committee Members) is approved. Details are as follows:

<New total amount of monetary remuneration claims>

The total amount of monetary remuneration claims to Eligible Directors as remuneration etc. for granting Restricted Stock shall be a maximum of 30 million yen per year, which is deemed appropriate based on the above objective, in anticipation of future increases in headcount, separately from the amount of remuneration, etc. for Directors (excluding Directors serving as Audit and Supervisory Committee Members) described above. The specific timing of payment and distribution to each Eligible Director shall be determined by the Board of Directors.

The number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company is currently four, and the number of Eligible Directors will be the same at four even if Proposal No. 2 is approved.

The calculation methods of the fixed remuneration portion and the performance-linked remuneration portion, which are to be revised, and the reason why such a change is reasonable are as follows.

The details of the Restricted Stock for Eligible Directors and its maximum number are as follows.

1. Allotment of Restricted Stock and payment

Based on the resolution of the Board of Directors, the Company will provide Eligible Directors with remuneration for granting Restricted Stock as monetary remuneration claims within the above annual amount. Each Eligible Director shall pay all monetary remuneration claims as contribution in kind, and shall receive allotment of Restricted Stock.

The amount to be paid in for Restricted Stock shall be based on the closing price of the Company's common stock on the Tokyo Stock Exchange for the business day immediately preceding the resolution by the Board of Directors of the Company for the issuance or disposal (if trading did not occur on that day, then the closing price on the most recent preceding trading day) and ranged in an amount not particularly advantageous to Eligible Directors receiving Restricted Stock, determined by the Board of Directors of the Company.

Additionally, the payment of the above monetary remuneration claims is subject to the Eligible Directors' consent to the above-mentioned in-kind contribution and their signing of a Restricted Stock allotment agreement including the details specified in 3. below.

2. Total number of Restricted Stock

The maximum number of Restricted Stock to be allotted each fiscal year shall be 37,500 shares in total which are to be allotted to Eligible Directors.

However, in the event that the Company conducts a stock split (including a gratis allotment of common stock of the Company) or reverse stock split of common stock or any other events that require an adjustment to the total number of Restricted Stock to be allotted, on or after the date of the resolution of this proposal, the Company may reasonably adjust the total number of Restricted Stock.

3. Details of the Restricted Stock allotment agreement

In allotting the Restricted Stock, based on the resolution by the Board of Directors of the Company, the Company and Eligible Directors receiving allotment of Restricted Stock will enter into a

Restricted Stock allotment agreement including the following details:

1) Details of transfer restriction

The Eligible Director who received allotment of Restricted Stock, may not transfer to a third party, pledge, establish security rights on, gift inter vivos, bequeath or otherwise dispose of (hereinafter, the "Transfer Restrictions") Restricted Stock allotted to the Eligible Directors (hereinafter, the "Allotted Shares") during the period stipulated by the Board of Directors of the Company ranging from 20 years to 30 years (hereinafter the "Transfer Restriction Period").

2) Acquisition of Restricted Stock without consideration

Excluding cases where there are reasons deemed justified by the Board of Directors of the Company, if Eligible Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries on or after the starting date of the Transfer Restriction Period by the day before the first subsequent Ordinary General Meeting of Shareholders of the Company, the Company shall acquire the Allocated Shares without consideration as a matter of course.

Additionally, if there are Allocated Shares with Transfer Restrictions that have not been lifted based on the reason for lifting Transfer Restrictions in (3) below at the expiry of the Transfer Restriction Period in (1) above, the Company shall acquire the Allocated Shares without consideration as a matter of course.

3) Lifting the Transfer Restrictions

The Company shall lift Transfer Restrictions on all Allotted Shares at the time Eligible Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries provided that they remained in the position of Director, Executive Officer, or employees of the Company or its subsidiaries, continuously from the starting date of the Transfer Restriction Period up to the date of the first subsequent Ordinary General Meeting of Shareholders. However, if the Eligible Director remained in the position of Director, Executive Officer or employee of the Company or its subsidiaries continuously until the expiry of the Transfer Restriction Period, the Transfer Restrictions shall not be lifted for any of the Allotted Shares held at expiry.

In addition, in cases where Eligible Directors retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries before the expiry of the Transfer Restriction Period for reasons deemed justified by the Board of Directors of the Company, the number and timing of lifting Transfer Restrictions shall be reasonably adjusted as necessary.

4) Treatment in the event of organizational restructuring, etc.

If, during the Transfer Restriction Period, a merger agreement where the Company will be the disappearing company, share exchange agreement or share transfer plan where the Company will become a wholly owned subsidiary, or other proposals on organizational restructuring, etc. is approved at a General Meeting of Shareholders of the Company (or at a Board of Directors meeting if the organizational restructuring, etc. does not require approval by the General Meeting of Shareholders of the Company), (provided that the effective date of the organizational restructuring, etc. arrives before the expiry of the Transfer Restriction Period; hereinafter, the "Approval of Organizational Restructuring") and Eligible Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries due to the said organizational restructuring, etc., the Company shall lift Transfer Restrictions ahead of the effective date of the organizational restructuring, etc. for a number of Allotted Shares reasonably determined taking into consideration the period from the starting date of the Transfer Restriction Period to the approval date of the organizational restructuring, etc.

Additionally, at the Approval of Organizational Restructuring, the Company shall acquire without consideration as a matter of course any Allotted Shares with Transfer Restrictions that are not lifted on the business day preceding to the effective date of the organizational restructuring, etc.

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

Business Report

(From April 1, 2019 to March 31, 2020)

1. Overview of the Group

(1) Business in FY 2019

1) Business Progress and Results

During fiscal 2019, a moderate recovery trend continued in the Japanese economy including improvements in the employment and income conditions, along with signs of improvements in personal consumption. However, due to the impact of COVID-19, the current economic situation is rapidly deteriorating and the outlook is expected to remain severe.

The pachinko and pachislot machine market, which is the main market for the Group, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force as preventive measures against addictive gambling, leading to a sluggish demand for new machines at amusement facilities. In addition, the business environment surrounding the Group is becoming increasingly harsh due to increased cost-saving awareness among pachinko and pachislot machine manufacturers against the backdrop of a challenging market environment, leading to a more widespread reuse of device components including the Group’s products.

Under such circumstances, the Group worked on sales expansion for Graphics LSI products for customers in the embedded system market (Note 1), in addition to initiatives for securing stable profits in the pachinko and pachislot market, and also focused on activities for early commercialization in the following four areas: middleware, machine learning (AI), blockchain and security, all of which are positioned as new businesses.

