Annual Securities Report

(Report based on Article 24, Paragraph 1 of the
Financial Instruments and Exchange Act of Japan)

Fiscal year	Started October 1, 2017
(52nd Term)	Ended September 30, 2018

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

(E04807)

This report (from the Cover onward) is a print out of the English translation of the (electronic) disclosure document filed with EDINET

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Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

(1) Consolidated Financial Data, etc.

Fiscal year		48th Term	49th Term	50th Term	51st Term	52nd Term
Year end		September 2014	September 2015	September 2016	September 2017	September 2018
Net sales	(Millions of yen)	54,502	54,928	57,750	59,705	61,621
Ordinary income	(Millions of yen)	6,401	7,042	7,604	8,792	8,961
Net income attributable to owners of parent	(Millions of yen)	3,604	4,011	4,770	6,071	6,158
Comprehensive income	(Millions of yen)	3,827	4,149	3,958	7,097	6,517
Total net assets	(Millions of yen)	59,906	62,630	64,556	68,892	72,550
Total assets	(Millions of yen)	75,266	76,836	81,116	85,428	90,202
Net assets per share	(Yen)	2,205.39	2,304.38	2,374.07	2,551.70	2,686.32
Net income per share	(Yen)	135.55	151.18	179.65	229.13	233.46
Diluted net income per share	(Yen)	135.15	150.63	178.88	228.16	232.41
Equity ratio	(%)	77.7	79.6	77.7	78.8	78.6
Return on equity	(%)	6.3	6.7	7.7	9.3	8.9
Price earnings ratio	(Times)	16.0	20.3	17.5	15.1	20.4
Cash flows from operating activities	(Millions of yen)	4,402	6,485	9,181	8,123	8,810
Cash flows from investing activities	(Millions of yen)	(2,873)	(4,558)	(7,022)	(4,617)	(4,013)
Cash flows from financing activities	(Millions of yen)	(1,125)	(1,333)	(2,225)	(3,019)	(2,567)
Cash and cash equivalents at end of year	(Millions of yen)	16,025	16,619	16,552	17,039	19,268
No. of employees	(No. of people)	2,503	2,500	2,547	2,588	2,625

(Note) Net Sales do not include consumption taxes, etc.(consumption tax and local consumption tax; hereinafter the same)

(2) Financial Data, etc. of the Company

Fiscal year		48th Term	49th Term	50th Term	51st Term	52nd Term
Year end		September 2014	September 2015	September 2016	September 2017	September 2018
Net sales	(Millions of yen)	50,616	50,957	53,361	55,175	56,769
Ordinary income	(Millions of yen)	6,367	7,032	7,665	8,473	8,577
Net income	(Millions of yen)	3,581	4,073	4,542	5,900	5,959
Common stock	(Millions of yen)	5,700	5,700	5,700	5,700	5,700
Total number of shares issued	(Hundreds of shares)	267,310	267,310	267,310	267,310	267,310
Total net assets	(Millions of yen)	56,934	59,694	61,370	65,466	68,863
Total assets	(Millions of yen)	69,882	71,234	75,030	79,034	82,737
Net assets per share	(Yen)	2,142.76	2,243.29	2,304.61	2,474.82	2,601.49
Dividend per share (Of the above interim dividends per share)	(Yen)	44 (22)	71 (33)	80 (40)	100 (40)	105 (50)
Net income per share	(Yen)	134.68	153.50	171.08	222.67	225.92
Diluted net income per share	(Yen)	134.28	152.94	170.34	221.73	224.90
Equity ratio	(%)	81.3	83.6	81.6	82.6	82.9
Return on equity	(%)	6.4	7.0	7.5	9.3	8.9
Price earnings ratio	(Times)	16.1	20.0	18.3	15.5	21.0
Dividend payout ratio	(%)	32.67	46.25	46.76	44.91	46.48
No. of employees	(No. of people)	2,203	2,201	2,234	2,269	2,225

(Notes) 1. Net Sales do not include consumption taxes, etc.
2. Dividends per share include a dividend of 5 yen for the 49th term and 10 yen for the 50th term in commemoration of the Company’s 50th anniversary.

2 [History]

Date	Company History
October 1966	The Company was established in Utsunomiya-shi, Tochigi Prefecture on October 22, 1966 as a data processing center to defend the business domains and maintain control over the fate of accounting firms, and to improve the administrative efficiency of local governments. Established Kabushiki Kaisha Tochigi-ken Keisan Center.
August 1971	Established TKC Tokyo Keisan Center and deployed data processing centers nationwide.
September 1972	Established TKC Tokyo Youhin Center Co., Ltd. (a subsidiary, changed name to TKC Tokyo Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000] Established TKC Osaka Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Osaka Youhin Center Co., Ltd. in July 1987, and to TKC Osaka Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000] Established TKC Okayama Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Chushikoku Youhin Center Co., Ltd. in July 1987, and to TKC Chushikoku Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000]
November 1972	Changed corporate name to Kabushiki Kaisha TKC. Established TKC Tohoku Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Tohoku Youhin Center Co., Ltd. in July 1987, and to TKC Tohoku Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000]
December 1972	Established TKC Nagoya Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Chubu Youhin Center Co., Ltd. in July 1987, and to TKC Chubu Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000]
November 1973	Established TKC Kyushu Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Kyushu Youhin Center Co., Ltd. in July 1987, and to TKC Kyushu Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000]
August 1975	Established Tokyo Line Printer Company (currently a consolidated subsidiary).
February 1976	Established TKC Saitama Keisan Center Co., Ltd. (a subsidiary, changed name to TKC Kanshin Youhin Center Co., Ltd. in July 1987, and to TKC Kanshin Supply Center Co., Ltd. in December 1993). [Merged and absorbed into the Company in January 2000]
January 1978	Opened TKC Systems Development Research Center.
October 1982	Established TKC Security Services Co., Ltd. (currently a consolidated subsidiary).
October 1984	Opened TKC Tax Research Center.
February 1985	Established TKC Management Consulting Co., Ltd. (a subsidiary). [Merged and absorbed into the Company in May 2011]
April 1985	Opened TKC Okinawa Information Service Center and deployed information service centers nationwide.
August 1985	Opened OA Technology Development Center.
December 1986	Changed corporate name in the Articles of Incorporation to Kabushikik Kaisha TKC (TKC Corporation).
June 1987	Changed names of Keisan Centers to Information Centers.
July 1987	Listed on the Second Section of the Tokyo Stock Exchange.
September 1987	Opened TASK Technology Development Center.

Date	Company History
March 1990	Integrated the information processing service divisions of TKC Tokyo Second Information Center, TKC Shinjuku-Minami Information Center and TKC Ikebukuro Information Center to form TKC Tokyo Consolidated Information Center.
April 1990	Established TKC Corporation Strategic Management Research Center. [Merged and absorbed into the Company in October 2000]
June 1991	Opened TKC Data Entry Center.
January 1992	Opened TKC Precedent Retrieval Service Center.
November 1992	Integrated the information processing service divisions of TKC Osaka Information Center, TKC Kyoto Information Center and TKC Hyogo Information Center to form TKC Kansai Consolidated Information Center.
February 1994	Opened Systems Development Center.
March 1996	Listed on the First Section of the Tokyo Stock Exchange.
January 1998	Integrated the information processing service divisions of TKC Nagoya Information Center, TKC Shizuoka Information Center and TKC Nagano Information Center to form TKC Chubu Consolidated Information Center.
June 1998	Opened New Systems Development Center.
June 1999	Acquired shares in SKYCOM Corporation (currently a consolidated subsidiary).
July 1999	The systems development division obtained ISO9001 quality management systems certification.
March 2001	Integrated the information processing service division of TKC Kyushu Information Center, TKC Kumamoto Information Center and TKC Kagoshima Information Center to form TKC Kyushu Consolidated Information Center.
November 2002	Changed the company name in the company registry to TKC Corporation to match the corporate name in the Articles of Incorporation.
March 2003	Tokyo Line Printer Company obtained "PrivacyMark" accreditation from the Japan Information Processing Development Center (JIPDEC).
July 2003	Integrated the information processing service divisions of TKC Okayama Information Center, TKC Hiroshima Information Center and TKC Shikoku Information Center to form TKC Chushikoku Consolidated Information Center.
October 2003	Reorganized the information processing service divisions of TKC Hokkaido Information Center, TKC Tohoku Information Center, TKC Tochigi Information Center, and TKC Okinawa Information Center into TKC Consolidated Information Center, and their SCG departments into TKCSCG Service Center.
	Changed the name of TKC Information Service Center (Accounting Firm BD) to TKCSCG Service Center.
	Opened TKC Internet Service Center (TISC).
	Became the first private company to pass the LGWAN (Local Government Wide Area Network) - ASP connection qualification test.
April 2004	Obtained PrivacyMark accreditation from JIPDEC (Local Governments BD).
June 2005	Obtained PrivacyMark accreditation from JIPDEC (company-wide).
December 2008	Obtained a report on the effectiveness of the implementation and operation of internal controls related to ASP services prepared by Ernst & Young ShinNihon LLC based on JICPA Auditing Standards Committee Report 18, "Assessment of Control Risks relating to an Entity using Service Organizations" (currently, Auditing and Assurance Practice Committee Practical Guideline No. 86, "Assurance Reports on Controls at a Service Organization").
September 2010	Opened Innovation & Technology Center (I&TC).
October 2015	Became the first company in Japan to obtain third party accreditation for ISO/IEC 27018:2014, "Code of practice for protection of personally identifiable information (PII) in public cloud acting as PII processors" (October 12).
April 2016	
October 2017	Opened System Engineering Center (SEC).
March 2018	Established TKC Customer Support Service Co., Ltd. (currently a consolidated subsidiary).
	Completed the construction of TKC Customer Support Service building.

3 [Description of Business]

The TKC Group (TKC Corporation and affiliated companies) consists of the Company, five subsidiaries and two affiliated companies. The Group is engaged in business activities including accounting firm business (information processing services, software and consulting services, and sales of office equipment and supplies), local governments business (information processing services, software and consulting services, and sales of office equipment), and printing business.

The positioning of each company in each business segment is as follows.

Note that the three business divisions below are the same as the categories in the segment information set forth in the Notes to Consolidated Financial Statements under Part 5 Financial Information, 1. Consolidated Financial Statements, etc., (1) Consolidated Financial Statements.

1 Accounting Firm BD

Main services/products	Positioning of the Company and affiliated companies
1. Information processing services (i) Computer services by the TKC Consolidated Information Center (ii) Computer services by the TKC Internet Service Center (TISC) 2. Software and consulting services (i) Development and provision of software to be installed on system devices for information service applications	(Services and sales) 1. The Company provides information processing services, software and consulting services, and sales of office equipment and office supplies for computer-based accounting to customers including accounting firms and their clients. 2. TKC Customer Support Service Co., Ltd., a subsidiary of the Company, offers help desk services to accounting firms and their clients, and for medium and large-size companies. (Manufacturing and production) 1. Tokyo Line Printer Company, a subsidiary of the Company, offers printed continuous business forms for TKC's computer-based accounting for information processing service applications, and manufacturing of office supplies for use with TKC's computer-based accounting systems. 2. SKYCOM Corporation, a subsidiary of the Company, is engaged in the development and sales of software. 3. TKC Shuppan Corporation, an affiliated company, publishes books and monthly magazines on business management, taxing and accounting to provide useful business information to TKC member accounting firms and their clients. 4. iMobile Inc., an affiliated company, is engaged in the development and maintenance of website services.
(ii) Systems consulting services by specialized staff 3. Sales of office equipment Sales of system devices for use with TKC information service applications 4. Sales of supplies Sales of office supplies for computer-based accounting	(Others) TKC Security Services Co., Ltd., a subsidiary of the Company, provides security, maintenance and repair services for buildings owned by the Company.

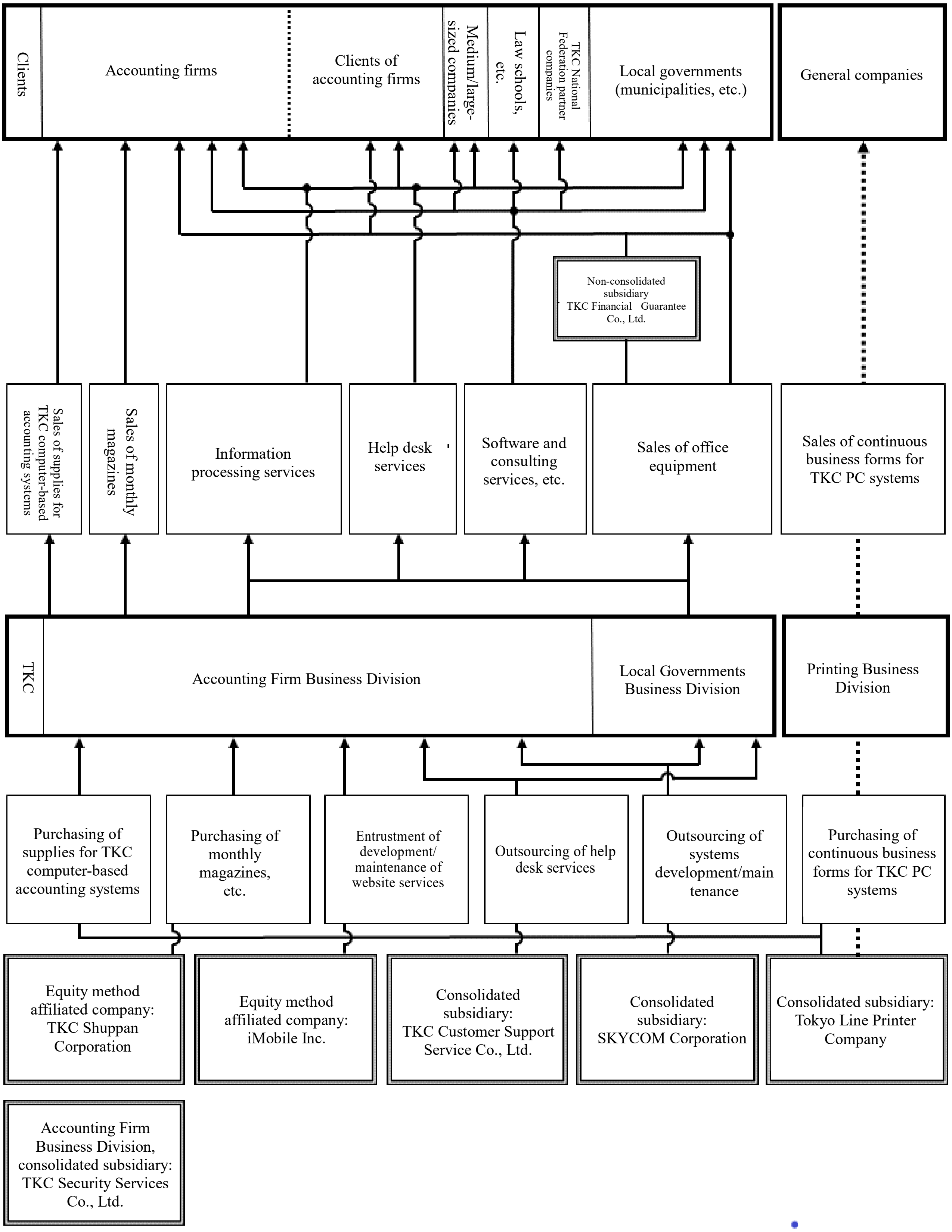
2 Local Governments Business

Main services/products	Positioning of the Company and affiliated companies
1. Information processing services (i) Computer services by the TKC Consolidated Information Center (ii) Computer services by the TKC Internet Service Center (TISC) 2. Software and consulting services (i) Development and provision of software to be installed on system devices for information service applications (ii) Systems consulting services by specialized staff 3. Sales of office equipment Sales of system devices for information service applications	(Services and sales) 1. The Company provides information processing services, software and consulting services, and sales of office equipment and office supplies to local governments (local municipalities, etc.). 2. TKC Customer Support Service Co., Ltd., a subsidiary of the Company, offers help desk services to local governments (local municipalities, etc.). (Manufacturing) 1. Tokyo Line Printer Company, a subsidiary of the Company, offers printed continuous business forms for TKC's computer-based accounting for information processing service applications. 2. SKYCOM Corporation, a subsidiary of the Company, is engaged in the development and sales of software.

3 Printing Business

Main products	Positioning of the Company and affiliated companies
Continuous business forms for PCs, general office forms, data printing services, brochures, etc.	(Manufacturing and sales) Tokyo Line Printer Company, a subsidiary of the Company, is engaged in the manufacturing and sales of continuous business forms for PCs, general office forms and data printing services (DPS).

A structural diagram of the Group's business activities is as follows:



4 [Information on Affiliates]

(1) Consolidated Subsidiaries

Name	Address	Capital (Millions of yen)	Principal line of business	Percentage of voting rights held (%)	Related activities
Tokyo Line Printer Company	Itabashi-ku, Tokyo	100	Printing business, manufacture and sales of continuous business forms for PCs	55.0	Purchasing of printed continuous business forms for PCs; lease of office spaces. Executive positions are held concurrently.
TKC Security Services Co., Ltd.	Utsunomiya-shi, Tochigi	10	Security, maintenance & repairs, and cleaning services	100.0	Security, maintenance & repairs, packaging and shipping services. Executive positions are held concurrently.
SKYCOM Corporation	Chiyoda-ku, Tokyo	100	Development and sales of systems	100.0	Outsourcing of systems development. Executive positions are held concurrently.
TKC Customer Support Service Co., Ltd.	Kanuma-shi, Tochigi	25	Help desk services	100.0	Outsourcing of help desk services Executive positions are held concurrently.

(Notes) 1. Tokyo Line Printer Company is a specified subsidiary. Effective as of October 1, 2018, the company name was changed to TLP Corporation aiming to enhance its DPS operation and expand its sales channels westward beyond the Kansai region.
2. As of October 5, 2017, the Company established TKC Customer Support Service Co., Ltd., a 100% subsidiary.
3. None of the companies currently submit Securities Registration Statements or Annual Securities Reports.

(2) Equity Method Affiliated Companies

Name	Address	Capital (Millions of yen)	Principal line of business	Percentage of voting rights held (%)	Related activities
TKC Shuppan Corporation	Chiyoda-ku, Tokyo	166	Production of monthly magazines, etc.	32.8	Purchasing of monthly magazines, etc. Executive positions are held concurrently.
iMobile Inc.	Chiyoda-ku, Tokyo	100	Development and maintenance of website services	30.0	Outsourcing of development and maintenance of website services. Executive positions are held concurrently.

(Note) None of the companies currently submit Securities Registration Statements or Annual Securities Reports.

5 [Employees]

(1) Consolidated Basis

As of September 30, 2018

Name of segment	Number of employees
Accounting Firm Business Division	1,628
Local Governments Business Division	566
Printing Business Division	185
Corporate (shared)	246
Total	2,625

(Notes) 1. Number of employees represents the number of working persons.
2. Number of employees listed under Corporate (shared) belongs to the management division.

(2) Status of the Company

As of September 30, 2018

Number of employees	Average age (years)	Average years of service (years)	Average annual salary (yen)
2,225	39.4	16.1	7,160,851

Name of segment	Number of employees
Accounting Firm Business Division	1,455
Local Governments Business Division	551
Corporate (shared)	219
Total	2,225

(Notes) 1. Number of employees represents the number of working persons.
2. Average annual salary includes bonuses and extra wages.
3. Number of employees listed under Corporate (shared) belongs to the management division.

(3) Status of Labor Unions

There are no labor unions.

Part 2 [Business Overview]

1 [Management Policy, Economic Environment and Challenges Facing the Company]

The Company is managed to achieve the following two business objectives as set forth in our Articles of Incorporation (Article 2) under the company motto of “Jiri Rita (“self-interest is in the realization of other's interest”) and management principle of “Contribution to our Customers.”

1. Management of electronic data processing centers to defend the business domains and maintain control over the fate of accounting firms;

2. Management of electronic data processing centers to improve the administrative efficiency of local governments.

This basic principle has been inscribed in our Articles of Incorporation since the incorporation of the Company (October 22, 1966). With the expansion of our business scope, other business objectives have been added to the Articles, although they merely supplement these two business objectives and our basic policy for management has never changed.

I. Target Management Indicators

The Company maintains the principle of attributing the source of dividend for each fiscal year to the profit earned in the same fiscal year, on the premise of a company as going concern. Accordingly, we believe it necessary to simultaneously manage our medium-term management indicators to maintain sustainable growth and our short-term management indicators to ensure appropriate net profit for each year.

From the perspective of short-term management indicators, we classify all expenses into variable costs and fixed costs, and then focus on trends of marginal profits, which are calculated by deducting variable costs from net sales. While the marginal profits tend to fluctuate due to different product mixes, we set the target of achieving 60% or greater for overall marginal profits. In addition, we consider the percentage of personnel expenses in the marginal profits as the labor share ratio, for which we aim to achieve 50%. Our target for ordinary income to net sales ratio is 8% or greater.

As for the long-term management indicators, we focus on ratio to the previous year sales (3% or greater), shareholders’ equity ratio (70% or greater) and return on equity (ROE) (8% or greater).

II. Challenges Faced by Each Division

1. Challenges Faced by the Accounting Firm Business Division

The Accounting Firm BD considers contributing to the prosperity of accounting firms and their clients the most vital business challenge, and will continue to collaborate closely with the TKCNF on the various TKCNF activities as well as develop and provide systems and services to support the operation of TKC Members.

(1) Increase system competitiveness

We will take the following actions to increase competitiveness of its systems and differentiate ourselves from other companies by appealing the advantages of our systems.

(i) The strengths of the Company’s systems lie in the one-stop, full line of tax affairs and accounting. The advantage is the capability to provide a one-stop, full line of accounting, tax affairs and electronic tax filing with links to related tax returns while maintaining complete compliance with laws, regulations and accounting standards. Looking ahead, the Company will continue to respond promptly and accurately to revisions of laws/regulations and system modifications, and strive to enhance these strengths.

(ii) The most important feature of the Company's systems is that they are not mere offering of systems and services. Our systems come with the meticulous support, from implementation to operation, by TKC Members that have extensive experience in tax- and accounting-related practices, to enable clients to perform legitimate and appropriate tax and accounting. The Company will provide enhanced support for such TKC Members to assist them in offering greater added-value services.

(2) Activities to promote the use of self-accounting

In order to support TKCNF achieve their strategic targets, the Company will enhance and expand functions that support corporate executives' quick decision making, and carry out promotional activities taking advantage of the strengths of systems that prevent retroactive insertions, deletions and corrections.

(3) Support to achieve "Over 10,000 TKC Member Firms"

To achieve TKCNF's target of achieving over 10,000 TKC Member firms, the Company will solicit membership in cooperation with TKC Members and contribute to the achievement of TKCNF's strategic target.

(4) Increase of user base of TKC Law Library

The Company will increase the user base of the TKC Law Library by enhancing the functions of LEX/DB Internet and other major contents, expanding the databases for law practitioners and creating new databases of professional journals and other useful contents, and offering Legal Tech Services to provide support to law firms.

2. Challenges Faced by the Local Governments Business Division

The Local Governments BD considers providing support for improving resident convenience and improving the administrative efficiency of local governments a vital business challenge, to be achieve through the development and provision of innovative products and services that leverage the latest in ICT, and will implement the following five priority activities to this end.

(1) Develop new municipality customers of mission-critical operational systems and further promote government cloud systems to achieve minimum cost;

(2) Provide user-oriented administrative service digitization support systems based on cutting-edge information technologies;

(3) Support the enhancement of social roles of eLTAX and digitization of tax administration to further promote electronic filing & payment of local taxes;

(4) Support evidence-based policy making (EBPM) based on public accounting information by providing various systems and functions that allows multilateral analysis of financial data;

(5) Establish mutual product supply relationship with local vendors providing services to local municipalities in order to promote alliance strategies to achieve expansion of sales area and multiplexing of services.

3. Challenges Faced by the Printing Business Division

The Group's Printing BD implements the following actions to increase sales mainly from data print services (DPS) and business process outsourcing (BPO).

(1) We will focus on promoting sales of DPS-related products through the acquisition of new customers.

(2) We will submit proposals combining our analog and digital printing technologies to loyal customers to achieve

direct communication with such customers.

(3) We will handle back-office operations of customers in the form of BPO (business process outsourcing), and contribute to streamlining the customers' business operations by enhancing work efficiency and reducing costs and information security risks while maintaining high quality.

(4) We will strengthen ties with existing customers to increase market share.

(5) We will continue to respond to customer needs, submit unique proposals to differentiate ourselves from competitors, and develop new technologies to reduce production costs.

(6) We will strengthen the quality checking systems by mechanizing process of all products, and shorten delivery times by improving manufacturing efficiency in order to increase our market share of governmental and municipal projects.

(7) We will strive to improve and maintain consistent quality, and enhance our quality inspections of each process for all products to prevent quality defects.

(8) We will increase self-manufacturing and reduce the percentage of subcontracting in order to save costs.

(9) We will further strengthen our information security systems based on Privacy Mark and ISMS in order to win trust from customers and business partners and to ensure My Number management.

(10) As ISO14001 certified, environmentally-friendly company, we will reduce wasted paper and further put our efforts into purifying used pastes and reduceing energy consumption through increased productivity and efficiency.

4. Challenges Faced by the Entire Company

(1) Providing systems in complete compliance with laws and regulations

The business operations of the Company is to provide support for works performed by certified public tax accountants, certified public accountants and local public officers, all bearing high levels of social accountability, by engaging deeply into the legal areas related to the Japanese Tax Code, the Companies Act, the Civil Code, the Financial Instruments and Exchange Act, and the Local Autonomy Act, and drawing upon the latest ICT. The Company will continue to pursue system developments that will enable us to promptly respond to revisions to such laws and regulations.

(2) Establishing the Group governance system

The Company will establish an internal controls system in compliance with the requirements of the Companies Act as well as the Financial Instruments and Exchange Act of Japan, compile the Company's management philosophy, various board structures and corporate rules and regulations in a systematic manner to improve the Group governance system.

(3) Fostering an organizational culture that bolsters job satisfaction

The Company will promote the fostering of an organizational culture that bolsters job satisfaction in accordance with the Company's Management Principles, develop a workplace that respects individuals and team work, and actively develop the capabilities of employees necessary to deliver value to our customers.

(4) Ensuring business continuity

The Company will continue to strengthen and expand existing services to ensure the continuity or early recovery of the business operations of all of our customers in the event of large-scale natural disaster and other unforeseen circumstances.

(5) Efforts toward information security

As a provider of information services for accounting firms and their clients and local governments through the use of latest ICT, ensuring information security is our highest priority and also a social responsibility in conducting our business activities.

It is with this awareness that the Group acquired third party accreditations including the ISO/IEC 27001 Information Security Management Systems certification and the JIS Q 15001 Personal Information Protection Management Systems (PrivacyMark) so that our customers can use our cloud services with a peace of mind.

In addition, the TKC Internet Service Center (TISC) also acquired certifications under ISO/IEC 27018, code of practice for protection of personally identifiable data in the public cloud on October 12, 2015, and ISO/IEC27017, code of practice for information security controls for cloud services on June 19, 2017.

The Company will continue to strive to develop environments where customers can use cloud services safely, securely and conveniently.

2 [Risk Factors]

Major risks pertaining to the business operations of the Company and the Group, in reference to the sections Business Overview and Financial Information in this Annual Securities Reports, that we consider are worth informing our investors are described below. It is also our policy to be forthcoming in disclosing information on other risk factors that may be deemed material to investors.

The Company is aware of the possibility that these risks may occur and strives to prevent them in advance or respond promptly should they occur. However, we feel it necessary that investment decisions concerning the Company securities should be made after thorough review in light of this section and also in reference to the contents of this entire report. Note that this section does not cover all risk factors related to investment in the Company securities.

Statements with regards to the future are based on the Group's decision made as of the end of the current consolidated fiscal year (September 30, 2018).

I. Retirement Benefit Obligations

Retirement benefit obligations and related costs for employees of the Group are recognized based on certain assumptions (base rates) used in actuarial discount rate calculations. Fluctuation in these base rates may affect the financial standing and operating results of the Group. While the Group implements measures to minimize the effects of such fluctuation, for example, moving parts of the retirement plan to a defined contribution pension management scheme, the impact of these changes cannot be completely eliminated. Base rate changes may affect the financial standing and operating results of the Group.

II. Decline in Value of Fixed Assets

The Accounting Standard for the Impairment of Fixed Assets has been applicable since the fiscal year started September 2006 in accordance with the Financial Instruments and Exchange Act of Japan.

The application of fixed asset impairment accounting may affect the financial standing and operating results of the Group.

III. Fluctuations in Raw Material Procurement Costs for Printing BD

Direct purchasing of base paper from paper manufacturers' accounts for the bulk of raw material procurement by the Printing BD, and the division strives to ensure the stable provision of raw materials and to maintain optimal pricing. However, there are concerns for possible imbalance in demand and supply due to oil price increases and tightening of supply and demand in international markets. Should such circumstances prevail, the Group will aim to respond through price negotiations with its customers. However, such circumstances may still affect the financial standing and operating results of the Group in the event the procurement of raw materials becomes extremely difficult, or when purchase prices rise significantly.

IV. Protection of Personal Information

The Group is entrusted with a large amount of information on companies and individuals held by our customers (accounting firms, local governments) as well as internal information for the execution of its business.

In order to ensure that such information is managed properly, the Company will review its policies and procedures related to information management on an on-going basis, and educate its directors and employees, disseminate the importance of information management and implement system-based information security measures.

The Company shall also strengthen its information protection management systems by obtaining accreditations such as ISO/IEC 27001 Information Security Management System (ISMS) and JIS Q 15001 Personal Information

Protection Management Systems (Privacy Mark). TKC Internet Service Center also acquired ISO/IEC27018 certification, a standard specializing in the protecting of personal information in relation to ISMS and public cloud service, and ISO/IEC27017 certification for information security controls for cloud services.

However, the potential for such information leaking due to unforeseen circumstances cannot be eliminated completely, such an event could have negative impacts on the Company's social standing and may require enormous costs in response or reduce the brand value which could affect the financial standing and operating results of the Group.

V. Contentious Cases

While there are no contentious cases that could affect the financial standing and operating results of the Group, such contentious cases could occur in the future.

3 [Management Analysis of Consolidated Financial Conditions, Operating Results, and Cash Flows]

[Summary of Business Results]

I. Operating Results

The consolidated Group comprising of TKC Corporation and its six consolidated subsidiaries recorded a net sales of 61,621 million yen (increased 3.2% year-on-year), operating income of 8,679 million yen (increased 1.3% year-on-year), ordinary income of 8,961 million yen (increased 1.9% year-on-year), and current net income attributable to owners of parent of 6,158 million yen (increased 1.4% year-on-year).

The Group's net sales, operating income, ordinary income and current net income attributable to owners of parent exceeded the previous fiscal year's performance for two consecutive years with record-breaking figures. Major factors include the steady growth in computer service and software sales earned by the Accounting Firm Business Division in relation to widespread of cloud services, and increase in computer service and software sales earned by the Local Governments Business Division thanks to the acquisition of new customers.

Net sales by business division are shown below.

1. Results of Operation of the Group for the Fiscal Year

(1) Net sales of the Accounting Firm Business Division

(i) Net sales of the Accounting Firm BD was 43,781 million yen (increased 3.4% year-on-year); operating income was 8,501 million yen (increased 8.7% year-on-year).

(ii) Sales from computer services increased 3.2% year-on-year. This was attributable to the growth in number of users of the cloud service-based FX4 Cloud Integrated Accounting Information System for mid-sized companies and Office Management System for Tax Accounting Firms (OMS Cloud).

(iii) Software sales increased by 6.6% year-on-year. This is the result of the growing number of users of the Inheritance Tax Declaration-related Systems (TPS8000 series) due to the establishment of special measures under the business succession taxation scheme provided under the FY2018 tax reform, as well as the increase in the numbers of users of FX4 Cloud and e21-Meister.

