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(Securities Code: 6730)

May 31, 2024

(Date of commencement of measures for electronic provision: May 24, 2024)

To Shareholders with Voting Rights:

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

**NOTICE OF
THE 29TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We hereby notify you that the 29th Ordinary General Meeting of Shareholders (the “Meeting”) of AXELL CORPORATION (“the Company”) will be held as follows.

When convening the Meeting, the Company has taken measures for electronic provision and has posted matters subject to measures for electronic provision as “Notice of the 29th Ordinary General Meeting of Shareholders” and “Other Matters Subject to Measures for Electronic Provision (Matters Excluded from Paper-based Documents Delivered to Shareholders)” on the following website.

[The Company website]

<https://www.axell.co.jp/en/ir/holder/#meeting>

In addition to the above, the Company also has posted this information on the website of the Tokyo Stock Exchange (TSE). To view the information, please access the following TSE website (Listed Company Search), enter “AXELL” in the “Issue name (company name)” box or “6730” in the “Code” box, and click on “Search,” and then click on “Basic information” and select “Documents for public inspection/PR information.”

[TSE website]

<https://www2.jpx.co.jp/tseHpFront/JJK020010Action.do?Show=Show>

Instead of attending the Meeting, you may exercise your voting rights via the Internet or in writing. Please review the Reference Documents for the General Meeting of Shareholders and exercise your voting rights no later than 6:00 p.m. on Wednesday, June 19, 2024, Japan time.

1. **Date and Time:** 10:00 a.m. on Thursday, June 20, 2024 (JST)
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 FY2023 (from April 1, 2023 to March 31, 2024) 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 FY2023 (from April 1, 2023 to March 31, 2024)
 - Proposals to be resolved:**
 - Proposal No. 1:** Distribution of Surplus
 - Proposal No. 2:** Election of Five Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)
 - Proposal No. 3:** Election of Four Directors Serving as Audit and Supervisory Committee Members

- ◎ If there is no indication of approval or disapproval of a proposal on the Voting Rights Exercise Form, we will treat it as an indication of approval.
- ◎ If any amendments are made to matters subject to measures for electronic provision, such amendments will be posted on the respective websites where the matters are posted.

<The Company's website: <https://www.axell.co.jp/en/>>

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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 year-end dividend of 81 yen per share.

Year-end dividend

- (1) Dividend asset type
Cash
- (2) Allotment of dividend assets and its total amount
81 yen per share of the Company's common stock Total amount: 885,757,437 yen
- (3) Effective date of dividends from surplus
June 21, 2024

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

The term of office of all five 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 five Directors be elected.

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

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

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
1	<p>Kazunori Matsuura (Jan. 25, 1970 54 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 & Assistant General Manager of Engineering Department of the Company</p> <p>June 2010 Appointed to Director & General Manager of Engineering Department of the Company</p> <p>June 2012 Appointed to President & Representative Director of the Company</p> <p>April 2014 Visiting Professor of University of Tsukuba (to present)</p> <p>June 2022 Appointed to Chairman & Representative Director of the Company (to present)</p>	<p>417,310 shares</p>
<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. Kazunori Matsuura has a wealth of experience in semiconductor development at other companies and is involved in business promotion and corporate management of the Company as President & Representative Director from 2012 and Chairman & Representative Director at present. 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).</p>			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
2	Akihiro Saito (Aug. 4, 1966 57 years old) Reappointment	April 1989 Joined Nippon Steel Corp. (current NIPPON STEEL CORPORATION) 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 June 2022 Appointed to President & Representative Director of the Company (to present)	46,050 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Akihiro Saito has a wealth of experience in semiconductor sales and business promotion at other companies and is involved in business promotion and corporate management of the Company as Executive Vice President & Representative Director from 2012 and President & Representative Director at present. 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). 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
	<p>Takaomi Kishimoto (Feb. 24, 1973 51 years old)</p> <p>Reappointment</p>	<p>April 1995 Joined TAKACHIHO KOHEKI CO., LTD. November 1999 Joined MegaChips Corporation October 2006 Joined the Company April 2015 Appointed to Senior Manager of Sales & Marketing Department of the Company June 2018 Appointed to Executive Officer & General Manager of Sales & Marketing Department of the Company November 2020 Appointed to President & Representative Director of aimRage Inc. (to present) June 2022 Appointed to Director & General Manager of Sales & Marketing Department of the Company (to present)</p>	<p>8,100 shares</p>
4	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) <p>Mr. Takaomi Kishimoto has a wealth of experience in semiconductor sales at other companies. Since joining the Company, he has contributed to increasing sales and market share of our products at the sales & marketing division by acquiring new customers steadily and enhancing the relationship with existing partners through sales activities for a range of peripheral products such as LSI products. Currently, he utilizes his marketing capability to accurately grasp market needs as the head of the sales & marketing division. At the same time, he also assumes a role as President & Representative Director of the subsidiary that specializes in manufacturing and selling memory modules. He can be expected to continue to play a leading role in business promotion at the sales & marketing division in the future. 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>		

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
	Atsushi Kikuchi (May 24, 1977 47 years old) Reappointment	November 2002 Joined the Company June 2012 Appointed to Senior Manager of Engineering Department, Team Leader of LSI Team of the Company June 2018 Appointed to Executive Officer & Assistant General Manager of Engineering Department, Team Leader of LSI Team of the Company April 2019 Appointed to Executive Officer & General Manager of Engineering Department of the Company June 2022 Appointed to Director & General Manager of Engineering Department of the Company (to present) April 2024 Appointed to Director of aimRage Inc. (to present)	23,300 shares
5	<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Reasons for selecting the candidate for Director (excluding Director serving as Audit and Supervisory Committee Member) Mr. Atsushi Kikuchi has consistently been involved in the development of our mainstay LSI products since joining the Company. Since 2012, he has also led the massive LSI design development that adopted the most advanced process and created LSI products of high customer satisfaction as a leader of the LSI development division. Currently, he leads a highly specialized group of engineers as the head of the development division. As such, he has strong leadership with a wealth of development business experience. He can be expected to continue to play a leading role in business promotion at the development division. In addition, by reflecting these experiences and achievements in the Company's management, he can be expected to strengthen the decision-making functions of the Board of Directors and aim to increase the speed and efficiency of business execution while promoting agile management that can appropriately respond to changes in the management environment. Thus, the Company has designated him as a candidate for Director (excluding Director serving as Audit and Supervisory Committee Member). 		

- (Notes)
1. None of the candidates for Director (excluding Directors serving as Audit and Supervisory Committee Members) have any special interest in the Company.
 2. The Company has entered into a directors and officers liability insurance with an insurance company for all of the Directors as stipulated in Article 430-3, Paragraph 1 of the Companies Act to cover the damage that may arise as a result of the insured Directors' assuming liability for execution of their duties or receiving claims in pursuit of that liability. Each candidate will be included in the insured under the insurance if each candidate is appointed as Director. The Company plans to renew the insurance policy during the term of office of the Directors under this proposal.

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

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

We therefore propose that the four Directors serving as Audit and Supervisory Committee Members be reelected.

The Audit and Supervisory Committee has given its approval to this proposal.

