

(Attachment)

(Translation)

Business Report

(From January 1, 2010, to December 31, 2010)

1. Business Review

(1) Process and Results of Business Operations of the Group

During fiscal year 2010, from January 1 to December 31, the world economy continued to reflect the string of downward revisions of the global economic growth prospects in various economic indexes due to turmoil in Europe and fiscal austerity. Unemployment and consumer spending in the United States have still seen no noticeable improvement, and Europe faces a host of economic concerns regarding the Ireland and Southern European countries' debt crises. Also, there are growing concerns about the cooling of the momentum of emerging countries' economies such as China, caused by the tightening of credit in an attempt to hold down inflation. The overall state of the world economy is still uncertain and in flux.

Japan's economy has run into difficulties with a strong yen trend and a deflationary environment throughout the whole year. Though listed companies have shown improvement in their corporate earnings, the fall in the consumer price index of November marked the 21st month of consecutive declines. Moreover, "Eco-car" subsidies, etc., which helped underpin consumer spending, will end during the year. The real economy has plateaued and the Japanese economy still seems to be a long way from a clear recovery.

In the worldwide Information Technology Industry, most enterprises have been forced to greatly reduce capital spending and cut back on IT projects since the worldwide economic depression in 2008. In 2010, the industry finally saw partial improvement in IT spending, with increasing consumer demand for portable devices such as smartphones and upgrading to Windows 7 by enterprises.

The computer security industry some time ago changed its focus from mass attacks to targeted ones that have a specific purpose of monetary gain and data theft. During this time, the target of attacks has shifted from the public to specific targets on a global basis. As a result, the number of virus infections has fallen for a record three consecutive years. According to the virus infection damage incident report, Japan reported 16,908 infections during 2010, a substantial decrease from 2009 as 45,310. However, these attacks are becoming more technologically sophisticated. Web threats stemming from the Internet, which can be deployed unknowingly by the user just by opening a Web page, are still at the forefront of the threat landscape the world over, as always. In particular Gumblar, which received a great deal of media coverage in Japan in the first half of 2010, frequently attacked legitimate websites with unauthorized modifications. Also, many other incidents related to Gumblar were reported. At the center of the problems were malicious toolkits, Toolkits are programs caused by computer viruses, malicious codes, and altered websites, etc., 2010 was known as the "Year of the Toolkit." These allowed even the least technically savvy users to launch complicated attacks, thus 2010 was known as the "Year of the Toolkit." Also, as typified by the Wikileaks story that made such sensational headlines regarding the revealing of secret government documents from all over the world, a spate of incidents both domestically and overseas forced us to rethink insider security and other issues.

In such an environment, our Group business conditions are as follows:

Although it was affected by the weak recovery of IT spending, Japan achieved sustainable growth for four consecutive quarters. Both the enterprise business and consumer sales have shown positive growth. Consumer sales keep its performance well in retail sales market share since last year. As a result, total sales for this period in Japan were 42,325 million yen (a 6.5% increase from the same period in the previous year).

In North America, there was negative growth in both the consumer and enterprise businesses. In particular, the enterprise business has not performed well. In addition, the strong yen

greatly affected this region's overall sales. As a result, region sales for this period in North America showed a double-digit decrease of 22,726 million yen (a 10.3% decrease from the same period in previous year).

For the EMEA region, 18,258 million yen (a 9.5% decrease from the same period in the previous year) in total sales were generated. Though sales revenues slightly increased in terms of local currency compared to the same period last year, the influence of a sharply weaker euro negatively affected this region's sales in Japanese yen. In this region, the enterprise business unit has continued to dominate sales revenue. The future challenge is to grow the consumer business unit, which is still in its early stages of development.

In the Asia and Pacific region, Australia took a lead in sales; China also experienced double-digit growth that coincided with a slightly weak yen in this region. As the result, net sales for this period in APAC came to 9,457 million yen (12.9% increase from the same period in previous year).

In Latin America, both Brazil and Mexico performed poorly with the negative growth in even its local currency compared to the same period last year. In this region, net sales were 2,623 million yen (3.4% decreases from the same period in previous year).

As a result, the consolidated net sales for the entire year 2010 came to 95,391 million yen (a 1.0% decrease from the same period in the previous year).

Cost of sales and operating expenses totaled 71,638 million yen (an 8.2% increase from the same period in the previous year) due to a substantial increase in marketing costs related to OEM in the consumer business, etc., and an increase in salary, etc. for a growing number of employees. As a result, consolidated operating income for this period decreased to 23,752 million yen (a 21.2% decrease from the same period in the previous year). The consolidated ordinary income for this period was 23,835 million yen (a 24.8% decrease from the same period in the previous year) and the consolidated net income for this period was 12,720 million yen (a 27.9% decrease from the same period in the previous year).

(2) Capital Expenditure

The total amount of capital expenditure for the Consolidated Financial term under review was 3,936 million yen, which was invested mainly in development of new technologies and acquisition of instruments necessary to rationalize the basic operation systems including servers, PCs and peripheral devices.

(3) Financing

There are no special instructions.

(4) Issues to Deal With

In the computer security industry, which our group belongs to, there have been two competitors gaining a respectable degree of market share in the United States. In addition to our direct competitors, Microsoft Corporation, a major operating system software vendor, has entered into the security market. Moreover, recently various consolidations have taken place including M&A and acquisitions by companies from other industries, as well as new entries, etc. We anticipate that such consolidations and new entries, and their presence in the computer security market, will make the competition in the market more intense.

In response to such intense competition, we are enhancing our wide range of technologies to better combat the latest Web threats through the acquisitions of InterMute Inc. in 2005 for antispyware technologies; Kelkea Inc. in 2007 for IP filtering and reputation services; Provilla, Inc. in 2007 for data leak prevention (DLP); Identum in 2008 for email encryption technology; Third Brigade Inc. in 2009 for Host Intrusion Prevention System (HIPS); Humyo in 2010 for online storage and data synchronization services; and Mobile Armor as of this moment in 2011 for data encryption and mobile device management technology.

Through the integration of the series of acquisitions above, Trend Micro has been able since 2009 to place Trend Micro Smart Protection Network, designed to protect customers from Web threats, at the core of our provided services and products for the next generation cloud-client content security infrastructure.

Trend Micro Smart Protection Network correlates Web, email and file threat data using reputation technologies and continuously updated in-the-cloud threat databases to detect,

analyze and protect customers from the latest threats. By introducing fast, real-time security status “look-up” capabilities in-the-cloud, Trend Micro reduces dependence upon conventional pattern file downloads at the endpoint, as well as the cost and overhead associated with corporate-wide pattern deployments. Moreover, Trend Micro will shift “Protection From the Cloud” to “Protection for the Cloud,” contributing to further value. We will provide security products and services for virtualization and the cloud environment, as well as for a diverse range of internet devices. Trend Micro will strive to advance as an innovative company not constrained by out-dated practices and conventional measures. We will continue to concentrate management resources on developing original, high-performance solutions that address customer pain points faster than the competitors. At the same time, we will continue to pursue long-term growth with a stable financial foundation, strengthen our commitment to users, as well as develop marketing campaigns that target customer needs and customer buying behavior.

(5) Significant Development in Group’s after the Closing of the Consolidated Financial Term under Review

Trend Micro Inc. (U.S.A.), a U.S. subsidiary of the Company, agreed with the shareholders of Mobile Armor Inc., a U.S. Delaware company, to wholly acquire shares in the latter and completed the acquisition on February 1, 2011 (U.S. time). The acquisition cost was 29,318,000 US dollars.

(6) Business Results and Changes in Financial Conditions

Item \ Fiscal Year	The 19 th Term ended December 2007	The 20 th Term ended December 2008	The 21 st Term ended December 2009	The 22 nd Term ended December 2010
Net Sales (millions of yen)	99,805	101,707	96,346	95,391
Ordinary Income (millions of yen)	38,096	33,640	31,714	23,835
Net Income (millions of yen)	23,561	19,247	17,638	12,720
Net Income per share (in yen)	176.95	143.88	132.16	95.27
Total Assets (millions of yen)	201,052	178,766	203,887	206,099
Net Assets (millions of yen)	110,730	98,846	108,643	106,569

(7) Status of Important Subsidiaries

Company Name	Capital	Shareholding Ratio	Primary Business
Trend Micro Incorporated (Taiwan)	212,500,000 Taiwan dollars	100%	Development and sale of security-related products
Trend Micro Incorporated (U.S.A.)	477,250.67 U.S. dollars	100%	Development and sale of security-related products
Trend Micro Australia Pty. Ltd. (Australia)	150,000 Australia dollars	100%	Development and sale of security-related products
Trend Micro (EMEA) Limited (Ireland)	400,000 euros	100%	Provision of business support for subsidiaries and development and sale of security-related products

(Notes) The consolidated accounts cover all subsidiaries and affiliated companies, which consist of 28 consolidated subsidiaries including the aforementioned four important subsidiaries and three equity method affiliates.

