

Annual Securities Report

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

Fiscal year Started October 1, 2019
(54th Term) Ended September 30, 2020

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

(E04807)

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

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Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

(1) Consolidated Financial Data, etc.

Fiscal year		50th Term	51st Term	52nd Term	53rd Term	54th Term
Year end		September 2016	September 2017	September 2018	September 2019	September 2020
Net sales	(millions of yen)	57,750	59,705	61,621	66,120	67,814
Ordinary income	(millions of yen)	7,604	8,792	8,961	9,669	11,685
Net income attributable to owners of parent	(millions of yen)	4,770	6,071	6,158	6,721	7,821
Comprehensive income	(millions of yen)	3,958	7,097	6,517	4,082	7,501
Total net assets	(millions of yen)	64,556	68,892	72,550	73,121	77,075
Total assets	(millions of yen)	81,116	85,428	90,202	96,989	97,671
Net assets per share	(yen)	2,374.07	2,551.70	2,686.32	2,724.78	2,933.12
Net income per share	(yen)	179.65	229.13	233.46	255.52	297.63
Diluted net income per share	(yen)	178.88	228.16	232.41	255.01	—
Equity ratio	(%)	77.7	78.8	78.6	73.8	78.9
Return on equity	(%)	7.7	9.3	8.9	9.4	10.5
Price earnings ratio	(times)	17.5	15.1	20.4	18.3	22.9
Cash flows from operating activities	(millions of yen)	9,181	8,123	8,810	10,550	10,569
Cash flows from investing activities	(millions of yen)	(7,022)	(4,617)	(4,013)	411	(10,124)
Cash flows from financing activities	(millions of yen)	(2,225)	(3,019)	(2,567)	(3,792)	(3,786)
Cash and cash equivalents at end of year	(millions of yen)	16,552	17,039	19,268	26,810	23,469
No. of employees	(No. of people)	2,547	2,588	2,625	2,701	2,770

- (Notes) 1. Net sales do not include consumption taxes (consumption tax and local consumption tax; hereinafter the same).
2. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period of the 53rd Term, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the fiscal net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.
3. Diluted net income per share is not stated for the 54th term as there were no dilutive shares.
4. The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the current 53rd Term. Accordingly, said accounting standard has been applied retroactively to the key financial data and other indicators for the 52nd Term shown herein.

(2) Financial Data, etc. of the Company

Fiscal year	50th Term	51st Term	52nd Term	53rd Term	54th Term
Year end	September 2016	September 2017	September 2018	September 2019	September 2020
Net sales (millions of yen)	53,361	55,175	56,769	60,897	63,070
Ordinary income (millions of yen)	7,665	8,473	8,577	8,972	11,107
Net income (millions of yen)	4,542	5,900	5,959	6,262	7,472
Capital stock (millions of yen)	5,700	5,700	5,700	5,700	5,700
Total number of shares issued (hundreds of shares)	267,310	267,310	267,310	267,310	267,310
Total net assets (millions of yen)	61,370	65,466	68,863	70,622	74,714
Total assets (millions of yen)	75,030	79,034	82,737	88,192	89,767
Net assets per share (yen)	2,304.61	2,474.82	2,601.49	2,686.94	2,843.26
Dividend per share (Of the above, interim dividends per share) (yen)	80 (40)	100 (40)	105 (50)	110 (55)	120 (55)
Net income per share (yen)	171.08	222.67	225.92	238.07	284.36
Diluted net income per share (yen)	170.34	221.73	224.90	237.59	—
Equity ratio (%)	81.6	82.6	82.9	80.1	83.2
Return on equity (%)	7.5	9.3	8.9	9.0	10.3
Price earnings ratio (times)	18.3	15.5	21.0	19.7	23.9
Dividend payout ratio (%)	46.76	44.91	46.48	46.20	42.20
No. of employees (No. of people)	2,234	2,269	2,225	2,288	2,312
Total shareholder return (Benchmark index: TOPIX total return index) (%)	104.6 (95.8)	118.0 (123.9)	163.9 (137.3)	165.0 (123.1)	238.2 (129.1)
Stock price - high (yen)	3,365	3,530	4,875	5,030	7,270
Stock price - low (yen)	2,393	2,716	3,305	3,350	3,820

- (Notes)
1. Net Sales do not include consumption taxes, etc.
 2. Dividends per share include a dividend of 10 yen for the 50th term in commemoration of the Company's 50th anniversary.
 3. The Company introduced the Board Incentive Plan (BIP) Trust starting from the 2nd quarter consolidated accounting period of the 53rd Term, and recorded the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the fiscal net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.
 4. Diluted net income per share is not stated for the 54th term as there were no dilutive shares.
 5. The Company applies the partially amended Accounting Standard for Tax Effect Accounting (ASBJ Standard No. 28, February 16, 2018), etc. as of the beginning of the current 53rd Term. Accordingly, said accounting standard has been applied retroactively to the key financial data and other indicators for the 52nd Term shown herein.
 6. The highest and lowest share prices are based on the market prices on the First Section of the Tokyo Stock Exchange.

2 [History]

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

Date	Company History
March 1990	Integrated the information processing service divisions of TKC Tokyo Second Information Center, TKC Shinjuku-Minami Information Center and TKC Ikebukuro Information Center to form TKC Tokyo Consolidated Information Center.
April 1990	Established TKC Corporation Strategic Management Research Center. [Merged and absorbed into the Company in October 2000]
June 1991	Opened TKC Data Entry Center.
January 1992	Opened TKC Precedent Retrieval Service Center.
November 1992	Integrated the information processing service divisions of TKC Osaka Information Center, TKC Kyoto Information Center and TKC Hyogo Information Center to form TKC Kansai Consolidated Information Center.
February 1994	Opened Systems Development Center.
March 1996	Listed on the First Section of the Tokyo Stock Exchange.
January 1998	Integrated the information processing service divisions of TKC Nagoya Information Center, TKC Shizuoka Information Center and TKC Nagano Information Center to form TKC Chubu Consolidated Information Center.
June 1998	Opened New Systems Development Center.
June 1999	Acquired shares in SKYCOM Corporation (currently a consolidated subsidiary).
July 1999	The systems development division obtained ISO9001 quality management systems certification.
March 2001	Integrated the information processing service division of TKC Kyushu Information Center, TKC Kumamoto Information Center and TKC Kagoshima Information Center to form TKC Kyushu Consolidated Information Center.
November 2002	Changed the company name in the company registry to TKC Corporation to match the corporate name in the Articles of Incorporation.
March 2003	Tokyo Line Printer Company obtained “PrivacyMark” accreditation from the Japan Information Processing Development Center (JIPDEC).
July 2003	Integrated the information processing service divisions of TKC Okayama Information Center, TKC Hiroshima Information Center and TKC Shikoku Information Center to form TKC Chushikoku Consolidated Information Center.
October 2003	Reorganized the information processing service divisions of TKC Hokkaido Information Center, TKC Tohoku Information Center, TKC Tochigi Information Center, and TKC Okinawa Information Center into TKC Consolidated Information Center, and their SCG departments into TKCSCG Service Center. Changed the name of TKC Information Service Center (Accounting Firm BD) to TKCSCG Service Center.
April 2004	Opened TKC Internet Service Center (TISC). Became the first private company to pass the LGWAN (Local Government Wide Area Network) - ASP connection qualification test.
April 2004	Obtained PrivacyMark accreditation from JIPDEC (Local Governments BD).
June 2005	Obtained PrivacyMark accreditation from JIPDEC (company-wide).
December 2008	Obtained a report on the effectiveness of the implementation and operation of internal controls related to ASP services prepared by Ernst & Young ShinNihon LLC based on JICPA Auditing Standards Committee Report 18, “Assessment of Control Risks relating to an Entity using Service Organizations” (currently, Auditing and Assurance Practice Committee Practical Guideline No. 86, “Assurance Reports on Controls at a Service Organization”).
September 2010	Opened Innovation & Technology Center (I&TC).
September 2015	Acquired 100% ownership of SKYCOM Corporation as a wholly owned subsidiary.
October 2015	Became the first company in Japan to obtain third party accreditation for ISO/IEC 27018:2014, “Code of practice for protection of personally identifiable information (PII) in public cloud acting as PII processors” (October 12).
April 2016	Opened System Engineering Center (SEC) building.
October 2017	Established TKC Customer Support Service Co., Ltd. (currently a consolidated subsidiary).
March 2018	Completed the construction of TKC Customer Support Service building.
October 2018	Tokyo Line Printer Company changed the company name to TLP Corporation.
March 2019	Became the first company to acquire certification under the Electronic Books Software Legal Compliance Certification System by Japan Image and Information Management Association (JIIMA) for its financial accounting systems that are offered to the clients of accounting firms.
September 2019	Acquired 100% ownership of TKC Shuppan Corporation as a wholly owned subsidiary.
September 2019	Established a voluntary Nomination and Compensation Advisory Committee
March 2020	Acquired 100% ownership of TLP Corporation as wholly-owned subsidiary.

3 [Description of Business]

The TKC Group (TKC Corporation and affiliated companies) consists of the Company, six subsidiaries and one affiliated company. The Group is engaged in business activities including accounting firm business (information processing services, software and consulting services, and sales of office equipment and supplies), local governments business (information processing services, software and consulting services, and sales of office equipment), and printing business.

The positioning of each company in each business segment is as follows.

Note that the three business divisions below are the same as the categories in the segment information set forth in the Notes to Consolidated Financial Statements under Part 5 Financial Information, 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

1 Accounting Firm Business Division

Key services/products	Positioning of the Company and affiliated companies
<p>1. Information processing services</p> <p>(i) Computer services by the TKC Consolidated Information Center</p> <p>(ii) Computer services by the TKC Internet Service Center (TISC)</p> <p>2. Software and consulting services</p> <p>(i) Development and provision of software to be installed on system devices for information service applications</p> <p>(ii) Systems consulting services by specialized staff</p> <p>3. Sales of office equipment</p> <p>Sales of system devices for information service applications</p> <p>4. Sales of supplies</p> <p>Sales of office supplies for computer-based accounting</p>	<p>(Services and sales)</p> <p>1. The Company provides information processing services, software and consulting services, and sales of office equipment and office supplies for computer-based accounting to customers including accounting firms and their clients.</p> <p>2. TKC Customer Support Service Co., Ltd., a subsidiary of the Company, offers help desk services to accounting firms and their clients, and for medium- and large-size companies.</p> <p>(Manufacturing and production)</p> <p>1. TLP Corporation, a subsidiary of the Company, offers printed continuous business forms for TKC's computer-based accounting for information processing service applications, and manufacturing of office supplies for use with TKC's computer-based accounting systems.</p> <p>2. SKYCOM Corporation, a subsidiary of the Company, is engaged in the development and sales of software.</p> <p>3. TKC Shuppan Corporation, a subsidiary of the Company, publishes books and monthly magazines on business management, taxing and accounting to provide useful business information to TKC member accounting firms and their clients.</p> <p>4. iMobile Inc., an affiliated company, is engaged in the development and maintenance of website services.</p> <p>(Others)</p> <p>TKC Security Services Co., Ltd., a subsidiary of the Company, provides security, maintenance and repair services for buildings owned by the Company.</p>

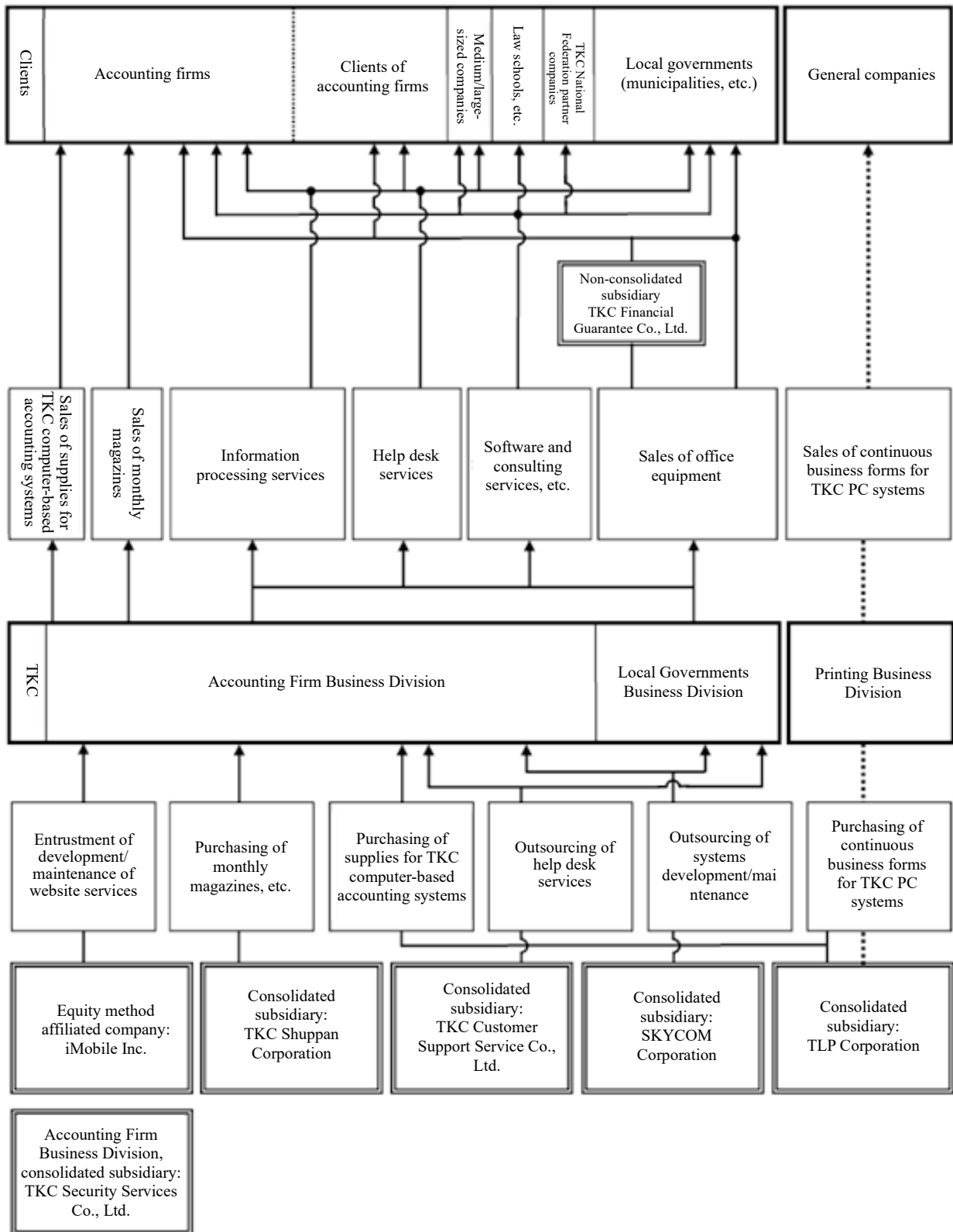
2 Local Governments Business

Key services/products	Positioning of the Company and affiliated companies
<p>1. Information processing services</p> <p>(i) Computer services by the TKC Consolidated Information Center</p> <p>(ii) Computer services by the TKC Internet Service Center (TISC)</p> <p>2. Software and consulting services</p> <p>(i) Development and provision of software to be installed on system devices for information service applications</p> <p>(ii) Systems consulting services by specialized staff</p> <p>3. Sales of office equipment</p> <p>Sales of system devices for information service applications</p>	<p>(Services and sales)</p> <p>1. The Company provides information processing services, software and consulting services, and sales of office equipment and office supplies to local governments (local municipalities, etc.).</p> <p>2. TKC Customer Support Service Co., Ltd., a subsidiary of the Company, offers help desk services to local governments (local municipalities, etc.).</p> <p>(Manufacturing)</p> <p>1. TLP Corporation, a subsidiary of the Company, offers printed continuous business forms for TKC's computer-based accounting for information processing service applications.</p> <p>2. SKYCOM Corporation, a subsidiary of the Company, is engaged in the development and sales of software.</p>

3 Printing Business

Key products	Positioning of the Company and affiliated companies
<p>Continuous business forms for PCs, general office forms, data printing services, brochures, etc.</p>	<p>(Manufacturing and sales)</p> <p>TLP Corporation, a subsidiary of the Company, is engaged in the manufacturing and sales of continuous business forms for PCs, general office forms and data printing services (DPS).</p>

A structural diagram of the Group's business activities is as follows:



4 [Information on Affiliates]

(1) Consolidated Subsidiaries

Name	Address	Capital (millions of yen)	Principal line of business	Percentage of voting rights held (%)	Related activities
TLP Corporation	Itabashi-ku, Tokyo	100	Printing business, manufacture and sales of continuous business forms for PCs	100.0	Purchasing of printed continuous business forms for PCs; lease of office spaces. Executive positions are held concurrently.
TKC Security Services Co., Ltd.	Utsunomiya-shi, Tochigi	10	Security, maintenance & repairs, and cleaning services	100.0	Security, maintenance & repairs, packaging and shipping services. Executive positions are held concurrently.
SKYCOM Corporation	Chiyoda-ku, Tokyo	100	Development and sales of systems	100.0	Outsourcing of systems development. Executive positions are held concurrently.
TKC Customer Support Service Co., Ltd.	Kanuma-shi, Tochigi	25	Help desk services	100.0	Outsourcing of help desk services. Executive positions are held concurrently.
TKC Shuppan Corporation	Chiyoda-ku, Tokyo	83	Production of monthly magazines, etc.	100.0	Purchasing of monthly magazines, etc. Executive positions are held concurrently.

- (Notes) 1. TLP Corporation is a specified subsidiary. Effective as of March 2, 2020, the Company purchased additional shares of TLP Corporation, thereby making TLP Corporation a wholly owned subsidiary of the Company.
2. None of the companies currently submit Securities Registration Statements or Annual Securities Reports.

(2) Equity Method Affiliated Companies

Name	Address	Capital (millions of yen)	Principal line of business	Percentage of voting rights held (%)	Related activities
iMobile Inc.	Chiyoda-ku, Tokyo	100	Development and maintenance of website services	30.0	Outsourcing of development and maintenance of website services. Executive positions are held concurrently.

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

5 [Employees]

(1) Consolidated Basis

As of September 30, 2020

Name of segment	Number of employees
Accounting Firm BD	1,650
Local Governments BD	590
Printing BD	195
Corporate (shared)	335
Total	2,770

(Notes) 1. Number of employees represents the number of working persons.

2. Number of employees listed under Corporate (shared) belongs to the management division.

(2) Status of the Company

As of September 30, 2020

Number of employees	Average age (years)	Average years of service (years)	Average annual salary (yen)
2,312	39.7	16.4	7,457,353

Name of segment	Number of employees
Accounting Firm BD	1,502
Local Governments BD	590
Corporate (shared)	220
Total	2,312

(Notes) 1. Number of employees represents the number of working persons.

2. Average annual salary includes bonuses and extra wages.

3. Number of employees listed under Corporate (shared) belongs to the management division.

(3) Status of Labor Unions

There are no labor unions.

Part 2 [Business Overview]

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

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

(1) Management policy, management strategy

The Company is managed to achieve the following two business objectives as set forth in our Articles of Incorporation (Article 2) under the company motto of “Jiri Rita (“self-interest is in the realization of other's interest”) and management principle of “Contribution to our Customers.”

- (i) Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms
- (ii) Management of electronic data processing centers to improve the administrative efficiency of local governments

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

(2) Business environment

Factors that have great impacts on the products and services offered by the Group include revisions to the laws and advancements in ICT. Legal reforms to which we must respond include the electronic filing of income taxes mandated to large corporations starting in April 2020, the compulsory application of Accounting Standard for Revenue Recognition starting in April 2021, the Digital Administrative Procedures Act, and standardized local public accounting.

Advancements in ICT such as cloud computing, FinTech, AI and RPA continue to evolve rapidly. In addition, the establishment of a new Digital Agency and the integration of the My Number card and health insurance card are also scheduled in 2021.

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

As the outlook for the containment of the novel coronavirus infection (hereinafter, “Coronavirus”) is still unpredictable, future prospects of the Japanese economy is unclear and long-term impacts on the Group’s customers, namely the accounting firms and their clients, are anticipated. While the Printing Business Division operated by the Group’s subsidiary has seen decrease in orders for direct mails from private companies, impacts to the Group’s performance has been minimal so far. Yet, we have not ruled out the possibility of greater impacts depending on future trends in slowdown in trade and suppression of corporate capital investments.

(3) Priority business and financial issues

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

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

- (ii) Establishing the Group governance system

The Group will establish an internal controls system in compliance with the requirements of the Companies Act as well as the Financial Instruments and Exchange Act of Japan, and compile the Company’s management philosophy, various board structures and corporate rules and regulations in a systematic manner to improve the Group governance system.

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

- (iii) Fostering an organizational culture that bolsters job satisfaction

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

(iv) Ensuring business continuity

The Group will strengthen and expand existing services to ensure the continuity or early recovery of the business operations of all of our customers in the event of large-scale natural disaster and other unforeseen circumstances.

(v) Rapid response to system failure

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

(vi) Efforts toward information security

The Group provides various information services for accounting firms and their clients and local governments through the use of latest ICT. Ensuring information security is our highest priority and also a social responsibility in conducting our business activities.

It is with this awareness that the Company acquired third party accreditations including the ISO/IEC 27001 Information Security Management Systems certification and the JIS Q 15001 Personal Information Protection Management Systems (PrivacyMark) in order to develop a technical environment that enables our customers to use our cloud services with a peace of mind.

In addition, the TKC Internet Service Center (TISC) also acquired certifications under ISO/IEC 27018, code of practice for protection of personally identifiable data in the public cloud on October 12, 2015, and ISO/IEC 27017, code of practice for information security controls for cloud services on June 19, 2017.

The Company will continue to strive to develop environments where customers can use cloud services safely, securely and conveniently.

2. Management Policy, Economic Environment and Challenges Faced by the Accounting Firm Business Division

(1) Management policy, management strategy

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

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

[Activity policy to change society with the TKC brand]

- (i) Promote Shomen-tempu (attachment of tax audit reports) by the TKC methods (FY2020 target: Corporate Shomen-tempu by 144,000 companies)
- (ii) Promote TKC Monitoring Information Service (FY2020 target: 120,000 companies, 245,000 cases)
- (iii) Promote self-accounting practice by the TKC methods (FY2020 target: 285,000 companies)

Based on the activity policy of TKCNF, the Company conducts activities to achieve its strategic targets for FY2020.

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

(2) Business environment

According to the Outline of Filing of Corporate Income Tax Returns (Taxation) published in October 2019 by the National Tax Agency, the percentage of companies recording profit was 34.7%. Although this was an increase of 0.5 percent points over the previous program year and the percentage has been rising for eight consecutive years, it shows that approximately 65% are still recording losses.

Moreover, we may see more SMEs impacted by the spread of COVID-19 that face difficulties and record losses. Amidst such impenetrable fog, many SMEs have secured cash on hand through emergency loans, which they will begin repaying after 2021. Businesses now face a big challenge of securing profit necessary to repay the loans.

In such climate, TKC Member firms, in an aim to achieve positive balance and proper filing, conducted monthly field audits and monthly settlements, offered managerial advisory services, and undertook activities to "strengthen the company through accounting." We also provided various support services, including the calculation of profits

and sales revenues needed for loan repayment and development of business plans. As a result of these activities, nearly 60% of the clients of TKC Member firms have achieved surplus, and there are rising expectations from SMEs and financial institutions nationwide towards the effective instructions provided by TKC Member firms.

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

(3) Priority business and financial issues

The Accounting Firm BD considers contributing to the prosperity of accounting firms and their clients the most vital business challenge, and will continue to collaborate closely with the TKCNF on the various TKCNF activities as well as develop and provide systems and services to support the operation of TKC Members.

(i) Increase system competitiveness

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

- 1) The strengths of the Company's systems lie in the one-stop, full line of tax affairs and accounting. The advantage is the capability to provide a one-stop, full line of accounting, tax affairs and electronic tax filing with fully compatible links to related tax information systems while maintaining complete compliance with laws, regulations and accounting standards in our financial accounting systems. Looking ahead, the Company will continue to respond promptly and accurately to revisions of laws/regulations and system modifications, and strive to enhance these strengths.
- 2) The most important feature of the Company's systems is that they are not mere offering of systems and services. Our systems come with the meticulous support, from implementation to operation, by TKC Members that have extensive experience in tax- and accounting-related practices, to enable clients to perform legitimate and appropriate tax and accounting. The Company will provide enhanced support for such TKC Members to assist them in offering greater added-value services.

(ii) Activities to promote the use of self-accounting

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

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

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

(iv) Increase of user base of TKC Law Library

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

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

(1) Management policy, management strategy

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

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

(2) Business environment

Informatization of local governments (municipalities, in particular) is at a major turning point.

One of their new challenge is to become a “smart” municipality. Against the backdrop of labor shortages due to declining birthrate/aging population and depopulation, municipalities are facing an important challenge of transitioning to a smart municipality and promoting shared, wide-area cloud that could provide administrative services in a sustainable manner with half the number of staff.

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

In such situation, the government is accelerating its efforts towards the standardization of municipality systems. Conventionally, each municipality had created and developed its own information systems. As a result, they are now facing personnel and financial burden in placing purchase orders, maintaining and managing the systems, and responding to system reforms. The different forms and formats used by each municipality are also causing burden on those creating and using them, namely the residents, companies, and municipalities. The standardization and sharing of information systems are essential infrastructures in achieving the digitalization of administrative procedures.

Moreover, the spread of the COVID-19 has drastically changed the socio-economic activities of Japan, redefining our past sense of values. In particular, the delay in the payment of the Special Cash Payment has triggered the move towards early digitalization of administrative procedures.

Moreover, while governments and municipalities face increasingly serious financial conditions, reform of administrative and financial services to increase financial transparency, efficiency and appropriateness will continue to gain speed. Thus, it is imperative that municipalities conduct appropriate updates and disclosure of financial documents, while using the information obtained from such financial documents for comparison of secular changes, comparison between similar organizations, and analysis using indicators, and creating and analyzing financial documents by facility to be used in asset management and budgeting of public facilities.

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

(3) Priority business and financial issues

As corporate effort to support the achievement of Smart governments, digitalization of administrative services, and reform of administrative and financial services, the Company considers providing support for improving the administrative efficiency of local governments and enhancing resident convenience a vital business challenge, which shall be achieved through the development and provision of innovative products and services that leverage the latest in ICT, and will implement the following five priority activities to this end.

- (i) We will develop new municipality customers of mission-critical operational systems and further promote government cloud systems to propel digitalization of administrative services and minimize costs;
- (ii) We will support the realization of evidence-based policy making (EBPM) based on public accounting information by providing systems that allow analysis of administrative efficiency through multilateral use of financial data;
- (iii) We will support the enhancement of convenience of users (governments and residents) through dissemination and expansion of eLTAX-related services and digitization of tax administration;
- (iv) We will engage in the development and provision of new, user-oriented administrative services and digitization support systems;
- (v) We will establish mutual software product supply relationship with local vendors providing services to local municipalities in order to promote alliance strategies to achieve expansion of sales area and multiplexing of services.

