

Quarterly Report

(57th Term 2nd Quarter)

(Started January 1, 2023;
ended March 31, 2023)

TKC Corporation

1758 Tsurutamachi, Utsunomiya-shi, Tochigi

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[Company name]	<i>Kabushiki Kaisha TKC</i>
[Company name in English]	TKC Corporation
[Title and name of representative]	Masanori Iizuka, Representative Director, President and Executive Officer
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Phone number]	028-648-2111
[Contact person]	Kiyotsugu Nakanishi, Director, Managing Executive Officer, Chief of the Business Administration Headquarters
[Contact address]	2-1 Agebacho, Shinjuku-ku, Tokyo
[Phone number]	03-3235-5511
[Contact person]	Kiyotsugu Nakanishi, Director, Managing Executive Officer, Chief of the Business Administration Headquarters
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Agebacho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

Section 1 [Information on the Company]

Part 1 [Overview of the Company]

1 [Key Financial Data]

Term & Period		56th Term 2nd Quarter consolidated cumulative period	57th Term 2nd Quarter consolidated cumulative period	56th Term
Accounting period		Started October 1, 2021; ended March 31, 2022	Started October 1, 2022; ended March 31, 2023	Started October 1, 2021; ended September 30, 2022
Net sales	(millions of yen)	33,768	36,050	67,838
Ordinary income	(millions of yen)	8,431	8,858	13,677
Quarterly (current) net income attributable to owners of parent	(millions of yen)	5,816	6,134	9,317
Quarterly comprehensive income or comprehensive income	(millions of yen)	6,038	6,815	8,902
Net assets	(millions of yen)	86,338	91,916	87,325
Total assets	(millions of yen)	105,934	111,179	109,225
Quarterly (current) net income per share	(yen)	110.82	117.01	177.62
Quarterly (current) diluted net income per share	(yen)	—	—	—
Equity ratio	(%)	81.5	82.7	80.0
Cash flows from operating activities	(millions of yen)	5,086	4,314	13,050
Cash flows from investing activities	(millions of yen)	(3,229)	(2,547)	(4,342)
Cash flows from financing activities	(millions of yen)	(3,219)	(2,324)	(5,214)
Cash and cash equivalents at end of quarter (period)	(millions of yen)	21,765	26,063	26,620

Term & Period		56th Term 2nd Quarter consolidated accounting period	57th Term 2nd Quarter consolidated accounting period
Accounting period		Started January 1, 2022; ended March 31, 2022	Started January 1, 2023; ended March 31, 2023
Quarterly net income per share	(yen)	68.44	61.89

(Notes) 1. Changes in key financial data, etc., of the Company are not stated here, as they are included in the Company's quarterly consolidated financial statements.

2. The Company maintains a Board Incentive Plan (BIP) Trust and records the stocks held by said Trust as treasury stocks. Accordingly, for the purpose of calculating the quarterly (current) net income per share, they are included in the treasury stocks to be deducted in calculating the average number of shares outstanding.

3. The quarterly (current) diluted net income per share is not stated as there were no dilutive shares.

2 [Description of Business]

There are no significant changes in the description of the business operated by TKC Group (TKC Corporation and its affiliated companies) for the current 2nd Quarter consolidated cumulative period. There are no changes in the major affiliated companies.

Part 2 [Business Overview]

1 [Risk Factors]

There are no risks pertaining to new business operations, etc., that arose during the current 2nd Quarter consolidated cumulative period. There are no significant changes in risks regarding business operations, etc., described in the annual securities report of the previous fiscal year.

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

I. Operating Results

During the 2nd Quarter consolidated cumulative period under review (hereinafter “current 2nd Quarter”), the Japanese economy showed signs of normalization amid an easing of the impact of the novel coronavirus (hereinafter “COVID-19”). In spite of this, inflation resulting from the soaring prices of raw materials, etc., and the financial instability around the world have weighed on economic recovery, and the future of the economy remains uncertain. Under these circumstances, the Japanese government has been working to revitalize the economy through monetary and fiscal policies that support the people and SMEs as well as by promoting growth strategies.

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

The Accounting Firm Business Division supports certified public tax accountants and certified public accountants that are customers of TKC (hereinafter “TKC Members”) in their efforts to provide their clients with advisory services related to tax, accounting, guarantees, and management as escort supporters of SMEs.

The Local Governments Business Division has extended the necessary support to help client municipalities smoothly cope with the partial amendment to the Basic Resident Register Act, etc.

As a result of these activities, the operating results for the current 2nd Quarter of the consolidated Group comprising TKC Corporation and its six consolidated subsidiaries recorded net sales of 36,050 million yen (increased 6.8% year on year), operating income of 8,735 million yen (increased 6.2% year on year), ordinary income of 8,858 million yen (increased 5.1% year on year), and quarterly net income attributable to owners of parent of 6,134 million yen (increased 5.5% year on year).

Net sales for the current 2nd Quarter by business division are as shown below.

1. Results of operation for the 2nd Quarter

(1) Net sales of the Accounting Firm Business Division

Net sales of the Accounting Firm BD were 23,710 million yen (increased 4.1% year on year); operating income was 6,233 million yen (decreased 3.5% year on year). Breakdown of key sales is as follows:

- (i) Sales from computer services increased by 2.8% year on year. This was due to an increase in the number of accounting firms adopting the use of the Office Management System (OMS Cloud) for Tax Accounting Firms, which offers integrated management of the operations of accounting firms, for the first time.
- (ii) Software sales increased by 3.6% year on year. This was due to an increase in the number of clients of accounting firms that have introduced the use of FX Cloud, which is equipped with accounting and sales management features as standard features, as they are required to comply with the Revised Consumption Tax Act (hereinafter “invoicing system”) that will be enforced from October 2023. TKC also plans to offer an accounting and sales management system that is fully compliant with the invoicing system from June 2023.
- (iii) Sales from consulting services increased by 4.6% year on year. This was due to strong sales of FX4 Cloud, an accounting system that caters to mid-size companies, and an increase in orders for startup support services.
- (iv) Hardware sales increased by 12.6% year on year. This was mainly due to funding under the FY2022 Subsidy Program for Introducing IT to Businesses for Productivity Improvement in Services, etc. (“Subsidies for Introduction of IT”), that also covers the purchase of hardware, as well as an increase in the number of clients of accounting firms that purchased new scanners for the purpose of using the documentary proof storage feature that comes as a standard feature of FX Cloud in view of the expiration of safe harbor rules concerning electronic transaction data under the Act on Book and Record Keeping through Electronic Methods in January 2024.
- (v) Sales from supplies decreased by 5.1% year on year. While sales of office equipment that supports remote work and digitalization were strong, more clients of accounting firms are now transitioning to self-accounting and paperless operations,

resulting in a decline in the demand for paper-based accounting supplies and printing-related consumables.

(vi) The year-on-year decrease in operating income was due to the resumption of face-to-face sales and large-scale event activities, as well as an increase in hardware sales, which have low profit margins.

