Annual Securities Report

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

Fiscal year	Started October 1, 2021
(56th Term)	Ended September 30, 2022

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

(E04807)

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

Contents

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[Company name in English]	TKC Corporation
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Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

(1) Consolidated Financial Data, etc.

Fiscal year		52nd Term	53rd Term	54th Term	55th Term	56th Term
Year end		September 2018	September 2019	September 2020	September 2021	September 2022
Net sales	(million yen)	61,621	66,120	67,814	66,221	67,838
Ordinary income	(million yen)	8,961	9,669	11,685	12,673	13,677
Net income attributable to owners of parent	(million yen)	6,158	6,721	7,821	8,686	9,317
Comprehensive income	(million yen)	6,517	4,082	7,501	9,839	8,902
Net assets	(million yen)	72,550	73,121	77,075	83,416	87,325
Total assets	(million yen)	90,202	96,989	97,671	103,406	109,225
Net assets per share	(yen)	1,343.16	1,362.39	1,466.56	1,582.45	1,665.68
Net income per share	(yen)	116.73	127.76	148.81	164.93	177.62
Diluted net income per share	(yen)	116.20	127.50	—	—	—
Equity ratio	(%)	78.6	73.8	78.9	80.7	80.0
Return on equity (ROE)	(%)	8.9	9.4	10.5	10.8	10.9
Price earnings ratio (PER)	(times)	20.4	18.3	22.9	21.3	19.3
Cash flows from operating activities	(million yen)	8,810	10,550	10,569	10,550	13,050
Cash flows from investing activities	(million yen)	(4,013)	411	(10,124)	(7,201)	(4,342)
Cash flows from financing activities	(million yen)	(2,567)	(3,792)	(3,786)	(3,691)	(5,214)
Cash and cash equivalents at end of year	(million yen)	19,268	26,810	23,469	23,126	26,620
No. of employees	(No. of people)	2,625	2,701	2,770	2,851	2,880

(Notes) 1. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period of the 53rd Term, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.

2. Diluted net income per share is not stated from the 54th term and beyond as there were no dilutive shares.

3. The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. Net assets per share, net income per share, and diluted net income per share have been calculated assuming that the stock split was conducted at the beginning of the 52nd Term.

4. The reason for decrease in net sales in the 55th Term compared to the 54th Term is because the Company started early application of the Accounting Standard for Revenue Recognition, etc. from the beginning of the 55th Term.

(2) Financial Data, etc. of the Company

Fiscal year		52nd Term	53rd Term	54th Term	55th Term	56th Term
Year end		September 2018	September 2019	September 2020	September 2021	September 2022
Net sales	(million yen)	56,769	60,897	63,070	61,637	63,570
Ordinary income	(million yen)	8,577	8,972	11,107	12,064	13,290
Net income	(million yen)	5,959	6,262	7,472	8,293	9,076
Capital stock	(million yen)	5,700	5,700	5,700	5,700	5,700
Total number of shares issued	(hundred shares)	267,310	267,310	267,310	534,620	534,620
Net assets	(million yen)	68,863	70,622	74,714	80,491	83,993
Total assets	(million yen)	82,737	88,192	89,767	95,264	100,776
Net assets per share	(yen)	1,300.74	1,343.47	1,421.63	1,526.97	1,602.11
Dividend per share (Of the above, interim dividends per share)	(yen)	105.00 (50.00)	110.00 (55.00)	120.00 (55.00)	104.50 (65.00)	78.00 (36.00)
Net income per share	(yen)	112.96	119.04	142.18	157.46	173.04
Diluted net income per share	(yen)	112.45	118.79	—	—	—
Equity ratio	(%)	82.9	80.1	83.2	84.5	83.3
Return on equity (ROE)	(%)	8.9	9.0	10.3	10.7	11.0
Price earnings ratio (PER)	(times)	21.0	19.7	23.9	22.3	19.8
Dividend payout ratio	(%)	46.48	46.20	42.20	45.70	45.10
No. of employees	(No. of people)	2,225	2,288	2,312	2,398	2,408
Total shareholder return (Benchmark index: TOPIX total return index)	(%) (%)	140.9 (110.8)	141.9 (99.3)	207.1 (104.2)	217.7 (132.9)	217.2 (123.4)
Stock price—high	(yen)	4,875	5,030	7,270	3,910 (7,840)	3,645
Stock price—low	(yen)	3,305	3,350	3,820	3,175 (6,190)	2,911

(Notes) 1. Dividends per share include special dividends of 7 yen for the 55th Term and 6 yen for the 56th Term.
The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. Dividend of 104.50 yen per share for the 55th Term is the sum of an interim dividend of 65 yen per share prior to this stock split, and a year-end dividend of 39.50 yen per share after said stock split. If the stock split were taken into consideration, the interim dividend of 65.00 yen would have been 32.50 yen, and the total annual dividends per share would have been 72 yen.

2. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter accounting period of the 53rd Term, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.
3. Diluted net income per share is not stated from the 54th term and beyond as there were no dilutive shares.
4. The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. Net assets per share, net income per share, and diluted net income per share have been calculated assuming that the stock split was conducted at the beginning of the 52nd Term.
Total shareholder return has been calculated taking into consideration said stock split.
5. The reason for decrease in net sales in the 55th Term compared to the 54th Term is because the Company started early application of the Accounting Standard for Revenue Recognition, etc. from the beginning of the 55th Term.

6. The highest and lowest stock prices are based on the market prices on the First Section of the Tokyo Stock Exchange. The highest and lowest stock prices after April 4, 2022 are based on the market prices on the Prime Market of the Tokyo Stock Exchange.
   The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. The stock prices for the 55th Term show the highest and lowest stock prices after the stock split; the figures in parenthesis show the highest and lowest stock prices before the stock split.

2 [History]

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

Date	Company History
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.
March 2020	Acquired 100% ownership of TLP Corporation as wholly-owned subsidiary.
April 2022	Transferred from the First Section of the Tokyo Stock Exchange to the Prime Market in response to TSE’s market restructuring.

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 Consolidated Financial Statements under Part 5 Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

(1) Accounting Firm 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	(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.

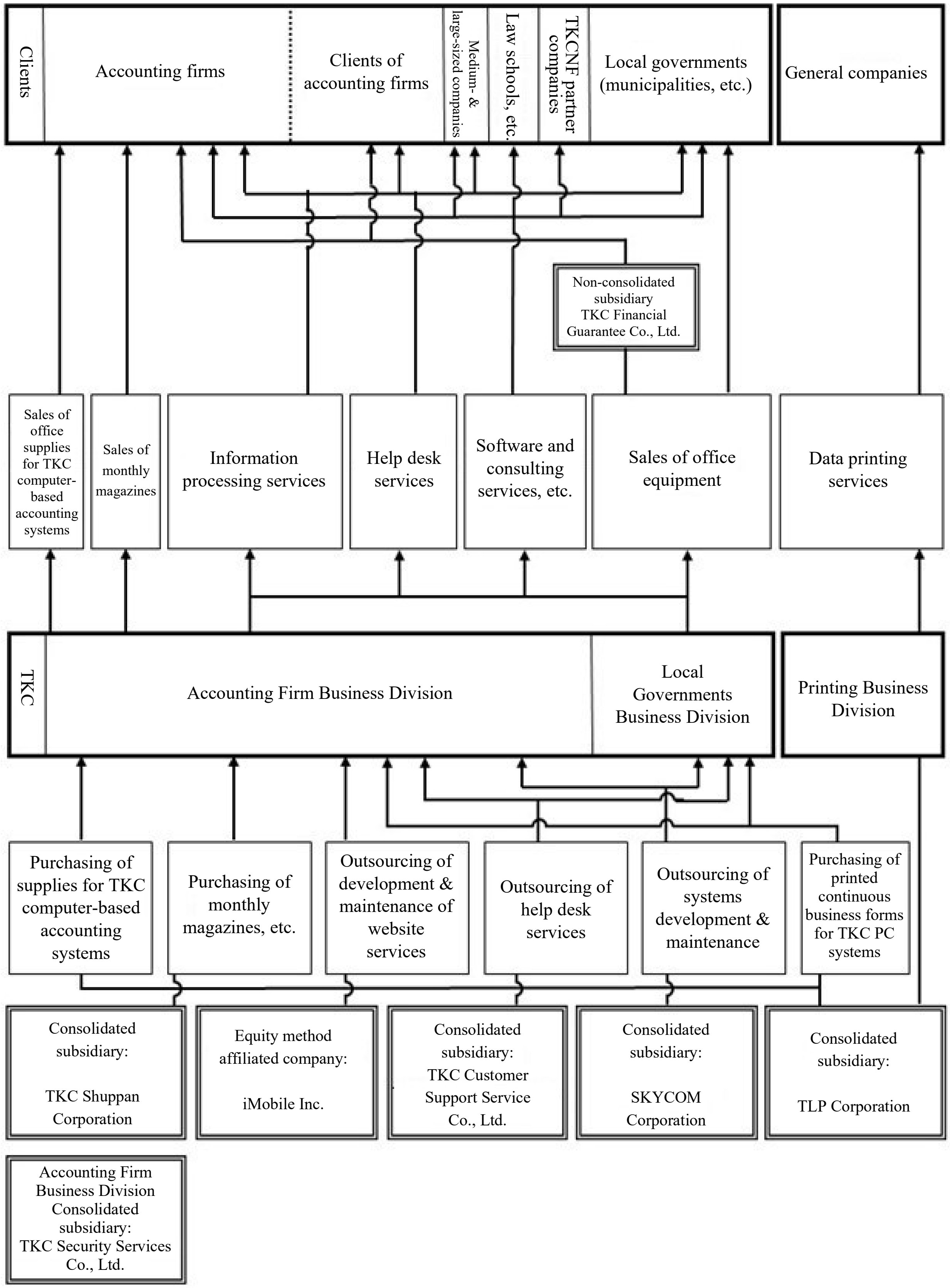
(2) Local Governments Business

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 PC system 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 and 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 stock (million yen)	Principal line of business	Percentage of voting rights held (%)	Relationship
TLP Corporation	Itabashi-ku, Tokyo	100	Printing business, manufacture and sales of continuous business forms for PCs	100.0	Purchasing of printed continuous business forms for PCs; lease of office spaces. Executive positions held concurrently: yes Funding: no
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 held concurrently: yes Funding: no
SKYCOM Corporation	Chiyoda-ku, Tokyo	100	Development and sales of systems	100.0	Outsourcing of systems development. Executive positions held concurrently: yes Funding: no
TKC Customer Support Service Co., Ltd.	Kanuma-shi, Tochigi	25	Help desk services	100.0	Outsourcing of help desk services. Executive positions held concurrently: yes Funding: no
TKC Shuppan Corporation	Shinjuku-ku, Tokyo	83	Production of monthly magazines, etc.	100.0	Purchasing of monthly magazines, etc. Executive positions held concurrently: yes Funding: no

(Notes) 1. TLP Corporation is a specified subsidiary.

2. None of the companies currently submit Securities Registration Statements or Annual Securities Reports.

(2) Equity Method Affiliated Companies

Name	Address	Capital stock (million yen)	Principal line of business	Percentage of voting rights held (%)	Relationship
iMobile Inc.	Shibuya-ku, Tokyo	100	Development and maintenance of website services	30.0	Outsourcing of development and maintenance of website services. Executive positions held concurrently: yes Funding: yes

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

5 [Employees]

(1) Consolidated Basis

As of September 30, 2022

Name of segment	Number of employees
Accounting Firm business	1,632
Local Governments business	625
Printing business	205
Corporate (shared)	418
Total	2,880

(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, 2022

Number of employees	Average age (years)	Average years of service (years)	Average annual salary (yen)
2,408	40.0	16.8	7,691,749

Name of segment	Number of employees
Accounting Firm business	1,531
Local Governments business	625
Corporate (shared)	252
Total	2,408

(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, Business Environment and Challenges Faced by the Company]

(1) Management Policy, Business 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."

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

These business objectives have 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

The Japanese economy has been seeing various challenges such as fragmented supply chain, dramatic falling of the yen, and soaring prices of resources due to Russia's aggression against Ukraine, while impacts of the novel coronavirus disease (COVID-19) pandemic were more moderate. Despite signs of recovery in the current economic environment, the future outlook remains unclear due to these impacts.

In such situations, the Japanese government has been continuing to offer booster vaccinations and taking various measures to support the people and SMEs towards resuming the socio-economic activities. The Group carried out its business in an aim to contribute to our clients as well as to the local communities and society by quickly complying with such social environment and governmental initiatives through the development of compatible systems and provision of services.

Revisions to the laws and advancements in ICT have significant impacts on the products and services that the Group offers. Legal revisions include the Revised Electronic Books Maintenance Act enforced on January 2022, the Group Tax Sharing System which became applicable starting April 2022, and the new consumption tax invoicing system to be implemented in October 2023. In addition, the national and local governments are promoting digital transformation, standardization and common use of the local governments' information systems, and implementation of Gov-Cloud, all of which need to be addressed.

Advancements in ICT include evolutions in cloud computing technologies, FinTech, and AI, to name a few.

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 Group.

3. Priority business and financial issues

1) Providing systems in complete compliance with laws and regulations

The Group 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 Group will continue to enhance system developments that will enable us to promptly respond to revisions to such laws and regulations.

2) Establishing the Group governance system

The Company will establish an internal controls system in compliance with the requirements of the Companies Act as well as the Financial Instruments and Exchange Act of Japan, and 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 Group established and operates 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.

3) Fostering an organizational culture that bolsters job satisfaction

The Group 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.

4) Ensuring business continuity

The Group will 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, pandemics, and other unforeseen circumstances.

5) Rapid response to system failure

In the rare event that the Company's system fails, the Group will identify the users impacted by system failure to notify them of the nature of the failure and countermeasures, and strive to establish a system to provide rapid support for recovery under the policy of "100% customer relief."

6) 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 Company 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) acquired the following certifications: ISO/IEC 27018, code of practice for protection of personally identifiable data in the public cloud on October 12, 2015; ISO/IEC27017, code of practice for information security controls for cloud services on June 19, 2017; and ISO/IEC20000, the international standard for IT service management system on June 7, 2021. The Company will continue to strive to develop environments where customers can use cloud services safely, securely and conveniently.

(2) Management Policy, Business 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 (11,500 members).

TKCNF announced its 3-year activity policy from 2022 to 2024 as follows:

"TKC accountants challenging the future—push through field auditing and support companies in achieving positive balance and proper filing!"

1) Massively expand superior electronic books—Promotion of self-accounting by the TKC methods
2) Become guardians of tax justice—Promotion of Shomen-tempu (attachment of tax audit reports) by the TKC methods
3) Support the achievement of positive balance and foster good-standing companies—Promotion of field auditing and managerial advisory services

Based on the activity policy of TKCNF, the Company conducts activities to achieve the strategic targets for FY2024.

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, for example, the TKCNF's Medium and Large-size Support Research Committee and the Overseas Deployment Support Research Committee.

2. Business environment

According to the Outline of Filing of Corporate Income Tax Returns (Taxation) published in October 2022 by the National Tax Agency, the percentage of companies recording profit in FY2021 was 35.7%. Although this was an increase of 0.7 percent points over the previous fiscal year, it shows that approximately 65% are still recording losses.

Moreover, due to the sharp fall in yen, rise in raw material prices, and the start of repayment of COVID-19 emergency loans, etc. SMEs are still exposed to risks of financial difficulties and losses. While many SMEs are in such impenetrable fog, they face a big challenge of securing the necessary profit.

In such climate, TKC Member firms, in an aim to achieve positive balance and proper filing, conducted monthly field audits and monthly settlements, offered managerial advisory services, and undertook activities to "strengthen the company through accounting." We also provided various support services, including the calculation of profits and sales revenues needed for loan repayment and development of business plans. As a result of these activities, nearly 56% of the clients of TKC Member firms have achieved surplus, and there are rising expectations from SMEs and financial institutions nationwide towards the effective instructions provided by TKC Member firms.

The Revised Electronic Books Maintenance Act has been enforced on January 1, 2022, and the Revised Consumption Tax Act will be enforced on October 1, 2023. In response, all business operators will be required to take actions for the preservation of data in the form of electromagnetic records and qualified invoice system. The Company considers such legal and social system reforms as an opportunity to expand the client base of TKC Members.

3. Priority business and financial issues

The Accounting Firm BD aims to help TKC Members firms to increase their contribution to society and to achieve success in their operation. To this end, we offer full support for the following activities under the guidance of TKCNF.

1) Increase system competitiveness

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

a. The strengths of the Company's systems lie in the one-stop, full line of tax affairs and accounting. We have the capability to maintain complete compliance with laws, regulations and accounting standards in our financial accounting systems and to provide a one-stop, full line of accounting, tax affairs and electronic tax filing with fully compatible links to related tax information systems. Looking ahead, the Company will continue to respond promptly and accurately to revisions of laws/regulations and system modifications.

b. The most important feature of the Company's systems is that they are not mere offering 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 strengthen its support for such TKC Members to assist them in adding greater value to their services.

2) Activities to promote the use of self-accounting

In order to support TKCNF achieve their strategic targets, the Company will enhance and expand functions that support corporate executives' quick decision making, and carry out self-accounting promotion activities, taking advantage of the strengths of systems that prevent any retroactive insertions, deletions and corrections which may lead to falsification of accounting data.

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

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

4) Enhance and expand the TKC Consolidated Group Solution

In collaboration with the Medium- and Large-sized Companies Support and Overseas Business Support Councils of TKCNF, the Company utilizes the TKC Consolidated Group Solution to support large sized companies in rationalizing and streamlining such operations as taxation, accounting, and management of overseas subsidiaries.

5) Increase of user base of TKC Law Library

The Company will enhance the functions and contents of LEX/DB Internet, Publishers' Database, Legal Book Search and other contents constituting the TKC Law Library to further increase the convenience of users.

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, Business 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, enhancing 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. Business environment

Informatization of local governments (municipalities, in particular) is at a major turning point. Against the backdrop of labor shortages due to declining birthrate/aging population and depopulation in local communities, municipalities are facing an important managerial issue of transitioning to a "Smart Municipality (digital society)" that could provide administrative services in a sustainable manner with half the number of staff. In particular, the COVID-19 pandemic brought light to the social issue of delay in digitalization of administrative services, which caused local governments to further accelerate their efforts. The national government formulated the Basic Act on the Formulation of a Digital Society (Cabinet Decision of Dec. 25, 2020), highlighting that the roles of local municipalities (cities, wards, towns, and villages) which take on administrative services close to residents are crucial in achieving a digital society. It calls for all municipalities to keep pace in implementing the following measures in accordance with the Local Governments Digital Transformation (DX) Promotion Plan (Ministry of Internal Affairs and Communications, revision of Sep. 2, 2022):

1) Standardization and common use of municipal information systems
2) Promotion of My Number Cards
3) Switching to online administrative services
4) Promotion of use of AI/RPA
5) Promotion of teleworking
6) Ensuring security measures

Moreover, while governments and municipalities face increasingly serious financial conditions, local governments are expected to establish "sustainable administrative operations" in order to provide administrative services in a consistent, sustainable, efficient, and effective manner. To this end, local municipalities are facing the urgent need to update and disclose financial documents appropriately, visualize their financial conditions accurately, and aggressively utilize the information obtained from those financial documents in the assessment of projects and top decision-making.

Meanwhile, looking toward the market trends of business vendors supplying for local governments, new players from other industries and startups are entering the field of digitalization of administrative services one after another. Trends show that the local governments market is now increasingly competitive and the world has shifted to a harsh place where only those system suppliers who have the ability to respond flexibly and quickly to the changing business environment could survive.

3. Priority business and financial issues

As corporate effort to achieve digital transformation of local governments and to support sustainable reform of administrative and financial services, the Local Governments BD considers it a vital business challenge to provide support for the enhancement of services for residents and reduction of costs through improving the administrative efficiency of local governments, which are 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.

1) Enhancement of customer support around the TASK Cloud Service and standardization of mission-critical systems

a. We will enhance and expand our mission-critical operation systems to deliver the most suitable work process for municipalities, and further improve our support for existing customers and defend the market.

b. To respond to the standardization & common use of local government information systems to be implemented by end of March 2026, we began to develop systems that are fully compliant with the standard specifications designed by the national government, and to prepare for migrating to Gov-Cloud.

c. Two of the clients of the Company (Misato Town and Kawajima Town, Saitama Pref.) were selected for the Government Cloud Predecessor Project procured by the national government (Digital Agency). The Company is engaged in this Project as application vendors for both towns. In this Project, we will mainly conduct verifications on the system migration to Gov-Cloud, functions and behavior of the systems after migrating, information securities, usage costs, etc.

2) Support for digitalization and online provision of administrative services (administrative procedures)

Digitalization of administrative services is an urgent topic to be addressed by local municipalities. To support these efforts, we will collaborate with leading partners to further enhance and expand the system functionalities to achieve digitalization of the administrative counter services which combine the TASK Cloud Smart Application System and the TASK Cloud Easy Counter Service System.

3) Support for digitalization of local tax administrations

a. As an authorized contractor of the Local Tax Agency, and a provider of tax information systems, the Company will further expand related service offerings and enhance the functionalities to help streamline and promote tax administrations.

b. We will begin supporting the implementation of additional tax items for the local tax common tax payment system which will begin in April 2023.

4) Dissemination and promotion of TASK Cloud Public Accounting System

a. We will disseminate and promote the next-generation version of the TASK Cloud Public Accounting System which we began offering in October 2021.

b. We will help the municipalities achieve sustainable financial management through accurate visualization of financial status, and support digital transformation of internal administrative tasks through electronic payments and linking to electronic invoicing.

5) Research and development of next-generation products

a. We will engage in the R&D of system compatibility and original high value-added services and functions to be incorporated as standard specifications in the mission-critical systems.

b. Through joint demonstration projects, etc. with leading partners, we will engage in the R&D of new solutions to support the digitalization of administrative services, such as to go online and make them one stop and once only.

(4) Management Policy, Economic Environment, and Challenges Faced by the Printing Business Division (Subsidiary: TLP Corporation)

1. Management policy, management strategy

The Printing BD operates under the management policy to contribute to the communication and marketing of client companies and their customers by utilizing digital technologies and providing products and services that meet the changing needs. The COVID-19 pandemic has created a rapid flow for the government to go digital in this information-intensive society. To respond to the changes in social environment and values of clients, the Printing BD works to develop products and services utilizing our production technologies, to improve quality, and to add greater value. As a good partner to our clients, we will strive to further improve corporate value through the development of a communication environment utilizing digital technologies and printed materials.

2. Business environment

With the expansion of the Internet environment and due to impacts of the COVID-19 pandemics, people have adjusted their lives to new lifestyles and new work/business styles. Under the government's digital reform initiatives, digitalization of administrative services, regulatory reform, wide use of the My Number card, digitalization of education, and revision of the Electronic Books Maintenance Act are in progress. The market is seeing creation of new businesses prompted by such unprecedented changes in the environment and shifts in sense of values. As to our key products, data print services (DPS) and business process outsourcing (BPO), we strive to provide products and services that meet these changes.

