Annual Securities Report

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

Fiscal year	Started October 1, 2018
(53rd Term)	Ended September 30, 2019

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

(E04807)

This report (from the Cover onward) is a print out of the English translation
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[Fiscal year]	53rd term (From October 1, 2018 to September 30, 2019)
[Company name]	*Kabushiki Kaisha TKC*
[Company name in English]	TKC Corporation
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[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)

Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

(1) Consolidated Financial Data, etc.

Fiscal year		49th Term	50th Term	51st Term	52nd Term	53rd Term
Year end		September 2015	September 2016	September 2017	September 2018	September 2019
Net sales	(millions of yen)	54,928	57,750	59,705	61,621	66,120
Ordinary income	(millions of yen)	7,042	7,604	8,792	8,961	9,669
Net income attributable to owners of parent	(millions of yen)	4,011	4,770	6,071	6,158	6,721
Comprehensive income	(millions of yen)	4,149	3,958	7,097	6,517	4,082
Total net assets	(millions of yen)	62,630	64,556	68,892	72,550	73,121
Total assets	(millions of yen)	76,836	81,116	85,428	90,202	96,989
Net assets per share	(yen)	2,304.38	2,374.07	2,551.70	2,686.32	2,724.78
Net income per share	(yen)	151.18	179.65	229.13	233.46	255.52
Diluted net income per share	(yen)	150.63	178.88	228.16	232.41	255.01
Equity ratio	(%)	79.6	77.7	78.8	78.6	73.8
Return on equity	(%)	6.7	7.7	9.3	8.9	9.4
Price earnings ratio	(times)	20.3	17.5	15.1	20.4	18.3
Cash flows from operating activities	(millions of yen)	6,485	9,181	8,123	8,810	10,550
Cash flows from investing activities	(millions of yen)	(4,558)	(7,022)	(4,617)	(4,013)	411
Cash flows from financing activities	(millions of yen)	(1,333)	(2,225)	(3,019)	(2,567)	(3,792)
Cash and cash equivalents at end of year	(millions of yen)	16,619	16,552	17,039	19,268	26,810
No. of employees	(No. of people)	2,500	2,547	2,588	2,625	2,701

(Notes) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; hereinafter the same).

2. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the quarterly net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.

3. The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the current 53rd Term. Accordingly, said accounting standard has been applied retroactively to the key financial data and other indicators for the 52nd Term shown herein.

(2) Financial Data, etc. of the Company

Fiscal year		49th Term	50th Term	51st Term	52nd Term	53rd Term
Year end		September 2015	September 2016	September 2017	September 2018	September, 2019
Net sales	(millions of yen)	+50,957	53,361	55,175	56,769	60,897
Ordinary income	(millions of yen)	7,032	7,665	8,473	8,577	8,972
Net income	(millions of yen)	4,073	4,542	5,900	5,959	6,262
Capital 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)	59,694	61,370	65,466	68,863	70,622
Total assets	(millions of yen)	71,234	75,030	79,034	82,737	88,192
Net assets per share	(yen)	2,243.29	2,304.61	2,474.82	2,601.49	2,686.94
Dividend per share (Of the above, interim dividends per share)	(yen)	71 (33)	80 (40)	100 (40)	105 (50)	110 (55)
Net income per share	(yen)	153.50	171.08	222.67	225.92	238.07
Diluted net income per share	(yen)	152.94	170.34	221.73	224.90	237.59
Equity ratio	(%)	83.6	81.6	82.6	82.9	80.1
Return on equity	(%)	7.0	7.5	9.3	8.9	9.0
Price earnings ratio	(times)	20.0	18.3	15.5	21.0	19.7
Dividend payout ratio	(%)	46.25	46.76	44.91	46.48	46.20
No. of employees	(No. of people)	2,201	2,234	2,269	2,225	2,288
Total shareholder return (Benchmark index: TOPIX total return index)	(%) (%)	145.3 (108.4)	151.8 (103.9)	170.9 (134.3)	236.1 (148.9)	237.7 (133.5)
Stock price - high	(yen)	3,690	3,365	3,530	4,875	5,030
Stock price - low	(yen)	1,841	2,393	2,716	3,305	3,350

(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.
3. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the quarterly net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.
4. The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the current 53rd Term. Accordingly, said accounting standard has been applied retroactively to the key financial data and other indicators for the 52nd Term shown herein.
5. The highest and lowest share prices are based on the market prices on the First Section of the Tokyo Stock Exchange.

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 Yohin 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 Yohin 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 Yohin 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 Kabushiki 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).
September 2015	Acquired 100% ownership of SKYCOM Corporation as wholly-owned subsidiary.
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	Opened System Engineering Center (SEC).
October 2017	Established TKC Customer Support Service Co., Ltd. (currently a consolidated subsidiary).
March 2018	Completed the construction of TKC Customer Support Service building.
October 2018	Tokyo Line Printer Company changed the company name to TLP Corporation.
March 2019	Became the first company to acquire certification under the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) for its financial accounting systems that are offered to the clients of accounting firms.
September 2019	Acquired 100% ownership of TKC Shuppan Corporation as wholly-owned subsidiary.
September 2019	Established a voluntary Nomination and Compensation Advisory Committee.

3 [Description of Business]

The TKC Group (TKC Corporation and affiliated companies) consists of the Company, six subsidiaries and one affiliated company. 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 Financial Statements under Part 5 Financial Information, 1. Consolidated Financial Statements, etc., (1) Consolidated Financial Statements.

1 Accounting Firm Business Division

Key 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. TLP Corporation, 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, a subsidiary of the 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 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.

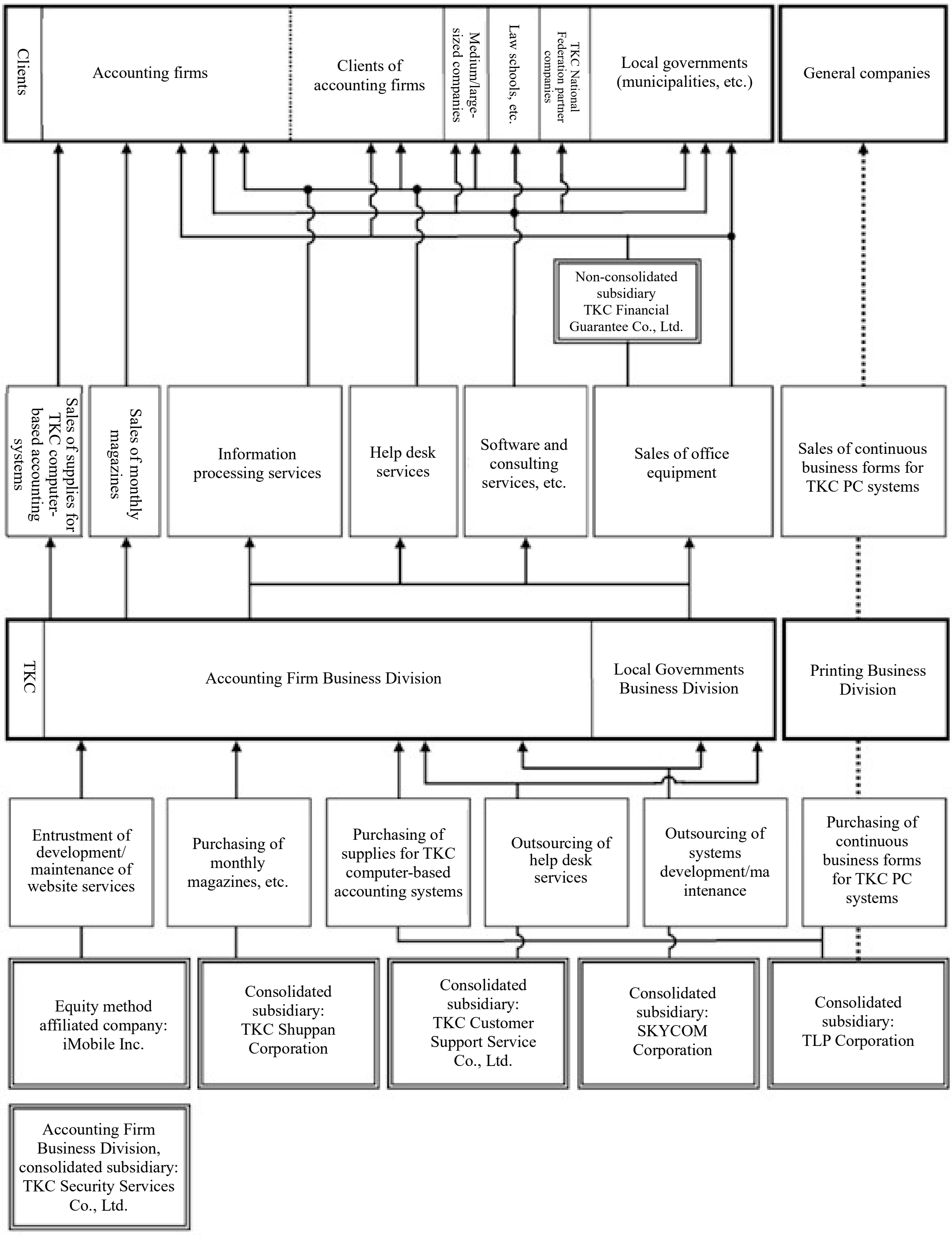
2 Local Governments Business

Key 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 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. TLP Corporation, 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

Key products	Positioning of the Company and affiliated companies
Continuous business forms for PCs, general office forms, data printing services, brochures, etc.	(Manufacturing and sales) TLP Corporation, 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
TLP Corporation	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.
TKC Shuppan Corporation	Chiyoda-ku, Tokyo	83	Production of monthly magazines, etc.	100.0	Purchasing of monthly magazines, etc. Executive positions are held concurrently.

(Notes) 1. TLP Corporation is a specified subsidiary. Effective as of October 1, 2018, the company name was changed from Tokyo Line Printer Company aiming to enhance its DPS operation and expand its sales channels westward beyond the Kansai region.
2. As of September 24, 2019, a share exchange was conducted with the Company as the wholly owning parent company and TKC Shuppan Corporation as the wholly owned subsidiary company, thereby making TKC Shuppan Corporation a wholly owned subsidiary of the Company.
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
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, 2019

Name of segment	Number of employees
Accounting Firm BD	1,660
Local Governments BD	594
Printing BD	186
Corporate (shared)	261
Total	2,701

(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, 2019

Number of employees	Average age (years)	Average years of service (years)	Average annual salary (yen)
2,288	39.5	16.1	7,291,333

Name of segment	Number of employees
Accounting Firm BD	1,480
Local Governments BD	576
Corporate (shared)	232
Total	2,288

(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 Faced by the Company]

1. Management Policy, Economic Environment and Challenges Faced by the Company

(1) Management policy, management strategy

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."

(i) Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms

(ii) 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.

(2) Business environment

There are various changes in the business climate surrounding the Company, but in particular, revisions to the laws and advancements in ICT have the greatest impacts on the products and services offered by the Company.

Legal reforms to which we must respond include the revised Consumption Tax Act, the JIIMA certification system under the Electronic Books Maintenance Act, electronic filing of income taxes now mandated to large corporations, digitalization of administrative operations (the Digital Administrative Procedures Act), and standardized local public accounting.

Advancements in ICT such as cloud computing, FinTech, AI and RPA continue to evolve rapidly.

We believe it is critical to become responsive to these changes in the environment and reflect such knowledge in the products and services offered by the Company.

(3) Challenges faced by the Company

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

The Company provides support for the operation of accounting firms and local governments by achieving complete compliance with relevant laws and regulations and offering systems developed based upon the latest ICT. As such, the Company will continue to enhance system developments that will enable us to promptly respond to revisions to such laws and regulations.

(ii) 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.

In particular, the Company established and launched a Group governance system in response to the Practical Guidelines for Group Governance System formulated by the Ministry of Economy, Trade and Industry (METI) in June 2019.

(iii) Fostering an organizational culture that bolsters job satisfaction

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

(iv) 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.

(v) Rapid response to system failure

In the rare event that the Company's system fails, the Company will strive to respond rapidly to investigate the impacts on all users and report the results, as well as establish a system to provide 100% support to afflicted users.

(vi) Efforts toward information security

The Group always provides various 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) in order to develop a technical environment that enables our customers to 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. Management Policy, Economic Environment and Challenges Faced by the Accounting Firm Business Division

(1) Management policy, management strategy

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 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, which consists of certified public tax accountants and certified public accountants that are customers of TKC (11,400 members).

TKCNF announced its 3-year activity policy from 2019 to 2021 as follows based on the policy agenda in view of its 50th anniversary (in 2021).

[Activity policy to change society with the TKC brand]

(i) Promote Shomen-tempu (attachment of tax audit reports) by the TKC methods (FY2019 year-end target: Corporate Shomen-tempu by 134,000 companies)

(ii) Promote TKC Monitoring Information Service (FY2019 year-end target: 120,000 companies, 240,000 cases)

(iii) Promote self-accounting practice by the TKC methods (FY2019 year-end target: 277,000 companies)

Based on the activity policy of TKCNF, the Company conducts activities to achieve its strategic targets for FY2019.

In addition, the Company supports the expansion of clients of TKC Members by providing tax and accounting systems for listed companies and other large enterprises in close collaboration with the TKCNF's Medium and Large-size Support Research Committee and the Overseas Deployment Support Research Committee.

(2) Economic environment

Starting on October 1, 2019, the standard rate of consumption tax was changed to 10% and at the same time, a reduced tax rate of 8% was introduced. However, the proportions of distribution of the old 8% tax rate and the reduced 8% tax rate to local consumption tax are different. Therefore, it is necessary to distinguish these two 8% clearly in the book. Furthermore, with regard to invoices issued by companies, a new Qualified Invoice Preservation Method will be introduced starting on April 1, 2021 in place of the Classified Invoice Preservation Method. There will be more requirements in issuing invoices and more items to record in the book, and businesses need to register as Registered Business Operator. For clients of accounting firms, the consumption tax reform is not just about revision of the tax rate, but involves various factors including issuing of invoices, changes in accounting systems, changes in register system, and employee training.

Also, the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) began as of September 30, 2019. The process of approval application to the tax authorities is greatly simplified for users of a certified software. The JIIMA Certification System is a system under which accounting software vendors ask JIIMA in advance to check whether their commercial software complies with the requirements of the Electronic Books Maintenance Act of Japan, and JIIMA issues a certificate for the software that meet such requirements. As such, users who begin using a certified software do not have to provide evidence on whether they meet the function requirements of the Electronic Books Maintenance Act, and can begin using it only by registering such software.

Meanwhile, under the FY2018 tax reforms, large enterprises with a capital of 100 million yen or greater will be mandated to use electronic filing of income taxes starting from the fiscal year beginning after April 1, 2020. Also for local taxes, certain corporations including large enterprises with a capital of 100 million yen or greater, must file the tax returns and attachments for corporate inhabitant tax and corporate income taxes through an electronic data processing system. The Company considers such legal and social system reforms as an opportunity to develop markets and to expand the client base of TKC Members.

(3) Challenges faced by the Accounting Firm BD

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.

(i) 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.

1) 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 fully compatible links to related tax information systems while maintaining complete compliance with laws, regulations and accounting standards in our financial accounting systems. 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.

2) 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.

(ii) 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 any retroactive insertions, deletions and corrections which may lead to falsification of accounting data.

(iii) 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.

(iv) Increase of user base of TKC Law Library

The Company will increase the convenience of users by enhancing the functions and contents of LEX/DB Internet and Publishers’ Database consisting the TKC Law Library. Through such efforts, we aim to differentiate the TKC Law Library from the services offered by competitors in order to further increase the use by law firms.

3. Management Policy, Economic Environment and Challenges Faced by the Local Governments Business Division

(1) Management policy, management strategy

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.

Also, as a medium- to long-term business vision, the Company established a policy to “contribute to the prosperity and development of local communities by improving administrative efficiency, improving resident services and reducing administrative costs through optimal use of TKC systems, and is now in the process of executing the strategies to that end.

(2) Economic environment

Informatization of local governments (municipalities, in particular) is at a major turning point. Their new goal is to become a "smart municipality." Against the backdrop of labor shortages due to declining birthrate/aging population and depopulation in the local community, municipalities are facing an important issue of transitioning to a smart municipality that could provide administrative services in a sustainable manner with half the number of staff.

Also on May 31, 2019, the Law for Partial Revision to the Act on Use of Information and Communications Technology in Administrative Procedure, etc. for the Improvement of Convenience of Related Parties Engaged in Administrative Procedure Using Information and Communications Technology and for the Promotion of Simplifying and Streamlining Administrative Operations ("Digital Administrative Procedures Act" for short) was promulgated, under which policies for the Three Principles of Digitalization (digital first, once-only and connected one-stop) and Principles of On-line Administrative Procedures were introduced and municipalities are obliged to make best efforts to conduct administrative procedures on-line.

As such, in promoting smart municipalities, it is critical for administrative procedures to go on-line, and to improve efficiency of counter services. At the same time, developing an environment that enables one-stop digital processing of back-of-office tasks related to administrative services from reception, assessment, approval to storing of documents is also an urgent issue. Moreover, because it is inefficient for each municipality to build these essential systems individually, it is expected that demands for shared use on the cloud (local government cloud system) will continue to grow more rapidly.

In addition, while governments and municipalities face increasingly serious financial conditions, reform of administrative and financial services to increase financial transparency, efficiency and appropriateness will continue to gain speed. Thus, it is imperative that municipalities conduct appropriate updates and disclosure of financial documents based on standardized local public accounting, while incorporating public accounting information into their daily financial activities and administrative and financial operations, and further utilizing such information in the budgeting and administrative assessments.

Meanwhile, looking toward the market trends of business vendors supplying for local governments, there has been some major industry reorganization following the so-called "great merger of municipalities in the Heisei era," and since the introduction of the My Number system, more and more vendors are withdrawing from in-house system development and focusing on specific business areas. Trends seem to imply that the world is shifting to a place where only those system suppliers who have the ability to respond flexibly to the changing business environment could survive.

(3) Challenges faced by the Local Governments BD

As corporate effort to achieve smart municipalities and digitalization of administrative services, and to support the reform of administrative and financial services, 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 achieved 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.

(i) We will develop new municipality customers of mission-critical operational systems and further promote government cloud systems to propel digitalization of administrative services and minimize costs;

(ii) We will support the realization of evidence-based policy making (EBPM) based on public accounting information by providing systems that allows analysis of administrative efficiency through multilateral use of financial data;

(iii) We will support the enhancement of convenience of users (governments and residents) through dissemination and expansion of eLTAX-related services and digitization of tax administration;

(iv) We will engage in the development and provision of new, user-oriented administrative service digitization support systems;

(v) We will establish mutual software 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.