(2) Net sales of the Local Governments Business Division

Net sales of the Local Governments BD were 10,921 million yen (increased 17.3% year on year); operating income was 2,562 million yen (increased 47.2% year on year). Breakdown of key sales is as follows:

- (i) Sales from computer services increased by 0.5% year on year. Despite the lack of preparation work for entry tickets for the House of Representatives election during the period under review as it had been contracted in the previous fiscal year, this increase was attributable to the newly contracted preparation of application forms for the payment of emergency support benefits to address the rising prices of electricity, gas, food, etc., as well as the preparation of vaccination tickets for COVID-19 vaccinations that started in the fall of 2022.
- (ii) Software sales increased by 3.0% year on year. This was due to an increase in sales from one-time system modifications associated with the launch of online moving-out notifications and in-person appointments through Mynaportal (one-stop service for completing moving in/out procedures) on February 6, 2023, under the amendment to the Basic Resident Register Act.
- (iii) Sales from consulting services increased by 280.2% year on year. In addition to supporting the introduction of systems to facilitate the one-stop service for completing moving in/out procedures, the Company also supported the introduction of systems for the payment of local taxes using standardized local tax QR codes launched on April 1, 2023, under the amendment to the Local Tax Act, while providing support for the introduction of services that integrate the mission-critical systems of client municipalities with the one-stop service for procedures related to the ownership of light vehicles (Light Vehicles OSS) as well as the light vehicle tax payment confirmation system (Light JNKS).
- (iv) Hardware sales increased by 34.2% year on year. This was driven by the introduction of hardware associated with the renewal of devices for mission-critical systems as well as the introduction of network devices associated with the renewal of devices to ensure network resilience.
- (v) Improvement in operating income year on year was mainly a result of an increase in sales from consulting services centered on support for the introduction of new systems that will go into operation.

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

Net sales of the Printing BD were 1,418 million yen (decreased 15.6% year on year); operating loss was 72 million yen (compared to an operating income of 28 million yen in the 2nd Quarter of the previous fiscal year). Breakdown of key sales is as follows:

- (i) Sales of data printing service-related products decreased by 24.6% year on year. This was due to the lack of a need for printing services for entry tickets for the House of Representatives election held in October 2021 in the current period, as well as the cancellation of a large direct-mail order by a private company due to the customer's personal circumstances.
- (ii) Business form-related sales increased by 7.5% year on year. This was driven by an increase in slip printing orders received from client companies that the Company had newly acquired in the previous fiscal year.
- (iii) Sales related to the printing of commercial-use creative materials (catalogs, books, etc.) increased by 1.5% year on year. This was due to orders for manuals, etc., explaining the invoicing system as well as printing orders received from client companies for their anniversary activities.

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

(1) Absorption-type merger of subsidiary (simplified merger)

Since its establishment in 1977, our subsidiary TKC Financial Guarantee Co., Ltd. has developed and provided financial guarantees, direct loans, leases, and other financial products to clients of TKC National Federation (TKCNF) members. However, as compared to when the company was first established, the financial support environment surrounding SMEs has evolved dramatically, and we have come to the conclusion that the company has achieved the purpose for which it was initially established. For this reason, TKC Financial Guarantee Co., Ltd. has been merged and absorbed into TKC Corporation (simplified merger) as of April 1, 2023.

(2) Start of sending and receiving of Peppol invoices through Invoice Manager 2022

A trial has been launched with over 30 companies on sending and receiving Peppol invoices (e-invoices) based on the international standard specification Peppol by utilizing Invoice Manager 2022, a cloud-based system developed and provided by the Company. In anticipation of the invoicing system that will be introduced in October 2023, the Company plans to utilize Peppol invoices in its billing operations to develop expertise in Peppol invoices and share this expertise with user companies in the future, thereby supporting the digitalization of billing operations and manpower reduction for accounting operations.

(3) Acquisition of patents for features to be incorporated into systems

The Company acquired a patent for an internal audit support feature (deviation analysis of transaction dates/input dates) for the

Overseas Business Monitor (OBMonitor). (Acquired on March 24, 2023; Patent No. 7250992)

- (4) TKC Customer Support Service Co., Ltd. (TCSS) rated “3 Star” for the second consecutive year in HDI Benchmarking
TCSS is a fully owned subsidiary of the Company that specializes in offering call center services. On March 8, 2023, TCSS was awarded the highest “3 Star” rating by HDI-Japan in its quality ranking benchmark for the phone support services provided. This marks the second consecutive year following 2022 that TCSS has received the highest rating.

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

The Accounting Firm BD operates in accordance with the business objectives set forth in the Articles of Incorporation (Article 2, Paragraph 1: “Management of electronic data processing centers to defend the business domain and maintain control over the fate of accounting firms”) and works in close collaboration with the TKC National Federation (TKCNF), which consists of 11,400 certified public tax accountants and certified public accountants (as of March 31, 2023) that are customers of TKC.

(1) Activities aimed at achieving positive balance and proper filing

Activity policy of TKCNF and sales activities to achieve targets

(i) Activity policy of TKCNF

TKCNF has set a three-year activity policy starting from 2022: “TKC accountants taking on the challenge of the future—push through field auditing and support companies in achieving positive balance and proper filing!” It has also set the following three targets to achieve the vision elaborated in this policy.

1) Massively expand superior electronic books

Promotion of self-accounting by the TKC method

2) Become guardians of tax justice

Promotion of *shomen-tempu* (attachment of tax audit reports) by the TKC method

3) Support the achievement of positive balance and foster companies in good standing

Promotion of field auditing and managerial advisory services

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

(ii) Initiatives aimed at fostering companies in good standing

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

- Implementation of self-accounting by the TKC method
- Practice of *shomen-tempu* (attachment of tax audit reports)
- Compliance with “Chusho Kaikei Yoryo” (Guidelines for SME Accounting)
- Increase of marginal income for two consecutive fiscal years
- Equity ratio of 30% or greater
- Positive net income before taxes

Companies that satisfy these criteria are defined as “BAST good-standing companies” in the TKC Management Indicators (BAST), which contains the financial statement data of more than 250,000 companies.

By supporting an increase in the number of companies that abide by compliance requirements and work towards high value-added management under the guidance of TKC Members, we seek to appeal more broadly to society that TKC Members are escort supporters that work to foster companies in good standing.

(iii) Promotion of the use of the 365 Days Floating Income Statement

TKC’s self-accounting system (FX series) includes features that support monthly settlements and the 365 Days Floating Income Statement, which supports decision-making by management. Unlike ordinary income statements, the 365 Days Floating Income Statement allows users to review their operating results by classifying their variable costs and fixed costs separately. Corporate managers using the FX series can keep track of the marginal profit (gross revenue) in managing their business. The Company is engaged in activities that seek to raise awareness that the 365 Days Floating Income Statement is an indispensable tool for management. In January 2023, the documentary program “Strategic Management: A Documentary” featuring the growth of companies through rigorous monthly settlements and utilization of the 365 Days Floating Income Statement was broadcasted on BS11. In March 2023, the Company prepared over 1 million sheets of printed materials explaining the 365 Days Floating Income Statement and the performance evaluation matrix, and distributed these materials to TKC member firms and their clients.

(iv) Promotion of self-accounting by the TKC method (promotion of the FX series)

With the start of repayment of the virtually interest-free/unsecured loans (“zero/zero loans”) extended during the COVID-19 pandemic, coupled with inflation and the soaring prices of resources, SMEs are currently facing a challenging business environment. In view of this, we have provided support for the utilization of management-strategy-level features (the 365 Days Floating Income Statement, performance evaluation matrix, budget registration, etc.) included in the FX series.

