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(Securities Code: 6730)  
June 9, 2021

**To Shareholders with Voting Rights:**

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

## **NOTICE OF THE 26TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We hereby notify you that the 26th Ordinary General Meeting of Shareholders (the “Meeting”) of AXELL CORPORATION (hereinafter “the Company”) will be held as follows.

In light of the prevention of the spread of COVID-19, to secure the safety of our valued shareholders, we ask you to refrain from attending the Meeting in person as much as possible and to exercise your voting rights in advance in writing or via the Internet.

Please review the Reference Documents for the General Meeting of Shareholders and exercise your voting rights no later than 6:00 p.m. on Monday, June 28, 2021, Japan time.

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

- 1. Date and Time:** 10:00 a.m. on Tuesday, June 29, 2021
- 2. Venue:** Banquet room “Yukyu” on the second floor of Hotel Metropolitan Edmont located at 10-8, Iidabashi 3-chome, Chiyoda-ku, Tokyo, Japan
- 3. Meeting Agenda:**
  - Matters to be reported:**
    1. Business Report, Consolidated Financial Statements for FY 2020 (from April 1, 2020 to March 31, 2021) and results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
    2. Non-consolidated Financial Statements for FY 2020 (from April 1, 2020 to March 31, 2021)
  - Proposals to be resolved:**
    - Proposal No. 1:** Distribution of Surplus
    - Proposal No. 2:** Election of Four Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

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

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## Reference Documents for the General Meeting of Shareholders

### Proposal No. 1: Distribution of Surplus

The Company's policy on profit sharing for shareholders is to maximize the return, while taking into account the adequate levels of "periodic profit returns to shareholders" and "maintenance of appropriate internal reserves that enables flexible business operations." Based on this policy, the amount of dividends is set at 50% of profit (payout ratio of 50%) as a general rule. However, if the amount of dividends calculated at the payout ratio of 50% falls below the amount for the previous fiscal year, the amount shall be considered with the level of prior dividends taken into account after adequate internal reserves are secured. Meantime, the Company bases its calculation of payout ratio on consolidated financial results instead of non-consolidated financial results.

Based on this policy, we propose a term-end dividend of 31 yen per share.

Year-end dividend

- (1) Dividend asset type  
Cash
- (2) Allotment of dividend assets and its total amount  
31 yen per share of the Company's common stock      Total amount: 334,720,547 yen
- (3) Effective date of dividends from surplus  
June 30, 2021

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

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

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

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

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

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
1	<p>Kazunori Matsuura (Jan. 25, 1970 51 years old)</p> <p>Reappointment</p>	<p>April 1994      Joined Nippon Steel Corp. (current NIPPON STEEL CORPORATION)</p> <p>April 1998      Joined the Company</p> <p>April 2004      Appointed to Senior Manager of Engineering Department of the Company</p> <p>June 2006      Appointed to Director &amp; Assistant General Manager of Engineering Department of the Company</p> <p>June 2010      Appointed to Director &amp; General Manager of Engineering Department of the Company</p> <p>June 2012      Appointed to President &amp; Representative Director of the Company (to present)</p> <p>April 2014      Visiting Professor of University of Tsukuba (to present)</p>	<p>397,140 shares</p>
<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (13 out of 13)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Kazunori Matsuura has a wealth of experience in semiconductor development at other companies, and is involved in business promotion and corporate management of the Company as President &amp; Representative Director. By supervising the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held	
2	Akihiro Saito (Aug. 4, 1966 54 years old)  Reappointment	April 1989	Joined Nippon Steel Corp. (current NIPPON STEEL CORPORATION)	25,520 shares
		January 2002	Joined the Company	
April 2004	Appointed to Senior Manager of Sales & Marketing Department of the Company			
June 2006	Appointed to Director & Assistant General Manager of Sales & Marketing Department of the Company			
June 2010	Appointed to Director & General Manager of Sales & Marketing Department of the Company			
June 2012	Appointed to Executive Vice President & Representative Director, General Manager of Sales & Marketing Department of the Company			
June 2018	Appointed to Executive Vice President & Representative Director Supervising Sale & Marketing Department and Management Department of the Company			
		May 2019	Director of ax Inc. (to present)	
		April 2020	Appointed to Executive Vice President & Representative Director of the Company (to present)	
	<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (13 out of 13)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Akihiro Saito has a wealth of experience in semiconductor sales and business promotion at other companies, and is involved in business promotion and corporate management of the Company as Executive Vice President &amp; Representative Director. By supervising the Company's management based on these experiences and achievements, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			
3	Koji Kanie (Sep. 30, 1976 44 years old)  Reappointment	April 2001	Joined the Company	14,190 shares
		January 2009	Appointed to Senior Manager of Engineering Department of the Company	
June 2012	Appointed to Director & General Manager of Engineering Department of the Company			
April 2019	Appointed to Director Supervising Engineering Department & General Manager of Information Security Section of the Company			
		April 2020	Appointed to Director & General Manager of Information Security Section of the Company (to present)	
	<ul style="list-style-type: none"> <li>■ Record of attendance at Board of Directors meetings 100% (13 out of 13)</li> <li>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Koji Kanie was affiliated with a research laboratory that was in joint development with the Company during his time as a student, and after joining the Company, attained a wealth of operational experience in development, and is currently involved in management overall, with a focus on information security divisions. By reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</li> </ul>			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
4	Kazuki Kyakuno (Dec. 12, 1983 37 years old)  Reappointment	<p>April 2006      Joined the Company</p> <p>March 2011    Completed Doctoral Program of Graduate School of Systems and Information Engineering of University of Tsukuba (Ph.D. in Engineering)</p> <p>April 2013     Appointed to Senior Manager of Engineering Department of the Company</p> <p>April 2014     Visiting Associate Professor of University of Tsukuba (to present)</p> <p>June 2018     Appointed to Director &amp; General Manager of Strategic Planning Section, Team Leader of Algorithm Team of Engineering Department of the Company</p> <p>July 2018      Director of VIPPOOL Inc. (to present)</p> <p>April 2019     Appointed to Director Supervising Algorithm Team of Engineering Department &amp; General Manager of Strategic Planning Section of the Company (to present)</p> <p>May 2019      Director of ax Inc. (to present)</p> <p>August 2019   Director of MotionPortrait, Inc.</p>	5,290 shares
<p>■ Record of attendance at Board of Directors meetings 100% (13 out of 13)</p> <p>■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member)</p> <p>Mr. Kazuki Kyakuno was affiliated with a research laboratory that was in joint development with the Company during his time as a student, and after joining the Company, has consistently been involved in research and development of proprietary technologies as differentiators of the Company's LSI products, led research and development divisions, and is currently involved in the management of new business fields. He can be expected to continue to play a leading role in business promotion in future new business fields. In addition, by reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member).</p>			

- (Notes)
1. None of the candidates for Director (excluding Directors serving as Audit and Supervisory Committee Members) have any special interest in the Company.
  2. Ages of each candidate are as of the close of this General Meeting of Shareholders.
  3. The Company has entered into directors and officers liability insurance with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act to cover the damages that may arise from performance of their duties or claims in pursuit of that liability. Each candidate is included in the insured under the insurance and will continue to be included if their reappointment is approved in accordance with this proposal. The Company plans to renew the insurance policy during the term of office of the Directors under this proposal.

