

November 9, 2023

Report of Earning Results (Consolidated)
for the Third Quarter of the Fiscal Year
Ending December 31, 2023

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Expected date of the submission of quarterly security reports (“Shihanki Hokokusho”)
: November10, 2023

1. Financial Highlights for the Nine Months Ended September 30, 2023

(1) Consolidated Results of Operations

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine Months Ended September 30, 2023	183,725	13.3	29,613	14.5	31,935	5.0	12,806	(55.1)
Nine Months Ended September 30, 2022	162,100	16.5	25,870	(25.3)	30,408	(14.2)	28,492	11.0

(Note) Comprehensive Income: 32,525million yen (41.4) % as of September 30, 2023
(55,540million yen 65.5% as of September 30, 2022)

	Net Income per share (basic)	Net Income per share (diluted)
	Yen	Yen
Nine Months Ended September 30, 2023	93.32	93.26
Nine Months Ended September 30, 2022	203.89	203.54

(2) Consolidated Financial Position

As of	Total Assets	Net Assets	Equity Ratio
	Million yen	Million yen	%
September 30, 2023	474,690	216,167	45.0
December 31, 2022	470,799	228,679	48.2

(Note) Net Assets after deduction of Share acquisition rights and Non-controlling interest
: 213,718million yen as of September 30, 2023 (226,776million yen as of December 31, 2022)

2. Dividend of Surplus

As of	Cash dividends per share				
	The first quarter end	The second quarter end	The third quarter end	Annual end	Total
December 31, 2022	Yen —	Yen 0.0	Yen —	Yen 151.0	Yen 151.0
December 31, 2023	—	0.0	—		
Projection for FY 2023				—	—

(Note) Revision of the projection of dividend for the third quarter of FY 2023 : No

(Note) The dividend projection for FY2023 annual end has not been determined yet.

3. Forecasts of consolidated financial results for FY 2023

(January 1, 2023 through December 31, 2023)

(Note) For the forecast of FY 2023, please refer to next page.

4. Others

- (1) Change in the basis of consolidation and application of equity method : No
- (2) Application of simplified or specified accounting procedures : Yes
- (3) Changes in accounting principles, accounting estimates and restatement
- ① Changes under the revision of Accounting Standards : Yes
 - ② Changes in Accounting Principles other than ① : No
 - ③ Changes in Accounting Estimates : No
 - ④ Restatements : No

(4) Number of shares issued (common shares)

① Number of shares issued (including treasury stocks):

140,834,104 shares as of September 30, 2023

140,804,104 shares as of December 31, 2022

② Number of treasury stocks :

5,406,040 shares as of September 30, 2023

1,649,820 shares as of December 31, 2022

③ Average number of shares outstanding :

137,237,713 shares nine months ended September 30, 2023

139,744,340 shares nine months ended September 30, 2022

* Statement relating to the status of the quarterly review procedures

This quarterly report is not subject to the quarterly review procedures, which are based on the Financial Instruments and Exchange Law. The review procedures for quarterly consolidated accounts have not finished at the point of the announcement of the quarterly financial results.

* Explanation for the proper use of projection and other notes

Any forward-looking statement in this report including forecast results, are based on certain assumptions that were deemed rational as well as information currently available to the Company. However, various factors could cause actual results to differ materially. Please refer to (3) Qualitative Information on the Consolidated Earnings Forecast on page 3 of the attachment for conditions serving as assumptions for forecast results.

Forecasts of consolidated financial results for FY 2023

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of the Parent		Net Income per share (basic)
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2023 (January 1, 2023 through December 31, 2023)	248,500	11.0	34,800	11.0	34,900	2.2	17,000	(43.0)	122.17

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1 Qualitative Information and Financial Statements

(1) Qualitative Information on the Consolidated Business Results

(Unit: million yen)

	Net Sales		
	Nine Months Ending Third Quarter of FY2023	Nine Months Ending Third Quarter of FY2022	Rate of Change
Japan Reg.	62,155	60,955	2.0%
Americas Reg.	42,901	37,849	13.3%
Europe Reg.	36,812	29,496	24.8%
Asia and Pacific Reg.	41,856	33,798	23.8%
Total	183,725	162,100	13.3%

During this term of fiscal year 2023, from January 1 to September 30, despite the world economy outlook has been concerned risks mainly associated with the global policy rate tightening, exchange rate fluctuations, worldwide inflation, and steep rise in fuel import prices due to prolonging the Russian Ukrainian crisis, etc.