4. Management Policy, Economic Environment and Challenges Faced by the Printing Business Division

(1) Management policy, management strategy

The Printing BD operates under the management philosophy to contribute to client companies and their customers by securely providing printed materials. To respond to the diversified needs of clients in the highly advanced information society, from data output to mailing services, the Printing BD offers high added-value services utilizing the latest equipment and technologies. As a good partner to our clients, we will strive to further improve corporate value through the development of a communication environment where printed materials are utilized to convey information.

(2) Economic environment

Our key products, data print services (DPS) and business process outsourcing (BPO) continue to grow each year despite the rise of Internet advertisements and wide-spread digitalization of administrative services. The market is looking upon the creation of a new value called cross-media in which contents are distributed appropriately among different media including paper and digital. We will offer proposals in view of this trend to improve customer satisfaction.

While demands for business forms continue to decline, we will work to expand our shares within the market through elimination and consolidation of facilities and increase in production efficiency.

(3) Challenges faced by the Printing BD

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

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

(ii) With the opening of the Kansai Plant and Kansai sales office, we will explore new business opportunities in the West Japan area to increase sales.

(iii) We will submit proposals combining our analog and digital printing technologies to loyal customers to achieve direct communication with such customers.

(iv) We will handle back-office operations of customers as part of our 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.

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

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

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

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

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

(x) 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.

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

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 regard to the future are based on the Group's decision made as of the end of the current consolidated fiscal year (September 30, 2019).

1. 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.

2. 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.

3. 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.

4. 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 also strengthens its information protection management systems by obtaining accreditations such as ISO/IEC27001 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 services, 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, and 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.

5. 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]

I. Analysis of the Group's consolidated operating results for the current consolidated fiscal year

1. Operating Results across the Group

The consolidated Group comprising of TKC Corporation and its six consolidated subsidiaries recorded a net sales of 66,120 million yen (increased 7.3% year-on-year), operating income of 9,347 million yen (increased 7.7% year-on-year), ordinary income of 9,669 million yen (increased 7.9% year-on-year), and current net income attributable to owners of parent of 6,721 million yen (increased 9.1% 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 with record-breaking figures. This was mainly attributable to increase in sales from computer services and software sales earned by the Accounting Firm Business Division due to increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of ASP1000R electronic tax filing system for corporations in response to the electronic filing of income taxes now mandated to large corporations. The Local Governments Business Division saw increase in sales from computer services resulting from increase in number of organizations using our mission-critical systems, and increase in sales from consulting services related to system renewal projects of the Local Taxes Electronic Filing Support Service (eLTAX).

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

(1) Business activities of the Accounting Firm BD

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 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, which consists of 11,400 certified public tax accountants and certified public accountants (as of September 30, 2019) 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/).

[Activities of the TKC National Federation ("TKCNF")]

TKCNF announced its 3-year activity policy from 2019 to 2021 and strategic targets for FY2019 based on the policy agenda in view of its 50th anniversary (in 2021). The content is as follows:

[Activity policy to change society with the TKC brand]

(i) Promote Shomen-tempu (attachment of tax audit reports) by the TKC methods (FY2019 year-end target: Corporate Shomen-tempu by 134,000 companies)

(ii) Promote TKC Monitoring Information Service (FY2019 year-end target: 120,000 companies, 240,000 cases)

(iii) Promote self-accounting practice by the TKC methods (FY2019 year-end target: 277,000 companies)

In addition, as the initiatives of TKCNF began to draw attention of many financial institutions, the following policies have been launched to take advantage of this opportunity to enhance the managerial infrastructure of TKC Member firms.

(i) Understand and practice the Standards of Conduct for TKC Accountants

(ii) Increase the numbers of Field Auditors and Assistant Field Auditors

(iii) Enhance the managerial advisory services as a Certified Support Agency

[Activities to achieve the strategic goals of the Accounting Firm Business Division]

The Company operates to achieve its strategic targets for FY2019 in collaboration with TKCNF.

(i) Promotion of TKC Monitoring Information Service

During the fiscal year under review, we established the promotion of TKC Monitoring Information Services as our Accounting Firm BD's most important strategic target, and worked towards diffusing the services to TKC Member firms and financial institutions. TKC Monitoring Information Service is a free cloud-based service in which the TKC Members, upon request by the management of their clients, provide to financial institutions such information as monthly trial balance sheets, financial statements and tax returns prepared by TKC Member firms after monthly field audits and monthly settlements. Monthly trial balance sheets will be made available immediately upon completion of the monthly settlement, and financial statements and tax returns are disclosed immediately after the client electronically files its financial documents to the tax authorities.

We promoted the TKC Monitoring Information Service and at the same time, communicated to financial institutions that the reliability of financial statements prepared by SMEs can be verified by the following three documents:

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 Corporation certifies the timeliness in the preparation of accounting books as required under Article 432 of the Companies Act of Japan and the connection between the financial statements and tax returns for the past three years
3) The Chusho Kaikei Yoryo checklist developed by the Japan Federation of Certified Public Tax Accountants' Associations and Japan Federation of Credit Guarantee Corporations

As a result of these activities, the number of financial institutions adopting this Service is increasing rapidly, adopted by 418 financial institutions including all local banks throughout Japan (64 institutions) as of September 30, 2019. This year, more than 150,000 companies provided their financial information to financial institutions through this Service.

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

During the current fiscal year under review, the Company provided TKC Member firms with seminars throughout Japan in order to support compliance with the change of the era name from Heisei to Reiwa, and revisions to the consumption tax law enforced in October 2019. The Company also provided TKC Member firms with information on practical issues that require attention in applying the reduced tax rate and complying with the cashless payment system, and supported them in holding seminars for their clients. We also provide 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. As a result of these activities, the number of FX series users exceeded 270,000 companies as of September 30, 2019.

(iii) Supporting complete compliance with the Electronic Books Maintenance Act of Japan

Under the FY 2018 tax reform, provisions were added in which a tax benefit of 100,000 yen in special reduction for blue income tax returns shall be offered if the declarer 1) is subject to the Electronic Books Maintenance Act of Japan 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 revisions and deletions to the book record, which serves as basis of tax returns in accordance with the Electronic Books Maintenance Act of Japan. We anticipate that the same treatment will be applied to the filing of corporate taxes in the future.

Also, the Company became the first among its competitors to acquire the certification under the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) for its FX series and other systems. The system is described under "(3) Acquisition of certification for electronic books software legal compliance" in the "5. Important Matters with respect to the Company as a Whole" section. Through the promotion of the certified FX series, etc., we support complete compliance with the Electronic Books Maintenance Act of Japan.

(iv) 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 September 2021. The Company is working closely with the New Members Service Committee of TKCNF in soliciting new members to achieve this goal.

During the fiscal year, we solicited new members through seminars held for non-members targeting medium- and large-sized firms as well as certified public tax accountants and certified public accountants who plan to begin private practice.

As a result of these activities, the number of TKC Members totaled approximately 9,700 accounting firms and 11,400 accountants as of September 30, 2019. The difference in numbers of firms and accountants are because some firms have multiple accountants who are members.

[Activities to "support the preparation of highly reliable financial statements based on timely and accurate bookkeeping"]

(i) Support activities for 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 (hereinafter, "Chusho Kaikei Yoryo" (Guidelines for SME Accounting)) formulated in February 2012 with which SME clients should comply.

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 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 processing log data and historical time series data that are automatically saved at the TKC Internet Service Center when TKC Members access our accounting 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.

This service 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 at 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 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 by a one-stop, full line process in a timely manner.

[Expansion into large-scale enterprise market]

By utilizing the TKC systems, the Company contributes to the compliance and rationalization of tax and accounting operations of large enterprises, mainly of listed companies, and is 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.).

Under the FY2018 tax reforms, large enterprises with a capital of 100 million yen or greater will be mandated to use electronic filing of income tax, local taxes and consumption tax starting April 2020. With this reform, large sized companies must file their income tax returns electronically, as well as submit any attachments to the tax returns (financial statements, statement classified by accounting items) in electronic data form. According to statistics of the National Tax Agency, electronic filing of corporate income tax was conducted by 2,085,431 companies in FY2016. While the percentage of companies using the electronic filing system was 79.3%, only 56.9% of large sized companies uses electronic tax filings. This means that many of the large enterprises will be using the electronic filing system for the first time. To enable these companies to switch smoothly to the mandated electronic filing system, the Company released the Guidebook on Complying with Mandatory Electronic Filing on the Company's website and held seminars and offered opportunities to experience electronic tax filing in collaboration with TKCNF's Medium- and Large-sized Companies Support Council (1,349 members as of September 30, 2019). We also entered into alliance agreements with four ERP vendors, working on the development of systems linking to financial statements data. As a result, the number of users of ASP1000R electronic tax filing system for corporations reached 2,700 companies as of September 30, 2019.

We also hosted seminars on complying with the accounting standard for revenue recognition and dealing with non-compliance risks of foreign subsidiaries to propose system consulting services using our systems and TKC Members.

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 3,700 corporate groups as of September 30, 2019. Our taxation-related information systems are adopted by over 88% of the 100 largest Japanese listed companies by sales amount. The market shares among Japanese listed companies reached 30%.

[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 302,000 judicial precedents and decisions as of September 30, 2019, covering all legal fields from precedents, etc. set in the former Supreme Court dating back to 1875 to those most recently published, 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 940,000 bibliographic information references with links to 60 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 Holdings, Inc., and Hanrei Times Holdings Co., Ltd.) with accessible number of information now exceeding 2,620,000 items.

(i) Increase of user base of TKC Law Library

The Company 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).

In the current fiscal year, as a result of active promotional activities towards TKC Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 50,000 IDs and the Library is used by over 21,000 institutions as of September 30, 2019.

(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 Education 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.

Also, starting this fiscal year, we made a full-scale launch of the promotional activities for Civil Service Examination Study Tool for undergraduates and concluded contracts with 25 universities as of September 30, 2019. The Company will continue to expand the number of monitor user universities and promote switching to full use.

(2) Analysis of Accounting Firm BD's operating results

Net sales of the Accounting Firm BD was 45,899 million yen (increased 4.8% year-on-year); operating income was 8,725 million yen (increased 2.6% year-on-year).

(i) Sales from computer services increased by 4.1% year-on-year. This was attributable to the growth in number of users of the FX4 Cloud Integrated Accounting Information System for mid-sized companies, Office Management System (OMS Cloud) for Tax Accounting Firms, and OMS Mobile which allows accounting firms to access and perform works using the OMS from outside the office with a highly secure environment.

(ii) Software sales increased by 3.1% year-on-year. As described above, this is the result of increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of our electronic tax filing system for corporations (ASP1000R) in response to the electronic filing of income taxes now mandated to large corporations.

(iii) Sales from consulting services decreased 3.0% year-on-year. This was due to decrease in revenues from conventional client/server system launch support services and hardware maintenance as a result of growth in the number of users of FX4 Cloud, OMS Cloud and other systems.

(iv) Hardware sales increased by 15.9% year-on-year. This was caused by increasing demands for PC replacements prior to the consumption tax hike and in response to the scheduled termination of Windows 7 support in January 2020.

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

(1) Business activities of the Local Governments BD

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.

(i) Development and provision of mission-critical system-related services

The Japanese government is accelerating its actions to promote the implementation of cloud systems, setting a target to have approximately 1,600 institutions using cloud (of which, approximately 1,100 institutions to be users of local government cloud systems) by the end of 2023.

The Company provides TKC Government Cloud Service to local governments (mainly for municipalities) nationwide. This Cloud Service consists of the TASK Cloud Service which supports 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 that allows the shared use of cloud across Japan, attracting attention from the perspective of a local government cloud system promoted by the Ministry of Internal Affairs and Communications, and is adopted by eight groups for shared use.

In the current fiscal year, we supported municipalities that newly implemented our services and are scheduled for a full-scale launch after autumn of 2019 in enabling smooth system transition, while enhancing the functions of various systems, including compliance with the change of the era name and revisions to the consumption tax law. As a result of the aggressive promotional activities, our mission-critical systems are adopted by over 150 municipalities nationwide as of September 30, 2019.

(ii) Expansion of cloud services for residents

To promote the utilization of My Number Cards, there has been an increase in the number of municipalities introducing or considering adopting the services of Issuance of Certificates at Convenience Store.

In response, the Company provides the TASK Cloud Convenience Store Certificate Issuing System as the system to realize this service. The System has an extensive track record as the first cloud service for municipalities across Japan and has been adopted in over 100 agencies nationwide including government ordinance-designated cities such as Kobe and Kitakyushu as of September 30, 2019.

The TASK Cloud Easy Counter Service System that uses the features of the System is attracting greater attention from the perspective of enhanced resident services and counter service reforms, and is adopted by approximately 10 municipalities as of September 30, 2019.

In the current fiscal year, we worked to enhance the functions of the Easy Counter Service System and conducted active promotional activities for the Convenience Store Certificate Issuing System.

(iii) Support for cloud-based electronic filing of local taxes

The Company is an authorized contractor of the Local Tax Agency, and provides a cloud-based service for the standard systems such as inspection system for eLTAX (local tax portal system) offered by the Agency. We also develop and provide Data Connection Services as our own functionality to connect the individual tax systems with the Agency's platform.

These services are proposed in collaboration with 50 partner companies nationwide with whom we have on-going alliance partner agreements. As a result, the TASK Cloud Local Taxes Electronic Filing Support Service is currently used by more than 770 agencies which account for more than 40% of all prefectures and municipalities as of September 30, 2019.

In the current fiscal year, we supported the preparation to implement the Common Tax Payment System for Local Taxes launched nationwide in October 2019, and engaged in the enhancement of functionalities and active promotional activities for data connection services.

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

Municipalities are required to adopt the system of accrual basis accounting (double entry bookkeeping) to replace 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 current fiscal year, the Company provided support for the preparation of transitional procedures to 13 municipalities undergoing transition of their financial accounting systems starting October 2019 (scheduled to switch in sequence over the next two years), ahead of the 51 agencies (7 cities, 26 towns, 4 villages, and 14 partial-affairs associations) that are members of the Kagoshima Prefecture Municipal Association, Kumamoto Prefecture Municipal Association, Nagasaki Prefecture Municipal Administration Promotion Council, and Kyoto Prefecture Municipal Information Promotion Council. We also engaged in the development and enhancement of various functions to support the visualization and utilization of local public accounting. As a result of the aggressive promotional activities, our public accounting systems are adopted by approximately 250 agencies as of September 30, 2019.

(v) Support for digitalization of administrative services

In May 2019, the Law for Partial Revision to the Act on Use of Information and Communications Technology in Administrative Procedure, etc. for the Improvement of Convenience of Related Parties Engaged in Administrative Procedure Using Information and Communications Technology and for the Promotion of Simplifying and Streamlining Administrative Operations (Digital Administrative Procedures Act) was enacted, which allows all administrative procedures in general to be conducted on-line.

The Company has been working 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 the current fiscal year, our sales, development and operation divisions collaborated under the leadership of the System Planning Department in gathering and communicating information related to the digitalization of administrative services, as well as conducting surveys, research and development of the TASK Cloud My Number Card Issuance Administrative Support System and other systems of support for digitalization of administrative services which support efforts of improving resident services and improving administrative efficiency and standardization.

(2) Analysis of Local Governments BD's operating results

Net sales of the Local Governments BD was 16,413 million yen (increased 16.3% year-on-year); operating income was 425 million yen (increased 422 million yen year-on-year).

The major improvement in operating income over the previous fiscal year was due to absence of purchases such as outsourcing of development tasks in relation to system transition projects of new municipalities that were closed during the previous fiscal year, and from orders for implementation tasks for system renewal projects of the Local Taxes Electronic Filing Support Service (eLTAX).

(i) Sales from computer services increased by 10.5% year-on-year. This was driven by outsourcing services contracts with users of mission-critical systems newly ordered in the previous fiscal year, increased use of TKC data centers, 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.

(ii) Software sales decreased 8.9% year-on-year. This was due to the absence of sales from system revision works in response to legal amendments such as amendments to the My Number, National Health Insurance and long-term care insurance systems which existed in the previous fiscal year.

(iii) Sales from consulting services increased 97.0% year-on-year. This was attributable to new orders for system implementation to mission-critical system users won during the first half, as well as orders for system renewal projects of the Local Taxes Electronic Filing Support Service (eLTAX) and implementation of Common Tax Payment System for Local Taxes.

(iv) Hardware sales increased by 55.4% year-on-year. This was derived from increase in the sales of servers and network devices in relation to the renewal of Registration Network System-related devices.

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

(1) Business activities of the Printing Business BD

The Group's Printing BD operates with the main focus on data print services (DPS) and business form printing.

In the area of DPS, while orders for promotional direct mail productions for private enterprises tend to be in smaller lots, we worked to expand orders by proposing technologies for both offset printing and digital variable data output. For governmental organizations and municipalities, we provided specifications of machines and equipment prior to the bidding process in an aim to ensure the protection of personally identifiable information and accuracy for the service users as well as to provide enhanced services in shorter lead-time. In the area of business form printing, we strived to increase productivity and promote plans for high value-added products.

(2) Analysis of Printing Business BD's operating results

(i) Net sales of the Printing BD was 3,808 million yen (increased 2.2% year-on-year); operating income was 189 million yen (increased 12.4% year-on-year).

(ii) Sales of data printing service (DPS) related products increased by 10.3% year-on-year. This was attributable to winning of greater orders for direct mail productions from private enterprises, stable orders for business process outsourcing projects, orders related to nationwide local elections in April, orders related to the Upper House election in July, orders for notice-related services from municipalities, and orders for notice-related services from extra-governmental organizations.

(iii) Business form-related sales decreased by 1.1% year-on-year. This is due to ongoing decline in demands for business forms in recent years.

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

(1) Establishment of a Nomination and Compensation Advisory Committee

In September 2019, the Company established a voluntary Nomination and Compensation Advisory Committee consisting of Outside Directors and Directors of the Company. Functioning as an advisory body to the Board of Directors, the Committee aims to further enhance the corporate governance system by ensuring that independent Outside Directors etc. are given the opportunity to engage in and provide advice on the decision-making pertaining to the appointment and dismissal of Directors, etc., nomination of candidates and determination of compensation for Directors, etc., and by strengthening the independence, objectivity, and accountability of the Board of Directors.

