

Quarterly Report

(54th Term 1st Quarter)

Started October 1, 2019

Ended December 31, 2019

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

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[Front Cover]

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[Company name]	<i>Kabushiki Kaisha TKC</i>
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, 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]

Fiscal year		53rd Term 1st quarter consolidated cumulative period	54th Term 1st quarter consolidated cumulative period	53rd Term
Accounting period		Started October 1, 2018; ended December 31, 2018	Started October 1, 2019; ended December 31, 2019	Started October 1, 2018; ended September 30, 2019
Net sales	(millions of yen)	14,141	16,320	66,120
Ordinary income	(millions of yen)	1,729	2,581	9,669
Quarterly (current) net income attributable to owners of parent	(millions of yen)	1,170	1,594	6,721
Quarterly comprehensive income or comprehensive income	(millions of yen)	204	1,953	4,082
Net assets	(millions of yen)	71,332	73,376	73,121
Total assets	(millions of yen)	84,342	92,093	96,989
Quarterly (current) net income per share	(yen)	44.38	60.68	255.52
Quarterly (current) diluted net income per share	(yen)	44.17	—	255.01
Equity ratio	(%)	82.6	79.3	73.8

- (Notes)
- 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.
 - Net sales do not include consumption taxes (consumption tax and local consumption tax; hereinafter the same).
 - 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 quarterly (current) net income per share for the 54th Term 1st quarter consolidated cumulative period and for the 53rd Term, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.
 - The quarterly diluted net income per share for the current 1st quarter consolidated cumulative period is not stated as there were no dilutive shares.

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 1st 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 1st 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 1st quarter consolidated cumulative period (hereinafter, “the current 1st quarter”) of the consolidated Group comprising of TKC Corporation and its six consolidated subsidiaries, etc. recorded a net sales of 16,320 million yen (increased 15.4% year-on-year), operating income of 2,464 million yen (increased 52.2% year-on-year), ordinary income of 2,581 million yen (increased 49.3% year-on-year), and quarterly net income attributable to owners of parent of 1,594 million yen (increased 36.2% year-on-year).

This was mainly attributable to increase in sales from computer services and software sales earned by the Accounting Firm Business Division due to increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of ASP1000R electronic tax filing system for corporations in response to the electronic filing of income taxes now mandated to large corporations. In addition, as to the Local Governments Business Division, increase in sales from consulting services resulting from the completion of change-over of mission-critical systems for orders from new customers won during the previous fiscal year, and increase in sales from service fees related to the common tax payment system for local taxes launched in October 2019 were also contributing factors.

Net sales for the current 1st Quarter by business division are shown below.

1. Results of operation of the Group for the 1st Quarter

(1) Net sales of the Accounting Firm Business Division

Net sales of the Accounting Firm BD was 11,288 million yen (increased 8.5% year-on-year); operating income was 2,347 million yen (increased 17.3% year-on-year). The breakdown is as follows:

- (i) Sales from computer services increased by 3.2% year-on-year. This was attributable to growth in number of users of the FX4 Cloud Integrated Accounting Information System for mid-size companies, Office Management System (OMS Cloud) for Tax Accounting Firms, and OMS Mobile which allows accounting firms to access and perform works using the OMS from outside the office with a highly secure environment.
- (ii) Software sales increased by 5.0% year-on-year. As stated above, this is the result of increase in the number of users of financial accounting systems that meet the requirements of the Electronic Books Maintenance Act of Japan as well as increase in the number of users of our electronic tax filing system for corporations (ASP1000R) in response to the electronic filing of income taxes now mandated to large corporations.
- (iii) Hardware sales increased by 72.3% year-on-year. This was caused by increasing demands for PC replacements in response to the termination of Windows 7 support by Microsoft in January 2020.

