Annual Securities Report

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

Fiscal year	Started October 1, 2022
(57th Term)	ended September 30, 2023

Kabushiki Kaisha TKC

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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[Document filed]	Annual Securities Report
[Applicable law]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	December 18, 2023
[Fiscal year]	57th term (from October 1, 2022 to September 30, 2023)
[Company name]	*Kabushiki Kaisha TKC*
[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		53rd Term	54th Term	55th Term	56th Term	57th Term
Year end		September 2019	September 2020	September 2021	September 2022	September 2023
Net sales	(millions of yen)	66,120	67,814	66,221	67,838	71,915
Ordinary income	(millions of yen)	9,669	11,685	12,673	13,677	14,772
Net income attributable to owners of parent	(millions of yen)	6,721	7,821	8,686	9,317	10,826
Comprehensive income	(millions of yen)	4,082	7,501	9,839	8,902	13,210
Net assets	(millions of yen)	73,121	77,075	83,416	87,325	95,308
Total assets	(millions of yen)	96,989	97,671	103,406	109,225	116,356
Net assets per share	(yen)	1,362.39	1,466.56	1,582.45	1,665.68	1,827.70
Net income per share	(yen)	127.76	148.81	164.93	177.62	206.54
Diluted net income per share	(yen)	127.50	—	—	—	—
Equity ratio	(%)	73.8	78.9	80.7	80.0	81.9
Return on equity (ROE)	(%)	9.4	10.5	10.8	10.9	11.9
Price earnings ratio (PER)	(times)	18.3	22.9	21.3	19.3	17.6
Cash flows from operating activities	(millions of yen)	10,550	10,569	10,550	13,050	13,067
Cash flows from investing activities	(millions of yen)	411	(10,124)	(7,201)	(4,342)	(5,861)
Cash flows from financing activities	(millions of yen)	(3,792)	(3,786)	(3,691)	(5,214)	(5,571)
Cash and cash equivalents at end of year	(millions of yen)	26,810	23,469	23,126	26,620	28,793
No. of employees	(No. of people)	2,701	2,770	2,851	2,880	2,895

(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 53rd 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		53rd Term	54th Term	55th Term	56th Term	57th Term
Year end		September 2019	September 2020	September 2021	September 2022	September 2023
Net sales	(millions of yen)	60,897	63,070	61,637	63,570	67,660
Ordinary income	(millions of yen)	8,972	11,107	12,064	13,290	14,057
Net income	(millions of yen)	6,262	7,472	8,293	9,076	10,334
Capital stock	(millions of yen)	5,700	5,700	5,700	5,700	5,700
Total number of shares issued	(hundred shares)	267,310	267,310	534,620	534,620	531,664
Net assets	(millions of yen)	70,622	74,714	80,491	83,993	91,288
Total assets	(millions of yen)	88,192	89,767	95,264	100,776	107,401
Net assets per share	(yen)	1,343.47	1,421.63	1,526.97	1,602.11	1,750.60
Dividend per share (Of the above, interim dividends per share)	(yen)	110.00 (55.00)	120.00 (55.00)	104.50 (65.00)	78.00 (36.00)	90.00 (39.00)
Net income per share	(yen)	119.04	142.18	157.46	173.04	197.15
Diluted net income per share	(yen)	118.79	—	—	—	—
Equity ratio	(%)	80.1	83.2	84.5	83.3	85.0
Return on equity (ROE)	(%)	9.0	10.3	10.7	11.0	11.8
Price earnings ratio (PER)	(times)	19.7	23.9	22.3	19.8	18.5
Dividend payout ratio	(%)	46.20	42.20	45.70	45.10	45.70
No. of employees	(No. of people)	2,288	2,312	2,398	2,408	2,409
Total shareholder return (Benchmark index: TOPIX total return index)	(%) (%)	100.7 (89.6)	148.1 (94.0)	155.7 (119.9)	155.4 (111.3)	168.0 (144.5)
Stock price—high	(yen)	5,030	7,270	3,910 (7,840)	3,645	3,970
Stock price—low	(yen)	3,350	3,820	3,175 (6,190)	2,911	3,375

(Notes) 1. Dividends per share include special dividends of 7 yen for the 55th Term, 6 yen for the 56th Term and 12 yen for the 57th 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 53rd 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 have been in the Tokyo Stock Exchange Prime Market since April 4, 2022 and were in the First Section of the Tokyo Stock Exchange before that.

   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 (parentheses) 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. (changed name to TKC Chushikoku Youhin Center Co., Ltd. in July 1987, and to TKC Chushikoku Supply Center Co., Ltd. in December 1993). (Subsidiary) [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 started deploying 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.
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.

Date	Company History
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").
September 2010	Opened Innovation & Technology Center (I&TC).
September 2015	Acquired 100% ownership of SKYCOM Corporation as wholly-owned subsidiary.
October 2015 April 2016	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).
October 2017	Opened System Engineering Center (SEC).
March 2018	Established TKC Customer Support Service Co., Ltd. (currently a consolidated subsidiary).
October 2018	Completed the construction of TKC Customer Support Service building.
March 2019	Tokyo Line Printer Company changed the company name to TLP Corporation.
September 2019 September 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.
March 2020	Acquired 100% ownership of TKC Shuppan Corporation as wholly-owned subsidiary.
April 2022	Established a voluntary Nomination and Compensation Advisory Committee.
	Acquired 100% ownership of TLP Corporation as wholly-owned subsidiary.
August 2022	Transferred from the First Section of the Tokyo Stock Exchange to the Prime Market in response to TSE's market restructuring.
	Selected as "Peppol service provider" by the Digital Agency

3 [Description of Business]

The TKC Group (TKC Corporation and affiliated companies) consists of the Company, five 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.

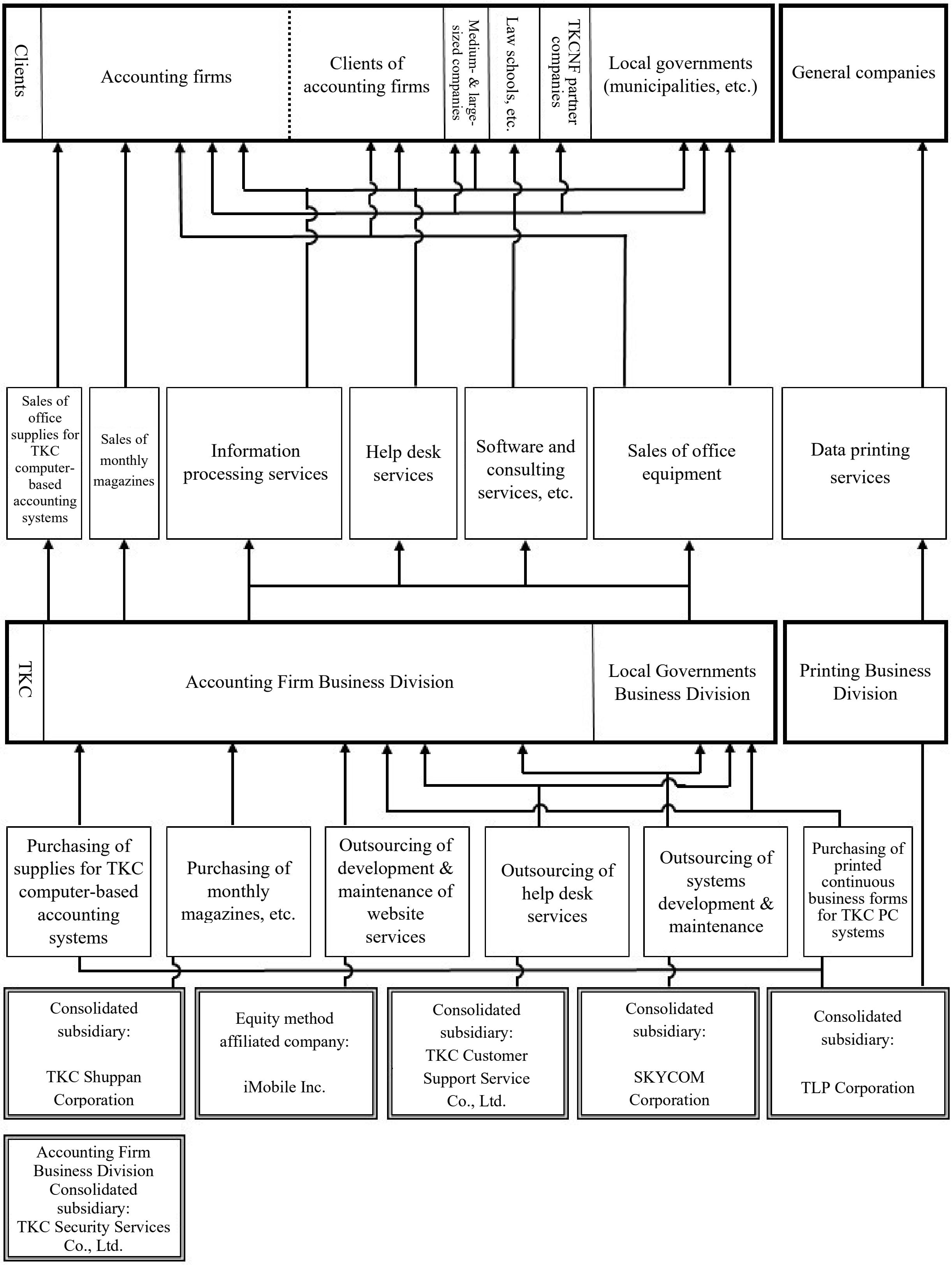
(2) Local Governments Business

Key services/products	Positioning of the Company and affiliated companies
1. Information processing services (i) Computer services by the TKC 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 (millions of yen)	Principal line of business	Percentage of voting rights held (%)	Relationship
TLP Corporation	Itabashi-ku, Tokyo	100	Data printing services, business form planning, printing, and sales	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 (millions of 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 & 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, 2023

Name of segment	Number of employees
Accounting Firm Business	1,628
Local Governments Business	648
Printing Business	207
Corporate (shared)	412
Total	2,895

(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, 2023

Number of employees	Average age (years)	Average years of service (years)	Average annual salary (yen)
2,409	40.2	17.0	8,157,980

Name of segment	Number of employees
Accounting Firm Business	1,522
Local Governments Business	648
Corporate (shared)	239
Total	2,409

(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.

(4) Percentage of female workers in managerial positions, percentage of male workers taking childcare leave, and the difference between the wages of male and female workers

(i) The Company

<table>
<tr><th colspan="5">Current fiscal year</th><th rowspan="3">Supplementary information</th></tr>
<tr><th rowspan="2">Percentage of female workers in managerial positions (%)
(Note 1)</th><th rowspan="2">Percentage of male workers taking childcare leave (%)
(Note 2)</th><th colspan="3">Difference between the wages of male and female workers (%)
(Notes) 1.</th></tr>
<tr><th>All workers</th><th>Workers in regular employment</th><th>Part-time and fixed-term workers</th></tr>
<tr><td>5.1</td><td>52.7</td><td>67.2</td><td>71.5</td><td>33.0</td><td>(Note 3)</td></tr>
</table>

(Notes) 1. Calculated based on the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).

2. This is a calculation of the percentage taking childcare leave, etc. in the Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991), Article 71-4, Item 1 based on the provisions of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

3. About the difference between the wages of men and women

We have established no differences between men and women in the systems for grades, evaluations, compensation or in the operation of those systems. Nonetheless, differences in wages are occurring due to the following background.

○ Workers in regular employment

The difference between the wages of men and women among workers in regular employment is caused by the fact that there are fewer female employees than male employees in high-ranking jobs (grades) with a high base yearly salary. The difference between the wages of men and women at the same job ranking (grade) is 80.7% to 106.3%, so there is not a large difference. Going forward we will continue initiatives to promote the active engagement of women, encourage the promotion of female employees to high-ranking jobs, and aim to reduce the difference in wages.

○ Part-time and fixed-term workers

The Company counts elderly people reemployed after retirement and part timers in the same category, men account for a larger percentage of elderly people reemployed after retirement and women account for a larger percentage of part timers, so the difference in wages becomes larger. The difference in wages between men and women among the elderly people who are reemployed is 90.1% and the difference in wages between men and women among part timers is 101.0%, so there is not a large difference.

(ii) Consolidated subsidiaries

The provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015) and the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991) do not apply to the consolidated subsidiaries of TKC, so they are not disclosing the percentage of female workers in managerial positions, the percentage of male workers taking childcare leave, and difference between the wages of male and female workers. Note that the consolidated subsidiaries of TKC are as stated in “4 [Information on Affiliates (1) Consolidated Subsidiaries.

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

(i) Management policy, management strategy

The Company has 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

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

(ii) Business environment

The Japanese economy continued to gradually recover as COVID-19 was downgraded to a Class 5 infectious disease, the government provided assistance, and economic and social activities returned to normal. On the other hand, countries across the world are turning to tight monetary policy, raw material prices are on the rise, and the repayment of zero/zero loans is making financing increasingly difficult for small- and medium-sized enterprises (SMEs), all of which indicate that the future of the economy remains uncertain.

The Group has continued to develop systems and provide services that promptly cater to such changes in the social environment and government initiatives while carrying out business operations that contribute to our customers as well as local communities and society.

Revisions to the laws and advancements in ICT have significant impacts on the products and services that the Group offers. Legal revisions include the new consumption tax invoicing system which commenced in October 2023 and the mandatory electronic preservation of electronic transaction data under the Revised Electronic Books Maintenance Act which will become necessary from January 2024 with the ending of the safe harbor rules. 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 technological innovations in cloud computing, FinTech, and generative 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.

(iii) Priority business and financial issues

1) Creation of innovation for further "Contribution to our Customers"

The environment surrounding the accounting firms and local governments which are the customers of TKC is changing greatly, so the enhancement of productivity and streamlining of operations through the promotion of digitalization are urgent tasks. TKC supports the operations of its customers by incorporating the latest ICT to provide systems with greater added-value, while fully complying with laws and regulations. For that purpose it will continue endeavoring to strengthen its systems development structure going forward.

2) Human resources development and research and development for the utilization of AI

TKC believes that the utilization of AI is essential for supporting our customers going forward. For that reason, from January 2022 we commenced training to develop 120 "AI Planners" with the objective of the development of human resources who can plan and promote the utilization of AI.

Moreover, TKC has launched the use of TKC AI Assistant, the in-house AI chat service developed based on an extensive language model from AIAzure OpenAI Service. The Company aims to improve employee efficiency and productivity by actively using TKC AI Assistant not only for system development, but for internal administrative work and on-the-ground sales tasks.

These kinds of initiatives will lead to the creation of products and services utilizing AI in the future.

3) Protection of the global environment and operation of "safe, secure and convenient" data centers

We consider environmental conservation activities to be a social responsibility of a company, and believe it is indispensable to the realization of a sustainable society; accordingly, we are actively tackling CO_2 reduction based on the Basic Environmental Policy we announced in 2007. Going forward we will continue to contribute to local communities based on our Sustainability Policy.

Furthermore, TKC provides cloud services using our own data centers to customers with over 800,000 instances of use, including accounting firms, SMEs, large-sized companies, local governments, financial institutions, universities, law firms, etc. In order to store our customers' valuable data and support their business activities in our data centers which bring together the know-how we have cultivated over 50 years, we are endeavoring to operate robust and secure data centers, implement BCP measures, and ensure information security.

The Company will continue to work 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

(i) Management policy, management strategy

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 1: Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms) and works under close ties with the TKC National Federation, which consists of certified public tax accountants and certified public accountants that are customers of TKC (11,400 members).

TKCNF announced its 3-year activity policy from 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.

(ii) Business environment

According to the Outline of Filing of Corporate Income Tax Returns (Taxation) published in November 2023 by the National Tax Agency, the percentage of companies recording profit in FY2022 was 36.2%. Although this was an increase of 0.5 percent points over the previous fiscal year, it shows that approximately 64% are still recording losses.

Moreover, due to the rise in raw material prices due to growing geopolitical risks, 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 53% 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 has been enforced on October 1, 2023. In response, all business operators are being 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.

(iii) 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 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 taxation 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 in the FX Cloud, 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.

Furthermore, going forward we will aim to disseminate Peppol invoices (e-invoices) by expanding the use of the FX Cloud and Invoice Manager.

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 and advance the utilization of generative AI. At the same time we will enhance the convenience of users by providing API services, etc. linked to the "legal tech services" of other companies. Through such efforts, we aim to differentiate the TKC Law Library from the services offered by competitors in order to further increase its use by law firms, etc.

(3) Management Policy, Business Environment and Challenges Faced by the Local Governments Business Division

(i) 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.

(ii) 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.

