

Quarterly Report

(53rd Term 3rd Quarter)

Started April 1, 2019

Ended June 30, 2019

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

Table of Contents

[Front Cover].....	3
Section 1 [Information on the Company].....	4
Part 1 [Overview of the Company].....	4
1 [Key Financial Data].....	4
2 [Description of Business].....	4
Part 2 [Business Overview].....	5
1 [Risk Factors].....	5
2 [Management Analysis of Consolidated Financial Conditions, Operating Results, and Cash Flows].....	5
3 [Material Agreements, etc.].....	12
Part 3 [Information on the Company].....	13
1 [Information on the Company's Stock].....	13
(1) [Total number of shares, etc.].....	13
(2) [Share subscription rights, etc.].....	13
(3) [Exercise of bonds with share subscription rights containing a clause for exercise price adjustment, etc.].....	13
(4) [Changes in total number of issued shares, capital stock, etc.].....	13
(5) [Major shareholders].....	13
(6) [Voting rights].....	13
2 [Officers].....	14
Part 4 [Financial Information].....	15
1 [Quarterly Consolidated Financial Statements].....	15
(1) [Quarterly consolidated balance sheets].....	15
(2) [Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income].....	17
[Quarterly consolidated statements of income].....	17
[Quarterly consolidated statements of comprehensive income].....	18
2 [Other].....	25
Section 2 [Information on Guarantors, etc. of the Company].....	26
Quarterly Review Report of Independent Auditors.....	27

[Front Cover]

[Document filed]	Quarterly Report
[Applicable law]	Article 24-4-7, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	August 13, 2019
[Quarterly accounting period]	53rd Term 3rd Quarter (from April 1, 2019 to June 30, 2019)
[Company name]	<i>Kabushiki Kaisha TKC</i>
[Company name in English]	TKC Corporation
[Title and name of representative]	Kazuyuki Sumi, Representative Director, President and Executive Officer
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Phone number]	028-648-2111
[Contact person]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[Contact address]	2-1 Ageba-cho, Shinjuku-ku, Tokyo
[Phone number]	03-3235-5511
[Contact person]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

Term & Period		52nd Term 3rd Quarter consolidated cumulative period	53rd Term 3rd Quarter consolidated cumulative period	Fiscal 52nd Term
Accounting period		Started October 1, 2017; ended June 30, 2018	Started October 1, 2018; ended June 30, 2019	Started October 1, 2017; ended September 30, 2018
Net sales	(millions of yen)	45,289	47,721	61,621
Ordinary income	(millions of yen)	7,725	7,564	8,961
Quarterly (current) net income attributable to owners of parent	(millions of yen)	5,069	5,171	6,158
Quarterly comprehensive income or comprehensive income	(millions of yen)	5,114	4,242	6,517
Net assets	(millions of yen)	71,148	73,037	72,550
Total assets	(millions of yen)	83,979	88,922	90,202
Quarterly (current) net income per share	(yen)	192.17	196.46	233.46
Quarterly (current) diluted net income per share	(yen)	191.31	195.94	232.41
Equity ratio	(%)	82.7	80.4	78.6

Term & Period		52nd Term 3rd Quarter consolidated accounting period	53rd Term 3rd Quarter consolidated accounting period
Accounting period		Started April 1, 2018; ended June 30, 2018	Started April 1, 2019; ended June 30, 2019
Quarterly net income per share	(yen)	67.11	65.00

- (Notes) 1. Changes in key financial data, etc. of the Company are not stated here, as they are included in the Company's quarterly consolidated financial statements.
2. Net sales do not include consumption taxes (consumption tax and local consumption tax; hereinafter the same).
3. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the quarterly net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.

2 [Description of Business]

There are no significant changes in the description of business operated by the TKC Group (TKC Corporation and its affiliated companies) for the current 3rd quarter consolidated cumulative period. There are no changes in the major affiliated companies.

Part 2 [Business Overview]

1 [Risk Factors]

There are no risks pertaining to new business operations, etc. arisen during the current 3rd quarter consolidated cumulative period. There are no significant changes in risks regarding business operations, etc. described in the Annual Securities Report of the previous fiscal year.

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

I. Operating Results

The operating results for the current 3rd quarter consolidated cumulative period (hereinafter, “the current 3rd quarter”) of the consolidated Group comprising of TKC Corporation and its six consolidated subsidiaries recorded a net sales of 47,721 million yen (increased 5.4% year-on-year), operating income of 7,280 million yen (decreased 2.6% year-on-year), ordinary income of 7,564 million yen (decreased 2.1% year-on-year), and net income attributable to owners of parent of 5,171 million yen (increased 2.0% year-on-year).

This was attributable to increase in sales from computer services and software sales earned by the Accounting Firm Business Division due to increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of ASP1000R electronic tax filing system for corporations in response to the electronic filing of income taxes now mandated to large corporations, and to increase in sales from computer services earned by the Local Governments Business Division due to increase in number of organizations using our mission-critical systems.

The reasons for lower operating income and ordinary income compared to the previous fiscal year is due to the absence in the current 3rd quarter of extraordinary sales related to system revision works in response to the amendments to the My Number and National Health Insurance systems by the Local Governments BD which were recorded in the 3rd quarter of the previous fiscal year, and also due to the increase in depreciation of software related to the new offering of TASK Cloud Comprehensive Support System for Persons with Disabilities, etc.

Net sales for the current 3rd quarter by business division are shown below.

1. Results of operation of the Group for the 3rd Quarter

(1) Net sales of the Accounting Firm Business Division

Net sales of the Accounting Firm BD was 33,430 million yen (increased 3.8% year-on-year); operating income was 7,088 million yen (increased 3.7% year-on-year). The breakdown is as follows:

- (i) Sales from computer services increased by 3.9% year-on-year. This was attributable to the growth in number of users of the cloud service-based FX4 Cloud Integrated Accounting Information System for mid-sized companies, Office Management System (OMS Cloud) for Tax Accounting Firms, and OMS Mobile which provides accounting firms with a highly secure environment for mobile works.
- (ii) Software sales increased by 3.0% year-on-year. This is the result of increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of our electronic tax filing system for corporations (ASP1000R) in response to the electronic filing of income taxes now mandated to large corporations.
- (iii) Sales from consulting services decreased 3.7% year-on-year. This was due to decrease in revenues from client/server system launch support services and hardware maintenance as a result of growth in the number of users of FX4 Cloud, OMS Cloud and other systems.
- (iv) Hardware sales increased by 6.7% year-on-year. This was caused by increasing demands for PC replacements in response to the termination of Windows 7 support in January 2020.

