

Consolidated Financial Report for the Second Quarter of Fiscal 2020 Ending March 31, 2021 [Japanese GAAP]

November 4, 2020

Listed exchange: 1st Section, Tokyo Stock Exchange
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 Scheduled date of filing quarterly report: November 5, 2020
 Scheduled date of dividend payment: —
 Preparation of explanatory materials for quarterly financial results: Yes
 Holding of a briefing on quarterly financial results: Yes (video streaming)

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of Fiscal 2020 Ending March 31, 2021 (April 1, 2020 to September 30, 2020)

(1) Consolidated operating results (cumulative)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Quarterly profit attributable to owners of parent | |
|--------------------------|-------------------|-----|-------------------|-------|-------------------|--------|---|--------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| As of September 30, 2020 | 13,186 | 0.4 | 1,077 | 5.6 | 1,107 | 6.6 | 745 | 8.5 |
| As of September 30, 2019 | 13,128 | 7.0 | 1,019 | (8.1) | 1,038 | (12.3) | 687 | (11.9) |

Note: Comprehensive income

As of September 30, 2020: ¥1,399 million [147.9%]

As of September 30, 2019: ¥564 million [(27.7%)]

| | Quarterly earnings per share | | Diluted quarterly earnings per share | |
|--------------------------|------------------------------|-----|--------------------------------------|-----|
| | Yen | Sen | Yen | Sen |
| As of September 30, 2020 | 30.94 | — | — | — |
| As of September 30, 2019 | 28.53 | — | — | — |

(2) Consolidated financial position

| | Total assets | Net assets | Owners' equity ratio |
|--------------------------|-------------------|-------------------|----------------------|
| | (Millions of yen) | (Millions of yen) | % |
| As of September 30, 2020 | 17,130 | 12,919 | 75.4 |
| As of March 31, 2020 | 16,652 | 12,107 | 72.7 |

Reference: Owners' equity

As of September 30, 2020: ¥12,919 million

As of March 31, 2020: ¥12,107 million

2. Dividends

| | Dividends per share | | | | |
|--|----------------------|-----------------------|----------------------|------------------|------------------|
| | End of first quarter | End of second quarter | End of third quarter | Year-end | Total |
| Fiscal year ended March 31, 2020 | Yen Sen — | Yen Sen 0.00 | Yen Sen — | Yen Sen 24.00 | Yen Sen 24.00 |
| Fiscal year ending March 31, 2021 | — | 0.00 | | | |
| Fiscal year ending March 31, 2021 (forecast) | | | — | 24.00 | 24.00 |

Note: Revisions to the most recently announced dividend forecast: Yes

For revisions to the dividend forecast, please refer to the “Notice Regarding Revisions to Financial Results Forecasts and Dividend Forecast” published today (November 4, 2020).

3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Net earnings per share |
|-----------|-------------------|-----|-------------------|-----|-------------------|-----|---|-----|------------------------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | Yen Sen |
| Full year | 27,800 | 0.0 | 2,250 | 1.9 | 2,310 | 2.0 | 1,540 | 2.6 | 63.90 |

Note: Revisions to the most recently announced financial results forecast: Yes

For revisions to consolidated financial results forecasts, please refer to the “Notice Regarding Revisions to Financial Results Forecasts and Dividend Forecast” published today (November 4, 2020).

*Notes

(1) Changes in significant subsidiaries during the consolidated cumulative quarter : None

(Changes in specified subsidiaries resulting from changes in the scope of consolidation)

New: — (company name(s)) Excluded: — (company name(s))

(2) Application of special accounting methods for presenting quarterly consolidated financial statements : Yes

Note: For details, please refer to “(4) Notes on the Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on Page 12 of the appendix.

