February 15, 2018

Report of Earning Results (Consolidated)
for Fiscal Year
Ending December 31, 2017

Company : Trend Micro Incorporated
Code : 4704
URL: http://www.trendmicro.co.jp/
Location: Tokyo

Representative: Title Representative Director
Name Eva Chen
Contact: Title Representative Director
Name Mahendra Negi
TEL +81-3-5334-3600

Expected date of the annual shareholders meeting : March 27, 2018
Expected date of the delivery of dividends : March 28, 2018
Expected date of the submission of annual security reports ("Yuka Shoken Hokokusho") : March 27, 2018

1. Financial Highlights for FY2017 (January 1, 2017 through December 31, 2017)

(1) Consolidated Results of Operations

<table>
<thead>
<tr>
<th></th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net income attributable to owners of the parent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million yen</td>
<td>Million yen %</td>
<td>Million yen %</td>
<td>Million yen %</td>
</tr>
<tr>
<td>FY 2017</td>
<td>148,811</td>
<td>12.8</td>
<td>36,441</td>
<td>6.1</td>
</tr>
<tr>
<td></td>
<td>131,936</td>
<td>6.1</td>
<td>34,360</td>
<td>10.9</td>
</tr>
<tr>
<td>FY 2016</td>
<td>25,691</td>
<td>4.2</td>
<td>21,773</td>
<td>36.8% as of December 31, 2016</td>
</tr>
</tbody>
</table>

(Note) Comprehensive Income : 27,694 million yen 27.2% as of December 31, 2017
21,773 million yen 36.8% as of December 31, 2016

<table>
<thead>
<tr>
<th></th>
<th>Net income per share (basic)</th>
<th>Net income per share (diluted)</th>
<th>Return on shareholders' equity</th>
<th>Return on assets</th>
<th>Operating profit on sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yen</td>
<td>Yen</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>FY 2017</td>
<td>187.01</td>
<td>185.24</td>
<td>15.1</td>
<td>11.6</td>
<td>24.5</td>
</tr>
<tr>
<td>FY 2016</td>
<td>179.63</td>
<td>178.80</td>
<td>15.3</td>
<td>11.7</td>
<td>26.0</td>
</tr>
</tbody>
</table>

(Note) Equity in earnings of affiliated companies : 586 million yen gain as of December 31, 2017
390 million yen gain as of December 31, 2016

(2) Consolidated Financial Position

<table>
<thead>
<tr>
<th></th>
<th>Total assets</th>
<th>Net Assets</th>
<th>Net Assets ratio</th>
<th>Net Assets per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of</td>
<td>Million yen</td>
<td>Million yen</td>
<td>%</td>
<td>Yen</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>331,157</td>
<td>177,077</td>
<td>53.0</td>
<td>1,274.45</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>308,537</td>
<td>166,471</td>
<td>53.4</td>
<td>1,202.12</td>
</tr>
</tbody>
</table>

(Note) Net assets after deduction of Share acquisition rights and Minority interest :
175,409 million yen as of December 31, 2017
164,861 million yen as of December 31, 2016
(3) Consolidated Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>Cash flows from operating activities</th>
<th>Cash flows from investing activities</th>
<th>Cash flows from financing activities</th>
<th>Ending balance of cash and cash equivalents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million yen</td>
<td>Million yen</td>
<td>Million yen</td>
<td>Million yen</td>
</tr>
<tr>
<td>FY 2017</td>
<td>46,915</td>
<td>(33,817)</td>
<td>(16,908)</td>
<td>98,440</td>
</tr>
<tr>
<td>FY 2016</td>
<td>33,510</td>
<td>12,925</td>
<td>(15,050)</td>
<td>102,375</td>
</tr>
</tbody>
</table>

2. Dividend of Surplus

<table>
<thead>
<tr>
<th>As of</th>
<th>Cash dividends per share</th>
<th>Aggregate amount of dividend annual</th>
<th>Dividends payout ratio (Consolidated)</th>
<th>Dividends on shareholders' equity (consolidated)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The first quarter end</td>
<td>The second quarter end</td>
<td>The third quarter end</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Yen</td>
<td>Yen</td>
<td>Yen</td>
<td>Yen million yen</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>—</td>
<td>—</td>
<td>141.00</td>
<td>141.00</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>—</td>
<td>—</td>
<td>149.00</td>
<td>149.00</td>
</tr>
<tr>
<td>Projection for FY 2018</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

(Note) Dividend for FY2018 Annual end is not yet projected.

3. Forecasts of Consolidated Financial Results for FY 2018
   (January 1, 2018 through December 31, 2018)

<table>
<thead>
<tr>
<th>Annual</th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net income attributable to owners of the parent</th>
<th>Net income per share (basic)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million Yen</td>
<td>Million Yen</td>
<td>Million Yen</td>
<td>Million Yen</td>
<td>Yen</td>
</tr>
<tr>
<td></td>
<td>164,800</td>
<td>10.7%</td>
<td>40,700</td>
<td>11.7%</td>
<td>40,800</td>
</tr>
</tbody>
</table>

4. Others

(1) Movement of significant subsidiary : No

(2) Changes in accounting principles, accounting estimates and restatements

   ① Changes under the revision of Accounting Standards : No
   ② Changes in Accounting Principles other than ① : No
   ③ Changes in Accounting Estimates : No
   ④ Restatements : No

(3) Number of shares issued (common shares)

   ① Number of shares issued (including treasury stocks):
      140,293,004 shares as of December 31, 2017
      140,293,004 shares as of December 31, 2016

   ② Number of treasury stocks:
      2,657,574 shares as of December 31, 2017
      3,150,874 shares as of December 31, 2016

   ③ Average number of shares outstanding:
      137,376,704 shares as of December 31, 2017
      137,235,128 shares as of December 31, 2016
Results of the non-consolidated operations

1. Financial Highlights for FY2017 (January 1, 2017 through December 31, 2017)

   (1) Results of operations

<table>
<thead>
<tr>
<th></th>
<th>Net Sales</th>
<th>Operating Income</th>
<th>Ordinary Income</th>
<th>Net Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Million yen</td>
<td>%</td>
<td>Million yen</td>
<td>%</td>
</tr>
<tr>
<td>FY 2017</td>
<td>59,307</td>
<td>5.5</td>
<td>17,642</td>
<td>(0.8)</td>
</tr>
<tr>
<td>FY 2016</td>
<td>56,239</td>
<td>5.3</td>
<td>17,786</td>
<td>5.8</td>
</tr>
</tbody>
</table>

   |                | Net income per share (basic) | Net income per share (diluted) |
   |                | Yen                         | Yen                            |
   | FY 2017        | 99.59                       | 98.65                          |
   | FY 2016        | 87.68                       | 87.28                          |

(2) Financial Position

<table>
<thead>
<tr>
<th></th>
<th>Total assets</th>
<th>Net Assets</th>
<th>Net Assets ratio</th>
<th>Net Assets per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of</td>
<td>Millions of yen</td>
<td>Millions of yen</td>
<td>%</td>
<td>Yen</td>
</tr>
<tr>
<td>December 31, 2017</td>
<td>159,984</td>
<td>80,541</td>
<td>49.3</td>
<td>573.10</td>
</tr>
<tr>
<td>December 31, 2016</td>
<td>163,147</td>
<td>83,754</td>
<td>50.4</td>
<td>599.00</td>
</tr>
</tbody>
</table>

(Note) Net Assets after deduction of Share acquisition rights
: 78,878 million yen (82,148 million yen as of December 31, 2016)

* Statement relating to the status of the annual audit procedures

   This report is not subject to the annual audit procedures, which are based on the Financial Instruments and Exchange Law. However, the audit procedures for annual consolidated accounts have not finished at the point of the disclosure of the annual financial results.

* Explanation for the proper use of projection and other notes

   Any forward-looking statement in this report including results forecasts, are based on certain assumptions that were deemed rational as well as information currently available to the Company at this time. However, various factors could cause actual results to differ materially. Please refer to (3) Qualitative Information on the Consolidated Earnings Forecast on page 3 of the attachment for conditions serving as assumptions for results forecasts.
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During this term of fiscal year 2017, from January 1 to December 31, the US economy seemed revived toward the end of the year by passing tax reform which is one of the trigger for the recovery of world economy. Europe economy has been continuing a mild upswing. In emerging countries, mainly China economic has been showing maintain stability in its economic growth. The world economy has been going through over under a generally stable economic situation.

Though Japan economy has been on a moderate recovery trend continuously with improved mainly corporate profits and a variety of healthy economic indices, it is still going through over concerns mentioned above world economic risks and growing geopolitical risks.

In the worldwide Information Technology Industry, cloud computing including server virtualization and related services have been still attracted from both home and abroad in IT industry market. In addition, corporates’ interests have been increasing in new fields including IoT (Internet of Things) and AI (Artificial Intelligence), etc. which are leading worldwide IT investment.

The cyber security industry comes across multitude of cyber terrorism that targets specific companies, organizations, and even state institution, etc., and a spate of identity theft in both business client information and personal private information occasionally. Especially ransomware has been widespread both domestic and overseas. In future, increasing in more sophisticated attacking, the industry will be required to adopt a techniques to minimize the risk of various threats targeted to digital currency, IoT devices and environment, social or political cyber attacking, etc. at all barrier in the layer.

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

With regards to sales in Japan region, mainly cloud related business showed strong growth in enterprise business sales. Consumer business has kept its sales slight increase mainly due to renewal business growth. As a result, net sales for this period in Japan region amounted to 59,142 million yen (5.3% increase from the same period in the previous year.)

For North America region, despite of continuation of trend with decrease in number of users in consumer business sales, enterprise business sales have achieved robust growth mainly due to the contribution of TippingPoint business. As a result, sales for this period in North America region was 41,991 million yen (20.5% increase from the same period in previous year.) with a double-digit growth rate.
In Europe region sales, both cloud related business and APT related businesses showed growth. Moreover, traditional typed security products sales has been increase with the advent of both of them, the enterprise business sales have been leading this region's sales. In addition to weak yen impact, as a result, net sales in this region were 24,101 million yen (12.2% increases from the same period in previous year) with a double-digit growth rate.

In the Asia Pacific region sales, with the strong growth of both APT related business and cloud related business as well as traditional typed security products sales achieved a great expansion. Especially Middle East area leads the sales in this region. In addition to weak yen impact, as a result, net sales for this period in Asia Pacific region amounted to 19,122 million yen (20.3% increase from the same period in the previous year) with a double-digit growth rate.

In the Latin America region sales, mainly cloud related business and traditional typed security products sales showed growth. Especially Mexico has been leading this region's sales. As a result, net sales in this region were 4,453 million yen (26.4% increases from the same period in previous year) with a double-digit growth rate.

As a result, the consolidated net sales for entire year of fiscal year 2017 amounted to 148,811 million yen (12.8% increase from the same period in previous year), showing revenue growth in all region.

Cost of sales and operating expenses totaled 112,370 million yen (15.2% increase from the same period in previous year.) Besides weak yen impact, this increase is mainly due to increase in both people costs and stock option related expenses especially stock-based remuneration with stock price highly movement. As a result, consolidated operating income for this period was 36,441 million yen (6.1% increase from the same period in previous year).

The consolidated ordinary income for this period was 37,035 million yen (5.4% increase from the same period in previous year) and the net income attributable to owners of the parent for this period was 25,691 million yen (4.2% increase from the same period in previous year.) due to no accounting Gain on sale of affiliated company securities which had been the same period in previous year.
(2) Qualitative Information on the Consolidated Earnings Forecast
Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make a highly reliable projection figures on a yearly basis. However, forecasts of net sales for FY 2018 was assumed that Japan increases by around 5%, North America region increases by around equal, and Europe region increases around 25% from the same period in previous year respectively. In consideration of such a condition, we have decided to announce the earnings on an annually basis in the fiscal year ending in December 2018 as followings.