(2) Net sales of the Local Governments Business Division

Net sales of the Local Governments BD was 4,203 million yen (increased 48.2% year-on-year); operating income was 227 million yen (operating loss of 344 million yen in 1st quarter of the previous fiscal year). The breakdown is as follows:

- (i) Sales from computer services increased by 22.0% year-on-year. This was driven by increased number of agencies using the TASK Cloud Local Taxes Electronic Filing Support Service in response to the launch of the common tax payment system for local taxes.
- (ii) Software sales increased by 69.8% year-on-year. This was due to increased sales from customization fees related to the change-over of mission-critical systems for orders from new customers won during the previous fiscal year, and sales of middleware, etc.
- (iii) Sales from consulting services increased 72.7% year-on-year. This was attributable to increased sales related to the change-over and implementation of mission-critical systems for orders from new customer agencies won during the previous fiscal year.
- (iv) Hardware sales increased by 57.7% year-on-year. This was derived from increase in demands for renewal of servers, PCs, printers and other devices in relation to system replacements by users of mission-critical systems.

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

Net sales of the Printing BD was 828 million yen (decreased 7.7% year-on-year); operating loss was 95 million yen (operating loss of 38 million yen in the 1st quarter of the previous fiscal year). The breakdown is as follows:

- (i) Sales of data printing service-related products increased by 4.9% year-on-year. While orders for direct mail productions from private enterprises and business process outsourcing projects decreased, sales increased as a result of increase in orders for notice-related services from municipalities and extra-governmental organizations.
- (ii) Sales of printing of commercial arts (catalogs, flyers, etc.) and booklets decreased 19.4% year-on-year due to decrease in orders.

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

(1) Acquisition of patent for Registration Notice Data Link Function

The Company acquired patent (Patent No. 6591099) for Registration Notice Data Link Function (Invention of device, method and program to process registration notice data), which was developed as a function of TASK Cloud Fixed Property Tax System.

(2) Acquisition of patent for Suggested Keywords for System Q&A Search Site

The Company acquired patent (Patent No. 6596560) for the Invention of System, Method and Program to Provide Suggested Keywords for System Q&A Search Site.

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 11,400 certified public tax accountants and certified public accountants (as of December 31, 2019) that are customers of TKC (hereinafter, "TKC Members").

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

- 1) Realize tax justice;
- 2) Conduct tax consultant business completely;
- 3) Support SMEs for their prosperity and success;
- 4) Enhance managerial infrastructure of TKC Member firms;
- 5) Make full use of TKC systems;
- 6) Promote mutual enlightenment, support and friendship.

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

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

TKCNF announced its 3-year activity policy from 2019 to 2021 and Strategic Targets 2020 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 (FY2020 year-end target: Corporate Shomen-tempu by 144,000 companies)
- (ii) Promote TKC Monitoring Information Service (FY2020 year-end target: 140,000 companies, 245,000 cases)
- (iii) Promote self-accounting practice by the TKC methods (FY2020 year-end target: 285,000 companies)

In addition, as the initiatives of TKCNF are beginning to draw the attention of many financial institutions, the following measures have been launched to take advantage of this opportunity to further 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

The Company operates to achieve the Strategic Targets 2020 in collaboration with TKCNF.

(i) Promotion of TKC Monitoring Information Service

During the current 1st 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 free cloud-based service in which the TKC Members, upon request by the management of their clients, provide to financial institutions financial information such as monthly trial balance sheets, annual financial statements, and tax returns prepared by TKC Member firms after monthly field audits and monthly settlements. Monthly trial balance sheets will be made available immediately upon completion of the monthly settlement, and annual financial statements and tax returns are disclosed immediately after the client electronically files its financial documents to the tax authorities.

While promoting the TKC Monitoring Information Service, 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 431 financial institutions including all local banks throughout Japan (64 institutions) as of December 31, 2019. Also, approximately 200,000 companies provide their financial statements, etc. to financial institutions by the end of December, 2019.

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

With the advancement of ICT in the recent years, the Company develops and provides functions that enable management of clients to check its latest business results from a smart phone anytime and any place (Smart Business Results Verification Functions) and functions that can receive bank deposit transaction data through Internet banking and generate journal entries automatically (Bank Credit Data Receiving Functions). Although these functions can improve productivity of the management and accounting personnel of clients, the number of user companies were limited as it required additional configuration to use them.

Meanwhile, SMEs will also be subject to the Revised Labor Standard Act from April 2020, and they are faced with the need to reform their working practices. In such environment, the Company formulated a policy to provide system utilization support to clients using the FX Series and began engaging in activities in which the employees of the Company work together with TKC Member firms to provide generous support from system launch through to utilization. Through such activities, the Company works to provide clients with an accounting environment using the latest ICT to support the improvement of their productivity.