The worldwide Information Technology industry has grown due to accelerated demands of remote working, education, DX (digital transformation.) Referring to the report by 3rd party forecasts worldwide IT spending to grow 8.8% to \$5.1 trillion in 2024. Especially both the software and IT services segments will be predicted double-digit growth in 2024 due to largely driven by cloud spending.

In the cyber security industry, continuously multitude of cyber attacks that target specific national institutions, etc., leaking damage of sensitive business information, and targeted attacks including crypto assets drain in specific companies, organizations have been still coming across occasionally. Especially in ransomware, threats in targeted attacks that implemented the ‘double extortion’ technique by revealing stolen and sensitive information stood out. Against this background, the conventional security measure, with defense of each single terminal and device, and the network segmented into smaller zones, has been changing to no longer desired. The demand is expanding for the solutions including visibility and deep analytics on the premise of intrusion risks. In the future, as the use of interactive artificial intelligence (AI) expands, new security risks are becoming a concern.

Under such environment, our group business conditions are as follows:

With regards to sales in Japan region, in the enterprise business, cloud operation security, showed the highest growth rate in all regions, made a big contribution in this region sales. In addition, SOC operations security showed substantial growth besides on demands for Trend Micro Vision One (“Vision One” which is a security operation at the center of the Trend Micro cybersecurity platform.) In consumer business has been also going well continuously under the sustained good sales in mobile channel shops, etc. As a result, net sales for this period in Japan region amounted to 62,155 million yen (2.0% increase from the same period in the previous year) increase to.

For Americas region, in the enterprise business, SOC operations security performed well, and also Managed Services security has been growing. On the other hand, cloud operation security and IT infra operation security were weak. In addition, there were an adjustment for sales that were understated in previous years and a weak yen impact, net sales in this region were 42,901 million yen (13.3% increase from the same period in the previous year) increase in double-digit growth rate.

In Europe region sales, the enterprise business overall showed growth. In the enterprise business, especially IT infra operation security showed the highest growth in all regions, and together with SOC operations security contributed this region sales. In addition, there was a weak yen impact, net sales in this region were 36,812 million yen (24.8% increase from the same period in the previous year) in the highest double-digit growth rate in all regions.

In the Asia Pacific region, also the enterprise business overall showed growth. Especially SOC operations security contributed significantly to this region’s sales. Besides, both IT infra operation security and Managed Services security have been performed well.

Locally, Australia, Middle East, and Taiwan area led this region's sales. In addition of the depreciation of yen impact, as a result, net sales for this period in Asia Pacific region amounted to 41,856 million yen (23.8% increase from the same period in the previous year) in a double-digit growth rate.

As a result, the consolidated net sales for this period (this term of fiscal year 2023, from January 1 to September 30,) marked 183,725 million yen (13.3% increase from the same period in previous year.)

For the costs, it showed substantial growth caused by cloud service usage volume increase for the enhancement of our SaaS business, people costs with the huge impact of weak yen, and administration cost by a significant increase in business trips after a coronavirus restriction for economic reopened, etc. Thus, cost of sales and operating expenses for this period totaled 154,112 million yen (13.1% increase from the same period in the previous year) increase. As a result, consolidated operating income for this period was 29,613 million yen (14.5% increase from the same period in the previous year) increase to.

And the consolidated ordinary income for this period was 31,935 million yen (5.0% increase from the same period in the previous year) increase due to an increase in equity in loss of affiliated companies, etc. On the other hand, the net income attributable to owners of the parent for this period was 12,806 million yen (55.1% decrease from the same period in the previous year) decrease mainly due to the disappearance of gain on sales of shares of subsidiaries and associate, and increase in income taxes caused by a provision for tax liability based on the assumption that dividends will be paid from each of our subsidiaries to us as the parent company.

