

(Translation)

## **Business Report**

**(From January 1, 2023 to December 31, 2023)**

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

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

During this term of fiscal year 2023, from January 1 to December 31, the world economy has been going through with following concerned risks mainly associated with the global policy rate tightening and an exchange rate fluctuations, the global inflation, and steep rise in fuel import prices due to prolonging the Russia-Ukraine War, etc.

In the worldwide Information Technology industry, 2023 was the breakout year of generative AI(GenAI) to be risen faster than expected and exploded the awareness. Referring to the report by 3rd party, the forecasts worldwide IT spending to grow 8% to \$5.1 trillion in 2024 due to mainly cyber security investments lead to the software segments and besides hiking IT services segment growth rate.

In the cyber security industry, continuously multitude of cyber attacks that target specific national institutions, etc., leaking damage of sensitive business information, and targeted attacks including crypto assets drain in specific companies, organizations, and still ransomware have been still standing out. Going through concerning such threat changes including new security risks comes from GenAI, the trend of the trend of cyber security conscious has been require to regardless business or individual into new daily life.

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

With regards to sales in Japan region, in the enterprise business, SOC operations security showed substantial growth besides on demands for Trend Micro Vision One (“Vision One” which is a security operation at the center of the Trend Micro cybersecurity platform.) In spite of the weak in IT infra operation security, cloud operation security made a big contribution in this region sales. In consumer business has been also going well continuously under the sustained good sales in mobile channel shops, except the weakness in security for PC. As a result, net sales for this period in Japan region amounted to 83,002 million yen (1.1% increase from the same period in the previous year) increase to.

For Americas region, in the enterprise business, SOC operations security showed growth. On the other hand, cloud operation security and IT infra operation security were weak. In addition, there were an adjustment for sales that were understated in previous years and a weak yen impact, net sales in this region were 57,643 million yen (8.9% increase from the same period in the previous year) increase to.

In Europe region sales, the enterprise business overall showed growth. In the enterprise business, especially IT infra operation security showed the highest growth in all regions, and together with SOC operations security showed the highest growth rate in all regions, and additionally Managed Services security contributed this region sales. In addition, there was a weak yen impact, net sales in this region were 50,643 million yen (22.1% increase from the same period in the previous year) in the highest double-digit growth rate in all regions.

In the Asia Pacific region, also the enterprise business overall showed growth. Especially SOC operations security contributed significantly to this region’s sales. Besides, both IT infra operation security and Managed Services security have been performed well. Locally, Australia, Middle East, and Taiwan area led this region’s sales. In addition of the depreciation of yen impact, as a result, net sales for this period in Asia Pacific region amounted to 57,401 million yen (21.4% increase from the same period in the previous year) in a double-digit growth rate.

As a result, the consolidated net sales for this period (this term of fiscal year 2023, from January 1 to December 31,) marked 248,691 million yen (11.1% increase from the same period in previous year) with increasing in all regions.

For the costs, it was caused by significant increase in people costs with huge impact of weak yen, and additionally cloud service usage volume increase for the enhancement of our SaaS business, and hardware product costs due to increase in its good sales growth ratio, etc. Thus, cost of sales and operating expenses for this period totaled 216,088 million yen (12.3% increase from the same period in the previous year) increase. As a result, consolidated operating income for this period was 32,602 million yen (4.0% increase from the same period in the previous year) increase to.

In terms of the original forecast of financial results for the fiscal year ending December 31, 2023, announced on February 16, 2023, the entire group sales was generally in line with expectations. On the other hand, operating income forecast, despite outside fee and people costs were lower than expected, hardware product costs and cloud costs were essentially higher than our forecast. As the results, despite operating income slightly fell far short of the initial forecast, it was generally in line with expectations finally.

And the consolidated ordinary income for this period was 36,181 million yen (5.9% increase from the same period in previous year) increase due to an increase in interest income and gain on sales of marketable securities, etc. The net income attributable to owners of the parent for this period was 10,731 million yen (64.0% decrease from the same period in previous year) substantial decreased mainly due to the disappearance of gain on sales of shares of subsidiaries and associate, posting related to restructuring costs including mainly retirement benefit expenses into extraordinary loss, and increase in income taxes caused by a provision for tax liability based on the assumption that dividends, etc. will be paid from each of our subsidiaries to us as the parent company.

Operating income based on Pre-GAAP (revenue before adjusting deferred revenue, etc.) serves as an important management indicator for our company. It for this period was 53,073 million yen, an increase of 1,437million yen (2.8% increase from the same period in the previous year.) This increase was due to Pre-GAAP sales' double-digit growth exceeded over increase in cost of sales and operating expenses growth, including a cost of public cloud service usage volume for the strengthening of our SaaS business and people cost with strong weak yen impact.

## **(2) Capital Expenditure**

The total amount of capital expenditure for the current period was 2,178 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 many not only existing security vendors as our direct competitors but also new vendors joining by recent M&A or acquisition from other industries and new entries, etc. They have been encouraging market competition both domestic and overseas. Such a consolidation and new entries are now too fluid to foresee the future direction of this business and their presence in the computer security market will make the competition in the market more intense.

In the customer environment, the use of cloud computing continues to expand under the promotion of DX, which improves the quality of business and life with IT technology. In terms of various software and services line up, regardless of whether it is for the enterprise customers or the individual users, there is a shift to SaaS model. Along with its penetration, SaaS model solutions is increasing also in the security service market.

In response to this changing environment, the number of cyberattacks that cause damage to Internet and PC users regardless of whether it is for enterprises or individuals, continues to increase. Along with it, the attack surface, meaning of the entire possible area of attacking targets, is also diversifying. The enterprise customers have been struggling to increase the recent security workload day by day. The traditional security measurement by monitoring PC and servers was enough for them before. Today, they are required more complicated and wide range of security for multi layered IoT appliances and devices, cloud computing, VPN, etc. additionally.

In response to these changes, the way of cybersecurity ought to be must be changing quickly and flexible in order to meet customer demands for exchanging vast amounts of data and quick responses. Our group develops a wide range of security products and services centered on Vision One, an integrated security platform for corporate organizations that require a wide range of security measures on a daily basis, and strives to achieve both advanced security and reduced operational burden.

“Vision One™” is the unified cybersecurity platform to cooperate with multilayered SaaS solutions by XDR as the advanced feature, achieving automatic correlation analysis in collected telemetry data across multiple security layers – endpoint, server, email, cloud workload, network, and IoT. This cybersecurity platform allows businesses to consolidate visibility, analysis, and controls across security layers and workflows. It delivers across the attack protection cycle – responding to threats and mitigating cyber risks. Our group aims to improve the productivity and efficiency of security operations by enabling more customers to quickly identify a wide range of cyberattacks and provide appropriate responses through Vision One. We will continue to expand functions and incorporate new technologies in response to customer demands, such as by deploying a hybrid configuration between SaaS and on-premise, and incorporating generative AI technology to support operations personnel who do not have sufficient security expertise. As part of these efforts and enhancements, we acquired Anlyz, a company that provides security solutions for SOC, during the fiscal year under review.

Mainly “Vision One™,” we will achieve to develop and offer higher value-added security solutions besides users’ demands and aim to sustainable long-term growth with maintaining a stable financial foundation.