While demands for business forms continue to decline over time, we will work to reduce costs and expand our shares within the market through streamlining of production environment, elimination and consolidation of facilities, and increase in production efficiency. In an aim to offer environment-conscious customers with environmentally friendly paper products, TLP Corporation, the Group's printing business division, acquired the FSC® Chain of Custody (CoC) certification (FSC-C182216) as of October 3, 2022. Under this certification system, companies are required to use materials from responsibly managed FSC certified forests and other responsible suppliers, and to have responsible management and printing process in place. By maintaining and managing this system, we can display the FSC certification mark on our paper products, which will allow our customers to demonstrate that they are environmentally responsible. We will utilize this certification to support our customers achieve their sustainable development goals.

3. Priority business and financial issues

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

1) We will provide greater added-values to our products and services by combining our analog and digital printing technologies, thereby contribute to direct communication efforts of our customers.
2) We will continue to develop new technologies to respond to customer needs and to enable unique proposal-oriented sales activities by differentiating ourselves from competitors.
3) Customers have expanded the scope of outsourcing services as a result of COVID-19 pandemics. We will cater to these needs and contribute to streamlining the customers' business operations through efforts including maintaining high quality, minimizing costs, and reducing information security risks.
4) We will improve quality and enhance quality and production capabilities by further strengthening the production environment of the dedicated DSP plant.
5) We will strive to improve and maintain consistent quality, and enhance our quality inspections of each process for all products to prevent quality defects.
6) We will carry out digital transformation (DX) and automation of processes throughout the Company to boost productivity and operational quality of all business segments.
7) In order to win trust from customers and business partners, and to stay on the front line of the government-initiated promotion of My Number Cards, we will further strengthen our information security systems based on Privacy Mark and ISMS to ensure strict management of My Number.
8) 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, 2022).

(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 FY2006 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) Fluctuations in Energy Prices

Because the data centers operated by the Company use a lot of electricity, we bear risks from fluctuating energy prices. We are working to eliminate these risks by taking energy-saving measures to reduce costs. However, further rise in energy prices, etc. may impact the operating results and cash flows.

(5) Stable Operation of Cloud Services

The Company is taking various measures to enable customers (including accounting firms and their clients, medium- and large-sized companies, and local governments) to use its cloud services in a safe and secure ICT environment, and to be able to maintain and continue its business operations in the event of emergencies. However, as we cannot prevent all unexpected disruptions, we take the following measures for early detection and recovery, and to minimize the impacts to our customers' business operations;

1. Strengthen our verification process upon providing the programs;
2. Strengthen our BCP in the event of unplanned disruptions;
3. Reduce time needed for recovery;
4. Third party assessment and verification of the effectiveness of measures.

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

(7) 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]

(1) Analysis of the Group's Consolidated Operating Results for the Current Consolidated Fiscal Year

1. Operating Results across the Group

The Accounting Firm BD supports certified public tax accountants and certified public accountants that are customers of TKC (hereinafter, "TKC Members") in enabling them to provide their clients with accounting, taxation, and financing support as escort supporters of SMEs. We also support SMEs in achieving profitable results and proper filing by providing and supporting the implementation of cloud-based accounting systems as detailed below.

The Local Governments BD quickly provided services in response to the release of the administrative circular "Printing and Mailing of Vaccination Vouchers, etc. for COVID-19 Vaccine Booster Shots (3rd Dose)" on October 20, 2021 from the Ministry of Health, Labour and Welfare, including services for the production of COVID-19 vaccination vouchers and provision of vaccination reservation & registration systems, thereby supporting customer local municipalities in their COVID-19 vaccination projects. It also supported local governments in achieving digital transformation of counter services by providing administrative service digitalization support services.

As a result of these activities, during the fiscal year under review, the consolidated Group comprising of TKC Corporation and its six consolidated subsidiaries recorded a net sales of 67,838 million yen (increased 2.4% year-on-year), operating income of 13,351 million yen (increased 8.4% year-on-year), ordinary income of 13,677 million yen (increased 7.9% year-on-year), and net income attributable to owners of parent of 9,317 million yen (increased 7.3% year-on-year).

Net sales for the current fiscal year by business division are shown below.

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 (TKCNF), which consists of 11,500 certified public tax accountants and certified public accountants (as of September 30, 2022) that are customers of TKC.

[Activities to achieve "positive balance" and "proper filing"]

New activity policy of TKCNF and sales activities to achieve targets

a. New activity policy of TKCNF

TKCNF has set a new activity policy for the next three years: "TKC accountants challenging the future—push through field auditing and support companies in achieving positive balance and proper filing!" It also set the following three targets to achieve this policy.

i) Massively expand superior electronic books—
Promotion of self-accounting by the TKC methods

ii) Become guardians of tax justice—
Promotion of Shomen-tempu (attachment of tax audit reports) by the TKC methods

iii) Support the achievement of positive balance and foster good-standing companies—
Promotion of field auditing and managerial advisory services

TKCNF has taken oath to society that it will contribute to the achievement of positive balance of companies through the practice of field auditing and legal compliance. To support TKCNF in achieving these three targets, the Company will engage in sales activities focusing around the promotion of self-accounting by the TKC methods.

b. Initiatives towards fostering good-standing companies

The TKC Group established the following five criteria as indicators that SMEs should aim for:

- Practice of Shomen-tempu (attachment of tax audit reports)
- Compliance with "Chusho Kaikei Yoryo" (Guidelines for SME Accounting)
- Increase of marginal income for two consecutive fiscal years
- Equity ratio of 30% or greater
- Positive net income before taxes

Companies that satisfy these criteria are defined as "BAST good-standing company" in the 2022 TKC Management Indicators (BAST), which contains financial statements data of more than 240,0000 companies. By supporting to increase the number of companies that implement compliance and work towards high value-added management, under the guidance of TKC Members, we will make appeal to society that "TKC Members are escort runners working to foster good-standing companies in the community."

c. Promotion of use of the 365 Days Floating Income Statement

TKC's self-accounting system (FX series) includes the 365 Days Floating Income Statement to support the decision-making of management. Unlike ordinary income statements, the 365 Days Floating Income Statement allows users to check their variable costs and fixed costs separately. Corporate managers using the FX series can keep track of the marginal profit (gross revenue) in managing their business. The Company engages in activities to make management aware that the 365 Days Floating Income Statement is an indispensable tool.

In September 2022, a story of a corporate manager who used the 365 Days Floating Income Statement and improved performance was covered in a TV program (A Document—Strategic Manager, BS11). This documentary program is made available to the public from our website. Going forward, we will continue to carry out similar PR activities.

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

Many SMEs must plan for repaying the virtually interest-free, collateral-free loans (zero-zero loans) implemented during the COVID-19 pandemic. To this end, we provided support for the utilization of functions incorporated in the FX series for the management strategy level (the 365 Days Floating Income Statement, budget entry, management by division, financing results spreadsheet, and annual forecast management) . In order for management to utilize these functions effectively, they need to enter the accounting transaction data in a timely and accurate manner, so the Company also provided support on functions for daily task level, including support for the bank credit data receiving function to receive bank deposit transaction data through online banking and generate journal entries automatically, and the linking of salary journal with the strategic salary information system (PX2).

We also found that the management of companies using our cloud-based financial accounting system FX Cloud series tends to access the system quite frequently by themselves to check their company's performance. That is the advantage of cloud, allowing users to check the business results any time and any place. By offering assistance to implement the FX Cloud series, the Company will work to support SMEs in achieving "positive balance and proper filing." As a result of these activities, the FX series has been implemented by approximately 299,000 companies as of September 30, 2022.

e. Supporting complete compliance with the Electronic Books Maintenance Act of Japan

The requirements for the retention of electronic books have been eased in the Revised Electronic Books Maintenance Act enacted as of January 1, 2022. With this, there will be a distinction among electronic books (which are electromagnetic records of national tax-related books): (a) "superior electronic books" that contain the history of additions, deletions and revisions to the accounting data (traceable) (electronic books that satisfy the requirements of Article 2 and Article 5 of the Ordinance for Enforcement of the revised Act); and (b) "other electronic books" that are prepared using accounting software that do not keep record of such additions/deletions/revisions (electronic books that satisfy only the requirements of Article 2 of the Ordinance for Enforcement of the revised Act). This legal reform negates "the power of evidence" of the books, and the acceptance of such "other electronic books" implies that the government has approved the use of accounting software that might enable falsification of books. To address this issue, the Company promotes the use of the FX series for the preparation of "superior electronic books" on a national level. In addition, electronic retention of electromagnetic transaction data will be mandated under the Revised Electronic Books Maintenance Act. While recording in paper form will be accepted up to December 2023, all business operators must comply with the obligation by then. We are providing support for the use of the FX series, which is equipped with a standard function to enable electronic storage of transaction data in electromagnetic form.

f. Supporting complete compliance with the new consumption tax invoicing system

A new consumption tax invoicing system will be implemented on October 1, 2023. Business entities subject to consumption tax must prepare for the new invoicing system by the time the system comes into effect, including application for registration as qualified invoice issuer, preparation for issuing qualified invoices, and gaining knowledge on bookkeeping from qualified invoices.

To enable accounting firms to provide smooth support to their clients, the Company is developing on-demand seminars, offering briefing materials, and planning other supports. In addition, we began offering a new function to enable clients to search their Business Operator Registration Number (a number that is assigned to each qualified invoice issuer once the Application for Registration as Qualified Invoice Issuer has been submitted to the tax office and accepted) from the National Tax Agency's qualified invoice issuer disclosure website, and register all relevant information in the OMS Cloud's Client Basic Information Database (CDB) at once. It also includes a function to cross-check the names of the business contacts in the Business Contact Master registered in the FX series against the names in NTA's qualified invoice issuer disclosure website, and to register and update their Business Operator Registration Numbers. This will enable FX series user companies to determine whether the counterpart of each certain business transaction is a qualified invoice issuer, thereby ensuring accurate calculation of consumption taxes. We have also completed designing new journal entry screens and new taxation categories that are in compliance with the consumption tax invoicing system, and are informing TKC members of these updates to develop a sense of security and reliability.

Of note, the Company was certified as the first Peppol (Pan European Public Procurement Online) service provider in Japan on August 19, 2022 by the Japan Peppol Authority (Digital Agency) and OpenPeppol (association in Belgium responsible for the development and management of Peppol specifications). TKC's self-accounting system will utilize this framework, and will be enhanced to enable the issuance and receipt of Peppol-compliant e-Invoices as a standard feature.

g. Promotion of TKC Monitoring Information Service

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.

While promoting the TKC Monitoring Information Service, the Company communicated to financial institutions that the reliability of financial statements prepared by SMEs can be verified by the following three documents:

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

ii) 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

iii) 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, TKC Monitoring Information Service is adopted by 478 financial institutions including all local banks throughout Japan (64 institutions) as of September 30, 2022. In addition, 38 credit guarantee corporations, which is equivalent to 74.5% of all the credit guarantee corporations in Japan (51 organizations) use this Service. As a result, the number of cases that used this Service exceeded 310,000 cases.

The TKC Monitoring Information Service can swiftly provide financial institutions with monthly trial balance sheets, financial statements, and tax returns of SMEs that TKC Members have verified in terms of legality, accuracy and timeliness through monthly field audits. While the issue of excessive debt of SMEs is gradually surfacing amidst the pandemic, our TKC Monitoring Information Service is gaining high acclaims from financial institutions and credit guarantee corporations that are striving to support the businesses of SMEs. This service is expected to serve as a bridge between financial institutions and TKC Members in their efforts to support the businesses of SMEs as escort runners.

h. Soliciting new members (promotion of joining TKCNF)

TKCNF continues to engage in a project to increase TKC membership to exceed 10,000 firms. To achieve this goal, the Company worked closely with the New Members Service Committee and other members of TKCNF in activities such as active hosting of webinars.

As a result of these activities, the number of TKC Member firms totaled approximately 9,900 accounting firms (11,500 accountants) as of September 30 2022. 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"]

a. 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 SMEs should comply.

These Guidelines have been formulated based on the following principles: (i) accounting that helps to grasp the company's business situation; (ii) accounting that contributes to providing information to stakeholders (financial institutions, etc.); (iii) accounting that complies with the Ordinance on Company Accounting while achieving harmony between accounting and taxation system; and (iv) 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.

b. Issuance of Certificate of Bookkeeping Timeliness

The Company utilizes the processing log data and historical time series data that are automatically logged at our data centers 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, etc. 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. For private businesses who will be using the TKC systems for accounting and tax return process starting in January 2022 and receive issuance of Certificate of Bookkeeping Timeliness, we have enhanced the functions to enable them to submit their blue returns and other documents to financial institutions through the TKC Monitoring Information Service. We will continue to support private businesses in strengthening their collaboration with financial institutions.

[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.

a. Responding to the Group Tax Sharing System

The consolidated taxation system has been reformed for the fiscal year starting after April 1, 2022, and the new group tax sharing system is now applicable. The parent company and each subsidiary of the corporate group subject to the group tax sharing system must file their corporate income tax returns electronically.

The Company has been providing aggressive support to large enterprises with a capital of 100 million yen or greater in complying with the new obligation to use electronic tax filing. Also, based on the expertise accumulated to date, the Company the developed the “Group Tax Sharing System (e-TAX Group Sharing)” which complies with the group tax sharing system, and began offering in August. We are working closely with TKCNF’s Medium- and Large-sized Companies Support Council (1,545 members as of the end of September 2022) in providing support to ensure smooth transition of companies that choose to apply the group tax sharing system. Through such activities, approximately 40% of the 21,000 some companies with a capital of 100 million yen or greater now use our ASP1000R electronic tax filing system for corporations, the eConsoliTax consolidated tax payment system, and the Group Tax Sharing System (e-TAX Group Sharing) as of September 30, 2022.

b. Responding to the Revised Electronic Books Maintenance Act and Consumption Tax Invoicing System

The requirements for retention of electronic books have been eased in the Revised Electronic Books Maintenance Act of Japan enacted as of January 2022, and at the same time, electronic retention of electromagnetic transaction data has been mandated (with safe harbor rules until end of December 2023).

Moreover, as the consumption tax invoicing system will be implemented in October 2023, the formulation of standard specifications of digital invoices and initiatives to promote the system are currently underway. To provide support for compliance with these legal reforms, we hosted the "Seminar for Compliance with the Invoicing System for Medium- and Large-sized Companies." Approximately 3,600 participants signed up for the seminar.

Also, starting in January 2022, we started offering the "Invoice Manager" service in compliance with the Revised Electronic Books Maintenance Act, which has been adopted by 350 medium- and large-sized companies as of September 30, 2022.

c. Support for managing the performance of foreign subsidiaries

Japanese companies having business overseas are seeing various challenges such as increased business fluctuation risks due to COVID-19 travel restrictions to overseas offices, soaring prices of resources due to the crisis in Ukraine, fragmented supply chain, etc.

More and more companies facing such hardship are implementing our OBMonitor overseas business monitoring system, as it is a cloud service that allows companies to check the financial data of their foreign subsidiaries from their offices in Japan. Today, OBMonitor is adopted by more than 1,200 companies and used in 38 countries around the world. We also have business matching agreements with financial institutions to provide support for their customers having business abroad. Our system is proposed and adopted in order to support companies in discovering and diverting errors and frauds in the business performance control and accounting processing. We have already entered into business matching agreements with nine financial institutions nationwide, and plan to continue expanding our partnership with other financial institutions.

d. Expansion of shares in the large-scale enterprise market and increase of client base of TKC Members

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 5,000 corporate groups as of September 30, 2022. Also, 91% of the 100 largest Japanese listed companies by sales amounts now use our systems. With this, our market share among Japanese listed companies reached 42%.

[Expansion of markets for legal information database services]

a. Increase of user base of TKC Law Library

To enhance user experience of legal research in TKC Law Library, we are working to expand the basic services of the library containing judicial precedents, etc. and related contents from specialized law magazines, etc. We are also promoting the use of our packaging services of the law library which include contents customized for law firms and for corporate legal departments. Due to the pandemic, working online has become a common practice today, and using these package services is now becoming the mainstream instead of conducting legal research at data rooms or libraries. In such situation, the TKC Law Library which offers access to laws and regulations, judicial precedents, bibliographic information references and also articles in major specialized law magazines, any time, from any place is now earning greater reputation, and as a result, the numbers of users and contracts to access additional contents continue to grow. Also, in June 2021, the Company launched an optional service of the TKC Law Library called the Legal Book Search which allows users to access PDF versions of books on specialized fields including laws, accounting, tax accounting, business management, etc. This service is a fixed rate service for attorneys and others to access the free book search functions and view (for fee) the PDF versions on their tablets and PCs. As we continue to add more content including new books, and the number of accessible publications exceeded 990 books as of the end of September 2022.

In the current fiscal year, as a result of online promotional activities towards TKC Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 57,000 IDs and the Library is used by over 25,000 institutions as of September 30, 2022.

b. Progress in the academic market

Due to the pandemic, many universities and law schools now conduct hybrid-style classes combining face-to-face and online lectures. Our systems, such as the TKC Educational and Research Support System and TKC Law Library, can be accessed online and used anytime, anywhere. They contain a huge number of diverse contents compared to those of other companies, and include various functions such as report submission, online exercises and testing. These features are being recognized again as tools to support online classes and learning for faculty and students, and are helping universities in creating their online learning environment.

Also, the online study tools (for civil service examination, practical business law examination, jurisprudence examination, etc.) offered to the faculty of law of universities have been adopted by 27 universities as of September 30, 2022. Currently, many qualification examinations are adopting computer-based testing (CBT/IBT method). We will promote the use of our online testing functions and other effective online study tools to prepare for computer-based examinations among examination bodies and applicants.

2) Analysis of Accounting Firm BD's operating results

Net sales of the Accounting Firm BD were 46,465 million yen (increased 2.3% year-on-year); operating income was 11,286 million yen (increased 6.8% year-on-year). Breakdown of sales is as follows:

a. Sales from computer services increased by 2.8% year-on-year. This was attributable to the growth in number of implementations of the FX4 Cloud Integrated Accounting Information System for mid-size companies, which enables the accounting of journal entries from sales management systems, salary calculation systems and other business systems in connection with accounting data, as medium-size companies are rapidly working towards digital transformation (DX). In addition, the increase in the number of accounting firms adopting the Office Management System (OMS Cloud) for Tax Accounting Firms and the OMS Mobile which allows them to work remotely using the OMS from home or outside their offices also contributed to increase in sales.

b. Software sales increased by 2.9% year-on-year. This was attributable to increase in clients who began using the FX Cloud Series for the first time to comply with the Revised Electronic Books Maintenance Act of Japan enacted as of January 1, 2022. The FX Cloud Series meet the legal requirements of "superior electronic books" and come equipped with documented evidence storage functions as standard feature.

c. Sales from consulting services increased 2.4% year-on-year. This was due to strong sales of the FX4 Cloud, leading to increase in orders for system launch support services.

d. Hardware sales increased by 7.9% year-on-year. This was mainly attributable to the funding that also covers the purchase of hardware under this year's Subsidy Program for Introducing IT to Businesses for Productivity Improvement in Services, etc. ("Subsidies for Introduction of IT"), and increase in customers replacing their PCs with new Windows 11 models.

e. Sales from supplies increased by 1.0% year-on-year. With the progress of digitalization, demands for paper accounting supplies and consumables have declined, but the strong sales of office equipment to support remote works and digitalization, as well as books on electronic trading and the new invoicing system for late FY2023 contributed to the increase.

f. Improvement in operating income year-on-year was a result of increase in sales of computer services and software with higher profit margins, while sales of office supplies with lower profit margins decreased from the previous year.

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.

The Company provides TKC Government Cloud Service to municipalities. This is a cloud service that consists of the TASK Cloud Service and the TASK Outsourcing Service. The TASK Cloud Service consists of: "mission-critical system-related services" to manage the Basic Resident Registers and tax affairs information, "internal information system-related services" including financial accounting (public accounting) and payroll calculations, and "administrative service digitalization support services" for online application of administrative procedures. The Service has been adopted by more than 1,100 municipalities (prefectures, cities, wards, towns, villages, etc.) as of the end of September 2022.

a. Development and provision of mission-critical system-related services

Our TASK Cloud Service is a single version package system operated at our data centers that is designed to allow shared use by multiple institutions. Service fees are charged in the form of fixed rate subscription fee, which also include one regular upgrade per year.

The TASK Outsourcing Service is offered to client municipalities of our mission-critical system-related services and supports massive batch output forms such as tax papers and entry tickets for elections. In the current fiscal year, we provided these client municipalities with aggressive support for their vaccination projects by promptly offering systems for the COVID-19 Vaccine Booster Shots (3rd Dose). Acknowledged for these benefits, our mission-critical system-related services have been adopted by approximately 170 local municipalities as of the end of September 2022.

b. Support for digitalization and online provision of administrative services (administrative procedures)

In an aim to contribute to promoting digital transformation of local governments, the Company provides administrative service digitalization support services which support governments to achieve "no visiting, no waiting, no writing" administrative counter services.

In the current fiscal year, we greatly enhanced the functionalities of the TASK Cloud Smart Application System, the TASK Cloud Easy Counter Service System, and the TASK Cloud My Number Card Issuance Reservation and Management System. As a result of proposing the utilization of these services, the TASK Cloud Smart Application System has been adopted by approximately 30 agencies including government ordinance-designated cities such as Osaka and Yokohama cities, the TASK Cloud Easy Counter Service System is used by nearly 40 agencies, and the TASK Cloud My Number Card Issuance Reservation and Management System is adopted by approximately 140 agencies as of the end of the fiscal year under review.

c. Support for digitalization of local tax administrations

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 of each ward and municipality.

These services are proposed in collaboration with 50 partner companies with whom we have on-going alliance partner agreements. As a result, our TASK Cloud Local Taxes Electronic Filing Support Service is currently used by approximately 790 agencies which account for more than 40% of all prefectures and local municipalities as of September 30, 2022.

In the current fiscal year, we have been working together with our partner companies to support the system implementation of the additional tax items for the local tax common tax payment system which will begin in April 2023.

d. Development and provision of financial accounting system that is fully compliant with the legal local public accounting system

The Company provides the TASK Cloud Public Accounting System, which is compatible with the financial statements generation functions and daily journalizing method based on a unified standards formulated by the Ministry of Internal Affairs and Communications, and its related systems TASK Cloud Non-current Assets Control System and TASK Cloud Consolidated Financial Statements Generation System.

In the current fiscal year, we released the next-generation version of our public accounting system with enhanced functions to support “sustainable financial management through accurate visualization of financial status” and “digital transformation of internal administrative tasks by electronic payments and linking to electronic invoicing.”

