February 17, 2009

Report of Earning Results (Consolidated)
For Fiscal Year Ending December 31, 2008

Company: Trend Micro Incorporated — Tokyo Stock Exchange 1st Section

Code: 4704 — Location : Tokyo

(URL http://www.trendmicro.co.jp/)

Representative: Title Representative Director and Chief Executive Officer

Name Eva Chen

Contact: Title Representative Director (Chief Operating Officer and Chief Financial Officer)

Name Mahendra Negi (Phone: +81-3-5334-4899)

Expected date of the annual shareholders meeting: March 25, 2009

Expected date of the delivery of dividends: Mar 26, 2009

Expected date of the submission of annual security reports ("Yuka Shoken Hokokusho"): March 30, 2009

1. Financial Highlights for FY 2008 (January 1, 2008 through December 31, 2008)

(All figures except for per share information are rounded down to millions of yen.)

(1) Consolidated Results of Operations

	Net Sales	Growth Rate	Operating Income	Growth Rate	Ordinary Income	Growth Rate	Net Income	Growth Rate
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2008	101,707	1.9	31,803	(5.0)	33,640	(11.7)	19,247	(18.3)
FY 2007	99,805	16.6	33,476	14.0	38,096	19.4	23,561	21.9

	Net income per share (basic)	Net income per share (diluted)	Return on shareholders' equity	Return on assets	Operating profit on sales
	Yen	Yen	%	%	%
FY 2008	143.88	143.05	18.8	17.7	31.3
FY 2007	176.95	175.88	23.6	20.8	33.5

(Note) 1. Equity in earnings of affiliated companies: 63 million yen (63 million yen in FY 2007)

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2008	178,766	98,846	53.2	711.96
December 31, 2007	201,052	110,730	54.3	808.24

(Note) Equity capital : 95,096 million yen (109,163 million yen as of December 31, 2007)

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Ending balance of cash and cash equivalents
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY 2008	31,475	10,561	(20,669)	60,535
FY 2007	32,366	(53,768)	(3,711)	52,367

2. Dividend of surplus

	Cash dividends per share			Aggregate amount of dividends (annual)	Dividends payout ratio (Consolidated)	Dividends on shareholders' equity (Consolidated)
As of	Interim end	Annual end	Total	Total	Total	Total
	Yen	Yen	Yen	Millions of Yen	%	%
December 31, 2007	0.00	111.00	111.00	14,992	62.7	14.9
December 31, 2008	0.00	97.00	97.00	12,956	67.4	12.4
Projection for FY2009	TBD	TBD	TBD	TBD	TBD	TBD

3. Projected consolidated earnings

Projected earnings for the next quarter (January 1, 2009 through March 31, 2009)

	Net sales		Operating income		Ordinary income		Net income		Net income Per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
1st Qtr	22,500	(12.1)	5,200	(37.6)	5,300	(29.5)	3,200	(30.3)	23.96

(Note) Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make a highly reliable projection figures on a yearly basis. We, therefore, have decided to announce the earnings on a quarterly basis in the fiscal year ending in December 2009 as well as earnings projection of the succeeding quarter.

When we find through our calculation conducted from time to time that the net sales will fluctuate from the most recent quarterly projection by more than 10%, or operating income, ordinary income or net income fluctuates by more than 30%, we will announce the revision to the earnings projection.

4. Others

(1) Change in the basis of Consolidation and Application of equity method: No

(2) Change in the basis of Accounting Principles, Accounting Procedures and Methods for Consolidated Financial Statements

A. Change under a revision to Accounting Standards: No

B. Others: Yes

(Note) As regards to the details of above, please check "Change in Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements", page 31.

(3) Number of shares issued (common shares)

A. Number of shares issued (including treasury stocks) :

140,293,004 shares as of December 31, 2008 139,891,004 shares as of December 31, 2007

B. Number of treasury stocks :

6,722,803 shares as of December 31, 2008 4,827,922 shares as of December 31, 2007

(Note) As regards to the basis of calculation for net income per share, please check "Reconciliation of the difference between basic and diluted net income per share ("EPS")", page 47.

(Change in unit of currency)

In the past, The Company had prepared the financial statements in thousand of yen unit, but from the beginning of this year, The Company has changed in unit of currency into millions of yen. Thus our financial statements of previous year also has been reclassified into millions of yen in order to facilitate to compare the number.

Results of the non-consolidated operations

1. Financial Highlights for the FY 2008 (January 1, 2008 through December 31, 2008)

(1) Results of operations

	Net sales	Growth rate	Operating income	Growth rate	Ordinary income	Growth rate	Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY 2008	62,315	0.9	23,825	(13.2)	22,364	(25.6)	11,747	(33.2)
FY 2007	61,731	15.5	27,450	21.1	30,052	24.6	17,579	23.2

	Net income per share (basic)	Net income per share (diluted)
	Yen	Yen
FY 2008	87.82	87.31
FY 2007	132.03	131.23

(2) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2008	109,659	65,378	56.2	461.43
December 31, 2007	123,129	75,273	59.9	545.84

(Note) Equity capital : 61,633 million yen (73,723 million yen as of December 31, 2007)

1. Management Policy and Business Performance

I. OPERATING RESULTS

1. OPERATING RESULTS ANALYSIS

(1). REVIEW OF CURRENT PERIOD

(Unit: million yen)

	Net Sales	Operating income	Ordinary Income	Net income before tax	Net income
FY2008	101,707	3,1803	33,640	30,878	19,247
FY2007	99,805	33,476	38,096	37,985	23,561
Rate of Change (%)	2%	(5%)	(12%)	(19%)	(18%)

(Unit: million yen)

	Net Sales		
	FY2008	FY2007	Rate of Change (%)
Japan	39,102	36,531	7%
North America	26,191	25,033	5%
Europe	23,891	24,350	(2%)
Asia and Pacific Reg.	9,596	10,708	(10%)
Latin America	2,925	3,182	(8%)

[Overview of Current Business Performance]

The Japanese economy during this term from January 1 to December 31, 2008, continued to face the growing subprime mortgage financial crisis in the United States, soaring oil prices and cost of raw materials in the first half, and the deteriorating economic conditions as much as finally financial crisis hit to even the real economy in the second half fiscal year 2008. According to the Short-term Economic Survey of Enterprise in Japan (Tankan) announcement in December, the business condition index on almost all parts of the report were aggravated at low level. Such a fall was the second sharpest ever in the closely-watched index since the first

oil crisis in Japan in 1975. At the same time, The Monthly Economic Report in December recognized that the Japanese economy is worsening. In this international financial crisis, triggered by U.S. turmoil in the financial market, the world economy is starting to show signs of a global recession. At the same time, the Japanese economy experienced volatility in its exchange rate. The continuation of severe employment and income situations drastically reduced consumer confidence and personal consumption. The Japanese economy entered into recession since the IT bubble burst 6 years ago. Now we are faced with an unprecedented financial crisis.

As in world economy, since the beginning of this year, an uncertain global economic outlook continues to grow as a world threat. The U.S. mortgage crisis has developed into a major financial issue, which led to a huge reorganization of worldwide financial industry. The situation worsened after the bankruptcy of Lehman Brothers Holdings, which had a record debt in U.S. history, and was the prologue to the bank bailout. This unprecedented international financial crisis, triggered by U.S. turmoil in the financial market, ricocheted to Europe and all over the world. First of all, central banks around the world cut interest rates in unison. It started off a chain reaction of a global downturn in stocks and exchange volatility. Also, such turbulence threatens the real economy, especially in import and export. Finally, the economic crisis is hurting even the emerging countries.