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

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
1	<p>Shigeo Igashima (Dec. 12, 1963 60 years old)</p> <p>Reappointment Outside Independent</p>	<p>October 1990 Joined Chuo Shinko Audit Corporation August 1995 Registered as a Certified Public Accountant January 1997 Joined Yano Seisakusho Co., Ltd. March 2003 Seconded to Yano Electronics (Thailand) Ltd. Appointed to Executive Vice President and Representative Director April 2004 Returned to Yano Seisakusho Co., Ltd. September 2004 Appointed to Representative of Igashima C.P.A. and Tax Accountant Office (to present) June 2008 Appointed to Outside Audit & Supervisory Board Member of the Company Appointed to Corporate Auditor of ejworks corporation Appointed to Corporate Auditor of Lunascape Corporation December 2011 Appointed to Standing Auditor of TAIYO BUSSANKAISHA, LTD. June 2012 Appointed to Outside Corporate Auditor of Shintokyo Group Co., Ltd. October 2015 Appointed to President and Representative Director of Cluster Accounting Co., Ltd. June 2016 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company December 2017 Appointed to Outside Director of TAIYO BUSSAN KAISHA, LTD. January 2019 Appointed to Representative Partner of TIS Tax Accounting Corporation June 2023 Appointed to Outside Director (Full-time Audit and Supervisory Committee Member) of the Company (to present) June 2023 Appointed to Outside Director (Audit and Supervisory Committee Member) of FANUC CORPORATION (to present)</p>	0 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member and expected roles In addition to specialized knowledge, abundant experience, etc., in finance and accounting as a certified public accountant and tax accountant, Mr. Shigeo Igashima possesses views regarding corporate management, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
2	<p>Katsuya Mitsumura (Jun. 18, 1951 73 years old)</p> <p>Reappointment Outside Independent</p>	<p>April 1974 Joined Showa Audit Corporation (current Ernst & Young ShinNihon LLC)</p> <p>March 1977 Registered as a Certified Public Accountant</p> <p>January 1982 Established Katsuya Mitsumura C.P.A. and Tax Accountant Office (to present)</p> <p>June 2008 Appointed to Outside Audit & Supervisory Board Member of the Company</p> <p>June 2016 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company</p> <p>October 2016 Appointed to Outside Director of INABA SEISAKUSHO Co., Ltd. (to present)</p> <p>December 2017 Appointed to Outside Corporate Auditor of Mt. Fuji Springs Inc.</p> <p>June 2018 Appointed to Outside Director (Full-time Audit and Supervisory Committee Member) of the Company</p> <p>July 2018 Appointed to Outside Director (Audit and Supervisory Committee Member) of Mt. Fuji Springs Inc.</p> <p>June 2019 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>June 2019 Appointed to Audit & Supervisory Board Member of FANUC CORPORATION</p> <p>June 2021 Appointed to Director (Audit and Supervisory Committee Member) of FANUC CORPORATION</p>	0 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member and expected roles Mr. Katsuya Mitsumura possesses specialized knowledge, abundant experience, etc., in finance and accounting as a certified public accountant and tax accountant as well as experience in corporate management, and by reflecting his experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
3	<p>Masao Suzuki (Feb. 9, 1953 71 years old)</p> <p>Reappointment Outsider Independent</p>	<p>April 1975 Joined Heiwa Sogo Bank K.K. (current Sumitomo Mitsui Banking Corporation)</p> <p>November 1981 Joined Yamaichi Securities Co., Ltd.</p> <p>November 1993 Joined Goldman Sachs (Japan) Ltd. Appointed to Vice President of Corporate Dept. of Investment Banking Division</p> <p>February 2000 Established Strategic Capital Partners, Co., Ltd. Appointed to Representative Director</p> <p>June 2010 Appointed to Outside Director of the Company</p> <p>June 2016 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company (to present)</p> <p>November 2016 Appointed to Corporate Auditor of Risseisha Inc.</p> <p>March 2017 Appointed to President and Representative Director of Ken Real Estate Investment Advisors Ltd.</p> <p>June 2017 Appointed to President and Representative Director of Shibuya Television Co., Ltd. (to present)</p>	100 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member and expected roles Mr. Masao Suzuki has a wealth of business experience at numerous companies in addition to extensive experience, wide knowledge, etc., as a manager, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member. 			

No.	Name (Date of birth)	Past experience, positions and responsibilities in the Company (major concurrent positions)	Number of shares of the Company held
4	Teiichiro Nishizaka (Jan. 28, 1958 66 years old) Reappointment Outside Independent	April 1982 Joined NEC Corporation January 2005 Appointed to General Manager of System Memory Business Division of NEC Electronics Corporation May 2007 Appointed to General Manager of Advanced ASIC Business Division of NEC Electronics Corporation July 2008 Appointed to General Manager of System ASIC Business Division of NEC Electronics Corporation April 2010 Appointed to General Manager of Imaging Device Business Division of Renesas Electronics Corporation October 2011 Appointed to General Manager of 2nd Industrial Network Business Division of Renesas Electronics Corporation October 2012 Retired from Renesas Electronics Corporation April 2014 Registered as a Small and Medium Enterprise Management Consultant April 2017 Joined Japan Science and Technology Agency June 2018 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company June 2019 Appointed to Outside Director (Full-time Audit and Supervisory Committee Member) of the Company June 2023 Appointed to Outside Director (Audit and Supervisory Committee Member) of the Company (to present)	0 shares
<ul style="list-style-type: none"> ■ Record of attendance at Board of Directors meetings 100% (13 out of 13) ■ Record of attendance at Audit and Supervisory Committee meetings 100% (14 out of 14) ■ Reasons for selecting the candidate for Outside Director serving as Audit and Supervisory Committee Member and expected roles Although Mr. Teiichiro Nishizaka has not previously been involved in corporate management other than as an outside officer, he has a wealth of experience, wide knowledge, etc. necessary for business promotion including new business fields accumulated over many years through various operations in the semiconductor industry in which the Company operates, and by reflecting these experiences and achievements in the Company's management, he can be expected to further strengthen the audit and supervisory functions of the Board of Directors. Thus, the Company has designated him as a candidate for Outside Director serving as Audit and Supervisory Committee Member. The Company has purchase transactions related to outsourcing of manufacturing of the Company's products with Renesas Electronics Corporation, where Mr. Teiichiro Nishizaka had previously served. However, 11 years have passed since he retired from Renesas Electronics Corporation, and he has currently no relationship with the company. Thus, the Company believes that such factor does not affect his objective, fair, and neutral judgment as Outside Director serving as Audit and Supervisory Committee Member. 			

- (Notes)
1. None of the candidates for Director have any special interest in the Company.
 2. Messrs. Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka are candidates for Outside Directors serving as Audit and Supervisory Committee Members.
 3. Messrs. Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka are currently Outside Directors serving as Audit and Supervisory Committee Members of the Company. At the close of this General Meeting of Shareholders, the terms of office of Messrs. Shigeo Igashima and Katsuya Mitsumura as Outside Directors will be eight years, Mr. Masao Suzuki as Outside Director will be 14 years (including eight years as Outside Director serving as Audit and Supervisory Committee Member), and Mr. Teiichiro Nishizaka as Outside Director will be six years. Messrs. Shigeo Igashima and Katsuya Mitsumura served as Outside Audit & Supervisory Board Members of the Company in the past.
 4. During FY2023, FANUC CORPORATION, where Mr. Shigeo Igashima has been serving as Outside Director (Audit and Supervisory Committee Member) since June 29, 2023, found that ROBOCUT (FANUC's wire electrical-discharge machine) products manufactured and sold by the company might have been tested under conditions which do not comply with the harmonized standards of the EMC (Electromagnetic Compatibility) Directive of EU. Although Mr. Igashima had not recognized the fact in advance, he had promoted awareness about the importance of