As a result, the TASK Cloud Public Accounting System is adopted by approximately 300 agencies as of the end of September 2022.

e. Research and development of next-generation products

On October 7, 2022, the Basic Policy on the Standardization of Local Government Information Systems was approved by the cabinet. Local governments are required to migrate their mission-critical operation systems (20 operations) to applications (standard spec-compliant systems) that comply with the standardized criteria residing on Gov-Cloud by the end of FY2025.

To respond to changes in the environment surrounding local governments, the Company set up a new Local Government DX Promotion Headquarters as of November 1, 2021, and is working to strengthen customer support including the collection and communication of the latest information on the standardization of local government information systems.

In the current fiscal year, a joint proposal of clients of the Company (Misato Town and Kawajima Town, Saitama Pref.) was selected for the Government Cloud Predecessor Project procured by the Digital Agency of Japan. The Company worked on the Project with both towns as application vendor. Also, to support the “digitalization of administrative services” as set out in the Local Governments Digital Transformation (DX) Promotion Plan (Version 2) announced by the Ministry of Internal Affairs and Communications on September 2, 2022, we continue to engage in the research, studies, and development of next-generation solutions through joint demonstration projects, etc. with leading partners.

2) Analysis of Local Governments BD’s operating results

Net sales of the Local Governments BD were 18,228 million yen (increased 3.0% year-on-year); operating income was 1,922 million yen (increased 12.7% year-on-year). Breakdown of sales is as follows:

a. Sales from computer services increased by 8.3% year-on-year. This was driven by increase in data center usage fees by new clients whose systems ordered in the previous fiscal year were fully launched, new contracts for printing of vouchers, etc., for COVID-19 vaccine booster shots (3rd dose), and contracts for production of entry tickets, etc., for the election of members of the House of Representatives.

b. Software sales decreased by 1.8% year-on-year. This was due to decrease year-on-year in temporary sales in response to system reforms recorded in the previous fiscal year, including sales from vaccination projects (1st and 2nd doses) and sales from system revision in response to the amended Digital Administrative Procedures Act. Meanwhile, because we charge our service fees in the form of fixed rate subscription fee depending on the scale of the municipality, the software usage fees are steadily growing in association with the growth in number of clients.

c. Sales from consulting services decreased by 36.2% year-on-year. This is because the fees for the change-over of municipalities’ intermediate servers & platforms recorded in the previous fiscal year were not generated this fiscal year.

d. Hardware sales increased by 14.3% year-on-year. This was driven by concentrated orders including implementation of hardware devices along with the renewal of mission-critical system devices, implementation of network devices for relocation to new municipal buildings and relocation of hardware devices.

e. Improvement in operating income year-on-year was attributable, for example, to increase in sales of computer services for the formal system launch of new clients.

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 (hereinafter, “DPS”), business form printing, and printing of commercial-use creative materials.

In the area of DPS, net sales increased compared to the previous year thanks to orders from local municipalities for the printing of entry tickets for the elections of members of the Lower House and members of the Upper House, vaccination vouchers under their COVID-19 vaccination projects, and notices for special cash payments for households exempted from inhabitant tax, and orders for various tax form projects. In addition, we saw recovery in demands for printing of direct mails and notices at private companies, and were able to receive orders. The Printing BD also improved productivity and profit margins by promoting in-house manufacturing of direct mails for private companies through the installation of new facilities.

In the area of business form printing, net sales decreased year-on-year as a result of declining use of business forms and slips as more businesses are going paperless.

In the area of commercial-use creative materials (catalogs, books, etc.), net sales increased year-on-year thanks to orders for the printing of books and other materials explaining the new system under the Revised Electronic Books Maintenance Act, measures for the new consumption tax invoicing system, and the FY2022 tax system revisions.

In an aim to offer environment-conscious customers with environmentally friendly paper products, TLP Corporation, the Group's printing business division, acquired the FSC® Chain of Custody (CoC) certification (FSC-C182216) as of October 3, 2022. Under this certification system, companies are required to use materials from responsibly managed FSC certified forests and other responsible suppliers, and to have responsible management and printing process in place. By complying with this system, we can display the FSC certification mark on our paper products and support our customers in their environment-friendly initiatives.

2) Analysis of Printing Business BD's operating results

Net sales of the Printing BD were 3,145 million yen (increased 1.3% year-on-year); operating income was 144 million yen (increased 105 million yen year-on-year). Breakdown of sales is as follows:

a. Sales of data printing service-related products increased by 3.6% year-on-year. This was due to winning of contracts for the printing of entry tickets for the elections of members of the Lower House in October 2021 and members of the Upper House in July 2022, vouchers for COVID-19 vaccination by local municipalities, notices for special cash payments for households exempted from inhabitant tax, and Notice on 2021 Income Tax Report postcards. In addition, we saw gradual recovery in demands for printing of direct mails and notices at private companies which had decreased due to the COVID-19 pandemic.
b. Business form-related sales decreased by 1.4% year-on-year. This is due to decline in demands for various slips and other business forms as more client companies are going paperless.
c. Sales of printing of commercial-use creative materials (catalogs, books, etc.) increased by 9.9% year-on-year. This was due to winning many new contracts for the printing of books and other materials illustrating the Revised Electronic Books Maintenance Act, new consumption tax invoicing system, and FY2022 tax reforms.
d. The increase in operating income year-on-year was a result of increase in sales of DPS-related products with higher profit margins, and the promotion of in-house manufacturing of direct mails for private companies through the installation of new facilities.

5. Important matters with respect to the Company as a whole

1) Disclosure of Sustainability Policy

With our transfer to the Prime Market in response to TSE's market restructuring, and as our action to comply with the revised Corporate Governance Code, the Company formulated its Sustainability Policy and published its past ESG achievements in the Company's website (https://www.tkc.jp/sustainability/).

2) Prevention of COVID-19 infection and actions for new working styles

As the outlook for the containment of COVID-19 pandemic is still unpredictable, the Company continues to take the following infection prevention measures and adapt to new working styles in order to continue the provision of services to its customers:

a. To enable customers to continue using our cloud services, business form printing services, and help desk services, we are continuing to strengthen our business continuity measures (including prohibiting the entry of outside personnel at important offices and developing the infrastructure for remote access to the data center).
b. The Company enforces teleworking and staggered working hour programs. We make positive use of the Web meeting systems for customer support and business meetings.

3) Selected as Peppol service provider by the Digital Agency

The Company was certified as Peppol (Pan European Public Procurement Online) service provider in Japan on August 19, 2022 by the Japan Peppol Authority (Digital Agency) and OpenPeppol (association in Belgium responsible for the development and management of Peppol specifications).

4) Acquisition of patents for functions to be incorporated in systems

The Company acquired the following two patents:

a. Field auditing functions to be incorporated in FX Cloud Series. (Acquired on January 20, 2022; Patent No. 7012895)

b. Internal audit support functions for Overseas Business Monitor (OBMonitor). (Acquired on April 1, 2022; Patent No. 7052135)

5) TKC Customer Support Service Co., Ltd. (TCSS) rated “3 Star” in HDI Benchmarking

On February 16, 2022, TKC Customer Support Service Co., Ltd. (TCSS; fully owned subsidiary of the Company), which specializes in offering call center services, became the first company in the package software industry to be awarded the highest “3 Star” rating in the “quality ranking” benchmark by HDI-Japan.

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 109,225 million yen, a 5,819 million yen increase compared to 103,406 million yen as of the end of the previous consolidated fiscal year.

a. Current assets

Current assets as of the end of the current consolidated fiscal year amounted to 40,715 million yen, a 4,607 million yen increase from 36,107 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 3,493 million yen increase in cash and deposits and a 962 million yen increase in accounts receivable—trade.

b. Non-current assets

Non-current assets as of the end of the current consolidated fiscal year amounted to 68,510 million yen, a 1,211 million yen increase compared to 67,298 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 1,100 million yen increase in long-term deposits, 642 million yen increase in software in progress, and 418 million yen increase in software, despite a 957 million yen decrease in investment securities.

2) Liabilities

Total liabilities as of the end of the current consolidated fiscal year amounted to 21,899 million yen, a 1,909 million yen increase compared to 19,990 million yen as of the end of the previous consolidated fiscal year.

a. Current liabilities

Current liabilities as of the end of the current consolidated fiscal year amounted to 17,679 million yen, a 2,958 million yen increase from 14,721 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 956 million yen increase in income taxes payable, 880 million yen increase in provisions for bonuses, 571 million yen increase in accounts payable—trade, and 400 million yen increase in accounts payable—other.

b. Non-current liabilities

Non-current liabilities as of the end of the current consolidated fiscal year amounted to 4,219 million yen, a 1,048 million yen decrease from 5,268 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to 747 million yen decrease in retirement benefit liabilities and 212 million yen decrease in lease obligations.

3) Net assets

Total net assets as of the end of the current consolidated fiscal year amounted to 87,325 million yen, a 3,909 million yen increase compared to 83,416 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to an increase of 5,331 million yen in retained earnings, despite decrease in net assets as a result of a 1,007 million yen increase in treasury stocks.

Capital-to-asset ratio as of the end of the current consolidated fiscal year was 80.0%, a 0.7 point decrease compared to the ratio of 80.7% 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 3,493 million yen from the end of the previous consolidated fiscal year amounting to 26,620 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 13,050 million yen (2,500 million yen increase in revenue year-on-year). Major factors include the recognition of 13,650 million yen under net income before taxes and adjustments and 3,050 million yen under depreciation, and payment of 4,063 million yen for income taxes.

2) Cash flows from investing activities

Cash flows from investing activities decreased by 4,342 million yen (2,858 million yen decrease in spending year-on-year). Major factors include expenditure of 4,400 million yen into time deposits, revenue of 3,300 million yen from withdrawal of time deposits, expenditure of 2,573 million yen for the acquisition of intangible fixed assets.

3) Cash flows from financing activities

Cash flows from investment activities decreased by 5,214 million yen (1,523 million yen increase in spending year-on-year). Major factors include expenditure of 1,035 million yen for the purchase of treasury stock, and payment of 3,979 million yen for year-end dividends as of the end of September 2021 (dividend of 39.5 yen per share) and interim dividends for the term ended September 2022 (dividend of 36 yen per share).

Trends in cash flow indicators of the Group are as shown below:

	FY ended September 2019	FY ended September 2020	FY ended September 2021	FY ended September 2022
Equity ratio (%)	73.8	78.9	80.7	80.0
Ratio of equity at market value (%)	126.8	183.2	179.2	164.6
Debt redemption (years)	0.1	0.1	0.1	0.1
Interest coverage ratio (x)	4,566.9	6,492.7	27,055.7	8,627.1

Equity ratio = Total equity ÷ Total assets x 100

Ratio of equity at market value = Market cap ÷ Total assets x 100

Years of debt redemption = Interest-bearing debts ÷ Operating cash flows

Interest coverage ratio = Operating cash flows ÷ Interest expense

(Notes) 1. Each indicator is calculated based on consolidated financial figures.

2. Market capitalization is calculated by multiplying the closing share price as of the end of the fiscal year by the number of outstanding shares at the end of the fiscal year (after deducting treasury stocks).

(2) Production, Orders Received and Sales

1. Production

None to be disclosed.

2. Orders received

None to be disclosed.

3. Sales results

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

Name of segment	Amount (million yen)	Year-on-year rate (%)
Accounting Firm business	46,465	102.3
Local Governments business	18,228	103.0
Printing business	3,145	101.3
Total	67,838	102.4

Transactions between segments have been offset.

(3) Analysis and Discussions on Operating Results, etc. from Management's Perspective

(i) Significant accounting estimates and assumptions used in said 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. In preparing the consolidated financial statements, certain parts require management to use estimates and assumptions within these accounting policies, and such estimates and assumptions are reflected in the figures of assets and liabilities, revenue and expenses. While management conducts assessments on these estimates on an on-going basis and makes revisions as necessary based on changes in conditions, there are uncertainties in the estimates that could cause actual results to differ from such estimates.

Of the significant accounting estimates and assumptions used in said estimates of the Group, those estimates used that may have material impacts on the Group's consolidated financial statements are described in the Notes to Consolidated Financial Statements (Significant Accounting Estimates) under Part 5 [Financial Information] 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

(ii) Factors having material impacts on the Group's operating results

Refer to 2 [Risk Factors].

(iii) Analysis and discussions on the Group's cash flows, 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.

(iv) 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:

1) Management indicators based on consolidated figures
   a. Year-on-year sales ratio: 3% or greater
   b. Return on equity: 8% or greater
2) Management indicators based on non-consolidated figures
   a. Equity ratio: greater than 80%
   b. Recurring profit margin: 8% or greater
   c. 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 2.4% (an increase of 4.7 points year-on-year), and consolidated return on equity was 10.9% (an increase of 0.1 points year-on-year).

The non-consolidated equity ratio was 83.3% (a decrease of 1.2 points year-on-year), non-consolidated recurring profit margin was 20.9% (an increase of 1.3 points year-on-year), and non-consolidated total marginal profit ratio was 78.9% (a decrease of 0.1 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.]

Not applicable.

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 4,662 million yen were made in the current consolidated fiscal year.

(1) Accounting Firm Business

Capital investment of 2,816 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

Capital investment of 1,504 million yen was made for the development of software to provide services over the cloud system.

(3) Printing Business

Capital investment of 342 million yen was made for the installation of inkjet printers (lease assets).

2 [Major Property, Plant and Equipment]

(1) The Company

As of September 30, 2022

Name of office (Address)	Name of segment	Facilities	Book values (million 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 TKC Tochigi Consolidated Information Center (Utsunomiya-shi, Tochigi, etc.)*1, *2	Accounting Firm business Local Governments business	Development facilities Information communication service facilities Information processing facilities	5,137	13	2,694 (29,365.21)	1,362	4,586	13,794	1,328
TKC Tokyo Head Office TKC Systems Development Research Center Tokyo Branch (Shinjuku-ku, Tokyo)	Accounting Firm business Local Governments business	Office facilities	93	—	—	51	—	144	414
TKC Tokyo Consolidated Information Center (Nerima-ku, Tokyo)	Accounting Firm business	Information processing facilities	201	—	2,224 (1,447.44)	33	—	2,459	22
TKC Chubu Consolidated Information Center (Kasugai-shi, Aichi)	Accounting Firm business	Information processing facilities	63	—	196 (3,017.47)	20	0	281	18
TKC Kansai Consolidated Information Center (Ibaraki-shi, Osaka)	Accounting Firm business	Information processing facilities	443	—	286 (1,808.03)	21	0	752	40
TKC Chushikoku Consolidated Information Center TKC Chushikoku Control Center (Kita-ku, Okayama-shi, Okayama)	Accounting Firm business	Information processing facilities Office facilities	11	—	—	20	—	32	10
TKC Kyushu Consolidated Information Center (Koga-shi, Fukuoka)	Accounting Firm business	Information processing facilities	142	—	203 (2,341.48)	17	0	364	11

As of September 30, 2022

Name of office (Address)	Name of segment	Facilities	Book values (million yen)						No. of employees (No. of people)
			Buildings & structures	Machinery, equipment & vehicles	Land (Area in m^2)	Tools, furniture & fixtures	Other	Total	
TKC Hokkaido Consolidated Information Center TKC Hokkaido SCG Service Center (Chuo-ku, Sapporo-shi, Hokkaido)	Accounting Firm business	Information processing facilities Office facilities	34	—	—	22	0	57	33
TKC Tohoku Consolidated Information Center TKC Tohoku SCG Service Center (Aoba-ku, Sendai-shi, Miyagi)	Accounting Firm business	Information processing facilities Office facilities	4	—	—	27	0	32	20
TKC Okinawa Consolidated Information Center TKC Okinawa SCG Service Center (Naha-shi, Okinawa)	Accounting Firm business	Information processing facilities Office facilities	3	—	—	4	0	7	9
TKC Ibaraki SCG Service Center TKC Ibaraki Sales Section (Tsukuba-shi, Ibaraki)	Accounting Firm business Local Governments business	Office facilities	19	—	147 (1,120.00)	1	0	169	23
TKC Yamaguchi SCG Service Center (Yamaguchi-shi, Yamaguchi)	Accounting Firm business	Office facilities	19	—	197 (814.00)	2	0	218	7
Dormitories, company housing (Utsunomiya-shi, Tochigi)	Accounting Firm business Local Governments business	Welfare facilities	208	—	391 (5,326.69)	10	—	610	—

(2) Domestic subsidiaries

As of September 30, 2022

Company name	Name of office (Address)	Name of segment	Facilities	Book values (million 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 business	Printing facilities	53	289	145 (7,275.17)	6	22	517	77
TLP Corporation	DPS Solutions Center (Hanyu-shi, Saitama)	Printing business	Printing facilities	915	140	132 (9,768.00)	33	287	1,509	59

(Notes) 1. The status of equipment and facilities held by consolidated companies other than those described above is small in scale and has been omitted.

2. The “Other” field under book value represents leased assets and software (including work in progress).

3. *1 includes some of the welfare facilities.

*2 includes 1,260 million yen for leased buildings and 40 million yen for leased tools, furniture & fixtures, which are leased to our subsidiary TKC Customer Support Service Co., Ltd.

4. Major leased facilities and equipment other than those described above are as follows.

(The Company)

Annual office rent 734 million yen

3 [Plans for Capital Investments, 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, 2022), 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	120,000,000
Total	120,000,000

(ii) [Issued shares]

Class	Number of shares issued as of the end of current fiscal year (shares) (September 30, 2022)	Number of shares issued as of the filing date (shares) (December 19, 2022)	Name of stock exchange on which the Company is listed, or name of Authorized Financial Instruments Firms Association	Description
Common stock	53,462,066	53,462,066	Prime Market of the Tokyo Stock Exchange	Number of shares constituting a unit: 100 shares
Total	53,462,066	53,462,066	－	－

(2) [Share Subscription Rights, etc.]

(i) [Stock option scheme]

Not applicable.

(ii) [Rights plan]

Not applicable.

(iii) [Other share subscription rights, etc.]

Not applicable.

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

Not applicable.

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

Date	Increase or decrease in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase or decrease in capital stock (million yen)	Balance of capital stock (million yen)	Increase or decrease in capital reserve (million yen)	Balance of capital reserve (million yen)
April 1, 2021 (Note)	26,731,033	53,462,066	－	5,700	－	5,409

(Note) As a result of a stock split (1:2).

(5) [Shareholders Composition]

As of September 30, 2022

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	—	24	22	143	144	2	8,174	8,509	—
Number of shares held (share units)	—	176,123	2,365	129,597	82,717	4	143,049	533,855	76,566
Percentage of shares held (%)	—	33.0	0.4	24.3	15.5	0.0	26.8	100.0	—

(Notes) 1. Of the 829,472 shares held as treasury stock, 8,294 share units are included in “Other individuals” and 72 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., 13 units are included in “Other corporate bodies” and 74 shares are included in “Number of shares less than one unit.”

3. The “Financial Institutions” column includes 2,060 units of the Company’s stocks owned by the BIP Trust.

(6) [Major Shareholders]

As of September 30, 2022

Names of shareholder	Address	Number of shares held (hundred shares)	Percentage of shares held to total number of issued shares (excluding treasury stock) (%)
Iizuka Takeshi Scholarship Foundation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	75,170	14.3
Daido Life Insurance Company	1-2-1 Edobori, Nishi-ku, Osaka-shi, Osaka	51,380	9.8
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	50,106	9.5
Sozeishiryokan (Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	30,930	5.9
TKC Employee Shareholding Association	2-1 Ageba-cho, Shinjuku-ku, Tokyo	29,181	5.5
SSBTC Client Omnibus Account (Standing proxy: The Hong Kong & Shanghai Banking Corporation)	One Lincoln Street, Boston, MA 02111 USA (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	25,936	4.9
Masaharu Iizuka	Utsunomiya-shi, Tochigi	14,626	2.8
Custody Bank of Japan, Ltd. (Trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	13,582	2.6
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2-6-4 Otemachi, Chiyoda-ku, Tokyo	13,328	2.5
Aioi Nissay Dowa Insurance Co., Ltd.	1-28-1 Ebisu, Shibuya-ku, Tokyo	11,966	2.3
Sompo Japan Insurance Inc.	1-26-1 Nishishinjuku, Shinjuku-ku, Tokyo	11,966	2.3
Total	—	328,175	62.3

(Note) The 206,000 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]

(i) [Shares issued]

As of September 30, 2022

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	829,400	—	—
Shares with full voting right (others)	Common stock	52,556,100	525,561	—
Shares less than one share unit	Common stock	76,566	—	—
Total number of shares issued		53,462,066	—	—
Total voting rights held by all shareholders		—	525,561	—

(Note) Shares with full voting right (others) includes 1,300 shares (13 units of voting rights) registered in the name of Japan Securities Depository Center, Inc., and 206,000 shares (2,060 units of voting rights) owned by the BIP Trust.

(ii) [Treasury stock, etc.]

As of September 30, 2022

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	829,400	—	829,400	1.55
Total	—	829,400	—	829,400	1.55

(Note) In addition to the above, the 206,000 shares owned by the BIP Trust are recorded as treasury stocks in the 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 remuneration for directors (excluding outside directors and expatriates), executive officers (excluding expatriates), and auditors (excluding outside directors and expatriates) (hereinafter referred to collectively as "Directors, etc."), and to motivate Directors, 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. The introduction of the Plan was approved by resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018.

The trust period of the Plan was established for three fiscal years between the fiscal year ending September 30, 2019 and the fiscal year ending September 30, 2021 ("Initial Trust Period"). Since the trust period was to expire on February 28, 2022, the Company resolved at the Board of Directors Meeting held on February 10, 2022 to extend the trust period for three years and to continue the Plan.

(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 and provision to eligible Directors, etc.

1) The Company has contributed a total amount not exceeding 1,549 million yen to the Trust for the 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.

2) The Company resolved at the Board of Directors Meeting held on February 10, 2022 to extend the Trust Period for three years and to continue the Plan. However, the total amounts to be contributed by the Company shall not exceed 500 million yen for directors and executive officers and 72 million yen for auditors, as resolved at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018. No additional contribution was made upon continuation of the Plan.

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.)
Beneficiaries	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 (extended until February 28, 2025 based on changes to the Trust Agreement on February 14, 2022)
Start of plan	March 1, 2019
Exercising of voting rights	Not to be exercised
Type of shares to be acquired	Common stock of the Company
Maximum amount of trust fund	Directors and executive officers: 500 million yen (including trust fees and expenses) Auditors: 72 million yen (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 and provision of the Company's shares

Directors, etc., who satisfy the beneficiary conditions

2 [Acquisition, etc. of Treasury Stocks]

[Class of shares] Acquisition of common stocks under Article 155, Item 3 and Article 155, Item 7 of the Companies Act of Japan

(1) [Acquisition of treasury stocks based on resolution at the General Meeting of Shareholders]

Not applicable.

