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(Securities Code 4704)

March 5, 2018

Dear Shareholders

Shinjuku MAYNDS Tower  
1-1, Yoyogi 2-chome, Shibuya-ku, Tokyo, Japan  
**TREND MICRO INCORPORATED**  
President and Representative Director: Eva Chen

**NOTICE OF CONVOCAION OF**  
**THE 29<sup>th</sup> ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Dear Sirs and Madams

Our 29<sup>th</sup> Ordinary General Meeting of Shareholders will be held as listed below. We hereby notify you of this and request your attendance at the Meeting.

**If you are unable to attend this Meeting, you may vote in writing or by electronic means (using the Internet or other means) and we would be grateful if you could kindly review the following Reference Material for the General Meeting of Shareholders and fill out the Voting Form enclosed herein with your decision. Please also kindly return the said Form to us by no later than 5:30 p.m. on March 26, 2018, (Monday) or vote after perusing the “Voting by Electronic Means” (ex. on the Internet) described hereafter (p.4).**

- 1. Date and time:** 10:00 a.m. on March 27, 2018 (Tuesday)
- 2. Place:** Yamato, 3<sup>rd</sup> Floor, Hilton Tokyo  
6-2, Nishi-Shinjuku 6-chome, Shinjuku-ku, Tokyo, Japan
- 3. Purpose:**

**Matters to be reported**

1. Contents of the Business Report for the 29th year (January 1, 2017, to December 31, 2017), contents of the consolidated financial statements and the audit reports by Accounting Auditors and the Corporate Auditors of the consolidated financial statements
2. Contents of the unconsolidated financial statement for the 29th year (January 1, 2017, to December 31, 2017)

**Matters for Resolution**

- Agenda 1 :** Appropriation of retained earnings  
**Agenda 2 :** Revision of remuneration, etc. of directors (Stock acquisition rights as stock options )  
**Agenda 3 :** Revision of remuneration, etc. of directors (Retention Plan)  
**Agenda 4 :** Revision of remuneration, etc. of directors (the “CPU Award”)

#### **4. Decision concerning Convocation of General Meeting of Shareholders:**

The exercise of voting rights by proxy is limited to the case where another shareholder holding voting rights is delegated as a proxy. Please note that submission of a document evidencing such proxy is required in this case.

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- After the close of this General Meeting of Shareholders, a session for reporting recent management is scheduled to be held for approximately one hour at the same place. We ask you to kindly attend this session.
  - Please be advised that due to unforeseen circumstances, including natural disasters and electric blackouts caused by electricity circumstances, changes may be made to the proceeding of this Meeting, or the session for reporting recent management may be cancelled.
  - Of the documents that should be provided in this Notice of Convocation in accordance with the applicable laws and regulations and Article 15 of the Articles of Incorporation, the “Notes to the Consolidated Financial Statements” and “Notes to the Financial Statements” have been disclosed on the website of the Company ([https://www.trendmicro.com/ja\\_jp/business.html](https://www.trendmicro.com/ja_jp/business.html)) and therefore excluded from this Notice of Convocation. These “Notes to the Consolidated Financial Statements” and “Notes to the Financial Statements” are included in the consolidated financial statements and unconsolidated financial statements that are subject to the audit performed by the Accounting Auditors and the Corporate Auditors in preparing their audit reports.
  - In the event that the Reference Material and the Business Report, the unconsolidated financial statement and the consolidated financial statements are amended, the amendments will be announced to shareholders on the Company’s website ([https://www.trendmicro.com/ja\\_jp/business.html](https://www.trendmicro.com/ja_jp/business.html)).

## If you attend the General Meeting of Shareholders



Date and time

10:00 a.m. on March 27, 2018 (Tuesday)  
(Reception is scheduled to start at 9:00am)

We ask you to kindly submit the enclosed Voting Form to the reception of the Meeting.  
In an effort to conserve resources, on the day of the General Meeting of Shareholders, please bring with you this copy of Notice of Convocation The 29th Ordinary General Meeting of Shareholders.

## If you will not attend the General Meeting of Shareholders



If you vote by mail

Deadline for the  
Exercise of  
Voting Rights

The mail must reach us by 5:30 p.m. on  
March 26, 2018 (Monday)

Please fill out the Voting Form enclosed herein with your decision and return the said Form to us no later than the above-mentioned deadline.



If you vote by the Internet or by other means

For more details, please refer to the next page.

Deadline for the  
Exercise of  
Voting Rights

5:30 p.m. on March 26, 2018 (Monday)

Please vote on the Internet by accessing the voting website no later than the above-mentioned deadline.



Website for exercising voting rights: <https://evote.tr.mufg.jp/>



In the event of any diverse exercise of voting rights, please notify the Company in writing regarding the matter and the reason thereof not later than three days before the Meeting.

## **Voting by Electronic Means (ex. On the Internet)**

If you vote by electronic means (such as on the Internet), please review the following matters.

If you attend the General Meeting of Shareholders, it is not necessary to vote by mail (on a voting form) or by electronic means (such as on the Internet).

### **1. Voting website**

- (i) You can only vote on the Internet by accessing the voting website ( <https://evote.tr.mufg.jp/>) from a PC, Smartphone or mobile phone (i-mode, EZweb and Yahoo! Keitai)\*. (The website is unavailable from 2 a.m. to 5 a.m. every day.)  
\*“i-mode,” “EZweb” and “Yahoo!” are the trademarks or the registered trademarks of NTT DOCOMO Inc., KDDI Corporation and Yahoo! Inc. U.S.A., respectively.
- (ii) Voting from PC or Smartphone site may not be available depending on your Internet environment, such as use of a firewall for Internet access, installation of anti-virus software, use of a proxy server or not to specify TLS encrypted transmission.
- (iii) Please use either the i-mode, EZweb or Yahoo! Keitai services when voting by mobile phone. To ensure security, you may not use products that do not support TLS encrypted transmission or mobile phone information transmission.
- (iv) We will accept votes submitted on the Internet until 5:30p.m. on March 26, 2018, but we would appreciate your promptness in voting. Please contact the help desk if you have any questions.

### **2. How to vote on the Internet**

- (i) Please follow the instructions on the voting website ( <https://evote.tr.mufg.jp/>) to enter “for” or “against” using the login ID and temporary password stated in the voting form.
- (ii) To prevent unauthorised access (impersonation) and tampering of votes by any third party, please note that you will be required to change the temporary password on the voting website.
- (iii) We will inform you of your new login ID and temporary password for each General Meeting of Shareholders.

### **3. Handling of Voting Multiple Times**

- (i) If you vote both by mail and on the Internet, the vote on the Internet will be deemed to be valid.
- (ii) If you vote more than once on the Internet, the last vote will be deemed to be valid. If you vote from both PC or Smartphone site and mobile phone site, the last vote will be deemed to be valid.

### **4. Expenses incurred by accessing the voting website**

Please note that you will bear expenses such as Internet access fees and telephone charges incurred by accessing the voting website. Please also note that you will bear expenses for the use of the mobile phone such as packet communication fees and other charges.

### **5. Proxy Electronic Voting Platform**

Registered Shareholders including standing proxies, such as master trust banks, who have applied to the ICJ Proxy e-Voting Platform Service (the Platform Service) offered by a joint venture established by the TSE, are entitled to utilize the Platform service in addition to the electronic means for exercising voting rights of Shareholders at the Shareholders Meeting as specified in the preceding articles.

**For enquiries concerning the System:**  
**Contact the help desk of Mitsubishi UFJ Trust and Banking Corporation, Corporate**  
**Agency Division**  
**• Toll-free telephone number: 0120-173-027 (9 a.m. to 9 p.m.)**

REFERENCE MATERIAL FOR THE GENERAL MEETING OF SHAREHOLDERS

**Agenda and Reference Information**

**Agenda 1 : Appropriation of retained earnings**

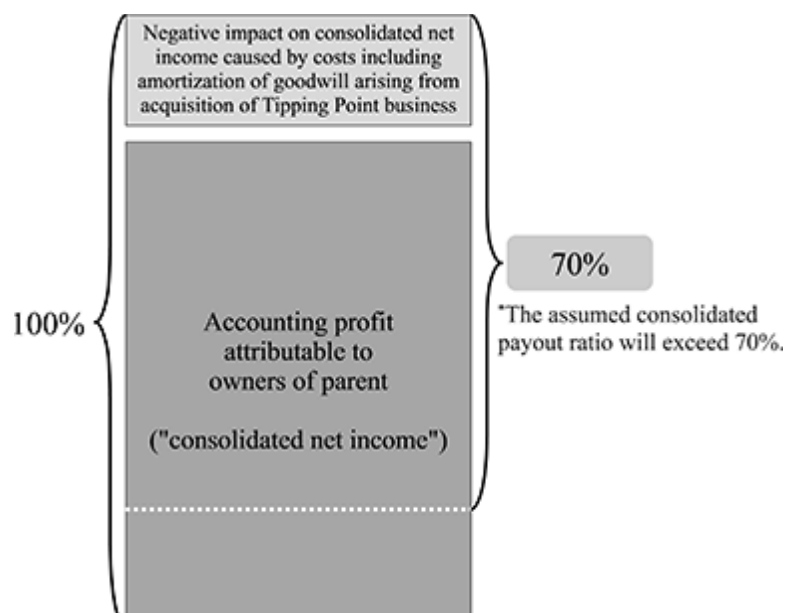
While making efforts to strengthen our financial position and secure retained earnings in order to adjust ourselves to a volatile business environment and maintain our competitiveness, we would continue to pay dividends on a consolidated net income basis.

As for the basic dividend policy, we would like to pay year-end dividends at a target consolidated payout ratio of 70% based on the amount of the accounting net income attributable to owners of parent (hereinafter “consolidated net income” for Agenda 1). However, costs including the amortization of goodwill and other items arisen from the acquisition of the TippingPoint business during the previous period, which is not accompanied by cash outflow, caused a decrease in “consolidated net income”. In view of this effect on dividends paid, we would like to aim at the payout ratio of 70% on the basis of “consolidated net income” after adding back the effect of the above amortization costs (after taking into consideration the deductible amount of amortization of goodwill and other items for tax purposes).

Based on the above policy, we would like to pay year-end dividends as follows:

Matters concerning year-end dividends

- (1) Type of dividend assets: cash
- (2) Matters concerning allocation of dividends to shareholders and the total amount of dividends:  
149 yen per common share of the Company Total amount: 20,507,679,070 yen
- (3) Effective date for dividend of surplus:  
March 28, 2018



Agenda 2 : Revision of remuneration, etc. of directors

## Explanation of Remuneration System for Directors in Relation to Agenda 2 through Agenda 4

The Company now submits a proposal for the revision of remuneration, etc. of directors in Agenda 2 through Agenda 4 in order to examine part of the current details of the remuneration, etc. of directors. Prior to the explanation of the details of each agenda, the Company explains the remuneration system for directors of the Company and the outline of the revision as follows.

1. The details of the remuneration system for directors of the Company are as follows.

### (a) Directors

	Type	Element of Variation	Incentive
(1)	Base compensation (money)	—	Base compensation
(2)	Conventional (market value) stock options (Note 1) (shares)	Stock price	Performance-linked (long term), stock appreciation incentive
(3)	Retention plan (Note 2) (money)	—	Acquisition of talenting personnel resources, retention
(4)-1	CPU Award (Note 3) (PBS) (money)	Stock price, Pre-GAAP Margin	Performance-linked (short term)
(4)-2	CPU Award (Note 3) (TBS) (money)	Stock price	Performance-linked (long term), risk of stock price volatility

The above (1), (2), and (3) will be granted within the limit of the fixed amount monetary remuneration of 1 billion yen or less per year, while the above (4) will be granted separately from the fixed amount monetary remuneration. However, in practice, if the amount of the CPU Award and the amount of other remuneration, etc. of directors (remuneration, etc. other than such CPU Award) that were actually paid or granted in the fiscal year in which the CPU Award was granted exceeds 1 billion yen in total, the Company intends not to pay the excess.

Therefore, the remuneration, etc. of directors will in practice be granted within this limit of 1 billion yen or less per year.

Note 1: In addition to the conventional (market value) stock options, the limit of the remuneration relating to the stock options as stock-based remuneration was also resolved at the 26th ordinary general meeting of shareholders held on March 26, 2015. However, the Company has not granted such stock options up to the present.

Note 2: For the details of the retention plan, please refer to “Agenda 3: Revision of remuneration, etc. of directors (retention plan).”

