

February 16, 2023

Report of Earning Results (Consolidated)
for Fiscal Year
Ending December 31, 2022

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Expected date of the annual shareholders meeting : March 28, 2023

Expected date of the delivery of dividends : March 29, 2023

Expected date of the submission of annual security reports (“Yuka Shoken Hokokusho”) : March 28, 2023

1. Financial Highlights for FY2022 (January 1, 2022 through December 31, 2022)

(1) Consolidated Results of Operations

	Net Sales		Operating Income		Ordinary Income		Net income attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2022	223,795	17.6	31,340	(28.2)	34,162	(23.2)	29,843	(22.2)
FY 2021	190,359	9.4	43,641	10.6	44,501	11.7	38,367	42.6

(Note) Comprehensive Income : 48,947 million yen Δ 0.6% as of December 31, 2022
49,226 million yen 114.3% as of December 31, 2021

	Net income per share (basic)	Net income per share (diluted)	Return on shareholders' equity	Return on assets	Operating profit on sales
	Yen	Yen	%	%	%
FY 2022	213.59	213.22	13.4	7.7	14.0
FY 2021	275.20	275.06	18.9	11.2	22.9

(Note) Equity in earnings of affiliated companies : 456 million yen loss as of December 31, 2022
110 million yen loss as of December 31, 2021

(2) Consolidated Financial Position

As of	Total assets	Net Assets	Net Assets ratio	Net Assets per share
	Million yen	Million yen	%	Yen
December 31, 2022	470,799	228,679	48.2	1,629.67
December 31, 2021	420,457	221,434	52.1	1,568.52

(Note) Net assets after deduction of Share acquisition rights and Minority interest :
226,776 million yen as of December 31, 2022
219,084 million yen as of December 31, 2021

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
	Million yen	Million yen	Million yen	Million yen
FY 2022	56,903	(67,716)	(30,437)	207,643
FY 2021	55,267	2,575	(16,445)	225,681

2. Dividend of Surplus

As of	Cash dividends per share					Aggregate amount of dividend annual	Dividends payout ratio (Consolidated)	Dividends on shareholders' equity (consolidated)
	The first quarter end	The second quarter end	The third quarter end	Annual end	Total	Total	Total	Total
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
December 31, 2021	—	0.00	—	195.00	195.00	27,236	70.9	13.4
December 31, 2022	—	0.00	—	151.00	151.00	21,012	70.7	9.4
Projection for FY 2023	—	0.00	—	—	—	—	—	—

(Note) Dividend for FY2023 Annual end is not yet projected.

3. Forecasts of Consolidated Financial Results for FY 2023

(January 1, 2023 through December 31, 2023)

	Net Sales	Operating Income	Ordinary Income	Net income attributable to owners of the parent	Net income per share (basic)
	Million Yen	Million Yen	Million Yen	Million Yen	Yen
Annual	248,500 11.0	34,800 11.0	34,900 2.2	25,100 (15.9)	180.38

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 : Yes
- 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):

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

140,744,104 shares as of December 31, 2021

② Number of treasury stocks :

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

1,068,790 shares as of December 31, 2021

③ Average number of shares outstanding :

139,725,093 shares as of December 31, 2022

139,415,408 shares as of December 31, 2021

Results of the non-consolidated operations

1. Financial Highlights for FY2022 (January 1, 2022 through December 31, 2022)

(1) Results of operations

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2022	82,132	7.2	12,374	(46.3)	46,272	108.2	41,809	95.5
FY 2021	76,628	6.5	23,046	(2.2)	22,221	(21.6)	21,384	2.2

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
FY 2022	299.23	298.71
FY 2021	153.39	153.31

(2) Financial Position

As of	Total assets	Net Assets	Net Assets ratio	Net Assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2022	186,816	96,868	50.8	682.57
December 31, 2021	175,480	83,609	46.8	587.72

(Note) Net Assets after deduction of Share acquisition rights

: 94,982 million yen (82,090 million yen as of December 31, 2021)

* 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 (2) Qualitative Information on the Consolidated Earnings Forecast on page 4 of the attachment for conditions serving as assumptions for results forecasts.

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1 Qualitative Information and Financial Statements

(1) Qualitative Information on the Consolidated Business Results

(Unit: million yen)

	Net Sales	Operating Income	Ordinary Income	Net income before taxes	Net income attributable to owners of the parent
FY2022	223,795	31,340	34,162	41,897	29,843
FY2021	190,359	43,641	44,501	52,371	38,367
Rate of Change (%)	17.6%	-28.2%	-23.2%	-20.0%	-22.2%

(Unit: million yen)

	Net Sales		
	FY2022	FY2021	Rate of Change (%)
Japan	82,087	76,612	7.1%
Americas Reg.	52,953	42,602	24.3%
Europe Reg.	41,460	34,833	19.0%
Asia and Pacific Reg.	47,293	36,309	30.2%
Total	223,795	190,359	17.6%

During this term of fiscal year 2022, from January 1 to December 31, the world economy expects to pick up moderately due to the gradual easing of COVID-19 from the severe situation. On the other hand, there are risks mainly associated with the global policy rate tightening, exchange rate fluctuations, worldwide inflation, and steep rise in fuel import prices due to prolonging the Russian-Ukrainian crisis, etc. The worldwide economic outlook has been a concern.

The worldwide Information Technology industry has grown due to accelerated demands of remote working, education, DX (digital transformation) under the global affected by the Covid-19 pandemic. Referring to the report by 3rd party forecasts worldwide IT spending to grow 2.4% to \$4.9 trillion in 2023. Although there are concerns about global inflation and companies are cautious about spending, enterprise software is expected to have growth of 9.3% mainly due to an increase in cloud usage and SaaS migration on the background of accommodating increasingly complex hybrid work for employees, then.

In the cyber security industry, continuously multitude of cyber attacks that target specific national institutions, etc., leaking damage of sensitive business information, and targeted attacks including crypto assets drain in specific companies, organizations have been still coming across occasionally. In addition, the global epidemic of Covid-19 infection was used by phishing scams, the malware files which abuse remote meeting systems have infested. Especially in ransomware, threats in targeted attacks that implemented the 'double extortion' technique by revealing stolen and sensitive information stood out. In Japan, there was a stoppage incident attracted people's attention by ransomware attacking supply chain vulnerabilities of the large enterprise for its stoppage all factory operations. Against this background, the conventional security measure, with defense of each single terminal and device, and the network segmented into smaller zones, has been changing to no longer desired. The demand is expanding for the solutions including visibility and deep analytics on the premise of intrusion risks. Going through the trend of such threat changes, it has been required showing more rigorous approach to information management to regardless business or individual into new daily life.

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

With regards to sales in Japan region, consumer business has led this region sales with going well continuously under the sustained good sales in mobile channel shop, etc. In Enterprise business, cloud security made a big contribution, and endpoint security, etc. also show growth, and the enterprise business overall performance was solid. As a result, net sales for this period in Japan region amounted to 82,087 million yen (7.1% increase from the same period in the previous year) increase to.

For Americas region, which integrates the former North American region and Latin American region, despite intensifying endpoint security market competition, SaaS related business has been still kept well and also cloud security besides on demands for Trend Micro Vision One ("Vision One" which is a security operation at the center of the Trend Micro cybersecurity platform) performed well in enterprise business sales. In addition, there was a weak yen impact, net sales in this region were 52,953 million yen (24.3% increases from the same period in previous year) increase in double-digit growth rate.

In Europe region sales, associated with good demands of Vision One which showed growth, mainly cloud security, network security and others were largely growing in entire enterprise business. As a results, net sales in this region were 41,460 million yen (19.0% increase from the same period in the previous year) in a double-digit growth rate.

In the Asia Pacific region, the entire region sales performed well. Especially in enterprise business sales, network security showed substantial growth and cloud security also performed well and Vision One strongly led in large part. Locally, Australia, Middle East, and Taiwan area led this region sales. In addition of the depreciation of yen impact, as a result, net sales for this period in Asia Pacific region amounted to 47,293 million yen (30.2% increase from the same period in the previous year) in the highest double-digit growth rate in all regions.

As a result, the consolidated net sales for this period (this term of fiscal year 2022, from January 1 to December 31,) marked 223,795 million yen (17.6% increase from the same period in previous year) with increasing in all regions.

For the costs, it was caused by significant increase in people costs with huge impact of weak yen, increase in outsource fee due to good sales of consumer business at mobile channel shop, and others. Thus, cost of sales and operating expenses for this period totaled 192,454 million yen (31.2% increase from the same period in previous year) substantially increase. As the results, consolidated operating income for this period was 31,340 million yen (28.2% decrease from the same period in previous year) decrease to.

In terms of the original forecast of financial results for the fiscal year ending December 31, 2022, announced on February 17, 2022, the entire group sales were higher than expected due to the significant depreciation of the yen against our forecast of exchange rates for the Annual of FY2022.