Business forecast for the Annual of FY2018 (January 1, 2018 – December 31, 2018)

<table>
<thead>
<tr>
<th></th>
<th>FY2018 in million yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated net sales</td>
<td>164,800</td>
</tr>
<tr>
<td>Consolidated operating income</td>
<td>40,700</td>
</tr>
<tr>
<td>Consolidated ordinary income</td>
<td>40,800</td>
</tr>
<tr>
<td>Net income attributable to owners of the parent</td>
<td>28,400</td>
</tr>
</tbody>
</table>

In development of the business forecasts the main assumed exchange rates for the Annual of FY2018 (January 1, 2018 – December 31, 2018) as follows.

1 US $ 111 yen
1 Euro 132 yen

(3) FINANCIAL CONDITION ANALYSIS
CONDITION OF ASSETS, LIABILITIES, AND NET ASSETS
Cash and bank deposits at the end of this period amounted to 85,897 million yen, an increase of 1,387 million yen from FY2016 annual closing. Total assets at the end of this period were 331,157 million yen, 22,620 million yen increase from FY2016 annual closing. In spite of decrease in goodwill, marketable securities showed a substantial increase and also software, etc. increased additionally.

Total liabilities at the end of this period were 154,079 million yen, 12,014 million yen increase from FY2016 annual closing due to a substantial increase in deferred revenue, etc.

As a result, total net assets at the end of this period were 177,077 million yen, 10,605 million yen increase from FY2016 annual closing due to increase in retained earnings and decrease in treasury stock caused by exercises of stock options.

CONDITION OF CASH FLOW

<table>
<thead>
<tr>
<th></th>
<th>FY 2017</th>
<th>FY 2016</th>
<th>Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Flows from Operating Activities</td>
<td>46,915</td>
<td>33,510</td>
<td>13,404</td>
</tr>
<tr>
<td>Cash Flows from Investing Activities</td>
<td>(33,817)</td>
<td>12,925</td>
<td>(46,742)</td>
</tr>
<tr>
<td>Cash Flows from Financing Activities</td>
<td>(16,908)</td>
<td>(15,050)</td>
<td>(1,857)</td>
</tr>
<tr>
<td>Effect of Exchange Rate Changes on Cash and Cash Equivalents</td>
<td>(125)</td>
<td>311</td>
<td>(437)</td>
</tr>
<tr>
<td>Net Increase (Decrease) in Cash and Cash Equivalents</td>
<td>(3,935)</td>
<td>31,697</td>
<td>(35,632)</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at beginning of period</td>
<td>102,375</td>
<td>70,678</td>
<td>31,697</td>
</tr>
<tr>
<td>Cash and Cash Equivalents at end of period</td>
<td>98,440</td>
<td>102,375</td>
<td>(3,935)</td>
</tr>
</tbody>
</table>
[Overview of Cash Flow]
Cash flows from operating activity for this period were cash inflow of 46,915 million yen increased by 13,404 million yen compared with the previous period. This increase of inflow was mainly due to the decrease of tax payments and the decrease of the virtual share bonus plan payments.

Cash flows from investing activity were cash outflow of 33,817 million yen, decreased by 46,742 million yen compared with the previous period. This was mainly due to the increase of the payments for the purchases of marketable securities and securities investments and the decrease of the proceeds from redemptions of marketable securities and securities investments.

Cash flows from financing activity were cash outflow of 16,908 million yen increased by 1,857 million yen compared with the previous period. This increase of outflow was mainly due to the increase of cash dividends payments.

Taking these cash flows and the effect of exchange rate change on cash and cash equivalents into account, cash and cash equivalents at the end of this period was 98,440 million yen, decreased by 3,935 million yen compared with the previous period.

[Trends of Cash Flow Indexes]

<table>
<thead>
<tr>
<th></th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholder’s equity Ratio (%)</td>
<td>53.6</td>
<td>53.8</td>
<td>54.4</td>
<td>53.4</td>
<td>53.0</td>
</tr>
<tr>
<td>Capital Adequacy Ratio on Market Value Basis (%)</td>
<td>189.8</td>
<td>160.8</td>
<td>232.3</td>
<td>184.7</td>
<td>265.6</td>
</tr>
<tr>
<td>Debt Redemption Period (years)</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Interest Coverage Ratio</td>
<td>4,845.8</td>
<td>1,872.1</td>
<td>5,624.3</td>
<td>5,415.2</td>
<td>13,311.6</td>
</tr>
</tbody>
</table>

(Note)
Shareholder’s Equity Ratio : (Total shareholder’s Equity)/(Total Assets)
Capital Adequacy Ratio on Market Value : (Total Market Value of Shares)/(Total Assets) Basis
Debt Redemption Period : (Interest-bearing Debt)/(Operating Shares) Basis
Interest Coverage Ratio : (Operating Cash Flow)/(Interest Payment)

* All indexes are calculated from the financial statement amounts on a consolidated basis.
* "Total Market Value of Shares" is calculated as follows; "closing share price at the term end" multiplies by "number of shares issued at the term end" (net of treasury shares).
* "Operating Cash Flow" is "Net cash flows from operating activities" in the consolidated statement of cash flows.
* "Interest-bearing Debt" is all debts with interest payments among the debts reported in the consolidated balance sheet.
* "Interest Payment" is the amount of payment for interest expense in the consolidated statement of cash flows.
(4) BASIC POLICY OF PROFIT SHARING
We intend to continue to return profits to shareholders based on our net profits on a consolidated basis while striving to enhance financial strength and secure inner reserves in order to deal with the significantly changing business environment and maintain a competitive edge against competitors.
Our basic policy on dividends has been set as 70% of net income attributable to owners of the parent.
As pertains to our purchase of the TippingPoint business in 2016, this acquisition’s related amortization has started to be booked. According to such a background, to avoid the dividend payout being affected by this non-cash charge, we plan to pay the year-end dividend on the basis of a dividend ratio of 70% calculated after excluding the effect of after-tax impact of amortization related to purchase the TippingPoint business with a following formula.

\[(\text{Reported net income attributable to owners of the parent} + \text{After-tax impact of amortization related to purchase of the TippingPoint Business}) \times 70\%\]

Accordingly a year-end dividend on the basis of a dividend ratio of 79.8% of net income of 25,691 million yen in FY2017, we have planned to pay total dividends of 20,507 million yen, which is 149 yen per share in this term.

(5) RISK FACTORS
The occurrence of any of the following risks could affect the Trend Micro group's business, financial condition, and operating results. If this should happen, the trading price of shares of Trend Micro Incorporated, Trend Micro group's parent company, could decline and its investors/shareholders could lose all or part of their investment. Other risks and uncertainties unknown to us, the Trend Micro group, or that we, the Trend Micro Group, think are immaterial may also impair our business.

1. MAJOR SOFTWARE AND HARDWARE VENDORS MAY INCORPORATE ANTIVIRUS PROTECTION IN THEIR PRODUCT OFFERINGS, WHICH COULD RENDER OUR PRODUCTS AND SERVICES OBSOLETE OR UNMARKETABLE.
There is a possibility of facing significant changes in the competitive environment, if major vendors of operating system software and other software such as firewall, e-mail software or computer hardware, decide to enhance or bundle their products to include antivirus and other cyber security functions. These companies may offer antivirus protection as a standard feature in their products, at minimal or no additional cost to customers, which could render our wide range of products and services obsolete or unmarketable, particularly if antivirus products offered by these vendors were comparable or superior to our wide range of products and services. In addition, even if these vendors’ antivirus products offered fewer functions than our wide range of products and services, or were less effective in detecting and cleaning virus-infected files, customers could still choose them over our wide range of products and services due to lower cost or for any other reasons.
Currently, major software and hardware vendors have acquired several security vendors. If antivirus and other cyber security functions were to be included in those competitors’ products and services, our group’s business competitiveness could be inevitably weak, and it also has an adverse effect on our business, financial condition, and results of operations.

2. AS WE GENERATE SUBSTANTIALLY ALL OF OUR SALES FROM A SINGLE SCOPE OF BUSINESS, WE ARE VULNERABLE TO DECREASED DEMAND FOR SUCH PRODUCTS AND SERVICES.
Our main businesses focuses are our net sales from licensing and selling antivirus and other security products and services. Although we have begun to offer more comprehensive network and internet security and management software and services, we expect antivirus and other security products and services to continue to account for the largest portion of our net sales in the foreseeable future. If the demand for, or the prices of, antivirus and other security products and services drop as a result of competition, technological changes or other factors such as lower growth or a contraction in the worldwide computer security market, this could have a material adverse effect on our business, financial condition and results of operations.
3. OUR WIDE RANGE OF PRODUCTS AND SERVICES MAY BECOME OBSOLETE BECAUSE RAPID TECHNOLOGICAL CHANGES REGULARLY OCCUR IN THE COMPUTER SECURITY MARKET.

The computer security market is characterized by:
• rapid technological change;
• proliferation of new and changing computer viruses, malware programs, and threats over the internet;
• frequent product and services introductions and updates; and
• changing customer needs.

These characteristics of our market create significant risks and uncertainties for our business success. For example, our competitors might introduce computer security products and services that are technologically superior to our wide range of products and services. Additionally, new software operating systems, network systems or new antivirus measurements or technologies could emerge. Emerging trends in these systems and standards currently include applications distributed over the Internet and the use of a web browser to access client-server systems. Our existing products and services might be incompatible with some or all of such standards. Our business, financial condition and results of operations could materially suffer unless we are able to respond quickly and effectively to these developments.

4. OUR HARDWARE-BASED PRODUCTS FACE MANUFACTURING AND INVENTORY RISKS.

We rely on a small number of third parties to manufacture some of our hardware-based products. We expect our reliance on third-party manufacturers to become more important as the number of our hardware-based products increases. Reliance on third-party manufacturers involves a number of risks, including a lack of control over the manufacturing process and the potential absence or unavailability of adequate capacity. If any of our third-party manufacturers cannot or will not manufacture our products in required quantities in compliance with environmental and other regulations in the markets we serve, on a cost-effective basis, in a timely manner, or at all, we will have to secure additional manufacturing capacity. The unexpected loss of any of our manufacturers could disrupt our business. Furthermore, our hardware-based products contain critical components supplied by a single or a limited number of third parties. Any significant shortage of components or the failure of the third-party supplier to maintain or enhance these products could lead to cancellation of customer orders or delays in the placement of orders and adversely affect our financial condition and results of operation.

5. WE MAY NOT GENERATE EXPECTED RESULTS WITH STRATEGIC ALLIANCES.

We are mainly focusing our business in the field of computer security business based on antivirus software. Therefore, we actively pursue strategic alliances with other companies that allow us to provide customers with integrated or other new products and services derived from the alliances. To launch and provide such products and services, we may invest substantial cash and other resources in product development, marketing promotions and support and maintenance activities. But we may not earn revenue successfully from alliances despite our efforts, and such alliance may be terminated or dissolved due to various causes before generating revenue.
6. THE POSSIBILITY OF DECREASED SALES AND MARKET SHARE IN OUR CORE JAPANESE MARKET IF OUR COMPETITORS ACHIEVE SUCCESS IN JAPAN.

Our major competitors are active in the Japanese antivirus software market and have allocated significant resources to achieve success in the Japanese computer security market. Additionally, there have been not only existed security vendors as our direct competitors, but also new vendors joining by recent M&A or acquisition from other industries and new entries, etc. Such a competition in our core Japanese market could intensify in the future if other competitors emerge. As a result of our competitors’ efforts, we may not be able to maintain our current leading market position in Japan in the future. Also, in order to respond effectively to increased competition, we may be required to devote more of our product development, marketing and other resources to the Japanese market, which could limit our ability to grow in other markets. A material loss of sales and market share in Japan as a result of our competitors’ success could have a material adverse effect on our business, financial condition and results of operations.