The network security industry is also changing as cyber criminals move from mass attacks to much targeted ones with a specific purpose for monetary gain and data-stealing. At the same time, their target has shifted from the general public to specific targets. As a result, virus infections have decreased. According to the virus infection damage incident report, Japan reported 56,880 infections during this annual term of 2008, a 10.7 percent decrease from 2007, which had 63,726 reports. Web threats, which stem from the Internet and can be deployed unbeknownst to the user by just opening a web page, continues to be a global problem. These threats have been growing in diversification and sophistication; it is predicted that social engineering will become a more prevalent method of infecting users who unknowingly visit a compromised Web site. Malicious attackers take various ways in tricking Internet users to download malicious programs that can steal personal information. They attack to especially low security conscious users for the purpose to monetary value-added information and the money from online banking. As Web Threats expand and become more financially-motivated during an economic downtown and recession, antivirus companies are posed with a great challenge. Under such an environment, our group's business conditions are as follows:

For the world at large, the number of reported infections has recently decreased. Yet, there was a move away from Web attacks that target a large, general audience toward more specific attacks that target a smaller audience. Under these circumstances within the Japan region, both businesses of enterprise and consumer achieved positive growth. ISP-based service businesses experienced an especially healthy growth. Sales for this period in Japan was 39,102 million yen (a 7 percent increase from the same period in previous year), showing the highest growth of all regions.

The U.S. economy, the trigger a global recession, is experiencing economic uncertainty with the turmoil in the financial markets due to the mortgage crisis, sinking housing industry, and also soaring crude oil and natural resource prices. While several major companies were going under, real economy worsened business confidence day by day. Amid such a backdrop of recession in the North American region, renewal business in the consumer market made a strong contribution to U.S. sales. Despite a sharp yen appreciation against the dollar from the same period in previous year, the amount of sales for this period in North America was 26,191 million yen (a 5 percent increase from the same period in previous year,) maintaining profit from past period.

As in the North American region, the European economy worsened due to the turmoil in the financial markets, and the fluctuation of price index caused by soaring oil and raw materials price. Under these circumstances, though sales in this European region for France, Italy, and the Middle East performed the strongest with local currency based, Benelux countries were weak in this period. Moreover, a sharp yen appreciation against Euro affected to this region sales since last autumn. As a result, the sales for this period in the European region came to 23,891 million yen (a 2 percent decrease from the previous period) as slightly decline.

In Asia and Pacific regions, business continued at a steady and brisk pace until mid-year, due mainly to the economic influence of China and India with the economic decoupling theory. However, even this region started to show signs of economic slowdown after

mid-year. Also, a part of the region is still politically unstable. Despite a strong 2008, Australia is also showing signs of economic slowdown. Also other countries in this region have slightly negative growth and local currency remain at low levels. The net sales for this period in the region came to 9,596 million yen (a 10 percent decrease from the previous period) due to a sharp yen appreciation, which attributed to the region's double-digit decline in sales.

As like other regions, the Latin America region may eventually be affected by the U.S. economic slowdown and the fluctuation of price index caused by raw materials price. Because of a strong yen, though Brazil had positive growth, Mexico grew at a negative rate. In this region, net sales came to 2,925 million yen (a 8 percent decrease from the previous period).

As a result, the consolidated net sales for entire year 2008 came to 101,707 million yen (a 2 percent increase from the previous period). Operating expenses totaled 69,903 million yen (this is a 5 percent increase from the previous period) due to the increase in stock-option expense, which has no cash payment, at about 2,200 million yen during the fiscal year 2008, an increase in new employee recruitment, and non-operation expenses involved. The consolidated operating income for this period was 31,803 million yen (a 5 percent decrease from the previous period), the consolidated ordinary income for this period was 33,640 million yen (a 12 percent decrease from the previous period), and the consolidated net income for this period was 19,247 million yen (a 18 percent decrease from the previous period) due to Devaluation loss on investment in securities at about 2,800 million yen.

(2). Projection for the First Quarter of the fiscal year 2009 (from January 1, 2009 to March 31, 2009)

Since the business environment surrounding Trend Micro Group tends to fluctuate in the short run, it is difficult to make a highly reliable projection figures on a yearly basis. We, therefore, have decided to announce the earnings on a quarterly basis in the fiscal year ending in December 2009 as well as earnings projection of the succeeding quarter.

When we find through our calculation conducted from time to time that the net sales will fluctuate from the most recent quarterly projection by more than 10%, or operating income, ordinary income or net income fluctuates by more than 30%, we will announce the revision to the earnings projection.

Business forecast for the First Quarter of FY2009 (January 1, 2009 – March 31, 2009)

Consolidated net sales	22,500 million yen
Consolidated operating income	5,200 million yen
Consolidated ordinary income	5,300 million yen
Consolidated net income	3,200 million yen

In development of the business forecasts the main assumed exchange rates are as follows.

1 US $	90 yen
1 Euro	115 yen

2. FINANCIAL CONDITION ANALYSIS

CONDITION OF ASSETS, LIABILITIES, AND NET ASSETS

Cash and bank deposits at the end of this period amounted to 60,861 million yen, an increase of 6,770 million yen year on year.
Total assets at the end of this period were 178,766 million yen, 22,285 million yen decrease year on year.
On the other hand, total liabilities at the end of this period were 79,920 million yen, 10,401 million yen decrease year over year.
As a result, total net assets at the end of this period were 98,846 million yen, a decrease of 11,884 million yen as compared with the previous period.

CONDITION OF CASH FLOW

(Unit: million yen)

	FY2008	FY 2007	Increase (Decrease)
Cash Flows from Operating Activities	31,475	32,366	(891)
Cash Flows from Investing Activity	10,561	(53,768)	64,329
Cash Flows from Financing Activity	(20,669)	(3,711)	(16,957)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(13,198)	1,284	(14,482)
Net increase (Decrease) in Cash and Cash Equivalents	8,167	(23,829)	31,997
Cash and Cash Equivalents at beginning of period	52,367	76,196	(23,829)
Cash and Cash Equivalents at end of period	60,535	52,367	8,167

[Overview of Cash Flow]

For the cash flows from operating activity for this period, cash inflows decreased by 891 million yen compared with the previous period and the balance was ended with a surplus of 31,475 million yen. This decrease in cash inflows is mainly due to a substantial decrease in net income before tax for this period, in spite of both increase in Devaluation loss on investment in securities which has no cash outflows and a decrease in Notes and Accounts receivable.

For the cash flows from investing activity, cash inflows increased by 64,329 million yen compared with the previous period and the balance was ended with a surplus of 10,561 million yen. This increase in cash inflows is mainly due to substantial decrease in payments for purchase of marketable securities and security investments.

For the cash flows from financing activity, cash outflows increased by 16,957 million yen compared with the previous period and the balance was ended with a deficit of 20,669 million yen. This increase in cash outflows is mainly due to a decrease in proceeds from issuance of common shares and increase in payment for purchase of treasury stock and dividends paid.

Taking these increases and decreases and the effect of exchange rate changes on cash and cash equivalents into account, the cash and cash equivalents at the end of this period was 60,535 million yen and was increased by 8,167 million yen compared with the previous period.

[Trends of Cash Flow Indexes]

(Japan GAAP)

	FY2006	FY2007	FY2008
Shareholder's equity Ratio (%)	54.4	54.3	53.2
Capital Adequacy Ratio on Market Value Basis (%)	279.4	268.7	230.9
Debt Redemption Period (years)	-	-	-
Interest Coverage Ratio	1,907.7	2,334.8	9,236.6

(U.S .GAAP)

	FY2003	FY2004	FY2005
Shareholder's equity Ratio (%)	54.1	59.2	61.6
Capital Adequacy Ratio on Market Value Basis (%)	462.2	690.0	449.9
Debt Redemption Period (years)	0.4	-	-
Interest Coverage Ratio	103.3	218.2	5,566.4

(Note)

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

*All indexes are calculated from the financial statement amounts on a consolidated basis.

*"Total Market Value of Shares" is calculated as follows; "closing share price at the term end" multiplies by "number of shares issued at the term end "(net of treasury shares).

*"Operating Cash Flow" is "Net cash flows provided by operating activity" in the consolidated statement of cash flows.