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

(1) Management policy, management strategy

The Printing BD operates under the management philosophy to contribute to the communication and marketing of client companies and their customers by utilizing digital technologies and securely providing printed materials. We anticipate an even highly advanced information society and a hurried installation of a digitalized government due to the impacts of COVID-19. To respond to the diversified needs of clients in the rapidly changing society, the Printing BD offers greater added-value services utilizing the latest equipment and technologies based on its sales, quality, and production capabilities to create maximum customer values. As a good partner to our clients, we will strive to further improve corporate value through the development of a communication environment utilizing digital technologies and printed materials.

(2) Business environment

As to our key products, data print services (DPS) and business process outsourcing (BPO), we expect the increase in Internet advertisements as well as transformation to post-COVID-19 new business styles such as teleworking and work-at-home, and the governmental initiatives in digitalizing administrative services. We will strive to adapt and survive these major changes. The market is looking upon the unprecedented changes in the environment and creation of a new businesses. We will offer proposals in view of these changes to improve customer satisfaction.

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

(3) Priority business and financial issues

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

- (i) We will strengthen our sales force for the sales of DPS-related products in order to increase our shares among existing customers and to acquire new customers.
- (ii) With the full-scale operation of the Kansai Plant and Kansai sales office, we will increase sales in the West Japan area.
- (iii) We will submit proposals combining our analog and digital printing technologies to loyal customers to achieve direct communication with such customers.
- (iv) Due to the impacts of the COVID-19 pandemics, we expect customers to increase the weight of outsourcing. We will accept BPO (business process outsourcing) orders and contribute to streamlining the customers' business operations by maintaining high quality, minimizing costs, and reducing information security risks.
- (v) We will enhance quality and production capabilities by further improving the production environment of the dedicated DSP plant which has been expanded.
- (vi) We will continue to respond to customer needs, submit unique proposals to differentiate ourselves from competitors, and develop new technologies to reduce production costs.
- (vii) We will strive to improve and maintain consistent quality, and enhance our quality inspections of each process for all products to prevent quality defects.
- (viii) We will introduce a new facility for envelop production and reduce the percentage of subcontracting through increased self-manufacturing in order to save costs.
- (ix) In order to win trust from customers and business partners, and to stay on the front line of the government-initiated promotion of My Number Cards, we will further strengthen our information security systems based on Privacy Mark and ISMS to ensure strict management of My Number.
- (x) As ISO14001 certified, environmentally friendly company, we will reduce wasted paper and further put our efforts into reducing energy consumption through increased productivity and efficiency.

2 [Risk Factors]

Major risks pertaining to the business operations of the Company and the Group, in reference to the sections Business Overview and Financial Information in this Annual Securities Reports, that we consider are worth informing our investors are described below. It is also our policy to be forthcoming in disclosing information on other risk factors that may be deemed material to investors.

The Company is aware of the possibility that these risks may occur and strives to prevent them in advance or respond promptly should they occur. However, we feel it necessary that investment decisions concerning the Company

securities should be made after thorough review in light of this section and also in reference to the contents of this entire report. Note that this section does not cover all risk factors related to investment in the Company securities.

Statements with regard to the future are based on the Group's decision made as of the end of the current consolidated fiscal year (September 30, 2020).

1. Economic Climate

The clients of the Group are mainly TKC member accounting firms and local governments. Although the trends in domestic economy do not have direct impacts on the Group's business performance, there may be adverse effects on the Group's business results and financial status if recession persists and earnings of TKC member accounting firms and their clients decline as a result.

2. Market Competitiveness

The Group develops and provides business software for our clients, including TKC member accounting firms and their clients, and local governments. There are other vendors that develop such software, and if our software is inferior in quality or operability, we may not be selected from our customers.

The Group strives to be quick in capturing legal reforms and advancements in ICT, maintains a dedicated team in the development division to market our software, and has a development system to widely incorporate the demands of our customers and users.

3. Quality of Products and Services

The products and services that the Group offers to customers contain information such as accounting and taxation information of TKC member firms and their clients, and residential information of local municipalities. Errors in such information may cause significant damages to our customers, and as such, the quality of the Group's products and services are considered important elements of our business activities. We conduct training to increase understanding on the system architecture, and enhance tests to maintain and improve quality.

However, as it is difficult to completely eliminate system failure of larger scale, complex software in the recent years, we are working to establish a system that can provide a speedy, direct, full-scale customer rescue in the event of system failure.

4. Raw Material Procurement for Printing BD

The Printing BD of the Group has concerns about possible imbalance in demand and supply due to oil price increases and tightening of supply and demand in international markets. Should such circumstances prevail, the Group will aim to respond through price negotiations with its customers. However, such circumstances may still affect the financial standing and operating results of the Group in the event the procurement of raw materials becomes extremely difficult, or when purchase prices rise significantly.

The majority of raw materials is procured through direct purchases of base paper from paper manufacturers, and the Group strives to ensure the stable procurement of raw materials and to maintain optimal pricing.

5. Protection of Personal Information

The Group is entrusted with a large amount of information on companies and individuals held by our customers (accounting firms, local governments) as well as internal information for the execution of its business.

In order to ensure that such information is managed properly, the Company reviews its policies and procedures related to information management on an on-going basis, educates its directors and employees, disseminates the importance of information management and implements system-based information security measures.

The Company also strengthens its information protection management systems by obtaining accreditations such as ISO/IEC27001 Information Security Management System (ISMS) and JIS Q 15001 Personal Information Protection Management Systems (Privacy Mark). TKC Internet Service Center also acquired ISO/IEC27018 certification, a standard specializing in the protection of personal information in relation to ISMS and public cloud services, and ISO/IEC27017 certification for information security controls for cloud services.

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

6. Contentious Cases

While there are no contentious cases that could affect the financial standing and operating results of the Group, such contentious cases could occur in the future.

7. Impacts of COVID-19

The slowdown of the economy on a global scale due to the spread of COVID-19 is expected to continue for the next few years. In such environment, the Company may not be able to avoid the impact should the business of our customers, the accounting firms and their clients be significantly affected.

However, with this pandemic, there are new demands that are arising out of the accelerated digital transformation and new lifestyles, and the Company will continue to provide a wide range of support to our customers and to expand our business.

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

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

1. Operating Results across the Group

The Japanese economy in the consolidated fiscal year under review (October 1, 2019 to September 30, 2020) (hereinafter, the "current fiscal year") started out with a gradual growth trend, but resulted in serious circumstances impacted by the global spread of the novel coronavirus disease (COVID-19). As the outlook for the containment of the novel coronavirus is still unpredictable, future prospects of the Japanese economy is unclear and long-term impacts on the Group's customers, namely the accounting firms and their clients including SMEs and local municipalities are anticipated.

In such situation, the Company has placed highest priority on supporting our customers, and worked to develop systems and provide services for them.

The Accounting Firm BD supported the efforts of certified public tax accountants and certified public accountants that are customers of TKC (hereinafter, "TKC Members") in providing assistance in financing and managerial advisory services as escort supporters of SMEs. The Company also worked to promote the use of TKC Monitoring Information Service, in which TKC Members, upon request by their clients, disclose the company's settlement at the same time as the electronic tax filings of settlement documents.

The Local Governments Business Division provided support for the administrative tasks related to the application and acceptance procedures for the Special Cash Payment and Temporary Special Benefit for Households with Children programs that were conducted under the COVID-19 emergency economic policy (approved by the cabinet on April 20, 2020). In addition, the Division received orders and conducted system revisions in response to the free preschool education & nursing subsidy program and the online confirmation of qualifications (for example, the use of My Number card as health insurance card, etc.) under the Health Insurance Act.

As a result of these activities, the TKC Group recorded a net sales of 67,814 million yen (increased 2.6% year-on-year), operating income of 11,381 million yen (increased 21.8% year-on-year), ordinary income of 11,685 million yen (increased 20.8% year-on-year), and current net income attributable to owners of parent of 7,821 million yen (increased 16.4% year-on-year).

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

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

(1) Business activities of the Accounting Firm BD

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 1: Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms) and works under close ties with the TKC National Federation, which consists of 11,400 certified public tax accountants and certified public accountants (as of September 30, 2020) that are customers of TKC (hereinafter, "TKC Members").

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

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

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

[Activities of the TKC National Federation (“TKCNF”)]

TKCNF sets 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 target: Corporate Shomen-tempu by 144,000 companies)
- (ii) Promote TKC Monitoring Information Service (FY2020 target: 140,000 companies, 245,000 cases)
- (iii) Promote self-accounting practice by the TKC methods (FY2020 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

With COVID-19 casting shadows on the business environment surrounding SMEs, TKCNF sent out messages: “Now is the time to exert the true values as tax consultants!” “Tax accountants should be an empathetic counselor for SMEs in light of this crisis.” While continuing to engage in the activities outlined above, TKCNF worked to support SMEs whose businesses were impacted by the spread of COVID-19 in resolving cash flow situations and preparing applications for subsidies.

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

- (i) Support of SMEs affected by COVID-19

During the fiscal year under review, the Company engaged in the following support activities under the policy to focus all its effort on supporting TKC Members and their clients.

- 1) Provision of the latest information to TKC Members

To accurately and quickly convey information on SME support policies released by the national government and SME support organizations to TKC Members, the Company provided the latest information on a daily basis on the exclusive Intranet (ProFIT) for TKC Members. We began this activity on February 25, and posted a total of 168 entries as of the end of the fiscal year.

- 2) Offering of the COVID-19 Emergency Financial Measures Corner

The Company developed a special website where TKC Members can check SME support policies offered by the national, prefectural, and municipal governments under the categories: Loans, Subsidies, Employment, and Taxation. The site has enabled TKC Members to send out information on emergency financial measures widely across clients and other SMEs. The website has 9,231 entries on support policies as of the end of the fiscal year.

- 3) Offering of a check function for clients requiring emergency support

The Company implemented a check function for clients requiring emergency support on the Tax Accountants Office Management system (OMS). This function can automatically evaluate the eligibility of each client in a list of 20 items of various SME emergency economic policies such as the subsidy program for sustaining businesses, employment adjustment subsidy, and rent support benefit, special loans by government-affiliated financial institutions, and temporary loan under the management safety mutual aid system run by the Organization for Small & Medium Enterprises and Regional Innovation, JAPAN. We also incorporated a function that features one-click generation of the Application for Decrease in Sales Affected by COVID-19, which is required in order to apply for the Special Loans for Coronavirus offered by the Japan Finance Corporation. With this, we established a system to enable TKC Members to provide their clients prompt support in filing applications for emergency financing.

- 4) Strengthening of on-demand training

The Company provided on-demand training on specific application procedures for the above-mentioned SME support policies and extensions of tax returns/tax payments, and on accounting and tax practices upon receiving such benefits, and also encouraged viewing the contents.

- 5) Provision of equipment necessary to work from home

To enable TKC Members and their staff to work from home in complete compliance with “The Services of

Certified Public Tax Accountants and Teleworking (Working from Home), Measures to Prevent the Spread of the Novel Coronavirus” published by the Japan Federation of Certified Public Tax Accountants' Associations on April 15, the Company provided communication equipment such as web meeting systems and microphone headsets for users to access the TKC systems from home in a highly secured environment.

(ii) Sales activities to achieve Strategic Targets 2020

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

1) Promotion of TKC Monitoring Information Service

TKC Monitoring Information Service is a free cloud-based service in which the TKC Members, upon request by the management of their clients, provide to financial institutions such information as monthly trial balance sheets, financial statements and tax returns prepared by TKC Member firms after monthly field audits and monthly settlements. Monthly trial balance sheets will be made available immediately upon completion of the monthly settlement, and fiscal financial settlements 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:

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

As a result of these activities, the number of financial institutions adopting this Service is increasing rapidly, adopted by 443 financial institutions including all local banks throughout Japan (64 institutions) as of September 30, 2020. Also, over 220,000 companies provided their financial statements to financial institutions as of September 30, 2020. We have also seen cases where clients utilizing the TKC Monitoring Information Service were able to quickly pass the examination for emergency loans in response to the impacts of the COVID-19 pandemic to obtain financing. This could be seen as evidence that financial institutions consider financial statements prepared by TKC Members to be highly reliable. In addition, the Ministry of Economy, Trade and Industry established a program to enable financial institutions to offer interest-free, collateral-free loans in order to strengthen financial support to SMEs in response to the increasing impacts of COVID-19 pandemic. Many financial institutions provided emergency loans to SMEs under this program. These financial institutions are required to check the performance of borrowers and report to the credit guarantee association on a regular basis. That is why financial institutions are interested in our services to provide monthly trial balance sheets under the TKC Monitoring Information Service. The Company continues to provide support to enable TKC Members and financial institutions to promote this service together.

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

The Company has incorporated various functions in the FX series in a triple hierarchical structure: (i) functions for management strategy level, to be used by top management to understand the activities of the entire organization at a glance; (ii) functions for performance management level, to be used by managers to evaluate the performance of their respective business divisions and to consider the next course of actions; and (iii) functions for business execution level to streamline accounting operations and reduce tasks. During the current fiscal year, we provided support for the utilization of functions for the management strategy level (budget registration, management by division, financing results spreadsheet) incorporated the FX series, which has enabled the management of clients to accurately understand the impacts of COVID-19 and to determine the next actions. In order for management to utilize these functions effectively, they need to enter the accounting transaction data in a timely and efficient manner, so the Company also provided support on functions for business execution level, including support for the bank credit data receiving function to receive bank deposit transaction data through online banking and generate journal entries automatically, and the linking of salary journal with the strategic salary information system (PX2). In addition, on September 25, 2020, the Company started the new offering of its FX Cloud series. This system features enhanced functions to “strengthen the company through accounting” and enhanced functions to support the field auditing by accounting firms. By offering assistance to implement the FX Cloud series, the Company will work to support SMEs in strengthening their financial management and capital procurement capabilities.

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

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.

4) Soliciting new members (promotion of joining TKCNF)

TKCNF is engaged in a project to increase TKC membership to over 10,000 firms by the end of September 2021. The Company is working closely with the New Members Service Committee of TKCNF in soliciting new members to achieve this goal. During the fiscal year under review, we were unable to visit potential accounting firms that we intended to solicit due to the coronavirus-related confusion. So the Company held on-demand seminars and promoted joining TKCNF by introducing practices to support clients' cash flow situations and case studies on teleworking of accounting firms. As a result of these activities, the number of TKC Members totaled approximately 9,700 accounting firms and 11,400 accountants as of September 30, 2020. The difference in numbers of firms and accountants are because some firms have multiple accountants who are members.

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

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

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

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

(ii) Issuance of Certificate of Bookkeeping Timeliness

The Company utilizes the processing log data and historical time series data that are automatically logged at our data centers when TKC Members access our accounting system to issue a Certificate of Bookkeeping Timeliness free of charge. This Certificate serves as reference for financial institutions and other third parties to objectively evaluate the business performance of TKC Member firms. This service was developed in an aim to improve reliability of financial statements and tax returns prepared by TKC Members and to provide a passport for smooth financing to the clients of TKC Members. This utilizes the features of the Company's financial accounting processing at TKC data centers, which prohibits any retroactive insertions, deletions and corrections to past data, and TKC Corporation proves, as a third party, that TKC Members have visited clients on a monthly basis to provide guidance on accurate bookkeeping (monthly Field Audits), and that all work processes from monthly settlements to the final settlement of accounts and electronic tax filings have been completed by a one-stop, full line process in a timely manner.

[Expansion into large-scale enterprise market]

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

Starting April 2020, large enterprises with a capital of 100 million yen or greater are mandated to use electronic filing of income tax, consumption tax, and local taxes. 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 2,268,473 companies in FY2018. While the percentage of companies using the electronic filing system was 84.3%, only 66.1% of large sized companies used electronic tax filings. This means that many of the mandated large enterprises will be using the electronic filing system for the first time.

To enable these companies to switch smoothly to the mandated electronic filing system, the Company released the Guidebook on Complying with Mandatory Electronic Filing on the Company's website and held on-demand seminars in collaboration with TKCNF's Medium- and Large-sized Companies Support Council (1,447 members as of September 30, 2020). We also entered into alliance agreements with four ERP vendors, working on the development

of systems linking to financial statements data. Moreover, as many listed companies encouraged telecommuting in response to the coronavirus, we switched our sales activities from visiting sales to inside sales, consequently reducing the time to visit clients and increasing the number of negotiations.

As a result, the number of users of ASP1000R electronic tax filing system for corporations reached 3,170 companies as of September 30, 2020.

As a result of these activities, the number of corporate groups using the TKC Consolidated Group Solution counted approximately 4,100 corporate groups as of September 30, 2020. Our taxation-related information systems are adopted by 87% of the 100 largest Japanese listed companies by sales amount. The market shares among Japanese listed companies reached 32%.

[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 311,500 judicial precedents and decisions as of September 30, 2020, 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 959,000 bibliographic information references with links to 62 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, Inc., Hanrei Times Co., Ltd., and Japan Institute of Business Law) with accessible number of information now exceeding 2,650,000 items.

(i) Increase of user base of TKC Law Library

Many customers were forced to work online as a result of transitioning to teleworking due to COVID-19. This has consequently caused users who were unable to conduct research at the data room or library to reconsider the advantages of TKC Law Library that covers laws and regulations, judicial precedents, bibliographic information references and also contents of specialized law magazines, which could be accessed any time, from any place. As a result, the numbers of user IDs and contracts to access additional contents are growing. In the current fiscal year under review, as a result of active on-line promotional activities through the website and SNS towards TKC Member firms, universities, law schools, government offices, law firms, patent offices and corporate legal departments, the number of users exceeded 52,000 IDs and the Library is used by over 23,000 institutions as of September 30, 2020.

(ii) Progress in the academic market

Due to the impacts of COVID-19, almost all universities were conducting online classes in the first semester. Our systems, such as the TKC Educational and Research Support System and TKC Law Library, can be accessed online and used anytime, anywhere. They contain a huge number of diverse contents compared to those of other companies, and includes various functions such as report generation, computing and testing. These features are being reconsidered as tools to support online classes and learning for faculty and students during the COVID-19 confusion. Since April, the Company conducted web meetings with various universities and responded to requests for additional access to our basic services and provided support in the development of online learning environments tailored to meet the situation of each university.

Also, the study tools (for civil service examination and practical business law examination) offered mainly to the faculty of law of universities have been adopted by 25 universities as of September 30, 2020. As examinations are postponed and learning environment is incomplete, students must rely on online study tools that contain well-developed learning materials. Such students are using our systems much more frequently. In September, we began offering a new study tool for the jurisprudence examination. Because the jurisprudence exam for the current fiscal year (November) was limited to group examinees, we are promoting trial use among 63 target universities in an aim to expand use in the next fiscal year.

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

Net sales of the Accounting Firm BD were 47,150 million yen (increased 2.7% year-on-year); operating income was 10,237 million yen (increased 17.3% year-on-year).

- (i) Sales from computer services increased by 4.1% year-on-year. This was attributable to the following factors:** that the number of financial processing by TKC Members increased in order to support clients with their business management, emergency financing measures, and application for subsidies, as the number of SMEs facing financial difficulties increased amid the economic recession due to spread of COVID-19; that the number of SMEs implementing the FX4 Cloud Integrated Accounting Information System for mid-size companies increased, as more companies encouraged teleworking and needed a system to centrally manage their business including subsidiaries; and that, in light of the increase in accounting firms that needed to respond to work-from-home demands, the number of customers of the OMS Mobile and TKC Cyber Security

Services, which allow users to access the TKC systems from home while maintaining a highly secure environment, increased.

- (ii) Software sales increased by 4.0% year-on-year. This is the result of factors such as 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 mandated to large enterprises with a capital of 100 million yen or greater starting April 1, 2020.
- (iii) Hardware sales increased by 6.4% year-on-year. This was caused by the increase in demands for PC replacements in response to the termination of Windows 7 support by Microsoft in January 2020, and in addition, due to the increase in demands for notebook PCs equipped with web camera and mobile monitors as a result of increase in the number of accounting firms that encourage teleworking due to COVID-19.
- (iv) The improvement in operating income year-on-year was a result of decrease in travel expenses by switching the style of customer support to remote using the online meeting system instead of visiting, and decrease in costs related to hosting seminars by using webinars for marketing activities.

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

(1) Business activities of the Local Governments BD

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

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

The Company provides TKC Government Cloud Service to municipalities (mainly for cities, wards, towns and villages). This is a Cloud Service that 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.

On July 17, 2020, the Declaration to be the World's Most Advanced IT Nation: Basic Plan for the Advancement of Public and Private Sector Data Utilization was approved by the cabinet. In an aim to reduce administrative costs, standardize administrative tasks, improve information security, and ensure business continuity in the event of a disaster, the Japanese government has set a target to have approximately 1,600 institutions using cloud for their administrative systems (of which, approximately 1,100 institutions to be users of local government cloud systems) by the end of FY2023.

Our TASK Cloud Service is a single version package system operated at TKC data centers that is designed to allow shared use by multiple institutions. It has been attracting attention as being an optimal system for a local government cloud system promoted by the government, and has been adopted by eleven groups for shared use. The seven alliance partners across the country are also actively promoting our TASK Cloud Service. As a result, the TASK Cloud Service has been adopted by more than 160 local municipalities as of September 30, 2020.

In the current fiscal year under review, we continued to undertake proposal activities to win new contracts, as well as supported newly implementing municipalities that were scheduled for a full-scale launch by September 2020 in enabling smooth system transition.

Also, for the Welfare Consultation Support System, we enhanced the functionalities of various systems through the provision of functions to support streamlining of record preparation and smooth sharing of information between relevant parties based on the F-SOAIP lifestyle support recording method(*).

In addition, the Company provided emergency support on related systems under the Special Cash Payment program conducted as COVID-19 emergency economic policy, and offered as outsourcing service a full application document package including explanatory materials and return envelopes, thereby contributing to early cash payments to 1.52 million households by 112 organizations mandated to carry out the administrative tasks.

* About lifestyle support recording method F-SOAIP

F-SOAIP is a progress recording method developed for the purpose of creating a common language among the areas of welfare, nursing care, and health care. It is drawing attention because it can standardize terms/expressions to be used in recording necessary information in itemized format, which allows users to record the progress of support in an efficient and accurate manner and to facilitate sharing of information among relevant parties.

(ii) Support for digitalization of administrative services

The Company positions its TASK Cloud Convenience Store Certificate Issuing System and the TASK Cloud Easy Counter Service System that uses the features of the former system as administrative service digitization support solutions, and works to enhance functionalities and to expand product offerings.

For the Convenience Store Certificate Issuing System, 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 launch and smooth operation of the Convenience Store Certificate Issuing System using the Company's systems.

For the Easy Counter Service System, we also participated in the Demonstration Experiment for the Improvement of Counter Services Using ICT (Smart Counter Services) conducted by Nara City in Nara Prefecture (planned experiment period: November 2019 - September 2020), and engaged in the development of a new smart counter services system.

Furthermore, the Company began offering the following systems that were under development.

1) TASK Cloud My Number Card Issuance Reservation & Management System (launched in May 2020)

First user: Goka Town, Ibaraki Prefecture

2) TASK Cloud Smart Application System (launched in August 2020)

First user: Osaka City, Osaka Prefecture

In addition, as a result of functional enhancements of various systems and aggressive promotional activities, the Convenience Store Certificate Issuing System is adopted by over 130 agencies including government ordinance-designated cities such as Kobe and Kitakyushu, the Easy Counter Service System is used by approximately 10 municipalities, and the My Number Card Issuance Reservation & Management System is adopted by over 20 municipalities as of September 30, 2020.

(iii) Response to 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 of each municipality. These services are proposed in collaboration with 50 partner companies with whom we have on-going alliance partner agreements. As a result, our TASK Cloud Local Taxes Electronic Filing Support Service is currently used by more than 780 agencies which account for more than 40% of all prefectures and local municipalities as of September 30, 2020.

In the current fiscal year, we engaged in the enhancement and expansion of functionalities of related systems in response to the launch of the Common Tax Payment System for Local Taxes, and active promotional activities for data connection services.

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

Municipalities are required to further promote their initiatives in local public accounting and to focus on streamlining the preparation of financial documents in order to utilize such data for financial analysis. According to the report by the Study Group on the Promotion of Local Public Accounting (FY2019) released by the Ministry of Internal Affairs and Communications in March 2020, it is believed that smooth implementation of the daily journalizing method and reduction of checking tasks in year-end bulk journalizing can be achieved by implementing a local public accounting system that has an integrated financial accounting system, linking, in advance, the expenditure items with account headings, and by establishing a system that can journalize and convert the budget items automatically upon budget execution.

The report also suggests that "it may be possible to streamline the ledger registration tasks by linking and integrating the data in the public domain ledger and data in the fixed assets ledger" and encourages municipalities to consider implementation of a local public accounting system that has an integrated financial accounting system and adopt the daily journalizing method upon system updating.

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

In the current fiscal year, the Company provided support for the smooth system launch and operation to 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, as well as for newly transitioning agencies.

We 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 270 agencies as of September 30, 2020.

(v) Research and development of next-generation products

In response to the lagging in digitization and moving online that became apparent from the spread of COVID-19, the Basic Policy on Economic and Fiscal Management and Reform 2020 (Cabinet Decision of July 2020) positioned all-out promotion of a digital government as top priority, and decided to speed up the implementation of digitization to “move as many administrative procedures as possible online and make them ‘one stop and once only.’” Under the same Policy, to “be ready for building up the Social Security and tax Number System and the national and local digital networks,” the need “to embark on focused initiatives for standardizing and bringing conformity to local governments’ central operational systems” was emphasized. In such climate, initiatives for the digitization of municipal administrative services are also speeding up.

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

During the fiscal year under review, we gathered and communicated information on the digitalization of administrative services and standardization of operational systems, and conducted surveys, research and development on next-generation solutions through experimental projects with advanced organizations to support the post-COVID-19 “New Normal Lifestyle.”

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

Net sales of the Local Governments BD were 17,377 million yen (increased 5.9% year-on-year); operating income was 1,037 million yen (increased 612 million yen year-on-year).

- (i) Sales from computer services increased by 16.1% year-on-year. This was driven by increase in sales from data center usage fees for the use of TASK Cloud Local Taxes Electronic Filing Support Service in response to the launch of the common tax payment system for local taxes that started on October 1, 2019.
- (ii) Software sales increased by 33.2% year-on-year. This was due to increase in sales from major system revisions in response to the free preschool education & nursing subsidy program and online confirmation of qualifications under the Health Insurance Act. Meanwhile, as emergency economic policy to respond to the spread of COVID-19, the Government established the Special Cash Payment program to pay 100,000 yen per person, and municipalities were mandated to carry out the administrative tasks related to applications and payment. The Company provided customers using our mission-critical system with emergency support on systems related to the Special Cash Payment program, and offered as outsourcing service a full application document package including explanation material and return envelopes, thereby contributing to early cash payments to 1.52 million households by 112 organizations mandated to carry out the administrative tasks.
- (iii) Sales from consulting services decreased 34.9% year-on-year. This was due to the absence of system implementation support fees for renewal of eLTAX inspection systems and implementation of Common Tax Payment Systems that the Company enjoyed during previous fiscal year.
- (iv) Hardware sales decreased by 37.9% year-on-year. This was due to the absence of the renewal of Registration Network System-related devices during this fiscal year, for which orders concentrated in the previous fiscal year.