7. AS WE MAY ACQUIRE COMPANIES TO GROW OUR BUSINESS, FUTURE ACQUISITIONS MAY REDUCE OUR EARNINGS AND RESULT IN INCREASED COSTS IN OUR BUSINESS OPERATIONS.

In a rapidly changing industry, we occasionally review acquisition opportunities. Accordingly, we may seek to expand our business through acquisitions. Unlike some of our major competitors, we have limited experience in acquiring existing businesses. Future acquisitions could result in numerous risks and uncertainties, including:

• our inability to retain customers, suppliers and other important business relationships of an acquired business;
• difficulties in integrating an acquired company into Trend Micro, including the acquired company’s operations, personnel, products and information systems;
• diversion of our management’s attention from other business concerns; and
• adverse effects on our results of operations arising from acquisition-related charges, impairment of goodwill and purchased technology and possible recognition of impairment charge.

If we make such an acquisition using our stock, our current shareholders’ ownership interests will be diluted. Any of these factors could materially hurt our business, financial condition and results of operations.

8. IF HACKERS / CRACKERS GAIN UNAUTHORIZED ACCESS TO OUR SYSTEMS, WE COULD SUFFER DISRUPTIONS IN OUR BUSINESS AND LONG-TERM DAMAGE TO OUR REPUTATION.

Our reputation may be more susceptible to problems than other software companies caused by hackers / crackers trying to break into or attack our networks, steal secrets, and deface our site. As a computer security company that delivers virus protection and other security products and services over the Internet, hackers / crackers specifically target us in order to cause us to transmit computer viruses and malware programs, loss or theft of technical information including the source codes etc., or vital information of customers or employees, and our groups’ website defacement over the internet. If these incidents occur, our group’s business could suffer. We could also incur costs to fix technical problems or fix problems created by hackers gaining access to our proprietary information. In addition, we could suffer substantial disruptions in our business and damage to our reputation which could result in a significant loss of customers and other important business relationships until recovery of confidence.

9. WE FACE INFORMATION SECURITY RISKS RELATED TO INSIDERS / OFFICIALS IN OUR GROUP.

Our group has made contracts with subcontractors and employees with the purpose of preservation of confidentiality. In the case of loss or theft of technical or private information for taking out and unfair use by our group insiders despite taking legislative actions, etc., we could significantly discredit us. Additionally, there is also a possibility to be brought an action for a large amount of damages. In such a case, we could suffer substantial disruptions in our business and also incur costs to fix technical problems etc. and any of these factors could materially hurt our business, financial condition and results of operations.
10. WE FACE NEW RISKS RELATED TO OUR ANTI-VIRUS AND OTHER SECURITY PRODUCTS AND SERVICES.
A broad range of our security products may falsely identify emails, URLs, or programs as unwanted spam, malicious web sites, and potentially dangerous programs. Our group’s security products and services may also fail to properly identify and prevent unwanted emails, URLs, programs, malicious websites, or spyware that are often designed to circumvent anti-virus, anti-spam, web filtering, or spyware products. Parties whose emails, URLs, or programs are blocked by these our security products and services may seek redress against us for labeling them as “spammers,” “malicious websites,” spyware, or for interfering with their business. In addition, false identification of emails, URLs, or programs as unwanted “spam,” “malicious web sites” or “potentially unwanted programs” may reduce the adoption of these products.
In addition, should we fail to properly test these products, solutions, or protection files and distribution a defective file, vulnerabilities, etc., these could cause damage to customers. In such a case, it would adversely impact our operating results and financial condition.

11. WE MUST EFFECTIVELY MANAGE OUR BUSINESS GROWTH.
Our business field has been expanding. This expansion has placed, and any future business expansion or growth would continue to place, a significant strain on our limited personnel, management and other resources. Our ability to manage any future expansion or growth in our business will require us to:
• attract, train, retain, motivate and manage new employees successfully;
• effectively integrate new employees into our operations; and
• continue to improve our operational, financial, management and information systems and controls.
If we continue to expand or grow, our group’s management systems in place may be inadequate or we may not be able to effectively manage our growth. In particular, we may be unable to:
• provide effective customer service;
• develop and deliver products in a timely manner;
• implement effective financial reporting and control systems; and
• exploit new market opportunities and effectively respond to competitive pressures.

12. WE SELL OUR PRODUCTS AND SERVICES THROUGH INTERMEDIARIES WHO MAY NOT VIGOROUSLY MARKET OUR PRODUCTS AND SERVICES, OR MAY RETURN OUR PRODUCTS AND SERVICES.
We market substantially all of our products and services to end users through intermediaries, including distributors, resellers and value-added resellers. Our distributors sell other products that are complementary to, or compete with, our products and services. While we encourage our distributors to focus on our wide range of products and services, these distributors may give greater priority to products of other suppliers, including competitors’. They may also return the products to us under certain circumstances.

13. WEAK FINANCIAL CONDITIONS OF SOME OF OUR DISTRIBUTORS MAY ADVERSELY AFFECT OUR OPERATING RESULTS.
Some of our distributors are experiencing financial difficulties worldwide, which may adversely impact our collection of accounts receivable. We regularly review the collectability and creditworthiness of our distributors to determine an appropriate allowance for doubtful receivables. Our uncollectible accounts could exceed our current or future allowance for doubtful receivables, which would be adversely significant impact our operating results.

14. OUR CUSTOMERS MAY CANCEL OR DELAY THEIR PURCHASES OF OUR WIDE RANGE OF PRODUCTS AND SERVICES, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.
Our wide range of products and services may be considered to be capital purchases by certain enterprise customers. Capital purchases are often uncertain and, therefore, are canceled or delayed if the customer experiences a downturn in its business prospects or as a result of unfavorable economic conditions. Any cancellation or delay could adversely affect our results of operations.
15. WE RELY HEAVILY ON OUR MANAGEMENT AND TECHNICAL PERSONNEL, WHO MAY NOT REMAIN WITH US IN THE FUTURE.
We rely, and will continue to rely, on a number of key technical and management employees, including our Chief Executive Officer, Eva Yi-Fen Chen. While we require our employees to sign employment agreements, our employees are generally not otherwise subject to non-competition covenants. If any of our key employees leave, our business, results of operations and financial condition could suffer.

16. THE MOBILITY OF HUMAN RESOURCES AND FLUCTUATIONS IN THE LABOR MARKET COULD ADVERSELY AFFECT OUR BUSINESS.
The computer security industry which our group belongs to, has grown increasingly competitive. In this competitive environment, recruiting top-class human resources has been the most important challenges to support innovative technology for all the companies. Today, the majority of Trend Micro staff is based in Asia, as well as in the emerging countries. Due to this region's rising inflation and costs of living, salaries will also have to increase. Any increase in costs caused by the above could cause our group’s business, results of operations and financial condition could suffer. Also the talent war with competitors could adversely affect to our group's labor cost. Moreover, unexpected high turnover and recruitment which does not work out as planned, may hurt our group's business performance.
If any of cost increase caused by those above, our group’s business, results of operations and financial condition could suffer.

17. THE LOSS OF HUMAN RESOURCES INCLUDING MAJOR TECHNICAL SPECIALIST PERSONNEL COULD ADVERSELY AFFECT OUR BUSINESS.
The computer security industry which our group belongs to, has grown increasingly competitive. In this competitive atmosphere, there is a possibility of human resources flow including major technical specialist personnel. Our group has made contracts with all employees for the purpose of preservation of confidentiality and obligation not to compete. Despite taking such legislative actions, we could suffer substantial disruptions in our business to our reputation due to outflow of technical and strategic vital information, and other companies developing similar technology with ours. In addition, our group’s business, operations and financial condition could suffer as a result of the above.

We believe that our quarterly financial results may fluctuate in ways that do not reflect the long-term trend of our future financial performance. It is likely that in some future quarterly periods, our operating results may be below the expectations of public market analysts and investors. In this event, the share price of Trend Micro Incorporated, Trend Micro group’s parent company, could fall. Factors which could cause our quarterly financial results to fluctuate include:
• timing of sales of our products and services to customers’ budgetary constraints, seasonal buying patterns and our promotional activities;
• new product introductions by our competitors;
• significant marketing campaigns, research and development efforts, employee hiring, and other capital expenditures by us to drive the growth of our business;
• changes in customer needs for antivirus and other computer securities; and
• changes in external environment including economic conditions in our major markets, etc.
19. FOREIGN EXCHANGE FLUCTUATIONS COULD LOWER OUR RESULTS OF OPERATIONS BECAUSE WE EARN REVENUES DENOMINATED IN SEVERAL DIFFERENT CURRENCIES.

Our reporting currency is the Japanese yen and the functional currency of each of our subsidiaries is the currency of the country in which the subsidiary is domiciled. However, a significant portion of our revenues and operating expenses is denominated in currencies other than the Japanese yen, primarily the US dollar, Euro, and Asian currencies. As a result, appreciation or depreciation in the value of other currencies as compared to the Japanese yen could result in material transaction or translation gains or losses which could reduce our operating results. These negative effects from currency fluctuations could become more significant if we are successful in increasing our sales in markets outside of Japan.

Also, we have a portion of marketable securities for fund management. Those values will be affected by the ups and downs of exchange rate denominated in foreign currencies and significant currency fluctuations could hurt our corporate earnings significantly.

20. FINANCIAL MARKET FLUCTUATIONS COULD LOWER OUR RESULTS OF OPERATIONS.

We have marketable securities and security investments for efficient fund management. Those values of the capital holdings will be affected by fluctuations in the financial market and exchange rates. In the future, if financial market fluctuates widely, this could have a material adverse effect on our financial condition and results of operations proportionate devaluation loss on investment in securities.

21. INFRINGEMENT OF OUR INTELLECTUAL PROPERTY COULD HURT OUR BUSINESS.

Our success depends on the development of proprietary software technology. We rely on a combination of contractual rights and patent, copyright, trademark and trade secret laws. Also, we made and entered Non-Disclosure Agreement is into by and between employees and subcontractors to establish and protect proprietary rights in our software. If we are unable to establish and protect these rights, our competitors may be able to use our intellectual property to compete against us. This could limit our growth and hurt our business. It is possible that no additional patents will be issued to us or any of our subsidiaries. In addition, our issued patents may not prevent other companies from competing with us. On the other hand, there is the possibility of the suspension of our products and services sales, compensation, and royalty payment of licensee because of our patent infringement upon another company. Additionally, there is also a possibility that a case brought against a service invention and suit filed by employee. In the case of losing such a lawsuit, payment to compensate the employee may be incurred.

22. THE POSSIBILITY OF FILE A SUIT BY PRODUCT AND SERVICE LIABILITY CLAIMS AND PRODUCT RECALL.

Our group’s products and services are designed to protect customers’ network systems and personal computers from damage caused by computer viruses, web threats and data stealing malware. As a result, if a customer suffers damage from any of these threats or if the actual functions of our group's products and services differ from the stated, the customers may return those products and also demanded refunds for services and the customer could sue us on product liability or related grounds, claim damages for data loss or make other claims. Also, if our online file storage service users suffer loss of data and information etc., caused by system troubles etc., the customer could sue our group on product liability or related grounds, claim damages for data loss or make other claims. Additionally, as threats are constantly evolving, purchasers of our software products must regularly update the software they have purchased from us with signature protection files that we make available for download from our website. Should we fail to properly test these protection files and distribute a defective file including vulnerabilities, these files could cause damage to the personal computers, network environment, and various devices of our customers who have downloaded a defective file. In addition, our hardware products as a defective appliance could cause damage to human lives, health, and the personal property of our customers who have used a defective appliance. As a result, if a customer suffers damage from our products, the customer could sue us on product liability or related grounds, claim damages for data loss or make other claims. Otherwise, we could order a recall of products at the discretion of company.
Our license agreements typically contain provisions, such as disclaimers of warranty and limitations of liability, which seek to limit our exposure to certain types of product liability claims. However, in some jurisdictions or products recall cases these provisions may not be enforceable on statutory, public policy or other grounds. In the case of losing such a law suit, there is a possibility that the case filed by our service and product users for damages and recovery of pain and suffering damages could have a material adverse effect on our business.