(2) [Acquisition of treasury stocks based on resolution of the Board of Directors]

Classification	Number of shares (shares)	Total amount (yen)
Resolution at the Board of Directors meeting (November 9, 2021) (Acquisition period: November 10, 2021)	300,000	1,033,500,000
Treasury stocks acquired prior to the current fiscal year	—	—
Treasury stocks acquired during the current fiscal year	300,000	1,033,500,000
Total number and value of remaining shares subject to resolution	—	—
Percentage of unexercised acquisition as of the last date of the current fiscal year (%)	—	—
Treasury stocks acquired during the current period	—	—
Percentage of unexercised acquisition as of the date of filing (%)	—	—

(3) [Acquisitions of treasury stocks not based on resolutions of General Meeting of Shareholders or Board of Directors]

Classification	Number of shares (shares)	Total amount (yen)
Treasury stocks acquired during the current fiscal year	463	1,548,350
Treasury stocks acquired during the current period	179	660,435

(Note) Treasury stocks acquired during the current period do not include shares constituting less than one unit purchased during the period from December 1, 2022 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 stocks for which subscribers were solicited	—	—	—	—
Acquired treasury stocks canceled	—	—	—	—
Acquired treasury stocks transferred due to merger, share exchange, subscription, or company split	—	—	—	—
Other treasury stocks (sold due to demand for sales of fractional unit shares)	126	268,023	—	—
Number of treasury stocks held	829,472	—	829,651	—

(Notes) 1. The disposition and holding of treasury stocks acquired during the current period do 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, 2022 up to the date on which this Annual Securities Report was filed.

2. The number of treasury stocks held does not include the 206,000 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 by resolution of the Board of Directors.

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

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

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

(1) An interim dividend of 36 yen per share has been paid after the resolution of the Board of Directors.

(2) The year-end dividend shall consist of an ordinary dividend of 36 yen per share and a special dividend of 6 yen per share as announced on November 9, 2022.

(3) Dividends per share for the current fiscal year shall be 78 yen, which is the sum of an interim dividend of 36 yen per share and a year-end dividend of 42 yen per share.

As a result, the annual payout ratio came to 45.1%.

Date of Resolution	Total amount of cash dividends (million yen)	Dividend per share (yen)
May 10, 2022 Meeting of the Board of Directors	1,894	36.00
December 16, 2022 Ordinary General Meeting of Shareholders	2,210	42.00

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 business objective 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. As such, from a compliance perspective, our customers are required by vocation-based laws (Certified Public Tax Accountant Act or Certified Public Accountants Act) or administrative laws (Local Autonomy Act or the Local Public Service Act) to follow much stricter levels of compliance than other business categories in performing their business activities.

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

As such, the Group understands corporate governance as follows:

1. In order to achieve the business objectives of the Company in compliance with the laws and regulations, the Articles of Incorporation and the resolutions of the General Meetings of Shareholders,
2. the Group shall formulate strategic medium-term management plans and foster competent human resources that will enable us to develop and supply software products and services that can drive our customers' business to success,
3. strive to earn the gratitude, trust, and hopefully the respect of our customers,
4. and as a result, secure good operating results and sound financial standing so that we can return the fruits to the original owners of the Group, our shareholders.

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

II. 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 nine 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.

The members of the Board of Directors are the nine Directors, whose names are listed in (2) [Officers] 1. List of Officers.

(2) Board of Auditors

The Board of Auditors provides advice and suggestions to ensure the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors.

The members of the Board of Auditors are the four Auditors, whose names are listed in (2) [Officers] 1. List of Officers. The Board of Auditors is chaired by a Corporate Auditor (full-time).

(3) 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 majority 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.

The names of the members of the Nomination and Compensation Advisory Committee are as follows:

<List of members>

Chairperson:	Junko Iijima (Outside Director)
Member:	Hideki Tomonaga (Outside Auditor)
Member:	Misao Taguchi (Outside expert)
Member:	Yoshimasa Oshida (Outside expert)
Member:	Masaharu Iizuka (In-house expert)
Member:	Masanori Iizuka (Director)
Member:	Satoshi Hitaka (Director)

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.

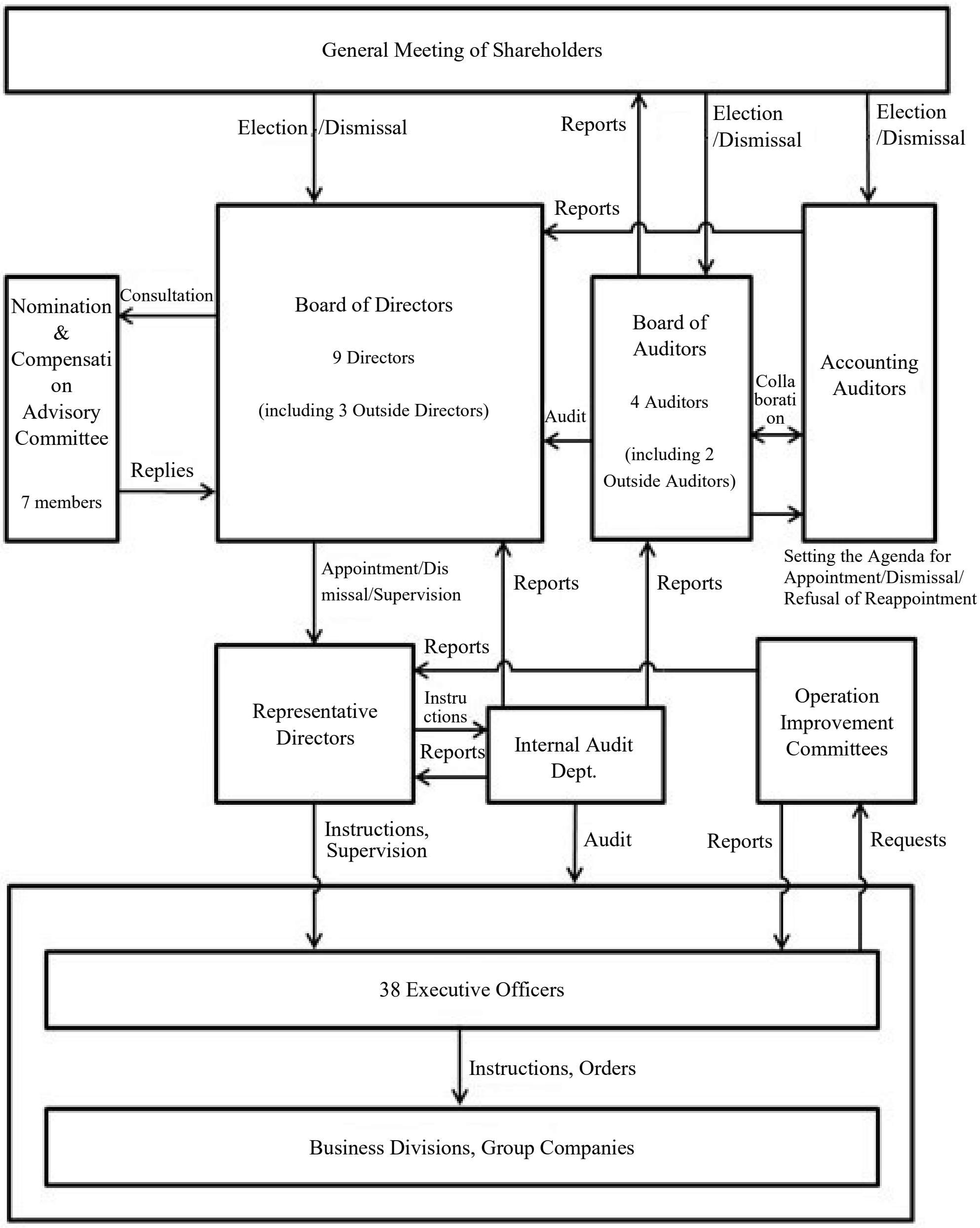
Outside Auditors primarily give advice and make suggestions in order to ensure the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors by expressing their opinions on compliance issues and whether the resolutions of the Board of Directors are 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, Item (vi) of the Companies Act)

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 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, etc. 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 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 at all times, 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, Item (vi) of the Companies Act)

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)

(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, etc. at the meetings of the Board of Directors shall be stored and managed in accordance with the Company's Rules on Management of Information Concerning Decision-making Processes of the Board of Directors as described in [1] 7. above.

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

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

(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 performance 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)

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 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 of 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 Business Administration 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)

(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 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, coordinate to maximize the effect of 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 ordinary income 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)

(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 as to their contents, distribute them to all employees as guidelines from the President.

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

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

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

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

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

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

(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 loss to the Subsidiaries, the President and the heads of relevant business divisions are immediately notified of the risks causing such incident, the degree of loss 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)
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 Subsidiaries
(in relation to Article 100, Paragraph 1, Item 5(c) of the Ordinance for Enforcement of the Companies Act)

(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 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 ordinary income 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)

(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 aiming at further understanding on the Compliance Regulations and Compliance Manual as set forth above shall be conducted in accordance with the plans of the division in charge of internal audit.

(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)
(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 full 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)
(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)
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)
(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 of the Subsidiaries of the Company and internal audits;
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 announcements 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 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)
(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 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)

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 the procedures 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)

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

10. Other systems to ensure that audits by the Corporate Auditors' are implemented effectively

(in relation to the provisions of Article 100 Paragraph 3 Item 7 of the Ordinance for Enforcement of the Companies Act)

(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 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.

(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, 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.

(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.

(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 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 holds 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 with the Company and at Group companies.

(2) [Officers]

1. List of Officers

12 male and 1 female (percentage of female directors: 7.7%)

Position and Title	Name	Date of Birth	Brief biography	Term of office	Number of shares held (hundreds of shares)
Representative Director President and Executive Officer Director of Accounting Firm BD	Masanori Iizuka	March 12, 1975	April 2002 Joined the Company December 2010 Director, Executive Officer, in charge of Corporate Information Systems Sales Headquarters and Chief of G Project Promotion Headquarters, Accounting Firm BD October 2012 Director, Executive Officer, Chief of Corporate Information Systems Sales Headquarters, Accounting Firm BD December 2012 Director, Managing Executive Officer, Chief of Corporate Information Systems Sales Headquarters, Accounting Firm BD April 2014 Director, Managing Executive Officer, Chief of Sales Headquarters, Accounting Firm BD October 2016 Representative Director, Senior Managing Executive Officer, Chief of Sales Headquarters, Head of Accounting Firm BD October 2018 Representative Director, Senior Managing Executive Officer, Head of Accounting Firm BD December 2019 Representative Director, President and Executive Officer, Head of Accounting Firm BD (current position) December 2019 Representative Director and President, TKC Customer Support Service Co., Ltd. (current position)	(Note 6)	162
Representative Director Senior Managing Executive Officer Director of Local Governments BD	Satoshi Hitaka	January 19, 1971	April 2003 Joined the Company December 2010 Executive Officer, General Manager of ASP Service Promotion Dept., Sales Planning Headquarters, Local Governments BD December 2011 Director, Executive Officer, in charge of New Business Strategy Headquarters, Local Governments BD January 2012 Director, Executive Officer, Chief of Cloud Business Promotion Headquarters, Local Governments BD December 2018 Director, Managing Executive Officer, Chief of Sales Headquarters, Local Governments BD December 2020 Representative Director, Senior Managing Executive Officer, Head of Local Governments BD (current position) December 2020 Representative Director and President, TKC Security Services Co., Ltd. (current position)	(Note 6)	53
Director Senior Managing Executive Officer In charge of SKYCOM Corporation	Ikuo Kawahashi	February 26, 1955	April 1977 Joined the Company December 2006 Executive Officer, Systems Development Headquarters, Local Governments BD January 2008 Executive Officer, Chief of Internal Control Center December 2013 Representative Director and Vice President, SKYCOM Corporation December 2014 Representative Director and President, SKYCOM Corporation (current position) December 2019 Senior Managing Executive Officer of the Company December 2020 Director, Senior Managing Executive Officer of the Company, in charge of SKYCOM Corporation (current position)	(Note 6)	159

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
Director Managing Executive Officer Chief of Business Administration Headquarters	Kiyotsugu Nakanishi	August 27, 1956	April 1979 December 2008 December 2009 January 2015 December 2018 December 2020 December 2021	Joined the Company Executive Officer, General Manager of General Affairs Dept. General Manager of General Affairs Dept. General Manager of Internal Audit Dept. Full-time Auditor of the Company Director, Executive Officer, Chief of Business Administration Headquarters Director, Managing Executive Officer, Chief of Business Administration Headquarters (current position)	(Note 6)	366
Director Managing Executive Officer Chief of Systems Planning Headquarters, Systems Development Research Center, Accounting Firm BD	Yoshihisa Ito	April 2, 1967	April 1990 December 2007 October 2010 December 2013 April 2014 December 2016 January 2018 December 2019 October 2020 December 2022	Joined the Company Executive Officer, Chief of Users Interface Design Headquarters, Systems Development Research Center Executive Officer, Chief of Sales Planning Headquarters, Accounting Firm BD Director, Executive Officer, Chief of Sales Planning Headquarters, Accounting Firm BD Director, Executive Officer, Chief of Sales Planning Headquarters, Accounting Firm BD Executive Officer, Chief of Tax Information Systems Design Center, Systems Development Research Center, Accounting Firm BD Executive Officer, Chief of User Interface Design Headquarters, Systems Development Research Center, Accounting Firm BD Managing Executive Officer, Chief of User Interface Design Headquarters, Systems Development Research Center, Accounting Firm BD Managing Executive Officer, Chief of Tax Information Systems Design Center, Systems Development Research Center, Accounting Firm BD Director, Managing Executive Officer, Chief of Systems Planning Headquarters, Systems Development Research Center, Accounting Firm BD (current position)	(Note 6)	60
Director Executive Officer Chief of Systems Development Headquarters, Local Governments BD	Takeshi Kawamoto	August 23, 1969	April 1994 April 2018 December 2019 December 2020 December 2021 December 2022	Joined the Company Chief of Technology Infrastructure Development Center, Local Governments BD Executive Officer, Chief of Technology Infrastructure Development Center, Local Governments BD Executive Officer, Chief of Systems Development Headquarters, Local Governments BD Chief of Systems Development Headquarters, Local Governments BD Director, Executive Officer, Chief of Systems Development Headquarters, Local Governments BD (current position)	(Note 6)	—
Director	Junko Iijima	August 3, 1967	October 2001 October 2001 October 2019 December 2019	Registered as attorney Joined Tokyo Toranomon Law Office (current position) Chairperson of the Nomination and Compensation Advisory Committee of the Company (current position) Director of the Company (current position)	(Note 6)	—

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
Director	Nobuhiko Kouga	January 25, 1964	February 1996 February 1996 April 2019 December 2020	Registered as certified tax accountant Started business as certified tax accountant Representative Partner of Accounting Firm Top Management (current position) Director of the Company (current position)	(Note 6)	10
Director	Keiichiro Kato	July 30, 1957	August 1985 February 1987 February 1987 January 2003 December 2022	Registered as certified public accountant Registered as certified tax accountant Started business as certified tax accountant Representative Partner, Kato Accounting Office (current position) Director of the Company (current position)	(Note 6)	116
Auditor (Full-time)	Tsuneo Miyashita	May 28, 1949	March 1975 December 2006 October 2010 December 2016 October 2017	Joined the Company Executive Officer, General Manager of TKCNF Research Committee Support Dept. General Manager of Chairman's Office Full-time Auditor of the Company (current position) Auditor, TKC Security Services Co., Ltd. (current position) Auditor, TKC Customer Support Service Co., Ltd. (current position)	(Note 5)	201
Auditor (Full-time)	Yasuo Igarashi	January 4, 1967	April 1989 August 2012 December 2016 December 2017 January 2018 December 2022	Joined the Company Executive Officer, Chief of Account Information Systems Development Center, Systems Development Research Center, Accounting Firm BD Director, Executive Officer, General Manager of Sales Planning Dept., Sales Headquarters, Accounting Firm BD Director, Managing Executive Officer, General Manager of Sales Planning Dept., Accounting Firm BD Director, Managing Executive Officer, Chief of Systems Development Research Center, Accounting Firm BD Full-time Auditor of the Company (current position)	(Note 7)	66
Auditor	Hideki Tomonaga	February 15, 1956	April 1982 July 2006 August 2006 March 2007 December 2018 December 2019	Joined Tokyo Regional Taxation Bureau Resigned from National Tax College Registered as certified tax accountant Representative Director, Taxation Institute of Japan (current position) Representative Partner, Tomonaga Hideki Licensed Tax Accountant Office (current position) Auditor of the Company (current position)	(Note 4)	—
Auditor	Tomoyasu Hamamura	February 12, 1958	March 1989 March 1989 February 2007 December 2020	Registered as certified tax accountant Started business as certified tax accountant Representative Partner of Hamamura Accounting Office (current position) Auditor of the Company (current position)	(Note 5)	22
			Total			1,217

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

2. Directors Junko Iijima, Nobuhiko Kouga, and Keiichiro Kato are Outside Directors.

3. Auditors Hideki Tomonaga and Tomoyasu Hamamura are Outside Auditors.

4. Four years from the close of the Ordinary General Meeting of Shareholders held December 20, 2019.
5. Four years from the close of the Ordinary General Meeting of Shareholders held December 18, 2020.
6. Two years from the close of the Ordinary General Meeting of Shareholders held December 16, 2022.
7. Four years from the close of the Ordinary General Meeting of Shareholders held December 16, 2022.

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, led 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	Junko Iijima	As a certified attorney, Ms Iijima possesses expertise and extensive experience, and, in particular, deep insight into corporate governance. As chairperson of the Company's Nomination and Compensation Advisory Committee established on October 10, 2019, she displayed strong leadership in deliberating and designing the policies and procedures for the appointment and dismissal of Directors, etc., and the officers' compensation plan in accordance with the principles of the corporate governance code. 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. She is also expected to enhance the decision-making and supervisory functions of the Board of Directors, and therefore, she has been reappointed as Outside Director. 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.
Director	Nobuhiko Kouga	Mr. Kouga is a representative partner of Accounting Firm Top Management, and the Company's Accounting Firm Business could benefit from his extensive experience and insights in the management of accounting firms. As chairperson of the TKCNF New Members Service Committee, he is expected to contribute to the sustainable growth of the Company and improvement of corporate value over the medium-term by providing advice on follow-up activities for new member tax accountants and certified public accountants and activities to increase TKC Members. Therefore, he has been reappointed as Outside Director. Mr. Kouga 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	Keiichiro Kato	Mr. Kato is a representative partner of Kato Accounting Office, and possesses extensive experience and insights in the management of accounting firms. He also serves as Vice Chairman of the TKCNF and chairs the Executive Committee and the Board of Chairpersons, contributing to the realization of the business objectives of TKCNF. With these experiences, he is expected to contribute to the sustainable growth and medium-term improvement in the corporate value of the Company, and is also expected to enhance the decision-making and supervisory functions of the Board of Directors. Therefore, he has been appointed as Outside Director. Mr. Kato 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.

Category	Name	Functions, roles and appointment
Auditor	Hideki Tomonaga	Mr. Tomonaga is a representative partner of a certified public tax accounting firm Tomonaga Hideki Licensed Tax Accountant Office, and has extensive experience as a tax specialist on consolidated taxation system, corporate reorganization taxation system and international trade. He has been providing appropriate guidance and audits from his professional perspective in ensuring tax compliance of the Company, and therefore, has been reappointed as Outside Auditor. 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	Tomoyasu Hamamura	Mr. Hamamura is a representative partner of Hamamura Accounting Office, and has made major contributions in the development of local economies through corporate management as certified public tax accountant, auditor, and accounting advisors to many businesses in Utsunomiya City, Tochigi Prefecture. Based on such experience and deep insight in the Company and the industry, he is expected to provide advice and proposals to ensure the legality, adequacy and appropriateness of the decision-making and resolutions of the Board of Directors. He is also expected to strengthen the supervisory functions of the Board of Directors, and therefore, has been appointed as Outside Auditor. Mr. Hamamura 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 of Business Administration Headquarters as a point of liaison to provide assistance to Outside Directors and Outside Auditors. The Chief of Business Administration Headquarters notifies in advance the Outside Directors and Outside Auditors of the schedule of each meeting of the Board of Directors or meeting 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 exchange 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 officers' 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]

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 firstly protect our employees, secondly our clients, and thirdly the 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. Outside Auditors Hideki Tomonaga and Tomoyasu Hamamura are certified tax accountants who have considerable expertise in the areas of finance, accounting, and tax accounting.

Full-time Auditor Tsuneo Miyashita has served as head of Business Administration in charge of general affairs, accounting and financing and have considerable expertise on financing, accounting and tax affairs.

Full-time Auditor Yasuo Igarashi has served as head of Systems Development, and has extensive business experience and broad expertise on systems development of the Company.

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 held (Note 1)	Attendance rate (Note 1)
Tsuneo Miyashita	7/7	100%
Masaaki Arino (Note 2)	3/3	100%
Hideki Tomonaga	7/7	100%
Tomoyasu Hamamura	7/7	100%

(Note 1) Based on the number of days held the during his/her term office in the current fiscal year.
(Note 2) Retired from office on December 17, 2021.

(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 organization independent of other divisions of the Company and operates 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

39 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

Shigeyuki Honda, Toru Iizuka

4) Number of assistants assisting auditing:

The number of assistants assisting the accounting audit of the Company was 4 certified public accountants and 10 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. 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 something which prevents the accounting auditor's execution of his/her duties, the Board of Auditors, as necessary, 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, etc. engaged in audits

Classification	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for audit and attestation services (million yen)	Compensation for non-audit services (million yen)	Compensation for audit and attestation services (million yen)	Compensation for non-audit services (million yen)
The Company	49	10	46	12
Consolidated subsidiaries	—	—	—	—
Total	49	10	46	12

(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. 3402 "Assurance Reports on Controls at a Service Organization (Japanese Institute of Certified Public Accountants dated August 1, 2019)" covering services other than the services prescribed in Article 2 Paragraph 1 of the Certified Public Accountants Act.

2) Compensation to parties who belong to the same network as the certified public accountants, etc. engaged in audits (Ernst & Young) (excluding 1) above)

Classification	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for audit and attestation services (million yen)	Compensation for non-audit services (million yen)	Compensation for audit and attestation services (million yen)	Compensation for non-audit services (million yen)
The Company	–	–	–	13
Consolidated subsidiaries	–	–	–	–
Total	–	–	–	13

(Note) The Company pays EY Strategy and Consulting Co., Ltd., a party who belongs to the same network as the certified public accountants, etc. engaged in audits, compensation, etc. for the services to assist the development of declaration documents under the Information system Security Management and Assessment Program (ISMAP).

3) 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.

4) 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.

5) Other important fees under the audit and attestation services

Not applicable.

(4) [Officers' Compensation, etc.]

The Company resolved the policy on determining the individual compensations for officers of the Company at the meeting of the Board of Directors held on May 10, 2021. The Board of Directors also confirmed that, with respect to the individual compensations for officers for the current fiscal year, the method for determining the details of compensations, etc. and the details of the determined compensations were in compliance with said policy and reflected the matters reported by the Nomination and Compensation Advisory Committee, and determined that they are in compliance with said policy.