(3) Changes in accounting policies and accounting-based estimates, and restatements

a. Changes in accounting policies due to revisions in accounting standards, etc. : None

b. Changes in accounting policies other than a. above : None

c. Changes in accounting-based estimates : None

d. Restatements : None

(4) Number of shares outstanding (common stock)

a. Number of shares outstanding at the end of period (including treasury stock)

| | | | |
|--------------------------|------------|--------------------------|------------|
| As of September 30, 2020 | 25,113,600 | As of March 31, 2020 | 25,113,600 |
| As of September 30, 2020 | 1,015,031 | As of March 31, 2020 | 1,015,071 |
| As of September 30, 2020 | 24,098,542 | As of September 30, 2020 | 24,094,544 |

b. Number of treasury shares at the end of period

c. Average number of shares during the period (cumulative for the quarter)

Note: The number of treasury shares at the end of period includes the Company's shares (391,200 shares as of September 30, 2020 and 391,200 shares as of March 31, 2020) held by Custody Bank of Japan, Ltd. (Trust Account E) (the former Trust & Custody Services Bank, Ltd. (Trust Account E)) as trust assets in a Board Benefit Trust (BBT) and an Employee Stock Ownership Plan (J-ESOP). In addition, the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) are included in the treasury shares deducted from the calculation of the average number of shares during the period (as of September 30, 2020: 391,200 shares; as of September 30, 2019: 395,222 shares).

* The quarterly consolidated financial report is exempt from quarterly reviews by certified public accountants or an audit firm.

* Explanation about the proper use of financial results forecasts and other noteworthy items

The report contains statements about the future such as forecasts for financial results that are based on information available to the Company at the time of disclosure and certain assumptions the Company believes to be reasonable. The Company gives no assurance that these statements will prove to be accurate. Actual results may differ significantly from these forecasts due to various factors. For matters related to the abovementioned forecasts, please refer to “(3) Explanation about Information on Projections Including Consolidated Forecasts” on Page 6 of the appendix.

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1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative second quarter (April 1, 2020 – September 30, 2020), Japan's economy continued to face tough times due to the impacts of the COVID-19 pandemic. Nevertheless, as the country has been gradually increasing social and economic activities, the economy is also showing signs of recovery owing to the effects of various policies and economic recovery overseas. However, we need to closely monitor the pandemic in Japan and overseas, along with the impacts of financial and capital market fluctuations. Under these circumstances, promoting digital transformation (“DX”) has come into the spotlight as a pressing task for companies. In this regard, we believe that the information services industry will have growing needs for changing their business practices and workstyles.

In this climate, the TDC SOFT Group aims to become a next-generation system integrator as stated in its medium-term management plan “Shift to the Smart SI” for the period between April 2019 and March 2022. Our vision is to evolve into a next-generation system integration (“SI”) business geared to new trends in digital technology based on the potential needs of the market.

To make this vision a reality, we have two Group-wide core strategies.

One is to “create high-value-added SI services.” We tap into the latest elemental technologies to pursue services designed to meet the needs of customers promoting DX for value creation.

The other is to “support SI model reforms.” We use innovative approaches to build infrastructure for high-value-added SI services and to develop an SI process designed to ensure high productivity and high quality, thereby differentiating ourselves from competitors.

During the quarter, we worked on the initiatives stated in the “Shift to the Smart SI” plan in order to move forward with our measures, following the policy of flexibly adapting to changes in external environments and dealing with and making improvements on issues that would arise from the initiatives.

To be more specific, we continue to focus on the agile development and information system security businesses that have strategically been our priority since the last fiscal year. In the agile development business, we signed a contract with Scaled Agile, Inc. in the United States last fiscal year to become their gold partner. In this strengthened alliance with Scaled Agile, we offer services for quick management decision-making, consulting services to help with system development, and educational services. In the information system security business, we are working to expand our high-value-added SI services through the development of SI solutions using local 5G in collaboration with LTE-X Inc., the launch of “Tegata,” which is a cloud-based secure access service capable of handling an increasing number of users who work remotely, and other efforts.

While the COVID-19 pandemic resulted in postponement or temporary suspension of some projects and placed constraints on our in-person sales operations that affected our order-taking activity during this consolidated cumulative second quarter, our business has been stably moving forward as we made efforts toward a “new normal,” such as shifting to web conferencing and telecommuting as well as offering online seminars and training services.