## **Business Report**

(From April 1, 2020 to March 31, 2021)

### **1. Overview of the Group**

#### **(1) Business in FY 2020**

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

During fiscal 2020, the Japanese economy continued to face a challenging situation on account of various factors including restrictions on socioeconomic activities due to the impact of the worldwide spread of COVID-19.

The pachinko and pachislot machine market, which is the main market for the Group, has continued to face a challenging market environment, due mainly to the diversification of leisure and the effects of the revised “Ordinance for Enforcement of the Act on Control and Improvement of Amusement and Entertainment Business, etc.” that came into force as preventive measures against addictive gambling, leading to a sluggish demand for new machines at amusement facilities. Moreover, the business environment surrounding the Group is becoming increasingly harsh due to increased cost-saving awareness among pachinko and pachislot machine manufacturers against the backdrop of a challenging market environment, leading to a more widespread reuse of device components including the Company’s products. In addition, due to the impact of the spread of COVID-19, supplementary provisions of the revised ordinance were amended in May 2020 by the National Public Safety Commission, extending the deadline for the retirement from the market of machines subject to the previous ordinance, which was originally required to be completed by the end of January 2021, by around one year, making the outlook of the market extremely uncertain.

Under such circumstances, while continuing measures against the spread of COVID-19 that prioritize the safety of all concerned, including employees and business partners, the Group worked on sales expansion for Graphics LSI products for customers in the embedded system market (Note), in addition to initiatives for securing stable profits in the pachinko and pachislot market, and also focused on activities for early commercialization in the following four areas: middleware, machine learning/AI, blockchain and security, all of which are positioned as new businesses. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including reorganization, alliances and investments. In addition, in fiscal 2020, in an attempt to stabilize and expand the memory business in the pachinko and pachislot machine market, the Group established aimRage Inc. (investment ratio: 70%) as its subsidiary through joint investment with FUJITSU DEVICES INC. (currently NV DEVICES CO., LTD.) on November 18, 2020.

As a result, for fiscal 2020, the Company recorded net sales of 8,999 million yen, down 265 million yen from the previous fiscal year (year-on-year decrease of 2.9%), and gross profit of 3,091 million yen, up 143 million yen from the previous fiscal year (year-on-year increase of 4.8%). Gross profit margin improved by 2.5 percentage points year-on-year to 34.4%, driven by a change in the product mix. Accordingly, the Company posted a year-on-year decrease in net sales but a year-on-year increase in gross profit.

Selling, general and administrative expenses amounted to 2,555 million yen, an increase of 0 million yen from the previous fiscal year (year-on-year increase of 0.0%), of which research and development expenses accounted for 1,472 million yen, down 77 million yen (year-on-year decrease of 5.0%).

Consequently, for fiscal 2020, the Company recorded an operating profit of 536 million yen, an increase of 142 million yen from the previous fiscal year (year-on-year increase of 36.3%). In addition, as a result of recording 119 million yen as subsidy income from NEDO under non-operating income, ordinary profit rose by 170 million yen (year-on-year increase of 31.8%) to 705 million yen, and profit attributable to owners of parent rose by 202 million yen (year-on-year increase of 43.2%) to 670 million yen.

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

The business performance by segment is as follows. In addition, besides the following segments, company-wide expenses not distributed to each segment amounted to 623 million yen.

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

The LSI Business for Embedded Systems (Including for Japanese Entertainment Machines) segment deals with products for pachinko and pachislot machines, the existing businesses of the Company, and for embedded systems. For fiscal 2020, the Company recorded net sales of 8,692 million yen, a decrease of 375 million yen from the previous fiscal year (year-on-year decrease of 4.1%), and a segment profit of 1,622 million yen, an increase of 7 million yen from the previous fiscal year (year-on-year increase of 0.5%). Regarding products for pachinko and pachislot machines, while the unit sales of graphics LSI products increased by about 10,000 from the previous fiscal year to about 400,000 units, sales of other products, including memory-module products (Note), fell slightly below the level seen in the previous fiscal year partly due to trends in customer demand. Meanwhile, the expected demand in this fiscal year for machines compliant with the revised ordinance was diversified into the current and next fiscal years as the deadline for the retirement of machines subject to the previous ordinance was extended in response to the spread of COVID-19. According to the Company's analysis, in addition to the impact of the restriction of operations by amusement facilities following the declaration of a state of emergency, the carryover of part of the demand for replacement of machines to the next fiscal year caused the yearly sales volume for pachinko and pachislot machines, which is a measure of the market size of the Company, to fall to around 1,200,000 units. Under these circumstances, sales of products targeting pachinko and pachislot machines had been on a downward trend during the three months ended June 30 and the subsequent three months ended September 30, 2020. However, trends in sales and orders are showing signs of recovery, with the progress in machine replacements from the middle of the three months ended December 31, 2020 to adjust to the new deadline for the retirement of machines. Net sales figures for the segment were 2,502 million yen in the three months ended June 30, 1,616 million yen in the three months ended September 30, 1,911 million yen in the three months ended December 31, 2020 and 2,661 million yen in the three months ended March 31, 2021, and the balance of orders for the segment as of March 31, 2021 stood at 5,284 million yen.

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

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

This segment is a start-up business targeting the areas of middleware, machine learning/AI, block chain, and security. For fiscal 2020, the Company recorded net sales of 306 million yen, up 110 million yen, or 56.3%, from the previous fiscal year, mainly from sales in the areas of middleware and machine learning/AI, and a segment loss of 462 million yen, down 178 million yen from a loss of 641 million yen reported in the previous fiscal year. For fiscal 2020, the development support business in the area of machine learning/AI grew significantly.

2) **Capital investment**

Capital investment in fiscal 2020 totaled 14 million yen.

It mainly consisted of investment in equipment, etc. for design and development purposes amounting to 12 million yen.

3) **Financing**

All capital investments, etc. were financed by the Company's own funds in fiscal 2020.

4) **Transfer, absorption-type corporate split, or spin-off of business**

N/A

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

N/A

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

The Company's consolidated subsidiary ax Inc. succeeded the rights and obligations of another consolidated subsidiary of the Company, MotionPortrait, Inc., in an absorption-type merger with ax Inc. as the surviving company, on December 1, 2020.

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

On November 18, 2020, the Company established aimRage Inc. as its subsidiary through joint investment with FUJITSU DEVICES INC. (currently NV DEVICES CO., LTD.) The Company accounts for 70% of the total investment.