Regarding operating income forecast, total costs including mainly people costs exceeded our forecasts caused by yen depreciation impact against our forecast exchange rates. The impact of this costs increase exceeded the increase in the entire group sales. In addition, cloud costs were essentially higher than our forecast. As the results, operating income fell far short of the initial forecast.

And the consolidated ordinary income for this period was 34,162 million yen (23.2% decrease from the same period in previous year) decrease to. The net income attributable to owners of the parent for this period was 29,843 million yen (22.2% decrease from the same period in previous year) decreased due to gain on sales of shares of subsidiaries and associates, gain on change in equity, and loss on valuation of investment securities, etc.

Operating income based on Pre-GAAP (revenue before adjusting deferred revenue, etc.) serves as the important management indicators for our company. It for this period was 51,635 million yen, a decrease of 6,155 million yen (10.7% decrease from the same period in previous year.) This decrease was due to cost of sales and operating expenses growth, including cost of public cloud service usage volume increase for the strengthening of our SaaS business, people costs due to staff up, and additionally impact of yen depreciation. As the results, the cost of sales and operating expenses growth were in excess of Pre-GAAP growth.

We change in accounting policies according to the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. Hereinafter referred to as the "Accounting Standard for Revenue Recognition") etc., which was applied from the beginning of the current fiscal year. As a result, compared with the previous method, net sales decreased 2,014 million yen and selling, general and administrative expenses increased 1,646 million yen, respectively, and operating income, ordinary income, and income before income taxes and minority interests decreased 3,661 million yen, respectively for this period (this term of fiscal year 2022, from January 1 to December 31.)

(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 figure on a yearly basis. However, forecasts of net sales for FY 2023 is assumed Japan region increases by approximately a low single-digit growth ratio from the same period in previous year respectively. Americas, region increases by approximately 10% from the same period in previous year respectively. Both Europe region and Asia and Pacific region increase by approximately 20% from the same period in previous year respectively. As the result, entire group sales is assumed increase by around 11% from the same period in previous year respectively. The forecast of cost for FY 2023 is assumed increases mainly due to people costs to invest in human resources to further build up the momentum of strategy execution, and public cloud service expenses for strengthening SaaS business. In consideration of such a condition, we have decided to announce the earnings on an annual basis in the fiscal year ending in December 2023 as followings.

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

Consolidated net sales	248,500 million yen
Consolidated operating income	34,800 million yen
Consolidated ordinary income	34,900 million yen
Net income attributable to owners of the parent	25,100 million yen

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

1 US \$	135 yen
1 Euro	143 yen

(3) FINANCIAL CONDITION ANALYSIS

CONDITION OF ASSETS, LIABILITIES, AND NET ASSETS

Cash and bank deposits at the end of this period amounted to 191,542 million yen, an decrease of 6,187 million yen from FY2021 annual closing.

In spite of a significant decrease in marketable securities, and cash and bank deposits, etc., due to a substantial increase in notes and accounts receivable trade and contract assets net and investments securities, etc., total assets at the end of this period were 470,799 million yen, 50,342 million yen increase from FY2021 annual closing.

Total liabilities at the end of this period were 242,120 million yen, 43,097 million yen increase from FY2021 annual closing mainly due to a significant increase in deferred revenue, etc.

Total net assets at the end of this period were 228,679 million yen, 7,245 million yen increase from FY2021 annual closing. This increase is mainly due to a significant increase in foreign currency translation adjustments, etc., despite a decrease in retained earnings and an increase in treasury stock, etc.

As a result, due to the "Accounting Standard for Revenue Recognition" etc., which was applied from the beginning of the current fiscal year, the cumulative effect amount reflected in net assets at the beginning of the current fiscal year decreased the beginning balance of retained earnings by 10,427 million yen.

CONDITION OF CASH FLOW

	FY 2022	FY 2021	Increase (Decrease)
Cash Flows from Operating Activities	56,903	55,267	1,635
Cash Flows from Investing Activities	(67,716)	2,575	(70,292)
Cash Flows from Financing Activities	(30,437)	(16,445)	(13,991)

Effect of Exchange Rate Changes on Cash and Cash Equivalents	23,908	10,121	13,787
Net Increase (Decrease) in Cash and Cash Equivalents	(17,342)	51,518	(68,861)
Cash and Cash Equivalents at beginning of period	225,681	174,162	51,518
Cash and Cash Equivalents at end of period	207,643	225,681	(18,038)

[Overview of Cash Flow]

Cash flows from operating activity for this period were cash inflow of 56,903 million yen. The inflow was increased by 1,635 million yen compared with the previous period. This increase of inflow was mainly due to the increase of deferred revenue.

Cash flows from investing activity were cash outflow of 67,716 million yen, the outflow was increased by 70,292 million yen compared with the previous period. This was mainly due to the increase of payments for purchases of marketable securities and securities investments.

Cash flows from financing activity were cash outflow of 30,437 million yen, the outflow was increased by 13,991 million yen compared with the previous period. This was mainly due to the decrease of payment for purchase of treasury stock.

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 207,643 million yen, the balance was decreased by 18,038 million yen compared with the previous period.

[Trends of Cash Flow Indexes]

(Japan GAAP)

	FY2018	FY2019	FY2020	FY2021	FY2022
Shareholder's equity Ratio (%)	53.7	51.8	49.7	52.1	48.2
Capital Adequacy Ratio on Market Value Basis (%)	240.8	216.6	219.4	212.3	181.5
Debt Redemption Period (years)	-	-	-	-	-
Interest Coverage Ratio	24,706.9	-	-	5,845.0	1,307.1

(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 Cash Flow)

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

In order to further improve the efficiency of shareholders' equity through the appropriate level of cash holdings, we intend to return a minimum amount of 100% or more of "Net income attributable to owners of the parent" (Consolidated net income) of the previous fiscal year to shareholders over the next several years. Its method of shareholder returns will be mainly through share buybacks, together with annual dividends (payout ratio 70%).

If we use a large amount of cash for acquisitions, etc. in each year, the amount used will be subtracted from the total amount of annual share buybacks (this will not affect the dividend payout ratio, which is set at 70%).

Our basic dividend policy is to pay year-end dividends, targeting a dividend payout ratio of 70% based on consolidated net income. For the current consolidated fiscal year, we plan to post 21,012 million yen (151 yen per share), which is 70.4% (gross basis) of the consolidated net income of 29,843 million yen.

(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. 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.

Compare to any other general software vendors with a wide range products, we are mainly focusing our business in the field of cyber security business based on antivirus software. 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. While such a situation is expected to continue for the time being, the cyber security industry to which our group belongs is intensifying market competition, and it is strategic to cooperate with other companies to provide new security products and services. We are preparing for a rapidly changing business environment by taking an active stance on alliances and considering acquisitions of other companies in order to expand our business domain.

The reliance on a single business area of our group can result in many risk and uncertainties, including:

- A material loss of both sales and market share in not only Japan where current leading market position to our entire group sales, but also any other regions as a result of invest substantial cash and other resources in product development, marketing promotions and support and maintenance activities, could have a material adverse effect on our business, financial condition and results of operations.
- May not earn revenue successfully as we expected from alliances despite our efforts
- May be terminated or dissolved due to various causes before generating revenue.
- Our inability to retain customers, suppliers and other important business relationships of an acquired business
- Difficulties in effective merging 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
- Possibilities of adverse effects on our results of operations arising from acquisition-related charges due to impairment of goodwill and purchased technology and recognition of impairment charge
- Possibilities of dilution in our current shareholders' ownership interests in a case of using our stock for such an acquisition

2. OUR WIDE RANGE OF PRODUCTS AND SERVICES MAY BECOME OBSOLETE BECAUSE RAPID TECHNOLOGICAL CHANGES REGULARLY OCCUR IN THE COMPUTER SECURITY MARKET.

The cyber security industry, which our group belongs to, 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

- Changeable customer needs
- Changing market competition rapidly

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. Moreover, customers might still choose these vendors' antivirus products even if they offered fewer functions and less effective in detecting and cleaning virus-infected files than our wide range of products and services due to lower cost or for any other reasons. As a result, such a customer behavior may decline our competitiveness, various products and services of our group may not be accepted by the market, and the business environment may change due to the emergence of new computing and security technologies. If our group is unable to respond promptly and appropriately to such changes, it may have a significant impact on our business, financial position and operating results.

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

We rely on specified third parties, which design and manufacture of various products in accordance with the international standard that specifies requirements for a quality management system including ISO, etc., to manufacture our hardware-based products. Reliance on those third-party manufacturers involves a number of risks, including a lack of control over the manufacturing process, the potential absence or unavailability of adequate capacity and the unexpected loss of any of our manufacturers could disrupt our business. Against such supply chain risks, we are taking measures to ensure sustainable supply with sufficient buffers of product inventories based on careful analysis of past sales performance and future sales forecasts. However, even if we set those measures, those above factors might be caused by opportunity losses including customer orders cancellation and significant shortage of components, etc. In that case, our financial condition and results of operation are adversely affected.