(iii) Priority business and financial issues

As corporate effort to achieve smart digital transformation of administrative services 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) Response to the standardization of mission-critical systems

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

b. Gov-Cloud is a platform for the use of cloud services common to the government which has been prepared by the national government (the Digital Agency). In TKC, the systems run and operated in the TISC will be run and operated after being migrated to this platform.

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 the digitalization of local tax administrative procedures

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

4) Support for the digitalization of city hall administration

We will work to disseminate and promote the next-generation version of our TASK Cloud Public Accounting System, and support the digitalization of the internal administration of municipalities.

5) Research and development of next-generation products

a. We will engage in the R&D of original high value-added services and functions to be incorporated after standardization of 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)

(i) 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 flow toward the promotion of rapid digitalization 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. Moreover, 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.

(ii) Business environment

The environment surrounding the Printing Business has changed, including the digitalization and regulatory reform of administrative services, the dissemination of My Number Cards, the digitalization of education, the commencement of the consumption tax invoicing system, and revision of the Act on Book and Record Keeping through Electronic Methods. With our key products of data printing services (DPS) and business process outsourcing (BPO), we strive to provide products and services that meet the needs of these “new lifestyles” and “new business styles.”

Furthermore, 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.

(iii) Priority business and financial issues

The Group's Printing BD implements the following actions to increase sales mainly from data printing 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 contributing 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 aim to build optimal outsourcing services to meet the needs of local government information systems standardization by the end of FY2025.
5) We will improve quality and enhance quality and production capabilities by further strengthening the production environment of the dedicated DPS plant.
6) We will strive to improve and maintain consistent quality, and enhance our quality inspections of each process for all products to prevent quality defects.
7) We will carry out digital transformation (DX) and automation of processes throughout the Company to boost productivity and operational quality of all business segments.
8) 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.
9) 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 [Approach and Initiatives Concerning Sustainability]

The Group’s approach and initiatives concerning sustainability are as follows.

Statements with regard to the future in this text are based on the Group’s decision made as of the end of the current consolidated fiscal year.

(1) Governance and risk management concerning all aspects of sustainability

(i) Sustainability Policy

The Group has created its Sustainability Policy for the purpose of sustained growth and enhancing the medium- to long-term corporate value.

Sustainability Policy

The TKC Group consistently works on “Contribution to our Customers” and contributes to local communities based on the founding principles of TKC, and fulfils its public mission and social responsibilities with the aim of realizing a sustainable society.

1. Develop products and provide services that achieve “Contribution to our Customers” (Contribution)
For the prosperity of our customers, we will seek conditions for the business of our customers, develop systems to strengthen these conditions, and offer our utmost support for their implementation. Our joy is to contribute to our customers.

2. Practice compliance (Compliance)
Since our founding, we have adopted the so-called “management based on rules.” All officers and employees are required to comply with laws and other social norms, and we strive to meet the expectations of our stakeholders (customers, shareholders, business partners, etc.).

3. Ensuring information security (Information security)
We offer various information-related services through the most appropriate use of the latest information and communication technologies (ICT) on a constant basis to accounting firms and their clients and local governments. We recognize that ensuring information security is a priority in conducting our business activities, and we consider it our social responsibility.

4. Maintaining and promoting fair and free competition (Fair Trade)
We promote responsible procurement with the goal of resolving various social issues that reside in supply chains. In addition, by carrying out appropriate transactions under fair and free competition, we seek to strengthen relationships of trust with our business partners. We also take a firm stand against all antisocial forces or groups that threaten public order and safety.

5. Protecting the global environment (Environment) and preparing for natural disasters (BCP)
We consider environmental conservation to be a social responsibility, and believe it is indispensable to the realization of a sustainable society; accordingly, we actively promote the environmental conservation activities based on the Basic Environmental Policy we announced in 2007.
So that we can continue to provide cloud services even in times of various natural disasters, we ensure that all our data centers meet the requirements of Tier 3 or higher as stipulated by the Japan Data Center Council’s Data Center Facility Standard, and thereby operate robust and secure data center management and BCP measures.

6. Respect for human rights (Social)
We strive to understand various international norms related to human rights; we respect fundamental human rights, individuality, privacy, and various value systems, and we also work to provide safe and comfortable work environments, and to improve employee satisfaction. In addition, we will not engage in any act that violates human rights, such as the use of discriminatory language or behavior in relation to human rights, religion, gender, nationality, mental or physical disability, age, or sexual preference, nor violence, sexual harassment, or power harassment.
We will take appropriate action if any violation of human rights is identified. We also require our business partners, etc. to act in a way that demonstrates respect for human rights, protects the environment, and complies with laws and regulations, etc.

7. Strengthening corporate governance (Governance)
We will maintain and strengthen effective governance systems to realize our sustainability policy as outlined above.

Established December 17, 2021
Revised March 14, 2023

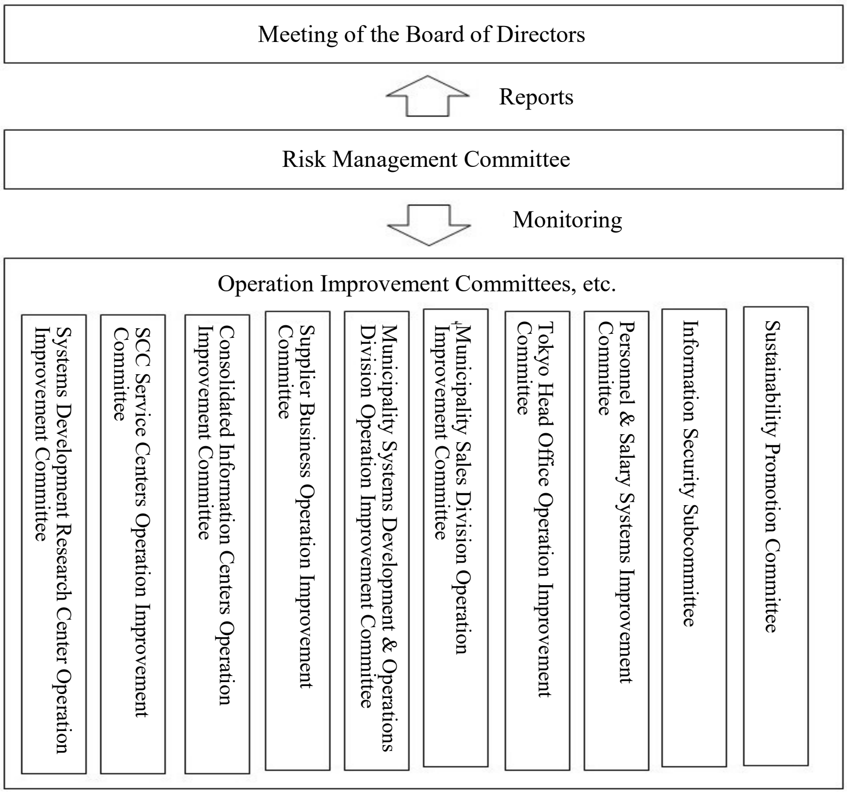
(ii) Governance

The Group has established a Risk Management Committee with the Representative Director and Senior Managing Director as the chairperson and the chairperson of the Operation Improvement Committee (the body which assists the compliance management and improvement of operational efficiency, etc. which the directors are expected to promote), etc. as members. The Risk Management Committee identifies and evaluates all kinds of risks, including risks related to sustainability, narrows them down to the risks which should be responded to with priority, and monitors the progress of initiatives concerning said risks. The content of its deliberations is reported to the Board of Directors regularly, and the Board of Directors manages and supervises the content of said reports.

(iii) Risk management

The Operation Improvement Committee, etc. considers specific responses and takes action regarding all kinds of risks identified and evaluated by the Risk Management Committee. The Risk Management Committee continuously monitors the status of the initiatives in the Operation Improvement Committee, etc.

<Diagram of the Governance and Risk Management Structure>



(2) Climate change

The Group has stipulated a Basic Environmental Policy to continuously tackle environmental conservation activities, and through the above (1) (ii) Governance and (iii) Risk Management, we are carrying out the identification, evaluation, and management of climate change risks.

As a result, at the current time we do not evaluate that the risks and earning opportunities due to climate change are having a significant impact on the business activities of the Group. For this reason, we have not stipulated a specific “strategy” or “indicators and targets.”

For global warming prevention, an international initiative, TKC is carrying out capital investments in the data centers with the focus on the reduction of power consumption, and is striving to reduce greenhouse gas emissions. In the offices, we are raising the employees’ awareness of energy conservation and power saving, and in order to present specific behavior we are creating posters and posting them in the offices, meeting rooms, toilets, etc.

Furthermore, we are striving to reduce the paper resources and plastic provided to our customers by converting the systems manuals to electronic versions, distributing our programs online, etc.

Please see the TKC website for the specific content of the initiatives and our achievements in reducing the amount of greenhouse gas emissions (https://www.tkc.jp/sustainability/e1).

(3) Human capital and diversity

Although TKC is taking specific initiatives with respect to its “strategy” and “indicators and targets” concerning human capital and diversity, they are not initiatives at all of the group companies, so statements concerning the consolidated group are difficult. For this reason, the following “strategy” and “indicators and targets” are stated concerning the Company.

(i) Strategy

1) Human resources development policy

Since its founding, TKC has been developing its management with “Jiri Rita” ("self-interest is in the realization of others' interest") as its company motto and “Contribution to our Customers” as its management principle. In order to support the success of the businesses of our customers, TKC is continuing to support the willingness to learn of our employees and to develop our human resources. Furthermore, we are striving to ensure diversity by hiring human resources who can realize “Contribution to our Customers” from a variety of perspectives. The main initiatives are as follows:

<Initiatives to support the acquisition of basic and specialist knowledge>

TKC has many customers who have specialist knowledge while on the other hand employees with diverse backgrounds join the company. For this reason, we are offering opportunities for the acquisition of basic knowledge and specialist knowledge which are long-term and have enhanced content. We offer basic training for new employees, employees in their fifth year at the company, etc. and have established systems to support the acquisition of specialist knowledge, such as the in-house qualification systems established for each job type, a system offering financial incentives for gaining public qualifications, etc.

<Initiatives to support the acquisition of skills for each role>

In order to encourage employees to continually enhance their skills without being satisfied with the roles assigned to them by the company, we continue to provide training for newly-appointed managers and other roles. Furthermore, we regularly hold study sessions for employees who have subordinates and have established opportunities for them to enhance their skills concerning “evaluation” and “organization development.”

<Initiatives to develop human resources>

In order to support the achievement of the targets set by each employee, we place importance on establishing opportunities for 1-on-1s and all types of interviews. In order to enhance the quantity and quality of dialogues, we are implementing a curriculum for all of the employees which aims to enhance their interview skills, etc. Furthermore, we regularly hold study sessions on the web for all of the employees with the objective of the penetration and continuation of this curriculum. These study sessions also serve as opportunities to build in-house connections across job type, place of work, years of service, etc. Furthermore, we are encouraging reading, the foundation of self-learning, by establishing the Individual Book Purchase Support System and Reading Order System under which TKC supports the cost of books purchased by individual employees.

2) In-house environmental development policy

In the foreword of the rules of employment, TKC states that it will aim to be first class in the world with respect to the three points of the level of customer services (customer satisfaction), share in the market, and treatment of employees. When attempting these achievements, we are developing the in-house environment based on the belief that it is important for each and every one of the employees to be both physically and mentally healthy, and continue exercising their expertise with a strong sense of mission.

The main initiatives are as follows:

<Initiatives to support the discovery and solution of health issues>

We are working to encourage our employees to receive regular medical examinations (including retests) and stress checks. The tested items in the regular medical examinations and the employees required to receive them are more extensive than the standards stipulated in the Industrial Safety and Health Act. Furthermore, we have introduced health management systems and have strengthened our health management structure, including health guidance for employees, by appointing industrial physicians to all of the offices.

<Initiatives for health maintenance and enhancement>

We are working on questionnaire surveys, etc. for reducing the smoking rate among employees, utilization of health insurance societies (seminars, use of exercise facilities), and improvement of the workplace environment.

<Initiatives concerning the promotion of the active engagement of women>

We are working on the development of an environment enabling the active engagement of women, by expanding the occupational fields of the female employees, developing work-life balance support systems concerning childcare, nursing care, etc., installing nurseries inside the company, etc.

(ii) Indicators and targets

TKC is using the following indicators regarding the human resources development policy and in-house environmental development policy stated above. The targets concerning said indicators (for the fiscal year ending September 2028) and our achievements in the current fiscal year are as follows. The indicators and targets are stated regarding the Company.

Indicators	Targets	Achievements (Current fiscal year)
Human resources development policy	—	—
The percentage of employees (in their fourth year or more at the company) who have passed the level 2 official business skill test in bookkeeping (Note 1)	100%	80.9%
The percentage of employees in development positions (in their fourth year or more at the company) who have passed the Fundamental Information Technology Engineer Examination (Note 2)	100%	57.2%
Percentage of employees participating in skills training sessions for each role	80%	95.1%
Percentage of employees participating in study sessions for employees with responsibilities	80%	87.8%
In-house environmental development policy	—	—
Percentage of employees receiving regular medical examinations	100%	100%
Percentage responding to the stress checks	100%	98.5%
Certification as a Health & Productivity Management Outstanding Organization	Certification (Continued)	Certification

(Notes) 1. Calculated from the number of employees who have level 2 or level 1 of the official business skill test in bookkeeping, the tax accountant examination (bookkeeping, financial statement accounting), or qualifications as a certified public tax accountant or certified public accountant (in the case that an employee holds multiple qualifications they are counted only once) .

2. Calculated from the number of employees who have the qualifications of Fundamental Information Technology Engineer Examination or the Information Technology Engineer Examination (in the case that an employee holds multiple qualifications they are counted only once).

3 [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 in this section are based on the Group's decision made as of the end of the current consolidated fiscal year (September 30, 2023).

(1) About Changes in the Business Environment

In the business division for accounting firms, there is a possibility that the market will contract due to the lack of successors for accounting firms and the difficulty of hiring accounting firm staff arising from the impact of the falling birthrate and aging population, and due to the closing down, bankruptcy, etc. of their clients in the tough management environment.

Furthermore, in the business division for local governments, there is a possibility that profitability will decrease as a consequence of the intensification of the competitive environment, the increasing burden of systems development, etc. due to the Gov-Cloud and systems standardization being advanced by the government.

Taking into account these kinds of situations, the Group is further strengthening its in-house organizational structure, orienting itself toward outstanding marketing and innovation, and working on developing systems which strongly support the businesses of our customers and supporting the implementation of them.

(2) 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 procurement 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.

(3) 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 large-scale disasters and unexpected disruptions, we take the following measures for early detection and recovery, and to minimize the impacts on our customers' business operations;

(i) Strengthen our verification process upon providing the programs;
(ii) Strengthen our BCP in the event of disasters and unplanned disruptions;
(iii) Reduce time needed for recovery;
(iv) Third party assessment and verification of the effectiveness of measures.

(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) 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.

(6) Decline in Value of Fixed Assets

The Company has applied the Accounting Standard for the Impairment of Fixed Assets 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.

(7) About Information Security

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, 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, and such an event could have negative impacts on the Company's social standing and may require enormous costs in response or reduce the brand value which could affect the financial standing and operating results of the Group.

(8) 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.

4 [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

(i) Operating Results across the Group

During the current consolidated fiscal year (October 1, 2022 to September 30, 2023, hereinafter the "current fiscal year"), the Japanese economy continued to gradually recover as COVID-19 was downgraded to a Class 5 infectious disease, the government provided assistance, and economic and social activities returned to normal. On the other hand, countries across the world are turning to tight monetary policy, raw material prices are on the rise, and the repayment of zero/zero loans is making financing increasingly difficult for small- and medium-sized enterprises (SMEs), all of which indicate that the future of the economy remains uncertain.

The Group has continued to develop systems and provide services that promptly cater to such changes in the social environment and government initiatives while carrying out business operations that contribute to our customers as well as local communities and society.

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 Business Division rolled out support to customer municipalities to enable them to smoothly respond to the expansion of the tax items for the common local tax payment system (the payment of local taxes using standardized local tax QR codes).

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 net sales of 71,915 million yen (increased 6.0% year-on-year), operating income of 14,338 million yen (increased 7.4% year-on-year), ordinary income of 14,772 million yen (increased 8.0% year-on-year), and net income attributable to owners of parent of 10,826 million yen (increased 16.2% year-on-year).

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

(ii) Business activities and operating results of the Accounting Firm Business Division

1) Business activities of the Accounting Firm BD

The Accounting Firm BD operates for the achievement of "positive balance and proper filing" 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 in close collaboration with the TKC National Federation (TKCNF), which consists of 11,400 TKC Members (as of September 30, 2023).