With a view to accelerating new business development, the Group actively considered initiatives including restructuring, alliances and investments. On May 22, 2019, the Group established ax Inc. (investment ratio: 90%), which promotes business in the areas of machine learning (AI) and middleware. In addition, to accelerate the business of the new company, the Group turned bitcraft Co., Ltd. and MotionPortrait, Inc. into sub-subsidiaries through M&As. Furthermore, ax Inc. merged bitcraft Co., Ltd. through an absorption-type merger on October 1, 2019, for the purpose of streamlining the management of the Group.

As a result, for fiscal 2019, the Company recorded net sales of 9,265 million yen and gross profit of 2,948 million yen. Selling, general and administrative expenses amounted to 2,555 million yen, of which research and development expenses accounted for 1,549 million yen. Consequently, for fiscal 2019, the Company recorded an operating profit of 393 million yen, an ordinary profit of 535 million yen and profit attributable to owners of parent of 468 million yen.

Comparisons with fiscal 2018 are not made because the preparation of consolidated financial statements commenced in fiscal 2019.

(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.

Based on the enhancement of the project management system and the circumstances of the management control system resulting from restructuring of the Company’s organization, in addition to the increased quantitative importance of segment information due to progress made in new business, statements by segment are provided from fiscal 2019. The business performance by segment is as follows.

1) LSI Business for Embedded Systems (Including for Japanese Entertainment Machines)

The LSI Business for Embedded Systems (Including for Japanese Entertainment Machines) segment deals with products for pachinko and pachislot machines, the existing businesses of the Company, and

for embedded systems. For fiscal 2019, the Company recorded net sales of 9,068 million yen and a segment profit of 1,615 million yen. Regarding products for pachinko and pachislot machines, due to the effects of an inventory adjustment, the Company sold approximately 390,000 graphics LSI products, up some 100,000 units from the previous fiscal year. In addition, the Company saw a significant increase in sales of memory-module products (Note 2) as they were supported by new adoptions and favorable trends in sales to customers already adopting them. However, sales of products for embedded systems fell below the level seen in the previous fiscal year due to trends in customer demand.

(Note) “Memory-module” refers to the mechanism of the part that retains the image data installed in the graphics-rendering circuit boards of pachinko and pachislot machines.

2) **Middleware (AI, Block Chain and Other) and LSI Business for New Business**

This segment is a start-up business targeting the areas of middleware, machine learning (AI), block chain, and security. For fiscal 2019, the Company recorded net sales of 196 million yen, mainly from sales in the areas of middleware and machine learning (AI), and a segment loss of 641 million yen.

2) **Capital investment**

Capital investment in fiscal 2019 totaled 62 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 18 million yen, software, etc. for design and development purposes amounting to 11 million yen, and administration equipment, etc. amounting to 32 million yen.

3) **Financing**

All capital investments, etc. were financed by the Company’s own funds in fiscal 2019.

4) **Transfer, absorption-type corporate split, 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**

The Company’s consolidated subsidiary ax Inc. succeeded the rights and obligations of another consolidated subsidiary of the Company, bitcraft Co., Ltd., in an absorption-type merger with ax Inc. as the surviving company, on October 1, 2019.

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

The Company established ax Inc. on May 22, 2019 and acquired 90% of its issued shares, making it a consolidated subsidiary. ax Inc. acquired all the shares of bitcraft Co., Ltd. and MotionPortrait, Inc. on July 1, 2019 and August 1, 2019, respectively.

ax Inc. carried out an absorption-type merger of bitcraft Co., Ltd. on October 1, 2019.

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

1) Changes in Assets and Income of the Group

Category	FY 2016	FY 2017	FY 2018	FY 2019
Net sales (million yen)	-	-	-	9,265
Ordinary profit (million yen)	-	-	-	535
Profit attributable to owners of parent (million yen)	-	-	-	468
Basic earnings per share (yen)	-	-	-	41.85
Total assets (million yen)	-	-	-	11,146
Net assets (million yen)	-	-	-	9,836
Net assets per share (yen)	-	-	-	876.72

(Notes)

- Figures for FY 2018 and before are not stated as the preparation of consolidated financial statements commenced in FY 2019.
- Basic earnings per share is calculated based on the average number of shares issued during the fiscal year excluding treasury shares, and net assets per share is calculated based on the total number of shares issued at the end of the fiscal year excluding treasury shares.

2) Changes in Assets and Income of the Company

Category	FY 2016	FY 2017	FY 2018	FY 2019
Net sales (million yen)	8,012	8,477	5,003	9,158
Ordinary profit (loss) (million yen)	162	164	(1,651)	588
Profit (loss) (million yen)	92	80	(2,000)	523
Basic earnings (loss) per share (yen)	8.30	7.18	(178.83)	46.82
Total assets (million yen)	12,029	13,035	9,701	11,128
Net assets (million yen)	11,457	11,418	9,313	9,867
Net assets per share (yen)	1,024.16	1,020.67	832.45	881.70

(Note) Basic earnings per share is calculated based on the average number of shares issued during the fiscal year excluding treasury shares, and net assets per share is calculated based on the total number of shares issued at the end of the fiscal year excluding treasury shares.

(3) Material Subsidiaries

Company name	Capital stock	Ratio of voting rights held by the Company	Business activities
ax Inc.	150 million yen	90.00%	Consulting related to AI (development of AI apps, etc.) Development and sale of framework related to AI Sale of middleware (AXIP)
MotionPortrait, Inc.	50 million yen	100.00% (100.00%)	Development and sale of computer software Planning and development of solution services Development of AI apps, etc.

(Notes)

- ax Inc. was established on May 22, 2019.
- ax Inc. acquired all shares of bitcraft Co., Ltd. and MotionPortrait, Inc. on July 1, 2019 and August 1, 2019, respectively, and made them consolidated subsidiaries. Additionally, ax Inc. merged bitcraft Co., Ltd. on October 1, 2019, via an absorption-type merger.
- The figure in the parentheses of the “Ratio of voting rights” column represents the percentage of indirect ownership included.

(4) Issues to be Addressed

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

1) Expanding the scale of new businesses

In the pachinko and pachislot machine market, which is the Group's main market, a harsh market environment persists because, in addition to the gradual downtrend in the market, the reuse of pachinko and pachislot machine components is causing a contraction in demand. With regard to future market trends, the situation is expected to remain uncertain for the time being. Under these circumstances, the Group believes that it is essential to capture new profit opportunities through business diversification and other measures in order to achieve sustainable growth.

Current initiatives toward business diversification outside of this main market include efforts to increase sales of Graphics LSI in the medical and industrial embedded systems market, as well as channeling the Group's energies into commercialization of business in the following four areas: middleware, machine learning (AI), blockchain, and security. The Group will continue to improve our structure including the organizational reform and establishment of a subsidiary aimed at business diversification, as well as proactively consider alliances, M&A, and business investment in order to further accelerate the commercialization.