4. WE COULD SUFFER DISRUPTIONS IN OUR BUSINESS AND LONG-TERM DAMAGE TO OUR REPUTATION.

Our group's reputation may be more susceptible to problems than other software companies in cyber security risks including unauthorized access, cyber attacks, hackers / crackers trying to break into or attack our networks, steal secrets, and deface our site. Also, there are considered some cases of loss or theft of technical or private information for taking out and unfair use by our group insiders despite taking legislative actions, etc., our group's security products and services may also fail to properly identify, prevent unwanted, and falsely identify. In addition, as the system risks, 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 those risk cases, it would adversely impact our reputation and lose the credibility of our business.

Our group has established the Global Chief Information Security Officer (CISO), which oversees information security governance, and has established and operates the CSIRT (Computer Security Incident Response Team) as an organization that responds to security incidents. In addition, in the event that the risk level is related to the entire world, we have established a system to respond to the crisis company-wide in cooperation with the global crisis management system. Especially, the head office in Japan has a comprehensive crisis management system called SWAT to establish a system to visualize risks, regularly review them with management, and take appropriate measures promptly.

Also, our group has acquired the international standards "ISO27001" and JISQ15001 (privacy mark) for information security management systems, concludes contracts with subcontractors and employees with the purpose of preservation of confidentiality, establishes information management regulations, employees and consignments. In addition to striving to strengthen and thoroughly manage and prevent leaks, such as educating and thoroughly disseminating information, strengthening infrastructure security, and taking measures to prevent intrusion from the outside into the in-house information system, in addition to providing products and services in advance We are conducting appropriate tests. Moreover, we also provide products and services that have been certified and certified by various external organizations such as FIPS 140-2, PCI DSS 3.2, and FedRAMP.

However, even if these measures are taken, the above risks may not be prevented. If these incidents occur, we could significantly discredit us, which could result in a significant loss of customers and other important business relationships until recovery of confidence. Not only our disrepute, there may be possible that our group's business may reduce the adoption of our products and

services. We could also incur costs to fix technical problems or fix problems created by hackers gaining access to our proprietary information. In addition, if a proceeding is filed against our group and a huge claim for damages is granted, it will have a significant impact on our business, as well as on our financial position and operating results.

5. OUR DISTRIBUTORS AND INTERMEDIARIES WHO SELL OUR PRODUCTS AND SERVICES MAY ADVERSELY AFFECT OUR BUSINESS AND OPERATING RESULTS.

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. Additionally, we regularly review the collectability and creditworthiness of those our distributors and intermediaries to determine an appropriate allowance for doubtful receivables. If some of our distributors are experiencing financial difficulties worldwide, which may adversely impact our collection of accounts receivable. In such a case, our uncollectible accounts could exceed our current or future allowance for doubtful receivables, which would be adversely significant impact our operating results.

6. WE MUST EFFECTIVELY MANAGE OUR BUSINESS GROWTH.

Our business field has been expanding. This expansion has placed, and any future business expansion or growth will continue to place, a significant strain on our limited personnel, management and other resources. We have been strengthening and improving the following points in order to sustain growth in the future we will.

- 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:

- In a timely manner, provide effective customer service and develop and deliver products;
- implement effective financial reporting and control systems; and
- exploit new market opportunities and effectively respond to competitive pressures.

7. THE HUMAN RESOURCES INCLUDING MAJOR TECHNICAL SPECIALIST PERSONNEL COULD ADVERSELY AFFECT OUR BUSINESS.

The cyber 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. At the same time, we are required to take defense against possibility of human resources flow including major technical specialist personnel.

Our ability to manage any future expansion or growth in our business, we are strengthening and improving the acquisition and securing of new human resources, attract, train, retain, motivate and manage new employees successfully and effectively integrate new employees into our operations. Additionally, 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. Today, the majority of Trend Micro staff as of 56.1% is based in Asia including 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.

8. FLUCTUATIONS IN OUR QUARTERLY FINANCIAL RESULTS COULD CAUSE THE MARKET PRICE OF TREND MICRO INCORPORATED, TREND MICRO GROUP'S PARENT COMPANY, FOR ITS SHARES TO BE VOLATILE.

Due to all the factors listed in this risk factors information, 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 which could cause our quarterly financial results to fluctuate. In this event, the share price of Trend Micro Incorporated, Trend Micro group's parent company, could fall.

9. FOREIGN EXCHANGE FLUCTUATIONS AND FINANCIAL MARKET FLUCTUATIONS COULD LOWER OUR RESULTS OF OPERATIONS

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. If we are successful in increasing our sales in markets outside of Japan, the impact of exchange rate fluctuations between these currencies and the Japanese yen may be greater and these negative effects from currency fluctuations could become more significant.

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. 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.

10. WE RELY HEAVILY ON OUR KEY MANagements, WHO MAY NOT REMAIN WITH US IN THE FUTURE.

We rely, and will continue to rely, on a number of key managements, including our Chief Executive Officer, Eva Yi-Fen Chen. If any of our key managements leave, our business, results of operations and financial condition could suffer. If key managements 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.

11. 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.

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.

12. THE POSSIBILITY OF OUR CUSTOMERS 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.

For all our group's customer users including above enterprise customer users, our 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.

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, etc. could cause damage to human lives, health, and the personal property of our customers who have used a defective appliance, etc. 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. Also, we have insurance for product liability compensation. 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 lawsuit, 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.

13. 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. 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.

Our group has been taking all possible measures to prevent the leakage of important information such as technologies and strategies and the development of similar technologies. Specifically, we have license agreements with users that includes provisions regarding intellectual property rights, enter into confidentiality and non-competition agreements with all employees, and deploy enable network access control to our group highly confidential information, etc.

However, even if these measures are taken, it may not be possible to prevent unauthorized use or development similar technology in our group's technology.

In addition, if our group infringes the intellectual property rights of a third party, it may result in suspension of sales of products or services, payment of damages or royalties associated with the conclusion of a license agreement. Moreover, 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.

14. OUR BUSINESS FACES THE RISK OF INTERRUPTION FROM POWER SHORTAGES, EARTHQUAKES AND OTHER NATSURAL DISASTERS, GEOPOLITICAL RISK, AND VIRUS INFECTION DISEAS, etc.

Our group have been taking risk dispersion with our own management system to ensure stable business continuity. Our business model has not depended on specific regions, customers, supply chains, either products or services. Furthermore, regarding the service provision platform, we are taking recovery measures (business continuity management) under business continuity management, and we are conducting regular training after introducing mechanisms and processes to maintain measurableness. However, if power shortages, earthquakes and other natural disasters, hazards attribute to climate change such as torrential rains, floods, and forest fires caused by global warming, geopolitical risk, and virus infection disease, etc. continue to be a problem, our business may be materially adversely affected. Those events are difficult to predict, thus it is impossible to estimate those damage on our facilities, infrastructure and overall operations. In addition, even if we take full preparation for those, it may not be possible to limit the damage. Therefore, we face the possibility that we should stop all our business operations and significant impact on our group business.

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 virus infection disease / 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.

15. THERE ARE POSSIBILITIES OF INVESTMENT LOSS AND UNABLE TO SELL STOCK FOR OUR

INVESTORS ON STOCK PRICE OF TREND MICRO INCORPORATED, TREND MICRO GROUP'S PARENT COMPANY

Shares of the common stock of Trend Micro Incorporated, Trend Micro group's parent company, are traded on Prime Market of the Tokyo Stock Exchange. Recently, the Japanese securities markets have experienced significant price and volume fluctuations. The market price of our shares is likely to fluctuate in the future.

In addition, this market set a price range limit, so even if an investor intends to sell shares, it may not be possible to sell at a stock price that exceeds the price range.

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. The affiliated company is General Mobile Corporation. and TXOne Networks Inc..