(2) Acquisition of 100% ownership of TKC Shuppan Corporation as wholly-owned subsidiary

On September 24, 2019, the Company conducted a share exchange and acquired 100% ownership of its affiliated company, TKC Shuppan Corporation as its wholly-owned subsidiary. TKC Shuppan Corporation was established in 1972 for the purpose of engaging in the public relations and publishing activities in order to communicate information to TKC Members and contribute to the rationalization of operations of Member firms and improvement of trust by clients. The Company expects that, by making TKC Shuppan Corporation its wholly owned subsidiary, it can leverage TKC Shuppan's accumulated publishing know-how, and combining them with the Company's business activities and projects, greatly enhance public relations and publishing activities.

(3) Acquisition of certification for electronic books software legal compliance

On March 29, 2019, the Company became the first among its competitors to acquire the certification under the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) for its financial accounting systems (FX2, FX4 Cloud, e21-Meister, etc.) that are offered to the clients of accounting firms. This Electronic Books Software Legal Compliance Certification System is a system under which JIIMA checks whether a commercial software for the bookkeeping and recording for national taxes complies with the requirements of the Electronic Books Maintenance Act of Japan, and issues a certificate for those that meet the legal requirements. Certified financial accounting systems are listed in the National Tax Agency's website.

Companies that wish to use the electronic book maintenance system must apply to the local tax authorities. Conventionally, when applying for electronic books, companies had to declare that the financial accounting systems used by the company comply with the requirements of the Electronic Books Maintenance Act. Under the FY2019 Tax Reforms, companies that use a financial accounting system certified by JIIMA no longer have to make this declaration, reducing the amount of application documents for electronic books by half.

Today, while many financial accounting systems are used by companies in Japan, only a few of them are in total compliance with the Electronic Books Maintenance Act of Japan. The Company considers business entities as taxpayers, and designs its financial accounting systems to comply with the blue income tax return system. We anticipate that our systems will draw greater attention looking forward.

(4) Acquisition of patent for internal audit support functions of Overseas Business Monitor

On January 11, 2019, the Company acquired a patent (Patent No. 6463532) for the internal audit support functions of the Overseas Business Monitor (hereinafter, "OBM").

OBM is a cloud-based service that enables parent companies in Japan to monitor the business results of the Japanese affiliated companies operating abroad (overseas subsidiaries). When an overseas subsidiary extracts its accounting data from the accounting system and uploads it to TISC (the TKC Internet Service Center), the parent company in Japan can check the business results of that overseas subsidiary which are automatically translated from the local language into Japanese or English under standardized account titles.

Furthermore, the OBM is equipped with internal audit support functions that automatically analyzes the accounting data and extracts transactions that appear to be mistaken or falsified. These functions were granted a patent as an invention related to the “Internal Audit Support Device, Internal Audit Support Method, and Internal Audit Support Program.”

(5) Transfer of shares without charge by the Chairman Emeritus of the Company to TKC Members

In March 2019, Masaharu Iizuka, Chairman Emeritus, transferred without charge, the common shares of the Company owned by himself to 222 TKC Members who practice Shomen-tempu (attachment of tax audit reports) pursuant to Article 33-2 of the Certified Public Tax Accountant Act of Japan. This transfer without charge will be conducted for five years from March 2018 to March 2022, transferring up to one million shares of the Company. This was the second transfer following last year’s transfer.

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.

6. Analysis of the Group’s Consolidated Financial Conditions for the Current Consolidated Fiscal Year

(1) Assets

Total assets as of the end of the current consolidated fiscal year amounted to 96,989 million yen, a 6,787 million yen increase compared to 90,202 million yen as of end of the previous consolidated fiscal year.

(i) Current assets

Current assets as of the end of the current consolidated fiscal year amounted to 41,073 million yen, a 9,325 million yen increase from 31,747 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 7,541 million yen increase in cash and deposits, and 1,064 million yen increase in notes and accounts receivable.

(ii) Non-current assets

Non-current assets as of the end of the current consolidated fiscal year amounted to 55,915 million yen, a 2,538 million yen decrease compared to 58,454 million yen as of end of the previous consolidated fiscal year.

This was mainly due to 8,499 million yen decrease in investment securities, despite a 3,500 million yen increase in long-term deposits, 1,803 million yen increase in deferred tax assets, and a 682 million yen increase in long-term lease investment assets.

(2) Liabilities

Total liabilities as of the end of the current consolidated fiscal year amounted to 23,868 million yen, a 6,217 million yen increase compared to 17,651 million yen as of end of the previous consolidated fiscal year.

(i) Current liabilities

Current liabilities as of the end of the current consolidated fiscal year amounted to 16,278 million yen, a 2,322 million yen increase from 13,955 million yen as of end of the previous consolidated fiscal year.

This was mainly due to a 761 million yen increase in income taxes payable, 430 million yen increase in provisions for bonuses, and 331 million yen increase in advances received included in Other.

(ii) Non-current liabilities

Non-current liabilities as of the end of the current consolidated fiscal year amounted to 7,590 million yen, a 3,894 million yen increase from 3,696 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to 2,728 million yen increase in net defined benefit liability and 756 million yen increase in lease obligations.

(3) Net assets

Total net assets as of the end of the current consolidated fiscal year amounted to 73,121 million yen, a 570 million yen increase compared to 72,550 million yen as of end of the previous consolidated fiscal year.

This was mainly attributable to a 1,704 million yen decrease in remeasurements of defined benefit plans, 1,001 million yen decrease in valuation difference on available-for-sale securities, and 235 million yen decrease in subscription rights to shares, despite a 3,816 million yen increase in retained earnings.

Capital-to-asset ratio as of the end of the current consolidated fiscal year was 73.8%, a 4.7 point decrease compared to the ratio of 78.6% as of the end of the previous consolidated fiscal year.

7. Analysis of the Group's Cash Flows for the Current Consolidated Fiscal Year

The balance of cash and cash equivalents as of the end of the current consolidated fiscal year increased by 7,541 million yen from the end of the previous consolidated fiscal year amounting to 26,810 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 10,550 million yen (1,740 million yen increase in revenue year-on-year). Major factors include the recognition of 10,004 million yen in net income before taxes and adjustments.

(2) Cash flows from investing activities

Cash flows from investing activities increased by 411 million yen (4,424 million yen decrease in spending year-on-year). Major factors include the payment of 6,500 million yen into time deposits, and payment of 3,001 million yen for the acquisition of investment securities, while there was 10,000 million yen proceeds from redemption of investment securities.

(3) Cash flows from financing activities

Cash flows from financing activities decreased by 3,792 million yen (1,224 million yen increase in spending year-on-year). Major factors include payment of 2,900 million yen for year-end dividends as of end of September 2018 and interim dividends for the term ended September 2019, and payment of 1,387 million yen for the acquisition of treasury stock.

II. 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 BD	45,899	104.8
Local Governments BD	16,413	116.3
Printing BD	3,808	102.2
Total	66,120	107.3

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

III. 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 consolidated 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. Factors Having Material Impacts on the Group's Operating Results

Refer to 2 [Risk Factors].

3. 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 a 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.

4. Objective Indicators to Measure the Status of Achievement of the Group's Management Policy, Management Strategy, and Management Goals

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. Based on this policy, we establish and manage the following items as important management indicators:

(i) Management indicators based on consolidated figures

1) Year-on-year sales ratio: 3% or greater

2) Return on equity: 8% or greater

(ii) Management indicators based on non-consolidated figures

1) Equity ratio: 80% or greater

2) Recurring profit margin: 8% or greater

3) Total marginal profit ratio: 60% or greater

* Marginal profit is the amount derived by deducting the costs that change in proportion to sales (variable costs) from the amount of sales. Marginal profit will vary depending on product mix. Total marginal profit ratio means the ratio of the amount of this marginal profit in relation to the amount of sales.

In such situation, the consolidated year-on-year sales ratio of the current fiscal year under review was 7.3% (an increase of 4.1 points year-on-year), and consolidated return on equity was 9.4% (an increase of 0.5 points year-on-year).

The non-consolidated equity ratio was 80.1% (a decrease of 2.8 points year-on-year), non-consolidated recurring profit margin was 14.7% (a decrease of 0.4 points year-on-year), and non-consolidated total marginal profit ratio was 73.1％ (a decrease of 0.9 points year-on-year).

In order to maintain the high level of performance, we will work to improve the Company’s earnings structure and capital efficiency.

4 [Material Agreements, etc.]

None to be disclosed.

5 [Research and Development Activities]

There were no research and development expenses spent by the TKC Group during the current consolidated fiscal year.

There are no significant changes in the status of research and development activities of the TKC Group during the current consolidated fiscal year.

Part 3 [Property, Plant 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 4,438 million yen were made in the current consolidated fiscal year.

(1) Accounting Firm Business Division

Capital investment of 1,515 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 1,450 million yen was made for the development of software to provide services over the cloud system.

(3) Printing Business Division

Capital investment of 1,472 million yen was made for the purchase of ink-jet printing machines at the Kansai Plant and expansion of plants.

2 [Major Property, Plant and Equipment]

(1) The Company

As of September 30, 2019

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	5,749	0	2,694 (29,365.21)	1,083	3,154	12,682	1,139
TKC Tokyo Head Office TKC Systems Development Research Center Tokyo Branch (Shinjuku-ku, Tokyo, etc.)	Accounting Firm BD Local Governments BD	Office facilities	100	–	–	51	–	151	363
TKC Tokyo Consolidated Information Center (Nerima-ku, Tokyo)	Accounting Firm BD	Information processing facilities	204	–	2,224 (1,447.44)	121	–	2,550	21
TKC Chubu Consolidated Information Center (Kasugai-shi, Aichi)	Accounting Firm BD	Information processing facilities	46	–	196 (3,017.47)	73	–	316	18
TKC Kansai Consolidated Information Center (Ibaraki-shi, Osaka)	Accounting Firm BD Local Governments BD	Information processing facilities Office facilities	497	–	286 (1,808.03)	74	–	858	35
TKC Chushikoku Consolidated Information Center (Kita-ku, Okayama-shi, Okayama)	Accounting Firm BD	Information processing facilities	15	–	–	72	–	88	11
TKC Kyushu Consolidated Information Center (Koga-shi, Fukuoka)	Accounting Firm BD	Information processing facilities	159	–	203 (2,341.48)	52	–	415	12
TKC Hokkaido Consolidated Information Center TKC Hokkaido SCG Service Center (Chuo-ku, Sapporo-shi, Hokkaido)	Accounting Firm BD	Information processing facilities	20	–	–	5	–	26	32
TKC Tohoku Consolidated Information Center TKC Tohoku SCG Service Center (Aoba-ku, Sendai-shi, Miyagi)	Accounting Firm BD	Information processing facilities	6	–	–	3	–	9	28

As of September 30, 2019

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	4	—	—	7	—	12	9
TKC Okinawa Consolidated Information Center TKC Okinawa SCG Service Center (Naha-shi, Okinawa)	Accounting Firm BD	Information processing facilities	4	—	—	7	—	12	9
TKC Ibaraki SCG Service Center (Tsukuba-shi, Ibaraki)	Accounting Firm BD Local Governments BD	Office facilities	25	—	147 (1,120.00)	1	—	173	21
TKC Yamaguchi SCG Service Center (Yamaguchi-shi, Yamaguchi)	Accounting Firm BD	Office facilities	19	—	197 (814.00)	0	—	217	6
Dormitories, company housing (Utsunomiya-shi, Tochigi)	Accounting Firm BD Local Governments BD	Welfare facilities	221	—	391	2	—	615	—

(2) Domestic subsidiaries

As of September 30, 2019

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	
TLP Corporation	Hanyu Plant (Hanyu-shi, Saitama)	Printing BD	Printing facilities	61	215	145 (7,275.17)	4	11	439	62
TLP Corporation	DPS Solutions Center (Hanyu-shi, Saitama)	Printing BD	Printing facilities	1,088	168	110 (5,776.00)	33	349	1,749	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 1,478 million yen for leased buildings and 80 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 701 million yen

3 [Plans for Establishments and Disposals of Property, Plant 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.

There are no plans for the establishment or disposal of major facilities and equipment as of the end of the current consolidated fiscal year (September 30, 2019), except for routine updates of facilities and equipment and disposals and/or sales related thereto.

Part 4 [Information on the Company]

1 [Information on the Company's Stock]

(1) [Total Number of Shares, etc.]

(i) [Total number of shares]

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

(ii) [Issued shares]

Class	Number of shares issued as of end of current fiscal year (shares) (September 30, 2019)	Number of shares issued as of the filing date (shares) December 23, 2019	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: 100 shares
Total	26,731,033	26,731,033	—	—

(2) [Information on Share Subscription Rights]

(i) [Stock option scheme]

None to be disclosed.

(Note) With the introduction of the stock-based compensation plan (BIP Trust), the Directors (excluding Outside Directors) and Auditors (excluding Outside Auditors) of the Company waived their subscription rights to shares that were granted as stock options, and points equivalent to the number of shares subject to the waived subscription rights will be granted under the new stock-based compensation plan (BIP Trust) as special measures to be taken for the transition from the stock-based compensation stock option scheme.

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

(ii) [Rights Plan]

None to be disclosed.

(iii) [Information on other 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, Capital Stocks, 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, 2019

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 corporate bodies	Foreign corporate bodies, etc.		Other individuals	Total	
					Non-individuals	Individuals			
Number of shareholders	—	34	28	113	150	2	7,607	7,934	—
Number of shares held (share units)	—	88,834	1,941	66,091	36,604	2	73,047	266,519	79,133
Percentage of shares held (%)	—	33.3	0.7	24.8	13.7	0.0	27.4	100.0	—

(Notes) 1. Of the 257,086 shares held as treasury stock, 2,570 share units are included in "Other individuals" and 86 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."
3. The "Financial Institutions" column includes 1,905 units of the Company's stocks owned by the BIP Trust.

(6) [Major Shareholders]

As of September 30, 2019

Names of shareholders	Address	Number of shares held (hundreds of shares)	Percentage of shares held to 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	15,519	5.9
Sozeishiryokan (Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	15,465	5.8
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	11,823	4.5
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS (Standing proxy: The Hong Kong & Shanghai Banking Corporation, Tokyo Branch)	50 Bank Street, Canary Wharf, London E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	10,594	4.0
Masaharu Iizuka	Utsunomiya-shi, Tochigi	8,598	3.2
Japan Trustee Services Bank, Ltd. (Trust account)	1-8-11 Harumi, Chuo-ku, Tokyo	7,792	2.9
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1-2-1 Marunouchi, Chiyoda-ku, Tokyo	6,664	2.5
Aioi Nissay Dowa Insurance Co., Ltd.	1-28-1 Ebisu, Shibuya-ku, Tokyo	5,983	2.3
Sompo Japan Nipponkoa Insurance Inc.	1-26-1 Nishishinjuku, Shinjuku-ku, Tokyo	5,983	2.3
Total	—	151,643	57.3

(Note) The 190,500 shares of the Company held by the BIP Trust are not included in the treasury stocks to be deducted in calculating the percentage of shares held to the total number of issued shares.

(7) [Status of Voting Rights]

1) [Shares issued]

As of September 30, 2019

Classification	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	257,000	—	—
Shares with full voting right (others)	Common stock	26,394,900	263,949	—
Shares less than one share unit	Common stock	79,133	—	—
Total number of shares issued		26,731,033	—	—
Total voting rights held by all shareholders		—	263,949	—

(Note) Shares with full voting right (others) includes 600 shares (6 units of voting rights) registered in the name of Japan Securities Depository Center, Inc., and 190,500 shares (1,905 units of voting rights) owned by the BIP Trust.

(ii) [Treasury stock, etc.]

As of September 30, 2019

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 (%)
TKC Corporation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	257,000	—	257,000	0.96
Total	—	257,000	—	257,000	0.96

(Note) In addition to the above, the 190,500 shares owned by the BIP Trust are recorded as treasury stocks in the quarterly consolidated financial statements.

(8) [Information on Employee Stock Ownership Plan]

The Company introduced this Plan with the objectives to clarify the linkage between the Company's shareholder value and the compensation 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.

(i) 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 compensation (Performance Share) and share compensation 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.

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

The Company will contribute a total amount not exceeding 1,549 million yen in total 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
Trust period	February 26, 2019 to February 28, 2022 (scheduled)
Start of plan	March 1, 2019
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 shares	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 acquisition.

(iii) 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 3 and 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]

Classification	Number of shares (shares)	Total amount (yen)
Resolution at the Board of Directors meeting (March 12, 2019) (Acquisition period: March 13, 2019)	150,000	605,250,000
Treasury stock acquired prior to the current fiscal year	—	—
Treasury stock acquired during the current fiscal year	150,000	605,250,000
Total number and value of remaining shares subject to resolution	—	—
Percentage of un-exercised acquisition as of the last date of the current fiscal year (%)	—	—
Treasury stock acquired during the current period	—	—
Percentage of un-exercised acquisition as of the date of filing (%)	—	—

Classification	Number of shares (shares)	Total amount (yen)
Resolution at the Board of Directors meeting (September 24, 2019) (Acquisition period: September 25, 2019)	10,000	46,850,000
Treasury stock acquired prior to the current fiscal year	—	—
Treasury stock acquired during the current fiscal year	5,500	25,767,500
Total number and value of remaining shares subject to resolution	4,500	21,082,500
Percentage of un-exercised acquisition as of the last date of the current fiscal year (%)	45.0	45.0
Treasury stock acquired during the current period	—	—
Percentage of un-exercised acquisition as of the date of filing (%)	45.0	45.0

(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	634	2,764,915
Treasury stock acquired during the current period	1,100	5,137,985

(Note) Treasury stock acquired during the current period does not include shares constituting less than one unit purchased during the period from December 1, 2019 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	57,150	193,301,874	—	—
Other (Transferred by the exercise of subscription rights to shares)	2,200	6,073,342	—	—
Number of shares of treasury stock held	257,086	—	258,111	—

(Notes) 1. 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, 2019 up to the date on which this Annual Securities Report was filed.

2. The number of treasury stock held does not include the 190,500 shares of the Company's stocks owned by the BIP Trust.

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 are resolved by 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 April 26, 2019 that the estimated amounts for interim and year-end dividends for the 53rd term would be 55 yen as ordinary dividends (for the 52nd term, 50 yen for interim dividends and 55 yen for year-end dividends), and has paid the interim dividends of 55 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 with record-breaking figures at the same time. Based on these results, to express our respect and gratitude to our shareholders, we decided that the year-end dividend per share would be 55 yen as ordinary dividends, as announced on April 26, 2019.