(8) Primary Business of the Group

Development and sale of security-related software for computers and the Internet.

(9) Primary Offices of the Group

Head Office: Shibuya-ku, Tokyo

Branch Offices: Osaka Office (Yodogawa-ku, Osaka)
Fukuoka Office (Hakata-ku, Fukuoka)
Nagoya Office (Naka-ku, Nagoya)

Overseas Subsidiaries: Trend Micro Incorporated (Taiwan)
Trend Micro Incorporated. (U.S.A.)
Trend Micro Australia Pty. Ltd. (Australia)
Trend Micro (EMEA) Limited (Ireland)

(10) Employees

Name of Divisions	Number of Employees
Sales Division	963
Marketing Division	341
Product Support Division	1,337
Research and Development Division	1,458
Administration Division	747
Total	4,846

2. Status of Shares

- (1) Total Numbers of Shares authorized to be issued by the Company:
250,000,000 shares
- (2) Total Number of Outstanding Shares:
133,542,469 shares (excluding treasury stock of 6,750,535 shares)
- (3) Number of Shareholders: 6,583
- (4) The Top 10 Shareholders:

Name of Shareholders	Number of Shareholding	Shareholding Ratio(%)
Trueway Company Limited	18,418,000	13.79
The Master Trust Bank of Japan, Ltd.(Trust Account)	8,091,000	6.05
Japan Trustee Services Bank, Ltd. (Trust Account)	6,880,900	5.15
Gainway Enterprise Co., Ltd.	5,684,000	4.25
Nomura Singapore Limited Account Nominee FJ 1309	5,529,000	4.14
Chang, Ming-Jang	5,208,000	3.89
MLPFS Custody Account	4,630,177	3.46
JP Morgan Securities Japan Co., Ltd.	4,051,651	3.03
BBH FOR MATTHEWS ASIAN GROWTH AND INCOME FUND	2,832,700	2.12
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2,661,500	1.99

(Notes)

1. Numbers of shareholdings shown in the Business Report are stated with reference to those in the shareholder register.
2. The Shareholding Ratio is calculated excluding treasury stock (6,750,535 shares) and rounded to the nearest hundredths.

3. Matters Concerning Stock Acquisition Rights etc of the Company

(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term

(i) Number of stock acquisition rights

From Seventeenth to Twenty-third: 1,229

From Twenty-fourth to Twenty-sixth: 2,532

(ii) Number and Type of Shares subject to Stock Acquisition Rights

Common stock

From Seventeenth to Twenty-third: 614,500 shares

(500 shares per stock acquisition right)

From Twenty-fourth to Twenty-sixth: 253,200 shares

(100 shares per stock acquisition right)

(iii) Issue price of stock acquisition rights:

Without consideration

(iv) Total stock acquisition rights held by Directors per each issuance

	Series (Exercise Price)	Exercise Period	Number of stock acquisition rights	Number of holders
Director (Excluding an Outside Director)	Seventeenth (3,995 yen)	July 9, 2011	33	1
	Eighteenth (3,610 yen)	November 7, 2011	45	1
	Nineteenth (4,780 yen)	September 13, 2012	373	3
	Twentieth (4,240 yen)	November 25, 2012	70	2
	Twenty-first (3,500 yen)	June 30, 2013	253	3
	Twenty-second (2,580 yen)	November 18, 2013	185	3
	Twenty-third (3,080 yen)	July 1, 2014	270	3
	Twenty-fourth (3,170 yen)	November 24, 2014	742	3
	Twenty-fifth (2,346 yen)	June 30, 2015	790	3
	Twenty-sixth (2,582 yen)	November 25, 2015	1,000	2

(Note) An Outside Director and Corporate Auditors of the Company do not hold stock acquisition rights at the end of the current term.

(v) Essential Conditions for Exercise of Stock Acquisition Rights

(a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the "previous position") until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with

any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.

(b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.

(c) If stock acquisition rights are pledged or any security interest on the stock acquisition rights is established, the holder of the relevant stock acquisition rights may not exercise the same.

(Note) Above exercise conditions (c) do not apply to the Seventeenth and Eighteenth stock acquisition rights.

(2) Status of Stock Acquisition Rights Granted in the Current Term

[Twenty-fifth Stock Option (Stock Acquisition Rights)]

- (i) Number of stock acquisition rights issued: 19,788
- (ii) Number and Type of subject shares:
Common Stock: 1,978,800 shares
(100 shares per stock acquisition right)
- (iii) Issue price of stock acquisition rights:
Without consideration
- (iv) Exercise price of stock acquisition rights:
2,346 yen per share
- (v) Exercise Period
From July 1, 2011, to June 30, 2015
- (vi) Total stock acquisition rights held by holders other than Directors of the Company

	Number of stock acquisition rights	Number of holders
Employees of the Company (Excluding Directors of the Company)	1,887	244
Directors and employees of subsidiaries of the Company (Excluding Directors and employees of the Company)	17,111	1,774

- (vii) Essential Conditions for Exercise of Stock Acquisition Rights
 - (a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the "previous position") until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
 - (b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
 - (c) If stock acquisition rights are pledged or any security interest on the stock acquisition rights is established, the holder of the relevant stock acquisition rights may not exercise the same.

[Twenty-sixth Stock Option (Stock Acquisition Rights)]

- (i) Number of stock acquisition rights issued: 23,395
- (ii) Number and Type of subject shares:
Common Stock: 2,339,500 shares
(100 shares per stock acquisition right)

- (iii) Issue price of stock acquisition rights:
Without consideration
- (iv) Exercise price of stock acquisition rights:
2,582 yen per share
- (v) Exercise Period
From November 26, 2011 to November 25, 2015
- (vi) Total of stock acquisition rights held by holders other than Directors of the Company

	Number of stock acquisition rights	Number of holders
Employees of the Company (Excluding Directors of the Company)	2,126	228
Directors and employees of subsidiaries of the Company (Excluding Directors and employees of the Company)	20,269	1,866

- (vii) Essential Conditions for exercise of stock acquisition rights
 - (a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the "previous position") until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
 - (b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.
 - (c) If stock acquisition rights are pledged or any security interest on the stock acquisition rights is established, the holder of the relevant stock acquisition rights may not exercise the same.

(3) Other Important Matters concerning Stock Acquisition Rights
Status of Stock Acquisition Rights held by holders other than Directors at the end of the current term

- (i) Number of stock acquisition rights
 - From Seventeenth to Twenty-third: 20,425
 - From Twenty-fourth to Twenty-sixth: 53,066
- (ii) Type and Number of Shares subject to Stock Acquisition Rights
Common stock
 - From Seventeenth to Twenty-third: 10,212,500 shares
(500 shares per stock acquisition right)

From Twenty-fourth to Twenty-sixth: 5,306,600 shares

(100 shares per stock acquisition right)

(iii) Issue price of stock acquisition rights:

Without consideration

(iv) Total stock acquisition rights held by holders other than Directors per each issuance

	Series (Exercise Price)	Exercise Period	Number of stock acquisition rights
Employees of the Company, Directors and employees of the subsidiaries of the Company	Seventeenth (3,995 yen)	July 9, 2011	1,644
	Eighteenth (3,610 yen)	November 7, 2011	1,935
	Nineteenth (4,780 yen)	September 13, 2012	2,746
	Twentieth (4,240 yen)	November 25, 2012	1,651
	Twenty-first (3,500 yen)	June 30, 2013	3,866
	Twenty-second (2,580 yen)	November 18, 2013	4,135
	Twenty-third (3,080 yen)	July 1, 2014	4,448
	Twenty-fourth (3,170 yen)	November 24, 2014	11,673
	Twenty-fifth (2,346 yen)	June 30, 2015	18,998
Twenty-sixth (2,582 yen)	November 25, 2015	22,395	

(v) Essential Conditions for Exercise of Stock Acquisition Rights

(a) A holder of stock acquisition rights may exercise his/her stock acquisition rights only if the holder continues to be in a position as a director, auditor, employee, secondee or adviser of the Company or a subsidiary of the Company (hereinafter in this item referred to as the "previous position") until the time when the holder wants to exercise his/her stock acquisition rights. If a holder of stock acquisition rights loses the previous position, the holder may exercise his/her stock acquisition rights within 45 days from the date on which the holder loses his/her previous position. When a holder of stock acquisition rights loses his/her previous position due to physical disability or other similar cause, the holder may exercise his/her stock acquisition rights within six months from the date on which the holder loses his/her previous position. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.