Moreover, in order for management to utilize these features effectively, it is necessary for them to enter accounting transaction data in a timely and accurate manner and establish a system for monthly settlements. Therefore, the Company has also provided support for daily-task-level features, including the utilization of a feature for receiving bank credit data, through which bank deposit transaction data can be received via online banking and journal entries generated automatically, as well as the integration of salary journals with the strategic salary information system (PX2).

As a result of these activities, the FX series has been implemented at over 300,000 companies as of March 31, 2023. Through the implementation of the FX series, the Company will continue working to support SMEs in establishing a system for monthly settlements and achieving positive balance and proper filing.

(v) Supporting complete compliance with the Act on Book and Record Keeping through Electronic Methods

Under the Revised Act on Book and Record Keeping through Electronic Methods effective from January 1, 2022, there will be a distinction among electronic books (i.e., electromagnetic records of national tax-related books): (a) “superior electronic books” that contain the history of additions, deletions, and revisions made to the accounting data (traceable) (electronic books that satisfy the requirements of both Article 2 and Article 5 of the Ordinance for Enforcement of the revised Act); and (b) “other electronic books” that are prepared using accounting software that does not keep records of such additions/deletions/revisions (electronic books that satisfy only the requirements of Article 2 of the Ordinance for Enforcement of the revised Act). This legal reform also negates the “power of evidence” of the books, and the acceptance of such accounting software may allow for the falsification of books. To address this issue, the Company is promoting the use of the FX series for the preparation of “superior electronic books” on a national level.

In addition, electronic retention of electronic transaction data will be mandated under the Revised Act on Book and Record Keeping through Electronic Methods. We will also continue to support the use of the documentary proof storage feature of the FX series so that all businesses can support electronic transactions.

(vi) Supporting complete compliance with the invoicing system

To enable accounting firms to provide smooth support for their clients to comply with the invoicing system that will be launched on October 1, 2023, the Company is organizing seminars, providing explanatory materials, and planning other forms of support.

The FX series includes features to cross-check the names of business contacts in the Business Contacts Master against the information on NTA’s qualified invoice issuer disclosure website, as well as to register or update their Business Operator Registration Numbers. This feature can automatically determine on a per-transaction basis whether the counterpart of a certain business transaction is a qualified invoice issuer, thereby allowing companies using the FX series to perform accurate consumption tax calculations.

Additionally, the Company was certified as the first Peppol (Pan European Public Procurement Online) service provider in Japan on August 19, 2022, by the Digital Agency (the Japan Peppol Authority) and OpenPeppol (an association in Belgium responsible for the development and management of Peppol specifications). TKC’s self-accounting system will utilize this framework and enhance its features to allow the issuance and receipt of Peppol-compliant e-invoices in a standardized manner.

(vii) Promotion of TKC Monitoring Information Service

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

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

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

As a result of these activities, TKC Monitoring Information Service has been adopted by 482 financial institutions, including all local banks throughout Japan (62 institutions), as of March 31, 2023, with over 320,000 instances of use by companies. This service has been rated highly by financial institutions and credit guarantee corporations that support the management of SMEs, as it contributes to ensuring transparency through an accurate understanding of financial conditions and the timely and appropriate disclosure of information. It is expected to serve as a bridge between financial institutions and TKC Members in their efforts to play the role of escort supporters of SMEs.

(viii) Soliciting new members (promoting membership of TKCNF)

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

(2) Activities aimed at supporting the preparation of highly reliable financial statements based on timely and accurate bookkeeping

(i) Activities to support the adoption of Chusho Kaikei Yoryo (Guidelines for SME accounting)

TKCNF recommends the use of the “Basic Guidelines with Respect to Accounting Procedures at Small- and Medium-sized Enterprises” (hereinafter “Chusho Kaikei Yoryo” (Guidelines for SME Accounting)) formulated in February 2012, with which SMEs should comply.

These Guidelines have been formulated based on the following principles: (i) accounting that helps to clarify the company's business conditions; (ii) accounting that contributes to providing information to stakeholders (financial institutions, etc.); (iii) accounting that complies with the Regulation on Corporate Accounting while achieving greater unity of accounting and the taxation system; and (iv) accounting that does not place excessive burden on SMEs.

In order to support the activities of TKCNF aimed at the adoption and utilization of these Guidelines, the Company continues to develop training materials and collaborate with other organizations supporting SMEs.

(ii) Issuance of Certificate of Bookkeeping Timeliness

The Company utilizes the processing log data and historical time series data automatically logged at its data centers when TKC Members access its accounting system to issue Certificates of Bookkeeping Timeliness free of charge. This Certificate serves as reference for financial institutions, etc., to objectively evaluate the business performance of TKC member firms. This service was developed with the aim of improving the reliability of financial statements and tax returns prepared by TKC Members and facilitating smooth financing for the clients of TKC Members. By utilizing a feature of the Company's financial/accounting processing operations at TKC data centers that prohibits any retroactive insertions, deletions, or corrections to past data, the Company can prove, as a third party, that TKC Members have visited clients on a monthly basis to provide guidance on accurate bookkeeping (monthly field audits), and that all work processes from monthly settlements to the final settlement of accounts and electronic tax filings have been completed in a comprehensive and timely manner.

(3) Expansion into the large-scale enterprise market

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

(i) Compliance with the invoicing system

As the invoicing system will be introduced in October 2023, the Company is currently working on the development of a system that supports e-invoices as well as initiatives to promote the system. In December 2022, the Company started to offer Invoice Manager 2022, which allows users to send and receive e-invoices through the Peppol network operated by OpenPeppol (headquartered in Belgium). As part of the Company's efforts to comply with the invoicing system, it plans to transition to Peppol invoices for the invoices (sales invoices) it issues to customers. In anticipation of this, a trial has been launched in early January 2023 with over 30 user companies utilizing TKC systems on sending and receiving Peppol invoices through Invoice Manager 2022. So far, the equivalent of over 100 sales invoices worth of data has been sent and received, with the 30 user companies rating Peppol invoices and Invoice Manager 2022 highly, stating that this system will contribute to the digitalization of their business operations and a reduction in costs related to the delivery of invoices.

Since January 2023, the Company has been holding bi-weekly seminars designed to share information on TKC systems that support e-invoices, for which over 400 applications have been received in three months. The Company will continue to actively promote the use of Peppol invoices going forward.

(ii) Expansion of market share among large-scale enterprises and support for expanding the client base of TKC Members

As a result of the Company's efforts to support the electronic filing of corporate and local taxes and compliance with the group tax sharing system by leveraging its expertise accumulated to date, approximately 40% of the estimated 20,700 companies with a capital of 100 million yen or greater (i.e., companies for which electronic filing is mandatory) now use its electronic tax filing system for corporations (ASP1000R), consolidated tax payment system (eConsoliTax), and Group Tax Sharing System (e-TAX Group Sharing) as of March 31, 2023. At the same time, the number of corporate groups using the TKC Consolidated Group Solution totaled approximately 5,020 corporate groups as of March 31, 2023.

With this, 93 of the 100 largest listed companies in Japan by sales now use our systems. As a result of these activities, the Company's market share among listed companies in Japan has reached 42%. We intend to further expand our market share in the future.