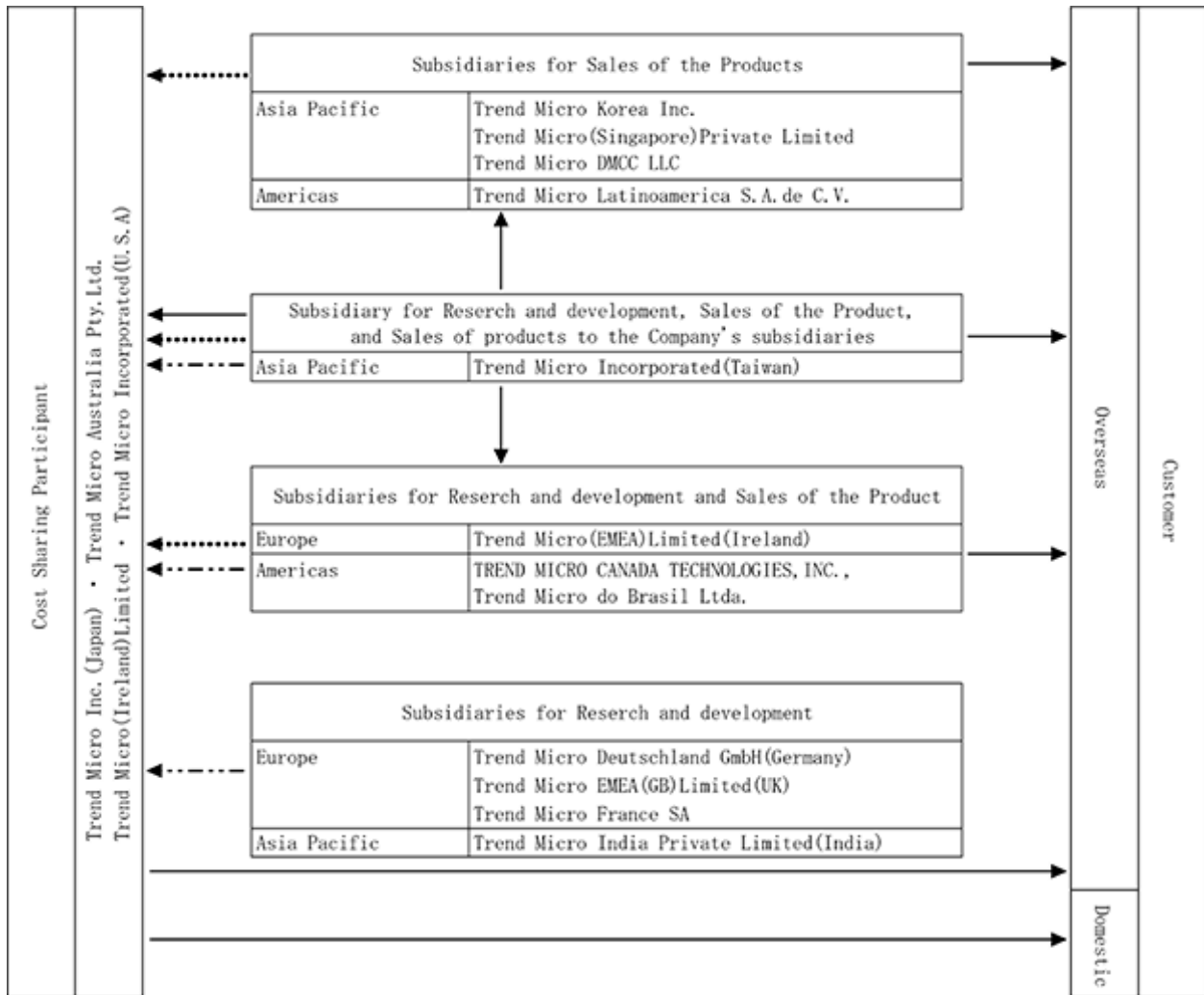
(1) Development and sales of anti-virus products

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.

Function	Operating Segment	Main companies
Research and Development	Japan	Trend Micro Inc.(Japan)
	Americas	Trend Micro Incorporated(U.S.A)
	Europe	Trend Micro Ireland Limited
	Asia Pacific	Trend Micro Australia Pty. Ltd.
Sales of the products	Japan	Trend Micro Inc.(Japan)
	Americas	Trend Micro Incorporated(U.S.A) Trend Micro Canada Technologies, Inc. Trend Micro do Brasil Ltda. Trend Micro Latinoamerica S.A. de C.V.(Mexico)
	Europe	Trend Micro(EMEA)Limited(Ireland)
	Asia Pacific	Trend Micro Incorporated(Taiwan) Trend Micro DMCC LLC Trend Micro Australia Pty. Ltd. Trend Micro(Singapore)Private Limited Trend Micro Korea Inc.
Back office	Americas	Trend Micro Canada Technologies, Inc.
	Asia Pacific	Trend Micro Incorporated(Taiwan) Trend Micro(China)Incorporated



- Anti-virus products
-→ Royalty
- - - - -→ Outsourcing, Other

(Note) All Subsidiaries are consolidated.

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 countries 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 further growing cloud computing due to the trend of digital transformation (DX), that improve the quality of business and life through IT technology. 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

We have set Pre-GAAP (Revenue before adjusting Deferred revenue) based operating profit growth as a company and management performance index. In the past we used to have operating profit margin as a performance index, however we felt that this could lead to too much focus on profit margins and thus result in opportunity loss by either ignoring lower margin business or avoiding investment longer term future projects. Since our business is not capital intensive, we can afford to take on lower margin business without the need to invest more capital, and thus as long as the revenues are higher than costs, the return on equity should improve.

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

Today, IT infrastructure is used by every person and in all types of scenes 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. According to the rapid expansion of DX, cloud computing is expected to create more innovation in digital information traffic with easy, speedy, and reasonable data mining and exchange to any information including big data in the network environment. This stream of IT technology evolution explosively increases the volume of information exchanged between no matter whether enterprise uses or consumer users. At the same time, the demands for the measurement not only for the prevention but also for the measurement against after intrusion have been desired. The necessity of information security in exchange for obtaining convenience has become more important in the future.

Against this background, Trend Micro group will provide a unified cybersecurity platform called "Trend Micro One™." Because we have a wide range of security products and services, it is possible to systematize and offer our products, services, knowledge, and experiences for corporate cybersecurity risk management. This security platform achieves centralized cooperation with multi layered SaaS model solutions to identify vulnerabilities and mitigate risks in the organization by XDR (extended detection and response) as the advanced feature. "Trend Micro One™" collects telemetry data across from wide range of multiple security layers for deep correlate analysis to visible entire cyber attacks perspective and points that have to be dealt with. Not only the prevention as the conventional defense for each device, terminal, and the boundaries of the network environment divided into each area, but also after intrusions or attacks, we have deployed a wide range of solutions by "Trend Micro One™."

In order to protect businesses, society, and the lives of users in getting more digitized daily life, we will further strengthen our security solutions to achieve our vision: A world safe for exchanging digital information regardless of companies and individuals.

(4). ISSUES TO DEAL WITH

In the cyber security industry, which our group belongs to, there have been many not only existing 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 competition 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, in the facing age of IoT, the cyber security industry has been constantly required to make appropriate provisions for the safety of both ginormous and significant data and infrastructure, the implementation of AI technology to security, and managed security services to set and operate various right products in the right place, etc. with perceiving alteration in both environment and user behavior.

Furthermore, the use of the cloud computing, which excels in efficiency and speed, has been expanding more and more. Because the digital transformation (DX), which improves the quality of business and life with IT technology, is the current trend, and additionally the environment that remote work has been rapidly generalized after the COVID-19 pandemic. The enterprise customers have been struggling to increase the recent security workload day by day. The traditional security measurement by monitoring PC and servers was enough for them before. Today, they are required more complicated and wide range of security for multi layered IoT appliances and devices, cloud computing, VPN, etc. additionally.

In terms of various software and services line up, regardless of whether it is for the enterprise customers or the individual users, there is a shift from "purchasing" to "on-demand via cloud" by SaaS (software as a service) model. Its penetration of SaaS model solutions is increasing in the security service market.

In response to this changing environment, our group provides a wide range of security products and services centered on "Trend Micro One™" for enterprise organizations that require extensive security measures on a daily basis. "Trend Micro One™" is the unified cybersecurity platform to cooperate with multilayered SaaS solutions by XDR (extended detection and response) as the advanced feature, achieving automatic correlation analysis in collected data across multiple security layers –endpoint, server, email, cloud workload, network, and IoT. This cybersecurity platform allows businesses to consolidate visibility, analysis, and controls across security layers and workflows. It delivers across the attack protection cycle – responding to threats and mitigating cyber risks. It's not for only new customers who purchase and start to use our products, solutions, and services line up, but also even existing enterprise users who have already used can experience the outcome is greater security effectiveness, operational efficiency, and business performance with SaaS shifting.