Operating income based on Pre-GAAP (revenue before adjusting deferred revenue, etc.) serves as an important management indicator for our company. It for this period was 29,828 million yen, an increase of 1,304 million yen (4.6% increase from the same period in the previous year.) This increase was due to Pre-GAAP sales' double-digit growth over the cost of sales and operating expenses growth, including people cost with a strong up-front investment aspect and cost of public cloud service usage volume for the strengthening of our SaaS business.

(2) Consolidated Financial Positions

Cash and bank deposits at the end of this period amounted to 188,897 million yen, a decrease of 2,644 million yen from FY2022 annual closing.

In spite of decrease in investment securities and notes and accounts receivable, trade and contract assets, due to increases in marketable securities and goodwill, total assets at the end of this period were 474,690 million yen, 3,890 million yen decrease from FY2022 annual closing.

Total liabilities at the end of this period were 258,523 million yen, 16,402 million yen increase from FY2022 annual closing mainly due to substantial increases in both deferred revenue and deferred income tax liabilities, etc.

Total net assets at the end of this period were 216,167 million yen, 12,511 million yen decrease from FY2022 annual closing. Despite substantial growth in foreign currency translation adjustments, this decrease is due to a significant increase in treasury stock, and a decrease in retained earnings, etc.

(3) Consolidated Earnings Forecast

As of now, we have revised net income attributable to owners of the parent with 8,100 million yen decrease from our consolidated results forecast for the full fiscal year ending December 31, 2023 (released on February 16, 2023).

More details on a financial release titled "Trend Micro Announces Revision of Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023" has been announced on November 9, 2023.

Business forecast for the Annual of FY2023 (January 1, 2023 – December 31, 2023)

Consolidated net sales	248,500 million yen
Consolidated operating income	34,800 million yen
Consolidated ordinary income	34,900 million yen
Net income attributable to owners of the parent	17,000 million yen

In development of the business forecasts the main assumed exchange rates for the Annual of FY2023 (January 1, 2023 – December 31, 2023) as follows.

1 US \$ 135 yen

1 Euro 143 yen

2. Others

(1) Movement of Significant Subsidiaries

N/A

(2) Application of Simplified or Special Accounting Procedures

(Calculation of income tax expenses)

Multiply net income before tax for this period (9 months) by effective tax rate, which is rationally calculated based on projected annual profit and its taxes taking into consideration of deferred tax accounting. In addition, deferred tax expense is included in income taxes.

However, if the calculation of tax expenses using the effective tax rate results in a markedly unreasonable outcome, tax expenses are calculated by using the statutory effective tax rate after adding and subtracting important differences that do not fall under temporary differences to and from profit before income taxes.

3. 【CONSOLIDATED FINANCIAL STATEMENTS】

(1) 【Consolidated Balance Sheets】

(Million yen)

Account	December 31, 2022	September 30, 2023
(Assets)		
Current assets		
Cash and bank deposits	191,542	188,897
Notes and Accounts receivable, trade and contract assets	63,614	57,081
Marketable securities	51,307	88,643
Inventories	4,255	5,111
Others	9,532	13,355
Allowance for bad debt	(317)	(352)
Total current assets	319,934	352,736
Non-current assets		
Property and equipment		
(1) Buildings and structures, net	4,384	3,986
(2) Office furniture & equipment	2,685	2,602
(3) Others	19	30
Total property and equipment	7,089	6,619
Intangibles		
(1) Software	12,767	15,074
(2) Goodwill	1,094	4,343
(3) Others	10,431	13,308
Total intangibles	24,292	32,726
Investments and other non-current assets		
(1) Investment securities	70,297	38,054
(2) Investments in subsidiaries and affiliates	4,145	2,172
(3) Deferred tax assets	42,111	39,612
(4) Others	2,928	2,768
Total investments and other non-current assets	119,483	82,607
Total non-current assets	150,865	121,953
Total assets	470,799	474,690

(Million yen)