2) Securing stable profits in 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 Group's is in high demand. Additionally, there are many areas in which the Group has not entered and are open to business possibilities for the Group. The Group recognizes that the pachinko and pachislot machine market will continue to be an important market.

For the pachinko and pachislot machine market, the Group 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 Group 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 Group intends to secure stable profits and achieve medium- to long-term growth in a harsh market environment.

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

The Group recognizes, in addition to protecting and preserving intellectual property rights for its various proprietary technologies, improving the structure to prevent the infringement of other companies' rights is a critical issue, based on the view that the risk of infringement of the intellectual property rights of other companies will increase along with the expansion of its business scale. To address the aforementioned issues, the Group 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 Group 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 Group believes that enriching corporate governance is important, and that establishing an appropriate corporate governance structure that fits factors such as the Group's business type and business scale is an important issue.

Basic policy on corporate governance

The Company engages in business by sharing the value of our "Mission," "Vision," and "Values" as declared in our Corporate Philosophy. Based on this philosophy, 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.

The AXELL Corporate Philosophy

- Mission : Contribute to innovation through sophisticated products and services
 Vision : Aim for global success as a leading technology company
 Values : Top priority on customer satisfaction
 Enjoy challenges as professionals
 Respect diversity and achieve greater things with colleagues and partners
 Act with greater speed

(5) Principal Business (as of March 31, 2020)

The Company is engaged in the LSI Business for Embedded Systems (including for Japanese Entertainment Machines) and Middleware (AI, Block Chain and Other) and LSI Business for New Business, and the contents of each business are as follows.

Category	Business activities
LSI Business for Embedded Systems (including for Japanese Entertainment Machines)	Development and sales of products for pachinko and pachislot machines and LSI products as well as substrate products and electronic devices for various embedded systems.
Middleware (AI, Block Chain and Other) and LSI Business for New Business	Development and sales of products and provision of solutions in the areas of middleware, machine learning (AI), block chain, and security

(6) Principal Offices and Plants (as of March 31, 2020)

1) The Company

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

2) Subsidiaries

Name	Address
ax Inc.	19-22 Uguisudanichō, Shibuya-ku, Tokyo, Japan
MotionPortrait, Inc.	11-9 Ebisu 4-chome, Shibuya-ku, Tokyo, Japan

(7) Employees (as of March 31, 2020)

1) Employees of the Group

Number of employees	Increase / decrease from previous fiscal year-end
103 (15) persons	-

- (Notes) 1. Increase / decrease from previous fiscal year-end is not stated because the preparation of consolidated financial statements commenced from fiscal 2019.
 2. Number of employees represents the number of employees on the Group'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.

2) Employees of the Company

Number of employees	Increase / decrease from previous fiscal year-end	Average age	Average years of service
87 (13) persons	Increase of 3 persons (Decrease of 13 temporary staffs)	45.1 years old	10.5 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, 2020)

N/A

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

Regarding declination of short-term performance-linked remuneration (executive bonuses)

Remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company consists of a fixed remuneration portion and short-term and mid- to long-term performance-linked remuneration portions. Of these, we have received approval from the general meeting of shareholders for the short-term performance-linked remuneration portion to be 20 million yen per year when return on equity (ROE) is greater than 5% but less than 8%, 40 million yen if it is greater than 8% but less than 12%, and maximum 65 million yen if it is greater than 12%.

ROE for fiscal 2019 was 5.5%, which meets the above standard of greater than 5% but less than 8%, but as it does not satisfy the payment standards for the new performance-linked remuneration to be submitted to the Meeting, all Directors (excluding Directors serving as Audit and Supervisory Committee Members) have declined from receiving these executive bonuses.

Please refer to Proposals No. 4 and No. 5 of the Notice of the 25th Ordinary General Meeting of Shareholders to be held on June 30, 2020, regarding the revision of the amount of remuneration, etc. for Directors (excluding Directors serving as Audit and Supervisory Committee Members).

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 2019, 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 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 2019:

- Donation for Torrential Rain Disaster Relief in August 2019
- 2019 Donation for Typhoon Faxai Disaster Relief in Chiba
- 2019 Donation for Typhoon Hagibis Disaster Relief

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

2. Status of Shares (as of March 31, 2020)

- (1) **Total Number of Shares Authorized to be Issued** 23,112,000 shares
- (2) **Total Number of Shares Issued** 11,187,749 shares
- (3) **Number of Shareholders** 5,185 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
Sumihiko Ichihara	595,800	5.32
Takayuki Shibata	594,800	5.31
Kazunori Matsuura	388,800	3.47
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY – PB	368,000	3.28
The Master Trust Bank of Japan, Ltd. (trust account)	354,200	3.16
Kazuyoshi Moriya	330,000	2.94
Aval Data Corporation	260,000	2.32
Credit Suisse Securities (Japan) Limited	194,400	1.73

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

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

(1) Share Acquisition Rights, etc. Held by the Company's Officers as of March 31, 2020

N/A

(2) Share Acquisition Rights Issued to Employees, etc. During FY 2019

		2019 Share Acquisition Rights	
Date of resolution of issuance		December 16, 2019	
Number of share acquisition rights		850 units	
Class and number of shares underlying the share acquisition rights		85,000 shares of common stock (100 shares per unit of share acquisition right)	
Amount to be paid in for the share acquisition rights		No payment required in exchange for share acquisition rights	
Value of assets contributed upon exercise of share acquisition rights		94,100 yen per unit of share acquisition right (941 yen per share)	
Exercise period		From January 7, 2022 to January 6, 2026	
Exercise conditions		(Note)	
Status of issuance to employees, etc.	Employees of the Company	Number of share acquisition rights	850 units
		Number of underlying shares	85,000 shares
		Number of recipients	85 persons

(Note) A share acquisition right holder is required to hold the position of either an executive or an employee of the Company, its subsidiaries and associates at exercise of rights. Other conditions for exercising share acquisition rights shall be specified in the share acquisition right allotment agreement signed between the Company and the share acquisition right holders.