Mainly "Trend Micro One™," we will offer higher value-added security solutions besides users' demands and aim to achieve sustainable long-term growth with maintaining 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】

(Million yen)

Account	December 31, 2021	December 31, 2022
(Assets)		
Current assets		
Cash and bank deposits	197,729	191,542
Notes and Accounts receivable, trade	53,499	—
Notes and Accounts receivable, trade and contract assets	—	※1 63,614
Marketable securities	59,072	51,307
Inventories	※2 3,701	※2 4,255
Others	8,038	9,532
Allowance for bad debt	(292)	(317)
Total current assets	321,749	319,934
Non-current assets		
Property and equipment		
(1) Buildings and structures, net	※3 4,732	※3 4,384
(2) Office furniture & equipment	※3 3,187	※3 2,685
(3) Others	※3 12	※3 19
Total property and equipment	7,932	7,089
Intangibles		
(1) Software	11,254	12,767
(2) Goodwill	2,817	1,094
(3) Others	11,361	10,431
Total intangibles	25,433	24,292
Investments and other non-current assets		
(1) Investment securities	26,087	70,297
(2) Investments in subsidiaries and affiliates	406	4,145
(3) Deferred tax assets	36,501	42,111
(4) Others	2,345	2,928
Total investments and other non-current assets	65,341	119,483
Total non-current assets	98,708	150,865
Total assets	420,457	470,799

(Million yen)

Account	December 31, 2021	December 31, 2022
(Liabilities)		
Current liabilities		
Accounts payable and Notes payable, trade	1,165	2,164
Accounts payable, other	4,808	4,986
Accrued expenses	11,197	14,819
Accrued income and other taxes	5,001	5,055
Allowance for bonuses	3,624	3,675
Allowance for sales returns	318	—
Deferred revenue	100,032	—
Deferred revenue(Current amd Non-current)	—	192,914
Others	7,477	8,683
Total current liabilities	133,624	232,297
Non-current liabilities		
Deferred revenue	54,065	—
Net defined benefit liability	7,913	7,408
Others	3,418	2,414
Total non-current liabilities	65,398	9,822
Total liabilities	199,023	242,120
(Net assets)		
Shareholders' equity		
Common stock	19,358	19,585
Capital surplus	26,771	27,810
Retained earnings	175,505	166,635
Treasury stock, at cost	(5,656)	(10,291)
Total shareholders' equity	215,979	203,738
Accumulated other comprehensive income		
Net unrealized gain (loss) on debt and equity securities	(299)	(1,477)
Foreign currency translation adjustments	4,229	24,392
Remeasurements of defined benefit plans	(824)	122
Total accumulated other comprehensive income	3,105	23,037
Stock acquisition rights	1,560	1,884
Non-controlling interest	789	18
Total net assets	221,434	228,679
Total liabilities and net assets	420,457	470,799

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

Consolidated Statements of Income

(Million yen)

	For the year ended December 31, 2021	For the year ended December 31, 2022
Net sales	190,359	223,795
Cost of sales	42,017	54,300
Gross profit	148,341	169,494
Operating expenses	※1,※2 104,700	※1,※2 138,154
Operating income	43,641	31,340
Non-operating income		
Outsourcing service income	177	176
Interest income	424	2,142
Gain on sales of marketable securities	1,382	—
Foreign exchange gain	—	857
Other income	49	302
Total non-operating income	2,033	3,478
Non-operating expenses		
Interest expenses	12	43
Litigation settlement	121	66
Foreign exchange loss	787	—
Loss on sales of marketable securities	—	19
Equity in loss of affiliated companies	110	456
Loss on disposal of fixed assets	66	13
Other expenses	74	58
Total non-operating expenses	1,172	656
Ordinary income	44,501	34,162
Extraordinary gain		
Gain on sales of shares of subsidiaries and associates	7,909	7,275
Gain on change in equity	—	※3 4,371
Total extraordinary gain	7,909	11,646
Extraordinary loss		
Loss on liquidation of subsidiary	39	—
Loss on valuation of investment securities	—	3,911
Total extraordinary loss	39	3,911
Net income before taxes	52,371	41,897
Income taxes current	14,315	15,620
Income taxes deferred	440	(2,676)
Total income taxes	14,755	12,944
Net income before non-controlling interest	37,616	28,953
Non-controlling interest in income of consolidated subsidiaries	(751)	(890)
Net income attributable to owners of the parent	38,367	29,843

Consolidated Statements of Comprehensive Income

(Million yen)

	For the year ended December 31, 2021	For the year ended December 31, 2022
Income before non-controlling interest	37,616	28,953
Other comprehensive income		
Valuation difference on available-for-sale securities	(154)	(1,176)
Foreign currency translation adjustment	11,470	20,159
Remeasurements of defined benefit plans	28	947
Share of other comprehensive income of associates accounted for using equity method	266	64
Total other comprehensive income	※1 11,610	※1 19,994
Comprehensive income	49,226	48,947
Comprehensive income attributable to owners of the parent	49,883	49,776
Comprehensive income attributable to non-controlling interests	(657)	(828)

(3) 【Consolidated Statements of Changes in Net Assets】

(Million yen)

	For the year ended December 31, 2021	For the year ended December 31, 2022
Shareholders' equity		
Common stock		
Balance at the end of previous period	19,104	19,358
Movement for the period		
Issuance of new stocks	254	226
Total movement	254	226
Balance at the end of current period	19,358	19,585
Capital surplus		
Balance at the end of previous period	25,974	26,771
Movement for the period		
Issuance of new stocks	254	226
Change in ownership interest of parent due to transactions with non-controlling interests	762	(19)
Sales of treasury stock	(218)	830
Total movement	797	1,038
Balance at the end of current period	26,771	27,810
Retained earnings		
Balance at the end of previous period	158,429	175,505
Cumulative effects of change in accounting policies	—	(10,427)
Beginning balance after change in accounting policies	158,429	165,077
Movement for the period		
Dividend of surplus	(21,291)	(27,236)
Net income	38,367	29,843
Change in scope of consolidation	—	(1,049)
Total movement	17,075	1,557
Balance at the end of current period	175,505	166,635
Treasury stock, at cost		
Balance at the end of previous period	(7,785)	(5,656)
Movement for the period		
Sales of treasury stock	2,129	2,400
Purchase of treasury stock	(0)	(7,035)
Total movement	2,129	(4,635)
Balance at the end of current period	(5,656)	(10,291)
Total shareholders' equity		
Balance at the end of previous period	195,722	215,979
Cumulative effects of change in accounting policies	—	(10,427)
Beginning balance after change in accounting policies	195,722	205,551
Movement for the period		
Issuance of new stocks	508	453
Dividend of surplus	(21,291)	(27,236)
Change in ownership interest of parent due to transactions with non-controlling interests	762	(19)
Net income	38,367	29,843
Change in scope of consolidation	—	(1,049)
Sales of treasury stock	1,910	3,231
Purchase of treasury stock	(0)	(7,035)
Total movement	20,256	(1,812)
Balance at the end of current period	215,979	203,738

(Million yen)

	For the year ended December 31, 2021	For the year ended December 31, 2022
Accumulated other comprehensive income		
Net unrealized gain(loss) on debt and equity securities		
Balance at the end of previous period	(146)	(299)
Movement for the period		
Movement for the period excluding shareholders' equity	(152)	(1,177)
Total movement	(152)	(1,177)
Balance at the end of current period	(299)	(1,477)
Foreign currency translation adjustments		
Balance at the end of previous period	(7,412)	4,229
Movement for the period		
Movement for the period excluding shareholders' equity	11,641	20,162
Total movement	11,641	20,162
Balance at the end of current period	4,229	24,392
Remeasurements of defined benefit plans		
Balance at the end of previous period	(852)	(824)
Movement for the period		
Movement for the period excluding shareholders' equity	28	947
Total movement	28	947
Balance at the end of current period	(824)	122
Total accumulated other comprehensive income		
Balance at the end of previous period	(8,411)	3,105
Movement for the period		
Movement for the period excluding shareholders' equity	11,516	19,932
Total movement	11,516	19,932
Balance at the end of current period	3,105	23,037
Stock acquisition rights		
Balance at the end of previous period	1,220	1,560
Movement for the period		
Movement for the period excluding shareholders' equity	339	324
Total movement	339	324
Balance at the end of current period	1,560	1,884
Minority interest		
Balance at the end of previous period	829	789
Movement for the period		
Movement for the period excluding shareholders' equity	(39)	(771)
Total movement	(39)	(771)
Balance at the end of current period	789	18
Total net assets		
Balance at the end of previous period	189,360	221,434
Cumulative effects of change in accounting policies	—	(10,427)
Beginning balance after change in accounting policies	189,360	211,006
Movement for the period		
Issuance of new stocks	508	453
Dividend of surplus	(21,291)	(27,236)
Change in ownership interest of parent due to transactions with non-controlling interests	762	(19)
Net income	38,367	29,843
Change in scope of consolidation	—	(1,049)
Sales of treasury stock	1,910	3,231
Purchase of treasury stock	(0)	(7,035)
Movement for the period excluding shareholders' equity	11,816	19,485
Total movement	32,073	17,672
Balance at the end of current period	221,434	228,679

(4) 【Consolidated Statements of Cash Flows】

(Million yen)