(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, last year 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. 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 1st 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 11,400 accountants as of December 31, 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, etc. and to strengthen collaboration with other organizations supporting SMEs.

(ii) Issuance of Certificate of Bookkeeping Timeliness

When TKC Members access our accounting system, the Company utilizes the processing log data and historical time series data that are automatically logged at the TKC Internet Service Center 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 compliance and rationalization of tax and accounting operations of large enterprises, mainly of listed companies, and is actively working to solicit these companies and their affiliates to become clients of TKC Members.

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

Under the FY2018 tax reforms, large enterprises with a capital of 100 million yen or greater will be mandated to use electronic filing of income tax, local taxes and consumption tax starting April 2020. With this reform, large sized companies must file their income tax returns electronically, as well as submit any attachments to tax returns (financial statements, statement classified by accounting items, etc.) in electronic data form. According to statistics of the National Tax Agency, electronic filing of corporate income tax was conducted by 2,085,431 companies in FY2016. While the percentage of companies using the electronic filing system was 79.3%, only 56.9% of large sized companies uses electronic tax filings. This means that many of the large enterprises to which electronic filing will be mandated will be using the electronic filing system for the first time. To enable these companies to switch smoothly to the mandated electronic filing system, the Company released the Guidebook on Complying with Mandatory Electronic Filing on the Company's website, held seminars, and offered opportunities to experience electronic tax filing in collaboration with TKCNF's Medium- and Large-sized Companies Support Council (1,349 members as of December 31, 2019). The Company also entered into alliance agreements with four ERP vendors, working on the development of systems linking to financial statements data. As a result, the number of users of ASP1000R electronic tax filing system for corporations reached 2,700 companies as of December 31, 2019.

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 3,900 corporate groups as of December 31, 2019. Our taxation-related information systems are adopted by 88% of the 100 largest Japanese listed companies by sales amount. The market shares among Japanese listed companies reached 30%.

(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 304,000 judicial precedents and decisions as of December 31, 2019, covering all legal fields from precedents 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 947,000 bibliographic information references with links to 60 of the legal information databases operated by 18 specialized legal publishers (including Gyosei Corporation, Nippon Hyoron-Sha Co., Ltd., Yuhikaku Publishing Co., Ltd., Chuokeizai-Sha Holdings, Inc., and Hanrei Times Holdings Co., Ltd.) with accessible number of information now exceeding 2,630,000 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 1st quarter, as a result of active promotional activities towards TKC Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 50,000 IDs and the Library is used by over 21,000 institutions as of December 31, 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, the Company conducted sales promotional activities for the Civil Service Examination Study Tool for undergraduates and concluded contracts with 23 universities as of December 31, 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 mission-critical system-related services

The Japanese government is accelerating its actions to promote the implementation of cloud systems, setting a target to have approximately 1,600 agencies using cloud (of which, approximately 1,100 agencies to be users of local government cloud systems) by the end of FY2023.

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

In particular, the TASK Cloud Service is a common platform package system operated at TKC data centers that allows the shared use of cloud across Japan, attracting attention from the perspective of a local government cloud system promoted by the Ministry of Internal Affairs and Communications and adopted by nine groups nationwide for shared use in their mission-critical system.

In the current 1st quarter, we supported agencies that newly implemented our services and are scheduled for a full-scale launch after October 2019 in enabling smooth system transition, while enhancing the functions of various systems.

As a result of aggressive promotional activities together with the seven partner companies across Japan with whom we have on-going alliance partner agreements, our mission-critical systems are adopted by over 150 agencies nationwide as of December 31, 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. Also, the TASK Cloud Easy Counter Service System that uses the features of this System is very popular, and through promotional activities, the Company supports "the enhancement of resident services" and "counter service reforms" of municipalities.