"Interest-bearing Debt" is all debts with interest payments among the debts reported in the consolidated balance sheet.
"Interest Payment" is the amount of payment for interest expense in the consolidated statement of cash flows
*With the enforcement of the revision of "Rules on the terms, forms and making method of a consolidated financial statement" in March 2002, the consolidated financial statements have been prepared based on U.S. GAAP from the year ended December31, 2003 to the year ended December31, 2005.

3. BASIC POLICY OF PROFIT SHARING

We intend to continue to return profits to shareholders based on the net profit on a consolidated basis while striving to enhance financial strength and secure internal reserve in order to deal with significantly changing business environment and maintain competitive edge against competitors. As our basic policy about dividend, we plan to pay a year-end dividend on the basis of the dividend ratio of 60% excluding the effect of stock option compensation expenses. We will add stock option expenses back to accounting net income for pay-out calculations.

4. RISK FACTORS

The occurrence of any of the following risks could affect our business, financial condition or results of operations. In such case, the trading price of our shares could decline and you could lose all or part of your investment. Other risks and uncertainties not now known to us or that we think are immaterial may also impair our business.

MAJOR SOFTWARE AND HARDWARE VENDORS MAY INCORPORATE ANTIVIRUS PROTECTION IN THEIR PRODUCT OFFERINGS, WHICH COULD RENDER OUR PRODUCTS OBSOLETE OR UNMARKETABLE.

Major vendors of operating system software and other software such as firewall or e-mail software or computer hardware may decide to enhance or bundle their products with their other products to include antivirus functions. These companies may offer antivirus protection as a standard feature in their products, at minimal or no additional cost to customers. This could render our products obsolete or unmarketable, particularly if antivirus products offered by these vendors were comparable or superior to our products. In addition, even if these vendors' antivirus products offered fewer functions than our products, or were less effective in detecting and cleaning virus-infected files, customers could still choose them over our products due to lower cost or for any other reasons.

Microsoft Corp., a major operating system vendor, has acquired several security vendors such as GeCAD Software Srl., an antivirus software vendor in Romania. Microsoft Corp. has launched antivirus products or services such as "Microsoft® Windows Vista™," a line of operating systems with improve the state of security, since January 2007. Also they started the service for enterprise business named "Microsoft® Forefront™ Client Security" since July 2007. Moreover, they will plan to provide a more nimble version of the security software for malware as a free download by the end of the 2009. If antivirus functions were to be included in its operating system products by Microsoft Corp., this could have a material adverse effect on our business, financial condition and results of operations.

BECAUSE WE GENERATE SUBSTANTIALLY ALL OF OUR SALES FROM A SINGLE PRODUCT LINE, WE ARE VULNERABLE TO DECREASED DEMAND FOR SUCH PRODUCTS.

Because our main businesses focus is our net sales from licensing and selling antivirus software products. Although we have begun to offer more comprehensive network and internet security and management software and services, we expect antivirus products to continue to account for the largest portion of our net sales for the foreseeable future. If the demand for, or the prices of, antivirus products drop as a result of competition, technological change or other factors such as lower growth or a contraction in the worldwide antivirus software market, this could have a material adverse effect on our business, financial condition and results of operations.

OUR PRODUCTS MAY BECOME OBSOLETE BECAUSE RAPID TECHNOLOGICAL CHANGE REGULARLY OCCURS IN THE ANTIVIRUS SOFTWARE MARKET.

The antivirus software market is characterized by:

• rapid technological change;
• the proliferation of new and changing computer viruses;
• frequent product introductions and updates; and
• changing customer needs.

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

OUR HARDWARE-BASED PRODUCTS FACE MANUFACTURING AND INVENTORY RISKS.

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

WE MAY NOT GENERATE EXPECTED RESULTS IN STRATEGIC ALLIANCES

Because we are mainly focusing our business on the field of antivirus software and do not offer other security products such as firewalls, we actively pursue strategic alliances with other companies that allow us to provide customers with integrated or other new products and services derived from the alliances. In fiscal year 2004, we began to provide a third party URL filtering solution and have signed contracts with Cisco Systems and their subsidiary named Linksys to integrate our solutions for Web Threats with their products and services. To launch and provide such products and services, we may invest substantial cash and other resources in product developments, marketing promotions and support and maintenance activities. But we may not earn revenue successfully from alliances despite our efforts, and such alliance may be terminated or dissolved by various causes before generating revenue.

WE MAY NOT BE ABLE TO INCREASE OUR MARKET SHARE IN THE U.S. AND EUROPEAN MARKETS BECAUSE OUR COMPETITORS ARE MORE ESTABLISHED THAN WE ARE IN THESE MARKETS.

We believe that our share of the antivirus software market in the U.S. and Europe is significantly smaller relative to the market shares of our principal competitors, despite the growth of our sales in these markets. Because our competitors are already well-established in these key markets and have greater financial and other resources and brand recognition, we may not be able to compete effectively for market share. If this happens, we may not be able to increase sales or our market share in these markets, which could materially hurt the prospects for growth in our business.

Some of our major competitors have the following advantages over us in the U.S. and European markets:

• greater name recognition;

• more diversified product lines;

• larger customer bases; and

• significantly greater financial, technical, marketing and other resources.

As a result, as compared to us, our competitors may be able to:

• better withstand downturns in the antivirus software market and in the computer software market in general;

• adapt more quickly to new or emerging technologies or changes in customer requirements; or

• more effectively and profitably market, sell and support their products.

THE POSIBILITY OF DECRESE SALES AND MARKET SHARE IN OUR CORE JAPANESE MARKET IF OUR COMPETITORS ACHIEVE SUCCESS IN JAPAN.

Our major competitors, McAfee, Inc. and Symantec Corporation, are active in the Japanese antivirus software market and have allocated significant resources to achieve success in the Japanese antivirus software market. Additionally, competition in our core Japanese market could intensify in the future if other competitors emerge. As a result of our competitors' efforts, we may not be able to maintain our current leading market position in Japan in the future. Also, in order to respond effectively to increased competition, we may be required to devote more of our product development, marketing and other resources to the Japanese market, which could limit our ability to grow in other markets. A material loss of sales and market share in Japan as a result of our competitors' success could have a material adverse effect on our business, financial condition and results of operations.

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

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

•our inability to retain customers, suppliers and other important business relationships of an acquired business;

•difficulties in integrating an acquired company into Trend Micro, including the acquired company's operations, personnel, products and information systems;

•diversion of our management's attention from other business concerns; and

•adverse effects on our results of operations from acquisition-related charges, impairment of goodwill and purchased technology and possible recognition of impairment charge.

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

For example, in 2000, we acquired ipTrend to start a new business selling a Linux based remotely managed server appliance solution to small and medium sized companies. However, ipTrend performed poorly and was liquidated in December 2001. Due to the liquidation of ipTrend, (Yen) 2.3 billion was booked as goodwill write-off in 2001.

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

We may be more susceptible to problems caused by hackers than other software companies. As an antivirus software company that delivers virus protection products over the Internet, hackers specifically target us in order to cause us to transmit computer viruses or interrupt the delivery of our antivirus software monitoring and security services over the internet which could result in further interruptions. We could suffer substantial disruptions in our business and material damage to our reputation which could in turn result in a significant loss of our customers and other important business relationships. We could also incur costs for public relations efforts following attacks by hackers. Hacker activities could also force us to incur substantial costs to fix technical problems or result in hackers gaining access to our proprietary information.

WE FACE NEW RISKS RELATED TO OUR ANTI-SPAM AND ANTI-SPYWARE SOFTWARE PRODUCTS.

Our anti-spam and anti-spyware products may falsely identify emails or programs as unwanted “spam” or “potentially unwanted programs,” or alternatively fail to properly identify unwanted emails or programs, particularly as “spam” emails or spyware are often designed to circumvent anti-spam or spyware products. Parties whose emails or programs are blocked by our products may seek redress against us for labeling them as “spammers” or spyware, or for interfering with their business. In addition, false identification of emails or programs as unwanted “spam” or “potentially unwanted programs” may reduce the adoption of these products.