Account	For the year ended December 31, 2021	For the year ended December 31, 2022
Cash flows from operating activities:		
Net income before taxes	52,371	41,897
Depreciation and amortization	19,042	23,784
Stock compensations	714	980
Amortization of goodwill	1,852	1,401
Increase (decrease) in allowance for bad debts	5	(19)
Increase (decrease) in allowance for sales returns	(59)	—
Increase (decrease) in net defined benefit liability	429	(630)
Interest income	(424)	(2,142)
Interest expenses	12	43
(Gain) loss on sale of marketable securities	(1,382)	19
(Gain) loss on liquidation of subsidiaries and associates	39	—
(Gain) loss on sales of shares of subsidiaries and associates	(7,909)	(7,275)
(Gain) loss on change in equity	—	(4,371)
Loss on disposal of fixed assets	66	13
Equity in (earnings)/loss of affiliated companies	110	456
(Gain) loss on valuation of investment securities	—	3,911
(Increase) decrease in notes and accounts receivable	(4,377)	—
(Increase) decrease in notes and accounts receivable and contract assets	—	(7,089)
(Increase) decrease in inventories	(2)	(205)
Increase (decrease) in notes and accounts payable	36	1,487
Increase (decrease) in accounts payable, other & accrued expenses	1,779	3,535
Increase (decrease) in deferred revenue	10,218	14,087
Increase (decrease) in virtual share bonus plan	(12)	(384)
Litigation settlement	121	66
Others	(555)	2,560
Subtotal	72,077	72,124
Proceeds from interest and dividend received	459	1,674
Payment for interest expenses	(9)	(43)
Payment for income tax	(17,137)	(16,850)
Payment for Litigation settlement	(121)	(1)
Net cash provided by operating activities	55,267	56,903
Cash flows from investing activities:		
(Payments for)/Proceeds from time deposits	7,227	(10,613)
Payments for purchases of marketable securities and securities investments	(20,425)	(69,547)
Proceeds from sale or redemptions of marketable securities and securities investments	31,503	27,905
Payments for purchases of property and equipment	(2,156)	(1,402)
Payments for purchases of other intangibles	(16,631)	(19,577)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	5,518
Proceeds from sales of shares of subsidiaries and associates	4,511	—
Repayments of guarantee deposits	(1,455)	—
Net cash used in/provided by investing activities	2,575	(67,716)
Cash flows from financing activities:		
Proceeds from long-term loan	900	—
Proceeds from issuance of common shares	428	384
Payment for purchase of treasury stock	(0)	(7,035)
Proceeds from sale of treasury stock	1,614	2,749
Dividends paid	(20,767)	(26,541)

Proceeds from paid-up by minority shareholders	1,426	5
Repayments to non-controlling shareholders	(48)	—
Net cash used in financing activities	(16,445)	(30,437)
Effect of exchange rate changes on cash and cash equivalents	10,121	23,908
Net increase (decrease) in cash and cash equivalents	51,518	(17,342)
Cash and cash equivalents at beginning of period	174,162	225,681
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	※2 (695)
Cash and cash equivalents at end of period	※1 225,681	※1 207,643

(5) 【Footnote on Going Concern】

N/A

(6) 【Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements】

1 Basis of consolidation	<p>(1) Consolidated subsidiaries All of our 38 subsidiaries are consolidated. Names of major subsidiaries: Trend Micro Inc. Trend Micro Incorporated Trend Micro Australia Pty. Ltd. Trend Micro (EMEA) Limited VicOne Inc. (Taiwan), CTOne Inc. (Taiwan) and Trend Micro MCA Inc. (US) were newly established and have been included in the scope of consolidation. Cysiv LLC (US), which had been a consolidated subsidiary, was excluded from the scope of consolidation due to the liquidation. Cysiv, Inc. (US), Cysiv Security Canada Inc (Canada) and TXOne Networks Inc. (Taiwan) which had been consolidated subsidiaries, were excluded from the scope of consolidation due to the transfer of all shares held.</p> <p>(2) Unconsolidated subsidiaries N/A Secure Misr S.A.E. (Egypt), Cysiv Security UK Ltd (UK) and Cysiv Security Private Limited (India), which had been unconsolidated subsidiaries, were excluded due to the transfer of all shares held.</p>
2 Affiliated companies	<p>(1)Affiliated companies applying equity method General Mobile Corporation (British Cayman islands) TXOne Networks Inc. (British Cayman islands) TXOne Networks Inc. (British Cayman islands), whose shares were newly acquired, has been included due to the subsequent third-party allocation of new shares.</p> <p>(2)Unconsolidated subsidiaries not applying equity method N/A</p>
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	<p>A. Marketable securities and investment securities</p> <p>Other than non-marketable securities: Market value method (Unrealized gains and losses, net of taxes, reported in a separate component of equity. Cost of selling is determined by the moving average method.)</p> <p>Non-marketable securities, etc: Cost basis by moving average method</p> <p>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</p>

(2) Depreciation and amortization	<p>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</p> <p>B. Intangibles</p> <p>a. Software for sale Straight -line method over the estimated useful lives (12 months)</p> <p>b. Software for internal use Straight-line method over the estimated useful lives (mainly 5 years)</p> <p>c. Other intangibles Straight-line method over the estimated useful lives</p> <p>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.</p>
(3) Accounting policies for allowances	<p>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.</p> <p>B. Allowance for bonuses Bonuses for employees are provided at an estimate of the amount.</p>
(4) Accounting methods for retirement benefit obligation	<p>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 are expensed in a certain period less than average future service years of employees of the year (1-23 years).</p>
(5) Translation of foreign currencies	<p>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>

5 Amortization of Goodwill	Goodwill is amortized evenly over the appropriate period in less than 20 years.
6 Definition of cash and cash equivalent in the consolidated statements of cash flows	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.
7 Other important matters for preparing financial statements	<p>Revenue recognition</p> <p>The major obligations of the Company and its consolidated subsidiaries with respect to the revenue arising from their contracts with customers are as follows, along with the normal times during which such obligations are fulfilled.</p> <p>Revenue from software licenses is primarily due to the provision of security-related software licenses, we are obligated to provide software licenses under license contracts with our customers.</p> <p>Revenue from support services is primarily due to the provision of support services for security-related products, we are obligated to provide such services under the support service contract with the customer.</p> <p>Revenue from hardware offerings is primarily from the sale of security-related hardware products, we are obligated to provide hardware products under the hardware sales contract.</p> <p>The essence of goods or services provided by us to customers is to provide them with protection from the latest computer viruses. The provision of software licenses to customers, the upgrading of software included in support services, and the provision of hardware products are indivisible single performance obligation because they cannot provide customers with protection from the latest computer viruses on their own and are highly interdependent and related.</p> <p>Protection of customers against computer viruses is required to be fulfilled for a certain period of time because the protection of customers is provided according to the period of the contract after the start of use of the software license by the customers. Consideration is allocated equally for the period from the start of use to the contract period, and the amount corresponding to the current consolidated fiscal year is recorded as revenue.</p> <p>The consideration for these obligations does not include material financial elements in the contract.</p>

(7) 【Changes in Accounting Policies】

(Application of Accounting Standard for Revenue Recognition, Etc.)

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020. (hereinafter referred to as the "Accounting Standard for Revenue Recognition") etc., was applied from the beginning of the first quarter of the current fiscal year, and revenue is recognized at the time control of the promised goods or services is transferred to the customer in the amount expected to be received in exchange for such goods or services.

As a result, the Company changed its method of recognizing revenue for certain transactions from recognizing revenue at the time of shipment to recognizing revenue over a period of time for performance obligations satisfied over time.

The Company followed the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative effect of retrospective application of the new accounting policy prior to the beginning of the first quarter of the current fiscal year is included in retained earnings at the beginning of the first quarter of the current fiscal year. The cumulative effect of retrospectively applying the new accounting policies prior to the beginning of the first quarter of the current fiscal year was added to or subtracted from retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policies were applied to the beginning balance of the current fiscal year.

As a result, the cumulative effect amount reflected in net assets at the beginning of the first quarter of the current fiscal year decreased the beginning balance of retained earnings by 10,427 million yen.

Compared with the previous method, net sales decreased 2,014 million yen, selling, general and administrative expenses increased 1,646 million yen and operating income, ordinary income, and income before income taxes and minority interests decreased 3,661 million yen in the current fiscal year.

Due to the application of the Accounting Standard for Revenue Recognition, "Notes and Accounts receivable, trade," which was included in "Current assets" in the consolidated balance sheets for the previous fiscal year, are included in "Notes and Accounts receivable, trade and contract assets" from the first quarter of the current fiscal year. "Deferred revenue" which was included in "Current liabilities" and "Non-current liabilities" in the consolidated balance sheets for the previous fiscal year, are included in "Deferred revenue(Current and Non-current)" from the first quarter of the current fiscal year.

(Application of Accounting Standard for Fair Value Measurement, Etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) and relevant ASBJ regulations from the beginning of the first quarter of the current fiscal year. Furthermore, in accordance with the transitional treatment prescribed in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will prospectively apply the new accounting policy provided in the Accounting Standard for Fair Value Measurement and relevant ASBJ regulations.