In the current 1st quarter, the Company supported the nine municipalities of the Kanagawa Prefecture Collective Business Partnership for Information Systems in Municipalities (Administrator Yuji Yukawa, Mayor of Yamakita Town) in preparation for the sequential launch and smooth system operation of the Convenience Store Certificate Issuing System using the Company's systems. The Company also participated in the Demonstration Experiment for the Improvement of Counter Services Using ICT (Smart Counter Services) conducted by Nara City in Nara Prefecture, and engaged in the development of a new smart counter services system around our Easy Counter Service System as core.

In addition, as a result of various functional enhancements and aggressive promotional activities, the Convenience Store Certificate Issuing System is adopted by over 110 agencies nationwide including government ordinance-designated cities such as Kobe and Kitakyushu, and the Easy Counter Service System is adopted by approximately 10 agencies as of December 31, 2019.

(3) Support for digitization of local tax administrations

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

These services are proposed in collaboration with 50 partner companies nationwide with whom we have on-going alliance partner agreements. As a result, our TASK Cloud Local Taxes Electronic Filing Support Service is currently used by more than 770 agencies which account for more than 40% of all prefectures and local municipalities as of December 31, 2019.

In the current 1st quarter, we held eLTAX Information Sharing Sessions for customer agencies throughout Japan, as well as provided support to customer agencies for the smooth operation of the Common Tax Payment System for Local Taxes launched nationwide in October 2019. In addition, we engaged in activities to enhance the functionalities and to actively promote the use of data connection 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 1st quarter, the Company provided support for the smooth system operation to 13 agencies that underwent transition of their financial accounting systems ahead of 51 agencies (7 cities, 26 towns, 4 villages, and 14 partial-affairs associations) that are members of the Kagoshima Prefecture Municipal Association, Kumamoto Prefecture Municipal Association, Nagasaki Prefecture Municipal Administration Promotion Council, and Kyoto Prefecture Municipal Information Promotion Council (scheduled to switch in sequence over the next two years). The Company also engaged in the development and enhancement of various functions to support the "visualization" and "utilization" of local public accounting as well as in aggressive promotional activities. As a result, our public accounting systems are adopted by more than 250 agencies as of December 31, 2019.

(5) Support for digitalization of administrative services

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

To respond to the change in the times and environment surrounding our customers, the Company has been working to further accelerate the planning and development of new products and services as well as to strengthen customer support including the collection and communication of the latest information.

In the current 1st quarter, we participated in the Third Pitch to Local Governments (sponsored by the National Strategy Office of Information and Communication Technology, Cabinet Secretariat), and based on the opinions expressed by practitioners, we engaged in the enhancement and expansion of functions to be achieved by the TASK Cloud My Number Card Issuance Reservation and Management System (scheduled to be provided in Spring, 2020). Furthermore, 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 solutions which support efforts of "improving resident services" and "improving administrative efficiency and standardization" under Society 5.0.

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 (DPS) and business form printing.

Although orders for direct mail productions from private enterprises and business process outsourcing projects decreased, sales increased year-on-year as a result of orders for notice-related services from municipalities and increase orders for notice-related services from extra-governmental organizations.

In the areas of printing of commercial arts (catalogs, flyers, etc.) and booklets, sales decreased year-on-year due to decrease in demands with the popularization of browsing of electronic data (such as electronic catalogs, etc.).

II. Qualitative Information on Consolidated Financial Conditions

1. Assets

Total assets as of the end of the current 1st quarter consolidated accounting period amounted to 92,093 million yen, a 4,896 million yen decrease compared to 96,989 million yen as of the end of the previous consolidated fiscal year.

(1) Current assets

Current assets as of the end of the current 1st quarter consolidated accounting period amounted to 30,662 million yen, a 10,411 million yen decrease compared to 41,073 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to 8,055 million yen decrease in cash and deposits, and 2,019 million yen decrease in notes and accounts receivable.

(2) Non-current assets

Non-current assets as of the end of the current 1st quarter consolidated accounting period amounted to 61,431 million yen, a 5,515 million yen increase compared to 55,915 million yen as of the end of the previous consolidated fiscal year.

This was mainly due to a 4,000 million yen increase in long-term deposits and a 2,583 million yen increase in investment securities, despite a 958 million yen decrease in long-term deferred tax assets included in Other.

2. Liabilities

Total liabilities as of the end of the current 1st quarter consolidated accounting period amounted to 18,716 million yen, a 5,152 million yen decrease compared to 23,868 million yen as of the end of the previous consolidated fiscal year.