23. OUR BUSINESS FACES THE RISK OF EFFECT FROM VIOLATION OR AMENDMENT OF THE LAW AND THE LEGAL ACT.
All our business would be under various laws and regulations in each country and each region. If we would fail to comply with those laws and regulations, it would provide more severe administrative guidance and penal regulations. If officers and employees who are in our group violates the constitution or other laws or regulations, our group’s business could suffer substantial disruptions in our business and to our reputation which could result in a loss of customers and other important business relationships until recovery of confidence.
In such cases, there is the possibility to have a material adverse effect on our operating results. Also, in the case of the laws and regulations legal amendments, there are the possibilities to be tightening regulations and restrictions on our products and services and carry a cost in terms of relevant issues. In such a case, our business may have a material adverse effect on our operating results.

24. OUR BUSINESS FACES THE RISK OF INTERRUPTION FROM POWER SHORTAGES, EARTHQUAKES AND OTHER DISASTERS, OUTBREAK OF BIOLOGICAL VIRUSES, GEOPOLITICAL RISK, AND OTHER HAZARDS.
Trend Micro group face a number of potential business interruption risks that are beyond our control. The State of California experienced intermittent power shortages in 2000, sharp increases in the cost of energy and even interruptions of service to some business customers. If power shortages continue to be a problem, our business may be materially adversely affected. Or, in the outbreak of severe acute virus, influenza, or SARS, there is the possibility that we should stop all our business operations.
Additionally, we may experience natural and biological disasters as like above that could interrupt our business. The impact of nature disasters as a future major earthquake on our facilities, infrastructure and overall operations is not known. There is no guarantee that nature disasters would not seriously disturb our entire business operations. In addition, many of the key countries and regions in which we operate have sustained negative economic impact from events such as the continued fear of future the outbreak of severe virus / acute respiratory syndrome, etc., terrorist attacks and other geopolitical risks prolonged continuation of these adverse factors may hurt our results of operations and financial condition.

25. THE STOCK PRICE OF TREND MICRO INCORPORATED, TREND MICRO GROUP’S PARENT COMPANY, IS VOLATILE, AND INVESTORS BUYING THE SHARES MAY NOT BE ABLE TO RESELL THEM AT OR ABOVE THEIR PURCHASE PRICE.
Shares of the common stock of Trend Micro Incorporated, Trend Micro group’s parent company, are traded on the Tokyo Stock Exchange. Recently, the Japanese securities markets have experienced significant price and volume fluctuations. The market prices of securities of high-tech companies, and internet companies in particular, have been especially volatile. Since trading in shares of Trend Micro Incorporated commenced on the Tokyo Stock Exchange on August 17, 2000, stock price of Trend Micro Incorporated has fluctuated between a low of (Yen) 1,440 and a high of (Yen) 9,005. The closing price on the Tokyo Stock Exchange for our stock on December 29, 2017 was (Yen) 6,390. The market price of our shares is likely to fluctuate in the future.
26. BECAUSE OF DAILY PRICE RANGE LIMITATIONS UNDER JAPANESE STOCK EXCHANGE RULES, YOU MAY NOT BE ABLE TO SELL YOUR SHARES OF THE COMMON STOCK OF TREND MICRO INCORPORATED, TREND MICRO GROUP’ S PARENT COMPANY, AT A PARTICULAR PRICE ON ANY PARTICULAR TRADING DAY, OR AT ALL.

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchange set daily upward and downward price fluctuation limits for each stock, based on the previous day’s closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.
2. Condition of corporate group
Trend Micro Group consists of Trend Micro Inc. (Japan), and its subsidiaries which develop and sell anti-virus products and offer other related services. One of the affiliated company is General Mobile Corporation which is a service provider for mobile device platform.

(1) Development and sales of anti-virus products

Products related to anti-virus:
PC client products, LAN server products, Internet server products, All Suite products and Other products

The business functions in Trend Micro Group are described below.

<table>
<thead>
<tr>
<th>Function</th>
<th>Operating Segment</th>
<th>Main companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development</td>
<td>Japan</td>
<td>Trend Micro Inc.(Japan)</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>Trend Micro Incorporated(U.S.A)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro Canada Technologies, Inc.</td>
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<tr>
<td></td>
<td>Europe</td>
<td>Trend Micro Deutschland GmbH(Germany)</td>
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<tr>
<td></td>
<td></td>
<td>Trend Micro(EMEA)Limited(Ireland)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro France SA</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro EMEA (GB) Limited(UK)</td>
</tr>
<tr>
<td></td>
<td>Asia Pacific</td>
<td>Trend Micro Incorporated(Taiwan)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro India Private Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro(China)Incorporated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro Australia Pty. Ltd.</td>
</tr>
<tr>
<td>Sales of the products</td>
<td>Latin America</td>
<td>Trend Micro do Brasil Ltda.</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>Trend Micro Inc.(Japan)</td>
</tr>
<tr>
<td></td>
<td>North America</td>
<td>Trend Micro Incorporated(U.S.A)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro Canada Technologies, Inc.</td>
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<tr>
<td></td>
<td>Europe</td>
<td>Trend Micro(EMEA)Limited(Ireland)</td>
</tr>
<tr>
<td></td>
<td>Asia Pacific</td>
<td>Trend Micro Incorporated(Taiwan)</td>
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<tr>
<td></td>
<td></td>
<td>Trend Micro Korea Inc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro Australia Pty. Ltd.</td>
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<tr>
<td></td>
<td></td>
<td>Trend Micro Hong Kong Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro DMCC LLC</td>
</tr>
<tr>
<td></td>
<td>Latin America</td>
<td>Trend Micro do Brasil Ltda.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Trend Micro Latinoamerica S.A. de C.V.(Mexico)</td>
</tr>
<tr>
<td>Back office</td>
<td>Europe</td>
<td>Trend Micro(EMEA)Limited(Ireland)</td>
</tr>
<tr>
<td></td>
<td>Latin America</td>
<td>Servicentro TMLA, S.A. de C.V.(Mexico)</td>
</tr>
</tbody>
</table>
(2) Other related service
Other related services are offered by General Mobile Corporation which provides total solutions for mobile device platform and mobile internet services.
3. Management policy

(1) BASIC POLICY OF MANAGEMENT

Our Vision: A world safe for exchanging digital information.

IT Infrastructure, mainly those linked to the internet, has been a global infrastructure, as lifelines of the information society regardless of individual, business or national border for a long time.

Today, most threats on the network such as computer viruses, spyware, spam, site defacing, and information theft cannot be predicted and completely prevented. In an increase of cyber-crimes which cause theft of proprietary information, monetary damages, and malicious destructions no matter enterprise or consumer, both users could be targeted and attacked. With APT, which is popular attack technique, enterprise, organizations, and even state institution, etc., are targeted as a particular organization by multi-faceted attacks. At the same time, consumer users could be also targeted through those new IT technologies and services including variable devices and services like smartphones, multi-functional mobile devices such as tablets, and SNS, etc. Now more than ever, security is the breath of life to enterprises and individuals.

Our group’s generous burden is to protect the global IT infrastructure including growing cloud computing. As a company, we will provide globally-relevant products and services that cover multiple areas of computer security including preventing sequence of cyber-attacks mainly APT, minimizing damages in an emergency, restoration network systems and environment, etc. Our group is not only protecting enterprises and individual users from the threats over the networks without interrupting economic activities and usability, but it is also contributing to the further development of the information society by improving the safety of the whole network system.

(2). TARGET MANAGEMENT INDEX

According to a research institute, etc., the global Cyber Security market size that we belong to, is estimated to grow at a compound annual growth rate (CAGR) of 7.4 percent from 2016 to 2020. Making the growth rate of our consolidated net sales to exceed the industry average without fail is an important index that tells us whether or not we can grow to become a leading company that can contribute to customers both in the Japanese and the global market.

In view of the fact that we have a relatively small amount of investments in physical fixed assets such as manufacturing equipment, have no significant time-lag between accounting profit and loss and cash flows as a characteristics of software companies, and have uncertainty about the long-term forecast of the whole industry which, including our company, has a relatively short history, we set target as operating income margin rate of around 30 percent at this time.

(3). MID- TO LONG-TERM BUSINESS STRATEGY

Today, IT infrastructure is used by every person and in all types of scene and location in every country across the world. It has been a part of our society and daily life for long time. Not only the personal computers, but also smartphones and multi-functional mobile devices such as tablets, etc. In addition, recently IoT and AI technology has brought about the creation of smart home appliances and smart cars. With this stream, application programs and purposes of use have become diversified. As a result, there is no longer a single solution that can protect against all the different type of threat environments. Also, in the network environment, cloud computing, which has started actual use, creates innovation in digital information traffic with easy, speedy, and reasonable for data mining and exchange to any information including big data. Whether enterprise uses or consumer users, the speed of IT evolution explodes volume of exchange information. At the same time, the more increase in tremendous various devices have connected to internet, the more increase in information required extreme caution in handling. The necessity of information security in exchange for obtain benefits has become more important in the future.

Through all security solutions based on Trend Micro Smart Protection Network (SPN) which is at the core of our group products and services, we will deploy security solution against increasingly complicated threats as like APT which has been ever-growing attacking, cloud computing which further increase in its demand, and IoT environment with endpoint security solutions based on both traditional and AI technology, and a level of network security technology as new join by TippingPoint acquisition.

For accelerating digitalized business and society, and for protecting user's life, our group will strengthen further information security solution in the true digitalization framework to continue to advance business relationships with our partners across boundaries between enterprise and consumer.
(4). ISSUES TO DEAL WITH

In the cyber security industry which our group belongs to, there have been not only existed security vendors as our direct competitors, but also new vendors joining by recent M&A or acquisition from other industries and new entries, etc. They have been encouraging market competitions both domestic and overseas. Such a consolidation and new entries are now too fluid to foresee the future direction of this business and their presence in the computer security market will make the competition in the market more intense. In addition, under the facing an age of IoT, the cyber security industry has been constantly being required to make appropriate provision for the safety of both ginormous and significant data and infrastructure, the implementation of AI technology to security, etc. with perceiving alteration in both environment and user behavior.

In response to such intense competition and changes in the market, our group is enhancing our wide range of technologies to better combat the latest web threats, which evolve from day to day, through a number of acquisitions. With those a series of acquisitions and organically grown technology, our group has taken the lead over other competitors in creating cloud based security solution. Our core technology, SPN provides a wide variety of products and services which achieve cloud computing security with correlation analysis for various threats.