As a result, the annual payout ratio was 46.2%.

Date of Resolution	Total amount of cash dividends (millions of yen)	Dividend per share (yen)
May 8, 2019 Meeting of the Board of Directors	1,453	55
December 20, 2019 Ordinary General Meeting of Shareholders	1,456	55

4 [Corporate Governance]

(1) [Overview of 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 domain 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 and 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, and undertake information disclosure and accountability in a timely manner to continue enhancing our corporate values.

II. Overview of the Corporate Governance System and Reasons for Selecting the Current System

1. Overview of the Corporate Governance System

(1) Board of Directors

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

(2) Nomination and Compensation Advisory Committee

At the Meeting of the Board of Directors held on September 10, 2019, the Company resolved to establish a Nomination and Compensation Advisory Committee as a voluntary advisory body to the Board of Directors.

The chairperson and half of the committee members are independent Outside Directors and outside experts, and functioning as an advisory body to the Board of Directors, the Committee was established in an aim to further enhance the corporate governance system by ensuring that independent Outside Directors etc. are given the opportunity to engage in and provide advice on the decision-making of the following matters, thereby strengthening the independence, objectivity, and accountability of the Board of Directors;

(i) Policy and procedure for the nomination of candidates for Directors and executive officers holding executive position;

(ii) Appointment and dismissal of Directors and executive officers holding executive position;

(iii) Policy for the determination of compensations for Directors and executive officers holding executive position;

(iv) Policy for the determination of individual compensations for Directors and executive officers holding executive position;

(v) Individual compensations for Directors and executive officers holding executive position;

(vi) Appointment and dismissal of representative directors and auditors of subsidiaries and their individual compensations;

(vii) Other matters that the Board of Directors deem necessary in relation to any of the above items.

2. 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.

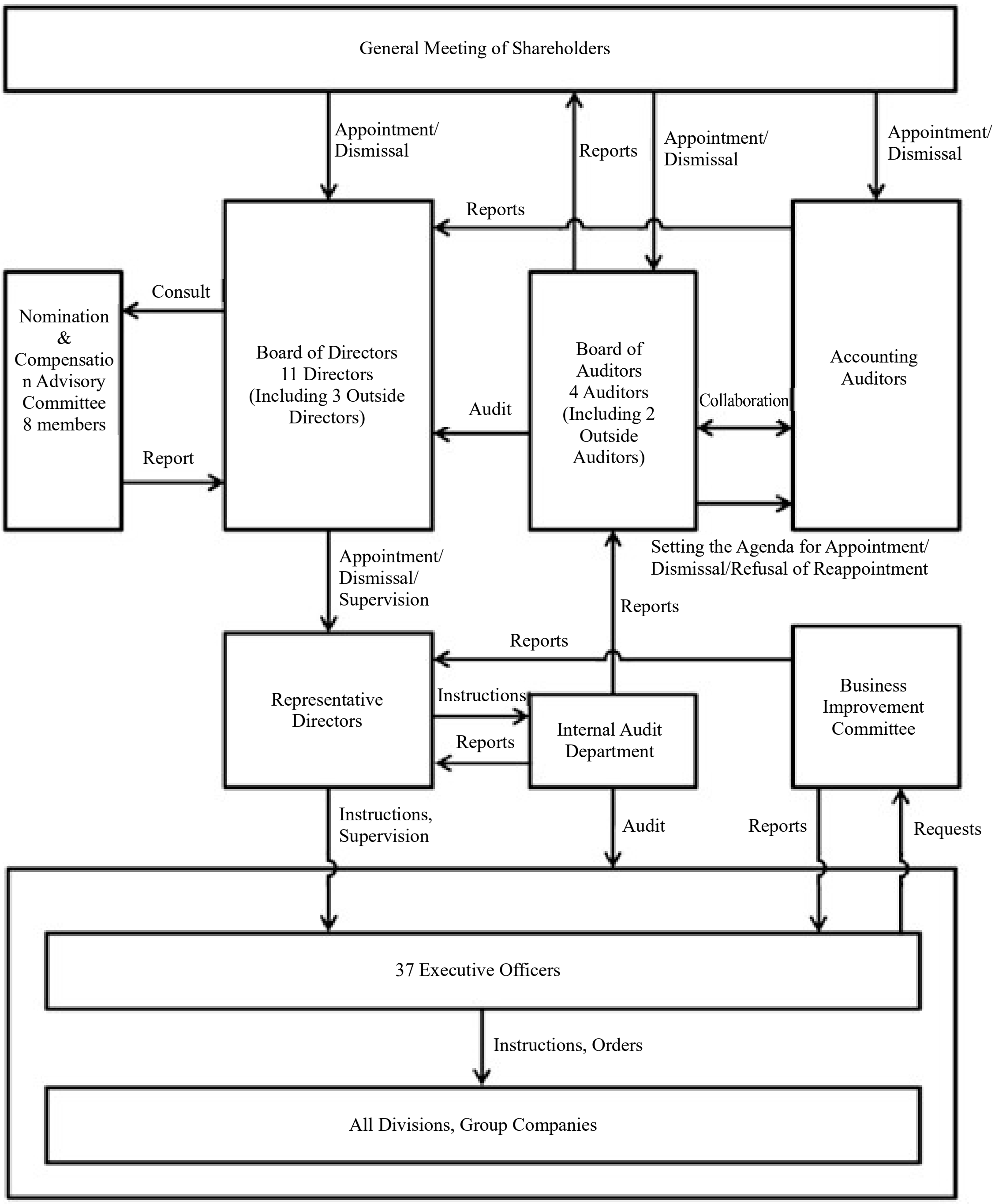
Outside Auditors primarily give advice and make suggestions in order to ensure the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors by expressing their opinions on compliance issues and whether the resolutions of the Board of Directors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

We also have three Outside Directors and two Outside Auditors, a total of five members 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.

A schematic diagram of the Company's business execution and management oversight is shown below:



3. Other Matters Concerning Corporate Governance

(1) 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 is described 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 in the preceding three items 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:
      (i) 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;
      (ii) written applications for approval and relevant documents settled by the Directors based on the Company's Rules Concerning Requests for Decisions;
      (iii) 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 losses to the Company

   (in relation to the provisions of 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:

(i) Conformances with the management philosophy of the Company;
(ii) Compliances;
(iii) Expected degree of contributions to customers' business;
(iv) Anticipated feedback from customers;
(v) Technical feasibilities;
(vi) Funds and costs necessary;
(vii) Other matters, such as principle of good faith with business partners.

(4) When submitting proposals on the appointment of Directors to the General Meeting of Shareholders, it shall be made in accordance with the Company's Rules on the Nomination and Compensation Advisory Committee.

Proposals shall be deliberated and decided at the Nomination and Compensation Advisory Committee chaired by an independent Outside Director, etc. based on the standards for the appointment and dismissal of directors, which shall be reported to the Board of Directors.

The Board of Directors shall deliberate and decide on the matters reported by the Nomination and Compensation Advisory Committee.

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:

(i) risks that may occur across all divisions (hereinafter, "common risks");
(ii) 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:

(i) Risks that have high degree of urgency;
(ii) Risks associated with compliance;
(iii) Risks associated with confidentiality obligations of the Company;
(iv) Risks associated with the preservation of assets and accounting;
(v) Risks associated with the preparation of regulations and manuals for operation of business;
(vi) Risks associated with the workplace environment and labor management;
(vii) 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:

(i) Systems Development Research Center Operation Improvement Committee

(ii) Municipality Systems Development & Operations Division Operation Improvement Committee

(iii) Consolidated Information Centers Operation Improvement Committee

(iv) SCG Service Centers Operation Improvement Committee

(v) Municipality Sales Division Operation Improvement Committee

(vi) Supplier Business Operation Improvement Committee

(vii) Tokyo Head Office Operation Improvement Committee

(viii) Personnel & Salary Systems Improvement Committee

(ix) Risk Management Committee

(x) 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 hazards 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 the provisions of 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 current 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 the provisions of 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 understand 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 the provisions of Article 100 Paragraph 1 Item 5 of the Ordinance for Enforcement of the Companies Act of Japan)

   (1) 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, and those equivalent (hereinafter "Directors, etc." in items (2) and (3) 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)

      (i) 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.

      (ii) 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 immediately notified of the risks causing such incident, the degree of damage expected and impacts on the Company.

      (iii) 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.

      (iv) The Company shall assign Directors or employees of Deputy Manager or higher to the Subsidiaries to serve 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.

   (2) 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.

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

      (i) 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.

      (ii) 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.

      (iii) 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.

      (iv) 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.

(v) 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.

(vi) 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 current profit goals for the fiscal year.

(vii) 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 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)

(i) 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.

(ii) Regular training sessions for all Directors and employees to further understand 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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 the provisions of 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 the provisions of 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 necessary investigations and gather necessary information.

8. Ensuring effectiveness of directions to employees assisting duties of Corporate Auditors

   (in relation to the provisions of 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)

   (1) 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)

   (i) 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.

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

   1) Status of activities of business units involved in the risk management of the Company;

   2) Status of activities pertaining to audits and internal audits of the Subsidiaries of the Company;

   3) Important accounting policies and accounting standards of the Company and any changes thereto;

   4) Contents of announcements and important disclosure documents on the Company's latest business results and earnings forecasts on both non-consolidated and consolidated basis;

   5) Circulation of internal approval documents and meeting minutes requested by Auditors.

   (iii) 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.

   (iv) 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.

   (2) 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)

   (i) 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.

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

   1) Status of activities of business units involved in the risk management of the Subsidiaries;

   2) Status of activities pertaining to the audits by auditors of the Subsidiaries;

   3) Important accounting policies and accounting standards of the Subsidiaries and any changes thereto;

   4) Circulation of internal approval documents and meeting minutes of the Subsidiaries requested by Auditors.

   (iii) In the event a director, auditor or employee of Subsidiaries 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.

   (iv) 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 the provisions of 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 the provisions of 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 the Board of Auditors shall 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 the provisions of 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, and shall exchange opinions.

(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.

(2) Number of Directors

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

(3) 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.

(4) 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.

(5) 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 regard to their responsibilities set forth in Article 423, Paragraph 1.

(6) 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.

(7) 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.

(8) 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 least 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.

(9) Collaboration with outside experts

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.

(10) 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 under 2. Reasons for Selecting the Current Corporate Governance System.

III. 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 at the Company and Group companies.

(2) [Officers]

1. List of Officers

14 male and 1 female (percentage of female directors: 6.7%)

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
Director and Chairman of the Board	Kazuyuki Sumi	September 28, 1948	March 1972	Joined the Company	(Note 5)	218
			December 1990	Director, Deputy Chief Director of Sales		
			April 1997	Director, Deputy Director of Local Governments BD		
			May 1997	Managing Director, Deputy Director of Local Governments BD		
			December 1998	Managing Director, Director of Local Governments BD		
			July 2001	Representative Director, President, TKC Security Services Co., Ltd. (current position)		
			December 2001	Senior Managing Director, Director of Local Governments BD		
			December 2006	Director, Senior Managing Director and Executive Officer, Director of Local Governments BD		
			December 2008	Representative Director, Vice President and Executive Officer, Director of Local Governments BD		
			December 2011	Representative Director, President and Executive Officer, Director of Accounting Firm BD		
			June 2012	Representative Director, Chairman of SKYCOM Corporation (current position)		
			October 2016	Representative Director, President and Executive Officer of the Company		
			October 2017	Representative Director, President of TKC Customer Support Service Co., Ltd.		
			December, 2019	Director, Chairman of the Company (current position)		
Representative Director President and Executive Officer Director of Accounting Firm BD	Masanori Iizuka	March 12, 1975	April 2002	Joined the Company	(Note 5)	73
			December 2010	Director, Executive Officer, Sales of Corporate Information Systems, Chief Director of G Project of Sales, Corporate Information Systems, Accounting Firm BD		
			October 2012	Director, Executive Officer, Chief Director of Sales of Corporate Information Systems, Accounting Firm BD		
			December 2012	Director, Managing Director and Executive Officer, Chief Director of Sales, Corporate Information Systems, Accounting Firm BD		
			April 2014	Director, Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm BD		
			December 2014	Representative Director, Senior Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm BD		
			October 2016	Representative Director, Senior Managing Director and Executive Officer, Chief Director of Accounting Firm BD		
			December, 2019	Representative Director, President and Executive Officer, Director of Accounting Firm BD (current position)		
			December, 2019	Representative Director, President of TKC Customer Support Service Co., Ltd. (current position)		

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
Representative Director Vice President and Executive Officer	Hitoshi Iwata	March 31, 1957	April 1980 December 2000 September 2004 December 2005 December 2006 December 2008 August 2014 December 2017 October 2018	Joined the Company Director, Chief Director of General Affairs Director, Chief Director of Business Administration Managing Director, Chief Director of Business Administration Director, Managing Director and Executive Officer, Chief Director of the Business Administration Representative Director, Vice President and Executive Officer, Chief Director of Business Administration Representative Director, Vice Chairman of TKC Financial Guarantee Co., Ltd. (current position) Representative Director, Vice Chairman of TKC Corporate Mutual Aid Association (current position) Representative Director, Vice President and Executive Officer of the Company (current position)	(Note 5)	66
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) of National Tax Agency Resigned from National Tax Agency Joined the Company, Deputy Chief of Tax Research Center Director, Managing Director and Executive Officer, Chief of Tax Research Center (current position)	(Note 5)	16
Director Managing Director and Executive Officer, Director of Local Governments BD	Masao Yusawa	January 16, 1959	April 1979 December 2006 December 2011 January 2012 December 2014	Joined the Company Executive Officer, Chief Director of Sales Planning, Local Governments BD Director, Executive Officer, Local Governments BD Director, Executive Officer, Director of Local Governments BD Director, Managing Director and Executive Officer, Director of Local Governments BD (current position)	(Note 5)	46
Director Managing Director and Executive Officer, Chief of Systems Development Research Center, Accounting Firm BD	Yasuo Igarashi	January 4, 1967	April 1989 August 2012 October 2012 December 2016 December 2017 January 2018	Joined the Company Executive Officer, Chief of Account Information Systems Development Center, Systems Development Research Center, Accounting Firm BD Executive Officer, Chief of Financial Host System Development Center, Systems Development Research Center, Accounting Firm BD Director, Executive Officer, Chief of Account Information Systems Design Center, Systems Development Research Center, Accounting Firm BD Director, Managing Director and Executive Officer, Director of Sales Planning, Sales, Accounting Firm BD Director, Managing Director and Executive Officer, Chief of Systems Development Research Center, Accounting Firm BD (current position)	(Note 5)	29
Director Managing Director and Executive Officer, Chief Director of Sales, Local Governments BD	Satoshi Hitaka	January 19, 1971	April 2003 December 2010 December 2011 January 2012 October 2018 December 2018	Joined the Company Executive Officer, Director of ASP Service Promotion, Sales Planning, Local Governments BD Director, Executive Officer, New Business Strategy, Local Governments BD Director, Executive Officer, Chief Director of Cloud Business Promotion, Local Governments BD Director, Executive Officer, Chief Director of Sales, Local Governments BD Director, Managing Director and Executive Officer, Chief Director of Sales, Local Governments BD (current position)	(Note 5)	22
Director Executive Officer, Chief of System Engineering Center	Takehiro Kariya	October 8, 1964	April 1989 June 2011 October 2012 December 2018	Joined the Company Executive Officer, Chief of Network Systems Development Center, Systems Development Research Center, Accounting Firm BD Executive Officer, Chief of System Engineering Center, Business Administration Headquarters Director, Executive Officer, Chief of System Engineering Center (current position)	(Note 5)	52

Position and Title	Name	Date of Birth	Brief biography	Term of office	Number of shares held (hundreds of shares)
Director	Misao Taguchi	June 15, 1960	October 1990 Registered as certified tax accountant November 1990 Started business as certified tax accountant June 2011 Representative Partner of certified public tax accounting firm Taguchi Partners Kaikei (current position) December 2016 Director of the Company (current position)	(Note 5)	10
Director	Yoshimasa Oshida	August 17, 1956	November 1988 Registered as certified tax accountant November 1991 Started business as certified tax accountant July 2002 Representative Partner of Oshida Accounting Office (current position) December 2018 Director of the Company (current position)	(Note 5)	10
Director	Junko Iijima	August 3, 1967	October 2001 Registered as attorney October 2001 Joined Tokyo Toranomon Law Office (current position) December, 2019 Director of the Company (current position)	(Note 7)	—
Auditor (full-time)	Tsuneo Miyashita	May 28, 1949	March 1975 Joined the Company December 2006 Executive Officer, Director of TKCNF Research Committee Support Division October 2010 Director of Chairman's Office December 2016 Full-time Auditor of the Company (current position) Auditor of TKC Security Services Co., Ltd. (current position) October 2017 Auditor of TKC Customer Support Service Co., Ltd.(current position)	(Note 4)	98
Auditor (full-time)	Kiyotsugu Nakanishi	August 27, 1956	April 1979 Joined the Company April 1988 Section Chief of General Affairs Department January 1996 Deputy Director of General Affairs Department January 2006 Director of General Affairs Department January 2015 Director of Internal Audit Department December 2018 Full-time Auditor of the Company (current position)	(Note 6)	137
Auditor	Hideki Tomonaga	February 15, 1956	April 1982 Joined Tokyo Regional Taxation Bureau July 2006 Resigned from National Tax College August 2006 Registered as certified tax accountant March 2007 Representative Director of Taxation Institute of Japan (current position) December 2018 Representative Partner of Tomonaga Hideki Licensed Tax Accountant Office (current position) December, 2019 Auditor of the Company (current position)	(Note 8)	—
Auditor	Yoshiki Takashima	April 18, 1959	April 1990 Registered as attorney January 2003 Partner of Shibata, Yamaguchi & Takashima Law Firm (current position) December 2008 Auditor of the Company (current position) December 2016 Auditor of TLP Co., Ltd. (current position) Auditor of TKC Financial Guarantee Co., Ltd. (current position) December 2017 Auditor of TKC Corporate Mutual Aid Association (current position)	(Note 4)	—
				Total	787

(Notes) 1. Director Satoshi Hitaka is the spouse of the elder sister of Masanori Iizuka, Representative Director, President and Executive Officer.
2. Directors Misao Taguchi, Yoshimasa Oshida and Junko Iijima are Outside Directors.
3. Auditors Hideki Tomonaga and Yoshiki Takashima are Outside Auditors.
4. Four years from the close of the Ordinary General Meeting of Shareholders held December 22, 2016.
5. Two years from the close of the Ordinary General Meeting of Shareholders held December 21, 2018.
6. Four years from the close of the Ordinary General Meeting of Shareholders held December 21, 2018.
7. One year from the close of the Ordinary General Meeting of Shareholders held December 20, 2019.
8. Four years from the close of the Ordinary General Meeting of Shareholders held December 20, 2019.

