

These documents have been translated from Japanese originals for reference purposes only.
In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translations.

(Securities Code: 6730)
May 23, 2016

To Shareholders with Voting Rights:

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

**NOTICE OF
THE 21ST ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 21st Ordinary General Meeting of Shareholders of AXELL CORPORATION (hereinafter “the Company”). The meeting will be held for the purposes as described below.

- 1. Date and Time:** 10:00 a.m. (doors open at 9:20 a.m.) on Saturday, June 18, 2016
- 2. Venue:** Banquet room “Yukyu” on second floor of Hotel Metropolitan Edmont located at 10-8, Iidabashi 3-chome, Chiyoda-ku, Tokyo, Japan
- 3. Meeting Agenda:**
Matters to be reported: Business Report and Non-consolidated Financial Statements for FY 2015 (from April 1, 2015 to March 31, 2016)

Proposals to be resolved:

- Proposal No. 1:** Distribution of Surplus
- Proposal No. 2:** Partial Amendments to the Articles of Incorporation
- Proposal No. 3:** Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
- Proposal No. 4:** Election of Four Directors Serving as Audit and Supervisory Committee Members
- Proposal No. 5:** Determination of Amount of Remuneration, etc. for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
- Proposal No. 6:** Determination of Amount of Remuneration, etc. for Directors Serving as Audit and Supervisory Committee Members

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

Contents

Reference Documents for the General Meeting of Shareholders.....	5
Proposal No. 1: Distribution of Surplus.....	5
Proposal No. 2: Partial Amendments to the Articles of Incorporation.....	6
Proposal No. 3: Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members).....	13
Proposal No. 4: Election of Four Directors Serving as Audit and Supervisory Committee Members.....	16
Proposal No. 5: Determination of Amount of Remuneration, etc. for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members).....	20
Proposal No. 6: Determination of Amount of Remuneration, etc. for Directors Serving as Audit and Supervisory Committee Members.....	22
(Appendix).....	23
Business Report.....	23
1. Company Overview.....	23
(1) Business in FY 2015.....	23
(2) Trends in Assets and Income over Past 3 Fiscal Years.....	25
(3) Material Subsidiaries.....	25
(4) Issues to be Addressed.....	25
(5) Principal Business (as of March 31, 2016).....	26
(6) Principal Offices and Plants (as of March 31, 2016).....	26
(7) Employees (as of March 31, 2016).....	26
(8) Principal Lenders (as of March 31, 2016).....	26
(9) Other Material Information on Current Status of the Company.....	26
2. Status of Shares (as of March 31, 2016).....	28
(1) Total Number of Shares Authorized to be Issued.....	28
(2) Total Number of Shares Issued.....	28
(3) Number of Shareholders.....	28
(4) Major Shareholders.....	28
3. Information on the Company's Stock Acquisition Rights, etc.....	28
(1) Stock Acquisition Rights, etc. held by the Company's Officers as of March 31, 2016.....	28
(2) Stock Acquisition Rights Issued to Employees, etc. during FY 2015.....	28
(3) Other Material Information on Stock Acquisition Rights, etc.....	28
4. Company Officers.....	29
(1) Directors and Audit & Supervisory Board Members (as of March 31, 2016).....	29
(2) Total Amount of Remuneration, etc. for Directors and Audit & Supervisory Board Members.....	29
(3) Outside Officers.....	30
5. Accounting Auditor.....	31
(1) Name.....	31
(2) Amount of Fees, etc.....	31
(3) Description of Non-auditing Business.....	31
(4) Policy regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditor.....	31
(5) Outline of Liability Limitation Agreement.....	31
(6) Matters regarding Business Suspension Orders Received by the Accounting Auditor within the Past Two Years.....	31
6. Systems to Ensure Compliance with Laws, Regulations and the Articles of Incorporation in the Execution of Duties and Other Systems to Ensure the Properness of Operations and Operational Status of said Systems.....	32
(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.....	32
(2) Systems concerning Storage and Management of Information on the Execution of Duties by Directors of the Company.....	32
(3) Internal Regulations and Other Systems concerning Risks of Loss of the Company.....	32
(4) Systems to Ensure the Efficient Execution of Duties by Directors of the Company.....	33
(5) Systems to Ensure the Properness of Business Operations in the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries.....	33
(6) Matters concerning Employees to be Posted as Assistants to Audit & Supervisory Board Member(s) of	

	the Company for the Execution of Audit Duties, Matters concerning the Independence of Said Employees from Directors and Matters concerning Ensuring the Effectiveness of the Orders of Audit & Supervisory Board Member(s) to Said Employees.....	33
(7)	Systems for Directors and Employees of the Company to Report to the Audit & Supervisory Board.....	33
(8)	Systems to Ensure that Whistleblowers pursuant to the Preceding Item Do Not Suffer from Any Disadvantageous Treatment due to their Reports.....	34
(9)	Matters concerning the Policies for the Treatment of Expenses or Obligations to be Incurred for the Execution of Duties by Audit & Supervisory Board Member(s)	34
(10)	Other Systems to Ensure the Effectiveness of Auditing by Audit & Supervisory Board Members of the Company.....	34
(11)	Systems to Ensure the Reliability of Financial Reporting.....	34
7.	Policy for Determination of Distribution of Surplus, etc.....	35
8.	Basic Policy regarding the Company's Control.....	35
	Non-consolidated Balance Sheet.....	36
	Non-consolidated Statement of Income.....	37
	Non-consolidated Statement of Changes in Net Assets.....	38
	Notes to Non-consolidated Financial Statements.....	39
	Accounting Auditor's Report on Non-consolidated Financial Statements.....	46
	Report of the Audit & Supervisory Board.....	48

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Distribution of Surplus

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

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

Year-end dividend

(1) Dividend asset type

Cash

(2) Matters related to allotment of dividend assets and total amount of allotment

5 yen per share of the Company's common stock Total amount: 55,938,745 yen

Annual dividend for fiscal 2015 will be 10 yen per share, including the interim dividend of 5 yen per share already paid.

(3) Effective date of dividends from surplus

June 20, 2016

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

(1) Reason for proposal

- 1) In addition to strengthening the audit and supervisory functions of the Board of Directors, by aiming for swifter and more efficient decision-making and business execution through delegation of business execution decision authority to Directors, the Company aims to further enrich corporate governance. Therefore, the Company will transition to a Company with Audit and Supervisory Committee.
In line with the transition, the amendments will newly establish provisions regarding the Audit and Supervisory Committee and Audit and Supervisory Committee Members, which are necessary to the transition to a Company with Audit and Supervisory Committee, and delete provisions regarding Audit & Supervisory Board Members and the Audit & Supervisory Board.
- 2) In line with the enforcement of the “Act for Partial Revision of the Companies Act” (Act No. 90 of 2014), it also became possible to conclude agreements to limit liability for damages with Directors who do not execute business, and in order to facilitate the appointment of appropriate personnel and enable the sufficient fulfillment of expected duties, the amendments will partially amend Article 27 of the existing Articles of Incorporation to provide for the conclusion of agreements to limit liability for damages with Directors (excluding Executive Directors, etc.). Furthermore, said amendments have received the approval of each Audit & Supervisory Board Member.
- 3) To enable appropriate response according to the structure of the Directors of the Company for the operation of general meetings of shareholders and Board of Directors Meetings fit for the management structure of the Company, Article 14 and Article 23 of the existing Articles of Incorporation will be amended such that a Director defined in advance by the Board of Directors is the convocator and chairman of general meetings of shareholders and Board of Directors Meetings.
- 4) Amendments will be made to amend article numbers, revise wording, and make other required amendments in line with the new establishments, amendments, and deletions of the above articles. Additionally, amendments to the Articles of Incorporation in this Proposal shall take effect at the close of this General Meeting of Shareholders.

(2) Description of amendments

The description of the amendments is as follows

(The amended sections are underlined.)

Existing Articles of Incorporation	Proposed Amendments
<p style="text-align: center;">CHAPTER III GENERAL MEETING OF SHAREHOLDERS</p> <p>Article 14. (Convocator and Chairman)</p> <p>1. A general meeting of shareholders shall be convened by <u>the Chairman of the Board of Directors or the President and Director of the Company</u> pursuant to the resolution of the Board of Directors unless otherwise stipulated by laws or regulations. In the event that <u>the Chairman of the Board of Directors and the President and Director are</u> unable to act, another Director shall convene the meeting in accordance with the order of priority previously determined <u>by a resolution of the Board of Directors.</u></p> <p>2. <u>The Chairman of the Board of Directors or the President and Director of the Company,</u> in accordance with the priority previously determined <u>by a resolution of the Board of Directors,</u> shall chair a general meeting of shareholders. In the event that <u>the Chairman of</u></p>	<p style="text-align: center;">CHAPTER III GENERAL MEETING OF SHAREHOLDERS</p> <p>Article 14. (Convocator and Chairman)</p> <p>1. A general meeting of shareholders shall be convened by <u>a Representative Director defined in advance by the Board of Directors</u> pursuant to the resolution of the Board of Directors unless otherwise stipulated by laws or regulations. In the event that <u>the Representative Director is</u> unable to act, another Director shall convene the meeting in accordance with the order of priority previously determined <u>in the Board of Directors.</u></p> <p>2. <u>The Representative Director,</u> in accordance with the priority previously determined <u>in the Board of Directors,</u> shall chair a general meeting of shareholders. In the event that <u>the Representative Director is</u> unable to act, another Director shall chair the meeting in accordance with the order of</p>