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

N/A

4. Company Officers

(1) Directors (as of March 31, 2020)

Title	Name	Responsibilities & material concurrent positions
President & Representative Director	Kazunori Matsuura	Visiting Professor of University of Tsukuba
Executive Vice President & Representative Director	Akihiro Saito	Supervising Sale & Marketing Department and Management Department Director of ax Inc.
Director	Koji Kanie	Supervising Engineering Department General Manager of Information Security Section
Director	Kazuki Kyakuno	Supervising Algorithm Team of Engineering Department General Manager of Strategic Planning Section Visiting Associate Professor of University of Tsukuba Director of VIPPOOL, Inc. Director of ax Inc. Director of MotionPortrait, Inc.
Director (Audit and Supervisory Committee Member, Full-time)	Teiichiro Nishizaka	Small and Medium Enterprise Management Consultant
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Certified Public Accountant & Tax Accountant Outside Director of INABA SEISAKUSHO Co., Ltd. Audit & Supervisory Board Member of FANUC CORPORATION
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Representative Director of Strategic Capital Partners, Co., Ltd. President and 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 Partner of TIS Tax Accounting Corporation Outside Corporate Auditor of Shintokyo Group Co., Ltd.

- (Notes)1. Directors (Audit and Supervisory Committee Members) Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki, and Shigeo Igashima are Outside Directors.
2. Directors (Audit and Supervisory Committee Members) Katsuya Mitsumura and Shigeo Igashima have considerable financial and accounting expertise based on years of experience as a certified public accountant and tax accountant.
3. Changes in positions and responsibilities of Directors as of April 1, 2020 are as follows.
- Mr. Akihiro Saito, formerly Executive Vice President & Representative Director Supervising Sale & Marketing Department and Management Department, is no longer attached to Sale & Marketing Department and Management Department and has been appointed as Executive Vice President & Representative Director of the Company.
 - Mr. Koji Kanie, formerly Director Supervising Engineering Department & General Manager of Information Security Section, is no longer attached to Engineering Department and has been appointed as Director and General Manager of Information Security Section.
4. With the intent of increasing the effectiveness of information collection and other audits and strengthening the audit and supervisory functions, the Company has appointed Director (Audit and Supervisory Committee Member) Teiichiro Nishizaka as a Full-time Audit and Supervisory Committee Member.
5. The Company has designated Directors (Audit and Supervisory Committee Members) Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki, and Shigeo Igashima as Independent Directors 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) Teichiro Nishizaka, 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)	31 million yen (31 million yen)
Total (Outside Director)	8 persons (4 persons)	112 million yen (31 million yen)

- (Notes) 1. Total amount of remuneration, etc. of Directors (excluding Audit and Supervisory Committee Members) 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 in total, 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. Shibuya Television Co., Ltd.	Representative Director President and Representative Director
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	TIS Tax Accounting Corporation	Representative Partner

(Note) There is no material business relationship between the Company and each of 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. FANUC CORPORATION	Outside Director Audit and Supervisory Board Member
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Risseisha Inc.	Corporate Auditor
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	Shintokyo Group Co., Ltd.	Outside Corporate Auditor

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

3) Main activities during FY 2019

Classification	Name	Main activities
Director (Audit and Supervisory Committee Member)	Teiichiro Nishizaka	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY 2019, and provided opinions on proposals, deliberations, etc. as necessary, based on his extensive experience in the industry to which the Company belongs.
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY 2019, and provided expert opinions mainly as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Participated in 12 out of 13 Board of Directors meetings and in 13 out of 14 Audit and Supervisory Committee meetings during FY 2019, 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 12 out of 13 Board of Directors meetings and in 13 out of 14 Audit and Supervisory Committee meetings during FY 2019, and provided expert opinions mainly as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.

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	32 million yen
Total amount of monetary and other financial benefits payable by the Company and subsidiaries to the Accounting Auditor	32 million yen

- (Notes)
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 2019.
 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 appointed 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. Outline of 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 Business Promotion Meetings composed primarily of Business Execution Directors and Executive Officers as advisory meetings to support the decision making of the President & Representative Director, and consensus-based decision procedures are conducted as necessary. Additionally, Full-time Audit and Supervisory Committee Members also attend Business Promotion 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

- 1) The Company shall establish the necessary systems, etc. to ensure the properness of business operations by the corporate group consisting of the Company and its subsidiaries. The subsidiaries shall be subject to supervision and audits by of the Company's Audit and Supervisory Committee Members and internal audits by those responsible for the Company's internal management.
- 2) The Company shall establish regulations for the management of subsidiaries, require prior approval by the Board of Directors with regard to important business execution by subsidiaries, and have them report the status of business execution each month to the Board of Directors.

(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 2019 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 including matters related to subsidiaries. Additionally, Business Promotion Meetings were held at least once per month as advisory meetings to support decision-making by representative directors, and deliberations were conducted regarding important matters that serve as the backdrop for business execution and specific countermeasures.

2) Compliance Systems

To work toward arousing compliance awareness, compliance training through the use of real-world cases was conducted through inviting mainly 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, 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. Meantime, the Company bases its calculation of payout ratio on consolidated financial results instead of non-consolidated financial results.

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.

Consolidated Balance Sheet

(As of March 31, 2020)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	10,103	Current liabilities	1,272
Cash and deposits	8,071	Accounts payable - trade	662
Accounts receivable - trade	862	Income taxes payable	122
Merchandise and finished goods	1,080	Accrued consumption taxes	203
Work in process	0	Other	283
Raw materials and supplies	0	Non-current liabilities	38
Allowance for doubtful accounts	(0)	Asset retirement obligations	38
Other	88	Total liabilities	1,310
Non-current assets	1,043	(Net assets)	
Property, plant and equipment	120	Shareholders' equity	9,690
Buildings	69	Capital stock	1,018
Tools, furniture and fixtures	51	Capital surplus	861
Intangible assets	79	Retained earnings	7,809
Goodwill	53	Treasury shares	(0)
Other	25	Accumulated other comprehensive income	118
Investments and other assets	843	Valuation difference on available-for-sale securities	118
Investment securities	660	Share acquisition rights	3
Deferred tax assets	34	Non-controlling interests	24
Other	147	Total net assets	9,836
Total assets	11,146	Total liabilities and net assets	11,146

Consolidated Statement of Income

(From April 1, 2019 to March 31, 2020)

(In millions of yen)

Description	Amount	
Net sales		9,265
Cost of sales		6,316
Gross profit		2,948
Selling, general and administrative expenses		2,555
Operating profit		393
Non-operating income		
Interest income	0	
Dividend income	5	
Subsidy income	102	
Gain on investments in partnership	29	
Other	4	142
Non-operating expenses		
Amortization of share issuance costs	0	
Other	0	0
Ordinary profit		535
Extraordinary income		
Gain on bargain purchase	0	0
Extraordinary losses		
Impairment loss	21	
Loss on valuation of membership	5	
Other	1	28
Profit before income taxes		507
Income taxes – current	93	
Income taxes – deferred	(48)	44
Profit		462
Loss attributable to non-controlling interests		(5)
Profit attributable to owners of parent		468