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

### 1) Changes in Assets and Income of the Group

Category	FY 2017	FY 2018	FY 2019	FY 2020
Net sales (million yen)	-	-	9,265	8,999
Ordinary profit (million yen)	-	-	535	705
Profit attributable to owners of parent (million yen)	-	-	468	670
Basic earnings per share (yen)	-	-	41.85	60.63
Total assets (million yen)	-	-	11,146	11,132
Net assets (million yen)	-	-	9,836	10,071
Net assets per share (yen)	-	-	876.72	929.16

(Notes)

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

### 2) Changes in Assets and Income of the Company

Category	FY 2017	FY 2018	FY 2019	FY 2020
Net sales (million yen)	8,477	5,003	9,158	8,759
Ordinary profit (loss) (million yen)	164	(1,651)	588	725
Profit (loss) (million yen)	80	(2,000)	523	695
Basic earnings (loss) per share (yen)	7.18	(178.83)	46.82	62.84
Total assets (million yen)	13,035	9,701	11,128	11,161
Net assets (million yen)	11,418	9,313	9,867	10,128
Net assets per share (yen)	1,020.67	832.45	881.70	936.58

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

### (3) Material Subsidiaries

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

(Note) ax Inc. merged with MotionPortrait, Inc., a subsidiary of the Company, on December 1, 2020, via an absorption-type merger.

**(4) Issues to be Addressed**

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

**1) Expanding the scale of new businesses**

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

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

**2) Securing stable profits in the pachinko and pachislot machine market**

In the pachinko and pachislot machine market, a harsh market environment persists. However, the pachinko and pachislot market is a huge market where demand for electronic parts such as the Group's is in high demand. Additionally, there remain some areas in which the Group has not entered and are open to business possibilities for the Group.

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

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

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

**4) Enriching corporate governance**

In order to continuously improve corporate value and realize sustainable growth, the Group believes that enriching corporate governance is important, and that establishing an appropriate corporate governance structure that fits factors such as the Group's business type and business scale is an important issue.

**Basic policy on corporate governance**

The Company engages in business by sharing the value of our "Mission," "Vision," and "Values" as declared in our Corporate Philosophy. Based on this philosophy, in addition to conducting business activities as a corporate entity with social ethics, by increasing the health, transparency, and efficiency of management, the Company will aim to improve corporate value and achieve continuous growth.

## The AXELL Corporate Philosophy

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

### (5) Principal Business (as of March 31, 2021)

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

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

### (6) Principal Offices and Plants (as of March 31, 2021)

#### 1) The Company

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

#### 2) Subsidiaries

Name	Address
ax Inc.	19-22 Uguisudanichō, Shibuya-ku, Tokyo, Japan

### (7) Employees (as of March 31, 2021)

#### 1) Employees of the Group

Number of employees	Increase / decrease from previous fiscal year-end
111 (18) persons	Increase of 8 (3) persons

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

#### 2) Employees of the Company

Number of employees	Increase / decrease from previous fiscal year-end	Average age	Average years of service
88 (13) persons	Increase of 1 person (No change in temporary staff members)	45.7 years old	11.0 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, 2021)

N/A

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

#### 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 2020, the Company made social contributions, including making donations to the Japan Heart Foundation and the Japanese Foundation for Cancer Research. The Company also made donations through the Japanese Red Cross Society to victims of natural disasters.

Furthermore, the Company is conducting an education program for university students at the University of Tsukuba with the aim of training embedded systems engineers. The Company's engineers serve as lecturers for the program, which is operated based on donations, etc. from the Company through the Campus OJT Industry-University Education Foundation. Through the 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 2020:

- Donation for Torrential Rain Disaster Relief in July 2020

(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, 2021)

- (1) **Total Number of Shares Authorized to be Issued** 23,112,000 shares
- (2) **Total Number of Shares Issued** 11,211,989 shares
- (3) **Number of Shareholders** 5,295 shareholders

### (4) Major Shareholders (Top 12)

Name of shareholder	Number of shares held	Controlling share
Midoriya Electric Co., Ltd.	849,000 shares	7.86%
Sumihiko Ichihara	595,800	5.51
Takayuki Shibata	594,800	5.50
The Master Trust Bank of Japan, Ltd. (trust account)	516,700	4.78
Kazunori Matsuura	397,140	3.67
MLI FOR CLIENT GENERAL OMNI NON COLLATERAL NON TREATY – PB	368,000	3.40
Kazuyoshi Moriya	331,300	3.06
Aval Data Corporation	260,000	2.40
Custody Bank of Japan, Ltd. (trust account)	248,700	2.30
Akiko Sasaki	207,200	1.91
Yoshimi Sasaki	207,200	1.91
Kana Tsuji	207,200	1.91

- (Notes) 1. The Company holds 414,552 treasury shares, but these are excluded from this list of major shareholders.
2. Controlling shares are calculated after excluding treasury shares.

### (5) Shares Issued to Officers of the Company as Compensation for Duties Performed in FY 2020

	Number of shares	Number of recipients
Directors (excluding Directors serving as Audit and Supervisory Committee Members)	24,240 shares	4

- (Note) Details of the Company's stock-based remuneration are set forth in the Business Report under 4. Company Officers (4) Remuneration, etc. for Directors.

### (6) Other Material Information Regarding Stocks

#### Purchase of treasury stock

The Company acquired treasury stock as set forth below based on a resolution passed at the Board of Directors meeting on November 19, 2020.

Category and number of stock acquired: Common stock; 414,400 shares

Total price of acquisition: 326 million yen

Date of acquisition: November 20, 2020

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

### (1) Share Acquisition Rights, etc. Held by the Company's Officers as of March 31, 2021

N/A

### (2) Share Acquisition Rights Issued to Employees, etc. During FY 2020

N/A

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

N/A

## 4. Company Officers

### (1) Directors (as of March 31, 2021)

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

- (Notes)
1. Directors (Audit and Supervisory Committee Members) Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki, and Shigeo Igashima are Outside Directors.
  2. Directors (Audit and Supervisory Committee Members) Katsuya Mitsumura and Shigeo Igashima have considerable financial and accounting expertise based on years of experience as certified public accountants and tax accountants.
  3. With the intent of increasing the effectiveness of information collection and other audits and strengthening the audit and supervisory functions, the Company has appointed Director (Audit and Supervisory Committee Member) Teiichiro Nishizaka as a Full-time Audit and Supervisory Committee Member.
  4. The Company has designated Directors (Audit and Supervisory Committee Members) Teiichiro Nishizaka, Katsuya Mitsumura, Masao Suzuki, and Shigeo Igashima as Independent Directors under the provisions of the Tokyo Stock Exchange, and has notified the Tokyo Stock Exchange to that effect.