The TKCNF has set the activity policy and targets for the three years from 2022 as follows.

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

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

To support the activities of TKCNF and the achievement of their targets, the Company will engage in sales activities focused on the promotion of self-accounting by the TKC method.

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

a. Initiatives towards fostering good-standing companies

TKC Group has established the following six criteria as indicators that SMEs should aim to achieve:

- Self-accounting by the TKC method used to implement monthly settlements
- Practice of *shomen-tempu* (attachment of tax audit reports) in accordance with Article 33-2, paragraph (1) of the Certified Public Tax Accountants Act of Japan
- 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 2023 TKC Management Indicators (BAST), which contains financial statements data of more than 250,000 companies. TKC Members are working on the implementation of monthly field audits and support for the establishment of a system for monthly settlements in order to increase the number of BAST good-standing companies. TKC is supporting these kinds of activities, and is broadly promoting to society the fact that "TKC Members are escort runners working to foster good-standing companies in the community."

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

TKC's self-accounting system (FX series) includes features that support monthly settlements and the 365 Days Floating Income Statement, which supports decision-making by management. The 365 Days Floating Income Statement is different from the income statement in the system accounting and can confirm the operating results divided into the categories of variable costs and fixed costs, so corporate executives using the FX Series become able to tackle their management with an awareness of marginal income (net sales - variable costs). The Company is engaged in activities that seek to raise awareness that the 365 Days Floating Income Statement is an indispensable tool for management.

Note that a documentary program ("Strategic Management: A Documentary"/BS11) introducing examples of executives themselves growing their companies by utilizing the 365 Days Floating Income Statement and implementing monthly settlements was broadcast on television, and public relations activities were actively developed.

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

With the start of repayment of the virtually interest-free/unsecured loans ("zero/zero loans") extended during the COVID-19 pandemic, as well as inflation and soaring fuel costs, SMEs are currently facing a challenging business environment. 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) . Moreover, in order for management to utilize these features effectively, it is necessary for them to enter accounting transaction data in a timely and accurate manner and establish a system for monthly settlements. Therefore, the Company has also provided support for the utilization of the daily-task-level, including a feature for receiving bank credit data, through which bank deposit transaction data can be received via online banking and journal entries generated automatically, as well as a feature for the integration of salary journals with the strategic salary information system (PX2).

As a result of these activities, approximately 310,000 companies were using the FX series as of September 30, 2023. Through the implementation of the FX series, the Company will continue working to support SMEs in establishing a system for monthly settlements and achieving positive balance and proper filing.

d. Supporting complete compliance with the Revised Act on Book and Record Keeping through Electronic Methods

Under the Revised Act on Book and Record Keeping through Electronic Methods effective from January 1, 2022, there will be a distinction among electronic books (i.e., electromagnetic records of national tax-related books): (i) "superior electronic books" that contain the history of additions, deletions, and revisions made to the accounting data (traceable) (electronic books that satisfy the requirements of both Article 2 and Article 5 of the Ordinance for Enforcement of the revised Act); and (ii) "other electronic books" that are prepared using accounting software that does not keep records 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 also negates the "power of evidence" of the books, and the acceptance of such accounting software implies that the government has approved the falsification of books. To address this issue, the Company is promoting the use of the FX series for the preparation of "superior electronic books" on a national level. In addition, electronic retention of electronic transaction data will be mandated under the Revised Act on Book and Record Keeping through Electronic Methods. We will also continue to support the use of the documentary proof storage feature of the FX series so that all businesses can support electronic transactions.

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

TKC systems are designed not just to issue invoices as required by the consumption tax invoicing system, but to perform accounting processing that fully conforms to the Revised Consumption Tax Act, as stated in the "Three key points" below.

[Three key points]

- Whether a supplier is a qualified invoice issuer among business contacts is automatically identified by the name.
  (There is no need to enter a 13-digit registration number for each supplier)
- The applicability of transitional measures or special provisions is automatically checked, and a list of journal entries that should be corrected is displayed.
  (This allows the user to identify the entries to which transitional measures apply, along with entries to which transitional measures have been applied by mistake.)
- All forms are managed in one process, from accounting records to a consumption tax return.
  (Full conformance to the principle-based treatment stated in Supplementary Provisions 22 (1) (i) and 23 (1) (i) of the 2018 order for amendment)

To present these key points, the Company held the "Workshop to Prepare for the Upcoming Invoicing System" for TKC members starting from April 2023. The Company was privileged to host more than 5,000 firms and 17,000 participants in 200 venues across Japan. These workshops were an opportunity to deepen understanding of the conformity of TKC's financial accounting systems to the consumption tax invoicing system. Moreover in June 2023 the Company completed conformity with the invoicing system of TKC Systems, and it is providing support so that the system conformity of the clients proceeds without confusion.

Note that TKC was certified as the first Peppol service provider in Japan on August 19, 2022 by the Digital Agency, the Japan Peppol authority, and OpenPeppol, the association responsible for the management of Peppol (headquarters: Belgium). TKC's self-accounting system is enhancing its features to allow the issuance and receipt of Peppol-compliant e-invoices in a standardized manner.

f. Promotion of TKC Monitoring Information Service

TKC Monitoring Information Service is a free cloud-based service that allows TKC Members, upon the request of the management of their clients, to disclose to financial institutions information such as monthly trial balance sheets, financial statements, and tax returns prepared by TKC member firms after monthly field audits and monthly settlements.

The Company communicates to financial institutions that the reliability of financial statements prepared by SMEs can be verified using the following three sets of documents sent by the TKC Monitoring Information Service:

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 has been adopted by 485 financial institutions as of September 30, 2023, surpassing 330,000 instances of use.

As a tool which can confirm the three requirements presented in the Guidelines on Management Guarantees (distinguishing and separating relationships with corporations and individuals, strengthening of the financial foundation, and ensuring the transparency of management through accurate ascertainment of the financial position and timely and appropriate information disclosure), the TKC Monitoring Information Service is highly evaluated by financial institutions and credit guarantee corporations offering management support to SMEs. It is expected to serve as a bridge between financial institutions and TKC Members in their efforts to play the role of escort supporters of SMEs.

g. Soliciting new members (promotion of joining TKCNF)

TKCNF has set a goal of having over 1,000 firms join the federation as new TKC Members over the three-year period from 2022 to 2024. To achieve this goal, the Company has engaged in efforts to strengthen its collaboration with the TKCNF New Members Service Committee. At the same time, the Company has strengthened its support system to facilitate effective utilization of TKC Systems, including the Office Management System (OMS Cloud) for Tax Accounting Firms, for accounting firms that recently joined TKCNF.

[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)

TKCNF recommends the use of the "Basic Guidelines with Respect to 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 TKCNF aimed at the adoption and utilization of these Guidelines, the Company continues to develop training materials and collaborate 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 with the aim of improving the reliability of financial statements and tax returns prepared by TKC Members and facilitating smooth financing for the clients of TKC Members. By utilizing a feature of the

Company's financial/accounting processing operations at TKC data centers that prohibits any retroactive insertions, deletions, or corrections to past data, the Company can prove, 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 in a comprehensive and timely manner.

[Expansion into large-scale enterprise market]

The Company contributes to the compliance and rationalization of tax and accounting operations at large enterprises through the use of TKC systems, especially at listed companies, and is actively working to solicit these companies and their affiliates to become clients of TKC Members.

a. Response to e-invoices

TKC is working on the dissemination of systems compatible with e-invoices. The Company worked with the Digital Agency as a managing corporation for the E-Invoice Promotion Association (EIPA) and participated in the Digital and Tech Exhibition at the G7 Digital and Tech Ministers' Meeting in Takasaki, Gunma held in April 2023. At the exhibition, the Company displayed Invoice Manager that enables transmission and reception of e-invoices (Peppol invoices).

Furthermore, in August 2023 TKC was installed as representative managing corporation of the EIPA, and together with approximately 200 association member companies, primarily system vendors, we are working on activities to disseminate e-invoices. In the "Future of Companies College 2023" held in September 2023, as the representative managing corporation of the E-Invoice Promotion Association, TKC gave a lecture about the details of e-invoices together with the Reduced Consumption Tax Rate and Invoice System Support Office in the National Tax Agency.

Note that the Company has also switched invoices it issues (sales invoices) in principle to Peppol invoices since October 2023. In advance of this, we advanced preparations by giving guidance to the user companies using TKC Systems to the effect that we would issue our invoices using Peppol invoices and regarding the specific use procedures, etc. From January 2023 we commenced tests of the sending and receiving of Peppol invoices using Invoice Manager, and at the end of September of the same year we had sent invoices using Peppol invoices to approximately 90 user companies. The Company will continue to actively promote the use of e-invoices going forward.

b. Expansion of market share among large-scale enterprises and support for expanding the client base of TKC Members

The consolidated taxation system has been reformed for the fiscal year starting after April 1, 2022, and the new Group Tax Sharing System has been commenced. TKC has confirmed that we were able to smoothly complete the electronic tax filing in all of the user companies in the first fiscal year after commencement of the Group Tax Sharing System by fully supporting their tax filing operations through the use of the Group Tax Sharing System (e-TAX Group Sharing). Due to that we were able to obtain a high evaluation from the user companies.

As a result of such activities, approximately 40% of the 20,800 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, 2023.

At the same time, the number of corporate groups using the TKC Consolidated Group Solution totaled approximately 5,450 corporate groups as of September 30, 2023. Currently, its market share in the listed companies of Japan has reached 43%, and 93 companies out of the 100 companies with the top net sales among the listed companies of Japan (93%) are using the systems of TKC. Going forward, we will continue to aim for further dissemination and expansion of the systems.

[Expansion of markets for legal information database services]

a. Increase of user base of TKC Law Library

The Company offers TKC Law Library as a standard service for legal research. The Library provides access to judicial precedents, laws, documents, etc., as its basic services, and boasts collections of law journals, law books, and related sources of supplementary information. With the industry's largest archive (more than 337,000 judicial precedents), TKC Law Library serves as one of Japan's major legal databases. The Company is promoting the use of our packaging service that gathers such content into collections that cater to law firms and corporate legal departments. Since November 2022, we have been periodically sending out email magazines containing the latest information including recommended articles to our customers and we have established a system that offers direct access to the service. As a result of these activities, there has been a transition from paper-based research that makes use of reference rooms and libraries to online research, which has led to a greater number of customers adopting our packaging service. TKC Law Library has been rated highly as the only legal research service that encompasses comprehensive law-related information by providing access to information on judicial precedents, laws, and documents, as well as major law journals and specialized books, leading to a steady rise in the number of subscriptions.

For the period under review, as a result of promotional efforts aimed at TKC member firms, universities, law schools, government offices, law firms, patent offices, corporate legal departments, as well as overseas research institutions and universities, 59,000 IDs in over 26,000 institutions were using the Library as of September 30, 2023.

b. Progress in the academic market

Many universities and law schools are promoting the digital transformation of their learning environment to allow for online access to materials and research. More than 140 universities have signed a contract in FY2023 to adopt our TKC Educational and Research Support System and TKC Law Library, which are rated highly by faculty members and students because they can be used online anytime, anywhere, and contain a diverse variety of content that surpasses that of other companies. They are also equipped with various features such as report submission, online exercises, tests, and other components that support classes and self-study. They have thus contributed to the development of the learning environment in universities by serving as part of the online system infrastructure that supports classes and learning.

c. Learning support for students preparing for the bar exam

For law school students, graduates, individuals who have passed the preliminary exam, who aim to sit for the bar exam, we support their preparation for the bar exam by providing a learning environment equipped with a system that contains practice questions for the bar exam and by conducting the TKC Standardized Nationwide Mock Exam. This year, there were 4,165 bar exam applicants and the TKC Standardized Nationwide Mock Exam had 2,598 examinees (62.4%), which was a record high. This also meant that we had more than five times the numbers of mock test takers offered by our competitors for six consecutive years, and that we offer the industry's top-ranked standardized mock test. Going forward, in order to increase the number of test takers, we will advance preparations to gradually offer examination paper input, digital correction, etc. for the transition to the CBT exam in 2026 announced by the Ministry of Justice.

2) Analysis of Accounting Firm BD's operating results

Net sales of the Accounting Firm BD were 48,749 million yen (increased 4.9% year on year); operating income was 11,139 million yen (decreased 1.3% year on year). Breakdown of key sales is as follows:

a. Sales from computer services increased by 3.5% 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, as medium-size companies are rapidly working towards digital transformation (DX). In addition, the adoption of 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 proceeded, and the amount of data preserved in data centers increased, which also contributed to increase in sales.

b. Software sales increased by 5.3% year-on-year. This was attributable to increase in clients who began using the FX Cloud Series with enhanced qualified invoice issuer check functions and documented evidence storage functions for the first time to comply with the consumption tax invoicing system and the Revised Act on Book and Record Keeping through Electronic Methods.

c. Sales from consulting services increased 5.5% year-on-year. This was due to strong sales of the FX4 Cloud, leading to increase in the number of implementations of the system launch support services.

d. Hardware sales increased by 2.5% year-on-year. This was mainly due to the costs for the purchase of hardware starting to be covered by funding under the Subsidy Program for Introducing IT to Businesses for Productivity Improvement in Services, etc. ("Subsidies for Introduction of IT") of the Small and Medium Enterprise Agency, new purchases of computers and scanners increasing as a consequence of the expiration on December 31, 2023 of safe harbor rules concerning electronic transaction data under the Revised Act on Book and Record Keeping through Electronic Methods, and the rise in the sales unit price of IT devices.

e. Sales from supplies decreased by 0.4% year-on-year. This was mainly due to the decrease in demand for printing-related consumables with the progress of digitalization, despite the strong sales of office equipment to support remote works and digitalization as well as books on the consumption tax invoicing system and the Revised Act on Book and Record Keeping through Electronic Methods.

f. Note that operating income decreased compared to the previous fiscal year because from July 2023 onward we actively held seminars and provided a full range of tools in order to support conformity with the consumption tax invoicing system and the Revised Act on Book and Record Keeping through Electronic Methods, and therefore sales promotion costs increased, etc.

(iii) 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 the 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 for managing Basic Resident Registers and tax affairs information, internal information system-related services that include financial accounting (public accounting) and payroll calculations, and support services for the digitalization of administrative services that include online applications for administrative procedures. The Service has been adopted by more than 1,140 municipalities (prefectures, cities, wards, towns, villages, etc.) as of September 30, 2023.

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 usage by multiple institutions. Service fees are charged in the form of a subscription fee, which also includes one regular upgrade per year. The TASK Outsourcing Service supports massive batch printing forms such as tax papers and entry tickets for elections. In the current period under review, we provided these municipalities with aggressive support for their vaccination programs by promptly carrying out contracts for the printing of vouchers, etc., for COVID-19 vaccine booster shots (vaccinations commenced in spring 2023 and fall 2023). In recognition of this, our mission-critical system-related services have been adopted by approximately 170 local municipalities as of September 30, 2023.

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

The Company provides support services for the digitalization of administrative services to achieve digital counter services with the “3 No’s (no visiting, no waiting, and no writing).” During the period under review, we have 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 this, the TASK Cloud Smart Application System has been adopted by at least 50 agencies, including government ordinance-designated cities such as Osaka and Yokohama, while the TASK Cloud Easy Counter Service System and the TASK Cloud My Number Card Issuance Reservation and Management System have been adopted by at least 100 and 160 agencies, respectively, as of September 30, 2023.

c. Support for digitalization of local tax administrations

As an authorized contractor of the Local Tax Agency, the Company provides cloud-based services for standard systems such as the inspection system eLTAX (local tax portal system) offered by the Agency. We also develop and provide a Data Integration Service as our proprietary feature to integrate these systems with the individual tax systems of various municipalities.

In promoting these services, we have jointly developed proposals with approximately 50 partner companies with which we have ongoing 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, 2023.

In the current period under review, we also worked to support the implementation of systems accompanying the additional tax items for the common local tax payment system that was launched in April 2023.

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

The Company provides the TASK Cloud Public Accounting System, which is compatible with the daily journalizing method and the financial statement generation features based on the standardized criteria formulated by the Ministry of Internal Affairs and Communications, as well as its related systems TASK Cloud Non-current Assets Control System and TASK Cloud Consolidated Financial Statement Generation System.

During the period under review, we launched the next-generation version of our public accounting system with enhanced features that support sustainable financial management through the visualization of financial status and the digital transformation of internal administrative tasks through electronic payments and integration with electronic invoicing. As a result, the TASK Cloud Public Accounting System has been adopted by at least 320 agencies as of September 30, 2023.