(2) Net sales of the Local Governments Business Division

Net sales of the Local Governments BD was 11,322 million yen (increased 11.4% year-on-year); operating loss was 130 million yen (operating income of 338 million yen in 3rd quarter of the previous fiscal year). The breakdown is as follows:

- (i) Sales from computer services increased by 7.9% year-on-year. This was driven by the increased sales from outsourcing services and the use of TKC data centers generated by users of mission-critical systems newly ordered in the previous fiscal year, and the increase in the number of users of LGWAN cloud services such as the Convenience Store Certificate Issuing System and the Taxation Document Image Management System.

- (ii) Software sales decreased 9.2% year-on-year. This was due to the absence in the current 3rd quarter of sales from system revision works in response to amendments to the My Number, National Health Insurance and long-term care insurance systems which existed in the 3rd quarter of the previous fiscal year.
- (iii) Sales from consulting services increased 50.8% year-on-year. This was driven by increase of sales from orders for new systems from mission-critical system users received during the 3rd quarter of the previous fiscal year.
- (iv) Hardware sales increased by 115.0% year-on-year. This was derived from increase in the sales of servers and network devices in relation to the renewal of Registration Network System-related devices.

For the full year operating results, operating income is expected to exceed the previous fiscal year with the net sales from the system renewal project of the Local Taxes Electronic Filing Support Service (eLTAX) scheduled in the 4th quarter.

(3) Net sales of the Printing Business Division (Subsidiary: TLP Corporation)

Net sales of the Printing BU was 2,969 million yen (increased 2.2% year-on-year); operating income was 315 million yen (increased 8.5% year-on-year). The breakdown is as follows:

- (i) Sales of data printing service-related products increased by 9.6% year-on-year. This was attributable to winning of greater orders for direct mail productions from private enterprises, stable orders for business process outsourcing projects, orders related to nationwide local elections in April, orders for notice-related services from municipalities, and orders for notice-related services from extra-governmental organizations.
- (ii) Business form-related sales decreased by 0.9% year-on-year. This is due to ongoing decline in demands for business forms.

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

(1) Conclusion of business matching agreement with Joyo Bank, Ltd.

On April 2, 2019, the Company concluded a business matching agreement with Joyo Bank, Ltd. (Head Office: Mito, Ibaraki) in which the Company will provide the Overseas Business Monitor (hereinafter, "OBM") for the purpose of supporting overseas expansion of Joyo Bank's loan customers. Under this Agreement, Joyo Bank will introduce OBM to loan customers having business abroad, and the Company will support the implementation and operation.

Going forward, the Company plans to conclude similar agreements with other financial institutions and provide support for overseas expansion to medium- and small-sized companies through the implementation of OBM.

3. Business activities and operating results of the Accounting Firm Business Division

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 1: Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms) and works under close ties with the TKC National Federation, which consists of 11,300 certified public tax accountants and certified public accountants (as of June 30, 2019) that are customers of TKC (hereinafter, "TKC Members").

(Note) For more information on the TKC National Federation, visit the TKC Group website (<https://www.tkc.jp/>).

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

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

[Activity policy to change society with the TKC brand]

- (i) Promote Shomen-tempu (attachment of tax audit reports) by the TKC methods (FY2019 target: Corporate Shomen-tempu by 134,000 companies)
- (ii) Promote TKC Monitoring Information Service (FY2019 target: 120,000 companies, 240,000 cases)
- (iii) Promote self-accounting practice by the TKC methods (FY2019 target: 277,000 companies)

In addition, as the initiatives of TKCNF continue to draw attention of financial institutions and local communities, the following measures have been launched to enhance the managerial infrastructure of TKC Member firms:

- (i) Understand and practice the Standards of Conduct for TKC Accountants
- (ii) Increase the numbers of Field Auditors and Assistant Field Auditors
- (iii) Enhance the managerial advisory services as a Certified Support Agency

(2) Activities to achieve the strategic goals of the Accounting Firm Business Division

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

(i) Promotion of TKC Monitoring Information Service

During the current 3rd quarter under review, we established the promotion of TKC Monitoring Information Services as our Accounting Firm BD's most important strategic target, and worked towards diffusing the services to TKC Member firms and financial institutions. TKC Monitoring Information Service is a cloud-based service in which the TKC Members, upon request by the management of their clients, provide to financial institutions, free of charge, financial information such as monthly trial balance sheets and financial statements prepared by TKC Member firms after monthly field audits and monthly settlements. Monthly trial balance sheets will be made available immediately upon completion of the monthly settlement, and fiscal financial settlements are disclosed immediately after the client electronically files its financial documents to the tax authorities.

During the current 3rd quarter, we communicated to financial institutions that the reliability of financial statements prepared by SMEs can be verified by the following three documents:

- 1) Supporting documents submitted by TKC Members as provided for under Article 33-2 of the Certified Public Tax Accountant Act of Japan
- 2) Certificate of Bookkeeping Timeliness, with which TKC Corporation certifies the timeliness in the preparation of accounting books as required under Article 432 of the Companies Act of Japan and the connection between the financial statements and tax returns for the past three years
- 3) The Chusho Kaikei Yoryo checklist developed by the Japan Federation of Certified Public Tax Accountants' Associations and Japan Federation of Credit Guarantee Corporations

As a result of these activities, the number of financial institutions adopting this Service is increasing rapidly, adopted by 411 financial institutions including all local banks throughout Japan (64 institutions) as of June 30, 2019. Over 110,000 companies provided their financial information to financial institutions through this Service.

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

During the current 3rd quarter under review, the Company provided TKC Member firms with seminars on practical issues that require attention in applying the reduced tax rate upon the enactment of consumption tax changes under the 2016 tax reform to be effected in October 2019, as well as support for each firm in setting and identifying targets for the promotion of self-accounting and support for hosting self-accounting promotion meetings to determine specific action plans. As a result of these activities, the number of FX series users exceeded 270,000 companies as of June 30, 2019.

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

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

Also, the Company became the first among its competitors to acquire the certification under the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) for its FX series and other systems. This is a system under which JIIMA checks whether a commercial software for the bookkeeping and recording for national taxes complies with the requirements of the Electronic Books Maintenance Act of Japan, and issues a certificate for those that meet the legal requirements. Through the promotion of the certified FX series, etc., we support complete compliance with the Electronic Books Maintenance Act of Japan.