Consolidated Statement of Changes in Net Assets
(From April 1, 2019 to March 31, 2020)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,018	861	7,341	(0)	9,221
Changes of items during period					
Profit attributable to owners of parent			468		468
Net changes in items other than shareholders' equity					
Total changes of items during period	—	—	468	—	468
Balance at end of current period	1,018	861	7,809	(0)	9,690

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income			
Balance at beginning of current period	91	0	91	—	—	9,313
Changes of items during period						
Profit attributable to owners of parent						468
Net changes in items other than shareholders' equity	27	(0)	27	3	24	54
Total changes of items during period	27	(0)	27	3	24	522
Balance at end of current period	118	—	118	3	24	9,836

Notes to Consolidated Financial Statements

1. Important Basis for Preparation of Consolidated Financial Statements

(1) Scope of consolidation

1) Number, name, etc. of consolidated subsidiaries

Number of consolidated subsidiaries: 2

Names of major consolidated subsidiaries:

ax Inc.

MotionPortrait, Inc.

Changes in the scope of consolidation:

In fiscal 2019, ax Inc. has been included in the scope of consolidation because it was newly established.

bitcraft Co., Ltd. and MotionPortrait, Inc. are included in the scope of consolidation as ax Inc. acquired their shares and made them subsidiaries. Additionally, bitcraft Co., Ltd. has been excluded from the scope of consolidation due to its absorption merger by ax Inc. on October 1, 2019.

2) Name, etc. of non-consolidated subsidiaries

Name of a major non-consolidated subsidiary:

VIPPOOL Inc.

Reason for exclusion from the scope of consolidation:

The non-consolidated subsidiary is small in scale, and its total assets, net sales, profit/loss (amount commensurate with equity), and retained earnings (amount commensurate with equity) etc., have no significant effect on the consolidated financial statements. Therefore, it is excluded from the scope of consolidation.

(2) Application of the equity method

Name, etc. of non-consolidated subsidiaries excluded from the scope of equity method

Name of major non-consolidated subsidiary:

VIPPOOL Inc.

Reason for not applying the equity method:

The non-consolidated subsidiary excluded from the scope of equity method has minimal impact on the consolidated financial statements in terms of profit/loss (amount commensurate with equity) and retained earnings (amount commensurate with equity), etc., and its impact is also immaterial as a whole. Therefore, it is excluded from the scope of equity method.

(3) Fiscal year of consolidated subsidiaries, etc.

The fiscal year-end of consolidated subsidiaries matches the consolidated closing date.

(4) Accounting policies

1) Valuation standards and valuation methods of significant assets

1. Securities

- Shares of subsidiaries and associates

Stated at cost using the moving-average method.

- 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).

- Work in process

Stated at cost using the specific identification 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 significant depreciable assets

1. Property, plant and equipment

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

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) Standards of accounting for principal allowances and provisions

-Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover possible losses on trade receivables etc. The Company records the estimated irrecoverable amount based on the historical write-off rate for ordinary receivables and based on assessment of recoverability of individual receivables for specific doubtful accounts.

4) Amortization method and amortization period for goodwill

Goodwill is amortized by the straight-line method over the period in which the benefit is expected to be achieved.

5) Other significant matters underlying the preparation of consolidated financial statements

-Accounting of consumption taxes

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

2. Notes to consolidated balance sheet

Accumulated depreciation of property, plant and equipment: 1,070 million yen

3. Notes to consolidated statement of changes in net assets

(1) Class and total number of shares issued

Class 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) Class and number of treasury shares

Class 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

N/A

2) Payout amount of dividends with reference date in FY 2019 but effective date in FY 2020

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, June 30, 2020	Common stock	234	Retained earnings	21	March 31, 2020	July 1, 2020

(4) Matters related to share acquisition rights as of March 31, 2020

N/A

4. Notes on financial instruments

(1) Matters related to status of financial instruments

1) Policy for efforts directed at financial instruments

The Group holds necessary funds (bank deposits, etc.) in light of its business plan. It is the Group'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 Group 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 Group 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 in accordance with the Company's policy.

The maximum amount of credit risk as of March 31, 2019 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

Three large-lot customers account for 90% of operating receivables as of March 31, 2020.

(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, 2020 are as follows. Please note that they do not include financial instruments, etc. in cases where identification of market value was deemed extremely difficult.

	Balance sheet amount (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
(1) Cash and deposits	8,071	8,071	—
(2) Accounts receivable - trade	862		
Allowance for doubtful accounts*	(0)		
	862	862	—
(3) Investment securities	168	168	—
Total assets	9,101	9,101	—
(1) Accounts payable - trade	662	662	—
(2) Income taxes payable	122	122	—
Total liabilities	784	784	—

* Allowance for doubtful accounts is deducted from accounts receivable – trade.

(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 these are settled in a short period of time, their market value after state of finance, etc. are taken into consideration 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	116 million yen
Contributions to investment limited partnerships	376 million yen
Shares of subsidiaries and associates	51 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.”

In addition, as shares of subsidiaries and associates, with no market price, are deemed as extremely difficult to determine their market value, these items are not included in the above.

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

	Within 1 year (millions of yen)	Over 1 year, within 5 years (millions of yen)	Over 5 years, within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	8,071	—	—	—
Accounts receivable - trade	862	—	—	—
Total	8,933	—	—	—

5. Notes on per share information

- (1) Net assets per share 876.72 yen
(2) Basic earnings per share 41.85 yen

6. Notes on major subsequent events

(Introduction of a restricted stock remuneration system)

At the Board of Directors' meeting held on May 28, 2020, the Company made a resolution to partially review the executive remuneration system and decided to introduce a restricted stock remuneration system (the "System").

1. Purpose, etc. of introducing the System

(1) Purpose of the System

The Company will introduce a remuneration system that allots to Directors (excluding Directors serving as Audit and Supervisory Committee Members) of the Company (hereinafter, "Eligible Directors") restricted stock (hereinafter, "Restricted Stock") to have them share the merits and risks of stock price fluctuations with shareholders, and to further increase their motivation to contribute to the rise in stock prices and improving corporate value.

(2) Conditions for introducing the System

Under the System, monetary remuneration claims will be paid to Eligible Directors as remuneration for granting Restricted Stock. Therefore the introduction of the System is subject to the approval of shareholders at the 25th Ordinary General Meeting of Shareholders to be held on June 30, 2020 regarding the payment of remuneration under the System.