Furthermore, as a consequence of the commencement of the consumption tax invoicing system from October 2023, we shared know-how with the Accounting Firm Business Division, installed functions in the systems and provided support of municipalities, etc. for the transition. Going forward, we will work to support e-invoices for the further streamlining of the operations of our customers.

e. Research and development of next-generation products

In October 2022, the Basic Policy on the Standardization of Local Government Information Systems was approved by the Cabinet. This requires municipalities to migrate their mission-critical operational systems (20 operations) to applications (standard spec-compliant systems) built on Gov-Cloud that comply with the standardization criteria by the end of FY2025.

To respond to changes in the environment surrounding local governments, the Company has organized Local Government Digital Transformation Promotion Seminars designed for municipalities and is working to strengthen customer support through the collection and dissemination of the latest information on the standardization of local government information systems.

In addition, Misato Town in Saitama Prefecture launched the operation of its mission-critical operational system on October 31, 2022, as part of the Gov-Cloud Preliminary Project, in which the Company is involved as a partner developer (application developer). This was followed by Kawajima Town's launch of its system in December. These were the first cases in Japan of operating on Gov-Cloud, and we aim to harness the knowledge gained from this preliminary project to complete the migration of all customers to systems that are compliant with the standard specifications and operation of the Gov-Cloud by the target deadline stipulated by the Government (March 31, 2026).

2) Analysis of Local Governments BD's operating results

Net sales of the Local Governments BD were 20,357 million yen (increased 11.7% year on year); operating income was 3,059 million yen (increased 59.2% year on year). Breakdown of key sales is as follows:

a. Sales from computer services increased by 7.2% 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, and continued new contracts for printing of vouchers, etc., for COVID-19 vaccine booster shots (vaccinations commenced in spring 2023 and fall 2023).

b. Software sales increased by 5.8% year-on-year. This was due to the additional tax items for the common local tax payment system and the increase in software usage fees as a consequence of the systems of new customers contracted by the previous fiscal year commencing full-scale operations, etc. Note that the software usage fees of the Company are in the form of fixed rate subscription fee depending on the scale of the municipality, so they are steadily growing in association with the growth in number of clients.

c. Sales from consulting services increased 146.0% year-on-year. This was due to the one-stop service for completing moving in/out procedures, which was commenced when the Basic Resident Register Act was partially amended, the expansion of the tax items for the common local tax payment system (the payment of local taxes using standardized local tax QR codes), and the support the Company provided for the introduction of systems for the government-related digital services that were outsourced thereto as a new project.

d. Hardware sales increased by 5.4% year-on-year. This was due to the fact that the introduction of network devices in municipalities intensified as a consequence of their responses to the local government information security measures led by the Ministry of Internal Affairs and Communications.

e. Note that operating income increased compared to the previous fiscal year due to the fact that we recorded the standard spec-compliant systems, etc. currently under development as assets, etc.

(iv) Business activities and operating results of the Printing Business Division

1) Business activities of the Printing Business BD

TLP Corporation (hereinafter, "TLP"), which is responsible for the Group's Printing Business, operates with a primary focus on the DPS business, business form printing, and the printing of commercial-use creative materials.

The DPS business received orders for the COVID-19 vouchers, notification operations related to the emergency support benefits to address rising prices, etc. of the customer municipalities of TKC's TASK Outsourcing Service and the customer municipalities of the Printing Business Division, and supported their administrative services. Meanwhile, with respect to private companies, it continued the proposal of outsourcing (BPO) with the objectives of rationalizing the creation of direct mails (hereinafter, "DMs") and mainly notification-related operations of general administration, accounting, and personnel departments. In particular, in the creation of DMs, we are working to increase the value offered to customers who use the Company's services, including the measurement of DMs' effects using the QR code printed on the DM.

In the business form printing field, the use of business forms and slips is decreasing due to the increasing adoption of paperless methods, but cases in which companies use handwritten slips are strongly rooted and the form printing technologies we have cultivated to date are highly evaluated, resulting in the receipt of orders.

In the commercial-use creative materials field (catalogs, books, etc.), we are continuing support to provide in a timely manner the products which satisfy the timing and content required by the client companies, for example, printing operations for the anniversary events of client companies, revised editions of specialist books due to legal revisions, etc. Furthermore, the holding of face-to-face seminars, etc. is increasing in number and the number of requests for the creation of distributed materials is also increasing. And, in the creation of these materials, cases in which we receive orders for the entire process from creation of the design to the printing are also increasing.

Furthermore, TLP acquired the FSC® certification (CoC certification/FSC-C182216) on October 3, 2022. Against the backdrop of an increasing number of environmentally conscious customers, we have steadily increased the use of FSC-certified paper. We have also begun producing and selling paper files as an environmentally friendly alternative to clear files. We seek to cater to the needs of customers who are environmentally conscious through the development and production of these environmentally friendly products.

Note that a lawsuit claiming compensation for damages dated October 3, 2023 has been filed against TLP by the Japan Pension Service on the grounds that damages remain which are still not covered by the penalties already collected due to the bid rigging which was subject to the cease and desist order against TLP by the Japan Fair Trade Commission based on the Antimonopoly Act, and the case is currently in litigation.

2) Analysis of Printing Business BD's operating results

Net sales of the Printing BD were 2,808 million yen (decreased 10.7% year-on-year); operating income was 127 million yen (decreased 11.8% year-on-year). Breakdown of key sales is as follows:

a. Sales of products related to the data printing service (hereinafter, "DPS") decreased by 12.2% year on year. This was due to the fact that in the current fiscal year there were no large projects for which the Company received an order by tender such as the printing operations for the entry tickets for the House of Representatives elections in October 2021 and the "final tax filing notification postcards" by the National Tax Agency we received the order for in the previous fiscal year.

b. Business form-related sales increased by 8.6% year on year. This was driven by an increase in slip printing orders received from client companies that the Company had newly acquired in the previous fiscal year.

c. Sales of printing of commercial-use creative materials (catalogs, books, etc.) increased by 9.8% year-on-year. This was due to the fact that we received orders for books explaining the consumption tax invoicing system and printing operations for the anniversary commemoration projects of client companies, and the fact that orders for the creation of distributed materials increased due to the increase in the holding of face-to-face seminars, etc.

d. Note that operating income decreased compared to the previous fiscal year because net sales of the highly profitable DPS-related products decreased and outsourcing processing costs increased as a consequence of the addition of QR codes to local tax payment forms.

(v) Important matters with respect to the Company as a whole

1) First launch of operation in Japan as part of the Gov-Cloud Preliminary Project

Misato Town in Saitama Prefecture launched the operation of its mission-critical business system on October 31, 2022, as part of the Gov-Cloud Preliminary Project, in which the Company is involved as a partner developer (application developer). This was followed by Kawajima Town's launch of its system in December of the same year. These were the first cases in Japan of operating on Gov-Cloud, and we will aim to harness the knowledge gained from this preliminary project to complete the migration of all customers to systems that are compliant with the standard specifications and operation of the Gov-Cloud by the target deadline stipulated by the Government (end of FY2025).

2) Commencement of the sending and receiving of Peppol invoices (e-invoices)

A trial has been implemented on sending and receiving Peppol invoices (e-invoices) based on the international standard specification Peppol in the more than 90 user companies of Invoice Manager, the cloud-based system of the Company. In the future, the Company plans to utilize Peppol invoices in its billing operations as a consequence of the commencement of operation of the invoicing system in October 2023, and to accumulate expertise and share it with user companies, thereby supporting the digitalization of billing operations and manpower reduction for accounting operations.

3) The number of users of the FX Series which conforms with the consumption tax invoicing system and the Revised Act on Book and Record Keeping through Electronic Methods has surpassed 310,000 companies

In June 2023, the FX Cloud Series completed conformity with the consumption tax invoicing system and Revised Act on Book and Record Keeping through Electronic Methods. The FX Cloud Series, which combines accounting and sales management functions, has adopted subscription-type usage fees, so it can respond to all types of legal system revisions without adding new costs. These points have been highly evaluated and as a result the number of companies using the FX Series surpassed 310,000 in September 2023.

4) Commencement of the use of AI chat services

TKC has launched the internal use of TKC AI Assistant, the AI chat service that TKC has developed based on an extensive language model from Azure OpenAI Service. The Company actively uses TKC AI Assistant not only for system development, but for internal administrative work and on-the-ground sales tasks in order to improve employee efficiency and productivity.

5) Implementation of a wage rise of a total amount of 5%

TKC has set the target of a labor share ratio (the ratio of personnel expenses with respect to the marginal income which is obtained by subtracting the necessary costs from the net sales) of 50%. Due to this, we are able to increase the per capita personnel expenses in proportion to the operating results of the company every year. In recent years, electricity bills and the prices of commodities have continued to rise due to the impact of the rising cost of resources, so from April 2023 we implemented a total increase in the base wage of 5%.

6) TKC Customer Support Service Co., Ltd. (TCSS) rated "3 Star" for two consecutive years in HDI Benchmarking

TCSS is a fully owned subsidiary of the Company that specializes in offering call center services. On March 8, 2023, TCSS was awarded the highest "3 Star" rating by HDI-Japan in its quality ranking benchmark for the phone support services provided. This marks the second consecutive year following 2022 that TCSS has received the highest rating.

(vi) 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 116,356 million yen, a 7,130 million yen increase compared to 109,225 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 43,173 million yen, a 2,458 million yen increase from 40,715 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to an increase of 2,173 million yen in cash and deposits.

b. Non-current assets

Non-current assets as of the end of the current consolidated fiscal year amounted to 73,182 million yen, a 4,672 million yen increase compared to 68,510 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 3,302 million yen increase in investment securities, 1,246 million yen increase in software in progress, and 1,000 million yen increase in long-term time deposits, despite a 649 million yen decrease in deferred tax assets.

2) Liabilities

Total liabilities as of the end of the current consolidated fiscal year amounted to 21,047 million yen, a 851 million yen decrease compared to 21,899 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 16,797 million yen, a 881 million yen decrease from 17,679 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a decrease of 729 million yen in income taxes payable.

b. Non-current liabilities

Non-current liabilities as of the end of the current consolidated fiscal year amounted to 4,249 million yen, a 29 million yen increase from 4,219 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 150 million yen increase in retirement benefit obligations, despite a 90 million yen decrease in lease obligations.

3) Net assets

Total net assets as of the end of the current consolidated fiscal year amounted to 95,308 million yen, a 7,982 million yen increase compared to 87,325 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to an increase of 6,146 million yen in retained earnings and an increase of 2,209 million yen in valuation difference on available-for-sale securities.

Capital-to-asset ratio as of the end of the current consolidated fiscal year was 81.9%, a 2.0 point increase compared to the ratio of 80.0% as of the end of the previous consolidated fiscal year.

(vii) 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 2,173 million yen from the end of the previous consolidated fiscal year amounting to 28,793 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 13,067 million yen (16 million yen increase in revenue year-on-year). Major factors include the recognition of 15,135 million yen under net income before taxes and adjustments and 3,533 million yen under depreciation, and payment of 5,424 million yen for income taxes.

2) Cash flows from investing activities

Cash flows from investing activities decreased by 5,861 million yen (1,518 million yen increase in spending year-on-year). Major factors include expenditure of 4,300 million yen into time deposits, revenue of 3,300 million yen from withdrawal of time deposits, expenditure of 1,671 million yen for purchase of property, plant, and equipment, and expenditure of 3,119 million yen for the acquisition of intangible assets.

3) Cash flows from financing activities

Cash flows from financing activities decreased by 5,571 million yen (357 million yen increase in spending year-on-year). Major factors include expenditure of 1,090 million yen for the purchase of treasury stock, and payment of 4,260 million yen for year-end dividends as of the end of September 2022 (dividend of 42 yen per share) and interim dividends for the term ended September 2023 (dividend of 39 yen per share).

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

	FY ended September 2020	FY ended September 2021	FY ended September 2022	FY ended September 2023
Equity ratio (%)	78.9	80.7	80.0	81.9
Ratio of equity at market value (%)	183.2	179.2	164.6	163.1
Debt redemption (years)	0.1	0.1	0.1	0.1
Interest coverage ratio (x)	6,492.7	27,055.7	8,627.1	11,323.4

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

(i) Production

None to be disclosed.

(ii) Orders received

None to be disclosed.

(iii) 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	48,749	104.9
Local Governments Business	20,357	111.7
Printing Business	2,808	89.3
Total	71,915	106.0

(Note) 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 3 [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 6.0% (an increase of 3.6 points year-on-year), and consolidated return on equity was 11.9% (an increase of 1.0 points year-on-year).

The non-consolidated equity ratio was 85.0% (an increase of 1.7 points year-on-year), non-consolidated recurring profit margin was 20.8% (a decrease of 0.1 points year-on-year), and non-consolidated total marginal profit ratio was 78.7% (a decrease of 0.2 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.

5 [Material Agreements, etc.]

None to be disclosed.

6 [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 6,002 million yen were made in the current consolidated fiscal year.

(1) Accounting Firm Business

Capital investment of 2,914 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 2,784 million yen was made for replacement of the eLTAX Service operating equipment and for the development of software to provide services over the cloud system.

(3) Printing Business

Capital investment of 302 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, 2023

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	5,069	8	2,807 (31,056.13)	1,640	5,731	15,257	1,287
TKC Tokyo Head Office TKC Systems Development Research Center Tokyo Branch (Shinjuku-ku, Tokyo)	Accounting Firm Business Local Governments Business	Office facilities	88	—	—	82	—	171	356
TKC Tokyo Consolidated Information Center (Nerima-ku, Tokyo)	Accounting Firm Business	Information processing facilities	193	—	2,224 (1,447.44)	16	—	2,433	18
TKC Chubu Consolidated Information Center (Kasugai-shi, Aichi)	Accounting Firm Business	Information processing facilities	59	—	196 (3,017.47)	9	0	265	17
TKC Kansai Consolidated Information Center (Ibaraki-shi, Osaka)	Accounting Firm Business	Information processing facilities	431	—	286 (1,808.03)	12	0	731	36
TKC Chushikoku Consolidated Information Center TKC Chushikoku Control Center (Kita-ku, Okayama-shi, Okayama)	Accounting Firm Business	Information processing facilities Office facilities	10	—	—	11	—	21	9
TKC Kyushu Consolidated Information Center (Koga-shi, Fukuoka)	Accounting Firm Business	Information processing facilities	136	—	203 (2,341.48)	8	0	348	10

As of September 30, 2023

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 m²)	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	32	—	—	15	0	47	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	—	—	15	0	19	18
TKC Okinawa SCG Service Center (Naha-shi, Okinawa)	Accounting Firm Business	Office facilities	13	—	—	3	0	17	6
TKC Ibaraki SCG Service Center TKC Ibaraki Sales Section (Tsukuba-shi, Ibaraki)	Accounting Firm Business Local Governments Business	Office facilities	18	—	147 (1,120.00)	1	0	167	23
TKC Yamaguchi SCG Service Center (Yamaguchi-shi, Yamaguchi)	Accounting Firm Business	Office facilities	18	—	197 (814.00)	1	0	217	6
Dormitories, company housing (Utsunomiya-shi, Tochigi)	Accounting Firm Business Local Governments Business	Welfare facilities	197	—	391 (5,326.69)	8	—	597	—

(2) Domestic subsidiaries

As of September 30, 2023

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 m²)	Tools, furniture & fixtures	Other	Total	
TLP Corporation	Hanyu Plant (Hanyu-shi, Saitama)	Printing Business	Printing facilities	46	242	145 (7,275.17)	10	22	466	79
TLP Corporation	DPS Solutions Center (Hanyu-shi, Saitama)	Printing Business	Printing facilities	849	150	132 (9,768.00)	26	355	1,514	61

(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 1,187 million yen for leased buildings and 27 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	730 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, 2023), 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	As of the end of the fiscal year Number of shares (shares) (September 30, 2023)	As of the date filed Number of shares (shares) (December 18, 2023)	Name of stock exchange on which the Company is listed, or name of Authorized Financial Instruments Firms Association	Description
Common stock	53,166,466	53,166,466	Tokyo Stock Exchange Prime Market	Number of shares constituting a unit: 100 shares
Total	53,166,466	53,166,466	—	—

(2) [Share subscription rights, etc.]

(i) [Stock option scheme]

None to be disclosed.

(ii) [Rights plan]

None to be disclosed.

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

None to be disclosed.

(3) [Exercise of bonds with share subscription rights containing a clause for exercise price adjustment, etc.]

None to be disclosed.