(b) When a holder of stock acquisition rights dies, his/her heir may exercise the relevant stock acquisition rights within six months from the date on which the holder died only if the heir completes the procedures for the inheritance of stock acquisition rights as stipulated by the Company. If the provisions of this paragraph conflict with any compulsory provisions applicable in the country of residence of the holder, this paragraph shall not apply to the extent that such conflict arises.

(c) If stock acquisition rights are pledged or any security interest on the stock acquisition is established, the holder of the relevant stock acquisition rights may not exercise the same.

(Note) Above exercise conditions (c) do not apply to the Seventeenth and Eighteenth stock acquisition rights.

4. Matters Concerning Directors and Corporate Auditors in the Company

(1) Directors and Corporate Auditors

(As of December 31, 2010)

Name	Title in the Company and the Group	Significant Job Titles at Other Organizations
Chang Ming-Jang	Chairman and Representative Director	
Eva Chen	President and Representative Director/ CEO of Trend Micro Group	
Mahendra Negi	Representative Director/ COO & CFO of Trend Micro Group	
Akihiko Omikawa	Director, General Manager Japan, LAR, APAC Region, Global Marketing	
Hiroataka Takeuchi	Director	Professor, Harvard Business School
Fumio Hasegawa	Full-time Corporate Auditor	
Yasuo Kameoka	Corporate Auditor	Managing Partner and Representative Partner, Taiko Auditing Firm
Koji Fujita	Corporate Auditor	Attorney at Law, Okuno & Partners
Motohide Tanikawa	Corporate Auditor	

- (Notes)1. At the 21st Ordinary General Meeting of Shareholders held on March 26, 2010, Mr. Motohide Tanikawa was elected and assumed the position of Corporate Auditor.
2. Mr. Akihiko Omikawa, Director, previously General Manager Japan Region, Global Solution Business, Global Consumer & Small Business, was appointed, effective February 1, 2010, as General Manager responsible for both Sales Promotion in the Japan & Asia and Latin American Regions, and supervisor of the Global Marketing Control Division.
 3. Mr. Hiroataka Takeuchi, Director, was the Dean of the Graduate School of International Corporate Strategy, Hitotsubashi University, until March 2010, and has been a professor at the Harvard Business School since July 2010.
 4. Mr. Hiroataka Takeuchi, Director, is an outside director under Article 2, item 15 of the Companies Act.
 5. All four Corporate Auditors are outside auditors under Article 2, item 16 of the Companies Act.
 6. Mr. Fumio Hasegawa and Mr. Motohide Tanikawa, Corporate Auditors, both have many years of experience in finance and accounting matters. Mr. Yasuo Kameoka, Corporate Auditor, is a qualified and experienced certified public

accountant. Mr. Koji Fujita, Corporate Auditor, is an attorney with experience in corporate rehabilitation and corporate legal affairs. All have appropriate knowledge regarding finance and accounting matters.

7. Mr. Hirotaka Takeuchi, Director, was the Dean, Graduate School of International Corporate Strategy, Hitotsubashi University, until March 2010 and, as head of the school, entered into a “memorandum on scholarships for foreign students” with the aim of the Company donating 1.75 million yen each year for the purpose of supporting foreign students. The corresponding agreement was completed in August 2010.
8. The Company has designated all Outside Directors and Outside Corporate Auditors as independent directors/corporate auditors upon whom the Tokyo Stock Exchange imposes the obligation of designation, and who are unlikely to cause conflicts of interest with general shareholders, and it has filed such designation with the said Exchange.

(2) Remuneration, etc. Paid to Directors and Corporate Auditors

Category	Number of persons	Amount of remuneration	Remarks
Director	5	299 (Yen in millions)	Our one outside director received 4 million yen.
Corporate Auditor	4	19 (Yen in millions)	All four Corporate Auditors are outside auditors.

(Notes) Remunerations paid to Directors include the amount of 158 million yen of stock options granted to Directors. (This does not apply to outside directors.)

(3) Matters concerning Outside Directors and Outside Auditors

(i) Relationships between the Company and another Company where a Director holds a Significant Position

Mr. Hirotaka Takeuchi, Director, was the Dean, Graduate School of International Corporate Strategy, Hitotsubashi University, until March 2010 and, as head of the school, entered into a “memorandum on scholarships for foreign students” with the company, with the aim of the company donating 1.75 million yen each year for the purpose of supporting foreign students. The corresponding agreement was completed in August 2010.

The Company does not have any special relationships with any of the companies where Outside Directors and Outside Corporate Auditors hold a significant position described in “(1) Directors and Corporate Auditors” other than above.

(ii) Principal Activities of the Outside Director and Outside Auditors during the Term under Review

Name	Attendance and Comments at the Meetings of the Board of Directors and the Meetings of the Board of Corporate Auditors
Hirotaka Takeuchi (Director)	Attended 8 out of 9 meetings of the Board of Directors. He made comments as needed based on his expert knowledge on marketing, competition strategy, international business and knowledge management.
Fumio Hasegawa (Full-time Corporate Auditor)	Attended all 9 meetings of the Board of Directors and all 14 meetings of the Board of Corporate Auditors. He raised questions or expressed opinions when necessary in order to ensure the adequacy and appropriateness in making decisions at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experience in finance and accounting matters over the years as a full-time Corporate Auditor.
Yasuo Kameoka (Corporate Auditor)	Attended all 9 meetings of the Board of Directors and all 14 meetings of the Board of Corporate Auditors. He raised questions or expressed opinions when necessary in order to ensure the adequacy and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his expert knowledge as a certified public accountant.
Koji Fujita (Corporate Auditor)	Attended 8 out of 9 meetings of the Board of Directors and 10 out of 14 meetings of the Board of Corporate Auditors. He raised questions or expressed opinions when necessary in order to ensure the adequacy and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors mainly based on his expert knowledge as an attorney.
Motohide Tanikawa (Corporate Auditor)	Attended all 7 meetings of the Board of Directors held since he took office as a Corporate Auditor and all 9 meetings of the Board of Corporate Auditors held since he took office as a Corporate Auditor. He raised questions or expressed opinions when necessary in order to ensure the adequacy and appropriateness in making decisions at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experiences in finance and accounting matters over the years.

(iii) Summary of Limited Liability Agreement

As long as Directors and Corporate Auditors perform their duties in good faith and without gross negligence with respect to the liabilities set out in Article 423, paragraph 1 of the Companies Act, the outside Director, the Full-time Corporate Auditor and the part-time Corporate Auditors shall, in accordance with the limited liability agreement executed between the Company and Mr. Hirotaka Takeuchi and between the Company and all four Corporate Auditors, be liable for up to 10 million yen, 20 million yen and 4.8 million yen respectively or the minimum liability amount prescribed by law, whichever of these amounts is the higher.

5. Status of Accounting Auditor

- (1) Name of the Accounting Auditor of the Company
KPMG AZSA LLC

(Note) KPMG AZSA & Co. changed its name to KPMG AZSA LLC when it converted to a limited liability audit corporation on July 1, 2010.

- (2) Remuneration, etc. Paid to Accounting Auditor

(Millions of yen)

(i)	Amount of fees and charges paid to accounting auditors for the term under review	94
(ii)	Total amount of cash and other financial benefits payable by the Company and its subsidiaries	94

- (Notes)
1. As the audit fees under the Companies Act and those under the Financial Instruments and Exchange Act are not separated for the purpose of the audit contract executed between the Company and the accounting auditors and are impractical to separate, the amount specified in (i) above is indicated as the total amount of audit fees payable under both laws.
 2. Three of the important subsidiaries of the Company are audited by certified public accountants or audit corporations other than the Accounting Auditor of the Company (including qualified persons equivalent thereto in foreign countries) .