WE MUST EFFECTIVELY MANAGE OUR GROWTH.

Our business has grown rapidly. This growth has placed, and any future growth would continue to place, a significant strain on our limited personnel, management and other resources. Our ability to manage any future growth in our business will require us to:

• attract, train, retain, motivate and manage new employees successfully;
• effectively integrate new employees into our operations; and
• continue to improve our operational, financial, management and information systems and controls.

If we continue to grow, our management systems currently in place may be inadequate or we may not be able to effectively manage our growth. In particular, we may be unable to:

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

WE SELL OUR PRODUCTS THROUGH INTERMEDIARIES WHO MAY NOT VIGOROUSLY MARKET OUR PRODUCTS, OR MAY RETURN OUR PRODUCTS.

We market substantially all of our products to end users through intermediaries, including distributors, resellers and value-added resellers. Our distributors sell other products that are complementary to, or compete with, our products. While we encourage our distributors to focus on our products, these distributors may give greater priority to products of other suppliers, including competitors’. They may also return the products to us under certain circumstances.

OUR CUSTOMERS MAY CANCEL OR DELAY THEIR PURCHASES OF OUR PRODUCTS, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

Our products may be considered to be capital purchases by certain enterprise customers. Capital purchases are often uncertain and, therefore, are canceled or delayed if the customer experiences a downturn in its business prospects or as a result of unfavorable economic conditions. Any cancellation or delay could adversely affect our results of operations.

WEAK FINANCIAL CONDITIONS OF SOME OF OUR DISTRIBUTORS MAY ADVERSELY AFFECT OUR OPERATING RESULTS.

Some of our distributors are experiencing financial difficulties worldwide, which may adversely impact our collection of accounts receivable. We regularly review the collectability and creditworthiness of our distributors to determine an appropriate allowance for doubtful receivables. Our uncollectible accounts could exceed our current or future allowance for doubtful receivables, which would adversely impact our operating results.

OUR RESULTS OF OPERATIONS MAY SUFFER IF WE ARE REQUIRED TO PAY SIGNIFICANT AMOUNTS OF PENALTY PAYMENTS PURSUANT TO THE TERMS OF OUR SERVICE LEVEL AGREEMENTS.

We guarantee a certain quality of product support to our customers through our service level agreements. Pursuant to the terms of these agreements, under some circumstances, we are required to make penalty payments to our customers. For example, if we fail to provide our customers a virus pattern file within two hours of our receipt of a virus from the customer, the terms of the agreement require us to make a penalty payment to the dissatisfied customer which may amount up to 20% of the initial sale price. We have established reserves based on our assumptions and estimates. However, our assumptions and estimates may be wrong and our actual total penalty payments could materially exceed our reserves and adversely affect our results of operations and financial condition.

WE RELY HEAVILY ON OUR MANAGEMENT AND TECHNICAL PERSONNEL, WHO MAY NOT REMAIN WITH US IN THE FUTURE.

We rely, and will continue to rely, on a number of key technical and management employees, including our Chief Executive Officer, Eva Yi-Fen Chen. While we require our employees to sign employment agreements, our employees are generally not otherwise subject to non competition covenants. If any of our key employees leave, our business, results of operations and financial condition could suffer.

FLUCTUATIONS IN OUR QUARTERLY FINANCIAL RESULTS COULD CAUSE THE MARKET PRICE FOR OUR SHARES TO BE VOLATILE.

We believe that our quarterly financial results may fluctuate in ways that do not reflect the long-term trend of our future financial performance. It is likely that in some future quarterly periods, our operating results may be below the expectations of public market analysts and investors. In this event, the price of our shares could fall.

Factors which could cause our quarterly financial results to fluctuate include:

•timing of sales of our products and services due to customers' budgetary constraints, seasonal buying patterns and our promotional activities;

•new product introductions by our competitors;

•significant marketing campaigns, research and development efforts, employee hiring, and other capital expenditures by us to drive the growth of our business;

•changes in customer needs for antivirus software; and

•changes in economic conditions in our major markets.

WEAKNESS IN THE WORLD ECONOMY MAY HURT OUR BUSINESS PERFORMANCE.

We expand our business operations worldwide. Though we still remain significantly dependent on the Japanese market now, our sales in the US and Europe have increased in recent years. Net sales in those three segments total accounted for approximately 61 percent in fiscal 2006, approximately 63 percent in fiscal 2007 and approximately 62 percent of our net sales in fiscal 2008. Because of our dependence on the global market, any deterioration in the condition of the world economy could negatively impact our net sales.

FOREIGN EXCHANGE FLUCTUATIONS COULD LOWER OUR RESULTS OF OPERATIONS BECAUSE WE EARN REVENUES DENOMINATED IN SEVERAL DIFFERENT CURRENCIES.

Our reporting currency is the Japanese yen and the functional currency of each of our subsidiaries is the currency of the country in which the subsidiary is domiciled. However, a significant portion of our revenues and operating expenses is denominated in currencies other than the Japanese yen, primarily the US dollar, euro and the New Taiwan dollar. As a result, appreciation or depreciation in the value of other currencies as compared to the Japanese yen could result in material transaction or translation gains or losses which could reduce our operating results. These negative effects from currency fluctuations could become more significant if we are successful in increasing our sales in markets outside of Japan.
Also, we have a portion of foreign currency- marketable securities for fund management. Those values will be affected by the ups and downs of exchange rate, and significant currency fluctuations could hurt our corporate earnings significantly.
We do not currently engage in currency hedging activities.

FINANCIAL MARKET FLUCTUATIONS COULD LOWER OUR RESULTS OF OPERATIONS.

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

INFRINGEMENT OF OUR INTELLECTUAL PROPERTY COULD HURT OUR BUSINESS.

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

PRODUCT LIABILITY CLAIMS ASSERTED AGAINST US IN THE FUTURE COULD HURT OUR BUSINESS.

Our products are designed to protect customers' network systems and personal computers from damage caused by computer viruses. As a result, if a customer suffers damage from viruses, the customer could sue us on product liability or related grounds, claim damages for data loss or make other claims. Additionally, as viruses are constantly evolving, purchasers of our software products must regularly update the software they have purchased from us with virus protection files that we make available for download from our website. Should we fail to properly test these virus protection files and distribute a defective file, these files could cause damage to the personal computers of our customers who have downloaded a defective file. In addition, our hardware products as a defective appliance could cause damage to human lives, health, and the personal properties of our customers who have used a defective appliance. As a result, if a customer suffers damage from our products, the customer could sue us on product liability or related grounds, claim damages for data loss or make other claims. Our license agreements typically contain provisions, such as disclaimers of warranty and limitations of liability, which seek to limit our exposure to certain types of product liability claims. However, in some jurisdictions these provisions may not be enforceable on statutory, public policy or other grounds. In the case of losing such a law suit, there is a possibility that the case brought against it, and suit filed by our services and products user with brought an action for damages and recovery of pain and suffering damages, could have a material adverse effect on our business.

THE POSSIBILITY OF PRODUCT RECALL.

Tough we should have a properly test and inspection that is performed before our virus protection files and products are shipped, our virus protection files and distribute a defective files could cause damage to the personal computers of our customers who have downloaded a defective file. In addition, our hardware products as a defective appliance could cause damage to human lives, health, and the personal properties of our customers who have used a defective appliance. As a result, we could order a recall of products at the discretion of company.

OUR BUSINESS FACES THE RISK OF EFFECT FROM VIOLATION OR AMMENDMENT OF THE LAW AND THE LEGAL ACT.

All our business would be under various laws, legal acts, and regulations in each country and each region. If we would fail to comply with those laws and regulations, it would provide more severe administrative guidance and penal regulations. In such a case, there is the possibility to have a material adverse effect on our operating results. Also, in the case of the laws and regulations legal amendments, there are the possibilities to be tightening regulations and restrictions on our products and services and carry a cost in terms of relevant issues. In such a case, our business may have a material adverse effect on our operating results.