Existing Articles of Incorporation	Proposed Amendments
<p><u>the Board of Directors and the President and Director are</u> unable to act, another Director shall chair the meeting in accordance with the order of priority previously determined <u>by a resolution of</u> the Board of Directors.</p>	<p>priority previously determined <u>in</u> the Board of Directors.</p>
<p>CHAPTER IV DIRECTORS AND BOARD OF DIRECTORS</p> <p>Article 19. (Number of Directors) The number of Directors of the Company shall not exceed <u>ten (10)</u>.</p> <p>(Newly established)</p>	<p>CHAPTER IV DIRECTORS AND BOARD OF DIRECTORS</p> <p>Article 19. (Number of Directors)</p> <p>1. The number of Directors (<u>excluding Directors serving as Audit and Supervisory Committee Members</u>) of the Company shall not exceed <u>six (6)</u>.</p> <p>2. <u>The number of Directors serving as Audit and Supervisory Committee Members of the Company shall not exceed four (4)</u>.</p>
<p>Article 20. (Election of Directors)</p> <p>1. (Newly established)</p> <p>The Directors of the Company shall be elected by a resolution of the general meeting of shareholders adopted by a majority vote of the attending shareholders who hold one third (1/3) or more of the voting rights of the shareholders entitled to exercise voting rights.</p> <p>2. Election of Directors shall not be by cumulative voting.</p>	<p>Article 20. (Election of Directors)</p> <p>1. <u>Directors of the Company shall be elected at a general meeting of shareholders, categorized as Directors serving as Audit and Supervisory Committee Members and other Directors.</u></p> <p>2. (Unchanged)</p> <p>3. (Unchanged)</p>
<p>Article 21. (Term of Office of Directors)</p> <p>1. The term of office of a Director shall expire upon conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within <u>two (2) years</u> from his/her election to office.</p> <p>2. <u>The term of office of a Director elected to fill a vacancy caused by retirement of a Director prior to the expiry of his/her term of office or to increase the number of Directors shall be the same as the remaining term of office of the other Directors in office at that time.</u></p> <p>(Newly established)</p> <p>(Newly established)</p>	<p>Article 21. (Term of Office of Directors)</p> <p>1. The term of office of a Director (<u>excluding Directors serving as Audit and Supervisory Committee Members</u>) shall expire upon conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within <u>one (1) year</u> from his/her election to office.</p> <p>(Deleted)</p> <p>2. <u>The term of office of a Director serving as Audit and Supervisory Committee Member shall expire upon conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within two (2) years from his/her election to office.</u></p> <p>3. <u>The term of office of a Director serving as Audit and Supervisory Committee Member elected to</u></p>

Existing Articles of Incorporation	Proposed Amendments
<p>(Newly established)</p>	<p><u>fill a vacancy caused by retirement of a Director serving as Audit and Supervisory Committee Member prior to the expiry of his/her term of office shall be the same as the remaining term of office of the other Directors serving as Audit and Supervisory Committee Members in office at that time.</u></p> <p>4. <u>The period of validity for resolutions concerning the election of Substitute Directors serving as Audit and Supervisory Committee Members shall be until the beginning of the ordinary general meeting of shareholders held with respect to the last business year ending within two (2) years from said resolution.</u></p>
<p>Article 22. (Executive Directors and Representative Directors)</p> <p>1. The Board of Directors shall appoint one (1) President & Director and may appoint, when necessary, one (1) Chairman of the Board of Directors, and a certain number of Vice Chairmen of the Board of Directors, Executive Vice Presidents, Executive Managing Directors, and Managing Directors.</p> <p>2. Representative Director(s) shall be appointed by resolution of the Board of Directors.</p> <p>3. The President & Director shall manage business operations pursuant to resolutions of the Board of Directors.</p>	<p>Article 22. (Executive Directors and Representative Directors)</p> <p>1. The Board of Directors shall appoint one (1) President & Director <u>from among Directors not serving as Audit and Supervisory Committee Members</u> and may appoint, when necessary, one (1) Chairman of the Board of Directors, and a certain number of Vice Chairmen of the Board of Directors, Executive Vice President, Executive Managing Directors, and Managing Directors.</p> <p>2. Representative Director(s) shall be appointed <u>from among Directors not serving as Audit and Supervisory Committee Members</u> by resolution of the Board of Directors.</p> <p>3. (Unchanged)</p>
<p>Article 23. (Convocation and Chairman of Board of Directors Meetings)</p> <p>1. <u>The Chairman of the Board of Directors or the President & Director</u> shall convene and chair the meetings of the Board of Directors unless otherwise stipulated by laws or regulations.</p> <p>2. In the event <u>the Chairman of the Board of Directors and the President & Director</u> are unable to act, another Director shall chair the meeting in accordance with the order of priority previously determined by a resolution of the Board of Directors.</p> <p>(Newly established)</p> <p>3. A notice of convocation of a meeting of the Board of Directors shall be sent to each Director</p>	<p>Article 23. (Convocation and Chairman of Board of Directors Meetings)</p> <p>1. <u>A Director defined in advance by the Board of Directors</u> shall convene and chair the meetings of the Board of Directors unless otherwise stipulated by laws or regulations.</p> <p>2. In the event <u>the Director is</u> unable to act, another Director shall chair the meeting in accordance with the order of priority previously determined by a resolution of the Board of Directors.</p> <p>3. <u>Regardless of Item 2 above, Audit and Supervisory Committee Members elected by the Audit and Supervisory Committee may convene a Board of Directors Meeting.</u></p> <p>4. A notice of convocation of a meeting of the Board of Directors shall be sent to each Director</p>

Existing Articles of Incorporation	Proposed Amendments
<p><u>and Corporate Auditor</u> three (3) days prior to the meeting; provided, however, that such period may be shortened in the event urgency is required.</p> <p>(Newly established)</p>	<p>at least three (3) days prior to the meeting; provided, however, that such period may be shortened in the event urgency is required.</p> <p><u>5. If all members of the Board of Directors agree, a Board of Directors Meeting may be held without undergoing convocation procedures.</u></p>
<p>(Newly established)</p>	<p><u>Article 24. (Delegation of Determination of Significant Business Execution)</u> <u>Based on the stipulations of Article 399-13, Paragraph 6 of the Companies Act, the Company may delegate to Directors all or part of determination of significant business execution (excluding matters stated in each Item of Paragraph 5 of said Article) via resolution of the Board of Directors.</u></p>
<p>Article <u>24.</u> (Resolutions of Board of Directors) (Omitted)</p>	<p>Article <u>25.</u> (Resolutions of Board of Directors) (Unchanged)</p>
<p>Article <u>25.</u> (Omission of the Procedures for Adoption of Resolutions by Board of Directors) Should the Directors agree unanimously in writing or by electronic record to the matters to be resolved by the Board of Directors, the Company shall deem the relevant resolutions to have been adopted; <u>provided, however, that the foregoing shall not apply in the event a Corporate Auditor objects thereto.</u></p>	<p>Article <u>26.</u> (Omission of the Procedures for Adoption of Resolutions by Board of Directors) Should the Directors agree unanimously in writing or by electronic record to the matters to be resolved by the Board of Directors, the Company shall deem the relevant resolutions to have been adopted.</p>
<p>Article <u>26.</u> (Compensation, etc. to Directors) The amount of compensation, bonuses, and any other proprietary benefits to be granted to Directors by the Company in consideration of their performance of duty (hereinafter referred to as “Compensations”) shall be determined by resolution of the general meeting of shareholders.</p>	<p>Article <u>27.</u> (Compensation, etc. to Directors) The amount of compensation, bonuses, and any other proprietary benefits to be granted to Directors by the Company in consideration of their performance of duty (hereinafter referred to as “Compensations”) shall be determined by resolution of the general meeting of shareholders <u>categorized as Directors serving as Audit and Supervisory Committee Members and other Directors.</u></p>
<p>Article <u>27.</u> (Exemption of liability of <u>Outside Directors</u>) The Company may conclude an agreement with its <u>outside</u> directors to limit the liability for damages in cases where the criteria set forth in laws and regulations with respect to the liability for damages referred to in Article 423, Paragraph 1 of the Companies Act are met. However, the amount of liability for damages under the said agreement shall be capped at the sum of the amounts set forth in each item of Article 425, Paragraph 1 of the said Act.</p>	<p>Article <u>28.</u> (Exemption of liability of Directors) The Company may conclude an agreement with its directors <u>(excluding persons who are Executive Directors, etc.)</u> to limit the liability for damages in cases where the criteria set forth in laws and regulations with respect to the liability for damages referred to in Article 423, Paragraph 1 of the Companies Act are met. However, the amount of liability for damages under the said agreement shall be capped at the sum of the amounts set forth in each item of Article 425, Paragraph 1 of the said Act.</p>
<p><u>CHAPTER V CORPORATE AUDITORS AND</u></p>	<p>(Deleted)</p>