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

(1) Business activities of the Printing Business BD

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

In the DPS area, sales dropped by 5.6% year-on-year, as while orders for notice-related services from municipalities and other authorities increased, orders for direct mail and other productions from private enterprises dropped significantly due to impacts of COVID-19.

In the area of business form printing, sales decreased by 7.8% year-on-year as a result of ongoing decline in demands for business forms and further decrease in the use of business forms as logistics services was stagnated due to impacts of COVID-19.

In the area of printing of commercial arts (catalogs, flyers, booklets, books, etc.), sales decreased 27.9% year-on-year due to decrease in demands for paper media with the advancement of browsing of electronic data, and also due to large decrease in orders for booklets, flyers, and books from the cancellation/postponement of many events impacted by COVID-19.

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

- (i) Net sales of the Printing BD were 3,286 million yen (decreased 13.7% year-on-year); operating income was 106 million yen (decreased 43.6% year-on-year).
- (ii) Sales of data printing service-related products decreased by 5.6% year-on-year. While orders for notice-related services from municipalities and other authorities increased, large orders for direct mail and other productions from private enterprises decreased due to impacts of COVID-19.
- (iii) Business form-related sales decreased by 7.8% year-on-year. This was due to ongoing decline in demands for business forms in the recent years, and further decrease in the use of business forms as logistics services was stagnated due to impacts of COVID-19.
- (iv) Sales of printing of commercial arts (catalogs, flyers, books, etc.) and booklets decreased by 27.9% year-on-year. This was due to a significant decrease in orders for booklets, flyers, and books from the cancellation/postponement of many events impacted by COVID-19.

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

(1) Prevention of novel coronavirus infection and actions for new working styles

As the outlook for the containment of the novel coronavirus is still unpredictable, the Group is taking the following infection prevention measures and adaptation to new working styles in order to continue the provision of services to its customers:

- (i) To enable customers to continue using our cloud services, business form printing services, and help desk services, we strengthen our business continuity measures (including prohibiting the entry of outside personnel at important offices, distributing the help desk functions to multiple offices, and developing the infrastructure for remote access to the data center in case of an outbreak of COVID-19 within a data center).
- (ii) In addition to introducing teleworking and staggered working hours programs, as measure to prevent infection within the Company, we installed automated temperature scanners, protective panels, sterilized mats and sanitizers, and gave out face masks.
- (iii) To meet the new working styles, we formulated a guideline on customer support using the web meeting system, and encourage employees to increase the number of interviews with clients even through teleworking. In addition, the Company provided all employees with mobile communication devices, and upgraded the web meeting systems.

(2) Support for customers switching to new working styles

- (i) From April to end of September 2020, the Accounting Firm BU leased out its web meeting system to the TKC National Federation free of charge to support the TKCNF committee activities and information exchange among TKC Members. The Company also introduced work-from-home programs for TKC Member firms and provided (leased for free) eligible TKC Members with mobile monitors and speaker/microphones for them to establish a new working style.
- (ii) To provide remote support to the approximately 170 customers using our mission-critical system (local governments), we leased out (for free) equipment necessary to use the web meeting system (large displays, speaker phones, web cameras).
- (iii) By conducting these measures, we worked to prevent infection among customers and employees and maintain the same level of quality in our customer support.

(3) CSR activities in the coronavirus-related confusion

The Company engaged in the following initiatives to prevent the collapse of the medical system and to support students in economic hardship.

- (i) The Company donated 300 million yen, and Masaharu Iizuka, Chairman Emeritus and Mrs. Runako Iizuka, wife of the founder of the Company, each donated 100 million yen to Tochigi prefecture to be used to prevent the collapse of the medical system for the treatment of coronavirus infections.
- (ii) The Company also donated a total of 169 million yen as relief money to our client agencies (130 municipalities).
- (iii) To provide support to students studying online at Utsunomiya University, the Company donated 75 notebook PCs. In addition, Masaharu Iizuka, Chairman Emeritus of the Company, personally donated 10 million yen to Utsunomiya University for the purpose of supporting students facing economic hardship.

(4) Review of business continuity plan (BCP) in case of outbreak of large-scale disasters

As preparation for large-scale disasters, we checked the safety of all offices, company housing and dormitories, and relocated the offices, employee housing and dormitories located in vulnerable areas to safer locations.

(5) Acquisition of patent pertaining to the Operation Checklist in the eCA-DRIVER consolidated accounting system

On June 11, 2020, the Company acquired a patent for the function to enable visual confirmation of whether the system processing was performed in the correct order and in an appropriate manner, which is in the Operation Checklist incorporated in the eCA-DRIVER consolidated accounting system. (Patent No. 6715886)

(6) Early application of the Accounting Standard for Revenue Recognition

The Company decided on the early application of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) beginning from the fiscal year started October 1, 2020 (55th Term). This is in an aim to compile the know-how gained through the application of the Accounting Standard for Revenue Recognition and provide such know-how in our consulting services for listed companies.

In applying the new accounting standard for revenue recognition, the Group must make certain changes in its sales recognition process, including: (i) changing the accounting processing of the sales of certain products which were conventionally recognized as one time sales at the time of the contract, to proportional division over the contract period; and (ii) changing the accounting processing for products that were purchased from other companies and sold thereafter, where the transaction prices less costs should be recognized as sales.

We estimated that the amount of fiscal impact of such application of Accounting Standard for Revenue Recognition, etc. to the consolidated financial statements: 69,000 million yen as sales prior to the application of said Standard, and 66,000 million yen as sales after the application of said Standard. Therefore, the impact on sales is estimated to be 3,000 million yen.

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

(1) Assets

Total assets as of the end of the current consolidated fiscal year amounted to 97,671 million yen, a 681 million yen increase compared to 96,989 million yen as of the end of the previous consolidated fiscal year.

(i) Current assets

Current assets as of the end of the current consolidated fiscal year amounted to 35,844 million yen, a 5,229 million yen decrease from 41,073 million yen of the previous consolidated fiscal year.

This was mainly attributable to 3,041 million yen decrease in cash and deposits, 1,740 million yen decrease in notes and accounts receivable, and 326 million yen decrease in work in progress.

(ii) Non-current assets

Non-current assets as of the end of the current consolidated fiscal year amounted to 61,826 million yen, a 5,910 million yen increase compared to 55,915 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 5,100 million yen increase in long-term deposits, 755 million yen increase in investment securities, 344 million yen increase in deferred tax assets, and 267 million yen increase in software despite a 437 million yen decrease in software in progress, and 222 million yen decrease in buildings and structures (net amount).

(2) Liabilities

Total liabilities as of the end of the current consolidated fiscal year amounted to 20,595 million yen, a 3,273 million yen decrease compared to 23,868 million yen as of the end of the previous consolidated fiscal year.

(i) Current liabilities

Current liabilities as of the end of the current consolidated fiscal year amounted to 14,701 million yen, a 1,576 million yen decrease from 16,278 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 1,421 million yen decrease in accounts payable-trade, a 483 million yen decrease in advances received included in Other, and a 476 million yen decrease in accounts payable-other, despite a 798 million yen increase in consumption taxes payable.

(ii) Non-current liabilities

Non-current liabilities as of the end of the current consolidated fiscal year amounted to 5,893 million yen, a 1,696 million yen decrease from 7,590 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to 1,364 million yen decrease in net defined benefit liability and 220 million yen decrease in lease obligations.

(3) Net assets

Total net assets as of the end of the current consolidated fiscal year amounted to 77,075 million yen, a 3,954 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 4,909 million yen increase in retained earnings and an 877 million yen increase in capital surplus, despite a 1,504 million yen decrease in non-controlling interests and a 469 million yen decrease in valuation difference on available-for-sale securities.

Capital-to-asset ratio as of the end of the current consolidated fiscal year was 78.9%, a 5.1 point increase compared to the ratio of 73.8% as of the end of the previous consolidated fiscal year.

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

The balance of cash and cash equivalents as of the end of the current consolidated fiscal year decreased by 3,341 million yen from the end of the previous consolidated fiscal year amounting to 23,469 million yen.

The overview of cash flows for the current fiscal year and major factors contributing to the results are as follows:

(1) Cash flows from operating activities

Cash flows from operating activities increased by 10,569 million yen (18 million yen increase in revenue year-on-year). Major factors include the recognition of 11,646 million yen in net income before taxes and adjustments, and a spending of 1,200 million yen for the establishment of retirement benefit trust.

(2) Cash flows from investing activities

Cash flows from investing activities decreased by 10,124 million yen (10,535 million yen increase in spending year-on-year). Major factors include expenditure of 8,400 million yen into time deposits, revenue of 3,000 million yen from withdrawal of time deposits, expenditure of 1,738 million yen for the acquisition of tangible fixed assets, and expenditure of 1,369 million yen for the acquisition of intangible fixed assets.

(3) Cash flows from financing activities

Cash flows from financing activities decreased by 3,786 million yen (5 million yen decrease in spending year-on-year). Major factors include payment of 2,905 million yen for year-end dividends as of the end of September 2019 and interim dividends for the term ended September 2020 (a dividend of 55 yen per share), and payment of 593 million yen for the acquisition of stock of the Company's consolidated subsidiary.

II. Production, Orders Received and Sales

1. Production

None to be disclosed.

2. Orders Received

None to be disclosed.

3. Sales Results

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

Name of segment	Amount (millions of yen)	Year-on-year rate (%)
Accounting Firm BD	47,150	102.7
Local Governments BD	17,377	105.9
Printing BD	3,286	86.3
Total	67,814	102.6

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

III. Analysis and Discussions on Operating Results, etc. from Management's Perspective

1. Important Accounting Policies and Estimates

The Group's consolidated financial statements have been prepared in accordance with accounting standards that are generally accepted as fair and appropriate in Japan. The preparation of the financial statements requires our management to select and apply the accounting policies, and make estimates that affect the reported amounts and disclosure of assets and liabilities, and revenue and expenses. While management has used reasonable judgments based on historical performance and current conditions in making these estimates, there are specific uncertainties in estimates that could cause actual results to differ from such estimates. Details of important accounting policies adopted in preparing the Group's consolidated financial statements are described in the Notes to Consolidated Financial Statements (Basis of Presenting the Consolidated Financial Statements) under Part 5 [Financial Information] 1. Consolidated Financial Statements, (1) Consolidated Financial Statements.

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

Refer to 2 [Risk Factors].

3. The Group's Capital Resources and Liquidity of Funds

In strengthening the Group's management to achieve sustainable growth of its corporate value, the Group makes it a basic policy to fund its business operation primarily by its own capital. Under this policy, we believe that we hold adequate cash-on-hand to maintain our business operation and to ensure a sufficient level of liquidity.

With the rapid advancement of information and communication technology (ICT) and major changes in social systems, we strive to make advance investments in research and development efforts and to actively pursue other capital investments to respond quickly to the changing market environment and achieve competitive advantage to lead our customers' business to success.

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

The Company maintains the principle of attributing the source of dividend for each fiscal year to the profit earned in the same fiscal year, on the premise of a company as going concern. Based on this policy, we establish and manage the following items as important management indicators:

- (i) Management indicators based on consolidated figures
 - 1) Year-on-year sales ratio: 3% or greater
 - 2) Return on equity: 8% or greater
- (ii) Management indicators based on non-consolidated figures
 - 1) Equity ratio: greater than 80%
 - 2) Recurring profit margin: 8% or greater
 - 3) Total marginal profit ratio: 60% or greater

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

In such situation, the consolidated year-on-year sales ratio of the current fiscal year under review was 2.6% (a decrease of 4.7 points year-on-year), and consolidated return on equity was 10.5% (an increase of 1.1 points year-on-year).

The non-consolidated equity ratio was 83.2% (an increase of 3.1 points year-on-year), non-consolidated recurring profit margin was 17.6% (an increase of 2.9 points year-on-year), and non-consolidated total marginal profit ratio was 74.8% (an increase of 2.0 points year-on-year).

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

4 [Material Agreements, etc.]

None to be disclosed.

5 [Research and Development Activities]

The Group conducts research and development of software to provide innovative information and management tools to accounting firms and their clients, and to promote the streamlining, standardization and networking of administrative affairs performed by local governments.

Divisions involved in R&D acquired Quality Management Systems - Model for Quality Assurance in Design, Development, Production, Installation and Servicing (ISO9001) certification—an international quality assurance standard—in July 1999 for the purpose of establishing and strengthening quality control and quality assurance systems within our system development operations. Additionally, the certificate's scope of application was expanded in September 2010 to include the system development headquarters of our Local Governments BD.

An amount of 6 million yen was spent on R&D in the current consolidated fiscal year, yielding the following results:

(1) Accounting Firm BD

The Company is conducting research & development of an electronic tax payment system for companies using the ASP1000R and eConsoliTax. The system will enable users to prepare tax returns and make electronic tax payments in one-stop using the TKC systems.

Total research and development cost associated with this project was 6 million yen.

(2) Local Governments BD

None to be disclosed.

Part 3 [Property, Plant and Equipment]

1 [Summary of Capital Investments]

The Group (the Company and its consolidated subsidiaries) makes capital investments on an ongoing basis in both software development and information processing services.

Capital investments (including intangible assets and adjustments) of 3,804 million yen were made in the current consolidated fiscal year.

(1) Accounting Firm Business Division

Capital investment of 2,195 million yen was made for reinforcement of the common cloud infrastructure to enhance the cloud environment for the Company's systems, and in the development of software for sale.

(2) Local Governments Business Division

Capital investment of 1,289 million yen was made for the development of software to provide services over the cloud system.

(3) Printing Business Division

Capital investment of 319 million yen was made for the implementation of roll collectors and purchase of automated carriage trolleys.

2 [Major Property, Plant and Equipment]

(1) The Company

As of September 30, 2020

Name of office (Address)	Name of segment	Facilities	Book values (millions of yen)					No. of employees (No. of people)	
			Buildings & structures	Machinery, equipment & vehicles	Land (Area in m ²)	Tools, furniture & fixtures	Other		Total
TKC Tochigi Head Office TKC Systems Development Research Center TKC Internet Service Center TKC Tochigi Consolidated Information Center (Utsunomiya-shi, Tochigi, etc.)*1, *2	Accounting Firm BD Local Governments BD	Development facilities Information communicati on service facilities Information processing facilities	5,499	28	2,694 (29,365.21)	1,137	3,009	12,368	1,163
TKC Tokyo Head Office TKC Systems Development Research Center Tokyo Branch (Shinjuku-ku, Tokyo)	Accounting Firm BD Local Governments BD	Office facilities	115	—	—	65	—	181	360
TKC Tokyo Consolidated Information Center (Nerima-ku, Tokyo)	Accounting Firm BD	Information processing facilities	201	—	2,224 (1,447.44)	82	—	2,507	22
TKC Chubu Consolidated Information Center (Kasugai-shi, Aichi)	Accounting Firm BD	Information processing facilities	75	—	196 (3,017.47)	48	0	320	17
TKC Kansai Consolidated Information Center (Ibaraki-shi, Osaka)	Accounting Firm BD	Information processing facilities	483	—	286 (1,808.03)	49	0	820	37
TKC Chushikoku Consolidated Information Center TKC Chushikoku Control Center (Kita-ku, Okayama-shi, Okayama)	Accounting Firm BD	Information processing facilities Office facilities	14	—	—	45	—	59	11
TKC Kyushu Consolidated Information Center (Koga-shi, Fukuoka)	Accounting Firm BD	Information processing facilities	152	—	203 (2,341.48)	34	0	391	10
TKC Hokkaido Consolidated Information Center TKC Hokkaido SCG Service Center (Chuo-ku, Sapporo-shi, Hokkaido)	Accounting Firm BD	Information processing facilities Office facilities	37	—	—	42	0	80	32
TKC Tohoku Consolidated Information Center TKC Tohoku SCG Service Center (Aoba-ku, Sendai-shi, Miyagi)	Accounting Firm BD	Information processing facilities Office facilities	5	—	—	56	0	63	21

As of September 30, 2020

Name of office (Address)	Name of segment	Facilities	Book values (millions of yen)						No. of employees (No. of people)
			Buildings & structures	Machinery, equipment & vehicles	Land (Area in m ²)	Tools, furniture & fixtures	Other	Total	
TKC Okinawa Consolidated Information Center TKC Okinawa SCG Service Center (Naha-shi, Okinawa)	Accounting Firm BD	Information processing facilities Office facilities	4	—	—	6	0	11	9
TKC Ibaraki SCG Service Center TKC Ibaraki Sales Section (Tsukuba-shi, Ibaraki)	Accounting Firm BD Local Governments BD	Office facilities	23	—	147 (1,120.00)	3	0	174	22
TKC Yamaguchi SCG Service Center (Yamaguchi-shi, Yamaguchi)	Accounting Firm BD	Office facilities	22	—	197 (814.00)	3	0	223	6
Dormitories, company housing (Utsunomiya-shi, Tochigi)	Accounting Firm BD Local Governments BD	Welfare facilities	221	—	391 (5,326.69)	14	—	627	—

(2) Domestic subsidiaries

As of September 30, 2020

Company name	Name of office (Address)	Name of segment	Facilities	Book values (millions of yen)						No. of employees (No. of people)
				Buildings & structures	Machinery, equipment & vehicles	Land (Area in m ²)	Tools, furniture & fixtures	Other	Total	
TLP Corporation	Hanyu Plant (Hanyu-shi, Saitama)	Printing BD	Printing facilities	61	265	145 (7,275.17)	6	11	490	64
TLP Corporation	DPS Solutions Center (Hanyu-shi, Saitama)	Printing BD	Printing facilities	1,017	159	129 (7,772.00)	53	268	1,627	56

- (Notes) 1. The figures above do not include consumption taxes.
2. The status of equipment and facilities held by consolidated companies other than those described above is small in scale and has been omitted.
3. The “Other” field under book value represents leased assets and software (including work in progress).
4. *1 includes some of the welfare facilities.
*2 includes 1,405 million yen for leased buildings and 64 million yen for leased tools, furniture & fixtures, which are leased to our subsidiary TKC Customer Support Service Co., Ltd.
5. Major leased facilities and equipment other than those described above are as follows.
(The Company)
Annual office rent 681 million yen

3 [Plans for Capital Investments, Disposals of Property, Plant and Equipment]

Capital investments of the Group are planned based on comprehensive review of economic forecast, industry trends, investment efficiencies and other factors.

While, in principle, capital projects are formulated individually by each consolidated company, the Company takes initiative in making Group-wide adjustments.

There are no plans for the establishment or disposal of major facilities and equipment as of the end of the current consolidated fiscal year (September 30, 2020), except for routine updates of facilities and equipment and disposals and/or sales related thereto.

Part 4 [Information on the Company]

1 [Information on the Company's Stock]

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

(i) [Total number of shares]

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

(ii) [Issued shares]

Class	Number of shares issued as of the end of current fiscal year (shares) (September 30, 2020)	Number of shares issued as of the filing date (shares) (December 21, 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) [Rights Plan]

None to be disclosed.

(iii) [Information on Share Subscription Rights]

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)
November 30, 2009 (Note)	(1,185,800)	26,731,033	—	5,700	—	5,409

(Notes) Decrease caused by cancellation of treasury stock.

(5) [Shareholders Composition]

As of September 30, 2020

Classification	Status of shares (100 shares in one unit of shares)								Number of shares less than one unit (shares)
	Government & municipalities	Financial institutions	Financial instruments business operators	Other corporate bodies	Foreign corporate bodies, etc.		Other individuals	Total	
					Non-individuals	Individuals			
Number of shareholders	—	32	23	111	158	2	7,725	8,051	—
Number of shares held (share units)	—	90,648	1,107	66,041	37,928	2	70,882	266,608	70,233
Percentage of shares held (%)	—	34.0	0.4	24.8	14.2	0.0	26.6	100.0	—

- (Notes) 1. Of the 263,615 shares held as treasury stock, 2,636 share units are included in “Other individuals” and 15 shares are included in “Number of shares less than one unit.”
2. Of the shares registered under the name of Japan Securities Depository Center, Inc., 6 units are included in “Other corporate bodies” and 87 shares are included in “Number of shares less than one unit.”
3. The “Financial Institutions” column includes 1,897 units of the Company’s stocks owned by the BIP Trust.

(6) [Major shareholders]

As of September 30, 2020

Names of shareholders	Address	Number of shares held (hundreds of shares)	Percentage of shares held to total number of issued shares (excluding treasury stock) (%)
Iizuka Takeshi Scholarship Foundation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	37,530	14.2
Daido Life Insurance Company	1-2-1 Edobori, Nishi-ku, Osaka-shi, Osaka	25,690	9.7
Sozeishiryokan (Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	15,465	5.8
TKC Employee Shareholding Association	2-1 Ageba-cho, Shinjuku-ku, Tokyo	15,126	5.7
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	13,809	5.2
SSBTC Client Omnibus Account (Standing proxy: The Hong Kong & Shanghai Banking Corporation, Tokyo Branch)	One Lincoln Street, Boston, MA 02111 USA (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	9,896	3.7
Masaharu Iizuka	Utsunomiya-shi, Tochigi	8,098	3.1
Custody Bank of Japan, Ltd. (Trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	7,703	2.9
Tokio Marine & Nichido Fire Insurance Co., Ltd.	1-2-1 Marunouchi, Chiyoda-ku, Tokyo	6,664	2.5
Northern Trust Co. (AVFC) Re Fidelity Funds (Standing proxy: The Hong Kong & Shanghai Banking Corporation, Tokyo Branch)	50 Bank Street, Canary Wharf, London E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	6,040	2.3
Total	—	146,023	55.2

(Note) The 189,700 shares of the Company held by the BIP Trust are not included in the treasury stocks to be deducted in calculating the percentage of shares held to the total number of issued shares.

(7) [Status of voting rights]

(i) [Shares issued]

As of September 30, 2020

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 263,600	—	—
Shares with full voting right (others)	Common stock 26,397,200	263,972	—
Shares less than one share unit	Common stock 70,233	—	—
Total number of shares issued	26,731,033	—	—
Total voting rights held by all shareholders	—	263,972	—

(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 189,700 shares (1,897 units of voting rights) owned by the BIP Trust.

(ii) [Treasury stock, etc.]

As of September 30, 2020

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	263,600	—	263,600	0.99
Total	—	263,600	—	263,600	0.99

(Note) In addition to the above, the 189,700 shares owned by the BIP Trust are recorded as treasury stocks in the consolidated financial statements.

(8) [Information on Employee Stock Ownership Plan]

The Company introduced this Plan with the objectives to clarify the linkage between the Company's shareholder value and the compensation for directors (excluding outside directors and expatriates), executive officers (excluding expatriates), and auditors (excluding outside directors and expatriates) (hereinafter referred to collectively as "Directors, etc."), and to motivate Directors to contribute more to enhancing the medium- to long-term corporate value by sharing common interest with shareholders, including not only the merit derived from the rising share price, but also the risk associated with the decline in share price. The introduction of the Plan was approved by resolution at the 52nd Ordinary General Meeting of Shareholders held on December 21, 2018.

(i) Description of the Plan

The Plan uses a structure called Board Incentive Plant trust (hereinafter "BIP Trust"). The Plan is similar to the performance-linked share compensation (Performance Share) and share compensation with transfer restriction (Restricted Stock) in the US and Europe, and delivers and provides the Company's shares and cash equivalent to the amount to convert and dispose the Company's shares (collectively, "the Company's Shares, etc.") to Directors, etc.

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

The Company will contribute a total amount not exceeding 1,549 million yen to the Trust for a period of three fiscal years between the fiscal year ending September 30, 2019 and the fiscal year ending September 30, 2021 ("Initial Trust Period"). An amount not exceeding 977 million yen in total will be included in the Initial Trust Period as the amount for measures to be taken for the transition from the stock-based compensation stock option scheme.

Overview of Trust Agreement

Category of trust	Money trust other than a specific individually operated money trust (third party benefit trust)
Objective of trust	To provide incentive for Directors, etc.
Assignor	TKC Corporation
Trustee	Mitsubishi UFJ Trust and Banking Corporation (Joint trustee: The Master Trust Bank of Japan, Ltd.)
Beneficiary	Directors, etc., who satisfy the beneficiary conditions
Trust administrator	A third party professional expert having no interest in the Company
Date of trust agreement	February 26, 2019
Trust period	February 26, 2019 to February 28, 2022 (scheduled)
Start of plan	March 1, 2019
Exercising of voting rights	Not to be exercised
Type of shares to be acquired	Common stock of the Company
Maximum amount of trust fund	Directors and executive officers: 1,470 million yen (scheduled) (Including trust fees and expenses) Auditors: 79 million yen (scheduled) (same as above)
Acquisition of shares	To be acquired in the stock market or from the Company (disposal of treasury stock)
Holder of vested rights	TKC Corporation
Residual property	The residual property that the Company (as holder of vested rights) may receive shall be within the amount of trust expense reserve, which is the trust fund less the fund for share acquisition.

(iii) Persons eligible for the delivery of the Company's shares

Directors, etc., who satisfy the beneficiary conditions

2 [Acquisition, etc. of Treasury Stock]

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

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

None to be disclosed.

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

None to be disclosed.

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

Classification	Number of shares (shares)	Total amount (yen)
Treasury stock acquired during the current fiscal year	6,679	34,409,620
Treasury stock acquired during the current period	240	1,599,000

(Note) Treasury stock acquired during the current period does not include shares constituting less than one unit purchased during the period from December 1, 2020 to the date on which this Annual Securities Report was filed.

(4) [Disposition and holding of acquired treasury stock]

Classification	Current fiscal year		Current period for acquisition	
	Number of shares (shares)	Total amount disposed (yen)	Number of shares (shares)	Total amount disposed (yen)
Acquired treasury stock for which subscribers were solicited	—	—	—	—
Acquired treasury stock canceled	—	—	—	—
Acquired treasury stock transferred due to merger, share exchange, or company split	—	—	—	—
Other (Sold due to demand for sales of fractional unit shares)	150	514,571	—	—
Number of shares of treasury stock held	263,615	—	263,855	—

(Notes) 1. The disposition and holding of treasury stock acquired during the current period does not include shares transferred through the exercise of subscription rights to shares, shares obtained through the purchase of shares constituting less than one unit, and shares sold through demand for sales during the period from December 1, 2020 up to the date on which this Annual Securities Report was filed.