(8) 【Additional Information】

(Matters concerning consolidated subsidiaries)

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

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

(9) 【Notes for Consolidated Financial Statements】

(Consolidated Balance Sheets)

(Million Yen)

At the end of the previous fiscal year (As of December 31, 2021)		At the end of the current fiscal year (As of December 31, 2022)	
		*1 Notes and Accounts receivable, trade and contract assets Accounts receivable	63,614
*2 Inventory		*2 Inventory	
Finished Goods	3,078	Finished Goods	3,839
Materials	472	Materials	294
Goods	150	Goods	120
*3 Accumulated depreciation of property and equipment		*3 Accumulated depreciation of property and equipment	
	25,829		30,756

(Consolidated Statements of Income)

(Millions Yen)

For the previous fiscal year (From January 1, 2021 To December 31, 2021)		For the current fiscal year (From January 1, 2022 To December 31, 2022)	
*1 Major components of Operating expenses are as follows		*1 Major components of Operating expenses are as follows	
Sales promotion	7,135	Sales promotion	10,433
Salaries	47,270	Salaries	59,182
Bonus	2,586	Bonus	2,638
Service fee	14,623	Service fee	22,863
Telephone/Network Service	15,538	Telephone/Network Service	20,734
*2 Research and development expense were 4,680 millions of yen and included in Operating expenses.		*2 Research and development expense were 5,402 millions of yen and included in Operating expenses.	
		*3 Gain on change in equity was recognized due to a decrease in the Company's ownership interest in TXOne Networks Inc. (British Cayman Islands), which had been a consolidated subsidiary of the Company, as a result of a third-party allocation of new shares.	

(Consolidated Statements of Comprehensive Income)

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

For the previous fiscal year (from January 1, 2021 to December 31, 2021)

Valuation difference on available-for sales securities	(Million Yen)
Amount incurred in current year	(148)
Reclassification	(52)
Before deferred tax	(200)
Deferred tax	45
Valuation difference on securities	(154)
Foreign currency translation adjustment	
Amount incurred in current year	11,470
Reclassification	—
Before deferred tax	11,470
Deferred tax	—
Foreign currency translation adjustment	11,470
Remeasurement of defined benefit plans	
Amount incurred in current year	(146)
Reclassification	132
Before deferred tax	(13)
Deferred tax	41
Remeasurement of defined benefit plans	28
Share of other comprehensive income of associates accounted for using equity method	
Amount incurred in current year	266
Total other comprehensive income	11,610

For the current fiscal year (from January 1, 2022 to December 31, 2022)

Valuation difference on available-for sales securities	(Million Yen)
Amount incurred in current year	(2,142)
Reclassification	593
Before deferred tax	(1,548)
Deferred tax	372
Valuation difference on securities	(1,176)
Foreign currency translation adjustment	
Amount incurred in current year	20,061
Reclassification	97
Before deferred tax	20,159
Deferred tax	—
Foreign currency translation adjustment	20,159
Remeasurement of defined benefit plans	
Amount incurred in current year	986
Reclassification	239
Before deferred tax	1,225
Deferred tax	(278)
Remeasurement of defined benefit plans	947
Share of other comprehensive income of associates accounted for using equity method	
Amount incurred in current year	64
Total other comprehensive income	19,994

(Consolidated Stockholders' Equity Statements)

For the previous fiscal year (from January 1, 2021 to December 31, 2021)

1. Number of common stock issued

Class of stock	As of Jan 1, 2021	Increase	Decrease	As of Dec 31, 2021
Common stock	140,629,204	114,900	—	140,744,104

The increase by 114,900 shares is due to the issuance of new shares upon the exercise of stock acquisition rights.

2. Number of treasury stocks

Class of treasury stock	As of Jan 1, 2021	Increase	Decrease	As of Dec 31, 2021
Common stock	1,471,155	35	402,400	1,068,790

The increase by 35 is due to the purchase of the stock less than 1 unit.

The decrease by 402,400 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

Detail	Class of shares subject to stock acquisition right	Number of shares subject to the exercise of stock acquisition rights				Amount outstanding (Million yen)
		As of Jan 1, 2021	Increase	Decrease	As of Dec 31, 2021	
Stock Option	—	—	—	—	—	1,560

4. Dividend of surplus

(1) Dividends payment

Resolution	Class of stock	Total dividends (Million yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 25, 2021	Common stock	21,291	153.00	Dec 31, 2020	Mar 26, 2021

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

Resolution	Class of stock	Dividends resource	Total dividends (Million yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 29, 2022	Common stock	Retained earnings	27,236	195.00	Dec 31, 2021	Mar 30, 2022

For the current fiscal year (from January 1, 2022 to December 31, 2022)

1. Number of common stock issued

Class of stock	As of Jan 1, 2022	Increase	Decrease	As of Dec 31, 2022
Common stock	140,744,104	60,000	—	140,804,104

The increase by 60,000 shares is due to the issuance of new shares upon the exercise of stock acquisition rights.

2. Number of treasury stocks

Class of treasury stock	As of Jan 1, 2022	Increase	Decrease	As of Dec 31, 2022
Common stock	1,068,790	1,020,130	439,100	1,649,820

The increase by 1,020,100 is due to the market purchasing of treasury stock.

The increase by 30 is due to the purchase of the stock less than 1 unit.

The decrease by 439,100 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

Detail	Class of shares subject to stock acquisition right	Number of shares subject to the exercise of stock acquisition rights				Amount outstanding (Million yen)
		As of Jan 1, 2022	Increase	Decrease	As of Dec 31, 2022	
Stock Option	—	—	—	—	—	1,884

4. Dividend of surplus

(1) Dividends payment

Resolution	Class of stock	Total dividends (Million yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 29, 2022	Common stock	27,236	195.00	Dec 31, 2021	Mar 30, 2022

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

Resolution	Class of stock	Dividends resource	Total dividends (Million yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 28, 2023	Common stock	Retained earnings	21,012	151.00	Dec 31, 2022	Mar 29, 2023

(Consolidated Statements of Cash Flows)

(Million yen)

For the previous fiscal year (From January 1, 2021 To December 31, 2021)	For the current fiscal year (From January 1, 2022 To December 31, 2022)
*1 Reference of cash and cash equivalents on balance sheet is as follows.	*1 Reference of cash and cash equivalents on balance sheet is as follows.
Cash and bank deposits 197,729	Cash and bank deposits 191,542
Time deposits with original maturities of longer than three month (2,624)	Time deposits with original maturities of longer than three month (13,360)
Short term investments which is in Marketable securities account 30,576	Short term investments which is in Marketable securities account 29,461
Cash and cash equivalent 225,681	Cash and cash equivalent 207,643
	*2 Major breakdown of assets and liabilities of a company that ceased to be a consolidated subsidiary due to a decrease in the Company's ownership interest as a result of a third-party allocation of new shares.
	TXOne Networks Inc. (British Cayman Islands), which had been a consolidated subsidiary of the Company, was excluded from the scope of consolidation from this fiscal year due to a decrease in the Company's ownership interest as a result of a third-party allocation of new shares. The amounts of assets and liabilities decreased due to the exclusion of TXOne Networks Inc. from the scope of consolidation are as follows.
	Current assets 2,442 million yen Fixed assets 789 million yen Total assets 3,232 million yen Current liabilities 3,240 million yen Fixed liabilities - million yen Total liabilities 3,240 million yen
	The amounts of cash and cash equivalents decreased due to the exclusion of TXOne Networks Inc. from the scope of consolidation are included in "Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation."

(Business Combinations, etc.)

In July 2022, our U.S. subsidiaries Trend Micro Incorporated (hereafter AMT) and Trend Forward Capital I, L.P. (hereafter TFI) completed the transfer of all shares of our subsidiary Cysiv, Inc. (hereafter Cysiv), a subsidiary of AMT and TFI, owned by AMT and TFI, to Forescout Technologies, Inc.

1. Outline of Business Divestiture

(1) Name of the company to be divested

Forescout Technologies, Inc.

(2) Description of business divested

Cysiv and its subsidiary (Americas)

(3) Main reason for business divestiture

We have invested in Cysiv and made it a subsidiary in order to understand managed security services (hereafter MSSP) until now. However, since we have generally made progress in understanding the structure of the MSSP business, we have decided to transfer all of our shares in Cysiv.

(4) Date of business divestiture

July 11, 2022 (date of receipt of consideration)

July 1, 2022 (deemed sale date)

(5) Other matters regarding the outline of the transaction including legal form

Share transfers for which the consideration received is cash or equity in an outside company

2. Summary of Accounting Procedures Implemented

(1) Amount of gain or loss on transfer

Gain on sale of shares of affiliated company 7,275 million yen

(2) The book value breakdown of transferred assets and liabilities

Current assets 4,160 million yen

Fixed assets 1,441 million yen

Total assets 5,601 million yen

Current liabilities 3,609 million yen

Fixed liabilities 1,097 million yen

Total liabilities 4,707 million yen

(3) Accounting treatment

AMT received the cash and booked a gain JPY 7,275 million for the share transfer. TFI exchanged the share with the parent company's share of Forescout Technologies Inc.