(1) Current liabilities

Current liabilities as of the end of the current 1st quarter consolidated accounting period amounted to 11,050 million yen, a 5,227 million yen decrease compared to 16,278 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 2,190 million yen decrease in income taxes payable, a 2,187 million yen decrease in provisions for bonuses, a 481 million yen decrease in advances received included in Other, and a 329 million yen decrease in accounts payable—facilities included in Accounts payable—other.

(2) Non-current liabilities

Non-current liabilities as of the end of the current 1st quarter consolidated accounting period amounted to 7,665 million yen, a 75 million yen increase compared to 7,590 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to an increase of 50 million yen in retirement benefit liabilities.

3. Net assets

Total net assets as of the end of the current 1st quarter consolidated accounting period amounted to 73,376 million yen, a 255 million yen increase compared to 73,121 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 922 million yen increase in capital surplus, a 340 million yen increase in valuation difference on available-for-sale securities, and a 138 million yen increase in retained earnings, despite a decrease of 1,179 million yen in non-controlling interests.

Equity ratio as of the end of the current 1st quarter consolidated accounting period was 79.3%, a 5.5 percentage point increase compared to the ratio of 73.8% 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 1st quarter consolidated cumulative period.

IV. Research and Development Activities

There were no research and development expenses spent by the TKC Group during the current 1st quarter consolidated cumulative period.

There are no significant changes in the status of research and development activities of the TKC Group during the current 1st quarter consolidated cumulative period.

3 [Material Agreements, etc.]

There has been no decision or conclusion of material agreements, etc., during the current 1st quarter consolidated accounting period.

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 1st quarter accounting period (shares) (December 31, 2019)	Number of shares issued as of the filing date (shares) (February 6, 2020)	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]

None to be disclosed.

(ii) [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)
From October 1, 2019 To December 31, 2019	—	26,731,033	—	5,700	—	5,409

(5) [Major shareholders]

There is nothing applicable to be disclosed as the current quarter is the 1st quarter accounting period.

(6) [Voting rights]

The status of voting rights as of the end of the current 1st quarter accounting period indicated hereunder are based on the shareholders registry as of the most recent record date (September 30, 2019) because the content of the shareholders registry as of the end of the current 1st quarter cannot be confirmed.

(i) [Shares issued]

As of September 30, 2019

Classification	Number of shares (shares)	Number of voting rights (units)	Description
Shares without voting right	—	—	—
Shares with restricted voting right (treasury stock, etc.)	—	—	—
Shares with restricted voting right (others)	—	—	—
Shares with full voting right (treasury stock, etc.)	Common stock 257,000	—	—
Shares with full voting right (others)	Common stock 26,394,900	263,949	—
Shares less than one share unit	Common stock 79,133	—	—
Total number of shares issued	26,731,033	—	—
Total voting rights held by all shareholders	—	263,949	—

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

(ii) [Treasury stock, etc.]

As of September 30, 2019

Name of shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under other names (shares)	Total shares held (shares)	Percentage of shares held to the total number of issued shares (%)
TKC Corporation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	257,000	—	257,000	0.96
Total	—	257,000	—	257,000	0.96

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

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 1st quarter consolidated accounting period (from October 1, 2019 to December 31, 2019) and the 1st quarter consolidated cumulative period (from October 1, 2019 to December 31, 2019) have been audited on a quarterly basis 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, 2019)	Current 1st quarter consolidated accounting period (December 31, 2019)
Assets		
Current assets		
Cash and deposits	29,810	21,755
Notes and accounts receivable–trade	8,755	6,736
Inventories	1,090	814
Other	1,459	1,397
Allowance for doubtful accounts	(41)	(40)
Total current assets	41,073	30,662
Non-current assets		
Property, plant and equipment		
Buildings and structures (net amount)	8,404	8,309
Land	6,892	6,892
Other (net amount)	2,666	2,644
Total property, plant and equipment	17,963	17,846
Intangible assets	3,290	3,179
Investments and other assets		
Investment securities	15,527	18,110
Long-term deposits	9,500	13,500
Guarantee deposits	1,339	1,424
Other	8,294	7,370
Total investments and other assets	34,661	40,405
Total non-current assets	55,915	61,431
Total assets	96,989	92,093
Liabilities		
Current liabilities		
Accounts payable–trade	3,602	2,469
Electronically recorded obligations–operating	916	874
Short-term loans payable	142	212
Accounts payable–other	3,924	2,774
Income taxes payable	2,450	260
Provisions for bonuses	3,600	1,412
Other	1,640	3,046
Total current liabilities	16,278	11,050
Non-current liabilities		
Long-term loans payable	438	420
Retirement benefit liabilities	4,764	4,814
Provisions for stocks payment	562	576
Other	1,825	1,854
Total non-current liabilities	7,590	7,665
Total liabilities	23,868	18,716