2. The number of treasury stock held does not include the 189,700 shares of the Company's stocks owned by the BIP Trust.

3 [Dividend Policy]

The basic policy of the Company is to pay two annual dividends of retained earnings, an interim dividend and a year-end dividend. Year-end dividends are resolved at the General Meeting of Shareholders and interim dividends by resolution of the Board of Directors.

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

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

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

To respond to the expectations of shareholders, the Company announced on November 11, 2019 that the estimated amounts for interim and year-end dividends for the 54th term would be 55 yen as ordinary dividends (for the 53rd term, 55 yen for interim dividends and 55 yen for year-end dividends), and has paid the interim dividends of 55 yen after the resolution of the Board of Directors.

During the fiscal year under review, the Group's net sales, operating income, ordinary income and current net income attributable to owners of parent exceeded the previous fiscal year's performance for six consecutive years with record-breaking figures. Based on these results, to express our respect and gratitude to our shareholders, we decided that the year-end dividend per share would be 65 yen as ordinary dividends, as announced on November 4, 2020.

As a result, the annual payout ratio was 42.2%.

Date of Resolution	Total amount of cash dividends (millions of yen)	Dividend per share (yen)
May 1, 2020 Meeting of the Board of Directors	1,455	55
December 18, 2020 Ordinary General Meeting of Shareholders	1,720	65

4 [Corporate Governance]

(1) [Overview of Corporate Governance]

I. Basic Approach to Corporate Governance

The core of the Group, TKC Corporation, was established on October 22, 1966 listing the following two charters in Article 2 of the Articles of Incorporation:

1. Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms
2. Management of electronic data processing centers to improve the administrative efficiency of local governments

While other business objectives were later added as business operations expanded, our management policy of focusing our target on accounting firms and local governments and specializing in the field of ICT (information and communication technology) to guide our customers' business to success remains unchanged, and this has led the Group to occupy a unique position in Japan's IT industries.

The Group (excluding the Printing BD) has a unique customer base – the Accounting Firm BD serves certified public tax accountants, certified public accountants, tax accounting firms and audit corporations while the Local Governments BD provides services to prefectural and municipal offices and affiliated public service corporations. So from a compliance perspective, our customers are required by vocation-based laws (Certified Public Tax Accountant Act or Certified Public Accountants Act) or administrative laws (Local Autonomy Act or the Local Public Service Act) to follow much stricter levels of compliance than other business categories in performing their business activities.

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

As such, the Group understands corporate governance as follows:

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

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

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

1. Overview of the Corporate Governance System

(1) Board of Directors

The Representative Director & President chairs the meetings of the Board of Directors, which are held at least once a month and attended by other Directors where they share information and make decisions in a prompt manner.

The Board of Directors currently consists of 8 members and, with the exception of three Outside Directors, each Director represents a business unit as executive officer in charge and participates in deliberations and express their opinions. The Company adopts an executive officer system since December 22, 2006.

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

(2) Board of Auditors

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

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

(3) Nomination and Compensation Advisory Committee

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

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

- (i) Policy and procedure for the nomination of candidates for Directors and executive officers holding executive position;
- (ii) Appointment and dismissal of Directors and executive officers holding executive position;
- (iii) Policy for the determination of compensations for Directors and executive officers holding executive position;
- (iv) Policy for the determination of individual compensations for Directors and executive officers holding executive position;
- (v) Individual compensations for Directors and executive officers holding executive position;
- (vi) Appointment and dismissal of representative directors and auditors of subsidiaries and their individual compensations;
- (vii) Other matters that the Board of Directors deem necessary in relation to any of the above items.

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

<List of members>

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

2. Reasons for Selecting the Current Corporate Governance System

The Company implements an auditor system and also appoints Outside Directors. Outside Directors are appointed and installed from the perspective of improving the transparency of the Board of Directors and enhancing its supervisory functions. This ensures the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors.

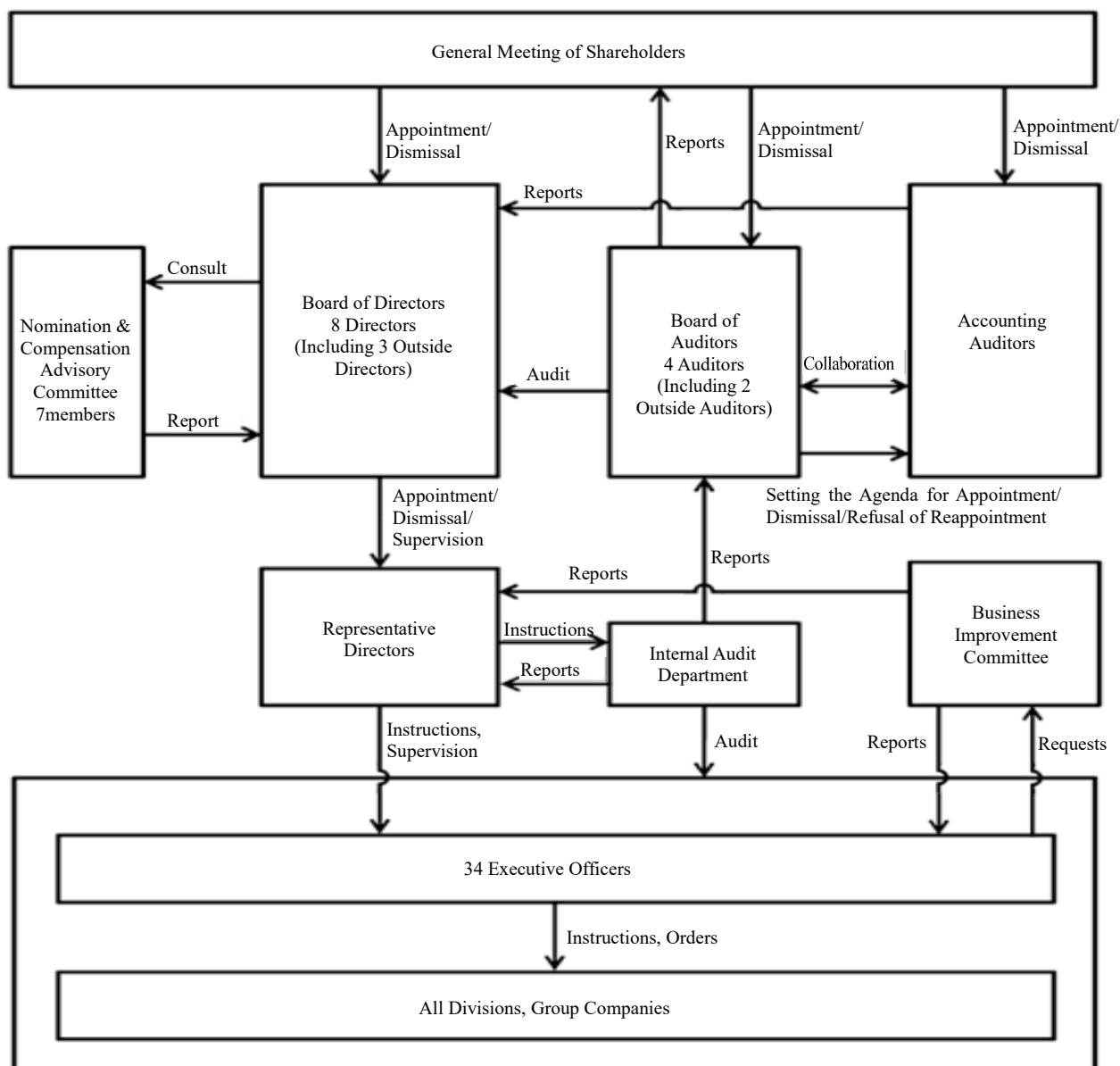
Outside Auditors primarily give advice and make suggestions in order to ensure the legality, appropriateness, and validity of the decision-making processes and resolutions by the Board of Directors by expressing their opinions on compliance issues and whether the resolutions of the Board of Directors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

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

Through the implementation of these measures the Company ensures objectivity and neutrality of the supervision over the management of the Company.

Therefore, we feel that the functions to supervise the management activities are in place, which enables us to institute a highly efficient, highly transparent management system that the Company aims for.

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



3. Other Matters Concerning Corporate Governance

(1) Outline of resolutions on the development of systems to ensure the appropriateness of operations

The Company establishes a basic policy by resolution of the Board of Directors concerning “the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the articles of incorporation, and other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company and operations of group of enterprises consisting of the Stock Company and its Subsidiary Companies” as stipulated in Article 362, Paragraph 5 of the Companies Act of Japan. The outline is described below:

- [1] Basic policy concerning the development of systems necessary to ensure that the execution of duties by directors complies with laws and regulations and the Articles of Incorporation (in relation to the first half of Article 362, Paragraph 4(vi) of the Companies Act of Japan)
1. Directors must comply with all laws and regulations, the Articles of Incorporation, and the Resolutions of General Meetings of Shareholders (hereafter “laws and regulations”), keep in mind at all times that the business objectives of the Company are as set forth in Article 2 of our Articles of Incorporation, namely the “management of electronic data processing centers to defend the business domains and maintain control over the fate of accounting firms,” and the “management of electronic data processing centers to improve the administrative efficiency of local governments,” and perform their duties to achieve these objectives.
 2. Directors must perform their duties based on the Company’s Rules on Administrative Authority and Dividing Duties of Directors established by the Board of Directors, and cooperate with other Directors in improving corporate performance.
 3. In the event a Director finds that his/her decision (including approvals given to proposals made by subordinates) may be in violation of the laws and regulations, he/she must, without delay, consult with the Director in charge of legal affairs and act based on said Director’s decision to prevent the occurrence of any illegal conduct. If such matter is of significant importance, the Director in charge of legal affairs shall immediately report to the Representative Director and President (hereafter, the “President”), and full-time Corporate Auditors and outside company attorneys and receive their guidance as well as report the particulars to the Board of Directors.
 4. In the event a Director finds that an act or a plan of another Director or an employee may be in violation of the laws and regulations, he/she must, without delay, give warning to such Director or employee as joint bearer of managerial responsibilities.
If such matter is of significant importance, said Director must immediately report to the President and receive guidance.
 5. Prior to attending any meetings of the Board of Directors, Directors must review the matters to be deliberated, reported and/or discussed at the next meeting of the Board of Directors (hereinafter, “matters to be deliberated”) to make sure that there are no omissions in view of the scope of matters to be deliberated under the regulations concerning the Duties (Articles 362) and Authority (Articles 363) of Directors as stipulated in the Companies Act of Japan and the Company’s Rules on the Board of Directors. If there are other matters to be deliberated, they must be brought to the Director(s) in charge of the meetings of the Board of Directors without delay.
 6. Directors must attend the meetings of the Board of Directors and voice their opinions and exercise their voting rights on all matters to be deliberated based on their conscience and responsibility. Directors must give a true account of the execution of their duties, speak frankly of any anticipated strategic risks and operational risks, and give the opportunity and time for the Board of Directors to review countermeasures for such issues in advance.
 7. The entire process of deliberations at the meetings of the Board of Directors shall be recorded in accordance with the Company’s Rules on Management of Information Concerning the Decision-making Process of the Board of Directors. The recordings must be kept in the form of electromagnetic records as specified in Article 371 of the Companies Act of Japan along with any materials used for explanations and the minutes of meeting of the Board of Directors.
 8. Directors must attend the General Meeting of Shareholders, and provide answers in a sincere manner to any questions pertaining to the execution of their duties when asked by shareholders and instructed by the Chairman to provide such answers.
 9. Upon deliberations at the meetings of the Board of Directors, the Chairman of the Board of Directors must seek the opinions of Auditors in attendance as to whether any resolution may be in violation of laws and regulations. In the event an Auditor finds in the course of sitting in the meetings of the Board of Directors, that any resolution may be in violation of the laws and regulations, he/she must, without delay, give warning to the Chairman of the Board.

10. As the highest authority of the Company, Directors are obliged to be acutely aware of the social responsibilities of the Company under the principles set forth in the “TKC Charter of Corporate Code 2006,” work to improve their characters and insight, strictly observe all laws and regulations and company rules, eliminate ego and put aside personal affairs, exhibit discerning judgments to achieve business objectives, take lead in setting good examples, and strive to gain utmost trust of employees under their charge.
 11. It is the basic policy of the Company to have no involvement with antisocial forces, bodies and individuals, and to not comply with unjust and unlawful requests. The Company shall develop and disseminate this policy among all Directors and employees, and shall establish systems to share all pertinent information within the TKC Group and to develop appropriate countermeasures. Further, the Company shall collaborate closely with the police and other external expert organizations, and with legal advisors and company attorneys.
- [2] Basic policy concerning the development of systems ensuring the appropriateness of the Company’s operations
(in relation to the latter half of Article 362 Paragraph 4(vi) of the Companies Act of Japan)
1. Development of systems for the storage and management of information relating to the execution of Directors’ duties of the Company
(in relation to Article 100, Paragraph 1, Item 1 of the Ordinance for Enforcement of the Companies Act of Japan)
 - (1) Of the information relating to the execution of duties by Directors (hereafter, “information on Directors’ duty”), information pertaining to the minutes of General Meetings of Shareholders shall be stored and managed in accordance with the Company’s Rules on Management of Information Concerning the Minutes of General Meetings of Shareholders.
 - (2) Of the information on Directors’ duty, information pertaining to deliberations at the meetings of the Board of Directors shall be stored and managed in accordance with the Company’s Rules on Management of Information Concerning Decision-making Processes of the Board of Directors as described (in [1] 7.) above.
 - (3) Of the information on Directors’ duty, information submitted to or received from government authorities and information sent to or received from outside parties in relation to legal affairs shall be stored and managed based on the Company’s Rules on Management of Information Concerning Legal Affairs.
 - (4) Information on Directors’ duty not included above shall be divided into the following three categories and stored and managed based on the Company’s Rules on Management of Information Concerning the Daily Operations of Directors:
 - (i) of the meetings called by a Director (excluding the General Meetings of Shareholders and meetings of the Board of Directors), minutes and relevant documents of meetings in which matters that may have significant impact on the Company’s operation are deliberated, and meeting in which matters directly related to the interest of specific customers, clients or employees are deliberated;
 - (ii) written applications for approval and relevant documents settled by the Directors based on the Company’s Rules Concerning Requests for Decisions;
 - (iii) other important information pertaining to the execution of duties by Directors.
 - (5) All information on Directors’ duty set forth in the preceding four items shall be stored in a database so that their presence or absence and contents are immediately searchable. The operating status of said database shall be verified and rules shall be revised as necessary and reported to the Board of Directors.
 2. Regulations and other systems for the management of risks of losses to the Company
(in relation to the provisions of Article 100 Paragraph 1 Item 2 of the Ordinance for Enforcement of the Companies Act of Japan)
 - 2-1. Regulations for the management of strategic risks
 - (1) Strategic risks are risks related to business opportunities that arise out of uncertainties of strategic managerial decision-making. In light of the current situation of the Company, the objective of managing such strategic risks shall be limited for the time being to “preventing the loss of business opportunities” and to “appointment of Directors” to be submitted to the General Meetings of Shareholders.

- (2) In order to prevent the loss of business opportunities, all Directors must actively gather information and retain unrelenting spirit of inquiry to capture business opportunities that contribute to our customers' success ahead of others, exhibit outstanding intuition to make the best of such business opportunities, and develop timely and optimal schematic plans and propose the execution to the President.
- (3) Upon receiving such proposals from Directors (including employees) as set forth above, the President must evaluate the contents from the following perspectives, and if it is determined that a proposal should be executed, he/she shall report to the Board of Directors and cause for the Director (including employees) in charge to announce an implementation plan at the meetings of the Board of Directors:
 - (i) Conformances with the management philosophy of the Company;
 - (ii) Compliances;
 - (iii) Expected degree of contributions to customers' business;
 - (iv) Anticipated feedback from customers;
 - (v) Technical feasibilities;
 - (vi) Funds and costs necessary;
 - (vii) Other matters, such as principle of good faith with business partners.
- (4) When submitting proposals on the appointment of Directors to the General Meeting of Shareholders, it shall be made in accordance with the Company's Rules on the Nomination and Compensation Advisory Committee.

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

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

2-2. Regulations for the management of operational risks

2-2-1. Regulations for the management of operational risks that may occur across all divisions

- (1) Operational risks are risks related to the performance of business activities that arise out of uncertainties of performance of appropriate and efficient operations. These risks shall be divided and controlled under the following two categories:
 - (i) risks that may occur across all divisions (hereinafter, "common risks");
 - (ii) risks that may occur in specific divisions (hereinafter, "division-specific risks").This section provides for regulations for the management of common risks.
- (2) The Board of Directors shall elect a Director in charge of risk management, who shall be in charge of investigating and identifying the following common risks from among all employees of the Company:
 - (i) Risks that have high degree of urgency;
 - (ii) Risks associated with compliance;
 - (iii) Risks associated with confidentiality obligations of the Company;
 - (iv) Risks associated with the preservation of assets and accounting;
 - (v) Risks associated with the preparation of regulations and manuals for operation of business;
 - (vi) Risks associated with the workplace environment and labor management;
 - (vii) Other risks deemed necessary.
- (3) In the event the Director in charge finds, as a result of the inspections in the preceding paragraph, that there are measures to completely eliminate any of the common risks, he/she shall promptly report such findings to the President and discuss the actions to be taken.
- (4) The Director in charge shall sort and classify unresolved risks and formulate a basic policy on how to handle such risks, and submit it to the Board of Directors as Regulations for the Prevention of Operational Risks (hereinafter referred to as "Regulations" in this section) for approval by the Board of Directors. The approved Regulations shall be announced and distributed to all employees as guidelines from the President.
- (5) In the event a major risk becomes apparent, the Director in charge shall immediately take actions to prevent and minimize the spread of damages in accordance with the Regulations.

- (6) The Director in charge shall, within one month of completing the actions in the preceding item, investigate the true cause of the risk and formulate measures to prevent recurrence, and report to the Board of Directors within two months and undertake any revisions to the Regulations.
- (7) All heads of business units shall verify the compliance with the Regulations within their own business units either on a daily or regular basis in accordance with the Regulations and report to the Director in charge.
- (8) The Director in charge shall submit to the President applications for special award money to those uncovering major common risks that were previously unnoticed or those proposing effective measures to prevent recurrence of apparent risks.

2-2-2. Regulations for the management of operational risks that may occur in specific divisions

- (1) Division-specific risks include cases in which division-specific operational risks need to be controlled and cases in which highly advanced, specialized knowledge is required to control certain common risks. The following committees (including committees to be newly established) shall be in charge controlling risks involving multiple divisions, and the relevant division shall be responsible for controlling any risk involving that single division:
 - (i) Systems Development Research Center Operation Improvement Committee
 - (ii) Municipality Systems Development & Operations Division Operation Improvement Committee
 - (iii) Consolidated Information Centers Operation Improvement Committee
 - (iv) SCG Service Centers Operation Improvement Committee
 - (v) Municipality Sales Division Operation Improvement Committee
 - (vi) Supplier Business Operation Improvement Committee
 - (vii) Tokyo Head Office Operation Improvement Committee
 - (viii) Personnel & Salary Systems Improvement Committee
 - (ix) Risk Management Committee
 - (x) Other committees that the Board of Directors deems necessary to establish.
- (2) The committees listed in the preceding item shall serve as assisting body to the President or the Director in charge of the division, the executive officer heading each committee with a fixed number of committee members as determined by the Board of Directors. The Director in charge or the head of committee shall attend the meeting of the Board of Directors and report on the matters to be reported by the committee, and may request deliberations as necessary by the Board of Directors.
- (3) Division-specific risks involving an individual committee or a specific division shall be controlled in the same manner as controlling common risks as prescribed in 2-2-1. Division-specific risks shall be identified by each committee and reported to the Board of Directors.

2-2-3 Regulations for the management of hazards and other risks

- (1) In the event of large-scale earthquakes, flood damages, fire and other disasters, or long power outage, water stoppage, the disconnection of communication lines and other circumstances that may cause substantial damage, the Company will immediately set up an emergency response headquarter headed by the President, and form an information communication team responsible for contacting customers, employees and their families, shareholders, clients and external press, and an external advisory team including the company attorneys to establish a system to respond promptly and prevent and minimize the spread of damages.
- (2) In the event of any matters that may be in violation of the laws and regulations, the General Affairs Headquarters under the responsibility of the Director in charge of legal affairs shall become the supervising division to take actions.
Any legal compliance issue of significant importance shall be consulted with outside attorneys as external legal advisors.

3. Systems to ensure the efficient execution of Directors' duties of the Company

(in relation to the provisions of Article 100 Paragraph 1 Item 3 of the Ordinance for Enforcement of the Companies Act of Japan)

- (1) The Company holds regular meetings of the Board of Directors generally on the 10th day of every month, as well as ad hoc meetings when necessary. The date and time of meetings of the Board of Directors called for the disclosure of financial statements or in relation to the General Meetings of Shareholders shall be planned at least six months in advance.

- (2) At the meetings of the Board of Directors held at the end of each fiscal year, a management policy for the upcoming fiscal year formulated in light of the management philosophy of the Company and a medium-term management plan covering the next three years starting from the upcoming fiscal year shall be submitted by the President, and the Board of Directors shall deliberate upon their strategic rationalities in accordance with the Company's Rules on the Board of Directors.
 - (3) At the meetings of the Board of Directors held on the second month of each new fiscal year, the Targeted Profit and Loss Statements for the entire company and each business unit for the new fiscal year, and a proposed List of Dividing Duties of Directors and Strategic Goals shall be submitted by the President, and the Board of Directors shall deliberate upon their feasibilities in accordance with the Company's Rules on the Board of Directors.
 - (4) At the monthly regular meetings of the Board of Directors, the targeted and actual P/L statements for the entire company and each business unit as of the end of the previous month shall be reported, and the Board of Directors shall analyze the differences in target and actual results, and discuss actions to be taken to achieve the targeted sales and current profits for the fiscal year.
 - (5) In executing his/her daily duties, the President shall inspect the details of individual projects planned by the Directors in charge of each business unit and coordinate to maximize the effect of the projects in light of the current management policy, and approve the use of president's strategic reserve funds to the extent approved by the Board of Director.
 - (6) In executing his/her daily duties, Directors in charge of each business unit shall provide instructions to the executive officers and managers under his/her immediate control to ensure that they have correct awareness of the fiscal management policy and strategic goals for their division and that the PDCA cycle is thoroughly implemented to achieve these goals, and shall monitor the progress and achievements of the entire division at all times and strive to achieve the sales and profit goals for the fiscal year.
 - (7) In managing the business unit under his/her charge, Directors in charge of each business unit shall strive to reduce unnecessary expenses, improve work quality and productivity, and keep the workplace organized, and must exhibit leadership to create a workplace environment in which all employees are safe and comfortable, inspired and satisfied.
4. Systems to ensure that performance of duties by employees of the Company is in conformance with laws and regulations and the Articles of Incorporation
(in relation to the provisions of Article 100 Paragraph 1 Item 4 of the Ordinance for Enforcement of the Companies Act of Japan)
- (1) In order to ensure compliance with laws and regulations by employees, the Internal Audit Department under the direct control of the President shall prepare drafts of Compliance Regulations and Compliance Manual based on guidance provided by Auditors and outside company attorneys and, upon obtaining the approval of the Board of Directors, distribute them to all employees as guidelines from the President.
 - (2) Regular training sessions for all employees of the Company to further understanding on the Compliance Regulations and Compliance Manual as set forth above shall be conducted in accordance with the plans of the Internal Audit Department.
 - (3) When performing an internal audit on internal business units, the Internal Audit Department must always inspect the awareness on Compliance Regulations and implementation of Compliance Manual among employees of the business unit being audited, and submit an Internal Audit Report to the President within one week after the completion of the audit.
 - (4) Directors in charge of each division shall appoint a compliance manager within each business unit in accordance with the Compliance Regulations, and conduct training on the Compliance Manual for employees within the business unit in a timely and appropriate manner.
 - (5) In order to prevent the leaking of customer information and other confidential information, the body text and attached files of all electronic mails sent from internal PCs to outside the company shall be stored for a certain period of time.
 - (6) In preparation for the unlikely event that a Company employee violates any laws or regulations, the Company shall establish a system whereby the Internal Audit Department or the employee that first learns of such information gives emergency notification to the President or the Director in charge of legal affairs informing them of the facts and other relevant information.
5. Other systems to ensure the appropriateness of operations of the Group consisting of the Company and its subsidiaries
(in relation to the provisions of Article 100 Paragraph 1 Item 5 of the Ordinance for Enforcement of the Companies Act of Japan)

- (1) Systems concerning reports to the Company on matters pertaining to the execution of duties by directors, executive officers, employees executing operations, persons performing the duties under Article 598, Paragraph 1 of the Companies Act, and those equivalent (hereinafter “Directors, etc.” in items (2) and (3) below) of the Company’s subsidiaries (in relation to Article 100, Paragraph 1, Item 5(a) of the Ordinance for Enforcement of the Companies Act of Japan)
 - (i) In order for the Company to perform quarterly audits on the presence or absence of risk information pertaining to its subsidiary companies and affiliated companies (hereinafter, “Subsidiaries”), the Company shall conclude an internal audit agreement with its Subsidiaries and the Internal Audit Department shall conduct audits.
 - (ii) The Internal Audit Department shall establish a system whereby, upon identifying any incidents that may cause significant damage to the Subsidiaries, the President and the heads of relevant business divisions are notified of the risks causing such incident, the degree of damage expected and impacts on the Company.
 - (iii) The Internal Audit Department shall thoroughly exchange information with the Subsidiaries’ divisions in charge of internal audits on a regular basis to prevent any inappropriate transactions (including using corporate expenses for private entertainment purposes) or inappropriate accounting between the Company and Subsidiaries.
 - (iv) The Company shall assign Directors or employees of Deputy Manager or higher to the Subsidiaries to serve as Directors in order to communicate the management policy and requests of the Company in writing to the Subsidiaries’ Board of Directors. The Company shall request the presidents of the subsidiaries to submit monthly reports on the latest business results, business forecast and risk management issues.
- (2) Regulations and other systems for the management of risks of loss for the Subsidiaries (in relation to Article 100, Paragraph 1, Item 5(b) of the Ordinance for Enforcement of the Companies Act of Japan)

Efforts shall be made to raise awareness on risks which may impact the Company’s operation, and to promote early discovery, preventive measures, and prompt and appropriate responses in the event of an emergency in accordance with the separate Compliance Regulations, Compliance Manual and other internal rules.
- (3) Systems to ensure the efficient execution of Directors’ duties of Subsidiaries (in relation to Article 100, Paragraph 1, Item 5(c) of the Ordinance for Enforcement of the Companies Act of Japan)
 - (i) The Board of Directors of Subsidiaries (referred to as “Board of Directors” in this section) shall hold regular meetings of the Board of Directors generally on a given day of every month, as well as ad hoc meetings when necessary. The date and time of meetings of the Board of Directors called for the approval of financial statements or in relation to the General Meetings of Shareholders shall be planned at least six months in advance.
 - (ii) At the meetings of the Board of Directors held at the end of each fiscal year, a management policy for the upcoming fiscal year formulated in light of the Management Philosophy of the Subsidiaries and a Medium-Term Management Plan covering the next three years starting from the upcoming fiscal year shall be submitted by the president of the Subsidiaries (referred to as “President” in this section and the next section), and the Board of Directors shall deliberate upon their strategic rationalities in accordance with the Company’s Rules on the Board of Directors.
 - (iii) At the meetings of the Board of Directors held on the second month of each new fiscal year, the Targeted Profit and Loss Statements for the entire company and each business unit for the new fiscal year, and a proposed List of Dividing Duties of Directors and Strategic Goals shall be submitted by the President, and the Board of Directors shall deliberate upon their feasibilities in accordance with the Company’s Rules on the Board of Directors.
 - (iv) At the monthly regular meetings of the Board of Directors, the targeted and actual P/L statements for the entire company and each business unit as of the end of the previous month shall be reported, and the Board of Directors shall analyze the differences in target and actual results, and discuss actions to be taken to achieve the targeted sales and current profits for the fiscal year.
 - (v) In executing his/her daily duties, the President shall inspect the details of individual projects planned by the Directors in charge of each business unit and coordinate to maximize the effect the projects in light of the current management policy.