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

TKCNF is engaged in a project to increase TKC membership to over 10,000 firms by the end of September 2021. The Company is working closely with the New Members Service Committee of TKCNF in soliciting new members to achieve this goal.

During the current 3rd quarter, we solicited new members through seminars held for non-members targeting medium- and large-sized firms as well as certified public tax accountants and certified public accountants who plan to begin private practice.

As a result of these activities, the number of TKC Members totaled approximately 9,700 accounting firms and 11,300 accountants as of June 30, 2019. The difference in numbers of firms and accountants are because some firms have multiple accountants who are members.

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

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

The TKCNF recommends the use of Basic Guidelines with Respect to the Accounting Procedures at Small- and Medium-sized Enterprises (hereinafter, “Chusho Kaikei Yoryo” (Guidelines for SME Accounting)) formulated in February 2012 with which SME clients should comply. These Guidelines have been formulated based on the following principles: 1) accounting that helps to grasp the company's business situation; 2) accounting that contributes to providing information to stakeholders (financial institutions, etc.); 3) accounting that complies with the Ordinance on Company Accounting while achieving harmony between accounting and taxation system; and 4) accounting that does not place excessive burden on SMEs.

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

(ii) Issuance of Certificate of Bookkeeping Timeliness

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

This service was developed in an aim to improve reliability of financial statements and tax returns prepared by TKC Members and to provide a passport for smooth financing to the clients of TKC Members. This utilizes the features of the Company's financial accounting processing at TKC data centers, which prohibits any retroactive insertions, deletions and corrections to past data, and TKC Corporation proves, as a third party, that TKC Members have visited clients on a monthly basis to provide guidance on accurate bookkeeping (monthly Field Audits), and that all work processes from monthly settlements to the final settlement of accounts and electronic tax filings have been completed by a one-stop, full line process in a timely manner.

(4) Expansion into large-scale enterprise market

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

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

In the current 3rd quarter, the Company held seminars in collaboration with the TKCNF's Medium and Large-size Support Research Committee (consisting of approximately 1,325 members as of June 30, 2019) and the TKCNF's Overseas Deployment Support Research Committee (consisting of approximately 625 members as of June 30, 2019), in order to enhance the awareness and brand power of system offered by the Company. Seminars on responses to electronic filing mandated to large enterprises with a capital of 100 million yen or greater under the FY2018 tax reforms, as well as on accounting standards with respect to the recognition of revenue and how to deal with non-compliance risks of foreign subsidiaries were held to support the promotional activities.

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 3,550 corporate groups as of June 30, 2019. Our systems are adopted by approximately 90% of the 100 largest Japanese listed companies by sales amount.

(5) Expansion of markets for legal information database services

The LEX/DB Internet legal information database, developed originally by the Company, maintains an archive of over 299,000 judicial precedents and decisions as of June 30, 2019, covering all legal fields from precedents, etc. set in the former Supreme Court dating back to 1875 to those most recently published, being the largest database of its kind in Japan.

The TKC Law Library is a comprehensive legal information database which uses the LEX/DB Internet as its core content and contains over 940,000 bibliographic information references with links to 57 of the legal information databases operated by 18 specialized legal publishers (including Gyosei Corporation, Nippon Hyoron-Sha Co., Ltd., Yuhikaku Publishing Co., Ltd., Chuokeizai-Sha Holdings, Inc., and Hanrei Times Holdings Co., Ltd.) with accessible number of information now exceeding 2,620,000 items.

(i) Increase of user base of TKC Law Library

The Company engaged in sales promotions for the TKC Law Library, highlighting its usefulness in business operations and putting the contents that are useful for business practices into customer-specific packages (Law Firm Package for law firms, Corporate Legal Package for corporate legal departments).

In the current 3rd quarter, as a result of active promotional activities towards TCK Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 50,000 IDs and the Library is used by over 21,500 institutions as of June 30, 2019.

(ii) Promotion in the academic market]

The Company proposes the implementation of system-based early learning support programs to 54 law schools using the TKC Law School Educational and Research Support System and supports such schools in applying for the Public Support Program for Law Schools Concerning the Revision of Budget Distribution initiative by the Ministry of Education, Culture, Sports, Science and Technology.

Also, starting the current 3rd quarter, we made a full-scale launch of the promotional activities for Civil Service Examination Study Tool for undergraduates and concluded contracts with 25 universities as of June 30, 2019. The Company will continue to expand the number of monitor user universities and promote switching to full use.

4. Business activities and operating results of the Local Governments Business Division

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

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

Under the Declaration to be the World's Most Advanced IT Nation: Basic Plan for the Advancement of Public and Private Sector Data Utilization (approved by the Japanese cabinet on June 15, 2018), the Japanese government is accelerating its actions to promote the implementation of cloud systems, setting a target to have approximately 1,600 institutions using cloud (of which, approximately 1,100 institutions to be users of local government cloud systems) by the end of 2023.

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

In particular, the TASK Cloud Service is a common platform package system operated at TKC data centers and shared by all municipalities across Japan, attracting attention from the perspective of a local government cloud system promoted by the Ministry of Internal Affairs and Communications and adopted by eight groups for shared use as of June 30, 2019.

In the current 3rd quarter, we supported municipalities that newly implemented our services and are scheduled for a full-scale launch after autumn of 2019 in enabling smooth system transition, while enhancing the functions of various systems, including compliance with the change of the era name and revisions to the consumption tax law. As a result of the aggressive promotional activities, our mission-critical systems are adopted by over 150 municipalities nationwide as of June 30, 2019.

(2) Expansion of cloud services for residents

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

In response, the Company provides the TASK Cloud Convenience Store Certificate Issuing System as the system to realize this service. The System has an extensive track record as the first cloud service for municipalities across Japan and has been adopted in over 80 municipalities nationwide including government ordinance-designated cities such as Kobe and Kitakyushu as of June 30, 2019.

The TASK Cloud Easy Counter Service System that uses the features of the System is attracting greater attention from the perspective of enhanced resident services and counter service reforms, and is adopted by approximately 20 municipalities as of June 30, 2019.

In the current 3rd quarter, we worked to enhance the functions of the Easy Counter Service System and conducted active promotional activities for the Convenience Store Certificate Issuing System.