2. Procedures and policy on the nomination of Directors

(1) For the appointment and dismissal of Directors, the Board of Directors shall consult with the Nomination and Compensation Advisory Committee, and respecting the report from said Committee, prepare the original proposals to be submitted for resolution at the General Meeting of Shareholders.

(2) The Nomination and Compensation Advisory Committee shall nominate a candidate for a new Director who satisfies one of the following qualifications:

(i) a person who is an Executive Officer or of higher rank, who has engaged in the timely development of new products or new services (emergence of innovation) or, as person in charge of such marketing strategy, lead such projects to success in line with the business objectives of the Company while anticipating the rapidly moving trends of a digital society, thereby winning a large number of clients, etc., improving the social reputation of the Company, and contributing notably to the sustainable growth of the Company.

(ii) a person who is an Executive Officer or of higher rank, who has eliminated unreasonableness, waste, and inconsistency within his/her business division in compliance with the laws, developed a business plan to achieve increased income and increased profit on an ongoing basis, improve the treatment of employees, and implement risk measures, and in executing such plan, contributed notably to improving the medium- and long-term corporate value through aggressive information sharing and provision of opinions to the Director in charge.

3. [Outside Officers]

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. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.
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. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.
Director	Junko Iijima	As a certified attorney, Ms Iijima possesses expertise and extensive experience, and, in particular, deep insight into corporate governance. She served as lecturer of the corporate governance training for the Board of Directors of the Company on four occasions, and, as chairperson of the Nomination and Compensation Advisory Committee established by the Company on October 10, 2019, displayed strong leadership in deliberating and designing the policies and procedures for the appointment and dismissal of Directors, etc., and the director's compensation plan in accordance with the principles of the corporate governance code. She has been appointed for she is expected to contribute to the sustainable growth and medium- to long-term improvement in the corporate value of the Company through enhanced corporate governance, and to provide valuable input from the perspective of a female. Ms Iijima has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.
Auditor	Hideki Tomonaga	Mr. Tomonaga is a representative partner of a certified public tax accounting firm Tomonaga Hideki Licensed Tax Accountant Office, and has the expertise and extensive experience as a tax specialist on consolidated taxation system, corporate reorganization taxation system and international trade. He has been appointed for he is expected to provide appropriate guidance and audits from his professional perspective in improving tax compliance of the Company. While Tomonaga Hideki Licensed Tax Accountant 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. Tomonaga and general shareholders, and the Company deems that this would not affect the independence of Mr. Tomonaga. Mr. Tomonaga has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.

Auditor	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. Takashima has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.

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

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

(1) A person who is currently not, or has not been for the past ten years, an executive member of the Company or the Company's subsidiaries;

(2) A person for which the Company is currently not, or was recently not, an important trade partner or its executing member, or an important trade partner of the Company or its executing member;

(3) A person for which the Company is currently not, or was recently not, a consultant, accounting specialist, or legal specialist receiving large sums of money or other assets other than executive compensation from the Company;

(4) A person who is currently not, or has not recently been, a near relative of an executive member of the Company or the Company's subsidiaries, or a near relative of any of the persons falling under items (2) or (3);

(5) Any other person whose independence is clear of doubt in executing the duties of an Outside Director.

(3) [Audits]

The provisions of Notes (56)a(b) and (56)d(a)ii in Form No. 2 of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc., as amended under the Cabinet Office Ordinance on Partial Amendments to the Cabinet Ordinance on Disclosure of Corporate Information, etc. (Cabinet Office Ordinance No. 3 of January 31, 2019) are applied starting from the Annual Securities Report for the current fiscal year.

Since its founding in 1966, the Company has adopted the so-called “management based on rules.” All directors and employees were required to ensure compliance, and any illegal act or violation of internal rules have been dealt with strictly and impartially without exceptions, even if the motivation was for the interest of the Company or for the customers, shareholders, business partners or employees. The main objective of this “management based on rules” is to protect our employees, clients and company through strict compliance. That is why our Directors and employees have a correct understanding on the standards that they need to abide by in the process of fulfilling their basic responsibilities and performing their day-to-day work, and strive to act according to these standards.

(i) Audits by Auditors

The Company has four Auditors, consisting of two Standing Auditors and two Outside Auditors. Hideki Tomonaga, Outside Auditor, is a qualified tax accountant who has extensive expertise in the areas of finance, accounting and tax accounting. Yoshiki Takashima, Outside Auditor, is a qualified attorney who has considerable expertise mainly on the Companies Act and Financial Instruments and Exchange Act of Japan.

Standing auditors Tsuneo Miyashita and Kiyotsugu Nakanishi have served as head of Business Administration in charge of general affairs, accounting and financing and have considerable expertise on financing, accounting and tax affairs.

Auditors shall attend the meetings of the Board of Directors and other important management meetings in accordance with the Code of Kansayaku Auditing Standards. They shall strive to oversee the material decision-making process and execution of business, and receive reports from the accounting auditors, Directors and employees to form their audit opinions through deliberation.

The attendance of each Auditor to the meetings of the Board of Auditors is shown below:

Name	Number of days attended/number of meetings (Note 1)	Attendance rate (Note 1)
Tsuneo Miyashita	9/9	100%
Kiyotsugu Nakanishi (Note 2)	7/7	100%
Kenji Matsumoto (Note 3)	8/9	89%
Yoshiki Takashima	9/9	100%
Masataka Iida (Note 4)	2/2	100%

(Note 1) The number of days on which the meeting of the Board of Auditor was held is based on the number of days held the during the fiscal year.
(Note 2) Assumed office on December 21, 2018.
(Note 3) Resigned on December 20, 2019.
(Note 4) Resigned on December 21, 2018.

(ii) Internal audits

1) Organization, personnel and procedures of internal audits

Internal audits of the Company are conducted based on the Resolution on Internal Control, Operational Risk Management Regulations, Internal Audit Regulations, and Regulations for the Management of Affiliates. Internal audits are aimed to establish an appropriate internal control system covering the entire TKC Group, and conducted from a standpoint independent from the line of business execution in order to determine the effectiveness.

The Internal Audit Department is an independent organization under the direct control of the President. There are five internal auditors in the Internal Audit Department, of which two hold the qualification of Certified Internal Auditors, the only globally recognized certification for internal auditors.

In June every year, the Company conducts a risk survey for all of its employees. Based on the assessment of this survey and risk-related information of affiliates, the Internal Audit Department formulates the annual internal auditing plan, taking into consideration any special assignments from the Board or Directors and results of deliberation with the Auditors. The audit plan is reported to the Board of Directors after approval by the President. Prior to conducting the audit, the internal auditors will undertake preliminary surveys and develop individual audit plans. After obtaining approval from the head of the Internal Audit Department, the internal auditors will notify the divisions to be audited. Site visits are conducted by several internal auditors. Within one week from the completion of the audit, the head of the Internal Audit Department shall prepare and submit an Internal Audit Report to the President. Based on the approved Internal Audit Report, the President will order the heads of audited divisions to take actions and report on any matters that need to be improved.

In addition, the head of the Internal Audit Department will provide copies of the Internal Audit Report to the Directors in charge of each division and Auditors. Directors in charge of each division shall control any division-specific operational risks.

2) Coordination among internal audits, audits by Auditors, and accounting audits, and the relationship between these audits and the internal control division

The head of the Internal Audit Department must ensure an appropriate scope of audits and shall consider coordinating with the Auditors and accounting auditors in order to minimize the redundancy of tasks. To this end, the head of the Internal Audit Department holds monthly meetings with the Auditors and quarterly meetings with the accounting auditor, to report on the status of the internal control system and results of internal audits as requested and to exchange opinions.

The Auditors receive reports on the implementation and operation of internal controls of the TKC Group by the Internal Audit Department, reports on the progress of the internal audit plans, and reports on the results of assessment of internal control over financial reporting.

The Company has an audit agreement with the accounting auditor, and receives audit of the financial statements and internal control audit over financial reporting from the firm. In that process, the Internal Audit Department provides necessary information to the accounting auditor.

While the Auditors, accounting auditor, and internal auditors each have their own objectives of audits, standpoints of the auditing body, and duties, during the current fiscal year under review, they worked to strengthen the coordination and information sharing between the three different audits (audits by Auditors, audits by the accounting auditor, and internal audits), to improve the effectiveness and efficiency of each audit, and to maintain and improve the governance of the TKC group by complementing each other.

(iii) Accounting audits

1) Name of audit firm

Ernst & Young ShinNihon LLC

2) Continuous audit period

36 years

(Note) The Company had an audit agreement with Misuzu Audit Corporation (Chuo Audit Corporation at the time) from 1983 to 2007 (including the period from July 1, 2006 to August 31, 2006 when the Company temporarily appointed an accounting auditor instead of Misuzu Audit Corporation (Chuo Audit Corporation at the time)). Upon dissolution of Misuzu Audit Corporation, the Company has entered into an audit agreement with Ernst & Young ShinNihon LLC since 2007 (Shin Nihon LLC at the time). However, the certified public accountant who was providing the audit services to the Company also transferred to Ernst & Young ShinNihon LLC (Shin Nihon LLC at the time) and continued to provide audit services to the Company. As such, it could be deemed that the same auditing firm has been providing audit services to the Company on a continuous basis, and therefore, the audit period of the auditing firm prior to the transfer of said certified public accountant is also added and included.

3) Certified public accountants that executed the accounting audit

Kanji Tako, Yuichi Noda

4) Number of assistants assisting auditing

The number of assistants assisting the accounting audit of the Company was 9 certified public accountants and 13 other personnel.

5) Policy and reasons for appointing the audit firm

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.

6) Assessment of Accounting Auditors by Auditors and Board of Auditors

Based on the Practical Guidelines on the Assessment of Accounting Auditors and the Formulation of Selection Standards issued by the Japan Audit & Supervisory Board Members Association, the Board of Auditors assessed the auditing activities of Ernst & Young ShinNihon LLC during the past year, including such items as the quality control system of the auditing firm, auditing team, audit fees, communication with Auditors, etc., relationship with management, and non-compliance risks. As a result of assessment, the Board of Auditors has determined that it is appropriate to reappoint said auditing firm as accounting auditor.

(iv) Content of audit fees

1) Content of compensation to certified public accountants engaged in audits

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	43	10	44	17
Consolidated subsidiaries	–	–	–	–
Total	43	10	44	17

(Note) The Company pays certified public accountants engaged in audits 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. In addition, during the current consolidated fiscal year, the Company paid compensation, etc. for consulting services in relation to compliance with ASBJ Standard No. 29 "Accounting Standard for Revenue Recognition."

2) Policy for determining audit fees

Audit fees are determined with the consent of the Board of Auditors, taking into account such factors as scale and business characteristics of the Company and number of days of auditing works performed.

3) Reasons for Board of Auditors giving consent to the audit fees to the accounting auditor

The Board of Auditors has checked the audit plan, content of audit, man-hours required for the audit, and the unit price per man-hour, and reviewed the appropriateness of the amount of compensation in comparison to the conventional amounts and planned amounts. As a result, it has determined that the decision by the Board of Directors with respect to the compensation for the accounting auditor is appropriate, and has given consent in accordance with Article 339 Paragraph 1 of the Companies Act of Japan.

4) Other important fees

(For the previous consolidated fiscal year and the current consolidated fiscal year)
None to be disclosed.

(4) [Director Compensation, etc.]

1. Policy on determining the amount of executive compensation and calculation method

(1) Executive compensation system

Directors' and Auditors' compensation consists of monetary compensation and stock-based compensation (BIP Trust).

(2) Maximum amounts of executive compensation

The amount of compensation for 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' compensation and up to 80 million yen for Auditors' compensation. Separate from these maximum amounts of compensation, Directors (excluding outside directors and expatriates), executive officers (excluding expatriates), and Auditors (excluding outside directors and expatriates) are entitled to a stock-based compensation plan (BIP Trust) established by resolution of the 52nd Ordinary General Meeting of Shareholders convened on December 21, 2018, at an amount of up to 500 million yen for Directors and executive officers, and up to 72 million yen for Auditors for three fiscal years.

(3) Policy on determining the amount of executive compensation

(i) Basic policy on compensation for Directors who are executive officers and Full-time Auditors

1) Compensation for Directors who are executive officers and Full-time Auditors shall consist of two parts: monetary compensation and stock-based compensation (BIP Trust). The total amount to be paid in a fiscal year shall be the total of compensation for Directors who are not executive officers and compensation for Outside Auditors as set forth in (ii), plus executive officers' allowance for executive officers who are not directors as set forth in (iii), which shall be within the maximum amounts of executive compensation determined by resolution of the Ordinary General Meeting of Shareholders pursuant to the provisions of Article 361 of the Companies Act of Japan, and also within 1% of amount of marginal profits of the entire Company achieved during the first half of such fiscal year.

2) The amounts of compensation may be increased if both of the following two conditions are met.

Provided that, unless there are amendments to the executive positions, the increase rate of compensation shall not exceed the increase rate of marginal profits.

a. On a non-consolidated, year-on-year basis, the net sales, marginal profits and ordinary income of the entire Company increased.

b. On a non-consolidated basis, an equity ratio of 83% or greater has been achieved.

In calculating the equity ratio, the effects of valuation difference on available-for-sale securities are to be excluded.

3) Compensation, etc. shall be determined at the meeting of the Board of Directors, taking into consideration the following four points and assessing the business results.

a. Achievement of business results of divisions in charge;

b. Individual accomplishments in marketing or innovation;

c. Expertness of duties and individual contribution in improving corporate-wide business results;

d. Executive position held and number of years holding such position.

If the divisions in charge continues to show poor business results, or causes a material accident or major loss, the amounts of compensation for the next fiscal year may be decreased.

(ii) Outside Directors and Outside Auditors shall be excluded from the assessment of business results.

However, if the Company makes a request to perform matters beyond the normal responsibilities of an outside executives, it shall pay an advisory fee based on a separately entered agreement in compliance with the independence standards (compensation other than executive compensation must be less than 10 million yen per year).

(iii) Basic policy on compensation for executive officers who are not Directors

1) The annual salary of an executive officer shall consist of a standard annual salary (fixed annual salary and standard bonuses) determined in April every year based on the Regulations on the Annual Salary System, and executive officers' allowance.

2) Executive officers' allowance shall be determined at the meeting of the Board of Directors, taking into consideration the following four points and assessing the business results.

a. Achievement of business results of divisions in charge;

b. Individual accomplishments in marketing or innovation;
c. Expertness of duties and individual contribution in improving the division's business results;
d. Executive position held and number of years holding such position.

If the divisions in charge continues to be unsuccessful in achieving the goals, or causes a material accident or major loss, the Company may suspend the payment of executive officers' allowance in the middle of a fiscal year.

(4) Method of determining the amount of executive compensation

For the amount of executive compensation, the Board of Directors shall consult with the Nomination and Compensation Advisory Committee, and respecting the report from said Committee, determine the amount. Compensation for Auditors is determined by consultation among Auditors within the maximum amount approved at the General Meeting of Shareholders.

(5) Partial changes to the stock-based compensation plan using a trust

At the 53rd Ordinary General Meeting of Shareholders held on December 20, 2019, the proposal to change the stock-based compensation (BIP Trust) from the conventional system of granting points based on executive positions held, to a performance-linked system was approved.

Under the new system, points will be granted to each individual within the range of 0% to 120% of the basic number of issued shares depending on the year-on-year ratio of the company-wide performance goals (marginal profits and ordinary income) for a given period of each fiscal year during the trust period, subject that, during the fiscal year ended September 30 of the same year, (1) the sales and ordinary income of the entire Company both increase, and (2) the non-consolidated equity ratio exceeds 80%.

The maximum number of total points granted to Directors, etc. in a single fiscal year shall remain at 34,000 points, and the number of total points granted to Full-time Auditors in a single fiscal year shall remain at 4,800 points, as approved at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018.

2. 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
		Monetary compensation	Stock-based compensation (BIP Trust)	Retirement benefits	
Directors (excluding Outside Directors)	705	267	437	—	10
Auditors (excluding Outside Auditors)	38	30	8	—	3
Outside Directors	26	26	—	—	3
Outside Auditors	28	28	—	—	2

(Note) The Company abolished the stock-based compensation stock option scheme and introduced a stock-based compensation plan (BIP Trust) in accordance with the resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018. The amounts of stock-based compensation indicated above include: expenses recognized in relation to the issuance of the 8th subscription rights to shares, expenses recognized in relation to the transition from the stock-based compensation stock option scheme (the number of stock options forfeited as a result of transition is shown in the Notes to Consolidated Financial Statements (Stock Option Plans) under Part 5 Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements), and expenses recognized in relation to points granted in accordance with the stock-based compensation BIP Trust).

3. Total consolidated compensation for persons whose total consolidated compensation is in excess of 100 million yen

Name	Total consolidated compensation (millions of yen)	Executive category	Company category	Total consolidated compensation, by type (millions of yen)	
				Monetary compensation	Stock-based compensation (BIP Trust)
Kazuyuki Sumi	199	Director	The Company	58	140
Hitoshi Iwata	157	Director	The Company	46	110

(5)[Status of Shareholdings]

(i) Standards and approach to the classification of equity securities

The Company make it a general rule not to hold equity securities for the purpose of pure investments.

(ii) Equity securities held for purposes other than pure investments (hereinafter “cross-shareholdings”)

1) Policy on cross-shareholding and methods to assess its rationality, and results of assessment of the appropriateness of each holding by Directors, etc.

a) Policy on cross-shareholdings

The purposes of cross-shareholding of share of other listed companies are to maintain and strengthen long-term, stable business relationships, or to maintain and strengthen business partnerships.

b) Methods to assess the rationality of cross-shareholding, and assessment of the appropriateness of each holding by Directors, etc.

The Boards of Directors of the Company and its Group companies annually assess the major cross-holdings taking into consideration the returns and risks and examining the medium- to long-term economic rationality and future prospects. As a result of such assessment, any cross-holdings that do not necessarily have significance shall be reduced through dialogue and negotiation with such business partners.