For achieving our vision: A world safe for exchanging digital information, as threat defense experts, our group will advance our multilayered “XGen™ security” approach, a blend of cross-generational proven threat defense techniques including advanced technology as AI, web and mail reputation, behavior monitoring, machine learning, etc. Based on threat intelligence we have been accumulated, we can achieve to offer higher value-added security solutions with “XGen™ security” that have been ongoing progressed to resolve ever-changing issues to blend each well-placed security techniques. At the same time, we will continue to pursue long-term growth with a stable financial foundation.
4. Basic policy on the selection of accounting standards

To secure comparability between companies and between fiscal years, Trend Micro group prepares its consolidated financial statements in accordance with the Japanese accounting standards. We will appropriately consider application of IFRS (International Financial Report Standards) taking into consideration of condition in Japan and overseas.
## 5. [CONSOLIDATED FINANCIAL STATEMENTS]

### (1) [Consolidated Balance Sheets]

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Assets)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and bank deposits</td>
<td>84,509</td>
<td>85,897</td>
</tr>
<tr>
<td>Notes and Accounts receivable, trade</td>
<td>35,845</td>
<td>40,065</td>
</tr>
<tr>
<td>Marketable securities</td>
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<td>66,535</td>
</tr>
<tr>
<td>Inventories</td>
<td>¥1 1,711</td>
<td>¥1 2,980</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>15,359</td>
<td>15,810</td>
</tr>
<tr>
<td>Others</td>
<td>7,744</td>
<td>5,788</td>
</tr>
<tr>
<td>Allowance for bad debt</td>
<td>(293)</td>
<td>(286)</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>195,031</td>
<td>216,792</td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Office furniture &amp; equipment</td>
<td>¥2 4,076</td>
<td>¥2 4,278</td>
</tr>
<tr>
<td>(2) Others</td>
<td>¥2 2,475</td>
<td>¥2 3,944</td>
</tr>
<tr>
<td><strong>Total property and equipment</strong></td>
<td>6,551</td>
<td>8,222</td>
</tr>
<tr>
<td>Intangibles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Software</td>
<td>9,161</td>
<td>11,482</td>
</tr>
<tr>
<td>(2) Goodwill</td>
<td>18,356</td>
<td>14,978</td>
</tr>
<tr>
<td>(3) Others</td>
<td>15,019</td>
<td>13,834</td>
</tr>
<tr>
<td><strong>Total intangibles</strong></td>
<td>42,537</td>
<td>40,294</td>
</tr>
<tr>
<td>Investments and other non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Investment securities</td>
<td>48,589</td>
<td>49,788</td>
</tr>
<tr>
<td>(2) Investments in subsidiaries and affiliates</td>
<td>2,136</td>
<td>2,605</td>
</tr>
<tr>
<td>(3) Deferred tax assets</td>
<td>12,161</td>
<td>11,863</td>
</tr>
<tr>
<td>(4) Others</td>
<td>1,529</td>
<td>1,590</td>
</tr>
<tr>
<td><strong>Total investments and other non-current assets</strong></td>
<td>64,416</td>
<td>65,847</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>113,506</td>
<td>114,365</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>308,537</td>
<td>331,157</td>
</tr>
</tbody>
</table>
(Liabilities)

Current liabilities

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and Notes payable, trade</td>
<td>893</td>
<td>730</td>
</tr>
<tr>
<td>Accounts payable, other</td>
<td>5,301</td>
<td>4,635</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>5,368</td>
<td>5,636</td>
</tr>
<tr>
<td>Accrued income and other taxes</td>
<td>3,649</td>
<td>3,509</td>
</tr>
<tr>
<td>Allowance for bonuses</td>
<td>3,557</td>
<td>2,312</td>
</tr>
<tr>
<td>Allowance for sales returns</td>
<td>742</td>
<td>795</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>76,326</td>
<td>83,534</td>
</tr>
<tr>
<td>Others</td>
<td>5,853</td>
<td>7,610</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>101,694</td>
<td>108,764</td>
</tr>
</tbody>
</table>

Non-current liabilities

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred revenue</td>
<td>34,071</td>
<td>38,450</td>
</tr>
<tr>
<td>Net defined benefit liability</td>
<td>4,657</td>
<td>4,906</td>
</tr>
<tr>
<td>Others</td>
<td>1,642</td>
<td>1,957</td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>40,371</td>
<td>45,315</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>142,065</td>
<td>154,079</td>
</tr>
</tbody>
</table>

(Net assets)

Shareholders' equity

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>18,386</td>
<td>18,386</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>22,581</td>
<td>23,162</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>134,448</td>
<td>140,794</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(10,335)</td>
<td>(8,717)</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>165,081</td>
<td>173,626</td>
</tr>
</tbody>
</table>

Accumulated other comprehensive income

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gain (loss) on debt and equity securities</td>
<td>(211)</td>
<td>38</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td>688</td>
<td>2,263</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(696)</td>
<td>(519)</td>
</tr>
<tr>
<td>Total accumulated other comprehensive income</td>
<td>(219)</td>
<td>1,782</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Account</th>
<th>December 31, 2016</th>
<th>December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock acquisition rights</td>
<td>1,605</td>
<td>1,662</td>
</tr>
<tr>
<td>Non-controlling interest</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Total net assets</td>
<td>166,471</td>
<td>177,077</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>308,537</td>
<td>331,157</td>
</tr>
</tbody>
</table>
## (2) [Consolidated Statements of Income Consolidated Statements of Comprehensive Income]

### Consolidated Statements of Income

<table>
<thead>
<tr>
<th></th>
<th>For the year ended December 31, 2016</th>
<th>For the year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>131,936</td>
<td>148,811</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>23,040</td>
<td>28,138</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>108,895</td>
<td>120,672</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>74,535</td>
<td>84,231</td>
</tr>
<tr>
<td><strong>Non-operating income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on valuation of derivatives</td>
<td></td>
<td>134</td>
</tr>
<tr>
<td>Interest income</td>
<td>1,252</td>
<td>1,211</td>
</tr>
<tr>
<td>Gain on sales of marketable securities</td>
<td></td>
<td>167</td>
</tr>
<tr>
<td>Equity in gain of affiliated companies</td>
<td></td>
<td>390</td>
</tr>
<tr>
<td>Other income</td>
<td>186</td>
<td>224</td>
</tr>
<tr>
<td>Total non-operating income</td>
<td>1,996</td>
<td>2,230</td>
</tr>
<tr>
<td><strong>Non-operating expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Loss from sales of marketable securities</td>
<td></td>
<td>270</td>
</tr>
<tr>
<td>Foreign exchange loss</td>
<td>183</td>
<td>1,390</td>
</tr>
<tr>
<td>Impairment loss on marketable securities</td>
<td></td>
<td>140</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td></td>
<td>400</td>
</tr>
<tr>
<td>Other expenses</td>
<td>216</td>
<td>93</td>
</tr>
<tr>
<td>Total non-operating expenses</td>
<td>1,218</td>
<td>1,635</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>35,138</td>
<td>37,035</td>
</tr>
<tr>
<td><strong>Extraordinary gain</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on reversal of stock options</td>
<td></td>
<td>26</td>
</tr>
<tr>
<td>Gain on sale of affiliated company securities</td>
<td></td>
<td>554</td>
</tr>
<tr>
<td>Total extraordinary gain</td>
<td></td>
<td>580</td>
</tr>
<tr>
<td><strong>Net income before taxes</strong></td>
<td>35,719</td>
<td>37,096</td>
</tr>
<tr>
<td>Income taxes current</td>
<td>12,146</td>
<td>11,831</td>
</tr>
<tr>
<td>Income taxes deferred</td>
<td>(1,080)</td>
<td>(427)</td>
</tr>
<tr>
<td>Total income taxes</td>
<td>11,066</td>
<td>11,403</td>
</tr>
<tr>
<td><strong>Net income before non-controlling interest</strong></td>
<td>24,652</td>
<td>25,692</td>
</tr>
<tr>
<td>Non-controlling interest in income of consolidated subsidiaries</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Net income attributable to owners of the parent</strong></td>
<td>24,651</td>
<td>25,691</td>
</tr>
</tbody>
</table>
## Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>For the year ended December 31, 2016</th>
<th>For the year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before non-controlling interest</td>
<td>24,652</td>
<td>25,692</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>(445)</td>
<td>249</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(2,264)</td>
<td>1,666</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(120)</td>
<td>176</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates accounted for using equity method</td>
<td>(48)</td>
<td>(90)</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>(2,879)</td>
<td>2,001</td>
</tr>
<tr>
<td>Comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comprehensive income attributable to owners of the parent</td>
<td>21,773</td>
<td>27,692</td>
</tr>
<tr>
<td>Comprehensive income attributable to non-controlling interests</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>
(3) **[Consolidated Statements of Changes in Net Assets]**