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

Fiscal Year	The 32 <sup>nd</sup> Term ended December 2020	The 33 <sup>rd</sup> Term ended December 2021	The 34 <sup>th</sup> Term ended December 2022	The 35 <sup>th</sup> Term ended December 2023
Net Sales (millions of yen)	174,061	190,359	223,795	248,691
Ordinary Income (millions of yen)	39,854	44,501	34,162	36,181
Net Income Attributable to Owners of Parent (millions of yen)	26,904	38,367	29,843	10,731
Net Income per Share (in yen)	193.39	275.20	213.59	78.45
Total Assets (millions of yen)	376,701	420,457	470,799	492,628
Net Assets (millions of yen)	189,360	221,434	228,679	214,423

**(6) Status of Important Subsidiaries**

Company Name	Capital	Shareholding Ratio	Primary Business
Trend Micro Incorporated (Taiwan)	212,500,000 New Taiwan dollars	100%	Provision of development and other services
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%	Sale of security- related products

(Notes) 1. The consolidated financial statements cover all subsidiaries and affiliated companies, which consist of 40 consolidated subsidiaries including the aforementioned 4 important subsidiaries and 2 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: Shinjuku-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	2,062
Marketing Division	491
Product Support Division	1,720
Research and Development Division	2,390
Administration Division	769
Total	7,432

**(10) Policy for determining dividends from surplus, etc.**

In order to cope with the rapidly changing business environment and maintain competitiveness against competitors, we would like to pay dividends based on net income on a consolidated basis, while making efforts to strengthen our financial structure and secure internal reserves. Our basic dividend policy is to pay a year-end dividend with a target payout ratio of 70%, based on net income attributable to shareholders of the parent company for accounting purposes and taking into account the impact of mergers and acquisitions as necessary. Based on this dividend policy, the year-end dividend for the current fiscal year will be as stated in Agenda 1, Appropriation of retained earnings. With regard to the acquisition of treasury stock, it is our policy to carry out flexible capital policies in response to changes in the business environment.

**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:**

135,660,427 shares (excluding treasury stock of 5,218,677 shares)

**(3) Number of Shareholders:**

11,071

**(4) Top 10 Shareholders:**

Name of Shareholders	Number of Shareholding	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	32,873,000	24.23
Custody Bank of Japan, Ltd. (Trust Account)	14,256,107	10.50
VALUEACT CAPITAL MASTER FUND L.P.	8,384,600	6.18
Chang, Ming-Jang	5,367,000	3.95
BNYM AS AGT/CLTS 10 PERCENT	4,314,240	3.18
JP Morgan Securities Japan Co., Ltd.	3,407,831	2.51
State Street Bank West Client - Treaty 505234	2,958,434	2.18
BNYMSANV RE BNYMSANVDUB RE LEGAL (AND) GENERAL UCITS ETF PLC	2,857,966	2.10
JAPAN SECURITIES FINANCE CO., LTD.	2,488,100	1.83
GOLDMAN,SACHS & CO.REG	2,300,450	1.69

(Note) The Shareholding Ratio is calculated excluding treasury stock (5,218,677 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

	Thirty-seventh Series	Thirty-eighth Series	Thirty-ninth Series
Date of resolution of the issue	December 3, 2019	June 18, 2020	December 1, 2020
Category	Director (Note)	Director (Note)	Director (Note)
Number of holders	3	3	3
Number of stock acquisition rights	450	1,500	825
Number of shares subject to stock acquisition rights	45,000	150,000	82,500
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	5,790 yen	6,100 yen	5,750 yen
Exercise period	December 18, 2024	July 3, 2025	December 18, 2025
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

	Fortieth Series	Forty-first Series	Forty-second Series
Date of resolution of the issue	December 2, 2021	December 1, 2022	December 6, 2023
Category	Director (Note)	Director (Note)	Director (Note)
Number of holders	3	3	3
Number of stock acquisition rights	900	900	900
Number of shares subject to stock acquisition rights	90,000	90,000	90,000
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	6,620 yen	6,520 yen	8,026 yen
Exercise period	December 17, 2026	December 16, 2027	December 21, 2028
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

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

(Note)

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. In addition, unless the holder is a director or corporate auditor of the Company, the Company may, at its sole discretion, determine how long the holder may exercise his/her stock acquisition rights 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**

	Forty-second Series
Date of resolution of the issue	December 6, 2023
Number of Directors and employees of subsidiaries of the Company holding stock acquisition rights (excluding Directors and employees of the Company)	10
Number of stock acquisition rights	2,000
Number of shares subject to stock acquisition rights	200,000
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	8,026 yen
Exercise period	From December 22, 2023 to December 21, 2028
Conditions for exercise of stock acquisition rights	(Note)

(Note) Please refer to (Note) 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

	Thirty-seventh Series	Thirty-eighth Series	Thirty-ninth Series
Date of resolution of the issue	December 3, 2019	June 18, 2020	December 1, 2020
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	1,197	12,565	1,723
Number of shares subject to stock acquisition rights	119,700	1,256,500	172,300
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	5,790 yen	6,100 yen	5,750 yen
Exercise period	December 18, 2024	July 3, 2025	December 18, 2025
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

	Fortieth Series	Forty-first Series	Forty-second Series
Date of resolution of the issue	December 2, 2021	December 1, 2022	December 6, 2023
Category	Employees of the Company, Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company	Directors and employees of subsidiaries of the Company
Number of stock acquisition rights	17,202	2,100	2,000
Number of shares subject to stock acquisition rights	1,720,200	210,000	200,000
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	6,620 yen	6,520 yen	8,026 yen
Exercise period	December 17, 2026	December 16, 2027	December 21, 2028
Conditions for exercise of stock acquisition rights	(Note)	(Note)	(Note)

(Notes) Please refer to (Note) 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, 2023)

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	
Akihiko Omikawa	Executive Vice President and Director / General Manager Japan, Global IoT Business	
Tetsuo Koga	Director	Outside Director of HITO-Communications Holdings Inc. External Director (Audit and Supervisory Committee Member) of Asahi Net, Inc.
Koichiro Tokuoka	Director	Professor Emeritus, Tama Graduate University of Business Chairman of Life Shift Inc.
Masaru Senpo	Full-time Corporate Auditor	
Fumio Hasegawa	Corporate Auditor	
Yasuo Kameoka	Corporate Auditor	Chairman of Taiko Audit Corporation
Koji Fujita	Corporate Auditor	Partner, Okuno & Partners External Director (Audit and Supervisory Committee Member) of Iriso Electronics Co., Ltd. Auditor of Iida Group Holdings Co., Ltd.

- (Notes)
- Our officers consist of ten (10) members, six (6) Directors and four (4) Corporate Auditors, of which, one (1) is female and nine (9) are males as of December 31, 2023. The female officer is the President and Representative Director.
  - At the 34th Ordinary General Meeting of Shareholders held on March 28, 2023, Mr. Koichiro Tokuoka was newly elected and assumed the position of Director.
  - Mr. Ikujiro Nonaka, Director has retired at the close of the 34th Ordinary General Meeting of Shareholders held on March 28, 2023.
  - Mr. Tetsuo Koga, Director and Mr. Koichiro Tokuoka, Director, are an Outside Directors under Article 2, item 15 of the Companies Act.
  - All four Corporate Auditors are Outside Auditors under Article 2, item 16 of the Companies Act.
  - Mr. Masaru Senpo, 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.
  - The Company has designated all Outside Directors and all 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) Outline of the Directors and Officers (D&O) Liability Insurance Contract

We have entered into a Directors and officers (D&O) liability insurance with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act of Japan to cover legal damages and litigation expenses in the event that a claim for damages is made against the insured during the insurance period due to an act committed by the insured in his/her capacity as such. However, the above insurance policy does not cover damages arising from the insured's unlawful gain or benefit, criminal acts, fraudulent acts, or acts committed with the knowledge that they violate laws, regulations, or control laws. The insured parties of the insurance policy are directors and corporate auditors of our Company and our subsidiaries and managerial employees of our Company and our subsidiaries, and we bear the entire premium for all the insured parties.