Note 3: For the details of the CPU Award, please refer to “Agenda 4: Revision of remuneration, etc. of directors (CPU Award).”

### (b) Outside directors

The remuneration, etc. of outside directors is only the fixed amount base compensation (money) to be paid in the amount of 20 million yen or less per year.

2. The outline of the revision of remuneration, etc. of directors this time is as follows. For the details, please confirm the descriptions of Agenda 2 through Agenda 4.

(1) Change in the maximum number of stock acquisition rights as stock options to be granted (Agenda 2)

The maximum number of stock acquisition rights as stock options to be granted is changed from 320,000 ordinary shares to 280,000 ordinary shares.

(2) Deletion of the provisions of stock options as stock-based remuneration which are stock acquisition rights as stock options (Agenda 2)

(3) Change in the calculation period of retention remuneration under the retention plan (Agenda 3)

The calculation period of retention remuneration under the retention plan is changed from 18 months to 24 months.

(4) Change in the provisions of the Performance Objective relating to the CPU Award (PBS) (Agenda 4)

Provisions of the Performance Objective before change:

- Percentage of increase in the Pre-GAAP Margin for the First Half (or Second Half) Period of the current fiscal year is equal to or greater than 100% compared to the First Half (or Second Half) Period of the previous fiscal year.
- The number of the CPU Awards  $\times$  the average Fair Market Value for three months  $\times$  the Payment Percentage — tax withholding

Performance Objective Attainment Percentage	Payment Percentage
Attainment Percentage < 100	0
$100 \leq \text{Attainment Percentage} \leq 120$	Attainment Percentage = Payment Percentage
Attainment Percentage > 120	$120 + (1.5 \times (\text{Attainment Percentage} - 120))$

Provisions of the Performance Objective after change:

- The Pre-GAAP Margin for the First Half (or Second Half) Period of the current fiscal year is increased by more than 500 million yen from the Pre-GAAP Margin for the First Half (or Second Half) Period of the previous fiscal year.
- The number of the CPU Awards  $\times$  the average Fair Market Value for three months — tax withholding

**Agenda 2 : Revision of remuneration, etc. of directors (Stock acquisition rights as stock options)**

It was resolved at the 26th ordinary general meeting of shareholders held on March 26, 2015 that the amount of the annual remuneration, etc. of the directors of the Company including remuneration, etc. in the form of stock options and remuneration, etc. as a retention remuneration would be 1 billion yen or less (of which the outside director receives 20 million yen or less per year), and the rules have been applicable up to the present.

The Company now proposes that the number of stock acquisition rights as conventional (market value) stock options to be granted be changed taking into account the past record of granting stock acquisition rights as conventional (market value) stock options in recent years and the number of stock acquisition rights as conventional (market value) stock options to be granted, and that the provisions of the amount and details of remuneration, etc. relating to stock acquisition rights as stock options as stock-based remuneration be deleted because the Company has no past record of granting stock options as stock-based remuneration at present and stock options as stock-based remuneration are not likely to be granted in the near future.

The Company believes that the amount of remuneration, etc. of the directors (excluding the outside director) and the details thereof have been determined taking into consideration the recent payment records, fair appraisal value of the stock acquisition rights granted to the directors other than the outside director as stock options (as calculated by multiplying the fair appraisal unit value of the stock acquisition right per share calculated using Black-Scholes model based on the Company's stock price, by the total number of stock acquisition rights to be allotted), the effect of such stock options as an incentive to improve performance of the Trend Micro Group, and the potential impact of such remuneration, etc. on the financial conditions of the Company.

Please also note that the remuneration, etc. of the directors does not include, as before, employees' salaries payable to the directors who also serve as employees.

There are currently seven (7) directors (including two (2) outside director).

The structure of remuneration, etc. of the directors (excluding the outside director) of the Company is as follows.

- (1) Base (monetary) remuneration
- (2) Stock acquisition rights as conventional (market value) stock options intended to be an incentive for the enhancement of corporate value by linking the Company's stock price to the directors' interests
- (3) Remuneration based on a retention plan seeking to retain and prevent an exodus of valuable persons by granting monetary remuneration if a certain condition is satisfied such as that a Change of Control occurs
- (4) Remuneration by a grant of the Cash Phantom Unit Award (the "CPU Award") by which the Company

grants Participants the right to receive a cash payment of an amount calculated based on the amount equal to the average Fair Market Value of the ordinary shares of the Company for a certain period of time preceding the exercise date

The above (1), (2), and (3) will be granted within the limit of the fixed amount monetary remuneration of 1 billion yen or less per year, while the above (4) will be granted separately from the fixed amount monetary remuneration. However, in practice, if the amount of the CPU Award and the amount of other remuneration, etc. of directors (remuneration, etc. other than such CPU Award) that were actually paid or granted in the fiscal year in which the CPU Award was granted exceeds 1 billion yen in total, the Company intends not to pay the excess. Therefore, the remuneration, etc. of directors will in practice be granted within this limit of 1 billion yen or less per year.

The remuneration, etc. of the outside director is only the base (monetary) remuneration to be granted within the limit of 20 million yen or less per year.

1. Reason for the issuance of stock acquisition rights (the "Options") to the directors (other than the outside director) as their remuneration, etc.

The Company issues to the directors the already-introduced Options, which are conventional (market value) stock options, for the purposes of linking the Company's stock price to the directors' interest and thereby further strengthening their motivation and moral to improve performance of the Trend Micro Group which we believe would lead to the development of business focusing on shareholders' interests and the enhancement of shareholder value.

We will maintain the number of the Options to be issued within an appropriate range in consideration of the balance between such number and the profitability of the Company as well as the payout ratio.

2. Summary of the terms and conditions of the Options

- (1) Class of shares to be issued upon exercise of the Options

Ordinary shares of the Company

- (2) Number of shares to be issued upon exercise of the Options

The maximum aggregate number of shares to be issued upon exercise of the Options during the period of one year from the date of the ordinary general meeting of shareholders of each fiscal year shall be 280,000 ordinary shares of the Company.

In the event of stock split or consolidation, the number of shares to be issued upon exercise of the Options (the "Option Shares") shall be adjusted using the following formula; provided, however, that such adjustment shall be made only in respect of the number of the Option Shares which are not exercised at that time and any fractions less than one (1) share resulting from such adjustment shall be disregarded.

$$\begin{array}{ccccc} \text{Number of} & & \text{Number of} & & \\ \text{shares after} & = & \text{shares before} & \times & \text{Split/Consolidation} \\ \text{adjustment} & & \text{adjustment} & & \text{ratio} \end{array}$$

In addition to the above, if it becomes necessary to adjust the number of the Option Shares after the date of allotment of the Options, the Company may also make necessary adjustment of the number of the Option Shares to the reasonable extent.

- (3) Aggregate number of the Options to be issued

The maximum aggregate number of the Options to be issued shall be 2,800. (The number of the Option Shares shall be 100 shares per one (1) Option; provided, however, that if the adjustment in clause (2) above has been made, it shall also be adjusted accordingly.)

- (4) Amount of assets to be contributed upon exercise of each Option or calculation method thereof

The amount of assets to be contributed upon exercise of each Option shall be the amount of each share delivered upon exercise of the Options (the "**Exercise Price**") multiplied by the number of the Option Shares. The Exercise Price shall be the closing price of the ordinary shares of the Company established through regular transactions reported by the Tokyo Stock Exchange on the date when the Options will be allotted or the immediately preceding date of such date if there is no trading on such date.

In the event of stock split or consolidation occurring after the date of allotment of the Options, the Exercise



Price shall be adjusted using the following formula and any fractions less than one (1) yen resulting from such adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment}}{1} \times \frac{1}{\text{Split/Consolidation ratio}}$$

In the event of issuance of new shares or disposition of treasury stock at a price less than the market price (excluding when as a result of the exercise of the Options, and conversion of securities to be converted or convertible into ordinary shares of the Company), the Exercise Price shall be adjusted using the following formula and any fractions less than one (1) yen resulting from such adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \left( \frac{\text{Number of shares issued and outstanding}}{\text{Number of shares issued and outstanding} + \frac{\text{Number of shares newly issued} \times \text{Subscription price per share}}{\text{Share price before new issue}}} \right)}{\text{Number of increased shares due to issuance of new shares}}$$

In the formula above, "Number of shares issued and outstanding" shall mean the number of the outstanding shares of the Company less the number of treasury stock held by the Company and in the event of the disposition of treasury stock, "Number of shares newly issued" shall be read as "Number of treasury stock disposed" and "Share price before new issue" shall be read as "Share price before disposition".

In addition to the above, in the event of merger, split-off, etc of the Company occurring after the date of allotment of the Options, the Company may also adjust the Exercise Price to a reasonable extent in the similar manner upon resolution of the board of directors.

(5) Exercise period of the Options

Within five (5) years from the day immediately following the date of allotment of the Options (\*Please also refer to "Reference 2." below.)

(6) Conditions on the exercise of the Options

- (i) If a person having the Options (the "Optionee") loses its position as a director, corporate auditor, employee, or advisor of the Company or its subsidiary (hereinafter in this clause referred to as the "Prior Position"), such Optionee may exercise the Options only during a period of forty-five (45) days from the day on which such Optionee loses its Prior Position. In addition, if the Optionee loses its Prior Position for the reason of incapacity due to physical disability, etc., such Optionee may exercise the Options only during a period of two (2) years from the day on which such Optionee loses its Prior Position if the board of directors of the Company recognizes that the Optionee made a high standard of contributions to the Company, or otherwise only during a period of six (6) months from the day on which such Optionee loses its Prior Position.

- (ii) If the Optionee dies after the exercise period of the Options set forth in clause (5) above expires, the heir(s) of the Optionee may, upon making necessary arrangement for the inheritance of the Options specified by the Company within six (6) months of the Optionee's death, exercise the succeeded Options only during a period of two (2) years from the day on which such Optionee dies if the board of directors of the Company recognizes that the deceased Optionee made a high standard of contributions to the Company, or otherwise only during a period of six (6) month from the day on which such Optionee dies.

- (iii) Any other condition shall be provided for in the "Stock Acquisition Right Grant Agreement".

(7) Restriction on the acquisition of the Options by way of transfer

Acquisition of the Options by way of transfer requires approval of the board of directors.

(8) The board of directors determining the terms of offering of the Options shall provide any other details of issue of the Options.

Reference:

1. The dilution rate associated with the exercise of stock acquisition rights ("Options")

As described in the Business Report on the amount of Options issued as follows as of December 31, 2017.

Total Number of Outstanding Shares as of December 31, 2017 : 140,293,004 shares

Round	Exercise Price	Expiration Date	Number of shares to be issued upon exercise of the Options	Ratio to total Number of Outstanding shares
30th series	3,660 yen	December 27, 2018	186,300 shares	0.13%
31st series	3,220 yen	May 27, 2019	2,130,000 shares	1.52%
32nd series	3,640 yen	December 1, 2019	231,200 shares	0.16%
33th series	4,690 yen	January 11, 2021	306,800 shares	0.22%
34th series	3,545 yen	September 29, 2021	1,144,000 shares	0.82%
35th series	6,430 yen	December 22, 2022	345,000 shares	0.25%
Total			4,343,300 shares	3.10%

2. The exercise period of the Options

We will in fact provide for a one year waiting period before the commencement of the exercise period in principle in the "Stock Acquisition Rights Grant Agreement" to be entered into between the Company and the person to whom the Options will be allotted (the "Optionees"). For some of the Optionees, we will remove the restriction on the said waiting period only if there is a change of control as is the case in retention remunerations proposed in the Agenda 3. We also follow suit with the Options that have been issued.

**Agenda 3: Revision of remuneration, etc. of directors (Retention plan)**

It was resolved at the 26th ordinary general meeting of shareholders held on March 26, 2015 that the amount of the annual remuneration, etc. of the directors of the Company including remuneration, etc. in the form of stock options and remuneration, etc. as a retention remuneration would be 1 billion yen or less (of which the outside director receives 20 million yen or less per year), and the rules have been applicable up to the present.

The Company now proposes that a part (the calculation period of retention remuneration) of the details of the retention plan be changed taking into account the results of the current research of examples of other companies that have introduced a retention plan similar to that introduced by the Company.

The Company believes that the amount of remuneration, etc. of the directors (excluding the outside director) and the details thereof have been determined taking into consideration the effect of a retention plan on retention of valuable managers, the results of the research of examples of other companies in the same industries that have already introduced retention plans, and the potential impact of such remuneration, etc. on the financial conditions of the Company.