2) Number of securities and amounts recorded in the balance sheet

	Number of securities (Securities name)	Total amount recorded in balance sheet (millions of yen)
Unlisted stock	6	101
Securities other than unlisted stock	6	3,424

(Securities that increased in number of shares in the current fiscal year)

	Number of securities (Securities name)	Total amount acquired by increase in number of shares (millions of yen)	Reasons for increase in number of shares
Unlisted stock	—	—	—
Securities other than unlisted stock	—	—	—

(Securities that decreased in number of shares in the current fiscal year)

	Number of securities (Securities name)	Total amount sold by decrease in number of shares (millions of yen)
Unlisted stock	—	—
Securities other than unlisted stock	2	15

3) Numbers of securities and amounts recorded in the balance sheet for equity holdings for specific purpose and deemed equity holdings

Specified investment securities

<table>
<tr><th rowspan="3">Securities name</th><th>Current fiscal year</th><th>Previous fiscal year</th><th rowspan="3">Purpose of holding, quantitative effect of holding, reason for increase in number of shares</th><th rowspan="3">Holding of the Company's shares</th></tr>
<tr><th>Number of shares (shares)</th><th>Number of shares (shares)</th></tr>
<tr><th>Amount recorded in balance sheet (millions of yen)</th><th>Amount recorded in balance sheet (millions of yen)</th></tr>
<tr><td rowspan="2">T&D Holdings, Inc.</td><td>1,780,000</td><td>1,780,000</td><td rowspan="2">To maintain and strengthen the partnership for the purpose of supporting the prosperity and success of SMEs.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">Yes</td></tr>
<tr><td>2,038</td><td>3,337</td></tr>
<tr><td rowspan="2">Mitsubishi UFJ Financial Group, Inc.</td><td>2,322,180</td><td>2,322,180</td><td rowspan="2">To maintain and strengthen the long-term, stable business relationship.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">Yes</td></tr>
<tr><td>1,273</td><td>1,646</td></tr>
<tr><td rowspan="2">Mebuki Financial Group, Inc.</td><td>275,400</td><td>275,400</td><td rowspan="2">To maintain and strengthen the long-term, stable business relationship.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">Yes</td></tr>
<tr><td>73</td><td>108</td></tr>
<tr><td rowspan="2">Nippon Paper Industries Co., Ltd.</td><td>17,000</td><td>17,000</td><td rowspan="2">To maintain and strengthen the long-term, stable business partnership.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">Yes</td></tr>
<tr><td>29</td><td>35</td></tr>
<tr><td rowspan="2">Mito Securities Co., Ltd.</td><td>31,460</td><td>31,460</td><td rowspan="2">To maintain and strengthen the long-term, stable business relationship.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">Yes</td></tr>
<tr><td>7</td><td>12</td></tr>
<tr><td rowspan="2">Tokai Tokyo Financial Holdings, Inc.</td><td>9,187</td><td>9,187</td><td rowspan="2">To maintain and strengthen the long-term, stable business relationship.
Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.</td><td rowspan="2">No</td></tr>
<tr><td>2</td><td>6</td></tr>
<tr><td rowspan="2">Toyo Securities Co., Ltd.</td><td>—</td><td>51,000</td><td rowspan="2">As a result of assessment of whether or not to hold the cross-shareholding by comparing the benefits of the business relationship and holding with the costs of capital, the Board of Directors decided on selling, and shares were sold in July 2019.</td><td rowspan="2">No</td></tr>
<tr><td>—</td><td>13</td></tr>
<tr><td rowspan="2">Fujitsu Limited</td><td>—</td><td>11,880</td><td rowspan="2">As a result of assessment of whether or not to hold the cross-shareholding by comparing the benefits of the business relationship and holding with the costs of capital, the Board of Directors decided on selling, and shares were sold in June 2019.</td><td rowspan="2">No</td></tr>
<tr><td>—</td><td>9</td></tr>
</table>

(Note) Column with "—" indicates that the Company does not hold said securities.

(iii) Equity securities held for the pure investment

None to be disclosed.

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, 2018 to September 30, 2019) and financial statements for the fiscal year (from October 1, 2018 to September 30, 2019) 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 properly 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, 2018)	Current consolidated fiscal year (September 30, 2019)
Assets		
Current assets		
Cash and deposits	22,268	29,810
Notes and accounts receivable–trade	7,690	8,755
Lease investment assets	290	443
Merchandise and finished goods	200	308
Work in progress	255	634
Raw materials and supplies	163	147
Other	914	1,015
Allowance for doubtful accounts	(35)	(41)
Total current assets	31,747	41,073
Non-current assets		
Property, plant and equipment		
Buildings and structures (net amount)	7,991	8,404
Machinery, equipment and vehicles (net amount)	596	503
Tools, furniture and fixtures (net amount)	1,418	1,793
Land	6,922	6,892
Lease assets (net amount)	275	369
Construction in progress	259	—
Total property, plant and equipment	*1 17,464	*1 17,963
Intangible assets		
Software	2,983	2,456
Software in progress	698	807
Other	26	26
Total intangible assets	3,707	3,290
Investments and other assets		
Investment securities	*2 24,026	*2 15,527
Long-term loans receivable	87	38
Deferred tax assets	5,211	7,015
Long-term time deposits	6,000	9,500
Guarantee deposits	1,318	1,339
Long-term lease investment assets	350	1,033
Other	286	206
Total investments and other assets	37,282	34,661
Total non-current assets	58,454	55,915
Total assets	90,202	96,989

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
Liabilities		
Current liabilities		
Accounts payable–trade	2,824	3,602
Electronically recorded obligations–operating	1,080	916
Current portion of long-term loans payable	142	142
Lease obligations	363	541
Accounts payable–other	2,805	2,661
Income taxes payable	1,689	2,450
Accrued consumption taxes	492	721
Provision for bonuses	3,169	3,600
Other	1,387	1,640
Total current liabilities	13,955	16,278
Non-current liabilities		
Long-term loans payable	580	438
Lease obligations	576	1,333
Retirement benefit obligations	2,036	4,764
Provision for stocks payment	—	562
Other	501	492
Total non-current liabilities	3,696	7,590
Total liabilities	17,651	23,868
Net assets		
Shareholders’ equity		
Capital stock	5,700	5,700
Capital surplus	5,409	5,711
Retained earnings	59,806	63,623
Treasury stock	(971)	(1,630)
Total shareholders’ equity	69,944	73,404
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	917	(83)
Accumulated remeasurements of defined benefit plans	—	(1,704)
Total accumulated other comprehensive income	917	(1,787)
Subscription rights to shares	235	—
Non-controlling interests	1,453	1,504
Total net assets	72,550	73,121
Total liabilities and net assets	90,202	96,989

2) [Consolidated Statements of Income and Comprehensive Income]

[Consolidated Statements of Income]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Net sales	61,621	66,120
Cost of sales	21,002	22,822
Gross profit	40,619	43,298
Selling, general and administrative expenses	*1, *2 31,939	*1, *2 33,951
Operating income	8,679	9,347
Non-operating income		
Interest income	31	31
Dividends income	122	135
Land and house rent received	46	52
Subsidy income	40	13
Equity in earnings of affiliates	12	27
Other	31	64
Total non-operating income	284	325
Non-operating expenses		
Interest expenses	2	2
Other	0	0
Total non-operating expenses	3	3
Ordinary income	8,961	9,669
Extraordinary income		
Gain on sales of non-current assets	*1 3	*3 1
Gain on negative goodwill	―	88
Gain on reversal of subscription rights to shares	―	274
Other	―	8
Total extraordinary income	3	373
Extraordinary loss		
Loss on sale of non-current assets	*4 3	*4 10
Loss on retirement of non-current assets	*5 9	*5 7
Loss on valuation of investment securities	53	―
Impairment loss	*6 0	―
Loss on step acquisitions	―	20
Other	―	0
Total extraordinary loss	66	38
Net income before taxes and adjustments	8,897	10,004
Income taxes–current	3,032	3,776
Income taxes - deferred	(347)	(556)
Total income taxes	2,685	3,220
Net income	6,212	6,784
Profit attributable to non-controlling interests	54	63
Profit attributable to owners of parent	6,158	6,721

[Consolidated Statements of Comprehensive Income]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Net income	6,212	6,784
Other comprehensive income		
Valuation difference on available-for-sale securities	304	(996)
Remeasurements of defined benefit plans	—	(1,704)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	*1 304	*1 (2,701)
Comprehensive income	6,517	4,082
(Breakdown)		
Comprehensive income attributable to owners of parent	6,454	4,015
Comprehensive income attributable to non-controlling interests	63	66

3) [Consolidated Statement of Changes in Net Assets]

Previous consolidated fiscal year (started October 1, 2017; ended September 30, 2018)

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	5,700	5,409	56,549	(968)	66,690
Changes during fiscal year					
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 during fiscal year	—	—	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 net assets
	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 during fiscal year					
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 during fiscal year	295	295	57	52	3,658
Balance at end of year	917	917	235	1,453	72,550

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	5,700	5,409	59,806	(971)	69,944
Changes during fiscal year					
Dividends of surplus			(2,904)		(2,904)
Profit attributable to owners of parent			6,721		6,721
Acquisition of treasury stock				(1,387)	(1,387)
Disposal of treasury stock		228		535	763
Increase due to share exchange		74		193	267
Changes in items other than equity (net)					
Total changes during fiscal year	—	302	3,816	(658)	3,460
Balance at end of year	5,700	5,711	63,623	(1,630)	73,404

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of year	917	—	917	235	1,453	72,550
Changes during fiscal year						
Dividends of surplus						(2,904)
Profit attributable to owners of parent						6,721
Acquisition of treasury stock						(1,387)
Disposal of treasury stock						763
Increase due to share exchange						267
Changes in items other than equity (net)	(1,001)	(1,704)	(2,705)	(235)	50	(2,890)
Total changes during fiscal year	(1,001)	(1,704)	(2,705)	(235)	50	570
Balance at end of year	(83)	(1,704)	(1,787)	—	1,504	73,121

4) [Consolidated Statements of Cash Flows]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Cash Flows from Operating Activities		
Net income before taxes and adjustments	8,897	10,004
Depreciation	2,646	3,006
Increase (decrease) in allowance for doubtful accounts	2	(8)
Increase (decrease) in provisions for bonuses	140	402
Increase (decrease) in retirement benefit obligations	368	170
Increase (decrease) in provisions for stocks payment	―	562
Interest and dividends income	(154)	(103)
Interest paid	2	2
Equity in losses (earnings) of affiliates	(12)	(27)
Loss on retirement of non-current assets	9	7
Loss (gain) on sale of non-current assets	0	9
Impairment losses	0	―
Loss (gain) on valuation of investment securities	53	―
Share-based payment expenses	57	44
Gain on reversal of subscription rights to shares	―	(274)
Gain on negative goodwill	―	(88)
Loss (gain) on step acquisitions	―	20
Decrease (increase) in trade receivables	(1,422)	(566)
Decrease (increase) in inventories	136	(372)
Decrease (increase) in other assets	(74)	179
Increase (decrease) in trade payables	736	566
Increase (decrease) in other liabilities	(89)	(272)
Increase (decrease) in accrued consumption taxes	(50)	215
Other	105	(17)
Subtotal	11,353	13,458
Interest and dividends income received	192	200
Interest expenses paid	(2)	(2)
Income taxes paid	(2,733)	(3,106)
Cash Flows from Operating Activities	8,810	10,550
Cash Flows from Investing Activities		
Payments into time deposits	(3,000)	(6,500)
Proceeds from withdrawal of time deposits	3,000	3,000
Purchase of property, plant and equipment	(2,552)	(1,929)
Proceeds from sales of property, plant and equipment	5	25
Purchase of intangible assets	(1,395)	(1,249)
Proceeds from redemption of investments in capital	―	0
Purchase of investment securities	(1)	(3,001)
Proceeds from sales of investment securities	―	15
Proceeds from redemption of investment securities	―	10,000
Payments for guarantee deposits	(31)	(8)
Proceeds from collection of guarantee deposits	23	15
Payments of loans receivables	(150)	―
Collection of loans receivables	139	49
Other payments	(49)	(5)
Other proceeds	0	―
Cash Flows from Investing Activities	(4,013)	411

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Cash Flows from Financing Activities		
Proceeds from long-term loans payable	500	—
Repayment of long-term loans payable	(71)	(142)
Repayment of lease obligations	(86)	(101)
Purchase of treasury stock	(3)	(1,387)
Proceeds from disposal of treasury stock	—	756
Cash dividends paid	(2,895)	(2,900)
Cash dividends paid to non-controlling interests	(10)	(16)
Other	—	0
Cash Flows from Financing Activities	(2,567)	(3,792)
Increase (decrease) in cash and cash equivalents	2,229	7,169
Cash and cash equivalents at beginning of year	17,039	19,268
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	372
Cash and cash equivalents at end of year	*1 19,268	*1 26,810

[Notes to Financial Statements]

(Basis of Presenting the Consolidated Financial Statements)

1. Scope of Consolidation

Consolidated subsidiaries (5 companies):

TLP Corporation

TKC Security Services Co., Ltd.

SKYCOM Corporation

TKC Customer Support Service Co., Ltd.

TKC Shuppan Corporation

Of the above, TKC Shuppan Corporation has become a wholly owned subsidiary company through share exchange 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. Scope of Application of the Equity Method

Affiliated companies under the equity method: (1 company):

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 not under the equity method (1 company):

TKC Financial Guarantee Co., Ltd.

(Reason for excluding the company from the scope of application of the equity method)
TKC Financial Guarantee Co., Ltd. is excluded from the scope of application of the equity method because such exclusion does not have any material impact on the consolidated financial statements of the Company in terms of 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.

Furthermore, TKC Shuppan Corporation, which was an equity-method affiliated company in the previous consolidated fiscal year, is excluded from the scope of application of the equity method because it has become a consolidated subsidiary.

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 mainly by cost percentage method (with balance sheet values reflecting write downs for decreased profitability).

c. Work in progress

Cost determined by specific identification method (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, plant 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 & structures	10 to 50 years
Machinery, equipment & vehicles	4 to 10 years
Tools, furniture & 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) Allowance for doubtful accounts

In setting aside provisions for possible losses due to uncollectable 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 stocks payment

In setting aside provisions for payment of the Company's shares to Directors, etc., provisions are recognized at estimated amounts of stocks payment determined based on the points allocated to Directors, etc. in accordance with the rules on issuance of shares under the Board Incentive Plan (BIP) Trust.

(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 and past service costs

Past service costs are recognized as expenses for certain years (10 years) within the average remaining years of service of employees in which they occur using the straight-line method.

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

3) Unrecognized past service costs

Unrecognized past service costs are recognized on a tax-adjusted basis at the amount of accumulated remeasurements of defined benefit plans under accumulated other comprehensive income in net assets.

(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 completion of construction works.

(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)

(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) Impacts 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.

(Additional Information)

(Stock-based Compensation Plan for Officers)

The Company introduced a stock-based compensation plan for its Directors (excluding Outside Directors and expatriates), Auditors (excluding Outside Auditors and expatriates), and Executive Officers (excluding expatriates; hereinafter referred to collectively as "Directors, etc.").

1. Outline of transaction

Based on the resolution of the Board of Directors' Meeting held on October 31, 2018 followed by approval at the Ordinary General Meeting of Shareholders held on December 21, 2018, the Company introduced a stock-based compensation plan called "BIP Trust." The objectives of the plan are to clarify the linkage between the Company's shareholder value and the compensation for Directors, etc. and to motivate Directors, etc. 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.

2. Stocks of the Company remaining in trust

The stocks of the Company remaining in trust are recorded as treasury stock under Net Assets with the book values in the trust (not including expenses attributable thereto). The book value of said treasury stocks was 753 million yen for 190,500 shares as of the end of the consolidated fiscal accounting period under review.

(Implementation of the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the consolidated fiscal accounting period. Accordingly, changes were made so that deferred tax assets are indicated under the investments and other assets category, and deferred tax liabilities are indicated under the non-current liabilities category. Notes to Tax Effecting have also been revised.

(Notes to Consolidated Balance Sheets)

*1. Accumulated depreciation of property, plant and equipment

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
	22,141 million yen	20,951 million yen

*2. Items pertaining to non-consolidated subsidiaries and affiliated companies are as follows:

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
Investment securities (shares)	284 million yen	100 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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Salaries	10,706 million yen	11,300 million yen
Provisions for bonuses	2,709	2,981
Retirement benefit expenses	767	648
Provisions for stocks payment	—	562
Depreciation	688	692
Rent expenses	2,105	2,158
Research and development expenses	82	—

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

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
	82 million yen	— million yen

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

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Machinery, equipment & vehicles	1 million yen	0 million yen
Tools, furniture & fixtures	1	1
Total	3	1

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

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Land	— million yen	10 million yen
Machinery, equipment & vehicles	3	—
Total	3	10

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

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Buildings & structures	0 million yen	5 million yen
Machinery, equipment & vehicles	—	0
Tools, furniture & fixtures	4	1
Intangible assets	4	0
Other (Investments and other assets)	—	0
Total	9	7

*6. Impairment loss

Previous 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 loss (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 loss (0 million yen) under extraordinary loss.

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, 2018; ended September 30, 2019)

None to be disclosed.

(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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Valuation difference on available-for-sale securities:		
Increase/decrease during the fiscal year	439 million yen	(1,432) million yen
Reclassification adjustments	—	1
Amount before tax	439	(1,430)
Tax effect	(135)	434
Valuation difference on available-for-sale securities	304	(996)
Remeasurements of defined benefit plans:		
Increase/decrease during the fiscal year	—	(2,451)
Reclassification adjustments	—	—
Amount before tax	—	(2,451)
Tax effect	—	747
Remeasurements of defined benefit plans	—	(1,704)
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	304	(2,701)

(Notes to Consolidated Statements of Changes in Equity)

Previous 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 800 share increase in common treasury stock resulted from purchase of 800 fractional unit shares.

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

Category	Breakdown 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

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

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)	3,525	3,466	2,515	4,475
Total	3,525	3,466	2,515	4,475

(Note) 1. The 3,466 hundred of share increase in common treasury stock resulted from 1,555 hundred of shares through acquisition of treasury stock based on resolution of the Board of Directors, 6 hundred of shares from purchase of fractional unit shares, and 1,905 hundred of shares from purchase by the BIP Trust.
2. The 2,515 hundred of share decrease in common treasury stock consist of 22 hundred of shares from exercise of stock options, 571 hundred of shares from share exchange, 17 hundred of shares from disposal of shares of parent company held by the equity-method affiliated company, and 1,905 hundred of shares contributed to the BIP Trust.
3. The number of treasury stock at the end of the current consolidated fiscal year includes the 1,905 hundred of shares of treasury stock of the Company held by the BIP Trust.