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

Category	Number of Persons	Amount of Remuneration (Millions of yen)	Amount of Remuneration by type (Millions of yen)			
			Basic Remuneration (Note1)	Performance (including stock price) linked Remuneration		
				Stock Options (Note2)	Cash Phantom Unit Award(CPUAward) ) Time Base (TBS) (Note3)	Company Performance Bonus (CPB) (Note3)
Internal Directors	4	486	214	135	133	2
Outside Directors	3	16	16	-	-	-
Outside Corporate Auditors	4	35	35	-	-	-

- (Notes)
1. Includes some payments from Singapore subsidiary.
  2. The amount of remuneration shown for stock options is the estimated fair value per stock acquisition right issued for the purpose of granting stock options, based on the Black-Scholes pricing model, and recorded as an accounting expense during the fiscal year under review. It does not represent the property gain per share that will be obtained when the stock acquisition rights are actually exercised.
  3. Please refer to the following pages for details on CPU awards (TBS) and CPB. The amount of CPU awards includes a portion of the accounting expense incurred for performance-based CPU award rights that have been granted in the past and are exercisable.

## **(5) Policy on Remuneration for Directors**

The policy for determining compensation for the Company's directors is consulted by the Nomination and Remuneration Advisory Committee, and the Board of Directors makes decisions based on the deliberations of the committee. Details are as follows.

### **1. Policy and Procedures for Directors' Remuneration**

The remuneration for Directors is designed in accordance with the business role of each Director in order to motivate them to contribute to the improvement of the Company's performance over the medium and long term. In particular, for executive directors, the majority of their remuneration is not fixed but variable, linked to stock prices or business performance, to clarify their responsibility for increasing shareholder value and improving business performance. The amount of remuneration is determined by the Nomination and Remuneration Advisory Committee within the scope of the amount and details of remuneration approved by the General Meeting of Shareholders, taking into consideration the business performance, remuneration rates in the overseas and Japanese markets, and the average salary of employees. The remuneration of corporate auditors is limited to basic remuneration (fixed) within the scope of remuneration, etc., approved by the General Meeting of Shareholders, and the granting of individual remuneration is left to the discretion of the corporate auditors.

### **2. Component and ratio of directors' remuneration**

Directors' remuneration is granted in accordance with the details approved at the General Meeting of Shareholders, and is structured as shown in the table. For executive directors (Representative Director and President, Representative Director and Vice President, and Executive Vice President), (i) basic remuneration, (ii) stock options, and (iii) CPU awards are designed in accordance with the business roles of individual directors, with the principle of a 1:1:1 ratio in monetary terms at the time of grant. In addition to the above, (iv) Company Performance Bonus ("CPB"), which is a short-term incentive salary based on the company's performance, has been added for the purpose of increasing the transparency of the performance-linked elements that had been taken into account as a breakdown of the basic remuneration for internal directors (executive directors and chairman). This will make it clear that internal directors are responsible for the improvement and direction of the company's performance.

In consideration of the duties of the Chairman of the Board of Directors and outside directors, who are responsible for supervisory functions, the Chairman of the Board of Directors will be granted (i) base salary and (iv) CPB, while outside directors will be granted only (i) base salary.

### 3. Remuneration linked to stock price or business performance

The Company grants (ii) stock options, (iii) CPU awards, and (iv) CPB to internal directors as compensation linked to stock price or performance (only CPB is granted to the Chairman of the Board of Directors). (Only CPB is granted to the Chairman of the Board of Directors.) The reasons for granting these awards (reasons for selecting the indices) are as follows.

#### (ii) Stock options

This is a normal type of stock option. By linking our stock price to the profits received as remuneration, we aim to further increase the motivation and morale of executive directors to improve business performance, strengthen business development with an emphasis on the interests of shareholders, and enhance shareholder value.

#### (iii) CPU Awards

CPU awards are grants of rights to receive cash payments in an amount calculated based on the average market value of our stock over a certain period of time. In addition to the incentive for executive directors to increase the share price through improved business performance, the downside risk of a decline in the share price is also shared with shareholders. These aimed to increase transparency in sharing results with shareholders.

#### (iv) CPB

This is a cash bonus based on short-term (6 months) company performance. The year-over-year growth rates (pre-GAAP margin and annual recurring revenue for subscription products) have been selected as performance indicators. The objective was to increase transparency in sharing results with shareholders, while at the same time making it clear that internal directors are responsible for company-wide performance improvement and direction. We are now aware that growth in operating income on a pre-GAAP basis (sales before deferred revenue) is an important management indicator, and we disclose our operating income on a pre-GAAP basis to our shareholders and investors in our earnings announcements. Our costs are designed to achieve this pre-GAAP growth. We believe it is appropriate to select the pre-GAAP margin, which is the amount of pre-GAAP operating income minus the specified costs, as our performance target because it includes some costs such as depreciation of intangible assets related to acquisitions that are not directly linked to operating activities. We also believe that the selection of annual recurring revenue for subscription products is appropriate and consistent with our strategy.

The targets and results for CPB indicators for the fiscal year under review were as follows.

Indicators	Targets	First Half		Goal Achievement	Second Half		Goal Achievement
		Previous Year (FY2022)	Current business year (FY2023)		Previous Year (FY2022)	Current business year (FY2023)	
Pre-GAAP margin (Millions of yen)	Increase from the same period of the previous year: 0.5 billion yen or more	24,174	20,951	Unachieved	32,003	38,537	Achieved
Annual Recurring Revenue for subscription products (Millions of U.S. dollars)	Growth rate over the same period of the previous year: 13% or more	1,121	1,167	Unachieved	1,193	1,236	Unachieved

#### **4. Policy and Method for determining remuneration, etc. for individual directors**

The amount of individual remuneration for directors is determined at BoD meeting within the scope of the amount and details of remuneration, etc. approved at the General Meeting of Shareholders, by consulting the Nomination and Remuneration Advisory Committee in consideration of business performance, remuneration rates in the overseas and Japanese markets, and the average salary of employees. Specifically, the amount of compensation has been granted to each executive director is equivalent to 1.5 million US dollars at the time of granting, and the amount of compensation has been granted to the senior global executives are similar to that of the relevant executive directors. The reason for this is the idea that the senior executives are candidates to succeed the Company's directors and perform the same duties as the directors and manage the Company as a team, and that they all share in both the enjoyment of the results and the responsibility for the outcome of the Company's operations. The amount of individual remuneration for the Chairman of the Board of Directors and outside directors is discussed with the Nomination and Remuneration Advisory Committee, and the Board of Directors decides on the details discussed by the committee. The Board of Directors has determined that the content of remuneration, etc. for each individual director is appropriate in light of the fact that the Nomination and Remuneration Advisory Committee conducted a multifaceted review of the original proposal, including consistency with the decision-making policy, and in light of the Group's operating structure.