(iv) Sales from consulting services decreased 11.9% year-on-year. This was due to decrease in revenues from client/server system launch support services and hardware maintenance as a result of growth in the number of users of FX4 Cloud and other systems.

(v) Hardware sales decreased by 7.2% year-on-year. This was caused by decrease in demands for servers and other hardware due to the increased transition to cloud services.

(2) Net sales of the Local Governments Business Division

(i) Net sales of the Local Governments BD was 14,113 million yen (increased 2.9% year-on-year); operating income was 3 million yen (decreased 99.4% year-on-year).

The large decrease in operating income was due mainly to the rise in purchase turnover in relation to the system change-over of new customers including the Kanagawa Prefecture Collective Business Partnership for Information Systems in Municipalities (13 municipalities), and increase in depreciation of software developed newly for the corporate inhabitant tax system and personnel information system.

(ii) Sales from computer services increased by 4.0% year-on-year. This was driven by the increased sales from outsourcing services and the use of TKC data centers generated by orders for mission-critical systems from new customers, and the increase in the number of users of LGWAN cloud services such as the Convenience Store Certificate Issuing System and the Taxation Document Image Management System.

(iii) Software sales increased by 15.6% year-on-year. This was driven by the increase in system revision costs in response to amendments to the National Health Insurance system and long-term care insurance system, as well as the increasing number of users of mission-critical systems and public accounting systems.

(iv) Sales from consulting services decreased 11.5% year-on-year. This was due to the absence in the current fiscal year of the sales from services related to the strengthening of information security systems for local municipalities (measure for strengthening information security of the internal network within municipalities) which existed in the previous fiscal year.

(v) Hardware sales decreased by 25.6% year-on-year. This was due to the absence in the current fiscal year of the sales of servers and network devices for services related to the strengthening of information security systems for local municipalities (measure for strengthening information security of the internal network within municipalities) which existed in the previous fiscal year.

(3) Net sales of the Printing Business Division (Subsidiary: Tokyo Line Printer Company)

(i) Net sales of the Printing BD was 3,726 million yen (increased 1.8% year-on-year); operating income was 168 million yen (increased 1.1% year-on-year).

(ii) Sales of data printing service-related products increased by 7.8% year-on-year. This was driven by the orders related to the 48th general election of members of the House of Representatives in October of 2017, orders for notice-related services from municipalities at the beginning of the fiscal year, large orders from local municipalities, large orders for direct mail productions from private enterprises, and orders for business process outsourcing (BPO) projects.

(iii) Business form-related sales decreased by 3.0% year-on-year due to ongoing decline in demands for business forms.

2. Important Matters with Respect to the Company as a Whole

(1) Responses to the North Osaka Earthquake, Heavy Rain Event in July 2018, and the 2018 Hokkaido Eastern Iburi Earthquake

Due to large-scale natural disasters that occurred in various locations this year, some business offices were forced to close down temporarily. Fortunately, there were no serious damage to employees and business offices, allowing them to resume their businesses early.

We also provided support to TKC Member firms, their clients and local governments who were affected by the disasters in order for them to resume their ordinary course of business early.

(2) Completion of TKC Customer Support Service Building

The construction of TKC Customer Support Service Building (4 stories above ground, total floor area 4,991.99 sq. meters) in Kanuma-shi, Tochigi Prefecture was completed on March 16, 2018. The building began operation on April 2 as the operation base for our wholly-owned subsidiary, TKC Customer Support Service Co., Ltd., which was established to enhance customer support (founded on October 5, 2017).

(3) New Establishment of Chiba Business Section

On June 1, 2018, we established the new Chiba Business Section in order to strengthen support for our local municipality customers within Chiba Prefecture.

(4) Transfer of Shares without Charge by Masaharu Iizuka, Chairman Emeritus of the Company, to TKC Members

In March 2018, Masaharu Iizuka, Chairman Emeritus, transferred without charge, the common shares of the Company owned by himself to 620 TKC Members nationwide who newly implemented Shomen-tempu (attachment of tax audit reports) pursuant to Article 33-2 of the Certified Public Tax Accountant Act. This transfer was made in hope for the development of the certified public tax accountant industry, and based on his belief that the practice of Shomen-tempu (attachment of tax audit reports) pursuant to Article 33-2 of the CPTA Act will ensure the reliability of financial statements and tax returns prepared by the certified public tax accountants against tax authorities and financial institutions, and that such practice would lead to the development of the industry of certified public tax accountants. Masaharu Iizuka, together with his brother late Kazuaki Iizuka (former vice president of the Company), had also transferred a total of three million shares of the Company owned in person to 6,657 TKC Members in 2006.

This is the second transfer without charge made by Masaharu Iizuka, and he will continue transferring up to one million shares of the Company in the five years until 2022.

3. Business Activities and Operating Results of the Accounting Firm Business Division

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2 Item 1: Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms) and works under close ties with the TKC National Federation (“TKCNF”), which consists of 11,200 certified tax accountants and certified public accountants (as of September 30, 2018) that are customers of TKC (hereinafter, "TKC Members").

TKCNF was established in 1971 and is engaged in various activities in an aim to realize the following six business objectives:

1) Realize tax justice;

2) Conduct tax consultant business on compliance completely;

3) Support SMEs for their prosperity and success;

4) Enhance managerial infrastructure of TKC Member firms;

5) Make full use of TKC systems;

6) Promote mutual enlightenment, support and friendship.

(Note) For more information on the TKC National Federation, see the booklet "All About TKC National Federation" or visit the TKC Group website (http://www.tkc.jp/).

(1) Current Activities of the TKC National Federation ("TKCNF")

TKCNF currently sets the following two focus activities and is actively taking actions to accomplish them:

(i) Focus activity 1: Commit ourselves to three major themes and fulfill our roles in society!

1) Prepare highly reliable financial statements in compliance with Chusho Kaikei Yoryo (Guidelines for SME Accounting) and make them widely know to financial institutions as well as raising their awareness to the guidelines.

2) Promote Shomen-tempu (attachment of tax audit reports) (ensure the reliability of financial statements and

tax returns pursuant to the principle of definite settlement of accounts)

3) Promote self-accounting practices (achievement of account surplus and support for proper filing)

(ii) Focus activity 2: Achieve the maximum use of the overall capability of accounting firms and build up a system that creates high added value!

Actively provide clients with the following three services in collaboration with local financial institutions.

1) TKC Monitoring Information Service

2) Support for business improvement (support for the early drafting of business improvement plans)

3) Support for founding of businesses, succession of businesses, and overseas expansion, etc.

To support these activities of TKCNF, the Company is engaged in the development and provision of systems and services that are to the benefit of the prosperity and success of SMEs.

(2) Priority Action Themes of the Accounting Firm BD

In order to support these activities of TKCNF, the Company has operated to achieve its strategic goals: to promote self-accounting by the TKC methods (promotion of FX series); to solicit new members (promotion of joining TKCNF); and to promote the use of Tax Accountant Office Management System (OMS).

In response to the recent changes in the legal systems, we have further established new strategic goals: to support complete compliance with the Electronic Books Maintenance Act; to support the promotion of TKC Monitoring Information Service; and to support responding to special measures under the business succession taxation scheme.

(i) Promotion of self-accounting by the TKC methods (promotion of FX series)

As a result of the following business activities, the number of FX series users came to approximately 260,000 companies as of September 30, 2018.

1) Promotion of e21-Meister and FX2

The Company offers its self-accounting systems for the clients of TKC Members, including e21-Meister for small-size corporations with annual turnover up to 50 million yen, and FX2 for SMEs with annual turnover up to 500 million yen.

During the fiscal year under review, we conducted the following activities to promote the use of these systems:

a. We provided TKC Member firms with internal seminars focusing on the utilization of the systems, as well as support for each firm in setting and identifying targets for the promotion of self-accounting and support for hosting self-accounting promotion meetings to determine specific action plans.

b. At the 45th TKC National Meeting of Executives held in July 2018, we announced the development policy for FX Agricultural Accounting aimed to support TKC Members in their effort to promote self-accounting in the agricultural fields, and the development policy for the Smart Performance Review functions which will enable owners of clients using the FX series to check their company’s performance anytime and anywhere from their smartphones. We began to take actions for the launch in October 2018.

2) Promotion of FX4 Cloud

In order to support TKC Members in their effort to retain good-standing clients and expand their large-scale client base, the Company offers an integrated accounting information system FX4 Cloud designed for medium-scale corporations with annual turnover of 500 million to 5 billion yen. During the fiscal year under review, we engaged in the following activities:

a. In order to motivate TKC Members, we supported the 20 TKC Local Associations in hosting seminars for accounting firms and worked to encourage more accounting firms to promote the use of FX4 Cloud. Starting in June, we hosted seminars on how to streamline accounting works for user companies. These seminars were aimed to support the effective use of FX4 Cloud by explaining how to use the divisional performance management function and the Management Report design tools to create original management reports, both of which are the strengths of FX4 Cloud.

b. The Support Project for Introducing IT for Improvement in Productivity of Services, etc., is a project conducted by the Ministry of Economy, Trade and Industry. Taking this as an opportunity to promote self-accounting under the initiative of accounting firms, we provided information on the Project to TKC Member firms and supported their promotion activities to their clients.

3) Promotion of use of TKC System MySupport

In order to enable smooth system operation at companies using the FX series and to provide an environment where TKC Member firms can promote self-accounting without stress, the Company offers TKC System My Support service in which TKC's dedicated staff provides direct support for telephone inquiries from clients. During the fiscal year under review, we worked to increase the number of firms using this service.

(ii) Soliciting new members (promotion of joining TKCNF)

TKCNF is engaged in a project to increase TKC membership to over 10,000 firms by the end of December 2020. The Company is working closely with the New Members Service Committee of TKCNF in soliciting new members to achieve this goal.

During this fiscal year, certified public tax accountants and certified public accountants were introduced by TKC Members and related agencies. In addition, we solicited new members through seminars held for non-members targeting medium- and large-sized firms and certified public accountants who plan to begin private practice.

As a result of these activities, the total number of TKC Members totaled approximately 9,600 firms and 11,200 accountants as of September 30, 2018. The numbers of firms and accountants are different because some firms have multiple accountants who are members.

(iii) Promoting the use of Tax Accountants Office Management system (OMS)

The Company positions its Tax Accountants Office Management system (OMS) as a platform for all of the services it provides to accounting firms.

During the fiscal year under review, we promoted the use of OMS, highlighting the enhanced services available through the use of OMS including improved information security, stronger collaboration with financial institutions by utilizing the TKC Monitoring Information Service, and better compliance management by accounting firms.

In addition, starting in April 2018 we began offering a secured chat tool called TKC Chat as an optional function of OMS to support the performance of the Obligations to Supervise Employees, etc. (Article 41-2; Certified Public Tax Accountant Act of Japan).

As a result of these activities, the number of accounting firms using OMS reached approximately 7,200 as of September 30, 2018.

(iv) Supporting complete compliance with the Electronic Books Maintenance Act

Under the FY 2018 tax reform, provisions to offer a tax benefit of 100,000 yen in special reduction for blue income tax returns if the declarer 1) is subject to the Electronic Books Maintenance Act for bookkeeping, or 2) files the income tax return electronically. This is a groundbreaking revision that offers favorable tax treatment for business entities that keep the history of additions, deletions and revision to the book record, which serves as basis of tax returns in accordance with the Electronic Books Maintenance Act. We anticipate that the same treatment will be applied to the filing of corporate taxes in the future.

(v) Supporting the promotion of TKC Monitoring Information Service

TKC Monitoring Information Service is a cloud-based service in which the TKC Members, upon request by the management of their clients, provide to financial institutions, free of charge, financial information such as monthly trial balance sheets and financial statements prepared by TKC Member firms after field audits and monthly settlements. Information will be made available at the earliest timing, for example, at the same time the client electronically files its fiscal financial settlement to the tax authorities.

Financial institutions having adopted the service expressed their high appreciation, giving comments such that they "can now conduct fruitful interviews with loan customers, having obtained their financial information early and conducted advance analysis on customer status," and that "the purpose of visiting loan customers is no longer to obtain financial statements or worksheets, but rather to discuss their business."

In the fiscal year under review, we worked to communicate the following two points to financial institutions:

i) that the reliability of financial statements prepared by SMEs can be verified by three documents, namely:

1. Supporting documents submitted by TKC Members as provided for under Article 33-2 of the Certified Public Tax Accountant Act of Japan.

2. Certificate of Bookkeeping Timeliness, with which TKC certifies the timeliness in the preparation of accounting books as required under Article 432 of the Companies Act of Japan for three years (and at the same time certifies the one-stop, full line process of accounting books = financial statements = tax returns for corporate tax and consumption tax).

3. The Chusho Kaikei Yoryo Checklist developed by the Japan Federation of Certified Public Tax Accountants' Associations.

ii) that these certificates can be obtained quickly with the TKC Monitoring Information Service.

Thanks to the high acclaims, the Service has been adopted by Japan Finance Corporation (Micro Business and Individual Unit) to be used for its services (starting October 2018) as well as by 22 credit guarantee corporations nationwide.

As a result of the campaign, the number of financial institutions adopting this Service is increasing rapidly with more than 380 institutions throughout Japan, and over 50,000 companies providing their financial information through this Service as of September 30, 2018.

(vi) Support in response to special measures under the business succession taxation scheme

There is a growing concern that, as business owners of SMEs are aging rapidly, many SMEs which provide job opportunities to local communities may have to close down their business without being succeeded. In response to such situation, the Japanese government, in the FY2018 tax reform, set forth a special measure under the business succession taxation scheme in addition to the provisions of the conventional business succession taxation scheme. In order to be eligible, SMEs are required to submit to the prefectural governments a special business succession plan prepared under the guidance and advice of a certified business innovation support agency (“Certified Support Agency”).

In an aim to enable TKC Members who are Certified Support Agency to efficiently support SMEs in the smooth succession of business, the Company launched the TKCNF Project for Special Measures under the Business Succession Taxation Scheme in collaboration with the TKCNF to develop systems, provide various support tools, and plan and host seminars.

On June 1, 2018, we developed and released the FY2018 edition of the Support System for Application of Business Succession Taxation Scheme (compatible with the special measures under the business succession taxation scheme)/TPS8800 for the preparation of the special succession plan that is required in order to become eligible for the special measures under the business succession taxation scheme.

(3) Amendments to the Participation Agreement

The Company amended the Participation Agreement taking effect as of January 1, 2018. It aims to help achieve TKCNF's strategic target of "Over 10,000 TKC Member Firms" and promote the use of OMS which serves as the platform for all services that the Company provides to TKC Member firms, and the ProFIT network of TKCNF. In addition to standardizing the multiple formats of the Participation Agreement into one common format, amendments include (i) unification of different participation fees and basic membership fees, (ii) measures to appropriate the entire basic membership fee to processing charges, (iii) changes in the terms and conditions of the Participation Agreement to provide access to OMS and ProFIT, (iv) discounts for the basic program, and (v) free access to OMS and ProFIT (limited to the first three years of participation), enabling TKC Members to access TKC services more easily.

The Company explained to Member firms about the amendments to the Participation Agreement and suggested them to switch to the new Agreement.

(4) Activities to support the preparation of highly reliable financial statements based on timely and accurate bookkeeping

(i) Support activities for the diffusion of Chusho Kaikei Yoryo (Guidelines for SME Accounting)

The TKCNF recommends the use of Basic Guidelines with Respect to the Accounting Procedures at Small- and Medium-sized Enterprises (Chusho Kaikei Yoryo (Guidelines for SME Accounting)) formulated in February 2012 with which SME clients should comply.

The Small and Medium Enterprise Agency of Japan describes the following objectives of the Accounting Rules for SMEs in its website:

(Source: http://www.chusho.meti.go.jp/zaimu/youryou/about/QandA.htm)
“About Chusho Kaikei Yoryo (Guidelines for SME Accounting): While non-listed SMEs do not require accounting rules designed for listed companies, we did not have an accounting rule that SMEs could use with ease. The basic guidelines for SME accounting (Chusho Kaikei Yoryo) consist of a set of accounting rules designed to meet the needs of SMEs that may be in the following situations:

SMEs that are short of accounting personnel and do not have the capability or accounting system to handle high level accounting procedures;

SMEs that are required to disclose accounting information only to business accounts, financial

institutions, family shareholders, and tax authorities;

Many SMEs process their accounting focusing mainly on the process stipulated in the Corporation Tax Act."

Therefore, these Guidelines have been formulated based on the following principles: 1) accounting that helps to grasp the company's business situation; 2) accounting that contributes to providing information to stakeholders (financial institutions, etc.); 3) accounting that complies with the Ordinance on Company Accounting while achieving harmony between accounting and taxation system; and 4) accounting that does not to place excessive burden on SMEs.

In order to support the activities of the TKCNF towards the diffusion and utilization of the Guidelines, the Company continues to promote the development of training materials and to strengthen collaboration with other organizations supporting SMEs.

(ii) Issuance of Certificate of Bookkeeping Timeliness

The Company utilizes the logging data and historical time series data that are automatically logged at the TKC data centers when TKC Members access our system to issue a Certificate of Bookkeeping Timeliness free of charge. This Certificate serves as reference for financial institutions and other third parties to objectively evaluate the business performance of TKC Member firms.

It certifies when the TKC Member visited each of their clients for field audits and monthly settlements in the past 3 years (36 months). At the same time, the Certificate provides evidence 1) that the accounting books are prepared based on the daily book entries, 2) that the financial statements are prepared based on such accounting books, and 3) that the tax returns for corporate tax and consumption tax are prepared based on such financial statements. The Company calls this "a one-stop, full line of tax affairs and accounting." The Company calls this "a one-stop, full line of tax affairs and accounting."

The Certificate of Bookkeeping Timeliness cannot be issued if the accounting processing is in violation of this one-stop, full line process. This system was developed in an aim to improve reliability of financial statements and tax returns prepared by TKC Members and to provide a passport for smooth financing to the clients of TKC Members. This utilizes the features of the Company's Financial Accounting Processing Using TKC Data Centers, which prohibits any retroactive insertions, deletions and corrections to past data, and TKC Corporation proves, as a third party, that TKC Members have visited their clients on a monthly basis to provide guidance on accurate bookkeeping (monthly Field Audits), and that all work processes from monthly settlements to the final settlement of accounts and electronic tax filings have been completed in a timely manner.

(5) Expansion into Large-Scale Enterprise Market

By utilizing the TKC systems, the Company contributes to the rationalization of tax and accounting operations of large enterprises, mainly of listed companies, and are actively working to solicit these companies and their affiliates to become clients of TKC Members.

As systems to supplement these activities, the Company provide the TKC Consolidated Group Solution package (which includes: the eCA-DRIVER consolidated accounting system, the eConsoliTax consolidated tax payment system, the eTaxEffect tax effect accounting system, the ASP1000R electronic tax filing system for corporations, the FX5 integrated accounting information system, the e-TAX series electronic tax filing system, the FAManager non-current asset management system, the TDS documented evidence storage service, and the OBMonitor overseas business monitoring system, etc.).

In the fiscal year under review, the Company held seminars in collaboration with the TKCNF's Medium and Large-size Support Research Committee (consisting of nearly 1,320 members as of September 30, 2018) and the

TKCNF's Overseas Deployment Support Research Committee (consisting of nearly 630 members as of September 30, 2018), in order to enhance the awareness and brand power of system offered by the Company. Seminars on responses to electronic filing mandated to large enterprises with a capital of 100 million yen or greater under the FY2018 tax reforms, as well as on accounting standards with respect to recognition of revenue with the introduction of IFRS, overseas M&A, and seminars targeting companies aiming IPO were held.

In addition, we made holistic proposals to the users of our systems, leveraging the strengths of the systems that cover all aspects of account settlements and tax declaration on corporate group level. In June 2018, we started offering a cloud-based service, TKC Tax Application & Notice Cloud, to support large-scale enterprises in digitalizing tax procedures (applications and notices).

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 2,900 corporate groups (with about 19,900 umbrella companies) as of September 30, 2018. Our systems are adopted by over 80% of the 100 largest Japanese listed companies by sales amount.

(6) Expansion of Markets for Legal Information Database Services

The LEX/DB Internet legal information database, developed originally by the Company, maintains an archive of over 293,000 judicial references as of September30, 2018, covering all legal fields from precedents, etc. set in the former Supreme Court dating back to 1875 to those most recently published as well as precedents and decisions collected through our own channel, being the largest database of its kind in Japan. The TKC Law Library is a comprehensive legal information database which uses the LEX/DB Internet as its core content and contains over 929,000 bibliographic information references with links to 57 of the legal information databases operated by 18 specialized legal publishers (including Gyosei Corporation, Nippon Hyoron-Sha Co., Ltd., Yuhikaku Publishing Co., Ltd., Chuokeizai-Sha Inc., Hnarei Times Co., Ltd.) with accessible number of information now exceeding 2,600,000 items.

(i) Increase of user base of TKC Law Library

The Company has continuously engaged in sales promotions for the TKC Law Library, highlighting its usefulness in business operations and putting the contents that are useful for business practices into customer-specific packages (Law Firm Package for law firms, Corporate Legal Package for corporate legal departments). The Labor Law EX+ portal site related to labor laws which was jointly developed with our partner company Roudou Kaihatsu Kenkyukai Co., Ltd. (launched in March 2017) is offered to members of the Labor Law Study Group and as an optional content of the TKC Law Library, bringing about new sales channels for further expansion of use.

In the fiscal year under review, as a result of active promotional activities towards TCK Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 50,000 IDs and t is used by over 19,600 institutions as of September 30, 2018.

(ii) Promotion in the academic market

The Company proposes the implementation of system-based early learning support programs to 54 law schools using the TKC Law School Educational and Research Support System and supports such schools in applying for the Public Support Program for Law Schools Concerning the Revision of Budget Distribution initiative by the Ministry of Education, Culture, Sports, Science and Technology. The system includes exercise systems to aid students in self-study (Basic Skill Tests, Study Drills of Short Answer Questions from Past Exams and the Essay Writing Seminar), as well as Learning Support NAVI and Study Drills of Precedents. In particular, functions that enable students to create study plans, check their progress, and study and practice the essential judicial precedents in the lead up to the bar exam have gained a high reputation for its effect from successful applicants in the bar examination, leading to the increasing number of users year by year.

We also made a full-scale launch of the Civil Service Examination Study Tool for undergraduates in the fiscal year under review, and concluded contracts with 16 universities and trial use by 56 schools as of September 30, 2018.

(iii) Overseas expansion

As for the sales of TKC Law Library (Overseas Edition) through agents, we have received inquiries from courts, governmental agencies, universities and law firms in South Korea, Taiwan, China and other Asian countries as well as other countries including Germany, the U.K. and the U.S., with further growth anticipated in the future, particularly in the Asian regions.

In an aim to further enhance our footprint in overseas markets, we are collaborating with the Research and Education Center for Japanese Law having eight sites in Asia, each serving as a key facility of Nagoya University for the development of laws and support in law education in Asia, and we promote the use of the TKC Law Library by the local students writing their essays in the course of fostering legal talents.

As a result of these activities, over 70 foreign licenses are in use as of September 30, 2018.

4. Business Activities and Operating Results of the Local Governments Business Division

The Local Governments BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2 Item 2: "Management of electronic data processing centers to improve the administrative efficiency of local governments") and offers specialized information services in order to help promote the welfare of residents by improving administrative efficiency.

(1) Development and provision of cloud services designed for local municipalities

The Company provides TKC Government Cloud Service to municipalities (mainly for cities, wards, towns and villages) nationwide. This Cloud Service consists of the TASK Cloud Service which supports a range of services for residents, mission- critical functions and information services within agencies, and the TASK Outsourcing Service which supports massive batch output and processing of tax papers and other documents.

In particular, the TASK Cloud Service is a common platform package system operated at TKC data centers and shared by all municipalities across Japan, and attracts attention from the viewpoint of the promotion policy for local government cloud systems by the Japanese government.

In the fiscal year under review, we began the offering of TASK Cloud Welfare Consultation Support System while we continued our work on the enhancement of the functions of existing systems.

As for the project for Kanagawa Prefecture Collective Business Partnership for Information Systems in Municipalities (total 14 municipalities) that began two years ago, we have competed the transitional procedures of the mission-critical operational system in 13 municipalities and the change-over of public accounting system and other internal information systems for 11 municipalities as of September 30, 2018.

In addition, we started hosting the TASK Cloud Fair 2018 starting at the Yokohama event site (June 28, 2018), followed by events held in 17 cities nationwide. As a result of the aggressive promotional activities, our mission-critical operational systems are adopted by over 150 municipalities nationwide as of September 30, 2018.

(2) Expansion of cloud services for residents

To promote the utilization of My Number Cards, there has been a sharp increase in the number of municipalities introducing or considering adopting the Issuance of Certificates at Convenience Store service in view of providing more convenience to residents.

In response, the Company provides the TASK Cloud Convenience Store Certificate Issuing System as the system to realize this service. The extensive track record of the System as the first cloud service for municipalities across Japan has attracted a number of requests for quotation from local governments including government ordinance-designated cities and as a result, the System has been adopted in over 70 municipalities nationwide including major cities as of September 30, 2018.

In the fiscal year under review, we worked to enhance and expand various functions, as well as provided the TASK Cloud Easy Counter Service System to support the counter services within municipal offices using the features of our System, and conducted active promotional activities for each system.

(3) Support for electronic filing of local taxes

The Company is an authorized contractor of the Council for the Digitization of Local Taxes, and provides a cloud-based service for the standard system of the electronic filing of local taxes and the electronic tax payment offered by the Council. We also develop and provide data connection services as our own functionality to connect the individual tax systems of various municipalities with the Council's platform.

These services are proposed in collaboration with 46 companies nationwide with whom we have on-going alliance partner agreements. As a result, our core system TASK Cloud Local Taxes Electronic Filing Support Service is currently used by more than 750 agencies which account for more than 40% of all municipalities as of September 30, 2018.

In the fiscal year under review, we engaged in the development and promotional activities for new data connection services and related services in view of the common tax payment system for local taxes to be launched nationwide in October 2019.

(4) Support for the development of standardized local public accounting

Municipalities are required to organize the system of accrual basis accounting (double entry bookkeeping) to complement the current cash basis accounting (single entry bookkeeping), and to prepare and disclose their financial documents as well as to utilize such data for administrative operations. In order to support this, the Company provides the TASK Cloud Public Accounting System, which is compatible with the daily journalizing method encouraged by the Japanese government, and its related systems TASK Cloud Non-current Assets Control System and TASK Cloud Consolidated Financial Statement Preparing System.

In the fiscal year under review, we engaged in the new development and promotion of useful functionalities such as the financial statement analysis functions by segment. We also supported the full-scale operation and smooth management for the system of Kanagawa Prefecture Collective Business Partnership for Information Systems in Municipalities and other new customer institutions.

As a result of our promotional activities for new customers elsewhere, the TASK Cloud Public Accounting System has been adopted in approximately 190 organizations across Japan as of September 30, 2018.

(5) Compliance with revised laws and systems

In June 2018, the Japanese cabinet approved the Declaration to be the World's Most Advanced IT Nation: Basic Plan for the Advancement of Public and Private Sector Data Utilization to set forth the policy to push through the reform of administrative services with the full utilization of the digital technology in order to enhance competitiveness of Japan in the international arena. With this decision, municipalities throughout Japan will be required to realize administrative services in line with the Three Principles of Digitalization (digital first, once-only and connected one-stop) to improve the convenience of the entire user base (government, citizens and businesses).

In light of these circumstances, we significantly changed our organizational structure by establishing the Digital Government Management & Promotion Office and the Revised Law and System Management & Promotion

Office in the Administrative System Research Center of the System Development Headquarters as of April 1, 2018 in order to further accelerate the planning and development of new products and services as well as to strengthen customer support including the collection and communication of the latest information. In addition, we underwent major organizational reform as of October 1, 2018 including the new establishment of the System Planning Department by separating the Administrative System Research Center from the System Development Department. In the fiscal year under review, the Company, under the leadership of the Administrative System Research Center, surveyed, researched and developed the next generation systems and services which utilize cutting-edge digital technology.

5. Business Activities and Operating Results of the Printing Business Division

The Group's Printing BU conducts its manufacturing and sales activities with the main focus on data print services (DPS) and business form printing.

Sales in the area of DPS increased by 7.8% year-on-year, driven by election-related orders from the 48th general election of members of the House of Representatives in October 2017, orders for notice-related services from municipalities in May 2018, large orders from government offices, large orders for direct mail production from privatate enterprises, and regular orders for business process outsourcing.

In the area of business form printing, although market demands of business form are on a downward trend, decline in sales was small stopping at a 3.0% decrease year-on-year.

II. Cash Flows

The balance of cash and cash equivalents as of the end of the current consolidated fiscal year increased by 2,229 million yen from the end of the previous consolidated fiscal year amounting to 19,268 million yen.

The overview of cash flows for the current fiscal year and major factors contributing to the results are as follows:

1. Cash Flows from Operating Activities

Cash flows from operating activities increased by 8,810 million yen (687 million yen increase in revenue year-on-year). Major factors include the recognition of 8,897 million yen in net income before taxes and adjustments.

2. Cash Flows from Investing Activities

Cash flows from investing activities decreased by 4,013 million yen (603 million yen decrease in spending year-on-year). Major factors include the payment of 2,552 million yen for the acquisition of tangible fixed assets, and payment of 1,395 million yen for the acquisition of intangible fixed assets.

3. Cash Flows from Financing Activities

Cash flows from financing activities decreased by 2,567 million yen (452 million yen decrease in spending year-on-year). Major factors include payment of 2,895 million yen for year-end dividends as of end of September 2017 and interim dividends for the term ended September 2018, and payment of 3 million yen for the acquisition of treasury shares.

III. Production, Orders Received and Sales

1. Production

Not applicable.

2. Orders Received

Not applicable.

3. Sales Results

Sales results by segment for the current consolidated fiscal year were as follows:

Name of segment	Amount (Millions of yen)	Year-on-year rate (%)
Accounting Firm Business Division	43,781	103.4
Local Governments Business Division	14,113	102.9
Printing Business Division	3,726	101.8
Total	61,621	103.2

(Notes) 1. Transactions between segments have been offset.
2. Figures shown do not include consumption taxes.

IV. Analysis and Discussions on Operating Results, etc. from Management’s Perspective

1. Important Accounting Policies and Estimates

The Group’s consolidated financial statements have been prepared in accordance with accounting standards that are generally accepted as fair and appropriate in Japan. The preparation of the financial statements requires our management to select and apply the accounting policies, and make estimates that affect the reported amounts and disclosure of assets and liabilities, and revenue and expenses. While management has used reasonable judgments based on historical performance and current conditions in making these estimates, there are specific uncertainties in estimates that could cause actual results to differ from such estimates. Details of important accounting policies adopted in preparing the Group’s consolidated financial statements are described in the Notes to Consolidated Financial Statements (Basis of Presenting the Consolidated Financial Statements) under Part 5 [Financial Information] 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

2. Analysis and Discussions on Operating Results, etc. for the Current Consolidated Fiscal Year

(1) Analysis of the Group’s consolidated operating results for the current consolidated fiscal year

Refer to I. Operating Results under Summary of Business Results.

(2) Analysis of the Group’s consolidated financial conditions for the current consolidated fiscal year

(i) Assets
Total assets as of the end of the current consolidated fiscal year amounted to 90,202 million yen, a 4,773 million yen increase compared to 85,428 million yen as of end of the previous consolidated fiscal year.

1) Current assets

Current assets as of the end of the current consolidated fiscal year amounted to 33,961 million yen, a 3,415 million yen increase from 30,545 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 2,229 million yen increase in cash and deposits, and 1,135 million yen increase in notes and accounts receivable.

2) Non-current assets

Non-current assets as of the end of the current consolidated fiscal year amounted to 56,240 million yen, a 1,357 million yen increase compared to 54,883 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 1,372 million yen increase in buildings and structures (net amount), 367 million yen increase in investment securities, and 176 million yen increase in software, despite 310 million yen decrease in construction in progress and 278 million yen decrease in software in progress.