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

None to be disclosed.

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 21, 2018 Ordinary General Meeting of Shareholders	Common stock	1,450	55	September 30, 2018	December 25, 2018
May 8, 2019 Meeting of the Board of Directors	Common stock	1,453	55	March 31, 2019	June 10, 2019

(Note) The total amount of cash dividends determined by resolution of the Board of Directors on May 8, 2019 includes a cash dividend of 10 million yen to the stocks of the Company owned by the BIP Trust.

(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 20, 2019 Ordinary General Meeting of Shareholders	Common stock	1,456	Retained earnings	55	(September 30, 2019)	December 23, 2019

(Note) The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 20, 2019 includes a cash dividend of 10 million yen to the stocks of the Company owned by the BIP Trust.

(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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Cash and deposits	22,268 million yen	29,810 million yen
Time deposits with deposit period greater than three months	(3,000)	(3,000)
Cash and cash equivalents	19,268	26,810

(Lease Transactions)

1. Finance lease transactions (Lessee)

Finance lease transactions that do not involve transfer of ownership

1) Description of lease assets

Property, Plants and Equipment

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

2) Depreciation of lease assets

Lease assets are depreciated 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, 2018)	Current consolidated fiscal year (September 30, 2019)
Within one year	166	170
Over one year	328	318
Total	494	488

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, 2018)	Current consolidated fiscal year (September 30, 2019)
Current assets	290	443
Investments and other assets	350	1,033

(2) Lease obligations

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
Current liabilities	290	443
Non-current liabilities	350	1,033

(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, 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		
Allowance for doubtful accounts	(35)		
	7,654	7,654	–
(3) Investment 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	–

Current consolidated fiscal year (September 30, 2019)

	Book value in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
(1) Cash and deposits	29,810	29,810	—
(2) Notes and accounts receivable	8,755		
Allowance for doubtful accounts	(41)		
	8,713	8,713	—
(3) Investment securities	15,324	15,324	—
(4) Long-term deposits	9,500	9,470	(29)
Total assets	63,348	63,319	(29)
(1) Accounts payable–trade	3,602	3,602	—
(2) Accounts payable–other	2,661	2,661	—
Total liabilities	6,263	6,263	—

(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) Investment 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, 2018)	Current consolidated fiscal year (September 30, 2019)
Other securities (unlisted equity securities)	102	102
Stocks of subsidiaries and affiliates	284	100
Total	387	202

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) Investment securities" for the previous consolidated fiscal year nor in "(3) Investment 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, 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–trade	7,690	—	—	—
Investment securities				
Corporate bonds	—	2,000	2,500	14,000
Long-term time deposits	—	6,000	—	—
Total	29,953	8,000	2,500	14,000

Current consolidated fiscal year (September 30, 2019)

	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	29,805	—	—	—
Notes and accounts receivable–trade	8,755	—	—	—
Investment securities				
Corporate bonds	—	2,000	2,500	7,000
Long-term time deposits	—	6,000	3,500	—
Total	38,560	8,000	6,000	7,000

(Securities)

1. Other securities

Previous 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.

Current consolidated fiscal year (September 30, 2019)

	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	1,486	1,145	340
	(2) Bonds			
	Corporate bonds	5,182	5,171	11
	Subtotal	6,669	6,317	351
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	2,126	2,498	(371)
	(2) Bonds			
	Corporate bonds	6,528	6,596	(67)
	Subtotal	8,654	9,094	(439)
Total		15,324	15,411	(87)

(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

Previous consolidated fiscal year (started October 1, 2017; ended September 30, 2018)

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

Class	Price sold (millions of yen)	Total gain from sales (millions of yen)	Total loss from sales (millions of yen)
(1) Stocks	15	2	0
(2) Bonds			
Corporate bonds	—	—	—
Subtotal	15	2	0

3. Securities for which impairment loss are recognized

   For the previous 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 four 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.

   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.

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, 2017; ended September 30, 2018)		Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	
Retirement benefit obligations at beginning of year	5,595	million yen	5,957	million yen
Increase due to new consolidations	—		105	
Service costs	389		397	
Interest costs	—		—	
Actuarial differences	15		(53)	
Retirement benefits paid	(114)		(175)	
Amount of past service costs accrued	71		2,472	
Balance of retirement benefit obligations at end of year	5,957		8,704	

(Note) Past service costs were accrued as a result of amendments to the Company's retirement benefit rules made during the current consolidated fiscal year.

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

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Balance of pension assets at beginning of year	3,927 million yen	3,921 million yen
Expected returns	—	—
Actuarial differences	(6)	18
Contributions by employer	—	—
Retirement benefits paid	—	—
Balance of pension assets at end of year	3,921	3,939

(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, 2018)	Current consolidated fiscal year (September 30, 2019)
Contributory retirement benefit obligations	5,390 million yen	8,026 million yen
Pension assets	(3,921)	(3,939)
	1,469	4,087
Non-contributory retirement benefit obligations	567	677
Net obligations and assets in the consolidated balance sheets	2,036	4,764
Retirement benefit obligations	2,036	4,764
Net obligations and assets in the consolidated balance sheets	2,036	4,764

(4) Retirement benefit expenses and breakdown

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Service costs	389 million yen	397 million yen
Interest costs	—	—
Expected returns	—	—
Amount of actuarial differences treated as expenses	15	(71)
Amount of past service costs treated as expenses	71	20
Retirement benefit expenses under the defined retirement benefit plan	476	345

(5) Remeasurements of defined benefit plans

Items that were recorded under remeasurements of defined benefit plans (amount before tax) are as follows:

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Past service costs	— million yen	(2,451) million yen
Total	—	(2,451)

(6) Accumulated remeasurements of defined benefit plans

Items that were recorded under remeasurements of defined benefit plans (amount before tax) are as follows:

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
Unrecognized past service costs	－ million yen	(2,451) million yen
Total	－	(2,451)

(7) Pension assets

1) Major pension assets

The percentages of each major classification in comparison to the amount of total pension assets are as follows:

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
Bonds	26%	41%
Cash and deposits	51	51
Other	24	8
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.

(8) Basis for actuarial calculations

Basis for major actuarial calculations

	Previous consolidated fiscal year (September 30, 2018)	Current consolidated fiscal year (September 30, 2019)
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 262 million yen for the previous consolidated fiscal year, and 271 million yen for the current consolidated fiscal year.

4. Multiemployer pension plan

The amounts of necessary contributions to the corporate pension fund plan under the multiemployer pension plan, which are recognized in the same manner as the defined contribution plan, were 117 million yen in the previous consolidated fiscal year and 126 million yen in the current consolidated fiscal year.

(1) Reserve fund for multiemployer pension plan

	Previous consolidated fiscal year (March 31, 2018)	Current consolidated fiscal year (March 31, 2019)
Pension assets	238,026 million yen	234,785 million yen
Actuarial liabilities based on pension plan finance calculation	195,467	192,041
Differences	42,558	42,744

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

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

Current consolidated fiscal year: 2.13% (Started April 1, 2018; ended March 31, 2019)

(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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Selling, general and administrative expenses	57	44

2. Amount recognized as profit from forfeiture due to non-exercise of stock options

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Gain on reversal of subscription rights to shares	—	274

3. 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) 17 Executive Officers
Number of stock options by type (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 13, 2014 to December 12, 2049

	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares	8th 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	9 Directors of the Company (excluding Outside Directors) 2 Auditors of the Company (excluding Outside Auditors) 23 Executive Officers
Number of stock options by type (Note)	Common stock: 18,200 shares	Common stock: 18,100 shares	Common stock: 16,500 shares	Common stock: 13,300 shares
Date of grant	December 11, 2015	December 12, 2016	December 10, 2017	December 10, 2018
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 December 12, 2015 to December 11, 2050	From December 13, 2016 to December 12, 2051	From December 11, 2017 to December 10, 2052	From December 11, 2018 to December 10, 2053

(Note) Number of stock options is converted to the number of common stocks.

(2) Scale and fluctuation of stock options

The following summarizes the stock options that existed during the current consolidated fiscal year (year ended September 2019). Number of stock options is converted to the number of common stocks.

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	12,200	20,000	22,400	19,100
Balance not vested	—	—	—	—

	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares	8th subscription rights to shares
Before vesting (shares)				
At end of previous consolidated fiscal year	—	—	—	—
Granted	—	—	—	13,300
Forfeited	—	—	—	—
Vested	—	—	—	13,300
Balance not vested	—	—	—	—
After vesting (shares)				
At end of previous consolidated fiscal year	16,200	16,000	16,500	—
Vested	—	—	—	13,300
Exercised	600	600	600	400
Forfeited	15,600	15,400	15,900	12,900
Balance not vested	—	—	—	—

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	8th subscription rights to shares
Exercise price (yen)	1	1	1	1
Average market price of stock at time of exercise (yen)	3,415	3,415	3,415	3,415
Fair value per unit as of grant date (yen)	2,670	2,557	3,477	3,372

4. Method used to estimate the fair value of stock options

The fair value of the 8th 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

	8th subscription rights to shares (stock options)
Expected volatility of stock (Note 1)	26.146%
Expected option life (Note 2)	6.5 years
Expected dividends (Note 3)	110 yen/share
Risk-free interest rate (Note 4)	(0.105%)

(Notes) 1. Expected volatility of stock is calculated based on the actual stock price data over the 6.5-year period (from June 2012 to December 2018).
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 110 yen of actual dividends made, consisting of the year-end dividend of 60 yen for the period ended September 2017 and the interim dividend of 50 yen for the period ended September 2018.
4. Risk-free interest rate is calculated based on the yield of government bonds having a remaining life equal to the expected option life.

5. 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, 2018)	Current consolidated fiscal year (September 30, 2019)
Deferred tax assets		
Software development costs	2,268 million yen	2,471 million yen
Provision for bonuses	978	1,112
Retirement benefit obligations	643	732
Retirement benefit trust	1,195	1,201
Accumulated remeasurements of defined benefit plans	—	747
Retirement bonuses for directors payable	18	32
Accrued business tax	112	145
Loss on valuation of investment securities	154	156
Legal welfare expenses corresponding to provisions for bonuses	145	165
Asset retirement obligations	110	112
Impairment losses	116	115
Provisions for stocks payment	—	171
Valuation difference on available-for-sale securities	—	71
Other	243	186
Subtotal	5,988	7,424
Valuation allowance	(349)	(346)
Total deferred tax assets	5,638	7,077
Deferred tax liabilities		
Business tax refund	—	0
Retirement expenses corresponding to asset retirement obligations	26	24
Valuation difference on available-for-sale securities	399	37
Other	0	—
Total deferred tax liabilities	426	62
Net deferred tax assets	5,211	7,015

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, 2018)	Current consolidated fiscal year (September 30, 2019)
Statutory income tax rate	30.7%	30.5%
(Adjusted)		
Inhabitant tax on per capita basis	0.8	0.7
Entertainment expenses, etc. not deductible for tax purposes	0.7	1.1
Tax credits for salary growth	(2.6)	—
Other	0.6	(0.2)
Income tax rate after applying tax effect accounting	30.2	32.2

(Business Combinations, etc.)

Business Combinations through Acquisition

1. Overview of the business combination

(1) Name of acquiree and description of business

Name of acquiree	TKC Shuppan Corporation
Description of business	Production of monthly magazines, etc.

(2) Reasons for the business combination

Through its publishing activities, TKC Shuppan has publicized the activities of the TKC National Federation ("TKCNF") which consists of TKC Members, as well as provided TKC Members with operational know-how on tax accounting, financial accounting, managerial advice and guarantee held by fellow TKC Members. The Company expects that, by making TKC Shuppan its wholly owned subsidiary, it can leverage TKC Shuppan's accumulated publishing know-how, and combining them with the Company's business activities and projects, greatly enhance public relations and publishing activities towards its customers.

(3) Date of business combination

September 24, 2019

(4) Legal form of business combination

Share exchange with TKC as the wholly owning parent company and TKC Shuppan as the wholly owned subsidiary company

(5) Name of the company after business combination

There is no change in the company name after business combination.

(6) Percentage of voting rights acquired

Percentage of voting rights held immediately before the share exchange	31.14%
Percentage of voting rights acquired on the date of business combination	68.86%
Percentage of voting rights after acquisition	100.00%

(7) Primary basis in identifying the acquirer

The Company acquired 100% of the voting rights of TKC Shuppan Corporation, thereby making TKC Shuppan Corporation its wholly owned subsidiary.

2. Period of acquiree's business results included in the consolidated financial statements

The business results from October 1, 2018 through September 30, 2019 are recognized as Equity in losses/earnings of affiliates.

3. Acquisition costs of the acquiree and breakdown of consideration by class

Consideration for acquisition	Fair value of the Company's common stock on the date of business combination	267 million yen
Acquisition costs		267 million yen

4. Share exchange ratio by type, calculation method, and number of shares issued

(1) Share exchange ratio by type

Company name	TKC Corporation (Wholly owning parent company in the Share Exchange)	TKC Shuppan Corporation (Wholly owned subsidiary company in the Share Exchange)
Exchange ratio	1	5

(2) Methods of calculating the share exchange ratio

In order to ensure fairness and validity in determining the exchange ratio for the Share Exchange, the stock values of TKC and TKC Shuppan were calculated by Business Valuation & Consulting Japan (hereinafter, "BVCJ"), a third party independent from both companies. The calculating institution BVCJ does not fall under a related party to either TKC or TKC Shuppan, and does not have any material interest in the Share Exchange to be disclosed.

Based on such calculation results and as a result of negotiation and deliberation between the parties, the Company concluded that said share exchange ratio is adequate and does not harm the interest of shareholders of each party, thus reaching an agreement.

(3) Number of shares issued

57,150 shares

5. Major costs associated with the acquisition

Advisory and other professional fees and charges 2 million yen

6. Difference between acquisition costs of the acquiree and total of acquisition costs of transactions for acquisition

Loss on step acquisitions 20 million yen

7. Amount of negative goodwill, cause, amortization method and amortization period

(1) Amount of negative goodwill

88 million yen

(2) Cause

Because the market value of net assets at the time of business combination exceeded the acquisition costs, the difference was recognized as gain on negative goodwill.

8. Amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed

Current assets	633 million yen
Non-current assets	263 million yen
Total assets	896 million yen
Current liabilities	265 million yen
Total liabilities	418 million yen

9. Assuming that the business combination was completed on the first day of the consolidated fiscal year, the estimated amount of financial effects to the Consolidated Statements of Income for the current consolidated fiscal year and method of calculation

Information is omitted since the financial effects to the Consolidated Statements of Income for the current consolidated fiscal year is minimal.

(Asset Retirement Obligations)

Previous consolidated fiscal year (ended September 30, 2018) and current consolidated fiscal year (ended September 30, 2019)

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, 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, plant 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 deposits), and long-term investment funds (investment 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, property, plant and equipment and intangible assets include depreciation long-term prepaid expenses and depreciation of such expenses.

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

(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	45,899	16,413	3,808	66,120	—	66,120
Inter-segment sales or transfers	8	—	2,118	2,126	(2,126)	—
Total	45,907	16,413	5,926	68,247	(2,126)	66,120
Segment profit	8,725	425	189	9,339	7	9,347
Segment assets	27,589	12,051	6,343	45,984	51,005	96,989
Other items						
Depreciation (Note 3)	1,325	1,341	341	3,008	(1)	3,006
Investments in affiliated company under the equity method	100	—	—	100	—	100
Increase in property, plant and equipment and intangible assets (Note 3)	1,515	1,450	1,472	4,438	—	4,438

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of 7 million yen include 6 million yen for elimination of inter-segment transactions and 1 million yen for adjustments of non-current assets.

(2) Adjustments of segment assets of 51,005 million yen include 51,452 million yen of corporate assets that are not allocated to specific reportable segments, and -447 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and deposits), and long-term investment funds (investment 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, property, plant and equipment and intangible assets include depreciation long-term prepaid expenses and depreciation of such expenses.

[Related information]

Previous 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, Plant & Equipment

   Information is omitted since the Company has no property, plant 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, 2018; ended September 30, 2019)

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, Plant & Equipment

   Information is omitted since the Company has no property, plant 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, 2017; ended September 30, 2018)

(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, 2018; ended September 30, 2019)

None to be disclosed.

[Information on amortization of goodwill and balance of goodwill by reportable segments]

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

None to be disclosed.

[Information on gain on negative goodwill by reportable segments]

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)

Gain on negative goodwill of 88 million yen has been recognized under the Accounting Firm BD segment as a result of a share exchange between the Company as wholly owning parent company and TKC Shuppan Corporation as wholly owned subsidiary company in said share exchange.

[Related Parties Information]

1 Related Parties Transactions

(1) Transactions between the Company and related parties

Previous 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) Receiving of interests (Note)	150 2	Loans receivables	134

(Note) 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)	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 rendering 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 with a near relative of Mr. Kazuyuki Sumi, Director and Chairman of the Board 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, 2018; ended September 30, 2019)

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	Recovery of funds (Note) Receiving of interests (Note)	48 3	Loans receivables	86

(Note) 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)
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)	54	Accounts receivable	1
	Certified public tax accounting firm Oshida Accounting Office (Note 3)	Yokohama-shi, Kanagawa	4	Certified public tax accounting firm	–	Rendering of information processing services	Rendering of information processing services (Note 1)	23	Accounts receivable	1
	Certified public tax accounting firm Aoyama Accounting Firm (Note 4)	Minato-ku, Tokyo	8	Certified public tax accounting firm	–	Rendering of information processing services	Rendering of information processing services (Note 1)	30	Accounts receivable	2
	Certified public tax accounting firm Ofuji Accounting Office (Note 5)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	–	Rendering of information processing services	Rendering of information processing services (Note 1)	23	Accounts receivable	1

(Notes) 1. Terms of transaction or policies on determining the terms of transaction
Terms of transaction for the rendering 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. Yoshimasa Oshida, Director of the Company.
4. The company was co-founded by Mr. Kenji Matsumoto, Auditor of the Company.
5. The company was co-founded with a near relative of Mr. Kazuyuki Sumi, Director and Chairman of the Board of the Company.
6. Consumption taxes are not included in the transaction amounts. Consumption taxes are included in the year-end balance.