#### **5. Timing of remuneration to executives**

The timing of granting remuneration, etc. to directors and corporate auditors is as follows.

- (i) Basic remuneration: The amount determined by the Board of Directors is granted in equal installments over 12 months.
- (ii) Stock options and (iii) CPU awards: To be granted in accordance with the terms and conditions separately stipulated in the contract between the director and the Company based on the details determined by the Board of Directors.
- (iv) CPB: If the target is achieved after the half-yearly settlement of accounts, the first half will be granted in August and the second half will be granted in February of the following year.

#### **6. Matters concerning the resolution of the General Meeting of Shareholders**

At the 29th Ordinary General Meeting of Shareholders held on March 26, 2015, it was resolved that the total amount of remuneration for our directors shall be granted within the range of 1 billion yen per year (of which the amount for Outside Directors shall be within 20 million yen per year) in total of fixed, variable and other remuneration. At the time the resolution was passed, there were six directors (including one outside director) subject to this provision, and there is no change to the total number of six directors (including two outside directors). The latest information on stock options was resolved at the 32nd Ordinary General Meeting of Shareholders held on March 25, 2021, and the latest information on CPU awards was resolved at the 29th Ordinary General Meeting of Shareholders held on March 27, 2018. At the time the resolutions were made, there were four directors (excluding outside directors) subject to the stock option plan and five directors (excluding outside directors) subject to the CPU Award plan.

The remuneration for corporate auditors is based on the details approved at the 33rd Ordinary General Meeting of Shareholders held on March 29, 2022. The annual amount of basic remuneration (fixed) is 60 million yen or less, and individual grants are left to the discretion of the corporate auditors. At the time the resolution was passed, there were four (4) Corporate Auditors (all of whom are Outside Corporate Auditors) subject to this provision.

## 7. Activities of the Committee in the Process of Determining the Amount of Remuneration of Directors

We have established the Nomination and Remuneration Advisory Committee as an advisory organization under the Board of Directors for the purpose of strengthening the independence, objectivity and accountability of the functions of the Board of Directors in relation to the election and dismissal of directors, nomination of candidates for directors, and remuneration, etc. of directors. The Nomination and Compensation Advisory Committee consists of at least three members, the majority of whom should be independent outside directors. From the current fiscal year, outside corporate auditors have also been invited to participate voluntarily as observers. Since the 2nd meeting of the fiscal year under review, Mr. Koichiro Tokuoka (Outside Director) has served as the chairman of the Committee.

The attendance rate of each committee member is 100%: Mr. Mahendra Negi (Representative Director) and Mr. Tetsuo Koga (Outside Director) attended all four meetings, Mr. Koichiro Tokuoka (Outside Director) attended all three meetings since assuming office as Director, and Mr. Ikujiro Nonaka (Outside Director) attended all one meeting during his term as Director.

The main contents of discussions, reports, etc. are as follows:

Category	Item	The main contents of discussions, reports, etc.
Remuneration	Individual director compensation	Examination of the details of individual director compensation, and consideration of variable factors.
Remuneration	Compensation Survey (domestic and overseas)	Reviewing the results of international and domestic surveys on director compensation.
Nomination	Succession Planning	Confirmation of executive members who are candidates for the next internal board of directors and their succession plans, etc.
Nomination	Skills Matrix	Review of the skill matrix of experience and knowledge required of directors.
Nomination	Proposal for Election of Directors	Confirmation of institutional investors' policies on the appointment of directors and executive officers, and the status of the appointment of directors for the next fiscal year.
Others	Information Sharing	Share updates on compensation and nominations Share the status of meetings between institutional investors and the Representative Director and Vice President.

**Table of types of officers' remuneration**

	Type	Grant	Officers to be granted	Variable factors	Incentive	Limit
i	Basic remuneration	Cash	Directors and Auditors	-	Basic remuneration	-
ii	Stock Option	Stock acquisition right (Note2)	Executive Directors	Stock price	-Performance linked (long-term), -Stock price incentive	280,000 shares /year
iii	Cash Phantom Unit Awards (CPU Awards) Time Base (TBS) (Note1)	Cash	Executive Directors	Stock price	-Performance linked (long-term), -Stock price incentive	75,000 shares equivalent /year
iv	Company Performance Bonus (CPB)	Cash	Executive Directors and Chairman	-Pre-GAAP margin, -Annual recurring revenue for subscription products	Performance-based (short-term)	-
					Total	Directors: Within 1 billion yen / year (Of which, up to 20 million yen per year for outside directors)  Auditors: Up to 60 million yen / year

- (Notes)
1. Grants the right to receive cash calculated based on the average market value of the Company's common stock over a certain period of time. Time-based type that can be exercised periodically after grant.
  2. A fair valuation (Black-Scholes model) is used for remuneration conversion

**(6) 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

<b>Name (Position)</b>	<b>Attendance at and comments made at meetings of the Board of Directors and Board of Corporate Auditors /Summary of duties, etc. performed in relation to the role expected to be fulfilled by outside directors</b>
Tetsuo Koga (Director)	Attended all 10 meetings of the Board of Directors (100%). He makes appropriate management decisions and supervises management by providing useful advice and recommendations based on his extensive experience and knowledge in the business world. As a member of the Nomination and Remuneration Advisory Committee, he attended all 4 meetings (100%) and discussed issues based on his experience in corporate management, and appropriately supervised the nomination and remuneration process.
Koichiro Tokuoka (Director)	Attended all 8 meetings of the Board of Directors (100%). He makes appropriate management decisions and supervises management by providing useful advice and recommendations from his highly specialized perspective on corporate management. In addition, as a member of the Nomination and Remuneration Advisory Committee, he attended all 3 meetings (100%) and contributed to the formulation of the succession plan from his expert perspective on organizations.
Masaru Senpo (Full-time Corporate Auditor)	Attended all 10 meetings of the Board of Directors (100%) and all 13 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 10 meetings of the Board of Directors (100%) and all 13 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 all 10 meetings of the Board of Directors (100%) and all 13 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 9 of 10 meetings of the Board of Directors (90%) and 12 of 13 meetings of the Board of Corporate Auditors (92.3%). 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	95
(ii)	Total amount of cash and other financial benefits payable by the Company and its subsidiaries	113

- (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) Non-audit services**

The Company has delegated the auditing services of ISMAP Information Security to the independent auditor.

**(4) 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.

**(5) 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.

---

(Note) The amounts shown in this business report have been rounded down to the indicated units.