OUR BUSINESS FACES THE RISK OF INTERRUPTION FROM POWER SHORTAGES, EARTHQUAKES, OUTBREAK OF BIOLOGICAL VIRUSES AND OTHER HAZARDS.

We face a number of potential business interruption risks that are beyond our control. The State of California experienced intermittent power shortages in 2000, sharp increases in the cost of energy and even interruptions of service to some business customers. If power shortages continue to be a problem, our business may be materially adversely affected. Additionally, we may experience natural disasters that could interrupt our business.

Tokyo, where our corporate headquarter is located, is near a major earthquake fault. The impact of a major earthquake on our facilities, infrastructure and overall operations is not known. There is no guarantee that an earthquake would not seriously disturb our entire business operations. We are largely uninsured for losses and business disruptions caused by an earthquake and other natural disasters.

In addition, many of the key countries and regions in which we operate have sustained negative economic impact from events such as the continued fear of future terrorist attacks and the outbreak of severe acute respiratory syndrome, or SARS. Prolonged continuation of these adverse factors may hurt our results of operations and financial condition.

BECAUSE OF THE INFLUENCE OF OUR PRINCIPAL SHAREHOLDERS, OUR OTHER SHAREHOLDERS MAY BE UNABLE TO INFLUENCE OUR BUSINESS.

Our principal shareholders, including major shareholders who beneficially own more than 5% of the issued shares of our common stock and directors, beneficially owned approximately 39.5% of our outstanding shares as of December 31, 2008. These shareholders, if they act together, would be able to significantly influence all matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other business combination transactions. Our principal shareholders may have strategic or other interests that conflict with the interests of our other shareholders. As a result, the concentration in our shareholdings may have the effect of delaying or preventing a change in control of Trend Micro, which could result in the loss of a significant financial gain to our shareholders.

OUR STOCK PRICE IS VOLATILE, AND INVESTORS BUYING THE SHARES MAY NOT BE ABLE TO RESELL THEM AT OR ABOVE THEIR PURCHASE PRICE.

Shares of our common stock are traded on the Tokyo Stock Exchange. Recently, the Japanese securities markets have experienced significant price and volume fluctuations. The market prices of securities of high-tech companies, and internet companies in particular, have been especially volatile. Since trading in our shares commenced on the Tokyo Stock Exchange on August 17, 2000, our stock price has fluctuated between a low of (Yen) 1,440 and a high of (Yen) 9,005. The closing price on the Tokyo Stock Exchange for our stock on December 30, 2008 was (Yen) 3,090. The market price of our shares is likely to fluctuate in the future.

BECAUSE OF DAILY PRICE RANGE LIMITATIONS UNDER JAPANESE STOCK EXCHANGE RULES, YOU MAY NOT BE ABLE TO SELL YOUR SHARES OF OUR COMMON STOCK AT A PARTICULAR PRICE ON ANY PARTICULAR TRADING DAY, OR AT ALL.

Stock prices on Japanese stock exchanges are determined on a real-time basis by the equilibrium between bids and offers. These exchanges are order-driven markets without specialists or market makers to guide price formation. To prevent excessive volatility, these exchange set daily upward and downward price fluctuation limits for each stock, based on the previous day's closing price. Although transactions may continue at the upward or downward limit price if the limit price is reached on a particular trading day, no transactions may take place outside these limits. Consequently, an investor wishing to sell at a price above or below the relevant daily limit may not be able to sell his or her shares at such price on a particular trading day, or at all.

2. Condition of corporate group

Trend Micro Group consists of Trend Micro Inc. (Japan), and its subsidiaries which develop and sell anti-virus products and offer other related services. Affiliated companies are Soft Trend Capital Corporation which manages capital funds to be invested into Internet-related ventures and NetSTAR Inc. which develops and offers URL filtering products.

(1) Development and sales of anti-virus products

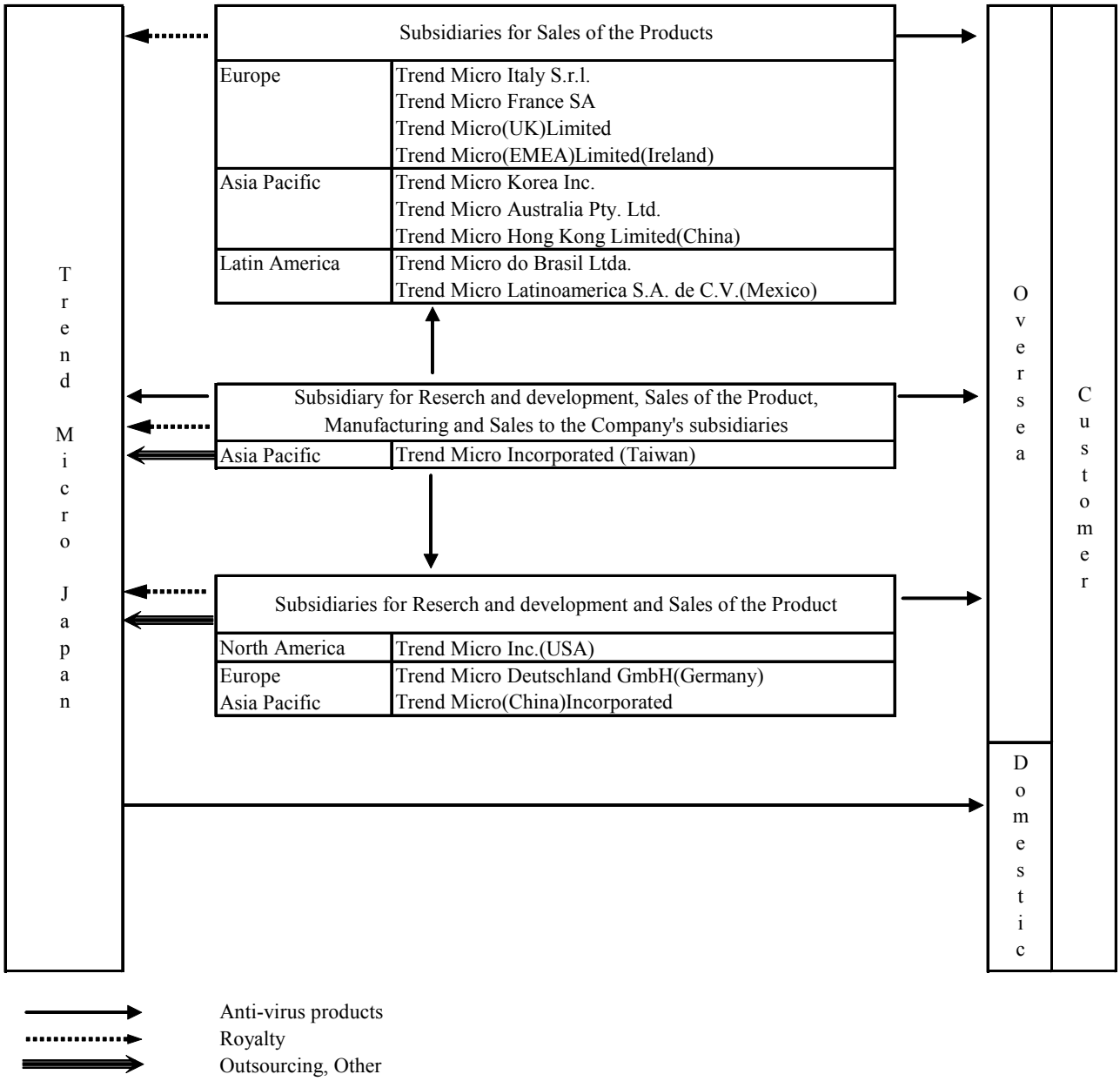
Products related to anti-virus:

PC client products　LAN server products　Internet server products　All Suite products　Other products

The business functions in Trend Micro Group are described below.