- (3) The policy regarding decisions on the dismissal or discontinuance of re-election of an accounting auditor

If the Accounting Auditor is deemed to fall under any of the items prescribed in Article 340, paragraph 1 of the Companies Act, the Accounting Auditor will be dismissed by the Board of Corporate Auditors pursuant to the unanimous consent of the Corporate Auditors.

In addition to the above, if it is deemed difficult for the Accounting Auditor to carry out their proper execution of duties, in consideration of the length of their continuous years of service and of other factors, the Board of Directors will submit a proposal for dismissal or discontinuance of re-election of the Accounting Auditor on the Agenda of the Shareholders Meeting upon agreement or request of the Board of Corporate Auditors.

6. Systems and Policies of the Company

Basic policies of the Company's systems to ensure the appropriateness of actions of the Company's Directors

- (1) A system to retain and manage information regarding execution of operations by the directors
 - i) Information on the execution of operations by the directors must be retained appropriately, managed, and be in a highly searchable state, depending on the recording media, based on the Confidential Matter Control Regulations, the Confidential Matter Control Guidelines and other internal regulations, and it must be kept in a state that permits the directors and the Corporate Auditors to access it at any time. The storage period should be that required by law if such legal requirements exist, and if not, for the period required by the Regulations on the Handling of Documents.
 - ii) The protection and storage of information in the information system shall comply with the Information System Control Regulations.

- (2) A system concerning regulations regarding risk and loss management
 - i) The Company recognizes risk regarding our products and services, and risk regarding the Company's infrastructure, as risks related to the execution of the operations of our company. The Company will establish a system to identify and manage such risks, as well as a system to place persons in charge of managing such risks.
 - ii) The Company will establish the Compliance Security Committee, chaired by the Representative Director, as an organization to manage and control compliance and the risk control system.
 - iii) Leaks, theft, loss, damage, and illegal alteration of information would bring enormous loss of trust and damage to our company. Therefore, the Company shall manage such risks based on the Information System Control Regulations, the Confidential Information Control Regulations, the Risk Management Guideline, the Personal Information Protection Regulations, and other regulations.
 - iv) In the event that an incident occurs, an emergency operations team (SWAT team) shall be established, with the Director for the Japan Region as the risk manager, to take swift action, and it shall establish a system to prevent and minimize the spread of damage, including to clients.

- (3) A system to ensure efficient execution of operations by directors
 - i) As the basis for a system to ensure efficient execution of operations by the directors, a board of directors' meeting shall be held at least once every three months, and at any other appropriate time when considered necessary. As for important matters relating to management policies and management strategies of the Company, their execution shall be determined by reference to the results of discussions at the Executive Meetings held every quarter, as well as in the periodical budget review process.
 - ii) As for the execution of operations based on decisions of the board of directors, the person in charge, their responsibilities, and the details of execution procedures shall be established by the Administrative Authority Regulations and the Regulations Regarding Executives.

- (4) A system to ensure that execution of operations by directors and employees meet relevant regulations and the Articles of Incorporation
- i) As a basis for the compliance system, a Code of Conduct, Regulations Regarding Executives, Regulations on Insider Trading, and Personal Information Protection Regulations shall be established.

A Compliance Security Committee has been established, headed by the Representative Director, and it shall maintain and improve the Internal Control System. Each division shall also establish guidelines and training as necessary.

- ii) An Internal Control Manager, responsible for the maintenance and promotion of the Internal Control System, shall be appointed, and members in charge of the Internal Control System practices headed by the Internal Control Manager shall be appointed from time to time.
 - iii) In the event that any director finds a serious breach of law or a significant lapse in compliance in the Company, he or she shall immediately report it to the Corporate Auditors, and shall also report it to the board of directors without delay.
 - iv) Based on the Whistle-blowing Report Procedures, which are regulations establishing internal notification and reporting systems regarding breaches of law and other compliance matters, the Human Resources Division and Internal Audit Department shall be responsible for the operation of said systems. The existence or the non-existence of relevant facts and their contents shall be gathered and reported to the CEO, CFO, and Corporate Auditors every quarter by the Internal Auditor. However, when it is deemed urgent, it shall be reported to them immediately.
 - v) In the event that any corporate auditor determines that there is a problem with the legal compliance system and the execution of the Whistle-blowing Report Procedures of the Company, he or she shall state such opinion, and the establishment of remedial plans may be required.
- (5) A system to ensure appropriate operations of the corporate group consisting of the Company and its subsidiaries
- i) To ensure proper operation of the group companies, the Code of Conduct and Whistle-blowing Report Procedures shall apply to all group companies in the same way as applied to the Company. In addition, the Company shall request the corporate group to establish an organization to identify and manage risks related to the execution of operations.
As for management control, Affiliated Companies Control Regulations, Finance Control and Signature Authorization Regulations shall be established, thus enabling management control of subsidiaries authorized by and reporting to our company. Management shall also monitor the discussions of the Executive meetings held every quarter and the periodical budget review process as necessary. .
In the event that any director finds a breach of law or any other important compliance issues with group companies, he or she shall immediately report it to the Corporate Auditors and the Board of Directors.
 - ii) To ensure the reliability of financial reporting by the Company and group companies, the establishment and operation of internal controls relating to financial reporting shall be promoted.

- iii) In the event that any of the subsidiaries determines that the management control and management guidance of the Company breaches any law or constitutes problems in compliance, it shall report it to the Internal Auditor.
Immediately upon receiving such a report, the Internal Auditor shall report to the Corporate Auditors and the directors, and he or she may state his or her opinion. Upon receiving such a report, the Corporate Auditor shall state an opinion to the directors, and the establishment of remedial plans may be required.
 - iv) The Internal Auditor shall from time to time visit subsidiaries and monitor their operations.
- (6) A System concerning employees who assist the Corporate Auditors when required and their independence from the directors
- i) In the event that a corporate auditor requires the company to appoint employees (hereafter referred to as “Auditing Staff”) to assist with his or her duties, the Company shall consult with the Corporate Auditor and provide Auditing Staff from among the employees of the Company.
In the case where an Auditing Staff is established, personnel transfer, personal evaluation and other matters with respect to the Auditing Staff shall be determined with the wishes of the Corporate Auditor in mind, thus ensuring independence from the directors.
 - ii) In the event that a corporate auditor so requires, he or she may request employees to conduct specific audit tasks, with notice given to the superiors of such employees. In this case, employees who receive such a request shall report to the Corporate Auditors, irrespective of the chain of command of regular employment.
- (7) A system for directors and employees to report to corporate auditors, other systems for reporting to corporate auditors, and a system for ensuring effective auditing by corporate auditors
- i) The directors shall report the following to the Corporate Auditors:
 - ① Matters resolved at the Executive Meetings;
 - ② Matters that might cause significant damage to the Company;
 - ③ Important matters regarding management;
 - ④ Important matters regarding audit, and the establishment and operation of internal control and risk control;
 - ⑤ Serious breach of law or the Articles of Incorporation;
 - ⑥ Matters regarding changes or introduction of accounting policies; and
 - ⑦ Other important compliance matters.

Furthermore, in the event that an employee finds important matters regarding ②, ⑤ and ⑦ above, he or she may report to the Corporate Auditors directly.
 - ii) By maintaining proper implementation of the Code of Conduct and the Whistle-blowing Report Procedure, the Company shall ensure a proper reporting system for breaches of law and other issues, in compliance with the Corporate Auditors.

- iii) The full-time corporate auditors shall attend the board of directors' meetings and important meetings such as the meetings of the Compliance Security Committee and the Executive Meetings in order to grasp the important decision-making processes and the execution of operations. They may also review approval documents and important documents regarding the execution of operations, require the directors and employees to provide explanations if necessary, and state their opinions.
- iv) The Representative Director shall establish a forum to exchange opinions with corporate auditors periodically, thus promoting communication.
- v) In the event that a corporate auditor determines that it is necessary in order to carry out his or her duties, he or she may ask for the opinions of professionals such as attorneys and certified public accountants, and their expenses shall be borne by the Company.

(Notes) The amounts stated in this Business Report are rounded downward to the nearest stated unit.