2. Overview of the System

(1) Allotment of Restricted Stock and payment

Based on the resolution of the Board of Directors, the Company will provide Eligible Directors with remuneration, etc. for granting Restricted Stock as monetary remuneration claims within the threshold of 30 million yen per year. Each Eligible Director shall pay all monetary remuneration claims as contribution in kind, and shall receive allotment of Restricted Stock.

The amount to be paid in for Restricted Stock shall be based on the closing price of the Company's common stock on the Tokyo Stock Exchange for the business day immediately preceding the resolution by the Board of Directors of the Company for the issuance or disposal (if trading did not occur on that day, then the closing price on the most recent preceding trading day) and ranged in an amount not particularly advantageous to Eligible Directors receiving Restricted Stock, determined by the Board of Directors of the Company.

Additionally, the payment of the above monetary remuneration claims is subject to the Eligible Directors' consent to the above-mentioned in-kind contribution and their signing of a Restricted Stock allotment agreement including the details specified in (3) below.

(2) Total number of Restricted Stock

The maximum number of Restricted Stock to be allotted each fiscal year shall be 37,500 shares in total which are to be allotted to Eligible Directors.

However, in the event that the Company conducts a stock split (including a gratis allotment of common stock of the Company) or reverse stock split of common stock or any other events that require an adjustment to the total number of Restricted Stock to be allotted, on or after the date of the resolution of this proposal, the Company may reasonably adjust the total number of Restricted Stock.

(3) Details of the Restricted Stock allotment agreement

In allotting the Restricted Stock, based on the resolution by the Board of Directors of the Company, the Company and Eligible Directors receiving allotment of Restricted Stock will enter into a Restricted Stock allotment agreement including the following details:

1) Details of transfer restriction

The Eligible Director who received allotment of Restricted Stock, may not transfer to a third party, pledge, establish security rights on, gift inter vivos, bequeath or otherwise dispose of (hereinafter, the “Transfer Restrictions”) Restricted Stock allotted to the Eligible Directors (hereinafter, the “Allotted Shares”) during the period stipulated by the Board of Directors of the Company ranging from 20 years to 30 years (hereinafter the “Transfer Restriction Period”).

2) Acquisition of Restricted Stock without consideration

Excluding cases where there are reasons deemed justified by the Board of Directors of the Company, if Eligible Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries on or after the starting date of the Transfer Restriction Period by the day before the first subsequent Ordinary General Meeting of Shareholders of the Company, the Company shall acquire the Allocated Shares without consideration as a matter of course.

Additionally, if there are Allocated Shares with Transfer Restrictions that have not been lifted based on the reason for lifting Transfer Restrictions in 3) below at the expiry of the Transfer Restriction Period in 1) above, the Company shall acquire the Allocated Shares without consideration as a matter of course.

3) Lifting the Transfer Restrictions

The Company shall lift Transfer Restrictions on all Allotted Shares at the time immediately after Eligible Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries provided that they remained in the position of Director, Executive Officer, or employees of the Company and its subsidiaries, continuously from the starting date of the Transfer Restriction Period up to the date of the first subsequent Ordinary General Meeting of Shareholders. However, if the Eligible Director remained in the position of Director, Executive Officer or employee of the Company and its subsidiaries continuously until the expiry of the Transfer Restriction Period, the Transfer Restrictions shall not be lifted for any of the Allotted Shares held at expiry.

In addition, in cases where Eligible Directors retire or resign from all positions as Director,

Executive Officer and employee of the Company and its subsidiaries before the expiry of the Transfer Restriction Period for reasons deemed justified by the Board of Directors of the Company, the number and timing of lifting Transfer Restrictions shall be reasonably adjusted as necessary.

4) Treatment in the event of organizational restructuring, etc.

If, during the Transfer Restriction Period, a merger agreement where the Company will be the disappearing company, share exchange agreement or share transfer plan where the Company will become a wholly owned subsidiary, or other proposals on organizational restructuring, etc. is approved at a General Meeting of Shareholders of the Company (or at a Board of Directors meeting if the organizational restructuring, etc. does not require approval by the General Meeting of Shareholders of the Company), (provided that the effective date of the organizational restructuring, etc. arrives before the expiry of the Transfer Restriction Period; hereinafter, the “Approval of Organizational Restructuring”) and Directors who received allotment of Restricted Stock retire or resign from all positions as Director, Executive Officer and employee of the Company and its subsidiaries due to the said organizational restructuring, etc., the Company shall lift Transfer Restrictions ahead of the effective date of the organizational restructuring, etc. for a number of Allotted Shares reasonably determined taking into consideration the period from the starting date of the Transfer Restriction Period to the approval date of the organizational restructuring, etc.

Additionally, at the Approval of Organizational Restructuring, the Company shall acquire without consideration as a matter of course all Allotted Shares with Transfer Restrictions that are not lifted on the business day preceding to the effective date of the organizational restructuring, etc.

7. Notes on Impairment loss

During fiscal 2019, the Group recorded impairment loss for the following asset groups.

Location	Use	Classification
Chiyoda-ku, Tokyo	Business assets related to new business	Tools, furniture and fixture Software
Shibuya-ku, Tokyo	Business assets related to new business	Tools, furniture and fixture Patent right

The Group groups assets based on business segment by the smallest cash-generating unit that is largely independent. Assets that are not clearly related to a specific business segment are treated as shared assets.

In fiscal 2019, the book value of asset groups for which the investment amount is unlikely to be recovered due to decline in profitability, was reduced to recoverable amount, and the reduction was recorded as an impairment loss (21 million yen) under extraordinary losses.

The recoverable amount of the asset groups is measured based on the value in use with future cash flow regarded as zero.

8. Notes on business combinations

(A business combination by a consolidated subsidiary)

1. Outline of business combination

1) Company name of acquiree and its business activities

Name of the company acquired: bitcraft Co., Ltd.

Business of the company acquired: Development, sales, etc. of computer software

2) Main reasons for business combination

ax Inc., a consolidated subsidiary of the Company, is promoting business in the areas of machine learning (AI) and middleware, aimed at early expansion of the scale of business. It is crucial to acquire AI engineers and global human resources to accelerate the business of ax Inc. while bitcraft Co., Ltd. has sophisticated technology and global human resources beyond national borders and language barriers. We believe that we can expect to accelerate new business and develop the Group's global business by having ax Inc. turn bitcraft Co., Ltd. into its subsidiary.

3) Date of business combination

July 1, 2019

4) Legal form of business combination

Acquisition of shares

5) Company name after business combination

No change of the company name

6) Ratio of voting rights acquired

100%

7) Basis for reaching decision on acquisition

The decision was reached because ax Inc., a consolidated subsidiary of the Company, acquired the shares of the acquiree using cash as consideration.