(ii) Liabilities

Total liabilities as of the end of the current consolidated fiscal year amounted to 17,651 million yen, a 1,114 million yen increase compared to 16,536 million yen as of end of the previous consolidated fiscal year.

1) Current liabilities

Current liabilities as of the end of the current consolidated fiscal year amounted to 13,955 million yen, a 609 million yen increase from 13,345 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 431 million yen increase in accounts payable-trade, 243 million yen increase in income taxes payable, and 182 million yen increase in electronically recorded obligations-operating, despite a decrease of 286 million yen in advances received included under other.

2) Fixed liabilities

Fixed liabilities as of the end of the current consolidated fiscal year amounted to 3,696 million yen, a 505 million yen increase from 3,191 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 368 million yen increase in net defined benefit liability and 357 million yen increase in long-term loans payable, despite a 169 million yen decrease in lease obligations.

(iii) Net assets

Total net assets as of the end of the current consolidated fiscal year amounted to 72,550 million yen, a 3,658 million yen increase compared to 68,892 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to an increase of 3,256 million yen in retained earnings and an increase of 295 million yen in valuation difference on available-for-sale securities.

Capital-to-asset ratio as of the end of the current consolidated fiscal year was 78.6%, a 0.2% decrease compared to the ratio of 78.8% as of the end of the previous consolidated fiscal year.

(3) Factors having material impacts on the Group’s operating results

Refer to 2 [Risk Factors].

(4) The Group’s capital resources and liquidity of funds

In strengthening the Group’s management to achieve sustainable growth of its corporate value, the Group makes it a basic policy to fund its business operation primarily by its own capital. Under this policy, we believe that we hold adequate cash-on-hand to maintain our business operation and to ensure an sufficient level of liquidity.

With the rapid advancement of information and communication technology (ICT) and major changes in social systems, we strive to make advance investments in research and development efforts and to actively pursue other capital investments to respond quickly to the changing market environment and achieve competitive advantage to lead our customers’ business to success.

(5) Objective indicators to measure the status of achievement of the Group's management policy, management strategy, and management goals

Refer to 1 [Management Policy, Economic Environment and Challenges Facing the Company].

4 [Material Agreements, etc.]

None to be disclosed.

5 [Research and Development Activities]

The Group conducts research and development of software to provide innovative information and management tools to accounting firms and their clients, and to promote the streamlining, standardization and networking of administrative affairs performed by local governments.

Divisions involved in R&D acquired Quality Management Systems - Model for Quality Assurance in Design, Development, Production, Installation and Servicing (ISO9001) certification—an international quality assurance standard—in July 1999 for the purpose of establishing and strengthening quality control and quality assurance systems within our system development operations. Additionally, the certificate's scope of application was expanded in September 2010 to include the system development headquarters of our Local Governments BD.

An amount of 82 million yen was spent on R&D in the current consolidated fiscal year, yielding the following results:

(1) Accounting Firm BD

The Company develops cloud systems for the preparation and electronic filing of tax applications and notices for corporate groups, offices and enterprises with a large number of offices that adopt consolidated tax payment, and the Departmental Budget Compilation System (Cloud System) for clients using FX2/FX4 cloud and corporate/continuing MAS systems, which enables the president and heads of departments to develop their budgets through discussion with the assistance of their accounting firm.

Total research and development cost associated with these projects was 82 million yen.

(2) Local Governments BD

None to be disclosed.

Part 3 [Property, Plants and Equipment]

1 [Summary of Capital Investments]

The Group (the Company and its consolidated subsidiaries) makes capital investments on an ongoing basis in both software development and information processing services.

Capital investments (including intangible assets and adjustments) of 5,359 million yen were made in the current consolidated fiscal year.

(1) Accounting Firm Business Division

Capital investment of 2,985 million yen was made for reinforcement of the common cloud infrastructure to enhance the cloud environment for the Company’s systems, and in the development of software for sale.

(2) Local Governments Business Division

Capital investment of 1,818 million yen was made for the development of software to provide services over the cloud system.

(3) Printing Business Division

Capital investment of 556 million yen was made for the purchase of offset form printing machine and expansion of our plant (under construction).

2 [Major Property, Plants and Equipment]

(1) The Company

As of September 30, 2018

Name of office (Address)	Name of segment	Facilities	Book values (Millions of yen)						No. of employees (No. of people)
			Buildings & structures	Machinery, equipment & vehicles	Land (Area in m^2)	Tools, furniture & fixtures	Other	Total	
TKC Tochigi Head Office TKC Systems Development Research Center TKC Internet Service Center (TISC) TKC Tochigi Consolidated Information Center (Utsunomiya-shi, Tochigi, etc.)*1, *2	Accounting Firm BD Local Governments BD	Development facilities Information communication service facilities Information processing facilities	5,880	0	2,696 (29,418.00)	1,049	3,538	13,165	1,107
TKC Tokyo Head Office TKC Systems Development Research Center Tokyo Branch (Shinjuku-ku, Tokyo, etc.)	Accounting Firm BD Local Governments BD	Office facilities	106	―	―	64	―	170	374
TKC Tokyo Consolidated Information Center (Nerima-ku, Tokyo)	Accounting Firm BD	Information processing facilities	216	―	2,224 (1,447.44)	44	―	2,485	23
TKC Chubu Consolidated Information Center (Kasugai-shi, Aichi)	Accounting Firm BD	Information processing facilities	50	―	196 (3,017.47)	44	―	291	17
TKC Kansai Consolidated Information Center (Ibaraki-shi, Osaka)	Accounting Firm BD Local Governments BD	Information processing facilities Office facilities	523	―	314 (817.30)	46	―	884	32
TKC Chushikoku Consolidated Information Center (Kita-ku, Okayama-shi, Okayama)	Accounting Firm BD	Information processing facilities	16	―	―	2	―	19	11
TKC Kyushu Consolidated Information Center (Koga-shi, Fukuoka)	Accounting Firm BD	Information processing facilities	166	―	203 (2,341.48)	23	―	394	11
TKC Hokkaido Consolidated Information Center TKC Hokkaido SCG Service Center (Chuo-ku, Sapporo-shi, Hokkaido)	Accounting Firm BD	Information processing facilities	23	―	―	7	―	31	32
TKC Tohoku Consolidated Information Center TKC Tohoku SCG Service Center (Aoba-ku, Sendai-shi, Miyagi)	Accounting Firm BD	Information processing facilities	6	―	―	4	―	11	28

As of September 30, 2018

Name of office (Address)	Name of segment	Facilities	Book values (Millions of yen)						No. of employees (No. of people)
			Buildings & structures	Machinery, equipment & vehicles	Land (Area in m^2)	Tools, furniture & fixtures	Other	Total	
TKC Okinawa Consolidated Information Center TKC Okinawa SCG Service Center (Naha-shi, Okinawa)	Accounting Firm BD	Information processing facilities	5	–	–	10	–	16	9
TKC Ibaraki SCG Service Center (Tsukuba-shi, Ibaraki)	Accounting Firm BD Local Governments BD	Office facilities	27	–	147 (1,120.00)	0	–	175	20
TKC Yamaguchi SCG Service Center (Yamaguchi-shi, Yamaguchi)	Accounting Firm BD	Office facilities	20	–	197 (814.00)	0	–	218	6
Dormitories, company housing (Utsunomiya-shi, Tochigi)	Accounting Firm BD Local Governments BD	Welfare facilities	234	–	391 (5,326.69)	2	–	628	–

(2) Domestic subsidiaries

As of September 30, 2018

Company name	Name of office (Address)	Name of segment	Facilities	Book values (Millions of yen)						No. of employees (No. of people)
				Buildings & structures	Machinery, equipment & vehicles	Land (Area in m^2)	Tools, furniture & fixtures	Other	Total	
Tokyo Line Printer Company	Hanyu Plant (Hanyu-shi, Saitama)	Printing BD	Printing facilities	64	255	145 (7,275.17)	6	19	490	60
Tokyo Line Printer Company	DPS Solutions Center (Hanyu-shi, Saitama)	Printing BD	Printing facilities	450	190	110 (5,776.00)	9	516	1,276	53

(Notes) 1. The figures above do not include consumption taxes.
2. The status of equipment and facilities held by consolidated companies other than those described above are small in scale and have been omitted.
3. The "Other" field under book value represents leased assets and software (including work in progress).
4. *1 includes some of the welfare facilities.
*2 includes 1,551 million yen for leased buildings and 111 million yen for leased tools, furniture & fixtures, which are leased to our subsidiary TKC Customer Support Service Co., Ltd.
5. Major leased facilities and equipment other than those described above are as follows.
(The Company)
Annual office rent 710 million yen

3 [Plans for Capital Investments, Disposals of Property, Plants and Equipment]

Capital investments of the Group are planned based on comprehensive review of economic forecast, industry trends, investment efficiencies and other factors.

While, in principle, capital projects are formulated individually by each consolidated company, the Company takes initiative in making Group-wide adjustments.

Plans for the establishment or disposal of major facilities and equipment as of the end of the current consolidated fiscal year (September 30, 2018) — excluding routine updates of facilities and equipment — were as follows.

Establishment of major facilities and equipment

Company name Name of office	Address	Name of segment	Facilities	Planned investments		Financing method	Planned start and completion dates		Floor area
				Total amount (Millions of yen)	Amount invested (Millions of yen)		Start	Completion	
Tokyo Line Printer Company DPS Solutions Center	Hanyu-shi, Saitama	Printing BD	Expansion of data printing service factory	739	259	Self-funded and Loans	September 2018	April 2019	5,787.97m^2

(Note) The figures above do not include consumption taxes.

Part 4 [Information on the Company]

1 [Information on the Company's Stock]

(1) [Total number of shares, etc.]

1) [Total number of shares]

Class	Total number shares authorized to be issued (Shares)
Common stock	60,000,000
Total	60,000,000

2) [Issued shares]

Class	Number of shares issued as of end of current fiscal year (Shares) (September 30, 2018)	Number of shares issued as of the filing date (shares) (December 25, 2018)	Name of stock exchange on which the Company is listed, or name of Authorized Financial Instruments Firms Association	Description
Common stock	26,731,033	26,731,033	First Section of the Tokyo Stock Exchange	Number of shares consisting a unit is 100 shares
Total	26,731,033	26,731,033	—	—

(2) [Information on Share Subscription Rights]

1) [Stock Option Scheme]

At the Meeting of the Board of Directors held on October 31, 2018, the Company resolved to abolish the stock-based compensation stock option scheme and to introduce a new stock-based remuneration plan using a trust (hereinafter the "Plan"). The introduction of the Plan was approved by resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018. Any unexercised subscription rights to shares that were granted as stock options will be deemed waived, and points equivalent to the number of shares subject to the waived subscription rights will be granted under the Plan as special measures to be taken for the transition from the stock-based compensation stock option scheme.

The content of the new share-based remuneration plan is also described under (8) [Information on Employee Stock Ownership Plan].

Share subscription rights issued based on the Companies Act of Japan are as follows:

First Stock Option (Resolution of the Board of Directors on February 10, 2012)

Date of Resolution	February 10, 2012
Category and number of persons eligible for subscription rights to shares	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors)
Number of subscription rights to shares*	122 rights
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 12,200 shares (Note 1)

Amount to be paid in upon exercise of subscription rights to shares*	1 yen
Period for exercise of subscription rights to shares*	From March 13, 2012 To March 12, 2047
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 1,146 yen Amount of capitalization: 573 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. When performing a share split (including gratis allotment of common shares of the Company; the same shall apply to all share splits described hereinafter) or share consolidation with respect to common shares of the Company after the allotment date of subscription rights to shares, the number of shares granted will be adjusted using the following formula:

Number of shares granted after adjustment = Number of shares granted before adjustment × ratio of share split or share consolidation

Fractions of less than one share resulting from the foregoing adjustment shall be disregarded.

In addition, when the number of shares granted needs to be adjusted after the allotment date due to reasons other than those listed above, such as when the Company is engaged in a merger, a company split, a share exchange, or for any other reason where such an adjustment is required, the Company may adjust the number of shares granted as deemed necessary by the Board of Directors.

2. The price of issuing shares is the sum of the amount to be paid upon subscription and the amount to be paid in upon exercise of subscription rights to shares.

3. Conditions for exercise of subscription rights to shares

(1) A holder of subscription rights may only exercise the share option rights within 10 days (or the next business day if the 10th day falls on a holiday) from the date following the day such holder loses his/her position as a Director or Auditor of the Company.

(2) Notwithstanding (1) above, should a proposal for the approval of a merger agreement where the Company would become dissolved, a proposal for the approval of a company split agreement or a company split plan where the Company would become a split company, or a proposal for the approval of a share exchange agreement or a share transfer plan where the Company would become a wholly owned subsidiary were to be approved at a General Meeting of Shareholders of the Company (or if a Board of Directors resolution is passed in case a resolution of General Meeting of Shareholders is not required), subscription rights to shares may be exercised within 30 days from the date following the date of such approval or resolution. However, this shall exclude cases where subscription rights to shares of a restructured company are to be issued in accordance with the matters concerning the issuing of subscription rights to shares upon reorganization.

(3) All other applicable conditions shall be as set forth in the Stock Option Allocation Agreement concluded between the Company and holders of subscription rights to shares.

4. If the Company is to engage in a merger with another (limited to cases where the Company is to be dissolved as a result of the merger), an absorption-type split or incorporation-type split (both limited to cases where the Company is to be a split company), or a share exchange or a share transfer (both limited to cases where the Company is to be a wholly owned subsidiary) (hereafter jointly referred to as a "restructuring transaction"), subscription rights to shares in the entity set forth in Article 236, Paragraph 1, Item 8 (a) to (e) of the Companies Act of Japan (hereafter, the "restructured company") shall be issued to the holders of the subscription rights to shares remaining in effect at a time immediately before the effective date of the restructuring transaction (hereinafter respectively referring to the date an absorption-type merger comes into effect, the date the new corporation is incorporated following a consolidation-type merger, the date an absorption-type split comes into effect, the date the new corporation is incorporated following an incorporation-type company split, the date a share exchange comes into effect, or the date the new joint-stock corporation is incorporated following a share transfer) (hereinafter the "remaining subscription rights to shares"). However, such rights may be granted only if provisions for issuing the subscription rights to shares of the restructured company in accordance with the items described below are included in an absorption-type

merger agreement, a consolidation-type merger agreement, an absorption-type split agreement, an incorporation-type split plan, a share exchange agreement or a share transfer plan.

(1) The number of subscription rights to shares of the restructured company to be issued
The same number of subscription rights to shares as the number of remaining subscription rights to shares held by respective holders of subscription rights to shares.

(2) Class of shares of the restructured company shares to be issued upon exercise of subscription rights to shares
Common shares of the restructured company.

(3) The number of shares of the restructured company shares to be issued upon exercise of subscription rights to shares
To be determined in proportion to the class and number of shares to be issued upon exercise of subscription rights to shares defined in Note 1 above upon considering the conditions, etc. of the restructuring transactions.

(4) The amount of assets to be contributed upon exercise of subscription rights to shares
The amount shall be obtained by multiplying the amount to be paid in after restructuring as prescribed below by the number of shares of the restructured company to be issued upon exercise of each subscription right to shares as determined in accordance with (3) above. The amount to be paid in after restructuring shall be 1 yen per share of the restructured company to be issued upon exercise of each subscription rights to shares to be issued.

(5) Period in which subscription rights to shares can be exercised
The period shall start on the start date of the exercise period listed in the "Period to exercise subscription rights to shares" in the table above, or the date the restructuring transactions come into effect, whichever the later, and shall last until the expiration date of the period in which subscription rights to shares can be exercised.

(6) Matters concerning increases in capital stock and the capital reserve occurring when issuing shares upon exercise of subscription rights to shares:
To be determined in conformity with the matters concerning increases in capital stock and capital reserve occurring when issuing shares upon exercise of subscription of rights to shares as set forth in the "Price of issuing shares and amount of capitalization amount upon exercise of subscription rights to shares" in the table above.

(7) Restrictions on the acquisition of subscription rights to shares through transfers
Acquisition of subscription rights to shares through transfers shall require the approval by resolution of the Board of Directors of the restructured company.

(8) Other conditions for exercise of subscription rights to shares
To be determined in conformity with Note 3 above.

(9) Provisions for the acquisition of subscription rights to shares
Subscription rights to shares may be acquired without compensation on a date separately specified by the Board of Directors should the following resolutions, 1), 2), 3), 4), or 5) be approved at a General Meeting of Shareholders of the Company (or through a resolution of a Meeting of Board of Directors of the Company, or upon the decision of an executive officer entrusted with such a matter pursuant to the provisions set forth in Article 416 Item 4 of the Companies Act of Japan in case a resolution of a General Meeting of Shareholders of the Company is not required):

1) Resolution approving a merger agreement where the Company would become a dissolved company;
2) Resolution approving a company split agreement or a company split plan where the Company would become a split company;
3) Resolution approving a share exchange agreement or a share transfer plan where the Company would become a wholly owned subsidiary;
4) Resolution approving an amendment to the Articles of Incorporation to establish a provision requiring the approval of the Company for the acquisition of all shares issued by the Company through a transfer;
5) Resolution approving an amendment to the Articles of Incorporation to establish a provision requiring the approval of the Company for the acquisition of the class of shares to be issued upon exercise of subscription rights to shares, or a provision to acquire all of such class of shares by resolution of the General Meeting of Shareholders of the Company.

Second Stock Option (Resolution of the Board of Directors on November 5, 2012)

Date of Resolution	November 5, 2012
Category and number of persons eligible for subscription rights to shares	10 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 13 Executive Officers

Number of subscription rights to shares*	200
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 20,000 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 8, 2012 To December 7, 2047
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 1,033 yen Amount of capitalization: 517 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. Refer to Note 1 under the section, "First Stock Option."
2. Refer to Note 2 under the section, "First Stock Option."
3. Conditions for exercise of subscription rights to shares
(1) A holder of subscription rights may only exercise the share option rights within 10 days (or the next business day if the 10th day falls on a holiday) from the date following the day such holder loses his/her position as a Director or Auditor, or as an Executive Officer of the Company.
(2) Notwithstanding (1) above, should a proposal for the approval of a merger agreement where the Company would become dissolved, a proposal for the approval of a company split agreement or a company split plan where the Company would become a split company, or a proposal for the approval of a share exchange agreement or a share transfer plan where the Company would become a wholly owned subsidiary were to be approved at a General Meeting of Shareholders of the Company (or if a Board of Directors resolution is passed in case a resolution of General Meeting of Shareholders is not required), subscription rights to shares may be exercised within 30 days from the date following the date of such approval or resolution. However, this shall exclude cases where subscription rights to shares of a restructured company are to be issued in accordance with the matters concerning the issuing of subscription rights to shares upon reorganization.
(3) All other applicable conditions shall be as set forth in the Stock Option Allocation Agreement concluded between the Company and holders of subscription rights to shares.
4. Refer to Note 1 under the section, "First Stock Option."

Third Stock Option (Resolution of the Board of Directors on November 12, 2013)

Date of Resolution	November 12, 2013
Category and number of persons eligible for subscription rights to shares	10 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 13 Executive Officers
Number of subscription rights to shares*	224
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 22,400 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 10, 2013 to December 9, 2048

Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 1,324 yen Amount of capitalization: 662 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. When performing a share split (including gratis allotment of common shares of the Company; the same shall apply to all share splits described hereinafter) or share consolidation with respect to common shares of the Company after the allotment date of subscription rights to shares, the number of shares granted will be adjusted using the following formula:

Number of shares granted after adjustment = Number of shares granted before adjustment × ratio of share split or share consolidation

Fractions of less than one share resulting from the foregoing adjustment shall be disregarded.

In addition, when the number of shares granted needs to be adjusted after the allotment date due to reasons other than those listed above, such as when the Company is engaged in a merger, a company split, a share exchange, or for any other reason where such an adjustment is required, the Company may adjust the number of shares granted as deemed necessary by the Board of Directors.

2. The price of issuing shares is the sum of the amount to be paid upon subscription and the amount to be paid in upon exercise of subscription rights to shares.

3. Conditions for exercise of subscription rights to shares

(1) A holder of subscription rights to shares may only exercise the share option rights within 10 days (or the next business day if the 10th day falls on a holiday) from the date following the day such holder loses his/her position as a Director or Auditor or as an employee of the Company. However, if a person who has lost his/her position as Director or Auditor or as an employee of the Company is appointed Director of the Company or employed by the Company with certain or specific entrustment within 10 days of having lost his/her original position, such person shall not be entitled to exercise the subscription rights to shares.

(2) Notwithstanding (1) above, should a proposal for the approval of a merger agreement where the Company would become dissolved, a proposal for the approval of a company split agreement or a company split plan where the Company would become a split company, or a proposal for the approval of a share exchange agreement or a share transfer plan where the Company would become a wholly owned subsidiary were to be approved at a General Meeting of Shareholders of the Company (or if a Board of Directors resolution is passed in case a resolution of General Meeting of Shareholders is not required), subscription rights to shares may be exercised within 30 days from the date following the date of such approval or resolution. However, this shall exclude cases where subscription rights to shares of a restructured company are to be issued in accordance with the matters concerning the issuing of subscription rights to shares upon reorganization.

(3) All other applicable conditions shall be as set forth in the Stock Option Allocation Agreement concluded between the Company and holders of subscription rights to shares.

4. If the Company is to engage in a merger with another (limited to cases where the Company is to be dissolved as a result of the merger), an absorption-type split or incorporation-type split (both limited to cases where the Company is to be a split company), or a share exchange or a share transfer (both limited to cases where the Company is to be a wholly owned subsidiary) (hereafter jointly referred to as a "restructuring transaction"), subscription rights to shares in the entity set forth in Article 236, Paragraph 1, Item 8 (a) to (e) of the Companies Act of Japan (hereafter, the "restructured company") shall be issued to the holders of the subscription rights to shares remaining in effect at a time immediately before the effective date of the restructuring transaction (hereinafter respectively referring to the date an absorption-type merger comes into effect, the date the new corporation is incorporated following a consolidation-type merger, the date an absorption-type split comes into effect, the date the new corporation is incorporated following an incorporation-type company split, the date a share exchange comes into effect, or the date the new joint-stock corporation is incorporated following a share transfer) (hereinafter the "remaining subscription rights to shares"). However, such rights may be granted only if provisions for issuing the subscription rights to shares of the restructured company in accordance with the items described below are included in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type split agreement, an incorporation-type split plan, a share exchange agreement or a share transfer plan.

(1) The number of subscription rights to shares of the restructured company to be issued
The same number of subscription rights to shares as the number of remaining subscription rights to shares held by respective holders of subscription rights to shares.
(2) Class of shares of the restructured company shares to be issued upon exercise of subscription rights to shares
Common shares of the restructured company.
(3) The number of shares of the restructured company shares to be issued upon exercise of subscription rights to shares
To be determined in proportion to the class and number of shares to be issued upon exercise of subscription rights to shares defined in Note 1 above upon considering the conditions, etc. of the restructuring transactions.
(4) The amount of assets to be contributed upon exercise of subscription rights to shares
The amount shall be obtained by multiplying the amount to be paid in after restructuring as prescribed below by the number of shares of the restructured company to be issued upon exercise of each subscription right to shares as determined in accordance with (3) above. The amount to be paid in after restructuring shall be 1 yen per share of the restructured company to be issued upon exercise of each subscription rights to shares to be issued.
(5) Period in which subscription rights to shares can be exercised
The period shall start on the start date of the exercise period listed in the "Period to exercise subscription rights to shares" in the table above, or the date the restructuring transactions come into effect, whichever the later, and shall last until the expiration date of the period in which subscription rights to shares can be exercised.
(6) Matters concerning increases in capital stock and the capital reserve occurring when issuing shares upon exercise of subscription rights to shares:
1) The amount of capital to be increased shall be one half of the amount of the maximum increase in capital calculated in accordance with the provisions of Article 17, Paragraph 1 of the Ordinance on Company Accounting. Fractions under 1 yen resulting from these calculations shall be rounded up.
2) The amount of capital reserve to be increased shall be the amount calculated by subtracting the amount of capital increase stipulated in 1) above from the amount of maximum increase in capital described in 1) above.
(7) Restrictions on the acquisition of subscription rights to shares through transfers
Acquisition of subscription rights to shares through transfers shall require the approval by resolution of the Board of Directors of the restructured company.
(8) Other conditions for exercise of subscription rights to shares
To be determined in conformity with Note 3 above.
(9) Provisions for the acquisition of subscription rights to shares
Subscription rights to shares may be acquired without compensation on a date separately specified by the Board of Directors should the following resolutions, 1), 2), 3), 4), or 5) be approved at a General Meeting of Shareholders of the Company (or through a resolution of a Meeting of Board of Directors of the Company, or upon the decision of an executive officer entrusted with such a matter pursuant to the provisions set forth in Article 416 Item 4 of the Companies Act of Japan in case a resolution of a General Meeting of Shareholders of the Company is not required):
1) Resolution approving a merger agreement where the Company would become a dissolved company;
2) Resolution approving a company split agreement or a company split plan where the Company would become a split company;
3) Resolution approving a share exchange agreement or a share transfer plan where the Company would become a wholly owned subsidiary;
4) Resolution approving an amendment to the Articles of Incorporation to establish a provision requiring the approval of the Company for the acquisition of all shares issued by the Company through a transfer;
5) Resolution approving an amendment to the Articles of Incorporation to establish a provision requiring the approval of the Company for the acquisition of the class of shares to be issued upon exercise of subscription rights to shares, or a provision to acquire all of such class of shares by resolution of the General Meeting of Shareholders of the Company.

Fourth Stock Option (Resolution of the Board of Directors on November 11, 2014)

Date of Resolution	November 11, 2014
Category and number of persons eligible for subscription rights to shares	11 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 17 Executive Officers

Number of subscription rights to shares*	191
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 19,100 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 13, 2014 To December 11, 2049
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 1,570 yen Amount of capitalization: 785 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. Refer to Note 1 under the section, "Third Stock Option."
2. Refer to Note 2 under the section, "Third Stock Option."
3. Refer to Note 3 under the section, "Third Stock Option."
4. Refer to Note 4 under the section, "Third Stock Option."

Fifth Stock Option (Resolution of the Board of Directors on November 10, 2015)

Date of Resolution	November 10, 2015
Category and number of persons eligible for subscription rights to shares	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 21 Executive Officers
Number of subscription rights to shares*	162
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 16,200 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 12, 2015 To December 11, 2050
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 2,671 yen Amount of capitalization: 1,336 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. Refer to Note 1 under the section, "Third Stock Option."
2. Refer to Note 2 under the section, "Third Stock Option."

3. Refer to Note 3 under the section, "Third Stock Option."
4. Refer to Note 4 under the section, "Third Stock Option."

Sixth Stock Option (Resolution of the Board of Directors on November 8, 2016)

Date of Resolution	November 8, 2016
Category and number of persons eligible for subscription rights to shares	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 22 Executive Officers
Number of subscription rights to shares*	160
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 16,000 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 13, 2016 To December 12, 2051
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 2,558 yen Amount of capitalization: 1,279 yen (Note 2)
Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. Refer to Note 1 under the section, "Third Stock Option."
2. Refer to Note 2 under the section, "Third Stock Option."
3. Refer to Note 3 under the section, "Third Stock Option."
4. Refer to Note 4 under the section, "Third Stock Option."

Seventh Stock Option (Resolution of the Board of Directors on November 7, 2017)

Date of Resolution	November 7, 2017
Category and number of persons eligible for subscription rights to shares	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 21 Executive Officers
Number of subscription rights to shares*	165
Class, content and number of shares to be issued upon exercise of subscription rights*	Common stocks: 16,500 shares (Note 1)
Amount to be paid in upon exercise of subscription rights to shares*	1.
Period for exercise of subscription rights to shares*	From December 11, 2017 To December 10, 2052
Price of issuing shares and amount of capitalization upon exercise of subscription rights to shares*	Price of issuing shares: 3,478 yen Amount of capitalization: 1,739 yen (Note 2)

Conditions for exercise of subscription rights to shares*	(Note 3)
Matters concerning the transfer of subscription rights to shares*	Acquisition of subscription rights to shares through transfers shall be subject to approval by resolution of the Board of Directors.
Matters concerning the grant of subscription rights to shares upon organizational restructuring*	(Note 4)

*Information as of the last day of the current fiscal year (September 30, 2018) is indicated. Information as of the last day of the month preceding the filing date (November 30, 2018) has been omitted since there has been no change in the information to be disclosed from the information as of the last day of the current fiscal year.

(Notes) 1. Refer to Note 1 under the section, "Third Stock Option."
2. Refer to Note 2 under the section, "Third Stock Option."
3. Refer to Note 3 under the section, "Third Stock Option."
4. Refer to Note 4 under the section, "Third Stock Option."

2) [Rights Plan]

None to be disclosed.

3) [Information on Share Subscription Rights]

None to be disclosed.

(3) [Exercise of Bonds with Share Subscription Rights Containing a Clause for Exercise Price Adjustment]

None to be disclosed.

(4) [Changes in Total Number of Issued Shares, Common Stock, etc.]

Date	Increase or decrease in total number of issued shares (Shares)	Balance of total number of issued shares (Shares)	Increase or decrease in capital stock (Millions of yen)	Balance of capital stock (Millions of yen)	Increase or decrease in capital reserve (Millions of yen)	Balance of capital reserve (Millions of yen)
(November 30, 2009) (Note)	(1,185,800)	26,731,033	—	5,700	—	5,409

(Note) Decrease caused by cancellation of treasury stock.

(5) [Shareholders Composition]

As of September 30, 2018

Classification	Status of shares (100 shares in one unit of shares)								Number of shares less than one unit (Shares)
	Government & municipalities	Financial institutions	Financial instruments business operators	Other tax accounting firm	Foreign corporate bodies, etc.		Other individuals	Total	
					Non-individuals	Individuals			
Number of shareholders	—	32	23	109	156	2.	7,603	7,925	—
Number of shares held (share units)	—	85,142	4,157	65,238	36,275	2.	76,122	266,936	37,433
Percentage of shares held (%)	—	31.9	1.6	24.4	13.6	0.0	28.5	100.0	—

(Notes) 1. Of the 350,802 shares held as treasury stock, 3,508 share units are included in "Other individuals" and 2 shares are included in "Number of shares less than one unit."
2. Of the shares registered under the name of Japan Securities Depository Center, Inc., 6 units are included in "Other corporate bodies" and 87 shares are included in "Number of shares less than one unit."

(6) [Major Shareholders]

As of September 30, 2018

Names of shareholders	Address	Number of shares held (Hundreds of shares)	Percentage of shares held to the total number of issued shares (excluding treasury stock) (%)
Iizuka Takeshi Scholarship Foundation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	37,530	14.2
Daido Life Insurance Company	1-2-1 Edobori, Nishi-ku, Osaka-shi, Osaka	25,690	9.7
TKC Employee Shareholding Association	2-1 Ageba-cho, Shinjuku-ku, Tokyo	16,083	6.1
Sozeishiryokan (Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	14,465	5.5
Masaharu Iizuka	Utsunomiya-shi, Tochigi	10,042	3.8
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	9,655	3.7
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: The Hongkong & Shanghai Banking Corporation, Tokyo Branch)	3-11-1 Nihonbashi, Chuo-ku, Tokyo	6,970	2.6
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1-2-1 Marunouchi, Chiyoda-ku, Tokyo	6,664	2.5
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	6,074	2.3
Aioi Nissay Dowa Insurance Co., Ltd.	1-28-1 Ebisu, Shibuya-ku, Tokyo	5,983	2.3
Sompo Japan Nipponkoa Insurance Inc.	1-261 Nishishinjuku, Shinjuku-ku, Tokyo	5,983	2.3
Total	—	145,141	55.0

(7) [Status of Voting Rights]

1) [Shares Issued]

As of September 30, 2018

Category	Number of shares (shares)		Number of voting rights (Units)	Description
Shares without voting right		—	—	—
Shares with restricted voting right (treasury stock, etc.)		—	—	—
Shares with restricted voting right (others)		—	—	—
Shares with full voting right (treasury stock, etc.)	Common stock	356,300	—	—
Shares with full voting right (others)	Common stock	26,337,300	263,373	—
Shares less than one unit	Common stock	37,433	—	—

Total number of shares issued	26,731,033	—	—
Total voting rights held by all shareholders	—	263,373	—

(Note) "Shares with full voting right (others)" includes 600 shares registered in the name of Japan Securities Depository Center, Inc. "Number of voting rights" includes 6 units of voting rights held under the name of Japan Securities Depository Center, Inc.