The details of the policy on determining the individual compensations for officers are as follows:

1. Policy on determining the amount of officers' compensation and/or calculation method

(1) Officers' compensation system

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

(2) Maximum amounts of Officers' compensation

The amount of compensation for officers of the Company was established by resolution of the 43rd Ordinary General Meeting of Shareholders convened on December 22, 2009, at an annual monetary 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) 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 for three fiscal years.

Also, the total amount of compensation to be paid in each fiscal year is within the maximum amounts of compensation as determined by resolution of the General Meeting of Shareholders in accordance with Article 361 and Article 387 of the Companies Act of Japan, and within 1% of the total amount of marginal profit of the entire company achieved in the previous fiscal year.

Here, Officers' compensation shall mean monetary compensation and stock-based compensation for Directors, monetary compensation for Auditors, and the portion of stock-based compensation of the executive officers' allowance for executive officers who are not Directors.

(Note) The Company resolved at the Board of Directors Meeting held on February 10, 2022 to extend the trust period for three years and to continue stock-based compensation (BIP Trust).

(3) Policy on determining the amount of Officers' compensation

(i) Policy on determining the compensation for Directors also serving as executive officers

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

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

b) On closing an equity ratio of 83% or greater has been achieved.

Provided, in calculating the equity ratio, the effects of valuation difference on the available-for-sale securities that are held as cross-shareholdings are to be excluded.

In addition to the above, if, for reasons such as merging/absorbing affiliated companies, the amount of assets, liabilities, and net assets temporarily fluctuate significantly, such effects are also to be excluded.

Moreover, if the accounting standards applied to the year-to-year comparison of net sales, marginal profits and ordinary income of the entire Company have been changed, such effects are to be excluded only for the first fiscal year in which such new accounting standards are applied.

2) The amounts of compensation for Directors who are executive officers shall be determined at the meeting of the Board of Directors, by assessing the achievement of business results of divisions in charge by referencing the year-on-year marginal profits as indicator. If the accounting standards applied to the year-to-year comparison of marginal profits have been changed, such effects are to be excluded only for the first fiscal year in which such new accounting standards are applied.

3) In addition to item 2) above, if an officer is reappointed, the Board may also take into consideration the number of years holding executive positions based on his/her contribution to items 1) and 2) above.

4) If the divisions in charge have failed to achieve target performance for two consecutive fiscal years, the amounts of compensation for the next fiscal year shall be decreased.

The amounts of compensation may also be reduced in the event he/she causes a material accident or major loss.

(ii) Policy on determining the compensation for Directors not holding executive positions

1) Directors who do not serve as executive officers shall be excluded from performance assessments.

2) If the Company makes a request to any of the Directors who do not hold executive positions to perform matters beyond the normal responsibilities of an outside Directors, it shall pay an advisory fee based on a separately entered agreement in compliance with the independence standards (compensation other than Officers' compensation must be less than 10

million yen per year).

(iii) Policy on determining the compensation for Auditors

1) Auditors shall be excluded from performance assessments, and shall be eligible for monetary compensation only.

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

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

1) An executive officer who is not a Director shall be paid an executive officer's allowance in addition to employee's salaries.

2) Executive officers' allowance shall consist of monetary compensation and stock-based compensation.

3) 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 division in charge continues to be unsuccessful in achieving the goals for two consecutive fiscal years, 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 Officers' compensation

The Company determines the amounts of Directors' compensation at the meeting of the Board of Directors by respecting the results of the reports from the Nomination and Compensation Advisory Committee, chaired by an Independent Outside Officer and the majority of which consists of Outside Officers. Compensation for Auditors is determined by consultation among Auditors within the maximum amount approved at the General Meeting of Shareholders. The Nomination and Compensation Advisory Committee deliberates on the following matters and reports to 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 positions;

(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.

(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, provided, 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%.

Based on the advice of the Board of Auditors, the Company has resolved at the regular meeting of the Board of Directors held in January 2020 not to grant points to Auditors. For the fiscal year under review, the Company has calculated the amounts of stock-based compensation in accordance with the revised system.

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

(6) Calculation method

Points = (monthly amount of officers' compensation ÷ trust average stock acquisition price × 50% × year-on-year ratio of marginal profits) ＋ (monthly amount of officers' compensation ÷ trust average acquisition stock price × 50% × year-on-year ratio of ordinary income)

*1: Trust average stock acquisition price is the average stock acquisition price of the Company's stock acquired by the Trust in establishing the stock-based compensation program (BIP Trust).

*2: 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. The Company considers the marginal profit ratio as an important financial indicator, and sets the target at 60%.

*3: The year-on-year ratios of marginal profits and ordinary income fluctuate between the range of 0% to 120%.

*4: Year-on-year ratio of marginal profits for the current fiscal year under review was 103.1%. Year-on-year ratio of ordinary income was 110.2%.

2. Total amount of compensation, total by type, and number of eligible officers, by officer category

Officer category	Total amount of remuneration (million yen)	Total compensation by type (million yen)		Number of eligible officers
		Monetary compensation	Stock-based compensation (BIP Trust)	
Directors (excluding Outside Directors)	176	163	12	5
Auditors (excluding Outside Auditors)	23	23	—	2
Outside Directors	28	28	—	3
Outside Auditors	19	19	—	2

(Notes) 1. As of the end of the fiscal year under review, the Company has eight Directors (of which, three are Outside Directors) and three Auditors (of which, two are Outside Auditors). The difference in the number of eligible Directors and Auditors is because the above number includes one Auditor who resigned and retired from office as of the close of the Ordinary General Meeting of Shareholders for the 55th Term held on December 17, 2021.

2. The maximum amount of Officers' compensation was resolved at 480 million yen per year at the 43rd Ordinary General Meeting of Shareholders convened on December 22, 2009. The Directors' compensation is performance-linked and determined within the above maximum amount. The number of Directors as of the end of said General Meeting of Shareholders was twelve (of which, one was an Outside Director). Separate from the above, the maximum amount of the stock-based compensation plan (BIP Trust) for three fiscal years was resolved at 500 million yen at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018. The number of Directors (excluding Outside Directors) as of the end of said General Meeting of Shareholders was eight.

In the Initial Trust Period, in addition to the maximum amounts set forth above, an amount not exceeding 970 million yen in total has also been resolved to be used as funds to acquire the Company's stock to be granted as points to Directors, etc. (including Directors, etc. who have retired from office and became employees after the grant of stock options) as measures to be taken for the transition from the stock-based compensation stock option scheme.

The Company resolved at the Board of Directors Meeting held on February 10, 2022 to extend the trust period for three years and to continue stock-based compensation (BIP Trust).

(5) [Status of Shareholdings]

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

The Company classifies its equity securities as those held for the purpose of pure investments, which are held for the purpose of gaining profits mainly by fluctuation in share values or by receipt of dividends, and those held for purposes other than pure investments (hereinafter "cross-shareholdings"). The Company make it a general rule not to hold equity securities for the purpose of pure investments.

As of the end of the fiscal year under review, the Company does not hold equity securities for the purpose of pure investments.

(ii) Equity securities held for purposes other than pure investments

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 results of 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-shareholdings 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-shareholdings 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 sheets

	Number of securities (Stock name)	Total amount recorded in balance sheets (million yen)
Unlisted stock	7	112
Securities other than unlisted stock	4	4,039

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

	Number of securities (Stock name)	Total amount acquired by increase in number of shares (million 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 (Stock name)	Total amount sold by decrease in number of shares (million yen)
Unlisted stock	—	—
Securities other than unlisted stock	—	—

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><td rowspan="3">Stock name</td><td>Current fiscal year</td><td>Previous fiscal year</td><td rowspan="3">Purpose of holding, quantitative effect of holding, reason for increase in number of shares</td><td rowspan="3">Holding of the Company's shares</td></tr>
<tr><td>Number of shares (shares)</td><td>Number of shares (shares)</td></tr>
<tr><td>Amount recorded in balance sheet (million yen)</td><td>Amount recorded in balance sheet (million yen)</td></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>2,433</td><td>2,757</td></tr>
</table>

Stock name	Current fiscal year Number of shares (shares) Amount recorded in balance sheet (million yen)	Previous fiscal year Number of shares (shares) Amount recorded in balance sheet (million yen)	Purpose of holding, quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
Mitsubishi UFJ Financial Group, Inc.	2,322,180	2,322,180	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.	Yes
	1,512	1,527		
Mebuki Financial Group, Inc.	275,400	275,400	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.	Yes
	77	67		
Nippon Paper Industries Co., Ltd.	17,000	17,000	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.	Yes
	15	20		

(iii) Equity securities held for the pure investment

Not applicable.

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 the Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter, the "Ordinance on Consolidated Financial Statements").

(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, 2021 to September 30, 2022) and financial statements for the fiscal year (from October 1, 2021 to September 30, 2022) 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 appropriately respond to changes in accounting standards, we maintain membership of the Financial Accounting Standards Foundation and attend seminars held by the Accounting Standards Board of Japan.

1. [Consolidated Financial Statements]

(1) [Consolidated Financial Statements]

1) [Consolidated Balance Sheet]

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Assets		
Current assets		
Cash and deposits	26,426	29,920
Notes receivable–trade	54	47
Accounts receivable–trade	6,919	7,881
Contract assets	525	391
Lease investment assets	384	362
Merchandise and finished goods	222	278
Work in progress	51	69
Raw materials and supplies	138	146
Other	1,399	1,630
Allowance for doubtful accounts	(14)	(12)
Total current assets	36,107	40,715
Non-current assets		
Property, plant and equipment		
Buildings and structures (net amount)	7,855	7,651
Machinery, equipment and vehicles (net amount)	611	501
Tools, furniture & fixtures (net amount)	2,050	1,820
Land	6,802	6,802
Lease assets (net amount)	220	376
Total property, plant and equipment	*1 17,540	*1 17,153
Intangible assets		
Software	2,654	3,073
Software in progress	924	1,567
Other	25	25
Total intangible assets	3,605	4,666
Investments and other assets		
Investment securities	*2 19,705	*2 18,748
Long-term loans receivable	120	65
Deferred tax assets	7,209	8,032
Long-term deposits	16,600	17,700
Guarantee deposits	1,440	1,486
Long-term lease investment assets	539	198
Other	537	458
Total investments and other assets	46,152	46,689
Total non-current assets	67,298	68,510
Total assets	103,406	109,225

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable–trade	2,402	2,973
Electronically recorded obligations–operating	834	799
Current portion of long-term loans payable	80	71
Lease obligations	468	492
Accounts payable–other	1,786	2,187
Income taxes payable	2,211	3,167
Accrued consumption taxes	780	819
Contract liabilities	673	1,104
Provisions for bonuses	4,073	4,953
Provisions for loss on construction contracts	141	65
Other	1,269	1,044
Total current liabilities	14,721	17,679
Non-current liabilities		
Long-term loans payable	214	142
Lease obligations	694	481
Retirement benefit obligations	3,554	2,806
Provisions for stocks payment	307	306
Other	498	482
Total non-current liabilities	5,268	4,219
Total liabilities	19,990	21,899
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	6,589	6,589
Retained earnings	73,411	78,743
Treasury stock	(1,352)	(2,359)
Total shareholders' equity	84,348	88,672
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	449	(138)
Remeasurements of defined benefit plans	(1,382)	(1,207)
Total accumulated other comprehensive income	(932)	(1,346)
Total net assets	83,416	87,325
Total liabilities and net assets	103,406	109,225

2) [Consolidated Statements of Income and Comprehensive Income]

[Consolidated Statements of Income]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Net sales	66,221	67,838
Cost of sales	*1 19,319	*1 19,909
Gross profit	46,902	47,929
Selling, general and administrative expenses	*2 34,587	*2 34,578
Operating income	12,314	13,351
Non-operating income		
Interest income	51	70
Dividends income	150	176
Land and house rent received	51	47
Subsidy income	13	9
Equity in earnings of affiliates	—	3
Other	92	98
Total non-operating income	359	407
Non-operating expenses		
Interest expenses	0	1
Loss on sale of securities	0	—
Surcharges	—	20
Penalties	—	58
Other	0	1
Total non-operating expenses	0	80
Ordinary income	12,673	13,677
Extraordinary income		
Gain on sales of non-current assets	*3 111	*3 3
Other	9	—
Total extraordinary income	121	3
Extraordinary losses		
Loss on sale of non-current assets	*4 22	*4 0
Loss on retirement of non-current assets	*5 23	*5 30
Loss on valuation of investment securities	89	—
Total extraordinary losses	134	30
Net income before taxes and adjustments	12,660	13,650
Income taxes–current	4,156	4,976
Income taxes–deferred	(183)	(643)
Total income taxes	3,973	4,332
Net income	8,686	9,317
Net income attributable to owners of parent	8,686	9,317

[Consolidated Statements of Comprehensive Income]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Net income	8,686	9,317
Other comprehensive income		
Valuation difference on available-for-sale securities	1,002	(588)
Remeasurements of defined benefit plans	150	174
Total other comprehensive income	*1 1,153	*1 (414)
Comprehensive income	9,839	8,902
(Breakdown)		
Comprehensive income attributable to owners of the parent	9,839	8,902

3) [Consolidated Statement of Changes in Net Assets]

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	5,700	6,588	68,533	(1,660)	79,161
Cumulative effects of changes in accounting policies			(367)		(367)
Restated balance reflecting changes in accounting policies	5,700	6,588	68,165	(1,660)	78,793
Changes during fiscal year					
Dividends of surplus			(3,440)		(3,440)
Net income attributable to owners of parent			8,686		8,686
Acquisition of treasury stock				(6)	(6)
Disposal of treasury stock		0		315	315
Changes in items other than equity (net)					
Total changes during fiscal year	—	0	5,246	308	5,555
Balance at end of year	5,700	6,589	73,411	(1,352)	84,348

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of year	(553)	(1,532)	(2,085)	77,075
Cumulative effects of changes in accounting policies				(367)
Restated balance reflecting changes in accounting policies	(553)	(1,532)	(2,085)	76,707
Changes during fiscal year				
Dividends of surplus				(3,440)
Net income attributable to owners of parent				8,686
Acquisition of treasury stock				(6)
Disposal of treasury stock				315
Changes in items other than equity (net)	1,002	150	1,153	1,153
Total changes during fiscal year	1,002	150	1,153	6,708
Balance at end of year	449	(1,382)	(932)	83,416

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	5,700	6,589	73,411	(1,352)	84,348
Changes during fiscal year					
Dividends of surplus			(3,985)		(3,985)
Net income attributable to owners of parent			9,317		9,317
Acquisition of treasury stock				(1,035)	(1,035)
Disposal of treasury stock		0		27	27
Changes in items other than equity (net)					
Total changes during fiscal year	―	0	5,331	(1,007)	4,324
Balance at end of year	5,700	6,589	78,743	(2,359)	88,672

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of year	449	(1,382)	(932)	83,416
Changes during fiscal year				
Dividends of surplus				(3,985)
Net income attributable to owners of parent				9,317
Acquisition of treasury stock				(1,035)
Disposal of treasury stock				27
Changes in items other than equity (net)	(588)	174	(414)	(414)
Total changes during fiscal year	(588)	174	(414)	3,909
Balance at end of year	(138)	(1,207)	(1,346)	87,325

4) [Consolidated Statements of Cash Flows]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Cash Flows from Operating Activities		
Net income before taxes and adjustments	12,660	13,650
Depreciation	2,945	3,050
Increase (decrease) in allowance for doubtful accounts	(5)	(1)
Increase (decrease) in provisions for bonuses	400	880
Increase (decrease) in provisions for loss on construction contracts	33	(76)
Increase (decrease) in retirement benefit liabilities	367	503
Contribution of securities to retirement benefit trust	—	(1,000)
Increase (decrease) in provisions for stocks payment	(291)	(1)
Interest and dividends income	(201)	(246)
Interest expenses	0	1
Surcharges	—	20
Penalties	—	58
Equity in losses (earnings) of affiliates	—	(3)
Loss on retirement of non-current assets	23	30
Loss (gain) on sale of non-current assets	(89)	(2)
Loss (gain) on valuation of investment securities	89	—
Decrease (increase) in notes and accounts receivable–trade	159	(1,180)
Decrease (increase) in inventories	31	(82)
Decrease (increase) in other assets	(679)	84
Increase (decrease) in accounts payable–trade	131	462
Increase (decrease) in other liabilities	(283)	642
Increase (decrease) in accrued consumption taxes	(739)	39
Other	281	60
Subtotal	14,832	16,888
Interest and dividends received	234	283
Interest paid	(0)	(1)
Surcharges paid	—	(20)
Penalties paid	—	(35)
Income taxes paid	(4,516)	(4,063)
Cash Flows from Operating Activities	10,550	13,050
Cash Flows from Investing Activities		
Payments into time deposits	(5,300)	(4,400)
Proceeds from withdrawal of time deposits	3,300	3,300
Purchase of property, plant and equipment	(1,420)	(760)
Proceeds from sales of property, plant and equipment	201	6
Purchase of intangible assets	(1,887)	(2,573)
Purchase of investment securities	(4,118)	(2,015)
Proceeds from sales of investment securities	13	1
Proceeds from redemption of investment securities	2,000	2,100
Payments for guarantee deposits	(47)	(59)
Proceeds from collection of guarantee deposits	44	14
Collection of loans receivables	12	43
Other payments	(0)	—
Other proceeds	—	0
Cash Flows from Investing Activities	(7,201)	(4,342)

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Cash Flows from Financing Activities		
Repayment of long-term loans payable	(142)	(80)
Repayment of lease obligations	(91)	(118)
Purchase of treasury stock	(6)	(1,035)
Proceeds from disposal of treasury stock	0	0
Cash dividends paid	(3,449)	(3,979)
Cash Flows from Financing Activities	(3,691)	(5,214)
Increase (Decrease) in Cash and Cash Equivalents	(342)	3,493
Cash and Cash Equivalents at Beginning of Year	23,469	23,126
Cash and Cash Equivalents at End of Year	*1 23,126	*1 26,620

[Notes to the Consolidated 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

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 has little 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), and does not have material importance as a whole.

3. Fiscal Year-ends of Consolidated Subsidiaries

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

4. Accounting Policies

(1) Valuation standards and methods for major assets

(i) Marketable and investment securities

1) Held-to-maturity securities

Amortized cost method

2) Available-for-sale securities

a. Securities other than shares that do not have a market value

Fair value method 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. Shares that do not have a market value

Moving average cost method

(ii) Inventories

1) Merchandise, raw materials

Cost method based on first-in, first-out method (with balance sheet values reflecting write downs for decreased profitability)

2) Finished goods

Cost method based mainly on cost percentage method (with balance sheet values reflecting write downs for decreased profitability)

3) Work in progress

Cost method based on specific identification method (with balance sheet values reflecting write downs for decreased profitability)

4) Supplies

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

(2) Depreciation of major depreciable assets

(i) 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

(ii) Intangible assets (excluding lease assets)

1) Software

a. Software for sale

Software for sale is 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.

2) Other intangible assets

Amortized using the straight-line method.

(iii) 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

(i) 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.

(ii) Provisions for bonuses

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

(iii) 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.

(iv) Provisions for loss on construction contracts

In setting aside provisions for future losses related to construction contracts, provisions are recognized at estimated amounts of losses for works in progress as at the end of the current consolidated fiscal year, if it is likely that the total amount of costs will exceed the total amount of revenues, and further if such amounts can be reasonably estimated.

(4) Accounting procedure for retirement benefits

(i) 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 current consolidated fiscal year based on benefit formula standards.

(ii) Recognizing actuarial differences as expenses and past service costs

Past service costs are recognized as expenses for a 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.

(iii) Unrecognized past service costs

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

(5) Standards for recognizing significant revenues and expenses

The Group mainly provides information processing services, software and consulting services, and sales of office supplies and equipment. Each are recognized in the following manner. These revenues are recognized at the amounts of compensation that are received from clients based on contracts. However, if there are rebates or return of items, etc., these amounts are deducted from the amounts recognized.

(i) Provision of information processing services

For provision of information processing services, calculation and storage of data and provision of business form printing services under contracts with customers are identified as performance obligations.

For provision of information processing services, revenue is recognized at a certain time the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the effect of contract becomes final and binding.

(ii) Provision of software

For provision of software, provision of software for sale or for rent, and provision of made-to-order software are identified as performance obligations.

Of the performance obligations of provision of software, in case the system has a validity period, the performance obligations are satisfied with the passing of the validity period. Therefore, in this case, revenue is recognized throughout said validity period.

For made-to-order software, satisfaction of performance obligations is determined based on the progress of development. As such, in case where the contract price or total amount of costs required through completion can be estimated reliably, revenue is recognized over a certain period depending on the progress of satisfaction of performance obligations. Provided, in case where the contract price or total amount of costs required through completion cannot be estimated reliably, then revenue is recognized within the costs actually incurred (cost recovery method).

For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the software, or on the date of commencement of use as set forth in the contracts.

For some transactions, the Group’s performance obligation is to make arrangements to cause another party to provide the products. The Group is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

(iii) Provision of consulting services

For the provision of consulting services, support services for the implementation of software, and help desk services, etc. are identified as performance obligations.

For help desk services, the Group assumes the obligations to provide services throughout the period set forth in the contracts. In this case, the performance obligations are satisfied with the passing of the contract period. Therefore, in this case, revenue is recognized throughout said contract period. For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, at the time the provision of services is completed.

(iv) Sales of office equipment and supplies

For sales of office equipment and supplies, sales of computer accounting goods and office equipment are identified as performance obligations.

For sales of office equipment and supplies, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the products are shipped out.

For some transactions, the Group’s performance obligation is to make arrangements to cause another party to provide the products. The Group is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

(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:

(i) Cash on hand

(ii) Demand deposits

(iii) 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

(i) Application of the consolidated taxation system

The consolidated taxation system is applied.

(ii) Application of tax effect accounting for the transition from the consolidated taxation system to Group Tax Sharing System

The Company and its consolidated subsidiaries will be transitioning from the consolidated taxation system to Group Tax Sharing System starting from the next consolidated fiscal year. Provided, based on the treatment set forth under Item 3 of the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System (Practical Solution No. 39, March 31, 2020), the Company do not implement the provisions of Paragraph 44 of the Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) for items that were transitioned to the group tax sharing system which was established in the Law for Partial Revisions to the Income Tax Act, etc. (Law No. 8 of 2020) and items that were revised under the non-consolidated taxation system in line with the transition to the group tax sharing system. The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Tax Act prior to revisions.

Starting from the beginning of the next consolidated fiscal year, the Company plans to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Practical Solution No. 42, August 12, 2021), which stipulated the accounting method and disclosure of corporate income tax, national local corporate tax, and tax effect accounting when applying the group tax sharing system.