2. Inclusion of acquiree's performance in Consolidated Financial Statements

While the deemed date of acquisition was September 30, 2019, but ax Inc. acquired bitcraft Co., Ltd. through an absorption merger on October 1, 2019.

3. Breakdown of acquisition costs and considerations

The acquisition cost, which is not disclosed pursuant to an agreement between the parties, has been determined at a fair value based on a third-party assessment.

4. Details of conditional consideration for acquisition according to business combination agreement and future accounting policies

(1) Details of conditional consideration

Consideration for the acquisition is to be reduced if main engineers retire within a certain period.

(2) Future accounting policies

Policy of revising the acquisition cost, as well as the amounts of goodwill and amortization of goodwill, if the consideration for the acquisition has decreased.

5. Amount of goodwill, its cause, and method and period of amortization

(1) Amount of goodwill

59 million yen

(2) Cause

The goodwill is mainly due to expectations of enormous future profitability in business development

(3) Method and period of amortization

Even amortization over five years

(A business combination by a consolidated subsidiary)

1. Outline of business combination

1) Company name of acquiree and its business activities

Name of the company acquired: MotionPortrait, Inc.

Business of the company acquired: Development, sales, etc. of computer software

2) Main reasons for business combination

ax Inc., a consolidated subsidiary of the Company, is promoting business in the areas of machine learning (AI) and middleware, aimed at early expansion of the scale of business. We believe that we will be able to expand business in the areas of machine learning (AI) by enhancing services in the AI area and offering new value to customers through the integration of state-of-the-art technologies related to AI held by the Group with image recognition and image processing technologies held by MotionPortrait, Inc.

3) Date of business combination

August 1, 2019

4) Legal form of business combination

Acquisition of shares

5) Company name of acquiree after merger

No change of the company name

6) Ratio of voting rights acquired

100%

7) Basis for reaching decision on acquisition

The decision was reached because ax Inc., a consolidated subsidiary of the Company, acquired the shares of the acquiree using cash as consideration.

2. Inclusion of acquiree's performance in Consolidated Financial Statements

The acquisition is deemed to have been performed on September 30, 2019, and the acquiree's performance for the period from October 1, 2019 to March 31, 2020 is included in the consolidated financial statements for fiscal 2019.

3. Breakdown of acquisition costs and considerations

The acquisition cost, which is not disclosed pursuant to an agreement between the parties, has been determined at a fair value based on a third-party assessment.

4. Amount of gain on bargain purchase and its cause

(1) Amount of profit on negative goodwill

0 million yen

(2) Cause

As the market value of the acquiree's net assets at the time of the business combination was greater than the acquisition cost, the Company recognizes the difference as profit on negative goodwill.

(Absorption-type merger by a consolidated subsidiary resulting in a sub-subsiary)

ax Inc., a consolidated subsidiary of the Company, carried out an absorption-type merger of its wholly-owned subsidiary bitcraft Co., Ltd. on October 1, 2019.

1. Outline of transaction

1) Company name of acquiree and its business activities

Name of the company acquired: bitcraft Co., Ltd.

Business of the company acquired: Development, sales, etc. of computer software

2) Date of business combination

October 1, 2019

3) Legal form of merger

An absorption-type merger in which ax. Inc. is the surviving company and bitcraft Co., Ltd. is the dissolving company

4) Company name after business combination

ax Inc.

5) Other matters related to the transactions

The merger is aimed at making the management of the Group more efficient by concentrating management resources.

2. Outline of accounting processes

Treated as a transaction under common control based on the Accounting Standards for Business Combinations and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

9. 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 37.75 years to 50 years and discount rate of 1.001% to 2.301%.

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

Balance at beginning of current period	37 million yen
Adjustments over time	<u>0 million yen</u>
Balance at end of current period	<u>38 million yen</u>

10. Additional information

(Accounting estimate related to the impact of the spread of COVID-19)

The Group reflects accounting estimates in accounting treatment based on certain assumptions, such as assuming that the impact of spread of COVID-19 will last for about one year in determining the recoverability of deferred tax assets.

Non-consolidated Balance Sheet

(As of March 31, 2020)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	9,873	Current liabilities	1,222
Cash and deposits	7,882	Accounts payable - trade	662
Accounts receivable - trade	827	Advances received	1
Merchandise and finished goods	1,080	Accounts payable – other	206
Raw materials and supplies	0	Accrued expenses	16
Advance payments - trade	0	Income taxes payable	120
Prepaid expenses	82	Accrued consumption taxes	199
Other	1	Deposits received	14
Non-current assets	1,254	Non-current liabilities	38
Property, plant and equipment	120	Asset retirement obligations	38
Buildings	69	Total liabilities	1,260
Tools, furniture and fixtures	51	(Net assets)	
Intangible assets	25	Shareholders' equity	9,745
Patent right	1	Capital stock	1,018
Software	23	Capital surplus	861
Investments and other assets	1,107	Legal capital surplus	861
Investment securities	660	Retained earnings	7,865
Shares of subsidiaries and associates	320	Legal retained earnings	1
Long-term prepaid expenses	9	Other retained earnings	7,864
Lease and guarantee deposits	70	Retained earnings brought forward	7,864
Deferred tax assets	34	Treasury shares	(0)
Other	13	Valuation and translation adjustments	118
		Valuation difference on available-for-sale securities	118
		Share acquisition rights	3
		Total net assets	9,867
Total assets	11,128	Total liabilities and net assets	11,128

Non-consolidated Statement of Income

(From April 1, 2019 to March 31, 2020)

(In millions of yen)

Description	Amount	
Net sales		9,158
Cost of sales		6,285
Gross profit		2,873
Selling, general and administrative expenses		2,427
Operating profit		446
Non-operating income		
Interest income	0	
Dividend income	5	
Foreign exchange gains	1	
Subsidy income	102	
Gain on investments in partnership	29	
Other	3	142
Non-operating expenses		
Amortization of share issuance costs	0	
Other	0	0
Ordinary profit		588
Extraordinary losses		
Impairment loss	15	
Loss on valuation of membership	5	20
Profit before income taxes		567
Income taxes - current	93	
Income taxes - deferred	(49)	43
Profit		523

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2019 to March 31, 2020)

(In millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Legal retained earnings	Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	Total retained earnings		
Balance at beginning of current period	1,018	861	861	1	8,200	(859)	7,341	(0)	9,221
Changes of items during period									
Reversal of general reserve					(8,200)	8,200	—		—
Profit						523	523		523
Net changes of items other than shareholders' equity									
Total changes of items during period	—	—	—	—	(8,200)	8,723	523	—	523
Balance at end of current period	1,018	861	861	1	—	7,864	7,865	(0)	9,745

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at beginning of current period	91	0	91	—	9,313
Changes of items during period					
Reversal of general reserve					—
Profit					523
Net changes of items other than shareholders' equity	27	(0)	27	3	30
Total changes of items during period	27	(0)	27	3	554
Balance at end of current period	118	—	118	3	9,867

Notes to Non-consolidated Financial Statements

1. Notes on significant accounting policies

(1) Valuation standards and valuation methods of assets

1) Securities

- Shares of subsidiaries and associates

Stated at cost using the moving-average method.