(2) Transactions with consolidated subsidiaries of the Company and related parties

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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Net assets per share	2,686.32 yen	2,724.78 yen
Net income per share	233.46 yen	255.52 yen
Diluted net income per share	232.41 yen	255.01 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, 2017; ended September 30, 2018)	Current consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)
Net income per share		
Net income attributable to owners of parent (millions of yen)	6,158	6,721
Amount not attributable to common shareholders (millions of yen)	—	—
Net income from common stocks attributable to owners of parent (millions of yen)	6,158	6,721
Average number of common stocks outstanding (hundreds of shares)	263,789	263,028
Diluted net income per share		
Adjustments to net income attributable to owners of parent (millions of yen)	—	—
Number of common stocks increased (hundreds of shares)	1,191	531
(Subscription rights to shares (hundreds of shares))	(1,191)	(531)
Outline of diluted shares not included in the calculation of diluted net income per share for not having dilutive effect	————————————	

(Note) The average number of stocks outstanding used in the calculation of earnings per share information has been determined by including the stocks of the Company owned by the BIP Trust, which has been established with the introduction of the BIP Trust plan, as deductible treasury stocks.

The average number of said treasury stocks deducted for the calculation of net income per share and diluted net income per share was 112,212 shares for the current consolidated fiscal year under review.

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 loans payable	—	—	—	—
Current portion of long-term loans payable	142	142	0.28	—
Current portion of lease obligations	363	541	—	—
Long-term loans payable (excluding current portion)	580	438	0.28	October 5, 2019 to September 10, 2025
Lease obligations (excluding current portion)	576	1,333	—	October 9, 2019 to March 22, 2024
Other interest-bearing debts Accounts payable – installment purchases	60	38	0.57	October 22, 2019 to February 28, 2023
Total	1,724	2,494	—	—

(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. Repayments 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 are as follows.

	After 1 year but within 2 years (millions of yen)	After 2 year but within 3 years (millions of yen)	After 3 year but within 4 years (millions of yen)	After 4 year but within 5 years (millions of yen)
Long-term loans payable	142	80	71	71
Lease obligations	450	385	355	114
Other interest-bearing debts	4	4	1	—

[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)	14,141	31,936	47,721	66,120
Quarterly net income before income taxes (current FY) (millions of yen)	1,729	5,114	7,832	10,004
Quarterly net income attributable to owners of parent (current FY) (millions of yen)	1,170	3,466	5,171	6,721
Quarterly net income per share (current FY) (yen)	44.38	131.45	196.46	255.52

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income per share (yen)	44.38	87.09	65.00	59.04

2 [Financial Statements, etc.]

(1) [Financial Statements]

1) [Balance Sheets]

(Unit: millions of yen)

	Previous fiscal year (September 30, 2018)	Current fiscal year (September 30, 2019)
Assets		
Current assets		
Cash and deposits	18,461	25,775
Accounts receivable	(*1) 6,758	(*1) 7,813
Lease investment assets	290	443
Merchandise	54	70
Work in progress	209	595
Raw materials and supplies	133	109
Prepaid expenses	540	495
Accounts receivable–other	(*1) 131	(*1) 172
Other	(*1) 302	(*1) 364
Allowance for doubtful accounts	(34)	(25)
Total current assets	26,847	35,813
Non-current assets		
Property, Plants & Equipment		
Buildings	7,226	7,028
Structures	227	205
Vehicles	0	0
Tools, furniture & fixtures	1,383	1,724
Land	6,667	6,636
Total property, plant & equipment	15,504	15,595
Intangible assets		
Software	2,846	2,347
Software in progress	692	807
Telephone subscription rights	22	22
Other	0	0
Total intangible assets	3,561	3,177
Investments and other assets		
Investment securities	23,573	15,084
Stocks of subsidiaries and affiliates	527	795
Investments in capital	0	0
Long-term loans receivable	(*1) 86	(*1) 38
Long-term prepaid expenses	200	138
Deferred tax assets	4,754	5,687
Long-term time deposits	6,000	9,500
Guarantee deposits	1,270	1,263
Long-term lease investment assets	350	1,033
Other	58	63
Total investments and other assets	36,823	33,605
Total non-current assets	55,889	52,378
Total assets	82,737	88,192

(Unit: millions of yen)

	Previous fiscal year (September 30, 2018)	Current fiscal year (September 30, 2019)
Liabilities		
Current liabilities		
Accounts payable–trade	(*1) 2,704	(*1) 3,402
Lease obligations	290	443
Accounts payable–other	(*1) 2,213	(*1) 2,133
Income taxes payable	1,605	2,340
Accrued business office taxes	54	54
Consumption taxes payable	374	599
Advances received	708	994
Deposits received	438	364
Provision for bonuses	2,870	3,222
Accounts payable–facilities	(*1) 374	(*1) 373
Other	—	12
Total current liabilities	11,634	13,941
Non-current liabilities		
Lease obligations	350	1,033
Provisions for retirement benefits	1,469	1,635
Provisions for stocks payment	—	562
Other	418	398
Total non-current liabilities	2,239	3,629
Total liabilities	13,873	17,570
Net assets		
Equity		
Capital stock	5,700	5,700
Capital surplus		
Legal capital surplus	5,409	5,409
Other capital surplus	—	302
Total capital surplus	5,409	5,711
Retained earnings		
Legal retained earnings	688	688
Other retained earnings		
General reserve	52,257	55,457
Retained earnings brought forward	4,658	4,816
Total retained earnings	57,604	60,962
Treasury stock	(968)	(1,630)
Total equity	67,745	70,744
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	882	(121)
Total valuation and translation adjustments	882	(121)
Subscription rights to shares	235	—
Total net assets	68,863	70,622
Total liabilities and net assets	82,737	88,192

2) [Profit and Loss Statement]

(Unit: millions of yen)

	Previous fiscal year (Started October 1, 2017; ended September 30, 2018)	Current fiscal year (Started October 1, 2018; ended September 30, 2019)
Sales	(*1) 56,769	(*1) 60,897
Cost of sales	(*1) 18,497	(*1) 20,318
Gross profit	38,271	40,579
Selling, general and administrative expenses	(*1)(*2) 30,008	(*1)(*2) 31,979
Operating income	8,263	8,600
Non-operating income		
Interest income	(*1) 31	(*1) 31
Dividends income	(*1) 168	(*1) 217
Land & rent income	(*1) 96	(*1) 157
Subsidy income	40	13
Other	(*1) 31	(*1) 62
Total non-operating income	368	481
Non-operating expenses		
Foreign exchange losses	0	0
Cost of lease revenue	53	108
Other	—	0
Total non-operating expenses	54	109
Ordinary income	8,577	8,972
Extraordinary income		
Gain on sales of non-current assets	1	1
Gain on reversal of subscription rights to shares	—	274
Other	—	8
Total extraordinary income	1	283
Extraordinary loss		
Loss on sale of non-current assets	—	10
Loss on retirement of non-current assets	9	7
Loss on valuation of investment securities	53	—
Impairment losses	0	—
Other	—	0
Total extraordinary loss	63	18
Net income before taxes	8,516	9,238
Income taxes–current	2,808	3,469
Income taxes–deferred	(251)	(493)
Total income taxes	2,556	2,975
Net income	5,959	6,262

[Report on cost of sales]

(a) Cost of sales on information processing, software and consulting services

		52nd Term (Started October 1, 2017; ended September 30, 2018)			53rd Term (Started October 1, 2018; ended September 30, 2019)		
Category	Note	Amount (millions of yen)		Ratio (%)	Amount (millions of yen)		Ratio (%)
I Materials costs			3,507	27.5		3,798	27.6
II Labor costs	*1		2,378	18.7		2,314	16.8
III Expenses							
1. Computer rental expenses		352			382		
2. Maintenance contracts		1,275			1,230		
3. Depreciation		554			638		
4. Repairs and maintenance expenses		593			604		
5. Supplies expenses		2,034			1,743		
6. Other		2,039	6,849	53.8	3,069	7,668	55.6
Total expenses			12,735	100.0		13,781	100.0
Works in progress and inventories at beginning of year			243			209	
Transfers from other accounts	*2		1,137			1,318	
Total			14,115			15,309	
Works in progress and inventories at end of year			209			595	
Transfers to other accounts	*3		1,185			1,072	
Cost of sales on information processing, software and consulting services			12,721			13,640	

(Notes) 1. Labor costs include the following provisions. Figures in (parentheses) denote amounts for the previous fiscal year.

Provision for bonuses: 517 million yen (536 million yen)

Retirement benefit expenses: 52 million yen (60 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

		52nd Term (Started October 1, 2017; ended September 30, 2018)		53rd Term (Started October 1, 2018; ended September 30, 2019)	
Category	Note	Amount (millions of yen)	Ratio (%)	Amount (millions of yen)	Ratio (%)
I Inventories at beginning of year		125	2.2	54	0.8
II Purchases		5,704	97.8	6,693	99.2
Total		5,830	100.0	6,747	100.0
III Inventories at end of year		54		70	
Cost of sales on office equipment and supplies		5,776		6,677	

3) [Statement of Changes in Equity]

Previous fiscal year (started October 1, 2017; ended September 30, 2018)

(Unit: millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of year	5,700	5,409	—	5,409	688	48,957	4,900	54,546
Changes during fiscal year								
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 during fiscal year	—	—	—	—	—	3,300	(241)	3,058
Balance at end of year	5,700	5,409	—	5,409	688	52,257	4,658	57,604

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Other	Total valuation and translation adjustments		
Balance at beginning of year	(964)	64,690	597	597	178	65,466
Changes during fiscal year						
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 during fiscal year	(3)	3,054	284	284	57	3,396
Balance at end of year	(968)	67,745	882	882	235	68,863

Current fiscal year (Started October 1, 2018; ended September 30, 2019)

(Unit: millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of year	5,700	5,409	—	5,409	688	52,257	4,658	57,604
Changes during fiscal year								
General reserve						3,200	(3,200)	—
Dividends of surplus							(2,904)	(2,904)
Net income							6,262	6,262
Acquisition of treasury stock								
Disposal of treasury stock			228	228				
Increase due to share exchange			74	74				
Changes in items other than equity (net)								
Total changes during fiscal year	—	—	302	302	—	3,200	158	3,358
Balance at end of year	5,700	5,409	302	5,711	688	55,457	4,816	60,962

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury stock	Shareholders' equity Total	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of year	(968)	67,745	882	882	235	68,863
Changes during fiscal year						
General reserve		—				—
Dividends of surplus		(2,904)				(2,904)
Net income		6,262				6,262
Acquisition of treasury stock	(1,387)	(1,387)				(1,387)
Disposal of treasury stock	531	760				760
Increase due to share exchange	193	267				267
Changes in items other than equity (net)			(1,004)	(1,004)	(235)	(1,240)
Total changes during fiscal year	(661)	2,998	(1,004)	(1,004)	(235)	1,758
Balance at end of year	(1,630)	70,744	(121)	(121)	—	70,622

[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 specific identification method (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, plant and 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) Allowance for doubtful accounts

In setting aside provisions for possible losses due to uncollectable 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 stocks payment

In setting aside provisions for payment of the Company's shares to Directors, etc., provisions are recognized at estimated amounts of stocks payment determined based on the points allocated to Directors, etc. in accordance with the rules on issuance of shares under the Board Incentive Plan (BIP) Trust.

(4) 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 and past service costs

Past service costs are recognized as expenses for certain years (10 years) within the average remaining years of service of employees in which they occur using the straight-line method.
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, 2018)	Current fiscal year (September 30, 2019)
Short-term monetary claims on affiliated companies	203 million yen	212 million yen
Long-term monetary claims on affiliated companies	86	38
Short-term monetary liabilities on affiliated companies	527	544

(Notes to Income Statements)

*1. Volume of transactions with affiliated companies

	Previous fiscal year (Started October 1, 2017; ended September 30, 2018)	Current fiscal year (Started October 1, 2018; ended September 30, 2019)
Volume of trading transactions		
Sales	110 million yen	60 million yen
Purchases	2,701	2,966
Operating expenses	1,786	2,413
Volume of non-operating transactions	161	227

*2. The approximate percentages of selling expenses were 53.4% for the previous fiscal year and 51.3% for the current fiscal year; the approximate percentages of general and administrative expenses were 46.6% and 48.7%, respectively.

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

	Previous fiscal year (Started October 1, 2017; ended September 30, 2018)	Current fiscal year (Started October 1, 2018; ended September 30, 2019)
Salaries	9,548 million yen	9,767 million yen
Provisions for bonuses	2,470	2,704
Retirement benefit expenses	651	585
Provisions for stocks payment	—	562
Depreciation	602	575
Rent expenses	1,982	2,032
Research and development expenses	82	—

(Securities)

Stocks of subsidiaries and affiliates (the amounts in the previous fiscal year's balance sheet were 473 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 795 million yen for stocks of subsidiaries and 0 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, 2018)	Current fiscal year (September 30, 2019)
Deferred tax assets		
Software development costs	2,115 million yen	2,290 million yen
Provision for bonuses	875	982
Provisions for retirement benefits	448	498
Retirement benefit trust	1,195	1,201
Accrued business tax	96	126
Valuation loss on investment securities	193	195
Retirement bonuses for directors payable	17	17
Legal welfare expenses corresponding to provisions for bonuses	130	146
Asset retirement obligations	99	99
Impairment losses	112	112
Provisions for stocks payment	—	171
Other	235	238
Subtotal	5,519	6,081
Valuation allowance	(375)	(373)
Total deferred tax assets	5,144	5,707
Deferred tax liabilities		
Valuation difference on available-for-sale securities	367	—
Retirement expenses corresponding to asset retirement obligations	22	20
Other	0	—
Total deferred tax liabilities	389	20
Net deferred tax assets	4,754	5,687

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, 2018)	Current fiscal year (September 30, 2019)
Statutory income tax rate	30.7 %	30.5 %
(Adjusted)		
Inhabitant tax on per capita basis	0.8	0.8
Entertainment expenses, etc. not deductible for tax purposes	0.7	1.2
Dividends received, etc. to be excluded from gross revenue	(0.2)	(0.3)
Tax credits for salary growth	(2.4)	—
Other	0.5	0.0
Income tax rate after applying tax effect accounting	30.0	32.2

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	7,226	215	5	408	7,028	10,547
	Structures	227	—	—	21	205	488
	Vehicles	0	—	—	0	0	44
	Tools, furniture & fixtures	1,383	986	1	644	1,724	4,691
	Land	6,667	—	30	—	6,636	—
	Total property, plants & equipment	15,504	1,202	37	1,074	15,595	15,772
Intangible assets	Software	2,846	1,031	—	1,530	2,347	3,910
	Software in progress	692	721	606	—	807	—
	Telephone subscription rights	22	—	—	—	22	—
	Other	0	—	—	0	0	0
	Total intangible assets	3,561	1,753	606	1,530	3,177	3,910

(Notes) Major increase during the current fiscal year were attributable to the following:

Buildings	Acquisition of HVAC systems for Tochigi main building and annex	190 million yen
Software	Development costs of software for sale	328 million yen
	Development costs of software for internal use	629 million yen
	Software purchased from outside	73 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
Allowance for doubtful accounts	34	25	34	25
Provision for bonuses	2,870	3,222	2,870	3,222
Provisions for stocks payment	—	562	—	562

(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) 1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation, Stock Transfer Agency Division
Administrator of shareholder registry	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Forwarding office	――――――――――――
Handling charges for buyback and increase	Amount stipulated separately as commission for entrusting sale or purchase of stocks
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 (52nd term) from October 1, 2017 to September 30, 2018, filed to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2018.

(2) Internal Control Report and Appendices

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 25, 2018.

(3) Quarterly Securities Reports and Confirmation Letter

First quarter of 53rd term (From October 1, 2018 to December 31, 2018), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on February 7, 2019.
Second quarter of 53rd term (From January 1, 2019 to March 31, 2019), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on May 9, 2019.
Third quarter of 53rd term (From April 1, 2019 to June 30, 2019), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on August 13, 2019.

(4) Correction Reports for the Annual Securities Reports and Confirmation Letters

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on January 7, 2019.

Correction Reports for the Annual Securities Reports for the Fiscal Year (52nd Term) (Started October 1, 2017; ended September 30, 2018) and Confirmation Letter thereto.

(5) Securities Registration Statements (Third-party Allocation of Shares) and Appendices Thereto

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on February 6, 2019.

(6) Correction Statements for the Securities Registration Statements

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on February 7, 2019.

(7) Reports on Status of Acquisition of Treasury Stock

Reporting period (from March 13, 2019 to March 29, 2019); filed to the Director-General of the Kanto Local Finance Bureau, Japan, on April 11, 2019.

Reporting period (from September 24, 2019 to September 30, 2019); filed to the Director-General of the Kanto Local Finance Bureau, Japan, on October 11, 2019.

(8) Extraordinary Reports

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.

Independent Auditors' Audit Report
and Internal Control Audit Report

December 20, 2019

TKC Corporation

To: The Board of Directors

Ernst & Young ShinNihon LLC

Designated Limited Liability Partner Executing Partner	Certified Public Accountant	Kanji Tako (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 Financial Information Section, namely, the consolidated statements of financial position of TKC Corporation and consolidated subsidiaries for the fiscal year from October 1, 2018 to September 30, 2019, 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 principles setting forth the preparation and properly presentation of the consolidated financial statements generally accepted in Japan. Responsibilities include those for designing and operating an internal control system as the management deems necessary in order to prepare and properly present the consolidated financial statements that are free from material misstatement due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit as independent auditors. 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, 2019, 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 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, 2019.

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.

Auditors' 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, 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, 2019 is effectively maintained, 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 of Japan.

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.

Independent Auditors'
Audit Report

December 20, 2019

TKC Corporation

To: The Board of
Directors

Ernst & Young ShinNihon LLC

Designated Limited Liability Partner Executing Partner	Certified Public Accountant	Kanji Tako (Seal)
Designated Limited Liability Partner Executing Partner	Certified Public Accountant	Yuichi Noda (Seal)

Pursuant to the 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 53rd fiscal year from October 1, 2018 to September 30, 2019, 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 financial statements in accordance with principles setting forth the preparation and properly presentation of the financial statements generally accepted in Japan. Responsibilities include those for designing and operating an internal control system as the management deems necessary in order to prepare and properly present the financial statements that are free from material misstatement due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit as independent auditors. 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, 2019, 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 of Japan.

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 23, 2019
[Company name]	*Kabushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[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]

Masanori Iizuka, Representative Director, President and Executive Officer, 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, 2019, 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 four other consolidated subsidiaries and one equity-method affiliated company 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 the Company, whose net sales reached about 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 of 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 23, 2019
[Company name]	*Kabushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[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]

Masanori Iizuka, Representative Director, President and Executive Officer 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 53rd fiscal year (from October 1, 2018 to September 30, 2019) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.