## (2) Outline of Liability Limitation Agreement

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

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

## (3) Outline of Directors and Officers Liability Insurance Agreement

The Company has taken out a directors' and officers' liability insurance policy with an insurance company, as stipulated in Art. 430-3 Paragraph 1 of the Companies Act. Those insured under the policy are Directors and Auditors of the Company and its subsidiaries, and the premiums are paid in full by the Company. The Directors who are included as insured in this insurance policy shall receive compensation for their liability borne from performance of their duties or for their liability arising from claims in pursuit of that liability. However, the policy does include certain exemption clauses, such as no compensation being given for liability attributable to acts in violation of laws or regulations that were carried out with full knowledge of their illegality.

## (4) Remuneration, etc. for Directors

### 1) Total Amount of Remuneration, etc., for FY 2020

Classification	Total remuneration, etc. (millions of yen)	Total remuneration, etc. by classification (millions of yen)			Number of recipient officers
		Basic remuneration	Performance-linked remuneration	Non-monetary compensation	
Director (excluding Audit and Supervisory Committee Member) (Outside Director)	114 (-)	94 (-)	- (-)	19 (-)	4 (-)
Director (Audit and Supervisory Committee Member) (Outside Director)	31 (31)	31 (31)	- (-)	- (-)	4 (4)
Total (Outside Director)	145 (31)	125 (31)	- (-)	19 (-)	8 (4)

(Note) Total amount of remuneration, etc. of Directors (excluding Audit and Supervisory Committee Members) does not include the portion of employee salary paid to Directors concurrently serving as employees.

### 2) Policy for Determining Contents of Officers' Remuneration

The Company passed a resolution at the Board of Directors meeting of February 25, 2021, regarding its policy for determining the contents of individual Directors' (excluding Directors serving as Audit and Supervisory Committee members) remunerations. The Board of Directors confirmed that the contents of individual directors' remunerations for FY 2020 and the methods by which those were determined conformed to, and were in keeping with, the aforementioned policy.

### Basic Policy

Remuneration shall be paid to Directors of the Company through a system linked to shareholder returns in order that such remuneration may function as a healthy incentive to seek sustainable improvements in corporate value. The Company's basic policy for determining individual Directors' remuneration is that the contents and standard level of each director's remuneration should be appropriate for his or her duties. Specifically, remuneration for Executive Directors is made up of three parts: basic remuneration (monetary), which is a fixed remuneration; short-term performance-linked remuneration (monetary), which is based on each fiscal year's performance; and mid-to long-term performance-linked remuneration (stock-based), which is aimed at motivating Directors to pursue solid performance and improvements in corporate value over the mid- to long-term. In consideration of their duties, Outside Directors receive only the basic remuneration.

### **Policy Regarding Basic Remuneration (Monetary)**

The basic remuneration paid to Directors of the Company is a fixed monthly amount established in accordance with Directors' duties and designed to encourage faithful execution of those duties. The Company determines the amount of each Director's basic remuneration with broad consideration given to a range of factors, including the Director's rank, duties, experience, skills, self-assessment, balance between Directors' remuneration and employees' salaries, and similar remunerations paid by other companies in the same industry. To ensure clarity surrounding Directors' managerial accountability regarding business performance, deductions may be made from Directors' remuneration as set forth below.

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

- If a net loss is recorded (consolidated financial results have priority), the fixed remuneration for the following fiscal year shall be reduced by an amount equivalent to 30-20% depending on the position for six months
- 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

### **Policy Regarding Performance-linked Remuneration, etc. and Non-monetary Compensation, etc.**

Performance-linked remuneration comprises short-term performance-linked remuneration, which is based on each fiscal year's performance, and mid- to long-term performance-linked remuneration, which is aimed at motivating Directors to pursue solid performance and improvements in corporate value over the mid- to long-term. Short-term performance-linked remuneration is a monetary remuneration that reflects performance indicator, and is designed to raise awareness of the need to improve performance for every fiscal year. It is a bonus paid following the conclusion of each fiscal year based on that year's return on equity (consolidated financial results have priority); if the ROE target is achieved, the remuneration is paid. To encourage a shareholder-oriented mindset in the Company's management, due consideration for cost of capital is considered important. Thus, the criteria for payment is return on equity of at least 8% (consolidated financial results have priority), but to ensure that short-term performance-linked remuneration functions appropriately as an incentive, the Audit and Supervisory Committee's view is also taken into account and remuneration is reviewed from time to time as the environment changes. Reviews are undertaken with the approval of shareholders via a resolution at a shareholders' meeting.

To ensure that mid- to long-term performance-linked remuneration causes the Company's officers to share with shareholders the benefits and risks of share price movements and motivates the officers to contribute to long-term increases in the share price and corporate value, remuneration is non-monetary, and is made up of shares with restrictions on transfer. Setting the period of restriction on transfer at 30 years and banning the transfer or other disposition of those shares while still a Director or employee of the Group ensures that the officers share interests with shareholders over the long term. Meanwhile, the monetary compensation claims disbursed for the issue of compensation comprising shares with restrictions on transfer are capped at 30 million yen per year, and we endeavor to disburse these no later than a month following the Ordinary General Meeting of Shareholders.

### **Policy Regarding Ratio of Different Classifications of Remuneration**

The ratio of different classifications in the make-up of Directors' remunerations is determined with consideration to those paid by other companies in the comparable scale of business to or in the same industry as the Company; the basic structure is such that the higher a Director's rank, the greater the proportion of performance-linked remuneration. When consolidated return on equity reaches 8%, the criterion for payment of short-term performance-linked remuneration, the general composition of an Executive Officer's remuneration is: 70% basic, 20% performance-linked, and 10% non-monetary.

### **Policy Regarding Delegation of Authority to Make Decisions Regarding Remuneration, etc.**

Authority to decide on policy regarding the amounts and calculation methods of remuneration, etc. paid to the Company's Directors is held by the Board of Directors, but the Board delegates that authority to President & Representative Director Kazunori Matsuura to decide on the specific contents. The content of that authority and the extent of the President & Representative Director's discretion shall be limited to deciding on individual remuneration amounts (or, in the case of stock-based remuneration, each individual's monetary remuneration claim and number of shares allocated) not exceeding the total amount determined at a meeting of shareholders and with broad consideration of each Director's duties, execution of duties, and self-assessments. To ensure appropriate exercising of that authority, individual remuneration amounts, etc. are subject to a final decision by the Board of Directors with reference to the

opinions issued by the Audit and Supervisory Committee, which is made up of Independent Outside Directors.