Please also note that the remuneration, etc. of the directors does not include, as before, employees' salaries payable to the directors who also serve as employees.

There are currently seven (7) directors (including two (2) outside director).

1. Reason to grant a retention plan to the directors (other than the outside director)

In the Internet security industry and software industry, to which the Company belongs, a high degree of professionalism is required of directors who execute business due to the nature of the business, and the competition to retain valuable managers is steadily increasing on a global basis. Under these circumstances, in order to avoid the situation in which there is an exodus of the management team from the Company at a time in the future when there are concerns of an unexpected corporate buyout, etc., which in turn would damage corporate value, as well as in order to ensure our competitiveness in the international manager market for newly securing valuable managers, the Company intends to grant a retention plan similar to that introduced by global companies in the Internet security industry and software industry, to which the Company belongs.

2. Summary of the retention plan

(1) Details of payment

(i) Retention remuneration

If a change of control (Note 1) occurs in the Company and the Director incurs severance, etc. (Note 3)

during the covered period (Note 2), the Company shall pay in a lump sum 24 months' worth of retention remuneration (Note 4) less any amounts required to be withheld or deducted under applicable law.

Note 1: "Change of control" means, with respect to the Company, the first to occur of any of the following. Other details are as provided for in the "Change of Control Retention Agreement".

- (a) any person holding shares or stock (as applicable) of the Company acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person), directly or indirectly, the ordinary shares or stock (as applicable) of the Company representing more than 30% of the combined voting power of the Company's then-outstanding ordinary shares or stock (as applicable) entitled to vote generally in the election of directors;
- (b) the Company is a party to a merger or consolidation which results in the holders of the voting ordinary shares or stock (as applicable) of the Company outstanding immediately prior thereto failing to, directly or indirectly, retain immediately after such merger or consolidation the ordinary shares or stock (as applicable) equivalent to the voting power of more than 50% of the total combined voting power of the ordinary shares or stock (as applicable) entitled to vote generally in the election of directors of the Company or the surviving entity;
- (c) the sale or disposition of all or substantially all of the Company's assets or consummation of any transaction having similar effect (other than a sale or disposition to one or more subsidiaries of the Company); or
- (d) a change in the composition of the board of directors of the Company within any consecutive twelve-month period as a result of which fewer than a majority of the directors are incumbent directors (Note 5).

Note 2: "Covered period" means the period commencing on the date three months prior to the effective date of a change of control and ending 18 months after the effective date of that change of control.

Note 3: "Severance" means (i) the involuntary termination of the Director's engagement with the Company, other than for death, etc. or (ii) a material diminution, etc. in the base compensation without express written consent of the Director and a termination of the Director's engagement with the Company by the Director for reason that the material diminution has not been remedied during a certain period. Other details are as provided for in the "Change of Control Retention Agreement".

Note 4: "Retention remuneration" means the remuneration established based on monthly compensation, etc. of the Director on a severance date (Note 6) of the Director and the Director's minimum target bonus (which refers to, with respect to performance bonus or any equivalent bonus, an amount to be paid if the Director has achieved minimum target to consummate payment) for the year of severance. Other details are as provided for in the "Change of Control Retention Agreement".

Note 5: "Incumbent director" means a director who either (i) is a member of the board of directors of the Company as of the effective date of "Change of Control Retention Agreement" entered into by the Director, or (ii) is elected, or nominated for election, to the board of directors of the Company with the affirmative votes of at least a majority of the incumbent directors at the time of such election or nomination. Other details are as provided for in the "Change of Control Retention Agreement".

Note 6: "Severance date" means the date on which the Director incurs the severance, etc. during a covered period. Notwithstanding the foregoing, where the Director is entitled under law, contract or otherwise, to any period of notice of termination of engagement, a severance date means the date on which engagement terminates.

(ii) Health care costs

If a change of control occurs in the Company and the Director incurs severance, etc. during the covered period, the Company shall pay in a lump sum 12 months' worth of health care costs (Note 1). However, this clause does not apply to the Director who had not been provided with the medical insurance by the Company at the time of the end of the engagement with the Company.

Note 1: "Health care costs" mean costs to provide the Director with private medical insurance equivalent to

the medical insurance the Director had been provided with by the Company at the time of the end of the engagement with the Company, or costs in lieu thereof. Other details are as provided for in the "Change of Control Retention Agreement".

(2) Conditions of payment

(i) In order to receive payment of the retention remuneration, etc. under the retention plan, the Director is required, within 45 days following the severance date, to execute a release as well as an equity release in which the Director waives all equity related claims (together the "Releases") in the form provided by the Company in its discretion. Other details are as provided for in the "Change of Control Retention Agreement".

(ii) In order to receive payment of the retention remuneration, etc. under the retention plan, the Director is required to consent not to engage, directly or indirectly, in any business in competition with the main business of the Company or the Trend Micro Group during the restricted period (Note 1) or within the geographic area (Note 2).

Note 1: The "restricted period" means a period commencing on the severance date and ending on the date that is eighteen (18) months following the severance date.

Note 2: The "geographic area" means the region over which the Director had responsibility while performing services for the Company, and in any region where the Company has customers as of the severance date.

(iii) Other conditions are as provided for in the "Change of Control Retention Agreement".

(3) Other details regarding the retention plan are as provided for in the "Change of Control Retention Agreement".

**Agenda 4: Revision of remuneration, etc. of directors (the "CPU Award")**

It was resolved at the 26th ordinary general meeting of shareholders held on March 26, 2015 that Company grant the Cash Phantom Unit Award (the "CPU Award") (see Note) up to a maximum number equivalent to 75,000 ordinary shares of the Company for each fiscal year as a performance-linked incentive, and the rules have been applicable up to the present.

The Company now proposes that a part (the provisions of the Performance Objective which are the details of the Performance-Based CPU Awards) of the details of the Cash Incentive Plan is changed for the purpose of simplifying the scheme.

Note: The CPU Award that the Company would like to grant is to grant Participants the right to receive a cash payment of an amount calculated based on the amount equal to the average Fair Market Value of the ordinary shares of the Company for a certain period of time preceding the exercise date and is comprised of two types of awards: (i) the Performance-Based CPU Award which can be exercised subject to the Company meeting certain Performance Objectives and (ii) the Time-Based CPU Award which can be exercised for each certain period of time after the date of grant.

The Company believes that the specific method of calculation of the details thereof are reasonable because they make it possible to grant an incentive to each director according to his or her functions by appropriately varying the breakdown of the Performance-Based CPU Award which can be exercised subject to the Company meeting certain Performance Objectives and the Time-Based CPU Award which can be exercised for each certain period of time after the date of grant and also because they would have been determined considering the linkage to the performance and stock price of the Company.

Please also note that the remuneration, etc. of the directors does not include, as before, employees' salaries payable to the directors who also serve as employees.

There are currently seven (7) directors (including two (2) outside director).

1. Reason for the grant of the Cash Incentive Plan to the directors (other than the outside director)

The Company has conventionally issued to the directors and employees of the Company and the Subsidiaries of the Company stock acquisition rights as stock options for the purposes of linking the Company's stock price to the

interests of directors and employees of the Company and the Subsidiaries of the Company and thereby further strengthening their motivation and morale to improve performance of the Company Group which we believe would lead to the development of business focusing on shareholders' interests and the enhancement of shareholder value.

Considering the dilution of shares resulting from the issuance of new shares by the exercise of stock options, and for the purpose of sharing with shareholders not only a stock appreciation incentive linked to improved results but also the downside risk in a situation of stock depreciation which is difficult to take on using conventional stock options, as well as for the purpose of increasing the transparency of the performance-linked element which has conventionally been considered as a part of the base remuneration, the Company determined to grant the CPU Award to the directors (excluding the outside director) of the Company.

## 2. Summary of the Cash Incentive Plan

### Performance-Based CPU Awards:

#### (1) Details of rights

Subject to the Company attaining the predetermined Performance Objective (Note 1), the right to receive any payment of cash equal to the amount (rounded down to the nearest yen) obtained by (x) multiplying the amount equal to the average Fair Market Value (Note 2) of one share of common stock of the Company during the three calendar months preceding the month in which the exercise date is contained by the number of CPU Awards granted to the Participant and (y) withholding the tax required under the laws or ordinances relevant to the participation in the Plan. In addition, the maximum number of the Performance-Based CPU Awards, together with the number of the Time-Based CPU Awards to be described below, at the time of grant shall be the number equivalent to 75,000 shares of common stock of the Company for each fiscal year.

Note 1: The Performance Objective means (i) with respect to the First Half Period (i.e., the period from January 1 - June 30 each year), the CPU Award will become exercisable if result of subtracting the Pre-GAAP Margin (defined as operating income excluding certain costs of services and product development expenses, selling, general and administrative expenses, depreciation, acquisition and integration charges, amortization of intangibles, and other charges, as determined by the Company in its sole discretion) of the First Half Period of the fiscal year in which the date of grant falls from the Pre-GAAP Margin of the First Half Period of the year before the year in which the date of grant falls is over 500 million yen and (ii) with respect to the Second Half Period (i.e., the period from July 1 - December 31 each year), the CPU Award will become exercisable if the result of subtracting the Pre-GAAP Margin of the Second Half Period of the fiscal year in which the date of grant falls from the Pre-GAAP Margin of the Second Half Period of the year before the year in which the date of grant falls is over 500 million yen.

Note 2: Fair Market Value means (i) if the common stock of the Company is publicly traded on the Tokyo Stock Exchange, the closing price of the common stock of the Company established through regular transactions reported by the Tokyo Stock Exchange or (ii) if the common stock of the Company is no longer traded on the Tokyo Stock Exchange, then as determined by the Company in good faith.

Note 3: The Company may make necessary adjustment of the number of CPU Awards subject to the Plan upon any occasion where adjustment is necessary by the Company, such as in the case where the Company carries out stock split (including the case where the Company carries out gratis allotment of its common stock free of charge) or reverse stock split.

#### (2) Date of grant

January 1 every year

#### (3) Exercisable period

Within five (5) years from the day immediately after the date of grant

#### (4) Conditions on the exercise of rights

(i) Whether or not the Performance Objectives have been attained will be determined by dividing 50% of the

CPU Awards granted to the Participant to the First Half Period and the remaining 50% to the Second Half Period and as set out in Note 1 of (1) above. The Earned Performance-Based Payment, if any, for each of the First and Second Half Periods can be exercised in full on the applicable Date of Determination for such period.

Note: The Date of Determination means the date the Company determines whether or not the Performance Objectives with respect to the relevant CPU Award have been attained. The Date of Determination for the First Half Period shall be the first October 1 following the end of the First Half Period of the fiscal year in which the date of grant falls, and the Date of Determination for the Second Half Period shall be the first April 1 following the end of the Second Half Period of the fiscal year in which the date of grant falls.

- (ii) If the Participant loses its position as a director, corporate auditor, employee of, or advisor of the Company or its subsidiary (including by reason of his or her death or any physical impairment), any CPU Award that is not exercisable at that time may not be exercised. However, this shall not apply if the Company allows in its sole discretion the exercise by the Participant of such non-exercisable CPU Award and if the cause of such loss of the position was not due to (i) the Participant committing or participating in acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude or acts punishable under the criminal law, (ii) the Participant is in intentional, material violation of any law, regulation or the Company's articles of association or internal rules (including, but not limited to, cases where the Participant is liable for compensation to the Company pursuant to Article 423 of the Companies Act of Japan), or (iii) the Participant significantly failing to perform, refuse to perform, or neglect in the performance of, his or her duties, functions, or responsibilities, or (iv) the Participant's behavior causing disturbance to the Company's business.
- (iii) The Company, at its sole discretion, may give approval to the exercise by a Participant of any CPU Award that is exercisable at that time, if a Change of Control (Note 1) occurs in the Company.

Note 1: "Change of Control" means, with respect the Company, the first to occur of any of the following. Other details are as provided for in the "CPU Award Agreement". The same applies hereinafter.