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

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

These services are proposed in collaboration with 47 companies nationwide with whom we have on-going alliance partner agreements. As a result, our core system TASK Cloud Local Taxes Electronic Filing Support Service is currently used by more than 770 agencies which account for more than 40% of all municipalities as of June 30, 2019.

In the current 3rd quarter, we supported the preparation to implement the Common Tax Payment System for Local Taxes scheduled to be launched nationwide in October 2019, and engaged in the enhancement of functionalities and active promotional activities for data connection services and other services.

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

Municipalities are required to adopt the system of accrual basis accounting (double entry bookkeeping) to replace the current cash basis accounting (single entry bookkeeping), and to prepare and disclose their financial documents as well as to utilize such data for administrative operations.

In order to support this, the Company provides the TASK Cloud Public Accounting System, which is compatible with the daily journalizing method encouraged by the Japanese government, and its related systems TASK Cloud Non-current Assets Control System and TASK Cloud Consolidated Financial Statement Preparing System.

In the current 3rd quarter, we engaged in the development and enhancement of various functions to support the visualization and utilization of local public accounting in line with the report by the Study Group on the Promotion of Local Public Accounting of the Ministry of Internal Affairs and Communications. As a result of the aggressive promotional activities, our public accounting systems are adopted by approximately 250 municipalities as of June 30, 2019.

(5) Compliance with other revised laws and systems

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

In light of these circumstances, we underwent major organizational reform as of October 1, 2018 including the new establishment of the System Planning Department, and strive to further accelerate the planning and development of new products and services as well as to strengthen customer support including the collection and communication of the latest information.

In the current 3rd quarter, our sales, development and operation divisions collaborated under the leadership of the System Planning Department in gathering and communicating information related to the digitalization of administrative services, as well as conducting surveys, research and development of next generation systems and services which support efforts of improving resident services and improving administrative efficiency and standardization.

5. Business activities and operating results of the Printing Business Division

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

Net sales in the area of DPS increased 9.6% year-on-year, due to winning of greater orders for direct mail productions from private enterprises, stable orders for business process outsourcing projects, orders related to nationwide local elections, orders for notice-related services from municipalities and extra-governmental organizations.

In the area of business form printing, net sales decreased by 0.9% year-on-year due to continuing decline in demands for business forms despite stable orders from large accounts.

II. Financial Conditions

Assets, liabilities and net assets at the end of the current 3rd quarter consolidated accounting period are stated below.

1. Assets

Total assets as of the end of the current 3rd quarter consolidated accounting period amounted to 88,922 million yen, a 1,279 million yen decrease compared to 90,202 million yen as of the end of the previous consolidated fiscal year.

(1) Current assets

Current assets as of the end of the current 3rd quarter consolidated accounting period amounted to 30,752 million yen, a 995 million yen decrease compared to 31,747 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 1,206 million yen decrease in Cash and Deposits, despite a 204 million yen increase in Inventories.

(2) Non-current assets

Non-current assets as of the end of the current 3rd quarter consolidated accounting period amounted to 58,170 million yen, a 283 million yen decrease compared to 58,454 million yen as of the end of the previous consolidated fiscal year.

This was attributable to a 1,554 million yen decrease in Investment Securities, a 412 million yen decrease in Intangible Assets, and a 240 million yen decrease in Construction in Progress, despite a 484 million yen increase in Buildings and Structures (net amount), a 500 million yen increase in Long-term Time Deposits, a 240 million yen increase in Tools, Furniture & Fixtures included in Other (net amount) of Property, Plant & Equipment, and a 761 million yen increase in Long-term Lease Investment Assets included in Other of Investments and Other Assets.

2. Liabilities

Total liabilities as of the end of the current 3rd quarter consolidated accounting period amounted to 15,885 million yen, a 1,765 million yen decrease compared to 17,651 million yen as of the end of the previous consolidated fiscal year.

(1) Current liabilities

Current liabilities as of the end of the current 3rd quarter consolidated accounting period amounted to 10,771 million yen, a 3,183 million yen decrease compared to 13,955 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 988 million yen decrease in Accounts Payable-Trade, a 1,020 million yen decrease in Income Taxes Payable, and a 1,801 million yen decrease in Provisions for Bonuses.

(2) Non-current liabilities

Non-current liabilities as of the end of the current 3rd quarter consolidated accounting period amounted to 5,114 million yen, a 1,418 million yen increase compared to 3,696 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 761 million yen increase in Long-term Lease Obligations (sublease) and a 527 million yen increase in Provisions for Stocks Payment included in Other of Non-current liabilities.

3. Net assets

Total net assets as of the end of the current 3rd quarter consolidated accounting period amounted to 73,037 million yen, a 486 million yen increase compared to 72,550 million yen as of the end of the previous consolidated fiscal year.

This was attributable to a 2,267 million yen increase in Retained Earnings and a 228 million yen increase in Capital Surplus, despite a 235 million yen decrease in Subscription Rights to Shares, a 1,025 million yen decrease in Valuation Difference on Available-for-sale Securities, and a 828 million yen decrease in Purchase of Treasury Stock.

Equity ratio as of the end of the current 3rd quarter consolidated accounting period was 80.4%, a 1.9 percentage point increase compared to the ratio of 78.6% as of the end of the previous consolidated fiscal year.

III. Operational and Financial Challenges Facing the TKC Group

There are no significant changes in challenges faced by the TKC Group during the current 3rd quarter consolidated cumulative period.

IV. Research and Development Activities

There were no research and development expenses spent by the TKC Group during the current 3rd quarter consolidated cumulative period.

There are no significant changes in the status of research and development activities of the TKC Group during the current 3rd quarter consolidated cumulative period.

3 [Material Agreements, etc.]

There has been no decision or conclusion of material agreements, etc., during the current 3rd quarter consolidated accounting period.

Based on the resolution at the meeting of the Board of Directors held on August 9, 2019, the Company concluded a Share Exchange Agreement between TKC Shuppan Corporation as of August 13, 2019.

Details are described in Part 4 [Financial Information], 1. Quarterly Consolidated Financial Statements, [Notes to Financial Statements] (Material Subsequent Events).

Part 3 [Information on the Company]

1 [Information on the Company's Stock]

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

(i) [Total number of shares]

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

(ii) [Issued shares]

Class	Number of shares issued as of the end of 3rd quarter accounting period (shares) (June 30, 2019)	Number of shares issued as of the filing date (shares) (August 13, 2019)	Name of stock exchange on which the Company is listed, or name of Authorized Financial Instruments Firms Association	Description
Common stock	26,731,033	26,731,033	First Section of the Tokyo Stock Exchange	Number of shares consisting a unit: 100 shares
Total	26,731,033	26,731,033	—	—

(2) [Share subscription rights, etc.]