As a result, the Group's business performance for this consolidated cumulative second quarter was as follows: Net sales amounted to ¥13,186 million, up 0.4% year on year; operating profit amounted to ¥1,077 million, up 5.6% year on year; ordinary profit amounted to ¥1,107 million, up 6.6% year on year; and profit attributable to owners of parent amounted to ¥745 million, up 8.5% year on year.

Status of activities by field

<IT consulting and services>

In the IT consulting and services field, we offer services that include developing IT strategies and information system concepts to facilitate customers' DX, technology consulting, and providing educational services about the latest technologies and development methodologies. We also provide our internally developed cloud application services, along with solution services related to business intelligence (BI) (Note 1)/data warehousing (DWH) (Note 2) and enterprise resource planning (ERP) (Note 3)/customer relationship management (CRM) (Note 4). During this quarter, the Group made solid progress on projects related to data analytics infrastructure including BI/DWH and "extract, transform, load (ETL)" (Note 5). As a result, net sales in this field increased 81.8% year on year to ¥1,115 million.

<IT solutions for financial services>

In the field of IT solutions for financial services, we offer integrated IT solutions for the financial sector, including information system concepts, design, development, and maintenance. During this quarter, there was a steady stream of system development projects related to loyalty cards, while there was little activity in projects for insurance businesses. As a result, net sales in this field decreased by 13.2% year on year to ¥6,555 million.

<IT solutions for public corporations>

In the field of IT solutions for public corporations, we offer integrated IT solutions for the logistics, manufacturing, and service industries as well as the public sector, including information system concepts, design, development, and maintenance. During this quarter, the Group made solid progress on development projects for the manufacturing sector. As a result, net sales in this field increased 14.8% year on year to ¥3,816 million.

<Platform solutions>

In the field of platform solutions, we offer services that include configuring and developing IT infrastructure along with helping with its operation, developing network products, and integrating networks. During this quarter, the Group made solid progress on projects to build IT infrastructure for telecommunication businesses and public agencies. As a result, net sales in this field increased 3.5% year on year to ¥1,698 million.

(Millions of yen)

| Field | As of September 30, 2019 | | As of September 30, 2020 | | Year-on-year percentage change |
|--------------------------------------|---------------------------------|--------|---------------------------------|--------|--------------------------------|
| | Consolidated cumulative quarter | | Consolidated cumulative quarter | | |
| | Amount | Share | Amount | Share | |
| IT consulting and services | 613 | 4.7% | 1,115 | 8.5% | +81.8% |
| IT solutions for financial services | 7,549 | 57.5% | 6,555 | 49.7% | (13.2%) |
| IT solutions for public corporations | 3,324 | 25.3% | 3,816 | 28.9% | +14.8% |
| Platform solutions | 1,640 | 12.5% | 1,698 | 12.9% | +3.5% |
| Total | 13,128 | 100.0% | 13,186 | 100.0% | +0.4% |

The TDC SOFT Group has been reviewing its business fields since the consolidated cumulative first quarter, taking account the future direction of its businesses. When we make a year-over-year comparison, we apply the figure from the same period last year to the updated business field.

Notes: 1. BI: Business intelligence. A process for analyzing a company's internal information to harness it in business management.

2. DWH: Data warehouse. An integrated database that collects necessary data from multiple systems, including core systems, to sort the data by objective and accumulate it chronologically for data analysis and decision-making.
3. ERP: Enterprise resource planning. A core information system.
4. CRM: Customer relationship management. A customer management system.
5. ETL: Extract, transform, load. A process of extracting and processing data from multiple information sources (e.g., a database and core system) to write the data to a DWH.

(2) Explanation about Financial Status

State of assets, liabilities, and net assets

Total assets at the end of this consolidated accounting second quarter increased by ¥478 million from the end of the previous fiscal year to ¥17,130 million.