- 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

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

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

-Accounting of consumption taxes

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

2. Notes on changes in representation

(Non-consolidated statement of income)

“Loss on retirement of non-current assets” that was posted separately for fiscal 2018 is included in “Other” of “Non-operating expenses” for fiscal 2019 (0 million yen in fiscal 2019) due to decreased monetary importance.

3. Notes to non-consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: 1,068 million yen

(2) Monetary claims and obligations in subsidiaries and associates are as follows.

Monetary claims: 1 million yen

Monetary obligations: 7 million yen

4. Notes to non-consolidated statement of income

(1) Total amount of research and development expenses: 1,536 million yen

(2) Transactions with subsidiaries and associates:

Sales transactions: 12 million yen

Transactions other than sales transactions: 15 million yen

5. Notes to non-consolidated statement of changes in net assets

Class and number of treasury shares

Class 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

6. Notes on tax effect accounting

Deferred tax assets	
Depreciation in excess of deductible amount	12 million yen
One-time depreciation of assets in excess of deductible amount	1 million yen
Accrued enterprise taxes	13 million yen
Asset retirement obligations	11 million yen
Loss on valuation of investment securities	118 million yen
Deferred assets for tax purposes	123 million yen
Deferred losses for tax purposes	405 million yen
Others	40 million yen
Subtotal deferred tax assets	726 million yen
Valuation allowance	(631) million yen
Total deferred tax assets	95 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(52) million yen
Asset retirement obligations	(8) million yen
Total deferred tax liabilities	(60) million yen
Net deferred tax assets	34 million yen

7. Notes on transactions with related parties

Description is omitted because it relates to transactions whose significance is low.

8. Notes on per share information

(1) Net assets per share	881.70 yen
(2) Basic earnings per share	46.82 yen

9. Notes on major subsequent events

(Introduction of a restricted stock remuneration system)

At the Board of Directors' meeting held on May 28, 2020, the Company made a resolution to partially review the executive remuneration system and decided to introduce a restricted stock remuneration system.

For an overview, please refer to "6. Notes on major subsequent events" in notes to consolidated financial statements.

10. Notes on impairment loss

During fiscal 2019, the Company recorded impairment loss for the following asset group.

Location	Use	Classification
Chiyoda-ku, Tokyo	Business assets related to new business	Tools, furniture and fixture Software

The Company groups assets based on business segment by the smallest cash-generating unit that is largely independent. Assets that are not clearly related to a specific business segment are treated as shared assets.

In fiscal 2019, the book value of an asset group for which the investment amount is unlikely to be recovered due to decline in profitability, was reduced to recoverable amount, and the reduction was recorded as an impairment loss (15 million yen) under extraordinary losses.

The recoverable amount of the asset group is measured based on the value in use with future cash flow regarded as zero.

11. Additional information

(Accounting estimate related to the impact of the spread of COVID-19)

The Company reflects accounting estimates in accounting treatment based on certain assumptions, such as assuming that the impact of spread of COVID-19 will last for about one year in determining the recoverability of deferred tax assets.

Report of Independent Auditor

June 3, 2020

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC
Tokyo, Japan

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Tatsuya Yokouchi [Seal]

Toru Iizuka [Seal]

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of AXELL CORPORATION (hereinafter the "Company") applicable to the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, in accordance with accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee and its members are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Company and its consolidated subsidiaries which should be disclosed in accordance with the Certified Public Accountants Act.

Report of Independent Auditor

June 3, 2020

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC

Tokyo, Japan

Certified Public Accountant

Designated Limited Liability Partner

Tatsuya Yokouchi [Seal]

Engagement Partner

Certified Public Accountant

Designated Limited Liability Partner

Toru Iizuka [Seal]

Engagement Partner

Opinion

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the notes to the non-consolidated financial statements and their supplementary schedules (hereinafter the "non-consolidated financial statements, etc.") of AXELL CORPORATION (hereinafter the "Company") applicable to the 25th fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the accompanying non-consolidated financial statements, etc. present fairly, in all material respects, the non-consolidated financial position and results of operations of the Company, applicable to the fiscal year ended March 31, 2020, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Non-consolidated financial statements, etc.

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements, etc. in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements, etc. that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, etc., management is responsible for assessing the Company's ability to continue as a going concern and disclosing, in accordance with accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee and its members are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-consolidated financial statements, etc.

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements, etc. as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate they could reasonably be expected to influence the economic decisions of users taken on the basis of these non-consolidated financial statements, etc..

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the non-consolidated financial statements, etc., whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements, etc. or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the non-consolidated financial statements, etc., including the disclosures, and whether the non-consolidated financial statements, etc. represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

Audit Report

The Audit and Supervisory Committee prepared this audit report regarding the Directors' execution of their duties during fiscal 2019, from April 1, 2019 to March 31, 2020. Those methods and results are hereby reported 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. Efforts were made to communicate and exchange information with Directors and Audit & Supervisory Board Members, etc. of subsidiaries, and business reports were received from subsidiaries as necessary.
- 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 regarding the execution of duties by Directors, and explanations were requested as necessary. In addition, 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, 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, and the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to consolidated financial statements) for fiscal 2019.

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.
- (2) Results of Audit of Non-consolidated Financial Statements, etc. and Related Supplementary Schedules
We found that the methods and the results of the audit conducted by Accounting Auditor, Ernst & Young ShinNihon LLC, are appropriate.
- (3) Results of Audit of Consolidated Financial Statements
We found that the methods and the results of the audit conducted by Accounting Auditor, Ernst & Young ShinNihon LLC, are appropriate.

3. Subsequent Events

At the Board of Directors' meeting held on May 28, 2020, the Company made a resolution to partially review the executive remuneration system and decided to introduce a restricted stock remuneration system. The purpose, etc., and outline of the introduction of the system are described in the notes on major subsequent events (Introduction of a restricted stock remuneration system) in the notes to consolidated financial statements and non-consolidated financial statements.

June 4, 2020

Audit and Supervisory Committee AXELL CORPORATION

Full-time & Audit and Supervisory Committee Member	Teiichiro Nishizaka
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.