### Shareholders' Meeting Resolutions Regarding Directors' Remuneration, etc.

A resolution was passed at the 25th Ordinary General Meeting of Shareholders held on June 30, 2020, to limit the amount of monetary remuneration payable to Directors (excluding Audit and Supervisory Committee Members) to 150 million yen per year (not including the portion of employee salary paid to Directors concurrently serving as employees), 50 million yen per year as short-term performance-linked remuneration if return on equity (consolidated financial results have priority) is between 8% and 12%, 80 million yen per year if between 12% and 16%, and 20 million yen for every 4% above 16%. In addition, separately from the monetary remuneration, a resolution was passed at the 25th Ordinary General Meeting of Shareholders held on June 30, 2020, to limit the amount of stock-based remuneration to 30 million yen per year and the number of shares allocatable to 37,500 per year (excluding Directors serving as Audit and Supervisory Committee Members). At the time of the conclusion of the 25th Ordinary General Meeting of Shareholders, the Company had four Directors (excluding Audit and Supervisory Committee Members).

At the 21st Ordinary General Meeting of Shareholders held on June 18, 2016, a resolution was adopted to limit the amount of monetary remuneration payable to Directors (Audit and Supervisory Committee Members) to 40 million yen per year. At the time of the conclusion of the 21st Ordinary General Meeting of Shareholders, the Company had four Directors (Audit and Supervisory Committee Members).

The Company's Articles of Incorporation stipulates that the number of Directors shall be no more than ten, including Audit and Supervisory Committee Members.

### (5) Outside Officers

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

Title	Name	Company, etc. where concurrent position is held	Description of concurrent position
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Strategic Capital Partners, Co., Ltd. Shibuya Television Co., Ltd.	Representative Director President and Representative Director
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	TIS Tax Accounting Corporation	Representative Partner

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

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

Title	Name	Company, etc. where concurrent position is held	Description of concurrent position
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	INABA SEISAKUSHO Co., Ltd. FANUC CORPORATION	Outside Director Audit and Supervisory Board Member
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Risseisha Inc.	Corporate Auditor

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

#### 3) Main activities during FY 2020

Classification	Name	Main activities and overview of duties performed that constituted the performance of the roles expected of Outside Directors
Director (Audit and	Teiichiro Nishizaka	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings

Supervisory Committee Member)		during FY 2020, and provided opinions on proposals, deliberations, etc. as necessary, based on his extensive experience in the industry to which the Company belongs. Contributed to the improved effectiveness of the Audit and Supervisory Committee as full-time member and chairman; contributed to the improved effectiveness of the Board of Directors by performing the expected roles, i.e., proactive advice, oversight, and auditing of the management of the Company's business overall, as well as initiatives aimed at driving business in new fields, from a different perspective than the Inside Directors.
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY 2020, and provided expert opinions mainly as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary. Contributed to the improved effectiveness of the Board of Directors by performing the expected roles, i.e., expert oversight and auditing of the management of the Company's business overall from a different perspective than the Inside Directors.
Director (Audit and Supervisory Committee Member)	Masao Suzuki	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY 2020, and provided opinions on proposals, deliberations, etc. as necessary, from the standpoint of overall corporate management. Contributed to the improved effectiveness of the Board of Directors by performing the expected roles, i.e., advice, oversight, and auditing of the management of the Company's business overall from a different perspective than the Inside Directors, informed by deep executive experience and knowledge.
Director (Audit and Supervisory Committee Member)	Shigeo Igashima	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY 2020, and provided expert opinions mainly as a certified public accountant and tax accountant on proposals, deliberations, etc. as necessary. Contributed to the improved effectiveness of the Board of Directors by performing the expected roles, i.e., expert oversight and auditing of the management of the Company's business overall from a different perspective than the Inside Directors.

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

- (Notes)
1. The amount of audit fees, etc. for audits conducted under the Companies Act and the amount of audit fees, etc. for audits conducted under the Financial Instruments and Exchange Act are not clearly distinguished from each other in the audit agreement concluded between the Company and the Accounting Auditor; nor are they distinguishable in practice. Therefore, the aggregate amount of such audit fees, etc. is shown as the amount of fees, etc. for fiscal 2020.
  2. Having conducted the required verification regarding matters such as the content of the audit plan, status of business execution of the accounting audit, and basis for calculating remuneration of the Accounting Auditor, the Audit and Supervisory Committee has determined and agreed that the amount of remuneration, etc., payable to the Accounting Auditor is appropriate.

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

N/A

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

The Audit and Supervisory Committee may decide on the contents of a proposal to terminate or not renew the appointment of an Accounting Auditor in cases where there issues with the execution of duties by an Accounting Auditor, or if it is deemed necessary for other reasons.

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

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

N/A

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

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

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

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

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

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

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

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

- 1) The Company shall establish various regulations that define office organization, organizational bodies, segregation of duties, administrative authorities, etc., for the efficient execution of business by Directors.

- 2) The Company shall hold a regular Board of Directors meeting once monthly with the attendance, as a general rule, of all Directors for reports on the status of execution of duties by the Directors.
- 3) The Board of Directors clearly defines the job responsibilities of each Director by electing the Representative Director, the President, and Executive Officers. Further, responsibilities relating to business execution shall be clearly established through the election of Corporate Officers in charge of managing major business departments.
- 4) The Company holds Business Promotion Meetings composed primarily of Executive Directors and Executive Officers as advisory meetings to support the decision making of the President & Representative Director, and consensus-based decision procedures are conducted as necessary. Additionally, Full-time Audit and Supervisory Committee Members also attend Business Promotion Meetings, and survey, evaluate, and provide advice, etc., as necessary.
- 5) The Company shall formulate a medium-term business plan at the beginning of each fiscal year, pursuant to the instruction of the President and Representative Director and subject to the approval of the Board of Directors, for use as guidelines in the execution of duties.

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

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

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

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

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

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

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

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

Regarding Whistleblowing.”

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

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

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

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

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

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

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

A summary of the operation status of systems to ensure the properness of business operations for fiscal 2020 is as follows.

1) Systems for Execution of Duties of Directors

A regular Board of Directors meeting was held once per month and extraordinary Board of Directors meetings were held as required to determine matters defined by the Articles of Incorporation and laws and regulations as well as important matters regarding management, and reports and supervision were conducted for the status of business execution including matters related to subsidiaries. Additionally, Business Promotion Meetings were held at least once per month as advisory meetings to support decision-making by representative directors, and deliberations were conducted regarding important matters that serve as the backdrop for business execution and specific countermeasures.

2) Compliance Systems

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

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

3) Risk Management Systems

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

4) Audit Systems of the Audit and Supervisory Committee

Audit and Supervisory Committee Members held an Audit and Supervisory Committee once per month, while also attending Board of Directors Meetings to exercise voting rights and audit and supervise

the execution of business. Additionally, while determining audit policies and audit plans and supervising the status of execution of duties, the Audit and Supervisory Committee held regular communication meetings with internal audit divisions and the Accounting Auditor, exchanged information and opinions, and implemented audits. Furthermore, the Full-time Audit and Supervisory Committee Member attended management meetings with high corporate importance, and surveyed, evaluated, and provided advice, etc., as necessary.