(i) [Stock option scheme]

Not applicable.

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

Not applicable.

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

Not applicable.

(4) [Changes in total number of issued shares, capital stock, etc.]

Date	Increase or decrease in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase or decrease in capital stock (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)
From April 1, 2019 To June 30, 2019	—	26,731,033	—	5,700	—	5,409

(5) [Major shareholders]

There is nothing applicable to be disclosed as the current quarter is the 3rd quarter accounting period.

(6) [Voting rights]

The status of voting rights as of the end of the current 3rd quarter accounting period indicated hereunder are based on the shareholders registry as of the most recent record date (March 31, 2019) because the content of the shareholders registry as of the end of the current 3rd quarter cannot be confirmed.

(i) [Issued shares]

As of March 31, 2019

Classification	Number of shares (shares)	Number of voting rights (units)	Description
Shares without voting right	—	—	—
Shares with restricted voting right (treasury stock, etc.)	—	—	—
Shares with restricted voting right (others)	—	—	—
Shares with full voting right (treasury stock, etc.)	Common stock 313,800	—	—
Shares with full voting right (others)	Common stock 26,380,200	263,802	—
Shares less than one share unit	Common stock 37,033	—	—
Total number of issued shares	26,731,033	—	—
Total voting rights held by all shareholders	—	263,802	—

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

(ii) [Treasury stock, etc.]

As of March 31, 2019

Name of shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under other names (shares)	Total shares held (shares)	Percentage of shares held to the total number of issued shares (%)
TKC Corporation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	308,300	—	308,300	1.15
TKC Shuppan Corporation	4-8-8 Kudanminami, Chiyoda-ku, Tokyo	5,500	—	5,500	0.02
Total	—	313,800	—	313,800	1.17

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

2 [Officers]

There has been no change in the officers during the current quarter cumulative period since the date of submission of the Annual Securities Report for the previous fiscal year.

Part 4 [Financial Information]

1. Method of Preparing Quarterly Consolidated Financial Statements

The quarterly consolidated financial statements of the Company have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements (Cabinet Office Ordinance No.64 of 2007).

2. Auditing and Attestation

The quarterly consolidated financial statements of the Company for the 3rd quarter consolidated accounting period (from April 1, 2019 to June 30, 2019) and the 3rd quarter consolidated cumulative period (from October 1, 2018 to June 30, 2019) have been audited by Ernst & Young ShinNihon LLC pursuant to the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

1 [Quarterly Consolidated Financial Statements]

(1) [Quarterly consolidated balance sheets]

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2018)	Current 3rd quarter consolidated accounting period (June 30, 2019)
Assets		
Current assets		
Cash and deposits	22,268	21,062
Notes and accounts receivable - trade	7,690	7,577
Inventories	619	823
Other	1,204	1,314
Allowance for doubtful accounts	(35)	(25)
Total current assets	31,747	30,752
Non-current assets		
Property, plant and equipment		
Buildings and structures (net amount)	7,991	8,476
Land	6,922	6,892
Other (net amount)	2,550	2,598
Total property, plant and equipment	17,464	17,967
Intangible assets	3,707	3,294
Investments and other assets		
Investment securities	24,026	22,471
Long-term time deposits	6,000	6,500
Guarantee deposits	1,318	1,310
Other	5,937	6,625
Total investments and other assets	37,282	36,907
Total non-current assets	58,454	58,170
Total assets	90,202	88,922
Liabilities		
Current liabilities		
Accounts payable - trade	2,824	1,835
Electronically recorded obligations - operating	1,080	1,098
Short-term loans payable	142	212
Accounts payable - other	3,661	2,716
Income taxes payable	1,689	668
Provisions for bonuses	3,169	1,367
Other	1,387	2,870
Total current liabilities	13,955	10,771
Non-current liabilities		
Long-term loans payable	580	491
Retirement benefit liabilities	2,036	2,196
Provisions for stocks payment	—	527
Other	1,078	1,897
Total non-current liabilities	3,696	5,114
Total liabilities	17,651	15,885

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2018)	Current 3rd quarter consolidated accounting period (June 30, 2019)
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	5,409	5,637
Retained earnings	59,806	62,073
Treasury stock	(971)	(1,799)
Total shareholders' equity	69,944	71,611
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	917	(108)
Total accumulated other comprehensive income	917	(108)
Subscription rights to shares	235	—
Non-controlling interests	1,453	1,534
Total net assets	72,550	73,037
Total liabilities and net assets	90,202	88,922

(2) [Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income]

[Quarterly consolidated statements of income]

[3rd quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 3rd quarter consolidated cumulative period (Started October 1, 2017; ended June 30, 2018)	Current 3rd quarter consolidated cumulative period (Started October 1, 2018; ended June 30, 2019)
Net sales	45,289	47,721
Cost of sales	14,874	16,187
Gross profit	30,414	31,534
Selling, general and administrative expenses	22,941	24,254
Operating income	7,472	7,280
Non-operating income		
Interest income	23	23
Dividends income	122	135
Insurance dividends income	5	6
Land and house rent received	34	43
Equity in earnings of affiliates	11	18
Other	58	58
Total non-operating income	255	286
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	0	0
Other	0	0
Total non-operating expenses	2	2
Ordinary income	7,725	7,564
Extraordinary income		
Gain on sales of non-current assets	0	1
Gain on reversal of subscription rights to shares	—	274
Other	—	8
Total extraordinary income	0	283
Extraordinary loss		
Loss on sale of non-current assets	—	10
Loss on retirement of non-current assets	4	5
Loss on valuation of investment securities	53	—
Other	—	0
Total extraordinary loss	58	16
Quarterly net income before taxes and adjustments	7,667	7,832
Income taxes - current	2,057	2,112
Income taxes - deferred	451	450
Total income taxes	2,508	2,563
Quarterly net income	5,158	5,269
Quarterly net profit (loss) attributable to non-controlling interests	89	97
Quarterly net profit (loss) attributable to owners of parent	5,069	5,171

[Quarterly consolidated statements of comprehensive income]