Existing Articles of Incorporation	Proposed Amendments
<p align="center">BOARD OF CORPORATE AUDITORS</p> <p><u>Article 28. (Adoption of Corporate Auditors and Board of Corporate Auditors)</u> <u>The Company shall have Corporate Auditors and a Board of Corporate Auditors.</u></p>	(Deleted)
<p><u>Article 29. (Number of Corporate Auditors)</u> <u>The number of Corporate Auditors of the Company shall not exceed five (5).</u></p>	(Deleted)
<p><u>Article 30. (Election of Corporate Auditors)</u> <u>The Corporate Auditors of the Company shall be elected by a resolution of the general meeting of shareholders adopted by a majority vote of the attending shareholders who hold one third (1/3) or more of the voting rights of the shareholders entitled to exercise voting rights.</u></p>	(Deleted)
<p><u>Article 31. (Term of Office of Corporate Auditors)</u> <u>1. The term of office of a Corporate Auditor shall expire upon the conclusion of the ordinary general meeting of shareholders held with respect to the last business year ending within four (4) years from his/her election to office.</u></p> <p><u>2. The term of office of a Corporate Auditor elected to fill a vacancy caused by retirement of a Corporate Auditor prior to the expiry of his/her term of office shall be the same as the remaining term of office of the retired Corporate Auditor.</u></p>	(Deleted)
<p><u>Article 32. (Full-Time Corporate Auditors)</u> <u>The Board of Corporate Auditors shall appoint one (1) or more full-time Corporate Auditors from among the Corporate Auditors.</u></p>	(Deleted)
<p><u>Article 33. (Convocation and Chairman of Board of Corporate Auditors Meetings)</u> <u>1. A Corporate Auditor previously determined by the Board of Corporate Auditors shall convene and chair meetings of the Board of Corporate Auditors.</u></p> <p><u>2. Notice of convocation of a meeting of the Board of Corporate Auditors shall be sent to each Corporate Auditor three (3) days prior to the meeting; provided, however, that said period may be shortened in the event of emergency.</u></p>	(Deleted)
<p><u>Article 34. (Resolutions of Board of Corporate Auditors)</u> <u>Resolutions of the Board of Corporate Auditors shall be adopted by a majority vote of the Corporate Auditors, unless otherwise stipulated by laws or regulations.</u></p>	(Deleted)
<p><u>Article 35. (Compensation, etc. to Corporate</u></p>	(Deleted)

Existing Articles of Incorporation	Proposed Amendments
<p><u>Auditors)</u> <u>The amount of compensation, etc. to be granted to Corporate Auditors shall be determined by resolution of the general meeting of shareholders.</u></p>	
<p><u>Article 36. (Limitation of Liabilities of Corporate Auditors)</u> <u>The Company and an Outside Corporate Auditor may enter into an agreement that limits the liabilities set forth in Article 423, Paragraph 1 of the Companies Act should relevant requirements stipulated by laws or regulations be satisfied; provided, however, that the limit of liabilities pursuant to said agreement shall be the total of the amounts listed under Article 425, Paragraph 1 of said Act.</u></p>	(Deleted)
<p>(Newly established) (Newly established)</p>	<p><u>CHAPTER V AUDIT AND SUPERVISORY COMMITTEE</u> <u>Article 29. (Adoption of Audit and Supervisory Committee)</u> <u>The Company shall have an Audit and Supervisory Committee.</u></p>
<p>(Newly established)</p>	<p><u>Article 30. (Full-Time Audit and Supervisory Committee Member)</u> <u>Full-time Audit and Supervisory Committee Members may be elected via resolution of the Audit and Supervisory Committee.</u></p>
<p>(Newly established)</p>	<p><u>Article 31. (Convocation of Audit and Supervisory Committee Meetings)</u> <u>1. Notice of convocation of a meeting of the Audit and Supervisory Committee shall be sent to each Audit and Supervisory Committee Member at least three (3) days prior to the meeting; provided, however, that said period may be shortened in the event of emergency.</u> <u>2. Should all Audit and Supervisory Committee Members agree unanimously, an Audit and Supervisory Committee Meeting may be held without undergoing convocation procedures.</u></p>
<p>(Newly established)</p>	<p><u>Article 32. (Audit and Supervisory Committee Regulations)</u> <u>Matters related to the Audit and Supervisory Committee shall be based on the Audit and Supervisory Committee Regulations defined by the Audit and Supervisory Committee, aside from laws and regulations and the Articles of Incorporation.</u></p>
<p>(Newly established)</p>	<p><u>Article 33. (Resolutions of Audit and Supervisory Committee)</u> <u>Resolutions of the Audit and Supervisory Committee shall be adopted by a majority vote of the Audit and Supervisory Committee Members in</u></p>

Existing Articles of Incorporation	Proposed Amendments
	<u>attendance, who constitute a majority of the Audit and Supervisory Committee Members on the Audit and Supervisory Committee.</u>
<p style="text-align: center;">CHAPTER VI ACCOUNTING AUDITOR</p> <p>Article <u>37</u> ~ (Omitted) Article <u>39</u></p>	<p style="text-align: center;">CHAPTER VI ACCOUNTING AUDITOR</p> <p>Article <u>34</u> ~ (Unchanged) Article <u>36</u></p>
<p>Article <u>40</u>. (Compensation, etc. to Accounting Auditor) The amount of compensation, etc. to be granted to the Accounting Auditor shall be determined by the Representative Director subject to the consent of the <u>Board of Corporate Auditors</u>.</p>	<p>Article <u>37</u>. (Compensation, etc. to Accounting Auditor) The amount of compensation, etc. to be granted to the Accounting Auditor shall be determined by the Representative Director subject to the consent of the <u>Audit and Supervisory Committee</u>.</p>
<p style="text-align: center;">CHAPTER VII ACCOUNTS</p> <p>Article <u>41</u> ~ (Omitted) Article <u>44</u></p>	<p style="text-align: center;">CHAPTER VII ACCOUNTS</p> <p>Article <u>38</u> ~ (Unchanged) Article <u>41</u></p>
<p>(Newly established) (Newly established)</p>	<p style="text-align: center;"><u>Supplementary Provisions</u> <u>(Interim Measures Regarding Liability Exemption of Audit & Supervisory Board Members)</u> <u>Based on the stipulations of Article 426, Paragraph 1 of the Companies Act, the Company may, via resolution of the Board of Directors, exempt liability for damages due to gross negligence of duties of Audit & Supervisory Board Members (including persons who were Audit & Supervisory Board Members) for actions taken before the partial amendments to the Articles of Incorporation resolved at the 21st Ordinary General Meeting of Shareholders take effect.</u></p>

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

Proposal No. 3: Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

The term of office of all eight Directors will have expired at the close of this General Meeting of Shareholders. In addition, if Proposal No. 2: Partial Amendments to the Articles of Incorporation is approved, the Company will transition to a Company with Audit and Supervisory Committee.

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

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

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
	Kazunori Matsuura (Jan. 25, 1970 46 years old) Reappointment	April 1994 Joined Nippon Steel Corp. (current NIPPON STEEL & SUMITOMO METAL 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)	388,800 shares
1	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 92.0% (12 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 beginning with development division, he is involved in business promotion and corporate management of the Company as President & Representative Director. By integrating the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member). 		

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>Akihiro Saito (Aug. 4, 1966 49 years old)</p> <p>Reappointment</p>	<p>April 1989 Joined Nippon Steel Corp. (current NIPPON STEEL & SUMITOMO METAL CORPORATION)</p> <p>May 1995 Seconded to Nippon Steel Semiconductor Corporation</p> <p>April 1999 Transferred to Nippon Foundry Inc.</p> <p>January 2002 Joined the Company</p> <p>April 2004 Appointed to Senior Manager of Sales & Marketing Department of the Company</p> <p>June 2006 Appointed to Director & Assistant General Manager of Sales & Marketing Department of the Company</p> <p>June 2010 Appointed to Director & General Manager of Sales & Marketing Department of the Company</p> <p>June 2012 Executive Vice President & Representative Director, General Manager of Sales & Marketing Department of the Company (to present)</p>	<p>18,000 shares</p>
<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 numerous companies, and is involved in the management of sales and marketing divisions of the Company as Executive Vice President & Representative Director. By integrating the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member). 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)		Number of shares of the Company held
3	Nobuhiro Sendai (Sep. 26, 1952 63 years old) Reappointment	April 1975 April 1998 August 2000 June 2002	Joined Toyo Engineering Corp. Seconded to National Space Development Agency of Japan (current Japan Aerospace Exploration Agency) Joined the Company Appointed to General Manager of Management Department Appointed to Director & General Manager of Management Department of the Company (to present)	41,600 shares
	<ul style="list-style-type: none"> ■ 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. Nobuhiro Sendai has a wealth of experience in management operations at numerous companies, etc., and is involved in the management of management divisions of the Company. By reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member). 			
4	Koji Kanie (Sep. 30, 1976 39 years old) Reappointment	April 2001 January 2009 June 2012	Joined the Company Appointed to Senior Manager of Engineering Department of the Company Appointed to Director & General Manager of Engineering Department of the Company (to present)	10,000 shares
	<ul style="list-style-type: none"> ■ 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 development divisions. By reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member). 			

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

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

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

In the event that Proposal No. 2: Partial Amendments to the Articles of Incorporation is approved, the Company will transition to a Company with Audit and Supervisory Committee.

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

The Audit & Supervisory Board has previously given its approval on this proposal.