(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 (millions of yen)	Balance of capital stock (millions of yen)	Increase or decrease in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
April 1, 2021 (Note 1)	26,731,033	53,462,066	—	5,700	—	5,409
September 29, 2023 (Note 2)	(295,600)	53,166,466	—	5,700	—	5,409

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

2. As a result of retirement of treasury stock.

(5) [Shareholders Composition]

As of September 30, 2023

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	—	25	23	154	159	3	8,264	8,628	—
Number of shares held (share units)	—	168,432	4,075	130,683	84,149	14	143,584	530,937	72,766
Percentage of shares held (%)	—	31.7	0.8	24.6	15.8	0.0	27.0	100.0	—

(Notes) 1. Of the 813,768 shares held as treasury stock, 8,137 share units are included in "Other individuals" and 68 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, 2023

Name of shareholder	Address	Number of shares held (hundred shares)	Percentage of shares held to the total number of issued shares (excluding treasury stock) (%)
Iizuka Takeshi Scholarship Foundation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	75,170	14.4
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	43,590	8.3
Sozeishiryokan (The Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	30,930	5.9
TKC Employee Shareholding Association	2-1 Agebacho, Shinjuku-ku, Tokyo	29,066	5.6
SSBTC Client Omnibus Account (Standing proxy: The Hong Kong & Shanghai Banking Corporation)	ONE CONGRESS STREET, SUITE 1, BOSTON, MASSACHUSETTS USA 02111 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	22,887	4.4
Masaharu Iizuka	Utsunomiya-shi, Tochigi	14,626	2.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2-6-4 Otemachi, Chiyoda-ku, Tokyo	13,328	2.5
State Street Bank and Trust Company 505025 (Standing proxy: Mizuho Bank, Ltd.)	P.O. BOX 351 BOSTON MASSACHUSETTS 02101 USA (2-15-1 Konan, Minato-ku, Tokyo)	12,512	2.4
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	—	317,424	60.6

(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, 2023

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 813,700	—	—
Shares with full voting right (others)	Common stock 52,280,000	522,800	—
Shares less than one share unit	Common stock 72,766	—	—
Total number of shares issued	53,166,466	—	—
Total voting rights held by all shareholders	—	522,800	—

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

(ii) [Treasury stock, etc.]

As of September 30, 2023

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 (%)
Kabushiki Kaisha TKC	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	813,700	—	813,700	1.53
Total	—	813,700	—	813,700	1.53

(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
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
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]

None to be disclosed.

(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 (September 8, 2023) (Acquisition period: September 11, 2023)	600,000	2,181,000,000
Treasury stocks acquired prior to the current fiscal year	—	—
Treasury stocks acquired during the current fiscal year	295,600	1,074,506,000
Total number and value of remaining shares subject to resolution	304,400	1,106,494,000
Percentage of unexercised acquisition as of the last date of the current fiscal year (%)	50.7	50.7
Treasury stocks acquired during the current period	—	—
Percentage of unexercised acquisition as of the date of filing (%)	50.7	50.7

(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	4,306	15,352,410
Treasury stocks acquired during the current period	128	453,940

(Note) Treasury stocks acquired during the current period do not include shares constituting less than one unit purchased during the period from December 1, 2023 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 retired	295,600	798,034,276	—	—
Acquired treasury stocks transferred due to merger, share exchange, subscription, or company split	19,980	47,136,816	—	—
Other (sold due to demand for sales of fractional unit shares)	30	70,779	50	134,990
Number of treasury stocks held	813,768	—	813,846	—

(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, 2023 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.

TKC's dividend policy consists of the basic policy of maintaining a dividend payout ratio (non-consolidated) of about 50% while continuing to maintain optimal profit in each fiscal year in order to meet the expectations 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 39 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 39 yen per share and a special dividend of 12 yen per share as announced on November 14, 2023.

(3) Dividends per share for the current fiscal year shall be 90 yen, which is the sum of an interim dividend of 39 yen per share and a year-end dividend of 51 yen per share.

As a result, the annual payout ratio (non-consolidated) came to 45.7%.

Date of Resolution	Total amount of cash dividends (millions of yen)	Dividend per share (yen)
May 12, 2023 Meeting of the Board of Directors	2,052	39.00
December 15, 2023 Ordinary General Meeting of Shareholders	2,669	51.00

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:	Tomoyasu Hamamura (Outside Auditor)
Member:	Misao Taguchi (Outside expert)
Member:	Yoshimasa Oshida (Outside 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.

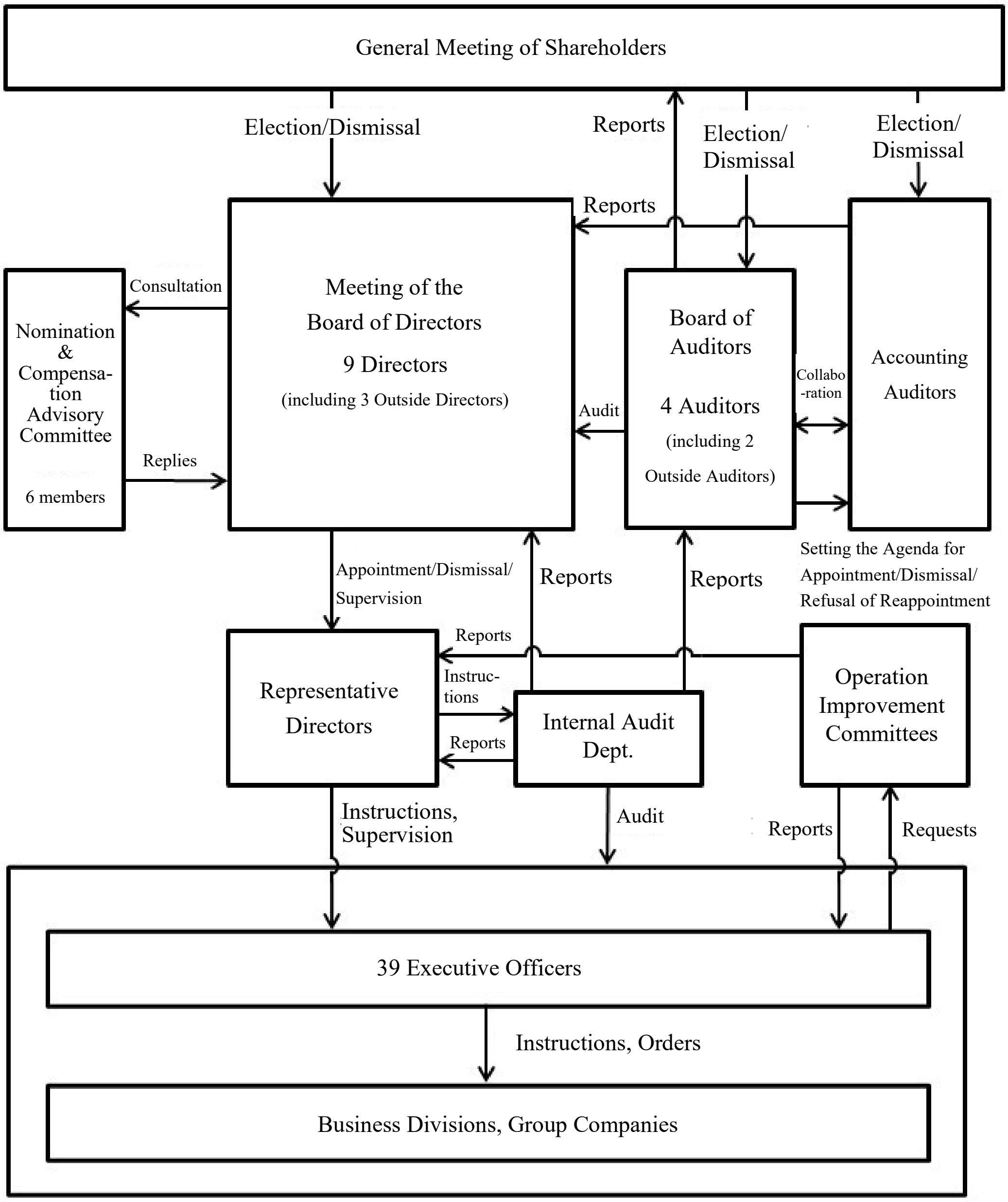
We also have three Outside Directors and two Outside Auditors, a total of five members who meet the requirements of independent directors/auditors and are notified to the Tokyo Stock Exchange.

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:

Corporate Governance System



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 freely 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 ordinary income 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 ordinary income 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 of the General Meeting of Shareholders

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.

(11) Status of activities of the Board of Directors and the Nomination and Compensation Advisory Committee

(i) Status of activities of the Board of Directors in the current fiscal year

Position	Name	Number of times attended
Representative Director & President	Masanori Iizuka	14 times/14 times
Representative Directors	Satoshi Hitaka	14 times/14 times
Director	Ikuo Kawahashi	14 times/14 times
Director	Kiyotsugu Nakanishi	14 times/14 times
Director	Yoshihisa Ito (Note 1)	10 times/10 times
Director	Takeshi Kawamoto (Note 1)	10 times/10 times
Outside Directors	Yoshimasa Oshida (Note 2)	3 times/3 times
Outside Directors	Junko Iijima	14 times/14 times
Outside Directors	Nobuhiko Kouga	14 times/14 times
Outside Directors	Keiichiro Kato (Note 1)	10 times/10 times

(Notes) 1. Director Yoshihisa Ito, Director Takeshi Kawamoto and Outside Director Keiichiro Kato were appointed in the Ordinary General Meeting of Shareholders for the 56th Term held on December 16, 2022 and they were installed on the same date.
Ten meetings of the Board of Directors were held in the period from December 16, 2022, the installation date, to September 30, 2023.
2. Outside Director Yoshimasa Oshida retired from office on the same date due to the expiration of his term of office as of the Ordinary General Meeting of Shareholders for the 56th Term held on December 16, 2022.

The specific content for consideration in the Board of Directors in the current fiscal year, based on the related laws and regulations and TKC's Articles of Incorporation and the Company's Rules on the Board of Directors, was mainly deliberations and resolutions regarding important matters pertaining to the management of the Group, such as the General Meeting of Shareholders, settlements and finance, capital investments, the organization, personnel and officer compensation, revision of the internal rules, etc. Furthermore, the Board of Directors received reports regarding the progress of the medium-term management plan, the operating results and operations execution status, the management status of the subsidiaries, etc.

(ii) Status of activities of the Nomination & Compensation Advisory Committee in the current fiscal year

Members	Name	Number of times attended
Chairperson (Outside Director)	Junko Iijima	3 times/3 times
Member (Outside Auditor)	Hideki Tomonaga	3 times/3 times
Member (Outside expert)	Misao Taguchi	3 times/3 times
Member (Outside expert)	Yoshimasa Oshida	3 times/3 times
Member (expert)	Masaharu Iizuka	3 times/3 times
Member (Director)	Masanori Iizuka	3 times/3 times
Member (Director)	Satoshi Hitaka	3 times/3 times

The specific content for consideration in the Nomination and Compensation Advisory Committee in the current fiscal year was mainly deliberations on the appointment and dismissal of Directors and executive officers holding executive position, individual compensations of Directors and executive officers holding executive position, appointment and dismissal of representative directors and auditors of the subsidiaries, etc. and it reported the results of those deliberations to the Board of Directors.

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 Directors President and Executive Officer Director of Accounting Firm BD	Masanori Iizuka	March 12, 1975	April 2002 December 2010 October 2012 December 2012 April 2014 October 2016 October 2018 December 2019 December 2019	Joined the Company Director, Executive Officer, in charge of Corporate Information Systems Sales Headquarters and Chief of G Project Promotion Headquarters, Accounting Firm BD Director, Executive Officer, Chief of Corporate Information Systems Sales Headquarters, Accounting Firm BD Director, Managing Executive Officer, Chief of Corporate Information Systems Sales Headquarters, Accounting Firm BD Director, Managing Executive Officer, Chief of Sales Headquarters, Accounting Firm BD Representative Director, Senior Managing Executive Officer, Chief of Sales Headquarters, Head of Accounting Firm BD Representative Director, Senior Managing Executive Officer, Head of Accounting Firm BD Representative Director, President and Executive Officer, Head of Accounting Firm BD (current position) Representative Director and President, TKC Customer Support Service Co., Ltd. (current position)	(Note 4)	178
Representative Directors Senior Managing Executive Officer Director of Local Governments BD	Satoshi Hitaka	January 19, 1971	April 2003 December 2010 December 2011 January 2012 December 2018 December 2020 December 2020	Joined the Company Executive Officer, General Manager of ASP Service Promotion Dept., Sales Planning Headquarters, Local Governments BD Director, Executive Officer, in charge of New Business Strategy Headquarters, Local Governments BD Director, Executive Officer, Chief of Cloud Business Promotion Headquarters, Local Governments BD Director, Managing Executive Officer, Chief of Sales Headquarters, Local Governments BD Representative Director, Senior Managing Executive Officer, Head of Local Governments BD (current position) Representative Director and President, TKC Security Services Co., Ltd. (current position)	(Note 4)	59
Director Senior Managing Executive Officer In charge of SKYCOM Corporation	Ikuo Kawahashi	February 26, 1955	April 1977 December 2006 January 2008 December 2013 December 2014 December 2019 December 2020	Joined the Company Executive Officer, Systems Development Headquarters, Local Governments BD Executive Officer, Chief of Internal Control Center Representative Director and Vice President, SKYCOM Corporation Representative Director and President, SKYCOM Corporation (current position) Senior Managing Executive Officer of the Company Director, Senior Managing Executive Officer of the Company, in charge of SKYCOM Corporation (current position)	(Note 4)	165

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 4)	398
Director Managing Executive Officer Accounting Firm Business Division Systems Development Research Center Chief of Systems Planning Headquarters	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 4)	69
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 4)	24

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
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 4)	-
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 4)	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 4)	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)	204
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 6)	68
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

Position and Title	Name	Date of Birth	Brief biography		Term of office	Number of shares held (hundreds of shares)
Auditor	Shigeki Taenaka	September 10, 1961	August 1985 October 1989 June 1995 January 2006 June 2009 January 2018 June 2019 January 2022 December 2023	Joined Osaka Office of Aoyama Audit Corporation Joined Mikio Taenaka Certified Public Accountant Office Outside Audit & Supervisory Board Member, Nishimoto Trading Co. (currently CANON MEDTECH SUPPLY CORPORATION) Director, Shigeki Taenaka Certified Public Accountant Office (current position) External Audit & Supervisory Board Member, Japan System Techniques Co., Ltd. (current position) Outside Audit & Supervisory Board Member, DENKYOSHA CO., LTD. (currently Denkyo Group Holdings Co., Ltd.) (current position) Outside Audit & Supervisory Board Member, DAIBIRU CORPORATION Representative Partner of Taenaka Accounting Firm (current position) Auditor of the Company (current position)	(Note 7)	16
Total						1,335

(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 Tomoyasu Hamamura and Shigeki Taenaka are Outside Auditors.
4. Two years from the close of the Ordinary General Meeting of Shareholders held December 16, 2022.
5. Four years from the close of the Ordinary General Meeting of Shareholders held December 18, 2020.
6. Four 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 15, 2023.

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 he utilizes his extensive experience and insights in the management of accounting firms in the management of the Company's Accounting Firm Business. 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. 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	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. 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.

Category	Name	Functions, roles and appointment
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. Ms. Iijima has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.
Auditor	Shigeki Taenaka	Mr. Taenaka is a representative partner of Taenaka Accounting Firm, and has experience as an Outside Auditor in listed companies. 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. 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.

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 attend 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 Tomoyasu Hamamura and Shigeki Taenaka 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	5/5	100%
Yasuo Igarashi (Note 2)	4/4	100%
Hideki Tomonaga (Note 3)	5/5	100%
Tomoyasu Hamamura	5/5	100%

(Note 1) Based on the number of days held during his/her term in office in the current fiscal year.
(Note 2) Installed in office on December 16, 2022.
(Note 3) Retired from office on December 15, 2023.

(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 meetings with the Auditors and 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

40 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 and Toru Iizuka

4) Number of assistants assisting auditing:

The number of assistants assisting the accounting audit of the Company was 3 certified public accountants and 13 other personnel.

5) Policy and reasons for appointing the audit firm

It is the policy of the Company for the Board of Auditors to dismiss accounting auditors, with the consent of all Auditors, should it be deemed that said accounting auditor falls under any of the items prescribed in Article 340 Paragraph 1 of the Companies Act. 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	46	12	46	11
Consolidated subsidiary:	–	–	–	–
Total	46	12	46	11

(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 subsidiary:	–	–	–	–
Total	–	13	–	–

(Note) In the previous consolidated fiscal year, the Company paid 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

None to be disclosed.