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

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

The Company's policy, in keeping with the scale of its business, is to retain earnings approximately sufficient to cover three years' selling, general and administrative expenses. However, from a standpoint of boosting corporate value, the Company also views capital efficiency as an important pillar of its business administration, and due consideration is given to maintaining a balance between the two as part of the Company's capital policy. In accordance with the medium- to long-term growth strategies, internal reserves are used mainly as funds for R&D and for new business developments in an effort to continually enhance corporate value.

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

Although the Company has not established basic policies on requirements of entities to control decision making over financial and business policies of the Company, it believes that entities who are in control of determining the Company's financial and business policies should be those who contribute to the Company's corporate value as well as to the common interests of the shareholders. Moreover, such entities should understand the source of the Company's corporate value and develop smooth relationships with the Company's various stakeholders. While the Company does not intend to adopt "anti-hostile-takeover measures" at the present time, it believes that it is obligated to its shareholders in all reason to take appropriate measures to defend itself from potential acquirers who may be detrimental to the Company's corporate value and the common interests of the shareholders. In regards to the adoption of "anti-hostile-takeover measures," the Company intends to take a flexible stance on proceeding with its deliberations by keeping abreast of changes in major shareholders and assessing various social trends.

## Consolidated Balance Sheet

(As of March 31, 2021)

(In millions of yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>9,994</b>	<b>Current liabilities</b>	<b>1,021</b>
Cash and deposits	7,913	Accounts payable - trade	756
Accounts receivable - trade	924	Income taxes payable	48
Merchandise and finished goods	1,076	Accrued consumption taxes	37
Work in process	7	Other	179
Raw materials and supplies	0	<b>Non-current liabilities</b>	<b>39</b>
Other	73	Asset retirement obligations	39
Allowance for doubtful accounts	(0)	<b>Total liabilities</b>	<b>1,061</b>
<b>Non-current assets</b>	<b>1,138</b>	<b>(Net assets)</b>	
<b>Property, plant and equipment</b>	<b>96</b>	<b>Shareholders' equity</b>	<b>9,819</b>
Buildings	63	Capital stock	1,028
Tools, furniture and fixtures	32	Capital surplus	871
<b>Intangible assets</b>	<b>56</b>	Retained earnings	8,245
Goodwill	41	Treasury shares	(326)
Other	14	<b>Accumulated other comprehensive income</b>	<b>213</b>
<b>Investments and other assets</b>	<b>985</b>	Valuation difference on available-for-sale securities	213
Investment securities	783	<b>Share acquisition rights</b>	<b>15</b>
Deferred tax assets	40	<b>Non-controlling interests</b>	<b>23</b>
Other	161	<b>Total net assets</b>	<b>10,071</b>
<b>Total assets</b>	<b>11,132</b>	<b>Total liabilities and net assets</b>	<b>11,132</b>

## Consolidated Statement of Income

(From April 1, 2020 to March 31, 2021)

(In millions of yen)

Description	Amount	
<b>Net sales</b>		<b>8,999</b>
<b>Cost of sales</b>		<b>5,907</b>
<b>Gross profit</b>		<b>3,091</b>
<b>Selling, general and administrative expenses</b>		<b>2,555</b>
<b>Operating profit</b>		<b>536</b>
<b>Non-operating income</b>		
Interest income	0	
Dividend income	5	
Subsidy income	119	
Gain on investments in partnership	42	
Other	3	170
<b>Non-operating expenses</b>		
Other	1	1
<b>Ordinary profit</b>		<b>705</b>
<b>Extraordinary losses</b>		
Impairment loss	2	
Loss on valuation of shares of subsidiaries	1	
Loss on liquidation of subsidiaries	1	
Other	0	6
<b>Profit before income taxes</b>		<b>699</b>
Income taxes – current	77	
Income taxes – deferred	(47)	30
<b>Profit</b>		<b>669</b>
<b>Loss attributable to non-controlling interests</b>		<b>(1)</b>
<b>Profit attributable to owners of parent</b>		<b>670</b>

## Consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(In millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,018	861	7,809	(0)	9,690
Changes of items during period					
Issuance of new shares	9	9			19
Dividends of surplus			(234)		(234)
Profit attributable to owners of parent			670		670
Purchase of treasury shares				(326)	(326)
Net changes in items other than shareholders' equity					
Total changes of items during period	9	9	435	(326)	129
Balance at end of current period	1,028	871	8,245	(326)	9,819

	Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income			
Balance at beginning of current period	118	118	3	24	9,836
Changes of items during period					
Issuance of new shares					19
Dividends of surplus					(234)
Profit attributable to owners of parent					670
Purchase of treasury shares					(326)
Net changes in items other than shareholders' equity	94	94	12	(1)	105
Total changes of items during period	94	94	12	(1)	234
Balance at end of current period	213	213	15	23	10,071

# Notes to Consolidated Financial Statements

## 1. Important Basis for Preparation of Consolidated Financial Statements

### (1) Scope of consolidation

#### 1) Number, name, etc. of consolidated subsidiaries

Number of consolidated subsidiaries: 1

Name of a major consolidated subsidiary:

ax Inc.

Changes in the scope of consolidation:

MotionPortrait, Inc. has been excluded from the scope of consolidation due to the absorption-type merger with ax Inc. on December 1, 2020.

#### 2) Names, etc. of non-consolidated subsidiaries

Names of major non-consolidated subsidiaries:

VIPPOOL Inc.

aimRage Inc.

Reason for exclusion from the scope of consolidation:

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

### (2) Application of the equity method

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

Names of major non-consolidated subsidiaries:

VIPPOOL Inc.

aimRage Inc.

Reason for not applying the equity method:

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

### (3) Fiscal year of consolidated subsidiaries, etc.

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

#### **(4) Accounting policies**

##### **1) Valuation standards and valuation methods of significant assets**

###### **1. Securities**

###### **- Shares of subsidiaries and associates**

Stated at cost using the moving-average method.

###### **- Available-for-sale securities**

###### **Available-for-sale securities with market value**

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

###### **Available-for-sale securities without market value**

Stated at cost using the moving-average method.

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

###### **2. Inventories**

###### **- Finished goods**

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

###### **- Work in process**

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

###### **- Supplies**

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

##### **2) Depreciation method of significant depreciable assets**

###### **1. Property, plant and equipment**

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

The useful lives of the assets are as follows:

Buildings: 3-15 years

Tools, furniture and fixtures: 2-20 years

###### **2. Intangible assets**

Straight-line depreciation

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

### 3) Standards of accounting for principal allowances and provisions

#### -Allowance for doubtful accounts

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

### 4) Amortization method and amortization period for goodwill

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

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

#### -Accounting of consumption taxes

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

## 2. Notes on changes in presentation

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

Effective from the consolidated financial statements for the fiscal year ended March 31, 2021, the Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (Accounting Standards Board of Japan Statement No. 31, March 31, 2020) and stated notes on accounting estimates to the consolidated financial statements.