- (vi) In executing his/her daily duties, Directors in charge of each business unit shall provide instructions to the executive officers and managers under his/her immediate control to ensure that they have correct awareness of the fiscal management policy and strategic goals for their division and that the PDCA cycle is thoroughly implemented to achieve these goals, and shall monitor the progress and achievements of the entire division at all times and strive to achieve the sales and profit goals for the fiscal year.
 - (vii) In managing the business unit under his/her charge, Directors in charge of each business unit shall strive to reduce unnecessary expenses, improve work quality and productivity, and keep the workplace organized, and must exhibit leadership to create a workplace environment in which all employees are safe and comfortable, inspired and satisfied.
- (4) Systems to ensure that performance of duties by Directors and employees of the Subsidiaries is in conformance with laws and regulations and the Articles of Incorporation (in relation to Article 100, Paragraph 1, Item 5(d) of the Ordinance for Enforcement of the Companies Act of Japan)
- (i) In order to ensure compliance with laws and regulations by the directors and employees of the Subsidiaries (referred to as “Directors and employees” in this section), the division in charge of internal audit under the direct control of the President shall develop Compliance Regulations and Compliance Manual based on guidance provided by Auditors and outside company attorneys.
 - (ii) Regular training sessions for all Directors and employees to further understanding on the Compliance Regulations and Compliance Manual as set forth above shall be conducted in accordance with the plans of the division in charge of internal audit.
 - (iii) When performing an internal audit on internal business units, the division in charge of internal audit must always inspect the awareness on Compliance Regulations and implementation of Compliance Manual among employees of the business unit being audited, and submit an Internal Audit Report to the President within one week after the completion of the audit.
 - (iv) Directors in charge of each division shall appoint a compliance manager within each business unit in accordance with the Compliance Regulations, and conduct training on the Compliance Manual for employees within the business unit in a timely and appropriate manner.
 - (v) In order to prevent the leaking of customer information and other confidential information, the body text and attached files of all electronic mails sent from internal PCs to outside the company shall be stored for a certain period of time.
 - (vi) In preparation for the unlikely event that a Director or employee violates any laws or regulations, Subsidiaries shall establish a system whereby the division in charge of internal audit or the Director or employee that first learns of such information gives emergency notification to the President informing him/her of the facts and other relevant information.
6. Assignment of employees to assist the duties of Corporate Auditors (in relation to the provisions of Article 100 Paragraph 3 Item 1 of the Ordinance for Enforcement of the Companies Act of Japan)
- (1) The Company shall establish an Auditor Office to assist the duties of the Auditors and assign one or more dedicated employees.
 - (2) In determining the specific details pertaining to the preceding item, the Company shall respect the opinions of the Board of Auditors and take into consideration the opinions of the Director in charge of human resources and other relevant personnel.
7. Independence of employees assisting duties of Corporate Auditors from Directors (in relation to the provisions of Article 100 Paragraph 3 Item 2 of the Ordinance for Enforcement of the Companies Act of Japan)
- (1) The appointment, transfer, personnel evaluation and disciplinary punishment of employees assisting the duties of Auditors shall be subject to prior consent of the Board of Auditors.
 - (2) Employees assisting the duties of Auditors shall not hold concurrent posts that involve the execution of the Company’s business, and shall perform their duties under the direct command of the Board of Auditors, and their performance shall be evaluated by the Board of Auditors.
 - (3) Business units executing the Company’s business shall cooperate with employees assisting the duties of Auditors and allow attendance of such employees at the necessary meetings for them to conduct to necessary investigations and gather necessary information.

8. Ensuring effectiveness of directions to employees assisting duties of Corporate Auditors.
(in relation to the provisions of Article 100 Paragraph 3 Item 3 of the Ordinance for Enforcement of the Companies Act of Japan)

Employees assisting the duties of Auditors shall report to Auditors as appropriate on the status of duties performed in accordance with the directions and commands given by Auditors.

- 9-1. The systems listed below and other systems for reporting to Corporate Auditors
(in relation to the provisions of Article 100 Paragraph 3 Item 4 of the Ordinance for Enforcement of the Companies Act of Japan)

- (1) Systems for reporting to Corporate Auditors by the Company's Directors, accounting advisors and employees

(in relation to Article 100, Paragraph 3, Item 4(a) of the Ordinance for Enforcement of the Companies Act of Japan)

- (i) All Directors and employees of the Company shall promptly submit the necessary reports and information requested by Auditors as established by the Board of Auditors.

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

- 1) Status of activities of business units involved in the risk management of the Company;
- 2) Status of activities pertaining to audits and internal audits of the Subsidiaries of the Company;
- 3) Important accounting policies and accounting standards of the Company and any changes thereto;
- 4) Contents of announcements and important disclosure documents on the Company's latest business results and earnings forecasts announcements on both non-consolidated and consolidated basis;
- 5) Circulation of internal approval documents and meeting minutes requested by Auditors.

- (iii) In the event a Director or employee learns of any fact of violations of laws and regulations or any fact that could cause significant damage to the Company, such Director or employee shall immediately report matters pertaining to such fact to Auditors.

- (iv) Auditors shall attend all the meetings of the Board of Directors and other important meetings, and are expected to voice their opinions freely without being requested to do so by the chairman or caller of such meetings.

- (2) Systems for reporting to Corporate Auditors of the Company by the Subsidiaries' directors, accounting advisors, auditors, executive officers, employees executing operations, persons performing the duties under Article 598, Paragraph 1 of the Companies Act of Japan and other persons equivalent to the above, employees or any persons receiving reports from the above
(in relation to Article 100, Paragraph 3, Item 4(b) of the Ordinance for Enforcement of the Companies Act of Japan)

- (i) All directors, auditors and employees of Subsidiaries shall promptly submit the necessary reports and information requested by each Corporate Auditor of the Company as established by the Board of Auditors of the Company.

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

- 1) Status of activities of business units involved in the risk management of the Subsidiaries;
- 2) Status of activities pertaining to the audits by auditors of the Subsidiaries;
- 3) Important accounting policies and accounting standards of the Subsidiaries and any changes thereto;
- 4) Circulation of internal approval documents and meeting minutes of the Subsidiaries requested by Auditors.

- (iii) In the event a director, auditor or employee learns of any fact of violations of laws and regulations or any fact that could cause significant damage to the Company, such director, auditor or employee of the Subsidiaries shall immediately report matters pertaining to such fact to the Auditors of the Company.

- (iv) The Company's Auditors shall attend all the meetings of the Board of Directors and other important meetings of the Subsidiaries, and are expected to voice their opinions freely without being requested to do so by the chairman or caller of such meetings.

- 9-2. Systems to ensure that persons making reports as stated in the preceding item do not receive disadvantageous treatment for providing such reports
(in relation to the provisions of Article 100 Paragraph 3 Item 5 of the Ordinance for Enforcement of the Companies Act of Japan)

The Company and Subsidiaries must not treat any persons making reports stated in the preceding item in a disadvantageous manner due to grounds of providing such reports to the Board of Auditors of the Company.

- 9-3. Policy on prepayment or reimbursement of expenses arising from the execution of duties of Corporate Auditors and the processing of expenses or debts arising from the performance of other duties
(in relation to the provisions of Article 100 Paragraph 3 Item 6 of the Ordinance for Enforcement of the Companies Act of Japan)

The Company shall secure sufficient amounts to cover for the procedures on prepayment or reimbursement of expenses arising from the execution of duties of Auditors and for the processing of expenses or debts arising from the performance of other duties so as to allow Auditors to sufficiently achieve the execution of the Auditors' duties.

- (1) Ordinary auditing expenses shall be budgeted in the current fiscal year based on the business plan of the Company and the audit plan of the Board of Auditors.
 - (2) Other emergency auditing expenses and contingency expenses shall be estimated in advance by the Board of Auditors and establish a policy on such expenses. The Board of Directors shall execute the measures under said determined policy as notified by the Board of Auditors after deliberation and review of such measures in light of the status of execution of the budget for the fiscal year.
10. Other systems to ensure that audits by the Corporate Auditors are implemented effectively
(in relation to the provisions of Article 100 Paragraph 3 Item 7 of the Ordinance for Enforcement of the Companies Act of Japan)
- (1) Auditors shall receive advanced explanations on the annual internal auditing plan to be performed by the Internal Audit Department and express their opinions to the President if they deem that the plan needs to be corrected or changed, and the President must respect such opinions.
 - (2) Auditors shall receive reports, as appropriate, on the status of implementation of internal audits, and express their opinions to the President if they deem necessary that additional audits be implemented or operation improvement measures be developed. The President must respect such opinions.
 - (3) Auditors shall receive advance explanations on the accounting audit plans from accounting auditors, and reports on auditing methods and audit results whenever accounting audits on quarterly settlements and audits on full year settlements are performed.
 - (4) For the purpose of increasing the effectiveness of the Company's auditing system by achieving coordination between the Company's auditing system and the risk management system, the Company shall establish an Audit System Improvement Committee headed by the Director in charge of legal affairs and consisting of the head of the Internal Audit Department and deputy managers or higher nominated by said Director and Auditors. The Committee is expected to prepare reports on the auditing systems that should be created by the Company in the future, and to submit such reports to the Board of Directors.

- (2) Number of Directors

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

- (3) Criteria for the election or dismissal of Directors

The Articles of Incorporation stipulate that Directors shall be elected by a majority vote of shareholders at the General Meeting of Shareholders with the attendance of at least one-third of shareholders that can exercise voting rights, and that election of Directors shall not to be based on cumulative voting.

The Articles of Incorporation further stipulate that Directors shall be dismissed by a vote of two-thirds or more of shareholders at the meeting with the attendance of at least half of the shareholders that can exercise voting rights.

- (4) Exemption from liability for Directors and Auditors

In order to limit the responsibilities of Directors and Auditors to a reasonable extent in performing their duties, the Company stipulates in its Articles of Incorporation that the Company may, by resolution of the Board of Directors, exempt Directors (including former Directors) and Auditors (including former Auditors) from liabilities to the extent allowed by law in accordance with Article 426 Paragraph 1 of the Companies Act of Japan.

(5) Outline of Limited Liability Agreement

The Company concludes agreements with Outside Directors and Outside Auditors in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act of Japan, limiting their liabilities to the amounts set forth by law if they are without knowledge and not grossly negligent with regard to their responsibilities set forth in Article 423, Paragraph 1.

(6) Interim dividends

In order to maintain flexible redistribution of profits to shareholders, the Company stipulates in its Articles of Incorporation that the Company may, by resolution of the Board of Directors, pay interim dividends as of March 31 every year pursuant to the provisions of Article 454, Item 5 of the Companies Act of Japan.

(7) Acquisition of treasury stock

In order to allow for flexible implementation of capital policies on improving capital efficiency and shareholder interest, the Company stipulates in its Articles of Incorporation that treasury stock may be acquired by resolution of the Board of Directors pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act of Japan.

(8) Special resolutions

The Company stipulates in its Articles of Incorporation that special resolutions of the General Meetings of Shareholders as specified in Article 309, Paragraph 2 of the Companies Act of Japan shall be passed by a vote of two-thirds or more of shareholders at meetings with the attendance of at one-third of the shareholders that can exercise voting rights. This has been established to ensure smooth handling of special resolutions at General Meetings of Shareholders by easing the quorum for special resolutions by General Meetings of Shareholders.

(9) Collaboration with outside experts

The Company consults with company attorneys concerning important legal issues and compliance-related matters, and conducts reviews as necessary. The Company consults with the Accounting Auditors and reviews important accounting issues from time to time in addition to the regular accounting audits, and hold discussions promptly after quarterly and annual financial settlements.

(10) Basic policy on the control of the Company

The Company has no particular policy on matters concerning the persons controlling the decisions on the financial and business policies of the Company. A schematic diagram of the Company's internal control system is shown under 2. Reasons for Selecting the Current Corporate Governance System.

III. Basic Approach and Countermeasures to Eliminate Anti-social Forces

1. Basic approach to eliminate anti-social forces

The basic policy of the Company is to have absolutely no engagement with anti-social forces under "Strict Implementation of Compliance Management" as stated in the TKC Charter of Corporate Code. The Company fully disseminates that it will maintain a resolute, organization-wide response against any and all unreasonable demands and approaches from anti-social forces and bodies.

2. Countermeasures to eliminate anti-social forces

(1) Establishment of a Response Control Division and appointment of managers

The Company has established a division to control responses to anti-social forces (the Response Control Division) and appointed managers in charge of preventing unreasonable demands within its Tochigi and Tokyo Head Offices.

The Company has also established a system for immediate reporting and consultation with the Response Control Division on matters concerning unreasonable demands, organized violence, and criminal acts by anti-social forces.

(2) Coordination with external expert organizations

The Company maintains close ties with external expert organizations, for example, by taking part in liaison groups organized by the police and receiving guidance on how to deal with anti-social forces.

(3) Collecting and managing information on anti-social forces

The Response Control Division coordinates with experts and the police in sharing the latest information pertaining to anti-social forces and using such information to give warning to the employees within the Company.

(4) Preparation of response manuals

The Company has prepared training materials on compliance-related case studies including topics on how to deal with anti-social forces, which are distributed and used in compliance training sessions.

(5) Training activities

The Company promotes activities to prevent damages from anti-social forces before they occur by sharing information on anti-social forces within the Company and conducting compliance training sessions with the Company and at Group companies.

(2) [Officers]

1. List of Officers

11 male and 1 female (percentage of female directors: 8.3%)

Position and Title	Name	Date of Birth	Brief biography	Term of office	Number of shares held (hundreds of shares)
Representative Director, President and Executive Officer Director of Accounting Firm BD	Masanori Iizuka	March 12, 1975	<p>April 2002 Joined the Company</p> <p>December 2010 Director, Executive Officer, Sales of Corporate Information Systems, Chief Director of G Project of Sales, Corporate Information Systems, Accounting Firm BD</p> <p>October 2012 Director, Executive Officer, Chief Director of Sales of Corporate Information Systems, Accounting Firm BD</p> <p>December 2012 Director, Managing Director and Executive Officer, Chief Director of Sales, Corporate Information Systems, Accounting Firm BD</p> <p>April 2014 Director, Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm BD</p> <p>October 2016 Representative Director, Senior Managing Director and Executive Officer, Chief Director of Sales, Accounting Firm BD</p> <p>October 2018 Representative Director, Senior Managing Director and Executive Officer, Chief Director of Accounting Firm BD</p> <p>December, 2019 Representative Director, President and Executive Officer, Director of Accounting Firm BD (current position)</p> <p>December 2019 Representative Director, President, TKC Customer Support Service Co., Ltd. (current position)</p>	(Note 5)	74
Representative Director, Senior Managing Director and Executive Officer Director of Local Governments BD	Satoshi Hitaka	January 19, 1971	<p>April 2003 Joined the Company</p> <p>December 2010 Executive Officer, Director of ASP Service Promotion, Sales Planning, Local Governments Business Division</p> <p>December 2011 Director, Executive Officer, New Business Strategy, Local Governments BD</p> <p>January 2012 Director, Executive Officer, Chief Director of Cloud Business Promotion, Local Governments BD</p> <p>December 2018 Director, Managing Director and Executive Officer, Chief Director of Sales, Local Governments BD</p> <p>September 2020 Representative Director, Senior Managing Director and Executive Officer, Director of Local Governments BD (current position)</p>	(Note 5)	23
Director Senior Managing Director and Executive Officer	Ikuo Kawahashi	February 26, 1955	<p>April 1977 Joined the Company</p> <p>December 2006 Executive Officer, Systems Development Department, Local Governments BD</p> <p>January 2008 Executive Officer, Chief of Internal Control Center</p> <p>December 2013 Representative Director and Vice President, SKYCOM Corporation</p> <p>December 2014 Representative Director and President, SKYCOM Corporation (current position)</p> <p>December 2019 Senior Managing Director and Executive Officer of the Company</p> <p>December 2020 Director, Senior Managing Director and Executive Officer of the Company (current position)</p>	(Note 5)	76
Director Managing Director and Executive Officer Chief of Systems Development Research Center, Accounting Firm BD	Yasuo Igarashi	January 4, 1967	<p>April 1989 Joined the Company</p> <p>August 2012 Executive Officer, Chief of Account Information Systems Development Center, Systems Development Research Center, Accounting Firm BD</p> <p>December 2016 Director, Executive Officer, Director of Sales Planning, Sales, Accounting Firm BD</p> <p>December 2017 Director, Managing Director and Executive Officer, Director of Sales Planning, Accounting Firm BD</p> <p>January 2018 Director, Managing Director and Executive Officer, Chief of Systems Development Research Center, Accounting Firm BD (current position)</p>	(Note 5)	30

Position and Title	Name	Date of Birth	Brief biography	Term of office	Number of shares held (hundreds of shares)
Director and Executive Officer Chief Director of Business Administration	Kiyotsugu Nakanishi	August 27, 1956	April 1979 Joined the Company December 2008 Executive Officer, Head of General Affairs Department December 2009 Head of General Affairs Department January 2015 Head of Internal Audit Department December 2018 Full-time Auditor of the Company December 2020 Director and Executive Officer, Chief Director of Business Administration (current position)	(Note 5)	150
Director	Yoshimasa Oshida	August 17, 1956	November 1988 Registered as certified tax accountant November 1991 Started business as certified tax accountant July 2002 Representative Partner of Oshida Accounting Office (current position) December 2018 Director of the Company (current position)	(Note 5)	10
Director	Junko Iijima	August 3, 1967	October 2001 Registered as attorney October 2001 Joined Tokyo Toranomon Law Office (current position) October 2019 Chairperson of the Nomination and Compensation Advisory Committee of the Company (current position) December 2019 Director of the Company (current position)	(Note 5)	-
Director	Nobuhiko Kouga	January 25, 1964	February 1996 Registered as certified tax accountant February 1996 Started business as certified tax accountant April 2019 Representative Partner of Accounting Firm Top Management (current position) December 2020 Director of the Company (current position)	(Note 5)	5
Auditor (full-time)	Tsuneco Miyashita	May 28, 1949	March 1975 Joined the Company December 2006 Executive Officer, Chief of TKCNF Research Committee Support Division October 2010 Head of Chairman's Office December 2016 Full-time Auditor of the Company (current position) Auditor, TKC Security Services Co., Ltd. (current position) October 2017 Auditor, TKC Customer Support Service Co., Ltd. (current position)	(Note 6)	99
Auditor (full-time)	Masaaki Arino	March 17, 1963	April 1985 Joined the Company January 2015 Executive Officer, Chief of General Affairs, Business Administration Headquarters October 2018 Executive Officer, Head of General Affairs Department December 2020 Full-time Auditor of the Company (current position)	(Note 6)	52
Auditor	Hideki Tomonaga	February 15, 1956	April 1982 Joined Tokyo Regional Taxation Bureau July 2006 Resigned from National Tax College August 2006 Registered as certified tax accountant March 2007 Representative Director of Taxation Institute of Japan (current position) December 2018 Representative Partner of Tomonaga Hideki Licensed Tax Accountant Office (current position) December 2019 Auditor of the Company (current position)	(Note 4)	-
Auditor	Tomoyasu Hamamura	February 12, 1958	March 1989 Registered as certified tax accountant March 1989 Started business as certified tax accountant February 2007 Representative Partner of Hamamura Accounting Office (current position) December 2020 Auditor of the Company (current position)	(Note 6)	11
Total					530

- (Notes) 1. Director Satoshi Hitaka is the spouse of the elder sister of Masanori Iizuka, Representative Director, President, and Executive Officer.
2. Directors Yoshimasa Oshida, Junko Iijima, and Nobuhiko Kouga are Outside Directors.
3. Auditors Hideki Tomonaga and Tomoyasu Hamamura are Outside Auditors.
4. Four years from the close of the Ordinary General Meeting of Shareholders held on December 20, 2019.
5. Two years from the close of the Ordinary General Meeting of Shareholders held on December 18, 2020.
6. Four years from the close of the Ordinary General Meeting of Shareholders held on December 18, 2020.

2. Procedures and policy on the nomination of Directors

- (1) For the appointment and dismissal of Directors, the Board of Directors shall consult with the Nomination and Compensation Advisory Committee, and respecting the report from said Committee, prepare the original proposals to be submitted for resolution at the General Meeting of Shareholders.
- (2) The Nomination and Compensation Advisory Committee shall nominate a candidate for a new Director who satisfies one of the following qualifications:
 - (i) a person who is an Executive Officer or of higher rank, who has engaged in the timely development of new products or new services (emergence of innovation) or, as person in charge of such marketing strategy, led such projects to success in line with the business objectives of the Company while anticipating the rapidly moving trends of a digital society, thereby winning a large number of clients, etc., improving the social reputation of the Company, and contributing notably to the sustainable growth of the Company.
 - (ii) a person who is an Executive Officer or of higher rank, who has eliminated unreasonableness, waste, and inconsistency within his/her business division in compliance with the laws, developed a business plan to achieve increased income and increased profit on an ongoing basis, improve the treatment of employees, and implement risk measures, and in executing such plan, contributed notably to improving the medium- and long-term corporate value through aggressive information sharing and provision of opinions to the Director in charge.

3. Outside Officers

Category	Name	Functions, roles and appointment
Director	Yoshimasa Oshida	<p>Mr. Oshida is a representative partner of a certified public tax accountants firm Oshida Accounting Office and the Company's Accounting Firm Business could benefit from his extensive experience and insights in the management of accounting firms. Based on his nine years of experience as chairperson of the TKCNF System Development Committee, he is expected to contribute to the sustainable growth of the Company and improvement of corporate value through the development and promotion of the Company's systems and services. He is also expected to provide input to ensure the validity of decisions made and resolved by the Board of Directors, and therefore, he has been reappointed as Outside Director.</p> <p>While Oshida Accounting Office is engaged in a business relationship with the Company, transactions are based on the same terms and conditions as with other third parties. Therefore, it is not likely that any conflict of interest shall occur between Mr. Oshida and general shareholders, and the Company deems that this would not affect the independence of Mr. Oshida.</p> <p>Mr. Oshida has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.</p>
Director	Junko Iijima	<p>As a certified attorney, Ms Iijima possesses expertise and extensive experience, and, in particular, deep insight into corporate governance. As chairperson of the Company's Nomination and Compensation Advisory Committee established on October 10, 2019, she displayed strong leadership in deliberating and designing the policies and procedures for the appointment and dismissal of Directors, etc., and the director's compensation plan in accordance with the principles of the corporate governance code. She is expected to contribute to the sustainable growth and medium- to long-term improvement in the corporate value of the Company through enhanced corporate governance, and to provide valuable input from the perspective of a female. She is also expected to enhance the decision-making and supervisory functions of the Board of Directors, and therefore, she has been reappointed as Outside Director.</p> <p>Ms Iijima has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.</p>
Director	Nobuhiko Kouga	<p>Mr. Kouga is a representative partner of Accounting Firm Top Management, and the Company's Accounting Firm Business could benefit from his extensive experience and insights in the management of accounting firms. As chairperson of the TKCNF New Members Service Committee, he is expected to contribute to the sustainable growth of the Company and improvement of corporate value over the medium-term by providing advice on follow-up activities for new member tax accountants and certified public accountants and activities to increase TKC Members. Therefore, he has been appointed as Outside Director.</p> <p>Mr. Kouga has no special interest in the Company. The number of shares of the Company held is as indicated in the "Number of shares held" column under 1. List of Officers.</p>

Category	Name	Functions, roles and appointment
Auditor	Hideki Tomonaga	<p>Mr. Tomonaga is a representative partner of a certified public tax accounting firm Tomonaga Hideki Licensed Tax Accountant Office, and has extensive experience as a tax specialist on consolidated taxation system, corporate reorganization taxation system and international trade. He is expected to provide appropriate guidance and audits from his professional perspective in ensuring tax compliance of the Company, and therefore, has been reappointed as Outside Auditor.</p> <p>While Tomonaga Hideki Licensed Tax Accountant Office is engaged in a business relationship with the Company, transactions are based on the same terms and conditions as with other third parties. Therefore, it is not likely that any conflict of interest shall occur between Mr. Tomonaga and general shareholders, and the Company deems that this would not affect the independence of Mr. Tomonaga.</p> <p>Mr. Tomonaga has no special interest in the Company. The number of shares of the Company held is as indicated in the “Number of shares held” column under 1. List of Officers.</p>
Auditor	Tomoyasu Hamamura	<p>Mr. Hamamura is a representative partner of Hamamura Accounting Office, and has made major contributions in the development of local economies through corporate management as certified public tax accountant, auditor, and accounting advisors to many businesses. Based on such experience and deep insight in the Company and the industry, he is expected to provide advice and proposals to ensure the legality, adequacy and appropriateness of the decision-making and resolutions of the Board of Directors. He is also expected to strengthen the supervisory functions of the Board of Directors, and therefore, has been appointed as Outside Auditor.</p> <p>Mr. Hamamura has no special interest in the Company. The number of shares of the Company held is as indicated in the “Number of shares held” column under 1. List of Officers.</p>

4. Support systems for Outside Directors and Outside Auditors

- (1) The Company appoints the Chief Director of General Affairs Department as a point of liaison to provide assistance to Outside Directors and Outside Auditors. The Chief Director of General Affairs Department notifies the Outside Directors and Outside Auditors of the schedule of the meetings of the Board of Directors or meetings of the Board of Auditors and send any related materials thereto, and if necessary, provides explanations in advance on such materials.
- (2) Outside Directors attends any major meetings of the TKCNF, the customer organization of the Accounting Firm BD.
- (3) Once a month, Outside Auditors review the approval request documents, accounting books and major evidence documents, and receive reports from the heads of Departments and give their opinions.
- (4) Compensations for Auditors shall be determined each January upon discussion among Auditors based on the business results for the preceding fiscal year.