(4) Market expansion for legal information database services

(i) Expanding the user base of TKC Law Library

To enhance the added value provided by TKC Law Library as a standard service for legal research, we are working to expand the basic services of the Library that offer access to judicial precedents, laws, documents, etc., as well as law journals, other article collections, and related sources of supplementary information. We are also promoting the use of our packaging service that gathers such content into collections that cater to law firms and corporate legal departments. Since November 2022, we have been providing support for the effective use of this service by periodically sending out email magazines containing recommended articles, etc., to our customers and establishing a system that offers direct access to the service. As a result of these activities, there has been a transition from paper-based research that makes use of reference rooms and libraries to online research, as well as a greater number of customers adopting our packaging service. TKC Law Library has been rated highly as the only legal research service that encompasses comprehensive law-related information by providing access to information on judicial precedents, laws, and documents, as well as major law journals and specialized books, leading to a steady rise in the number of subscriptions.

For the period under review, the number of users has surpassed 58,000 IDs as a result of promotional efforts aimed at TKC member firms, universities, law schools, government offices, law firms, patent offices, corporate legal departments, as well as overseas institutions and universities, with over 25,000 institutions using the Library as of March 31, 2023.

(ii) Progress in the academic market

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

(iii) Learning support for students preparing for the bar exam

For law school students, graduates, individuals who have passed the preliminary exam, etc., who aim to sit for the bar exam, we support their preparation for the bar exam by providing a learning environment equipped with a system that contains practice questions for the bar exam and by conducting the TKC Standardized Nationwide Mock Exam. Changes will be made to the examination system starting from the 2023 bar exam, including shifting the examination period to mid-July and allowing law school students who satisfy certain criteria to take the bar exam when they are still in school. As a result of these changes, the TKC Standardized Nationwide Mock Exam has attracted more than 2,500 examinees, nearly 70% of the total number of candidates, and has ranked first in the industry for six consecutive years.

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

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

The Company provides the TKC Government Cloud Service to municipalities. This cloud service comprises two separate services: the TASK Cloud Service and the TASK Outsourcing Service. The TASK Cloud Service consists of mission-critical system-related services for managing Basic Resident Registers and tax affairs information, internal information system-related services that include financial accounting (public accounting) and payroll calculations, and support services for the digitalization of administrative services that include online applications for administrative procedures. The Service has been adopted by more than 1,140 municipalities (prefectures, cities, wards, towns, villages, etc.) as of March 31, 2023.

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

The TASK Cloud Service is a single-version package system operated at the Company's data centers that is designed to allow shared usage by multiple institutions. Service fees are charged in the form of a subscription fee, which also includes one regular upgrade per year. The TASK Outsourcing Service, on the other hand, is a service that supports massive batch output processing of forms such as tax papers and entry tickets for elections. During the period under review, it actively supported client municipalities in the payment of benefits by allowing them to promptly prepare application forms for the payment of emergency support benefits to address the rising prices of electricity, gas, food, etc. In recognition of this, our mission-critical system-related services have been adopted by approximately 170 local municipalities as of March 31, 2023.

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

The Company provides support services for the digitalization of administrative services to achieve digital counter services with the "3 No's (no visiting, no waiting, and no writing)." During the period under review, we have greatly enhanced the functionalities of the TASK Cloud Smart Application System, the TASK Cloud Easy Counter Service System, and the TASK Cloud My Number Card Issuance Reservation and Management System. As a result of this, the TASK Cloud Smart Application System has been adopted by at least 40 agencies, including government ordinance-designated cities such as Osaka and

Yokohama, while the TASK Cloud Easy Counter Service System and the TASK Cloud My Number Card Issuance Reservation and Management System have been adopted by at least 60 and 150 agencies, respectively, as of March 31, 2023.

(3) Support for the digitalization of local tax administrative procedures

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

In promoting these services, we have jointly developed proposals with approximately 50 partner companies with which we have ongoing alliance partner agreements. As a result, our TASK Cloud Local Taxes Electronic Filing Support Service is currently used by approximately 790 agencies, which account for more than 40% of all prefectures and local municipalities, as of March 31, 2023.

During the period under review, we worked together with our partner companies to support the introduction of systems for the payment of local taxes using standardized local tax QR codes in conjunction with the expansion of tax items for the common local tax payment system launched in April 2023.

(4) Development and provision of a financial accounting system that is fully compliant with the local public accounting system

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

During the period under review, we launched the next-generation version of our public accounting system with enhanced features that support sustainable financial management through the visualization of financial status and the digital transformation of internal administrative tasks through electronic payments and integration with electronic invoicing. As a result, the TASK Cloud Public Accounting System has been adopted by at least 300 agencies as of March 31, 2023.

Since local governments are also required to comply with the invoicing system that will be introduced in October 2023, we will share the relevant expertise with the Accounting Firm Business Division, implement the necessary features in the system, and explain the system to municipalities, etc.

(5) Research and development of next-generation products

On October 7, 2022, the Basic Policy on the Standardization of Local Government Information Systems was approved by the Cabinet. This requires municipalities to migrate their mission-critical operational systems (20 operations) to applications (standard spec-compliant systems) built on Gov-Cloud that comply with the standardized criteria by the end of FY2025.

To respond to changes in the environment surrounding local governments, the Company has organized Local Government Digital Transformation Promotion Seminars designed for client municipalities and is working to strengthen customer support through the collection and dissemination of the latest information on the standardization of local government information systems. In addition, Misato Town in Saitama Prefecture launched the operation of its mission-critical operational system on October 31, 2022, as part of the Gov-Cloud Preliminary Project, in which the Company is involved as a partner developer (application developer). This was followed by Kawajima Town's launch of its system in December. These were the first cases in Japan of operating on Gov-Cloud, and we aim to harness the knowledge gained from this preliminary project to complete the migration of all customers to systems that are compliant with the standard specifications by the target deadline stipulated by the Government (end of FY2025).

Also, to support the digitalization of administrative services as set out in Version 2.0 of the Local Government Digital Transformation (DX) Promotion Plan announced by the Ministry of Internal Affairs and Communications on September 2, 2022, we have continued to engage in the research, study, and development of next-generation solutions through joint demonstration projects with leading organizations, etc.

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

The Group's Printing BD operates with a primary focus on data print services (hereinafter "DPS"), business form printing, and the printing of commercial-use creative materials.

In the area of DPS, sales declined year on year due to the lack of a need for printing services for entry tickets for the House of Representatives election held in October 2021 in the current period, as well as the cancellation of a large direct-mail (hereinafter "DM") order by a private company due to the customer's personal circumstances, even though we received orders from municipalities for vaccination tickets for their vaccination programs and for notifications of payment of emergency support benefits to address inflation. On the other hand, we have launched new initiatives to add value to our products, such as the Effectiveness Measurement Service, which measures the effectiveness of DMs by inserting QR codes into DMs and counting the number of customers who accessed the links embedded in the QR codes.

In the area of business form printing, net sales increased year on year as a result of slip printing orders received from client companies that we had newly acquired in the previous fiscal year despite the declining use of business forms and slips as more businesses are going paperless.