The candidates for the position of 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	Yoshiki Yoshida (Sep. 24, 1937 78 years old) New appointment Outsider Independent	April 1962 Joined NIKON CORPORATION June 1995 Appointed to Managing Director and General Manager of Administration Division of AVAL DATA CORPORATION June 1997 Appointed to Standing Corporate Auditor of AVAL DATA CORPORATION February 2001 Appointed to Full-time Audit & Supervisory Board Member of the Company (to present)	9,000 shares
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit & Supervisory Board meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member Mr. Yoshiki Yoshida has a wealth of operational experience in management and business promotion, etc., at numerous companies, 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. 		
2	Masao Suzuki (Feb. 9, 1953 63 years old) Reappointment Outsider Independent	April 1975 Joined Heiwa Sogo Bank, K.K. (current Sumitomo Mitsui Banking Corporation) November 1981 Joined Yamaichi Securities Co., Ltd. November 1993 Joined Goldman Sachs (Japan) Ltd. Appointed to Vice president of Corporate Dept. of Investment Banking Division February 2000 Established Strategic Capital Partners, Co., Ltd. Appointed to Representative Director (to present) June 2010 Appointed to Director of the Company (to present)	100 shares
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit & Supervisory Board meetings — ■ 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
3	Katsuya Mitsumura (Jun. 18, 1951 65 years old) New appointment Outsider Independent	April 1974 Joined Showa Audit Corporation (current Ernst & Young ShinNihon LLC) March 1977 Registered as a Certified Public Accountant January 1982 Established Katsuya Mitsumura C.P.A. and Tax Accountant Office (to present) June 2008 Appointed to Audit & Supervisory Board Member of the Company (to present)	0 shares
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit & Supervisory Board 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 experiences, etc., regarding finance and accounting from his many years as a certified public accountant and tax accountant, 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. Additionally, although Mr. Katsuya Mitsumura has not previously been involved in corporate management other than as an Outside Executive, due to the above reasons, the Company believes that he will be able to appropriately fulfill the duties of Outside Director. 		
4	Shigeo Igashima (Dec. 12, 1963 52 years old) New appointment Outsider Independent	October 1990 Joined Chuo Shinko Audit Corporation August 1995 Registered as a Certified Public Accountant January 1997 Joined Yano Seisakusho Co., Ltd. March 2003 Seconded to Yano Electronics (Thailand) Ltd. Appointed to Executive Vice President and Representative Director April 2004 Returned to Yano Seisakusho Co., Ltd. September 2004 Appointed to Representative of Igashima C.P.A. Office (to present) June 2005 Appointed to Corporate Auditor of MTK Servicer Co., Ltd. June 2008 Appointed to Audit & Supervisory Board Member of the Company (to present) Appointed to Corporate Auditor of ejworks corporation Appointed to Corporate Auditor of Lunascape Corporation December 2011 Appointed to Standing Auditor of TAIYO BUSSAN KAISHA, LTD. (to present) June 2012 Audit & Supervisory Board Member of Shintokyo Group Co., Ltd. (to present) October 2015 President and Representative Director of Cluster Accounting Co., Ltd. (to present)	0 shares
	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit & Supervisory Board meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member In addition to specialized knowledge and experiences, etc., regarding finance and accounting from his many years 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. Yoshiki Yoshida, Masao Suzuki, Katsuya Mitsumura and Shigeo Igashima are candidates for Outside Directors serving as Audit and Supervisory Committee Member.
3. Although Mr. Masao Suzuki is currently an Outside Director of the Company, his term of office as Outside Director will be six years at the close of this General Meeting of Shareholders.
4. Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded agreements

with Messrs. Yoshiki Yoshida, Masao Suzuki, Katsuya Mitsumura and Shigeo Igashima to limit their liability for damages under Article 423, Paragraph 1 of the said Act. The cap on the liability for damages under the said agreements is the sum of the amounts set forth in each item of Article 425, Paragraph 1 of the Companies Act. In the event that the above 4 persons are reelected, the Company plans to continue the Liability Limitation Agreement with them.

5. The Company has designated Messrs. Yoshiki Yoshida, Masao Suzuki, Katsuya Mitsumura and Shigeo Igashima as Independent Corporate Officers under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect. If the above 4 persons are appointed as Directors serving as Audit and Supervisory Committee Members at this General Meeting of Shareholders, the Company plans to continue to submit them as Independent Corporate Officers.
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 exceed 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. 5: Determination of 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 of the Company has been equal to the sum of the fixed remuneration portion “capped at 180 million yen per year (including a maximum 20 million yen for Outside Directors)” approved at the 15th Ordinary General Meeting of Shareholders held on June 20, 2010, and the performance-linked remuneration portion (linked to the Company’s business performance) “capped at 100 million yen per year (excluding Outside Directors)” approved at the 17th Ordinary General Meeting of Shareholders held on June 17, 2012. If Proposal No. 2: Partial Amendments to the Articles of Incorporation is approved, the Company will transition to a Company with Audit and Supervisory Committee. In conjunction with this change, we propose to review the remuneration paid to Directors, and for remuneration for Directors (excluding Directors serving as Audit and Supervisory Committee Members), while maintaining the previous structure of fixed remuneration portion and performance-linked remuneration portion, the Company proposes the modification of the performance-linked remuneration portion such that it is comprised of a “short-term performance-linked remuneration” that is based on business results for each fiscal year, and a “mid- to long-term performance-linked remuneration” with the goal of raising awareness of contributing to improving mid- to long-term business results and corporate value.

Additionally, as has always been the case, the amount of remuneration, etc. of 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, currently eight (including one Outside Director), will decrease to four (excluding Directors serving as Audit and Supervisory Committee Members) if Proposal No. 2 and No. 3 are approved in their original forms.

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

In line with the transition to a Company with Audit and Supervisory Committee, the number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) will be four, and the Company proposes to change the current fixed remuneration portion from a maximum of 180 million yen per year (including a maximum 20 million yen for Outside Directors) to a maximum of 100 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, fixed remuneration for the following fiscal year shall be reduced by an amount equivalent to 5% for three months
- 2) If a net loss is recorded for two consecutive fiscal years, fixed remuneration for the following fiscal year shall be reduced by an amount equivalent to 5% for six months
- 3) 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 line with the transition to a Company with Audit and Supervisory Committee, the number of Directors (excluding Directors serving as Audit and Supervisory Committee Members) will be four, and the Company proposes to change the current performance-linked remuneration portion from a maximum of 100 million yen per year (excluding Outside Directors) to a maximum of 65 million yen per year (excluding Non-executive Directors). Additionally, the Company proposes to change the calculation method as follows.

(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	
ROE	Amount of remuneration	ROE	Amount of remuneration
Less than <u>4</u> %	0	Less than <u>5</u> %	0
Greater than <u>4</u> % but less than 8%	<u>30</u> million yen	Greater than <u>5</u> % but less than 8%	<u>20</u> million yen
Greater than 8% but less than 12%	<u>60</u> million yen	Greater than 8% but less than 12%	<u>40</u> million yen
Greater than 12%	<u>100</u> million yen	Greater than 12%	<u>65</u> million yen

Additionally, as has always been the case, if any one of the following conditions applies, the performance-linked remuneration will not be paid, regardless of the above.

- 1) When dividends of surplus, pursuant to Article 453 of the Companies Act, are not distributed to the shareholders;
- 2) When profit decreases by 20% or more from the previous fiscal year;
- 3) When profit decreases for two consecutive fiscal years or more.

3. Performance-linked remuneration portion (Mid- to long-term performance-linked remuneration)

If the average ROE is 10% or greater during the three most recent fiscal years, the Company proposes the payment of a total of 50 million yen. Additionally, those eligible to receive payment shall be Executive Directors that were in office for the entire period of the three most recent fiscal years.

Additionally, if any one of the following conditions applies, the mid- to long-term performance-linked remuneration will not be paid.

- 1) If ROE declines for two consecutive fiscal years
- 2) If ROE is less than 5% during the most recent fiscal year

(Reason why the change is reasonable)

This revision to the amount of remuneration, etc. of Directors (excluding Directors serving as Audit and Supervisory Committee Members) is being proposed with the intent of clarifying management responsibility of Directors (excluding Directors serving as Audit and Supervisory Committee Members) by adding conditions to reduce fixed remuneration, and by introducing a remuneration system that is based not only on business results for a single fiscal year but on the business results of multiple fiscal years, the composition of performance-linked remuneration will increase (the ratio of the performance-linked remuneration portion will be raised from 36% to 53%). The Company believes that this is a more preferable type of remuneration of Directors (excluding Directors serving as Audit and Supervisory Committee Members) as it creates further incentive toward contributing to improvement of mid- to long-term business results and corporate value. Additionally, as ROE was set as the management indicator to be targeted, the Company believes that using ROE as the calculation basis for the performance-linked remuneration is appropriate.

Furthermore, the effectiveness of this Proposal is contingent upon the effects of Proposal 2 taking effect.

Proposal No. 6: Determination of Amount of Remuneration, etc. for Directors Serving as Audit and Supervisory Committee Members

If Proposal No. 2: Partial Amendments to the Articles of Incorporation is approved, the Company will transition to a Company with Audit and Supervisory Committee.

In line with the transition to a Company with Audit and Supervisory Committee, Directors serving as Audit and Supervisory Committee Members will participate in resolutions of the Board of Directors as Directors and supervise the execution of business of other Directors, in addition to previous auditing operations conducted by Audit & Supervisory Board Members. As a result, to create a remuneration standard fitting of these duties, the Company proposes remuneration of Directors serving as Audit and Supervisory Committee Members to be a maximum of 40 million yen per year. Additionally, in light of the nature of the duties of Directors serving as Audit and Supervisory Committee Members, remuneration shall consist only of fixed remuneration.

If Proposal No. 2 and No. 4 are approved in their original forms, the number of Directors serving as Audit and Supervisory Committee Members will be four.

Furthermore, the effectiveness of this Proposal is contingent upon the effects of Proposal 2 taking effect.

Business Report

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

1. Company Overview

(1) Business in FY 2015

1) Business Progress and Results

During the fiscal 2015, a moderate recovery trend continued in the Japanese economy including improvements in corporate earnings, the employment and income environment, along with steady personal consumption. However, the economic outlook remained uncertain, due to concerns of a global economic slowdown, particularly in emerging nations and resource-rich nations, and the effects this will have on financial and capital markets.

In the pachinko and pachislot machines market, which is the primary market for the Company, we acknowledge that while sales of the few popular models from which a certain level of operations could be expected remained strong, the condition continued to hover at low levels overall due to continuation of the cautious approach to the introduction of new machines at amusement facilities. Additionally, due mainly to the effect of self-imposed regulations by an industry group implemented in November (pachinko machines) and December (pachislot machines) 2015, new machine sales of pachinko machines and pachislot machines were on a declining trend through the second half of fiscal 2015.