2) [Treasury Stock, etc.]

As of September 30, 2018

Name of shareholder	Address of shareholder	Number of shares held under own name (Shares)	Number of shares held under other names (Shares)	Total shares held (Shares)	Percentage of shares held to the total number of issued shares (%)
Kabaushiki Kaisha TKC	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	350,800	—	350,800	1.31
TKC Shuppan Corporation	4-8-8 Kudanminami, Chiyoda-ku, Tokyo	5,500	—	5,500	0.02
Total	—	356,300	—	356,300	1.33

(8) [Information on Employee Stock Ownership Plan]

The Company will introduce this Plan with the objectives to clarify the linkage between the Company's shareholder value and the remuneration for directors (excluding outside directors and expatriates), executive officers (excluding expatriates), and auditors (excluding outside directors and expatriates) (hereinafter referred to collectively as "Directors, etc."), and to motivate Directors to contribute more to enhancing the medium- to long-term corporate value by sharing common interest with shareholders, including not only the merit derived from the rising share price, but also the risk associated with the decline in share price. The introduction of the Plan was approved by resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018.

1) Description of the Plan

The Plan uses a structure called Board Incentive Plant trust (hereinafter "BIP Trust"). The Plan is similar to the performance-linked share remuneration (Performance Share) and share remuneration with transfer restriction (Restricted Stock) in the US and Europe, and delivers and provides the Company's shares and cash equivalent to the amount to convert and dispose the Company's shares (collectively, "the Company's Shares, etc.") to Directors, etc.

2) Total number of shares subject to delivery to eligible Directors, etc.

The Company will contribute a total amount not exceeding 1,549 million yen to the Trust for a period of three fiscal years between the fiscal year ending September 30, 2019 and the fiscal year ending September 30, 2021 ("Initial Trust Period"). An amount not exceeding 977 million yen in total will be included in the Initial Trust Period as the amount for measures to be taken for the transition from the stock-based compensation stock option scheme.

Overview of Trust Agreement

Category of trust	Money trust other than a specific individually operated money trust (third party benefit trust)
Objective of trust	To provide incentive for Directors, etc.

Assignor	TKC Corporation
Trustee	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
Beneficiary	Directors, etc., who satisfy the beneficiary conditions
Trust administrator	A third party professional expert having no interest in the Company
Date of trust agreement	February 26, 2019 (scheduled)
Trust period	February 26, 2019 (scheduled) to February 28, 2022 (scheduled)
Start of plan	March 1, 2019 (scheduled)
Execution of voting rights	Not to be executed
Type of shares to be acquired	Common stock of the Company
Maximum amount of trust fund	Directors and executive officers: 1,470 million yen (scheduled) (Including trust fees and expenses) Auditors: 79 million yen (scheduled) (same as above)
Acquisition of treasury stock	To be acquired in the stock market or from the Company (disposal of treasury stock)
Holder of vested rights	TKC Corporation
Residual property	The residual property that the Company (as holder of vested rights) may receive shall be within the amount of trust expense reserve, which is the trust fund less the fund for share acuqisition.

3) Persons eligible for the delivery of the Company's shares

Directors, etc., who satisfy the beneficiary conditions

2 [Acquisition, etc. of Treasury Stock]

[Class of shares] Acquisition of shares of common stock under Article 155, Item 7 of the Companies Act of Japan

(1) [Acquisition of Treasury Stock Based on Resolution at the General Meeting of Shareholders]

None to be disclosed.

(2) [Acquisition of Treasury Stock Based on Resolution of the Board of Directors]

None to be disclosed.

(3) [Acquisitions of Treasury Stock not Based on Resolutions of General Meeting of Shareholders or Board of Directors]

Classification	Number of shares (shares)	Total amount (Yen)
Treasury stock acquired during the current fiscal year	821	3,470,590
Treasury stock acquired during the current period for acquisition	74	296,740

(Note) Treasury stock acquired during the current period of acquisition does not include shares constituting less than one unit purchased during the period from December 1, 2018 up to the date on which this Annual Securities Report was filed.

(4) [Disposition and Holding of Acquired Treasury Stock]

Classification	Current fiscal year		Current period for acquisition	
	Number of shares (Shares)	Total amount disposed (Yen)	Number of shares (Shares)	Total amount disposed (Yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock canceled	—	—	—	—
Acquired treasury stock transferred due to merger, share exchange, or company split	—	—	—	—
Other (—)	—	—	—	—
Number of shares of treasury stock held	350,802	—	350,876	—

(Note) The disposition and holding of treasury stock acquired during the current period does not include shares transferred through the exercise of subscription rights to shares, shares obtained through the purchase of shares constituting less than one unit, and shares sold through demand for sales during the period from December 1, 2018 up to the date on which this Annual Securities Report was filed.

3 [Dividend Policy]

The basic policy of the Company is to pay two annual dividends of retained earnings, an interim dividend and a year-end dividend. Year-end dividends are resolved at the General Meeting of Shareholders and interim dividends by resolution of the Board of Directors.

The Company further provides in its Articles of Incorporation that interim dividends as set forth in Article 454 Item 5 of the Companies Act of Japan as of March 31 every year may be paid by resolution of the Board of Directors.

The basic policy of the Company is to pay out dividends that exceed the industry average in accordance with the medium-term management plan set forth by the Board of Directors while continuing to maintain optimal profit each fiscal year in order to meet the expectation of our shareholders. With the rapid advancement of ICT (information and communication technology) and major changes in social systems, it is essential to make advance investments in research and development efforts and to actively pursue other capital investments to enhance customer support to accounting firms and local governments and lead them to success while remaining competitive in the marketplace.

Thus, dividends to be paid to shareholders are determined by taking into full consideration such factors as the Company's financial standing, operating results and payout ratios as we seek to maintain a balance between strengthening our capital base to provide adequate funding in R&D and making funds available for stable dividend payouts over the long-term.

To respond to the expectations of shareholders, the Company announced on May 2, 2018 that the estimated amounts for interim and year-end dividends for the 52nd term would be 50 yen as ordinary dividends (for the 51st term, 40 yen for interim dividends and 60 yen for year-end dividends), and has paid the interim dividends of 50 yen after the resolution of the Board of Directors.

During the fiscal year under review, the Group's net sales, operating income, ordinary income and current net income attributable to owners of parent exceeded the previous fiscal year's performance for two consecutive years with record-breaking figures. Based on these results, to express our respect and gratitude to our shareholders, we increased the year-end dividend per share announced on May 2, 2018 by 5 yen, resulting in a year-end dividend of 55 yen.

As a result, the annual payout ratio was 46.5%.

Date of Resolution	Total amount of cash dividends (Millions of yen)	Dividend per share (Yen)
May 2, 2018 Meeting of the Board of Directors	1,319	50
December 21, 2018 Ordinary General Meeting of Shareholders	1,450	55

4 [Changes in Share Prices]

(1) [Highest and Lowest Prices for the Past Five Fiscal Years]

Fiscal year	48th Term	49th Term	50th Term	51st Term	52nd Term
Year end	September 2014	September 2015	September 2016	September 2017	September 2018
Highest (Yen)	2,359	3,690	3,365	3,530	4,875
Lowest (Yen)	1,576	1,841	2,393	2,716	3,305

(Note) The highest and lowest share prices are based on the market prices on the First Section of the Tokyo Stock Exchange.

(2) [Highest and Lowest Prices by Month for the Past Six Months]

Month	April 2018	May 2018	June 2018	July 2018	August 2018	September 2018
Highest (Yen)	4,420	4,630	4,525	4,315	4,365	4,875
Lowest (Yen)	3,980	4,120	3,935	3,810	3,985	4,170

(Note) The highest and lowest share prices are based on the market prices on the First Section of the Tokyo Stock Exchange.

5 [Board of Directors]

14 male and 0 female Directors (Percentage of female directors: 0%)

Official title	Position	Name	Date of Birth	Brief biography		Term of office	Number of shares held (Hundreds of shares)
Representative Director	President and Executive Officer	Kazuyuki Sumi	September 28, 1948	March 1972	Joined TKC	(Note 6)	217
				December 1990	Director, Deputy Chief Director of Sales		
				April 1997	Director, Deputy Director of Local Governments Business Division		
				May 1997	Managing Director, Deputy Director of Local Governments Business Division		
				December 1998	Managing Director, Director of Local Governments Business Division		
				July 2001	Representative Director, President, TKC Security Services Co., Ltd. (current position)		
				December 2001	Senior Managing Director, Director of Local Governments Business Division		
				December 2006	Director, Senior Managing Director and Executive Officer, Director of Local Governments Business Division		
				December 2008	Representative Director, Vice President and Executive Officer, Director of Local Governments Business Division		
				December 2011	Representative Director, President and Executive Officer, Director of Accounting Firm Business Division		
				June 2012	Representative Director, Chairman, SKYCOM Corporation (current position)		
				October 2016	Representative Director, President and Executive Officer (current position)		
				October 2017	Representative Director, President, TKC Customer Support Service Co., Ltd. (current position)		
Representative Director	Vice President and Executive Officer,	Hitoshi Iwata	March 31, 1957	April 1980	Joined TKC	(Note 6)	65
				December 2000	Director, Chief Director of General Affairs		
				September 2004	Director, Chief Director of Business Administration		
				December 2005	Managing Director, Chief Director of Business Administration		
				December 2006	Director, Managing Director and Executive Officer, Chief Director of the Business Administration		
				December 2008	Representative Director, Vice President and Executive Officer, Chief Director of Business Administration		
				August 2014	Representative Director, Vice Chairman, TKC Financial Guarantee Co., Ltd. (current position)		
				December 2017	Representative Director, Vice Chairman, TKC Corporate Mutual Aid Association (current position)		
				October 2018	Representative Director, Vice President and Executive Officer (current position)		

Representative Director	Senior Managing Director and Executive Officer, Director of Accounting Firm Business Division	Masanori Iizuka	March 12, 1975	April 2002 December 2010 October 2012 December 2012 April 2014 December 2014 October 2016	Joined TKC Director, Executive Officer, Sales of Corporate Information Systems, Chief Director of G Project of Sales, Corporate Information Systems, Accounting Firm Business Division Director, Executive Officer, Chief Director of Sales of Corporate Information Systems, Accounting Firm Business Division Director, Managing Director and Executive Officer, Chief Director of Sales, Corporate Information Systems, Accounting Firm Business Division Director, Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm Business Division Representative Director, Senior Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm Business Division Representative Director, Senior Managing Director and Executive Officer, Chief Director of Accounting Firm Business Division (current position)	(Note 6)	72

Official title	Position	Name	Date of Birth	Brief biography		Term of office	Number of shares held (Hundreds of shares)
Director	Managing Director and Executive Officer, Chief of the Tax Research Center	Makoto Ito	September 2, 1956	April 1979 June 2013 July 2014 September 2014 December 2014	Joined National Tax Agency Deputy Commissioner (Collection), National Tax Agency Resigns from National Tax Agency Joined TKC, Deputy Chief, Tax Research Center Director, Managing Director and Executive Officer, Chief of Tax Research Center (current position)	(Note 6)	13
Director	Managing Director and Executive Officer, Director of Local Governments Business Division	Masao Yusawa	January 16, 1959	April 1979 December 2006 December 2011 January 2012 December 2014	Joined TKC Executive Officer, Chief Director of Sales Planning, Local Governments Business Division Director, Executive Officer, Local Governments Business Division Director, Executive Officer, Director of Local Governments Business Division Director, Managing Director and Executive Officer, Director of Local Governments Business Division (current position)	(Note 6)	44
Director	Managing Director and Executive Officer, Chief of Systems Development Research Center, Accounting Firm Business Division	Yasuo Igarashi	January 4, 1967	April 1989 August 2012 October 2012 December 2016 November 2017 January 2018	Joined TKC Executive Officer, Chief of Account Information Systems Development Center, Systems Development Research Center, Accounting Firm Business Division Executive Officer, Chief of Financial Host System Development Center, Systems Development Research Center, Accounting Firm Business Division Director, Executive Officer, Chief of Account Information Systems Design Center, Systems Development Research Center, Accounting Firm Business Division Director, Managing Director and Executive Officer, Director of Sales Planning, Sales, Accounting Firm Business Division Director, Managing Director and Executive Officer, Chief of Systems Development Research Center, Accounting Firm Business Division (current position)	(Note 6)	27
Director	Executive Officer, Chief Director of Sales, Local Governments Business Division	Satoshi Hitaka	January 19, 1971	April 2003 December 2010 December 2011 January 2012 October 2018 December 2018	Joined TKC Executive Officer, Director of ASP Service Promotion, Sales Planning, Local Governments Business Division Director, Executive Officer, New Business Strategy, Local Governments Business Division Director, Executive Officer, Chief Director of Cloud Business Promotion, Local Governments Business Division Director, Executive Officer, Chief Director of Sales, Local Governments Business Division Director, Managing Director and Executive Officer, Chief Director of Sales, Local Governments Business Division (current position)	(Note 6)	20
Director	Executive	Takehiro Kariya	October 8, 1964	April 1989	Joined TKC	(Note 6)	—

	Officer, Chief of System Engineering Center			June 2011 October 2012 December 2018	Executive Officer, Chief of Network Systems Development Center, Systems Development Research Center, Accounting Firm Business Division Executive Officer, Chief of System Engineering Center, Business Administration Headquarters Director, Executive Officer, Chief of System Engineering Center, (current position)		

Official title	Position	Name	Date of Birth	Brief biography		Term of office	Number of shares held (Hundreds of shares)
Director	—	Misao Taguchi	June 15, 1960	October 1990 November 1990 June 2011 December 2016	Registered as certified tax accountant Started business as certified tax accountant Representative Partner, certified public tax accounting firm Taguchi Partners Kaikei (current position) Director, TKC (current position)	(Note 6)	10
Director	—	Yoshimasa Oshida	August 17, 1956	November 1988 November 1991 July 2002 December 2018	Registered as certified tax accountant Started business as certified tax accountant Representative Partner, Oshida Accounting Office (current position) Director, TKC (current position)	(Note 6)	10
Auditor (full-time)	—	Tsuneo Miyashita	May 28, 1949	March 1975 December 2006 October 2010 December 2016 October 2017	Joined TKC Executive Officer, Director of TKCNF Research Committee Support Division Director of Chairman's Office Full-time Auditor (current position) Auditor, TKC Security Services Co., Ltd. (current position) Auditor, TKC Customer Support Service Co., Ltd.(current position)	(Note 5)	98
Auditor (full-time)	—	Kiyotsugu Nakanishi	August 27, 1956	April 1979 April 1988 January 1996 January 2006 January 2015 December 2018	Joined TKC Section Chief of General Affairs Department Deputy Director of General Affairs Department Director, Director of General Affairs Department Director of Internal Audit Department Full-time Auditor (current position)	(Note 7)	—
Auditors	—	Kenji Matsumoto	March 10, 1947	September 1986 September 1986 November 2010 June 2015 December 2015	Registered as certified tax accountant Started business as certified tax accountant Representative Partner and Certified Tax Accountant, Aoyama Accounting Firm (current position) Auditor, iMobile Inc. Auditor (current position)	(Note 4)	10
Auditors	—	Yoshiki Takashima	April 18, 1959	April 1990 January 2003 December 2008 December 2016 December	Registered as attorney Partner, Shibata, Yamaguchi & Takashima Law Firm (current position) Auditor (current position) Auditor, TLP Co., Ltd. (current position) Auditor, TKC Financial Guarantee Co., Ltd. (current position) Auditor, TKC Corporate Mutual Aid	(Note 5)	—

				2017 Association (current position)		
Total						586

(Notes) 1. Director Satoshi Hitaka is the spouse of the elder sister of Masanori Iizuka, Representative Director, Senior Managing Director and Executive Officer.

2. Directors Misao Taguchi and Yoshimasa Oshida are Outside Directors.

3. Auditors Kenji Matsumoto and Yoshiki Takashima are Outside Auditors.

4. Four years from the close of the Ordinary General Meeting of Shareholders held December 22, 2015.

5. Four years from the close of the Ordinary General Meeting of Shareholders held December 22, 2016.

6. Two years from the close of the Ordinary General Meeting of Shareholders held December 21, 2018.

7. Four years from the close of the Ordinary General Meeting of Shareholders held December 21, 2018.

6 [Corporate Governance]

(1) [Corporate Governance]

I. Basic Approach to Corporate Governance

The core of the Group, TKC Corporation, was established on October 22, 1966 listing the following two charters in Article 2 of the Articles of Incorporation:

1. Management of electronic data processing centers to defend the business domains and maintain control over the fate of accounting firms;

2. Management of electronic data processing centers to improve the administrative efficiency of local governments.

While other business objectives were later added as business operations expanded, our management policy of focusing our target on accounting firms and local governments and specializing in the field of ICT (information and communication technology) to guide our customers' business to success remains unchanged, and this has led the Group to occupy a unique position in Japan's IT industries.

The Group (excluding the Printing BD) has a unique customer base – the Accounting Firm BD serves certified public tax accountants, certified public accountants, tax accounting firms and audit corporations while the Local Governments BD provides services to prefectural and municipal offices and affiliated public service corporations. So from a compliance perspective, our customers are required by vocation-based laws (Certified Public Tax Accountant Act or Certified Public Accountants Act) or administrative laws (Local Autonomy Act or the Local Public Service Act) to follow much stricter levels of compliance than other business categories in performing their business activities.

Thus, it is our utmost priority to ensure that all software products and services designed, produced and sold by the Group are in full compliance with the laws and regulations pertaining to our customer's business, and the Group strives diligently to ensure total compliance in managing each Group companies as well as the Group as a whole in order to earn the trust of such customers.

As such, the Group understands corporate governance as follows:

1. in order to achieve the business objectives of the Company in compliance with the laws and regulations, the Articles of Incorporation and the resolutions of the General Meetings of Shareholders,

2. the Group shall formulate strategic medium-term management plans and foster competent human resources that will enable us to develop and supply software products and services that can drive our customers' business to success,

3. strive to earn the gratitude, trust, and hopefully the respect of our customers,

4. and as a result, secure good operating results and sound financial standing so that we can return the fruits to the original owners of the Group, our shareholders.

Through such corporate governance process, we aim to improve the transparency of our decision-making and business processes, implement effective risk management measures, undertake information disclosure and accountability in a timely manner to continue enhancing our corporate values.

II. Corporate Governance System

1. Reasons for Selecting the Current Corporate Governance System

The Company implements an auditor system and also appoints Outside Directors. Outside Directors are appointed and installed from the perspective of improving the transparency of the Board of Directors and enhancing its supervisory functions. This ensures the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors.

Outside Auditors primarily give advice and make suggestions in order to ensure the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors by expressing their opinions on compliance issues and whether the resolutions of the Board of Directors are in violation of laws and regulations.

We also have two Outside Directors and two Outside Auditors who meet the requirements of independent directors/auditors and are notified to the Tokyo Stock Exchange.

Through the implementation of these measures the Company ensures objectivity and neutrality of the supervision over the management of the Company.

Therefore, we feel that the functions to supervise the management activities are in place, which enables us to institute a highly efficient, highly transparent management system that the Company aims for.

2. Execution of Business, Auditing and Supervision, Nominations, Decisions on Remuneration and Other Functions (Overview of the Current Corporate Governance System)

1) Execution of business

The Representative Director & President chairs the meetings of the Board of Directors, which are held at least once a month and attended by other Directors where they share information and make decisions in a prompt manner.

The Board of Directors currently consists of 10 members and, with the exception of the Chairman and an Outside Director, each Director represents a business unit as operating officer in charge and participates in deliberations and express their opinions. The Company adopts an executive officer system since December 22, 2006.

2) Supervision

The Board of Directors oversees the operations of the Company and supervises the execution of business by each Director by receiving monthly business reports from the executive officers and heads of the major business units of the Head Office.

3) Auditing

Auditors attend monthly meetings of the Board of Directors and other major internal meetings and express their opinions on general managerial or individual issues. The Board of Auditors audits the performance of duties by Directors in accordance with the Company’s audit policy and annual audit plans established in reference to the "Code of Kansayaku Auditing Standards" by the Japan Audit & Supervisory Members Association.

Accounting Auditors perform accounting audits based on the annual audit plan, and report to the Auditors and Representative Directors and exchange opinions on methods and results of accounting audit.

4) Nomination

When submitting proposals on the appointment of Directors, a temporary Directors Nomination Committee, consisting of the Representative Directors and Outside Directors and chaired by the President, shall take into consideration such factors as the candidates’ records on business planning, contributions to past business performances, personalities and depth of knowledge, and propose the promotions and reappointments of Directors to be resolved at General Meetings of Shareholders.

5) Remuneration

Director compensation consists of two parts: fixed-amount compensation and stock-based compensation using a trust. Fixed amount compensation is determined in January each year based on the level of achievement of the Company's performance goals in the previous fiscal year and the performance targets for the current fiscal year. The stock-based compensation using a trust is designed to motivate Directors to contribute more to enhancing the medium- to long-term corporate value by sharing common interest with shareholders, including not only the merit derived from the rising share price, but also the risk associated with the decline in share price. The number of shares to be issued to Directors, etc., will be determined in accordance with the rules on issuance of shares.

Compensation for Auditors also consists of two parts, fixed-amount compensation and stock-based compensation using a trust. Fixed amount compensation is determined by consultation among Auditors.

3. Outline of Limited Liability Agreement

The Company concludes agreements with Outside Directors and Outside Auditors in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act of Japan, limiting their liabilities to the amounts set forth by law if they are without knowledge and not grossly negligent with regards to their responsibilities set forth in Article 423, Paragraph 1.

4. The Company consults with company attorneys concerning important legal issues and compliance-related matters, and conducts reviews as necessary. The Company consults with the Accounting Auditors and reviews important accounting issues from time to time in addition to the regular accounting audits, and hold discussions promptly after quarterly and annual financial settlements.

5. Outline of Resolutions on the Development of Systems to Ensure the Appropriateness of Operations

The Company establishes a basic policy by resolution of the Board of Directors concerning "the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company" as stipulated in Article 362, Paragraph 5 of the Companies Act of Japan. The outline of the policy is summarized below.

[1] Basic policy concerning the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the Articles of Incorporation
(in relation to the first half of Article 362, Paragraph 4(vi) of the Companies Act of Japan)

1) Directors must comply with all laws and regulations, the Articles of Incorporation, and the Resolutions of General Meetings of Shareholders (hereafter "laws and regulations"), keep in mind at all times that the business objectives of the Company are as set forth in Article 2 of our Articles of Incorporation, namely the "management of electronic data processing centers to defend the business domains and maintain control over the fate of accounting firms," and the "management of electronic data processing centers to improve the administrative efficiency of local governments," and perform their duties to achieve these objectives.

2) Directors must perform their duties based on the Company's Rules on Administrative Authority and Dividing Duties of Directors established by the Board of Directors, and cooperate with other Directors in improving corporate performance.

3) In the event a Director finds that his/her decision (including approvals given to proposals made by subordinates) may be in violation of the laws and regulations, he/she must, without delay, consult with the Director in charge of legal affairs and act based on said Director's decision to prevent the occurrence of any

illegal conduct. If such matter is of significant importance, the Director in charge of legal affairs shall immediately report to the Representative Director and President (hereafter, the “President”), and full-time Corporate Auditors and outside company attorneys and receive their guidance as well as report the particulars to the Board of Directors.

4) In the event a Director finds that an act or a plan of another Director or an employee may be in violation of the laws and regulations, he/she must, without delay, give warning to such Director or employee as joint bearer of managerial responsibilities. If such matter is of significant importance, said Director must immediately report to the President and receive guidance.

5) Prior to attending any meetings of the Board of Directors, Directors must review the matters to be deliberated, reported and/or discussed at the next meeting of the Board of Directors (hereinafter, “matters to be deliberated”) to make sure that there are no omissions in view of the scope of matters to be deliberated under the regulations concerning the Duties (Articles 362) and Authority (Articles 363) of Directors as stipulated in the Companies Act of Japan and the Company’s Rules on the Board of Directors. If there are other matters to be deliberated, they must be brought to the Director(s) in charge of the meetings of the Board of Directors without delay.

6) Directors must attend the meetings of the Board of Directors and voice their opinions and exercise their voting rights on all matters to be deliberated based on their conscience and responsibility. Directors must give a true account of the execution of their duties, speak frankly of any anticipated strategic risks and operational risks, and give the opportunity and time for the Board of Directors to review countermeasures for such issues in advance.

7) The entire process of deliberations at the meetings of the Board of Directors shall be recorded in accordance with the Company’s Rules on Management of Information Concerning the Decision-making Process of the Board of Directors. The recordings must be kept in the form of electromagnetic records as specified in Article 371 of the Companies Act of Japan along with any materials used for explanations and the minutes of meeting of the Board of Directors.

8) Directors must attend the General Meeting of Shareholders, and provide answers in a sincere manner to any questions pertaining to the execution of their duties when asked by shareholders and instructed by the Chairman to provide such answers.

9) Upon deliberations at the meetings of the Board of Directors, the Chairman of the Board of Directors must seek the opinions of Auditors in attendance as to whether any resolution may be in violation of laws and regulations. In the event an Auditor finds in the course of sitting in the meetings of the Board of Directors, that any resolution may be in violation of the laws and regulations, he/she must, without delay, give warning to the Chairman of the Board.

10) As the highest authority of the Company, Directors are obliged to be acutely aware of the social responsibilities of the Company under the principles set forth in the “TKC Charter of Corporate Code 2006,” work to improve their characters and insight, strictly observe all laws and regulations and company rules, eliminate ego and put aside personal affairs, exhibit discerning judgments to achieve business objectives, take lead in setting good examples, and strive to gain utmost trust of employees under their charge.

11) It is the basic policy of the Company to have no involvement with antisocial forces, bodies and individuals, and to not comply with unjust and unlawful requests. The Company shall develop and disseminate this policy among all Directors and employees, and shall establish systems to share all pertinent information within the TKC Group and to develop appropriate countermeasures. Further, the Company shall collaborate closely with the police and other external expert organizations, and with legal advisors and company attorneys.

[2] Basic policy concerning the development of systems ensuring the appropriateness of the Company’s operations (in relation to the latter half of Article 362 Paragraph 4(vi) of the Companies Act of Japan)]

(1) Development of systems for the storage and management of information relating to the execution of Directors' duties of the Company
(in relation to Article 100, Paragraph 1, Item 1 of the Ordinance for Enforcement of the Companies Act of Japan)

1) Of the information relating to the execution of duties by Directors (hereafter, "information on Directors' duty"), information pertaining to the minutes of General Meetings of Shareholders shall be stored and managed in accordance with the Company's Rules on Management of Information Concerning the Minutes of General Meetings of Shareholders.

2) Of the information on Directors' duty, information pertaining to deliberations at the meetings of the Board of Directors shall be stored and managed in accordance with the Company's Rules on Management of Information Concerning Decision-making Processes of the Board of Directors as described in [1] 7) above.

3) Of the information on Directors' duty, information submitted to or received from government authorities and information sent to or received from outside parties in relation to legal affairs shall be stored and managed based on the Company's Rules on Management of Information Concerning Legal Affairs.

4) Information on Directors' duty not included above shall be divided into the following three categories and stored and managed based on the Company's Rules on Management of Information Concerning the Daily Operations of Directors:

a. of the meetings called by a Director (excluding the General Meetings of Shareholders and meetings of the Board of Directors), minutes and relevant documents of meetings in which matters that may have significant impact on the Company's operation are deliberated, and meeting in which matters directly related to the interest of specific customers, clients or employees are deliberated;
b. written applications for approval and relevant documents settled by the Directors based on the Company's Rules Concerning Requests for Decisions;
c. other important information pertaining to the execution of duties by Directors.

5) All information on Directors' duty set forth in the preceding four items shall be stored in a database so that their presence or absence and contents are immediately searchable. The operating status of said database shall be verified and rules shall be revised as necessary and reported to the Board of Directors.

(2) Regulations and other systems for the management of risks of loss for the Company
(in relation to Article 100, Paragraph 1, Item 2 of the Ordinance for Enforcement of the Companies Act of Japan)

(2-1) Regulations for the management of strategic risks

1) Strategic risks are risks related to business opportunities that arise out of uncertainties of strategic managerial decision-making. In light of the current situation of the Company, the objective of managing such strategic risks shall be limited for the time being to "preventing the loss of business opportunities" and to "appointment of Directors" to be submitted to the General Meetings of Shareholders.

2) In order to prevent the loss of business opportunities, all Directors must actively gather information and retain unrelenting spirit of inquiry to capture business opportunities that contribute to our customers' success ahead of others, exhibit outstanding intuition to make the best of such business opportunities, and develop timely and optimal schematic plans and propose the execution to the President.

3) Upon receiving the such proposals from Directors (including employees) as set forth above, the President must evaluate the contents from the following perspectives, and if it is determined that a proposal should be executed, he/she shall report to the Board of Directors and cause for the Director (including employees)

in charge to announce an implementation plan at the meetings of the Board of Directors:

a. Conformances with the management philosophy of the Company;
b. Compliances;
c. Expected degree of contributions to customers' business;
d. Anticipated feedback from customers;
e. Technical feasibilities;
f. Funds and costs necessary;
g. Other matters, such as principle of good faith with business partners.

4) When submitting proposals on the appointment of Directors, a temporary Directors Nomination Committee, consisting of the Representative Directors and Outside Directors and chaired by the President, shall take into consideration such factors as the candidates' records on the preceding two items, contributions to past business performances, personalities and depth of knowledge, and propose the promotions and reappointments of Directors to be resolved at General Meetings of Shareholders.

5) Promotion of a Director to an executive position of managing director or above or demotion of an executive director to a Director shall be determined by the President through discussion with other Representative Directors and finally decided by approval of the Board of Directors.

(2-2) Regulations for the management of operational risks

(2-2-1) Regulations for the management of operational risks that may occur across all divisions

1) Operational risks are risks related to the performance of business activities that arise out of uncertainties of performance of appropriate and efficient operations. These risks shall be divided and controlled under the following two categories:

a. risks that may occur across all divisions (hereinafter, "common risks");
b. risks that may occur in specific divisions (hereinafter, "division-specific risks").

This section provides for regulations for the management of common risks.

2) The Board of Directors shall elect a Director in charge of risk management, who shall be in charge of investigating and identifying the following common risks from among all employees of the Company:

a. Risks that have high degree of urgency;
b. Risks associated with compliance;
c. Risks associated with confidentiality obligations of the Company;
d. Risks associated with the preservation of assets and accounting;
e. Risks associated with the preparation of regulations and manuals for operation of business;
f. Risks associated with the workplace environment and labor management;
g. Other risks deemed necessary.

3) In the event the Director in charge finds, as a result of the inspections in the preceding paragraph, that there are measures to completely eliminate any of the common risks, he/she shall promptly report such findings to the President and discuss the actions to be taken.

4) The Director in charge shall sort and classify unresolved risks and formulate a basic policy on how to handle such risks, and submit it to the Board of Directors as Regulations for the Prevention of Operational Risks (hereinafter referred to as "Regulations" in this section) for approval by the Board of Directors. The approved Regulations shall be announced and distributed to all employees as guidelines from the President.

5) In the event a major risk becomes apparent, the Director in charge shall immediately take actions to prevent

and minimize the spread of damages in accordance with the Regulations.

6) The Director in charge shall, within one month of completing the actions in the preceding item, investigate the true cause of the risk and formulate measures to prevent recurrence, and report to the Board of Directors within two months and undertake any revisions to the Regulations.