<table>
<thead>
<tr>
<th></th>
<th>For the year ended December 31, 2016</th>
<th>For the year ended December 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders' equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>18,386</td>
<td>18,386</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total movement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>18,386</td>
<td>18,386</td>
</tr>
<tr>
<td>Capital surplus</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>22,431</td>
<td>22,581</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>150</td>
<td>581</td>
</tr>
<tr>
<td>Total movement</td>
<td>150</td>
<td>581</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>22,581</td>
<td>23,162</td>
</tr>
<tr>
<td>Retained earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>124,857</td>
<td>134,448</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend of surplus</td>
<td>(15,060)</td>
<td>(19,337)</td>
</tr>
<tr>
<td>Net income</td>
<td>24,651</td>
<td>25,691</td>
</tr>
<tr>
<td>Change of scope of consolidation</td>
<td></td>
<td>(7)</td>
</tr>
<tr>
<td>Total movement</td>
<td></td>
<td>9,591</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>134,448</td>
<td>140,794</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>(10,326)</td>
<td>(10,335)</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>2,958</td>
<td>1,618</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(2,967)</td>
<td></td>
</tr>
<tr>
<td>Total movement</td>
<td></td>
<td>(9)</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>(10,335)</td>
<td>(8,718)</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>155,348</td>
<td>165,081</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend of surplus</td>
<td>(15,060)</td>
<td>(19,337)</td>
</tr>
<tr>
<td>Net income</td>
<td>24,651</td>
<td>25,691</td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>3,108</td>
<td>2,199</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(2,967)</td>
<td></td>
</tr>
<tr>
<td>Change of scope of consolidation</td>
<td></td>
<td>(7)</td>
</tr>
<tr>
<td>Total movement</td>
<td></td>
<td>9,732</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>165,081</td>
<td>173,626</td>
</tr>
<tr>
<td>Category</td>
<td>For the year ended December 31, 2016</td>
<td>For the year ended December 31, 2017</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td><strong>Accumulated other comprehensive income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gain/(loss) on debt and equity securities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>234</td>
<td>(211)</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(445)</td>
<td>249</td>
</tr>
<tr>
<td>Total movement</td>
<td>(445)</td>
<td>249</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>(211)</td>
<td>38</td>
</tr>
<tr>
<td>Foreign currency translation adjustments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>3,001</td>
<td>688</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(2,312)</td>
<td>1,575</td>
</tr>
<tr>
<td>Total movement</td>
<td>(2,312)</td>
<td>1,575</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>688</td>
<td>2,263</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>(576)</td>
<td>(696)</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(120)</td>
<td>176</td>
</tr>
<tr>
<td>Total movement</td>
<td>(120)</td>
<td>176</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>(696)</td>
<td>(519)</td>
</tr>
<tr>
<td>Total accumulated other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>2,659</td>
<td>(219)</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(2,878)</td>
<td>2,001</td>
</tr>
<tr>
<td>Total movement</td>
<td>(2,878)</td>
<td>2,001</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>(219)</td>
<td>1,782</td>
</tr>
<tr>
<td>Stock acquisition rights</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>1,681</td>
<td>1,605</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(76)</td>
<td>57</td>
</tr>
<tr>
<td>Total movement</td>
<td>(76)</td>
<td>57</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>1,605</td>
<td>1,662</td>
</tr>
<tr>
<td>Minority interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total movement</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the end of previous period</td>
<td>159,693</td>
<td>166,471</td>
</tr>
<tr>
<td>Movement for the period</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend of surplus</td>
<td>(15,060)</td>
<td>(19,337)</td>
</tr>
<tr>
<td>Net income</td>
<td>24,651</td>
<td>25,691</td>
</tr>
<tr>
<td>Sales of treasury stock</td>
<td>3,108</td>
<td>2,199</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(2,967)</td>
<td>(7)</td>
</tr>
<tr>
<td>Change of scope of consolidation</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Movement for the period excluding shareholders’ equity</td>
<td>(2,954)</td>
<td>2,060</td>
</tr>
<tr>
<td>Total movement</td>
<td>6,777</td>
<td>10,605</td>
</tr>
<tr>
<td>Balance at the end of current period</td>
<td>166,471</td>
<td>177,077</td>
</tr>
<tr>
<td>Account</td>
<td>For the year ended December 31, 2016</td>
<td>For the year ended December 31, 2017</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>--------------------------------------</td>
<td>--------------------------------------</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income before taxes</td>
<td>35,719</td>
<td>37,096</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>7,445</td>
<td>9,643</td>
</tr>
<tr>
<td>Stock compensations</td>
<td>646</td>
<td>542</td>
</tr>
<tr>
<td>Gain on reversal of stock options</td>
<td>(26)</td>
<td>(60)</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>3,745</td>
<td>4,307</td>
</tr>
<tr>
<td>Increase (decrease) in allowance for bad debts</td>
<td>10</td>
<td>(10)</td>
</tr>
<tr>
<td>Increase (decrease) in allowance for sales returns</td>
<td>44</td>
<td>50</td>
</tr>
<tr>
<td>Increase (decrease) in net defined benefit liability</td>
<td>431</td>
<td>200</td>
</tr>
<tr>
<td>Interest income</td>
<td>(1,252)</td>
<td>(1,211)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Equity in (earnings)/loss of affiliated companies</td>
<td>(390)</td>
<td>(586)</td>
</tr>
<tr>
<td>(Gain) loss on sale of marketable securities</td>
<td>103</td>
<td>(28)</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>400</td>
<td>103</td>
</tr>
<tr>
<td>Impairment loss on marketable securities</td>
<td>140</td>
<td></td>
</tr>
<tr>
<td>(Gain) loss on sale of affiliated company securities</td>
<td>(554)</td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in notes and accounts receivable</td>
<td>(6,330)</td>
<td>(3,901)</td>
</tr>
<tr>
<td>(Increase) decrease in inventories</td>
<td>(880)</td>
<td>(1,259)</td>
</tr>
<tr>
<td>Increase (decrease) in notes and accounts payable</td>
<td>339</td>
<td>(177)</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable, other &amp; accrued expenses</td>
<td>656</td>
<td>(108)</td>
</tr>
<tr>
<td>Increase (decrease) in deferred revenue</td>
<td>12,288</td>
<td>10,413</td>
</tr>
<tr>
<td>Virtual share bonus plan</td>
<td>(1,534)</td>
<td>1,736</td>
</tr>
<tr>
<td>Others</td>
<td>(5,257)</td>
<td>(839)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>45,754</td>
<td>55,913</td>
</tr>
<tr>
<td>Proceeds from interest and dividend received</td>
<td>1,986</td>
<td>1,492</td>
</tr>
<tr>
<td>Payment for interest expenses</td>
<td>(6)</td>
<td>(3)</td>
</tr>
<tr>
<td>Payment for income tax</td>
<td>(14,223)</td>
<td>(10,487)</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>33,510</td>
<td>46,915</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Payments for)/Proceeds from time deposits</td>
<td>(56)</td>
<td>(2,486)</td>
</tr>
<tr>
<td>Payments for purchases of marketable securities and securities investments</td>
<td>(20,908)</td>
<td>(45,105)</td>
</tr>
<tr>
<td>Proceeds from sale or redemptions of marketable securities and securities investments</td>
<td>71,186</td>
<td>28,061</td>
</tr>
<tr>
<td>Payments for purchases of property and equipment</td>
<td>(2,986)</td>
<td>(4,599)</td>
</tr>
<tr>
<td>Payments for purchases of other intangibles</td>
<td>(6,029)</td>
<td>(7,629)</td>
</tr>
<tr>
<td>Payments for business acquisition</td>
<td>(28,808)</td>
<td>(2,067)</td>
</tr>
<tr>
<td>Proceeds from sale of affiliated company securities</td>
<td>528</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>(0)</td>
<td>9</td>
</tr>
<tr>
<td><strong>Net cash used in/provided by investing activities</strong></td>
<td>12,925</td>
<td>(33,817)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment for purchase of treasury stock</td>
<td>(2,967)</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of treasury stock</td>
<td>2,411</td>
<td>1,773</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(14,494)</td>
<td>(18,681)</td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>(15,050)</td>
<td>(16,908)</td>
</tr>
<tr>
<td>Effect of exchange rate changes on cash and cash equivalents</td>
<td>311</td>
<td>(125)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>31,697</td>
<td>(3,935)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period</td>
<td>70,678</td>
<td>102,375</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period</td>
<td>(98,440)</td>
<td></td>
</tr>
</tbody>
</table>
(6) **Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements**

| 1 Basis of consolidation | (1) Consolidated subsidiaries  
All of our 35 subsidiaries are consolidated.  
Names of major subsidiaries:  
Trend Micro Inc.  
Trend Micro Incorporated  
Trend Micro Australia Pty. Ltd.  
Trend Micro (EMEA) Limited  
Trend Micro Egypt LLC. LLC Trend Micro Russia, Soocii Co., Ltd and Trend Forward Capital I,L.P. were newly established and have been included in the scope of consolidation. Telcloud Computing Incorporated, which had been a consolidated subsidiary, was excluded from the scope of consolidation due to the liquidation.  
(2) Unconsolidated subsidiaries  
Broadweb Corporation (Brunei)  
Broadweb Corporation (Republic of Seychelles)  
All non-consolidated subsidiaries’ total assets, net sales, net income and retained earnings are immaterial which have no significant impact on the consolidated financial statements. Therefore, the Company has excluded from the scope of consolidation. |
| 2 Affiliated companies | Equity method accounting is applied to investments in the following affiliated companies.  
* General Mobile Corporation (British Cayman Islands)  
* AsiaInfo Security Limited (British Virgin Islands) |
| 3 Fiscal year of consolidated subsidiaries | All financial statements included in a set of consolidated financial statements are prepared as of the same date. |
| 4 Accounting policies (1) Accounting for evaluation of assets | A. Marketable securities and investment securities  
Available-for-sale with market value:  
The securities are stated at the market value method based on the value at the end of the period  
(Unrealized gains and losses, net of taxes, reported in a separate component of equity.  
Cost of selling is determined by the moving average method.)  
Available-for-sale without market value:  
Cost basis by moving average method  
B. Inventories  
Lower of cost or market by moving average method  
The carrying value on the balance sheet of the inventory with lower profit margin is written down  
C. Derivatives  
Market value method |
| (2) Depreciation and amortization | A. Property and equipment  
Mainly, depreciation is computed by declining-balance method (except for the facilities attached to buildings and structure acquired on and after April 1, 2016, which is depreciated by straight-line method) in parent company and is computed by a straight-line method in consolidated subsidiaries.  
Useful lives of the main property and equipment are as follows:  
Office furniture and equipment : 2–20 years |
|-------------------------------|---------------------------------|
| B. Intangibles                | a. Software for sale  
Straight-line method over the estimated useful lives (12 months) |
|                               | b. Software for internal use  
Straight-line method over the estimated useful lives (mainly 5 years) |
|                               | c. Other intangibles  
Straight-line method over the estimated useful lives |
|                               | C. Leased assets  
Finance lease without transfer of ownership of the leased assets  
Straight-line method in which the useful life is assumed to be the lease period and the residual value is zero. |
| (3) Accounting policies for allowances | A. Allowance for doubtful accounts  
In order to reserve future losses from default of notes and account receivable, allowance for bad debt is provided. The amount is determined using the percentage based on actual doubtful account loss against total of receivables. As for high-risk receivables, expected unrecoverable amount is considered individually. |
|                               | B. Allowance for bonuses  
Bonuses for employees are provided at an estimate of the amount. |
|                               | C. Allowance for sales returns  
In order to reserve future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on the past experience in the sales return. |
| (4) Accounting methods for retirement benefit obligation | In calculating the retirement benefit obligation, the expected retirement benefits are attributed to the periods by standard pension benefit formula basis.  
Actuarial gains and losses and past service costs are expensed in a certain period less than average future service years of employees of the year (1-23 years). |
| (5) Translation of foreign currencies | Foreign currency denominated receivables and payables are translated into Japanese yen at period-end rates of exchange and the resulting translation gains or losses are taken into current income.  
All asset and liability accounts of foreign subsidiaries are translated into Japanese yen at period-end rates of exchange and all income and expense accounts are translated at average exchange rate. The resulting foreign currency translation adjustments are included in accumulated other comprehensive income (loss) and non-controlling interest. |
<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5 Amortization of Goodwill</strong></td>
<td>Goodwill is amortized evenly over the appropriate period in less than 20 years.</td>
<td></td>
</tr>
<tr>
<td><strong>6 Definition of cash and cash equivalent in the consolidated statements of cash flows</strong></td>
<td>Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and representing a minor risk of fluctuations in value.</td>
<td></td>
</tr>
</tbody>
</table>
| **7 Other important matters for preparing financial statements** | A. Consumption tax  Transactions subject to consumption tax is stated at the amount net of the related consumption tax.  
B. Revenue recognition method for Post Contract Customer Support Service  Basically, the product license agreement contracted with the end-user states the article for PCS (customer support and upgrading of products and its pattern files).  The company applies the following revenue recognition method for the portion of PCS. Portion of 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. |   |
(7) **Additional Information**

(Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (Guideline of Financial Accounting Standard of Japan, March 28, 2016) from the first quarter of the current fiscal year.

(8) **Notes for Consolidated Financial Statements**

*(Consolidated Balance Sheets)*

<table>
<thead>
<tr>
<th>At the end of the previous fiscal year (As of December 31, 2016)</th>
<th>At the end of the current fiscal year (As of December 31, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Inventory</strong></td>
<td><strong>1. Inventory</strong></td>
</tr>
<tr>
<td>Finished Goods</td>
<td>Finished Goods</td>
</tr>
<tr>
<td>1,315</td>
<td>2,547</td>
</tr>
<tr>
<td>Materials</td>
<td>Materials</td>
</tr>
<tr>
<td>309</td>
<td>322</td>
</tr>
<tr>
<td>Goods</td>
<td>Goods</td>
</tr>
<tr>
<td>86</td>
<td>110</td>
</tr>
<tr>
<td><strong>2. Accumulated depreciation of</strong></td>
<td><strong>2. Accumulated depreciation of</strong></td>
</tr>
<tr>
<td>property and equipment</td>
<td>property and equipment</td>
</tr>
<tr>
<td>19,538</td>
<td>18,129</td>
</tr>
</tbody>
</table>

*(Consolidated Statements of Income)*

<table>
<thead>
<tr>
<th>For the previous fiscal year (From January 1, 2016 To December 31, 2016)</th>
<th>For the current fiscal year (From January 1, 2017 To December 31, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Major components of Operating expenses as follows</strong></td>
<td><strong>1. Major components of Operating expenses as follows</strong></td>
</tr>
<tr>
<td>Sales promotion</td>
<td>Sales promotion</td>
</tr>
<tr>
<td>7,154</td>
<td>7,943</td>
</tr>
<tr>
<td>Salaries</td>
<td>Salaries</td>
</tr>
<tr>
<td>33,361</td>
<td>37,759</td>
</tr>
<tr>
<td>Bonus</td>
<td>Bonus</td>
</tr>
<tr>
<td>2,717</td>
<td>1,733</td>
</tr>
<tr>
<td><strong>2. Research and development expense were 5,270 millions of yen and</strong></td>
<td><strong>2. Research and development expense were 7,788 millions of yen and</strong></td>
</tr>
<tr>
<td>included in Operating expenses.</td>
<td>included in Operating expenses.</td>
</tr>
</tbody>
</table>
(Consolidated Statements of Comprehensive Income)