Under such circumstances, the Company channeled its energies into promoting the sale of various products, focusing on Graphics LSI products targeted at the pachinko and pachislot machines market, which are the Company's mainstay products (including an integrated product that fulfills multiple functions such as sound-generating functions) (Note 1). Furthermore, regarding initiatives taken outside the pachinko and pachislot machine market, the Company has been striving to expand the adoption of Graphics LSI products for customers in the embedded system market (Note 2), and also focused on sales activities for various products intended for the Digital Convenience Radio market (Note 3) and software IP products such as the H2MD software movie codec that allows for playback in PC and smartphone browsers.

As a result, for fiscal 2015, the Company recorded net sales of 8,982 million yen, operating income of 244 million yen, ordinary income of 220 million yen, and profit of 113 million yen.

(Note 1) "Graphics LSI" refers to LSIs that enable graphics to be shown on LCDs and other display devices.

(Note 2) "Embedded system market" refers to the market relating to the manufacture of embedded systems, excluding the pachinko and pachislot machines. Embedded systems refer to electronic devices that have a computer embedded that carries out a particular processing specific to a certain application. Embedded systems include devices of various types and in various areas, ranging from medical devices, vending machines, to home electric appliances.

(Note 3) Concerning the products intended for the Digital Convenience Radio market, various products were developed and sold under the NEWZONE brand, but after careful review of future growth possibilities, the Company has decided to stop selling these products as of this fiscal 2015.

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

For the pachinko and pachislot machines market, the Company sells Graphics LSI products (including integrated function products), LED driver LSI (Note 1) products, Memory-module (Note 2) products, etc. Its main products are Graphics LSI products. In fiscal 2015, sales of Graphics LSI products accounted for about 80% of the Company's net sales.

As for products targeted at the pachinko and pachislot machines market for fiscal 2015, both self-imposed regulations by an industry group and sales trends of major customers affected sales, resulting in net sales decreasing 1,964 million yen from the previous fiscal year to 8,743 million yen (down 18.3% year-on-year). Additionally, of this 1,964 million yen decrease from the previous fiscal year, approximately 35% is due to a decrease in Graphics LSI product sales, while the remaining approximately 65% is due to a decrease in other product sales. While our mainstay Graphics LSI products made smooth progress transitioning from traditional products to new products with high added-value, sales were approximately 1,080,000 units, compared to approximately 1,260,000 units in the previous fiscal year.

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

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

(ii) LSI products targeted at the embedded system market

For the embedded system market, which includes medical devices and industrial equipment, the Company sells Graphics LSI products. Currently, its product lineup is comprised of “AG10”, a Graphics LSI product for various embedded systems based on PC configuration, and the “AG9” series, which realize high-resolution graphic rendering in general embedded systems equipped with a relatively cheap CPU. In terms of Graphics LSI products targeted at the embedded system market for the fiscal 2015, net sales decreased 18.9% year-on-year to 146 million yen due to trends in demand of manufacturers which adopt the Company’s products. Additionally, a prototype for “AG903,” the newest product in the “AG9” series, was completed during the fiscal year under review.

(iii) Other

Other than the aforementioned LSI products, the Company develops and sells the development evaluation board and software to support the development by customers along with software IP products such as “H2MD”. Sales associated with such development-support environments, software IP products and NEWZONE brand products, which the Company ceased selling during the fiscal year under review, decreased by 49.7% year-on-year to 92 million yen.

(Orders received and sales generated by product category)

(In millions of yen)

Product category	Outstanding orders at beginning of FY 2015	FY 2015 Orders received	FY 2015 Net sales	Outstanding orders at end of FY 2015
Pachinko and pachislot machines market	4,229	6,382	8,743	1,868
Embedded system market	36	138	146	27
Other	0	92	92	0
Total	4,266	6,613	8,982	1,896

2) Capital investment

Capital investment in fiscal 2015 totaled 190 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 94 million yen, equipment, etc. for management purposes amounting to 30 million yen, software, etc. for design and development purposes amounting to 15 million yen, and expenses to renovate operational spaces at headquarters amounting to 49 million yen.

3) Financing

All capital investments, etc. were financed by the Company’s own funds in fiscal 2015.

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

N/A

5) Assignment of other company’s business

N/A

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

N/A

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

N/A

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

Category	FY 2012	FY 2013	FY 2014	FY 2015
Orders received (million yen)	15,021	11,859	12,264	6,613
Net sales (million yen)	16,717	11,035	11,073	8,982
Ordinary income (million yen)	3,340	2,070	1,659	220
Profit (million yen)	1,944	1,045	1,115	113
Basic earnings per share (yen)	156.80	84.26	89.91	9.85
Total assets (million yen)	15,737	14,002	14,562	12,156
Net assets (million yen)	13,233	13,130	13,556	11,256
Net assets per share (yen)	1,067.05	1,058.75	1,093.10	1,006.14

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

(3) Material Subsidiaries

N/A

(4) Issues to be Addressed

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

1) Approach to the pachinko and pachislot machines market

The pachinko and pachislot machine market is the Company's main market, and the Company recognizes that establishing a business model to secure stable profits and continuous growth in this market as an important issue.

In the pachinko and pachislot machine market, a harsh market environment persists because, in addition to a decreasing trend in the market, the reuse of pachinko and pachislot machine components is causing a contraction in demand. However, the pachinko and pachislot machine market is a huge market where demand for electronic parts such as the Company's are in high demand. Additionally, there are still many areas in which the Company has not entered and are open to business possibilities for the Company. The Company recognizes that the pachinko and pachislot machine market will continue to be the core of the Company's business in the future.

For the pachinko and pachislot machine market, the Company will continue to enhance the functions of Graphics LSI products, our mainstay products, and expand into the system business with such products at the core. Furthermore, the Company will diversify its business through product development for new areas in the pachinko and pachislot machine market. Also, the Company is intent on improving the development-support environment that would alleviate customers' burden of development and providing more customer-oriented high-value-added solutions. Through the organic implementation of such measures, the Company intends to secure stable profits and achieve medium- to long-term growth in a harsh market environment.

2) Approach to Business Diversification

Over 95% of the Company's net sales are currently comprised of products for pachinko and pachislot machines, resulting in trends in the pachinko and pachislot machine market acting as a major variable in the Company's business results. The Company recognizes that a major challenge facing it is that in order for the Company to realize a sustainable growth in profits, it must secure steady earnings in this main market while also making effective use of the technology and know-how cultivated by the Company to enter new businesses where profitability and growth can be expected.

Current initiatives outside of this main market includes efforts using Graphics LSI in the medical and industrial embedded systems market, and efforts to increase sales of software IP products such as H2MD. The Company plans to continue to proactively search for opportunities to enter new business areas including through methods such as mergers and acquisitions, alliances, and more.

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

The Company recognizes that the task of preparing a framework to facilitate the acquisition of intellectual property rights for its various proprietary technologies is an important issue. The Company also believes that developing measures to prevent the infringement of intellectual property rights of other companies will become a critical issue, based on the view that the risk of infringement of other companies' rights will increase along with the expansion of its business scale. To address the aforementioned issues, the Company makes ongoing efforts, including establishing divisions in charge of intellectual property rights in general that report directly to the President, building a close relationship with its consulting patent attorneys and conducting in-house seminars on intellectual property rights. For the future, the Company will make an effort to enhance collaboration among R&D staff, divisions that oversee intellectual property rights and the consulting patent attorneys in order to further boost their effectiveness.

4) Enriching corporate governance

In order to continuously improve corporate value and realize sustainable growth, the Company believes that enriching corporate governance to be important.

In its corporate principles, the Company has set forth "Establishing a governance structure that considers all stakeholders," placing importance on corporate governance for management. In line with its corporate principles, the Company believes that, while considering all stakeholders, establishing an appropriate corporate governance structure that fit factors such as the Company's business type and business scope is an important issue.

Basic policy on corporate governance

The Company considers corporate governance to be an important management issue, and in addition to explicitly "Establishing a governance structure that accounts for all stakeholders" in the corporate Philosophy, the Company has defined the "Axell Code of Conduct," and has positioned this as an important management policy. By enhancing its corporate governance, the Company will conduct business activities as a corporate organization with high social ethics, and by increasing the soundness, transparency, and efficiency of management, the Company will aim to enhance its corporate value and attain continuous growth.

(5) Principal Business (as of March 31, 2016)

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

(6) Principal Offices and Plants (as of March 31, 2016)

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

(7) Employees (as of March 31, 2016)

Number of employees	Increase / decrease from previous fiscal year-end	Average age	Average years of service
84 (31) persons	Increase of 2 persons (Increase of 5 temporary staffs)	41.4 years old	8.0 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, 2016)

N/A

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

CSR activities

The Company acknowledges the social nature of a company, and based on the view 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 2015, the Company made social contributions, including making donations to the Environmental Restoration and Conservation

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

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

Donations made by the Company to victims of natural disasters in fiscal 2015:

Emergency Relief Donation for Nepal Earthquake 2015

2015 Donation for Disaster of Typhoon No. 18, etc.

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

2. Status of Shares (as of March 31, 2016)

- (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** 5,486 shareholders

(4) Major Shareholders

Name of shareholder	Number of shares held	Controlling share
Yuzuru Sasaki	1,243,200 shares	11.11%
Midoriya Electric Co., Ltd.	849,000	7.58
BBH for Fidelity Low-Priced Stock Fund (Principal All Sector Sub-portfolio)	831,400	7.43
Sumihiko Ichihara	595,800	5.32
Takayuki Shibata	594,800	5.31
Kazunori Matsuura	388,800	3.47
Tatsuaki Okumura	369,000	3.29
Kazuyoshi Moriya	335,600	2.99
AVAL DATA CORPORATION	260,000	2.32
Japan Trustee Services Bank, Ltd. (Trust Account)	182,200	1.62

(Note) The Company does not hold any treasury stock.