(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 Officers' 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 by over 3%.

However, directors with a division under their jurisdiction shall read "the entire Company" as "division under their jurisdiction."

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 106.2%. Year-on-year ratio of ordinary income was 105.8%.

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 (No. of people)
		Monetary compensation	Stock-based compensation (BIP Trust)	
Directors (excluding Outside Directors)	198	183	15	7
Auditors (excluding Outside Auditors)	30	30	—	2
Outside Directors	28	28	—	4
Outside Auditors	19	19	—	2

(Notes) 1. As of the end of the fiscal year under review, the Company has nine Directors (of which, three are Outside Directors) and four Auditors (of which, two are Outside Auditors). The difference in the number of eligible Directors and Auditors is because the above number includes one Director and one Outside Director who retired from office as of the close of the Ordinary General Meeting of Shareholders for the 56th Term held on December 16, 2022.

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	3	7,456

(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	1	2	Because of receipt as a consequence of the merger and absorption of TKC Financial Guarantee Co., Ltd.

(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	1	15

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

Specified investment securities

Stock name	Current fiscal year Number of shares (shares) Amount recorded in balance sheet (millions of yen)	Previous fiscal year Number of shares (shares) Amount recorded in balance sheet (millions of yen)	Purpose of holding, overview of business alliances, etc., quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
T&D Holdings, Inc.	1,781,600 4,396	1,780,000 2,433	Regarding the shares of this company, 1,600 share were transferred to TKC as a consequence of the merger and absorption dated April 1, 2023. 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.	Yes
Mitsubishi UFJ Financial Group, Inc.	2,322,180 2,945	2,322,180 1,512	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
Mebuki Financial Group, Inc.	275,400 113	275,400 77	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
Nippon Paper Industries Co., Ltd.	— —	17,000 15	We verified whether or not it was suitable to hold the shares in the Board of Directors based on our business relationships, comparison of the benefits and the costs of capital as a consequence of holding them, etc. and as a result we decided on a sell policy and sold them in November 2022.	No

(iii) Equity securities held for the pure investment

None to be disclosed.

Part 5 [Financial Information]

1. Method of Preparing Consolidated Financial Statements and Financial Statements

(1) The consolidated financial statements of the Company have been prepared in accordance with the Ordinance on 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, 2022 to September 30, 2023) and financial statements for the fiscal year (from October 1, 2022 to September 30, 2023) 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]

(i) [Consolidated Balance Sheet]

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2022)	Current consolidated fiscal year September 30, 2023
Assets		
Current assets		
Cash and deposits	29,920	32,093
Notes receivable–trade	47	50
Accounts receivable–trade	7,881	8,332
Contract assets	391	301
Lease investment assets	362	154
Merchandise and finished goods	278	246
Work in progress	69	41
Raw materials and supplies	146	137
Other	1,630	1,835
Allowance for doubtful accounts	(12)	(19)
Total current assets	40,715	43,173
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net amount)	7,651	7,491
Machinery, equipment and vehicles (net amount)	501	445
Tools, furniture & fixtures (net amount)	1,820	2,023
Land	6,802	6,915
Lease assets (net amount)	376	432
Total property, plant, and equipment	*1 17,153	*1 17,308
Intangible assets		
Software	3,073	2,973
Software in progress	1,567	2,813
Other	25	25
Total intangible assets	4,666	5,813
Investments and other assets		
Investment securities	*2 18,748	*2 22,050
Long-term loans receivable	65	19
Deferred tax assets	8,032	7,383
Long-term time deposits	17,700	18,700
Guarantee deposits	1,486	1,452
Long-term lease investment assets	198	44
Other	458	423
Allowance for doubtful accounts	—	(12)
Total investments and other assets	46,689	50,061
Total non-current assets	68,510	73,182
Total assets	109,225	116,356

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2022)	Current consolidated fiscal year September 30, 2023
Liabilities		
Current liabilities		
Accounts payable–trade	2,973	2,698
Electronically recorded obligations–operating	799	780
Current portion of long-term loans payable	71	71
Lease obligations	492	283
Accounts payable–other	2,187	2,387
Income taxes payable	3,167	2,437
Accrued consumption taxes	819	771
Contract liabilities	1,104	1,210
Provisions for bonuses	4,953	4,810
Provisions for loss on construction contracts	65	14
Other	1,044	1,332
Total current liabilities	17,679	16,797
Non-current liabilities		
Long-term loans payable	142	71
Lease obligations	481	391
Retirement benefit liabilities	2,806	2,956
Provisions for stocks payment	306	341
(5) Provisions for loss on guarantees	—	3
Other	482	484
Total non-current liabilities	4,219	4,249
Total liabilities	21,899	21,047
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	6,589	6,286
Retained earnings	78,743	84,890
Treasury stock	(2,359)	(2,604)
Total shareholders' equity	88,672	94,271
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(138)	2,070
Accumulated remeasurements of defined benefit plans	(1,207)	(1,033)
Total accumulated other comprehensive income	(1,346)	1,036
Total net assets	87,325	95,308
Total liabilities and net assets	109,225	116,356

(ii) [Consolidated Statements of Income and Comprehensive Income]

[Consolidated Statements of Income]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Net sales	67,838	71,915
Cost of sales	*1 19,909	*1 21,474
Gross profit	47,929	50,440
Selling, general, and administrative expenses	*2 34,578	*2 36,102
Operating income	13,351	14,338
Non-operating income		
Interest income	70	66
Dividend income	176	195
Land and house rent received	47	40
Subsidy income	9	10
Equity in earnings of affiliates	3	55
Other	98	67
Total non-operating income	407	436
Non-operating expenses		
Interest expenses	1	1
Loss on sale of securities	—	0
Treasury stock acquisition expenses	0	0
Provisions for allowance for loss on guarantees	—	0
Surcharges	20	—
Penalties	58	—
Other	0	0
Total non-operating expenses	80	2
Ordinary income	13,677	14,772
Extraordinary income		
Gain on sale of non-current assets	*3 3	*3 1
Gain on extinguishment of tie-in shares	—	365
Other	—	15
Total extraordinary income	3	382
Extraordinary loss		
Loss on sale of non-current assets	*4 0	—
Loss on retirement of non-current assets	*5 30	*5 19
Total extraordinary loss	30	19
Net income before taxes and adjustments	13,650	15,135
Income taxes–current	4,976	4,707
Income taxes–deferred	(643)	(399)
Total income taxes	4,332	4,308
Net income	9,317	10,826
Net income attributable to owners of parent	9,317	10,826

[Consolidated Statements of Comprehensive Income]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Net income	9,317	10,826
Other comprehensive income		
Valuation difference on available-for-sale securities	(588)	2,209
Remeasurements of defined benefit plans	174	174
Total other comprehensive income	*1 (414)	*1 2,383
Comprehensive income	8,902	13,210
(Breakdown)		
Comprehensive income attributable to owners of the parent	8,902	13,210

(iii) [Consolidated Statement of Changes in Net Assets]

Previous 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	Accumulated 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

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

(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	78,743	(2,359)	88,672
Changes during fiscal year					
Dividends of surplus			(4,263)		(4,263)
Net income attributable to owners of parent			10,826		10,826
Acquisition of treasury stock				(1,089)	(1,089)
Disposal of treasury stock		0		0	0
Retirement of treasury stock		(381)	(416)	798	—
Increase due to merger		78		47	125
Changes in items other than equity (net)					
Total changes during fiscal year	—	(302)	6,146	(244)	5,599
Balance at end of year	5,700	6,286	84,890	(2,604)	94,271

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of year	(138)	(1,207)	(1,346)	87,325
Changes during fiscal year				
Dividends of surplus				(4,263)
Net income attributable to owners of parent				10,826
Acquisition of treasury stock				(1,089)
Disposal of treasury stock				0
Retirement of treasury stock				—
Increase due to merger				125
Changes in items other than equity (net)	2,209	174	2,383	2,383
Total changes during fiscal year	2,209	174	2,383	7,982
Balance at end of year	2,070	(1,033)	1,036	95,308

(iv) [Consolidated Statements of Cash Flows]

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Cash flows from operating activities		
Net income before taxes and adjustments	13,650	15,135
Depreciation	3,050	3,533
Increase (decrease) in allowance for doubtful accounts	(1)	19
Increase (decrease) in provisions for bonuses	880	(143)
Increase (decrease) in provisions for loss on construction contracts	(76)	(51)
Increase (decrease) in retirement benefit liabilities	503	401
Contribution of securities to retirement benefit trust	(1,000)	—
Increase (decrease) in provisions for stocks payment	(1)	35
Interest and dividends income	(246)	(262)
Interest expenses	1	1
Surcharges	20	—
Penalties	58	—
Equity in losses (earnings) of affiliates	(3)	(55)
Loss on retirement of non-current assets	30	19
Loss (gain) on sale of non-current assets	(2)	(1)
Loss (gain) on extinguishment of tie-in shares	—	(365)
Decrease (increase) in notes and accounts receivable–trade	(1,180)	(566)
Decrease (increase) in inventories	(82)	69
Decrease (increase) in other assets	84	46
Increase (decrease) in accounts payable–trade	462	(382)
Increase (decrease) in other liabilities	642	857
Increase (decrease) in accrued consumption taxes	39	(48)
Other	60	(17)
Subtotal	16,888	18,224
Interest and dividends received	283	280
Interest paid	(1)	(1)
Surcharges paid	(20)	—
Penalties paid	(35)	(11)
Income taxes paid	(4,063)	(5,424)
Cash flows from operating activities	13,050	13,067
Cash flows from investing activities		
Payments into time deposits	(4,400)	(4,300)
Proceeds from withdrawal of time deposits	3,300	3,300
Purchase of property, plant, and equipment	(760)	(1,671)
Proceeds from sales of property, plant and equipment	6	1
Purchase of intangible assets	(2,573)	(3,119)
Purchase of investment securities	(2,015)	(1,501)
Proceeds from sales of investment securities	1	38
Proceeds from redemption of investment securities	2,100	1,300
Payments for guarantee deposits	(59)	(11)
Proceeds from collection of guarantee deposits	14	45
Collection of loans receivables	43	57
Other proceeds	0	—
Cash flows from investing activities	(4,342)	(5,861)

(Unit: million yen)

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Cash flows from financing activities		
Repayment of long-term loans payable	(80)	(71)
Repayment of lease obligations	(118)	(149)
Purchase of treasury stock	(1,035)	(1,090)
Proceeds from disposal of treasury stock	0	0
Payment of dividends	(3,979)	(4,260)
Cash flows from financing activities	(5,214)	(5,571)
Increase (decrease) in cash and cash equivalents	3,493	1,634
Cash and cash equivalents at beginning of year	23,126	26,620
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	538
Cash and cash equivalents at end of year	*1 26,620	*1 28,793

[Notes to Financial Statements]

(Basis of Presenting the Consolidated Financial Statements)

1. Scope of Consolidation

Consolidated subsidiaries (5 companies):

TLP Corporation

TKC Security Services Co., Ltd.

SKYCOM Corporation

TKC Customer Support Service Co., Ltd.

TKC Shuppan Corporation

Note that TKC Financial Guarantee Co., Ltd. was dissolved in the current consolidated fiscal year due to a merger and absorption with TKC as the surviving company.

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.

Note that TKC Financial Guarantee Co., Ltd. was dissolved in the current consolidated fiscal year due to a merger and absorption with TKC as the surviving company.

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)

a. 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.

(v) Provisions for loss on guarantees

In order to prepare for losses due to guarantees, etc., we record estimated amount of losses that will be incurred, taking into consideration the financial situation of the guaranteed parties.

(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 Group Tax Sharing System

The Group Tax Sharing System is applied.

(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	243	157

(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)

(Accounting Standard for Current Income Taxes, etc.)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022, Accounting Standards Board of Japan (ASBJ))
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022, Accounting Standards Board of Japan (ASBJ))
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022, Accounting Standards Board of Japan (ASBJ))

(1) Overview

In February 2018 the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28), etc. (hereinafter "ASBJ Statement No. 28, etc.") were issued and the transfer of the Practical Guidance concerning tax effect accounting in the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan (ASBJ) was completed, but in the process of the deliberations it was decided to consider the following two points for discussion again after the issuance of ASBJ Statement No. 28, etc. and these points were deliberated on and issued.

- Recording categories of tax expenses (taxation on other comprehensive income)
- The tax effect pertaining to the sale of the shares of subsidiaries, etc. (the shares of subsidiaries or the shares of affiliated companies) in the case that the group income tax system has been applied

(2) Planned date of application

We plan to apply the accounting standards, etc. from the beginning of the fiscal year ending September 2025.

(3) The impact of the application of these accounting standards, etc.

The amount of the impact on the consolidated financial statements due to application of the Accounting Standard for Current Income Taxes, etc. is being evaluated at the current time.

(Changes in Method of Presentation)

(Consolidated Statements of Income)

The "Treasury stock acquisition expenses" included in "Other" under "Non-operating expenses" in the previous consolidated fiscal year exceeded ten-hundredth of the total amount of non-operating expenses, so they are presented as an independent item from the current consolidated fiscal year. To reflect this change in method of presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

As a result, the 1 million yen presented in "Other" under "Non-operating expenses" in the Consolidated Statements of Income for the previous consolidated fiscal year has been reclassified as "Treasury stock acquisition expenses" of 0 million yen and "Other" of 0 million yen.

(Additional Information)

(Stock-based compensation plan for officers)

1. Outline of transaction

Based on a resolution at the Meeting of the Board of Directors held on October 31, 2018, which was approved at the Ordinary General Meeting of Shareholders held on December 21, 2018, the Company introduced a stock-based compensation plan called the "BIP Trust." The objectives of the plan are to clarify the correlation between the Company's shareholder value and the remuneration for Directors, etc., and to motivate Directors, etc., to contribute more to enhancing our medium- to long-term corporate value by sharing a common interest with shareholders, including not only the benefits of rising share prices but also the risks associated with declining share prices.

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 whose members are independent Outside Directors and outside experts, and it was 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, 2022)	Current consolidated fiscal year (September 30, 2023)
	23,482 million yen	24,548 million yen

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

	Previous consolidated fiscal year (September 30, 2022)	Current consolidated fiscal year (September 30, 2023)
Investment securities (shares)	103 million yen	59 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, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
	(76) million yen	(51) million yen

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Salaries	11,855 million yen	12,113 million yen
Provisions for bonuses	3,902	3,674
Retirement benefit expenses	1,024	1,102
Provisions for stocks payment	26	35
Depreciation	700	648
Rent expenses	2,541	2,513

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Machinery, equipment & vehicles	1 million yen	0 million yen
Tools, furniture & fixtures	0	0
Other	1	0
Total	3	1

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Tools, furniture & fixtures	0	—

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Buildings & structures	1 million yen	3 million yen
Machinery, equipment & vehicles	0	0
Tools, furniture & fixtures	7	3
Intangible assets	20	13
Other (Investments and other assets)	0	—
Total	30	19

(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, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Valuation difference on available-for-sale securities:		
Increase/decrease during the fiscal year	(845) million yen	3,165 million yen
Reclassification adjustments	—	15
Amount before tax	(845)	3,180
Tax effect	256	(971)
Valuation difference on available-for-sale securities	(588)	2,209
Remeasurements of defined benefit plans, net of tax:		
Increase/decrease during the fiscal year	—	—
Reclassification adjustments	250	250
Amount before tax	250	250
Tax effect	(76)	(76)
Remeasurements of defined benefit plans	174	174
Total other comprehensive income	(414)	2,383

(Notes to Consolidated Statements of Changes in Equity)

Previous 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

None to be disclosed.

3. Dividends

(1) Dividend payments

Resolution	Class of shares	Total amount of cash dividends (millions of 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	Class of shares	Total amount of cash dividends (millions of 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.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

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	—	2,956	531,664
Total	534,620	—	2,956	531,664
Treasury stock				
Common stock	10,354	2,999	3,156	10,197
Total	10,354	2,999	3,156	10,197

(Notes) 1. The 2,956 hundred share decrease in issued common shares is due to the retirement of treasury stock.
2. The 2,999 hundred share increase in common treasury stock resulted from 2,956 hundred shares through acquisition of treasury stock based on resolution of the Board of Directors, and 43 hundred shares from purchase of fractional unit shares.
3. The 3,156 hundred share decrease in common treasury stock resulted from retirement of treasury stock of 2,956 hundred shares, allotment issuance of 199 hundred shares arising from merging/absorbing, and sales of 0 hundred fractional unit shares.
4. 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

None to be disclosed.