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current 1st quarter consolidated accounting period (December 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	5,711	6,633
Retained earnings	63,623	63,762
Treasury stock	(1,630)	(1,639)
Total shareholders' equity	73,404	74,456
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(83)	257
Accumulated remeasurements of defined benefit plans	(1,704)	(1,661)
Total accumulated other comprehensive income	(1,787)	(1,404)
Non-controlling interests	1,504	324
Total net assets	73,121	73,376
Total liabilities and net assets	96,989	92,093

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

[Quarterly consolidated statements of income]

[1st quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 1st quarter consolidated cumulative period (Started October 1, 2018; ended December 31, 2018)	Current 1st quarter consolidated cumulative period (Started October 1, 2019; ended December 31, 2019)
Net sales	14,141	16,320
Cost of sales	4,719	5,928
Gross profit	9,421	10,392
Selling, general and administrative expenses	7,802	7,928
Operating income	1,618	2,464
Non-operating income		
Interest income	8	7
Dividends income	63	70
Insurance dividends income	5	3
Land and house rent received	13	12
Equity in earnings of affiliates	3	—
Other	17	23
Total non-operating income	111	117
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	0	0
Other	—	0
Total non-operating expenses	0	0
Ordinary income	1,729	2,581
Extraordinary income		
Gains on sales of non-current assets	—	0
Total extraordinary income	—	0
Extraordinary losses		
Loss on retirement of non-current assets	0	3
Total extraordinary losses	0	3
Quarterly net income before taxes and adjustments	1,729	2,578
Income taxes—current	37	236
Income taxes—deferred	532	773
Total income taxes	569	1,009
Quarterly net income	1,159	1,568
Quarterly profit (loss) attributable to non-controlling interests	(11)	(26)
Quarterly profit (loss) attributable to owners of parent	1,170	1,594

[Quarterly consolidated statements of comprehensive income]

[1st quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 1st quarter consolidated cumulative period (Started October 1, 2018; ended December 31, 2018)	Current 1st quarter consolidated cumulative period (Started October 1, 2019; ended December 31, 2019)
Quarterly net income	1,159	1,568
Other comprehensive income		
Valuation difference on available-for-sale securities	(955)	342
Remeasurements of defined benefit plans	—	42
Share of other comprehensive income of entities accounted for using equity method	(0)	—
Total other comprehensive income	(955)	384
Quarterly comprehensive income	204	1,953
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	217	1,978
Quarterly comprehensive income attributable to non- controlling interests	(13)	(25)

[Notes to Financial Statements]

(Additional Information)

(Stock-based compensation plan for officers)

1. Outline of Transaction

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

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

2. Stocks of the Company remaining in trust

The stocks of the Company remaining in trust are recorded as treasury stock under Net Assets with the book values in the trust (not including expenses attributable thereto). The book value of said treasury stocks was 753 million yen for 190,500 shares as of the end of this current 1st quarter consolidated accounting period.

(Notes to the quarterly consolidated statements of cash flows)

The Company does not prepare the quarterly consolidated statements of cash flows for the current 1st quarter consolidated cumulative period. The depreciation (including amortization of intangible assets) for the current 1st quarter consolidated cumulative period is as follows:

	Previous 1st quarter consolidated cumulative period (Started October 1, 2018; ended December 31, 2018)	Current 1st quarter consolidated cumulative period (Started October 1, 2019; ended December 31, 2019)
Depreciation	678 million yen	743 million yen

(Notes to shareholders' equity, etc.)