7) All heads of business units shall verify the compliance with the Regulations within their own business units either on a daily or regular basis in accordance with the Regulations and report to the Director in charge.

8) The Director in charge shall submit to the President applications for special award money to those uncovering major common risks that were previously unnoticed or those proposing effective measures to prevent recurrence of apparent risks.

(2-2-2) Regulations for the management of operational risks that may occur in specific divisions

1) Division-specific risks include cases in which division-specific operational risks need to be controlled and cases in which highly advanced, specialized knowledge is required to control certain common risks. The following committees (including committees to be newly established) shall be in charge controlling risks involving multiple divisions, and the relevant division shall be responsible for controlling any risk involving that single division:

a. Systems Development Research Center Operation Improvement Committee
b. Municipality Systems Development & Operations Division Operation Improvement Committee
c. Consolidated Information Centers Operation Improvement Committee
d. SCG Service Centers Operation Improvement Committee
e. Municipality Sales Division Operation Improvement Committee
f. Supplier Business Operation Improvement Committee
g. Tokyo Head Office Operation Improvement Committee
h. Personnel & Salary Systems Improvement Committee
i. Risk Management Committee
j. Other committees that the Board of Directors deems necessary to establish.

2) The committees listed in the preceding item shall serve as assisting body to the President or the Director in charge of the division, the executive officer heading each committee with a fixed number of committee members as determined by the Board of Directors. The Director in charge or the head of committee shall attend the meeting of the Board of Directors and report on the matters to be reported by the committee, and may request deliberations as necessary by the Board of Directors.

3) Division-specific risks involving an individual committee or a specific division shall be controlled in the same manner as controlling common risks as prescribed in (2-2-1). Division-specific risks shall be identified by each committee and reported to the Board of Directors.

(2-2-3) Regulations for the management of hazard and other risks

1) In the event of large-scale earthquakes, flood damages, fire and other disasters, or long power outage, water stoppage, the disconnection of communication lines and other circumstances that may cause substantial damage, the Company will immediately set up an emergency response headquarter headed by the President, and form an information communication team responsible for contacting customers, employees and their families, shareholders, clients and external press, and an external advisory team including the company attorneys and to establish a system to respond promptly, prevent and minimize the spread of damages.

2) In the event of any matters that may be in violation of the laws and regulations, the General Affairs Headquarters under the responsibility of the Director in charge of legal affairs shall become the

supervising division to take actions. Any legal compliance issue of significant importance shall be consulted with outside attorneys as external legal advisors.

(3) Systems to ensure the efficient execution of Directors' duties of the Company
(in relation to Article 100, Paragraph 1, Item 3 of the Ordinance for Enforcement of the Companies Act of Japan)

1) The Company holds regular meetings of the Board of Directors generally on the 10th day of every month, as well as ad hoc meetings when necessary. The date and time of meetings of the Board of Directors called for the disclosure of financial statements or in relation to the General Meetings of Shareholders shall be planned at least six months in advance.

2) At the meetings of the Board of Directors held at the end of each fiscal year, a management policy for the upcoming fiscal year formulated in light of the management philosophy of the Company and a medium-term management plan covering the next three years starting from the upcoming fiscal year shall be submitted by the President, and the Board of Directors shall deliberate upon their strategic rationalities in accordance with the Company's Rules on the Board of Directors.

3) At the meetings of the Board of Directors held on the second month of each new fiscal year, the targeted profit and loss statements for the entire company and each business unit for the new fiscal year, and a proposed list of dividing duties of Directors and strategic goals shall be submitted by the President, and the Board of Directors shall deliberate upon their feasibilities in accordance with the Company's Rules on the Board of Directors.

4) At the monthly regular meetings of the Board of Directors, the targeted and actual P/L statements for the entire company and each business unit as of the end of the previous month shall be reported, and the Board of Directors shall analyze the differences in target and actual results, and discuss actions to be to taken to achieve the targeted sales and current profits for the fiscal year.

5) In executing his/her daily duties, the President shall inspect the details of individual projects planned by the Directors in charge of each business unit and coordinate to maximize the effect the projects in light of the current management policy, and approve the use of president's strategic reserve funds to the extent approved by the Board of Director.

6) In executing his/her daily duties, Directors in charge of each business unit shall provide instructions to the executive officers and managers under his/her immediate control to ensure that they have correct awareness of the fiscal management policy and strategic goals for their division and that the PDCA cycle is thoroughly implemented to achieve these goals, and shall monitor the progress and achievements of the entire division at all times and strive to achieve the sales and profit goals for the fiscal year.

7) In managing the business unit under his/her charge, Directors in charge of each business unit shall strive to reduce unnecessary expenses, improve work quality and productivity, and keep the workplace organized, and must exhibit leadership to create a workplace environment in which all employees are safe and comfortable, inspired and satisfied.

(4) Systems to ensure that performance of duties by employees of the Company is in conformance with laws and regulations and the Articles of Incorporation
(in relation to Article 100, Paragraph 1, Item 4 of the Ordinance for Enforcement of the Companies Act of Japan)

1) In order to ensure compliance with laws and regulations by employees, the Internal Audit Department under the direct control of the President shall prepare drafts of Compliance Regulations and Compliance Manual based on guidance provided by Auditors and outside company attorneys and, upon obtaining the approval of the Board of Directors, distribute them to all employees as guidelines from the President.

2) Regular training sessions for all employees of the Company to further understanding on the Compliance Regulations and Compliance Manual as set forth above shall be conducted in accordance with the plans of the Internal Audit Department.

3) When performing an internal audit on internal business units, the Internal Audit Department must always inspect the awareness on Compliance Regulations and implementation of Compliance Manual among employees of the business unit being audited, and submit an Internal Audit Report to the President within one week after the completion of the audit.

4) Directors in charge of each division shall appoint a compliance manager within each business unit in accordance with the Compliance Regulations, and conduct training on the Compliance Manual for employees within the business unit in a timely and appropriate manner.

5) In order to prevent the leaking of customer information and other confidential information, the body text and attached files of all electronic mails sent from internal PCs to outside the company shall be stored for a certain period of time.

6) In preparation for the unlikely event that a Company employee violates any laws or regulations, the Company shall establish a system whereby the Internal Audit Department or the employee that first learns of such information gives emergency notification to the President or the Director in charge of legal affairs informing them of the facts and other relevant information.

(5) Other systems to ensure the appropriateness of operations of the Group consisting of the Company and its subsidiaries
(in relation to Article 100 Paragraph 1(v) of the Ordinance for Enforcement of the Companies Act of Japan)

(A) Systems concerning reports to the Company on matters pertaining to the execution of duties by directors, executive officers, employees executing operations, persons performing the duties under Article 598, Paragraph 1 of the Companies Act of Japan, and those equivalent (hereinafter "Directors, etc." in items (C) and (D) below) of the Company's subsidiaries
(in relation to Article 100, Paragraph 1, Item 5(a) of the Ordinance for Enforcement of the Companies Act of Japan)

1) In order for the Company to perform quarterly audits on the presence or absence of risk information pertaining to its subsidiary companies and affiliated companies (hereinafter, "Subsidiaries"), the Company shall conclude an internal audit agreement with its Subsidiaries and the Internal Audit Department shall conduct audits.

2) The Internal Audit Department shall establish a system whereby, upon identifying any incidents that may cause significant damage to the Subsidiaries, the President and the heads of relevant business divisions are notified of the risks causing such incident, the degree of damage expected and impacts on the Company.

3) The Internal Audit Department shall thoroughly exchange information with the Subsidiaries' divisions in charge of internal audits on a regular basis to prevent any inappropriate transactions (including using corporate expenses for private entertainment purposes) or inappropriate accounting between the Company and Subsidiaries.

4) The Company shall assign Directors or employees of Deputy Manager or higher to the Subsidiaries to server as Directors in order to communicate the management policy and requests of the Company in writing to the Subsidiaries' Board of Directors. The Company shall request the presidents of the subsidiaries to submit monthly reports on the latest business results, business forecast and risk management issues.

(B) Regulations and other systems for the management of risks of loss for the Subsidiaries
(in relation to Article 100, Paragraph 1, Item 5(b) of the Ordinance for Enforcement of the Companies Act of Japan)

Efforts shall be made to raise awareness on risks which may impact the Company’s operation, and to promote early discovery, preventive measures, and prompt and appropriate responses in the event of an emergency in accordance with the separate Compliance Regulations, Compliance Manual and other internal rules.

(C) Systems to ensure the efficient execution of Directors’ duties of Subsidiaries
(in relation to Article 100, Paragraph 1, Item 5(c) of the Ordinance for Enforcement of the Companies Act of Japan)

1) The Board of Directors of Subsidiaries (referred to as “Board of Directors” in this section) shall hold regular meetings of the Board of Directors generally on a given day of every month, as well as ad hoc meetings when necessary. The date and time of meetings of the Board of Directors called for the approval of financial statements or in relation to the General Meetings of Shareholders shall be planned at least six months in advance.

2) At the meetings of the Board of Directors held at the end of each fiscal year, a management policy for the upcoming fiscal year formulated in light of the Management Philosophy of the Subsidiaries and a Medium-Term Management Plan covering the next three years starting from the upcoming fiscal year shall be submitted by the president of the Subsidiaries (referred to as “President” in this section and the next section), and the Board of Directors shall deliberate upon their strategic rationalities in accordance with the Company’s Rules on the Board of Directors.

3) At the meetings of the Board of Directors held on the second month of each new fiscal year, the Targeted Profit and Loss Statements for the entire company and each business unit for the new fiscal year, and a proposed List of Dividing Duties of Directors and Strategic Goals shall be submitted by the President, and the Board of Directors shall deliberate upon their feasibilities in accordance with the Company’s Rules on the Board of Directors.

4) At the monthly regular meetings of the Board of Directors, the targeted and actual P/L statements for the entire company and each business unit as of the end of the previous month shall be reported, and the Board of Directors shall analyze the differences in target and actual results, and discuss actions to be to taken to achieve the targeted sales and current profits for the fiscal year.

5) In executing his/her daily duties, the President shall inspect the details of individual projects planned by the Directors in charge of each business unit and coordinate to maximize the effect the projects in light of the current management policy.

6) In executing his/her daily duties, Directors in charge of each business unit shall provide instructions to the executive officers and managers under his/her immediate control to ensure that they have correct awareness of the fiscal management policy and strategic goals for their division and that the PDCA cycle is thoroughly implemented to achieve these goals, and shall monitor the progress and achievements of the entire division at all times and strive to achieve the sales and profit goals for the fiscal year.

7) In managing the business unit under his/her charge, Directors in charge of each business unit shall strive to reduce unnecessary expenses, improve work quality and productivity, and keep the workplace organized, and must exhibit leadership to create a workplace environment in which all employees are safe and comfortable, inspired and satisfied.

(D) Systems to ensure that performance of duties by Directors and employees of the Subsidiaries is in conformance with laws and regulations and the Articles of Incorporation
(in relation to Article 100, Paragraph 1, Item 5(d) of the Ordinance for Enforcement of the Companies Act

of Japan)

1) In order to ensure compliance with laws and regulations by the directors and employees of the Subsidiaries (referred to as "Directors and employees" in this section), the division in charge of internal audit under the direct control of the President shall develop Compliance Regulations and Compliance Manual based on guidance provided by Auditors and outside company attorneys.

2) Regular training sessions for all Directors and employees to further understanding on the Compliance Regulations and Compliance Manual as set forth above shall be conducted in accordance with the plans of the division in charge of internal audit.

3) When performing an internal audit on internal business units, the division in charge of internal audit must always inspect the awareness on Compliance Regulations and implementation of Compliance Manual among employees of the business unit being audited, and submit an Internal Audit Report to the President within one week after the completion of the audit.

4) Directors in charge of each division shall appoint a compliance manager within each business unit in accordance with the Compliance Regulations, and conduct training on the Compliance Manual for employees within the business unit in a timely and appropriate manner.

5) In order to prevent the leaking of customer information and other confidential information, the body text and attached files of all electronic mails sent from internal PCs to outside the company shall be stored for a certain period of time.

6) In preparation for the unlikely event that a Director or employee violates any laws or regulations, Subsidiaries shall establish a system whereby the division in charge of internal audit or the Director or employee that first learns of such information gives emergency notification to the President informing him/her of the facts and other relevant information.

(6) Assignment of employees to assist the duties of Corporate Auditors
(in relation to Article 100, Paragraph 3, Item 1 of the Ordinance for Enforcement of the Companies Act of Japan)

1) The Company shall establish an Auditor Office to assist the duties of the Auditors and assign one or more dedicated employees.

2) In determining the specific details pertaining to the preceding item, the Company shall respect the opinions of the Board of Auditors and take into consideration the opinions of the Director in charge of human resources and other relevant personnel.

(7) Independence of employees assisting duties of Corporate Auditors from Directors
(in relation to Article 100, Paragraph 3, Item 2 of the Ordinance for Enforcement of the Companies Act of Japan)

1) The appointment, transfer, personnel evaluation and disciplinary punishment of employees assisting the duties of Auditors shall be subject to prior consent of the Board of Auditors.

2) Employees assisting the duties of Auditors shall not hold concurrent posts that involve the execution of the Company’s business, and shall perform their duties under the direct command of the Board of Auditors, and their performance shall be evaluated by the Board of Auditors.

3) Business units executing the Company’s business shall cooperate with employees assisting the duties of Auditors and allow attendance of such employees at the necessary meetings for them to conduct to necessary investigations and gather necessary information.

(8) Ensuring effectiveness of directions to employees assisting duties of Corporate Auditors
(in relation to Article 100, Paragraph 3, Item 3 of the Ordinance for Enforcement of the Companies Act of Japan)

Employees assisting the duties of Auditors shall report to Auditors as appropriate on the status of duties performed in accordance with the directions and commands given by Auditors.

(9-1) The systems listed below and other systems for reporting to Corporate Auditors
(in relation to the provisions of Article 100 Paragraph 3 Item 4 of the Ordinance for Enforcement of the Companies Act of Japan)

(A) Systems for reporting to Corporate Auditors by the Company's Directors, accounting advisors and employees
(in relation to Article 100, Paragraph 3, Item 4(a) of the Ordinance for Enforcement of the Companies Act of Japan)

1) All Directors and employees of the Company shall promptly submit the necessary reports and information requested by Auditors as established by the Board of Auditors.

2) The reports and information to be submitted as set forth in the preceding item shall mainly include the following:

a. Status of activities of business units involved in the risk management of the Company;
b. Status of activities pertaining to audits and internal audits of the Subsidiaries of the Company;
c. Important accounting policies and accounting standards of the Company and any changes thereto;
d. Contents of announcements and important disclosure documents on the Company's latest business results and earnings forecasts announcements on both non-consolidated and consolidated basis;
e. Circulation of internal approval documents and meeting minutes requested by Auditors.

3) In the event a Director or employee learns of any fact of violations of laws and regulations or any fact that could cause significant damage to the Company, such Director or employee shall immediately report matters pertaining to such fact to Auditors.

4) Auditors shall attend all the meetings of the Board of Directors and other important meetings, and are expected to voice their opinions freely without being requested to do so by the chairman or caller of such meetings.

(B) Systems for reporting to Corporate Auditors of the Company by the Subsidiaries' directors, accounting advisors, auditors, executive officers, employees executing operations, persons performing the duties under Article 598, Paragraph 1 of the Companies Act of Japan and other persons equivalent to the above, employees or any persons receiving reports from the above
(in relation to Article 100, Paragraph 3, Item 4(b) of the Ordinance for Enforcement of the Companies Act of Japan)

1) All directors, auditors and employees of Subsidiaries shall promptly submit the necessary reports and information requested by each Corporate Auditor of the Company as established by the Board of Auditors of the Company.

2) The reports and information to be submitted as set forth in the preceding item shall mainly include the following:

a. Status of activities of business units involved in the risk management of the Subsidiaries;
b. Status of activities pertaining to the audits by auditors of the Subsidiaries;

c. Important accounting policies and accounting standards of the Subsidiaries and any changes thereto;
d. Circulation of internal approval documents and meeting minutes of Subsidiaries requested by Auditors.

3) In the event a director, auditor or employee learns of any fact of violations of laws and regulations or any fact that could cause significant damage to the Company, such director, auditor or employee shall immediately report matters pertaining to such fact to the Auditors of the Company.

4) The Company's Auditors shall attend all the meetings of the Board of Directors and other important meetings of Subsidiaries, and are expected to voice their opinions freely without being requested to do so by the chairman or caller of such meetings.

(9-2) Systems to ensure that persons making reports as stated in the preceding item do not receive disadvantageous treatment for providing such reports
(in relation to Article 100, Paragraph 3, Item 5 of the Ordinance for Enforcement of the Companies Act of Japan)

The Company and Subsidiaries must not treat any persons making reports stated in the preceding item in a disadvantageous manner due to grounds of providing such reports to the Board of Auditors of the Company.

(9-3) Policy on prepayment or reimbursement of expenses arising from the execution of duties of Corporate Auditors and the processing of expenses or debts arising from the performance of other duties
(in relation to Article 100, Paragraph 3, Item 6 of the Ordinance for Enforcement of the Companies Act of Japan)

The Company shall secure sufficient amounts to cover for the procedures on prepayment or reimbursement of expenses arising from the execution of duties of Auditors and for the processing of expenses or debts arising from the performance of other duties so as to allow Auditors to sufficiently achieve the execution of the Auditors' duties.

1) Ordinary auditing expenses shall be budgeted in the current fiscal year based on the business plan of the Company and the audit plan of the Board of Auditors.

2) Other emergency auditing expenses and contingency expenses shall be estimated in advance by the Board of Auditors and establish a policy on such expenses. The Board of Directors shall execute the measures under said determined policy as notified by the Board of Auditors after deliberation and review of such measures in light of the status of execution of the budget for the fiscal year.

(10) Other systems to ensure that audits by the Corporate Auditors' are implemented effectively
(in relation to Article 100, Paragraph 3, Item 7 of the Ordinance for Enforcement of the Companies Act of Japan)

1) Auditors shall receive advanced explanations on the annual internal auditing plan to be performed by the Internal Audit Department and express their opinions to the President if they deem that the plan needs to be corrected or changed, and the President must respect such opinions.

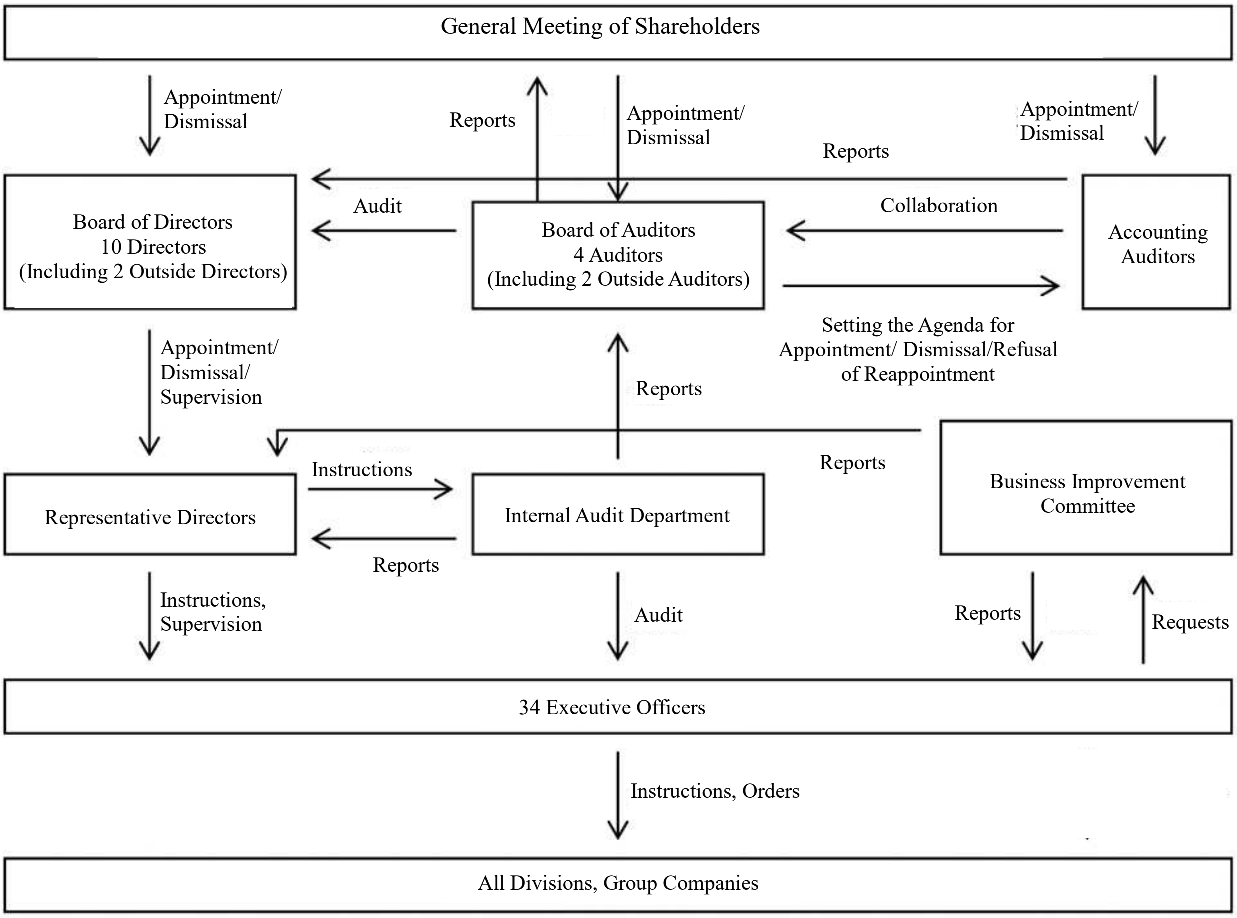
2) Auditors shall receive reports, as appropriate, on the status of implementation of internal audits, and express their opinions to the President if they deem necessary that additional audits be implemented or operation improvement measures be developed. The President must respect such opinions.

3) Auditors shall receive advance explanations on the accounting audit plans from accounting auditors, and reports on auditing methods and audit results whenever accounting audits on quarterly settlements and audits on full year settlements are performed.

4) For the purpose of increasing the effectiveness of the Company's auditing system by achieving coordination between the Company's auditing system and the risk management system, the Company shall establish an Audit System Improvement Committee headed by the Director in charge of legal affairs and consisting of the head of the Internal Audit Department and deputy managers or higher nominated by said Director and Auditors. The Committee is expected to prepare reports on the auditing systems that should be created by the Company in the future, and to submit such reports to the Board of Directors.

6. Basic Policy on the Control of the Company

The Company has no particular policy on matters concerning the persons controlling the decisions on the financial and business policies of the Company. A schematic diagram of the Company's internal control system is shown below:



III. Internal Audits and Audits by Auditors

The Company has four Auditors, one of which, Kenji Matsumoto, Auditor, is a qualified public tax accountant who has extensive expertise in the areas of finance and accounting. Yoshiki Takashima, Auditor, is a qualified attorney who has extensive expertise in the areas of finance and accounting.

The Internal Audit Department, coordinating closely with the Auditors, audits the operation of all business units in a systematic manner to assess the effectiveness of internal controls and the actual business operations, and reports the results of auditing directly to the President. Highly effective internal audits are implemented by providing the business divisions indication and guidance on items required to be improved based on the auditing results, and requiring them to report the progress of improvements after the auditing. As a department under the direct control of the President, the Internal Audit Department audits the operation of each business units within the Company from the perspectives of appropriateness of operation and compliance in accordance with the laws and regulations, the Articles of Incorporation, guidelines from the President, and work regulations and other internal rules and regulations. Auditors receive reports on internal audit plans for the fiscal year and reports on internal audit methods and results for the first and second half-years from the Internal Audit Department and exchanges opinions on relevant matters.

The Company conducts evaluations on the internal auditing systems to ensure the appropriateness of financial reporting documents and related information in accordance with Article 24-4, Paragraph 4, Item 1 of the Financial Instruments and Exchange Act of Japan, and holds discussions regularly and as-needed on the three auditing functions—internal audits, audits by Auditors and accounting audits by accounting auditors to improve the reliability of our financial reporting. Information on the respective audit plans and audit results are shared and closely coordinated to achieve highly efficient and effective auditing.

IV. Basic Approach and Countermeasures to Eliminate Anti-social Forces

1. Basic approach to eliminate anti-social forces

The basic policy of the Company is to have absolutely no engagement with anti-social forces under "Strict Implementation of Compliance Management" as stated in the TKC Charter of Corporate Code. The Company fully disseminates that it will maintain a resolute, organization-wide response against any and all unreasonable demands and approaches from anti-social forces and bodies.

2. Countermeasures to eliminate anti-social forces

1) Establishment of a Response Control Division and appointment of managers

The Company has established a division to control responses to anti-social forces (the Response Control Division) and appointed managers in charge of preventing unreasonable demands within its Tochigi and Tokyo Head Offices.

The Company has also established a system for immediate reporting and consultation with the Response Control Division on matters concerning unreasonable demands, organized violence, and criminal acts by anti-social forces.

2) Coordination with external expert organizations

The Company maintains close ties with external expert organizations, for example, by taking part in liaison groups organized by the police and receiving guidance on how to deal with anti-social forces.

3) Collecting and managing information on anti-social forces

The Response Control Division coordinates with experts and the police in sharing the latest information pertaining to anti-social forces and using such information to give warning to the employees within the Company.

4) Preparation of response manuals

The Company has prepared training materials on compliance-related case studies including topics on how to deal with anti-social forces, which are distributed and used in compliance training sessions.

5) Training activities

The Company promotes activities to prevent damages from anti-social forces before they occur by sharing information on anti-social forces within the Company and conducting compliance training sessions with the Company and at Group companies.

V. Outside Directors and Outside Auditors

1. Status and reasons for appointment of Outside Directors and Outside Auditors

Category	Name	Functions, roles and appointment
Director	Misao Taguchi	Mr. Taguchi is a representative partner of a certified public tax accountants firm Taguchi Partners Kaikei, and has been appointed as Outside Director so that the Company's Accounting Firm Business can benefit from his extensive experience and insights in the management of accounting firms. From an independent standpoint, he is expected to enhance the supervisory functions of the Board of Directors in order to increase transparency, and provide valuable input to ensure the legality and validity of decisions made and resolved by the Board of Directors. While Taguchi Partners Kaikei is engaged in a business relationship with the Company, transactions are based on the same terms and conditions as with other third parties. Therefore, it is not likely that any conflict of interest shall occur between Mr. Taguchi and general shareholders, and the Company deems that this would not affect the independence of Mr. Taguchi. Mr. Taguchi has no special interest in the Company.
Director	Yoshimasa Oshida	Mr. Oshida is a representative partner of a certified public tax accountants firm Oshida Accounting Office, and has been appointed as Outside Director so that the Company's Accounting Firm Business can benefit from his extensive experience and insights in the management of accounting firms. From an independent standpoint, he is expected to enhance the supervisory functions of the Board of Directors in order to increase transparency, and provide valuable input to ensure the legality and validity of decisions made and resolved by the Board of Directors. While Oshida Accounting Office is engaged in a business relationship with the Company, transactions are based on the same terms and conditions as with other third parties. Therefore, it is not likely that any conflict of interest shall occur between Mr. Oshida and general shareholders, and the Company deems that this would not affect the independence of Mr. Oshida. Mr. Oshida has no special interest in the Company.
Auditors	Kenji Matsumoto	Mr. Matsumoto has been appointed to enhance the supervisory functions of the Board of Directors in order to increase transparency, and to give opinions on compliance issues and as to whether the resolutions of the Board of Directors may be in violation of laws and regulations, and to provide opinions, advice and suggestions in order to ensure the legality, appropriateness, and validity of the decisions made and resolved by the Board of Directors. While Mr. Matsumoto and the tax accounting firm, Aoyama Accounting Firm where Mr. Matsumoto serves as representative partner are engaged in a business relationship with the Company, transactions are based on the same terms and conditions as with other third parties. Therefore, it is not likely that any conflict of interest shall occur between Mr. Matsumoto and general shareholders, and the Company deems that this would not affect the independence of Mr. Matsumoto. Mr. Oshida has no special interest in the Company.

Auditors	Yoshiki Takashima	Mr. Takashima is a certified attorney and has been appointed to provide compliance-related audits and advise from a legal perspective on execution of duties by the Directors of the Company. Mr. Oshida has no special interest in the Company.

2. Support systems for Outside Directors and Outside Auditors

1) The Company appoints the Chief Director of General Affairs Department as a point of liaison to provide assistance to Outside Directors and Outside Auditors. The Chief Director of General Affairs Department notifies the Outside Directors and Outside Auditors of the schedule of the meetings of the Board of Directors or meetings of the Board of Auditors and send any related materials thereto, and if necessary, provides explanations in advance on such materials.

2) Outside Directors attends any major meetings of the TKCNF, the customer organization of the Accounting Firm BD.

3) Once a month, Outside Auditors review the approval request documents, accounting books and major evidence documents, and receive reports from the heads of Departments and give their opinions.

4) Remunerations for Auditors shall be determined each January upon discussion among Auditors based on the business results for the preceding fiscal year.

3. Standards concerning the independence of Outside Directors and Outside Auditors of the Company

(1) For the Board of Directors of the Company to recognize the independence of an Outside Director or Outside Auditors of the Company (hereinafter, "outside executives"), he/she must maintain a neutral stance, independent of the Company’s management without falling under any of the following (independent outside executives shall be referred to as "independent executives" hereafter):

1) executive member of the Company or the Company’s affiliate companies (hereinafter, "the Group");

2) an important trade partner of the Group or its executing member;

3) a major shareholder of the Company (holding voting rights in excess of 10% of the total voting rights, directly or indirectly) or its executing member;

4) an executing member of an entity in which the Group is a major investor (holding voting rights in excess of 10% of the total voting rights, directly or indirectly);

5) certified public accountant, certified public tax accountant or other accounting specialist, an attorney or other legal specialist receiving large sums of money or other assets from the Group other than director compensation (or, any person affiliated with the corporation, association or other bodies receiving such monies or assets);

6) a person belonging to an audit firm that performs accounting audits for the Company, or a tax accountant or person belonging to a tax firm that performs tax audits for the Company;

7) any person falling under items 1) to 6) within the last three years;

8) near relatives of the following:

1. Persons falling under items 2) to 6) above (provided that an "executing member" in items 2) to 4) shall be limited to a person executing important duties, and "person affiliated with the corporation, association or other bodies" in item 5) shall be limited to a person executing important duties, or in case

of an audit firm, a tax accounting firm, law firm or other organization of accounting and legal specialists, only certified public accountants, tax accountants or attorneys and persons with specialized qualifications, and "persons belonging to an audit firm" and "persons belonging to a tax firm" in item 6) shall be limited to persons executing important duties and certified public accountants, tax accountants and other persons with specialized qualifications);

2. Persons executing important duties of the Group;

3. Persons falling under item 2) above within the last three years.

(2) In addition to the criteria in the preceding item, independent executives shall not have any condition that could be reasonably interpreted as his/her inability to perform the duties of an independent outside executive.

(3) Independent executives shall strive to maintain the independence set forth in these standards until their resignation, and shall immediately notify the Company if said independence as defined in these standards is lost.

Note 1: An Outside Director refers to Outside Directors as defined in Article 2 Item 15 of the Companies Act of Japan.
"An Outside Director means a director of any stock company who is neither an executive director (hereinafter referring to a director of a stock company listed in any item of Article 363(1), and any other director who has executed operation of such stock company) nor an executive officer, nor an employee, including a manager, of such stock company or any of its subsidiaries, and who has neither ever served in the past as an executive director nor executive officer, nor as an employee, including a manager, of such sock company or any of its subsidiaries."

Note 2: An Outside Auditor refers to Outside Company Auditors as defined in Article 2 Item 16 of the Companies Act of Japan.
"An Outside Company Auditor means an auditor of any stock company who has neither ever served in the past as a director, accounting advisor (or, in cases where the accounting advisor is a juridical person, any member thereof who was in charge of its advisory affairs) or executive officer, nor as an employee, including a manager, of such stock company or any of its Subsidiaries."