- (a) any person holding shares or stock (as applicable) of the Company acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person), directly or indirectly, the ordinary shares or stock (as applicable) of the Company representing more than 30% of the combined voting power of the Company's then-outstanding ordinary shares or stock (as applicable) entitled to vote generally in the election of directors;
- (b) the Company is a party to a merger or consolidation which results in the holders of the voting ordinary shares or stock (as applicable) of the Company outstanding immediately prior thereto failing to, directly or indirectly, retain immediately after such merger or consolidation the ordinary shares or stock (as applicable) equivalent to the voting power of more than 50% of the total combined voting power of the ordinary shares or stock (as applicable) entitled to vote generally in the election of directors of the Company or the surviving entity;
- (c) the sale or disposition of all or substantially all of the Company's assets or consummation of any transaction having similar effect (other than a sale or disposition to one or more subsidiaries of the Company); or
- (d) a change in the composition of the board of directors of the Company within any consecutive twelve-month period as a result of which fewer than a majority of the directors are Incumbent Directors (Note 2).

Note 2: "Incumbent Director" means a director who either (i) is a member of the board of directors of the Company as of the date the board of directors approve the granting and the detailed conditions of the Cash Incentive Plan granted for that fiscal year, or (ii) is elected, or nominated for election, to the board of directors of the Company with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination. Other details are as provided for

in the "CPU Award Agreement".

- (iv) Other details regarding the conditions on the exercise of rights are to be determined at the board of directors meetings of the Company.

Time-Based CPU Awards:

(1) Details of rights

The right to receive any payment of cash equal to the amount (rounded down to the nearest yen) obtained by multiplying the amount equal to the average Fair Market Value (Note 1) of one share of common stock of the Company during the three calendar months preceding the month in which the exercise date is contained by the number of CPU Awards granted to the Participant and withholding the tax required under the laws or ordinances relevant to the participation in the Plan. In addition, the maximum number of the Time-Based CPU Awards, together with the number of the Performance-Based CPU Awards described above, at the time of grant shall be the number equivalent to 75,000 shares of common stock of the Company for each fiscal year.

Note 1: Fair Market Value means (i) if the common stock of the Company is publicly traded on the Tokyo Stock Exchange, the closing price of the common stock of the Company established through regular transactions reported by the Tokyo Stock Exchange or (ii) if the common stock of the Company is no longer traded on the Tokyo Stock Exchange, then as determined by the Company in good faith.

Note 2: The Company may make necessary adjustment of the number of CPU Awards subject to the Plan upon any occasion where adjustment is necessary by the Company, such as in the case where the Company carries out stock split (including the case where the Company carries out gratis allotment of its common stock free of charge) or reverse stock split.

(2) Date of grant

January 1 every year

(3) Exercisable period

Within five (5) years from the day immediately after the date of grant

(4) Conditions on the exercise of rights

- (i) Of the CPU Awards granted to the Participant, each CPU Award can be exercised as follows: (i) 25% on the December 31 of the calendar year that includes the date of grant; (ii) 25% on December 31 of the first calendar year following the calendar year that includes the date of grant; (iii) 25% on December 31 of the second calendar year following the calendar year that includes the date of grant; and (iv) 25% on December 31 of the third calendar year following the calendar year that includes the date of grant.

- (ii) If the Participant loses its position as a director, corporate auditor, employee of, or advisor of the Company or its subsidiary (including by reason of his or her death or any physical impairment), any CPU Award that is not exercisable at that time may not be exercised. However, this shall not apply if the Company allows in its sole discretion the exercise by the Participant of such non-exercisable CPU Award and if the cause of such loss of the position was not due to (i) the Participant committing or participating in acts of dishonesty, fraud, misrepresentation or other acts of moral turpitude or acts punishable under the criminal law, (ii) the Participant is in intentional, material violation of any law, regulation or the Company's articles of association or internal rules (including, but not limited to, cases where the Participant is liable for compensation to the Company pursuant to Article 423 of the Companies Act of Japan), or (iii) the Participant significantly failing to perform, refuse to perform, or neglect in the performance of, his or her duties, functions, or responsibilities, or (iv) the Participant's behavior causing disturbance to the Company's business.

- (iii) The Company, at its sole discretion, may give approval to the exercise by a Participant of any CPU Award that is exercisable at that time, if a Change of Control occurs in the Company.

- (iv) Other details regarding the conditions on the exercise of rights are to be determined at the board of directors meetings of the Company.

## **Business Report**

**(From January 1, 2017 to December 31, 2017)**

### **1. Business Review of Trend Micro Group**

#### **(1) Qualitative Information on the Consolidated Business Results**

During this term of fiscal year 2017, from January 1 to December 31, the US economy seemed revived toward the end of the year by passing tax reform which is one of the trigger for the recovery of world economy. Europe economy has been continuing a mild upswing. In emerging countries, mainly China economic has been showing maintain stability in its economic growth. The world economy has been going through over under a generally stable economic situation.

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

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

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

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

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

For North America region, despite of continuation of trend with decrease in number of users in consumer business sales, enterprise business sales have achieved robust growth mainly due to the contribution of TippingPoint business. As a result, sales for this period in North America region was 41,991 million yen (20.5% increase from the same period in previous year.) with a double-digit growth rate.

In Europe region sales, both cloud related business and APT related businesses showed growth. Moreover, traditional typed security products sales has been increase with the advent of both of them, the enterprise business sales have been leading this region's sales. In addition to weak yen impact, as a result, net sales in this region were 24,101 million yen (12.2% increases from the same period in previous year) with a double-digit growth rate.

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

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

As a result, the consolidated net sales for entire year of fiscal year 2017 amounted to 148,811 million yen (12.8%



increase from the same period in previous year), showing revenue growth in all region.

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

The consolidated ordinary income for this period was 37,035 million yen (5.4% increase from the same period in previous year) and the net income attributable to owners of the parent for this period was 25,691 million yen (4.2% increase from the same period in previous year.) due to no accounting Gain on sale of affiliated company securities which had been the same period in previous year.

## **(2) Capital Expenditure**

The total amount of capital expenditure for the current period was 4,599 million yen, which was invested mainly in the development of new technologies and acquisition of instruments necessary to rationalize the basic operation systems including servers, PCs and peripheral devices.

## **(3) Financing**

There are no special instances.

## **(4) Issues to Deal With**

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

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

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

**(5) Business Results and Changes in Financial Conditions**

Fiscal Year	The 26 <sup>th</sup> Term ended December 2014	The 27 <sup>th</sup> Term ended December 2015	The 28 <sup>th</sup> Term ended December 2016	The 29 <sup>th</sup> Term ended December 2017
Item				
Net Sales (millions of yen)	115,205	124,317	131,936	148,811
Ordinary Income (millions of yen)	35,992	34,071	35,138	37,035
Net Income Attributable to Owners of Parent (millions of yen)	22,303	21,435	24,651	25,691
Net Income per Share (in yen)	165.68	157.71	179.63	187.01
Total Assets (millions of yen)	279,938	290,520	308,537	331,157
Net Assets (millions of yen)	153,094	159,693	166,471	177,077

**(6) Status of Important Subsidiaries**

Company Name	Capital	Shareholding Ratio	Primary Business
Trend Micro Incorporated (Taiwan)	212,500,000 New Taiwan dollars	100%	Development and sale of security- related products
Trend Micro Incorporated (U.S.A.)	477,250.67 U.S. dollars	100%	Development and sale of security- related products
Trend Micro Australia Pty. Ltd. (Australia)	150,000 Australian dollars	100%	Development and sale of security- related products
Trend Micro (EMEA) Limited (Ireland)	21,372,061.63 euros	100%	Provision of business support for subsidiaries and development and sale of security-related products

- (Notes) 1. The consolidated financial statements cover all subsidiaries and affiliated companies except two non-consolidated subsidiaries, which consist of 35 consolidated subsidiaries including the aforementioned four important subsidiaries and two equity method affiliates.
2. There are no subsidiaries that fall under specific wholly owned subsidiaries.

**(7) Primary Business of the Group**

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

**(8) Primary Offices of the Group**

Head Office: Shibuya-ku, Tokyo  
Branch Offices: Osaka Office (Yodogawa-ku, Osaka)  
Fukuoka Office (Hakata-ku, Fukuoka)  
Nagoya Office (Naka-ku, Nagoya)  
Overseas Subsidiaries: Trend Micro Incorporated (Taiwan)  
Trend Micro Incorporated (U.S.A.)  
Trend Micro Australia Pty. Ltd. (Australia)  
Trend Micro (EMEA) Limited (Ireland)

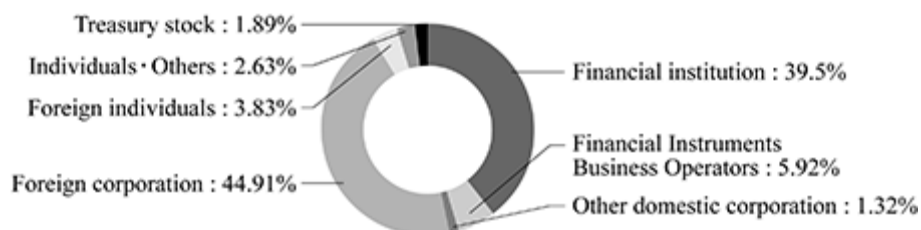
**(9) Employees**

Name of Divisions	Number of Employees
Sales Division	1,453
Marketing Division	366
Product Support Division	1,281
Research and Development Division	2,019
Administration Division	851
Total	5,970

## 2. Status of Shares of the Company

- (1) Total Number of Shares Authorized to be Issued by the Company:  
250,000,000 shares
- (2) Total Number of Outstanding Shares:  
137,635,430 shares (excluding treasury stock of 2,657,574 shares)
- (3) Number of Shareholders: 6,522

### Distribution status by owners (reference)



- (4) Top 10 Shareholders:

Name of Shareholders	Number of Shareholding	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,002,700	15.98
Trueway Company Limited	12,186,500	8.85
Japan Trustee Services Bank, Ltd. (Trust Account)	11,819,400	8.58
Chang, Ming-Jang	5,367,000	3.89
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	3,407,300	2.47
Bank Julius Baer & Co. Ltd., Singapore Clients	3,336,394	2.42
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,923,000	2.12
Trust & Custody Services Bank, Ltd. (Investment Trust Acceptance Security Account)	2,520,300	1.83
STATE STREET BANK WEST CLIENT - TREATY 505234	1,971,641	1.43
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	1,903,509	1.38

(Notes)

- Numbers of Shareholdings shown in the Business Report are stated with reference to those in the shareholder register.
- The Shareholding Ratio is calculated excluding treasury stock ( 2,657,574 shares).

### 3. Matters Concerning Stock Acquisition Rights etc. of the Company

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

	Thirtieth Series	Thirty-first Series	Thirty-second Series
Date of resolution of the issue	December 12, 2013	May 13, 2014	November 14, 2014
Category	Director (Note)	Director (Note)	Director (Note)
Number of holders	3	4	4
Number of stock acquisition rights	554	3,600	590
Number of shares subject to stock acquisition rights	55,400	360,000	59,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	3,660 yen	3,220 yen	3,640 yen
Exercise period	December 27, 2018	May 27, 2019	December 1, 2019
Conditions for exercise of stock acquisition rights	(Note 2)	(Note 2)	(Note 2)

	Thirty-third Series	Thirty-fourth Series	Thirty-fifth Series
Date of resolution of the issue	December 22, 2015	September 14, 2016	December 7, 2017
Category	Director (Note)	Director (Note)	Director (Note)
Number of holders	4	3	4
Number of stock acquisition rights	1,384	1,200	1200
Number of shares subject to stock acquisition rights	138,400	120,000	120,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	4,690 yen	3,545 yen	6,430 yen
Exercise period	January 11, 2021	September 29, 2021	December 22, 2022
Conditions for exercise of stock acquisition rights	(Note 2)	(Note 2)	(Note 2)

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

(Note 2)

Essential Conditions for Exercise of Stock Acquisition Rights

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

- (2) Status of Stock Acquisition Rights Granted in the Current Term for Directors and employees of subsidiaries of the Company

	Thirty-fifth Series
Date of resolution of the issue	December 7, 2017
Number of Directors and employees of subsidiaries of the Company holding stock acquisition rights (excluding Directors and employees of the Company)	10 (2,250 stock acquisition rights)
Number of stock acquisition rights	2,250
Number of shares subject to stock acquisition rights	225,000
Type of shares subject to stock acquisition rights	Common Stock
Issue price per stock acquisition right	Without consideration
Exercise price per share at the exercise of rights	6,430 yen
Exercise period	From December 23, 2017 to December 22, 2022
Conditions for exercise of stock acquisition rights	(Note)

- (Note) Please refer to (Note 2) under “(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term” in the previous pages.