In the area of commercial-use creative materials (catalogs, books, etc.), net sales increased year on year thanks to orders for

manuals, etc., explaining the invoicing system that will be introduced in October 2023 as well as printing orders received from client companies for their anniversary activities.

At the same time, TLP Corporation, the Group's printing business division, acquired the FSC® certification (CoC certification/FSC-C182216) on October 3, 2022. Against the backdrop of an increasing number of environmentally conscious customers, we have steadily increased the use of FSC-certified paper. In addition, we have begun producing and selling paper files as an environmentally friendly alternative to clear files. We seek to cater to the needs of customers who are environmentally conscious through the development and production of these environmentally friendly products.

Furthermore, overall production costs have risen as a result of a 20% increase in the cost of paper and other raw materials from the previous year, along with the soaring prices of electricity. We have continued to negotiate with our customers about passing on to them the portion of the higher production costs that cannot be absorbed through our business efforts in the form of higher product prices.

II. Financial Conditions

Assets, liabilities, and net assets as of the end of the current 2nd Quarter consolidated accounting period are as stated below.

1. Assets

Total assets as of the end of the current 2nd Quarter consolidated accounting period amounted to 111,179 million yen, a 1,953 million yen increase from the 109,225 million yen as of the end of the previous consolidated fiscal year.

(1) Current assets

Current assets as of the end of the current 2nd Quarter consolidated accounting period amounted to 41,896 million yen, a 1,180 million yen increase from the 40,715 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 2,051 million yen increase in accounts receivable included in notes, accounts receivable, and contract assets, despite a 557 million yen decrease in cash and deposits.

(2) Non-current assets

Non-current assets as of the end of the current 2nd Quarter consolidated accounting period amounted to 69,283 million yen, a 773 million yen increase from the 68,510 million yen as of the end of the previous consolidated fiscal year.

This was mainly due to a 1,000 million yen increase in long-term deposits and an 859 million yen increase in investment securities, despite a 729 million yen decrease in long-term deferred tax assets included in Other.

2. Liabilities

Total liabilities as of the end of the current 2nd Quarter consolidated accounting period amounted to 19,262 million yen, a 2,636 million yen decrease from the 21,899 million yen as of the end of the previous consolidated fiscal year.

(1) Current liabilities

Current liabilities as of the end of the current 2nd Quarter consolidated accounting period amounted to 15,098 million yen, a 2,580 million yen decrease from the 17,679 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 1,656 million yen decrease in provisions for bonuses and a 684 million yen decrease in income taxes payable.

(2) Non-current liabilities

Non-current liabilities as of the end of the current 2nd Quarter consolidated accounting period amounted to 4,163 million yen, a 56 million yen decrease from the 4,219 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 35 million yen decrease in long-term loans payable and a 24 million yen decrease in retirement benefit liabilities.

3. Net assets

Total net assets as of the end of the current 2nd Quarter consolidated accounting period amounted to 91,916 million yen, a 4,590 million yen increase from the 87,325 million yen as of the end of the previous consolidated fiscal year.

This was mainly attributable to a 3,924 million yen increase in retained earnings and a 593 million yen increase in valuation difference on available-for-sale securities.

Equity ratio as of the end of the current 2nd Quarter consolidated accounting period was 82.7%, a 2.7 percentage point increase from the ratio of 80.0% as of the end of the previous consolidated fiscal year.

III. Cash Flows

The balance of cash and cash equivalents as of the end of the current 2nd Quarter consolidated accounting period amounted to 26,063 million yen, a 557 million yen decrease compared to the end of the previous consolidated fiscal year.

The overview of cash flows for the current 2nd Quarter consolidated cumulative period and the major factors contributing to the results are as follows.

(1) Cash flows from operating activities

Cash flows from operating activities increased by 4,314 million yen (771 million yen decrease in revenue compared to the same quarter of the previous year). Major factors include the recording of 8,849 million yen in quarterly net income before taxes and

adjustments, an increase of 2,019 million yen in notes and accounts receivable–trade, and payment of 2,925 million yen in income taxes.

(2) Cash flows from investing activities

Cash flows from investing activities decreased by 2,547 million yen (682 million yen decrease in expenditure compared to the same quarter of the previous year). Major factors include an expenditure of 2,700 million yen for payment into time deposits, proceeds of 1,700 million yen from the withdrawal of time deposits, and an expenditure of 1,219 million yen for the purchase of intangible assets.

(3) Cash flows from financing activities

Cash flows from financing activities decreased by 2,324 million yen (894 million yen decrease in expenditure compared to the same quarter of the previous year). Major factors include the payment of 2,209 million yen as year-end dividends for the fiscal year ended September 2022 (a dividend of 42 yen per share).

IV. Operational and Financial Challenges Facing TKC Group

There are no significant changes in the challenges faced by TKC Group during the current 2nd Quarter consolidated cumulative period.

V. Research and Development Activities

There were no research and development expenses spent by TKC Group during the current 2nd Quarter consolidated cumulative period.

Additionally, there are no significant changes in the status of research and development activities under TKC Group during the current 2nd Quarter consolidated cumulative period.

3 [Material Agreements, etc.]

There has been no decision or conclusion of material agreements, etc., during the current 2nd Quarter consolidated accounting period.

Part 3 [Information on the Company]

1 [Information on the Company's Stock]

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

(i) [Total number of shares]

Class	Total number of shares authorized to be issued (shares)
Common stock	120,000,000
Total	120,000,000

(ii) [Issued shares]

Class	Number of shares issued as of the end of the 2nd Quarter accounting period (shares) (March 31, 2023)	Number of shares issued as of the filing date (shares) (May 15, 2023)	Name of stock exchange on which the Company is listed, or name of Authorized Financial Instruments Firms Association	Description
Common stock	53,462,066	53,462,066	Prime Market of the Tokyo Stock Exchange	Number of shares constituting a unit: 100 shares
Total	53,462,066	53,462,066	—	—

(2) [Share subscription rights, etc.]

(i) [Stock option scheme]

None to be disclosed.

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

None to be disclosed.

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

None to be disclosed

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

Date	Increase or decrease in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Increase or decrease in capital stock (millions of yen)	Balance of capital stock (millions of yen)	Increase or decrease in capital reserve (millions of yen)	Balance of capital reserve (millions of yen)
January 1, 2023 - March 31, 2023	—	53,462,066	—	5,700	—	5,409

(5) [Major shareholders]

As of March 31, 2023

Name of shareholder	Address	Number of shares held (hundreds of shares)	Percentage of shares held to the total number of issued shares (excluding treasury stock) (%)
Iizuka Takeshi Scholarship Foundation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	75,170	14.3
Daido Life Insurance Company	1-2-1 Edobori, Nishi-ku, Osaka-shi, Osaka	51,380	9.8
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	49,549	9.4
Sozeishiryokan (The Institute of Tax Research and Literature)	3-45-13 Minamidai, Nakano-ku, Tokyo	30,930	5.9
TKC Group Employee Shareholding Association	2-1 Agebacho, Shinjuku-ku, Tokyo	28,692	5.5
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)	24,518	4.7
Masaharu Iizuka	Utsunomiya-shi, Tochigi	14,626	2.8
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2-6-4 Otemachi, Chiyoda-ku, Tokyo	13,328	2.5
Custody Bank of Japan, Ltd. (Trust account)	1-8-12 Harumi, Chuo-ku, Tokyo	12,910	2.5
State Street Bank and Trust Company 505025 (Standing proxy: Mizuho Bank, Ltd., Settlement & Clearing Services Department)	P.O. Box 351, Boston, MA 02101, USA (Shinagawa Intercity Bldg. A, 2-15-1 Konan, Minato-ku, Tokyo)	12,512	2.4
Total	—	313,617	59.6

(Note) The 206,000 shares of the Company held by the BIP Trust are not included in the treasury stocks to be deducted in calculating the percentage of shares held to the total number of issued shares.