[3rd quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 3rd quarter consolidated cumulative period (Started October 1, 2017; ended June 30, 2018)	Current 3rd quarter consolidated cumulative period (Started October 1, 2018; ended June 30, 2019)
Quarterly net income	5,158	5,269
Other comprehensive income		
Valuation difference on available-for-sale securities	(44)	(1,026)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	(44)	(1,026)
Quarterly comprehensive income	5,114	4,242
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	5,021	4,145
Quarterly comprehensive income attributable to non- controlling interests	92	96

[Notes to Financial Statements]

(Additional Information)

(Stock-based compensation plan for officers)

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

1. Outline of Transaction

Based on the resolution of the Board of Directors’ Meeting held on October 31, 2018 followed by approval at the Ordinary General Meeting of Shareholders held on December 21, 2018, the Company introduced a stock-based compensation plan called “BIP Trust.” The objectives of the plan are to clarify the linkage between the Company’s shareholder value and the remuneration for Directors, etc. and to motivate Directors, etc. to contribute more to enhancing the medium- to long-term corporate value by sharing common interest with shareholders, including not only the merit derived from the rising share price, but also the risk associated with the decline in share price.

2. Stocks of the Company remaining in trust

The stocks of the Company remaining in trust are recorded as treasury stock under Net Assets with the book values in the trust (not including expenses attributable thereto). The book value of said treasury stocks was 753 million yen for 190,500 shares as of the end of this current 3rd quarter consolidated accounting period.

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

The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the 1st quarter consolidated accounting period. Accordingly, deferred tax assets are indicated under the investments and other assets category, and deferred tax liabilities are indicated under the non-current liabilities category.

(Notes to the quarterly consolidated statements of cash flows)

The Company does not prepare the quarterly consolidated statements of cash flows for the current 3rd quarter consolidated cumulative period. The depreciation (including depreciation of intangible assets) for the current 3rd quarter consolidated cumulative period is as follows:

	Previous 3rd quarter consolidated cumulative period (Started October 1, 2017; ended June 30, 2018)	Current 3rd quarter consolidated cumulative period (Started October 1, 2018; ended June 30, 2019)
Depreciation	1,982 million yen	2,280 million yen

(Notes to shareholders' equity, etc.)

I. Previous 3rd quarter consolidated cumulative period (started October 1, 2017; ended June 30, 2018)

Dividend payments

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

II. Current 3rd quarter consolidated cumulative period (started October 1, 2018; ended June 30, 2019)

Dividend payments

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
December 21, 2018 Ordinary General Meeting of Shareholders	Common stock	1,450	55	September 30, 2018	December 25, 2018	Retained earnings
May 8, 2019 Meeting of the Board of Directors	Common stock	1,453	55	March 31, 2019	June 10, 2019	Retained earnings

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

(Segment information, etc.)

[Segment information]

I. Previous 3rd quarter consolidated cumulative period (started October 1, 2017; ended June 30, 2018)

Information on net sales and profit or loss for each reportable segment

(Unit: millions of yen)

	Reportable segment				Adjustments (Note 1)	Amounts in quarterly consolidated statements of income (Note 2)
	Accounting Firm BD	Local Governments BD	Printing BD	Total		
Net sales						
(1) Sales to outside customers	32,215	10,168	2,905	45,289	—	45,289
(2) Inter-segment sales or transfers	3	—	1,427	1,431	(1,431)	—
Total	32,219	10,168	4,333	46,720	(1,431)	45,289
Segment profit	6,836	338	291	7,466	6	7,472

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

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

II. Current 3rd quarter consolidated cumulative period (started October 1, 2018; ended June 30, 2019)

Information on net sales and profit or loss for each reportable segment

(Unit: millions of yen)

	Reportable segment				Adjustments (Note 1)	Amounts in quarterly consolidated statements of income (Note 2)
	Accounting Firm BD	Local Governments BD	Printing BD	Total		
Net sales						
(1) Sales to outside customers	33,430	11,322	2,969	47,721	—	47,721
(2) Inter-segment sales or transfers	8	0	1,613	1,622	(1,622)	—
Total	33,438	11,322	4,583	49,343	(1,622)	47,721
Segment profit (loss)	7,088	(130)	315	7,273	6	7,280

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

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

(Earnings per share information)

The amount of quarterly net income per share and the basis for the calculation thereof as well as the amount of quarterly diluted net income per share and the basis for the calculation thereof are as follows:

	Previous 3rd quarter consolidated cumulative period (Started October 1, 2017; ended June 30, 2018)	Current 3rd quarter consolidated cumulative period (Started October 1, 2018; ended June 30, 2019)
(1) Quarterly net income per share	192.17 yen	196.46 yen
(Basis for calculation)		
Quarterly net income attributable to owners of parent (millions of yen)	5,069	5,171
Amount not attributable to common shareholders (millions of yen)	—	—
Quarterly net income from common stocks attributable to owners of parent (millions of yen)	5,069	5,171
Average number of common stocks outstanding (hundreds of shares)	263,789	263,221
(2) Quarterly diluted net income per share	191.31 yen	195.94 yen
(Basis for calculation)		
Adjustments to quarterly net income attributable to owners of parent (millions of yen)	—	—
Number of common stocks increased (hundreds of shares)	1,180	710
Outline of the diluted shares not included in the calculation of quarterly diluted net income per share for not having dilutive effect, but having significant changes since the end of the previous consolidated fiscal year	—	—

(Note) The average number of stocks outstanding used in the calculation of earnings per share information has been determined by including the stocks of the Company owned by the BIP Trust (which has been established with the introduction of the BIP Trust plan) as deductible treasury stocks. The average number of said treasury stocks deducted for the calculation of quarterly net income per share was 85,829 shares for the current 3rd quarter consolidated cumulative period.

(Material subsequent events)

TKC Corporation (hereinafter, “TKC”) and TKC Shuppan Corporation (hereinafter, “TKC Shuppan”) have resolved at their respective meetings of the Board of Directors held on August 9, 2019 to conduct a share exchange in which TKC Shuppan will become wholly owned subsidiary of TKC (hereinafter, the “Share Exchange”), and have concluded the share exchange agreement between the companies.