(Changes in Accounting Policies)

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) (hereinafter, "Fair Value Measurement Accounting Standard") etc., from the beginning of the current consolidated fiscal year. Further, in accordance with the transitional measures set forth in Section 19 of said Fair Value Measurement Accounting Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policies under the Fair Value Measurement Accounting Standard, etc. in the future. There are no impacts on the consolidated financial statements.

Also, we have decided to provide notes on breakdown by level of fair value of financial instruments, etc. in the notes on Financial Instruments. Provided, in accordance with Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), those pertaining to the previous consolidated fiscal year are not stated.

(Significant Accounting Estimates)

1. Revenue recognition of made-to-order software

(1) Amounts stated in the consolidated financial statements for the fiscal year under review:

(Unit: million yen)

	Previous consolidated fiscal year	Current consolidated fiscal year
Net sales	351	243

(2) Information on the nature of significant accounting estimates related to the identified items

(i) Calculation method

For net sales, in case where the contract price or total amount of costs required through completion for made-to-order software can be estimated reliably, then revenue is recognized over a certain period depending on the progress of satisfaction of the measured performance obligations. Provided, in case where the contract price or total amount of costs required through completion cannot be estimated reliably, then revenue is recognized within the expenses incurred.

(ii) Key assumptions

In estimating the total amount of costs, we first make sure that the schedule, development workload, and number of development personnel assigned to each made-to-order software development project are adequate and appropriate, then calculate the cost by multiplying the development man-hours by man-hour unit price for each contracted project.

In estimating the total amount of costs, we revise our estimations by conducting regular monitoring of the estimated development workload and actual man-hours for development projects.

(iii) Impact on next fiscal year's consolidated financial statements

The Company considers the total amount of project costs revised based on the latest information including comparison of estimated costs and actual costs, and progress of the project at the time appropriate. However, in the event that the actual costs deviate from our estimations due to changes in future conditions, the estimates may impact the amount of revenue that the Group recognizes.

(Accounting Standards Not Yet Applied)

Not applicable.

(Changes in Method of Presentation)

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

The Company applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) (hereinafter, "Revenue Recognition Accounting Standard") etc. from the beginning of the current consolidated fiscal year.

As a result of applying the Revenue Recognition Accounting Standard, "Notes and accounts receivable–trade" under "Current assets" in the consolidated balance sheets for the previous consolidated fiscal year has been included and presented as independent items "Notes receivable–trade" and "Accounts receivable–trade," and "Contract assets" that was included in "Other" is presented as an independent item, starting from the current consolidated fiscal year. Also, "Contract liabilities" that was included in "Other" under "Current liabilities" is presented as an independent item.

Note that, in accordance with the transitional measures set forth in Section 89-4 of the Revenue Recognition Accounting Standard, the notes on "Revenue Recognition" for the previous consolidated fiscal year are not stated.

(Additional Information)

(Stock-based Compensation Plan for Officers)

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 remuneration 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.

The proposal to change the stock-based compensation plan for Directors, etc. (excluding Directors not holding executive positions) and Full-time Auditors to performance-linked compensation has been deliberated by the Nomination and Compensation Advisory Committee whose chairperson and half of the members are independent Outside Directors and outside experts, and approved at the Ordinary General Meeting of Shareholders held on December 20, 2019.

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 407 million yen for 206,000 shares as of the end of the current consolidated fiscal year.

(Notes to Consolidated Balance Sheets)

*1. Accumulated depreciation of property, plant and equipment

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
	23,055 million yen	23,482 million yen

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

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Investment securities (shares)	100 million yen	103 million yen

(Notes to Consolidated Statements of Income)

*1. Provisions for loss on construction contracts included in Cost of sales are as follows:

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
	33 million yen	(76) million yen

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

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Salaries	11,958 million yen	11,855 million yen
Provision for bonuses	3,357	3,902
Retirement benefit expenses	957	1,024
Provisions for stocks payment	24	26
Depreciation	723	700
Rent expenses	2,444	2,541

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

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Land	109 million yen	— million yen
Machinery, equipment & vehicles	0	1
Tools, furniture & fixtures	1	0
Other	—	1
Total	111	3

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

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Buildings & structures	22 million yen	— million yen
Tools, furniture & fixtures	—	0
Total	22	0

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

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Buildings & structures	12 million yen	1 million yen
Machinery, equipment & vehicles	0	0
Tools, furniture & fixtures	9	7
Intangible assets	0	20
Other (Investments and other assets)	0	0
Total	23	30

(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, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Valuation difference on available-for-sale securities:		
Increase/decrease during the fiscal year	1,425 million yen	(845) million yen
Reclassification adjustments	8	—
Amount before tax	1,434	(845)
Tax effect	(431)	256
Valuation difference on available-for-sale securities	1,002	(588)
Remeasurements of defined benefit plans, net of tax:		
Increase/decrease during the fiscal year	(33)	—
Reclassification adjustments	247	250
Amount before tax	214	250
Tax effect	(63)	(76)
Remeasurements of defined benefit plans	150	174
Total other comprehensive income	1,153	(414)

(Notes to Consolidated Statements of Changes in Equity)

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

1. Types and numbers of issued stocks and treasury stocks

	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	—	534,620
Total	267,310	267,310	—	534,620
Treasury stock				
Common stock	4,533	3,771	815	7,489
Total	4,533	3,771	815	7,489

(Notes) 1. The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021.
2. The 267,310 hundred share increase in issued common shares is the increase as a result of the stock split.
3. The 3,771 hundred share increase in common treasury stock resulted from 3,759 hundred shares from the stock split, and 12 hundred shares from purchase of fractional unit shares (7 hundred shares prior to the stock split, 4 hundred shares after the stock split).
4. The 815 hundred share decrease in common treasury stock resulted from sales of 1 hundred shares of fractional unit shares (after the stock split), and payment of 814 hundred shares under the BIP Trust (782 hundred shares prior to the stock split, 32 hundred shares after the stock split).
5. The number of treasury stock at the end of the current consolidated fiscal year includes the 2,198 hundred shares of treasury stock of the Company held by the BIP Trust.

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

Not applicable.

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of cash dividends (million yen)	Dividend per share (yen)	Record date	Effective date
December 18, 2020 Ordinary General Meeting of Shareholders	Common stock	1,720	65.00	September 30, 2020	December 21, 2020
May 7, 2021 Meeting of the Board of Directors	Common stock	1,720	65.00	March 31, 2021	June 14, 2021

(Notes) 1. The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 18, 2020 includes a cash dividend of 12 million yen to the stocks of the Company owned by the BIP Trust.
2. The total amount of cash dividends determined by resolution of the Board of Directors on May 7, 2021 includes a cash dividend of 7 million yen to the stocks of the Company owned by the BIP Trust.
3. The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. The dividend per share shows the amount prior to the stock split.

(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 (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
December 17, 2021 Ordinary General Meeting of Shareholders	Common stock	2,090	Retained earnings	39.50	September 30, 2021	December 20, 2021

(Note) The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 17, 2021 includes a cash dividend of 8 million yen to the stocks of the Company owned by the BIP Trust.

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

1. Types and numbers of issued stocks and treasury stocks

	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	534,620	—	—	534,620
Total	534,620	—	—	534,620
Treasury stock				
Common stock	7,489	3,004	139	10,354
Total	7,489	3,004	139	10,354

(Notes) 1. The 3,004 hundred share increase in common treasury stock resulted from 3,000 hundred shares through acquisition of treasury stock based on resolution of the Board of Directors, and 4 hundred shares from purchase of fractional unit shares.
2. The 139 hundred share decrease in common treasury stock resulted from sales of 1 hundred fractional unit shares, and payment of 138 hundred shares under the BIP Trust.
3. The number of treasury stock at the end of the current consolidated fiscal year includes the 2,060 hundred shares of treasury stock of the Company held by the BIP Trust.

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

Not applicable.

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of cash dividends (million yen)	Dividend per share (yen)	Record date	Effective date
December 17, 2021 Ordinary General Meeting of Shareholders	Common stock	2,090	39.50	September 30, 2021	December 20, 2021
May 10, 2022 Meeting of the Board of Directors	Common stock	1,894	36.00	March 31, 2022	June 13, 2022

(Notes) 1. The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 17, 2021 includes a cash dividend of 8 million yen to the stocks of the Company owned by the BIP Trust.
2. The total amount of cash dividends determined by resolution of the Board of Directors on May 10, 2022 includes a cash dividend of 7 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 (million yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
December 16, 2022 Ordinary General Meeting of Shareholders	Common stock	2,210	Retained earnings	42.00	September 30, 2022	December 19, 2022

(Note) The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 16, 2022 includes a cash dividend of 8 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, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Cash and deposits	26,426 million yen	29,920 million yen
Time deposits with deposit period greater than three months	(3,300)	(3,300)
Cash and cash equivalents	23,126	26,620

(Lease Transactions)

1. Finance lease transactions (Lessee)

Finance lease transactions that do not involve transfer of ownership

(i) Description of lease assets

Property, plant and equipment

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

(ii) Depreciation of lease assets

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

2. Operating lease transactions (Lessee)

Unexpired lease payments for non-cancellable operating lease transactions

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Within one year	235	291
Over 1 year	393	483
Total	628	775

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

(1) Lease investment assets

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Current assets	384	362
Investments and other assets	539	198

(2) Lease obligations

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Current liabilities	384	362
Non-current liabilities	539	198

(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 of those other than held-to-maturity securities 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

Since certain assumptions that contain fluctuation factors were used in estimating the fair value of financial instruments, 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. Note that shares that do not have a market value are not included (see Note 2).

Previous consolidated fiscal year (September 30, 2021)

	Book value in consolidated balance sheets (million yen)	Fair value (million yen)	Differences (million yen)
(1) Notes and accounts receivable–trade	6,973		
Allowance for doubtful accounts	(14)		
	6,959	6,959	―
(2) Investment securities	19,491	19,491	―
(3) Long-term deposits	16,600	16,533	(66)
Total assets	43,051	42,984	(66)
(1) Accounts payable–trade	2,402	2,402	―
(2) Accounts payable–other	1,786	1,786	―
Total liabilities	4,188	4,188	―

(Notes) 1. For cash and deposits, the fair value is omitted because they are cash, and because of the short maturity the fair value approximates the book value.

2. For notes and accounts receivable—trade, the corresponding allowances for doubtful accounts are deducted.

3. The fair values of the following financial instruments are deemed to be extremely difficult to measure since quoted market values are not available and future cash flows cannot be reliably estimated, and thus are not included in "(2) Investment securities.” The book values of said financial instruments in the consolidated balance sheets are as follows:

(Unit: million yen)

Classification	Previous consolidated fiscal year (September 30, 2021)
Other securities (unlisted equity securities)	113
Stocks of subsidiaries and affiliates	100
Total	213

Current consolidated fiscal year (September 30, 2022)

	Book value in consolidated balance sheets (million yen)	Fair value (million yen)	Differences (million yen)
(1) Investment securities	18,531	18,532	0
(2) Long-term deposits	17,700	17,303	(396)
Total assets	36,231	35,835	(396)

(Notes) 1. For cash and deposits, the fair value is omitted because they are cash, and because of the short maturity the fair value approximates the book value. Similarly, for notes receivable—trade, accounts receivable—trade, accounts payable—trade, and accounts payable–other, the fair values are omitted as the fair values approximate the book values due to the short maturity of these instruments.

2. Note that shares that do not have a market value are not included in (1) Investment securities. The book values of said financial instruments in the consolidated balance sheets are as follows:

(Unit: million yen)

Classification	Current consolidated fiscal year (September 30, 2022)
Other securities (unlisted equity securities)	112
Stocks of subsidiaries and affiliates	103
Total	216

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

Previous consolidated fiscal year (September 30, 2021)

	Within 1 year (million yen)	Over 1 year and within 5 years (million yen)	Over 5 years and within 10 years (million yen)	Over 10 years (million yen)
Cash and deposits	26,422	—	—	—
Notes and accounts receivable–trade	6,973	—	—	—
Investment securities				
Corporate bonds	—	2,100	4,900	8,000
Long-term deposits	—	6,000	10,600	—
Total	33,395	8,100	15,500	8,000

Current consolidated fiscal year (September 30, 2022)

	Within 1 year (million yen)	Over 1 year and within 5 years (million yen)	Over 5 years and within 10 years (million yen)	Over 10 years (million yen)
Cash and deposits	29,915	—	—	—
Notes receivable–trade	47	—	—	—
Accounts receivable–trade	7,881	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	900	—	—
Other securities with maturity				
Corporate bonds	—	500	4,500	9,000
Long-term deposits	—	6,000	11,700	—
Total	37,844	7,400	16,200	9,000

4. Breakdown by level of fair value of financial instruments, etc.

Fair values of financial instruments are classified into the following three levels in accordance with the observability and materiality of inputs for fair value measurement.

Level 1 fair value

Of the observable inputs for fair value measurement, fair value measured by using quoted prices for assets or liabilities that are subject to the fair value measurement concerned which are formed in active markets

Level 2 fair value

Of the observable inputs for fair value measurement, fair value measured by using inputs for fair value measurement other than Level 1 inputs

Level 3 fair value

Fair value measured by using unobservable inputs for fair value measurement

If multiple inputs that have a material impact on fair value measurement are used, the fair value is classified into the lowest priority level in fair value measurement of the levels to which each input belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheets

Current consolidated fiscal year (September 30, 2022)

Classification	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stocks	4,204	—	—	4,204
Corporate bonds	—	13,427	—	13,427
Total assets	4,204	13,427	—	17,631

(2) Financial instruments other than financial instruments recorded at fair value in the consolidated balance sheets

Current consolidated fiscal year (September 30, 2022)

Classification	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	900	—	900
Long-term deposits	—	17,303	—	17,303
Total assets	—	18,203	—	18,203

(Note) Explanation of valuation technique used to measure fair value and inputs for fair value measurement

Investment securities

The fair value of listed equity securities is based on quoted market prices on the stock exchange and fair value of corporate bonds is based on the market prices quoted on the stock exchange or provided by financial institutions. As listed equity securities are traded in active markets, their fair values are classified as Level 1 fair value. Meanwhile, as corporate bonds held by the Company are infrequently traded in markets and cannot be regarded as quoted prices in active markets, their fair values are classified as Level 2 fair value.

Long-term deposits

The fair values of long-term deposits are estimated based on the present values discounted using the interest rate applicable to new deposits in the total amount of principal and interest, and on the fair market values provided by financial institutions for the derivative portions. Therefore, their fair values are classified as Level 2 fair value.

(Securities)

1. Held-to-maturity securities

Previous consolidated fiscal year (September 30, 2021)

Not applicable.

Current consolidated fiscal year (September 30, 2022)

	Class	Book value in consolidated balance sheets (millions of yen)	Fair value (million yen)	Differences (million yen)
Securities for which the fair values exceed the amounts in the consolidated balance sheets	Corporate bonds	900	900	0
	Subtotal	900	900	0
Securities for which the fair values do not exceed the amounts in the consolidated balance sheets	Corporate bonds	—	—	—
	Subtotal	—	—	—
Total		900	900	0

2. Other securities

Previous consolidated fiscal year (September 30, 2021)

	Class	Book value in consolidated balance sheets (millions of yen)	Original purchase value (millions of yen)	Differences (million yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	4,476	3,545	931
	(2) Bonds			
	Corporate bonds	1,101	1,100	0
	Subtotal	5,577	4,646	931
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	68	96	(27)
	(2) Bonds			
	Corporate bonds	13,845	14,068	(223)
	Subtotal	13,913	14,165	(251)
Total		19,491	18,811	680

(Note) Unlisted shares (113 million yen in the consolidated balance sheets) are not included under the table "Other securities" above since quoted market value is not available and the fair value is deemed to be extremely difficult to measure.

Current consolidated fiscal year (September 30, 2022)

	Class	Book value in consolidated balance sheets (millions of yen)	Original purchase value (millions of yen)	Differences (million yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	4,126	3,547	578
	(2) Bonds			
	Corporate bonds	—	—	—
	Subtotal	4,126	3,547	578
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	77	95	(17)
	(2) Bonds			
	Corporate bonds	13,427	14,153	(725)
	Subtotal	13,505	14,248	(743)
Total		17,631	17,796	(165)

(Note) Unlisted shares (112 million yen in the consolidated balance sheets) are not included under the table “Other securities” above since they are shares that do not have a market value.

3. Other securities sold

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

Class	Price sold (million yen)	Total gain from sales (million yen)	Total loss from sales (million yen)
(1) Stocks	13	8	—
(2) Bonds			
Corporate bonds	—	—	—
Subtotal	13	8	—

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

Not applicable.

4. Securities for which impairment loss are recognized

For the previous consolidated fiscal year, the Group recorded an impairment loss of 89 million yen on securities (89 million yen on shares of other securities).

In recording the impairment loss, if the market value at year-end has dropped by 50% or more 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

Not applicable.

2. Derivative transactions for which hedge accounting is applied

Not applicable.

(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, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Retirement benefit obligations at beginning of year	8,511 million yen	8,702 million yen
Service costs	445	428
Interest costs	—	—
Actuarial differences	33	87
Retirement benefits paid	(324)	(271)
Amount of past service costs accrued	36	—
Balance of retirement benefit obligations at end of year	8,702	8,947

(Note) Past service costs were accrued as a result of amendments to the retirement benefit rules made by some of the consolidated subsidiaries during the previous 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, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Balance of pension assets at beginning of year	5,110 million yen	5,148 million yen
Expected returns	—	—
Actuarial differences	37	(7)
Contributions by employer	—	1,000
Retirement benefits paid	—	—
Balance of pension assets at end of year	5,148	6,140

(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, 2021)	Current consolidated fiscal year (September 30, 2022)
Contributory retirement benefit obligations	7,984 million yen	8,233 million yen
Pension assets	(5,148)	(6,140)
	2,835	2,092
Non-contributory retirement benefit obligations	718	713
Net obligations and assets in the consolidated balance sheets	3,554	2,806
Retirement benefit obligations	3,554	2,806
Net obligations and assets in the consolidated balance sheets	3,554	2,806

(4) Retirement benefit expenses and breakdown

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Service costs	445 million yen	428 million yen
Interest costs	—	—
Expected returns	—	—
Amount of actuarial differences treated as expenses	(4)	95
Amount of past service costs treated as expenses	250	250
Retirement benefit expenses under the defined retirement benefit plan	692	774

(5) Remeasurements of retirement benefits

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

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Past service costs	250 million yen	250 million yen
Total	250	250

(6) Accumulated remeasurements of retirement benefits

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

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Unrecognized past service costs	(1,990) million yen	(1,739) million yen
Total	(1,990)	(1,739)

(7) Pension assets

(i) 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, 2021)	Current consolidated fiscal year (September 30, 2022)
Bonds	79%	80%
Cash and deposits	21	20
Other	—	—
Total	100	100

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

(ii) 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, 2021)	Current consolidated fiscal year (September 30, 2022)
Discount rate	0.00%	0.00%
Expected long-term rate of return	−%	−%
Expected increase in salary	1.00 - 1.64%	1.00 - 1.64%

3. Defined contribution plan

The amount of necessary contributions to the defined contribution plan of the Company and its consolidated subsidiaries was 291 million yen for the previous consolidated fiscal year, and 298 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 135 million yen in the previous consolidated fiscal year and 138 million yen in the current consolidated fiscal year.

(1) Reserve fund for multiemployer pension plan

	Previous consolidated fiscal year (March 31, 2021)	Current consolidated fiscal year (March 31, 2022)
Pension assets	262,373 million yen	273,942 million yen
Actuarial liabilities based on pension plan finance calculation	206,858	221,054
Differences	55,515	52,887

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

Previous consolidated fiscal year: 2.28% (Started April 1, 2020; ended March 31, 2021)

Current consolidated fiscal year: 2.33% (Started April 1, 2021; ended March 31, 2022)

(3) Supplementary information

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

(Tax Effect Accounting)

1. Major factors of deferred tax assets and deferred tax liabilities

	Previous consolidated fiscal year (September 30, 2021)	Current consolidated fiscal year (September 30, 2022)
Deferred tax assets		
Software development costs	2,794 million yen	2,956 million yen
Provisions for bonuses	1,258	1,531
Retirement benefit obligations	501	352
Retirement benefit trust	1,570	1,872
Remeasurements of defined benefit plans	608	531
Retirement bonuses for directors payable	22	17
Accrued business tax	138	183
Loss on valuation of investment securities	188	190
Legal welfare expenses corresponding to provisions for bonuses	188	229
Asset retirement obligations	119	119
Impairment losses	115	115
Provisions for stocks payment	93	93
Valuation difference on available-for-sale securities	—	81
Other	443	415
Subtotal	8,042	8,691
Valuation allowance	(582)	(582)
Total deferred tax assets	7,460	8,108
Deferred tax liabilities		
Business tax refund	3	2
Retirement expenses corresponding to asset retirement obligations	36	37
Valuation difference on available-for-sale securities	201	26
Other	9	9
Total deferred tax liabilities	251	75
Net deferred tax assets	7,209	8,032

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, 2021)	Current consolidated fiscal year (September 30, 2022)
Statutory income tax rate	30.5%	30.5%
(Adjusted)		
Inhabitant tax on per capita basis	0.6	0.5
Entertainment expenses, etc. not deductible for tax purposes	0.1	0.8
Other	0.2	(0.1)
Income tax rate after applying tax effect accounting	31.4	31.7

(Asset Retirement Obligations)

Previous consolidated fiscal year (ended September 30, 2021) and current consolidated fiscal year (ended September 30, 2022)

Information has been omitted as it was immaterial.

(Revenue Recognition)

1. Information on disaggregation of revenue from contracts with customers

Net sales of the Company are primarily revenue recognized from contracts with customers. The Company's reportable segments can be disaggregated into the following goods and services:

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

(Unit: million yen)

	Reportable segments			Total
	Accounting Firm business	Local Governments business	Printing business	
Revenue from computer services	16,001	8,848	—	24,850
Software sales	18,325	5,958	—	24,284
Revenue from consulting	7,017	678	—	7,695
Office equipment sales	4,125	2,742	—	6,868
Accounting supplies sales	995	—	—	995
Revenue from printing-related services	—	—	3,145	3,145
Sales to outside customers	46,465	18,228	3,145	67,838

2. Information that forms the basis for understanding revenue from contracts with customers

The Group mainly provides information processing services, software and consulting services, and sales of office supplies and equipment. Each are recognized in the following manner.

These revenues are recognized at the amounts of compensation that are received from clients based on contracts. However, if there are rebates (rebates of sales) based on numerical criteria in contracts, or return of items, etc., these amounts are deducted from the amounts recognized. The ordinary payment terms are generally within two months from the time of invoice issued at the satisfaction of performance obligations or the date of the contract, etc.

(1)Provision of information processing services

For provision of information processing services, calculation and storage of data and provision of business form printing services under contracts with customers are identified as performance obligations.

For provision of information processing services, revenue is recognized at a certain time the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the effect of contract becomes final and binding.