Account	December 31, 2022	September 30, 2023
(Liabilities)		
Current liabilities		
Accounts payable and Notes payable, trade	2,164	2,172
Accounts payable, other	4,986	4,911
Accrued expenses	14,819	16,969
Accrued income and other taxes	5,055	3,235
Allowance for bonuses	3,675	3,068
Deferred revenue(Current and Non-current)	192,914	202,356
Others	8,683	8,706
Total current liabilities	232,297	241,421
Non-current liabilities		
Net defined benefit liability	7,408	7,865
Deferred tax liabilities	883	6,031
Others	1,531	3,205
Total non-current liabilities	9,822	17,101
Total liabilities	242,120	258,523
(Net assets)		
Shareholders' equity		
Common stock	19,585	19,693
Capital surplus	27,810	27,942
Retained earnings	166,635	158,374
Treasury stock, at cost	(10,291)	(35,050)
Total shareholders' equity	203,738	170,960
Accumulated other comprehensive income		
Net unrealized gain (loss) on debt and equity securities	(1,477)	(432)
Foreign currency translation adjustments	24,392	43,235
Remeasurements of defined benefit plans	122	(44)
Total accumulated other comprehensive income	23,037	42,757
Stock acquisition rights	1,884	2,427
Non-controlling interests	18	21
Total net assets	228,679	216,167
Total liabilities and net assets	470,799	474,690

(2) 【Consolidated Statements of Income and Consolidated Statements of Comprehensive Income】

Consolidated Statements of Income

(Million yen)

	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Net sales	162,100	183,725
Cost of sales	39,651	45,435
Gross profit	122,449	138,289
Operating expenses	96,579	108,676
Operating income	25,870	29,613
Non-operating income		
Outsourcing service income	134	164
Interest income	1,040	4,142
Gain on sales of marketable securities	—	38
Foreign exchange gain	3,456	200
Other income	116	200
Total non-operating income	4,747	4,746
Non-operating expenses		
Interest expenses	43	—
Equity in losses of affiliated companies	91	2,345
Loss on sales of marketable securities	19	—
Loss on disposal of fixed assets	5	45
Other expenses	49	32
Total non-operating expenses	209	2,423
Ordinary income	30,408	31,935
Extraordinary gain		
Gain on sales of shares of subsidiaries and associates	7,275	—
Total extraordinary gain	7,275	—
Extraordinary loss		
Loss on valuation of investment securities	—	104
Total extraordinary loss	—	104
Net income before taxes	37,684	31,830
Income taxes	9,705	19,025
Net income	27,978	12,805
Net income(loss) attributable to non-controlling interests	(514)	(1)
Net income attributable to owners of the parent	28,492	12,806

Consolidated Statements of Comprehensive Income

(Million yen)

	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Net income	27,978	12,805
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,981)	1,044
Foreign currency translation adjustment	29,554	18,469
Remeasurement of defined benefit plans	39	(167)
Share of other comprehensive income of associates accounted for using equity method	(50)	372
Total other comprehensive income	27,561	19,719
Comprehensive income	55,540	32,525
Comprehensive income attributable to owners of the parent	55,999	32,527
Comprehensive income attributable to non-controlling interests	(458)	(2)

(3) 【Consolidated Statements of Cash Flows】

(Million yen)