(3) Other Important Matters concerning Stock Acquisition Rights

Status of Stock Acquisition Rights held by Employees of the Company, and Directors and employees of subsidiaries of the Company at the end of the current term

	Thirtieth Series	Thirty-first Series	Thirty-second Series
Date of resolution of the issue	December 12, 2013	May 13, 2014	November 14, 2014
Category	Directors and employees of subsidiaries of the Company	Employees of the Company, Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company
Number of stock acquisition rights	1,309	17,700	1,722
Number of shares subject to stock acquisition rights	130,900	1,770,000	172,200
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	3,660 yen	3,220 yen	3,640 yen
Exercise period	December 27, 2018	May 27, 2019	December 1, 2019
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

	Thirty-third Series	Thirty-fourth Series	Thirty-fifth Series
Date of resolution of the issue	December 22, 2015	September 14, 2016	December 7, 2017
Category	Directors and employees of subsidiaries of the Company	Employees of the Company, Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company
Number of stock acquisition rights	1,684	10,240	2,250
Number of shares subject to stock acquisition rights	168,400	1,024,000	225,000
Type of shares subject to stock acquisition rights	Common Stock	Common Stock	Common Stock
Issue price per stock acquisition right	Without consideration	Without consideration	Without consideration
Exercise price per share at the exercise of rights	4,690 yen	3,545 yen	6,430 yen
Exercise period	January 11, 2021	September 29, 2021	December 22, 2022
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

(Note) Please refer to (Note 2) under “(1) Status of Stock Acquisition Rights held by Directors at the End of the Current Term” in the previous pages.

#### 4. Matters Concerning Directors and Corporate Auditors of the Company

##### (1) Directors and Corporate Auditors

(As of December 31, 2017)

Name	Title and Responsibilities at the Company and the Group	Significant Concurrent Positions
Chang Ming-Jang	Chairman and Representative Director	
Eva Chen	President and Representative Director / CEO of Trend Micro Group	
Mahendra Negi	Executive Vice President and Representative Director / CFO of Trend Micro Group	
Wael Mohamed	Executive Vice President and Director / COO of Trend Micro Group	
Akihiko Omikawa	Executive Vice President and Director / General Manager Japan, Global Consumer Business / General Manager, IoT Business Promotion	
Ikujiro Nonaka	Director	Professor Emeritus, Hitotsubashi University Graduate School of International Corporate Strategy
Tetsuo Koga	Director	Outside Director of HITO-Communications, Inc. / Outside Director of Asahi Net, Inc
Masaru Sempo	Full-time Corporate Auditor	
Fumio Hasegawa	Corporate Auditor	
Yasuo Kameoka	Corporate Auditor	Chief Director and Senior Partner of Taiko Audit Corporation
Koji Fujita	Corporate Auditor	Vice Chairman and Attorney at Law, Okuno & Partners foreign law joint enterprise / External Director of Dexerials Corporation / External Director of NICHIREKI CO.,LTD./ External Director of IRISO ELECTRONICS CO.,LTD.

(Notes)

1. In the 28th Ordinary General Meeting of Shareholders held on March 28, 2017, Mr. Tetsuo Koga was newly selected and assumed the Director.
2. Our officers consist of eleven (11) members, seven (7) Directors and four (4) Corporate Auditors, of which, one (1) is female and ten (10) are males as of December 31, 2017. The female officer is the President and Representative Director.
3. Mr. Ikujiro Nonaka, Director, and Mr. Tetsuo Koga, Director, are an Outside Directors under Article 2, item 15 of the Companies Act.
4. All four Corporate Auditors are Outside Auditors under Article 2, item 16 of the Companies Act.



5. Mr. Masaru Sempo, Corporate Auditor, has many years of experience in accounting and management matters. Mr. Fumio Hasegawa, Corporate Auditor, has many years of experience in finance and accounting matters. Mr. Yasuo Kameoka, Corporate Auditor, is a qualified and experienced certified public accountant. Mr. Koji Fujita, Corporate Auditor, is an attorney with experience in corporate rehabilitation and corporate legal affairs. All have appropriate knowledge regarding finance and accounting matters.
6. The Company has designated all Outside Directors and Outside Corporate Auditors as independent director/corporate auditors upon whom the Tokyo Stock Exchange imposes the obligation of designation, and who are unlikely to cause conflicts of interest with general shareholders, and it has filed such designation with the said Exchange.

(2) Summary of Limited Liability Agreement

As long as Outside Directors and Outside Corporate Auditors perform their duties in good faith and without gross negligence with respect to the liabilities set forth in Article 423, paragraph 1 of the Companies Act, Outside Directors, full-time Outside Corporate Auditors and part-time Outside Corporate Auditors shall, in accordance with the limited liability agreement executed between the Company and them, be liable for up to 16 million yen, 10 million yen and 4.8 million yen, respectively, or the minimum liability amount prescribed by laws and regulations, whichever of these amounts is the higher.

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

Category	Number of Persons	Amount of Remuneration	Remarks
Director	7	484 (millions of yen)	Two (2) Outside Directors received 14 million yen.
Corporate Auditor	4	24 (millions of yen)	All four (4) Corporate Auditors are Outside Corporate Auditors.

(Note) Remuneration of Directors (except Outside Directors) include a total of 110 million yen in stock options and a total of 196 million yen based on the Cash Incentive Plan which reflects business performance and stock prices of the Company to the Cash Phantom Unit Award granted.

(4) Matters concerning Outside Directors and Outside Corporate Auditors

(i) Relationships between the Company and other companies where Outside Directors or Outside Corporate Auditors hold a concurrent position

The Company does not have any special relationships with any of the companies where Outside Directors and Outside Corporate Auditors hold a concurrent position.

(ii) Principal activities of Outside Directors and Outside Corporate Auditors during the current term

Name	Attendance and Comments at the Meetings of the Board of Directors and the Meetings of the Board of Corporate Auditors
Ikujiro Nonaka (Director)	Attended 8 of 9 meetings of the Board of Directors (88%). He made comments as needed based on his expert knowledge on management theory.
Tetsuo Koga (Director)	Attended all 7 meetings of the Board of Directors (100%) held since he took office as a Director. He made comments as needed based on his expert knowledge of real industry.
Masaru Sempo (Full-time Corporate Auditor)	Attended all 9 meetings of the Board of Directors (100%) and all 14 meetings of the Board of Corporate Auditors (100%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experience in accounting and management matters over the years.
Fumio Hasegawa (Corporate Auditor)	Attended all 9 meetings of the Board of Directors (100%) and all 14 meetings of the Board of Corporate Auditors (100%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors based on his experience in finance and accounting matters over the years.
Yasuo Kameoka (Corporate Auditor)	Attended 8 of 9 meetings of the Board of Directors (88%) and all 14 meetings of the Board of Corporate Auditors (100%). He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors mainly based on his expert knowledge as a certified public accountant.
Koji Fujita (Corporate Auditor)	Attended all 9 meetings of the Board of Directors (100%) and Attended 13 of 14 meetings the Board of Corporate Auditors (92%).He raised questions or expressed opinions when necessary in order to ensure the validity and appropriateness of decisions made at the meetings of the Board of Directors and at the meetings of the Board of Corporate Auditors mainly based on his expert knowledge as an attorney.

## 5. Status of Accounting Auditor

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

(2)	Remuneration, etc. Paid to Accounting Auditor	(Millions of yen)
(i)	Amount of fees and charges paid to accounting auditors for the term under review	88
(ii)	Total amount of cash and other financial benefits payable by the Company and its subsidiaries	88

(Notes) 1. As the audit fees under the Companies Act and those under the Financial Instruments and Exchange Act are not separated for the purpose of the audit contract executed between the Company and the accounting auditors and are impractical to separate, the amount specified in (i) above is indicated as the total amount of audit fees payable under both laws.

2. Three of the important subsidiaries of the Company are audited by certified public accountants or audit corporations other than the Accounting Auditor of the Company (including qualified persons equivalent thereto in foreign countries).

(3) Reasons for Agreement to the Amount of Remuneration, etc. to be Paid to Accounting Auditor  
The Board of Corporate Auditors has decided to agree on the amount of remuneration, etc. to be paid to the Accounting Auditor, after conducting necessary assessment with regard to the content of its audit plans the execution status of the accounting audits, and the calculation basis of the remuneration amount.

(4) Policies Regarding Decisions on the Dismissal or Non-reappointment of Accounting Auditor  
In the event that the Accounting Auditor is deemed to fall under any of the items prescribed in Article 340, paragraph 1 of the Companies Act, the Board of Corporate Auditors shall, pursuant to the unanimous consent of Corporate Auditors, dismiss the Accounting Auditor.  
In addition to the above, in the event that it is deemed difficult for the Accounting Auditor to appropriately carry out its duties, or in consideration of the execution status of its duties, etc., the Board of Corporate Auditors shall, in accordance with Article 344, paragraphs 1 and 3 of the Companies Act, propose the dismissal or non-reappointment of the Accounting Auditor as an agenda item at a general meeting of shareholders for resolution.

## 6. Systems and Policies of the Company

### Basic Policies of the Systems to Ensure the Appropriateness of Operations of the Company's Directors and the Outline of said System's Operation Status

- (1) System for the storage and control of information on the execution of our Directors' duties
  - i) Any information on the execution of our Directors' duties shall be stored and controlled in proper, assured and highly retrievable conditions depending on storing medium in accordance with the Confidential Information Control Rules, the Detailed Regulations on Confidential Information Management and Operation, and other internal regulations. It shall be ensured that our Directors and Corporate Auditors access such information at any time. A storage period shall be the period set forth in the Document-Handling Rule.
  - ii) The protection and storage of information under the information system shall be as set forth in the Information Security Policy (Global Policy).
- (2) Our regulations and other system for the control of the risk of loss
  - i) The Company shall be aware of the risks that come with our products and services, and with the Company's infrastructure arising in the course of the execution of our business. The Company shall, therefore, establish a system to properly grasp and control such risks by appointing a person in charge for the proper administration of each occurrence of the risks.
  - ii) The Company shall establish a risk-management department and a compliance security committee with one of our Representative Directors as a chairperson to supervise the compliance and risk control system.
  - iii) Any divulgence, theft, loss, corruption, interpolation and the like of information would cause the Company to suffer enormous damage and a loss of credibility. Therefore, the Company shall control such risks in accordance with the provisions of the Information Security Policy (Global Policy), the Confidential Information Control Regulations, the Risk Management Guideline, the Personal Information Protection Manual and the like.
  - iv) In the event an unforeseen contingency occurs, the Company shall establish a crisis team (or a SWAT team) with our Director in charge of the Japan Region as a risk manager to move quickly on the situation, and shall establish a system to prevent and minimize additional damage, including damage to our clients.
- (3) System to ensure the efficient execution of our Directors' duties
  - i) As a basis for a system to ensure the efficient execution of our Directors' duties, a meeting of the Board of Directors shall be held at least once every three months, and in a timely manner from time to time if necessary. Any important matters relating to the Company's management policies and strategies shall be determined making reference to the results of an Executive Meeting and a periodical Budget Review Process.
  - ii) In order to execute the Company's operations based on the resolutions of our Board of Directors, each person in charge of respective operations, his or her responsibilities, and the details of execution procedures shall be named and set forth in an administrative authority rule, a rule on our executives and the like.
- (4) System to ensure that the execution of the duties of the Directors and employees of the Company and the director and employees of our subsidiaries comply with relevant laws and regulations and the Articles of Incorporation
  - i) As the basis of the compliance system of each of our group companies, a Code of Conduct, Regulations on Insider Trading and the like shall be established. In order to confirm the implementation of the Code of Conduct, an acknowledgement research shall be carried out to all the directors and employees of our group companies every year.

In addition to the above, if necessary, each department shall establish a guideline and the like, and give training for the said purpose.