(2)Provision of software

For provision of software, provision of software for sale or for rent, and provision of made-to-order software are identified as performance obligations.

Of the performance obligations of provision of software, in case the system has a validity period, the performance obligations are satisfied with the passing of the validity period. Therefore, in this case, revenue is recognized throughout said validity period.

For made-to-order software, satisfaction of performance obligations is determined based on the progress of development. As such, in case where the contract price or total amount of costs required through completion can be estimated reliably, revenue is recognized over a certain period depending on the progress of satisfaction of performance obligations. Provided, in case where the contract price or total amount of costs required through completion cannot be estimated reliably, then revenue is recognized within the costs actually incurred (cost recovery method).

For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the software, or on the date of commencement of use as set forth in the contracts.

For some transactions, the Group's performance obligation is to make arrangements to cause another party to provide the products. The Group is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

(3)Provision of consulting services

For the provision of consulting services, support services for the implementation of software, and help desk services, etc. are identified as performance obligations.

For help desk services, the Group assumes the obligations to provide services throughout the period set forth in the contracts. In this case, the performance obligations are satisfied with the passing of the contract period. Therefore, in this case, revenue is recognized throughout said contract period. For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, at the time the provision of services is completed.

(4)Sales of office equipment and supplies

For sales of office equipment and supplies, sales of computer accounting goods and office equipment are identified as performance obligations.

For sales of office equipment and supplies, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the products are shipped out.

For some transactions, the Group's performance obligation is to make arrangements to cause another party to provide the products. The Group is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

3. Information on relation between satisfaction of performance obligations under contracts with customers and cash flows arising from such contracts, and amounts and timing of revenue from contracts with customers that existed at the end of the current consolidated fiscal year that are expected to be recognized in and after the next consolidated fiscal year

(1) Balance of contract assets and contract liabilities, etc.

Contract assets are the Group's rights to consideration that the Group is entitled to receive in exchange for the goods or services that the Group has transferred to customers. Contract assets are reclassified as accounts receivables when the rights to payment become unconditional. Accounts receivables are received within the terms stipulated under each contract.

Contract liabilities are the obligations of the Company and its consolidated subsidiaries to transfer goods or services to customers for which the Group has received consideration or which have become due for receiving consideration from customers. These are received generally within two months from the date of the contract or within the terms stipulated under each contract, regardless of the satisfaction of performance obligations. Contract liabilities will be reversed upon recognition of revenue.

Of the amount of revenue recognized during the current consolidated fiscal year, revenue included in the opening balance of contract liabilities is 673 million yen.

(2)Transaction price allocated to remaining performance obligations

The total amount of transaction price allocated to remaining performance obligations for the current consolidated fiscal year is 2,903 million yen. For such remaining performance obligations, the Group expects to recognize revenue generally within five years after the closing date.

(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]

Continuous business forms for PCs, 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 the 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, 2020; ended September 30, 2021)

(Unit: million yen)

	Reportable segments			Total	Adjustments (Note 1)	Amounts in consolidated financial statements (Note 2)
	Accounting Firm business	Local Governments BD	Printing business			
Net sales						
Sales to outside customers	45,412	17,704	3,105	66,221	—	66,221
Inter-segment sales or transfers	8	0	2,073	2,082	(2,082)	—
Total	45,420	17,704	5,178	68,304	(2,082)	66,221
Segment profit	10,563	1,705	39	12,307	6	12,314
Segment assets	29,065	9,595	5,676	44,337	59,068	103,406
Other items						
Depreciation (Note 3)	1,533	1,047	364	2,946	(0)	2,945
Investments in affiliated company under the equity method	100	—	—	100	—	100
Increase in property, plant and equipment and intangible assets (Note 3)	2,213	1,186	336	3,735	(0)	3,735

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of 6 million yen include 6 million yen for elimination of inter-segment transactions and 2 million yen for adjustments of inventory assets.

(2) Adjustments of segment assets of 59,068 million yen include 60,047 million yen of corporate assets that are not allocated to specific reportable segments, and -979 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investment securities).

(3) Adjustments of depreciation of -0 million yen represent unrealized profits.

2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.

3. Increases in depreciation, tangible fixed assets and intangible fixed assets include long-term prepaid expenses and depreciation of such expenses.

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

(Unit: million yen)

	Reportable segments			Total	Adjustments (Note 1)	Amounts in consolidated financial statements (Note 2)
	Accounting Firm business	Local Governments BD	Printing business			
Net sales						
Sales to outside customers	46,465	18,228	3,145	67,838	—	67,838
Inter-segment sales or transfers	5	0	2,229	2,235	(2,235)	—
Total	46,471	18,228	5,375	70,074	(2,235)	67,838
Segment profit	11,286	1,922	144	13,353	(1)	13,351
Segment assets	30,766	10,176	5,994	46,937	62,288	109,225
Other items						
Depreciation (Note 3)	1,616	1,066	369	3,052	(1)	3,050
Investments in affiliated company under the equity method	3	—	—	3	—	3
Increase in property, plant and equipment and intangible assets (Note 3)	2,816	1,504	342	4,662	—	4,662

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of -1 million yen include 5 million yen for elimination of inter-segment transactions and -8 million yen for adjustments of inventory assets.

(2) Adjustments of segment assets of 62,288 million yen include 63,323 million yen of corporate assets that are not allocated to specific reportable segments, and -1,034 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investment securities).

(3) Adjustments of depreciation of -1 million yen represent unrealized profits.

2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.

3. Increases in depreciation, tangible fixed assets and intangible fixed assets include long-term prepaid expenses and depreciation of such expenses.

[Related information]

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

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, 2021; ended September 30, 2022)

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, 2020; ended September 30, 2021)

Not applicable.

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

Not applicable.

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

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

Not applicable.

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

Not applicable.

[Information on gain on negative goodwill by reportable segments]

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

Not applicable.

Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)

Not applicable.

[Related Parties Information]

1 Related Parties Transactions

(1) Transactions between the Company and related parties

Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)

(i) Non-consolidated subsidiaries and affiliated companies of the Company

Class	Company name or name of individual	Address	Capital or investments (million yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (million yen)	Item	Year-end balance (million yen)
Affiliated company	iMobile Inc.	Shibuya-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)	12 3	Loans receivables	163

(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.

(ii) Officers and major shareholders (individuals only) of the Company

Class	Company name or name of individual	Address	Capital or investments (million yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (million yen)	Item	Year-end balance (million yen)
Companies in which officers and near relatives hold majority voting rights	Certified public tax accounting firm Oshida Accounting Office (Note 2)	Yokohama-shi, Kanagawa	4	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	24	Accounts receivable–trade	2
	Certified public tax accounting firm Ofuji Accounting Office (Note 3)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	14	Accounts receivable–trade	1
	Accounting Firm Top Management (Note 4)	Kushiro-shi, Hokkaido	9	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	18	Accounts receivable–trade	2
	Hamamura Accounting Office (Note 5)	Utsunomiya-shi, Tochigi	3	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	11	Accounts receivable–trade	1

(Notes) 1. Terms of transaction or policies on determining the terms of transaction
Terms of transaction for the rendering of information processing services, etc. are similar to the terms between other counterparts.
2. The company was co-founded by Mr. Yoshimasa Oshida, Director of the Company.
3. The company was co-founded with a near relative of Mr. Kazuyuki Sumi, Advisor (former Director) of the Company.
4. The company was co-founded by Mr. Nobuhiko Kouga, Director of the Company.
5. The company was co-founded by Mr. Tomoyasu Hamamura, Auditor of the Company.
6. 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, 2021; ended September 30, 2022)

(i) Non-consolidated subsidiaries and affiliated companies of the Company

Class	Company name or name of individual	Address	Capital or investments (million yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (million yen)	Item	Year-end balance (million yen)
Affiliated company	iMobile Inc.	Shibuya-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)	43 2	Loans receivables	120

(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.

(ii) Officers and major shareholders (individuals only) of the Company

Class	Company name or name of individual	Address	Capital or investments (million yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (million yen)	Item	Year-end balance (million yen)
Companies in which officers and near relatives hold majority voting rights	Certified public tax accounting firm Oshida Accounting Office (Note 2)	Yokohama-shi, Kanagawa	4	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	24	Accounts receivable–trade	2
	Certified public tax accounting firm Ofuji Accounting Office (Note 3)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	26	Accounts receivable–trade	1
	Accounting Firm Top Management (Note 4)	Kushiro-shi, Hokkaido	9	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	11	Accounts receivable–trade	4
	Hamamura Accounting Office (Note 5)	Utsunomiya-shi, Tochigi	3	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	16	Accounts receivable–trade	1

(Notes) 1. Terms of transaction or policies on determining the terms of transaction

Terms of transaction for the rendering of information processing services, etc. are similar to the terms between other counterparts.

2. The company was co-founded by Mr. Yoshimasa Oshida, Director of the Company.
3. The company was co-founded with a near relative of Mr. Kazuyuki Sumi, Advisor (former Director) of the Company.
4. The company was co-founded by Mr. Nobuhiko Kouga, Director of the Company.
5. The company was co-founded by Mr. Tomoyasu Hamamura, Auditor of the Company.

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

Not applicable.

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

Not applicable.

(Earnings Per Share Information)

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Net assets per share	1,582.45 yen	1,665.68 yen
Net income per share	164.93 yen	177.62 yen

(Notes) 1. The diluted net income per share is not stated as there were no dilutive shares.

2. The Company conducted a stock split of its common shares at a ratio of 1:2 as of April 1, 2021. Net assets per share and net income per share have been calculated assuming that said stock split was conducted at the beginning of the previous consolidated fiscal year.

3. The basis for the calculation of net income per share is as follows:

	Previous consolidated fiscal year (Started October 1, 2020; ended September 30, 2021)	Current consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)
Net income per share		
Net income attributable to owners of parent (millions of yen)	8,686	9,317
Amount not attributable to common shareholders (millions of yen)	—	—
Net income from common stocks attributable to owners of parent (millions of yen)	8,686	9,317
Average number of common stocks outstanding (hundreds of shares)	526,691	524,527

(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 numbers of said treasury stocks outstanding deducted for the calculation of net income per share were 264,371 shares for the previous consolidated fiscal year, and 212,918 shares for the current consolidated fiscal year.

(Material Subsequent Events)

Not applicable.

5) [Supplementary Schedules]

[Schedule – Corporate Bonds]

Not applicable.

[Schedule – Borrowings]

Classification	Balance at beginning of year (million yen)	Balance at end of year (million yen)	Average interest rate (%)	Terms of repayment
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	80	71	0.59	—
Current portion of lease obligations	468	492	—	—
Long-term loans payable (excluding current portion)	214	142	0.59	October 10, 2022 - September 10, 2025
Lease obligations (excluding current portion)	694	481	—	October 9, 2022 - September 22, 2027
Other interest-bearing debts				
Accounts payable–installment purchases	6	1	—	—
Total	1,464	1,190	—	—

(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.

	Due after 1 year but within 2 years (million yen)	Due after 2 years but within 3 years (million yen)	Due after 3 years but within 4 years (million yen)	Due after 4 years but within 5 years (million yen)
Long-term loans payable	71	71	—	—
Lease obligations	247	117	57	50
Other interest-bearing debts	—	—	—	—

[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)	First 3 months	First 6 months	First 9 months	Current consolidated fiscal year
Net sales (million yen)	15,292	33,768	50,340	67,838
Quarterly (current FY) net income before income taxes (million yen)	3,241	8,431	11,919	13,650
Quarterly (current FY) net income attributable to owners of parent (million yen)	2,228	5,816	8,125	9,317
Quarterly (current FY) net income per share (yen)	42.41	110.82	154.88	177.62

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income per share (yen)	42.41	68.44	44.04	22.73

2 [Non-Consolidated Financial Statements, etc.]

(1) [Non-Consolidated Financial Statements]

(i) [Balance Sheets]

(Unit: million yen)

	Previous fiscal year (September 30, 2021)	Current fiscal year (September 30, 2022)
Assets		
Current assets		
Cash and deposits	21,881	25,071
Accounts receivable–trade	*1 6,304	*1 7,338
Contract assets	511	391
Lease investment assets	384	362
Merchandise	77	110
Work in progress	0	0
Raw materials and supplies	100	96
Prepaid expenses	715	818
Accounts receivable–other	*1 192	*1 160
Other	*1 585	*1 741
Allowance for doubtful accounts	(13)	(11)
Total current assets	30,739	35,080
Non-current assets		
Property, plant and equipment		
Buildings	6,567	6,449
Structures	173	162
Vehicles	19	13
Tools, furniture & fixtures	1,974	1,750
Land	6,525	6,525
Total property, plant and equipment	15,259	14,900
Intangible assets		
Software	2,599	3,020
Software in progress	915	1,565
Telephone subscription rights	22	22
Other	0	0
Total intangible assets	3,537	4,608
Investments and other assets		
Investment securities	19,331	18,380
Stocks of subsidiaries and affiliates	1,389	1,389
Investments in capital	0	0
Long-term loans receivable	*1 120	*1 65
Long-term prepaid expenses	472	393
Deferred tax assets	5,967	6,809
Long-term deposits	16,500	17,500
Guarantee deposits	1,345	1,391
Long-term lease investment assets	539	198
Other	60	58
Total investments and other assets	45,727	46,186
Total non-current assets	64,525	65,696
Total assets	95,264	100,776

(Unit: million yen)

	Previous fiscal year (September 30, 2021)	Current fiscal year (September 30, 2022)
Liabilities		
Current liabilities		
Accounts payable–trade	*1 2,251	*1 2,847
Lease obligations	384	362
Accounts payable–other	*1 1,686	*1 1,804
Income taxes payable	2,169	3,132
Accrued business office taxes	56	57
Accrued consumption taxes	684	732
Contract liabilities	673	1,104
Advances received	594	392
Deposits received	343	347
Provisions for bonuses	3,660	4,430
Provisions for loss on construction contracts	141	65
Accounts payable–facilities	*1 7	*1 223
Other	0	—
Total current liabilities	12,654	15,500
Non-current liabilities		
Lease obligations	539	198
Provisions for retirement benefits	878	382
Provisions for stocks payment	307	306
Other	392	394
Total non-current liabilities	2,118	1,282
Total liabilities	14,772	16,783
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus		
Legal capital surplus	5,409	5,409
Other capital surplus	302	302
Total capital surplus	5,711	5,712
Retained earnings		
Legal retained earnings	688	688
Other retained earnings		
General reserve	63,057	67,157
Retained earnings brought forward	6,263	7,255
Total retained earnings	70,009	75,101
Treasury stock	(1,352)	(2,359)
Total shareholders' equity	80,069	84,153
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	422	(160)
Total valuation and translation adjustments	422	(160)
Total net assets	80,491	83,993
Total liabilities and net assets	95,264	100,776

(ii) [Statement of Income]

(Unit: million yen)

	Previous fiscal year (Started October 1, 2020; ended September 30, 2021)	Current fiscal year (Started October 1, 2021; ended September 30, 2022)
Net sales	*1 61,637	*1 63,570
Cost of sales	*1 16,993	*1 17,788
Gross profit	44,644	45,781
Selling, general and administrative expenses	*1, *2 32,943	*1, *2 32,895
Operating income	11,700	12,886
Non-operating income		
Interest income	*1 50	*1 69
Dividends income	*1 155	*1 190
Land and house rent received	*1 156	*1 158
Subsidy income	13	9
Other	*1 91	*1 78
Total non-operating income	468	507
Non-operating expenses		
Cost of lease revenue	104	103
Other	0	0
Total non-operating expenses	104	103
Ordinary income	12,064	13,290
Extraordinary income		
Gain on sales of non-current assets	111	1
Other	9	—
Total extraordinary income	121	1
Extraordinary losses		
Loss on sale of non-current assets	22	0
Loss on retirement of non-current assets	22	28
Loss on valuation of investment securities	89	—
Total extraordinary losses	133	28
Net income before taxes	12,051	13,264
Income taxes–current	3,917	4,775
Income taxes–deferred	(158)	(587)
Total income taxes	3,758	4,187
Net income	8,293	9,076

[Report on cost of sales]

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

Classification	Note	55th Term (Started October 1, 2020; ended September 30, 2021) Amount (million yen)		Ratio (%)	56th Term (Started October 1, 2021; ended September 30, 2022) Amount (million yen)		Ratio (%)
I Materials costs			4,386	31.8		4,555	30.2
II Labor costs	*1		2,669	19.4		3,475	23.0
III Expenses							
1. Computer rental expenses		402			405		
2. Maintenance contracts		1,288			1,276		
3. Depreciation		649			690		
4. Repairs and maintenance expenses		592			686		
5. Supplies expenses		1,356			1,101		
6. Other		2,433	6,723	48.8	2,896	7,057	46.8
Total expenses			13,779	100.0		15,089	100.0
Works in progress and inventories at beginning of year			1			0	
Transfers from other accounts	*2		1,206			1,294	
Total			14,987			16,384	
Works in progress and inventories at end of year			0			0	
Transfers to other accounts	*3		1,512			2,446	
Cost of sales on information processing, software and consulting services			13,475			13,936	

(Notes) 1. Labor costs include the following provisions. Figures in (parentheses) denote amounts for the previous fiscal year.
Provision for bonuses: 905 million yen (629 million yen)
Retirement benefit expenses: 128 million yen (110 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

Classification	Note	55th Term (Started October 1, 2020; ended September 30, 2021) Amount (million yen)	Ratio (%)	56th Term (Started October 1, 2021; ended September 30, 2022) Amount (million yen)	Ratio (%)
I Inventories at beginning of year		57	1.6	77	2.0
II Purchases		3,537	98.4	3,884	98.0
Total		3,595	100.0	3,962	100.0
III Inventories at end of year		77		110	
Cost of sales on office equipment and supplies		3,518		3,851	

(iii) [Statement of Changes in Equity]

Previous fiscal year (Started October 1, 2020; ended September 30, 2021)

(Unit: million 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	302	5,711	688	58,757	6,077	65,523
Cumulative effects of changes in accounting policies							(367)	(367)
Restated balance reflecting changes in accounting policies	5,700	5,409	302	5,711	688	58,757	5,710	65,156
Changes during fiscal year								
General reserve						4,300	(4,300)	—
Dividends of surplus							(3,440)	(3,440)
Net income							8,293	8,293
Acquisition of treasury stock								
Disposal of treasury stock			0	0				
Changes in items other than equity (net)								
Total changes during fiscal year	—	—	0	0	—	4,300	552	4,852
Balance at end of year	5,700	5,409	302	5,711	688	63,057	6,263	70,009

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(1,660)	75,274	(560)	(560)	74,714
Cumulative effects of changes in accounting policies		(367)			(367)
Restated balance reflecting changes in accounting policies	(1,660)	74,907	(560)	(560)	74,347
Changes during fiscal year					
General reserve		—			—
Dividends of surplus		(3,440)			(3,440)
Net income		8,293			8,293
Acquisition of treasury stock	(6)	(6)			(6)
Disposal of treasury stock	315	315			315
Changes in items other than equity (net)			982	982	982
Total changes during fiscal year	308	5,161	982	982	6,143
Balance at end of year	(1,352)	80,069	422	422	80,491

Current fiscal year (Started October 1, 2021; ended September 30, 2022)

(Unit: million 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	302	5,711	688	63,057	6,263	70,009
Changes during fiscal year								
General reserve						4,100	(4,100)	—
Dividends of surplus							(3,985)	(3,985)
Net income							9,076	9,076
Acquisition of treasury stock								
Disposal of treasury stock			0	0				
Changes in items other than equity (net)								
Total changes during fiscal year	—	—	0	0	—	4,100	991	5,091
Balance at end of year	5,700	5,409	302	5,712	688	67,157	7,255	75,101

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(1,352)	80,069	422	422	80,491
Changes during fiscal year					
General reserve		—			—
Dividends of surplus		(3,985)			(3,985)
Net income		9,076			9,076
Acquisition of treasury stock	(1,035)	(1,035)			(1,035)
Disposal of treasury stock	27	27			27
Changes in items other than equity (net)			(582)	(582)	(582)
Total changes during fiscal year	(1,007)	4,083	(582)	(582)	3,501
Balance at end of year	(2,359)	84,153	(160)	(160)	83,993

[Notes to the Consolidated 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

(i) Stocks of subsidiaries and affiliates

Moving average cost method

(ii) Held-to-maturity securities

Amortized cost method

(iii) Other securities

1) Securities other than shares that do not have a market value

Fair value method 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)

2) Shares that do not have a market value

Moving average cost method

(2) Standards and methods used for the valuation of inventory assets

(i) Merchandise, raw materials

Cost method based on first-in, first-out method (with balance sheet values reflecting write downs for decreased profitability)

(ii) Work in progress

Cost method based on specific identification method (with balance sheet values reflecting write downs for decreased profitability)

(iii) Supplies

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

2. Depreciation of non-current assets

(1) Tangible fixed assets

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 fixed assets

(i) Software

1) Software for sale

Software for sale is 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).

2) Software for internal use

Straight-line method with an estimated in-house useful life of five years

(ii) Other intangible fixed assets

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.

(i) 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.

(ii) Recognizing actuarial differences as expenses and past service costs

Past service costs are recognized as expenses for a 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.

(5) Provisions for loss on construction contracts

In setting aside provisions for future losses related to construction contracts, provisions are recognized at estimated amounts of losses for works in progress as at the end of the current fiscal year, if it is likely that the total amount of costs will exceed the total amount of revenues, and further if such amounts can be reasonably estimated.

4. Accounting standards for revenues and expenses

The Company mainly provides information processing services, software and consulting services, and sales of office supplies and equipment. Each are recognized in the following manner. These revenues are recognized at the amounts of compensation that are received from clients based on contracts. However, if there are rebates or return of items, etc., these amounts are deducted from the amounts recognized.

(1) Provision of information processing services

For provision of information processing services, calculation and storage of data and provision of business form printing services under contracts with customers are identified as performance obligations.

For provision of information processing services, revenue is recognized at a certain time the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the effect of contract becomes final and binding.

(2) Provision of software

For provision of software, provision of software for sale or for rent, and provision of made-to-order software are identified as performance obligations.

Of the performance obligations of provision of software, in case the system has a validity period, the performance obligations are satisfied with the passing of the validity period. Therefore, in this case, revenue is recognized throughout said validity period.

For made-to-order software, satisfaction of performance obligations is determined based on the progress of development. As such, in case where the contract price or total amount of costs required through completion can be estimated reliably, revenue is recognized over a certain period depending on the progress of satisfaction of performance obligations. Provided, in case where the contract price or total amount of costs required through completion cannot be estimated reliably, then revenue is recognized within the costs actually incurred (cost recovery method).

For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the software, or on the date of commencement of use as set forth in the contracts.

For some transactions, the Company’s performance obligation is to make arrangements to cause another party to provide the products. The Company is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

(3) Provision of consulting services

For the provision of consulting services, support services for the implementation of software, and help desk services, etc. are identified as performance obligations.