- compliance at the Board of Directors meetings or on other occasions regularly. Since he recognized the matter, he has been providing recommendations to fully elucidate the matter at the Board of Directors and other meetings.
5. During FY2023, FANUC CORPORATION, where Mr. Kasuya Mitsumura served as Outside Director until June 29, 2023, found that ROBOCUT (FANUC's wire electrical-discharge machine) products manufactured and sold by the company might have been tested under conditions which do not comply with the harmonized standards of the EMC (Electromagnetic Compatibility) Directive of EU.
 6. Under the provision of Article 427, Paragraph 1 of the Companies Act, the Company has concluded agreements with Messrs. Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka to limit their liability for damages under Article 423, Paragraph 1 of the said Act. The cap on the liability for damages under the said agreements is the sum of the amount set forth in each item of Article 425, Paragraph 1 of the Companies Act. In the event that the above four persons are reelected, the Company plans to continue the Liability Limitation Agreement with them.
 7. The Company has entered into a directors and officers liability insurance with an insurance company for all of the Directors as stipulated in Article 430-3, Paragraph 1 of the Companies Act to cover the damage that may arise as a result of the insured Directors' assuming liability for execution of their duties or receiving claims in pursuit of that liability. Each candidate will be included in the insured under the insurance if each candidate is appointed as Director. The Company plans to renew the insurance policy during the term of office of the Directors under this proposal.
 8. The Company has designated Messrs. Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka as Independent Directors under the provisions of the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange to that effect. If the above four persons are reappointed as Directors serving as Audit and Supervisory Committee Members at this General Meeting of Shareholders, the Company plans to continue to submit them as Independent Directors.

(Reference) Standards for Independence of Outside Directors

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










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

1. If the following items apply, the person will be deemed unsuitable to be an “Independent Corporate Officer.”
 - <Transaction-related>
 - 1) A business executor (Note 2) of a major transaction partner (Note 1) of the Group
 - <Major shareholders>
 - 2) A shareholder or a business executor thereof that holds 10% or more of the voting rights of the Group
 - 3) A business executor of an entity of which the Group holds 10% or more of the voting rights
 - <Advisor or provider of specialized services>
 - 4) A staff member, partner, or employee of the Accounting Auditor that performs audits of the Group as required by law
 - 5) A specialist such as a consultant, certified public accountant, tax accountant, attorney, judicial scrivener, or patent attorney that receives a significant amount of cash or other property (Note 3) from the Group aside from Corporate Officer remuneration
 - <Mutual appointment of Outside Corporate Officers-related>
 - 6) If a business executor of the Group is an Outside Corporate Officer of another company, a business executor of said other company
 - <Receivers of donations>
 - 7) A business executor of an organization that receives more than 10 million yen per year in donations or aid from the Group
 - <Relatives>
 - 8) A spouse, relative within the second degree, or relative domiciled with a person to which any of 1) to 7) above apply
 - <Other>
 - 9) A person to which any of 1) to 8) above applied within the past three years
2. Other than the explicit conditions above, substantial independence will be carefully taken into consideration.
3. In the event that any of the conditions in 1) above are to apply, Independent Corporate Officers must immediately notify the Company.

- Notes:
1. “Major transaction partners” are those at which the annual amount of transactions in the most recent year exceeds 2% of the consolidated net sales of the Company or the counterparty.
 2. “Business executors” are Executive Directors, Executives, Executive Officers, or other persons or employees that are significantly similar.
 3. A “significant amount of cash or other property” is, in total amount, 10 million yen per fiscal year for individuals, or in excess of 2% of consolidated net sales for companies and organizations.

Skill Matrix of the Board of Directors

The skill matrix of the Board of Directors under the planned management structure upon approval of Proposals No.2 and No. 3 is as follows.

										Executive Officer
	Kazunori Matsuura	Akihiro Saito	Kazuki Kyakuno	Takaomi Kishimoto	Atsushi Kikuchi	Shigeo Igashima	Katsuya Mitsumura	Masao Suzuki	Teiichiro Nishizaka	
	Chairman & Representative Director	President & Representative Director	Managing Director & CTO	Director & GM of Sales & Marketing Department	Director & GM of Engineering Department	Audit and Supervisory Committee Member	Audit and Supervisory Committee Member	Audit and Supervisory Committee Member	Audit and Supervisory Committee Member	
Overall management / Management Strategy	●	●						●		
Engineering / R&D	●		●		●				●	
Sales & marketing		●		●						
Overall administration										●
Information security / DX					●					
Business development			●	●					●	●
Accounting / Tax						●	●			
Finance / M&A						●	●	●		
International experience / International business		●						●		●
Risk management									●	●

Business Report

(From April 1, 2023 to March 31, 2024)

1. Overview of the Group

(1) Business in FY2023

1) Business progress and results

During fiscal 2023, the Japanese economy maintained a moderate recovery trend along with further normalization of socioeconomic activities as COVID-19 was reclassified as a Category V infectious disease, and the behavioral restrictions were relaxed. Nevertheless, the future economic outlook remains uncertain due to concerns about soaring resource and raw material prices and downward pressure on the economy from tightening in monetary policy globally.

The pachinko and pachislot machine market, which is the main market for the Group, has remained solid with the introduction of next-generation amusement machines including smart slots. As a result, the yearly sales volume for pachinko and pachislot machines, which is a measure of the market size of the Company, is estimated to have been around 1.61 million units compared with 1.58 million units sold in the previous fiscal year.

Under such circumstances, 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 new business areas adopting cutting-edge technologies including AI and blockchain. Furthermore, with a view to accelerating new business development, the Group actively considered initiatives including restructuring, alliances, and investments.

As a result, for fiscal 2023, the Company recorded net sales of 17,570 million yen, up 3,095 million yen from the previous fiscal year (year-on-year increase of 21.4%), and gross profit of 5,597 million yen, up 1,051 million yen from the previous fiscal year (year-on-year increase of 23.1%). Gross profit margin increased by 0.5 percentage points year-on-year to 31.9% mainly due to a change in the product mix.

Selling, general and administrative expenses amounted to 3,171 million yen, an increase of 239 million yen from the previous fiscal year (year-on-year increase of 8.2%) due to an increase in labor costs such as performance-linked bonuses and aggressive promotion and advertising to improve corporate recognition in the new business area. Of these expenses, research and development expenses accounted for 1,579 million yen, up 26 million yen from the previous fiscal year (year-on-year increase of 1.7%).

Consequently, for fiscal 2023, the Company recorded an operating profit of 2,426 million yen, an increase of 811 million yen from the previous fiscal year (year-on-year increase of 50.3%). Ordinary profit rose by 636 million yen (year-on-year increase of 35.1%) to 2,449 million yen, and profit attributable to owners of parent rose by 417 million yen (year-on-year increase of 30.9%) to 1,771 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 and vending machines to home electric appliances.

The business performance by segment is as follows. In addition, besides the following segments, company-wide expenses not allocated to each segment amounted to 880 million yen.

(i) LSI Business for Japanese Entertainment Machines

The LSI Business for Japanese Entertainment Machines segment deals with products for pachinko and pachislot machines, the existing businesses of the Company. For fiscal 2023, the Company recorded net sales of 16,937 million yen, an increase of 3,085 million yen from the previous fiscal year (year-on-year increase of 22.3%), and a segment profit of 3,688 million yen, an increase of 903 million yen from the previous fiscal year (year-on-year increase of 32.4%). By product, for graphics LSI products for pachinko and pachislot machines, the Company’s mainstay products, the Company sold approximately 640,000 units, up approximately 129,000 units from the previous fiscal year. On the other hand, sales of products including memory-module products (Note) fell below that of the previous fiscal year in terms of new sales quantity. However, the sales amount surpassed that of the previous fiscal year because the

sales ratio of products with high unit price and large memory capacity increased. The order backlog for the segment on March 31, 2024 stood at 14,543 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.