(6) [Status of voting rights]

(i) [Shares issued]

As of March 31, 2023

Classification	Number of shares (shares)	Number of voting rights (units)	Description
Shares without voting right	—	—	—
Shares with restricted voting right (treasury stock, etc.)	—	—	—
Shares with restricted voting right (others)	—	—	—
Shares with full voting right (treasury stock, etc.)	Common stock 833,300	—	—
Shares with full voting right (others)	Common stock 52,556,900	525,569	—
Shares less than one share unit	Common stock 71,866	—	—
Total number of issued shares	53,462,066	—	—
Total voting rights held by all shareholders	—	525,569	—

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

(ii) [Treasury stock, etc.]

As of March 31, 2023

Name of shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under other names (shares)	Total shares held (shares)	Percentage of shares held to the total number of issued shares (%)
TKC Corporation	1758 Tsurutamachi, Utsunomiya-shi, Tochigi	833,300	—	833,300	1.56
Total	—	833,300	—	833,300	1.56

(Note) In addition to the above, the 206,000 shares held by the BIP Trust are recorded as treasury stocks.

2 [Officers]

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

Part 4 [Financial Information]

1. Method of Preparing Quarterly Consolidated Financial Statements

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

2. Auditing and Attestation

The quarterly consolidated financial statements of the Company for the 2nd Quarter consolidated accounting period (from January 1, 2023, to March 31, 2023) and the 2nd Quarter consolidated cumulative period (from October 1, 2022, to March 31, 2023) have undergone quarterly review by Ernst & Young ShinNihon LLC pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act of Japan.

1 [Quarterly Consolidated Financial Statements]

(1) [Quarterly consolidated balance sheets]

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2022)	Current 2nd Quarter consolidated accounting period (March 31, 2023)
Assets		
Current assets		
Cash and deposits	29,920	29,363
Notes, accounts receivable, and contract assets	8,320	10,142
Inventories	*494	*620
Other	1,993	1,781
Allowance for doubtful accounts	(12)	(11)
Total current assets	40,715	41,896
Non-current assets		
Property, plant, and equipment		
Buildings and structures (net amount)	7,651	7,412
Land	6,802	6,852
Other (net amount)	2,699	2,567
Total property, plant, and equipment	17,153	16,833
Intangible assets	4,666	4,905
Investments and other assets		
Investment securities	18,748	19,608
Long-term time deposits	17,700	18,700
Guarantee deposits	1,486	1,456
Other	8,754	7,779
Total investments and other assets	46,689	47,544
Total non-current assets	68,510	69,283
Total assets	109,225	111,179
Liabilities		
Current liabilities		
Accounts payable—trade	2,973	3,308
Electronically recorded obligations—operating	799	741
Short-term loans payable	71	71
Accounts payable—other	3,499	2,377
Income taxes payable	3,167	2,482
Contract liabilities	811	711
Provisions for bonuses	4,953	3,297
Other	1,403	2,108
Total current liabilities	17,679	15,098
Non-current liabilities		
Long-term loans payable	142	107
Retirement benefit liabilities	2,806	2,781
Provisions for stocks payment	306	327
Other	964	947
Total non-current liabilities	4,219	4,163
Total liabilities	21,899	19,262

(Unit: millions of yen)

	Previous consolidated fiscal year (September 30, 2022)	Current 2nd Quarter consolidated accounting period (March 31, 2023)
Net assets		
Shareholders' equity		
Capital stock	5,700	5,700
Capital surplus	6,589	6,589
Retained earnings	78,743	82,667
Treasury stock	(2,359)	(2,373)
Total shareholders' equity	88,672	92,582
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(138)	454
Accumulated remeasurements of defined benefit plans	(1,207)	(1,120)
Total accumulated other comprehensive income	(1,346)	(666)
Total net assets	87,325	91,916
Total liabilities and net assets	109,225	111,179

(2) [Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income]
[Quarterly consolidated statements of income]
[2nd Quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Net sales	33,768	36,050
Cost of sales	9,689	10,785
Gross profit	24,079	25,265
Selling, general, and administrative expenses	*15,854	*16,529
Operating income	8,225	8,735
Non-operating income		
Interest income	34	35
Dividend income	83	96
Insurance dividend income	18	21
Land and house rent received	26	20
Equity in earnings of affiliates	—	25
Other	65	30
Total non-operating income	228	229
Non-operating expenses		
Interest expenses	0	0
Surcharges	20	—
Provisions for damages	—	106
Other	1	0
Total non-operating expenses	21	106
Ordinary income	8,431	8,858
Extraordinary income		
Gain on sale of investment securities	—	0
Gain on sale of non-current assets	1	0
Total extraordinary income	1	1
Extraordinary loss		
Loss on retirement of non-current assets	1	9
Total extraordinary loss	1	9
Quarterly net income before taxes and adjustments	8,431	8,849
Income taxes—current	2,382	2,285
Income taxes—deferred	232	429
Total income taxes	2,615	2,714
Quarterly net income	5,816	6,134
Quarterly net income attributable to owners of parent	5,816	6,134

[Quarterly consolidated statements of comprehensive income]
[2nd Quarter consolidated cumulative period]

(Unit: millions of yen)

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Quarterly net income	5,816	6,134
Other comprehensive income		
Valuation difference on available-for-sale securities	134	593
Remeasurements of defined benefit plans	87	87
Total other comprehensive income	222	680
Quarterly comprehensive income	6,038	6,815
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	6,038	6,815

(3) [Quarterly consolidated statements of cash flows]

(Unit: millions of yen)

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Cash flows from operating activities		
Quarterly net income before taxes and adjustments	8,431	8,849
Depreciation	1,494	1,730
Loss (gain) on sale of investment securities	—	(0)
Loss (gain) on sale of non-current assets	(1)	(0)
Loss on retirement of non-current assets	1	9
Increase (decrease) in provisions for stocks payment	7	20
Increase (decrease) in provisions for bonuses	(933)	(1,656)
Increase (decrease) in retirement benefit liabilities	184	100
Decrease (increase) in notes and accounts receivable– trade	(2,416)	(2,019)
Decrease (increase) in other assets	(21)	54
Increase (decrease) in accounts payable–trade	144	198
Increase (decrease) in other liabilities	184	(19)
Other	(104)	(154)
Subtotal	6,970	7,113
Interest and dividends received	135	138
Interest paid	(0)	(0)
Income taxes paid	(2,018)	(2,925)
Penalties paid	—	(11)
Cash flows from operating activities	5,086	4,314
Cash flows from investing activities		
Payments into time deposits	(2,800)	(2,700)
Proceeds from withdrawal of time deposits	1,700	1,700
Purchase of property, plant, and equipment	(97)	(398)
Purchase of intangible assets	(1,045)	(1,219)
Purchase of investment securities	(1,014)	(0)
Other	28	71
Cash flows from investing activities	(3,229)	(2,547)
Cash flows from financing activities		
Repayment of long-term loans payable	(45)	(35)
Proceeds from disposal of treasury stock	0	—
Purchase of treasury stock	(1,034)	(13)
Payment of dividends	(2,088)	(2,209)
Other	(51)	(65)
Cash flows from financing activities	(3,219)	(2,324)
Increase (decrease) in cash and cash equivalents	(1,361)	(557)
Cash and cash equivalents at beginning of year	23,126	26,620
Cash and cash equivalents at end of quarter	*21,765	*26,063