- ii) The Company shall establish a compliance security committee with a Representative Director as a chairperson to maintain and improve the internal control system.
  - iii) Each of our group companies shall appoint an internal control manager responsible for facilitating the internal control system, and from time to time, other persons for practical activities under the internal control manager.
  - iv) Any Director of the Company or director of our group companies who has discovered a material illegal act or a compliance-related important fact in any of our group companies shall immediately advise any of the Corporate Auditors thereof, and shall also report it at a meeting of the Board of Directors without delay.
  - v) In accordance with the Whistle-blowing Report Procedures, which regulate an internal notification and reporting system regarding any illegal acts and other compliance-related matters, the Human Resources Division and the Internal Audit Department shall take the initiative as responsible departments. The Internal Auditor shall summarize the fact(s) so reported by sorting out the existence or non-existence and details thereof to report the results to the CEO, CFO and Corporate Auditors every quarter. Provided, however, that he or she shall report every urgent matter to them every time when it occurs.
  - vi) Any of our Corporate Auditors may offer an opinion and request the Company to establish remediation measures in cases where he or she considers that there is a problem with the compliance system and/or the operation of the Whistle-blowing Report Procedures of any of our group companies.
- (5) System to ensure the proper operations of the corporate group consisting of the Company and its subsidiaries
- i) In order to ensure the proper operations of our group companies, the Company shall apply the Code of Conduct and the Whistle-blowing Report Procedures to all group companies including the Company, and shall require each of the group companies to grasp any risks related to the execution of the operations, and to establish and periodically confirm a system to control such risks depending on the scale and nature of the respective operations, in accordance with an affiliate companies administration rule.
- In order to carry out the management control, the Company shall establish a rule on our executives, the affiliate companies administration rule, a Finance Control and Approval and Signature Authority to control the management of the subsidiaries through a system in which they shall request our decisions on certain matters or make reports to us, and through monitoring the management of the subsidiaries at every executive meeting, or in the course of a periodical Budget Review Process.
- Any Director of the Company or director of our subsidiaries who has discovered any illegal act, compliance-related material matter, or other fact of concern in terms of our risk management, regarding our group companies, he or she shall immediately report it to our Corporate Auditors and Board of Directors.
- ii) In order to ensure reliability for the financial reports of the Company and our group companies, the internal control system shall be extended to cover the financial reports.
  - iii) Any director of our subsidiaries who considers the management control and guidance of the Company to be illegal or have a problem in terms of compliance shall advise our Board of Directors and Corporate Auditors of that effect.
- Upon receiving such report, our Corporate Auditors may offer an opinion to the Board of Directors, and require the Board of Directors to establish remedial measures.
- iv) The Internal Auditor shall from time to time visit any of our subsidiaries to perform monitoring of all the angles of situations of the subsidiary's operations.
  - v) Our Corporate Auditors shall visit any of our subsidiaries if necessary to investigate the business and financial conditions of the subsidiary.

- (6) Matters regarding an employee(s) that any of our Corporate Auditors requires the Company to appoint to assist the Corporate Auditor's duties, and matters regarding the independence of such employee(s) from our Directors, and matters regarding the ensuring of the effectiveness of instructions to such employee(s)
- i) In the event that any of our Corporate Auditors requires the Company to appoint an employee(s) (hereafter referred to as "Auditor's Staff") to assist his or her duties, the Company shall arrange proper personnel after consulting with the Corporate Auditor to determine the required number, qualification and the like.
  - ii) The Company shall determine the personnel change, evaluation and others of the Auditor's Staff assigned, respecting the Corporate Auditor's opinion, and shall secure independence from our Directors.
  - iii) If necessary, any of our Corporate Auditors may instruct any of our employees to do an audit of a specific matter after notifying his or her immediate manager. In this case, the employee who has received the instructions shall make a report on such business to the Corporate Auditor, regardless of the ordinary reporting line.
  - iv) The Directors and employees of the Company and the directors and employees of our subsidiaries shall cooperate in the effort to improve the audit environment in which the Auditor's Staff can conduct his or her business smoothly.
- (7) System for the Directors and employees of the Company and the directors and employees of our subsidiaries, or for the persons who have received reports from them to give their reports to any of the Corporate Auditors, and a system to ensure that the persons who have given their reports are not unfavourably treated on grounds that they have given such reports.
- i) Our Directors shall give a report of the following to our Corporate Auditors:
    - (a) Such matters as resolved at an Executive Meeting;
    - (b) Such matters as may cause substantial damage to the Company;
    - (c) Such important matters as may have an effect on our management;
    - (d) Such important matters as may have an effect on our internal control auditing, organization and practice and our risk management;
    - (e) Acts in material violation of laws and regulations or the Articles of Incorporation;
    - (f) Such matters as a change in, or the introduction of a type of, our accounting policies; and
    - (g) Other important matters from compliance.

In the event any employee of the Company and our subsidiaries finds any of the material facts referred to in sub-items (b), (d), (e) and (g) above, he or she may directly advise any of our Corporate Auditors of such fact.
  - ii) The Company shall secure a proper reporting system to timely advise any of our Corporate Auditors of illegal acts and other compliance matters by properly applying the Code of Conduct and the Whistle-blowing Report Procedures to the Company and all our group companies.
  - iii) The Company shall provide in the Whistle-blowing Report Procedures that the Company shall handle all reports so received carefully and shall make every effort to keep the identities of those who have given such reports confidential. In addition, the Company shall specify therein that they shall not be unfavourably treated.
- (8) Such matters as the procedures for advance payment for, or reimbursement of the cost arising from the execution of our Corporate Auditors' duties, and such matters as the policies to cope with other cost and obligations arising from such execution of their duties
- i) In cases where any of our Corporate Auditors considers necessary to execute his or her duties, he or she may seek the opinions of outside specialists such as lawyers, certified public accountants and the like. He or she may demand to the Company advance payment or reimbursement of the cost necessary for the execution of the Corporate Auditor's duties.

- (9) Other systems to ensure our Corporate Auditors' effective audit
- i) Any of our Representative Directors shall provide opportunities to exchange opinions with our Corporate Auditors periodically for better communication, and also provide opportunities for our Corporate Auditors to hear opinions from our employees on their work if necessary to promote our Corporate Auditors' better understanding of the content of our business activities.
  - ii) The Internal Audit Department that has charge of internal audit shall consult, engage in exchanges of views, share information, and maintain close contact with our Corporate Auditors
  - iii) Our Directors shall ensure opportunities for our Corporate Auditors to attend not only a meeting of the Board of Directors, but also other important meetings such as the Compliance Security Committee, Executive Meetings and the like in order to grasp our important processes for making various decisions as well as the actual state of the execution of our operations.
  - iv) Our Corporate Auditors may have access to approval documents (*Ringisho*) and other important documents regarding the execution of business, and may request explanations thereof from our Directors and employees if necessary. The Corporate Auditors may also make their own opinions thereon.
  - v) The Company shall make an effort to invite lawyers, certified public accountants, patent attorneys and any other outside specialists in appointing an outside auditor(s).

While having developed systems mentioned above, the Company carries out the following based on the basic policies

- (a) The Company established the Code of Conduct as the basis of our Group's compliance system and implements annual Acknowledgement for all directors and employees of our group companies.
- (b) As a secretariat to organize compliance and risk management, the Risk Management Office holds Compliance Security Committee meetings on a quarterly basis. In addition, in order to maintain and enhance the awareness of compliance, the Company formulates an annual schedule of internal training for directors and employees, and carries it out accordingly.
- (c) Corporate Auditors, the internal auditing department, the internal control department and the Accounting Auditor periodically discuss and exchange opinions on matters relating to the operation status of the internal control system and auditing results of the whole Group including the Company and its subsidiaries. The Company endeavors to enhance the operation status of the internal control system through close cooperation among the involved parties.
- (d) In addition to attending important meetings such as the meeting of the Board of Directors and reviewing important documents including approval documents (*Ringisho*), etc., Corporate Auditors deepen their understanding concerning the Company's business in order to ensure the efficiency of auditing through quarterly review meetings with Representative Director, Internal Auditor and Corporate Auditors, periodical exchange of opinions among Representative Director and Corporate Auditors or reports from Directors and employees, and gathering of opinions from employees regarding the business for which they are in charge of.

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

(1) Consolidated Balance Sheet

(As of December 31, 2017)

(Yen in millions)

Account	Amount
<Assets>	
<b>Current assets</b>	<b>216,792</b>
Cash and bank deposits	85,897
Notes and accounts receivable, trade	40,065
Marketable securities	66,535
Inventories	2,980
Deferred tax assets	15,810
Others	5,788
Allowance for bad debt	(286)
<b>Non-current assets</b>	<b>114,365</b>
<b>Property and equipment</b>	<b>8,222</b>
Office furniture and equipment	4,278
Others	3,944
<b>Intangibles</b>	<b>40,294</b>
Software	11,482
Goodwill	14,978
Others	13,834
<b>Investments and other non-current assets</b>	<b>65,847</b>
Investment securities	49,788
Investments in subsidiaries and affiliates	2,605
Deferred tax assets	11,863
Others	1,590
<b>Total assets</b>	<b>331,157</b>



(Yen in millions)

Account	Amount
<Liabilities>	
<b>Current liabilities</b>	<b>108,764</b>
Notes and accounts payable, trade	730
Accounts payable, other	4,635
Accrued expenses	5,636
Accrued income and other taxes	3,509
Allowance for bonuses	2,312
Allowance for sales return	795
Short-term deferred revenue	83,534
Others	7,610
<b>Non-current liabilities</b>	<b>45,315</b>
Long-term deferred revenue	38,450
Net defined benefit liability	4,906
Others	1,957
<b>Total liabilities</b>	<b>154,079</b>
<Net assets>	
<b>Shareholders' equity</b>	<b>173,626</b>
Common stock	18,386
Additional paid-in capital	23,162
Retained earnings	140,794
Treasury stock	(8,717)
<b>Accumulated other comprehensive income</b>	<b>1,782</b>
Unrealized gain on available for sale securities	38
Foreign currency translation adjustment	2,263
Remeasurements of defined benefit plans	(519)
<b>Stock acquisition right</b>	<b>1,662</b>
<b>Non-controlling interest</b>	<b>6</b>
<b>Total net assets</b>	<b>177,077</b>
<b>Total liabilities and net assets</b>	<b>331,157</b>

(2) Consolidated Profit and Loss Statement

(From January 1, 2017 to December 31, 2017)

(Yen in millions)

Account	Amount	
<b>Net sales</b>		<b>148,811</b>
<b>Cost of sales</b>		<b>28,138</b>
<b>Gross profit</b>		<b>120,672</b>
<b>Selling, general and administrative expense</b>		<b>84,231</b>
<b>Operating income</b>		<b>36,441</b>
<b>Non-operating income</b>		
Gain on valuation of derivatives	134	
Interest income	1,211	
Gain on sales of marketable securities	72	
Equity in gain of affiliated companies	586	
Others	224	2,230
<b>Non-operating expenses</b>		
Interest expenses	3	
Loss on sales of marketable securities	44	
Loss on disposal of fixed assets	103	
Foreign exchange loss	1,390	
Others	93	1,635
<b>Ordinary income</b>		<b>37,035</b>
<b>Extraordinary gain:</b>		
Gain on reversal of stock option	60	60
<b>Net income before taxes</b>		<b>37,096</b>
Income taxes current	11,831	
Income taxes deferred	(427)	11,403
<b>Net income before non-controlling interest</b>		<b>25,692</b>
Non-controlling interest in income of consolidated subsidiaries		1
<b>Net income attributable to owners of the parent</b>		<b>25,691</b>

### (3) Consolidated Statements of Changes in Net Assets

(From January 1, 2017 to December 31, 2017)

(Yen in millions)

	Shareholders' equity				
	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	18,386	22,581	134,448	(10,335)	165,081
Movement for this period					
Dividends of surplus			(19,337)		(19,337)
Net income			25,691		25,691
Sales of treasury stock		581		1,618	2,199
Change of scope of consolidation			(7)		(7)
Movement for this period excluding shareholders' equity					
Total movement	—	581	6,346	1,618	8,545
Balance at the end of current period	18,386	23,162	140,794	(8,717)	173,626

	Accumulated other comprehensive income				Stock acquisition right
	Unrealized gain on available for sales securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at the beginning of current period	(211)	688	(696)	(219)	1,605
Movement for this period					
Dividends of surplus					
Net income					
Sales of treasury stock					
Change of scope of consolidation					
Movement for this period excluding shareholders' equity	249	1,575	176	2,001	57
Total movement	249	1,575	176	2,001	57
Balance at the end of current period	38	2,263	(519)	1,782	1,662

	Minority interest	Total net assets
Balance at the beginning of current period	4	166,471
Movement for this period		
Dividends of surplus		(19,337)
Net income		25,691
Sales of treasury stock		2,199
Change of scope of consolidation		(7)
Movement for this period excluding shareholders' equity	1	2,060
Total movement	1	10,605
Balance at the end of current period	6	177,077

# Balance Sheet

(As of December 31, 2017)

(Yen in millions)