(ii) Middleware (AI, Blockchain and Other) and LSI Business for New Business

This segment is a start-up business targeting the new business areas utilizing cutting-edge technologies such as AI and blockchain, in addition to graphics LSI products for embedded systems. For fiscal 2023, the Company recorded net sales of 632 million yen, up 10 million yen, or 1.6%, from the previous fiscal year, mainly from sales in the areas of AI, and a segment loss of 381 million yen, down 24 million yen from a loss of 405 million yen reported in the previous fiscal year.

2) Capital investment

Capital investment in fiscal 2023 totaled 122 million yen.

It mainly consisted of equipment, etc. for design and development purposes amounting to 55 million yen, software, etc. for design and development purposes amounting to 17 million yen, and administration equipment, etc. amounting to 49 million yen.

3) Financing

All capital investments, etc. were financed by the Company’s own funds in fiscal 2023.

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 the business of other corporations, etc. due to absorption/merger or spin-off

N/A

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

N/A

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

1) Changes in assets and income of the Group

Category	FY2020	FY2021	FY2022	FY2023
Net sales (million yen)	8,999	10,666	14,474	17,570
Ordinary profit (million yen)	705	1,001	1,813	2,449
Profit attributable to owners of parent (million yen)	670	865	1,353	1,771
Basic earnings per share (yen)	60.63	80.05	124.75	162.38
Total assets (million yen)	11,132	12,274	13,883	15,574
Net assets (million yen)	10,071	10,629	11,695	12,891
Net assets per share (yen)	929.16	974.54	1,064.72	1,166.82

(Notes)

1. 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. The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of FY2021. The application of the Accounting Standards, etc. has been reflected in the figures for FY2021 onwards.

2) Changes in assets and income of the Company

Category	FY2020	FY2021	FY2022	FY2023
Net sales (million yen)	8,759	10,350	14,033	17,189
Ordinary profit (million yen)	725	1,013	1,557	2,293
Profit (million yen)	695	903	1,203	1,568
Basic earnings per share (yen)	62.84	83.52	110.87	143.79
Total assets (million yen)	11,161	11,726	13,157	14,512
Net assets (million yen)	10,128	10,691	11,579	12,501
Net assets per share (yen)	936.58	984.87	1,061.16	1,140.44

(Notes)

1. 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. The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. effective from the beginning of FY2021. The application of the Accounting Standards, etc. has been reflected in the figures for FY2021 onwards.

(3) Material Subsidiaries

Company name	Capital stock	Ratio of voting rights held by the Company	Business activities
ax Inc.	100 million yen	87.66%	Consulting related to AI (development of AI apps, etc.) Development and sale of framework related to AI Sale of middleware (AXIP)
aimRage Inc.	45 million yen	85.00%	Design, development, manufacturing, and sale of memory products Programing of memories and reuse service

(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

The Group believes that it is essential to capture new profit opportunities through business diversification and other measures in order to achieve sustainable growth in response to the mandate of our shareholders. 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 and to promote the development of new business areas adopting cutting-edge technologies including AI and blockchain. In this regard, the Group will continue to strengthen the Group's organization and corporate governance system to support business diversification, and also proactively pursue opportunities for strategic alliance, M&A, and business investment to accelerate growth. With such initiatives, the Group aims to be competitive in a new market and achieve early commercialization and expansion of the business scale.

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

In the pachinko and pachislot machine market, which is the main market for the Group, yearly sales volume shows signs of recovery as the gradual downtrend in the market since 2006 bottomed out in fiscal 2020. Nevertheless, there has been a severe impact on the Group's business as there are concerns that pachinko hall operators may have reduced investment appetite for new machines because of a need for large-scale capital investment in response to an introduction of new banknotes, which is added to a contraction in demand attributable to an increase in reuse of device components including the Company's products.

However, the pachinko and pachislot market is a huge market where demand for electronic parts such as the Group's is robust. 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 expand into the system business with graphics LSI products and memory-module 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 its Corporate Philosophy. Based on this philosophy, in addition to conducting business activities as a corporate entity with social ethics, by increasing the soundness, 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, 2024)

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

Category	Business activities
LSI Business for Japanese Entertainment Machines	Development and sales of various LSI products, substrate products, and electronic devices for pachinko and pachislot machines
Middleware (AI, Blockchain and Other) and LSI Business for New Business	Development and sales of various LSI products, substrate products, and electronic devices for embedded systems Development and sales of products and provision of solutions in the areas of middleware, machine learning/AI, blockchain, and security

(6) Principal Offices and Plants (as of March 31, 2024)

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
aimRage Inc.	16-4 Konan 2-chome, Minato-ku, Tokyo, Japan

(7) Employees (as of March 31, 2024)

1) Employees of the Group

Number of employees	Increase/decrease from the previous fiscal year-end
128 (24) persons	Increase of 2 (2) persons

(Note) The 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 the previous fiscal year-end	Average age	Average years of service
97 (19) persons	Increase of 2 (2) persons	48.1 years old	12.3 years

(Note) The 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, 2024)

N/A

(9) Other Material Information on the 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 2023, 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 program 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. Moreover, the Company held an AI contest (competitive programming) on AI inference programming for the same university in fiscal 2023. The Company aims to broaden the base of AI human resources and support creating the future using AI by supporting the skill development and career vision of those who wish to advance their careers in the AI field. The Company hopes to support the development of engineers who will lead our country in the future and contribute to realizing a more affluent society through these efforts.

(Note) CSR is the acronym for 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, 2024)

- (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 6,796 shareholders
- (4) Major Shareholders (Top 10)

Name of shareholder	Number of shares held	Controlling share
Midoriya Electric Co., Ltd.	969,000 shares	8.86%
The Master Trust Bank of Japan, Ltd. (trust account)	851,700	7.78
Sumihiko Ichihara	535,800	4.89
CELSYS, Inc.	464,800	4.25
Kazunori Matsuura	417,310	3.81
NORTHERN TRUST CO. (AVFC) RE IEDP AIF CLIENTS NON TREATY ACCOUNT	368,000	3.36
JPMorgan Securities Japan Co., Ltd.	279,479	2.55
Aval Data Corporation	260,000	2.37
STATE STREET BANK AND TRUST COMPANY FOR STATE STREET BANK LUXEMBOURG SCA ON BEHALF OF ITS CLIENTS: DB POOLING-FCP	209,000	1.91
Yoshimi Sasaki	207,200	1.89

- (Notes) 1. The Company holds 276,712 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 FY2023

	Number of shares	Number of recipients
Directors (excluding Directors serving as Audit and Supervisory Committee Members)	15,550 shares	5

- (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."

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, 2024

	Share Acquisition Rights for 2019	Share Acquisition Rights for 2021
Date of resolution for issuance	December 16, 2019	July 26, 2021
Number of share acquisition rights	850 units	529 units
Class and number of shares underlying share acquisition rights	85,000 shares of common stock (100 shares per share acquisition right)	52,900 shares of common stock (100 shares per share acquisition right)
Amount to be paid in for share acquisition rights	No payment is required in exchange for share acquisition rights.	No payment is required in exchange for share acquisition rights.
Value of property to be contributed on the exercise of share acquisition rights	94,100 yen per share acquisition right (941 yen per share)	87,700 yen per share acquisition right (877 yen per share)
Exercise period	From January 7, 2022 to January 6, 2026	From August 11, 2023 to August 10, 2027
Terms of exercise	(Note)	(Note)
Status of number of shares held by Officers	Directors (excluding Audit and Supervisory Committee Members) Number of share acquisition rights: 20 units Number of shares underlying share acquisition rights: 2,000 shares Number of holders: 2 persons	Number of share acquisition rights: 16 units Number of shares underlying share acquisition rights: 1,600 shares Number of holders: 2 persons

(Note) A share acquisition holder is required to be either an officer or employee of the Company or its subsidiaries and associates at the time of exercise of the share acquisition rights. Other terms of the exercise of share acquisition rights are as prescribed in a share acquisition rights allotment agreement executed between the Company and a share acquisition holder.