Current assets decreased by ¥253 million from the end of the previous fiscal year to ¥13,210 million. This is mainly due to a decrease of ¥910 million in notes and accounts receivable – trade, despite increases of ¥539 million in cash and deposits and of ¥146 million in work in process.

Non-current assets increased by ¥731 million from the end of the previous fiscal year to ¥3,920 million. This is mainly due to an increase of ¥1,022 million in investment securities, despite a decrease of ¥280 million in deferred tax assets.

Current liabilities decreased by ¥347 million from the end of the previous fiscal year to ¥3,999 million. This is mainly due to decreases of ¥228 million in accrued expenses and of ¥146 million in accounts payable – trade, despite an increase of ¥124 million in short-term borrowings.

Non-current liabilities increased by ¥13 million from the end of the previous fiscal year to ¥211 million. This is mainly due to increases of ¥9 million in provision for share-based remuneration for directors (and other officers) and of ¥5 million in provision for share-based remuneration for employees.

Net assets increased by ¥811 million from the end of the previous fiscal year to ¥12,919 million. This is mainly due to increases of ¥653 million in valuation difference on available-for-sale securities and of ¥157 million in retained earnings.

Cash flow conditions

The balance of cash and cash equivalents at the end of this consolidated accounting second quarter increased by ¥539 million from the end of the previous fiscal year to ¥8,919 million (¥7,957 million year on year). Cash flow conditions during this consolidated cumulative second quarter and their factors are as stated below:

(Cash flows from operating activities)

While profit before income taxes was ¥1,107 million and a decrease in notes and accounts receivable – trade was ¥910 million, income taxes paid was ¥275 million and a decrease in accrued expenses was ¥236 million. As a result, cash flows from operating activities amounted to ¥1,116 million (¥438 million year on year).

(Cash flows from investing activities)

With purchase of investment securities of ¥105 million and other factors, cash flows from investing activities amounted to negative ¥110 million (¥93 million year on year).

(Cash flows from financing activities)

While a net increase in short-term borrowings was ¥124 million, dividends paid totaled ¥587 million. As a result, cash flows from financing activities amounted to negative ¥466 million (negative ¥391 million year on year).

(3) Explanation about Information on Projections Including Consolidated Forecasts

The impact of the COVID-19 pandemic exposed the fact that Japan's society is lagging behind in digitization, creating further need for DX.

The TDC SOFT Group has been able to earn substantial revenue from high-value-added SI services, including digitization, at a faster pace than planned. Hence, we will maintain the policy specified in the medium-term management plan to steadily implement various measures.

The consolidated financial results forecast for the fiscal year ending March 31, 2021 was not determined due to the difficulty to calculate the impact of the COVID-19 pandemic reasonably. Now that our business is stably moving forward, it has become possible to calculate the impact based on currently available information and forecasts. We will therefore announce our consolidated financial results forecast for the full year.

There may be unexpected changes in our financial results depending on the extent to which COVID-19 will spread or when the pandemic will likely end. We will continue to monitor the situation going forward and, if any material event that should be disclosed occurs in connection with the consolidated financial results forecast for the full year, we will promptly announce it.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