## 3. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amounts recognized on the consolidated financial statements for the fiscal year ended March 31, 2021

Deferred tax assets, net	40 million yen
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(The amount before netting out with deferred tax liabilities is 142 million yen)

(2) Information that contributes to understanding of the details of accounting estimates

- Calculation method

The Company determines the recoverability of deferred tax assets based on the estimated taxable income (financial results forecast) of the following fiscal year and the scheduling of the future deductible temporary differences. The Company performs reasonable estimates of the estimated taxable income on the basis of the business plan developed based on certain assumptions such as the market size and market share.

- Major assumptions used for financial results forecast of the following fiscal year

The business plan is developed based on assumptions such as the size of the pachinko and pachislot machine market, which is the main market for the Group (annual sales volume of 1.55

million units), and the sales volume projected with reference to the market share of the products including reused ones.

In addition, the COVID-19 pandemic has a broad impact on economic and business activities and it is difficult to predict how it will spread and when it will be contained; thus, the Company made accounting estimates as to the recoverability of deferred tax assets based on the assumption that the impact of the pandemic would continue approximately until the end of March 2022.

- Impact on the consolidated financial statements of the following fiscal year

Since the recoverability of deferred tax assets depends on the forecast of future taxable income, there is a possibility that the amount of deferred tax assets may decrease and tax expenses may be accounted for if any conditions and assumptions used for the estimates would change and decrease, for example, any decrease in the market size beyond anticipation and the resulting decrease in unit sales or sales price.

Further, depending on the future spread of COVID-19 or its timing of convergence, there may be an associated impact on the amount of deferred tax assets and tax expenses in the following fiscal year.

#### 4. Notes to consolidated balance sheet

Accumulated depreciation of property, plant and equipment: 1,029 million yen

#### 5. Notes to consolidated statement of changes in net assets

##### (1) Class and total number of shares issued

Class of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	11,187,749	24,240	—	11,211,989

(Note) The increase of 24,240 shares in the number of shares issued is due to the issuance of new shares as restricted stock remuneration.

##### (2) Class and number of treasury shares

Class of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	152	414,400	—	414,552

(Note) The increase in the number of treasury shares is due to the purchase of treasury shares based on the resolution of the Board of Directors.

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

###### 1) Dividend payout amounts

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

**2) Payout amount of dividends with record date in FY 2020 but effective date in FY 2021**

Resolution	Class of shares	Total amount of dividends (millions of yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, June 29, 2021	Common stock	334	Retained earnings	31	March 31, 2021	June 30, 2021

**(4) Matters related to share acquisition rights as of March 31, 2021**

N/A

**6. Notes on financial instruments****(1) Matters related to status of financial instruments****1) Policy for efforts directed at financial instruments**

The Group holds necessary funds (bank deposits, etc.) in light of its business plan. It is the Group's policy to raise funds if more funds than it currently holds is deemed necessary in consideration of the circumstances and other factors at that time.

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

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

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

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

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

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

**3) Risk management for financial instruments****▪ Management of credit risk (risk of nonperformance of contract by counterparty, etc.)**

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

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

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

Receivables comprising securities have negligible credit risk as they are all in the form of highly secure treasury discount bills in accordance with the Company's policy.

The maximum amount of credit risk as of March 31, 2020 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**

Four large-lot customers account for 93% of operating receivables as of March 31, 2021.

## (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, 2021 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	7,913	7,913	–
(2) Accounts receivable - trade	924		
Allowance for doubtful accounts*	(0)		
(3) Investment securities	923	923	–
Total assets	9,149	9,149	–
(1) Accounts payable - trade	756	756	–
(2) Income taxes payable	48	48	–
Total liabilities	805	805	–

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

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

### Assets

#### (1) Cash and deposits

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

#### (2) Accounts receivable - trade

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

#### (3) Investment securities

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

### Liabilities

#### (1) Accounts payable - trade

Accounts payable - trade are settled within about one month, and their market value in view of state of finance, etc. is deemed to be almost the same as the book value; therefore, the book value is stated.

#### (2) Income taxes payable

As these are settled in a short period of time, their market value after state of finance, etc. are taken into consideration is deemed to be almost the same as the book value; therefore, the book value is stated.

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

Classification	Balance sheet amount
Unlisted stocks	115 million yen
Contributions to investment limited partnerships	356 million yen
Shares of subsidiaries and associates	71 million yen

As unlisted stocks and investment limited partnerships, with no market price, are deemed as extremely difficult to determine its market value, these items are not included in “(3) Investment securities.”

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

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

	Within 1 year (millions of yen)	Over 1 year, within 5 years (millions of yen)	Over 5 years, within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	7,912	—	—	—
Accounts receivable - trade	924	—	—	—
Total	8,837	—	—	—

## 7. Notes on per share information

- (1) Net assets per share 929.16 yen  
 (2) Basic earnings per share 60.63 yen

## 8. Notes on major subsequent events

N/A

## 9. Notes on business combinations

(Absorption-type merger of a sub-subsidiary into a consolidated subsidiary)

ax Inc., a consolidated subsidiary of the Company, carried out an absorption-type merger of its wholly-owned subsidiary MotionPortrait, Inc. on December 1, 2020.

### 1. Outline of transaction

#### 1) Company name of acquiree and its business activities

Name of the company acquired: MotionPortrait, Inc.

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

#### 2) Date of business combination

December 1, 2020

#### 3) Legal form of merger

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

#### 4) Company name after business combination

ax Inc.

5) Other matters related to the transactions

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

2. Outline of accounting processes

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

**10. Notes on asset retirement obligations**

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

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

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

The amount of asset retirement obligations is calculated at estimated period of use of 37.75 years to 50 years and discount rate of 1.001% to 2.301%.

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

Balance at beginning of current period	38 million yen
Adjustments over time	<u>0 million yen</u>
Balance at end of current period	<u>39 million yen</u>

## Non-consolidated Balance Sheet

(As of March 31, 2021)

(In millions of yen)