[Notes to Financial Statements]

(Additional Information)

(Stock-based compensation plan for officers)

1. Outline of transaction

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

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

2. Stocks of the Company remaining in trust

The stocks of the Company remaining in trust are recorded as treasury stock under net assets based on the book values in the trust (not including expenses attributable thereto). The book value and number of stocks of said treasury stocks were 407 million yen and 206,000 shares, respectively, as of the end of the current 2nd Quarter consolidated accounting period.

(Application of the Practical Solution on Accounting and Disclosure Under the Group Tax Sharing System)

The Company and its consolidated subsidiaries have transitioned from the consolidated taxation system to the group tax sharing system as of the 1st Quarter consolidated accounting period. In accordance with this, the Company and its consolidated subsidiaries have adopted the “Practical Solution on Accounting and Disclosure Under the Group Tax Sharing System” (ABSJ Practical Solution No. 42, issued August 12, 2021; hereinafter “Practical Solution No. 42”) for the accounting processing and disclosure of income taxes, local corporate taxes, and tax effect accounting. Based on Paragraph 32(1) of Practical Solution No. 42, we have deemed that there is no impact from the change in accounting policy resulting from the application of Practical Solution No. 42.

(Notes to quarterly consolidated balance sheets)

* Breakdown of inventories is as follows:

	Previous consolidated fiscal year (September 30, 2022)	Current 2nd Quarter consolidated accounting period (March 31, 2023)
Merchandise and finished goods	278 million yen	297 million yen
Work in progress	69 million yen	164 million yen
Raw materials and supplies	146 million yen	158 million yen

(Notes to quarterly consolidated statements of income)

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

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Salaries	5,940 million yen	6,030 million yen
Provisions for bonuses	2,572 million yen	2,743 million yen
Retirement benefit expenses	469 million yen	481 million yen
Provisions for stocks payment	16 million yen	20 million yen
Depreciation	348 million yen	316 million yen
Rent expenses	1,286 million yen	1,272 million yen

(Notes to quarterly consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of quarter and account items stated in the quarterly consolidated balance sheets is as follows:

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Cash and deposits	25,065 million yen	29,363 million yen
Time deposits with deposit period longer than three months	(3,300 million yen)	(3,300 million yen)
Cash and cash equivalents	21,765 million yen	26,063 million yen

(Notes to shareholders' equity, etc.)

I. Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)

(1) Dividend payments

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
December 17, 2021 Ordinary General Meeting of Shareholders	Common stock	2,090	39.50	September 30, 2021	December 20, 2021	Retained earnings

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

(2) Dividends whose record dates fall within the current 2nd Quarter consolidated cumulative period but whose effective dates are after the end of the current 2nd Quarter consolidated accounting period

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
May 10, 2022 Meeting of the Board of Directors	Common stock	1,894	36.00	March 31, 2022	June 13, 2022	Retained earnings

(Note) The total amount of cash dividends determined by resolution at the Meeting of the Board of Directors held on May 10, 2022, includes a cash dividend of 7 million yen for the stocks of the Company held by the BIP Trust.

II. Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)

(1) Dividend payments

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
December 16, 2022 Ordinary General Meeting of Shareholders	Common stock	2,210	42.00	September 30, 2022	December 19, 2022	Retained earnings

(Note) The total amount of cash dividends determined by resolution at the Ordinary General Meeting of Shareholders held on December 16, 2022, includes a cash dividend of 8 million yen for the stocks of the Company held by the BIP Trust.

(2) Dividends whose record dates fall within the current 2nd Quarter consolidated cumulative period but whose effective dates are after the end of the current 2nd Quarter consolidated accounting period

Resolution	Class of shares	Total amount of cash dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date	Source of dividends
May 12, 2023 Meeting of the Board of Directors	Common stock	2,052	39.00	March 31, 2023	June 12, 2023	Retained earnings

(Note) The total amount of cash dividends determined by resolution at the Meeting of the Board of Directors held on May 12, 2023, includes a cash dividend of 8 million yen for the stocks of the Company held by the BIP Trust.

(Segment information, etc.)

[Segment information]

I. Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)

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

(Unit: millions of yen)

	Reportable segment				Adjustment s (Note 1)	Amounts in quarterly consolidated statements of income (Note 2)
	Accounting Firm BD	Local Governmen ts BD	Printing BD	Total		
Net sales						
(1) Sales to outside customers	22,776	9,311	1,680	33,768	—	33,768
(2) Inter-segment sales or transfers	1	0	926	927	(927)	—
Total	22,778	9,311	2,606	34,696	(927)	33,768
Segment profit	6,456	1,740	28	8,226	(1)	8,225

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

2. Segment profit is adjusted with the operating profit presented in the quarterly consolidated statements of income.

II. Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)

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

(Unit: millions of yen)

	Reportable segment				Adjustment s (Note 1)	Amounts in quarterly consolidated statements of income (Note 2)
	Accounting Firm BD	Local Governmen ts BD	Printing BD	Total		
Net sales						
(1) Sales to outside customers	23,710	10,921	1,418	36,050	—	36,050
(2) Inter-segment sales or transfers	2	0	901	904	(904)	—
Total	23,713	10,921	2,320	36,955	(904)	36,050
Segment profit (loss)	6,233	2,562	(72)	8,724	11	8,735

(Notes) 1. Adjustments of segment profit of 11 million yen include amounts for elimination of inter-segment transactions and adjustment of inventory assets.

2. Segment profit (loss) is adjusted with the operating profit presented in the quarterly consolidated statements of income.

(Revenue recognition)

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

Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)

(Unit: millions of yen)

	Reportable segment			Total
	Accounting Firm BD	Local Governments BD	Printing BD	
Revenue from computer services	7,764	4,197	—	11,962
Software sales	9,092	3,347	—	12,439
Revenue from consulting	3,446	358	—	3,804
Office equipment sales	1,918	1,409	—	3,328
Accounting supplies sales	554	—	—	554
Revenue from printing-related services	—	—	1,680	1,680
Sales to outside customers	22,776	9,311	1,680	33,768

Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)

(Unit: millions of yen)

	Reportable segment			Total
	Accounting Firm BD	Local Governments BD	Printing BD	
Revenue from computer services	7,984	4,219	—	12,204
Software sales	9,420	3,447	—	12,868
Revenue from consulting	3,603	1,361	—	4,965
Office equipment sales	2,161	1,891	—	4,053
Accounting supplies sales	540	—	—	540
Revenue from printing-related services	—	—	1,418	1,418
Sales to outside customers	23,710	10,921	1,418	36,050

(Earnings per share information)

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

	Previous 2nd Quarter consolidated cumulative period (Started October 1, 2021; ended March 31, 2022)	Current 2nd Quarter consolidated cumulative period (Started October 1, 2022; ended March 31, 2023)
Quarterly net income per share	110.82 yen	117.01 yen
(Basis for calculation)		
Quarterly net income attributable to owners of parent (millions of yen)	5,816	6,134
Amount not attributable to common shareholders (millions of yen)	—	—
Quarterly net income from common stocks attributable to owners of parent (millions of yen)	5,816	6,134
Average number of common stocks outstanding (hundreds of shares)	524,798	524,248

(Notes) 1. The average number of stocks outstanding used in the calculation of the earnings per share information has been determined by including the stocks of the Company held by the BIP Trust (which was established with the introduction of the BIP Trust plan) as deductible treasury stocks.