※1 Reclassification and deferred tax amount of total other comprehensive income

For the previous fiscal year (from January 1, 2016 to December 31, 2016)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount in Current Year (Million Yen)</th>
<th>Reclassification</th>
<th>Before Deferred Tax (Million Yen)</th>
<th>Deferred Tax (Million Yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation difference on available-for sales securities</td>
<td>(643)</td>
<td>(7)</td>
<td>(651)</td>
<td>205</td>
</tr>
<tr>
<td>Valuation difference on securities</td>
<td>(445)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(2,264)</td>
<td></td>
<td>(2,264)</td>
<td></td>
</tr>
<tr>
<td>Remeasurement of defined benefit plans</td>
<td>(238)</td>
<td>40</td>
<td>(198)</td>
<td>77</td>
</tr>
<tr>
<td>Remeasurement of defined benefit plans</td>
<td>(120)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of other comprehensive income of associates accounted for using equity method</td>
<td>(48)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>(2,879)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
For the current fiscal year (from January 1, 2017 to December 31, 2017)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount incurred in current year</th>
<th>Reclassification</th>
<th>Before deferred tax</th>
<th>Deferred tax</th>
<th>Valuation difference on securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation difference on available-for sales securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount incurred in current year</td>
<td>387</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassification</td>
<td></td>
<td>(28)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>249</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount incurred in current year</td>
<td>1,680</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassification</td>
<td></td>
<td>(14)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,666</td>
</tr>
<tr>
<td>Remeasurement of defined benefit plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount incurred in current year</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reclassification</td>
<td></td>
<td>213</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurement of defined benefit plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>176</td>
</tr>
<tr>
<td>Share of other comprehensive income of associates accounted for using equity method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amount incurred in current year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(90)</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2,001</td>
</tr>
</tbody>
</table>
(Consolidated Stockholders' Equity Statements)

For the previous fiscal year (from January 1, 2016 to December 31, 2016)

1. Number of common stock issued

<table>
<thead>
<tr>
<th>Class of stock</th>
<th>As of Jan 1, 2016</th>
<th>Increase</th>
<th>Decrease</th>
<th>As of Dec 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>140,293,004</td>
<td>-</td>
<td>-</td>
<td>140,293,004</td>
</tr>
</tbody>
</table>

2. Number of treasury stocks

<table>
<thead>
<tr>
<th>Class of treasury stock</th>
<th>As of Jan 1, 2016</th>
<th>Increase</th>
<th>Decrease</th>
<th>As of Dec 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>3,378,224</td>
<td>732,450</td>
<td>959,800</td>
<td>3,150,874</td>
</tr>
</tbody>
</table>

The increase by 732,400 is due to the market purchasing of treasury stock and 50 is due to the purchase of the stock less than 1 unit.

The decrease by 959,800 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

<table>
<thead>
<tr>
<th>Detail</th>
<th>Class of shares subject to stock acquisition right</th>
<th>Number of shares subject to the exercise of stock acquisition rights</th>
<th>Amount outstanding (Million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of Jan 1, 2016</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>Stock Option</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

4. Dividend of surplus

(1) Dividends payment

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of stock</th>
<th>Total dividends (Million yen)</th>
<th>Cash dividends per share (yen)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' meeting on Mar 25, 2016</td>
<td>Common stock</td>
<td>15,060</td>
<td>110.00</td>
<td>Dec 31, 2015</td>
<td>Mar 28, 2016</td>
</tr>
</tbody>
</table>

(2) Dividends that will be effective in the next fiscal year but the record date is in the current fiscal year

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of stock</th>
<th>Dividends resource</th>
<th>Total dividends (Million yen)</th>
<th>Cash dividends per share (yen)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' meeting on Mar 28, 2017</td>
<td>Common stock</td>
<td>Retained earnings</td>
<td>19,337</td>
<td>141.00</td>
<td>Dec 31, 2016</td>
<td>Mar 29, 2017</td>
</tr>
</tbody>
</table>
For the current fiscal year (from January 1, 2017 to December 31, 2017)

1. Number of common stock issued

<table>
<thead>
<tr>
<th>Class of stock</th>
<th>As of Jan 1, 2017</th>
<th>Increase</th>
<th>Decrease</th>
<th>As of Dec 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>140,293,004</td>
<td>—</td>
<td>—</td>
<td>140,293,004</td>
</tr>
</tbody>
</table>

2. Number of treasury stocks

<table>
<thead>
<tr>
<th>Class of treasury stock</th>
<th>As of Jan 1, 2017</th>
<th>Increase</th>
<th>Decrease</th>
<th>As of Dec 31, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>3,150,874</td>
<td>—</td>
<td>493,300</td>
<td>2,657,574</td>
</tr>
</tbody>
</table>

The decrease by 493,300 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

<table>
<thead>
<tr>
<th>Detail</th>
<th>Class of shares subject to stock acquisition right</th>
<th>Number of shares subject to the exercise of stock acquisition rights</th>
<th>Amount outstanding (Million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As of Jan 1, 2016</td>
<td>Increase</td>
<td>Decrease</td>
</tr>
<tr>
<td>Stock Option</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

4. Dividend of surplus

(1) Dividends payment

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of stock</th>
<th>Total dividends (Million yen)</th>
<th>Cash dividends per share (yen)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' meeting on Mar 28, 2017</td>
<td>Common stock</td>
<td>19,337</td>
<td>141.00</td>
<td>Dec 31, 2016</td>
<td>Mar 29, 2017</td>
</tr>
</tbody>
</table>

(2) Dividends that will be effective in the next fiscal year but the record date is in the current fiscal year

<table>
<thead>
<tr>
<th>Resolution</th>
<th>Class of stock</th>
<th>Dividends resource</th>
<th>Total dividends (Million yen)</th>
<th>Cash dividends per share (yen)</th>
<th>Record date</th>
<th>Effective date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders' meeting on Mar 27, 2018</td>
<td>Common stock</td>
<td>Retained earnings</td>
<td>20,507</td>
<td>149.00</td>
<td>Dec 31, 2017</td>
<td>Mar 28, 2018</td>
</tr>
</tbody>
</table>
**For the previous fiscal year** (From January 1, 2016 To December 31, 2016) | **For the current fiscal year** (From January 1, 2017 To December 31, 2017)
---|---
Cash and bank deposits | **84,509** | **85,897**
Time deposits with original maturities of longer than three month | **(3,134)** | **(5,846)**
Short term investments which is in Marketable securities account | **21,000** | **18,388**
Cash and cash equivalent | **102,375** | **98,440**

---

*2 Breakdown of assets accepted and liabilities assumed, cost of acquisition and cash paid for the business combination

For the previous fiscal year (From January 1, 2016 to December 31, 2016)

(Million yen)

| Current assets | 57 |
| Non-current assets | 15,467 |
| Current liabilities | (3,620) |
| Non-current liabilities | (1,455) |
| Goodwill | 21,406 |
| Cost of acquisition | 31,854 |
| Advance payment for business acquisition in the previous fiscal year | (3,046) |
| Plug: Cash paid for the business combination | **28,808** |
( Marketable Securities and Security Investments)

As of December 31, 2016

1 Available-for-sale investments with fair market value

<table>
<thead>
<tr>
<th>Securities</th>
<th>Purchase cost</th>
<th>Fair value on consolidated balance sheet</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable securities with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fair value over purchase cost</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1)Government bonds</td>
<td>12,024</td>
<td>12,058</td>
<td>34</td>
</tr>
<tr>
<td>(2)Corporate bonds</td>
<td>7,591</td>
<td>7,751</td>
<td>159</td>
</tr>
<tr>
<td>(3)Others</td>
<td>12,542</td>
<td>12,603</td>
<td>61</td>
</tr>
<tr>
<td>Others</td>
<td>60</td>
<td>64</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>32,219</td>
<td>32,478</td>
<td>258</td>
</tr>
<tr>
<td>Marketable securities with</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>purchase cost over fair value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td>33</td>
<td>33</td>
<td>—</td>
</tr>
<tr>
<td>Bonds</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(1)Government bonds</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>(2)Corporate bonds</td>
<td>19,905</td>
<td>19,560</td>
<td>(345)</td>
</tr>
<tr>
<td>(3)Others</td>
<td>25,176</td>
<td>24,958</td>
<td>(218)</td>
</tr>
<tr>
<td>Others</td>
<td>21,718</td>
<td>21,713</td>
<td>(4)</td>
</tr>
<tr>
<td>Total</td>
<td>66,834</td>
<td>66,265</td>
<td>(568)</td>
</tr>
<tr>
<td>Grand Total</td>
<td>99,053</td>
<td>98,743</td>
<td>(309)</td>
</tr>
</tbody>
</table>

2 Sales of available-for-sales investments (From January 1, 2016 to December 31, 2016)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Sales amount</th>
<th>Gain on sales of investments in securities</th>
<th>Loss on sales of investments in securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Bonds</td>
<td>40,986</td>
<td>130</td>
<td>268</td>
</tr>
<tr>
<td>Others</td>
<td>30,199</td>
<td>37</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>71,186</td>
<td>167</td>
<td>270</td>
</tr>
</tbody>
</table>

3 Impaired marketable security

The Company had declared impairment loss on marketable securities for 140 million yen.
As of December 31, 2017

1  Available-for-sale investments with fair market value

<table>
<thead>
<tr>
<th>Securities with fair value over purchase cost</th>
<th>Securities</th>
<th>Purchase Cost</th>
<th>Fair value on consolidated balance sheet</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Government bonds</td>
<td>8,006</td>
<td>8,010</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>(2) Corporate bonds</td>
<td>5,745</td>
<td>5,760</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>(3) Others</td>
<td>50,187</td>
<td>50,359</td>
<td>171</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>719</td>
<td>785</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64,657</td>
<td>64,915</td>
<td>257</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marketable securities with purchase cost over fair value</th>
<th>Securities</th>
<th>Purchase Cost</th>
<th>Fair value on consolidated balance sheet</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>1,386</td>
<td>1,386</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Government bonds</td>
<td>68</td>
<td>68</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>(2) Corporate bonds</td>
<td>13,707</td>
<td>13,596</td>
<td>(111)</td>
<td></td>
</tr>
<tr>
<td>(3) Others</td>
<td>18,048</td>
<td>17,951</td>
<td>(97)</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>18,405</td>
<td>18,405</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>51,616</td>
<td>51,408</td>
<td>(208)</td>
<td></td>
</tr>
</tbody>
</table>

| Grand Total                                              | 116,274    | 116,323       | 49                                      |            |

2  Sales of available-for-sales investments (From January 1, 2017 to December 31, 2017)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Sales amount</th>
<th>Gain on sales of investments in securities</th>
<th>Loss on sales of investments in securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Bonds</td>
<td>28,008</td>
<td>71</td>
<td>44</td>
</tr>
<tr>
<td>Others</td>
<td>22,052</td>
<td>0</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>50,061</td>
<td>72</td>
<td>44</td>
</tr>
</tbody>
</table>
1 Outline of reporting segment

The segment of Trend Micro group shall be part of its organizational units whose financial information is individually available, and shall be subject to regular review by its decision-making-body for the purpose of deciding the allocation of its managerial resources and evaluating its business performances.

The company is mainly engaged in developing and selling anti-virus software product and providing anti-virus related services. The company is taking care of Japan area and its affiliates in North America, Europe, Asia Pacific or Latin America are in charge of their own area respectively. Therefore, our segments are made of 5 segments which are Japan, North America, Europe, Asia Pacific and Latin America based on the business of developing, selling anti-virus products and related services.