(1) Consolidated Balance Sheet

(As of December 31, 2010)

(Yen in millions)

Account	Amount
<Assets>	
Current assets	162,249
Cash and bank deposits	73,960
Notes and accounts receivable, trade	22,306
Marketable securities	42,795
Inventories	550
Deferred tax assets	18,831
Others	4,077
Allowance for bad debt	-272
Non-current assets	43,850
Property and equipment	5,848
Office furniture and equipment	4,551
Others	1,296
Intangibles	8,113
Software	5,926
Goodwill	1,520
Others	665
Investments and other non-current assets	29,888
Investment securities	17,287
Investments in subsidiaries and affiliates	348
Deferred tax assets	10,539
Others	1,711
Total assets	206,099

(Yen in millions)

Account	Amount
<Liabilities>	
Current liabilities	76,376
Accounts payable and Notes payable, trade	724
Accounts payable, other	4,939
Accrued expenses	5,810
Accrued income and other taxes	6,124
Allowance for bonuses	638
Allowance for sales return	621
Deferred revenue	55,328
Others	2,189
Long-term liabilities	23,153
Deferred revenue	21,106
Allowance for retirement benefits	1,717
Others	328
Total liabilities	99,530
<Net assets>	
Shareholders' equity	109,988
Common stock	18,386
Additional paid-in capital	21,111
Retained earnings	92,324
Treasury stock, at cost	-21,834
Valuation and translation adjustment	-12,200
Net unrealized gain(loss) on debt and equity securities	-3,814
Foreign currency translation adjustment	-8,385
Stock acquisition right	8,734
Minority interest	46
Total net assets	106,569
Total liabilities and net assets	206,099

(2) Consolidated Profit and Loss Statement

(From January 1, 2010 to December 31, 2010)

(Yen in millions)

Account	Amount	
Net Sales		95,391
Cost of sales		16,726
Gross profit		78,664
Selling, general and administrative expense		54,912
Operating income		23,752
Non-operating income		
Interest income	1,338	
Gain on sales of marketable securities	3	
Equity in earnings of affiliated companies	15	
Others	86	1,443
Non-operating expenses		
Interest expenses	2	
Foreign exchange loss	1,068	
Others	288	1,360
Ordinary income		23,835
Extraordinary gain:		
Refundment of placement fee	226	226
Extraordinary losses:		
Devaluation loss on investment securities	662	
Legal settlement	553	1,215
Net income before taxes		22,846
Income taxes current	13,483	
Income taxes deferred	-3,395	10,088
Minority interest in income of consolidated subsidiaries		37
Net income		12,720

(3) Consolidated Statement of Changes in Shareholders' Equity Etc.

(From January 1, 2010 to December 31, 2010)

(Yen in millions)

	Shareholders' equity				
	Common stock	Additional paid in Capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2009	18,386	21,108	91,748	-22,128	109,115
Movement for this period					
Dividend of surplus			-12,144		-12,144
Net income			12,720		12,720
Sales of treasury stock		3		294	297
Purchase of treasury stock				-0	-0
Movement for this period excluding shareholders' equity					
Total movement		3	576	294	873
Balance as of December 31, 2010	18,386	21,111	92,324	-21,834	109,988

	Valuation and translation adjustment		Stock acquisition right	Minority interest	Total net assets
	Net unrealized gain (loss) on debt and equity securities	Foreign currency translation adjustment			
Balance as of December 31, 2009	-1,818	-4,773	6,110	9	108,643
Movement for this period					
Dividend of surplus					-12,144
Net income					12,720
Sales of treasury stock					297
Purchase of treasury stock					-0
Movement for this period excluding shareholders' equity	-1,996	-3,612	2,624	37	-2,946
Total movement	-1,996	-3,612	2,624	37	-2,073
Balance as of December 31, 2010	-3,814	-8,385	8,734	46	106,569

Notes to the Consolidated Financial Statements

(Notes on Important Points in the Preparation of the Consolidated Financial Statements)

1. Matters Concerning the Scope of Consolidation

- (1) Number of Consolidated Subsidiaries: Twenty eight (28)
- (2) Names of Major Subsidiaries

Company Name	
Trend Micro Incorporated	(Taiwan)
Trend Micro Incorporated	(U.S.A)
Trend Micro Australia Pty. Ltd.	(Australia)
Trend Micro (EMEA) Limited	(Ireland)

- (3) The Company has no unconsolidated subsidiaries.

2. Matters Concerning Application of Equity Method

- (1) Number of the Affiliate Companies to which the equity method has been applied: Three
- (2) Names of the affiliate companies to which the equity method has been applied:
Soft Trend Capital Corporation, Net STAR, Inc. and Cloud Trend Corporation
- (3) There is no other affiliate company to which the equity method has not been applied.

3. Matters Concerning the Accounting Standards

- (1) Accounting for evaluation of material assets

(i) Securities

Available-for-sale with market value:

The securities are stated using the market value method based on the value at the end of the period (valuated differences are recognized in equity directly. Cost of selling is determined by the moving average method.)

Available-for-sale without market value:

Cost basis by moving average method

Investments in investment limited partnerships and equivalent partnerships (ones considered as securities as stipulated under Article 2, paragraph 2 of the Financial Instruments and Exchange Act) are calculated on a net equity partnership basis based on the latest closing statements available depending on the financial reporting date stipulated in the partnership agreement.

(ii) Inventories:

Cost basis by moving average method

Unprofitable inventories are devaluated

(2) Depreciation or Amortization method for fixed assets

Property and equipment (excluding lease assets)

Mainly, depreciation is computed using the declining-balance method in the parent company and is computed by the straight-line method in consolidated subsidiaries. Useful life of the main property and equipment is as follows:

Office furniture and equipment: mainly 2 – 10 years

Intangibles

<Software for sale>

Straight-line method over the estimated useful life (12 months).

<Software for internal use>

Straight-line method over the estimated useful life (mainly 5 years).

<Other intangibles>

Straight-line method over the estimated useful life

Lease assets

Lease assets arising from non-ownership-transfer finance leases

The Company has applied the Straight-line method, which assumes that useful life is equal to the lease period and that estimated residual value is zero. The conventional accounting treatment still applies to non-ownership-transfer finance leases that commenced before the starting date for applying the new revised accounting standard for lease transactions (ASBJ Statement No.13).

(3) Accounting policies for allowances

Allowance for bad debt

In order to provide a reserve against future losses from default of notes and accounts receivable, bad debt provision is provided. The amount is determined using the percentage based on actual doubtful account loss against the total of debts. As for high-risk receivables, expected unrecoverable amount is considered individually.

Allowance for bonuses

Bonuses for employees are provided at an estimate of the amount.

Allowance for sales return

In order to provide a reserve against future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on past experience of the sales return rate.

Allowance for retirement benefits

In order to provide a reserve against future employees' retirement benefits, allowance for retirement benefits is provided based on retirement benefit liabilities and pension assets projected at the end of the period.

Actuarial difference is expensed in the following accounting period on a pro rata basis for certain years not exceeding the average remaining services years (1 to 24 years) of employees at the time of occurrence of such difference.

(4) Policy for translation of major foreign currency assets and liabilities into Yen

Foreign currency denominated receivables and payables are translated into Japanese yen at period-end rates of exchange and the resulting foreign currency translation adjustments are taken into account in regards to profits and losses.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at period-end spot exchange rates and all income and expense accounts are translated at the average exchange rate. The resulting translation adjustments are included in foreign currency translation adjustment and minority interest.

(5) Revenue Recognition Policy

Sales recognition policy for PCS

The product license agreement contracted with the end-user contains provisions concerning PCS (customer support and upgrading of products and their pattern files). The Company applies the following revenue recognition method for the share of PCS revenue.

PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.

(6) Consumption tax

Accounting subject to consumption tax is stated at the amount net of the related consumption tax.

(7) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are measured at fair value.

(8) Amortization of Goodwill

Goodwill is amortized evenly over the appropriate period, not exceeding 20 years.

(9) All the amounts shown in yen in this document have been expressed in the unit of one million (1,000,000) yen, with any amount less than such unit being disregarded.

(Changes in accounting policy)

1. Accounting standard for retirement benefits

The Company has applied "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No.19 2008 July 31st). It has no impact on operating income, ordinary income, or net income before income tax.

2. Change in accounting principles of stock compensation expense

The Company treated a part of stock compensation expense as "Cost of sales" until fiscal 2009, however, from fiscal 2010, we treat all stock compensation expense as "Selling, general & administrative expense". This expense is not directly related to the cost accounting calculation based on the cost sharing contract started from fiscal 2010. The effect of this change is immaterial.