TFI as a venture capital holds investees' share and its purpose didn't change after the transaction. TFI didn't book profit for the transaction.

3. Reportable segments in which the divested business was included

Americas

4. The recorded revenue and expenses of Cysiv in the consolidated statements of income

Cumulative period

Net sales 1,208 million yen

Operating loss 557 million yen

(Segment Information)

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 Americas, Europe, or Asia Pacific are in charge of their own area respectively. Therefore, our segments are made of 4 segments which are Japan, Americas, Europe and Asia Pacific 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 Matters Regarding Changes in Reportable Segments

(Changes in Reportable Segments)

The Group's reportable segments were previously "Japan," "North America," "Europe," "Asia Pacific," and "Latin," but from the beginning of the first quarter of the current fiscal year, these have been changed to "Japan," "Europe," "Asia Pacific," and "Americas."

(Application of Accounting Standard for Revenue Recognition, Etc.)

As described in "Changes in Accounting Policies," the Company has applied the Accounting Standard for Revenue Recognition and other accounting standards from the beginning of the first quarter of the current fiscal year, and has changed its accounting method for revenue recognition, and has therefore changed its method for calculating profit or loss by business segment in the same manner.

As a result, compared with the previous method, sales of "Japan" increased 1,347 million yen and segment income of "Japan" decreased 299 million yen, respectively, sales and segment income of "Americas" decreased 235 million yen, sales and segment income of "Europe" decreased 219 million yen and sales and segment income of "Asia Pacific" decreased 2,907 million yen in the current fiscal year.

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

For the previous fiscal year (from January 1, 2021 to December 31, 2021)

(Million Yen)

	Japan	Americas	Europe	Asia Pacific	Total	Consolidation Adjustment	Consolidation
Sales							
(1) Net sales to external customers	76,612	42,602	34,833	36,309	190,359	—	190,359
(2) Intercompany sales	27	6,123	2,612	36,117	44,880	(44,880)	—
Total sales	76,639	48,726	37,446	72,427	235,239	(44,880)	190,359
Operating income by segment	23,059	6,891	7,157	6,982	44,090	(449)	43,641
Asset by segment	176,668	127,384	71,364	91,332	466,749	(46,292)	420,457
Other items							
Depreciation and amortization	8,428	5,290	3,050	3,105	19,874	(832)	19,042
Increase in tangible and intangible fixed assets	9,910	2,707	3,106	3,063	18,787	—	18,787

(Note)

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

2 Major countries other than Japan:

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

Europe Ireland, Germany, Italy, France, UK

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

3 Consolidation Adjustment at Operating income (449) million yen comes from the elimination between segments transactions.

Majority of Consolidation Adjustment at Asset (46,292) million yen comes from the elimination between segments transactions.

Consolidation Adjustment at Depreciation and amortization (832) million yen comes from the elimination between segments transactions.

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

For the current fiscal year (from January 1, 2022 to December 31, 2022)

(Million Yen)

	Japan	Americas	Europe	Asia Pacific	Total	Consolidation Adjustment	Consolidation
Sales							
(1) Net sales to external customers	82,087	52,953	41,460	47,293	223,795	—	223,795
(2) Intercompany sales	19	8,639	2,142	50,731	61,533	(61,533)	—
Total sales	82,107	61,592	43,603	98,025	285,328	(61,533)	223,795
Operating income by segment	12,346	6,107	4,532	8,548	31,535	(194)	31,340
Asset by segment	187,573	141,350	81,069	120,228	530,221	(59,421)	470,799
Other items							
Depreciation and amortization	11,406	6,667	3,629	3,810	25,514	(1,729)	23,784
Increase in tangible and intangible fixed assets	12,505	4,256	3,386	2,893	23,042	(2,062)	20,979

(Note)

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

2 Major countries other than Japan:

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

Europe Ireland, Germany, Italy, France, UK

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

3 Consolidation Adjustment at Operating income (194) million yen comes from the elimination between segments transactions.

Majority of Consolidation Adjustment at Asset (59,421) million yen comes from the elimination between segments transactions.

Consolidation Adjustment at Depreciation and amortization (1,729) million yen comes from the elimination between segments transactions.

Consolidation Adjustment at Increase in tangible and intangible fixed assets (2,062) million yen comes from the elimination between segments transactions.

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

(Relative information)

For the previous fiscal year (from January 1, 2021 to December 31, 2021)

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

(Million Yen)

Japan	Americas	Europe	Asia Pacific	Total
76,495	42,749	34,752	36,362	190,359

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

Sales in U.S.A is 36,142 million yen of the Americas.

(2) Tangible fixed asset

(Million Yen)

Japan	Americas	Europe	Asia Pacific	Total
701	3,883	513	2,833	7,932

(Note) Tangible fixed asset in U.S.A is 2,654 and that of Canada is 1,003 million yen of the Americas and that of China is 924 million yen and that of Taiwan is 1,060 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.

For the current fiscal year (from January 1, 2022 to December 31, 2022)

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

(Million Yen)

Japan	Americas	Europe	Asia Pacific	Total
81,936	53,270	41,183	47,405	223,795

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

Sales in U.S.A is 43,777 million yen of the Americas.

(2) Tangible fixed asset

(Million Yen)

Japan	Americas	Europe	Asia Pacific	Total
833	3,266	512	2,477	7,089

(Note) Tangible fixed asset in U.S.A is 2,388 and that of Canada is 724 million yen of the Americas and that of China is 825 million yen and that of Taiwan is 887 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, 2021 to December 31, 2021)

N/A

For the current fiscal year (from January 1, 2022 to December 31, 2022)

N/A

(Information of amortization expense of goodwill and unamortized balance of goodwill by segment)

For the previous fiscal year (from January 1, 2021 to December 31, 2021)

(Million Yen)

	Segment					Consolidation Elimination	Total
	Japan	Americas	Europe	Asia Pacific	total		
Amortization Expense of GW	4	930	54	863	1,852	—	1,852
Unamortized balance of GW	—	537	77	2,203	2,817	—	2,817

For the current fiscal year (from January 1, 2022 to December 31, 2022)

(Million Yen)

	Segment					Consolidation Elimination	Total
	Japan	Americas	Europe	Asia Pacific	total		
Amortization Expense of GW	—	401	8	990	1,401	—	1,401
Unamortized balance of GW	—	123	75	894	1,094	—	1,094

(Information of negative goodwill by segment)

N/A

(Information of EPS)

(Yen)

	For the previous fiscal year (From January 1, 2021 To December 31, 2021)	For the current fiscal year (From January 1, 2022 To December 31, 2022)
Book value per share	1,568.52	1,629.67
Net income per share	275.20	213.59
Diluted net income per share	275.06	213.22

(Note)

1. Basis of calculation for net income per share and diluted net income per share are as follows.

	For the previous fiscal year (From January 1, 2021 To December 31, 2021)	For the current fiscal year (From January 1, 2022 To December 31, 2022)
<Basic EPS>		
Net income (Million Yen)	38,367	29,843
-not to attributable to common stock holders	—	—
-to common stock holders	38,367	29,843
Weighted-average number of common shares (Shares)	139,415,408	139,725,093
<Diluted EPS>		
Adjustments to net income (Million Yen)	—	—
Increased numbers of common shares (Shares)	71,075	242,916
(Stock acquisition rights (Shares))	(71,075)	(242,916)
Details of shares not included in the computation of diluted EPS since it did not have dilutive effect	303,700 for Stock option round 35 299,800 for Stock option round 36 299,900 for Stock option round 37 1,271,500 for Stock option round 38 315,000 for Stock option round 39 1,809,000 for Stock option round 40	191,100 for Stock option round 36 243,400 for Stock option round 37 1,193,500 for Stock option round 38 281,000 for Stock option round 39 1,656,000 for Stock option round 40 300,000 for Stock option round 41

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

(Million yen)

	For the previous fiscal year (From January 1, 2021 To December 31, 2021)	For the current fiscal year (From January 1, 2022 To December 31, 2022)
Total net assets	221,434	228,679
Amount deducted from total net assets	2,349	1,902
(Stock acquisition rights)	(1,560)	(1,884)
(Minority interest)	(789)	(18)
Total net assets attributable to common stock	219,084	226,776
Number of common shares (Shares)	139,675,314	139,154,284

(Significant Subsequent Events)

N/A

6. Others

(1) Changes in Directors and Corporate Auditors

① Representative Director

N/A

② Directors (Scheduled date March 28, 2023)

Director who will be retired

Director Ikujiro Nonaka

Candidate for New Director

Koichiro Tokuoka (present) Professor, Tama Graduate School of Business,

(present) Chairman and Representative Director, Life shift Corporation

(Note) Koichiro Tokuoka is a candidate to become an outside director.