Account	Amount	Account	Amount
<b>&lt;Assets&gt;</b>		<b>&lt;Liabilities&gt;</b>	
<b>Current assets</b>	<b>88,887</b>	<b>Current liabilities</b>	<b>54,020</b>
Cash and bank deposits	17,209	Accounts payable, trade	146
Notes and Accounts receivable, trade	10,744	Accounts payable, other	11,885
Marketable securities	35,947	Accrued expenses	4
Product	190	Accrued income and other taxes	2,834
Raw material	316	Accrued consumption taxes	842
Supplies	110	Deposit	225
Prepaid expense	150	Allowance for sales return	514
Deferred tax assets	12,397	Short-term deferred revenue	36,623
Short-term loans receivable from subsidiaries and affiliates	5,087		
Account receivable others	6,248	Others	943
Others	486		

Account	Amount	Account	Amount
<b>Non-current assets</b>	<b>71,096</b>	<b>Non-current liabilities</b>	<b>25,423</b>
<b>Property and equipment</b>	<b>546</b>	Long-term deferred revenue	21,943
Buildings	911	Long-term account payable	2
Office furniture and equipment	1,286	Allowance for retirement benefits	3,336
Accumulated depreciation	(1,652)	Others	140
<b>Intangibles</b>	<b>4,862</b>	<b>Total liabilities</b>	<b>79,443</b>
Software	3,570	<b>&lt;Net assets&gt;</b>	
Software in progress	982	<b>Shareholders' equity</b>	<b>78,895</b>
Goodwill	86	<b>Common stock</b>	<b>18,386</b>
Others	223	<b>Capital surplus</b>	<b>23,162</b>
<b>Investments and other non-current assets</b>	<b>65,687</b>	Additional paid-in capital	21,108
Investment securities	28,969	Other Capital surplus	2,053
Investments in subsidiaries and affiliates	25,798	<b>Retained earnings</b>	<b>46,063</b>
Long-term loans receivable from subsidiaries and affiliates	1,695	Legal reserve	20
Deposit for landlord	525	Accumulated profit	46,043
Memberships	4	Retained earnings carried forward	46,043
Deferred tax assets	8,769	<b>Treasury stock</b>	<b>(8,717)</b>
Allowance for investment loss	(75)	<b>Valuation and translation adjustment</b>	<b>(17)</b>
		Net unrealized gain (loss) on debt and equity securities	(17)
		<b>Stock acquisition right</b>	<b>1,662</b>
		<b>Total net assets</b>	<b>80,541</b>
<b>Total assets</b>	<b>159,984</b>	<b>Total liabilities and net assets</b>	<b>159,984</b>

## Profit and Loss Statement

(From January 1, 2017 to December 31, 2017)

(Yen in millions)

Account	Amount	
<b>Sales Revenue</b>		
Sales	59,220	
Royalty	87	<b>59,307</b>
<b>Cost of sales</b>		<b>13,743</b>
<b>Gross profit</b>		<b>45,563</b>
<b>Operating expenses</b>		<b>27,920</b>
<b>Operating income</b>		<b>17,642</b>
<b>Non-operating income</b>		
Interest on loans receivable from subsidiaries and affiliates	370	
Interest income	1	
Interest on marketable securities	178	
Dividends from subsidiaries and affiliates	447	
Gain on sales of marketable securities	72	
Gain on valuation of derivatives	134	
Others	76	1,280
<b>Non-operating expense</b>		
Foreign exchange loss	118	
Loss on sales of marketable securities	44	
Loss on disposal of fixed assets	58	
Others	62	283
<b>Ordinary income</b>		<b>18,639</b>
<b>Extraordinary gain:</b>		
Gain on reversal of stock options	32	32
<b>Net income before taxes</b>		<b>18,672</b>
Income taxes current	5,801	
Income taxes deferred	(811)	4,990
<b>Net income</b>		<b>13,681</b>

# Statements of Changes in Net Assets

(From January 1, 2017 to December 31, 2017)

(Yen in millions)

	Shareholders' equity				
	Common stock	Capital surplus		Retained earnings	
		Additional paid-in capital	Other capital surplus	Legal reserve	Accumulated profit
					Retained earnings carried forward
Balance at the beginning of current period	18,386	21,108	1,472	20	51,698
Movement for the period					
Dividends of surplus					(19,337)
Net income					13,681
Sales of treasury stock			581		
Movement for the period excluding shareholders' equity					
Total movement	—	—	581	—	(5,655)
Balance at the end of current period	18,386	21,108	2,053	20	46,043

	Shareholders' equity		Valuation and translation adjustment	Stock acquisition right	Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gain(loss) on available-for-sales securities		
Balance at the beginning of current period	(10,335)	82,352	(203)	1,605	83,754
Movement for the period					
Dividends of surplus		(19,337)			(19,337)
Net income		13,681			13,681
Sales of treasury stock	1,618	2,199			2,199
Movement for the period excluding shareholders' equity			186	57	243
Total movement	1,618	(3,456)	186	57	(3,212)
Balance at the end of current period	(8,717)	78,895	(17)	1,662	80,541



## **Independent Auditor's Report**

February 13, 2018

The Board of Directors  
Trend Micro Incorporated

KPMG AZSA LLC

Takashi Kondo (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Tetsushi Umetani(Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated profit and loss statement, the consolidated statement of changes in net assets and the related notes of Trend Micro Incorporated as at December 31, 2017 and for the year from January 1, 2017 to December 31, 2017 in accordance with Article 444-4 of the Companies Act.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of Trend Micro Incorporated and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

### **Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

### **Notes to the Reader of Independent Auditor's Report:**

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

## **Independent Auditor's Report**

February 13, 2018

The Board of Directors  
Trend Micro Incorporated

KPMG AZSA LLC

Takashi Kondo (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

Tetsushi Umetani (Seal)  
Designated Limited Liability Partner  
Engagement Partner  
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the profit and loss statement, the statement of changes in net assets and the related notes, and the supplementary schedules of Trend Micro Incorporated as at December 31, 2017 and for the year from January 1, 2017 to December 31, 2017 in accordance with Article 436-2-1 of the Companies Act.

### **Management's Responsibility for the Financial Statements and Others**

Management is responsible for the preparation and fair presentation of the financial statements and the supplementary schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements and the supplementary schedules that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the supplementary schedules in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of Trend Micro Incorporated for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

### **Other Matter**

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

### **Notes to the Reader of Independent Auditor's Report:**

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

## Certified copy of the audit report by the Board of Corporate Auditors

### AUDIT REPORT

In order to audit the business activities of the Directors undertaken during the 29th fiscal year from January 1, 2017, to December 31, 2017, we, the Board of Corporate Auditors, prepared this Audit Report based on the Audit Report prepared by each Corporate Auditor and hereby report as follows:

1. Method of Audit by Corporate Auditors and the Board of Corporate Auditors and Details
  - (1) In addition to specifying the auditing guidelines and assigned business, etc. and receiving reports on the audit and its results from each Corporate Auditor, we have received reports from the Directors and the accounting auditor on their performance of duties and requested explanations when necessary.
  - (2) In accordance with the auditing guidelines and assigned business, etc. specified by the Board of Corporate Auditors, each Corporate Auditor has communicated with the Directors, the internal control division and other employees and made efforts to collect information and improve the auditing environment, then we have audited in the following way.
    - (i) Each Corporate Auditor has attended meetings of the Board of Directors and other important meetings and has been informed by the Directors and other employees in respect of the status of performance of their duties and requested explanations when necessary. We also have examined important documents in respect of the authorization of corporate actions, etc., and inspected the operations and the assets at the Head Office and other principal business offices. As to subsidiaries, in addition to communicating and exchange of information with the Directors in charge, we have received reports from subsidiaries on their businesses and visited a subsidiary when necessary to examine its businesses and assets.
    - (ii) We received reports from the Directors and other employees, requested explanation from them whenever necessary, and expressed our opinions on the resolution of the Board of Directors concerning the establishment of a system to ensure that performance by the Directors of their duties described in Business Report complies with applicable laws and regulations and the Articles of Incorporation or other systems necessary to ensure validity of operations of *Kabushiki Kaisha* and group of enterprises consisting of said *Kabushiki Kaisha* and its Subsidiaries as provided for in Article 100, paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act and the status of the system (internal control system) established based on such resolution.
    - (iii) In addition to monitoring and verifying that the Accounting Auditor maintains its independence and conducts the audit properly, we have received reports from the Accounting Auditor on the performance of its duties and requested explanations when necessary. We also have received notice from the Accounting Auditor concerning that the “system to ensure that duties are properly performed” (matters stipulated in each item of Article 131 of the Corporate Accounting Ordinance) is established “Quality Management System” in accordance with the applicable laws and regulations that have been defined in order to properly carry out the Audit duties in Japan, and any standards announced by Business Accounting Council and requested explanations when necessary.

Based on the above method, we have examined the business report and its supplementary schedules, the unconsolidated financial statements (balance sheet, profit and loss statement, statements of changes in net assets and notes to the unconsolidated financial statements) and their supplementary schedules, and the consolidated financial statements (consolidated balance sheet, consolidated profit and loss statement, consolidated statements of changes in net assets and notes to the consolidated financial statements) for the fiscal year under audit.

2. Results of Audit

(1) Audit Result of the Business Report, etc.

(i) We found that the business report and its supplementary schedules fairly reflect the Company's business situation in conformity with and pursuant to the applicable laws and the Articles of Incorporation of the Company.

(ii) No misconduct concerning the performance of Directors' duties or material facts that are in breach of applicable laws and the Articles of Incorporation of the Company have been detected.

(iii) The content of the resolution of the Board of Directors concerning the internal control system is fair and proper. There is nothing noteworthy with respect to details of the Business Report and the performance by the Directors of their duties concerning the internal control system.

(2) Audit Result of the Unconsolidated Financial Statements and its Supplementary Schedules

We found that the method and result of the audit by KPMG AZSA LLC, which was appointed as the Company's Accounting Auditor, was executed in an appropriate manner.

(3) Audit Result of the Consolidated Financial Statements

We found that the method and result of the audit by KPMG AZSA LLC, which was appointed as the Company's Accounting Auditor, was executed in an appropriate manner.

February 14, 2018

Trend Micro Incorporated  
Board of Corporate Auditors

Full-time Corporate Auditor  
Masaru Sempo (Seal)

Corporate Auditor  
Fumio Hasegawa (Seal)

Corporate Auditor  
Yasuo Kameoka (Seal)

Corporate Auditor  
Koji Fujita (Seal)

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

This document has been translated from the Japanese original for reference purpose only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail. The company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

**Disclosure through the Internet relating to  
“NOTICE OF CONVOCATION THE 29th ORDINARY  
GENERAL MEETING OF SHAREHOLDERS”**

“Notes to the Consolidated Financial Statements”

“Notes to Financial Statements”

(From January 1, 2017 to December 31, 2017)

**TREND MICRO INCORPORATED**

The items above are provided to our shareholders by posting our website ([https://www.trendmicro.com/ja\\_jp/business.html](https://www.trendmicro.com/ja_jp/business.html)) in accordance with laws and regulations, and the Articles of Incorporation of Trend Micro Incorporated.

## Notes to the Consolidated Financial Statements

### (NOTES ON IMPORTANT POINTS IN THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS)

#### 1. Matters Concerning the Scope of Consolidation

(1) Number of Consolidated Subsidiaries: Thirty five (35)

(2) Names of Major Subsidiaries

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

The Trend Micro Egypt LLC, LLC Trend Micro Russia, Soocii Co., Ltd. and Trend Forward Capital I,L.P. were newly established and have been included in the scope of consolidation. Tcloud Computing Incorporated, which had been a consolidated subsidiary, was excluded from the scope of consolidation due to liquidation.

(3) Names of Unconsolidated Subsidiaries.

Broadweb Corporation (Brunei)

Broadweb Corporation (Seychelles)

The reason for scope out of consolidation

These two subsidiaries' total assets, net sales, net income and retained earnings are not material for the consolidated financial statements.

#### 2. Matters Concerning Application of Equity Method

(1) Number of the Affiliate Companies to which the equity method has been applied: 2

(2) Names of the affiliate companies to which the equity method has been applied:

General Mobile Corporation (Cayman Islands)

AsiaInfo Security Limited (British Virgin Islands)

(3) The affiliate company and unconsolidated subsidiaries to which the equity method has not been applied.

Broadweb Corporation (Brunei)

Broadweb Corporation (Seychelles)

The reason for scope out of equity method

These two subsidiaries' total net income and retained earnings are not material for the consolidated financial statements.