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

- (1) A person who is currently not, or has not been for the past ten years, an executive member of the Company or the Company’s subsidiaries;
- (2) A person for which the Company is currently not, or was recently not, an important trade partner or its executing member, or an important trade partner of the Company or its executing member;
- (3) A person for which the Company is currently not, or was recently not, a consultant, accounting specialist, or legal specialist receiving large sums of money or other assets from the Company;
- (4) A person who is currently not, or has not recently been, a near relative of an executive member of the Company or the Company’s subsidiaries, or a near relative of any of the persons falling under items (2) or (3);
- (5) Any other person whose independence is clear of doubt in executing the duties of an Outside Director.

(3) [Audits]

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

(i) Audits by Auditors

The Company has four Auditors, consisting of two Standing Auditors and two Outside Auditors. Outside Auditors Hideki Tomonaga and Tomoyasu Hamamura are qualified tax accountants who have considerable expertise in the areas of finance, accounting, and tax accounting.

Standing Auditors Tsuneo Miyashita and Masaaki Arino have served as heads of Business Administration in charge of general affairs, accounting, and financing and have considerable expertise on financing, accounting and tax affairs.

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

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

Name	Number of days/number of meetings attended (Note 1)	Attendance rate (Note 1)
Tsuneo Miyashita	7/7	100%
Kiyotsugu Nakanishi (Note 2)	7/7	100%
Yoshiki takashima (Note 2)	7/7	100%
Hideki Tomonaga (Note 3)	5/5	100%
Kenji Matsumoto (Note 4)	2/2	100%

(Note 1) The number of days on which the meeting of the Board of Auditor was held is based the number of days held during each term of office in the fiscal year.

(Note 2) Resigned on December 18, 2020.

(Note 3) Assumed office on December 20, 2019.

(Note 4) Resigned on December 20, 2019.

(ii) Internal audits

1) Organization, personnel and procedures of internal audits

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

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

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

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

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

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

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

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

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

(iii) Accounting audits

- 1) Name of audit firm

Ernst & Young ShinNihon LLC

- 2) Continuous audit period

37 years

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

- 3) Certified public accountants that executed the accounting audit

Kanji Tako, Toru Iizuka

- 4) Number of assistants assisting auditing:

The number of assistants assisting the accounting audit of the Company was 15 certified public accountants and 15 other personnel.

- 5) Policy and reasons for appointing the audit firm

It is the policy of the Company for the Board of Auditors to dismiss accounting auditors, with the consent of all Auditors, should it be deemed that said accounting auditor falls under any of the items prescribed in Article 340 Paragraph 1 of the Companies Act of Japan. In such event, an Auditor selected by the Board of Auditors shall report the dismissal of the accounting auditor and the reason for dismissal at the first General Meeting of Shareholders convened following the dismissal.

If there is a reason or a need to prevent the accounting auditor's execution of his/her duties, the Board of Auditors shall develop a proposal on the dismissal or refusal of reappointment of said accounting auditor, and the Board of Directors shall present such proposal for resolution at the General Meeting of Shareholders.

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

Based on the Practical Guidelines on the Assessment of Accounting Auditors and the Formulation of Selection

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

(iv) Content of audit fees

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

Category	Previous consolidated fiscal year		Current consolidated fiscal year	
	Compensation for audit and attestation services (millions of yen)	Compensation for non-audit services (millions of yen)	Compensation for audit and attestation services (millions of yen)	Compensation for non-audit services (millions of yen)
The Company	44	17	43	10
Consolidated subsidiaries	—	—	—	—
Total	44	17	43	10

(Note) The Company pays certified public accountants engaged in audits compensation for assurance services for internal controls pertaining to the Company's ASP service based on the Auditing and Assurance Practice Committee Practical Guideline No. 86 "Assurance Reports on Controls at a Service Organization (Japanese Institute of Certified Public Accountants dated December 22, 2011)" covering services other than the services prescribed in Article 2 Paragraph 1 of the Certified Public Accountants Act.

2) Compensation to certified public accountants who belong to the same network as the Company's auditors (excluding 1) above)

None to be disclosed.

3) Policy for determining audit fees

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

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

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

5) Other important fees under the audit and attestation services

None to be disclosed.

(4) [Officers' Compensation, etc.]

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

(1) Officers' compensation system

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

(2) Maximum amounts of Officers' compensation

The amount of compensation for officers of the Company was established by resolution of the 43rd Ordinary General Meeting of Shareholders convened on December 22, 2009, at an annual monetary amount of up to 480 million yen for Directors' compensation and up to 80 million yen for Auditors' compensation. Separate from these maximum amounts of compensation, Directors (excluding outside directors and expatriates), executive officers (excluding expatriates) are entitled to a stock-based compensation plan (BIP Trust) established by resolution of the 52nd Ordinary General Meeting of Shareholders convened on December 21, 2018, at an amount of up to 500 million yen for Directors and executive officers.

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

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

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

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

- 1) The amounts of compensation may be increased if both of the following two conditions are met:
 - a) On a non-consolidated, year-on-year basis, net sales, marginal profits and ordinary income of the entire Company increased.
 - b) On closing an equity ratio of 83% or greater has been achieved.
- 2) The amounts of compensation for Directors who are executive officers shall be determined at the meeting of the Board of Directors, by assessing the achievement of business results of divisions in charge by referencing the year-on-year marginal profits as indicator.
- 3) In addition to item 2) above, if an officer is reappointed, the Board may also take into consideration the number of years holding executive positions based on his/her contribution to items 1) and 2) above.
- 4) If the divisions in charge have failed to achieve target performance for two consecutive fiscal years, the amounts of compensation for the next fiscal year shall be decreased.

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

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

- 1) Directors who do not serving as executive officers shall be excluded from performance assessments.
- 2) If the Company makes a request to any of the Directors who do not hold executive positions to perform matters beyond the normal responsibilities of an outside Directors, it shall pay an advisory fee based on a separately entered agreement in compliance with the independence standards (compensation other than Officers' compensation must be less than 10 million yen per year).

(iii) Policy on determining the compensation for Auditors

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

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

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

- 2) Executive officers' allowance shall consist of monetary compensation and stock-based compensation.
- 3) Executive officers' allowance shall be determined at the meeting of the Board of Directors, taking into consideration the following four points and assessing the business results.
 - a) Achievement of business results of divisions in charge;
 - b) Individual accomplishments in marketing or innovation;
 - c) Expertness of duties and individual contribution in improving the division's business results;
 - d) Executive position held and number of years holding such position.

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

(4) Method of determining the amount of Officers' compensation

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

- (i) Policy and procedure for the nomination of candidates for Directors and executive officers holding executive position;
- (ii) Appointment and dismissal of Directors and executive officers holding executive position;
- (iii) Policy for the determination of compensations for Directors and executive officers holding executive position;
- (iv) Policy for the determination of individual compensations for Directors and executive officers holding executive positions;
- (v) Individual compensations for Directors and executive officers holding executive position;
- (vi) Appointment and dismissal of representative directors and auditors of subsidiaries and their individual compensations;
- (vii) Other matters that the Board of Directors deem necessary in relation to any of the above items.

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

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

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

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

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

(6) Calculation method

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

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

*2: Marginal profit is the amount derived by deducting the costs that change in proportion to sales (variable costs) from the amount of sales. Marginal profit will vary depending on product mix. The Company considers the marginal profit ratio as an important financial indicator, and sets the target at 60%.

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

*4: Year-on-year ratio of marginal profits for the current fiscal year under review was 106.5%. Year-on-year ratio of ordinary income was 123.8%.

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

Officer category	Total amount of compensation (millions of yen)	Total compensation by type (millions of yen)		Number of eligible officers
		Monetary compensation	Stock-based compensation (BIP Trust)	
Directors (excluding Outside Directors)	278	255	23	8
Auditors (excluding Outside Auditors)	32	32	—	2
Outside Directors	27	27	—	3
Outside Auditors	21	21	—	3

(5) [Status of Shareholdings]

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

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

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

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

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

a) Policy on cross-shareholdings

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

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

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

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

	Number of securities (Securities name)	Total amount recorded in balance sheet (millions of yen)
Unlisted stock	7	201
Securities other than unlisted stock	6	2,900

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

	Number of securities (Securities name)	Total amount acquired by increase in number of shares (millions of yen)	Reasons for increase in number of shares
Unlisted stock	1	99	To improve the value of the Company's Accounting Firm business segment.
Securities other than unlisted stock	-	-	-

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

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

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

Specified investment securities

Securities name	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Amount recorded in balance sheet (millions of yen)	Amount recorded in balance sheet (millions of yen)		
T&D Holdings, Inc.	1,780,000	1,780,000	To maintain and strengthen the partnership for the purpose of supporting the prosperity and success of SMEs. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	Yes
	1,836	2,038		
Mitsubishi UFJ Financial Group, Inc.	2,322,180	2,322,180	To maintain and strengthen the long-term, stable business relationship. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	Yes
	966	1,273		
Mebuki Financial Group, Inc.	275,400	275,400	To maintain and strengthen the long-term, stable business relationship. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	Yes
	65	73		
Nippon Paper Industries Co., Ltd.	17,000	17,000	To maintain and strengthen the long-term, stable business partnership. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	Yes
	22	29		

Securities name	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding, reason for increase in number of shares	Holding of the Company's shares
	Number of shares (shares)	Number of shares (shares)		
	Amount recorded in balance sheet (millions of yen)	Amount recorded in balance sheet (millions of yen)		
Mito Securities Co., Ltd.	31,460	31,460	To maintain and strengthen the long-term, stable business relationship. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	Yes
	6	7		
Tokai Tokyo Financial Holdings, Inc.	9,187	9,187	To maintain and strengthen the long-term, stable business relationship. Figures on the effect of holding are not disclosed as they contain business secrets of said company. However, the Company assesses whether the benefits and risks from the holding cover the costs of capital, quantitatively on a regular basis.	No
	2	2		

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

(iii) Equity securities held for the pure investment

None to be disclosed.

Part 5 [Financial Information]

1. Method of Preparing Consolidated Financial Statements and Financial Statements

- (1) The consolidated financial statements of the Company have been prepared in accordance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).
- (2) The financial statements of the Company have been prepared in accordance with the Ordinance on the Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter, the “Ordinance on Financial Statements”).

Further, as the Company is a Specified Company Submitting Financial Statements, we have prepared the financial statements in accordance with the provisions of Article 127 of the Ordinance on Financial Statements.

2. Auditing and Attestation

The consolidated financial statements for the consolidated fiscal year (from October 1, 2019 to September 30, 2020) and financial statements for the fiscal year (from October 1, 2019 to September 30, 2020) have been audited by Ernst & Young ShinNihon LLC pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act of Japan.

3. Special Efforts to Ensure the Appropriateness of its Consolidated Financial Statements

The Company makes exceptional efforts to ensure the appropriateness of our consolidated financial statements. Specifically, in order to understand the contents of accounting standards correctly and to develop a system that would enable us to respond to changes in accounting standards, we maintain membership of the Financial Accounting Standards Foundation and attend seminars held by the Accounting Standards Board of Japan.

1. [Consolidated Financial Statements]
 (1) [Consolidated Financial Statements]
 1) [Consolidated Balance Sheet]

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Assets		
Current assets		
Cash and deposits	29,810	26,769
Notes and accounts receivable–trade	8,755	7,014
Lease investment assets	443	432
Merchandise and finished goods	308	238
Work in progress	634	307
Raw materials and supplies	147	177
Other	1,015	924
Allowance for doubtful accounts	(41)	(19)
Total current assets	41,073	35,844
Non-current assets		
Property, plant and equipment		
Buildings and structures (net amount)	8,404	8,182
Machinery, equipment and vehicles (net amount)	503	547
Tools, furniture & fixtures (net amount)	1,793	1,857
Land	6,892	6,911
Lease assets (net amount)	369	290
Construction in progress	—	5
Total property, plant and equipment	*1 17,963	*1 17,794
Intangible assets		
Software	2,456	2,724
Software in progress	807	370
Other	26	25
Total intangible assets	3,290	3,120
Investments and other assets		
Investment securities	*2 15,527	*2 16,282
Long-term loans receivable	38	163
Deferred tax assets	7,015	7,360
Long-term time deposits	9,500	14,600
Guarantee deposits	1,339	1,438
Long-term lease investment assets	1,033	889
Other	206	178
Total investments and other assets	34,661	40,911
Total non-current assets	55,915	61,826
Total assets	96,989	97,671

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable–trade	3,602	2,181
Electronically recorded obligations–operating	916	802
Current portion of long-term loans payable	142	142
Lease obligations	541	522
Accounts payable–other	2,661	2,184
Income taxes payable	2,450	2,549
Accrued consumption taxes	721	1,520
Provisions for bonuses	3,600	3,673
Other	1,640	1,124
Total current liabilities	16,278	14,701
Non-current liabilities		
Long-term loans payable	438	295
Lease obligations	1,333	1,113
Retirement benefit liabilities	4,764	3,400
Provisions for stocks payment	562	599
Other	492	485
Total non-current liabilities	7,590	5,893
Total liabilities	23,868	20,595
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	5,711	6,588
Retained earnings	63,623	68,533
Treasury stock	(1,630)	(1,660)
Total shareholders' equity	73,404	79,161
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(83)	(553)
Accumulated remeasurements of defined benefit plans	(1,704)	(1,532)
Total accumulated other comprehensive income	(1,787)	(2,085)
Non-controlling interests	1,504	–
Total net assets	73,121	77,075
Total liabilities and net assets	96,989	97,671

2) [Consolidated Statements of Income and Comprehensive Income]

[Consolidated Statements of Income]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Net sales	66,120	67,814
Cost of sales	22,822	22,667
Gross profit	43,298	45,147
Selling, general and administrative expenses	*1, *2 33,951	*1, *2 33,766
Operating income	9,347	11,381
Non-operating income		
Interest income	31	37
Dividends income	135	146
Land and house rent received	52	50
Subsidy income	13	15
Equity in earnings of affiliates	27	—
Other	64	56
Total non-operating income	325	306
Non-operating expenses		
Interest expenses	2	1
Other	0	0
Total non-operating expenses	3	1
Ordinary income	9,669	11,685
Extraordinary income		
Gains on sales of non-current assets	*3 1	*3 2
Gain on negative goodwill	88	—
Gain on reversal of subscription rights to shares	274	—
Other	8	—
Total extraordinary income	373	2
Extraordinary losses		
Loss on sale of non-current assets	*4 10	—
Loss on retirement of non-current assets	*5 7	*5 40
Loss on step acquisitions	20	—
Other	0	0
Total extraordinary losses	38	41
Net income before taxes and adjustments	10,004	11,646
Income taxes—current	3,776	4,070
Income taxes—deferred	(556)	(225)
Total income taxes	3,220	3,845
Net income	6,784	7,801
Net profit (loss) attributable to non-controlling interests	63	(20)
Profit attributable to owners of parent	6,721	7,821

[Consolidated Statements of Comprehensive Income]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Net income	6,784	7,801
Other comprehensive income		
Valuation difference on available-for-sale securities	(996)	(471)
Remeasurements of retirement benefits	(1,704)	171
Share of other comprehensive income of entities accounted for using equity method	(0)	—
Total other comprehensive income	*1 (2,701)	*1 (299)
Comprehensive income	4,082	7,501
(Breakdown)		
Comprehensive income attributable to owners of the parent	4,015	7,524
Comprehensive income attributable to non-controlling interests	66	(22)

3) [Consolidated Statement of Changes in Net Assets]

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

(Unit: millions of yen)

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

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

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

(Unit: millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of year	5,700	5,711	63,623	(1,630)	73,404
Changes during fiscal year					
Dividends of surplus			(2,911)		(2,911)
Profit attributable to owners of parent			7,821		7,821
Acquisition of treasury stock				(34)	(34)
Disposal of treasury stock		0		3	3
Change in parent's ownership interest from transactions with non-controlling interests		877			877
Changes in items other than equity (net)					
Total changes during fiscal year	—	877	4,909	(30)	5,756
Balance at end of year	5,700	6,588	68,533	(1,660)	79,161

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of year	(83)	(1,704)	(1,787)	1,504	73,121
Changes during fiscal year					
Dividends of surplus					(2,911)
Profit attributable to owners of parent					7,821
Acquisition of treasury stock					(34)
Disposal of treasury stock					3
Change in parent's ownership interest from transactions with non-controlling interests					877
Changes in items other than equity (net)	(469)	171	(297)	(1,504)	(1,801)
Total changes during fiscal year	(469)	171	(297)	(1,504)	3,954
Balance at end of year	(553)	(1,532)	(2,085)	—	77,075

4) [Consolidated Statements of Cash Flows]

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Cash Flows from Operating Activities		
Net income before taxes and adjustments	10,004	11,646
Depreciation	3,006	3,070
Increase (decrease) in allowance for doubtful accounts	(8)	(21)
Increase (decrease) in provisions for bonuses	402	72
Increase (decrease) in retirement benefit liabilities	170	82
Contribution of securities to retirement benefit trust	—	(1,200)
Increase (decrease) in provisions for stocks payment	562	37
Interest and dividends income	(103)	(183)
Interest expenses	2	1
Equity in losses (earnings) of affiliates	(27)	—
Loss on retirement of non-current assets	7	40
Loss (gain) on sale of non-current assets	9	(2)
Share-based payment expenses	44	—
Gain on reversal of subscription rights to shares	(274)	—
Gain on negative goodwill	(88)	—
Loss (gain) on step acquisitions	20	—
Decrease (increase) in notes and accounts receivable– trade	(566)	1,257
Decrease (increase) in inventories	(372)	366
Decrease (increase) in other assets	179	68
Increase (decrease) in accounts payable–trade	566	(1,559)
Increase (decrease) in other liabilities	(272)	(211)
Increase (decrease) in accrued consumption taxes	215	798
Other	(17)	66
Subtotal	13,458	14,330
Interest and dividends received	200	212
Interest paid	(2)	(1)
Income taxes paid	(3,106)	(3,971)
Cash Flows from Operating Activities	10,550	10,569
Cash Flows from Investing Activities		
Payments into time deposits	(6,500)	(8,400)
Proceeds from withdrawal of time deposits	3,000	3,000
Purchase of property, plant and equipment	(1,929)	(1,738)
Proceeds from sales of property, plant and equipment	25	2
Purchase of intangible assets	(1,249)	(1,369)
Proceeds from redemption of investments in capital	0	—
Purchase of investment securities	(3,001)	(5,505)
Proceeds from sales of investment securities	15	—
Proceeds from redemption of investment securities	10,000	4,050
Payments for guarantee deposits	(8)	(173)
Proceeds from collection of guarantee deposits	15	97
Payments of loans receivables	—	(230)
Collection of loans receivables	49	141
Other payments	(5)	(0)
Other proceeds	—	1
Cash Flows from Investing Activities	411	(10,124)

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Cash Flows from Financing Activities		
Repayment of long-term loans payable	(142)	(142)
Repayment of lease obligations	(101)	(99)
Purchase of treasury stock	(1,387)	(34)
Proceeds from disposal of treasury stock	756	0
Cash dividends paid	(2,900)	(2,905)
Cash dividends paid to non-controlling shareholders	(16)	(11)
Purchase of shares of subsidiaries without changes to the scope of consolidation	—	(593)
Other	0	—
Cash Flows from Financing Activities	(3,792)	(3,786)
Increase (decrease) in cash and cash equivalents	7,169	(3,341)
Cash and cash equivalents at beginning of the year	19,268	26,810
Increase in cash and cash equivalents from newly consolidated subsidiaries	372	—
Cash and cash equivalents at end of year	*1 26,810	*1 23,469

[Notes to Financial Statements]

(Basis of Presenting the Consolidated Financial Statements)

1. Scope of Consolidation

Consolidated subsidiaries (5 companies):

- TLP Corporation
- TKC Security Services Co., Ltd.
- SKYCOM Corporation
- TKC Customer Support Service Co., Ltd.
- TKC Shuppan Corporation

Non-consolidated subsidiaries (1 company):

- TKC Financial Guarantee Co., Ltd.

(Reason for excluding the company from the consolidated group)

TKC Financial Guarantee Co., Ltd. is excluded from the consolidated group because it does not have any material impact on the consolidated financial statements of the Company in terms of total assets, net sales, net income (amount in proportion to equity held) or retained earnings (amount in proportion to equity held), nor does it have material importance as a whole.

2. Scope of Application of the Equity Method

Affiliated companies under the equity method: (1 company)

- iMobile Inc.

Because the fiscal year-end of iMobile Inc. is March 31, a provisional settlement of accounts similar to a final settlement has been performed as of the closing date of the consolidated financial statements.

Non-consolidated subsidiaries under the equity method: (1 company)

- TKC Financial Guarantee Co., Ltd.

(Reason for excluding the company from the scope of application of the equity method)

TKC Financial Guarantee Co., Ltd. is excluded from the scope of application of the equity method because such exclusion does not have any material impact on the consolidated financial statements of the Company in terms of net income (amount in proportion to equity held) or retained earnings (amount in proportion to equity held), nor does it have material importance as a whole.

3. Fiscal Year-ends of Consolidated Subsidiaries

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

4. Accounting Policies

(1) Valuation standards and methods for major assets

(i) Marketable and investment securities

1) Available-for-sale securities

a. Available-for-sale securities with market value

Stated at fair market value based on the quoted market price as of the fiscal year-end (related valuation differences are directly charged or credited to the shareholders' equity, and cost of securities sold is calculated by the moving average method)

b. Available-for-sale securities without market value

Stated at cost determined by the moving average method

(ii) Inventory assets

1) Merchandise, raw materials

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

2) Finished goods

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

3) Work in progress

Cost determined by specific identification method (with balance sheet values reflecting write downs for decreased profitability).

4) Supplies

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

(2) Depreciation of major depreciable assets

(i) Property, plant and equipment (excluding lease assets)

Calculated based on declining balance method.

Provided, buildings acquired after April 1, 1998 (excluding accompanying facilities), and accompanying facilities and structures acquired after April 1, 2016 are calculated based on straight-line method.

Primary useful lives are as follows:

Buildings & structures	10 to 50 years
Machinery, equipment & vehicles	4 to 10 years
Tools, furniture & fixtures	2 to 20 years

(ii) Intangible assets (excluding lease assets)

1) Software

a. Software for sale

Software for sale is amortized and stated at the higher of amortization based on estimated sales volume in the future, and amortization at a constant periodic rate based on remaining effective life (within 3 years).

b. Software for internal use

Amortized using straight-line method with an estimated in-house useful life of five years.

2) Other intangible assets

Amortized using the straight-line method.

(iii) Leased assets

Leased assets relating to finance lease transactions that do not involve transfer of ownership

Amortized using the straight-line method with useful lives equal to lease terms and residual values at zero.

(3) Standards for recognizing significant provisions

(i) Allowance for doubtful accounts

In setting aside provisions for possible losses due to uncollectable receivables, provisions are recognized at the amounts calculated based on the historical rate of credit loss with respect to normal receivables, and at the amounts determined in consideration of collectability of individual receivables with respect to doubtful accounts and certain other receivables.

(ii) Provisions for bonuses

In setting aside provisions for payment of bonuses of employees, provisions are recognized based on the estimated amounts of payment.

(iii) Provisions for stocks payment

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

(4) Accounting procedure for retirement benefits

(i) Method of attributing expected benefits to date

In calculating retirement benefit obligations, expected benefits are attributed to the period up until the end of the consolidated fiscal year based on benefit formula standards.

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

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

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

(iii) Unrecognized past service costs

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

(5) Standards for recognizing significant revenues and expenses

Accounting standards for recognizing revenues and cost of sales of made-to-order software (software development contracts)

(i) Projects for which the progress up to the end of the current consolidated fiscal year can be measured reliably

Accounted for by percentage-of-completion method (whereas, the degree of completion is estimated based on the construction cost percentage method)

(ii) Other projects

Accounted for upon completion of construction works.

(6) Scope of funds covered by the consolidated statements of cash flows

The scope of funds (cash and cash equivalents) covered by the consolidated statements of cash flows includes:

(i) Cash on hand

(ii) Demand deposits

(iii) Short-term investments that mature within three months, are easily convertible to cash, and bear very little value fluctuation risk.

(7) Other important matters regarding the preparation of consolidated financial statements

(i) Accounting method for consumption taxes and local consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

(ii) Application of the consolidated taxation system

The consolidated taxation system is applied.

(iii) Application of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System

Based on the treatment set forth under Item 3 of the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System (Practical Solution No. 39, March 31, 2020), the Company and its domestic consolidated subsidiaries do not implement the provisions of Paragraph 44 of the Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) for items that were transitioned to the group tax sharing system which was established in the Law for Partial Revisions to the Income Tax Act, etc. (Law No. 8 of 2) and items that were revised under the non-consolidated taxation system in line with the transition to the group tax sharing system. The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Tax Act prior to revisions.

(Accounting Standards Not Yet Applied)

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

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018, ASBJ)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018, ASBJ)
- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, ASBJ)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020, ASBJ)

(1) Summary

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard on the recognition of revenue and issued the “Revenue From Contracts With Customers” (IASB’s IFRS 15 and FASB’s Topic 606) in May 2014. IFRS 15 has been adopted from the fiscal year beginning after January 1, 2018, and Topic 606 has been adopted from the fiscal year beginning after December 15, 2017. In line with this adoption, ASBJ developed a comprehensive accounting standard on the recognition of revenue and issued it together with the implementation guidance.

The basic approach in developing the accounting standard on the recognition of revenue was to set forth the accounting standards that incorporates the basic principles of IFRS 15 so as to allow comparability among financial statements which is an advantage to ensure consistency with IFRS 15, and to add alternative treatments to the extent not to compromise such comparability in case there are matters to be considered with respect to practices that have been conducted in Japan up to date.

(2) Planned date of application

(i) 2018 Standards

We plan to apply the standards as of the beginning of the fiscal year ending September 2021.

(ii) 2020 Standards

We plan to apply the standards as of the beginning of the fiscal year ending September 2022.

(3) Impacts of application of said accounting standards

The impacts from the application of the Accounting Standard for Revenue Recognition, etc., on the consolidated financial statements are currently under evaluation.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, March 31, 2020, ASBJ)

(1) Summary

Upon recommendation on the enhancement of the information in notes regarding accounting principles and procedures adopted in case the relevant accounting standards are not definitive, ASBJ revised certain accounting standards and issued the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

When enhancing the information in notes regarding accounting principles and procedures adopted in case the relevant accounting standards are not definitive, provisions of annotations to the business accounting principles (paragraph 1-2) shall be applied in order not to conflict with the current accounting practices where relevant accounting standards are definitive.

(2) Planned date of application

We plan to apply the standards as of the beginning of the fiscal year ending September 2021.

(Accounting Standard for Disclosure of Accounting Estimates)

Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020, ASBJ)

(1) Summary

The disclosure of key sources of estimation uncertainty is required under Paragraph 125 of the International Accounting Standard (IAS) 1 “Presentation of Financial Statement” issued by the International Accounting Standards Board (IASB) in 2003. The Japanese standards also request the disclosure of such information in notes for the convenience of users of the financial statements, and ASBJ has formulated and issued the Accounting Standard for Disclosure of Accounting Estimates (hereinafter “the Accounting Standard”).