(2) Share Acquisition Rights Issued to Employees, etc. during FY2023

N/A

4. Company Officers

(1) Directors (as of March 31, 2024)

Title	Name	Responsibilities & material concurrent positions
Chairman & Representative Director	Kazunori Matsuura	Visiting Professor of University of Tsukuba
President & Representative Director	Akihiro Saito	Director of ax Inc.
Managing Director	Kazuki Kyakuno	General Manager of Business Development Division, Supervising Algorithm Team of Engineering Department Visiting Associate Professor of University of Tsukuba Director of ax Inc.
Director	Takaomi Kishimoto	General Manager of Sales & Marketing Department President & Representative Director of aimRage Inc.
Director	Atsushi Kikuchi	General Manager of Engineering Department
Director (Audit and Supervisory Committee Member, Full-time)	Shigeo Igashima	Certified Public Accountant & Tax Accountant Outside Director (Audit and Supervisory Committee Member) of FANUC CORPORATION
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	Certified Public Accountant & Tax Accountant Outside Director of INABA SEISAKUSHO Co., Ltd.
Director (Audit and Supervisory Committee Member)	Masao Suzuki	President and Representative Director of Shibuya Television Co., Ltd.
Director (Audit and Supervisory Committee Member)	Teiichiro Nishizaka	Small and Medium Enterprise Management Consultant

- (Notes)
- Directors (Audit and Supervisory Committee Members) Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka are Outside Directors.
 - Directors (Audit and Supervisory Committee Members) Shigeo Igashima and Katsuya Mitsumura have considerable financial and accounting expertise based on years of experience as certified public accountants and tax accountants.
 - 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) Shigeo Igashima as a Full-time Audit and Supervisory Committee Member.
 - The Company has designated Directors (Audit and Supervisory Committee Members) Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka as Independent Directors under the provisions of the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange to that effect.
 - As of April 1, 2024, Mr. Kazuki Kyakuno was appointed as Managing Director and CTO, Supervising Algorithm Team of Engineering Department from Managing Director and General Manager of Business Development Group, Supervising Algorithm Team of Engineering Department.
 - As of April 17, 2024, Mr. Atsushi Kikuchi was appointed as Director of aimRage Inc.

(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) Shigeo Igashima, Katsuya Mitsumura, Masao Suzuki, and Teiichiro Nishizaka, 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 Article 430-3 Paragraph 1 of the Companies Act. Those insured under the policy are Directors of the Company as well as Directors and Audit & Supervisory Board Members of 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 the 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 FY2023

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)	212 (-)	108 (-)	79 (-)	24 (-)	5 (-)
Director (Audit and Supervisory Committee Member) (Outside Director)	31 (31)	31 (31)	- (-)	- (-)	4 (4)
Total (Outside Director)	244 (31)	139 (31)	79 (-)	24 (-)	9 (4)

- (Notes) 1. Total amount of remuneration, etc. of Directors (excluding Audit and Supervisory Committee Members) does not include the portion of employee salary paid to Directors concurrently serving as employees.
2. The Company issued shares with restriction on transfer to Directors (excluding Audit and Supervisory Committee Members) as non-monetary compensation. The outline of stock-based remuneration is as mentioned in "Policy regarding performance-linked remuneration, etc. and non-monetary compensation, etc." below and the status of issuance is as described in "2. Status of Shares."

2) Policy for determining contents of officers' remuneration

The Company passed a resolution at the Board of Directors meeting 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 FY2023 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 sound 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 remuneration (monthly remuneration) established in accordance with Directors' duties and designed to encourage faithful execution of those duties, which shall be paid in accordance with their ranks (ranks EX-1 to EX-9 and EX-C) set forth in the Standards on Payment of Directors' Remuneration. The amount shall be the sum of the compensation for representation, compensation for supervision, and compensation for position, which shall be determined based on the rank. Separately from these compensations, compensation for special assignments, etc. may be added. 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 criterion 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. The return on equity (consolidated financial results have priority) for fiscal 2023 was 14.6%, and remuneration amounts have been calculated using the method of calculating short-term performance-linked remuneration.

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 the 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 the consolidated return on equity reaches 8%, the criterion for payment of short-term performance-linked remuneration, the general composition of an Executive Director'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 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) based on the rank decided by the President & Representative Director and pursuant to the Standards on Payment of Directors' Remuneration 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) as fixed remuneration, 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 payable to Directors (excluding Audit and Supervisory Committee Members) to 30 million yen per year and the number of shares allocatable to 37,500 per year. 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 an officer is a business executor of other companies, etc.) and the 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	Shibuya Television Co., Ltd.	President and Representative Director

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

2) Concurrent position held by outside officers, etc. of other companies, etc. and the 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)	Shigeo Igashima	FANUC CORPORATION	Outside Director (Audit and Supervisory Committee Member)
Director (Audit and Supervisory Committee Member)	Katsuya Mitsumura	INABA SEISAKUSHO Co., Ltd.	Outside Director

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

3) Main activities during FY2023

Classification	Name	Main activities and overview of duties performed that constituted the performance of the roles expected of Outside Directors
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 FY2023 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 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., 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)	Katsuya Mitsumura	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY2023 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 FY2023 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)	Teiichiro Nishizaka	Participated in all of the 13 Board of Directors meetings and in all of the 14 Audit and Supervisory Committee meetings during FY2023 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 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.

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	33 million yen
Total amount of monetary and other financial benefits payable by the Company and subsidiaries to the Accounting Auditor	33 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 2023.
 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 are 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 & 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, the Company shall ensure the objectiveness and enhance the appropriateness of monitoring by obtaining opinions of Outside Directors.
- 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

As regards the storage and management of information on the execution of duties by Directors, the following materials and information shall be appropriately stored and managed in accordance with laws, regulations and relevant internal regulations, and shall promptly be made available for inspection upon request of Directors.

- 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;
- c. Important documents relating to the execution of duties by Directors, such as requests for final decision and attachments thereto; and
- d. Other important materials and information relating to the execution of duties by Directors

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

- 1) The Company shall take measures to identify, evaluate, and avoid the risk of loss in accordance with the Crisis Control Regulations.
- 2) The groups and entities in charge comprising the Company's organization shall continually study and evaluate the risks that may arise in the course of business and report the results thereof to the Board of Directors.
- 3) If the risk of loss materializes, the Company shall respond promptly and appropriately and take appropriate measures for business continuity, and prompt restoration and resumption of business activities in the event of incidents such as a serious accident or large-scale disaster.

- (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 Directors.
 - 3) The Board of Directors properly distributes authority and responsibilities among Directors and oversees the efficiency of execution of duties by Directors.
 - 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.
 - 5) The Company shall formulate a medium-term business plan at the beginning of each fiscal year, pursuant to the instruction of the President & Representative Director and subject to the review and 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 the Company's Audit and Supervisory Committee Members and internal audits by those responsible for the Company's internal management.
 - 2) The Company shall continue to develop the Group's governance pursuant to the 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 to ensure the proper business execution by the Group.
- (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 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. The Full-time Audit and Supervisory Committee Member shall also attend Business Promotion Meetings and conduct an investigation, make an evaluation, and provide advice, etc., as necessary.
 - 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.

(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 2023 is as follows.