Function	Operating Segment	Main companies
Research and development	Japan	Trend Micro Inc.(Japan)
	North America	Trend Micro Inc.(U.S.A.)
	Europe	Trend Micro Deutschland GmbH (Germany)
	Asia Pacific	Trend Micro Incorporated (Taiwan) Trend Micro(China)Incorporated
Manufacturing of the Products	Asia Pacific	Trend Micro Incorporated (Taiwan)
Sales of the Products	Japan	Trend Micro Inc.(Japan)
	North America	Trend Micro Inc.(U.S.A.)
	Europe	Trend Micro(EMEA)Limited (Ireland) Trend Micro Deutschland GmbH (Germany) Trend Micro Italy S.r.l. Trend Micro France SA Trend Micro(UK)Limited
	Asia Pacific	Trend Micro Incorporated (Taiwan) Trend Micro Korea Inc. Trend Micro Australia Pty. Ltd. Trend Micro Hong Kong Limited (China) Trend Micro(China)Incorporated
	Latin America	Trend Micro do Brasil Ltda. Trend Micro Latinoamerica S.A. de C.V.(Mexico)
Back office	Europe	Trend Micro(EMEA)Limited (Ireland) Trend Micro EMEA(GB)Limited (UK)
	Latin America	Servicentro TMLA, S.A. de C.V.(Mexico)

In addition, Trend Micro Inc. (Japan) owns software copyrights and receives from its overseas subsidiaries royalties based on the respective sales of products to such subsidiaries.



（Note） All Subsidiaries are consolidated

The Company omits “Condition of subsidiaries”, because there has no significant change from latest Annual security report (issued on March 28, 2008).

(2) Other related service

Other related services are offered by Soft Trend Capital, which manages capital funds to be invested into Internet-related ventures and NetStar Inc., which develops and offers URL filtering products.

3. MANAGEMENT POLICY

(1). BASIC POLICY OF MANAGEMENT

Our Vision : To create a world safe for exchanging digital information.

Our Mission: We ensure digital operational continuity against unpredictable threats.

Computer networks, mainly those linked to the internet, have become a global infrastructure, as lifelines of the information society regardless of individual, business or national border. In the information society which is flooded with vast amounts of information, the computer network systems are used as communication methods comparable to telephones and faxes, and as a means to improve and rationalize business process for companies in recent years, and the systems play a role in improving productivity and efficiency. Today many companies and individuals are being connected via the internet and it has produced various working styles, such as small offices and home offices, which enable employees to work in remote locations and in business forms that establish data management operations and customer support operations, etc. in areas where the cost of labour is relatively low beyond the confines of country, industry, business form. The diffusion of networks on a global scale has already become the foundation for the global economy with the elimination of the geological restrictions of business activities.

In typical homes there are many devices with internet functions, and the fusion of home appliance and IT is emerging as a result of the breadth of technologies deployed through Information Communications Technology devices, mobile phones, video game consoles, IP telephone, and peer-to-peer (P2P) as file-sharing programs, broadband high-speed communication technology and wireless communication technology. In-home networks have become increasingly popular, often with several internet devices in each household, and our daily life is evolving, influenced by the advanced information society.

In a 2008 white paper on information and communication in Japan, related by the Internal Affairs and Communications Minister on July 11, 2008 stated that the effect of ubiquitous networks to the economic growth of information and communication technology in the capital in each prefecture showed significantly positive index in all prefectures with the contribution rate exceeding 50 percent in 35 prefectures. Now the ubiquitous networks affect the economic growth in each prefecture, the global competitiveness, and the people's livelihood. At the same time, ubiquitous networks become a part of the economic and social activity. Today's computer network systems have much impact on the global economy and the whole society to bring about changes in business forms and individual lifestyles around the world. When we think about the changes of our life from the viewpoint of information, the benefit of worldwide networking cannot be overestimated. Non standardized manufacturing as the obstacle to digital information exchange have gradually disappeared, and as a consequence, improvements in compatibility and convenience are achieved. On the other hand, with the disappearance of diversity, the possibility to use vulnerabilities for attacking the whole network system by computer viruses is acknowledged as a problem. With the standardization of the global infrastructure network, the convenience enabled by internet and the risks associated with it are two sides of the same coin. Crimes carried out through the manipulation of computer networks, such as phishing, theft of proprietary information and virus incidents, could have significant impact on our daily life and economic activities. Today, the threats on the network such as computer viruses, spyware and spam are not of the nature that can be predicted beforehand and treated with all possible measures. It seems there is now a requirement for enterprises and individuals to deploy security measures against Web threats which make the very act of browsing the Internet risky. Cyber crimes which are increasing, causing theft of proprietary information, and monetary damages.

Trend Micro sees a great responsibility in protecting the global infrastructure. As a company, we will provide globally-relevant products and services that cover multiple areas of network security such as vulnerability prevention, risk management, outbreak prevention, timely update of solution for virus/ spyware / spam, as well as Web threats, assessment and restoration. We are not only protecting enterprises and individual users from the threats over the networks without interrupting economic activities and usability, but we would also like to contribute to the further development of the information society by improving the safety of the whole network system.

(2). TARGET MANAGEMENT INDEX

According to a research institute, the security industry that we belong to, is estimated to expand at an annual growth rate of around 11percent from 2008 to 2012 (December 2008, IDC, USA). Making the growth rate of our consolidated net sales to exceed the industry average without fail is an important index that tells us whether or not we can grow to become a leading company that can contribute to customers both in the Japanese and the global market. In view of the fact that we have a relatively small amount of investments in physical fixed assets such as manufacturing equipment, have no significant time-lag between accounting profit and loss and cash flows as a characteristics of software companies, and have uncertainty about the long-term forecast of the whole industry which, including our company, has a relatively short history, we set target as operating income margin rate of 35 – 40percent at this time.

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

Today, computers and the Internet are used by every person and in all types of location in every country across the world. Computers and the Internet have already become a firmly rooted part of our life and society.

In terms of recent Web threats, the specific targeted attacks on major companies or peoplein the world are increasing. Unlike past trends, the amount of virus infection damages has been increasing in contradiction to the number of damage incident reports. Under such circumstances, the security business is becoming increasingly important to the world.

In the network environment, the development of not only personal computers, but also network devices, means application programs and the intended use for variable users have become diversified. As a result, there is no longer a single solution that can protect against all the different threat environments. Moreover the competition in the security market has changed, becoming more intensive with new entries.

And we recognize that these changes are business opportunities.

As Web threats increase, non-conventional security solutions will be required.

Trend Micro will provide our future core technology named “Trend Micro Smart Protection Network™” around the world. “Trend Micro Smart Protection Network™” checks files, emails and URLs against Trend's continuously updated and correlated threat databases in-the-cloud technology, ensuring that you are immediately and automatically protected from the latest threats. “Trend Micro Smart Protection Network™” reduces reliance on conventional pattern file downloads and eliminates the delays commonly associated with desktop updates. Businesses benefit from increased network bandwidth, reduced processing power, and associated cost savings. “Trend Micro Enterprise Security” is a tightly integrated offering of content security products, services, and solutions for enterprises concerned about staying ahead of the latest threats. Together, “Trend Micro Smart Protection Network™” and “Trend Micro Enterprise Security” reduce management complexity, delivering lower business risks and costs than traditional offerings. Our customers also benefit from TrendLabs, a global network of research, service and support centers that is committed to constant threat surveillance and attack prevention. In addition, we have the resources of the regional TrendLabs, which allows us to respond to new threats in real time, in native language, thereby establishing threat leadership in each region.

Moreover, we will continue to advance business relationships with our partners, adding value and providing more diverse, customizable and scalable solutions for our customers. With such a co-operation with partners, research focused on local threats by Regional TrendLabs, and our consolidated multilayered defence strategy, we respond to current Web threats, providing protection through customizable and scalable solutions.