| | As of March 31, 2020 | As of September 30, 2020 |
|---|----------------------|--------------------------|
| Assets | | |
| Current assets: | | |
| Cash and deposits | 8,379,818 | 8,919,207 |
| Notes and accounts receivable – trade | 4,810,858 | 3,899,965 |
| Work in process | 81,204 | 227,839 |
| Other | 192,016 | 163,261 |
| Total current assets | 13,463,898 | 13,210,274 |
| Non-current assets: | | |
| Property, plant and equipment | 156,911 | 165,972 |
| Intangible fixed assets | 103,495 | 79,003 |
| Investments and other assets: | | |
| Investment securities | 1,826,407 | 2,849,203 |
| Shares of subsidiaries and associates | 300,000 | 300,000 |
| Deferred tax assets | 333,146 | 52,487 |
| Guarantee deposits | 421,057 | 427,745 |
| Other | 47,323 | 45,771 |
| Total investments and other assets | 2,927,935 | 3,675,208 |
| Total non-current assets | 3,188,342 | 3,920,184 |
| Total assets | 16,652,240 | 17,130,459 |
| Liabilities | | |
| Current liabilities: | | |
| Accounts payable – trade | 1,086,674 | 940,645 |
| Short-term borrowings | 430,000 | 554,000 |
| Accounts payable – other | 208,250 | 135,097 |
| Accrued expenses | 1,674,745 | 1,446,436 |
| Income taxes payable | 342,144 | 437,652 |
| Accrued consumption taxes | 379,063 | 288,013 |
| Provision for bonuses for directors (and other officers) | 106,200 | 50,250 |
| Other | 120,164 | 147,846 |
| Total current liabilities | 4,347,242 | 3,999,941 |
| Non-current liabilities: | | |
| Provision for share-based remuneration for employees | 44,338 | 49,904 |
| Provision for share-based remuneration for directors (and other officers) | 50,600 | 59,708 |
| Asset retirement obligations | 63,522 | 63,888 |
| Other | 38,819 | 37,749 |
| Total non-current liabilities | 197,280 | 211,250 |
| Total liabilities | 4,544,522 | 4,211,192 |

(Thousands of yen)

| | As of March 31, 2020 | As of September 30, 2020 |
|---|----------------------|--------------------------|
| Net assets | | |
| Shareholders' equity: | | |
| Share capital | 970,400 | 970,400 |
| Capital surplus | 986,228 | 986,256 |
| Retained earnings | 9,938,020 | 10,095,957 |
| Treasury shares | (383,662) | (383,654) |
| Total shareholders' equity | 11,510,985 | 11,668,959 |
| Accumulated other comprehensive income: | | |
| Valuation difference on available-for-sale securities | 596,732 | 1,250,307 |
| Total accumulated other comprehensive income | 596,732 | 1,250,307 |
| Total net assets | 12,107,718 | 12,919,266 |
| Total liabilities and net assets | 16,652,240 | 17,130,459 |

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income

Quarterly Consolidated Statement of Income

Consolidated Cumulative Second Quarter

(Thousands of yen)

| | Consolidated Cumulative Second Quarter of Fiscal 2019 (From April 1, 2019 to September 30, 2019) | Consolidated Cumulative Second Quarter of Fiscal 2020 (From April 1, 2020 to September 30, 2020) |
|---|---|---|
| Net sales | 13,128,468 | 13,186,077 |
| Cost of sales | 10,548,450 | 10,498,793 |
| Gross profit | 2,580,017 | 2,687,283 |
| Selling, general and administrative expenses | 1,560,407 | 1,610,210 |
| Operating profit | 1,019,610 | 1,077,073 |
| Non-operating income: | | |
| Interest income | 93 | 103 |
| Dividend income | 22,818 | 18,936 |
| Subsidy income | — | 20,505 |
| Other | 5,232 | 6,865 |
| Total non-operating income | 28,143 | 46,412 |
| Non-operating expenses: | | |
| Interest expenses | 1,736 | 1,761 |
| Loss on investments in partnerships | 6,972 | 14,674 |
| Other | 493 | — |
| Total non-operating expenses | 9,202 | 16,435 |
| Ordinary profit | 1,038,551 | 1,107,049 |
| Profit before income taxes | 1,038,551 | 1,107,049 |
| Income taxes | 351,254 | 361,359 |
| Profit | 687,297 | 745,690 |
| Profit attributable to non-controlling interests | — | — |
| Quarterly profit attributable to owners of parent | 687,297 | 745,690 |