1) Systems for the 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 fostering compliance awareness, compliance training and insider trading prevention training, etc. through the use of real-world cases were conducted. Additionally, a whistleblower hotline was established, and a system was created to ensure appropriate response.

Concerning internal audits, a periodic audit is implemented on each organizational unit (department) regarding matters such as the status of business execution, the status of compliance, and the status of risk management. Additionally, regarding information security, internal training and information audits, etc., are implemented by the Security Enhancement 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 department 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, conducted an investigation, made an evaluation, 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 reasons 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, 2024)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	13,588	Current liabilities	2,641
Cash and deposits	8,316	Accounts payable – trade	1,387
Trade receivables and contract asset	1,107	Income taxes payable	616
Securities	1,500	Accrued consumption taxes	8
Merchandise and finished goods	2,431	Other	629
Work in process	7	Non-current liabilities	41
Raw materials and supplies	0	Asset retirement obligations	41
Other	225		
Allowance for doubtful accounts	(0)	Total liabilities	2,682
Non-current assets	1,985	(Net assets)	
Property, plant and equipment	174	Shareholders' equity	12,401
Buildings	62	Capital stock	1,028
Tools, furniture and fixtures	111	Capital surplus	969
Intangible assets	38	Retained earnings	10,621
Goodwill	5	Treasury shares	(217)
Other	33	Accumulated other comprehensive income	357
Investments and other assets	1,772	Valuation difference on available-for-sale securities	357
Investment securities	1,596	Share acquisition rights	30
Deferred tax assets	56	Non-controlling interests	101
Other	119	Total net assets	12,891
Total assets	15,574	Total liabilities and net assets	15,574

Consolidated Statement of Income

(From April 1, 2023 to March 31, 2024)

(In millions of yen)

Description	Amount	
Net sales		17,570
Cost of sales		11,972
Gross profit		5,597
Selling, general and administrative expenses		3,171
Operating profit		2,426
Non-operating income		
Interest income	1	
Dividend income	20	
Gain on investments in partnership	6	
Other	5	33
Non-operating expenses		
Foreign exchange losses	9	
Other	0	10
Ordinary profit		2,449
Extraordinary losses		
Impairment loss	1	
Other	1	2
Profit before income taxes		2,446
Income taxes – current	749	
Income taxes – deferred	(87)	662
Profit		1,784
Profit attributable to non-controlling interests		12
Profit attributable to owners of parent		1,771

Consolidated Statement of Changes in Net Assets

(From April 1, 2023 to March 31, 2024)

(In millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,028	896	9,698	(258)	11,364
Changes of items during period					
Dividends of surplus			(848)		(848)
Profit attributable to owners of parent			1,771		1,771
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		26		41	67
Capital increase of consolidated subsidiaries		46			46
Net changes in items other than shareholders' equity					
Total changes of items during period	-	73	922	41	1,037
Balance at end of current period	1,028	969	10,621	(217)	12,401

	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	222	222	30	77	11,695
Changes of items during period					
Dividends of surplus					(848)
Profit attributable to owners of parent					1,771
Purchase of treasury shares					(0)
Disposal of treasury shares					67
Capital increase of consolidated subsidiaries					46
Net changes in items other than shareholders' equity	134	134	(0)	24	158
Total changes of items during period	134	134	(0)	24	1,195
Balance at end of current period	357	357	30	101	12,891

Notes to Consolidated Financial Statements

1. Important Basis for Preparation of Consolidated Financial Statements

(1) Scope of consolidation

Number, name, etc. of consolidated subsidiaries

Number of consolidated subsidiaries: 2

Names of major consolidated subsidiaries:

ax Inc.

aimRage Inc.

(2) Application of the equity method

N/A

(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

- **Held-to-maturity securities**

Stated at amortized cost on a straight-line basis

- **Available-for-sale securities**

Available-for-sale securities other than shares, etc. that do not have a market price

The market value method is applied. 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.

Shares, etc. that do not have a market price

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 sheet 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 sheet amount is calculated by writing down the book value of assets which decreased in profitability).

- **Supplies**

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

2) Depreciation method of 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 the 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) Standards of accounting for revenues and expenses

With regard to revenues arising from contracts with customers of the Company and its consolidated subsidiaries, the main performance obligations in key businesses and the timing at which these obligations are typically satisfied (i.e. when revenues are typically recognized) are as follows.

Finished goods and merchandise

Revenues from domestic sales contracts of finished goods and merchandise with customers have been recognized upon shipment as the control of finished goods or merchandise is transferred to a customer upon delivery and the performance obligation is satisfied within a normal period of time after shipment.

When the Company or its consolidated subsidiary is deemed to be acting as an agent in the sales of finished goods and merchandise, revenues are recognized in the net amount obtained by deducting the amount paid to other party providing merchandise from the amount received from such other party in exchange for the merchandise.

The Company receives considerations for transactions under the sales contracts of finished goods and merchandise approximately within one month after delivery thereof. There is no significant financing component in those transactions.

Royalty revenue

As the license fees are received in exchange for services to provide the latest intellectual property over the contract period, the performance obligation to a customer shall be recognized as being satisfied over time. Accordingly, revenues have been recognized over the contract period.

For sale of licenses other than the above, revenues are recognized primarily when a customer is allowed to use the intellectual property, or upon receipt of a royalty report.

Made-to-order software, etc.

For made-to-order software, etc., based on contracts with customers, the cost recovery method has been applied, and of expenses incurred when a performance obligation is satisfied, the amount expected to be collected is recognized as revenue except for a case where a period until a performance obligation is expected to be completely fulfilled is short.

The Company receives considerations for transactions under license sales contracts and for transactions for performance obligations related to made-to-order software, etc. within approximately one month from the time when the licenses become available to customers, and from the time when the performance obligations are satisfied and the made-to-order software, etc. is delivered to and accepted by customers, respectively. There is no significant financing component in those transactions.

2. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amounts recognized on the consolidated financial statements for the fiscal year ended March 31, 2024

Deferred tax assets, net 56 million yen

(The amount before netting out with deferred tax liabilities is 221 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 1.40 million units), and the sales volume projected with reference to the market share of the products including reused ones.

• 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.

3. Notes to consolidated balance sheet

Accumulated depreciation of property, plant and equipment: 769 million yen

4. 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	11,211,989	—	—	11,211,989

(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	328,917	45	52,250	276,712

- (Notes)
1. The increase in the number of treasury shares is due to the purchase of shares constituting less than one unit.
 2. The decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration (a decrease of 15,550 shares) and as a result of the exercise of stock options (a decrease of 36,700 shares).

(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 22, 2023	Common stock	848	78	March 31, 2023	June 23, 2023

2) Payout amount of dividends with record date in FY2023 but effective date in FY2024

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 20, 2024	Common stock	885	Retained earnings	81	March 31, 2024	June 21, 2024

(4) Class and number of shares underlying the share acquisition rights as of March 31, 2024 (excluding shares for which the exercise period has not arrived)

63,800 shares of common stock

5. 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 are jointly managed money trusts purchased by using funds regarded as temporary surplus funds out of bank deposits, etc. held by the Company. The Company seeks to minimize risk by only holding bonds with high credit ratings.

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 the financial position of such counterparties, as well as the due date, balance, and other matters regarding receivables in transactions with such counterparties.

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

Bonds comprising securities have negligible credit risk as they are all in the form of highly secure financial instruments in accordance with the Company's policy.

The maximum amount of credit risk as of the fiscal year-end 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 is calculated taking variables into account. The value may thus change if different assumptions, etc. are adopted.

5) Concentration of credit risks

Three large-lot customers account for 84% of operating receivables as of March 31, 2024.