Note 3: An executing member refers to Directors (excluding Outside Directors), executive officers as defined in Article 418 of the Companies Act of Japan (hereinafter "executive officers"), and corporate executive officers and employees executing operation.

Note 4: Persons for which the Group is an important trade partner refers to those falling under either of the following:

1) a trade partner group that provides products or services to the Group (referring to companies belonging to consolidated groups to which the direct trade partner is affiliated, hereinafter the same) that has received from the Group in the immediately preceding fiscal year an amount in excess of 100 million yen or 2% of the consolidated net sales of said trade partner group, whichever the higher;

2) a trade partner group to which the Group is indebted to and owed in the immediately preceding fiscal year a total amount in excess of 100 million yen or 2% of the consolidated total assets of the trade partner group, whichever the higher.

Note 5: Important trade partners for the Group refers to those falling under either of the following:

1) a trade partner group to which the Group provides products and services from which the Group has received in the immediately preceding fiscal year an amount in excess of 100 million yen or 2% of the consolidated net sales of said trade partner group, whichever the higher;

2) a trade partner group indebted to the Group, that owed the Group in the immediately preceding fiscal year a total amount in excess of 100 million yen or 2% of the consolidated total assets of the trade partner group, whichever the higher;

3) a financial institution group from which the Group is borrowing (referring to companies belonging to consolidated groups to which the direct lender is affiliated) and borrowed in the immediately preceding fiscal year a total amount in excess of 2% of the consolidated total assets of the Group.

Note 6: Certified public accountants, public tax accountants or other accounting specialists, and attorneys or other legal specialists receiving large sums of money or other assets from the Group other than director compensation shall refer to persons who received from the Group, an amount in excess of 10 million yen or any property in the amount in excess of 2% of said person’s total sales or gross income, whichever the higher, in the immediately preceding fiscal year in addition to the director compensation.

Note 7: Near relatives shall refer to relatives within the second degree and other interested parties that share living expenses.

Note 8: Persons executing important duties shall refer to persons executing important business operations, including Directors (excluding Outside Directors), executive officers, corporate executive officers and heads of business units.

Note 9: The term "fiscal year" used above can be replaced for individuals to read the year subject to income tax calculations.

VI. Accounting Audits

1. Accounting Auditors

The Company has an audit agreement with Ernst & Young ShinNihon LLC, and receives accounting audits from the firm. The names of certified public accountants that executed the accounting audit for the fiscal year ended September 2018 are as follows:

Designated Limited Liability Partner, Executing Partner: Yasuo Sekiya
Designated Limited Liability Partner, Executing Partner: Yuichi Noda
Number of assistants assisting auditing:
  Certified Public Accountants: 7
  Others: 17

2. Policy for determining the dismissal or refusal to reappoint accounting auditors

It is the policy of the Company for the Board of Auditors to dismiss accounting auditors, with the consent of all Auditors, should it be deemed that said accounting auditor falls under any of the items prescribed in Article 340 Paragraph 1 of the Companies Act of Japan. In such event, an Auditor selected by the Board of Auditors shall report the dismissal of the accounting auditor and the reason for dismissal at the first General Meeting of Shareholders convened following the dismissal.

If there is a reason or a need to prevent the accounting auditor’s execution of his/her duties, the Board of Auditors shall develop a proposal on the dismissal or refusal of reappointment of said accounting auditor, and the Board of Directors shall present such proposal for resolution at the General Meeting of Shareholders.

3. Matters concerning the suspension of operations by accounting auditors

None to be disclosed.

VII. Other Stipulations

1. Number of Directors

The Articles of Incorporation stipulate that the Company may have a maximum of 15 Directors.

2. Criteria for the election or dismissal of Directors

The Articles of Incorporation stipulate that Directors shall be elected by a majority vote of shareholders at the General Meeting of Shareholders with the attendance of at least one-third of shareholders that can exercise voting rights, and that election of Directors shall not to be based on cumulative voting.

The Articles of Incorporation further stipulate that Directors shall be dismissed by a vote of two-thirds or more of shareholders at the meeting with the attendance of at least half of the shareholders that can exercise voting rights.

3. Exemption from liability for Directors and Auditors

In order to limit the responsibilities of Directors and Auditors to a reasonable extent in performing their duties, the Company stipulates in its Articles of Incorporation that the Company may, by resolution of the Board of Directors, exempt Directors (including former Directors) and Auditors (including former Auditors) from liabilities to the extent allowed by law in accordance with Article 426 Paragraph 1 of the Companies Act of Japan.

4. Interim dividends

In order to maintain flexible redistribution of profits to shareholders, the Company stipulates in its Articles of Incorporation that the Company may, by resolution of the Board of Directors, pay interim dividends as of March 31 every year pursuant to the provisions of Article 454, Item 5 of the Companies Act of Japan.

5. Acquisition of treasury stock

In order to allow for flexible implementation of capital policies on improving capital efficiency and shareholder interest, the Company stipulates in its Articles of Incorporation that treasury stock may be acquired by resolution of the Board of Directors pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act of Japan.

6. Special resolutions

The Company stipulates in its Articles of Incorporation that special resolutions of the General Meetings of Shareholders as specified in Article 309, Paragraph 2 of the Companies Act of Japan shall be passed by a vote of two-thirds or more of shareholders at meetings with the attendance of at one-third of the shareholders that can exercise voting rights. This has been established to ensure smooth handling of special resolutions at General Meetings of Shareholders by easing the quorum for special resolutions by General Meetings of Shareholders.

VIII. Compensation to Executive Directors

1. Total amount of compensation, total by type, and number of eligible executives, by executive category

Executive category	Total amount of compensation (Millions of yen)	Total compensation by type (Millions of yen)				Number of eligible executives
		Basic compensation	Stock options	Executive bonuses	Retirement benefits	
Director (Excluding Outside Directors)	316	270	46	—	—	9
Auditors (Excluding Outside Auditors)	33	29	3.	—	—	2.
Outside Directors	28	28	—	—	—	2.
Outside Auditors	28	28	—	—	—	2.

2. Policy on determining the amount of executive remuneration or calculation method
(Policy on determining remuneration)

The amount of remuneration for the executive officers of the Company was established by resolution of the 43rd Ordinary General Meeting of Shareholders convened on December 22, 2009, at an annual amount of up to 480 million yen for Directors remuneration and up to 80 million yen for Auditors remuneration. It was further established by resolution of the 52nd Ordinary General Meeting of Shareholders convened on December 21, 2018 that, separate from this maximum amount of remuneration, the Company will deliver and provide the Company’s shares and cash equivalent to the amount to convert and dispose the Company’s share to its Directors (excluding Outside Directors and expatriates), executive officers (excluding expatriates) and Auditors (excluding Outside Auditors and expatriates) pursuant to the stock-based remuneration plan as described in Part 4 [Information on the Company] 1 [Information on the Company’s Stock] (8) [Information on Employee Stock Ownership Plan].

Under the remuneration system, compensation for Directors (excluding Outside Directors) and Auditors (excluding Outside Auditors) consists of fixed-amount compensation and stock-based remuneration using a trust designed to motivate Directors to contribute to enhancing the medium- to long-term performance and corporate value. Compensation for Outside Directors and Outside Auditors consists of fixed-amount compensation only.
(Procedure on determining remuneration)

Director compensation is determined by resolution of the Board of Directors within the maximum amount approved at the General Meeting of Shareholders.

Compensation for Auditors is determined by consultation among Auditors within the maximum amount approved at the General Meeting of Shareholders.

IX. Status of shareholdings

1. Equity securities held for purposes other than pure investment and the total amount recorded in the balance sheet

14 stock names, 5,271 million yen

2. Stock name, number of shares, amount recorded in the balance sheet and purpose of holding of equity securities held for purposes other than pure investments

Previous fiscal year

Specified investment securities

Stock name	Number of shares (shares)	Amount recorded in balance sheet (Millions of yen)	Purpose of holding
T&D Holdings, Inc.	1,780,000	2,907	To maintain and strengthen business relationship
Mitsubishi UFJ Financial Group, Inc.	2,322,180	1,696	To maintain and strengthen business relationship
Mebuki Financial Group, Inc.	275,325	119	To maintain and strengthen business relationship
Nippon Paper Industries Co., Ltd.	17,000	35	To maintain and strengthen business relationship
Toyo Securities Co., Ltd.	51,000	13	To maintain and strengthen business relationship
Mito Securities Co., Ltd.	31,460	11	To maintain and strengthen business relationship
Fujitsu Limited	11,880	9	To maintain and strengthen business relationship
Tokai Tokyo Financial Holdings, Inc.	9,187	6	To maintain and strengthen business relationship

Current fiscal year

Specified investment securities

Stock name	Number of shares (shares)	Amount recorded in balance sheet (Millions of yen)	Purpose of holding
T&D Holdings, Inc.	1,780,000	3,337	To maintain and strengthen business relationship
Mitsubishi UFJ Financial Group, Inc.	2,322,180	1,646	To maintain and strengthen business relationship
Mebuki Financial Group, Inc.	275,400	108	To maintain and strengthen business relationship
Nippon Paper Industries Co., Ltd.	17,000	35	To maintain and strengthen business relationship
Toyo Securities Co., Ltd.	51,000	13	To maintain and strengthen business relationship
Mito Securities Co., Ltd.	31,460	12	To maintain and strengthen business relationship

Fujitsu Limited (Note)	11,880	9	To maintain and strengthen business relationship
Tokai Tokyo Financial Holdings, Inc.	9,187	6	To maintain and strengthen business relationship

(Note) Fujitsu Limited performed consolidation of its common shares, consolidating ten shares into one share as of October 1, 2018.

3. Equity securities held for the pure investment

None to be disclosed.

(2) [Audit Fees]

1) [Compensation paid to Auditors and certified public accountants]

Category	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for audit and attestation services (Millions of yen)	Compensation for non-audit services (Millions of yen)	Compensation for audit and attestation services (Millions of yen)	Compensation for non-audit services (Millions of yen)
The Company	44	10	43	10
Consolidated subsidiaries	—	—	—	—
Total	44	10	43	10

2) [Other important fees]

(For the previous consolidated fiscal year and the current consolidated fiscal year)

None to be disclosed.

3) [Descriptions on non-audit services performed for the Company by Auditors and certified public accountants]

(For the previous consolidated fiscal year and the current consolidated fiscal year)

The Company pays its Auditors and certified public accountants compensation for assurance services for internal controls pertaining to the Company's ASP service based on the Auditing and Assurance Practice Committee Practical Guideline No. 86 "Assurance Reports on Controls at a Service Organization (Japanese Institute of Certified Public Accountants dated December 22, 2011)" covering services other than the services prescribed in Article 2 Paragraph 1 of the Certified Public Accountants Act.

4) [Policy for determining Audit fees]

Auditor compensations paid to Auditors and certified public accountants are determined by discussion based on the number days of auditing works performed.

Part 5 [Financial Information]

1. Method of Preparing Consolidated Financial Statements and Financial Statements

(1) The consolidated financial statements of the Company have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) The financial statements of the Company have been prepared in accordance with the Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter, the "Ordinance on Financial Statements").

Further, as the Company is a Specified Company Submitting Financial Statements, we have prepared the financial statements in accordance with the provisions of Article 127 of the Ordinance on Financial Statements.

2. Auditing and Attestation

The consolidated financial statements for the consolidated fiscal year (from October 1, 2017 to September 30, 2018) and financial statements for the fiscal year (from October 1, 2017 to September 30, 2018) have been audited by Ernst & Young ShinNihon LLC pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan.

3. Special Efforts to Ensure the Appropriateness of its Consolidated Financial Statements

The Company makes exceptional efforts to ensure the appropriateness of our consolidated financial statements. Specifically, in order to understand the contents of accounting standards correctly and to develop a system that would enable us to respond to changes in accounting standards, we maintain membership of the Financial Accounting Standards Foundation and attend seminars held by the Accounting Standards Board of Japan.

1. [Consolidated Financial Statements]

(1) [Consolidated Financial Statements]

1) [Consolidated Balance Sheet]

(Unit: Millions of yen)

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Assets		
Current assets		
Cash and deposits	20,039	22,268
Notes and accounts receivable	6,555	7,690
Lease investment assets	269	290
Finished good inventory	325	200
Work in progress	289	255
Raw materials and stored items	140	163
Deferred tax assets	2,046	2,213
Other Stipulations	913	914
Provisions for bad debts	(33)	(35)
Total current assets	30,545	33,961
Non-current assets		
Property, Plants & Equipment		
Buildings and structures (net amount)	6,619	7,991
Machinery, equipment and vehicles (net amount)	508	596
Tools, furniture & fixtures (net amount)	1,249	1,418
Land	6,922	6,922
Lease assets (net amount)	342	275
Construction in progress	569	259
Total property, plants and equipment	*1 16,212	*1 17,464
Intangible Assets		
Software	2,806	2,983
Software in progress	976	698
Other Stipulations	29	26
Total intangible assets	3,812	3,707
Investments and other assets		
Investments securities	*2 23,659	*2 24,026
Long-term loans	82	87
Deferred tax assets	2,953	2,998
Long-term deposits	6,000	6,000
Guarantee deposits	1,310	1,318
Long-term lease investment assets	459	350
Other Stipulations	392	286
Total investments and other assets	34,858	35,068
Total non-current assets	54,883	56,240
Total assets	85,428	90,202

(Unit: Millions of yen)

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Liabilities		
Current liabilities		
Accounts payable – trade	2,392	2,824
Electronically recorded obligations-operating	897	1,080
Current portion of long-term loans payable	71	142
Lease obligations	353	363
Accounts payable – other	2,918	2,805
Income taxes payable	1,445	1,689
Consumption taxes payable	543	492
Provisions for bonuses	3,028	3,169
Other Stipulations	1,694	1,387
Total current liabilities	13,345	13,955
Fixed liabilities		
Long-term debts	223	580
Lease obligations	746	576
Retirement benefit liabilities	1,668	2,036
Other Stipulations	552	501
Total fixed liabilities	3,191	3,696
Total liabilities	16,536	17,651
Net assets		
Equity		
Capital	5,700	5,700
Capital surplus	5,409	5,409
Retained earnings	56,549	59,806
Treasury stock	(968)	(971)
Total equity	66,690	69,944
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	621	917
Total accumulated other comprehensive income	621	917
Subscription rights to shares	178	235
Non-controlling interests	1,401	1,453
Total equity	68,892	72,550
Total liabilities and net assets	85,428	90,202

2) [Consolidated Statements of Income and Comprehensive Income]

[Consolidated Statements of Income]

(Unit: Millions of yen)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Net sales	59,705	61,621
Cost of sales	20,419	21,002
Gross profit	39,285	40,619
Selling, general and administrative expenses	*1, *2 30,718	*1, *2 31,939
Operating profit	8,567	8,679
Non-operating income		
Interest income	31	31
Dividend income	110	122 rights
Land & rent income	42	46
Subsidy income	—	40
Equity in earnings of affiliates	11	12
Other Stipulations	33	31
Total non-operating income	229	284
Non-operating expenses		
Interest paid	3	2
Other Stipulations	0	0
Total non-operating expenses	4.	3
Ordinary income	8,792	8,961
Extraordinary profit		
Gains on sale of non-current assets	*3 2	*3 3
Asset retirement obligations	23	—
Total extraordinary profit	25	3
Extraordinary losses		
Losses on sale of non-current assets	—	*4 3
Loss on retirement of non-current assets	*5 3	*5 9
Loss on retirement of software	15	—
Valuation loss on investment securities	—	53
Impairment losses	*6 0	*6 0
Total extraordinary losses	19	66
Net income before taxes and adjustments	8,798	8,897
Income taxes – current	2,828	3,032
Income taxes – deferred	(156)	(347)
Total income taxes	2,671	2,685
Net income	6,126	6,212
Profit attributable to non-controlling interests	55	54
Profit attributable to owners of parent	6,071	6,158

[Consolidated Statements of Comprehensive Income]

(Unit: Millions of yen)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Net income	6,126	6,212
Other comprehensive income		
Valuation difference on available-for-sale securities	970	304
Share of other comprehensive income of associates accounted for using the equity method	0	0
Total other comprehensive income	*1 971	*1 304
Comprehensive income	7,097	6,517
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	7,032	6,454
Comprehensive income attributable to non-controlling interests	65	63

3) [Consolidated Statement of Changes in Equity]

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

(Unit: Millions of yen)

	Equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total equity
Balance at beginning of year	5,700	5,419	52,606	(350)	63,374
Changes in equity					
Dividends of surplus			(2,122)		(2,122)
Profit attributable to owners of parent			6,071		6,071
Acquisition of treasury stock				(677)	(677)
Disposal of treasury stock		(10)	(5)	59	44
Changes in items other than equity (net)					
Total changes in equity	―	(10)	3,943	(617)	3,316
Balance at end of year	5,700	5,409	56,549	(968)	66,690

	Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income			
Balance at beginning of year	(339)	(339)	176	1,345	64,556
Changes in equity					
Dividends of surplus					(2,122)
Profit attributable to owners of parent					6,071
Acquisition of treasury stock					(677)
Disposal of treasury stock					44
Changes in items other than equity (net)	961	961	2	56	1,019
Total changes in equity	961	961	2	56	4,335
Balance at end of year	621	621	178	1,401	68,892

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

(Unit: Millions of yen)

	Equity				
	Capital	Capital surplus	Retained earnings	Treasury stock	Total equity
Balance at beginning of year	5,700	5,409	56,549	(968)	66,690
Changes in equity					
Dividends of surplus			(2,901)		(2,901)
Profit attributable to owners of parent			6,158		6,158
Acquisition of treasury stock				(3)	(3)
Changes in items other than equity (net)					
Total changes in equity	—	—	3,256	(3)	3,253
Balance at end of year	5,700	5,409	59,806	(971)	69,944

	Accumulated other comprehensive income		Subscription rights to shares	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income			
Balance at beginning of year	621	621	178	1,401	68,892
Changes in equity					
Dividends of surplus					(2,901)
Profit attributable to owners of parent					6,158
Acquisition of treasury stock					(3)
Changes in items other than equity (net)	295	295	57	52	405
Total changes in equity	295	295	57	52	3,658
Balance at end of year	917	917	235	1,453	72,550

4) [Consolidated Statements of Cash Flows]

(Unit: Millions of yen)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Cash Flows from Operating Activities		
Net income before taxes and adjustments	8,798	8,897
Depreciation	2,716	2,646
Increase (decrease) in provision for doubtful receivables	(2)	2
Increase (decrease) in provisions for bonuses	174	140
Increase (decrease) in retirement benefit liabilities	85	368
Interest and dividends received	(141)	(154)
Interest paid	3	2
Equity in losses (earnings) of affiliates	(11)	(12)
Loss on retirement of non-current assets	3	9
Loss on retirement of software	15	—
Loss (gain) on sales of fixed assets	(2)	0
Impairment losses	0	0
Loss (gain) on valuation of investment securities	—	53
Asset retirement obligations	(23)	—
Share-based payment expenses	46	57
Decrease (increase) in trade receivables	(132)	(1,422)
Decrease (increase) in inventories	(123)	136
Decrease (increase) in other assets	14	(74)
Increase (decrease) in trade payables	634	736
Increase (decrease) in other liabilities	(394)	(89)
Increase (decrease) in accrued consumption taxes	13	(50)
Other Stipulations	(59)	105
Subtotal	11,614	11,353
Interest and dividends received	168	192
Interest paid	(3)	(2)
Income taxes paid	(3,655)	(2,733)
Cash Flows from Operating Activities	8,123	8,810
Cash Flows from Investing Activities		
Payments into time deposits	(3,000)	(3,000)
Proceeds from withdrawal of time deposits	4,000	3,000
Purchase of property, plants and equipment	(2,124)	(2,552)
Proceeds from sales of property, plants and equipment	2	5
Purchase of intangible assets	(1,602)	(1,395)
Proceeds from redemption of investments in capital	100	—
Purchase of investment securities	(2,561)	(1)
Proceeds from redemption of investment securities	500	—
Payments for guarantee deposits	(15)	(31)
Proceeds from collection of guarantee deposits	9	23
Payments of loans receivables	—	(150)
Collection of loans receivables	74	139
Other payments	—	(49)
Other proceeds	1	0
Cash Flows from Investing Activities	(4,617)	(4,013)

(Unit: Millions of yen)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Cash Flows from Financing Activities		
Net increase (decrease) in short-term loans payable	(40)	—
Proceeds from long-term loans payable	—	500
Repayment of long-term loans payable	(71)	(71)
Repayment of lease obligations	(102)	(86)
Purchase of treasury stock	(677)	(3)
Payment of dividends	(2,119)	(2,895)
Payment of dividends to non-controlling interests	(9)	(10)
Other Stipulations	0	—
Cash Flows from Financing Activities	(3,019)	(2,567)
Increase (decrease) in cash and cash equivalents	486	2,229
Cash and cash equivalents at beginning of year	16,552	17,039
Cash and cash equivalents at end of year	*1 17,039	*1 19,268

[Notes to Financial Statements]
(Basis of Presenting the Consolidated Financial Statements)

1. Scope of Consolidation

Consolidated subsidiaries (4 companies):
Tokyo Line Printer Company
TKC Security Services Co., Ltd.
SKYCOM Corporation
TKC Customer Support Service Co., Ltd.

Of the above, TKC Customer Support Service Co., Ltd. Was newly established in the current consolidated fiscal year and has been included in the consolidated group.

Non-consolidated subsidiaries (1 company):
TKC Financial Guarantee Co., Ltd.

(Reason for excluding the company from the consolidated group)
TKC Financial Guarantee Co., Ltd. Is excluded from the consolidated group because it does not have any material impact on the consolidated financial statements of the Company in terms of total assets, net sales, net income (amount in proportion to equity held) or retained earnings (amount in proportion to equity held), nor does it have material importance as a whole.

2. Application of the Equity Method

Affiliated companies under the equity method: (2 companies)
TKC Shuppan Corporation
iMobile Inc.

Because the fiscal year-end of iMobile Inc. is March 31, a provisional settlement of accounts similar to a final settlement has been performed as of the closing date of the consolidated financial statements.

Non-consolidated subsidiaries under the equity method: (1 company)
TKC Financial Guarantee Co., Ltd.
(Reason for excluding the company from the consolidated group)

TKC Financial Guarantee Co., Ltd. Is excluded from the consolidated group because it does not have any material impact on the consolidated financial statements of the Company in terms of total assets, net sales, net income (amount in proportion to equity held) or retained earnings (amount in proportion to equity held), nor does it have material importance as a whole.

3. Fiscal Year-ends of Consolidated Subsidiaries

The closing dates of all consolidated subsidiaries are the same as the closing date of the consolidated financial statements.

4. Accounting Policies

(1) Valuation standards and methods for major assets

1) Marketable and investment securities

a. Available-for-sale securities

a) Available-for-sale securities with market value

Stated at fair market value based on the quoted market price as of the fiscal year-end (related valuation differences are directly charged or credited to the shareholders' equity, and cost of securities sold is calculated by the moving average method)

b) Available-for-sale securities without market value

Stated at cost determined by the moving average method

2) Inventory assets

a. Merchandise, raw materials

Cost determined by first-in, first-out method (with balance sheet values reflecting write downs for decreased profitability).

b. Finished goods

Cost determined by cost percentage method and adjusted based on percentage of completion (with balance sheet values reflecting write downs for decreased profitability)

c. Work in progress

Cost determined by cost percentage method or specific identification method and adjusted based on percentage of completion (with balance sheet values reflecting write downs for decreased profitability).

d. Supplies

Last purchase price method (with balance sheet values reflecting write downs for decreased profitability).

(2) Depreciation of major depreciable assets

1) Property, plants and equipment (excluding lease assets)

Calculated based on declining balance method.
Provided, buildings acquired after April 1, 1998 (excluding accompanying facilities), and accompanying facilities and structures acquired after April 1, 2016 are calculated based on straight-line method.

Primary useful lives are as follows:

Buildings and structures	10 to 50 years
Machinery, equipment & vehicles	4 to 10 years
Tools, furniture and fixtures	2 to 20 years

2) Intangible assets (excluding lease assets)

a. Software

a) Software for sale

Software for sale are amortized and stated at the higher of amortization based on estimated sales volume in the future, and amortization at a constant periodic rate based on remaining effective life (within 3 years).

b) Software for internal use

Amortized using straight-line method with an estimated in-house useful life of five years.

b. Other intangible assets

Amortized using the straight-line method.

3) Leased assets

Leased assets relating to finance lease transactions that do not involve transfer of ownership
Amortized using the straight-line method with useful lives equal to lease terms and residual values at zero.

(3) Standards for recognizing significant provisions

1) Provisions for bad debts

In setting aside provisions for possible losses due to uncollectible receivables, provisions are recognized at the amounts calculated based on the historical rate of credit loss with respect to normal receivables, and at the amounts determined in consideration of collectability of individual receivables with respect to doubtful accounts and certain other receivables.

2) Provisions for bonuses

Provisions for bonuses are recognized based on the estimated amounts of payment.

(4) Accounting procedure for retirement benefits

1) Method of attributing expected benefits to date

In calculating retirement benefit obligations, expected benefits are attributed to the period up until the end of the consolidated fiscal year based on benefit formula standards.

2) Recognizing actuarial differences as expenses

Actuarial differences are recognized as expense for the consolidated fiscal year in which they occur.

(5) Standards for recognizing significant revenues and expenses

Accounting standards for recognizing revenues and cost of sales of made-to-order software (software development contracts)

1) Projects for which the progress up to the end of the current consolidated fiscal year can be measured reliably

Accounted for by percentage-of-completion method (whereas, the degree of completion is estimated based on the construction cost percentage method)

2) Other projects

Accounted for upon conclusion of contracts.

(6) Scope of funds covered by the consolidated statements of cash flows

The scope of funds (cash and cash equivalents) covered by the consolidated statements of cash flows includes:

1) Cash on hand

2) Demand deposits

3) Short-term investments that mature within three months and are easily convertible to cash and bear very little value fluctuation risk.

(7) Other important matters regarding the preparation of consolidated financial statements

1) Accounting method for consumption taxes and local consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

2) Application of the consolidated taxation system

The consolidated taxation system is applied.

(Accounting Standards Not Yet Applied)

(Implementation Guidance on Accounting Standard for Tax Effect Accounting, etc.)

Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, amended February 16, 2018, ASBJ)

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, amended February 16, 2018, ASBJ)

(1) Summary

The Implementation Guidance on Accounting Standard for Tax Effect Accounting, etc. has been partially amended as follows keeping in line with the basic content of the practical guideline on tax effect accounting developed by the Japanese Institute of Certified Public Accountants which was handed over to ASBJ.

(Major treatments subject to changes in accounting method)

・ Treatment of taxable temporary differences relating t shares, etc., of subsidiaries in non-consolidated financial statements

・ Treatment in relation to the recoverability of deferred tax assets for companies in (Category 1)

(2) Planned date of application
We plan to apply the standards as of the beginning of the fiscal year ending September 2019.

(3) Impact of application of said accounting standards

The impacts from the application of the Implementation Guidance on Accounting Standard for Tax Effect Accounting, etc., on the consolidated financial statements are currently under evaluation.

(Application of Accounting Standards for Revenue Recognition, etc.)

・ Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, ASBJ)

・ Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018, ASBJ)

(1) Summary

The International Accounting Standards Board (IASB) and the U.S, Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard on the recognition of revenue and issued the "Revenue From Contracts With Customers" (IASB's IFRS 15 and FASB's Topic 606) in May 2014. IFRS 15 has been adopted from the fiscal year beginning after January 1, 2018, and Topic 606 has been adopted from the fiscal year beginning after December 15, 2017. In line with this adoption, ASBJ developed a comprehensive accounting standard on the recognition of revenue and issued it together with the implementation guidance.

The basic approach in developing the accounting standard on the recognition of revenue was to set forth the accounting standards that incorporates the basic principles of IFRS 15 so as to allow comparability among financial statements which is an advantage to ensure consistency with IFRS 15, and to add alternative treatments to the extent not to compromise such comparability in case there are matters to be considered with respect to practices that have been conducted in Japan up to date.

(2) Planned date of application

We plan to apply the standards as of the beginning of the fiscal year ending September 2022.

(3) Impact of application of said accounting standards

The impacts from the application of the Accounting Standard for Revenue Recognition, etc., on the consolidated financial statements are currently under evaluation.

(Notes to Consolidated Balance Sheets)

*1. Accumulated depreciation of property, plants and equipment

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
	21,859 million yen	22,141 million yen

*2. Items pertaining to affiliated companies are as follows:

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Investment securities (shares)	272 million yen	284 million yen

(Notes to Consolidated Statements of Income)

*1. Major items included in selling, general and administrative expenses are as follows:

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Salaries	10,196 million yen	10,706 million yen
Provision for bonuses	2,610	2,709
Retirement benefit expenses	513	767
Depreciation	584	688
Rent expenses	2,066	2,105
Research and development expenses	106	82

*2. Total amount of research and development expenses included in general administrative expenses

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
	106 million yen	82 million yen

*3. Breakdown of gains on sale of non-current assets is as follows:

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Machinery, equipment & vehicles	0 million yen	1 million yen
Tools, furniture and fixtures	2	1
Total	2	3

*4. Breakdown of losses on sale of non-current assets is as follows:

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Machinery, equipment & vehicles	—	3 million yen

*5. Breakdown of losses on retirement of non-current assets is as follows:

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Buildings and structures	1 million yen	0 million yen
Tools, furniture and fixtures	2	4.
Intangible Assets	—	4.
Other (Investments and other assets)	0	—
Total	3	9

*6. Impairment losses

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

The Group recorded an impairment loss for the following asset group for the current consolidated fiscal year:

Location	Usage	Class	Impairment losses (Millions of yen)
Shinjuku-ku, Tokyo, etc.	Idle assets	Telephone subscription rights	0

The Group, in principle, groups its business assets based on management accounting units, and idle assets are grouped by types of asset.

For the current consolidated fiscal year, the book values of idle assets not used for business purposes were reduced to recoverable amounts, and such reduced amounts were recorded as impairment losses (0 million yen) under extraordinary losses.

Recoverable amounts were measured based on the net selling prices. Telephone subscription rights were evaluated based on their expected disposal prices.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

The Group recorded an impairment loss for the following asset group for the current consolidated fiscal year:

Location	Usage	Class	Impairment losses (Millions of yen)
Shinjuku-ku, Tokyo, etc.	Idle assets	Telephone subscription rights	0

The Group, in principle, groups its business assets based on management accounting units, and idle assets are grouped by types of asset.

For the current consolidated fiscal year, the book values of idle assets not used for business purposes were reduced to recoverable amounts, and such reduced amounts were recorded as impairment losses (0 million yen) under extraordinary losses.