1. Purpose of the Share Exchange

- (1) TKC Shuppan was established in 1972 through contributions from TKC Members and TKC for the purpose of engaging in the public relations and publishing activities in order to communicate information to TKC Members and contribute to the rationalization of operations of Member firms and improvement of trust by clients.
- (2) Through its publishing activities, TKC Shuppan has publicized the activities of the TKC National Federation (“TKCNF”) which consists of TKC Members, as well as provided TKC Members with operational know-how on tax accounting, financial accounting, managerial advice and guarantee held by fellow TKC Members.
- (3) TKCNF has announced its 3-year activity policy from 2019 to 2021 and strategic targets for FY2019 based on the policy agenda in view of its 50th anniversary (in 2021), and works to achieve these targets. To support these activities, there is a need to strengthen the provision of information to TKC Member firms and their clients. Making TKC Shuppan a wholly owned subsidiary of TKC is expected to contribute greatly to this end.
- (4) The Company also expects that, by making TKC Shuppan its wholly owned subsidiary, it can leverage TKC Shuppan’s accumulated publishing know-how, and combining them with the Company’s business activities and projects, greatly enhance public relations and publishing activities towards its customers.

2. Outline of the Share Exchange

(1) Timeline for the Share Exchange

Meetings of the Board of Directors for the resolution of Share Exchange (both companies)	August 9, 2019
Conclusion of the Share Exchange Agreement (both companies)	August 13, 2019
Extraordinary General Meeting of Shareholders for the approval of the Share Exchange (TKC Shuppan Corporation)	August 26, 2019 (tentative)
Effective date of the Share Exchange	September 24, 2019 (tentative)

(2) Method of the Share Exchange

The Share Exchange will be conducted with TKC as the wholly owning parent company and TCK Shuppan as the wholly owned subsidiary company. TKC is to conduct a simplified share exchange that does not require the approval of a general meeting of shareholders in accordance with Article 796, Paragraph 2 of the Companies Act of Japan; TKC Shuppan is to conduct the Share Exchange subject to the approval of the extraordinary general meeting of shareholders scheduled to be held on August 26, 2019.

(3) Allocation of shares for the Share Exchange

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

(i) Allocation ratio of shares

TKC shall allocate and deliver five (5) ordinary shares for each ordinary share of TKC Shuppan. This is provided, however, that there will be no allocation of shares in the Share Exchange for the 5,170 ordinary shares of TKC Shuppan already held by TKC (as of July 31, 2019).

(ii) Number of shares to be delivered in the Share Exchange

TKC plans to deliver 57,150 of its ordinary shares.

In this case, TKC plans to allocate the required number of shares using its treasury shares possessed (308,540 shares as of July 31, 2019) instead of issuing new shares.

(iii) Treatment of shares less than one unit

As a result of the Share Exchange, it is anticipated that there will be shareholders possessing TKC shares less than one unit (shares less than 100). However, shares less than one unit cannot be sold in markets established by the financial instruments exchange.

Shareholders who own TKC shares less than one unit may use the additional purchase system to request TKC to purchase their shares that are less than one unit in accordance with Article 192, Paragraph 1 of the Companies Act of Japan.

(iv) Treatment of fractions of less than one share

For shareholders currently owning TKC Shuppan's shares who will be allotted fractions of TKC's ordinary shares less than one share as a result of the Share Exchange, the Company will pay an amount equivalent to the fractions of less than one share in accordance with Article 234 of the Companies Act of Japan.

(4) Treatment of subscription rights to shares and bonds with subscription rights to shares of the wholly owned subsidiary company in Share Exchange

Not applicable.

3. Basis of allocation calculations for the Share Exchange

- (1) In order to ensure fairness and validity in determining the allocation ratio for the Share Exchange, the stock values of TKC and TKC Shuppan were calculated by Business Valuation & Consulting Japan (hereinafter, "BVCJ"), a third party independent from both companies.
- (2) BVCJ calculated the stock values based on the respective medium-term management plans prepared each year by TKC and TKC Shuppan, and using the discounted cash flow (DCF), a valuation method accepted as an essential valuation model for appraising corporate value in recent years.

In addition, since a market value is available for TKC as a listed company, the stock value of TKC was calculated using the market share price method.

In the market share price method, the closing price of the record date (July 31, 2019) and simple average closing prices for the 1-month period preceding the record date, 3-month period preceding the record date, and 6-month period preceding the record date were used as basis for the calculation.

Taking into consideration that TKC Shuppan is a non-listed company, the average of three types of approach (the book value per share method, comparable peer company multiple method, and DCF method) was used in calculating TKC Shuppan's stock value.

Stock value calculation is based on the assumption that there will be no major increase or decrease in profit in TKC or TKC Shuppan, nor will there be major changes to the amount of debts and assets compared to the most recent financial statements. TKC Shuppan's stock value per share, shown as a multiple of TKC's stock value per share derived by each valuation method are as shown below:

Adopted methods		Results of allocation ratio calculation
TKC (Wholly owning parent company in the Share Exchange)	TKC Shuppan (Wholly owned subsidiary company in the Share Exchange)	
DCF method	DCF method	3.21 - 4.80
Market share price method	Average of three methods (Note)	5.71 - 6.68

(Note) Book value per share method, comparable peer company multiple method, and DCF method

- (3) The Company referred to the calculation results, and decided to use the calculation result derived from the DCF method as reference in light of the fact that both TKC and TKC Shuppan formulate their medium-term management plans each year in view of the changes in management environment and based on the business strategies developed to respond to such changes. However, because the stock value derived from the calculation results of the average of three methods was higher than that derived from the DCF method, the companies deliberated and decided to use the intermediate value of the DCF method and the average of three methods, and agreed upon the share exchange ratio as set forth in 2. (3) above. In the event that there is material change to the presumptions of the calculation, the share exchange ratio may be changed through deliberation between the companies.
- (4) The calculating institution BVCJ does not fall under a related party to either TKC or TKC Shuppan, and does not have any material interest in the Share Exchange to be disclosed.