ASBJ’s basic approach in developing the Accounting Standard was not to enhance the individual notes, but rather to disclose the principles (the purposes of disclosure), and items to be disclosed should be determined by management in light of the purposes of disclosure. The development of the Accounting Standard was in accordance with Paragraph 125 of IAS 1.

(2) Planned date of application

We plan to apply the standards as of the beginning of the fiscal year ending September 2021.

(Accounting Standard for Fair Value Measurement, etc.)

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, ASBJ)
- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019, ASBJ)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019, ASBJ)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019, ASBJ)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020, ASBJ)

(1) Summary

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) have established detailed guidance with almost the same contents regarding fair value measurement (IFRS 13 “Fair Value Measurement” in IFRS and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification in FASB). As such, ASBJ considered the guidance regarding fair value of financial instruments and disclosure in order to improve the comparability with such international accounting standards, and issued the Accounting Standard for Fair Value Measurement, etc.

ASBJ’s basic approach in developing the Accounting Standard for Fair Value Measurement was to basically implement the entire provision of IFRS 13 in order to improve the comparability of financial statements among companies in and outside Japan. Taking into consideration the practices that have been conducted thus far in Japan, alternative treatments will be added for each item to the extent to which comparability between financial statements is not impaired.

(2) Planned date of application

We plan to apply the standards as of the beginning of the fiscal year ending September 2022.

(3) Impacts of application of said accounting standards

The impact of the application of the Accounting Standard for Fair Value Measurement, etc. on the consolidated financial statements remains undetermined at present.

(Changes in method of presentation)

(Consolidated Statements of Income)

Impairment losses, which were presented independently in the previous consolidated fiscal year, have become less important in terms of value, and have been included in Other under extraordinary losses for the current consolidated fiscal year. To reflect this change in method of presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

As a result, the -- million yen presented under impairment losses in the consolidated statement of income for the previous consolidated fiscal year has been reclassified in Other under extraordinary losses.

(Consolidated Statements of Cash Flows)

Impairment losses, which were presented independently in the previous consolidated fiscal year, have become less important in terms of value, and have been included in Other under the Cash Flows from Operating Activities for the current consolidated fiscal year. To reflect this change in method of presentation, the consolidated financial statements for the previous consolidated fiscal year have been reclassified.

As a result, the -- million yen presented under impairment losses in the consolidated statement of cash flows for the previous consolidated fiscal year has been reclassified in Other under the Cash Flows from Operating Activities.

(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 the trust

The stocks of the Company remaining in the 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 750 million yen for 189,700 shares as of the end of the consolidated fiscal accounting period under review.

(Notes to Consolidated Balance Sheets)

*1. Accumulated depreciation of property, plant and equipment

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
	20,951 million yen	21,762 million yen

*2. Items pertaining to affiliated companies are as follows:

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Investment securities (shares)	100 million yen	100 million yen

(Notes to Consolidated Statements of Income)

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Salaries	11,300 million yen	11,564 million yen
Provision for bonuses	2,981	3,015
Retirement benefit expenses	648	731
Provisions for stocks payment	562	40
Depreciation	692	648
Rent expenses	2,158	2,220

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
	— million yen	6 million yen

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Machinery, equipment & vehicles	0 million yen	0 million yen
Tools, furniture & fixtures	1	2
Total	1	2

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Land	10 million yen	— million yen

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Buildings & structures	5 million yen	19 million yen
Machinery, equipment & vehicles	0	0
Tools, furniture & fixtures	1	20
Intangible assets	0	0
Other (Investments and other assets)	0	—
Total	7	40

(Notes to Consolidated Statements of Comprehensive Income)

*1. Reclassification adjustments and tax expense or benefits on other comprehensive income

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Valuation difference on available-for-sale securities:		
Increase/decrease during the fiscal year	(1,432) million yen	(665) million yen
Reclassification adjustments	1	—
Amount before tax	(1,430)	(665)
Tax effect	434	194
Valuation difference on available-for-sale securities	(996)	(471)
Remeasurements of defined benefit plans, net of tax:		
Increase/decrease during the fiscal year	(2,451)	—
Reclassification adjustments	—	247
Amount before tax	(2,451)	247
Tax effect	747	(75)
Remeasurements of retirement benefits	(1,704)	171
Share of other comprehensive income of entities accounted for using the equity method:		
Increase/decrease during the fiscal year	(0)	—
Share of other comprehensive income of entities accounted for using equity method	(0)	—
Total other comprehensive income	(2,701)	(299)

(Notes to Consolidated Statements of Changes in Equity)

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

1. Types and numbers of issued stocks and treasury stocks

	Number of shares at beginning of current consolidated FY (hundreds of shares)	Increase in number of shares during current consolidated FY (hundreds of shares)	Decrease in number of shares during current consolidated FY (hundreds of shares)	Number of shares at end of current consolidated FY (hundreds of shares)
Issued shares				
Common stock	267,310	—	—	267,310
Total	267,310	—	—	267,310
Treasury stock				
Common stock (Note)	3,525	3,466	2,515	4,475
Total	3,525	3,466	2,515	4,475

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

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

None to be disclosed.

3. Dividends

(1) Dividend payments

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

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

(2) Of the dividends with record dates during this consolidated fiscal year, those with effective dates in the following consolidated fiscal year

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

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

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

1. Types and numbers of issued stocks and treasury stocks

	Number of shares at beginning of current consolidated FY (hundreds of shares)	Increase in number of shares during current consolidated FY (hundreds of shares)	Decrease in number of shares during current consolidated FY (hundreds of shares)	Number of shares at end of current consolidated FY (hundreds of shares)
Issued shares				
Common stock	267,310	—	—	267,310
Total	267,310	—	—	267,310
Treasury stock				
Common stock (Note)	4,475	66	9	4,533
Total	4,475	66	9	4,533

- (Notes) 1. The 6,600 share increase in common treasury stock resulted from purchase of 6,600 fractional unit shares.
 2. The 9 hundreds of share decrease in common treasury stock resulted from sales of 1 hundred shares of fractional unit shares, and payment of 8 hundred shares under the BIP Trust.
 3. The number of treasury stock at the end of the current consolidated fiscal year includes the 1,897 hundreds of shares of treasury stock of the Company held by the BIP Trust.

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

None to be disclosed.

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
December 20, 2019 Ordinary General Meeting of Shareholders	Common stock	1,456	55	September 30, 2019	December 23, 2019
May 1, 2020 Meeting of the Board of Directors	Common stock	1,455	55	March 31, 2020	June 15, 2020

- (Notes) 1. 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.
 2. The total amount of cash dividends determined by resolution of the Board of Directors on May 1, 2020 includes a cash dividend of 10 million yen to the stocks of the Company owned by the BIP Trust.

(2) Of the dividends with record dates during this consolidated fiscal year, those with effective dates in the following consolidated fiscal year

Resolution	Type of shares	Total amount of cash dividends (millions of yen)	Source of dividends	Dividend per share (yen)	Record date	Effective date
December 18, 2020 Ordinary General Meeting of Shareholders	Common stock	1,720	Retained earnings	65	September 30, 2020	December 21, 2020

- (Note) The total amount of cash dividends determined by resolution of the Ordinary General Meeting of Shareholders on December 18, 2020 includes a cash dividend of 12 million yen to the stocks of the Company owned by the BIP Trust.

(Notes to Consolidated Statements of Cash Flows)

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Cash and deposits	29,810 million yen	26,769 million yen
Time deposits with deposit period greater than three months	(3,000)	(3,300)
Cash and cash equivalents	26,810	23,469

(Lease Transactions)

1. Finance lease transactions (Lessee)

Finance lease transactions that do not involve transfer of ownership

(i) Description of lease assets

Property, plant and equipment

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

(ii) Depreciation of lease assets

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

2. Operating lease transactions (Lessee)

Unexpired lease payments for non-cancellable operating lease transactions

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Within one year	170	238
Over 1 years	318	470
Total	488	709

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

(1) Lease investment assets

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Current assets	443	432
Investments and other assets	1,033	889

(2) Lease obligations

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Current liabilities	443	432
Non-current liabilities	1,033	889

(Financial Instruments)

1. Status of financial instruments

(1) Policy for the handling of financial instruments

The Group manages its funds in the form of low risk, highly safe financial assets such as bank deposits and bonds. It is the policy of the Group not to enter into derivative transactions for speculative trading purposes.

(2) Description of financial instruments, risks and risk management policies

Notes and accounts receivable resulting from operating activities of the Company are exposed to credit risk of the customers. To reduce credit risk, the Company manages such risk as appropriate based on payment terms and credit ratings of customers in accordance with internal credit management regulations.

Investment securities are exposed to market fluctuation risk, and the Company periodically checks the fair values and financial conditions of issuing bodies and conducts reviews of its holdings on an ongoing basis.

Long-term deposits include deposits with special provisions concerning early termination (callable certificates of deposit).

The majority of trade payables and accounts payable resulting from operating activities are due within three months.

(3) Supplementary information on fair value of financial instruments

The fair value of financial instruments is based on quoted market prices or on reasonable calculations in the absence of market quotations. Since certain assumptions that contain fluctuation factors were used in estimating the fair value, results may fluctuate when a different set of assumptions is used.

2. Fair value of financial instruments

The book value in consolidated balance sheets, fair value and differences are as follows. Financial instruments for which the fair value is extremely difficult to measure are not included (see Note 2).

Previous consolidated fiscal year (September 30, 2019)

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

Current consolidated fiscal year (September 30, 2020)

	Book value in consolidated balance sheets (millions of yen)	Fair value (millions of yen)	Differences (millions of yen)
(1) Cash and deposits	26,769	26,769	—
(2) Notes and accounts receivable	7,014		
Allowance for doubtful accounts	(19)		
	6,994	6,994	—
(3) Investment securities	15,979	15,979	—
(4) Long-term deposits	14,600	14,554	(45)
Total assets	64,343	64,297	(45)
(1) Accounts payable—trade	2,181	2,181	—
(2) Accounts payable—other	2,184	2,184	—
Total liabilities	4,366	4,366	—

(Notes) 1. Methods of calculating the fair value of financial instruments and securities transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable

The book value approximates the fair value because of the short maturity of these instruments.

(3) Investment securities

The fair value of equity securities is based on quoted market prices on the stock exchange; and the fair value of bonds is based on the market prices quoted on the stock exchange or provided by financial institutions. These securities categorized by purpose of holding are described further in the Notes on Securities.

(4) Long-term deposits

The fair value of long-term deposits is estimated based on the present value discounted using the interest rate applicable to new deposits in the total amount of principal and interest, and on the fair market value provided by financial institutions for the derivative portions.

Liabilities

(1) Accounts payable—trade, (2) Accounts payable—other

The book value approximates the fair value because of the short maturity of these instruments.

2. Financial instruments for which the fair value is extremely difficult to measure

(Unit: millions of yen)

Category	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Other securities (unlisted equity securities)	102	202
Stocks of subsidiaries and affiliates	100	100
Total	202	302

The fair value of these financial instruments is deemed to be extremely difficult to measure since quoted market value is not available and future cash flows cannot be reliably estimated, and thus the above is not included in “(3) Investments in securities” for the previous consolidated fiscal year nor in “(3) Investments in securities” for the current consolidated fiscal year.

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

Previous consolidated fiscal year (September 30, 2019)

	Within 1 year (millions of yen)	Over 1 year and within 5 years (millions of yen)	Over 5 years and within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	29,805	—	—	—
Notes and accounts receivable—trade	8,755	—	—	—
Investment securities				
Corporate bonds	—	2,000	2,500	7,000
Long-term time deposits	—	6,000	3,500	—
Total	38,560	8,000	6,000	7,000

Current consolidated fiscal year (September 30, 2020)

	Within 1 year (millions of yen)	Over 1 year and within 5 years (millions of yen)	Over 5 years and within 10 years (millions of yen)	Over 10 years (millions of yen)
Cash and deposits	26,760	—	—	—
Notes and accounts receivable—trade	7,014	—	—	—
Investment securities				
Corporate bonds	—	2,100	6,900	4,000
Long-term time deposits	—	6,000	8,600	—
Total	33,774	8,100	15,500	4,000

(Securities)

1. Other securities

Previous consolidated fiscal year (September 30, 2019)

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

(Note) Unlisted shares (102 million yen in the consolidated balance sheets) are not included under “Other securities” in the table above since quoted market value is not available and is deemed to be extremely difficult to measure.

Current consolidated fiscal year (September 30, 2020)

	Class	Book value in consolidated balance sheets (millions of yen)	Original purchase value (millions of yen)	Differences (millions of yen)
Securities for which the amounts in the consolidated balance sheets exceed the original purchase value	(1) Stocks	157	87	69
	(2) Bonds			
	Corporate bonds	2,105	2,101	4
	Subtotal	2,262	2,189	73
Securities for which the amounts in the consolidated balance sheets do not exceed the original purchase value	(1) Stocks	2,882	3,558	(675)
	(2) Bonds			
	Corporate bonds	10,834	10,986	(151)
	Subtotal	13,716	14,544	(827)
Total		15,979	16,733	(753)

(Note) Unlisted shares (202 million yen in the consolidated balance sheets) are not included under “Other securities” in the table above since quoted market value is not available and is deemed to be extremely difficult to measure.

2. Other securities sold

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

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

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

None to be disclosed.

3. Securities for which impairment loss is recognized

None to be disclosed.

(Derivatives)

1. Derivative transactions for which hedge accounting is not applied

None to be disclosed.

2. Derivative transactions for which hedge accounting is applied

None to be disclosed.

(Retirement Benefits)

1. Overview of the retirement benefit system in use

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

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

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

2. Defined benefit retirement plan

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Retirement benefit obligations at beginning of year	5,957 million yen	8,704 million yen
Increase due to new consolidations	105	—
Service costs	397	556
Interest costs	—	—
Actuarial differences	(53)	(369)
Retirement benefits paid	(175)	(379)
Amount of past service costs accrued	2,472	—
Balance of retirement benefit obligations at end of year	8,704	8,511

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

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Balance of pension assets at beginning of year	3,921 million yen	3,939 million yen
Expected returns	—	—
Actuarial differences	18	(28)
Contributions by employer	—	1,200
Retirement benefits paid	—	—
Balance of pension assets at end of year	3,939	5,110

(3) Adjustment of balance of retirement benefit obligations and pension assets at the end of the fiscal years, and net retirement benefit obligations and assets recognized in the consolidated balance sheets

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Contributory retirement benefit obligations	8,026 million yen	7,832 million yen
Pension assets	(3,939)	(5,110)
	4,087	2,721
Non-contributory retirement benefit liabilities	677	678
Net obligations and assets in the consolidated balance sheets	4,764	3,400
Retirement benefit liabilities	4,764	3,400
Net obligations and assets in the consolidated balance sheets	4,764	3,400

(4) Retirement benefit expenses and breakdown

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Service costs	397 million yen	556 million yen
Interest costs	—	—
Expected returns	—	—
Amount of actuarial differences treated as expenses	(71)	(341)
Amount of past service costs treated as expenses	20	247
Retirement benefit expenses under the defined retirement benefit plan	345	462

(5) Remeasurements of retirement benefits

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

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Past service costs	(2,451) million yen	247 million yen
Total	(2,451)	247

(6) Remeasurements of retirement benefits

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

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Unrecognized past service costs	(2,451) million yen	(2,204) million yen
Total	(2,451)	(2,204)

(7) Pension assets

(i) Major pension assets

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

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Bonds	41%	77%
Cash and deposits	51	20
Other	8	3
Total	100	100

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

(ii) Basis for expected long-term rate of return on pension assets

The Company has a basic policy to cover the trust expenses with operation profit and does not have an expected long-term rate of return on pension assets.

(8) Basis for actuarial calculations

Basis for major actuarial calculations

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Discount rate	0.00%	0.00%
Expected long-term rate of return	—%	—%
Expected increase in salary	1.00 - 1.85%	1.00 - 1.64%

3. Defined contribution plan

The amount of necessary contributions to the defined contribution plan of the Company and its consolidated subsidiaries was 271 million yen for the previous consolidated fiscal year, and 286 million yen for the current consolidated fiscal year.

4. Multiemployer pension plan

The amounts of necessary contributions to the corporate pension fund plan under the multiemployer pension plan, which are recognized in the same manner as the defined contribution plan, were 126 million yen in the previous consolidated fiscal year and 132 million yen in the current consolidated fiscal year.

(1) Reserve fund for multiemployer pension plan

	Previous consolidated fiscal year (March 31, 2019)	Current consolidated fiscal year (March 31, 2020)
Pension assets	234,785 million yen	236,669 million yen
Actuarial liabilities based on pension plan finance calculation	192,041	193,925
Differences	42,744	42,744

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

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

Current consolidated fiscal year: 2.29% (Started April 1, 2019; ended March 31, 2020)

(3) Supplementary information

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

(Stock Option Plans)

1. Expenses related to stock options

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Selling, general and administrative expenses	44	—

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

(Unit: millions of yen)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Gain on reversal of subscription rights to shares	274	—

(Tax Effect Accounting)

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

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Deferred tax assets		
Software development costs	2,471 million yen	2,620 million yen
Provisions for bonuses	1,112	1,134
Retirement benefit liabilities	732	388
Retirement benefit trust	1,201	1,558
Accumulated remeasurements of defined benefit plans	747	672
Retirement bonuses for directors payable	32	36
Accrued business tax	145	161
Loss on valuation of investment securities	156	158
Legal welfare expenses corresponding to provisions for bonuses	165	169
Asset retirement obligations	112	121
Impairment losses	115	115
Provisions for stocks payment	171	171
Valuation difference on available-for-sale securities	71	249
Other	186	374
Subtotal	7,424	7,933
Valuation allowance	(346)	(509)
Total deferred tax assets	7,077	7,423
Deferred tax liabilities		
Business tax refund	0	0
Retirement expenses corresponding to asset retirement costs	24	34
Valuation difference on available-for-sale securities	37	19
Other	—	9
Total deferred tax liabilities	62	63
Net deferred tax assets	7,015	7,360

2. Major items causing significant difference between statutory income tax rate and effective income tax rate after applying tax effect accounting

	Previous consolidated fiscal year (September 30, 2019)	Current consolidated fiscal year (September 30, 2020)
Statutory income tax rate (Adjusted)	30.5 %	30.5 %
Inhabitant tax on per capita basis	0.7	0.6
Entertainment expenses, etc. not deductible for tax purposes	1.1	0.2
Other	(0.2)	1.7
Income tax rate after applying tax effect accounting	32.2	33.0

(Asset Retirement Obligations)

Previous consolidated fiscal year (ended September 30, 2019) and current consolidated fiscal year (ended September 30, 2020)

Information has been omitted as it was immaterial.

(Segment information, etc.)

[Segment information]

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available and which are subject to regular review by management for the purpose of determining the allocation of managerial resources and evaluating business performance.

The Group has three reportable segments for each of its business divisions: the Accounting Firm Business Division, the Local Governments Business Division, and Printing Business Division.

Major services and products of each reportable segment are as follows:

[Accounting Firm BD] (Providing services & products to accounting firms and their clients)

Information processing service, software and consulting service, sales of office equipment and supplies.

[Local Governments BD] (Providing services & products to local governments (municipalities, etc.))

Information processing service, software and consulting service, sales of office equipment.

[Printing BD]

Continuous business forms for PCs, general office forms, data printing services, etc.

2. Methods of calculating net sales, profit or loss, assets and other items by reportable segments

Accounting methods for reported business segments are largely consistent with that methods described in the "Basis of Presenting the Consolidated Financial Statements" section.

Profits by reportable segments are figures of operating income of the segments.

Inter-segment sales and transfers are based on prevailing market values.

3. Information on net sales, profit or loss, assets, and other items by reportable segments

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

(Unit: millions of yen)

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

(Notes) 1. Adjustments are as follows:

- (1) Adjustments of segment profit of 7 million yen include 6 million yen for elimination of inter-segment transactions and 1 million yen for adjustments of non-current assets.
 - (2) Adjustments of segment assets of 51,005 million yen include 51,452 million yen of corporate assets that are not allocated to specific reportable segments, and -447 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investment securities).
 - (3) Adjustments of depreciation of -1 million yen represent to unrealized profits.
2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.
 3. Increases in depreciation, tangible fixed assets and intangible fixed assets include long-term prepaid expenses and depreciation of such expenses.

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

(Unit: millions of yen)

	Reportable segment			Total	Adjustments (Note 1)	Amounts in consolidated financial statements (Note 2)
	Accounting Firm BD	Local Governments BD	Printing BD			
Net sales						
Sales to outside customers	47,150	17,377	3,286	67,814	—	67,814
Inter-segment sales or transfers	7	0	2,183	2,191	(2,191)	—
Total	47,157	17,378	5,470	70,005	(2,191)	67,814
Segment profit	10,237	1,037	106	11,381	(0)	11,381
Segment assets	28,236	9,780	5,867	43,884	53,787	97,671
Other items						
Depreciation (Note 3)	1,392	1,315	364	3,072	(1)	3,070
Investments in affiliated company under the equity method	100	—	—	100	—	100
Increase in property, plant and equipment and intangible assets (Note 3)	2,195	1,289	319	3,804	—	3,804

(Notes) 1. Adjustments are as follows:

- (1) Adjustments of segment profit of -0 million yen include 6 million yen for elimination of inter-segment transactions and -8 million yen for adjustments of inventory assets.
 - (2) Adjustments of segment assets of 53,787 million yen include 54,824 million yen of corporate assets that are not allocated to specific reportable segments, and -1,037 million yen for elimination of inter-segment transactions. Corporate assets are primarily surplus funds of the parent company (cash and cash equivalents), and long-term investment funds (investment securities).
 - (3) Adjustments of depreciation of -1 million yen represent to unrealized profits.
2. Segment profit is adjusted with the operating profit presented in the Consolidated Statements of Income.
 3. Increases in depreciation, tangible fixed assets and intangible fixed assets include long-term prepaid expenses and depreciation of such expenses.

[Related information]

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

1. Information by product and service

Information is omitted since the same information is disclosed under the segment information.

2. Information by geographic area

(1) Net sales

Information is omitted since more than 90% of sales in the Consolidated Statements of Income are sales to outside customers in Japan.

(2) Property, Plant & Equipment

Information is omitted since the Company has no property, plant and equipment in regions outside Japan.

3. Information by major customer

Information is omitted since there are no sales to external customers that account for 10% or more of the sales in the Consolidated Statements of Income.

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

1. Information by product and service

Information is omitted since the same information is disclosed under the segment information.

2. Information by geographic area

(1) Net sales

Information is omitted since more than 90% of sales in the Consolidated Statements of Income are sales to outside customers in Japan.

(2) Property, Plant & Equipment

Information is omitted since the Company has no property, plant and equipment in regions outside Japan.

3. Information by major customer

Information is omitted since there are no sales to external customers that account for 10% or more of the sales in the Consolidated Statements of Income.

[Information on impairment losses of fixed assets by reportable segments]

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

(Unit: millions of yen)

	Reportable segment			Total	Adjustments	Amounts in consolidated financial statements
	Accounting Firm BD	Local Governments BD	Printing BD			
Impairment losses	0	—	—	0	—	0

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

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

None to be disclosed.

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

None to be disclosed.

[Information on gain on negative goodwill by reportable segments]

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

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

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

None to be disclosed.

[Related Parties Information]

1 Related Parties Transactions

(1) Transactions between the Company and related parties

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

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

Type	Company name or name of individual	Address	Capital or investments (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated companies	iMobile Inc.	Chiyoda-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development and maintenance of website services.	Recovery of funds (Note)	48	Loans receivables	86
							Receiving of interests (Note)	3		

(Note) Terms of transaction or policies on determining the terms of transaction

The interest rates for the loans are determined in a reasonable manner based on the market interest rates.

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

Type	Company name or name of individual	Address	Capital or investments (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Companies in which directors and near relatives hold majority voting rights	Certified public tax accounting firm Taguchi Partners Kaikei (Note 2)	Edogawa-ku, Tokyo	5	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	54	Accounts receivable	1
	Certified public tax accounting firm Oshida Accounting Office (Note 3)	Yokohama-shi, Kanagawa	4	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	23	Accounts receivable	1
	Representative Partner and Certified Tax Accountant, Aoyama Accounting Firm (Note 4)	Minato-ku, Tokyo	8	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	30	Accounts receivable	2
	Certified public tax accounting firm Ofuji Accounting Office (Note 5)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	23	Accounts receivable	1

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

Terms of transaction for the outsourcing of information processing are similar to the terms between other counterparts.

- The company was co-founded by Mr. Misao Taguchi, Director of the Company.
- The company was co-founded by Mr. Yoshimasa Oshida, Director of the Company.
- The company was co-founded by Mr. Kenji Matsumoto, Auditor of the Company.
- The company was co-founded with a near relative of Mr. Kazuyuki Sumi, Director and Chairman of the Board of the Company.
- Consumption taxes are not included in the transaction amounts. Consumption taxes are included in the year-end balance.

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

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

Type	Company name or name of individual	Address	Capital or investments (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Affiliated companies	iMobile Inc.	Shibuya-ku, Tokyo	100	Information provision services	(Holding) Direct (30.0)	Outsourcing of development and maintenance of website services.	Loan of funds (Note)	230	Loans receivables	175
							Recovery of funds (Note)	141		
							Receiving of interests (Note)	3		

(Note) Terms of transaction or policies on determining the terms of transaction

The interest rates for the loans are determined in a reasonable manner based on the market interest rates.

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

Type	Company name or name of individual	Address	Capital or investments (millions of yen)	Business or occupation	Holding (held) voting rights ratio (%)	Relationship with related party	Details of transaction	Transaction amount (millions of yen)	Item	Year-end balance (millions of yen)
Companies in which directors and near relatives hold majority voting rights	Certified public tax accounting firm Taguchi Partners Kaikai (Note 2)	Edogawa-ku, Tokyo	5	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	13	Accounts receivable	1
	Certified public tax accounting firm Oshida Accounting Office (Note 3)	Yokohama-shi, Kanagawa	4	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	18	Accounts receivable	2
	Certified public tax accounting firm Ofuji Accounting Office (Note 4)	Miyagino-ku, Sendai-shi, Miyagi	9	Certified public tax accounting firm	—	Rendering of information processing services	Rendering of information processing services (Note 1)	15	Accounts receivable	1

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

Terms of transaction for the outsourcing of information processing are similar to the terms between other counterparts.

2. The company was co-founded by Mr. Misao Taguchi, Director of the Company.

3. The company was co-founded by Mr. Yoshimasa Oshida, Director of the Company.

4. The company was co-founded with a near relative of Mr. Kazuyuki Sumi, Director and Chairman of the Board of the Company.

5. Consumption taxes are not included in the transaction amounts. Consumption taxes are included in the year-end balance.