Quarterly Consolidated Statement of Comprehensive Income

Consolidated Cumulative Second Quarter

(Thousands of yen)

| | Consolidated Cumulative Second Quarter of Fiscal 2019 (From April 1, 2019 to September 30, 2019) | Consolidated Cumulative Second Quarter of Fiscal 2020 (From April 1, 2020 to September 30, 2020) |
|--|---|---|
| Profit | 687,297 | 745,690 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities | (122,868) | 653,575 |
| Total other comprehensive income | (122,868) | 653,575 |
| Quarterly comprehensive income | 564,429 | 1,399,265 |
| attributable to: | | |
| Comprehensive income attributable to owners of parent | 564,429 | 1,399,265 |
| Comprehensive income attributable to non-controlling interests | — | — |

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

| | Consolidated Cumulative Second Quarter of Fiscal 2019 (From April 1, 2019 to September 30, 2019) | Consolidated Cumulative Second Quarter of Fiscal 2020 (From April 1, 2020 to September 30, 2020) |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 1,038,551 | 1,107,049 |
| Depreciation and amortization | 44,631 | 41,584 |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (75,450) | (55,950) |
| Increase (decrease) in provision for share-based remuneration for directors (and other officers) | 9,803 | 9,108 |
| Increase (decrease) in provision for share-based remuneration for employees | 7,147 | 5,565 |
| Increase (decrease) in provision for loss on order received | 5,356 | — |
| Interest and dividend income | (22,911) | (19,040) |
| Interest expenses | 1,736 | 1,761 |
| Loss (gain) on investments in partnerships | 6,972 | 14,674 |
| Decrease (increase) in notes and accounts receivable-trade | 925,345 | 910,893 |
| Decrease (increase) in inventories | (361,656) | (146,635) |
| Increase (decrease) in notes and accounts payable-trade | 7,235 | (146,029) |
| Increase (decrease) in accounts payable-other | (183,444) | (74,742) |
| Increase (decrease) in accrued expenses | (398,427) | (228,308) |
| Increase (decrease) in accrued consumption taxes | (100,403) | (91,050) |
| Other | 1,306 | 63,397 |
| Subtotal | 905,793 | 1,392,277 |
| Income taxes paid | (467,208) | (275,420) |
| Cash flows from operating activities | 438,585 | 1,116,857 |
| Cash flows from investing activities | | |
| Payments into time deposits | (1,200) | — |
| Purchase of property, plant and equipment | (54,150) | (24,275) |
| Purchase of intangible fixed assets | — | (287) |
| Purchase of investment securities | (33,344) | (105,969) |
| Proceeds of dividend distribution from partnerships | 15,545 | 7,186 |
| Payments of loans receivable from employees | (2,470) | (2,900) |
| Collection of loans receivable from employees | 2,841 | 2,997 |
| Payments for guarantee deposits | — | (6,688) |
| Interest and dividend income received | 22,911 | 19,040 |
| Proceeds from transfer of business | 142,953 | — |
| Other | 300 | — |
| Cash flows from investing activities | 93,386 | (110,896) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | 150,000 | 124,000 |
| Proceeds from sales of treasury shares | — | 36 |
| Interest expenses | (1,790) | (1,785) |
| Dividend payment | (538,774) | (587,753) |
| Repayments of lease obligations | (1,069) | (1,069) |
| Cash flows from financing activities | (391,634) | (466,572) |
| Net increase (decrease) in cash and cash equivalents | 140,336 | 539,389 |
| Balance of cash and cash equivalents at the beginning of the period | 7,816,732 | 8,379,818 |
| Balance of cash and cash equivalents at the end of the quarter | 7,957,069 | 8,919,207 |

(4) Notes on the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)

Not applicable.

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

Calculation of tax expenses

To calculate tax expenses, we reasonably estimate the effective tax rate after tax effect accounting is applied to profit for the period before taxes for the consolidated fiscal year that includes this consolidated cumulative second quarter, and multiply profit for the quarter before taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

Consolidated cumulative second quarter of fiscal 2020 (from April 1, 2020 to September 30, 2020)

The TDC SOFT Group runs an information system development business that integrates the sale of information system products with system development services spanning the whole process from development to operation and maintenance. The Group is thus classified into the single segment of information system development, and thus we have provided no statement in this section.