## 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 Corporative 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 compliance security committee with one of our Representative Directors as a chairperson to supervise the compliance and risk control system.
- iii) The Company shall establish a Global Chief Information Security Officer (hereinafter referred to as "CISO") to oversee the information security governance of the Company and all Group companies.
- iv) Any divulcation, 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.
- v) 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, including information security, 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 unfavorably 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, including information security;
    - (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 unfavorably 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, 2023)

(Millions of yen)

Account	Amount	Account	Amount
<Assets>		<Liabilities>	
<b>Current assets</b>	<b>388,885</b>	<b>Current liabilities</b>	<b>265,077</b>
Cash and bank deposits	247,856	Accounts payable and Notes payable, trade	2,727
Notes and accounts receivable and contract assets	69,260	Accounts payable, other	6,097
Marketable securities	51,170	Accrued expenses	18,910
Inventories	6,662	Accrued income and other taxes	10,248
Others	14,271	Allowance for bonuses	3,456
Allowance for bad debt	(335)	Deferred revenue (Current and Non-current)	211,532
<b>Non-current assets</b>	<b>103,743</b>	Others	12,104
<b>Property and equipment</b>	<b>6,489</b>	<b>Non-current liabilities</b>	<b>13,127</b>
Buildings and structures, net	3,963	Net defined benefit liability	8,071
Office furniture and equipment	2,499	Others	5,055
Others	25	<b>Total liabilities</b>	<b>278,205</b>
<b>Intangibles</b>	<b>31,883</b>	<Net assets>	
Software	16,100	<b>Shareholders' equity</b>	<b>170,558</b>
Goodwill	3,662	Common stock	19,855
Others	12,120	Capital surplus	28,239
<b>Investments and other non-current assets</b>	<b>65,369</b>	Retained earnings	156,299
Investment securities	16,908	Treasury stock, at cost	(33,836)
Investments in subsidiaries and affiliates	1,467	<b>Accumulated other comprehensive income</b>	<b>41,440</b>
Deferred tax assets	44,380	Net unrealized gain (loss) on debt and equity securities	396
Others	2,612	Foreign currency translation adjustments	41,237
		Remeasurements of defined benefit plans	(194)
		<b>Stock acquisition rights</b>	<b>2,391</b>
		<b>Non-controlling interest</b>	<b>33</b>
		<b>Total net assets</b>	<b>214,423</b>
<b>Total assets</b>	<b>492,628</b>	<b>Total liabilities and net assets</b>	<b>492,628</b>

## (2) Consolidated Profit and Loss Statement

(From January 1, 2023 to December 31, 2023)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>248,691</b>
<b>Cost of sales</b>		<b>63,662</b>
<b>Gross profit</b>		<b>185,028</b>
<b>Selling, general and administrative expense</b>		<b>152,426</b>
<b>Operating income</b>		<b>32,602</b>
<b>Non-operating income</b>		
Outsourcing service income	194	
Interest income	5,845	
Gain on sale of marketable securities	3,415	
Others	219	9,675
<b>Non-operating expenses</b>		
Equity in loss of affiliated companies	2,862	
Loss on sales of marketable securities	1,236	
Loss on disposal of fixed assets	129	
Foreign exchange losses	1,748	
Others	120	6,096
<b>Ordinary income</b>		<b>36,181</b>
<b>Extraordinary loss:</b>		
Retirement benefit expenses	2,321	
Loss on cancellation of leases	607	
Impairment losses	451	
Loss on valuation of investment securities	822	4,203
<b>Net income before taxes</b>		<b>31,978</b>
Income taxes current	19,723	
Income taxes for prior periods	2,500	
Income taxes deferred	(1,002)	21,221
<b>Net income before non-controlling interest</b>		<b>10,756</b>
Non-controlling interest in income of consolidated subsidiaries		24
<b>Net income attributable to owners of the parent</b>		<b>10,731</b>

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

(From January 1, 2023 to December 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Common stock	Additional paid in capital	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	19,585	27,810	166,635	(10,291)	203,738
Movement for this period					
Issuance of new stocks	270	270			540
Dividends of surplus			(21,012)		(21,012)
Net income			10,731		10,731
Sales of treasury stock		159		1,454	1,613
Purchase of treasury stock				(24,999)	(24,999)
Change in scope of consolidation			(54)		(54)
Movement for this period excluding shareholders' equity					
Total movement	270	429	(10,335)	(23,544)	(33,180)
Balance at the end of current period	19,855	28,239	156,299	(33,836)	170,558

	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	(1,477)	24,392	122	23,037	1,884
Movement for this period					
Issuance of new stocks					
Dividends of surplus					
Net income					
Sales of treasury stock					
Purchase of treasury stock					
Change in scope of consolidation					
Movement for this period excluding shareholders' equity	1,874	16,845	(316)	18,402	507
Total movement	1,874	16,845	(316)	18,402	507
Balance at the end of current period	396	41,237	(194)	41,440	2,391

(Millions of yen)

	Minority interest	Total net assets
Balance at the beginning of current period	18	228,679
Movement for this period		
Issuance of new stocks		540
Dividends of surplus		(21,012)
Net income		10,731
Sales of treasury stock		1,613
Purchase of treasury stock		(24,999)
Change in scope of consolidation		(54)
Movement for this period excluding shareholders' equity	14	18,924
Total movement	14	(14,255)
Balance at the end of current period	33	214,423

## Balance Sheet

(As of December 31, 2023)

(Millions of yen)

Account	Amount	Account	Amount
<b>&lt;Assets&gt;</b>		<b>&lt;Liabilities&gt;</b>	
<b>Current assets</b>	<b>244,929</b>	<b>Current liabilities</b>	<b>119,640</b>
Cash and bank deposits	168,213	Accounts payable, trade	1,469
Notes and Accounts receivable, trade	13,887	Accounts payable, other	20,824
Marketable securities	17,682	Accrued expenses	3
Product	419	Accrued income and other taxes	7,503
Raw material	508	Accrued consumption taxes	1,378
Supplies	80	Deposit	345
Prepaid expense	313	Allowance for bonuses	74
Account receivable others	15,192	Deferred revenue	64,731
Short-term loans receivable to affiliates	28,364	Short-term loans payable to affiliates	21,956
Others	267	Others	1,354
<b>Non-current assets</b>	<b>66,424</b>	<b>Non-current liabilities</b>	<b>6,334</b>
<b>Property and equipment</b>	<b>1,512</b>	Long-term accounts payable-others	2
Buildings	2,198	Allowance for retirement benefits	6,024
Office furniture and equipment	1,482	Others	307
Accumulated depreciation	(2,169)	<b>Total liabilities</b>	<b>125,975</b>
<b>Intangibles</b>	<b>7,939</b>	<b>&lt;Net assets&gt;</b>	
Software	7,496	<b>Shareholders' equity</b>	<b>182,739</b>
Software in progress	375	<b>Common stock</b>	<b>19,855</b>
Others	67	<b>Capital surplus</b>	<b>26,391</b>
		Additional paid-in capital	22,577
<b>Investments and other non-current assets</b>	<b>56,972</b>	Other Capital surplus	3,814
Investment securities	2,062	<b>Retained earnings</b>	<b>170,327</b>
Investments in subsidiaries and affiliates	27,134	Legal reserve	20
Deposit for landlord	914	Accumulated profit	170,307
Deferred tax assets	26,861	Retained earnings carried forward	170,307
		<b>Treasury stock</b>	<b>(33,836)</b>
		<b>Valuation and translation adjustment</b>	<b>248</b>
		Net unrealized gain (loss) on debt and equity securities	248
		<b>Stock acquisition right</b>	<b>2,391</b>
		<b>Total net assets</b>	<b>185,378</b>
<b>Total assets</b>	<b>311,354</b>	<b>Total liabilities and net assets</b>	<b>311,354</b>

## Profit and Loss Statement

(From January 1, 2023 to December 31, 2023)

(Millions of yen)