Description	Amount	Description	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>9,797</b>	<b>Current liabilities</b>	<b>993</b>
Cash and deposits	7,775	Accounts payable - trade	756
Accounts receivable - trade	875	Advances received	4
Merchandise and finished goods	1,076	Accounts payable – other	121
Raw materials and supplies	0	Accrued expenses	20
Advance payments - trade	2	Income taxes payable	47
Prepaid expenses	65	Accrued consumption taxes	29
Other	2	Deposits received	14
<b>Non-current assets</b>	<b>1,363</b>	<b>Non-current liabilities</b>	<b>39</b>
<b>Property, plant and equipment</b>	<b>96</b>	Asset retirement obligations	39
Buildings	63	<b>Total liabilities</b>	<b>1,032</b>
Tools, furniture and fixtures	32	<b>(Net assets)</b>	
<b>Intangible assets</b>	<b>14</b>	<b>Shareholders' equity</b>	<b>9,899</b>
Patent right	2	<b>Capital stock</b>	<b>1,028</b>
Software	12	<b>Capital surplus</b>	<b>871</b>
<b>Investments and other assets</b>	<b>1,252</b>	Legal capital surplus	871
Investment securities	783	<b>Retained earnings</b>	<b>8,325</b>
Shares of subsidiaries and associates	341	Legal retained earnings	1
Long-term prepaid expenses	4	Other retained earnings	8,324
Lease and guarantee deposits	70	Retained earnings brought forward	8,324
Deferred tax assets	40	<b>Treasury shares</b>	<b>(326)</b>
Other	13	<b>Valuation and translation adjustments</b>	<b>213</b>
		Valuation difference on available-for-sale securities	213
		<b>Share acquisition rights</b>	<b>15</b>
		<b>Total net assets</b>	<b>10,128</b>
<b>Total assets</b>	<b>11,161</b>	<b>Total liabilities and net assets</b>	<b>11,161</b>

## Non-consolidated Statement of Income

(From April 1, 2020 to March 31, 2021)

(In millions of yen)

Description	Amount	
<b>Net sales</b>		<b>8,759</b>
<b>Cost of sales</b>		<b>5,838</b>
<b>Gross profit</b>		<b>2,920</b>
<b>Selling, general and administrative expenses</b>		<b>2,364</b>
<b>Operating profit</b>		<b>555</b>
<b>Non-operating income</b>		
Interest income	0	
Dividend income	5	
Subsidy income	119	
Gain on investments in partnership	42	
Other	3	170
<b>Non-operating expenses</b>		
Other	0	0
<b>Ordinary profit</b>		<b>725</b>
<b>Extraordinary losses</b>		
Impairment loss	0	0
<b>Profit before income taxes</b>		<b>724</b>
Income taxes - current	76	
Income taxes - deferred	(47)	29
<b>Profit</b>		<b>695</b>

## Non-consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(In millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus		Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at beginning of current period	1,018	861	861	1	7,864	7,865	(0)	9,745
Changes of items during period								
Issuance of new shares	9	9	9					19
Dividends of surplus					(234)	(234)		(234)
Profit					695	695		695
Purchase of treasury shares							(326)	(326)
Net changes of items other than shareholders' equity								
Total changes of items during period	9	9	9	—	460	460	(326)	153
Balance at end of current period	1,028	871	871	1	8,324	8,325	(326)	9,899

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	118	118	3	9,867
Changes of items during period				
Issuance of new shares				19
Dividends of surplus				(234)
Profit				695
Purchase of treasury shares				(326)
Net changes of items other than shareholders' equity	94	94	12	106
Total changes of items during period	94	94	12	260
Balance at end of current period	213	213	15	10,128

# Notes to Non-consolidated Financial Statements

## 1. Notes on significant accounting policies

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

#### 1) Securities

##### - Shares of subsidiaries and associates

Stated at cost using the moving-average method.

##### - Available-for-sale securities

###### Available-for-sale securities with market value

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

###### Available-for-sale securities without market value

Stated at cost using the moving-average method.

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

#### 2) Inventories

##### - Finished goods

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

##### - Supplies

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

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

#### 1) Property, plant and equipment

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

The useful lives of the assets are as follows:

Buildings: 3-15 years

Tools, furniture and fixtures: 2-20 years

#### 2) Intangible assets

Straight-line depreciation

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



## 7. Notes on tax effect accounting

Deferred tax assets	
Depreciation in excess of deductible amount	7 million yen
One-time depreciation of assets in excess of deductible amount	1 million yen
Accrued enterprise taxes	5 million yen
Accrued bonuses	18 million yen
Loss on valuation of investment securities	118 million yen
Allowance for investment loss	19 million yen
Asset retirement obligations	12 million yen
Deferred assets for tax purposes	80 million yen
Tax loss carried forward	305 million yen
Others	34 million yen
Subtotal deferred tax assets	<u>603 million yen</u>
Valuation allowance	<u>(460) million yen</u>
Total deferred tax assets	142 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(94) million yen
Asset retirement obligations	(8) million yen
Total deferred tax liabilities	<u>(102) million yen</u>
Net deferred tax assets	<u>40 million yen</u>

## 8. Notes on transactions with related parties

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

## 9. Notes on per share information

(1) Net assets per share	936.58 yen
(2) Basic earnings per share	62.84 yen

## 10. Notes on major subsequent events

N/A

Report of Independent Auditor

May 21, 2021

To the Board of Directors  
AXELL CORPORATION

Ernst & Young ShinNihon LLC  
Tokyo, Japan

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Tatsuya Yokouchi [Seal]

Toru Iizuka [Seal]

**Opinion**

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of AXELL CORPORATION (hereinafter the "Company") applicable to the fiscal year from April 1, 2020 to March 31, 2021.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Group, which consisted of the Company and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2021, in accordance with accounting principles generally accepted in Japan.

**Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

### **Conflicts of Interest**

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

Report of Independent Auditor

May 21, 2021

To the Board of Directors  
AXELL CORPORATION

Ernst & Young ShinNihon LLC  
Tokyo, Japan

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Tatsuya Yokouchi [Seal]

Certified Public Accountant

Designated Limited Liability Partner

Engagement Partner

Toru Iizuka [Seal]

**Opinion**

Pursuant to Article 436, paragraph 2, item 1 of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the notes to the non-consolidated financial statements and their supplementary schedules (hereinafter the "non-consolidated financial statements, etc.") of AXELL CORPORATION (hereinafter the "Company") applicable to the 26th fiscal year from April 1, 2020 to March 31, 2021.

In our opinion, the accompanying non-consolidated financial statements, etc. present fairly, in all material respects, the non-consolidated financial position and results of operations of the Company, applicable to the fiscal year ended March 31, 2021, in accordance with accounting principles generally accepted in Japan.

**Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

### **Conflicts of Interest**

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

## **Audit Report**

The Audit and Supervisory Committee prepared this audit report regarding the Directors' execution of their duties during fiscal 2020, from April 1, 2020 to March 31, 2021. Those methods and results are hereby reported as follows:

### 1. Auditing Method and Details

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

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

Based on the foregoing methods, we examined the Business Report and the related supplementary schedules, the non-consolidated financial statements (the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statements of changes in net assets, and the notes to non-consolidated financial statements) and the related supplementary schedules, and the consolidated financial statements (the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to consolidated financial statements) for fiscal 2020.

### 2. Audit Results

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

May 24, 2021

Audit and Supervisory Committee  
AXELL CORPORATION

Full-time & Audit and Supervisory Committee Member	Teiichiro Nishizaka
Audit and Supervisory Committee Member	Katsuya Mitsumura
Audit and Supervisory Committee Member	Masao Suzuki
Audit and Supervisory Committee Member	Shigeo Igashima

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