The average numbers of said treasury stocks outstanding deducted for the calculation of quarterly net income per share were 219,016 shares for the previous 2nd Quarter consolidated cumulative period and 206,000 shares for the current 2nd Quarter consolidated cumulative period.

2. The quarterly diluted net income per share is not stated as there were no dilutive shares.

(Material subsequent events)

None to be disclosed.

2 [Other]

The following resolution regarding the current interim dividends was adopted at the Meeting of the Board of Directors held on May 12, 2023.

(a) Total amount of cash dividends to be paid as interim dividends: 2,052 million yen

(b) Dividend per share: 39.00 yen

(c) Effective date of payment request and payment start date: June 12, 2023

(Note) Dividends are payable to the shareholders listed or recorded in the shareholders registry as of March 31, 2023.

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

None to be disclosed.

Quarterly Review Report of Independent Auditors

May 15, 2023

TKC Corporation

To: The Board of Directors

Ernst & Young ShinNihon LLC
Tokyo Office

Designated Limited Liability Partner Certified Public
Engagement Partner Accountant Shigeyuki Honda

Designated Limited Liability Partner Certified Public
Engagement Partner Accountant Toru Iizuka

Auditor's Conclusion

Pursuant to Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, we have conducted a quarterly review of the quarterly consolidated financial statements presented in the Financial Information section, which comprise the quarterly consolidated balance sheets, quarterly consolidated statements of income, quarterly consolidated statements of comprehensive income, quarterly consolidated statements of cash flows, and notes of TKC Corporation applicable to the 2nd Quarter consolidated accounting period (from January 1, 2023, to March 31, 2023) and the 2nd Quarter consolidated cumulative period (from October 1, 2022, to March 31, 2023) of the consolidated fiscal year started October 1, 2022, and ending September 30, 2023.

Based on our quarterly review, nothing has come to our attention that causes us to believe that the quarterly consolidated financial statements referred to above do not properly represent, in all material respects, the financial position of TKC Corporation and its consolidated subsidiaries as of March 31, 2023, as well as their financial performance and cash flows for the 2nd Quarter consolidated cumulative period then ended, in conformity with the principles for the preparation of quarterly consolidated financial statements generally accepted in Japan.

Basis for Auditor's Conclusion

We have conducted our quarterly review in accordance with the quarterly review standards generally accepted in Japan. Our responsibilities under those standards for quarterly reviews are further described in the Auditor's Responsibilities for the Quarterly Review of Quarterly Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the code of professional ethics in Japan, and we have also fulfilled our other ethical responsibilities as auditors. We believe that we have obtained the evidence required to provide a basis for our conclusion.

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

Management is responsible for the preparation and proper presentation of quarterly consolidated financial statements in accordance with the principles for the preparation of quarterly consolidated financial statements generally accepted in Japan. Responsibilities include designing and implementing the internal control determined by management as necessary to enable the preparation and proper presentation of quarterly consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the quarterly consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, where applicable, matters related to going concern in accordance with the principles for the preparation of quarterly consolidated financial statements generally accepted in Japan. Corporate auditors and the Board of Auditors are responsible for overseeing the Directors' performance of their duties in designing and implementing the financial reporting process.

Auditors' Responsibilities for the Quarterly Review of Quarterly Consolidated Financial Statements

Our responsibility as auditors is to express a conclusion on the quarterly consolidated financial statements in our quarterly review report from an independent standpoint based on our quarterly review.

In accordance with the quarterly review standards generally accepted in Japan, we perform the following by exercising professional judgment and maintaining professional skepticism throughout the quarterly review.

- We principally make inquiries to management and persons responsible for financial and accounting matters and perform analytical procedures and other quarterly review procedures. The procedure for quarterly reviews is a limited procedure compared to the procedure for annual financial statements performed in accordance with the auditing standards generally accepted in Japan.
- If we determine that there exists a material uncertainty related to events or conditions that may cast significant doubt on the Group's

ability to continue as a going concern, we will present our conclusion, based on the evidence obtained, on whether anything has come to our attention that causes us to believe that the quarterly consolidated financial statements have not been properly presented in accordance with the principles for the preparation of quarterly consolidated financial statements generally accepted in Japan. If we conclude that such material uncertainty exists, we are required to draw attention in our quarterly review report to the notes to the quarterly consolidated financial statements or, if such notes are inadequate to address the material uncertainty, to express a qualified conclusion or negative conclusion on the quarterly consolidated financial statements. Our conclusions are based on the evidence obtained up to the date of our quarterly review report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- We evaluate whether anything has come to our attention that causes us to believe that the presentation of and notes to the quarterly consolidated financial statements are not in accordance with the principles for the preparation of quarterly consolidated financial statements generally accepted in Japan; and whether anything has come to our attention that causes us to believe that the overall presentation, structure, or content of the quarterly consolidated financial statements, including the notes thereto, or the quarterly consolidated financial statements themselves, do not represent the underlying transactions and accounting-related events in a manner that constitutes proper presentation.

- We obtain evidence regarding the financial information of the Company and its consolidated subsidiaries to express a conclusion on the quarterly consolidated financial statements. We are responsible for the direction, supervision, and performance of the quarterly review of the quarterly consolidated financial statements. We remain solely responsible for our conclusion.

We communicate with corporate auditors and the Board of Auditors regarding the planned scope and timing of the quarterly review and our significant findings therein.

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

Conflicts of Interest

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

End of document

(Notes) 1. The original copy of the above quarterly review report is retained by TKC Corporation (the Company filing this quarterly report).

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

[Front Cover]

[Document filed]	Confirmation Letter
[Applicable law]	Article 24-4-8, Paragraph 1, of the Financial Instruments and Exchange Act of Japan
[Filed with]	Director of Kanto Local Finance Bureau
[Date filed]	May 15, 2023
[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, Managing Executive Officer, Chief of the Business Administration Headquarters
[Address of head office]	1758 Tsurutamachi, Utsunomiya-shi, Tochigi
[Place available for public inspection]	TKC Corporation, Tokyo Head Office (2-1 Agebacho, Shinjuku-ku, Tokyo) Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

1 [Matters Related to Adequacy of Statements Contained in the Quarterly 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 quarterly report for the 2nd Quarter of the 57th term (started January 1, 2023; ended March 31, 2023) are adequate under the Financial Instruments and Exchange Act of Japan.

2 [Special Notes]

None to be disclosed.