Account	Amount	
<b>Sales Revenue</b>		
Sales	82,872	
Royalty	358	<b>83,230</b>
<b>Cost of sales</b>		<b>28,990</b>
<b>Gross profit</b>		<b>54,240</b>
<b>Operating expenses</b>		<b>42,657</b>
<b>Operating income</b>		<b>11,582</b>
<b>Non-operating income</b>		
Interest income	0	
Interest on marketable securities	190	
Dividends from subsidiaries and affiliates	129,904	
Others	76	130,172
<b>Non-operating expense</b>		
Foreign exchange loss	969	
Loss on disposal of fixed assets	58	
Others	48	1,075
<b>Ordinary income</b>		<b>140,678</b>
<b>Net income before taxes</b>		<b>140,678</b>
Income taxes current	8,320	
Income taxes deferred	(1,722)	9,099
<b>Net income</b>		<b>131,579</b>

## Statements of Changes in Net Assets

(From January 1, 2023 to December 31, 2023)

(Millions of yen)

	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	19,585	22,307	3,655	20	59,739
Movement for the period					
Issuance of new stocks	270	270			
Dividends of surplus					(21,012)
Net income					131,579
Sales of treasury stock			159		
Purchase of treasury stock					
Movement for the period excluding shareholders' equity					
Total movement	270	270	159	—	110,567
Balance at the end of current period	19,855	22,577	3,814	20	170,307

	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	(10,291)	95,017	(34)	1,886	96,868
Movement for the period					
Issuance of new stocks		540			540
Dividends of surplus		(21,012)			(21,012)
Net income		131,579			131,579
Sales of treasury stock	1,454	1,613			1,613
Purchase of treasury stock	(24,999)	(24,999)			(24,999)
Movement for the period excluding shareholders' equity			283	504	787
Total movement	(23,544)	87,722	283	504	88,510
Balance at the end of current period	(33,836)	182,739	248	2,391	185,378

## 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: Forty (40)

(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)

Trend Micro Limited Liability Partnership (Kazakhstan) and VicOne Corporation (Japan) were newly established and Anlyz Inc.(U.S.A) and Anlyz Cybersecure Private Limited(India) were newly acquired and have been included in the scope of consolidation.

Trend Micro EMEA (GB) Limited and Soocii Co., Limited(Hong Kong), which had been consolidated subsidiaries, were excluded from the scope of consolidation due to the liquidation.

(3) No unconsolidated Subsidiaries.

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 (British Cayman Islands)

TXOne Networks Inc.(British Cayman Islands)

(3) No affiliate company and unconsolidated subsidiary to which the equity method has not been applied.

### 3. Matters Concerning the Accounting Standards

#### (1) Accounting for evaluation of material assets

##### (i) Securities

Other than non-marketable securities:

Market value method

(Unrealized gains and losses, net of taxes, reported in a separate component of equity. Cost of selling is determined by the moving average method.)

Non-marketable securities, etc.:

Cost basis by moving average method

##### (ii) Inventories:

Lower of cost or market by moving average method

The carrying value on the balance sheet of the inventory with lower profit margin is written down.

#### (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:

Buildings and structures: mainly 3 – 24 years

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.

(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

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.

(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) Basis for Revenue Recognition

The major obligations of the Company and its consolidated subsidiaries with respect to the revenue arising from their contracts with customers are as follows, along with the normal times during which such obligations are fulfilled.

Revenue from software licenses is primarily due to the provision of security-related software licenses, we are obligated to provide software licenses under license contracts with our customers.

Revenue from support services is primarily due to the provision of support services for security-related products, we are obligated to provide such services under the support service contract with the customer.

Revenue from hardware offerings is primarily from the sale of security-related hardware products, we are obligated to provide hardware products under the hardware sales contract.

The essence of goods or services provided by us to customers is to provide them with protection from the latest computer viruses. The provision of software licenses to customers, the upgrading of software included in support services, and the provision of hardware products are indivisible single performance obligation because they cannot provide customers with protection from the latest computer viruses on their own and are highly interdependent and related.

Protection of customers against computer viruses is required to be fulfilled for a certain period of time because the protection of customers is provided according to the period of the contract after the start of use of the software license by the customers. Consideration is allocated equally for the period from the start of use to the

contract period, and the amount corresponding to the current consolidated fiscal year is recorded as revenue. The consideration for these obligations does not include material financial elements in the contract.

(7) Amortization of Goodwill

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

(8) 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)**

(Correction of errors)

For the previous fiscal year, sales reversed from deferred revenue had been understated due to an error in revenue recognition related to the application of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) in our subsidiary in the Americas region.

Errors for the previous fiscal year are not significant in the impact on financial position and operating results. Accordingly, the errors are corrected in the current financial statements.

As a result, net sales, gross profit, operating income, and ordinary income increased by 988 million yen and net income attributable to owners of parent increased by 741 million yen for the current fiscal year consolidated cumulative period.

In the segment information for the current fiscal year consolidated cumulative period, net sales and segment income of "Americas" increased by 988 million yen.

There is no impact on cash flow statements for the errors.

(Matters concerning consolidated subsidiaries)

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

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

**(NOTES ON ACCOUNTING ESTIMATES)**

1. Valuation of unlisted stocks

(1) Amounts recorded in the consolidated financial statements at the end of the current fiscal year.

Investment securities (unlisted stocks) 3,036 million yen

Loss on valuation of investment securities 822million yen

Impairment loss was recognized for Fixed assets in the downsized offices.

(2) Information on significant accounting estimates for identified items

In valuing investment securities, the Company makes judgments based on the issuer's financial condition and earnings prospects, or the existence of damage to excess earning capacity. Changes in circumstances related to individual investments due to changes in the market or unpredictable changes in economic and business assumptions may have a significant impact on the valuation of investment securities in the consolidated financial statements for the following fiscal year.

2. Impairment loss of Fixed assets
  - (1) Amounts recorded in the consolidated financial statements at the end of the current fiscal year  
Fixed assets 6,489 million yen  
Impairment loss 451 million yen

Impairment loss was recorded for property, plant and equipment of offices to be downsized.

- (2) Information on significant accounting estimates for identified items  
The Company groups its assets by the smallest unit that generates cash flows that are generally independent based primarily on business segmentation, and this unit is primarily the company unit.  
When there is an indication of impairment, the Company determines whether an impairment loss should be recognized by comparing the total undiscounted future cash flows from the asset group with its carrying amount. If the carrying amount of the asset group is less than its gross undiscounted future cash flows and an impairment loss is required, the carrying amount of the asset group is reduced to its recoverable amount and the reduction in the carrying amount is recognized as an impairment loss.

3. Recoverability of deferred tax assets

- (1) Amounts recorded in the consolidated financial statements at the end of the current fiscal year  
Deferred tax assets 44,380 million yen

- (2) Information on significant accounting estimates for identified items  
In accounting for deferred tax assets, deferred tax assets are recognized for schedulable future deductible temporary differences. Estimates of deferred tax assets are based on the schedule for the reversal of future deductible temporary differences, etc., and the tax system and tax rates in effect at the date of the balance sheet, and any changes in the conditions and assumptions underlying these estimates may have a significant impact on the amount of deferred tax assets recognized in the consolidated financial statements for the next and subsequent fiscal years. If there is a change in the conditions or assumptions underlying these estimates, it may have a significant impact on the amount of deferred tax assets recognized in the consolidated financial statements for the next and subsequent fiscal years.

#### **(NOTES ON CHANGE IN ACCOUNTING STANDARDS)**

##### **(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)**

Effective from the beginning of the fiscal year under review, the Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as “Fair Value Measurement Guidance”) and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. There has been no impact on the quarterly consolidated financial statements.