(4). ISSUES TO DEAL WITH

In the antivirus industry, there have been two competitors gaining a respectable degree of market share in the U.S. In addition to our direct competitors, Microsoft Corporation, a major operating system software vendor, has entered into the security market. We anticipate that their presence in the security market will make the competition in the market more intense.
Microsoft Corporation has launched “Microsoft® Windows Vista ™,” a new OS which is said to have an enhanced security function, across the globe in January 2007. Microsoft Corporation announced last year they would discontinue selling “Windows Live ™ OneCare ™,” a subscription-based security service for consumers launched in May 2006 in the U.S. Instead, Microsoft is planning at the end of the year to offer the software for free. At the same time, Microsoft began offering a service called “Microsoft® Forefront ™ Client Security” for corporate users in July 2007.

In response to such intense competition, we are enhancing our wide range of technologies to better combat the latest Web threats through the acquisition of InterMute Inc. in 2005 for antispyware technologies; Kelkea Inc. in 2005 for IP filtering and reputation services; Provilla, Inc. in 2007 for data leak prevention (DLP); and Identum in 2008 for email encryption technology.
Through a series of acquisitions above organically-bonded, Trend Micro plans to provide services and products through a next generation cloud-client content security infrastructure called the "Trend Micro Smart Protection Network", designed to protect customers from Web threats, from March 2009. Trend Micro Smart Protection Network correlates Web, email and file threat data using reputation technologies and continuously updated in-the-cloud threat databases to detect, analyse and protect customers from the latest threats. By introducing fast, real-time security status “look-up” capabilities in-the-cloud, Trend Micro reduces dependence upon conventional pattern file downloads on the endpoint, as well as the cost and overhead associated with corporate-wide pattern deployments. Trend Micro will advance as an innovative company without sticking to former ways and conventional measure
We, an expert in the antivirus area, have formed several alliances with some of the most respected names in the IT industry including Linksys, a subsidiary of Cisco Systems, Inc., and a worldwide leader in networking for the internet. Linksys has been either bundling or integrating Trend Micro security solutions into select Linksys routers since May 2008. We believe this kind of alliance is important for our product and sales strategies. It will make our products more competitive in the marketplace and it will supplement the sales channel for both vendors involved.
We will continue to concentrate management resources on developing original, high-performance solutions that address customer pain points faster than the competitors. . At the same time, we continue to pursue long-term growth with a stable financial foundation, strengthen our commitment to customers, as well as develop marketing campaigns that target customer needs and customer buying behaviour.

4. CONSOLIDATED FINANCIAL STATEMENTS

(1) Consolidated Balance Sheets

(Millions of yen)

Account		December 31, 2007		December 31, 2008	
		Amount	%	Amount	%
(Assets)					
I Current assets					
1. Cash and bank deposits		54,091		60,861	
2. Notes and Accounts receivable, trade		26,672		22,064	
3. Marketable securities		58,021		45,923	
4. Inventories		525		402	
5. Deferred tax assets		10,734		13,390	
6. Others		4,606		2,946	
Allowance for bad debt		(828)		(335)	
Total current assets		153,824	76.5	145,253	81.3
II Non-current assets					
1. Property and equipment					
(1) Office furniture & equipment	*1	3,855		3,566	
(2) Others	*1	954		969	
Total Property and equipment		4,809	2.4	4,535	2.5
2. Intangibles					
(1) Software		2,873		2,903	
(2) Goodwill		2,790		2,096	
(3) Others		1,318		466	
Total intangibles		6,982	3.5	5,467	3.1
3. Investments and other non-current assets					
(1) Investment Securities		27,328		13,491	
(2) Investments in subsidiaries and affiliates		268		284	
(3) Deferred tax assets		7,135		8,870	
(4) Others		717		862	
Allowance for bad debt		(15)		—	
Total investments and other non-current assets		35,435	17.6	23,509	13.1
Total non-current assets		47,227	23.5	33,513	18.7
Total assets		201,052	100.0	178,766	100.0

(Millions of yen)

Account		December 31, 2007		December 31, 2008	
		Amount	%	Amount	%
(Liabilities)					
I Current liabilities					
1. Accounts payable and Notes payable, trade		775		656	
2. Accounts payable, other		2,868		2,806	
3. Accrued expenses		3,924		3,479	
4. Accrued income and other taxes		9,223		3,901	
5. Allowance for bonuses		1,345		994	
6. Allowance for sales returns		641		743	
7. Deferred revenue		54,620		50,278	
8. Others		2,971		948	
Total current liabilities		76,371	38.0	63,808	35.7
II Long-term liabilities					
1. Deferred revenue		12,833		14,887	
2. Allowance for retirement benefits		1,098		1,211	
3. Others		17		12	
Total long-term liabilities		13,949	6.9	16,111	9.0
Total liabilities		90,321	44.9	79,920	44.7
(Net assets)					
I Shareholders' equity					
1. Common stock		17,838		18,386	
2. Additional paid-in capital		20,561		21,108	
3. Retained earnings		83,116		87,288	
4. Treasury stock, at cost		(15,140)		(21,798)	
		106,375	52.9	104,984	58.7
II Valuation and translation adjustments					
1. Net unrealized gain (loss) on debt and equity securities		(39)		(3,286)	
2. Foreign currency translation adjustments		2,827		(6,601)	
		2,788	1.4	(9,888)	(5.5)
III Share acquisition rights		1,550	0.8	3,745	2.1
IV Minority interest		16	0.0	4	0.0
Total net assets		110,730	55.1	98,846	55.3
Total liabilities and net assets		201,052	100.0	178,766	100.0

(2)Consolidated Statements of Income

(Millions of yen)

		For the year ended December 31, 2007		For the year ended December 31, 2008	
		Amount	%	Amount	%
I Net Sales		99,805	100.0	101,707	100.0
II Cost of sales		17,220	17.3	15,748	15.5
Gross profit		82,584	82.7	85,958	84.5
III Operaring expenses	*1,2	49,108	49.2	54,155	53.2
Operating income		33,476	33.5	31,803	31.3
IV Non-operating incomes					
1. Interest income and dividend received		2,969		2,924	
2. Gain on sales of marketable securities		2,521		93	
3. Equity in earnings of affiliated companies		63		63	
4. Other income		276		322	
Total non-operating income		5,831	5.9	3,403	3.3
V Non-operating expenses					
1. Interest expenses		13		3	
2. Loss on sales of markerable securities		71		730	
3. Foreign exchange loss		1,001		656	
4. Other expense		123		176	
Total non-operating expense		1,210	1.2	1,566	1.5
Ordinary income		38,096	38.2	33,640	33.1
VI Extraordinary gain					
1. Legal settlement		—		358	
2. Reversal of Bad debt provision		33		—	
3. Reversal of Stock acquisition rights		5		20	
Total extraordinary gain		39	0.0	378	0.4
VII Extraordinary losses					
1. Loss on disposal of fixed assets	*3	35		—	
2. Devaluation loss on investment in securities		114		2,892	
3. Legal settlement		—		248	
Total extraordinary losses		150	0.1	3,141	3.1
Net income before taxes		37,985	38.1	30,878	30.4
Income taxes:					
Current		17,885		14,808	
Deferred		(3,467)		(3,182)	
		14,417	14.5	11,626	11.4
Minority interest in income of consolidated subsidiaries		5	0.0	4	0.0
Net income		23,561	23.6	19,247	18.9

(3)Consolidated Statements of Changes in Net Assets

From January 1, 2007 to December 31, 2007 (Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2006	13,479	16,202	70,779	(14,166)	86,294
Movement for this period					
Issuance of new stock	4,239	4,238			8,477
Transfer from stock warrant	120	120			240
Dividend of surplus			(11,158)		(11,158)
Net income			23,561		23,561
Sales of treasury stock			(67)	1,572	1,505
Purchase of treasury stock				(2,546)	(2,546)
Movement for this period excluding shareholders' equity					
Total movement	4,359	4,358	12,336	(974)	20,080
Balance as of December 31, 2007	17,838	20,561	83,116	(15,140)	106,375