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

The amounts stated in the consolidated balance sheet, market value and the difference between the two as of March 31, 2024 are as follows.

	Consolidated balance sheet amount (millions of yen)	Market value (millions of yen)	Difference (millions of yen)
Investment securities Available-for-sale securities	1,005	1,005	—

- (Notes)
1. Notes on cash are omitted, and notes on deposits, accounts receivable - trade, securities, accounts payable - trade, and income taxes payable are omitted as they are settled in a short period of time and their book value approximates fair value.
 2. Investments in partnerships and other similar entities for which equity interests are recorded on a net basis on the consolidated balance sheet are not included. The amount of these investments recorded on the consolidated balance sheet is 300 million yen.

3. Shares, etc. that do not have a market price are excluded from investment securities. The consolidated balance sheet amounts of such financial instruments are as follows.

Category	Fiscal 2023 (millions of yen)
Unlisted shares	290

4. The amounts of monetary claims and securities that have maturity periods to be redeemed after the consolidated closing date

	One year or less (millions of yen)	More than one year and five years or less (millions of yen)	More than five years and 10 years or less (millions of yen)	More than 10 years (millions of yen)
Cash and deposits	8,315	–	–	–
Trade receivables	1,107	–	–	–
Investment securities Held-to-maturity securities	1,500	–	–	–
Total	10,923	–	–	–

(3) Matters related to breakdown of financial instruments by level within the fair value hierarchy

Fair values of financial instruments are categorized into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1: Fair values measured using observable inputs, i.e., quoted prices in active markets for the assets or liabilities being measured.

Level 2: Fair values measured using observable inputs other than Level 1 inputs.

Level 3: Fair values measured using unobservable inputs.

When multiple inputs that are significant to the fair value measurement are used from varying levels of the hierarchy, the hierarchy level is determined based on the lowest level of input.

Financial instruments carried at fair value on the consolidated balance sheet

(In millions of yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities Available-for-sale securities Shares	1,005	–	–	1,005

(Note) Explanation of valuation techniques and inputs used in the fair value measurement
Investment securities

Listed shares are valued using quoted prices. As listed shares are traded in active markets, their fair value is categorized into Level 1.

6. Notes on revenue recognition

(1) Disaggregation of revenue from contracts with customers

(In millions of yen)

	Reportable segment		Total
	LSI Business for Japanese Entertainment Machines	Middleware (AI, Blockchain and Other) and LSI Business for New Business	
Finished goods and merchandise	16,937	224	17,162
Royalty revenue	–	91	91
Made-to-order software, etc.	–	315	315
Revenue from contracts with customers	16,937	632	17,570
Net sales to customers	16,937	632	17,570

(2) Useful basic information for understanding revenues arising from contracts with customers

The information is presented in “1. Important Basis for Preparation of Consolidated Financial Statements, (4) Accounting Policies, 5) Standards of accounting for revenues and expenses.”

(3) Information for understanding the revenue amounts in fiscal 2023 and subsequent fiscal years

1) Contract asset and contract liability balances, etc.

	Fiscal 2023
Receivables from contracts with customers	1,107 million yen
Contract liabilities	12 million yen

Contract liabilities are advances received from customers as license fees whose revenues are recognized over the contract period and are reduced upon recognition of revenues. The contract liabilities are included in other under current liabilities.

2) Transaction prices allocated to the remaining performance obligations

Transaction prices allocated to the remaining performance obligations are omitted by applying a practical expedient since the initially expected duration of contracts is one year or less.

7. Notes on per share information

(1) Net assets per share	1,166.82 yen
(2) Basic earnings per share	162.38 yen

8. Notes on major subsequent events

N/A

9. Notes on asset retirement obligations

(1) Summary of the asset retirement obligations

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

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

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

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

Balance at beginning of current period	40 million yen
Adjustments due to passage of time	<u>0 million yen</u>
Balance at end of current period	<u>41 million yen</u>

Non-consolidated Balance Sheet

(As of March 31, 2024)

(In millions of yen)

Description	Amount	Description	Amount
(Assets)		(Liabilities)	
Current assets	12,248	Current liabilities	1,970
Cash and deposits	7,034	Accounts payable – trade	797
Trade receivables and contract asset	1,051	Contract liabilities	4
Securities	1,500	Accounts payable – other	421
Merchandise and finished goods	2,424	Accrued expenses	132
Work in process	4	Income taxes payable	584
Raw materials and supplies	0	Deposits received	27
Advance payments – trade	47	Other	0
Prepaid expenses	123	Non-current liabilities	41
Consumption taxes refund receivable	46	Asset retirement obligations	41
Other	16		
Non-current assets	2,264		
Property, plant and equipment	146	Total liabilities	2,011
Buildings	52	(Net assets)	
Tools, furniture and fixtures	93	Shareholders' equity	12,113
Intangible assets	33	Capital stock	1,028
Patent right	5	Capital surplus	917
Software	28	Legal capital surplus	871
Investments and other assets	2,084	Other capital surplus	45
Investment securities	1,596	Retained earnings	10,385
Shares of subsidiaries and associates	346	Legal retained earnings	1
Long-term prepaid expenses	21	Other retained earnings	10,384
Lease and guarantee deposits	70	Retained earnings brought forward	10,384
Deferred tax assets	43	Treasury shares	(217)
Other	5	Valuation and translation adjustments	357
		Valuation difference on available-for-sale securities	357
		Share acquisition rights	30
		Total net assets	12,501
Total assets	14,512	Total liabilities and net assets	14,512

Non-consolidated Statement of Income

(From April 1, 2023 to March 31, 2024)

(In millions of yen)

Description	Amount	
Net sales		17,189
Cost of sales		12,209
Gross profit		4,979
Selling, general and administrative expenses		2,707
Operating profit		2,272
Non-operating income		
Interest income	1	
Dividend income	20	
Gain on investments in partnership	6	
Other	4	31
Non-operating expenses		
Foreign exchange losses	10	
Other	0	10
Ordinary profit		2,293
Extraordinary losses		
Loss on valuation of shares of subsidiaries and associates	134	
Other	2	137
Profit before income taxes		2,156
Income taxes – current	683	
Income taxes – deferred	(96)	587
Profit		1,568

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2023 to March 31, 2024)

(In millions of yen)

	Shareholders' equity								
	Share capital	Capital surplus			Retained earnings			Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings Retained earnings brought forward	Total retained earnings		
Balance at beginning of current period	1,028	871	18	890	1	9,664	9,665	(258)	11,325
Changes of items during period									
Dividends of surplus						(848)	(848)		(848)
Profit						1,568	1,568		1,568
Purchase of treasury shares								(0)	(0)
Disposal of treasury shares			26	26				41	67
Net changes of items other than shareholders' equity									
Total changes of items during period	–	–	26	26	–	720	720	41	787
Balance at end of current period	1,028	871	45	917	1	10,384	10,385	(217)	12,113

	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	222	222	30	11,579
Changes of items during period				
Dividends of surplus				(848)
Profit				1,568
Purchase of treasury shares				(0)
Disposal of treasury shares				67
Net changes of items other than shareholders' equity	134	134	(0)	134
Total changes of items during period	134	134	(0)	922
Balance at end of current period	357	357	30	12,501

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.

- **Held-to-maturity securities**

Stated at amortized cost on a straight-line basis

- **Available-for-sale securities**

Available-for-sale securities other than shares, etc. that do not have a market price

The market value method is applied. 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.

Shares, etc. that do not have a market price

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 sheet 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 sheet amount is calculated by writing down the book value of assets which decreased in profitability).