Account	Nine months ended September 30, 2022	Nine months ended September 30, 2023
Cash flows from operating activities:		
Net income before taxes	37,684	31,830
Depreciation and amortization	18,017	19,614
Stock compensations	689	613
Amortization of goodwill	1,041	1,262
Increase (decrease) in allowance for bad debts	57	0
Increase (decrease) in net defined benefit liability	341	317
Interest income	(1,040)	(4,142)
Interest expenses	43	—
Equity in (earnings)/loss of affiliated companies	91	2,345
(Gain) loss on disposal of Fixed assets	5	45
(Gain) loss on sale of marketable securities	19	(38)
(Gain) loss on sales of shares of subsidiaries and associate	(7,275)	—
(Gain) loss on valuation of investment securities	—	104
(Increase) decrease in notes and accounts receivable and contract assets	11,373	9,604
(Increase) decrease in inventories	345	(410)
Increase (decrease) in notes and accounts payable	281	(501)
Increase (decrease) in accounts payable, other & accrued expenses	1,004	1,463
Increase (decrease) in deferred revenue	1,037	(4,931)
Increase (decrease) in virtual share bonus plan	(166)	(972)
Others	(3,422)	(823)
Subtotal	60,128	55,382
Proceeds from interest and dividend received	607	3,952
Payment for interest expenses	(43)	—
Payment for income tax	(14,129)	(12,469)
Payment for Litigation settlement	—	(62)
Net cash provided by operating activities	46,562	46,802
Cash flows from investing activities:		
(Payments for)/Proceeds from time deposits	(7,344)	2,960
Payments for purchases of marketable securities and securities investments	(69,249)	(1,907)
Proceeds from sale or redemptions of marketable securities and securities investments	21,905	16,026
Payments for purchases of property and equipment	(965)	(1,031)
Payments for purchases of other intangibles	(15,270)	(17,403)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(3,773)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	5,518	—
Net cash provided by investing activities	(65,405)	(5,130)
Cash flows from financing activities:		
Proceeds from issuance of common shares	337	184
Payment for purchase of treasury stock	(1,036)	(24,999)
Receipt from disposal of treasury stock	2,460	224
Dividends paid	(26,540)	(20,255)
Repayments to non-controlling shareholders	—	(5)
Proceeds from paid-up by non-controlling shareholders	2	10
Net cash used in financing activities	(24,776)	(44,841)
Effect of exchange rate changes on cash and cash equivalents	32,144	13,903
Net increase (decrease) in cash and cash equivalents	(11,475)	10,733
Cash and cash equivalents at beginning of period	225,681	207,643
Cash and cash equivalents at end of period	214,206	218,377

(4) Footnotes on Consolidated Financial Statements

(Footnote on Going Concern)

N/A

(Notes on Significant Changes in Stockholders' Equity)

We repurchased 3,793,700 shares of treasury stock based on the resolution of the board of directors meeting held on February 16, 2023. As a result, treasury stock increased by 24,759 million yen for the current fiscal year consolidated cumulative period.

(Changes in Accounting Policies)

(Application of Application Guidelines of Accounting Standard for Calculation of Market Value)

The "Guidance for Application of Accounting Standards for Calculation of Market Value" (ASB Application Guidance No. 31, June 17, 2021; hereinafter referred to as "Guidance for Application of Accounting Standards for Calculation of Market Value") has been applied from the beginning of the current consolidated accounting period, and the new accounting policy set forth in the Guidance for Application of Accounting Standards for Calculation of Market Value has been applied into the future in accordance with the transitional treatment set forth in Section 27-2 of the Guidance for Application of Accounting Standards for Calculation of Market Value. There is no impact on the quarterly consolidated financial statements.

(Additional information)

(Correction of errors)

For the second through fourth quarters of the previous fiscal year, sales reversed from deferred revenue had been understated due to an error in revenue recognition related to the application of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) in our subsidiary in the Americas region.

Errors for the previous fiscal year are not significant in the impact on financial position and operating results. Accordingly, the errors are corrected in the current financial statements.

As a result, net sales, gross profit, operating income, and ordinary income increased by 988 million yen and net income attributable to owners of parent increased by 741 million yen for the current fiscal year consolidated cumulative period.

In the segment information for the current fiscal year consolidated cumulative period, net sales and segment income of "Americas" increased by 988 million yen.

There is no impact on cash flow statements for the errors.

(Matters concerning consolidated subsidiaries)

We invest in Trend Forward Capital I, L.P. (hereinafter TFI), which operates a venture capital business in the United States as a limited partnership. Business execution powers of TFI were held by Wael Mohamed who was our board until March 2020, while we are only limited partners and have no authority or intention to participate in the management of TFI.

However, we have contributed more than half of the total amount invested in TFI and have not been able to prove that Wael is not a close member in accordance with "the Practical Handling of the Application of Control and Influence Standards to Investment Partnerships" (Practical Handling Report No. 20). Therefore, we have included TFI in our consolidation scope in accordance with "the Practical Handling Report No.20" and "the Accounting Standards for Consolidated Financial Statements" (ASBJ Statement No. 22).