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

1. Notes and Accounts receivable, trade and contract

assets :

Accounts receivable	69,260 million yen
---------------------	--------------------

2. Inventory

Finished Goods	6,057 million yen
----------------	-------------------

Materials	524 million yen
-----------	-----------------

Goods	80 million yen
-------	----------------

3. Accumulated depreciation of property and equipment: 25,610 million yen

**(NOTES TO THE CONSOLIDATED STATEMENTS OF INCOME)**

1. Gain on sale of securities :

Trend Forward Capital I, L.P., a U.S. subsidiary of the Company, sold a portion of its investment securities holdings in October 2023. As a result, the Company recorded a gain on sales of securities of 3,374 million yen.

2. Retirement benefit expenses :

Due to workforce reductions, Americas, Europe, and Asia-Pacific recorded retirement benefit expenses as extraordinary losses.

3. Loss on cancellation of leases :

Due to office vacancies, Americas, Europe, and Asia-Pacific recorded loss on cancellatin of lease as extraordinary losses.

**(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 140,879,104 shares

The class and number of treasury stock

Class	As of Jan 1, 2023	Increase	Decrease	As of Dec 31, 2023
Common Stock	1,649,820 shares	3,793,757 shares	224,900 shares	5,218,677 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, 2023
The type of equity shares	Ordinary shares
The total amount of dividends paid	21,012 million yen
The amount of dividend paid per share	151.00 yen
The record date	31 December, 2022
The effective date	29 March, 2023

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 28 March, 2024
The type of the equity shares	Ordinary shares
The source of dividend payment	Retained earnings
The total amount of dividends paid	100,117 million yen
The amount of dividend paid per share	738.00 yen
The record date	31 December, 2023
The effective date	29 March, 2024

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 257,600 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, 2023 (fiscal year end) are as follows. Investments in non-marketable securities are not included in this table.

(Millions of yen)

	Consolidated balance sheet amounts	Fair values	Differences
(1) Marketable securities and investment securities			
Available for sale securities	65,042	65,042	—
Total assets	65,042	65,042	—

(Notes 1) "Cash and bank deposits," "Notes and Accounts receivable, trade and contract assets," "Accounts payable and Notes payable, trade" "Accounts payable, other," "Accrued expenses," "Accrued income and other taxes," are omitted as these are cash, and their current prices are nearly equal to book values due to be all settled in a short period of time.

(Notes 2) Non-listed stocks (4,504 million yen recorded on consolidated balance sheet) are not included in "(1) Marketable securities and investment securities".

3. Matters concerning the breakdown, etc. of the fair value of financial instruments by levels

The fair value of financial instruments are classified into the following three levels based on the observability and materiality of the inputs used to calculate fair value.

(i) Level 1 fair value

Fair value is calculated based on quoted market prices for assets or liabilities for which such fair value is formed in an active market among the inputs for calculating observable fair value.

(ii) Level 2 fair value

Fair value is calculated using inputs other than Level 1 inputs for the calculation of observable fair value.

(iii) Level 3 fair value

Fair value is calculated using inputs for calculating unobservable fair value.

When multiple inputs that have a significant impact on the fair value calculation are used, the fair value is classified into the level with the lowest priority in the fair value calculation among the levels to which those inputs belong.

(Millions of yen)

	Fair values			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available for sale securities	1,120	63,921	—	65,042
Total assets	1,120	63,921	—	65,042

(Notes) Explanation of valuation techniques used in the calculation of fair value and inputs related to the calculation of fair value

Listed stocks are based on the price on the stock exchange, and corporate bonds are based on the price on the stock exchange or the price presented by the financial institutions, etc. with which the Company has transactions. Since listed stocks are traded in active markets, their fair value is classified as Level 1 fair value. Bonds held by the Company are classified as Level 2 fair value because they are traded infrequently in the market and are not considered quoted prices in an active market.

## (NOTES ON REVENUE RECOGNITION)

### 1. Information of the revenue from contracts with customers by reporting segments

Information of the amount of sales by reporting segments

(Millions of yen)

	Japan	Americas	Europe	Asia Pacific	Total
Sales					
Net sales to external customers	83,002	57,643	50,643	57,401	248,691
Total sales	83,002	57,643	50,643	57,401	248,691

(Notes)

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

2. Major countries other than Japan:

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

Europe Ireland, Germany, Italy, France, UK

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

### 2. Information that provides a basis for understanding revenue arising from contracts with customers

The basis for understanding revenues is described in "Notes on Important Points in the Preparation of the Consolidated Financial Statements 3. Matters Concerning the Accounting Standards (6) Basis for Revenue Recognition".

### 3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current fiscal year and are expected to be recognized in the following fiscal year or later Current fiscal year.

(1) Outstanding contract liabilities, etc.

(Millions of yen)

	Current fiscal year
Receivables from contracts with customers (beginning balance)	63,614
Receivables from contracts with customers (ending balance)	69,260
Contract liabilities (beginning balance)	192,914
Contract liabilities (ending balance)	211,532

Receivables from contracts with customers mainly consist of accounts receivable from customers for software licenses, support services and hardware transactions, and do not correspond to contract assets. Contract liabilities mainly relate to unearned revenues from customers for software licenses, support services and hardware transactions and correspond to performance obligations that will be satisfied in the next fiscal year or later. Contract liabilities are reversed upon recognition of revenue. It is included in "Deferred revenue" under "Current liabilities" in the consolidated balance sheet.

The amount of revenue recognized in the current period that was included in the contract liability balance at the beginning of the period was 128,045 million yen.

The amount of revenue recognized in the current period from performance obligations satisfied in prior periods was not material.

(2) Transaction price allocated to remaining performance obligations

The aggregate transaction price allocated to the remaining performance obligations and the period over which revenue is expected to be recognized are as follows.

(Millions of yen)

	Current fiscal year
Within 1 year	136,500
More than 1 year	75,031
Total	211,532

**(NOTES ON PER SHARE INFORMATION)**

1. The net assets per share: 1,562.72 yen
2. The net income for the term per share: 78.45 yen

**(NOTES ON BUSINESS COMBINATIONS)**

Business combination by acquisition

On February 15, 2023, our U.S. and India subsidiaries acquired shares of Anlyz Inc. and Anlyz Cybersecure Private Limited. Anlyz Inc.

1. Outline of the business combination

(1) Name and business of the acquires company

Name : Anlyz Inc. and Anlyz Cybersecure Private Limited

Business : Security solutions provider for security operation centers

(2) Major reasons for the business combination

The acquisition of Anlyz Inc. and Anlyz Cybersecure Private Limited will further extend our strengths in orchestration, automation, and integration, and will enable our customers, corporate organizations and managed security service providers, to achieve their operational, cost, and security effectiveness.