For help desk services, the Group assumes the obligations to provide services throughout the period set forth in the contracts. In this case, the performance obligations are satisfied with the passing of the contract period. Therefore, in this case, revenue is recognized throughout said contract period. For performance obligations other than those described above, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, at the time the provision of services is completed.

(4) Sales of office equipment and supplies

For sales of office equipment and supplies, sales of computer accounting goods and office equipment are identified as performance obligations.

For sales of office equipment and supplies, revenue is recognized at a certain point in time when the performance obligations are satisfied. Performance obligations are deemed satisfied, for example, when the customer inspects and accepts the products, or when the products are shipped out.

For some transactions, the Company’s performance obligation is to make arrangements to cause another party to provide the products. The Company is determined to be the agent of such transactions. In such transactions as an agent, revenue is the net amount calculated as the amount of compensation to be received from the customer, less the amount to be paid to said other party acting as principal.

5. Other important matters regarding the preparation of financial statements

(1) Application of the consolidated taxation system

The consolidated taxation system is applied.

(2) Application of tax effect accounting for the transition from the consolidated taxation system to Group Tax Sharing System

The Company will be transitioning from the consolidated taxation system to Group Tax Sharing System starting from the next fiscal year. Provided, based on the treatment set forth under Item 3 of the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System (Practical Solution No. 39, March 31, 2020), the Company do not implement the provisions of Paragraph 44 of the Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) for items that were transitioned to the group tax sharing system which was established in the Law for Partial Revisions to the Income Tax Act, etc. (Law No. 8 of 2020) and items that were revised under the non-consolidated taxation system in line with the transition to the group tax sharing system. The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Tax Act prior to revisions.

Starting from the beginning of the next fiscal year, the Company plans to apply the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System (Practical Solution No. 42, August 12, 2021), which stipulated the accounting method and disclosure of corporate income tax, national local corporate tax, and tax effect accounting when applying the group tax sharing system.

(Changes in Accounting Policies)

(Application of Accounting Standard for Fair Value Measurement, etc.)

The Company has decided to apply the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) (hereinafter, "Fair Value Measurement Accounting Standard") etc., from the beginning of the current fiscal year. Further, in accordance with the transitional measures set forth in Section 19 of said Fair Value Measurement Accounting Standard and Section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policies under the Fair Value Measurement Accounting Standard, etc. in the future. There are no impacts on the financial statements.

(Significant Accounting Estimates)

Information is omitted since the content is the same as the statement set forth in the "Significant Accounting Estimates" in the Notes to Consolidated Financial Statements under 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

(Changes in Method of Presentation)

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

The Company applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) (hereinafter, "Revenue Recognition Accounting Standard") etc. from the beginning of the current fiscal year.

As a result of applying the Revenue Recognition Accounting Standard, etc., "Contract assets" which was included in "Other" under "Current assets," and "Contract liabilities" which was included in "Other" under "Current liabilities" in the balance sheets for the previous fiscal year, are presented as independent items from the current fiscal year.

(Additional Information)

Information is omitted since the content is the same as the statement set forth in the "Additional Information" in the Notes to Consolidated Financial Statements under 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

(Notes to Balance Sheets)

*1. Monetary claims and monetary liabilities on affiliated companies

	Previous fiscal year (September 30, 2021)	Current fiscal year (September 30, 2022)
Short-term monetary claims on affiliated companies	225 million yen	278 million yen
Long-term monetary claims on affiliated companies	120	65
Short-term monetary liabilities on affiliated companies	445	430

(Notes to Statement of Income)

*1. Volume of transactions with affiliated companies

	Previous fiscal year (Started October 1, 2020; ended September 30, 2021)	Current fiscal year (Started October 1, 2021; ended September 30, 2022)
Volume of trading transactions		
Net sales	48 million yen	76 million yen
Purchases	3,006	3,203
Operating expenses	2,491	2,530
Volume of non-operating transactions	136	125

*2. The approximate percentages of expenses under selling expenses were 48.1% for the previous fiscal year and 47.5% for the current fiscal year; percentages of expenses under general and administrative expenses were 51.9% and 52.5%, respectively.

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

	Previous fiscal year (Started October 1, 2020; ended September 30, 2021)	Current fiscal year (Started October 1, 2021; ended September 30, 2022)
Salaries	10,227 million yen	10,101 million yen
Provision for bonuses	3,030	3,524
Retirement benefit expenses	868	937
Provisions for stocks payment	24	26
Depreciation	607	589
Rent expenses	2,286	2,382

(Securities)

Stocks of subsidiaries and affiliates (the amounts in the previous fiscal year's balance sheets were 1,389 million yen for stocks of subsidiaries and 0 million yen for stocks of affiliates; the amounts in the current fiscal year's balance sheets are 1,389 million yen for stocks of subsidiaries and 0 million yen for stocks of affiliates) are not presented here since they are shares that do not have a market value.

(Tax Effect Accounting)

1. Major factors of deferred tax assets and deferred tax liabilities

	Previous fiscal year (September 30, 2021)	Current fiscal year (September 30, 2022)
Deferred tax assets		
Software development costs	2,581 million yen	2,730 million yen
Provisions for bonuses	1,116	1,351
Provisions for retirement benefits	267	116
Retirement benefit trust	1,570	1,872
Accrued business tax	127	174
Loss on valuation of investment securities	227	229
Legal welfare expenses corresponding to provisions for bonuses	167	202
Asset retirement obligations	106	106
Impairment losses	112	112
Provisions for stocks payment	93	93
Other	375	428
Subtotal	6,745	7,418
Valuation allowance	(576)	(578)
Total deferred tax assets	6,168	6,839
Deferred tax liabilities		
Valuation difference on available-for-sale securities	171	—
Retirement expenses corresponding to asset retirement obligations	29	30
Total deferred tax liabilities	201	30
Net deferred tax assets	5,967	6,809

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, 2021)	Current fiscal year (September 30, 2022)
Statutory income tax rate	30.5%	30.5%
(Adjusted)		
Inhabitant tax on per capita basis	0.6	0.5
Entertainment expenses, etc. not deductible for tax purposes	0.1	0.8
Dividends received, etc. to be excluded from gross revenue	(0.1)	(0.1)
Other	0.1	(0.1)
Income tax rate after applying tax effect accounting	31.2	31.6

(Revenue Recognition)

Information is omitted since the content is the same as the statement set forth in the "Revenue Recognition" in the Notes to Consolidated Financial Statements under 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

(Material Subsequent Events)

Not applicable.

(iv) [Supplementary Schedules]

[Schedule – Tangible Fixed Assets, etc.]

(Unit: million yen)

Classification	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, plant and equipment	Buildings	6,567	271	1	387	6,449	11,576
	Structures	173	6	—	17	162	543
	Vehicles	19	—	—	6	13	40
	Tools, furniture & fixtures	1,974	560	7	776	1,750	5,504
	Land	6,525	—	—	—	6,525	—
	Total property, plants & equipment	15,259	838	9	1,188	14,900	17,664
Intangible assets	Software	2,599	1,890	18	1,450	3,020	2,803
	Software in progress	915	1,553	903	—	1,565	—
	Telephone subscription rights	22	—	—	—	22	—
	Other	0	—	—	0	0	0
	Total intangible assets	3,537	3,444	922	1,450	4,608	2,803

(Note) Major increase/decrease during the current fiscal year were attributable to the following:

(Amounts of increase)

Buildings	Acquisition of UPS facilities at TISC	199 million yen
Tools, furniture & fixtures	Acquisition of servers, etc. for eLTAX data sharing system infrastructure	185 million yen
	Acquisition of network devices at TISC	87 million yen
	Acquisition of servers, etc. for TASK Outsourcing	87 million yen
	Additional storage for cloud shared infrastructure	73 million yen
Software	Development costs of software for internal use	942 million yen
	Development costs of software for sale	854 million yen
	Acquisition of software purchased from outside	72 million yen

(Amounts of decrease)

Software	Removal of software purchased from outside	18million yen

[Schedule – Provisions]

(Unit: million yen)

Item	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at end of year
Allowance for doubtful accounts	13	11	13	11
Provisions for bonuses	3,660	4,430	3,660	4,430
Provisions for loss on construction contracts	141	56	133	65
Provisions for stocks payment	307	26	27	306

(2) [Major Assets and Liabilities]

This item is omitted as information has been disclosed in the consolidated financial statements.

(3) [Other]

Not applicable.

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 or sale of shares less than one unit Place of handling Administrator of shareholder registry Forwarding office Handling charges for buyback or sale	(Special account) 1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation, Stock Transfer Agency Division 1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation ——————— ———————
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	Not applicable.

(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 (55th Term) (started October 1, 2020; ended September 30, 2021), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on December 20, 2021

(2) Correction Reports for the Annual Securities Reports, Appendices, and Confirmation Letters

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 27, 2021

Correction Reports for the Annual Securities Reports for the Fiscal Year (55th Term) (started October 1, 2020; ended September 30, 2021), Appendices and Confirmation Letter thereto.

(3) Internal Control Report and Appendices

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 20, 2021

(4)) Correction Reports for the Internal Control Report

Fiscal year (55th Term) (started October 1, 2020; ended September 30, 2021), submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 27, 2021

(5) Quarterly Securities Reports and Confirmation Letters

First quarter of 56th Term (started October 1, 2021; ended December 31, 2021), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on February 14, 2022.

Second quarter of 56th Term (started January 1, 2022; ended March 31, 2022), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on May 11, 2022.

Third quarter of 56th Term (started April 1, 2022; ended June 30, 2022), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on August 12, 2022.

(6) Extraordinary Reports

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 20, 2021

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 19, 2022

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]

Not applicable.

Independent Auditors' Audit Report and Internal Control Audit Report

December 19, 2022

To: The Board of Directors, TKC Corporation

Ernst & Young ShinNihon LLC
Tokyo Office

Designated Limited Liability Partner Engagement Partner	Certified Public Accountant	Shigeyuki Honda
Designated Limited Liability Partner Engagement Partner	Certified Public Accountant	Toru Iizuka

[Audit of Financial Statements]

Opinion

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements presented in the Financial Information section, which comprise the consolidated balance sheets, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, basis of presenting the consolidated financial statements, other notes and the consolidated supplementary schedules of TKC Corporation applicable to the consolidated fiscal year started October 1, 2021 and ended September 30, 2022.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TKC Corporation and its consolidated subsidiaries as of September 30, 2022, and their financial performance and its cash flows for the consolidated fiscal year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the code of professional ethics in Japan, and we have fulfilled our other ethical responsibilities as the auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters (KAM) are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current consolidated fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Cut-off of sales from software for sale and made-to-order software of Local Governments BD	
Details of key audit matters and reason for determination thereof	How we addressed the matter in our audit
As stated in the (Revenue Recognition) in the [Notes to Consolidated Financial Statements], the Company and its consolidated subsidiaries recognized software sales of 5,958 million yen under the Local Governments BD segment. Of the software sales, the performance obligations included in the contracts are identified for the major software for sale and made-to-order software as stated in Notes to the Consolidated Financial Statements, (Basis of Presenting the Consolidated Financial Statements) 4. Accounting Policies (5) Standards for recognizing significant revenues and expenses. Sales are recognized at a certain point in time or over a certain period depending on the different types of satisfaction of performance obligations. At the end of the current consolidated fiscal year, while the majority of the sales was based on customer inspection, revenues from some of the made-to-order software that were not inspected in the current consolidated fiscal year were realized over a certain period depending on the progress of satisfaction of obligations. Sales from the above for-sale and made-to-order software include customization and production, etc. of specialized software for local governments provided based on customer request. Also, because of the long lead time from order to delivery and the large scale of these projects, sales from each contract tend to be large and long. Therefore, there is significant impact on net sales when the Company records in advance, the sales of software which is scheduled to be inspected in the following consolidated fiscal year or beyond. In addition, management may be under excessive pressure to achieve performance target, and as such, for transactions that are scheduled to be inspected in the following consolidated fiscal year or beyond, there is a risk of recording the sales in advance in the current consolidated fiscal year. As such, the software sales by the Local Governments BD, the adequacy of cut-off of sales of such for-sale and made-to-order software is of particular materiality in our audit of the consolidated financial statements of the current consolidated fiscal year, and we believe that it is a key audit matter.	To examine the adequacy of the cut-off of sales from said software for sale and made-to-order software of the software sales under the Local Governments BD, we mainly implemented the following audit procedures: (1) Evaluation of internal control ・We assessed the status of development and implementation of internal controls related to the approval of the contract terms upon acceptance of orders for software, screening of software production, approval at the time of shipment and acceptance inspection, and approval of calculation of level of progress. (2) Determination of adequacy of cut-off of sales ・We conducted sampling of sales of those for-sale and made-to-order software recorded in the current consolidated fiscal year, and cross-checked with the inspection completion notices that are the basis for recording sales and the dates and amounts of sales in the accounting system. ・We evaluated the adequacy of the actual cost incurred and total estimated cost that are the basis for determining the level of progress for such made-to-order software whose revenue is recognized over a certain period depending on the progress of satisfaction of performance obligations. ・We examined the journal entries to be recorded in the following consolidated fiscal year and verified whether there are material cancellations of sales of those for-sale and made-to-order software.

Other Information

The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, non-consolidated financial statements, and our auditors' reports thereon. Management is responsible for the preparation and presentation of such other information. In addition, corporate auditors and the Board of Auditors are responsible for overseeing the execution of duties by Directors in designing and implementing the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and, accordingly, we do not express an audit opinion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit. The auditor is also required to remain alert for indications that, other than such material inconsistencies, the other information appears to be materially misstated.

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

We have nothing to report in this regard.

Responsibilities of Management, Corporate Auditors and Board of Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with principles setting forth the preparation and properly presentation of these 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.

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

Corporate auditors and the Board of Auditors are responsible for overseeing the execution of duties by Directors in designing and implementing the financial reporting process.

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

Our responsibility is to express an opinion on the consolidated financial statements in our auditors' report from an independent standpoint based on our audit by obtaining reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision-making of users of the consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we perform the following by exercising professional judgment and maintaining professional skepticism throughout the audit.

・ We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks. The procedures selected and applied depend on the auditors' judgment. Further, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
・ In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the internal control.
・ We evaluate the appropriateness of accounting policies and their method of application adopted by management, as well as the reasonableness of accounting estimates made by management and adequacy of related notes thereto.
・ We conclude on the appropriateness of management's use of the going concern basis of accounting to prepare the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the going concern basis of accounting. If we conclude that such material uncertainty exists, we are required to draw attention in our auditors' report to the related notes in the consolidated financial statements or, if such notes on material uncertainty are inadequate, to express a qualified opinion with an exceptive item on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
・ We evaluate whether the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, are in accordance with accounting principles generally accepted in Japan, and whether the consolidated financial statements and notes thereto represent the underlying transactions and events in a manner that achieves fair presentation.
・ We obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit on the consolidated financial statements. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the Board of Auditors regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal control that we identify during our audit, and any other matters required by the auditing standards.

We also provide corporate auditors and the Board of Auditors with a statement that we have complied with regulations on professional ethics in Japan regarding independence, and communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards to eliminate or mitigate factors that may hinder our independence.

Out of the matters we discuss with the corporate auditors and the Board of Auditors, we determine those matters that we judge as being of most significance in our audit of the consolidated financial statements for the current consolidated fiscal year to be key audit matters, and present those matters in our auditors' report. However, we do not describe these matters in our auditors' report in cases where the disclosure of such matters is prohibited by laws, regulations, etc., or in extremely limited circumstances where we determine that such matters should not be reported because disadvantages of doing so would reasonably be expected to outweigh the public interests.

[Audit of Internal Control]

Opinion

Pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act, we have audited the Internal Control Report as of September 30, 2022 of TKC Corporation.

In our opinion, the Internal Control Report referred to above, which represents that the internal control over financial reporting of TKC Corporation as of September 30, 2022 is effective, presents fairly, in all material respects, the result of the management's assessment on internal control over financial reporting in conformity with the assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Internal Control Report section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the code of professional ethics in Japan, and we have fulfilled our other ethical responsibilities as the auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate Auditors and the Board of Auditors for the Internal Control Report

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of the Internal Control Report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Corporate auditors and the Board of Auditors are responsible for overseeing and verifying the design and operation of internal control over financial reporting.

Internal control over financial reporting may not fully prevent or detect misstatements.

Auditor's Responsibilities for the Audit of the Internal Control Report

Our responsibility is to express an opinion on the Internal Control Report in our internal control audit report from an independent standpoint based on our internal control audit by obtaining reasonable assurance about whether the Internal Control Report is free from material misstatement.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we performed the following by exercising professional judgment and maintaining professional skepticism throughout the audit.

- We perform audit procedures to obtain audit evidence regarding the results of the assessments of internal control over financial reporting in the Internal Control Report. The procedures selected and applied depend on the auditor's judgment based on the significance of effect on the reliability of financial reporting.
- We evaluate the overall presentation of the Internal Control Report, including disclosures on scope, procedures and conclusions of management's assessment of internal control over financial reporting.
- We obtain sufficient and appropriate audit evidence regarding the results of the assessment of internal control over financial reporting in the Internal Control Report. We are responsible for the direction, supervision and performance of the audit of the Internal Control Report. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the Board of Auditors regarding, among other matters, the planned scope and timing of the internal control audit, the results of the internal control audit, significant deficiencies in internal control that we identified which should be disclosed, and the result of their remediation, and any other matters required by the auditing standards for internal control.

We also provide corporate auditors and the Board of Auditors with a statement that we have complied with regulations on professional ethics in Japan regarding independence, and communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards to eliminate or mitigate factors that may hinder our independence.

Conflicts of Interest

Our firm or its engagement partners have no interest in the Company or its consolidated subsidiaries which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

End of document

(Notes) 1. The original copy of the above Audit Report is held 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 19, 2022

To: The Board of Directors, TKC Corporation

Ernst & Young ShinNihon LLC
Tokyo Office

Designated Limited Liability Partner Engagement Partner	Certified Public Accountant	Shigeyuki Honda
Designated Limited Liability Partner Engagement Partner	Certified Public Accountant	Toru Iizuka

Opinion
Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the financial statements presented in the Financial Information section, which comprise the balance sheet, the statement of income, the statement of changes in equity, the important accounting policies, other notes and the supplementary schedules of TKC Corporation applicable to the 56th fiscal year started October 1, 2021 and ended September 30, 2022.
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, 2022, and its financial performance for the fiscal year then ended in conformity with accounting principles generally accepted in Japan.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the code of professional ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key Audit Matters (KAM) are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current fiscal year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Cut-off of sales from software for sale and made-to-order software of Local Governments BD
Details are omitted since the content is the same as the Key Audit Matters (Cut-off of sales from software for sale and made-to-order software of Local Governments BD) stated in the Audit Report on the consolidated financial statements.

Other Information
The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements, non-consolidated financial statements, and our auditors' reports thereon. Management is responsible for the preparation and presentation of such other information. In addition, corporate auditors and the Board of Auditors are responsible for overseeing the execution of duties by Directors in designing and implementing the reporting process for the other information.
Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider

whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit. The auditor is also required to remain alert for indications that, other than such material inconsistencies, the other information appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management, Corporate Auditors and Board of Auditors for the 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 these 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.
In preparing the financial statements, management is responsible for assessing whether it is appropriate to prepare the financial statements on the going concern basis of accounting and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.
Corporate auditors and the Board of Auditors are responsible for overseeing the execution of duties by Directors in designing and implementing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our responsibility is to express an opinion on the financial statements in our auditors' report from an independent standpoint based on our audit by obtaining reasonable assurance about whether the financial statements as a whole are free from material misstatement, either due to fraud or error. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision-making of users of the financial statements.
As part of an audit in accordance with auditing standards generally accepted in Japan, we perform the following by exercising professional judgment and maintaining professional skepticism throughout the audit.

- We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks. The procedures selected and applied depend on the auditors' judgment. Further, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- In making those risk assessments, we consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the purpose of the audit of the financial statements is not expressing an opinion on the effectiveness of the internal control.
- We evaluate the appropriateness of accounting policies and their method of application adopted by management, as well as the reasonableness of accounting estimates made by management and adequacy of related notes thereto.
- We conclude on the appropriateness of management's use of the going concern basis of accounting to prepare the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the going concern basis of accounting. If we conclude that such material uncertainty exists, we are required to draw attention in our auditors' report to the related notes in the financial statements or, if such notes on material uncertainty are inadequate, to express a qualified opinion with an exceptive item on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate whether the overall presentation, structure, and content of the financial statements, including the related notes thereto, are in accordance with accounting principles generally accepted in Japan, and whether the financial statements and notes thereto represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with corporate auditors and the Board of Auditors regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal control that we identify during our audit, and any other matters required by the auditing standards.
We also provide corporate auditors and the Board of Auditors with a statement that we have complied with regulations on professional ethics in Japan regarding independence, and communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards to eliminate or mitigate factors that may hinder our independence.
Out of the matters we discuss with the corporate auditors and the Board of Auditors, we determine those matters that we judge as being of most significance in our audit of the financial statements for the current fiscal year to be key audit matters, and present those matters in our auditors' report. However, we do not describe these matters in our auditors' report in cases where the disclosure of such matters is prohibited by laws, regulations, etc., or in extremely limited circumstances where we determine that such matters should not be reported because disadvantages of doing so would reasonably be expected to outweigh the public interests.

Conflicts of Interest

Our firm or its engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

End of document

(Notes) 1. The original copy of the above Audit Report is held by TKC Corporation (the Company filing this Annual Securities Report).

2. XBRL data is not included in the scope of audit.

[Front Cover]

[Document filed]	Internal Control Report
[Applicable law]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	December 19, 2022
[Company name]	TKC Corporation
[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]	Kiyotsugu Nakanishi, Director, Managing Executive Officer, Chief of the Business Administration Headquarters
[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 Kiyotsugu Nakanishi, 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, 2022, 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 net sales in order of size (after elimination of transactions between consolidated companies) and added up their net sales. As a result, the Company, whose net sales accounted for almost two-thirds of the Group’s consolidated net sales, was selected as "Significant Business Location.” For the selected Significant Business Location, we included as items of assessment, business processes that lead to sales, accounts receivable, purchases and inventories that may have material impact on the business objectives of the entity. Further, when including business locations other than the selected Significant Business Location in the scope of assessment, we also individually included as items of assessment, certain business processes having greater likelihood of material misstatements, processes having significant accounts involving estimates and forecasts 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]

Not applicable.

5 [Special Notes]

Not applicable.

[Front Cover]

[Document filed]	Confirmation Letter
[Applicable law]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	December 19, 2022
[Company name]	TKC Corporation
[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]	Kiyotsugu Nakanishi, Director, Managing Executive Officer, Chief of the Business Administration Headquarters
[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 Kiyotsugu Nakanishi, Chief Financial Officer of the Company hereby confirm that the statements contained in the Annual Securities Report for the 56th fiscal year (started October 1, 2021; ended September 30, 2022) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.