2 Method of calculating amounts of net sales, income/loss, assets, liabilities and other items by segments

Accounting procedures reported by segment are almost the same as those which are described in【Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements】

3 Information of the amount of sales, profit/loss, assets, liabilities and other items by reporting segments

For the previous fiscal year (from January 1, 2016 to December 31, 2016)

(Million Yen)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
<th>Consolidation Adjustment</th>
<th>Consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>56,179</td>
<td>34,853</td>
<td>21,490</td>
<td>15,891</td>
<td>3,522</td>
<td>131,936</td>
<td>—</td>
<td>131,936</td>
</tr>
<tr>
<td>(2) Intercompany sales</td>
<td>56,239</td>
<td>38,670</td>
<td>25,434</td>
<td>36,107</td>
<td>3,600</td>
<td>160,053</td>
<td>(28,116)</td>
<td>131,936</td>
</tr>
<tr>
<td>Total sales</td>
<td>18,716</td>
<td>6,408</td>
<td>4,140</td>
<td>3,755</td>
<td>1,118</td>
<td>34,139</td>
<td>220</td>
<td>34,360</td>
</tr>
<tr>
<td>Operating income by segment</td>
<td>164,232</td>
<td>97,918</td>
<td>48,352</td>
<td>40,503</td>
<td>9,735</td>
<td>360,743</td>
<td>(52,205)</td>
<td>308,537</td>
</tr>
<tr>
<td>Asset by segment</td>
<td>2,514</td>
<td>3,402</td>
<td>888</td>
<td>898</td>
<td>21</td>
<td>7,725</td>
<td>(279)</td>
<td>7,445</td>
</tr>
<tr>
<td>Other items</td>
<td>2,917</td>
<td>1,329</td>
<td>1,208</td>
<td>10</td>
<td>9,430</td>
<td>—</td>
<td>9,430</td>
<td></td>
</tr>
</tbody>
</table>

(Note)

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

2 Major countries other than Japan:
   - North America: U.S.A., Canada
   - Europe: Ireland, Germany, Italy, France, UK
   - Asia Pacific: Taiwan, Korea, Australia, China, Philippines, Singapore, Malaysia, Thailand, India, UAE
   - Latin America: Brazil, Mexico

3 Consolidation Adjustment at Operating income 220 million yen comes from the elimination between segments transactions.

4 Majority of Consolidation Adjustment at Asset (52,205) million yen comes from the elimination between segments transactions.

5 Consolidation Adjustment at Depreciation and amortization (279) million yen comes from the elimination between segments transactions.
For the current fiscal year (from January 1, 2017 to December 31, 2017)

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
<th>Consolidation Adjustment</th>
<th>Consolidation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Intercompany sales</td>
<td>164</td>
<td>5,538</td>
<td>5,870</td>
<td>22,338</td>
<td>186</td>
<td>34,098</td>
<td>(34,098)</td>
<td>—</td>
</tr>
<tr>
<td>Total sales</td>
<td>59,307</td>
<td>47,529</td>
<td>29,971</td>
<td>41,461</td>
<td>4,639</td>
<td>182,909</td>
<td>(34,098)</td>
<td>148,811</td>
</tr>
<tr>
<td>Operating income by segment</td>
<td>18,408</td>
<td>7,686</td>
<td>5,495</td>
<td>3,563</td>
<td>1,088</td>
<td>36,242</td>
<td>199</td>
<td>36,441</td>
</tr>
<tr>
<td>Asset by segment</td>
<td>161,648</td>
<td>107,479</td>
<td>55,486</td>
<td>45,453</td>
<td>10,880</td>
<td>380,948</td>
<td>(49,791)</td>
<td>331,157</td>
</tr>
<tr>
<td>Other items</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>3,325</td>
<td>4,202</td>
<td>1,308</td>
<td>1,089</td>
<td>31</td>
<td>9,957</td>
<td>(313)</td>
<td>9,643</td>
</tr>
<tr>
<td>Increase in tangible and intangible fixed assets</td>
<td>4,377</td>
<td>5,015</td>
<td>1,718</td>
<td>1,111</td>
<td>150</td>
<td>12,374</td>
<td>—</td>
<td>12,374</td>
</tr>
</tbody>
</table>

(Note)
1. The classification of the geographical segment is based on geographic proximity.
2. Major countries other than Japan:
   - North America: U.S.A., Canada
   - Europe: Ireland, Germany, Italy, France, UK
   - Asia Pacific: Taiwan, Korea, Australia, China, Philippines, Singapore, Malaysia, Thailand, India, UAE, Egypt
   - Latin America: Brazil, Mexico
3. Consolidation Adjustment at Operating income 199 million yen comes from the elimination between segments transactions.
4. Majority of Consolidation Adjustment at Asset (49,791) million yen comes from the elimination between segments transactions.
5. Consolidation Adjustment at Depreciation and amortization (313) million yen comes from the elimination between segments transactions.

(Relative information)

For the previous fiscal year (from January 1, 2016 to December 31, 2016)

1. Information by production and service
   The amount of sales in the single category of production and service to external customers exceeds 90% of sales which was recognized in consolidated statement of income, then, reporting is omitted.

2. Information by geographical area
   (1) Sales

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55,916</td>
<td>32,952</td>
<td>22,586</td>
<td>16,846</td>
<td>3,634</td>
<td>131,936</td>
</tr>
</tbody>
</table>

(Note) Sales is categorized by area or country based on the location of customers.
Sales in U.S.A is 32,538 million yen of the North America.
(2) Tangible fixed asset

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million yen)</td>
<td>615</td>
<td>3,645</td>
<td>568</td>
<td>1,642</td>
<td>80</td>
<td>6,551</td>
</tr>
</tbody>
</table>

(Note) Tangible fixed asset in U.S.A is 3,480 million yen of the North America and that of China is 579 million yen and that of Taiwan is 750 million yen of the Asia Pacific.

3. Information by major customers

<table>
<thead>
<tr>
<th>Customer name</th>
<th>Sales (Millions of yen)</th>
<th>Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>SoftBank Telecom Corp.</td>
<td>15,139</td>
<td>Japan</td>
</tr>
<tr>
<td>Ingram Micro Inc.</td>
<td>14,396</td>
<td>North America, Europe, Asia Pacific</td>
</tr>
</tbody>
</table>

For the current fiscal year (from January 1, 2017 to December 31, 2017)

1. Information by production and service

The amount of sales in the single category of production and service to external customers exceeds 90% of sales which was recognized in consolidated statement of income, then, reporting is omitted.

2. Information by geographical area

(1) Sales

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million yen)</td>
<td>58,829</td>
<td>37,743</td>
<td>26,090</td>
<td>21,321</td>
<td>4,826</td>
<td>148,811</td>
</tr>
</tbody>
</table>

(Note) Sales is categorized by area or country based on the location of customers.

Sales in U.S.A is 37,005 million yen of the North America.

(2) Tangible fixed asset

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Million yen)</td>
<td>546</td>
<td>5,152</td>
<td>639</td>
<td>1,679</td>
<td>205</td>
<td>8,222</td>
</tr>
</tbody>
</table>

(Note) Tangible fixed asset in U.S.A is 4,765 million yen of the North America and that of China is 626 million yen and that of Taiwan is 716 million yen of the Asia Pacific.

3. Information by major customers

There are no customers which account for more than 10% of the consolidated sales.

Therefore, information by major customers is not disclosed.
(Information of impairment loss on fixes asset by segment)
For the previous fiscal year (from January 1, 2016 to December 31, 2016)
N/A

For the current fiscal year (from January 1, 2017 to December 31, 2017)
N/A

(Information of amortization expense of goodwill and unamortized balance of goodwill by segment)
For the previous fiscal year (from January 1, 2016 to December 31, 2016)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization Expense of GW</td>
<td>87</td>
<td>3,192</td>
<td>238</td>
<td>196</td>
<td>30</td>
<td>3,745</td>
<td></td>
<td>3,745</td>
</tr>
<tr>
<td>Unamortized balance of GW</td>
<td>155</td>
<td>15,875</td>
<td>1,226</td>
<td>946</td>
<td>153</td>
<td>18,356</td>
<td></td>
<td>18,356</td>
</tr>
</tbody>
</table>

For the current fiscal year (from January 1, 2017 to December 31, 2017)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Japan</th>
<th>North America</th>
<th>Europe</th>
<th>Asia Pacific</th>
<th>Latin America</th>
<th>Total</th>
<th>Elimination</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization Expense of GW</td>
<td>68</td>
<td>3,675</td>
<td>292</td>
<td>231</td>
<td>39</td>
<td>4,307</td>
<td></td>
<td>4,307</td>
</tr>
<tr>
<td>Unamortized balance of GW</td>
<td>86</td>
<td>13,001</td>
<td>1,045</td>
<td>730</td>
<td>114</td>
<td>14,978</td>
<td></td>
<td>14,978</td>
</tr>
</tbody>
</table>

(Information of negative goodwill by segment)
N/A

(Information of EPS)

<table>
<thead>
<tr>
<th>Segment</th>
<th>For the previous fiscal year (From January 1, 2016 To December 31, 2016)</th>
<th>For the current fiscal year (From January 1, 2017 To December 31, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book value per share</td>
<td>1,202.12</td>
<td>1,274.45</td>
</tr>
<tr>
<td>Net income per share</td>
<td>179.63</td>
<td>187.01</td>
</tr>
<tr>
<td>Diluted net income per share</td>
<td>178.80</td>
<td>185.24</td>
</tr>
</tbody>
</table>
1. Basis of calculation for net income per share and diluted net income per share are as follows.

<table>
<thead>
<tr>
<th></th>
<th>For the previous fiscal year (From January 1, 2016 To December 31, 2016)</th>
<th>For the current fiscal year (From January 1, 2017 To December 31, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>&lt;Basic EPS&gt;</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (Million Yen)</td>
<td>24,651</td>
<td>25,691</td>
</tr>
<tr>
<td>-not to attributable to common stock holders</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>-to common stock holders</td>
<td>24,651</td>
<td>25,691</td>
</tr>
<tr>
<td>Weighted-average number of common shares (Shares)</td>
<td>137,235,128</td>
<td>137,376,704</td>
</tr>
<tr>
<td><strong>&lt;Diluted EPS&gt;</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustments to net income (Million Yen)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Increased numbers of common shares (Shares)</td>
<td>636,006</td>
<td>1,313,903</td>
</tr>
<tr>
<td>(Stock acquisition rights (Shares))</td>
<td>(636,006)</td>
<td>(1,313,903)</td>
</tr>
<tr>
<td>Details of shares not included in the computation of diluted EPS since it did not have dilutive effect</td>
<td>350,000 for Stock option round 33</td>
<td>345,000 for Stock option round 35</td>
</tr>
</tbody>
</table>

2. Basis of calculation for book value per share is as follows.

<table>
<thead>
<tr>
<th></th>
<th>For the previous fiscal year (From January 1, 2016 To December 31, 2016)</th>
<th>For the current fiscal year (From January 1, 2017 To December 31, 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net assets</td>
<td>166,471</td>
<td>177,077</td>
</tr>
<tr>
<td>Amount deducted from total net assets</td>
<td>1,609</td>
<td>1,668</td>
</tr>
<tr>
<td>(Stock acquisition rights)</td>
<td>(1,605)</td>
<td>(1,662)</td>
</tr>
<tr>
<td>(Minority interest)</td>
<td>(4)</td>
<td>(6)</td>
</tr>
<tr>
<td>Total net assets attributable to common stock</td>
<td>164,861</td>
<td>175,409</td>
</tr>
<tr>
<td>Number of common shares (Shares)</td>
<td>137,142,130</td>
<td>137,635,430</td>
</tr>
</tbody>
</table>

(Note)

The Company omits the notes for "Lease transaction", "Related party transaction", "Deferred tax accounting", "Financial instrument", "Derivative", "Stock Option", "Employee retirement benefit plan", "Investment and Rental Property" and "Business combinations", because for the current fiscal year, the Company considers there is not a strong need to release them.