(NOTES TO THE CONSOLIDATED BALANCE SHEET)

Accumulated depreciation of property and equipment: 8,393 million yen

NOTES TO THE CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY)

1. The Type and Number of Equity Shares Outstanding as of the End of the Consolidated Fiscal Term:

Common stock	140,293,004 shares
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2. Matters Concerning Dividends Paid out of the Surplus during the Consolidated Fiscal Term

The resolution	The annual shareholders meeting held on 26 March, 2010
The type of equity shares	Ordinary shares
The total amount of dividends paid	12,144 million yen
The amount of dividend paid per share	91.00 yen
The record date	31 December 2009
The effective date	29 March 2010

3. The Dividend Whose Record Date falls in the Consolidated Fiscal Term and Whose Effective Date falls in the Next Consolidated Fiscal Term

The Resolution	The annual shareholders meeting held on 25 March, 2011
The type of the equity shares	Ordinary shares
The source of dividend payment	Income surplus
The total amount of dividends paid	9,347 million yen
The amount of dividend paid per share	70.00 yen
The record date	31 December 2010
The effective date	28 March 2011

4. The Type and the Number of Shares to be Issued or Transferred upon Exercise of Stock Acquisition Rights (Excluding Those of Which the Exercise Period Has not Commenced) as of the End of the Consolidated Fiscal Term

Ordinary shares	12,068,500 shares
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(NOTES TO FINANCIAL INSTRUMENTS)

1. Matters concerning financial instruments

- (1) Policies for financial instruments

The Group primarily makes it a policy to use its own money to finance the working capital and equipment funds, in which any surplus funds are invested in financial instruments with higher degrees of safety, while derivative transactions are basically excluded.

- (2) Details of financial instruments and associated risks

Notes and accounts receivable, trade, are exposed to the credit risks associated with extending credit to customers. Foreign currency denominated trade receivables and payables are exposed to foreign currency exchange fluctuation risks. Marketable securities and investment securities are debt securities, etc., even those of financial institutions with superior creditworthiness, and are exposed to market price fluctuation risks as well as foreign currency exchange fluctuation risks. Payables such as accounts

payable, trade, accounts payable, other, accrued expenses and accrued income and other taxes are largely due within one year.

(3) Risk management structure for financial instruments

- (i) Credit risk management (risks associated with the default etc., of business counter-parties)

Regarding the trade receivables, the Company and each of its subsidiaries are regularly monitoring the financial position of major business counter-parties, such as clients, by checking the due date and balance for each business transaction, to ensure earliest possible identification and mitigation of the potential bad debt associated with the deterioration of their financial position.

- (ii) Market risk management (including risks associated with foreign currency exchange and interest rate fluctuation)

To manage risks involving fluctuations in the market price of marketable securities and investment securities, the Company is regularly monitoring their market prices as well as the financial positions of their issuers (clients and other business connections).

- (iii) Liquidity risk management on fund raising (risk of the Company being unable to repay within the due date)

To manage and mitigate liquidity risks, a cash management plan is prepared and updated by the Administration Division when appropriate, while reasonable liquidity on hand is maintained at all time.

(4) Supplementary explanation concerning fair values, etc. of financial instruments

Fair values of financial instruments comprise values based on market prices, and reasonably calculated values if there is no market price. Such calculated values involve certain variable factors and thus may vary depending on the different assumptions.

2. Matters concerning fair values of financial instruments

Consolidated balance sheet amounts, fair values and the differences therein as of December 31, 2010, (fiscal year end) are as follows.

(Yen in millions)

	Consolidated balance sheet amounts	Fair values	Differences
(1) Cash and bank deposits	73,960	73,960	—
(2) Notes and accounts receivable, trade	22,306	22,306	—
(3) Marketable securities and investment securities	57,846	57,846	—
Total assets	154,114	154,114	—
(1) Accounts payable and Notes payable, trade	724	724	—
(2) Accounts payable, other	4,939	4,939	—
(3) Accrued expenses	5,810	5,810	—
(4) Accrued income and other taxes	6,124	6,124	—
Total liabilities	17,598	17,598	—

(Notes) 1. Matters concerning the methods for calculating fair value of financial instruments and the transactions of marketable securities

Assets

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

These assets are recorded at book values as their fair values approximate book values because of their short-term maturities.

(3) Marketable securities and investment securities

With regard to these assets, fair values of shares are based on the market prices quoted on stock exchanges, while those of bonds are based on the market prices quoted on stock exchanges or obtained from the relevant financial institutions.

Liabilities

(1) Accounts payable and Notes payable, trade, (2) Accounts payable, other, (3) Accrued expenses, (4) Accrued income and other taxes

These liabilities are recorded at book values as their fair values approximate book values because of their short-term maturities.

2. As it is believed to be extremely difficult to determine the fair values of unlisted equity securities and bonds (with a consolidated balance sheet amount of 2,237 million yen), which have no market prices and for which estimation of future cash flows is impossible, these items are not included in “(3) Marketable securities and investment securities.”

(Additional information)

Effective from this fiscal year, the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10; March 10, 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Statement Guidance No. 19; March 10, 2008) have been applied.

(NOTES ON PER SHARE INFORMATION)

- | | |
|---|------------|
| 1. The net assets per share: | 732.26 yen |
| 2. The net income for the term per share: | 95.27 yen |

(NOTES ON MATERIAL SUBSEQUENT EVENTS)

Regarding the stock acquisition of Mobile Armor Inc.:

Trend Micro Incorporated (U.S.A) has agreed with the shareholders of Mobile Armor Inc. to purchase all issued shares and complete acquisition of the shares on February 1, 2011 (U.S. time).

1. Purpose
In order to provide comprehensive data protection by adding the technologies of Mobile Armor to our products
2. The name of the shareholder company
Dolphin Equity Partners, L. P. (the representative in the acquisition agreement) & 12 other shareholders.
3. The name of the acquired company, business and company statistics
 - (1) The name of the acquired company : Mobile Armor Inc.
 - (2) Business : Data encryption for portable digital devices
 - (3) Company statistics
For fiscal year ended December 31, 2009
Sales : 3,051 thousand US dollars
Total Assets : 1,877 thousand US dollars
4. Date of stock purchase
February 1, 2011
5. The number of purchased shares, prices and ownership ratio after acquisition
 - (1) The number of purchased shares
Common Stock 1,246,216
Preferred stock SeriesA 17,723,968
Preferred stock SeriesB 2,215,496
 - (2) Acquisition price : 29,318 thousand US dollars
 - (3) Ownership ratio after acquisition: 100%
6. Fund-raising
Trend Micro Incorporate (U.S.A) has allocated funds-in-hand for this acquisition.

(OTHER NOTES)

N/A

Balance Sheet

(As of December 31, 2010)

(Yen in millions)

Account	Amount	Account	Amount
<Assets>		<Liabilities>	
Current assets	105,999	Current liabilities	46,589
Cash and bank deposits	33,390	Accounts payable, trade	124
Accounts receivable, trade	11,955	Account payables, other	10,637
Marketable securities	40,972	Accrued expenses	187
Finished goods	106	Accrued corporate tax and others	5,934
Raw materials	23	Accrued consumption taxes	265
Supplies	41	Deposits received	50
Prepaid expenses	77	Allowance for sales return	391
Deferred tax assets	16,508	Deferred revenue	28,942
Other receivables	2,952	Others	55
Others	99	Non-current liabilities	16,924
Allowance for bad debt	-130	Deferred revenue	15,583
Non-current assets	33,843	Long-term accounts payable	9
Tangible fixed assets	666	Allowance for retirement benefits	1,331
Buildings	679	Total liabilities	63,514
Office furniture and equipment	1,181	<Net assets>	
Accumulated depreciation	- 1,228	Shareholders' equity	71,406
Construction in progress	33	Common stock	18,386
Intangibles fixed assets	4,475	Capital surplus	21,111
Software	3,298	Additional paid-in capital	21,108
Software in progress	877	Other Capital surplus	3
Others	299	Retained earnings	53,742
Investments and other non-current assets	28,702	Legal reserve	20
Investments in securities	17,212	Accumulated profit	53,722
Investments in subsidiaries and affiliates	2,175	Retained earnings carried forward	53,722
Investments in capital of affiliates	7		