#### 3. Matters Concerning the Accounting Standards

(1) Accounting for evaluation of material assets

(i) Securities



Available-for-sale with market value:

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

Available-for-sale without market value:

Cost basis by moving average method

(ii) Inventories:

Cost basis by moving average method

Unprofitable inventories are devaluated

(iii) Derivatives

Market value method

(2) Depreciation or Amortization method for fixed assets

Property and equipment (excluding lease assets)

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

Office furniture and equipment: mainly 2 – 20 years

Intangibles (excluding lease assets)

<Software for sale>

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

<Software for internal use>

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

<Other intangibles>

Straight-line method over the estimated useful life

Lease assets

Lease assets arising from non-ownership-transfer finance leases

The Company has applied the straight-line method, which assumes that useful life is equal to the lease period and that estimated residual value is zero.

(3) Accounting policies for allowances

Allowance for bad debt

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

Allowance for bonuses

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

Allowance for sales return

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

(4) Accounting methods for retirement benefit obligation

- Attribution method for retirement benefit estimates

In computing its retirement benefit obligation, the expected retirement benefits are attributed to the periods by standard pension benefit formula basis.

- Treatment for actuarial differences and expenses related to prior service cost

Actuarial differences are amortized on a straight-line basis from the following fiscal year over a period equaling the average remaining service period of employees (1-23 years) expected to receive pension benefits as of the consolidated fiscal year-end.

Prior service cost is amortized on a straight-line basis over a period equaling the average remaining service period of employees (1-23 years) expected to receive pension benefits as of the fiscal year-end.

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

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

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

(6) Revenue Recognition Policy

Sales recognition policy for PCS

Post Contract Customer Support Service (PCS) is a software product license agreement that includes end-user support, such as upgrading products and virus pattern files and providing customer service. The Company applies the following revenue recognition method for the share of PCS revenue.

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

(7) Consumption tax

Consumption tax is stated at the amount net of the related consumption tax.

(8) Amortization of Goodwill

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

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

**(ADDITIONAL INFORMATION)**

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

**(NOTES TO THE CONSOLIDATED BALANCE SHEET)**

Accumulated depreciation of property and equipment: 18,129 million yen

**(NOTES TO THE CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)**

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

Common stock 140,293,004 shares

The class and number of treasury stock

Class	As of Jan 1, 2017	Increase	Decrease	As of Dec 31, 2017
Common Stock	3,150,874 shares	— shares	493,300 shares	2,657,574 shares

2. Matters Concerning Dividends Paid out of the Surplus during the Consolidated Fiscal Term

The resolution	The annual shareholders meeting held on 28 March, 2017
The type of equity shares	Ordinary shares
The total amount of dividends paid	19,337 million yen
The amount of dividend paid per share	141.00 yen
The record date	31 December, 2016
The effective date	29 March, 2017

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

The resolution	The annual shareholders meeting to be held on 27 March, 2018
The type of the equity shares	Ordinary shares
The source of dividend payment	Retained earnings
The total amount of dividends paid	20,507 million yen
The amount of dividend paid per share	149.00 yen
The record date	31 December, 2017
The effective date	28 March, 2018

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

Ordinary shares 139,600 shares

Based on the employees' termination, the Company adjust the economic value of stock option for computation.

## (NOTES TO FINANCIAL INSTRUMENTS)

### 1. Matters concerning financial instruments

#### (1) Policies for financial instruments

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

#### (2) Details of financial instruments and associated risks

Notes and accounts receivable, trade, are exposed to the credit risks associated with extending credit to customers. Foreign currency denominated trade receivables and payables are exposed to foreign currency exchange fluctuation risks. Marketable securities and investment securities are debt securities issued by financial institutions with superior creditworthiness, exposed to market price fluctuation risks as well as foreign currency exchange fluctuation risks. Payables such as accounts payable, trade, accounts payable, other, accrued expenses and accrued income and other taxes are mostly due within one year.

#### (3) Risk management structure for financial instruments

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

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

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

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

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

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

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

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

## 2. Matters concerning fair values of financial instruments

Consolidated balance sheet amounts, fair values and the differences therein as of December 31, 2017 (fiscal year end) are as follows. Investments in non-marketable securities are not included in this table.

(Yen in millions)

	Consolidated balance sheet amounts	Fair values	Differences
(1) Cash and bank deposits	85,897	85,897	—
(2) Notes and accounts receivable, trade	40,065	40,065	—
(3) Marketable securities and investment securities	114,937	114,937	—
Total assets	240,900	240,900	—
(1) Notes and accounts payable, trade	730	730	—
(2) Accounts payable, other	4,635	4,635	—
(3) Accrued expenses	5,636	5,636	—
(4) Accrued income and other taxes	3,509	3,509	—
Total liabilities	14,511	14,511	—
Derivatives (*1)	11	11	—

(\*1) Asset/liability from the derivatives transaction is disclosed in net amount.

Liability is shown in parentheses.

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

### Assets

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

These assets are recorded at book values as their fair values are approximately equal to book values due to their short-term maturities.

(3) Marketable securities and investment securities

Fair values of shares are based on the market prices quoted on stock exchanges, while the price of bonds are based on the market prices quoted on stock exchanges or obtained from the relevant financial institutions.

### Liabilities

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

These liabilities are recorded at book values as their fair values are approximately equal to book values due to their short-term maturities.

### Derivatives

Fair values of the derivatives are based on the market prices obtained from the relevant financial institutions.

(Notes 2) Non-listed stocks (3,992 million yen recorded on consolidated balance sheet) are not included in “(3) Marketable securities and investment securities” since the identification of its market values is deemed to be extremely difficult.

**(NOTES ON PER SHARE INFORMATION)**

- |    |  |              |
|----|--|--------------|
| 1. | The net assets per share:              | 1,274.45 yen |
| 2. | The net income for the term per share: | 187.01 yen   |

**(NOTES ON MATERIAL SUBSEQUENT EVENTS)**

N/A

**(OTHER NOTES)**

N/A

## Notes to Financial Statements

### (NOTES ON IMPORTANT POINTS IN THE PREPARATION OF THE FINANCIAL STATEMENTS)

#### 1. Accounting for evaluation of assets

##### (1) Securities

(i) Investments in subsidiaries and affiliates ----- Cost basis by moving average method

(ii) Other securities

Available-for-sale with market value:

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

Available-for-sale without a market value:

Cost basis by moving average method

##### (2) Inventories

Finished goods • Raw materials • Supplies ----- Cost basis by moving average method

Unprofitable inventories are devaluated

##### (3) Derivatives

Market value method

#### 2. Depreciation and amortization method for fixed assets

Property and equipment (excluding leased assets) ----- 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)

Useful lives of the main property and equipment are as follows:

Buildings: 3 – 24 years

Office furniture and equipment: 3 – 20 years

Intangible fixed assets (excluding leased assets)

<Software for sale>

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

<Software for internal use>

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

<Other intangibles >

Straight-line method over the estimated useful lives

Leased assets

Finance lease without transfer of ownership of the leased assets

Straight-line method in which the useful life is assumed to be the lease period and the residual value is zero.



### 3. Accounting policies for allowances

Allowance for loss on investments in subsidiaries and affiliates	In order to provide reserves against future loss from investments in subsidiaries, estimated loss from investments in subsidiaries is provided based on an examination of the relevant subsidiary's financial condition and expected recoverability.
Allowance for sales returns	In order to reserve future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on the past experience in the sales return.
Allowance for retirement benefits	<p>In order to provide for the employees retirement benefits, the Company accrues liability for severance payments and pensions at the amount calculated based on the projected benefit obligations and plan assets as of the fiscal year end.</p> <p>The accounting method of recognizing allowance for retirement benefits and its cost is as follows.</p> <p>(1) Attribution method for retirement benefit estimates</p> <p>In calculating the retirement benefits, the expected retirement benefits are attributed to the periods by standard pension benefit formula basis.</p> <p>(2) Accounting method of the cost recognition for actuarial differences</p> <p>Actuarial differences are amortized on a straight-line basis in a following fiscal year within the average remaining service period, which is one year, for the employees at the time of recognition.</p> <p>Accounting method of unrecognized actuarial differences on employee retirement benefits is different from that of the consolidated financial statements.</p>

### 4. Revenue Recognition Policy

#### Sales recognition policy for PCS

Post Contract Customer Support Service (PCS) is a software product license agreement that includes end-user support, such as upgrading products and virus pattern files and providing customer service. The company applies the following revenue recognition method for the share of PCS revenue.

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

### 5. Consumption tax

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

### 6. Amortization of Goodwill

Goodwill is amortized evenly over the appropriate period in less than 20 years.

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

### (ADDITIONAL INFORMATION)

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

**(NOTES TO THE BALANCE SHEET)**

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

	(Yen in millions)
Short-term monetary assets	11,335
Short-term monetary liabilities	8,045
Long-term monetary assets	1,695

**(NOTES TO THE PROFIT AND LOSS)**

The Amounts of Transactions with Subsidiaries and Affiliates

The Amounts of Operational Transactions

	(Yen in millions)
Sales	164
Outside service fee	16,272
Cost sharing charges	3,339
Purchases	469

The Amounts of Non- Operational Transactions

Interest on loans receivable from subsidiaries and affiliates	370
Dividends from subsidiaries and affiliates	447

**(NOTES TO THE STATEMENTS OF CHANGES IN NET ASSETS)**

The Number of Treasury Stock as of the End of the Fiscal Term

Common Stock	2,657,574 shares
--------------	------------------

**(NOTES TO THE TAX EFFECT ACCOUNTING)**

## 1. Major items causing deferred tax assets:

## Deferred tax assets

	(Yen in millions)
Nondeductible deferred revenue	18,010
Nondeductible amortization of intangibles fixed assets	875
Nondeductible accrued enterprise tax	158
Nondeductible accrued liability	494
Nondeductible allowance for retirement benefits	1,021
Unrealized gain(loss) on available for sale securities	9
Others	739
Deferred tax assets sub total	21,310
Valuation allowance	(142)
Total deferred tax assets	21,168

## Deferred tax liabilities

	(Yen in millions)
Unrealized gain(loss) on available for sale securities	(1)
Total deferred tax liabilities	(1)
Net amount of deferred tax asset	21,166

## 2. Significant component of difference between statutory tax rate and effective tax rate after adjustment for tax effect accounting

Statutory tax rate	30.9%
(Adjustments)	
Nondeductible expense such as entertainment expense	1.0%
Nontaxable income such as dividends income	(0.7)%
Tax credit	(5.4)%
Others	0.9%
Effective tax rate after adjustment for tax effect accounting	26.7%

**(NOTES ON RELATED PARTY TRANSACTIONS)**

Subsidiaries and Affiliated companies

Company name	Ownership ratio of voting rights	Detail of the relationship	Detail of transactions	Item and Trading amount (Yen in millions)	Account name	Balance at end of period (Yen in millions)
Trend Micro Incorporated (US)	100% (Indirect)	Cost sharing agreement	Collection of funds (*1)	16,866	Short-term loans receivable	5,087
					Long-term loans receivable	1,695
			Interest received (*1)	911	Accrued interests	217
			Payments of Cost sharing charges (*2)	8,351	Accounts receivable, other	3,300
					Accounts payable, other	4,075
Trend Micro(Ireland) Limited	100% (Indirect)	Cost sharing agreement	Receipts of Cost sharing charges (*2)	7,759	Accounts receivable, other	1,871
Trend Micro Incorporated (Taiwan)	100% (Direct)	Outsourcing agreements of research and technology development and other support services	Payments of Outsourcing charges (*2)	9,514	Accounts payable, other	1,500
Trend Micro America inc. (US)	100% (Direct)	Cash management services	Underwriting of Capital increase (*3)	22,548	-	-

(\*1) The principle refund and the interest payment are due on March 3, 2017, March 3, 2018 and March 3, 2019. Interest rates in loans of funds are reasonably determined in consideration of the market interest rate.

(\*2) The trading amounts on Cost sharing and outsourcing service agreements are reasonably determined in consideration of the fair transaction prices.

(\*3) The company underwrote the paid-in capital due to the fact that the subsidiary executed capital increase.

**(NOTES ON PER SHARE INFORMATION)**

- |    |  |            |
|----|--|------------|
| 1. | The net assets per share:              | 573.10 yen |
| 2. | The net income for the term per share: | 99.59 yen  |

**(NOTES ON MATERIAL SUBSEQUENT EVENTS)**

N/A

**(OTHER NOTES)**

N/A