Recoverable amounts were measured based on the net selling prices. Telephone subscription rights were evaluated based on their expected disposal prices

(Notes to Consolidated Statements of Comprehensive Income)

*1. Reclassification adjustments and tax expense or benefits on other comprehensive income

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Valuation difference on available-for-sale securities:		
Increase/decrease during the fiscal year	1,396 million yen	439 million yen
Reclassification adjustments	(0)	—
Amount before tax	1,396	439
Tax effect	(426)	(135)
Valuation difference on available-for-sale securities	970	304
Share of other comprehensive income of associates accounted for using the equity method:		
Increase/decrease during the fiscal year	0	0
Share of other comprehensive income of associates accounted for using the equity method	0	0
Total other comprehensive income	971	304

(Notes to Consolidated Statements of Changes in Equity)

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

1. Type and number of issued stocks and treasury stock

	Number of shares at beginning of current consolidated FY (hundreds of shares)	Increase in number of shares during current consolidated FY (hundreds of shares)	Decrease in number of shares during current consolidated FY (hundreds of shares)	Number of shares at end of current consolidated FY (hundreds of shares)
Issued shares				
Common stock	267,310	—	—	267,310
Total	267,310	—	—	267,310
Treasury stock				
Common stock (Note)	1,797	2,024	305	3,517
Total	1,797	2,024	305	3,517

(Note) The 2,024 hundreds of share increase in common treasury stock resulted from a 2,017 hundreds of share increase of shares through acquisition of treasury stock based on resolution of the Board of Directors, and a 7 hundreds of share increase due to purchase of fractional unit shares.
The 305 hundreds of share decrease in common treasury stock resulted from decrease due to exercise of stock options.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Description of subscription rights to shares	Type of shares to be issued upon exercise of rights	Number of shares to be issued upon exercise of rights (shares)				Balance at end of current consolidated fiscal year (Millions of yen)
			Beginning of current consolidated fiscal year	Increase during current consolidated fiscal year	Decrease during current consolidated fiscal year	End of current consolidated fiscal year	
The Company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	178
Total		—	—	—	—	—	178

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of cash dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
December 22, 2016 Ordinary General Meeting of Shareholders	Common stock	1,062	40	September 30, 2016	December 26, 2016
May 10, 2017 Meeting of the Board of Directors	Common stock	1,060	40	March 31, 2017	June 12, 2017

(2) Of the dividends with record dates during this consolidated fiscal year, those with effective dates in the following consolidated fiscal year

Resolution	Type of shares	Total amount of cash dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
December 22, 2017 Ordinary General Meeting of Shareholders	Common stock	1,582	Retained earnings	60	September 30, 2017	December 25, 2017

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

1. Type and number of issued stocks and treasury stock

	Number of shares at beginning of current consolidated FY (hundreds of shares)	Increase in number of shares during current consolidated FY (hundreds of shares)	Decrease in number of shares during current consolidated FY (hundreds of shares)	Number of shares at end of current consolidated FY (hundreds of shares)
Issued shares				
Common stock	267,310	—	—	267,310
Total	267,310	—	—	267,310
Treasury stock				
Common stock (Note)	3,517	8	—	3,525
Total	3,517	8	—	3,525

(Note) The 8 hundreds of share increase in common treasury stock resulted from a 8 hundreds of share increase due to purchase of fractional unit shares.

2. Subscription rights to shares and treasury subscription rights to shares

Category	Description of subscription rights to shares	Type of shares to be issued upon exercise of rights	Number of shares to be issued upon exercise of rights (shares)				Balance at end of current consolidated fiscal year (Millions of yen)
			Beginning of current consolidated fiscal year	Increase during current consolidated fiscal year	Decrease during current consolidated fiscal year	End of current consolidated fiscal year	
The Company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	235
Total		—	—	—	—	—	235

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of cash dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
December 22, 2017 Ordinary General Meeting of Shareholders	Common stock	1,582	60	September 30, 2017	December 25, 2017
May 2, 2018 Meeting of the Board of Directors	Common stock	1,319	50	March 31, 2018	June 11, 2018

(2) Of the dividends with record dates during this consolidated fiscal year, those with effective dates in the following consolidated fiscal year

Resolution	Type of shares	Total amount of cash dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
December 21, 2018 Ordinary General Meeting of Shareholders	Common stock	1,450	Retained earnings	55	September 30, 2018	December 25, 2018

(Notes to Consolidated Statements of Cash Flows)

*1. Relationship between the ending balance of cash and cash equivalents and account items stated in the consolidated balance sheets

	Previous consolidated fiscal year (Started October 1, 2016 Ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017 Ended September 30, 2018)
Cash and deposits	20,039 million yen	22,268 million yen
Time deposits with deposit period greater than three months	(3,000)	(3,000)
Cash and cash equivalents	17,039	19,268

(Lease Transactions)

1. Finance lease transactions (Lessee)

Finance lease transactions that do not involve transfer of ownership

1) Description of lease assets

Property, Plants & Equipment

Mainly include machinery and equipment, tools, furniture and fixtures.

2) Depreciation of lease assets

Lease assets are amortized in accordance with the basis of presenting the consolidated financial statements as described in 4. Accounting Policies, (2) Depreciation of major depreciable assets.

2. Operating lease transactions (Lessee)

Unexpired lease payments for non-cancellable operating lease transactions

(Unit: Millions of yen)

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Within one year	157	166
After one year	263	328
Total	421	494

3. Amounts of sublease transactions that are recorded in the consolidated balance sheets in amounts before deduction of interests

(1) Lease investment assets

(Unit: Millions of yen)

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Current assets	269	290
Investments and other assets	459	350

(2) Lease obligations

(Unit: Millions of yen)

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Current liabilities	269	290
Fixed liabilities	459	350

(Financial Instruments)

1. Status of financial instruments

(1) Policy for the handling of financial instruments

The Group manages its funds in the form of low risk, highly safe financial assets such as bank deposits and bonds. It is the policy of the Group not to enter into derivative transactions for speculative trading purposes.

(2) Description of financial instruments, risks and risk management policies

Notes and accounts receivable resulting from operating activities of the Company are exposed to credit risk of the customers. To reduce credit risk, the Company manages such risk as appropriate based on payment terms and credit ratings of customers in accordance with internal credit management regulations.

Investment securities are exposed to market fluctuation risk, and the Company periodically checks the fair values and financial conditions of issuing bodies and conducts reviews of its holdings on an ongoing basis. Long-term deposits include deposits with special provisions concerning early termination (callable certificates of deposit).

The majority of trade payables and accounts payable resulting from operating activities are due within three months.

(3) Supplementary information on fair value of financial instruments

The fair value of financial instruments is based on quoted market prices or on reasonable calculations in the absence of market quotations. Since certain assumptions that contain fluctuation factors were used in estimating the fair value, results may fluctuate when a different set of assumptions is used.

2. Fair value of financial instruments

The book value in consolidated balance sheets, fair value and differences are as follows. Financial instruments for which the fair value is extremely difficult to measure are not included. (See Note 2.)

Previous consolidated fiscal year (September 30, 2017)

	Book value in consolidated balance sheets (Millions of yen)	Fair value (Millions of yen)	Differences (Millions of yen)
(1) Cash and deposits	20,039	20,039	—
(2) Notes and accounts receivable	6,555		
Provisions for bad debts	(33)		
	6,521	6,521	—
(3) Investments securities	23,230	23,230	—
(4) Long-term deposits	6,000	5,999	(0)
Total assets	55,790	55,790	(0)
(1) Accounts payable- trade	2,392	2,392	—
(2) Accounts payable - other	2,918	2,918	—
Total liabilities	5,311	5,311	—

Current consolidated fiscal year (September 30, 2018)

	Book value in consolidated balance sheets (Millions of yen)	Fair value (Millions of yen)	Differences (Millions of yen)
(1) Cash and deposits	22,268	22,268	—
(2) Notes and accounts receivable	7,690		
Provisions for bad debts	(35)		
	7,654	7,654	—
(3) Investments securities	23,638	23,638	—
(4) Long-term deposits	6,000	5,999	(0)
Total assets	59,562	59,562	(0)
(1) Accounts payable- trade	2,824	2,824	—
(2) Accounts payable - other	2,805	2,805	—
Total liabilities	5,629	5,629	—

(Notes) 1. Methods of calculating the fair value of financial instruments and securities transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable

The book value approximates the fair value because of the short maturity of these instruments.

(3) Investments securities

The fair value of equity securities is based on quoted market prices on the stock exchange; and the fair value of bonds is based on the market prices quoted on the stock exchange or provided by financial institutions. These securities categorized by purpose of holding are described further in the Notes on Securities.

(4) Long-term deposits

The fair value of long-term deposits is estimated based on the present value discounted using the interest rate applicable to new deposits in the total amount of principal and interest, and on the fair market value provided by financial institutions for the derivative portions.

Liabilities

(1) Accounts payable - trade, (2) Accounts payable - other

The book value approximates the fair value because of the short maturity of these instruments.

2. Financial instruments for which the fair value is extremely difficult to measure

(Unit: Millions of yen)

Category	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Other securities (unlisted equity securities)	156	102
Stocks of subsidiaries and affiliates	272	284
Total	429	387

The fair value of these financial instruments are deemed to be extremely difficult to measure since quoted market value is not available and future cash flows cannot be reliably estimated, and thus the above are not included in "(3) Investments in securities" for the previous consolidated fiscal year nor in "(3) Investments in securities" for the current consolidated fiscal year.

3. Redemption scheduled for monetary claims and securities with maturity dates subsequent to the consolidated settlement date

Previous consolidated fiscal year (September 30, 2017)

	Within 1 year (millions of yen)	Over 1 year and within 5 years (millions of yen)	Over 5 years and within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	20,034	—	—	—
Notes and accounts receivable	6,555	—	—	—
Investments securities				
Corporate bonds	—	2,000	2,500	14,000
Long-term deposits	—	6,000	—	—
Total	26,590	8,000	2,500	14,000

Current consolidated fiscal year (September 30, 2018)

	Within 1 year (millions of yen)	Over 1 year and within 5 years (millions of yen)	Over 5 years and within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	22,263	—	—	—
Notes and accounts receivable	7,690	—	—	—
Investments securities				
Corporate bonds	—	2,000	2,500	14,000
Long-term deposits	—	6,000	—	—
Total	29,953	8,000	2,500	14,000

(Securities)

1. Other securities

Previous consolidated fiscal year (September 30, 2017)

	Class	Book value in consolidated balance sheets (Millions of yen)	Original purchase value (Millions of yen)	Differences (Millions of yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	4,936	3,646	1,289
	(2) Bonds			
	Corporate bonds	—	—	—
	Subtotal	4,936	3,646	1,289
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	—	—	—
	(2) Bonds			
	Corporate bonds	18,293	18,679	(385)
	Subtotal	18,293	18,679	(385)
Total		23,230	22,326	903

(Note) Unlisted shares (156 million yen in the consolidated balance sheets) are not included under "Other securities" in the table above since quoted market value is not available and is deemed to be extremely difficult to measure.

Current consolidated fiscal year (September 30, 2018)

	Class	Book value in consolidated balance sheets (Millions of yen)	Original purchase value (Millions of yen)	Differences (Millions of yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	5,336	3,647	1,688
	(2) Bonds			
	Corporate bonds	—	—	—
	Subtotal	5,336	3,647	1,688
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	—	—	—
	(2) Bonds			
	Corporate bonds	18,302	18,647	(344)
	Subtotal	18,302	18,647	(344)
Total		23,638	22,295	1,343

(Note) Unlisted shares (102 million yen in the consolidated balance sheets) are not included under "Other securities" in the table above since quoted market value is not available and is deemed to be extremely difficult to measure.

2. Other securities sold

None to be disclosed.

3. Securities for which impairment losses are recognized

For the current fiscal year, the Group recorded an impairment loss of 53 million yen on securities (53 million yen on shares of other securities).

In recording the impairment loss, if the market value at year-end has dropped more than 50% compared to the original purchase value, the entire amount has been recorded as impairment loss; if the market value has dropped about 30-50%, the amount deemed necessary considering the recoverability has been recorded as impairment loss.

(Derivatives)

1. Derivative transactions for which hedge accounting is not applied

   None to be disclosed.

2. Derivative transactions for which hedge accounting is applied

   None to be disclosed.

(Retirement Benefits)

1. Overview of the retirement benefit system in use

The Company and its two consolidated subsidiaries have contributory and non-contributory defined benefit retirement plans (retirement lump-sum plan) and a defined contribution pension plan to cover retirement benefits to employees.

In addition, one consolidated subsidiary plans to adopt the defined benefit retirement plans (retirement lump-sum plan) starting October 2018.

Under the retirement lump-sum plan, the Company pays a lump-sum retirement benefit based on employees' salary and period of service. The Company establishes a retirement benefit trust for the retirement lump-sum plan.

Although the Company is a member of a multiemployer pension plan called the Japan Computer Information Service Employees' Pension Fund, the portion of pension assets that the Company contributes is recognized similar to the defined benefit plan because the amount cannot be reasonably calculated.

Because the Japan Computer Information Service Employees' Pension Fund, of which the Company was a member, dissolved as of July 1, 2017 by approval of the Minister of Health, Labour and Welfare, the Company transferred its membership to a corporate pension plan which was newly established as a succeeding plan (under the new Japan Computer Information Service Employees' Pension Fund) as of the same date.

2. Defined benefit retirement plan

(1) Adjustment of balance of retirement benefit obligations at the beginning and end of fiscal years

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Retirement benefit obligations at beginning of year	5,512 million yen	5,595 million yen
Service costs	321	389
Interest costs	—	—
Actuarial differences	(106)	15
Retirement benefits paid	(131)	(114)
Amount of past service costs accrued	—	71
Balance of retirement benefit obligations at end of year	5,595	5,957

(2) Adjustment of balance of pension assets at the beginning and end of fiscal years

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Balance of pension assets at beginning of year	3,929 million yen	3,927 million yen
Expected returns	—	—
Actuarial differences	(2)	(6)
Contributions by employer	—	—
Retirement benefits paid	—	—
Balance of pension assets at end of year	3,927	3,921

(3) Adjustment of balance of retirement benefit obligations and pension assets at the end of the fiscal years, and net

retirement benefit obligations and assets recognized in the consolidated balance sheets

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Contributory retirement benefit obligations	5,113 million yen	5,390 million yen
Pension assets	(3,927)	(3,921)
	1,186	1,469
Non-contributory retirement benefit liabilities	482	567
Net obligations and assets in the consolidated balance sheets	1,668	2,036
Retirement benefit liabilities	1,668	2,036
Net obligations and assets in the consolidated balance sheets	1,668	2,036

(4) Retirement benefit expenses and breakdown

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Service costs	321 million yen	389 million yen
Interest costs	—	—
Expected returns	—	—
Amount of actuarial differences treated as expenses	(106)	15
Amount of past service costs treated as expenses	—	71
Retirement benefit expenses under the defined retirement benefit plan	215	476

(5) Pension assets

1) Major pension assets

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Bonds	13%	26%
Cash and deposits	87	51
Other Stipulations	—	24
Total	100	100

(Note) All pension assets are the retirement benefit trust established for the Company's defined retirement benefit plan.

2) Basis for expected long-term rate of return on pension assets

The Company has a basic policy to cover the trust expenses with operation profit and does not have an expected long-term rate of return on pension assets.

(6) Basis for actuarial calculations

Basis for major actuarial calculations

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Discount rate	0.00%	0.00%

Expected long-term rate of return	－%	－%
Expected increase in salary	1.00 - 1.85%	1.00 - 1.85%

3. Defined contribution plan

The amount of necessary contributions to the defined contribution plan of the Company and its consolidated subsidiaries was 248 million yen for the previous consolidated fiscal year, and 262 million yen for the current consolidated fiscal year.

4. Multiemployer pension plan

The amounts of necessary contributions to the employees pension fund plan and the corporate pension fund plan under the multiemployer pension plan, which are recognized in the same manner as the defined contribution plan, were 115 million yen in the previous consolidated fiscal year and 117 million yen in the current consolidated fiscal year.

(1) Reserve fund for multiemployer pension plan

1) (Former) Japan Computer Information Service Employees' Pension Fund

	Previous consolidated fiscal year (March 31, 2017)	Current consolidated fiscal year (March 31, 2018)
Pension assets	738,049 million yen	－ million yen
Total of actuarial liabilities based on pension plan finance calculation and minimum policy reserves (Note)	722,844	－
Differences	15,205	－

2) (New) Japan Computer Information Service Employees' Pension Fund

	Previous consolidated fiscal year (March 31, 2017)	Current consolidated fiscal year (March 31, 2018)
Pension assets	－ million yen	238,026 million yen
Actuarial liabilities based on pension plan finance calculation	－	195,467
Differences	－	42,558

(2) Coverage ratio of the Group in the multiemployer pension plan

1) (Former) Japan Computer Information Service Employees' Pension Fund

Previous consolidated fiscal year: 1.63% (Started April 1, 2016; ended March 31, 2017)

2) (New) Japan Computer Information Service Employees' Pension Fund

Current consolidated fiscal year: 1.97% (Started April 1, 2017; ended March 31, 2018)

(3) Supplementary information

The ratio in (2) above does not match the actual self-pay ratio of the Company.

(Stock Option Plans)

1. Expenses related to stock options

(Unit: Millions of yen)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Selling, general and administrative expenses	46	57

2. Description, scale and fluctuation of stock option plans

(1) Details of stock options

	1st subscription rights to shares	2nd subscription rights to shares	3rd subscription rights to shares	4th subscription rights to shares
Position and number of grantees	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors)	10 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 13 Executive Officers	10 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 13 Executive Officers	11 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) Executive Officers
Number of stock options by class (Note)	Common stock: 27,000 shares	Common stock: 37,600 shares	Common stock: 34,400 shares	Common stock: 28,100 shares
Date of grant	March 12, 2012	December 7, 2012	December 9, 2013	December 12, 2014
Conditions for vesting	n/a	n/a	n/a	n/a
Required period of service	Not provided	Not provided	Not provided	Not provided
Period stock options can be exercised	From March 13, 2012 to March 12, 2047	From December 8, 2012 to December 7, 2047	From December 10, 2013 to December 9, 2048	From December 12, 2015 to December 11, 2050

	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares
Position and number of grantees	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 21 Executive Officers	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 22 Executive Officers	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 21 Executive Officers
Number of stock options by class (Note)	Common stock: 18,200 shares	Common stock: 18,100 shares	Common stock: 16,500 shares
Date of grant	December 11, 2015	December 12, 2016	December 10, 2017
Conditions for vesting	n/a	n/a	n/a

Required period of service	Not provided	Not provided	Not provided
Period stock options can be exercised	From December 12, 2015 to December 11, 2050	From December 13, 2016 to December 12, 2051	From December 11, 2017 to December 10, 2052

(Note) Number of stock options is converted to the number of common stock.

(2) Scale and fluctuation of stock options

The following summarizes the stock options that existed during the current consolidated fiscal year (year ended September 2018). Number of stock options is converted to the number of common stock.

1) Number of stock options

	1st subscription rights to shares	2nd subscription rights to shares	3rd subscription rights to shares	4th subscription rights to shares
Before vesting (shares)				
At end of previous consolidated fiscal year	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Balance not vested	—	—	—	—
After vesting (shares)				
At end of previous consolidated fiscal year	12,200	20,000	22,400	19,100
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Balance not vested	12,200	20,000	22,400	19,100

	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares
Before vesting (shares)			
At end of previous consolidated fiscal year	—	—	—
Granted	—	—	16,500
Forfeited	—	—	—
Vested	—	—	16,500
Balance not vested	—	—	—
After vesting (shares)			
At end of previous consolidated fiscal year	16,200	16,000	—
Vested	—	—	16,500
Exercised	—	—	—
Forfeited	—	—	—
Balance not vested	16,200	16,000	16,500

2) Per unit information

	1st subscription rights to shares	2nd subscription rights to shares	3rd subscription rights to shares	4th subscription rights to shares
Exercise price (Yen)	1	1	1	1
Average market price of stock at time of exercise (Yen)	—	—	—	—

Fair value per unit as of grant date (Yen)	1,145	1,032	1,323	1,569

	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares
Exercise price (Yen)	1	1	1
Average market price of stock at time of exercise (Yen)	—	—	—
Fair value per unit as of grant date (Yen)	2,670	2,557	3,477

3. Method used to estimate the fair value of stock options

The fair value of the 7th issue of subscription rights to shares (stock options) granted in the current consolidated fiscal year was measured as follows.

1) Valuation method used The Black-Scholes model

2) Major base figures and estimations

	7th subscription rights to shares (stock options)
Expected volatility of stock (Note 1)	23.624%
Expected option life (Note 2)	7.3 years
Expected dividends (Note 3)	75 yen/share
Risk-free interest rate (Note 4)	(0.054%)

(Notes) 1. Expected volatility of stock is calculated based on the actual stock price data over the 7.3-year period (from August 2010 to December 2017).

2. Expected option life is calculated based on the period of time from the allotment date to the date on which the Directors, Auditors and Executive Officers are expected to lose their status.

3. Expected dividends are based on a total of 75 yen of actual dividends made, consisting of the year-end dividend of 35 yen (after deducting the special dividend of 5 yen in commemoration of the Company's 50th anniversary) for the fiscal year ended September 2016 and the interim dividend of 40 yen for the period ended September 2017.

4. Risk-free interest rate is calculated based on the yield of government bonds having a remaining life equal to the expected option life.

4. Method used to estimate the number of stock options to be vested

Because it is difficult to rationally estimate the number of stock options that will be forfeited in the future, only the actual number of forfeited stock options is used in the estimation.

(Tax Effect Accounting)

1. Major factors of deferred tax assets and deferred tax liabilities

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Deferred tax assets		
Software development costs	2,139 million yen	2,268 million yen
Provisions for bonuses	938	978
Retirement benefit liabilities	528	643
Retirement benefit trust	1,197	1,195
Retirement bonuses for directors payable	18	18
Accrued business tax	108	112
Valuation loss on investment securities	136	154
Legal welfare expenses corresponding to provisions for bonuses	138	145
Asset retirement obligations	107	110
Impairment losses	116	116
Other Stipulations	205	243
Subtotal	5,636	5,988
Valuation allowance	(319)	(349)
Total deferred tax assets	5,317	5,638
Deferred tax liabilities		
Business tax refund	26	—
Retirement expenses corresponding to asset retirement costs	26	26
Valuation difference on available-for-sale securities	264	399
Other Stipulations	0	0
Total deferred tax liabilities	317	426
Net deferred tax assets	5,000	5,211

(Note) Net deferred tax assets for the previous and current consolidated fiscal years are included in the following items in the consolidated balance sheets.

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Current assets - Deferred tax assets	2,046 million yen	2,213 million yen
Non-current assets - Deferred tax assets	2,953	2,998

2. Major items causing significant difference between statutory income tax rate and effective income tax rate after applying tax effect accounting

	Previous consolidated fiscal year (September 30, 2017)	Current consolidated fiscal year (September 30, 2018)
Statutory income tax rate	30.7%	30.7%
(Adjusted)		
Inhabitant tax on per capita basis	0.8	0.8
Entertainment expenses, etc. not deductible for tax purposes	1.3	0.7
Tax credits for salary growth	(2.5)	(2.6)
Other Stipulations	0.0	0.6
Income tax rate after applying tax effect accounting	30.4	30.2

(Asset Retirement Obligations)

Previous consolidated fiscal year (ended September 30, 2017) and current consolidated fiscal year (ended September 30, 2018)

Information has been omitted as it was immaterial.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments
   The Group's reportable segments are components of the Group for which separate financial information is available and which are subject to regular review by management for the purpose of determining the allocation of managerial resources and evaluating business performance.

   The Group has three reportable segments for each of its business divisions: the Accounting Firm Business Division, the Local Governments Business Division, and Printing Business Division.

   Major services and products of each reportable segment are as follows:

   [Accounting Firm BD] (Providing services & products to accounting firms and their clients)

   Information processing service, software and consulting service, sales of office equipment and supplies.

   [Local Governments BD] (Providing services & products to local governments (municipalities, etc.))

   Information processing service, software and consulting service, sales of office equipment.

   [Printing BD]

   Computer-generated business forms, general office forms, data printing services, etc.

2. Methods of calculating net sales, profit or loss, assets and other items by reportable segments

   Accounting methods for reported business segments are largely consistent with that methods described in the "Basis of Presenting the Consolidated Financial Statements" section.

   Profits by reportable segments are figures of operating income of the segments.

   Inter-segment sales and transfers are based on prevailing market values.

3. Information on net sales, profit or loss, assets, and other items by reportable segments

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

(Unit: Millions of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts in consolidated financial statements (Note 2)
	Accounting Firm BD	Local Governments BD	Printing BD			
Net sales						
Sales to outside customers	42,325	13,717	3,662	59,705	—	59,705
Inter-segment sales or transfers	7	0	1,867	1,875	(1,875)	—
Total	42,332	13,718	5,530	61,581	(1,875)	59,705
Segment profit	7,818	576	166	8,561	5	8,567
Segment assets	22,918	9,143	5,813	37,875	47,552	85,428
Other items						
Depreciation (Note 3)	1,068	1,354	294	2,717	(0)	2,716
Investments in affiliated company under the equity method	272	—	—	272	—	272
Increase in property, plants and equipment and intangible assets (Note 3)	1,855	1,753	553	4,163	(0)	4,162

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of 5 million yen include 5 million yen for elimination of inter-segment transactions, -2 million yen for adjustments of non-current assets, and 2 million yen for adjustments of inventory assets.

(2) Adjustments of segment assets of 47,552 million yen include 47,896 million yen of corporate assets that are not allocated to specific reportable segments, and -343 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investments securities).

(3) Adjustments of depreciation of -0 million yen represent to unrealized profits.

(4) Adjustments of increases in tangible fixed assets and intangible fixed assets of -0 million yen represent to unrealized profits.

2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.

3. Increases in depreciation, tangible fixed assets and intangible fixed assets include depreciation long-term prepaid expenses and depreciation of such expenses.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

(Unit: Millions of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts in consolidated financial statements (Note 2)
	Accounting Firm BD	Local Governments BD	Printing BD			
Net sales						
Sales to outside customers	43,781	14,113	3,726	61,621	―	61,621
Inter-segment sales or transfers	35	―	1,871	1,906	(1,906)	―
Total	43,816	14,113	5,597	63,528	(1,906)	61,621
Segment profit	8,501	3	168	8,673	6	8,679
Segment assets	25,801	9,638	6,474	41,913	48,288	90,202
Other items						
Depreciation (Note 3)	1,221	1,172	294	2,688	(1)	2,686
Investments in affiliated company under the equity method	284	―	―	284	―	284
Increase in property, plants and equipment and intangible assets (Note 3)	2,985	1,818	556	5,359	―	5,359

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of 6 million yen include 5 million yen for elimination of inter-segment transactions and 1 million yen for adjustments of non-current assets.

(2) Adjustments of segment assets of 48,288 million yen include 48,706 million yen of corporate assets that are not allocated to specific reportable segments, and -417 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investments securities).

(3) Adjustments of depreciation of -1 million yen represent to unrealized profits.

2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.

3. Increases in depreciation, tangible fixed assets and intangible fixed assets include depreciation long-term prepaid expenses and depreciation of such expenses.

[Related information]

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

1. Information by product and service

Information is omitted since the same information is disclosed under the segment information.

2. Information by geographic area

(1) Net sales

Information is omitted since more than 90% of sales in the Consolidated Statements of Income are sales to outside customers in Japan.

(2) Property, Plants & Equipment

Information is omitted since the Company has no property, plants and equipment in regions outside Japan.

3. Information by major customer

Information is omitted since there are no sales to external customers that account for 10% or more of the sales in the Consolidated Statements of Income.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

1. Information by product and service

Information is omitted since the same information is disclosed under the segment information.

2. Information by geographic area

(1) Net sales

Information is omitted since more than 90% of sales in the Consolidated Statements of Income are sales to outside customers in Japan.

(2) Property, Plants & Equipment

Information is omitted since the Company has no property, plants and equipment in regions outside Japan.

3. Information by major customer

Information is omitted since there are no sales to external customers that account for 10% or more of the sales in the Consolidated Statements of Income.

[Information on impairment losses of fixed assets by reportable segments]

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

(Unit: Millions of yen)

	Reportable segment			Total	Adjustments	Amounts in consolidated financial statements
	Accounting Firm BD	Local Governments BD	Printing BD			
Impairment losses	0	—	—	0	—	0

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

(Unit: Millions of yen)

	Reportable segment	Total	Adjustments	Amounts in

	Accounting Firm BD	Local Governments BD	Printing BD			consolidated financial statements
Impairment losses	0	—	—	0	—	0

[Information on amortization of goodwill and balance of goodwill by reportable segments]

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

None to be disclosed.

[Information on gain on negative goodwill by reportable segments]

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

None to be disclosed.

[Related Parties Information]

1. Related Parties Transactions

(1) Transactions between the Company and related parties

Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)

1) Non-consolidated subsidiaries and affiliated companies of the Company

Type	Company name or name of individual	Address	Capital or investments (Millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated companies	iMobile Inc.	Chiyoda-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development and maintenance of website services.	Loan of funds (Note 1) Receiving of interests (Note 1)	24 1	Loans receivables	122 rights

(Note) 1. Terms of transaction or policies on determining the terms of transaction
The interest rates for the loans are determined in a reasonable manner based on the market interest rates.

2) Directors and major shareholders (individuals only) of the Company

Type	Company name or name of individual	Address	Capital or investments (Millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Director	Hiroshi Ashikawa	―	―	Tax accountant	(Held) Direct (0.0)	Rendering of information processing services	Rendering of information processing services (Note 1-1))	11	Accounts receivable	0
Near relative of director	Masaharu Iizuka (Near relative of Representative Director and Senior Managing Executive Officer, Masanori Iizuka)	―	―	―	(Held) Direct (3.4)	Exercise of subscription rights to shares	Exercise of subscription rights to shares (Note 1-2))	52	―	―
						Acquisition of treasury stock	Acquisition of treasury stock (Note 1-3))	92	―	―
Near relative of director	Runako Iizuka (Near relative of Representative Director and Senior Managing Executive Officer, Masanori Iizuka)	―	―	―	―	Leasing of buildings	Leasing of buildings (Note 1-4))	49	―	―
						Purchase of buildings and land	Purchase of buildings and land (Note 1-5))	620	―	―
Companies in which	Certified public tax	Edogawa-ku,	5	Certified public tax	―	Rendering of information	Rendering of information	10	Accounts receivable	1

directors and near relatives hold majority voting rights	accounting firm Taguchi Partners Kaikei (Note 2)	Tokyo		accounting firm		processing services	processing services (Note 1-1))			
	Certified public tax accounting firm , Aoyama Accounting Firm (Note 3)	Minato-ku, Tokyo	8	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1-1))	23	Accounts receivable	1
	Certified public tax accounting firm Ofuji Accounting Office (Note 4)	Miyagino-ku, Sendai shi, Miyagi	9	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1-1))	15	Accounts receivable	1

(Notes) 1. Terms of transaction or policies on determining the terms of transaction

1) Terms of transaction for the rendering of information processing services are similar to the terms between other counterparts.

2) Exercise of subscription rights to shares shows the stock options granted pursuant to the resolution at the Board of Directors meetings held on February 10, 2012, November 5, 2012, November 12, 2013, November 11, 2014, November 10, 2015, and November 8, 2016, and exercised during the current consolidated fiscal year. The transaction amounts shown are amounts paid-in at the time of exercising the rights multiplied by the number of shares granted under the stock options that were exercised during the current consolidated fiscal year.

3) The prices of shares for the acquisition of treasury stocks were determined based on TSE's off-auction own share repurchase transaction (ToSTNeT-3).

4) Rent expenses were determined based on the result of surveys by real estate agencies on rent expenses of other nearby buildings.

5) The purchase prices of buildings and land were determined by referring to the appraisal values assessed by a real estate appraiser.

2. The company was co-founded by Mr. Misao Taguchi, Director of the Company.

3. The company was co-founded by Mr. Kenji Matsumoto, Auditor of the Company.

4. The company was co-founded by a near relative of Mr. Kazuyuki Sumi, Representative Director, President and Executive Officer of the Company.

5. Consumption taxes are not included in the transaction amounts. Consumption taxes are included in the year-end balance.

Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)

1) Non-consolidated subsidiaries and affiliated companies of the Company

Type	Company name or name of individual	Address	Capital or investments (Millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated companies	iMobile Inc.	Chiyoda-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development and maintenance of website services.	Loan of funds (Note 1) Receiving of interests (Note 1)	150 2	Loans receivables	134

(Note) 1. Terms of transaction or policies on determining the terms of transaction
The interest rates for the loans are determined in a reasonable manner based on the market interest rates.