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

- (1) **Stock Acquisition Rights, etc. held by the Company's Officers as of March 31, 2016**
N/A
- (2) **Stock Acquisition Rights Issued to Employees, etc. during FY 2015**
N/A
- (3) **Other Material Information on Stock Acquisition Rights, etc.**
N/A

4. Company Officers

(1) Directors and Audit & Supervisory Board Members (as of March 31, 2016)

Title	Name	Responsibilities & material concurrent positions
Chairman	Yuzuru Sasaki	
Vice Chairman	Sumihiko Ichihara	
* President & Director	Kazunori Matsuura	
* Executive Vice President	Akihiro Saito	General Manager of Sales & Marketing Department
Director	Takayuki Shibata	
Director	Nobuhiro Sendai	General Manager of Management Department
Director	Koji Kanie	General Manager of Engineering Department
Director	Masao Suzuki	Representative Director of Strategic Capital Partners, Co., Ltd.
Full-time Audit & Supervisory Board Member	Yoshiki Yoshida	
Audit & Supervisory Board Member	Katsuya Mitsumura	Certified Public Accountant & Tax Accountant
Audit & Supervisory Board Member	Shigeo Igashima	Certified Public Accountant & Tax Accountant Representative Director of Cluster Accounting Co., Ltd. Outside Standing Auditor of TAIYO BUSSAN KAISHA, LTD. Outside Corporate Auditor of Shintokyo Group Co., Ltd.

(Notes) 1. Asterisk indicates Representative Director.

2. Director Masao Suzuki is an Outside Director.

3. Full-time Audit & Supervisory Board Member Yoshiki Yoshida, Audit & Supervisory Board Member Katsuya Mitsumura and Audit & Supervisory Board Member Shigeo Igashima are Outside Audit & Supervisory Board Members.

4. Full-time Audit & Supervisory Board Member Yoshiki Yoshida, Audit & Supervisory Board Member Katsuya Mitsumura and Audit & Supervisory Board Member Shigeo Igashima have considerable financial and accounting expertise as described below.

1) Full-time Audit & Supervisory Board Member Yoshiki Yoshida has a total of 6 years of experience in closing procedures and the preparation and audit of financial statements at AVAL DATA CORPORATION as Managing Director and General Manager of Administration Division from June 1995 and Standing Corporate Auditor from June 1997, and therefore has considerable degree of financial and accounting expertise.

2) Mr. Katsuya Mitsumura was elected as Audit & Supervisory Board Member based on his long years as a certified public accountant and tax accountant and his possession of extensive knowledge of finance and accounting.

3) Mr. Shigeo Igashima was elected as Audit & Supervisory Board Member based on his long years of experience as a certified public accountant and tax accountant and his possession of extensive knowledge of the management of business corporations.

5. The Company has designated Director Masao Suzuki, Full-time Audit & Supervisory Board Member Yoshiki Yoshida, Audit & Supervisory Board Member Katsuya Mitsumura and Audit & Supervisory Board Member Shigeo Igashima as Independent Corporate Officers under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect.

(2) Total Amount of Remuneration, etc. for Directors and Audit & Supervisory Board Members

Classification	Number of persons who received remuneration, etc.	Total amount of remuneration, etc.
Director (Outside Director)	8 persons (1 person)	166 million yen (6 million yen)
Audit & Supervisory Board Member (Outside Audit & Supervisory Board Member)	3 persons (3 persons)	19 million yen (19 million yen)
Total	11 persons	185 million yen

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

2. The amount of remuneration of Directors is limited to the sum of: the fixed remuneration portion amounting to no more

than 180 million yen per year (Outside Director portion amounting to no more than 20 million yen per year, and not including the employee salary portion), which was approved at the 15th Ordinary General Meeting of Shareholders held on June 20, 2010 and the performance-linked remuneration portion (i.e., remuneration linked to the Company's performance) amounting to no more than 100 million yen per year (not including Outside Directors), which was approved at the 17th Ordinary General Meeting of Shareholders held on June 17, 2012. Furthermore, in line with the Company's transition to non-consolidated accounting, the standard for determination of performance-linked remuneration has been changed from "consolidated return on equity (ROE)" to "return on equity (ROE)."

3. At the Inaugural General Meeting of Shareholders held on January 30, 1996, a resolution was adopted to limit the amount of remuneration of Audit & Supervisory Board Members to 20 million yen per year.

(3) Outside Officers

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

Title	Name	Company, etc. where concurrent position is held	Description of concurrent position
Director	Masao Suzuki	Strategic Capital Partners, Co., Ltd.	Representative Director
Audit & Supervisory Board Member	Shigeo Igashima	Cluster Accounting Co., Ltd.	Representative Director

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

2) Concurrent position held by outside officers 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
Audit & Supervisory Board Member	Shigeo Igashima	TAIYO BUSSAN KAISHA, LTD. Shintokyo Group Co., Ltd.	Outside Standing Auditor Outside Corporate Auditor

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

3) Main activities during FY 2015

Classification	Name	Main activities
Director	Masao Suzuki	Participated in all of the 13 Board of Directors meetings during FY 2015 and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Full-time Audit & Supervisory Board Member	Yoshiki Yoshida	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit & Supervisory Board meetings during FY 2015, and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management.
Audit & Supervisory Board Member	Katsuya Mitsumura	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit & Supervisory Board meetings during FY 2015, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.
Audit & Supervisory Board Member	Shigeo Igashima	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit & Supervisory Board meetings during FY 2015, and mainly provided expert opinions as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary.

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

4) Outline of Liability Limitation Agreement

Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded an agreement with its Outside Director and Outside Audit & Supervisory Board Members to limit their liability for damages under Article 423, Paragraph 1 of the said Act.

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

5. Accounting Auditor

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

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

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

- (Note) 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 2015.
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 & Supervisory Board of the Company 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 & Supervisory Board will determine the content of a proposal to terminate or not renew appointment of the Accounting Auditor.

Additionally, if the Audit & Supervisory Board 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 & Supervisory Board Members. In this case, the Audit & Supervisory Board Member elected by the Audit & Supervisory Board will report the termination of the Accounting Auditor and the reason for termination at the first General Meeting of Shareholders convened after the termination.

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

N/A

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

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

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

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

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

- 1) The Company's Directors and employees shall not only comply with the laws, regulations, the Articles of Incorporation and the like in accordance with the Corporate Philosophy and the Code of Conduct stipulated by the Company, but shall also firmly maintain the virtues and ethics required by society based on the social significance of corporate existence.
- 2) The Company shall establish a unit in charge of internal control directly under the President and Representative Director, appointing the head of said unit as the Internal Audit Implementer. The Internal Audit Implementer, incorporated into the internal organization, shall conduct audits on the status of Director and employee compliance with the laws, regulations, the Articles of Incorporation and the like from a perspective independent of the business execution organization.
- 3) The Board of Directors shall make a decision on or approve statutory matters and various matters relating to business execution in an appropriate and timely manner in accordance with the stipulations of laws, regulations, the Articles of Incorporation, and Board of Directors Regulations, 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

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

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

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

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

- 1) Measures to avoid the risk of loss shall be devised by establishing Crisis Control Regulations. The Company shall respond promptly and appropriately, should the risk of loss materialize.
- 2) The teams and entities in charge comprising the Company shall continually study the risks that may arise in the course of business and report the results thereof to the GM Meeting (Note) and the Board of Directors.

- 3) Company-wide measures for responding to large-scale disasters and the like shall be considered from the perspective of the Business Continuity Plan.

(Note) GM Meetings are meetings held periodically by the President, Business Execution Directors, General Managers of Groups and respective leaders of teams in Groups.

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

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

- 1) The Company shall establish various regulations that define office organization, organizational bodies, segregation of duties, administrative authorities, etc., for the efficient execution of business by Directors.
- 2) The Company shall hold a regular Board of Directors meeting once monthly with the attendance, as a general rule, of all Directors and Outside Audit & Supervisory Board Members for reports on the status of execution of duties by the Directors.
- 3) The Board of Directors clearly defines the job responsibilities of each Director by electing the Representative Director, the President, and Executive Officers. Further, responsibilities relating to business execution shall be clearly established through the election of Corporate Officers in charge of managing major business departments.
- 4) For the purpose of sharing various information on material facts concerning corporate management, the Company stipulates the participation of all Directors in the GM meetings as a general rule, in addition to requiring all final decisions among all Directors to be approved by circular and inspected by Outside Directors.
- 5) The Company shall formulate a medium-term business plan at the beginning of each fiscal year, pursuant to the instruction of the President and Representative Director and subject to the approval of the Board of Directors, for use as guidelines in the execution of duties.

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

(Article 362, Paragraph 4, Item 6 of the Companies Act; Article 100, Paragraph 1, Item 5 of the Ordinance for Enforcement of the Companies Act)

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

(6) Matters concerning Employees to be Posted as Assistants to Audit & Supervisory Board Member(s) of the Company for the Execution of Audit Duties, Matters concerning the Independence of Said Employees from Directors and Matters concerning ensuring the Effectiveness of the Orders from Audit & Supervisory Board Member(s) to Said Employees

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

- 1) The Company shall, upon consultation with Audit & Supervisory Board Members, appoint appropriate assistants to Audit & Supervisory Board Members, should Audit & Supervisory Board Members request the appointment of employees to assist with their duties.
- 2) In order to ensure the independence of assistants to Audit & Supervisory Board Members, the Company shall, upon consultation with Audit & Supervisory Board Members, 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 and Employees of the Company to Report to the Audit & Supervisory Board

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

- 1) Audit & Supervisory Board Members shall receive reports from the Directors and employees on the following matters:
 - a. Matters subject to regular reporting
 - Corporate management, business and financial status; risk management and compliance status
 - b. Matters subject to extraordinary reporting
 - Occurrence of important facts concerning corporate management
 - Fraudulent acts relating to the execution of duties by the Directors; occurrence of material facts constituting violation of laws, regulations, or the Articles of Incorporation
- 2) Audit & Supervisory Board Members shall attend the Board of Directors meetings in order to obtain the aforementioned information in an appropriate manner. The full-time Audit & Supervisory Board

Member shall attend internal meetings of high managerial significance, in addition to inspecting such important documents as requests for final decision.