3. Dividends

(1) Dividend payments

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
December 16, 2022 Ordinary General Meeting of Shareholders	Common stock	2,210	42.00	September 30, 2022	December 19, 2022
May 12, 2023 Meeting of the Board of Directors	Common stock	2,052	39.00	March 31, 2023	June 12, 2023

(Notes) 1. 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.
2. The total amount of cash dividends determined by resolution of the Board of Directors on May 12, 2023 includes a cash dividend of 8 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	Class of shares	Total amount of cash dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
December 15, 2023 Ordinary General Meeting of Shareholders	Common stock	2,669	Retained earnings	51.00	September 30, 2023	December 18, 2023

(Note) The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 15, 2023 includes a cash dividend of 10 million yen to the stocks of the Company owned by the BIP Trust.

(Notes to Consolidated Statements of Cash Flows)

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Cash and deposits	29,920 million yen	32,093 million yen
Time deposits with deposit period longer than three months	(3,300)	(3,300)
Cash and cash equivalents	26,620	28,793

(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, 2022)	Current consolidated fiscal year (September 30, 2023)
Within one year	291	285
Over 1 year	483	515
Total	775	800

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, 2022)	Current consolidated fiscal year (September 30, 2023)
Current assets	362	154
Investments and other assets	198	44

(2) Lease obligations

(Unit: million yen)

	Previous consolidated fiscal year (September 30, 2022)	Current consolidated fiscal year (September 30, 2023)
Current liabilities	362	154
Non-current liabilities	198	44

(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, 2022)

	Amount recorded in consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Differences (millions of 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)

Current consolidated fiscal year (September 30, 2023)

	Amount recorded in consolidated balance sheet (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
(1) Investment securities	21,878	21,880	1
(2) Long-term deposits	18,700	18,132	(567)
Total assets	40,578	40,012	(565)

(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	Previous consolidated fiscal year (September 30, 2022)	Current consolidated fiscal year (September 30, 2023)
Other securities (unlisted equity securities)	112	112
Stocks of subsidiaries and affiliates	103	59
Total	216	171

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

Previous consolidated fiscal year (September 30, 2022)

	Within 1 year (millions of yen)	Over 1 year Within 5 years (millions of yen)	Over 5 years Within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	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 time deposits	—	6,000	11,700	—
Total	37,844	7,400	16,200	9,000

Current consolidated fiscal year (September 30, 2023)

	Within 1 year (millions of yen)	Over 1 year Within 5 years (millions of yen)	Over 5 years Within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	32,081	—	—	—
Notes receivable–trade	50	—	—	—
Accounts receivable–trade	8,332	—	—	—
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	1,500	—	—
Other securities with maturity				
Corporate bonds	—	500	4,100	9,000
Long-term time deposits	—	7,000	11,700	—
Total	40,464	9,000	15,800	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

Previous 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

Current consolidated fiscal year (September 30, 2023)

Classification	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stocks	7,649	—	—	7,649
Corporate bonds	—	12,729	—	12,729
Total assets	7,649	12,729	—	20,378

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

Previous 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 time deposits	—	17,303	—	17,303
Total assets	—	18,203	—	18,203

Current consolidated fiscal year (September 30, 2023)

Classification	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Held-to-maturity securities				
Corporate bonds	—	1,501	—	1,501
Long-term time deposits	—	18,132	—	18,132
Total assets	—	19,634	—	19,634

(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 time 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, 2022)

	Class	Book value in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Differences (millions of 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

Current consolidated fiscal year (September 30, 2023)

	Class	Book value in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
Securities for which the fair values exceed the amounts in the consolidated balance sheets	Corporate bonds	1,500	1,501	1
	Subtotal	1,500	1,501	1
Securities for which the fair values do not exceed the amounts in the consolidated balance sheets	Corporate bonds	—	—	—
	Subtotal	—	—	—
Total		1,500	1,501	1

2. Other securities

Previous consolidated fiscal year (September 30, 2022)

	Class	Book value in consolidated balance sheets (millions of yen)	Original purchase value (millions of yen)	Differences (millions of yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	4,126	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.

Current consolidated fiscal year (September 30, 2023)

	Class	Book value in consolidated balance sheets (millions of yen)	Original purchase value (millions of yen)	Differences (millions of yen)
Securities for which the amounts in the consolidated balance sheets exceeds the original purchase value	(1) Stocks	7,655	3,631	4,024
	(2) Bonds			
	Corporate bonds	—	—	—
	Subtotal	7,655	3,631	4,024
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	—	—	—
	(2) Bonds			
	Corporate bonds	12,729	13,739	(1,009)
	Subtotal	12,729	13,739	(1,009)
Total		20,385	17,370	3,015

(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, 2021; ended September 30, 2022)

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

Class	Price sold (millions of yen)	Total gain from sales (millions of yen)	Total loss from sales (millions of yen)
(1) Stocks	38	15	—
(2) Bonds			
Corporate bonds	—	—	—
Subtotal	38	15	—

4. Securities for which impairment loss are recognized

None to be disclosed.

(Derivatives)

1. Derivative transactions for which hedge accounting is not applied

   None to be disclosed.

2. Derivative transactions for which hedge accounting is applied

   None to be disclosed.

(Retirement Benefits)

1. Overview of the retirement benefit system in use

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

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

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

2. Defined benefit retirement plan

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Retirement benefit obligations at beginning of year	8,702 million yen	8,947 million yen
Service costs	428	450
Interest costs	—	—
Actuarial differences	87	130
Retirement benefits paid	(271)	(442)
Balance of retirement benefit obligations at end of year	8,947	9,085

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Balance of pension assets at beginning of year	5,148 million yen	6,140 million yen
Expected returns	—	—
Actuarial differences	(7)	(11)
Contributions by employer	1,000	—
Retirement benefits paid	—	—
Balance of pension assets at end of year	6,140	6,129

(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, 2022)	Current consolidated fiscal year (September 30, 2023)
Contributory retirement benefit obligations	8,233 million yen	8,441 million yen
Pension assets	(6,140)	(6,129)
	2,092	2,311
Non-contributory retirement benefit obligations	713	644
Net obligations and assets in the consolidated balance sheets	2,806	2,956
Retirement benefit liabilities	2,806	2,956
Net obligations and assets in the consolidated balance sheets	2,806	2,956

(4) Retirement benefit expenses and breakdown

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Service costs	428 million yen	450 million yen
Interest costs	—	—
Expected returns	—	—
Amount of actuarial differences treated as expenses	95	142
Amount of past service costs treated as expenses	250	250
Retirement benefit expenses under the defined retirement benefit plan	774	843

(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, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
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, 2022)	Current consolidated fiscal year (September 30, 2023)
Unrecognized past service costs	(1,739) million yen	(1,488) million yen
Total	(1,739)	(1,488)

(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, 2022)	Current consolidated fiscal year (September 30, 2023)
Bonds	80%	72%
Cash and deposits	20	28
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, 2022)	Current consolidated fiscal year (September 30, 2023)
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 298 million yen for the previous consolidated fiscal year, and 306 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 138 million yen in the previous consolidated fiscal year and 139 million yen in the current consolidated fiscal year.

(1) Reserve fund for multiemployer pension plan

	Previous consolidated fiscal year (March 31, 2022)	Current consolidated fiscal year (March 31, 2023)
Pension assets	273,942 million yen	268,557 million yen
Actuarial liabilities based on pension plan finance calculation	221,054	216,477
Differences	52,887	52,079

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

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

Current consolidated fiscal year: 2.33% (Started April 1, 2022; ended March 31, 2023)

(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, 2022)	Current consolidated fiscal year (September 30, 2023)
Deferred tax assets		
Software development costs	2,956 million yen	3,275 million yen
Provisions for bonuses	1,531	1,487
Retirement benefit liabilities	352	472
Retirement benefit trust	1,872	1,869
Accumulated remeasurements of defined benefit plans	531	455
Retirement bonuses for directors payable	17	12
Accrued business tax	183	159
Loss on valuation of investment securities	190	175
Legal welfare expenses corresponding to provisions for bonuses	229	226
Asset retirement obligations	119	120
Impairment losses	115	113
Provisions for stocks payment	93	104
Valuation difference on available-for-sale securities	81	—
Other	415	441
Subtotal	8,691	8,914
Valuation allowance	(582)	(567)
Total deferred tax assets	8,108	8,346
Deferred tax liabilities		
Business tax refund	2	2
Retirement expenses corresponding to asset retirement obligations	37	34
Valuation difference on available-for-sale securities	26	916
Other	9	9
Total deferred tax liabilities	75	963
Net deferred tax assets	8,032	7,383

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, 2022)	Current consolidated fiscal year (September 30, 2023)
Statutory income tax rate	30.5%	30.5%
(Adjusted)		
Inhabitant tax on per capita basis	0.5	0.5
Entertainment expenses, etc. not deductible for tax purposes	0.8	0.3
Tax deductions under the tax system to encourage wage rises	—	(1.7)
Other	(0.1)	(1.1)
Income tax rate after applying tax effect accounting	31.7	28.5

3. Accounting processing of income taxes and local corporate taxes, and the accounting processing of the tax effect accounting concerning these taxes

The Company and its consolidated subsidiaries have been applying the Group Tax Sharing System since the current consolidated fiscal year. Furthermore, the Company and its consolidated subsidiaries have been carrying out accounting processing of income taxes and local corporate taxes, and the accounting processing of the tax effect accounting concerning these taxes in accordance with the “Practical Solution on Accounting and Disclosure Under the Group Tax Sharing System” (ABSJ Practical Solution No. 42, issued August 12, 2021).

(Asset Retirement Obligations)

Previous consolidated fiscal year (ended September 30, 2022) and current consolidated fiscal year (ended September 30, 2023)

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 categories of goods and services:

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

(Unit: million yen)

	Reportable segment			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

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

(Unit: million yen)

	Reportable segment			Total
	Accounting Firm Business	Local Governments Business	Printing Business	
Revenue from computer services	16,563	9,490	—	26,053
Software sales	19,494	6,306	—	25,801
Revenue from consulting	7,394	1,668	—	9,062
Office equipment sales	4,228	2,891	—	7,120
Accounting supplies sales	1,068	—	—	1,068
Revenue from printing-related services	—	—	2,808	2,808
Sales to outside customers	48,749	20,357	2,808	71,915

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 previous consolidated fiscal year, revenue included in the opening balance of contract liabilities is 673 million yen. Furthermore, of the amount of revenue recognized during the current consolidated fiscal year, revenue included in the opening balance of contract liabilities is 896 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 2,976 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, 2021; ended September 30, 2022)

(Unit: million yen)

	Reportable segment			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, property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation of such expenses.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

(Unit: million yen)

	Reportable segment			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	48,749	20,357	2,808	71,915	—	71,915
Inter-segment sales or transfers	7	0	2,463	2,471	(2,471)	—
Total	48,757	20,357	5,272	74,386	(2,471)	71,915
Segment profit	11,139	3,059	127	14,326	11	14,338
Segment assets	29,876	12,162	5,941	47,979	68,377	116,356
Other items						
Depreciation (Note 3)	2,059	1,091	383	3,534	(0)	3,533
Investments in affiliated company under the equity method	59	—	—	59	—	59
Increase in property, plant and equipment and intangible assets (Note 3)	2,914	2,784	302	6,002	—	6,002

(Notes) 1. Adjustments are as follows:

(1) Adjustments of segment profit of 11 million yen include 6 million yen for elimination of inter-segment transactions and 4 million yen for adjustments of inventory assets.

(2) Adjustments of segment assets of 68,377 million yen include 69,439 million yen of corporate assets that are not allocated to specific reportable segments, and -1,061 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, property, plant and equipment and intangible assets include long-term prepaid expenses and depreciation of such expenses.

[Related information]

Previous 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.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

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, 2021; ended September 30, 2022)

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

None to be disclosed.

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

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

None to be disclosed.

[Information on gain on negative goodwill by reportable segments]

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

None to be disclosed.

[Related Parties Information]

1 Related Parties Transactions

(1) Transactions between the Company and related parties

Previous consolidated fiscal year (Started October 1, 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 (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated company	iMobile Inc.	Shibuya-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development & 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 (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Companies in which 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.

Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)

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

Class	Company name or name of individual	Address	Capital or investments (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated company	iMobile Inc.	Shibuya-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development & maintenance of website services	Recovery of funds (Note) Receiving of interests (Note)	55 1	Loans receivables	65

(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 (millions of yen)	Item	Year-end balance (millions of yen)
Companies in which officers and near relatives hold majority voting rights	Certified public tax accounting firm Kato Accounting Office (Note 2)	Sapporo-shi, Hokkaido	6	Certified public tax accounting firm	—	Rendering of information processing services, etc.	Rendering of information processing services, etc. (Note 1)	19	Accounts receivable –trade	3
	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)	19	Accounts receivable –trade	2
	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)	30	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)	18	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. Keiichiro Kato, 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

None to be disclosed.

2 Notes on the Parent Company and Important Affiliated Companies

(1) Information on the parent company

None to be disclosed.

(2) Summary of financial information of important affiliated companies

None to be disclosed.

(Earnings Per Share Information)

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Net assets per share	1,665.68 yen	1,827.70 yen
Net income per share	177.62 yen	206.54 yen

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

2. The number of treasury stocks at end of year and the average number of stocks outstanding used in the calculation of the earnings per share information has been determined by including the stocks of the Company held by the BIP Trust (which was established with the introduction of the BIP Trust plan) as deductible treasury stocks.

The number of said treasury stocks at end of year deducted for the calculation of net assets per share was 206,000 shares for the previous consolidated fiscal year, and 206,000 shares for the current consolidated fiscal year.

The average numbers of said treasury stocks outstanding deducted for the calculation of net income per share were 212,918 shares for the previous consolidated fiscal year, and 206,000 shares for the current consolidated fiscal year.

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

	Previous consolidated fiscal year (Started October 1, 2021; ended September 30, 2022)	Current consolidated fiscal year (Started October 1, 2022; ended September 30, 2023)
Net income per share		
Net income attributable to owners of parent (millions of yen)	9,317	10,826
Amount not attributable to common shareholders (millions of yen)	—	—
Net income from common stocks attributable to owners of parent (millions of yen)	9,317	10,826
Average number of common stocks outstanding (hundreds of shares)	524,527	524,174

(Material subsequent events)

None to be disclosed.

(v) [Supplementary Schedules]

[Schedule – Corporate Bonds]

None to be disclosed.

[Schedule – Borrowings]

Classification	Balance at beginning of year (millions of yen)	Balance at end of year (millions of yen)	Average interest rate (%)	Terms of repayment
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	71	71	0.59	—
Current portion of lease obligations	492	283	—	—
Long-term loans payable (excluding current portion)	142	71	0.59	October 5, 2023 - September 10, 2025
Lease obligations (excluding current portion)	481	391	—	October 9, 2023 - February 22, 2029
Other interest-bearing debts				
Accounts payable–installment purchases	1	—	—	—
Total	1,190	817	—	—

(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 (millions of yen)	Due after 2 years but within 3 years (millions of yen)	Due after 3 years but within 4 years (millions of yen)	Due after 4 years but within 5 years (millions of yen)
Long-term loans payable	71	—	—	—
Lease obligations	154	94	87	42
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)	16,908	36,050	53,862	71,915
Quarterly (current FY) net income before income taxes (million yen)	4,169	8,849	13,972	15,135
Quarterly (current FY) net income attributable to owners of parent (million yen)	2,890	6,134	9,755	10,826
Quarterly (current FY) net income per share (yen)	55.12	117.01	186.06	206.54

(Accounting period)	First 3 months	First 6 months	First 9 months	4th quarter
Quarterly net income per share (yen)	55.12	61.89	69.04	20.45

2 [Non-Consolidated Financial Statements, etc.]