4. Overview of the parties to the Share Exchange (as of July 31, 2019)

(i) Company name	TKC Corporation (Wholly owning parent company in the Share Exchange)	TKC Shuppan Corporation (Wholly owned subsidiary company in Share Exchange)
(ii) Location of head office	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	Japan YWCA Bldg. 4F, 4-8-8 Kudan-minami, Chiyoda-ku, Tokyo
(iii) Name and title of the representative	Kazuyuki Sumi, President and Representative Director	Yoichi Tase, President and Representative Director
(iv) Description of business	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 3. Development, maintenance and sales of legal information database services 4. Development, maintenance and sales of computer software 5. Internet service provider business 6. Cloud computing service provider business 7. Development, maintenance and sales of office equipment and supplies 8. Collection of bills and administrative tasks on behalf of accounting firms and their client companies 9. Provision of monetary loans and monetary loan arrangements for accounting firms and their client companies 10. Consulting on business successions, etc., for accounting firms and their client companies 11. Liability insurance agency 12. Banking agency 13. Any business incidental to the foregoing	1. Publishing business to defend the business domain and maintain control over the fate of accounting firms 2. Production and sales of periodical subscriptions, publications and audiovisual software for Member firms 3. Production and sales of periodical subscriptions, publications and audiovisual software for clients of Member firms 4. Publication and sales of books, etc. for wider diffusion of activities of TKC Members and the TKC National Federation 5. Hosting of training and seminars 6. Production and sales of e-publications and digital contents 7. Any business incidental to each of the foregoing
(v) Capital stock	5,700 million yen	83 million yen
(vi) Date of incorporation	October 22, 1966	October 6, 1972
(vii) Number of shares issued	26,731,033 shares	16,600 shares
(viii) Fiscal year-end	September 30	September 30
(ix) Major shareholders and shareholding ratio	(i) Iizuka Takeshi Scholarship Foundation 14.0% (ii) Daido Life Insurance Company 9.6% (iii) TKC Employee Shareholding Association 5.9% (iv) Sozeishiryokan (Institute of Tax Research and Literature) 5.7% (v) The Master Trust Bank of Japan, Ltd. (Trust account) 3.9% (vi) Masaharu Iizuka 3.2% (vii) Japan Trustee Services Bank, Ltd. (Trust account) 2.8% (viii) SSBTC Client Omnibus Account 2.8% (ix) Tokio Marine & Nichido Fire Insurance Co., Ltd. 2.4% (x) Aioi Nissay Dowa Insurance Co., Ltd. 2.2%	(i) TKC Corporation 31.1% (ii) TKC Shuppan Employee Shareholding Association 10.1% (iii) TKC Chubu Local Association 1.9%

(x) Financial conditions and operating results for the immediately preceding fiscal year		
Fiscal Year	Fiscal Year ended September 2018 (consolidated)	Fiscal Year ended September 2018 (non- consolidated)
Net assets	72,550 million yen	619 million yen
Total assets	90,202 million yen	1,120 million yen
Net assets per share	2,686.32 yen	37,321.34 yen
Net sales	61,621 million yen	1,541 million yen
Operating income	8,679 million yen	81 million yen
Ordinary income	8,961 million yen	84 million yen
Net income	6,158 million yen	56 million yen
Net income per share	233.46 yen	3,380.37 yen

(Note) The information in the column for TKC Corporation under “(ix) Major shareholders and shareholding ratio” is as of March 31, 2019.

5. Condition after the Share Exchange

There are no current plans to change the company name, location of head office, name and title of the representative, description of business, capital stock, date of incorporation, number of shares issued, or fiscal year-end of either company from what is set forth in 4. Overview of the Parties to the Share Exchange (as of July 31, 2019) above.

6. Overview of the accounting process

The Company expects to apply the accounting process for acquisition under the Accounting Standard for Business Combinations to the Share Exchange. While the amount of goodwill arising in relation to the Share Exchange is currently undetermined, the impact to TKC’s consolidated financial results is expected to be minimal.

2 [Other]

The resolution regarding the current interim dividends was adopted at the Board of Directors' meeting held on May 8, 2019, stated as follows.

(a) Total amount of cash dividends to be paid as interim dividends	1,453 million yen
(b) Dividend per share	55.00 yen
(c) Effective date for payment claim and commencement date for payment	June 10, 2019

(Note) Dividends are payable to the shareholders listed or recorded on the Register of Shareholders as of March 31, 2019.

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

None to be disclosed.

Quarterly Review Report of Independent Auditors

August 13, 2019

To: The Board of Directors, TKC Corporation

Ernst & Young ShinNihon LLC

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

Pursuant to the provision of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, we have conducted a review of the quarterly consolidated financial statements of the consolidated fiscal year of the Company (started from October 1, 2018 and ending September 30, 2019) for the 3rd quarter consolidated accounting period (from April 1, 2019 to June 30, 2019) and for the 3rd quarter consolidated cumulative period (from October 1, 2018 to June 30, 2019) stated in [Financial Information], namely, the quarterly consolidated balance sheet, quarterly consolidated statements of income, quarterly consolidated statements of comprehensive income, and notes.

Management's Responsibility for the Quarterly Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the quarterly consolidated financial statements in accordance with principles setting forth the preparation and proper presentation of the quarterly consolidated financial statements generally accepted in Japan. Responsibilities include those for designing and operating an internal control system as the management deems necessary in order to prepare and properly present the quarterly consolidated financial statements that are free from material misstatement due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an independent conclusion regarding the quarterly consolidated financial statements based on our quarterly review. We conducted our quarterly review in accordance with quarterly review standards generally accepted in Japan.

A quarterly review consists principally of making inquiries, performing analytical procedures and other quarterly review procedures of the management and persons responsible for financial and accounting matters. The quarterly review procedure is a limited procedure compared to the procedure of annual financial statements performed in accordance with auditing standards generally accepted in Japan. We believe that we have obtained evidences to support the basis for our conclusion.

Auditor's Conclusion

Based on our quarterly review, nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements referred to above does not properly represent, in all material respects, the financial conditions of TKC Corporation and its consolidated subsidiaries as of June 30, 2019 and their operating results for the 3rd quarter consolidated cumulative period ending on the same date in accordance with accounting principles of quarterly consolidated financial statements generally accepted in Japan.

Interest

Our firm and the executing partners have no interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act of Japan.

End of document

(Notes) 1. The above is a digitized version of the original copy of the quarterly review report, the original of which is stored by TKC Corporation (the Company filing this quarterly report).

2. XBRL data is not included in the scope of this quarterly review.

[Front Cover]

[Document filed]	Confirmation letter
[Applicable law]	Article 24-4-8, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	August 13, 2019
[Company name]	<i>Kabushiki Kaisha TKC</i>
[Company name in English]	TKC Corporation
[Title and name of representative]	Kazuyuki Sumi, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

1 [Matters Related to Adequacy of Statements Contained in the Quarterly Report]

Kazuyuki Sumi, Representative Director, President and Executive Officer of the Company and Hitoshi Iwata, Chief Financial Officer of the Company hereby confirm that the statements contained in the quarterly report for the 3rd quarter of the 53rd term (started April 1, 2019; ended June 30, 2019) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.