Security deposits	802	Treasury stock	-21,834
Memberships	4	Valuation and translation adjustment	-3,813
Deferred tax assets	8,552	Unrealized gain on available for sale securities	-3,813
Allowance for loss on investments in subsidiaries and affiliates	-53	Stock acquisition rights	8,734
		Total net assets	76,328
Total assets	139,842	Total liabilities and net assets	139,842

Profit and Loss Statement

(From January 1, 2010 to December 31, 2010)

(Yen in millions)

Account	Amount	
Sales Revenue		
Sales	42,235	
Royalty	12,727	54,962
Cost of sales		9,566
Gross profit		45,396
Selling, general and administrative expense		21,046
Operating income		24,349
Non-operating income		
Interest income	8	
Interest on marketable securities	367	
Dividend income	8	
Global system income	56	
Others	30	472
Non-operating expense		
Foreign exchange loss	491	
Global system expense	195	
Others	115	803
Ordinary income		24,018
Extraordinary gain:		
Refundment of placement fee	226	226
Extraordinary loss:		
Reversal of Allowance for Investment loss	31	
Devaluation loss on investment in securities	662	
Legal settlement	553	1,246
Net income before taxes		22,998
Income tax current		12,101
Income tax deferred		-2,074
Net income		12,971

Statement of Changes in Shareholders' Equity, Etc.

(From January 1, 2010 to December 31, 2010)

(Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus		Accumulated earnings	
		Additional paid-in capital	Other Capital surplus	Legal reserve	Accumulated profit
					Retained earnings carried forward
Balance as of December 31, 2009	18,386	21,108	-	20	52,895
Movement for this period					
Dividend of surplus					-12,144
Net income					12,971
Sales of treasury stock			3		
Purchase of treasury stock					
Movement for this period excluding shareholders' equity					
Total movement	-	-	3	-	827
Balance as of December 31, 2010	18,386	21,108	3	20	53,722

	Shareholders' equity		Revaluation surplus	Stock acquisition right	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gain on available for sale securities		
Balance as of December 31, 2009	-22,128	70,282	-1,815	6,110	74,576
Movement for this period					
Dividend of surplus		-12,144			-12,144
Net income		12,971			12,971
Sales of treasury stock	294	297			297
Purchase of treasury stock	-0	-0			-0
Movement for this period excluding shareholders' equity			-1,997	2,624	626
Total movement	294	1,124	-1,997	2,624	1,751
Balance as of December 31, 2010	-21,834	71,406	-3,813	8,734	76,328

Notes to unconsolidated financial statements

(SIGNIFICANT ACCOUNTING POLICIES)

1. Accounting for evaluation of assets

(1) Securities

Investments in subsidiaries and affiliates.

Cost basis by moving average method

Other securities

Available-for-sale with market value:

The securities are stated using the market value method based on the value at the end of the period. (Valuated differences are recognized in equity directly. Cost of selling is determined by the moving average method.)

Available-for-sale without a market value:

Cost basis by moving average method

Investments in investment limited partnerships and equivalent partnerships (ones considered as securities as stipulated under Article 2, paragraph 2 of the Financial Instruments and Exchange Act) are calculated on a net equity partnership basis based on the latest closing statements available depending on the financial reporting date stipulated in the partnership agreement.

(2) Inventories

Product · Raw materials · Stores Cost basis by moving average method

Unprofitable inventories are devaluated

2. Depreciation and amortization method for fixed assets

Tangible fixed assets (excluding lease assets) Declining-balance method

Buildings (excluding facilities and leasehold improvement) acquired on or after April 1, 1998, are depreciated using the straight-line method.

Useful life of the main property and equipment is as follows:

Buildings:	3 – 28 years
Office furniture and equipment:	mainly 2 – 10 years

Intangibles

<Software for sale>

Straight-line method over the estimated useful life (12 months).

<Software for internal use>

Straight-line method over the estimated useful life (mainly 5 years).

<Other intangibles>

Straight-line method over the estimated useful life

Lease assets

Lease assets arising from non-ownership-transfer finance leases

The Company has applied a straight-line method, which assumes that a useful life is equal to the lease period and that an estimated residual value is zero. The conventional accounting treatment still applies to non-ownership-transfer finance leases that commenced before the starting date for applying a new revised accounting standard for the lease transactions (ASBJ Statement No.13).

3. Accounting policies for allowances

Allowance for bad debt	In order to provide reserves against future losses from default of notes and accounts receivable, a bad debt provision is provided. The amount is determined using a percentage based on the actual doubtful account loss against the total of debts. As for high-risk receivables, the expected unrecoverable amount is considered individually.
Allowance for loss on investments in subsidiaries and affiliates	In order to provide reserves against future loss from investments in subsidiaries, estimated loss from investments in subsidiaries is provided based on an examination of the relevant subsidiary's financial condition and expected recoverability.
Allowance for bonuses	Bonuses for employees are provided at an estimate of the amount Allowance for bonuses is not provided during this fiscal year.
Allowance for sales returns	In order to provide reserves against future losses from sales return subsequent to the fiscal year end, allowance for sales returns is provided based on past experience with the sales return rate.
Allowance for retirement benefits:	In order to provide reserves against future losses arising from the retirement of employees, allowance for retirement benefits recognized to have been incurred at the end of the period is provided based on retirement benefit liabilities projected at the end of the period. Actuarial difference is recognized in the following fiscal year.

4. Revenue Recognition Policy

Sales recognition policy for PCS

The product license agreement contracted with the end-user contains provisions concerning PCS (customer support and upgrading of products and its pattern files). The Company applies the following revenue recognition method for the share of PCS. PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.

5. Consumption tax

Accounting subject to consumption tax is stated at the net amount of the related consumption tax.

6. All the amounts shown in yen in this document have been expressed in the unit of one million (1,000,000) yen with any amount less than such unit being disregarded.

(Changes in accounting policy)

(1) Accounting standard for retirement benefits

The Company has applied "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No.19 2008 July 31st). It has no impact on operating income, ordinary income or net income before income tax.

(2) Change in accounting principles for stock compensation expense

The Company treated a part of stock compensation expense as "Cost of sales" until fiscal 2009, however, from fiscal 2010, we treat all stock compensation expense as "Selling, general & administrative expense". This expense is not directly related to the cost accounting calculation based on cost sharing contract started from fiscal 2010. The effect of this change is immaterial.

(NOTES TO THE BALANCE SHEETS)

The Monetary Claims Against and Obligations Owed to Subsidiaries and Affiliates:

	(Yen in millions)
Short-term monetary claims	5,337
Short-term monetary obligations	6,019

(NOTES TO THE INCOME STATEMENT)

The Amounts of Transactions with Subsidiaries and Affiliates

The Amounts of Operational Transactions	
	(Yen in millions)
Sales	12,651
Outside service fee	183
The Amounts of Non-operational Transactions	
	(Yen in millions)
Dividend income	8
Global system income	56
Global system expenses	195

(NOTES TO THE STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, ETC.)

The number of treasury shares as of the end of the term:

Ordinary shares	6,750,535 shares
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(NOTES TO THE TAX EFFECT ACCOUNTING)

1. Major items causing deferred tax assets:

	(Yen in millions)
Nondeductible deferred revenue	18,117
Nondeductible amortization of intangibles fixed assets	1,322
Nondeductible accrued liability	651
Nondeductible allowance for retirement benefits	541
Nondeductible loss on investment securities	846
Nondeductible stock acquisition right cost	518
Valuated difference on available-for-sale	2,616
Others	635
<hr/>	
Deferred tax assets sub total	25,250
Valuation allowance	-189
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Total deferred tax assets	25,061

2. Major factors behind the difference between the statutory tax rate and the actually applied tax rate after tax effect accounting, and their individual impact on such difference:

Statutory tax rate	40.7%
(Adjustment factors)	
Stock acquisition right cost	3.5%
Others	-0.6%
<hr/>	
Actually applied tax rate after tax effect accounting	43.6%

(NOTES ON FIXED ASSETS USED BY THE COMPANY UNDER LEASE AGREEMENTS)

In addition to non-current assets on the balance sheets, business equipment such as copying machines is used by the Company under finance lease agreements without transfer of ownership.