(1) [Non-Consolidated Financial Statements]

(i) [Balance Sheets]

(Unit: million yen)

	Previous fiscal year (September 30, 2022)	Current fiscal year September 30, 2023
Assets		
Current assets		
Cash and deposits	25,071	27,032
Accounts receivable–trade	*1 7,338	*1 7,525
Contract assets	391	301
Lease investment assets	362	154
Merchandise	110	66
Work in progress	0	0
Raw materials and supplies	96	101
Prepaid expenses	818	925
Accounts receivable–other	*1 160	*1 23
Other	*1 741	*1 809
Allowance for doubtful accounts	(11)	(18)
Total current assets	35,080	36,922
Non-current assets		
Property, plant, and equipment		
Buildings	6,449	6,372
Structures	162	156
Vehicles	13	8
Tools, furniture & fixtures	1,750	1,961
Land	6,525	6,637
Total property, plant, and equipment	14,900	15,136
Intangible assets		
Software	3,020	2,941
Software in progress	1,565	2,789
Telephone subscription rights	22	22
Other	0	0
Total intangible assets	4,608	5,754
Investments and other assets		
Investment securities	18,380	21,700
Stocks of subsidiaries and affiliates	1,389	1,289
Investments in capital	0	0
Long-term loans receivable	*1 65	*1 19
Long-term prepaid expenses	393	310
Deferred tax assets	6,809	6,271
Long-term time deposits	17,500	18,500
Guarantee deposits	1,391	1,357
Long-term lease investment assets	198	44
Other	58	107
Allowance for doubtful accounts	—	(12)
Total investments and other assets	46,186	49,587
Total non-current assets	65,696	70,478
Total assets	100,776	107,401

(Unit: million yen)

	Previous fiscal year (September 30, 2022)	Current fiscal year September 30, 2023
Liabilities		
Current liabilities		
Accounts payable–trade	*1 2,847	*1 2,682
Lease obligations	362	154
Accounts payable–other	*1 1,804	*1 2,100
Income taxes payable	3,132	2,307
Accrued business office taxes	57	59
Accrued consumption taxes	732	637
Contract liabilities	1,104	1,210
Advances received	392	514
Deposits received	347	443
Provisions for bonuses	4,430	4,280
Provisions for loss on construction contracts	65	14
Accounts payable–facilities	*1 223	*1 60
Total current liabilities	15,500	14,464
Non-current liabilities		
Lease obligations	198	44
Provisions for retirement benefits	382	849
Provisions for stocks payment	306	341
(5) Provisions for loss on guarantees	—	3
Other	394	409
Total non-current liabilities	1,282	1,648
Total liabilities	16,783	16,113
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus		
Legal capital surplus	5,409	5,409
Other capital surplus	302	—
Total capital surplus	5,712	5,409
Retained earnings		
Legal retained earnings	688	688
Other retained earnings		
General reserve	67,157	72,157
Retained earnings brought forward	7,255	7,909
Total retained earnings	75,101	80,755
Treasury stock	(2,359)	(2,604)
Total shareholders' equity	84,153	89,260
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(160)	2,027
Total valuation and translation adjustments	(160)	2,027
Total net assets	83,993	91,288
Total liabilities and net assets	100,776	107,401

(ii) [Statement of Income]

(Unit: million yen)

	Previous fiscal year (Started October 1, 2021; ended September 30, 2022)	Current fiscal year (Started October 1, 2022; ended September 30, 2023)
Net sales	*1 63,570	*1 67,660
Cost of sales	*1 17,788	*1 19,422
Gross profit	45,781	48,238
Selling, general, and administrative expenses	*1, *2 32,895	*1, *2 34,556
Operating income	12,886	13,681
Non-operating income		
Interest income	*1 69	*1 66
Dividend income	*1 190	*1 190
Land and house rent received	*1 158	*1 156
Subsidy income	9	10
Other	*1 78	*1 57
Total non-operating income	507	480
Non-operating expenses		
Cost of lease revenue	103	103
Other	0	1
Total non-operating expenses	103	104
Ordinary income	13,290	14,057
Extraordinary income		
Gain on sale of non-current assets	1	0
Gain on extinguishment of tie-in shares	—	365
Other	—	0
Total extraordinary income	1	366
Extraordinary loss		
Loss on sale of non-current assets	0	—
Loss on retirement of non-current assets	28	10
Total extraordinary loss	28	10
Net income before taxes	13,264	14,413
Income taxes–current	4,775	4,501
Income taxes–deferred	(587)	(422)
Total income taxes	4,187	4,078
Net income	9,076	10,334

[Report on cost of sales]

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

Classification	Note	56th Term (Started October 1, 2021; ended September 30, 2022) Amount (million yen)		Ratio (%)	57th Term (Started October 1, 2022; ended September 30, 2023) Amount (million yen)		Ratio (%)
I Materials costs			4,555	30.2		4,846	29.4
II Labor costs	*1		3,475	23.0		3,466	21.0
III Expenses							
1. Computer rental expenses		405			514		
2. Maintenance contracts		1,276			1,314		
3. Depreciation		690			686		
4. Repairs and maintenance expenses		686			665		
5. Supplies expenses		1,101			1,005		
6. Other		2,896	7,057	46.8	3,994	8,180	49.6
Total expenses			15,089	100.0		16,494	100.0
Works in progress and inventories at beginning of year			0			0	
Transfers from other accounts	*2		1,294			1,818	
Total			16,384			18,313	
Works in progress and inventories at end of year			0			0	
Transfers to other accounts	*3		2,446			3,039	
Cost of sales on information processing, software and consulting services			13,936			15,273	

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

Provision for bonuses: 1,010 million yen (905 million yen)

Retirement benefit expenses: 131 million yen (128 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	56th Term (Started October 1, 2021; ended September 30, 2022) Amount (million yen)	Ratio (%)	57th Term (Started October 1, 2022; ended September 30, 2023) Amount (million yen)	Ratio (%)
I Inventories at beginning of year		77	2.0	110	2.6
II Purchases		3,884	98.0	4,104	97.4
Total		3,962	100.0	4,215	100.0
III Inventories at end of year		110		66	
Cost of sales on office equipment and supplies		3,851		4,148	

(iii) [Statement of Changes in Equity]

Previous 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	Shareholders' equity Total	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

Current fiscal year (Started October 1, 2022 ended September 30, 2023)

(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	5,712	688	67,157	7,255	75,101
Changes during fiscal year								
General reserve						5,000	(5,000)	—
Dividends of surplus							(4,263)	(4,263)
Net income							10,334	10,334
Acquisition of treasury stock								
Disposal of treasury stock			0	0				
Retirement of treasury stock			(381)	(381)			(416)	(416)
Increase due to merger			78	78				
Changes in items other than equity (net)								
Total changes during fiscal year	—	—	(302)	(302)	—	5,000	654	5,654
Balance at end of year	5,700	5,409	—	5,409	688	72,157	7,909	80,755

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Shareholders' equity Total	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(2,359)	84,153	(160)	(160)	83,993
Changes during fiscal year					
General reserve		—			—
Dividends of surplus		(4,263)			(4,263)
Net income		10,334			10,334
Acquisition of treasury stock	(1,089)	(1,089)			(1,089)
Disposal of treasury stock	0	0			0
Retirement of treasury stock	798	—			—
Increase due to merger	47	125			125
Changes in items other than equity (net)			2,187	2,187	2,187
Total changes during fiscal year	(244)	5,107	2,187	2,187	7,294
Balance at end of year	(2,604)	89,260	2,027	2,027	91,288

[Notes to Financial Statements]

(Principal Accounting Policies)

1. Standards and methods used for the valuation of assets

(1) Standards and methods used for the valuation of securities

(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.

(6) Provisions for loss on guarantees

In order to prepare for losses due to guarantees, etc., we record estimated amount of losses that will be incurred, taking into consideration the financial situation of the guaranteed parties.

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 Group Tax Sharing System

The Group Tax Sharing System is applied.

(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.

(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, 2022)	Current fiscal year (September 30, 2023)
Short-term monetary claims on affiliated companies	278 million yen	86 million yen
Long-term monetary claims on affiliated companies	65	5
Short-term monetary liabilities on affiliated companies	430	481

(Notes to Statement of Income)

*1. Volume of transactions with affiliated companies

	Previous fiscal year (Started October 1, 2021; ended September 30, 2022)	Current fiscal year (Started October 1, 2022; ended September 30, 2023)
Volume of trading transactions		
Net sales	76 million yen	47 million yen
Purchases	3,203	3,309
Operating expenses	2,530	2,774
Volume of non-operating transactions	125	126

*2 The approximate percentages of expenses under selling expenses were 47.5% for the previous fiscal year and 46.6% for the current fiscal year; percentages of expenses under general and administrative expenses were 52.5% and 53.4%, respectively.

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

	Previous fiscal year (Started October 1, 2021; ended September 30, 2022)	Current fiscal year (Started October 1, 2022; ended September 30, 2023)
Salaries	10,101 million yen	10,272 million yen
Provisions for bonuses	3,524	3,269
Retirement benefit expenses	937	1,009
Provisions for stocks payment	26	35
Depreciation	589	542
Rent expenses	2,382	2,357

(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 1,289 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, 2022)	Current fiscal year (September 30, 2023)
Deferred tax assets		
Software development costs	2,730 million yen	3,047 million yen
Provisions for bonuses	1,351	1,305
Provisions for retirement benefits	116	258
Retirement benefit trust	1,872	1,869
Accrued business tax	174	147
Loss on valuation of investment securities	229	214
Legal welfare expenses corresponding to provisions for bonuses	202	199
Asset retirement obligations	106	107
Impairment losses	112	112
Provisions for stocks payment	93	104
Other	428	374
Subtotal	7,418	7,741
Valuation allowance	(578)	(563)
Total deferred tax assets	6,839	7,178
Deferred tax liabilities		
Valuation difference on available-for-sale securities	—	878
Retirement expenses corresponding to asset retirement obligations	30	28
Total deferred tax liabilities	30	906
Net deferred tax assets	6,809	6,271

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, 2022)	Current fiscal year (September 30, 2023)
Statutory income tax rate	30.5%	30.5%
(Adjusted)		
Inhabitant tax on per capita basis	0.5	0.5
Entertainment expenses, etc. not deductible for tax purposes	0.8	0.3
Dividends received, etc. to be excluded from gross revenue	(0.1)	(0.1)
Tax deductions under the tax system to encourage wage rises	—	(1.8)
Other	(0.1)	(1.1)
Income tax rate after applying tax effect accounting	31.6	28.3

3. Accounting processing of income taxes and local corporate taxes, and the accounting processing of the tax effect accounting concerning these taxes

The Company has been applying the Group Tax Sharing System since the current fiscal year. Furthermore, the Company and its consolidated subsidiaries have been carrying out accounting processing of income taxes and local corporate taxes, and the accounting processing of the tax effect accounting concerning these taxes in accordance with the "Practical Solution on Accounting and Disclosure Under the Group Tax Sharing System" (ABSJ Practical Solution No. 42, issued August 12, 2021).

(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)

None to be disclosed.

(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	6,449	338	2	413	6,372	11,977
	Structures	162	11	—	17	156	560
	Vehicles	13	—	0	4	8	43
	Tools, furniture & fixtures	1,750	941	2	728	1,961	6,100
	Land	6,525	112	—	—	6,637	—
	Total property, plants & equipment	14,900	1,404	4	1,163	15,136	18,682
Intangible assets	Software	3,020	1,872	—	1,951	2,941	2,865
	Software in progress	1,565	2,383	1,159	—	2,789	—
	Telephone subscription rights	22	—	—	—	22	—
	Other	0	0	—	0	0	0
	Total intangible assets	4,608	4,256	1,159	1,951	5,754	2,865

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

(Amounts of increase)

Buildings	Acquisition of TISC PAC Dehumidifiers	151 million yen
Tools, furniture & fixtures	Acquisition of storage for cloud shared infrastructure	382 million yen
	Acquisition of equipment for eLTAX national tax-integrated storage, etc.	257 million yen
	Acquisition of eLTAX inspection systems equipment	67 million yen
Software	Development costs of software for sale	556 million yen
	Development costs of software for internal use	1,266 million yen
	Acquisition of software purchased from outside	12 million 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	11	31	11	31
Provisions for bonuses	4,430	4,280	4,430	4,280
Provisions for loss on construction contracts	65	14	65	14
Provisions for stocks payment	306	35	—	341
Provisions for loss on guarantees	—	3	—	3

(2) [Major Assets and Liabilities]

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

(3) [Other]

None to be disclosed.

Part 6 [Stock-related Administration of the Company]

Fiscal year	From October 1 to September 30
Ordinary General Meeting of Shareholders	December
Record date	September 30
Record dates for dividends of surplus	September 30 March 31
Number of shares in one unit	100 shares
Buyback or sale of shares less than one unit	
Place of handling	(Special account) 1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation, Stock Transfer Agency Division
Administrator of shareholder registry	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Forwarding office	―――――――
Handling charges for buyback or sale	―――――――
Method of giving public notice	By means of electronic public notice. However, in the event that electronic notice is not possible due to incidents or other unavoidable circumstances, public notices will be posted in the Nihon Keizai Shimbun. TKC's website for public notices: https://www.tkc.jp/
Shareholder privileges	None to be disclosed.

(Note) In accordance with the provisions of TKC Corporation's Articles of Incorporation, holders of shares less than one unit shall have no rights other than: rights listed in the items of Article 189, Paragraph 2 of the Companies Act of Japan; rights to receive allotment of shares for subscription and subscription rights to shares based on the number of shares they hold; and rights to request the sale of shares less than one unit.

Part 7 [Reference Information on the Company]

1 [Information on the Parent Company]

TKC Corporation does not have a parent company as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

2 [Other Reference Information]

TKC Corporation has filed the following documents, originally written in Japanese, between the beginning of the current fiscal year and the filing date of this Annual Securities Report.

(1) Annual Securities Report, Appendices and Confirmation Letter

Fiscal year (56th Term) (started October 1, 2021; ended September 30, 2022), submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 19, 2022

(2) Internal Control Report and Appendices

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

(3) Quarterly Securities Reports and Confirmation Letters

First quarter of 57th Term (started October 1, 2022; ended December 31, 2022), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on February 13, 2023.

Second quarter of 57th Term (started January 1, 2023; ended March 31, 2023), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on May 15, 2023.

Third quarter of 57th Term (started April 1, 2023; ended June 30, 2023), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on August 14, 2023.

(4) Extraordinary Reports

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

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 18, 2023

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.

(5) Report on repurchase

Reporting period (started September 1, 2023; ended September 30, 2023), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on October 13, 2023.

Section 2 [Information on Guarantors, etc., of the Company]

None to be disclosed.

Independent Auditors' Audit Report and Internal Control Audit Report

December 18, 2023

Kabushiki Kaisha TKC

To: The Board of Directors

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, 2022 and ended September 30, 2023.

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, 2023, 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.

Existence and 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 6,306 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. Management may be under excessive pressure to achieve performance targets and the intangibility of for-sale and made-to-order software makes it difficult to physically ascertain the actual state of transactions or when the services are completed; therefore, there is a risk that management will record fictitious sales in order to achieve performance targets and a risk that they will bring forward the recording of transactions to undergo acceptance inspections in the following consolidated fiscal year or later to present them as sales in the current consolidated fiscal year. As such, of the software sales by the Local Governments BD, we determined that the existence and the adequacy of cut-off of sales of such for-sale and made-to-order software were of particular materiality in our audit of the consolidated financial statements of the current consolidated fiscal year, and that it was a key audit matter.	To examine the existence and the adequacy of 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 existence and adequacy of cut-off of sales (i) In order to verify the existence of the sales from said software for sale and made-to-order software recorded in the current consolidated fiscal year, we implemented the following procedures. • We reviewed the written contracts, etc. for transactions extracted using sampling and verified that the net sales matched the contract amounts and recording times. • We reviewed the Accounts Receivable Summary Table as of the fiscal year-end and verified whether or not there were any important accounts receivable-trade which were unrecovered beyond a normal recovery period. (ii) In order to verify the adequacy of the cut-off of the sales from said software for sale and made-to-order software recorded in the current consolidated fiscal year, we verified for the transactions extracted using sampling that the inspection completion notices that were the basis for recording sales matched the sales recording times. (iii) We evaluated the adequacy of the actual cost incurred and total estimated cost that were the basis for determining the level of progress for such made-to-order software whose revenue was recognized over a certain period depending on the progress of satisfaction of performance obligations. (iv) We examined the journal entries to be recorded in the following consolidated fiscal year and verified whether there were material cancellations of sales of such for-sale and made-to-order software. (v) We cross-checked the inspection completion notices that were the basis for recording sales against the dates and amounts of sales in the sales management systems and accounting systems.

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 proper 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, 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 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, either 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, 2023 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, 2023 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, 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 and its engagement partners have no interest in the Company or its consolidated subsidiaries that should be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

End of document

(*) 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 18, 2023

Kabushiki Kaisha TKC

To: The Board of Directors

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 57th fiscal year started October 1, 2022 and ended September 30, 2023.

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, 2023, 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.

Existence and 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 (existence and 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 proper 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, either 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

(*) 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 18, 2023
[Company name]	*Kabushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	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 Agebacho, 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 of the Company, 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, 2023, 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]

None to be disclosed.

5 [Special Notes]

None to be disclosed.

[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 18, 2023
[Company name]	*Kabushiki Kaisha TKC*
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	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 Agebacho, 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 57th fiscal year (started October 1, 2022; ended September 30, 2023) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.