- **Supplies**

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

(2) Depreciation method of 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 revenues and expenses

Details of major performance obligations for the Company's main business related to revenues from contracts with customers and the timing when the Company typically satisfies such performance obligations (the typical timing when revenues are recognized) are as follows.

Finished goods and merchandise

Revenues from domestic sales contracts of finished goods and merchandise with customers have been recognized upon shipment as the control of finished goods or merchandise is transferred to a customer upon delivery and the performance obligation is satisfied within a normal period of time after shipment. When the Company or its consolidated subsidiary is deemed to be acting as an agent in the sales of finished goods and merchandise, revenues are recognized in the net amount obtained by deducting the amount paid to other party providing merchandise from the amount received from such other party in exchange for the merchandise.

The Company receives considerations for transactions under the sales contracts of finished goods and merchandise within approximately one month after delivery thereof. There is no significant financing component in those transactions.

Royalty revenue

As the license fees are received in exchange for services to provide the latest intellectual property over the contract period, the performance obligation to a customer shall be recognized as being satisfied over time. Accordingly, revenues have been recognized over the contract period.

For the sale of licenses other than the above, revenues are recognized primarily when a customer is allowed to use the intellectual property, or upon receipt of a royalty report.

Made-to-order software, etc.

For made-to-order software, etc., based on contracts with customers, the cost recovery method has been applied, and of expenses incurred when a performance obligation is satisfied, the amount expected to be collected is recognized as revenue except for a case where a period until a performance obligation is expected to be completely fulfilled is short.

The Company receives considerations for transactions under license sales contracts and for transactions for performance obligations related to made-to-order software, etc. within approximately one month from the time when the licenses become available to customers, and from the time when the performance obligations are satisfied and the made-to-order software, etc. is delivered to and accepted by customers, respectively. There is no significant financing component in those transactions.

2. Notes on accounting estimates

(Recoverability of deferred tax assets)

(1) Amounts recognized on the consolidated financial statements for the fiscal year ended March 31, 2024

Deferred tax assets, net 43 million yen

(The amount before netting out with deferred tax liabilities is 209 million yen)

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

Please refer to "Notes to Consolidated Financial Statements, 2. Notes on accounting estimates."

3. Notes to non-consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment: 743 million yen

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

Monetary claims: 17 million yen

Monetary obligations: 387 million yen

4. Notes to non-consolidated statement of income

(1) Total amount of research and development expenses: 1,414 million yen

(2) Transactions with subsidiaries and associates:

Sales transactions: 6,503 million yen

(3) Loss on valuation of shares of subsidiaries and associates:

This is a loss on valuation of shares of our consolidated subsidiary, ax Inc.

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

Class and number of treasury shares

Class of shares	Number of shares at beginning of year (shares)	Increase during year (shares)	Decrease during year (shares)	Number of shares at end of year (shares)
Common stock	328,917	45	52,250	276,712

(Notes) 1. The increase in the number of treasury shares is due to the purchase of shares constituting less than one unit.

2. The decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration (15,550 shares) and the exercise of stock options (36,700 shares).

6. Notes on tax effect accounting

Deferred tax assets

Depreciation in excess of the deductible amount 31 million yen

Accrued enterprise taxes 32 million yen

Accrued bonuses 64 million yen

Loss on valuation of investment securities 132 million yen

Allowance for investment loss 12 million yen

Loss on valuation of shares of subsidiaries and associates 41 million yen

Asset retirement obligations 12 million yen

Deferred assets for tax purposes 13 million yen

Other 51 million yen

Subtotal deferred tax assets 392 million yen

Valuation allowance (183) million yen

Total deferred tax assets 209 million yen

Deferred tax liabilities

Valuation difference on available-for-sale securities (157) million yen

Asset retirement obligations (7) million yen

Total deferred tax liabilities (165) million yen

Net deferred tax assets 43 million yen

7. Notes on transactions with related parties

Type	Name of company, etc.	Voting rights: Holding of the Company [Held by related party] (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Account	Balance at end of current period (millions of yen)
Subsidiary	aimRage Inc.	Holding Directly 85%	Concurrent holding of positions by officers Purchase of finished goods	Purchase (Note)	6,432	Accounts payable – trade	383

(Note) The transaction amount is determined in consideration of market prices on an arm's length basis.

8. Notes on revenue recognition

Useful basic information for understanding revenues arising from contracts with customers is omitted as the same details are presented in “6. Notes on revenue recognition” in “Notes to Consolidated Financial Statements.”

9. Notes on per share information

(1) Net assets per share	1,140.44 yen
(2) Basic earnings per share	143.79 yen

10. Notes on major subsequent events

N/A

Report of Independent Auditor

May 15, 2024

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC
Tokyo, Japan
Certified Public Accountant
Designated Limited Liability Partner Toru Iizuka
Engagement Partner
Certified Public Accountant
Designated Limited Liability Partner Takahiro Sugano
Engagement Partner

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, 2023 to March 31, 2024. 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, 2024, 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.

Other Information

Other information is composed of the business report and its supplementary schedule. Management is responsible for the preparation and disclosure of other information. Responsibilities of the Audit and Supervisory Committee are to oversee the Directors' execution of duties in developing and operating the reporting process of the other information. The opinion in our report on consolidated financial statements does not cover the other information, and we are not expressing any opinion on the other information.

Our responsibilities in the audit of the consolidated financial statements are to read through other information, consider in the course thereof, whether there is a material inconsistency between the other information and the consolidated financial statements or our knowledge obtained in the audit, and to remain alert for indicators of material misstatement in the other information in addition to such material inconsistency.

If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact.

We have nothing to report with regard to the other information.

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 to express 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, details of the measures to remove threats or related safeguards that are in place to mitigate threats to an acceptable level.

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 15, 2024

To the Board of Directors
AXELL CORPORATION

Ernst & Young ShinNihon LLC
Tokyo, Japan
Certified Public Accountant
Designated Limited Liability Partner Toru Iizuka
Engagement Partner
Certified Public Accountant
Designated Limited Liability Partner Takahiro Sugano
Engagement Partner

Opinion

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of changes in net assets and the notes to the non-consolidated financial statements and their supplementary schedules (hereinafter the “non-consolidated financial statements, etc.”) of AXELL CORPORATION (hereinafter the “Company”) applicable to the 29th fiscal year from April 1, 2023 to March 31, 2024. 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, 2024, 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.

Other Information

Other information is composed of the business report and its supplementary schedule. Management is responsible for the preparation and disclosure of other information. Responsibilities of the Audit and Supervisory Committee are to oversee the Directors' execution of duties in developing and operating the reporting process of the other information. The opinion in our report on non-consolidated financial statements does not cover the other information, and we are not expressing any opinion on the other information.

Our responsibilities in the audit of the non-consolidated financial statements are to read through other information, consider in the course thereof, whether there is a material inconsistency between the other information and the non-consolidated financial statements or our knowledge obtained in the audit, and to remain alert for indicators of material misstatement in the other information in addition to such material inconsistency.

If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact.

We have nothing to report with regard to the other information.

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, details of the measures to remove threats or related safeguards that are in place to mitigate threats to an acceptable level.

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 2023, from April 1, 2023 to March 31, 2024. 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 partially through online meetings with Directors and Audit and Supervisory Committee 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" (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 2023.

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 16, 2024

Audit and Supervisory Committee AXELL CORPORATION	
Full-time Audit and Supervisory Committee Member	Shigeo Igashima
Audit and Supervisory Committee Member	Katsuya Mitsumura
Audit and Supervisory Committee Member	Masao Suzuki
Audit and Supervisory Committee Member	Teichiro Nishizaka

(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.