(NOTES ON TRANSACTIONS WITH THE RELATED PARTIES)

Subsidiaries and affiliates

(Yen in millions)

Names of the companies, etc.	Ratio of ownership of voting rights, etc.	Relationship with the party	Content of transactions	Transaction amounts	Account	Balance at the end of the term
Trend Micro Incorporated (U.S.A)	Directly wholly owned	Entrustment of sale, research and development of the Company's products	For the receipt of the license fees:	7,449	Accounts receivable	1,053

Terms and Conditions of the Transactions and the Policies for the Determination of such Terms and Conditions

For the receipt of the license fees:

The Company uses the income comparison method, one of the methods of calculation of the transaction price under the transfer price taxation system.

(NOTES ON PER SHARE INFORMATION)

1. The net assets per share: 506.16 yen
2. The net income for the term per share: 97.15 yen

(NOTES ON MATERIAL SUBSEQUENT EVENTS)

N/A

(OTHER NOTES)

N/A

Certified copy of the audit report made by the Audit Corporation (Consolidated)

INDEPENDENT AUDITOR'S AUDIT REPORT

February 15, 2011

To The Board of Directors of
Trend Micro Incorporated

KPMG AZSA LLC

Designated, Limited Liability Partner
and Certified Public Accountant

Hiroyuki Sakai

Designated, Limited Liability Partner
and Certified Public Accountant

Keiji Ikeda

In accordance with Article 444, paragraph 4 of the Companies Act, we, the Audit Corporation, have audited the consolidated financial statements of Trend Micro Incorporated for the consolidated fiscal term commencing on January 1, 2010 and ending on December 31, 2010, specifically the consolidated balance sheet, the consolidated profit and loss statement, the consolidated statement of changes in shareholders' equity and the notes to the consolidated financial statements. The responsibility for the preparation of these consolidated financial statements is retained by the Manager and our responsibility is to render our opinion on these documents as an independent party.

Our examination was made in accordance with the accounting standards generally accepted as fair and appropriate in Japan. The criteria for our examination require us to obtain reasonable assurance as to whether or not there is a material false indication in these consolidated financial statements. The examination is made on the basis of testing audits and includes collectively examining the indications made in these consolidated financial statements, including evaluation of the accounting policy and the applicable manners therefore adopted by the Manager and the estimates made by the Manager. We, the Audit Corporation, consider that we have obtained a reasonable basis for the expression of our opinion as a result of our examination.

As a result of our examination of the above mentioned consolidated financial statements, we found that they present fairly the financial position and the results of operation of the Group consisting of Trend Micro Incorporated and its consolidated subsidiaries for the consolidated fiscal term in all significant aspects in accordance with the accounting standards generally accepted as fair and appropriate in Japan.

There are no special relationships as stipulated in the Certified Public Accountants Law between the Company and our firm or the engagement partners.

Certified copy of the audit report made by the Audit Corporation

INDEPENDENT AUDITOR'S AUDIT REPORT

February 15, 2011

To The Board of Directors of
Trend Micro Incorporated

KPMG AZSA LLC

Designated, Limited Liability Partner
and Certified Public Accountant

Hiroyuki Sakai

Designated, Limited Liability Partner
and Certified Public Accountant

Keiji Ikeda

In accordance with Article 436, paragraph 2, item 1 of the Companies Act, we, the Audit Corporation, have audited the unconsolidated financial statement of Trend Micro Incorporated for the 22nd fiscal term commencing on January 1, 2010, and ending on December 31, 2010, specifically the balance sheet, the profit and loss statement, the statement of changes in shareholders' equity, the notes to the unconsolidated financial statements and the supplementary schedules. The responsibility for the preparation of this unconsolidated financial statement and the supplementary schedules is retained by the Manager and our responsibility is to render our opinion on these documents as an independent party.

Our examination was made in accordance with the accounting standards generally accepted as fair and appropriate in Japan. The criteria for our examination require us to obtain reasonable assurance as to whether or not there is a material false indication in these unconsolidated financial statements. The examination is made on the basis of testing audits and includes collectively examining the indications made in the unconsolidated financial statement and the supplementary schedules, including evaluation of the accounting policy and the applicable manners therefore adopted by the Manager and the estimates made by the Manager. We, the Audit Corporation, consider that we have obtained a reasonable basis for the expression of our opinion as a result of our examination.

As a result of our examination of the above mentioned unconsolidated financial statement and the supplementary schedules, we found that they present fairly the financial position and the results of operation for the 22nd fiscal term in all significant aspects in accordance with the accounting standards generally accepted as fair and appropriate in Japan.

There are no special relationships as stipulated in the Certified Public Accountants Law between the Company and our firm or the engagement partners.

AUDIT REPORT

In order to audit the business activities of the Directors undertaken during the 22nd fiscal year from January 1, 2010, to December 31, 2010, we, the Board of Corporate Auditors, prepared this Audit Report based on the Audit Report prepared by each Corporate Auditor and hereby report as follows:

1. Method of Audit by Corporate Auditors and the Board of Corporate Auditors and Details

In addition to specifying the auditing guidelines and assigned business, etc. and receiving reports on the audit and its results from each Corporate Auditor, we have received reports from the Directors and the accounting auditor on their performance of duties and requested explanations when necessary.

In accordance with the auditing guidelines and assigned business, etc. specified by the Board of Corporate Auditors, each Corporate Auditor has communicated with the Directors, the internal control division and other employees and made efforts to collect information and improve the auditing environment. Each Corporate Auditor has attended meetings of the Board of Directors and other important meetings and has been informed by the Directors and other employees in respect of the status of performance of their duties and requested explanations when necessary. Furthermore, each Corporate Auditor has examined important documents in respect of the authorization of corporate actions, etc., and inspected the operations and the assets at the Head Office and other principal business offices. Also, we have monitored and verified the content of a resolution of the Board of Directors concerning the establishment of a system to ensure that performance by the Directors of their duties complies with applicable laws and regulations and the Articles of Incorporation or other systems necessary to ensure validity of operations of *Kabushiki Kaisha* as provided for in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act and the status of the system (internal control system) established based on such resolution. As to subsidiaries, in addition to communicating with the Directors in charge, we have received reports from subsidiaries on their businesses and visited a subsidiary when necessary to examine its businesses and assets. Based on the above-mentioned method, we have examined the Business Report and its supplementary schedules for the said fiscal year.

Furthermore, in addition to monitoring and verifying that the Accounting Auditor maintains its independence and conducts the audit properly, we have received reports from the Accounting Auditor on the performance of its duties and requested explanations when necessary. We have received notice from the Accounting Auditor concerning that the “system to ensure that duties are properly performed” (matters stipulated in each item of Article 131 of the Corporate Accounting Ordinance) is established in accordance with the “Quality Management Standards concerning the Audit” and requested explanations when necessary. Based on the above method, we have examined the unconsolidated financial statement (balance sheet, profit and loss statement, statement of changes in shareholders' equity and notes to the unconsolidated financial statements) and their supplementary schedules, and the consolidated financial statements (consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to the consolidated financial statements) for the fiscal year under review.

2. Results of Audit

- (1) Audit Result of the Business Report, etc.
 - (i) We found that the business report and its supplementary schedules fairly reflect the Company's business situation in conformity with and pursuant to the applicable laws and the Articles of Incorporation of the Company.
 - (ii) No misconduct concerning the performance of Directors' duties or material facts that are in breach of applicable laws and the Articles of Incorporation of the Company have been detected.
 - (iii) The content of the resolution of the Board of Directors concerning the internal control system is fair and proper. There is nothing noteworthy with respect to the performance by the Directors of their duties concerning the internal control system.
- (2) Audit Result of the Unconsolidated Financial Statement and Supplementary Schedules
We found that the method and result of the audit by KPMG AZSA LLC, which was appointed as the Company's Accounting Auditor, was executed in an appropriate manner.
- (3) Audit Result of the Consolidated Financial statements
We found that the method and result of the audit by KPMG AZSA LLC, which was appointed as the Company's Accounting Auditor, was executed in an appropriate manner.

February 16, 2011

Trend Micro Incorporated
Board of Corporate Auditors

Full-time Corporate Auditor
Fumio Hasegawa

Corporate Auditor
Yasuo Kameoka

Corporate Auditor
Koji Fujita

Corporate Auditor
Motohide Tanikawa

(Note: All four Corporate Auditors are Outside Auditors as defined under Article 2, item 16 and Article 335, paragraph 3 of the Companies Act.)