- 3) In the event that the content of a report to the whistleblower hotline is required for the execution of duties by an Audit & Supervisory Board Member, such reports shall be made promptly to an Audit & Supervisory Board Member.

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

(Article 100, Paragraph 3, Item 5 of the Ordinance for Enforcement of the Companies Act)

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 & Supervisory Board Member(s)

(Article 100, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act)

When an Audit & Supervisory Board 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 & Supervisory Board Member Auditing Standards.”

(10) Other Systems to Ensure the Effectiveness of Auditing by Audit & Supervisory Board Members of the Company

(Article 100, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act)

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

- 1) Systems for Execution of Duties of Directors

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

- 2) Compliance Systems

To work toward arousing compliance awareness, compliance training through the use of real-world cases was conducted through invited corporate attorneys and outside instructors. Additionally, a whistleblower hotline was established and a system to ensure appropriate response is in place.

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

- 3) Risk Management Systems

At the regular Board of Directors meetings, each group submits a monthly report concerning risk, evaluation and regular revision of risk definition and countermeasures is made, and efforts are made in

risk reduction and prevention. Additionally, a business continuity plan with disasters in mind has been defined, and revisions are implemented as required regarding its effectiveness. Furthermore, periodic checks are made on transaction partners to implement measures to eliminate transactions with anti-social forces.

4) **Audit Systems of Audit & Supervisory Board Members**

An Audit & Supervisory Board meeting was held once per month, and while determining audit policies and audit plans and confirming the status of execution of duties, Full-time Audit & Supervisory Board Members attended important meetings such as Board of Directors meetings and GM Meetings, and information was shared with Outside Audit & Supervisory Board Members via the Audit & Supervisory Board.

Audit & Supervisory Board Members held regular communication meetings with internal audit divisions and the Accounting Auditor, exchanged information and opinions, and implemented audits. Additionally, Outside Directors and Audit & Supervisory Board Members periodically shared information and exchanged opinions.

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

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

As an appropriate level for the scope of its business, the Company aims to hold three years of selling, general and administrative expenses as internal reserves, but also emphasizes management that recognizes capital efficiency from the standpoint of improving corporate value, and will execute capital measures that adequately consider the balance of both. In accordance with the medium- to long-term growth strategies, internal reserves are used mainly as funds for R&D and for new business developments in an effort to continually enhance corporate value.

8. Basic Policy regarding the Company's Control

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

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

Non-consolidated Balance Sheet

(As of March 31, 2016)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	11,061	Current liabilities	843
Cash and deposits	8,063	Accounts payable–trade	681
Accounts receivable–trade	465	Lease obligations	1
Merchandise and finished goods	2,000	Accounts payable–other	129
Raw materials and supplies	0	Accrued expenses	9
Advance payments–trade	300	Deposits received	19
Prepaid expenses	107	Deferred tax liabilities	0
Income taxes receivable	35	Non-current liabilities	56
Consumption taxes receivable	87	Lease obligations	0
Non-current assets	1,095	Asset retirement obligations	34
Property, plant and equipment	336	Other	22
Buildings	113	Total liabilities	900
Tools, furniture and fixtures	220	(Net assets)	
Leased assets	1	Shareholders' equity	11,217
Intangible assets	31	Capital stock	1,018
Patent right	1	Capital surplus	861
Trademark right	0	Legal capital surplus	861
Software	29	Retained earnings	9,336
Investments and other assets	726	Legal retained earnings	1
Investment securities	350	Other retained earnings	9,335
Long-term prepaid expenses	37	General reserve	8,200
Lease and guarantee deposits	92	Retained earnings brought forward	1,135
Deferred tax assets	225	Valuation and translation adjustments	39
Other	20	Valuation difference on available-for-sale securities	39
		Total net assets	11,256
Total assets	12,156	Total liabilities and net assets	12,156

Non-consolidated Statement of Income

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

(In millions of yen)

Description	Amount	
Net sales		8,982
Cost of sales		4,880
Gross profit		4,101
Selling, general and administrative expenses		3,857
Operating income		244
Non-operating income		
Interest income	0	
Interest on securities	0	
Dividend income	2	
Dividend income of life insurance	1	
Other	0	5
Non-operating expenses		
Foreign exchange losses	3	
Commission for purchase of treasury shares	10	
Loss on retirement of noncurrent assets	3	
Loss on investments in partnership	11	
Other	0	29
Ordinary income		220
Extraordinary losses		
Loss on liquidation of business	41	41
Profit before income taxes		178
Income taxes—current	98	
Income taxes—deferred	(33)	65
Profit		113

Non-consolidated Statement of Changes in Net Assets

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

(In millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings			Treasury shares	Total shareholders' equity	
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings				Total retained earnings
					General reserve	Retained earnings brought forward			
Balance at beginning of current period	1,018	861	861	1	10,200	1,449	11,650	(0)	13,531
Changes of items during period									
Dividends of surplus						(428)	(428)		(428)
Provision of general reserve					(2,000)	2,000	-		-
Profit						113	113		113
Purchase of treasury shares								(2,000)	(2,000)
Retirement of treasury shares						(2,000)	(2,000)	2,000	-
Net changes of items other than shareholders' equity									
Total changes of items during period	-	-	-	-	(2,000)	(314)	(2,314)	0	(2,314)
Balance at end of current period	1,018	861	861	1	8,200	1,135	9,336	-	11,217

	Valuation and translation adjustments		Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of current period	25	25	13,556
Changes of items during period			
Dividends of surplus			(428)
Provision of general reserve			-
Profit			113
Purchase of treasury shares			(2,000)
Retirement of treasury shares			-
Net changes of items other than shareholders' equity	13	13	13
Total changes of items during period	13	13	(2,300)
Balance at end of current period	39	39	11,256

Notes to Non-consolidated Financial Statements

1. Notes on significant accounting policies

(1) Valuation standards and valuation methods of assets

1) Securities

- Available-for-sale securities

Available-for-sale securities with market value

The market value method is applied, based on the market value as of the fiscal-end. The entire positive or negative valuation difference from the purchase price is booked directly as net assets, and the cost of securities sold is calculated using the moving-average method.

Available-for-sale securities without market value

Stated at cost using the moving-average method.

Contributions to investment limited partnerships and partnerships similar thereto, which are deemed as securities under Article 2-2 of Financial Instruments and Exchange Act, are posted by the method where the amount equivalent to equity is included on a net basis, based on the most recent available financial statement according to the date of statement stipulated by the partnership agreement.

2) Inventories

- Finished goods

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

- Supplies

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

(2) Depreciation method of non-current assets

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

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

The useful lives of the assets are as follows:

Buildings: 3-15 years

Tools, furniture and fixtures: 2-20 years

2) Intangible assets (excluding leased assets)

Straight-line depreciation

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

3) Leased assets

Leased assets pertaining to financial leases other than those in which the title of the leased property transfers to the lessee

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

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

-Accounting of consumption taxes

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

2. Notes on changes in representation

(Non-consolidated statements of income)

“Gain on forfeiture of unclaimed dividends” (0 million yen for fiscal 2015) that was separately posted for the previous fiscal year is included in “Other” of Non-operating expenses from fiscal 2015 since the amount is no longer significant.

3. Notes to non-consolidated balance sheets

(1) Accumulated depreciation of property, plant and equipment: 975 million yen

4. Notes to non-consolidated statements of income

(1) Total amount of research and development expenditures: 2,807 million yen

(2) Loss on liquidation of business

This consists of a loss on abandonment of inventories resulting from the cessation of the NEWZONE brand's business activities.

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

(1) Type and total number of shares issued

Type of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	12,402,252	-	1,214,503	11,187,749

(Note) The decrease of total number of shares issued consists of a retirement of 1,214,503 shares of treasury stock.

(2) Type and number of treasury share

Type of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	54	1,214,449	1,214,503	-

(Note) The increase of treasury stock consists of an increase of 1,214,400 shares resulting from an acquisition of treasury stock as resolved by the Board of Directors and an increase of 49 shares resulting from the purchase of fractional shares.

The decrease of treasury stock consists of a retirement of 1,214,503 shares of treasury stock.

(3) Matters related to dividends of surplus

1) Dividend payout amounts

Resolution	Type of shares	Total amount of dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 21, 2015	Common stock	372	30	March 31, 2015	June 22, 2015
Board of Directors Meeting, October 23, 2015	Common stock	55	5	September 30, 2015	November 19, 2015

2) Payout amount of dividends with reference date in FY 2015 but effective date in FY 2016

Tentative resolution	Type of shares	Total amount of dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
Ordinary General Shareholders' Meeting, June 18, 2016	Common stock	55	Retained earnings	5	March 31, 2016	June 20, 2016

(4) Matters related to stock acquisition rights as of March 31, 2016

N/A

6. Notes on financial instruments

(1) Matters related to status of financial instruments

1) Policy for efforts directed at financial instruments

The Company holds necessary funds (bank deposits, etc.) in light of its business plan primarily to conduct the research and development of LSI products and execute the sales business. It is the Company's policy to raise funds if more funds than it currently holds is deemed necessary in consideration of the circumstances and other factors at that time.