(Additional recognition of deferred tax liabilities)

As released in the "Trend Micro Announces its Basic Policy on Shareholder Returns " dated November 9, 2023, we intend to initiate procedures to receive a portion of the retained earnings of our consolidated subsidiaries as dividends. Accordingly, at the end of the third quarter of the current fiscal year, we have recognized as deferred tax liabilities the amount of additional taxes expected to be paid in future accounting periods on the temporary differences related to the retained earnings of the subsidiaries that will be eliminated when we receive such retained earnings as dividends. As a result, income taxes increased 8,147 million yen and net income decreased by the same amount for the current fiscal year consolidated cumulative period, compared with the amount under the previous method. Deferred tax assets decreased 3,799 million yen and deferred tax liabilities increased 4,348

million yen at the end of the third quarter of the current fiscal year, compared with the amount under the previous method.

(Segment Information)

Information on sales, profit/loss by reporting segments

For the previous fiscal year (from January 1, 2022 to September 30, 2022)

1. Information on net sales and profits by reporting segment

(Million Yen)

	Japan	Americas	Europe	Asia Pacific	Total	Adj (*)3	Amt in Con P&L (*)4
Sales							
(1) Net sales to external customers	60,955	37,849	29,496	33,798	162,100	—	162,100
(2) Intercompany sales	24	6,190	1,587	36,825	44,627	(44,627)	—
Total	60,980	44,040	31,083	70,624	206,728	(44,627)	162,100
Segment income	10,620	4,522	4,021	7,051	26,215	(344)	25,870

(Note)

1 The classification of the geographical segment is based on geographic proximity.

2 Major countries other than Japan:

Americas U.S.A., Canada, Brazil, Mexico

Europe Ireland, Germany, Italy, France, UK

Asia Pacific Taiwan, Korea, Australia, China, The Philippines, Singapore, Malaysia, Thailand, India, UAE, Egypt

3 Consolidation Adjustment in segment income (344) million yen comes from the elimination between segments transaction.

4 Total amount of segment income is adjusted to operating income in consolidated statement of income.

For the current fiscal year (from January 1, 2023 to September 30, 2023)

1. Information on net sales and profits by reporting segment

(Million Yen)

	Japan	Americas	Europe	Asia Pacific	Total	Adj (*)3	Amt in Con P&L (*)4
Sales							
(1) Net sales to external customers	62,155	42,901	36,812	41,856	183,725	—	183,725
(2) Intercompany sales	(24)	6,552	4,773	42,497	53,799	(53,799)	—
Total	62,130	49,453	41,586	84,354	237,524	(53,799)	183,725
Segment income	8,955	4,756	6,900	9,073	29,685	(72)	29,613

(Note)

1 The classification of the geographical segment is based on geographic proximity.

2 Major countries other than Japan:

Americas U.S.A., Canada, Brazil, Mexico

Europe Ireland, Germany, Italy, France, UK

Asia Pacific Taiwan, Korea, Australia, China, The Philippines, Singapore, Malaysia, Thailand, India, UAE, Egypt

3 Consolidation Adjustment in segment income (72) million yen comes from the elimination between segments transaction.

4 Total amount of segment income is adjusted to operating income in consolidated statement of income.

(Business combination)

(Review of Provisional Accounting Procedures for Business Combinations)

Anlyz Inc. and Anlyz Cybersecure Private Limited, which acquired shares on February 15, 2023, were provisionally accounted for based on reasonable information available at the time due to the lack of identification of identifiable assets and liabilities and calculation of fair value at the date of the business combination in the first quarter of the consolidated fiscal year.

Subsequently, in accordance with the identification of identifiable assets and liabilities and the progress in the calculation of fair value, the amount of goodwill incurred decreased by 1,662 million yen, intangible fixed assets increased by 2,206 million yen, and deferred tax liabilities increased by 544 million yen compared to the end of the first quarter of the current consolidated fiscal year.

Identification of identifiable assets and liabilities and calculation of market value are incomplete at the end of the third quarter of the consolidated fiscal year.