(3) Date of the business combination

February 15, 2023

(4) Legal form of the business combination

Share acquisition by cash

(5) Name after the business combination

No change

(6) Percentage of voting rights acquired

100%

(7) Reason for deciding on the company from which to acquire its shares

Our subsidiaries in the U.S. and India have acquired their shares for cash

2. Period when the consolidated financial statements include the result of the acquired business  
February 16, 2023 to December 31, 2023
3. Cost of acquisition of the acquired business and breakdown of the consideration
- (1)Anlyz Inc.
- |                                   |                                      |                      |
|-----------------------------------|--------------------------------------|----------------------|
| Consideration for the acquisition | Cash (including accrued liabilities) | 34 million US dollar |
| Cost of acquisition               |                                      | 34 million US dollar |
- (2)Anlyz Cybersecure Private Limited
- |                                   |      |                         |
|-----------------------------------|------|-------------------------|
| Consideration for the acquisition | Cash | 60 million Indian rupee |
| Cost of acquisition               |      | 60 million Indian rupee |
4. Content and amount of major acquisition-related expenses
- |                    |                |
|--------------------|----------------|
| Advisory fee, etc. | 88 million yen |
|--------------------|----------------|
5. Goodwill that has occurred, the reasons for the goodwill and the method and period for amortizing goodwill
- (1) Amount of goodwill
- (i) Anlyz Inc. : 2,805 million yen
- (ii)Anlyz Cybersecure Private Limited : 75 million yen
- (2) Reason for goodwill
- Expected excess earnings power after the business combination
- (3) Method and period for the amortization
- Straight-line method over 5 years
6. Amount and breakdown of assets accepted and liabilities assumed on the date of the business combination
- (1)Anlyz Inc.
- |                          |                        |
|--------------------------|------------------------|
| Current assets           | 97 million yen         |
| Fixed assets             | 157 million yen        |
| <u>Total assets</u>      | <u>254 million yen</u> |
| Current liabilities      | 177 million yen        |
| Long-term liabilities    | - million yen          |
| <u>Total liabilities</u> | <u>177 million yen</u> |
- (2)Anlyz Cybersecure Private Limited
- |                          |                       |
|--------------------------|-----------------------|
| Current assets           | 27 million yen        |
| Fixed assets             | 6 million yen         |
| <u>Total assets</u>      | <u>33 million yen</u> |
| Current liabilities      | 11 million yen        |
| Long-term liabilities    | 0 million yen         |
| <u>Total liabilities</u> | <u>12 million yen</u> |

**(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

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 bonus	Bonuses for employees are provided at an estimate of the amount.
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 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. Basis for Revenue Recognition

The major obligations of the Company with respect to the revenue arising from their contracts with customers are as follows, along with the normal times during which such obligations are fulfilled.

Revenue from software licenses is primarily due to the provision of security-related software licenses, we are obligated to provide software licenses under license contracts with our customers.

Revenue from support services is primarily due to the provision of support services for security-related products, we are obligated to provide such services under the support service contract with the customer.

Revenue from hardware offerings is primarily from the sale of security-related hardware products, we are obligated to provide hardware products under the hardware sales contract.

The essence of goods or services provided by us to customers is to provide them with protection from the latest computer viruses. The provision of software licenses to customers, the upgrading of software included in support services, and the provision of hardware products are indivisible single performance obligation because they cannot provide customers with protection from the latest computer viruses on their own and are highly interdependent and related.

Protection of customers against computer viruses is required to be fulfilled for a certain period of time because the protection of customers is provided according to the period of the contract after the start of use of the software license by the customers. Consideration is allocated equally for the period from the start of use to the contract period, and the amount corresponding to the current consolidated fiscal is recorded as revenue.

The consideration for these obligations does not include material financial elements in the contract.

### 5. Amortization of Goodwill

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

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

**(NOTES ON ACCOUNTING ESTIMATES)**

Recoverability of deferred tax assets

(1) Amounts recorded in the financial statements for the current fiscal year

Deferred tax assets 26,861 million yen

(2) Information on significant accounting estimates for identified items

This information is omitted because it is stated in the notes to the consolidated financial statements.

**(NOTES ON CHANGE IN ACCOUNTING STANDARDS)**

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

Effective from the beginning of the fiscal year under review, the Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter referred to as “Fair Value Measurement Guidance”) and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Guidance in accordance with the transitional treatment provided in Paragraph 27-2 of the Fair Value Measurement Guidance. There has been no impact on the financial statements.

**(NOTES TO THE BALANCE SHEET)**

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

	(Millions of yen)
Short-term monetary assets	43,906
Short-term monetary liabilities	37,190

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

The Amounts of Transactions with Subsidiaries and Affiliates

The Amounts of Operational Transactions

	(Millions of yen)
Sales	293
Outside service fee	28,297
Cost sharing charges	29,137
Purchases	972

The Amounts of Non- Operational Transactions

Dividends from subsidiaries and affiliates	129,904
--	---------

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

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

Common Stock	5,218,677 shares
--------------	------------------

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

1. Major items causing deferred tax assets:

Deferred tax assets

	(Millions of yen)
Nondeductible deferred revenue	19,820
Nondeductible amortization of intangibles fixed assets	3,492
Nondeductible accrued enterprise tax	284
Nondeductible accrued liability	652
Nondeductible allowance for retirement benefits	1,844
Others	1,017
<hr/>	
Deferred tax assets subtotal	27,113
Valuation allowance	(142)
<hr/>	
Total deferred tax assets	26,970

Deferred tax liabilities

	(Millions of yen)
Unrealized gain(loss) on available for sale securities	(109)
<hr/>	
Deferred tax liabilities sub total	(109)
<hr/>	
Net amount of deferred tax asset	26,861

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

Statutory tax rate	30.6%
(Adjustments)	
Nondeductible expense such as entertainment expense	0.6%
Nontaxable income such as dividends income	(26.9)%
Tax credit	(0.2)%
Income taxes for prior periods	1.8%
Others	0.6%
<hr/>	
Effective tax rate after adjustment for tax effect accounting	6.5%

**(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 (Millions of yen)	Account name	Balance at end of period (Millions of yen)
Trend Micro Incorporated (U.S.A.)	100% (Indirect)	Cost sharing agreement	Payments of Cost sharing charges (*1)	4,808	Accounts payable, other	2,048
Trend Micro (Ireland) Limited	100% (Indirect)	Cost sharing agreement	Receipts of Cost sharing charges (*1)	20,676	Accounts receivable, other	10,817
Trend Micro Australia Pty.Ltd.	100% (Indirect)	Cost sharing agreement	Receipts of Cost sharing charges (*1)	13,269	Accounts receivable, other	4,093
		Loans payable	Loans payable (*2)	8,429	Short-term loans payable to affiliates	8,429
Trend Micro Incorporated (Taiwan)	100% (Direct)	Outsourcing agreements of research and technology development and other support services	Payments of Outsourcing charges (*1)	15,157	Accounts payable, other	2,594
		Outsourcing agreements of administration services	Payments of Outsourcing charges (*1)	28,174	Accounts payable, other	6,852
Trend Micro Netherlands B.V.	100% (Direct)	Loans payable	Loans payable (*2)	7,854	Short-term loans payable to affiliates	7,854
Trend Micro DMCC	100% (Indirect)	Loans payable	Loans payable (*2)	5,672	Short-term loans payable to affiliates	5,672
Trend Micro America Inc.	100% (Direct)	Loans receivable	Loans receivable (*2)	28,364	Short-term loans receivable to affiliates	28,364

(\*1) The trading amounts on Cost sharing and outsourcing service agreements are reasonably determined in consideration of the fair transaction prices.

(\*2) The condition of loans receivable and payable are determined based on market interest rates.

**(NOTES ON PER SHARE INFORMATION)**

- |   |              |
|---|--------------|
| 1. The net assets per share:              | 1,348.86 yen |
| 2. The net income for the term per share: | 961.84 yen   |

**(NOTES ON MATERIAL SUBSEQUENT EVENTS)**

N/A

**(OTHER NOTES)**

N/A