I. Previous 1st quarter consolidated cumulative period (started October 1, 2018; ended December 31, 2018)

Dividend payments

Resolution	Type 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

II. Current 1st quarter consolidated cumulative period (started October 1, 2019; ended December 31, 2019)

Dividend payments

Resolution	Type of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
December 20, 2019 Ordinary General Meeting of Shareholders	Common stock	1,456	55	September 30, 2019	December 23, 2019	Retained earnings

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

(Segment information, etc.)

[Segment information]

I. Previous 1st quarter consolidated cumulative period (started October 1, 2018; ended December 31, 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	10,408	2,835	897	14,141	—	14,141
(2) Inter-segment sales or transfers	1	0	341	342	(342)	—
Total	10,409	2,835	1,238	14,484	(342)	14,141
Segment profit (loss)	2,001	(344)	(38)	1,618	0	1,618

- (Notes) 1. Adjustments of segment profit (loss) of 0 million yen include amounts for elimination of inter-segment transactions and adjustment of inventory assets.
 2. Segment profit (loss) is adjusted with the operating profit presented in the quarterly consolidated statements of income.

II. Current 1st quarter consolidated cumulative period (started October 1, 2019; ended December 31, 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	11,288	4,203	828	16,320	—	16,320
(2) Inter-segment sales or transfers	2	0	395	398	(398)	—
Total	11,291	4,203	1,224	16,719	(398)	16,320
Segment profit (loss)	2,347	227	(95)	2,479	(15)	2,464

- (Notes) 1. Adjustments of segment profit (loss) of 15 million yen include amounts for elimination of inter-segment transactions and adjustment of inventory assets.
 2. Segment profit (loss) 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 1st quarter consolidated cumulative period (Started October 1, 2018; ended December 31, 2018)	Current 1st quarter consolidated cumulative period (Started October 1, 2019; ended December 31, 2019)
(1) Quarterly net income per share	44.38 yen	60.68 yen
(Basis for calculation)		
Quarterly profit (loss) attributable to owners of parent (millions of yen)	1,170	1,594
Amount not attributable to common shareholders (millions of yen)	—	—
Quarterly net income from common stocks attributable to owners of parent (millions of yen)	1,170	1,594
Average number of common stocks outstanding (hundreds of shares)	263,786	262,827
(2) Quarterly diluted net income per share	44.17 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)	1,253	—
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	—	—

- (Notes) 1. 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 outstanding deducted for the calculation of quarterly net income per share was 190,500 shares for the current 1st quarter consolidated cumulative period.
2. The quarterly diluted net income per share for the current 1st quarter consolidated cumulative period is not stated as there were no dilutive shares.

(Material subsequent events)

None to be disclosed.

2 [Other]

None to be disclosed.

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

None to be disclosed.

Quarterly Review Report of
Independent Auditors

February 6, 2020

TKC Corporation

To: The Board of Directors

Ernst & Young ShinNihon LLC

Designated Limited Liability Partner Executing Partner	Certified Public Accountant	Kanji Tako	(seal)
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Designated Limited Liability Partner Executing Partner	Certified Public Accountant	Toru Iizuka	(seal)
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Pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan, we have conducted a quarterly review of the quarterly consolidated financial statements of the consolidated fiscal year of the Company (started from October 1, 2019 and ending September 30, 2020) for the 1st quarter consolidated accounting period (from October 1, 2019 to December 31, 2019) and for the 1st quarter consolidated cumulative period (from October 1, 2019 to December 31, 2019) stated in [Financial Information] hereunder, which consists of 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 accounting principles of 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 audit 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 December 31, 2019 and their operating results for the 1st 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]	February 6, 2020
[Company name]	<i>Kabushiki Kaisha TKC</i>
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Title and name of Chief Financial Officer]	Hitoshi Iwata, Representative Director, Vice President and Executive Officer
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

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

Masanori Iizuka, Representative Director, President and Executive Officer of the Company and Hitoshi Iwata, Chief Financial Officer of the Company hereby confirm that the statements contained in the quarterly report of the Company for the 1st quarter of the 54th term (started October 1, 2019; ended December 31, 2019) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.