2) Directors and major shareholders (individuals only) of the Company

Type	Company name or name of individual	Address	Capital or investments (Millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Director	Hiroshi Ashikawa	―	―	Certified public tax accounting firm	(Held) Direct (0.0)	Rendering of information processing services	Rendering of information processing services (Note 1)	10	Accounts receivable	0
Companies in which directors and near relatives hold majority voting rights	Certified public tax accounting firm Taguchi Partners Kaikei (Note 2)	Edogawa-ku, Tokyo	5	Certified public tax accounting firm	―	Rendering of information processing services	Rendering of information processing services (Note 1)	12	Accounts receivable	2
	Certified public tax accounting firm Aoyama Accounting Firm (Note 3)	Minato-ku, Tokyo	8	Certified public tax accounting firm	―	Rendering of information processing services	Rendering of information processing services (Note 1)	21	Accounts receivable	4.
	Certified public tax accounting firm Ofuji Accounting Office (Note 4)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	―	Rendering of information processing services	Rendering of information processing services (Note 1)	15	Accounts receivable	1

(Notes) 1. Terms of transaction or policies on determining the terms of transaction
Terms of transaction for the outsourcing of information processing are similar to the terms between other counterparts.
2. The company was co-founded by Mr. Misao Taguchi, Director of the Company.
3. The company was co-founded by Mr. Kenji Matsumoto, Auditor of the Company.
4. The company was co-founded by a near relative of Mr. Kazuyuki Sumi, Representative Director, President and Executive Officer of the Company.
5. Consumption taxes are not included in the transaction amounts. Consumption taxes are included in the year-end balance.

(2) Transactions with consolidated subsidiaries and related parties to the Company submitting the consolidated financial statements

None to be disclosed.

2. Notes on the parent company and important affiliated companies

(1) Information on the parent company

None to be disclosed.

(2) Summary of financial information of important affiliated companies

None to be disclosed.

(Earnings Per Share Information)

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Net assets per share	2,551.70 yen	2,686.32 yen
Net income per share	229.13 yen	233.46 yen
Diluted net income per share	228.16 yen	232.41 yen

(Note) The basis for calculating net income per share and diluted net income per share is as follows.

	Previous consolidated fiscal year (Started October 1, 2016; ended September 30, 2017)	Current consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)
Net income per share		
Net income attributable to owners of parent (millions of yen)	6,071	6,158
Amount not attributable to common shareholders (millions of yen)	—	—
Net income from common shares attributable to owners of parent (millions of yen)	6,071	6,158
Average number of common shares outstanding (hundreds of shares)	264,962	263,789
Diluted net income per share		
Adjustments to net income attributable to owners of the parent (millions of yen)	—	—
Number of common shares increased (hundreds of shares)	1,126	1,191
(Subscription rights to shares (hundreds of shares))	(1,126)	(1,191)
Outline of diluted shares not included in the calculation of diluted net income per share for not having dilutive effect	――――――――――――	

(Material Subsequent Events)

(Introduction of stock-based remuneration plan, etc.)

At the Meeting of the Board of Directors held on October 31, 2018, the Company resolved to abolish the stock-based compensation stock option scheme and to introduce a new stock-based remuneration plan using a trust (hereinafter the “Plan”). The introduction of the Plan was approved by resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018.

Details are described in Part 4 [Information on the Company] 1 [Information on the Company’s Stock] (8) [Information on Employee Stock Ownership Plan].

5) [Supplementary Schedules]

[Schedule – Corporate Bonds]

None to be disclosed.

[Schedule – Borrowings]

Category	Balance at beginning of year (millions of yen)	Balance at end of year (millions of yen)	Average interest rate (%)	Terms of repayment
Short-term debts	—	—	—	—
Current portion of long-term debts	71	142	0.66	—
Current portion of lease obligations	353	363	—	—
Long-term debts (excluding current portion of long-term debts)	223	580	0.66	From October 5, 2019 to September 10, 2025
Lease obligations (excluding current portion of lease obligations)	746	576	—	From October 9, 2019 to March 22, 2024
Other interest-bearing debts Accounts payable – installment purchases	98	60	0.50	From October 25, 2018 to May 22, 2020
Total	1,495	1,724	—	—

(Notes) 1. The weighted average interest rates applicable to the year-end balance of borrowings are indicated for average interest rates.
2. The average interest rate for lease obligations is not included because the amount of lease obligations in the consolidated balance sheets represents the total amount of lease payment before deducting interest.
3. Repayment of long-term loans, lease obligations (excluding current portion) and other interest-bearing debts (excluding current portion) scheduled within 5 years from the consolidated settlement date is as follows.

	After 1 year but within 2 years (millions of yen)	After 2 years but within 3 years (millions of yen)	After 3 years but within 4 years (millions of yen)	After 4 years but within 5 years (millions of yen)
Long-term loans	142	142	80	71
Lease obligations	247	158	93	64
Other interest-bearing debts	24	—	—	—

[Schedule – Asset Retirement Obligations]

Information has been omitted as it was immaterial.

(2) [Other]

Quarterly financial information for the current consolidated fiscal year

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Current consolidated fiscal year
Sales (Millions of yen)	14,664	30,319	45,289	61,621
Quarterly net income before income taxes (current FY) (Millions of yen)	2,522	4,935	7,667	8,897
Quarterly net income attributable to owners of parent (current FY) (Millions of yen)	1,698	3,298	5,069	6,158
Quarterly net income per share (current FY) (Yen)	64.38	125.05	192.17	233.46

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income per share (Yen)	64.38	60.67	67.11	41.29

2 [Financial Statements, etc.]

(1) [Financial Statements]

1) [Balance Sheets]

(Unit: Millions of yen)

	Previous fiscal year (September 30, 2017)	Current fiscal year (September 30, 2018)
Assets		
Current assets		
Cash and deposits	17,185	18,461
Accounts receivable	*1 5,542	*1 6,758
Lease investment assets	269	290
Merchandise	125	54
Work in progress	243	209
Raw materials and stored items	110	133
Prepaid expenses	328	540
Accounts receivable – other	*1 145	*1 131
Deferred tax assets	1,890	1,970
Other Stipulations	*1 414	*1 302
Provisions for bad debts	(31)	(34)
Total current assets	26,225	28,818
Non-current assets		
Property, Plants & Equipment		
Buildings	5,905	7,226
Structures	138	227
Vehicles	0	0
Tools, furniture and fixtures	1,220	1,383
Land	6,667	6,667
Construction in progress	569	—
Total property, plants and equipment	14,502	15,504
Intangible Assets		
Software	2,683	2,846
Software in progress	953	692
Telephone subscription rights	25	22
Other Stipulations	0	0
Total intangible assets	3,663	3,561
Investments and other assets		
Investments securities	23,250	23,573
Stocks of subsidiaries and affiliates	502	527
Investments in capital	0	0
Long-term loans	*1 80	*1 86
Long-term prepaid expenses	331	200
Deferred tax assets	2,737	2,784
Long-term deposits	6,000	6,000
Guarantee deposits	1,272	1,270
Long-term lease investment assets	459	350
Other Stipulations	9	58
Total investments and other assets	34,643	34,852
Total non-current assets	52,809	53,919
Total assets	79,034	82,737

(Unit: Millions of yen)

	Previous fiscal year (September 30, 2017)	Current fiscal year (September 30, 2018)
Liabilities		
Current liabilities		
Accounts payable – trade	*1 2,252	*1 2,704
Lease obligations	269	290
Accounts payable – other	*1 2,213	*1 2,213
Income taxes payable	1,403	1,605
Accrued business office taxes	53	54
Consumption taxes payable	502	374
Advances received	1,026	708
Deposits received	463	438
Provisions for bonuses	2,810	2,870
Accounts payable – facilities	*1 511	*1 374
Other Stipulations	0	—
Total current liabilities	11,507	11,634
Fixed liabilities		
Lease obligations	459	350
Provisions for retirement benefits	1,186	1,469
Other Stipulations	413	418
Total fixed liabilities	2,059	2,239
Total liabilities	13,567	13,873
Net assets		
Equity		
Capital	5,700	5,700
Capital surplus		
Legal capital surplus	5,409	5,409
Other capital surplus	—	—
Total capital surplus	5,409	5,409
Retained earnings		
Legal retained earnings	688	688
Other retained earnings		
General reserve	48,957	52,257
Retained earnings brought forward	4,900	4,658
Total retained earnings	54,546	57,604
Treasury stock	(964)	(968)
Total equity	64,690	67,745
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	597	882
Total valuation and translation adjustments	597	882
Subscription rights to shares	178	235
Total equity	65,466	68,863
Total liabilities and net assets	79,034	82,737

2) [Profit and Loss Statement]

(Unit: Millions of yen)

	Previous fiscal year (Started October 1, 2016; ended September 30, 2017)	Current fiscal year (Started October 1, 2017; ended September 30, 2018)
Net sales	*1 55,175	*1 56,769
Cost of sales	*1 17,942	*1 18,497
Gross profit	37,233	38,271
Selling, general and administrative expenses	*1, *2 28,978	*1, *2 30,008
Operating profit	8,254	8,263
Non-operating income		
Interest income	*1 31	*1 31
Dividend income	118	*1 168
Land & rent income	*1 39	*1 96
Subsidy income	—	40
Other Stipulations	*1 29	*1 31
Total non-operating income	219	368
Non-operating expenses		
Treasury stock acquisition expenses	0	—
Foreign exchange losses	0	0
Cost of lease revenue	—	53
Total non-operating expenses	0	54
Ordinary income	8,473	8,577
Extraordinary profit		
Gains on sale of non-current assets	2.	1
Gain on reversal of asset retirement obligations	23	—
Total extraordinary profit	25	1
Extraordinary losses		
Loss on retirement of non-current assets	3	9
Loss on retirement of software	15	—
Valuation loss on investment securities	—	53
Impairment losses	0	0
Total extraordinary losses	19	63
Net income before taxes	8,479	8,516
Income taxes - current	2,713	2,808
Income taxes - deferred	(134)	(251)
Total income taxes	2,578	2,556
Net income	5,900	5,959

[Report on cost of sales]

(a) Cost of sales on information processing, software and consulting services

		51st Term (Started October 1, 2016; ended September 30, 2017)			52nd Term (Started October 1, 2017; ended September 30, 2018)		
Category	Note	Amount (Millions of yen)		Ratio (%)	Amount (Millions of yen)		Ratio (%)
I Materials costs			3,375	28.1		3,507	27.5
II Labor costs	*1		2,033	17.0		2,378	18.7
III Expenses							
1. Computer rental expenses		427			352		
2. Maintenance contracts		1,316			1,275		
3. Depreciation		558			554		
4. Repairs and maintenance expenses		640			593		
5. Supplies expenses		1,333			2,034		
6. Other Stipulations		2,308	6,585	54.9	2,039	6,849	53.8
Total expenses			11,994	100.0		12,735	100.0
Works in progress and inventories at beginning of year			69			243	
Transfers from other accounts	*2		1,234			1,137	
Total			13,298			14,115	
Works in progress and inventories at end of year			243			209	
Transfers to other accounts	*3		1,354			1,185	
Cost of sales on information processing, software and consulting services			11,700			12,721	

(Notes) 1. Labor costs include the following provisions. Figures in (parentheses) denote amounts for the previous fiscal year.
Provision for bonuses: 536 million yen (429 million yen)
Retirement benefit expenses: 60 million yen (37 million yen)
2. Transfers from other accounts represent the transfer of depreciation of software.
3. Transfers to other accounts represent the transfer of software development costs into software and software in progress accounts.
4. Costs are determined using job order costing by project.

(b) Cost of sales on office equipment and supplies

		51st Term (Started October 1, 2016; ended September 30, 2017)		52nd Term (Started October 1, 2017; ended September 30, 2018)	
Category	Note	Amount (Millions of yen)	Ratio (%)	Amount (Millions of yen)	Ratio (%)
I Inventories at beginning of year		198	3.1	125	2.2

II Purchases		6,170	96.9	5,704	97.8
Total		6,368	100.0	5,830	100.0
III Inventories at end of year		125		54	
Cost of sales on office equipment and supplies		6,242		5,776	

3) [Statement of Changes in Equity]

Previous fiscal year (Started October 1, 2016; ended September 30, 2017)

(Unit: Millions of yen)

	Equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	5,700	5,409	10	5,419	688	46,557	3,527	50,773
Changes in equity								
General reserve						2,400	(2,400)	—
Dividends of surplus							(2,122)	(2,122)
Net income							5,900	5,900
Acquisition of treasury stock								
Disposal of treasury stock			(10)	(10)			(5)	(5)
Changes in items other than equity (net)								
Total changes in equity	—	—	(10)	(10)	—	2,400	1,373	3,773
Balance at end of year	5,700	5,409	—	5,409	688	48,957	4,900	54,546

	Shareholders' equity		Valuation and translation adjustments			
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Subscription rights to shares	Total equity
Balance at beginning of year	(347)	61,545	(351)	(351)	176	61,370
Changes in equity						
General reserve		—				—
Dividends of surplus		(2,122)				(2,122)
Net income		5,900				5,900
Acquisition of treasury stock	(677)	(677)				(677)

Disposal of treasury stock	59	44				44
Changes in items other than equity (net)			948	948	2.	950
Total changes in equity	(617)	3,145	948	948	2.	4,096
Balance at end of year	(964)	64,690	597	597	178	65,466

Current fiscal year (Started October 1, 2017; ended September 30, 2018)

(Unit: Millions of yen)

	Total shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of year	5,700	5,409	—	5,409	688	48,957	4,900	54,546
Changes in equity								
General reserve						3,300	(3,300)	—
Dividends of surplus							(2,901)	(2,901)
Net income							5,959	5,959
Acquisition of treasury stock								
Changes in items other than equity (net)								
Total changes in equity	—	—	—	—	—	3,300	(241)	3,058
Balance at end of year	5,700	5,409	—	5,409	688	52,257	4,658	57,604

	Total shareholders' equity		Valuation and translation adjustments			
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Subscription rights to shares	Total equity
Balance at beginning of year	(964)	64,690	597	597	178	65,466
Changes in equity						
General reserve		—				—
Dividends of surplus		(2,901)				(2,901)
Net income		5,959				5,959
Acquisition of treasury stock	(3)	(3)				(3)
Changes in items other than equity (net)			284	284	57	342

Total changes in equity	(3)	3,054	284	284	57	3,396
Balance at end of year	(968)	67,745	882	882	235	68,863

[Notes to Financial Statements]

(Principal Accounting Policies)

1. Standards and methods used for the valuation of assets

(1) Standards and methods used for the valuation of securities

a. Stocks of subsidiaries and affiliates

Stated at cost determined by the moving average method

b. Available-for-sale securities

a) Available-for-sale securities with market value

Stated at fair market value based on the quoted market price as of the fiscal year-end (related valuation differences are directly charged or credited to the shareholders' equity, and cost of securities sold is calculated by the moving average method)

b) Available-for-sale securities without market value

Stated at cost determined by the moving average method

(2) Standards and methods used for the valuation of inventory assets

a. Merchandise, raw materials

Cost determined by first-in, first-out method (with balance sheet values reflecting write downs for decreased profitability).

b. Work in progress

Cost determined by cost percentage method or specific identification method and adjusted based on percentage of completion (with balance sheet values reflecting write downs for decreased profitability).

c. Supplies

Last purchase price method (with balance sheet values reflecting write downs for decreased profitability).

2. Depreciation of non-current assets

(1) Property, Plants & Equipment

Calculated based on declining balance method.

Provided, buildings acquired after April 1, 1998 (excluding accompanying facilities), and accompanying facilities and structures acquired after April 1, 2016 are calculated based on straight-line method.

(2) Intangible Assets

a. Software

a) Software for sale

Software for sale are amortized and stated at the higher of amortization based on estimated sales volume in the future, and amortization at a constant periodic rate based on remaining effective life (within 3 years).

b) Software for internal use

Amortized using straight-line method with an estimated in-house useful life of five years.

b. Other intangible assets

Amortized using the straight-line method.

3. Accounting standards for provisions

(1) Provisions for bad debts

In setting aside provisions for possible losses due to uncollectible receivables, provisions are recognized at the amounts calculated based on the historical rate of credit loss with respect to normal receivables, and at the amounts determined in consideration of collectability of individual receivables with respect to doubtful accounts and certain other receivables.

(2) Provisions for bonuses

Provisions for bonuses are recognized based on the estimated amounts of payment.

(3) Provisions for retirement benefits

In setting aside allowances for employees' retirement benefits, retirement benefit obligations and expected pension assets payable as of the end of the current fiscal year are recognized.

a. Method of attributing expected benefits to date

In calculating retirement benefit obligations, expected benefits are attributed to the period up until the end of the fiscal year based on benefit formula standards.

b. Recognizing actuarial differences as expenses

Actuarial differences are recognized as expense for the fiscal year in which they occur.

4. Accounting standards for revenues and expenses

Accounting standards for recognizing revenues and cost of sales of made-to-order software (software development contracts)

(1) Projects for which the progress up to the end of the current fiscal year can be measured reliably

Accounted for by percentage-of-completion method (whereas, the degree of completion is estimated based on the construction cost percentage method)

(2) Other projects

Accounted for upon completion of construction works.

5. Other important matters regarding the preparation of financial statements

(1) Accounting method for consumption taxes and local consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

(2) Application of the consolidated taxation system

The consolidated taxation system is applied.

(Notes to Balance Sheets)

*1. Monetary claims and monetary liabilities on affiliated companies

	Previous fiscal year (September 30, 2017)	Current fiscal year (September 30, 2018)
Short-term monetary claims on affiliated companies	85 million yen	203 million yen
Long-term monetary claims on affiliated companies	80	86
Short-term monetary liabilities on affiliated companies	452	527

(Notes to Income Statements)

*1. Volume of transactions with affiliated companies

	Previous fiscal year (Started October 1, 2016; ended September 30, 2017)	Current fiscal year (Started October 1, 2017; ended September 30, 2018)
Volume of trading transactions		
Net sales	65 million yen	110 million yen
Purchases	2,636	2,701
Operating expenses	1,128	1,786
Volume of non-operating transactions	9	161

*2. The approximate percentages of selling expenses were 55.5% for the previous fiscal year and 53.4% for the current fiscal year; percentages of general and administrative expenses were 44.5% and 46.6%, respectively.

Major items included in selling, general and administrative expenses are as follows.

	Previous fiscal year (Started October 1, 2016; ended September 30, 2017)	Current fiscal year (Started October 1, 2017; ended September 30, 2018)
Salaries	9,316 million yen	9,548 million yen
Provision for bonuses	2,461	2,470
Retirement benefit expenses	474	651
Depreciation	555	602
Rent expenses	1,966	1,982
Research and development expenses	106	82

(Securities)

Stocks of subsidiaries and affiliates (the amounts in the previous fiscal year's were 448 million yen for stocks of subsidiaries and 54 million yen for stocks of affiliates; the amounts in the current fiscal year's balance sheet are 473million yen for stocks of subsidiaries and 54 million yen for stocks of affiliates) are not presented here since quoted market values are not available and are deemed to be extremely difficult to measure.

(Tax Effect Accounting)

1. Major factors of deferred tax assets and deferred tax liabilities

	Previous fiscal year (September 30, 2017)	Current fiscal year (September 30, 2018)
Deferred tax assets		
Software development costs	2,005 million yen	2,115 million yen
Provisions for bonuses	862	875
Provisions for retirement benefits	362	448
Retirement benefit trust	1,197	1,195
Accrued business tax	102	96
Valuation loss on investment securities	174	193
Retirement bonuses for directors payable	17	17
Legal welfare expenses corresponding to provisions for bonuses	128	130
Asset retirement obligations	97	99
Impairment losses	112	112
Valuation difference on available-for-sale securities	205	235
Subtotal	5,267	5,519
Valuation allowance	(346)	(375)
Total deferred tax assets	4,920	5,144
Deferred tax liabilities		
Business tax refund	26	—
Valuation difference on available-for-sale securities	242	367
Retirement expenses corresponding to asset retirement costs	24	22
Other Stipulations	0	0
Total deferred tax liabilities	293	389
Net deferred tax assets	4,627	4,754

2. Major items causing difference between statutory income tax rate and effective income tax rate after applying tax effect accounting

	Previous fiscal year (September 30, 2017)	Current fiscal year (September 30, 2018)
Statutory income tax rate	30.7%	30.7%
(Adjusted)		
Inhabitant tax on per capita basis	0.8	0.8
Entertainment expenses, etc. not deductible for tax purposes	1.3	0.7
Dividends received, etc. to be excluded from gross revenue	(0.1)	(0.2)
Tax credits for salary growth	(2.4)	(2.4)
Other Stipluations	0.0	0.5
Income tax rate after applying tax effect accounting	30.4	30.0

(Material Subsequent Events)

(Introduction of stock-based remuneration plan, etc.)

At the Meeting of the Board of Directors held on October 31, 2018, the Company resolved to abolish the stock-based compensation stock option scheme and to introduce a new stock-based remuneration plan using a trust (hereinafter the “Plan”). The introduction of the Plan was approved by resolution at the 52nd Ordinary General

Meeting of Shareholders held on December 21, 2018.

Details are described in Part 4 [Information on the Company] 1 [Information on the Company's Stock] (8) [Information on Employee Stock Ownership Plan].

4) [Supplementary Schedules]

[Schedule – Tangible Assets]

(Unit: Millions of yen)

Category	Type of asset	Balance at beginning of year	Increase in current year	Decrease in current year	Depreciation in current year	Balance at end of year	Accumulated depreciation
Property, Plants & Equipment	Buildings	5,905	1,706	0	385	7,226	11,050
	Structures	138	107	—	19	227	466
	Vehicles	0	—	—	0	0	44
	Tools, furniture and fixtures	1,220	716	4.	549	1,383	5,516
	Land	6,667	—	—	—	6,667	—
	Construction in progress	569	1,283	1,852	—	—	—
	Total property, plants & equipment	14,502	3,814	1,857	954	15,504	17,077
Intangible Assets	Software	2,683	1,539	0	1,375	2,846	2,918
	Software in progress	953	681	942	—	692	—
	Telephone subscription rights	25	—	3	—	22	—
	Valuation difference on available-for-sale securities	0	—	—	0	0	0
	Total intangible assets	3,663	2,221	946	1,375	3,561	2,919

(Note) Major increase during the current fiscal year were attributable to the following:

Buildings	Acquisition of building and accompanying facilities for TKC Customer Support Center Building	1,487 million yen
Construction in progress	Construction of TKC Customer Support Center Building	1,172 million yen
Software	Development costs of software for sale	366 million yen
	Development costs of software for internal use	1,080 million yen
	Software purchased from outside	93 million yen

[Schedule – Provisions]

(Unit: Millions of yen)

Item	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at end of year
Provisions for bad debts	31	34	31	34
Provisions for bonuses	2,810	2,870	2,810	2,870

(2) [Major Assets and Liabilities]

This item is omitted as information has been disclosed in the consolidated financial statements.

(3) [Other]

None to be disclosed.

Part 6 [Stock-related Administration of the Company]

Fiscal year	From October 1 to September 30
Ordinary General Meeting of Shareholders	December
Record date	September 30
Record dates for dividends of surplus	September 30 March 31
Number of shares in one unit	100 shares
Buyback and increase of shares less than one unit	
Place of handling	(Special account) Mitsubishi UFJ Trust and Banking Corporation, Stock Transfer Agency Division 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Administrator of shareholder registry	Mitsubishi UFJ Trust and Banking Corporation 1-4-5 Marunouchi, Chiyoda-ku, Tokyo
Forwarding office	――――――
Handling charges for buyback and increase	Amount stipulated separately as commission for entrusting sale or purchase of stock
Method of giving public notice	By means of electronic public notice. However, in the event that electronic notice is not possible due to incidents or other unavoidable circumstances, public notices will be posted in the Nihon Keizai Shimbun. TKC's website for public notices: https://www.tkc.jp/
Shareholder privileges	None to be disclosed.

(Note) In accordance with the provisions of TKC Corporation's Articles of Incorporation, holders of shares less than one unit shall have no rights other than: rights listed in the items of Article 189, Paragraph 2 of the Companies Act of Japan; rights to receive allotment of shares for subscription and subscription rights to shares based on the number of shares they hold; and rights to request the sale of shares less than one unit.

Part 7 [Reference Information on the Company]

1 [Information on the Parent Company]

TKC Corporation does not have a parent company as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

2 [Other Reference Information]

TKC Corporation has filed the following documents, originally written in Japanese, between the beginning of the current fiscal year and the filing date of this Annual Securities Report.

(1) Annual Securities Report, Appendices and Confirmation Letter

Fiscal year (51th term) from October 1, 2016 to September 30, 2017, filed to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2017.

(2) Internal Control Report and Appendices

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2017.

(3) Quarterly Securities Reports and Confirmation Letter

First quarter of 52nd term (From October 1, 2017 to December 31, 2017), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on February 13, 2018.

Second quarter of 52nd term (From January 1, 2018 to March 31, 2018), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on May 8, 2018.

Third quarter of 52nd term (From April 1, 2018 to June 30, 2018), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on August 13, 2018.

(4) Extraordinary Reports

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2017.

Extraordinary Report based on Article 19, Paragraph 2, Item 9-2 (Results of Exercise of Voting Rights at General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2018.

Extraordinary Report based on Article 19, Paragraph 2, Item 9-2 (Results of Exercise of Voting Rights at General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

Section 2 [Information on Guarantors, etc. of the Company]

None to be disclosed.

TRANSLATION

Following is an English translation of the Independent Auditors' Report and Internal Control Audit Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

Independent Auditors' Audit Report and Internal Control Audit Report

December 21, 2018

Kabaushiki Kaisha TKC

To: The Board of Directors

Ernst & Young ShinNihon LLC

Designated Limited Liability Partner Executing Partner, Certified Public Accountant	Yasuo Sekiya (Seal)
Designated Limited Liability Partner Executing Partner, Certified Public Accountant	Yuichi Noda (Seal)

[Audit of financial statements]

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, we have audited the consolidated financial statements included in the Accounting Section, namely, the consolidated statements of financial position of TKC Corporation and consolidated subsidiaries for the fiscal year from October 1, 2017 to September 30, 2018, which consists of the consolidated balance sheets, consolidated statements of profit or loss, comprehensive income, change in consolidated equity, consolidated cash flows, and a summary of significant accounting policies, other related notes and consolidated supplementary schedules.

Management's Responsibility 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 designing and operating such internal control as management determines necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TKC Corporation and consolidated subsidiaries as of September 30, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

[Audit of internal control]

Pursuant to the second paragraph of Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan, we have audited management's report on internal control over financial reporting of TKC Corporation as of September 30, 2018.

Management's Responsibility for the Report on Internal Control

The Company's management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair presentation of its report on internal control in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on the management's report on internal control based on our internal control audit as independent auditors. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we plan and perform the internal control audit to obtain reasonable assurance about whether the management's report on internal control is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the result of assessment on internal control over financial reporting in the management's report on internal control. The procedures selected depend on the auditors' judgment, including the significance of effects on reliability of financial reporting. An internal control audit includes, including examining representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management, as well as evaluating the overall presentation of the management's report on internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the management's report on internal control referred to above, which represents that the internal control over financial reporting of TKC Corporation as of September 30, 2018 is effectively maintained, and presents fairly, in all material respects, the result of the assessment of internal control over financial reporting in conformity with the assessments standards for internal control over financial reporting generally accepted in Japan.

Interest

Our firm and the executing partners have no interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End of document

(*)1. The above represents a translation, for convenience only, of the original copy of the Audit Report issued in the Japanese language, which is held in the custody by TKC Corporation (the Company filing this Annual Securities Report).
2. XBRL data is not included in the scope of audit.

TRANSLATION

Following is an English translation of the Independent Auditors' Audit Report filed under the Financial Instruments and Exchange Act of Japan. This report is presented merely as supplemental information.

Independent Auditors' Audit Report

December 21, 2018

Kabaushiki Kaisha TKC

To: The Board of Directors

Ernst & Young ShinNihon LLC

Designated Limited Liability Partner
Executing Partner, Yasuo Sekiya (Seal)
Certified Public Accountant

Designated Limited Liability Partner
Executing Partner, Yuichi Noda (Seal)
Certified Public Accountant

Pursuant to the first paragraph of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, we have audited the financial statements included in the Financial Information Section, namely, the statements of financial position of TKC Corporation for the 52nd fiscal year from October 1, 2017 to September 30, 2018, which consists of the balance sheets, statements of profit or loss, change in equity, and significant accounting policies, other related notes and supplementary schedules.

Management's Responsibility 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 designing and operating such internal control as management determines necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TKC Corporation as of September 30, 2018, and its financial performance for the year then ended in conformity with accounting principles generally accepted in Japan.

Interest

Our firm and the executing partners have no interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End of document

(*)1. The above represents a translation, for convenience only, of the original copy of the Audit Report issued in the Japanese language, which is held in the custody by TKC Corporation (the Company filing this Annual Securities Report).

2. XBRL data is not included in the scope of audit.

[Cover]

[Document filed]	Management's Report on Internal Control
[Applicable law]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Date filed]	December 25, 2018
[Company name]	*Kabaushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Kazuyuki Sumi, President and Representative Director
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Executive Vice President and Representative Director
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

1 [Matters concerning the basic framework for internal control over financial reporting]

Kazuyuki Sumi, President and Representative Director, and Hitoshi Iwata, Chief Financial Officer of TKC Corporation (the "Company"), are responsible for designing and operating effective internal control over financial reporting of the Company, and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in "Establishing the Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Council Opinions)" released by the Business Accounting Council.

Internal control, by nature, may not function effectively due to errors in judgment or negligence of those implementing internal control, or may not respond to unanticipated changes in internal and external environments. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2 [Matters concerning the scope of assessment, assessment date and assessment procedures]

Assessment of internal control over financial reporting was performed as of September 30, 2018, which is the end of this fiscal year, in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we first assessed internal controls which may have material impact on the entire financial reporting on a consolidated basis (entity-level controls), and based on the results of such assessment, we selected the business processes to be assessed. In the process-level assessment, we analyzed the selected business processes, identified key controls that may have material impact on the reliability of the financial reporting, and assessed the design and operation of these key controls to determine the effectiveness of our internal controls.

We determined the required scope of assessment of internal control over financial reporting for the Company as well as its consolidated subsidiaries and equity-method affiliated companies based on the materiality that may affect the reliability of the Company’s financial reporting. The materiality that may affect the reliability of financial reporting was determined by taking into account the materiality of quantitative and qualitative impacts on financial reporting. Based on the results of assessment of entity-level controls conducted for the Company and one of its consolidated subsidiaries, we reasonably determined the scope of assessment of internal controls over business processes. The three other consolidated subsidiaries and two equity-method affiliated companies determined to have insignificant quantitative and qualitative influence on the reliability of financial reporting were not included in the scope of assessment of entity-level controls.

For the purpose of determining the scope of assessment of internal control over business processes, we selected locations and business units to be tested based on the fiscal year’s nets sales (after elimination of transactions between consolidated companies), and companies whose net sales reached two-thirds of total amount on the Company’s consolidated net sales were selected as "Significant Locations/Business Units." At such Significant Locations/Business Units, we included in the scope of assessment, business processes that lead to sales, accounts receivable, purchases and inventories that may have material impact on the business objectives of the Company. Further, in addition to the selected Significant Locations/Business Units, we also included in the scope of assessment, certain business processes having greater likelihood of material misstatements, processes having significant accounts involving estimates and management’s judgment, and processes concerning businesses or operations dealing with high-risk transactions, as business processes that may have material impacts on financial reporting.

3 [Matters concerning the results of assessment]

As a result of the above assessments, the Company determined that the internal control over financial reporting was effective as if the last day of the fiscal year.

4 [Supplementary Information]

None to be disclosed.

5 [Special Notes]

None to be disclosed.

[Cover]

[Document filed]	Written Confirmation
[Applicable law]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director, Kanto Local Finance Bureau
[Date filed]	December 25, 2018
[Company name]	*Kabaushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Kazuyuki Sumi, President and Representative Director
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Executive Vice President and Representative Director
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

1 [Matters Related to Adequacy of Statements Contained in the Annual Securities Report]

Kazuyuki Sumi, President and Representative Director of the Company and Hitoshi Iwata, Chief Financial Officer of the Company hereby confirm that the statements contained in the Annual Securities Report for the 52nd fiscal year (from October 1, 2017 to September 30, 2018) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.