(2) Transactions with consolidated subsidiaries and related parties to the Company submitting the consolidated financial statements

None to be disclosed.

2 Notes on the Parent Company and Important Affiliated Companies

(1) Information on the parent company

None to be disclosed.

(2) Summary of financial information of important affiliated companies

None to be disclosed.

(Earnings per share information)

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Net assets per share	2,724.78 yen	2,933.12 yen
Net income per share	255.52 yen	297.63 yen
Diluted net income per share	255.01 yen	- yen

- (Notes) 1. The diluted net income per share for the current consolidated fiscal year is not stated as there were no dilutive shares.
2. The basis for calculating net income per share and diluted net income per share is as follows.

	Previous consolidated fiscal year (Started October 1, 2018; ended September 30, 2019)	Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)
Net income per share		
Net income attributable to owners of parent (millions of yen)	6,721	7,821
Amount not attributable to common shareholders (millions of yen)	—	—
Net income from common stocks attributable to owners of parent (millions of yen)	6,721	7,821
Average number of common stocks outstanding (hundreds of shares)	263,028	262,793
Diluted net income per share		
Adjustments to net income attributable to owners of the parent (millions of yen)	—	—
Number of common stocks increased (hundreds of shares)	531	—
(Subscription rights to shares (hundreds of shares))	(531)	(—)
Outline of diluted shares not included in the calculation of diluted net income per share for not having dilutive effect	—————	

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

The average number of said treasury stocks deducted for the calculation of net income per share was 190,069 shares for the current consolidated fiscal year.

(v) [Supplementary Schedules]

[Schedule – Corporate Bonds]

None to be disclosed.

[Schedule – Borrowings]

Category	Balance at beginning of year (millions of yen)	Balance at end of year (millions of yen)	Average interest rate (%)	Terms of repayment
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	142	142	0.23	—
Current portion of lease obligations	541	522	—	—
Long-term loans payable (excluding current portion)	438	295	0.23	October 5, 2020 - September 10, 2025
Lease obligations (excluding current portion)	1,333	1,113	—	October 9, 2020 - September 6, 2025
Other interest-bearing debts				
Accounts payable – installment purchases	38	10	0.44	October 22, 2020 - February 28, 2023
Total	2,494	2,084	—	—

(Notes) 1. The weighted average interest rates applicable to the year-end balance of borrowings are indicated for average interest rates.

2. The average interest rate for lease obligations is not included because the amount of lease obligations in the consolidated balance sheets represents the total amount of lease payment before deducting interest.

3. Repayments of long-term loans, lease obligations (excluding current portion) and other interest-bearing debts (excluding current portion) scheduled within 5 years from the consolidated settlement date are as follows.

	After 1 year but within 2 years (millions of yen)	After 2 years but within 3 years (millions of yen)	After 3 years but within 4 years (millions of yen)	After 4 years but within 5 years (millions of yen)
Long-term loans payable	80	71	71	71
Lease obligations	456	425	180	51
Other interest-bearing debts	4	1	—	—

[Schedule – Asset Retirement Obligations]

Information has been omitted as it was immaterial.

(2) [Other]

Quarterly financial information for the current consolidated fiscal year

(Cumulative period)	1st quarter	2nd quarter	3rd quarter	Current consolidated fiscal year
Sales (millions of yen)	16,320	35,137	51,310	67,814
Quarterly net income before income taxes (current FY) (millions of yen)	2,578	7,144	10,225	11,646
Quarterly net income attributable to owners of parent (current FY) (millions of yen)	1,594	4,712	6,792	7,821
Quarterly net income per share (current FY) (yen)	60.68	179.32	258.46	297.63

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Quarterly net income per share (yen)	60.68	118.65	79.13	39.16

2 [Financial Statements, etc.]

(1) [Financial Statements]

(i) [Balance Sheets]

(Unit: millions of yen)

	Previous fiscal year (September 30, 2019)	Current fiscal year (September 30, 2020)
Assets		
Current assets		
Cash and deposits	25,775	22,508
Accounts receivable	*1 7,813	*1 6,308
Lease investment assets	443	432
Merchandise	70	57
Work in progress	595	281
Raw materials and supplies	109	141
Prepaid expenses	495	537
Accounts receivable—other	*1 172	*1 203
Other	*1 364	*1 338
Allowance for doubtful accounts	(25)	(19)
Total current assets	35,813	30,790
Non-current assets		
Property, plant and equipment		
Buildings	7,028	6,849
Structures	205	187
Vehicles	0	28
Tools, furniture & fixtures	1,724	1,779
Land	6,636	6,636
Total property, plant and equipment	15,595	15,481
Intangible assets		
Software	2,347	2,647
Software in progress	807	361
Telephone subscription rights	22	22
Other	0	0
Total intangible assets	3,177	3,031
Investments and other assets		
Investment securities	15,084	15,940
Stocks of subsidiaries and affiliates	795	1,389
Investments in capital	0	0
Long-term loans receivable	*1 38	*1 163
Long-term prepaid expenses	138	110
Deferred tax assets	5,687	6,068
Long-term time deposits	9,500	14,500
Guarantee deposits	1,263	1,340
Long-term lease investment assets	1,033	889
Other	63	62
Total investments and other assets	33,605	40,464
Total non-current assets	52,378	58,977
Total assets	88,192	89,767

(Unit: millions of yen)

	Previous fiscal year (September 30, 2019)	Current fiscal year (September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable–trade	*1 3,402	*1 2,058
Lease obligations	443	432
Accounts payable–other	*1 2,133	*1 2,051
Income taxes payable	2,340	2,506
Accrued business office taxes	54	54
Accrued consumption taxes	599	1,356
Advances received	994	516
Deposits received	364	327
Provisions for bonuses	3,222	3,300
Accounts payable – facilities	*1 373	*1 45
Other	12	10
Total current liabilities	13,941	12,659
Non-current liabilities		
Lease obligations	1,033	889
Provisions for retirement benefits	1,635	517
Provisions for stocks payment	562	599
Other	398	387
Total non-current liabilities	3,629	2,393
Total liabilities	17,570	15,052
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus		
Legal capital surplus	5,409	5,409
Other capital surplus	302	302
Total capital surplus	5,711	5,711
Retained earnings		
Legal retained earnings	688	688
Other retained earnings		
General reserve	55,457	58,757
Retained earnings brought forward	4,816	6,077
Total retained earnings	60,962	65,523
Treasury stock	(1,630)	(1,660)
Total shareholders' equity	70,744	75,274
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(121)	(560)
Total valuation and translation adjustments	(121)	(560)
Total net assets	70,622	74,714
Total liabilities and net assets	88,192	89,767

(ii) [Profit and Loss Statement]

(Unit: millions of yen)

	Previous fiscal year (Started October 1, 2018; ended September 30, 2019)	Current fiscal year (Started October 1, 2019; ended September 30, 2020)
Net sales	*1 60,897	*1 63,070
Cost of sales	*1 20,318	*1 20,097
Gross profit	40,579	42,973
Selling, general and administrative expenses	*1, *2 31,979	*1, *2 32,181
Operating income	8,600	10,791
Non-operating income		
Interest income	*1 31	*1 36
Dividends income	*1 217	*1 156
Land and house rent received	*1 157	*1 155
Subsidy income	13	15
Other	*1 62	*1 57
Total non-operating income	481	422
Non-operating expenses		
Cost of lease revenue	108	106
Other	0	0
Total non-operating expenses	109	106
Ordinary income	8,972	11,107
Extraordinary income		
Gains on sales of non-current assets	1	2
Gain on reversal of subscription rights to shares	274	—
Other	8	—
Total extraordinary income	283	2
Extraordinary losses		
Loss on sale of non-current assets	10	—
Loss on retirement of non-current assets	7	36
Other	0	0
Total extraordinary losses	18	36
Net income before taxes	9,238	11,073
Income taxes—current	3,469	3,804
Income taxes—deferred	(493)	(203)
Total income taxes	2,975	3,600
Net income	6,262	7,472

[Report on cost of sales]

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

Category	Note	53rd Term (Started October 1, 2018; ended September 30, 2019)			54th Term (Started October 1, 2019; ended September 30, 2020)		
		Amount (millions of yen)		Ratio (%)	Amount (millions of yen)		Ratio (%)
I Materials costs			3,798	27.6		4,169	30.5
II Labor costs	*1		2,314	16.8		2,599	19.0
III Expenses							
1. Computer rental expenses		382			389		
2. Maintenance contracts		1,230			1,255		
3. Depreciation		638			741		
4. Repairs and maintenance expenses		604			581		
5. Supplies expenses		1,743			1,658		
6. Other		3,069	7,668	55.6	2,267	6,895	50.5
Total expenses			13,781	100.0		13,664	100.0
Works in progress and inventories at beginning of year			209			597	
Transfers from other accounts	*2		1,318			1,308	
Total			15,309			15,570	
Works in progress and inventories at end of year			595			281	
Transfers to other accounts	*3		1,072			1,263	
Cost of sales on information processing, software and consulting services			13,640			14,026	

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

Provision for bonuses: 572 million yen (517 million yen)

Retirement benefit expenses: 96 million yen (52 million yen)

2. Transfers from other accounts represent the transfer of depreciation of software.

3. Transfers to other accounts represent the transfer of software development costs into software and software in progress accounts.

4. Costs are determined using job order costing by project.

(b) Cost of sales on office equipment and supplies

Category	Note	53rd Term (Started October 1, 2018; ended September 30, 2019)		54th Term (Started October 1, 2019; ended September 30, 2020)	
		Amount (millions of yen)	Ratio (%)	Amount (millions of yen)	Ratio (%)
I Inventories at beginning of year		54	0.8	70	1.1
II Purchases		6,693	99.2	6,058	98.9
Total		6,747	100.0	6,128	100.0
III Inventories at end of year		70		57	
Cost of sales on office equipment and supplies		6,677		6,071	

(iii) [Statement of Changes in Equity]

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

(Unit: millions of yen)

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

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

Current consolidated fiscal year (Started October 1, 2019; ended September 30, 2020)

(Unit: millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	
Balance at beginning of year	5,700	5,409	302	5,711	688	55,457	4,816	60,962
Changes during fiscal year								
General reserve						3,300	(3,300)	—
Dividends of surplus							(2,911)	(2,911)
Net income							7,472	7,472
Acquisition of treasury stock								
Disposal of treasury stock			0	0				
Changes in items other than equity (net)								
Total changes during fiscal year	—	—	0	0	—	3,300	1,261	4,561
Balance at end of year	5,700	5,409	302	5,711	688	58,757	6,077	65,523

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(1,630)	70,744	(121)	(121)	70,622
Changes during fiscal year					
General reserve		—			—
Dividends of surplus		(2,911)			(2,911)
Net income		7,472			7,472
Acquisition of treasury stock	(34)	(34)			(34)
Disposal of treasury stock	3	3			3
Changes in items other than equity (net)			(438)	(438)	(438)
Total changes during fiscal year	(30)	4,530	(438)	(438)	4,092
Balance at end of year	(1,660)	75,274	(560)	(560)	74,714

[Notes to Financial Statements]

(Principal Accounting Policies)

1. Standards and methods used for the valuation of assets

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

(i) Stocks of subsidiaries and affiliates

Stated at cost determined by the moving average method

(ii) Available-for-sale securities

1) Available-for-sale securities with market value

Stated at fair market value based on the quoted market price as of the fiscal year-end (related valuation differences are directly charged or credited to the shareholders' equity, and cost of securities sold is calculated by the moving average method)

2) Available-for-sale securities without market value

Stated at cost determined by the moving average method

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

(i) Merchandise, raw materials

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

(ii) Work in progress

Cost determined by specific identification method (with balance sheet values reflecting write downs for decreased profitability).

(iii) Supplies

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

2. Depreciation of non-current assets

(1) Tangible fixed assets

Calculated based on declining balance method.

Provided, buildings acquired after April 1, 1998 (excluding accompanying facilities), and accompanying facilities and structures acquired after April 1, 2016 are calculated based on straight-line method.

(2) Intangible fixed assets

(i) Software

1) Software for sale

Software for sale is amortized and stated at the higher of amortization based on estimated sales volume in the future, and amortization at a constant periodic rate based on remaining effective life (within 3 years).

2) Software for internal use

Amortized using straight-line method with an estimated in-house useful life of five years.

(ii) Other intangible fixed assets

Amortized using the straight-line method.

3. Accounting standards for provisions

(1) Allowance for doubtful accounts

In setting aside provisions for possible losses due to uncollectable receivables, provisions are recognized at the amounts calculated based on the historical rate of credit loss with respect to normal receivables, and at the amounts determined in consideration of collectability of individual receivables with respect to doubtful accounts and certain other receivables.

(2) Provisions for bonuses

In setting aside provisions for payment of bonuses of employees, provisions for bonuses are recognized based on the estimated amounts of payment.

(3) Provisions for stocks payment

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

(4) Provisions for retirement benefits

In setting aside allowances for employees' retirement benefits, retirement benefit obligations and expected pension assets payable as of the end of the current fiscal year are recognized.

(i) Method of attributing expected benefits to date

In calculating retirement benefit obligations, expected benefits are attributed to the period up until the end of the fiscal year based on benefit formula standards.

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

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

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

4. Accounting standards for revenues and expenses

Accounting standards for recognizing revenues and cost of sales of made-to-order software (software development contracts)

(1) Projects for which the progress up to the end of the current fiscal year can be measured reliably

Accounted for by percentage-of-completion method (whereas the degree of completion is estimated based on the construction cost percentage method).

(2) Other projects

Accounted for upon completion of construction works

5. Other important matters regarding the preparation of financial statements

(1) Accounting method for consumption taxes and local consumption taxes

Consumption taxes are accounted for using the tax-exclusion method.

(2) Application of the consolidated taxation system

The consolidated taxation system is applied.

(3) Application of tax effect accounting for the transition from the consolidated taxation system to Group tax sharing system

Based on the treatment set forth under Item 3 of the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to Group Tax Sharing System (Practical Solution No. 39, March 31, 2020), the Company and its domestic consolidated subsidiaries do not implement the provisions of Paragraph 44 of the Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) for items that were transitioned to the group tax sharing system which was established in the Law for Partial Revisions to the Income Tax Act, etc. (Law No. 8 of 2) and items that were revised under the non-consolidated taxation system in line with the transition to the group tax sharing system. The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the Tax Act prior to revisions.

(Changes in method of presentation)

(Profit and Loss Statement)

Foreign exchange losses, which were presented independently in the previous fiscal year, have become less important in terms of value, and have been included in Other under non-operating expenses for the current fiscal year.

Also, impairment losses, which were presented independently in the previous fiscal year, have become less important in terms of value, and have been included in Other under extraordinary losses for the current fiscal year.

To reflect this change in method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, the 0 million yen presented as foreign exchange losses in the profit and loss statement of the previous fiscal year has been reclassified as Other under non-operating expenses, and the -- million yen presented as impairment losses has been reclassified as Other under extraordinary losses.

(Notes to Balance Sheets)

*1. Monetary claims and monetary liabilities on affiliated companies

	Previous fiscal year (September 30, 2019)	Current fiscal year (September 30, 2020)
Short-term monetary claims on affiliated companies	212 million yen	204 million yen
Long-term monetary claims on affiliated companies	38	163
Short-term monetary liabilities on affiliated companies	544	442

(Notes to Income Statements)

*1. Volume of transactions with affiliated companies

	Previous fiscal year (Started October 1, 2018; ended September 30, 2019)	Current fiscal year (Started October 1, 2019; ended September 30, 2020)
Volume of trading transactions		
Net sales	60 million yen	59 million yen
Purchases	2,966	2,937
Operating expenses	2,413	2,426
Volume of non-operating transactions	227	141

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

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

	Previous fiscal year (Started October 1, 2018; ended September 30, 2019)	Current fiscal year (Started October 1, 2019; ended September 30, 2020)
Salaries	9,767million yen	9,882million yen
Provision for bonuses	2,704	2,726
Retirement benefit expenses	585	670
Provisions for stocks payment	562	40
Depreciation	575	530
Rent expenses	2,032	2,073

(Securities)

Stocks of subsidiaries and affiliates (the amounts in the previous fiscal year's balance sheet were 795 million yen for stocks of subsidiaries and 0 million yen for stocks of affiliates; the amounts in the current fiscal year's balance sheet are 1,389 million yen for stocks of subsidiaries and 0 million yen for stocks of affiliates) are not presented here since quoted market values are not available and are deemed to be extremely difficult to measure.

(Tax Effect Accounting)

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

	Previous fiscal year (September 30, 2019)	Current fiscal year (September 30, 2020)
Deferred tax assets		
Software development costs	2,290 million yen	2,415 million yen
Provisions for bonuses	982	1,006
Provisions for retirement benefits	498	157
Retirement benefit trust	1,201	1,558
Accrued business tax	126	150
Loss on valuation of investment securities	195	197
Retirement bonuses for directors payable	17	17
Legal welfare expenses corresponding to provisions for bonuses	146	150
Asset retirement obligations	99	106
Impairment losses	112	112
Provisions for stocks payment	171	171
Other	238	554
Subtotal	6,081	6,599
Valuation allowance	(373)	(504)
Total deferred tax assets	5,707	6,095
Deferred tax liabilities		
Retirement expenses corresponding to asset retirement costs	20	26
Total deferred tax liabilities	20	26
Net deferred tax assets	5,687	6,068

2. Major items causing difference between statutory income tax rate and effective income tax rate after applying tax effect accounting

	Previous fiscal year (September 30, 2019)	Current fiscal year (September 30, 2020)
Statutory income tax rate (Adjusted)	30.5 %	30.5 %
Inhabitant tax on per capita basis	0.8	0.6
Entertainment expenses, etc. not deductible for tax purposes	1.2	0.2
Dividends received, etc. to be excluded from gross revenue	(0.3)	(0.1)
Other	0.0	1.3
Income tax rate after applying tax effect accounting	32.2	32.5

(iv) [Supplementary Schedules]
[Schedule – Tangible Assets]

(Unit: millions of yen)

Category	Type of asset	Balance at beginning of year	Increase in current year	Decrease in current year	Depreciation in current year	Balance at end of year	Accumulated depreciation
Property, plant and equipment	Buildings	7,028	235	17	397	6,849	10,900
	Structures	205	2	—	19	187	507
	Vehicles	0	29	0	0	28	24
	Tools, furniture & fixtures	1,724	794	18	721	1,779	4,978
	Land	6,636	—	—	—	6,636	—
	Total property, plants & equipment	15,595	1,062	36	1,139	15,481	16,410
Intangible assets	Software	2,347	1,809	—	1,509	2,647	2,667
	Software in progress	807	578	1,024	—	361	—
	Telephone subscription rights	22	—	0	—	22	—
	Other	0	—	—	0	0	0
	Total intangible assets	3,177	2,387	1,024	1,509	3,031	2,668

(Note) Major increase during the current fiscal year was attributable to the following:

Buildings	Acquisition of HVAC for Chubu Consolidated Information Center	31 million yen
	Acquisition of HVAC for Data Entry Center	26 million yen
	Acquisition of UPS equipment for TISC Server Room 3	14 million yen
Vehicles	Acquisition of corporate bus	29 million yen
Software	Development costs of software for sale	376 million yen
	Development costs of software for internal use	1,331 million yen
	Software purchased from outside	102 million yen

[Schedule – Provisions]

(Unit: millions of yen)

Item	Balance at beginning of year	Increase in current year	Decrease in current year	Balance at end of year
Allowance for doubtful accounts	25	19	25	19
Provisions for bonuses	3,222	3,300	3,222	3,300
Provisions for stocks payment	562	40	3	599

(2) [Major Assets and Liabilities]

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

(3) [Other]

None to be disclosed.

Part 6 [Stock-related Administration of the Company]

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

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

Part 7 [Reference Information on the Company]

1 [Information on the Parent Company]

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

2 [Other Reference Information]

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

(1) Annual Securities Report, Appendices and Confirmation Letter

Fiscal year (53rd term) from October 1, 2018 to September 30, 2019, filed to the Director-General of the Kanto Local Finance Bureau, Japan, on December 23, 2019

(2) Internal Control Report and Appendices

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 23, 2019

(3) Quarterly Securities Reports and Confirmation Letter

First quarter of 54th term (From October 1, 2019 to December 31, 2019), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on February 6, 2020

Second quarter of 54th term (From January 1, 2020 to March 31, 2020), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on May 7, 2020

Third quarter of 54th term (From April 1, 2020 to June 30, 2020), filed to the Director-General of the Kanto Local Finance Bureau, Japan, on August 11, 2020

(4) Extraordinary Reports

Submitted to the Director-General of the Kanto Local Finance Bureau, Japan, on December 23, 2019

Extraordinary Report based on Article 19, Paragraph 2, Item 9-2 (Results of Exercise of Voting Rights at General Meeting of Shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

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

None to be disclosed.

Independent Auditors' Audit Report and Internal Control Audit Report

December 18, 2020

TKC Corporation

To: The Board of Directors

Ernst & Young ShinNihon LLC

Tokyo Office

Designated Engagement Partner Certified Public
Executing Partner Accountant Kanji Tako (seal)

Designated Engagement Partner Certified Public
Executing Partner Accountant Toru Iizuka (seal)

[Audit of financial statements]

Opinion

We have audited the consolidated financial statements of TKC Corporation for the period started October 1, 2019 and ended September 30, 2020 provided in the Financial Information section, which comprise the consolidated balance sheets, the consolidated statements of profit or loss, the consolidated comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of TKC Corporation and its consolidated subsidiaries as of September 30, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Corporate auditors and the Board of Auditors are responsible for overseeing the Directors' performance of their duties including the design and implementation of the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to assess the risk and design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide corporate auditors and the Board of Auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

[Internal control audit]

Opinion

We also have audited the accompanying internal control report of TKC Corporation as of September 30, 2020, in accordance with Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying internal control report, which states that the internal control over financial reporting was effective as of September 30, 2020, presents fairly, in all material respects, the results of the assessments of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

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

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

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

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

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

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

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of the internal control report and to issue an auditor's report that includes our independent opinion.

As part of our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and results of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the Board of Auditors regarding, among other matters, the planned scope and timing of our audit of the internal control report, the results thereof, material weaknesses in internal control identified during our audit of internal control report, and those that were remediated.

We also provide corporate auditors and the Board of Auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

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

End of document

(*) 1 The above represents a translation, for convenience only, of the original copy of the Audit Report issued in the Japanese language, which is held in the custody by TKC Corporation (the Company filing this Annual Securities Report).
2. XBRL data is not included in the scope of audit.

Independent Auditors' Audit Report

December 18, 2020

TKC Corporation

To: The Board of Directors

Ernst & Young ShinNihon LLC

Tokyo Office

Designated Engagement Partner Executing Partner	Certified Public Accountant	Kanji Tako (seal)
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Designated Engagement Partner Executing Partner	Certified Public Accountant	Toru Iizuka (seal)
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Opinion

We have audited the financial statements of TKC Corporation for the 54th fiscal year started October 1, 2019 and ended September 30, 2020 provided in the Financial Information section, which comprise the balance sheets, the statements of profit or loss, the comprehensive income, and the statement of changes in equity, and notes to the financial statements in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of TKC Corporation as of September 30, 2020, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

Corporate auditors and the Board of Auditors are responsible for overseeing the Directors' performance of their duties including the design and implementation of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The purpose of an audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the audits in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide corporate auditors and the Board of Auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of 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

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- (*) 1. The above represents a translation, for convenience only, of the original copy of the Audit Report issued in the Japanese language, which is held in the custody by TKC Corporation (the Company filing this Annual Securities Report).
2. XBRL data is not included in the scope of audit.

[Front Cover]

[Document filed]	Management's Report on Internal Control
[Applicable law]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	December 21, 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]	Kiyotsugu Nakanishi, Director & Executive Officer, Chief Director of Business Administration
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

1 [Matters concerning the basic framework for internal control over financial reporting]

Masanori Iizuka, Representative Director, President and Executive Officer, and Kiyotsugu Nakanishi, Chief Financial Officer of TKC Corporation (the “Company”), are responsible for designing and operating effective internal control over financial reporting of the Company, and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in “Establishing the Standards and Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Council Opinions)” released by the Business Accounting Council.

Internal control, by nature, may not function effectively due to errors in judgment or negligence of those implementing internal control, or may not respond to unanticipated changes in internal and external environments. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2 [Matters concerning the scope of assessment, assessment date and assessment procedures]

Assessment of internal control over financial reporting was performed as of September 30, 2020, which is the end of this fiscal year, in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we first assessed internal controls which may have material impact on the entire financial reporting on a consolidated basis (entity-level controls), and based on the results of such assessment, we selected the business processes to be assessed. In the process-level assessment, we analyzed the selected business processes, identified key controls that may have material impact on the reliability of the financial reporting, and assessed the design and operation of these key controls to determine the effectiveness of our internal controls.

We determined the required scope of assessment of internal control over financial reporting for the Company as well as its consolidated subsidiaries and equity-method affiliated companies based on the materiality that may affect the reliability of the Company’s financial reporting. The materiality that may affect the reliability of financial reporting was determined by taking into account the materiality of quantitative and qualitative impacts on financial reporting. Based on the results of assessment of entity-level controls conducted for the Company and one of its consolidated subsidiaries, we reasonably determined the scope of assessment of internal controls over business processes. The four other consolidated subsidiaries and one equity-method affiliated company determined to have insignificant quantitative and qualitative influence on the reliability of financial reporting were not included in the scope of assessment of entity-level controls.

For the purpose of determining the scope of assessment of internal control over business processes, we selected locations and business units to be tested based on the fiscal year’s net sales (after elimination of transactions between consolidated companies), and companies whose net sales reached two-thirds of total amount on the Company’s consolidated net sales were selected as “Significant Locations/Business Units.” At such Significant Locations/Business Units, we included in the scope of assessment, business processes that lead to sales, accounts receivable, purchases and inventories that may have material impact on the business objectives of the Company. Further, in addition to the selected Significant Locations/Business Units, we also included in the scope of assessment, certain business processes having greater likelihood of material misstatements, processes having significant accounts involving estimates and management’s judgment, and processes concerning businesses or operations dealing with high-risk transactions, as business processes that may have material impacts on financial reporting.

3 [Matters concerning the results of assessment]

As a result of the above assessments, the Company determined that the internal control over financial reporting was effective as of the last day of the fiscal year.

4 [Supplementary Information]

None to be disclosed.

5 [Special Notes]

None to be disclosed.

[Front Cover]

[Document filed]	Written Confirmation
[Applicable law]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	December 21, 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]	Kiyotsugu Nakanishi, Director & Executive Officer, Chief Director of Business Administration
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Ageba-cho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

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

Masanori Iizuka, Representative Director, President and Executive Officer of the Company and Kiyotsugu Nakanishi, Chief Financial Officer of the Company hereby confirm that the statements contained in the Annual Securities Report for the 54th fiscal year (from October 1, 2019 to September 30, 2020) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.