The Company seeks to not only utilize but also protect financial assets by investing temporary surplus funds out of bank deposits and other financial assets held by the Company in highly secure financial assets. It is also the Company's policy to use derivative transactions in order to avoid foreign currency risks, and it does not conduct speculative transactions.

2) Description of financial instruments and risks associated with such financial instruments

Accounts receivable-trade (i.e., operating receivables) are exposed to customers' credit risk. However, the Company seeks to reduce this risk by making the settlement period as short as possible, by closing the accounts at the end of each month and settling transactions in the following month as a fundamental rule.

Securities consist of treasury discount bills purchased by using funds regarded as temporary surplus funds out of bank deposits, etc. held by the Company. The Company's policy is not to hold financial instruments that are generally riskier than treasury discount bills.

Investment securities are shares held for the purpose of confirming the tie-up with counterparty companies and also held as contributions to investment limited partnerships, and are exposed to risks of fluctuations in market price.

Accounts payable-trade (i.e., operating payables) are generally settled within one month by closing the accounts at the end of each month and settling transactions in the following month as a fundamental rule, similarly to accounts receivable-trade (i.e., operating receivables).

3) Risk management for financial instruments

▪ Management of credit risk (risk of nonperformance of contract by counterparty, etc.)

The Company manages operating receivables according to the credit management rules it has established to manage such receivables. The Management Department is in charge of conducting a credit check of new counterparties upon the commencement of transactions. In conjunction with

regular checks conducted by the Management Department, the Sales and Marketing Department manages receivables from counterparties in ongoing transactions by confirming their financial position of such counterparties, as well as the due date, balance and other matters regarding receivables in transactions with such counterparties.

The Company seeks to promptly identify and reduce concerns over the collection of operating receivables mainly by managing them as described above.

Receivables comprising securities have negligible credit risk as they are all in the form of highly secure treasury discount bills.

The maximum amount of credit risk as of March 31, 2016 is shown as the amount of financial assets exposed to credit risks in the balance sheets.

- **Management of market risk**

Shares of companies listed on securities exchanges and markets are held by the Company for the purpose of confirming its tie-up with counterparty companies, and are declared as investment securities in the balance sheets, along with contributions to investment limited partnerships. The Company periodically identifies the market value of the investment securities and the financial position etc. of the issuer (counterparty company) and reviews such investment securities on an ongoing basis, in consideration of such factors as the status of tie-up with the counterparty company.

- **Management of liquidity risk in financing (risk of not being able to execute payment on due date)**

The Company manages liquidity risks by executing fund settlement in consideration of security, by confirming the fund settlement status and the trends in the balance during the month, as well as the fund settlement forecast and the projected trends in the balance in the following month.

4) Supplementary explanation of market value and other matters related to financial instruments

The market value of financial instruments includes mark-to-market value, and in cases where there is no market price, it includes the value reasonably calculated. As the calculation of such market value takes variables into account, the value may change if different assumptions, etc. are adopted.

5) Concentration of credit risks

Two large-lot customers account for 86% of operating receivables as of March 31, 2016.

(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, 2016 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	8,063	8,063	—
(2) Accounts receivable—trade	465	465	—
(3) Income taxes receivable	35	35	—
(4) Investment securities Available-for-sale securities	116	116	—
Total assets	8,681	8,681	—
(1) Accounts payable—trade	681	681	—
Total liabilities	681	681	—

(Note 1) Calculation method of market value of financial instruments and matters related to securities

Assets

(1) Cash and deposits

Deposits are all short-term and their market value is approximately the same as the book value; therefore, the book value is stated.

(2) Accounts receivable—trade

As accounts receivable-trade are settled within about one month and their credit risk is under management, their market value is deemed to be almost the same as the book value; therefore, the book value is stated.

(3) Income taxes receivable

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

(4) Investment securities

Available-for-sale securities in investment securities are comprised only of stocks that exceed the amount recorded on the balance sheet, and the market value of investment securities is stated at the price quoted at the stock exchange or in other relevant markets. No investment securities were sold during fiscal 2015.

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.

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

Classification	Balance sheet amount
Contributions to investment limited partnerships	233 million yen

As investment limited partnerships, with no market price, is deemed as extremely difficult to determine its market value, this item is not included in “(4) Investment securities.”

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

	Within 1 year (millions of yen)	Over 1 year, within 5 years (millions of yen)	Over 5 years, within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	8,062	–	–	–
Accounts receivable–trade	465	–	–	–
Total	8,528	–	–	–

7. Notes on tax effect accounting

Deferred tax assets

Depreciation in excess of deductible amount	88 million yen
One-time depreciation of assets in excess of deductible amount	3 million yen
Asset retirement obligations	10 million yen
Deferred assets for tax purposes	149 million yen
Others	1 million yen

Total deferred tax assets 253 million yen

Deferred tax liabilities

Enterprise tax receivable	(2) million yen
Valuation difference on available-for-sale securities	(17) million yen
Asset retirement obligations	(8) million yen

Total deferred tax liabilities (28) million yen

Net deferred tax assets 225 million yen

Valuation allowance of 5 million yen has been deducted from deferred tax assets.

8. Notes on asset retirement obligations

(1) Summary of the asset retirement obligations

They are restitution obligations in line with a building lease agreement for the head office.

(2) Calculation method for the amount of the asset retirement obligations

The amount of asset retirement obligations is calculated at estimated period of use of 42.75 years to 50 years and discount rate of 1.820% to 2.301%.

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

Balance at beginning of current period	33 million yen
Adjustments over time	<u>0 million yen</u>
Balance at end of current period	<u>34 million yen</u>

9. Notes on transactions with related parties

N/A

10. Notes on per share information

(1) Net assets per share	1,006.14 yen
(2) Basic earnings per share	9.85 yen

11. Notes on major subsequent events

N/A

Report of Independent Auditor

April 25, 2016

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC

Certified Public Accountant		
Designated Limited Liability Partner	Kaoru Kashima	[Seal]
Engagement Partner		
Certified Public Accountant		
Designated Limited Liability Partner	Tatsuya Yokouchi	[Seal]
Engagement Partner		

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in net assets, the notes to non-consolidated financial statements and the related supplementary schedules of AXELL CORPORATION (hereinafter the "Company") applicable to fiscal 2015, from April 1, 2015 to March 31, 2016.

Management responsibility in respect of non-consolidated financial statements

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

Responsibility of Accounting Auditor

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

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

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

Audit opinion

In our opinion, the non-consolidated financial statements and the related supplementary schedules referred to above present fairly, in every significant aspect, the financial position and operating results of the Company for fiscal 2015 in conformity with corporate accounting standards generally accepted in Japan.

Interest

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

Audit Report

The Audit & Supervisory Board, upon deliberation, prepared this audit report regarding the Directors' execution of their duties during fiscal 2015, from April 1, 2015 to March 31, 2016, based on the audit reports prepared by each Audit & Supervisory Board Member and hereby reports as follows:

1. Auditing Method Employed by Audit & Supervisory Board Members and the Audit & Supervisory Board and Details Thereof

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

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

Furthermore, with respect to the resolution of the Board of Directors concerning the development of the system to ensure the compliance of Directors with laws, regulations and the Articles of Incorporation in the execution of their duties and other systems required to ensure the properness of the operations of joint stock company (kabushiki-kaisha) as stipulated in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act (Article 362, Paragraph 4-6 of the Revised Companies Act), as well as the system (internal control system) developed based on the resolution of the Board of Directors, we received regular reports regarding the status of formulation, operation, and revision from the Directors and other employees, sought explanations as necessary, and expressed opinion thereon.

Additionally, to strengthen internal controls, the Corporate Governance Code was defined in June 2015 and its application has begun to listed companies, and the Audit & Supervisory Board worked to secure effectiveness of the audits of Audit & Supervisory Board Members with these regulations in mind.

We additionally verified internal controls over financial reporting under the Financial Instruments and Exchange Act from the Audit & Supervisory Board Members' standpoint.

Based on the foregoing methods, we examined the Business Report and the related supplementary schedules for fiscal 2015.

Moreover, we monitored and verified whether the Accounting Auditor had maintained its independence and conducted audits appropriately, and received reports, and sought explanations as necessary, from the Accounting Auditor regarding the execution of its duties, based on which we examined the non-consolidated financial statements (the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in net assets, and the notes to non-consolidated financial statements) and the related supplementary schedules for fiscal 2015.

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

2. Audit Results

(1) Results of Audit of Business Report, etc.

1. In our opinion, the business report and the supplementary schedules are in accordance with the related laws and regulations and Articles of Incorporation, and fairly represent the Company's condition.
2. No inappropriate conduct concerning the execution of duties by Directors or material facts in violation of laws, regulations or the Articles of Incorporation were found.
3. We found that the Board of Directors' resolutions concerning the internal control system are appropriate in content. We also found no matters requiring note on our part with respect to the description of the Business Report and the execution of duties by Directors concerning the said internal control system. Furthermore, there are no particular matters to add as Audit & Supervisory Board Members regarding the internal controls over financial reporting.
4. No matters requiring note on our part were found with respect to the basic policies on the composition of person to control decision making over financial and business policies of the Company stated in the Business Report.

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

April 25, 2016

Audit & Supervisory Board
AXELL CORPORATION

Full-time & Audit &
Supervisory Board Member
Audit & Supervisory Board
Member
Audit & Supervisory Board
Member

Yoshiki Yoshida
Katsuya Mitsumura
Shigeo Igashima

(Note) The three Audit & Supervisory Board Members are Outside Audit & Supervisory Board Members set forth in Article 2, Item 16 and Article 335, Paragraph 3 of the Companies Act.