	Valuation and translation adjustments		Stock acquisition rights	Minority interest	Total net assets
	Net unrealized gain (loss) on debt and equity securities	Foreign currency translation adjustments			
Balance as of December 31, 2006	978	2,929	425	6	90,635
Movement for this period					
Issuance of new stock					8,477
Transfer from stock warrant					240
Dividend of surplus					(11,158)
Net income					23,561
Sales of treasury stock					1,505
Purchase of treasury stock					(2,546)
Movement for this period excluding shareholders' equity	(1,017)	(102)	1,125	9	15
Total movement	(1,017)	(102)	1,125	9	20,095
Balance as of December 31, 2007	(39)	2,827	1,550	16	110,730

From January 1, 2008 to December 31, 2008

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of December 31, 2007	17,838	20,561	83,116	(15,140)	106,375
Movement for this period					
Issuance of new stock	527	527			1,055
Transfer from stock warrant	20	20			40
Dividend of surplus			(14,992)		(14,992)
Net income			19,247		19,247
Sales of treasury stock			(83)	341	258
Purchase of treasury stock				(6,999)	(6,999)
Movement for this period excluding shareholders' equity					
Total movement	547	547	4,171	(6,658)	(1,390)
Balance as of December 31, 2008	18,386	21,108	87,288	(21,798)	104,984

	Valuation and translation adjustments		Stock acquisition rights	Minority interest	Total net assets
	Net unrealized gain (loss) on debt and equity securities	Foreign currency translation adjustments			
Balance as of December 31, 2007	(39)	2,827	1,550	16	110,730
Movement for this period					
Issuance of new stock					1,055
Transfer from stock warrant					40
Dividend of surplus					(14,992)
Net income					19,247
Sales of treasury stock					258
Purchase of treasury stock					(6,999)
Movement for this period excluding shareholders' equity	(3,247)	(9,429)	2,194	(11)	(10,493)
Total movement	(3,247)	(9,429)	2,194	(11)	(11,884)
Balance as of December 31, 2008	(3,286)	(6,601)	3,745	4	98,846

(4) Consolidated Statements of Cash Flows

(Millions of yen)

Account		For the year ended December 31, 2007	For the year ended December 31, 2008
Cash flows from operating activities:			
Net income before tax		37,985	30,878
Depreciation and amortization		4,001	4,729
Stock compensations		1,399	2,258
Amortization of Goodwill		646	1,032
Increase (decrease) in Allowance for bad debts		321	(240)
Increase (decrease) in Allowance for sales returns		412	154
Increase in Allowance for retirement benefits		125	26
Interest income		(2,969)	(2,924)
Equity in earnings of affiliated companies		(63)	(63)
(Gain) loss on sales of marketable securities		(2,450)	637
Devaluation loss on investment in securities		114	2,892
(Gain) loss on sales and disposal of fixed assets		34	-
(Increase) decrease in notes and accounts receivable		(5,735)	1,546
(Increase) decrease in inventories		144	17
Increase (decrease) in notes and accounts payable		(838)	43
Increase (decrease) in deferred revenue		14,379	6,768
Legal settlement (gain)		-	(358)
Legal settlement loss		-	248
Interest expense		13	3
Others		935	867
Subtotal		48,456	48,517
Proceeds from interest and dividend received		2,689	2,871
Payment for income tax		(18,765)	(19,890)
Proceeds from legal settlement		-	228
Payment for legal settlement		-	(248)
Payment for interest expense		(13)	(3)
Net cash provided by operating activities		32,366	31,475
Cash flows from investing activities:			
(Payments for)/Proceeds from time deposits		(1,209)	1,395
Payments for purchases of marketable securities and security investments		(136,132)	(39,569)
Proceeds from sales or redemptions of marketable securities and security investments		92,444	54,582
Payments for purchases of property and equipment		(2,919)	(2,782)
Payments for purchases of other intangibles		(3,366)	(2,427)
Acquisition cost for new consolidated subsidiaries	*2	(2,576)	(657)
Others		(7)	20
Net cash used in investing activities		(53,768)	10,561

Account		For the year ended December 31, 2007	For the year ended December 31, 2008
Cash flows from financing activities:			
Issuance of common stock pursuant to exercise of stock purchase warrants and stock acquisition rights		8,477	1,055
Payment for purchase of treasury stock		(2,546)	(6,999)
Proceeds from sales of treasury stock		1,505	258
Dividends paid		(11,148)	(14,983)
Net cash used in financing activities		(3,711)	(20,669)
Effect of exchange rate changes on cash and cash equivalents		1,284	(13,198)
Net increase (decrease) in cash and cash equivalents		(23,829)	8,167
Cash and cash equivalents at beginning of period		76,196	52,367
Cash and cash equivalents at end of period	*1	52,367	60,535

NOTES TO CONSOLIDATED FINANCIAL

Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
1. Accounting principles for presenting consolidated financial statements	The consolidated financial statements of the Company had been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). Effective from the fiscal year ending December 31, 2007, the Company adopted generally accepted accounting principles in Japan ("Japan GAAP"), and prepared its consolidated financial statements in accordance with Regulation for consolidated Financial statements. This change in accounting principles is due to delisting its American Depositary Shares ("ADR") from the NASDAQ Stock Market as of May 31, 2007 and terminating its registration of its common stock in U.S. Securities Exchange Commission (the "SEC").	――――――
2. Basis of consolidation	(1)Consolidated subsidiaries All of our 20 subsidiaries are consolidated. Names of major subsidiaries: Trend Micro Inc. Trend Micro (EMEA) Limited (Ireland) Trend Micro France SA (2) The Company has no unconsolidated subsidiaries.	(1)Consolidated subsidiaries All of our 22 subsidiaries are consolidated. Names of major subsidiaries: Trend Micro Inc. Trend Micro (EMEA) Limited (Ireland) Trend Micro France SA (2) The Company has no unconsolidated subsidiaries.
3. Affiliated companies	Equity method of accounting is applied to investments in the following affiliated companies *Soft Trend Capital Corporation (Japan) *Net STAR, Inc. (Japan)	Same as left
4. Fiscal year of consolidated subsidiaries	All financial statements included in a set of consolidated financial statements are prepared as of the same date.	Same as left

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
5. Accounting Policies (1)Accounting for evaluation of assets	A. Marketable securities and investment securities Available-for-sale with market value: The securities are stated at the market value method based on the value at the end of the period (Unrealized gains and losses, net of taxes, reported in a separate component of equity. Cost of selling is determined by the moving average method.) Available-for-sale without market value: Cost basis by moving average method B. Inventories Lower of cost or market by moving average method	A. Marketable securities and investment securities Available-for-sale with market value: Same as left Available-for-sale without market value: Cost basis by moving average method The securities for investment fund and such funds, which are recognized as marketable securities on Financial Instruments and Exchange Law 2-2, are recognized the net ownership amount with the latest available financial statements that is defined on the fund contracts. B. Inventories Same as left
(2) Depreciation and amortization	A. Property and equipment Mainly, depreciation is computed by declining-balance method in parent company and is computed by a straight-line method in consolidated subsidiaries. Useful lives of the main property and equipment are as follows : Office furniture and equipment : 2– 10 years B. Intangibles a. Software for sale Straight -line method over the estimated useful lives (12 months) b. Software for internal use Straight-line method over the estimated useful lives (mainly 5 years) c. Other intangibles Straight-line method over the estimated useful lives	A. Property and equipment Same as left B. Intangibles a. Software for sale Same as left b. Software for internal use Same as left c. Other intangibles Same as left

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
(3) Accounting policies for allowances	A. Allowance for doubtful accounts In order to reserve future losses from default of notes and account receivable, allowance for bad debt is provided. The amount is determined using the percentage based on actual doubtful account loss against total of debts. As for high-risk receivables, expected unrecoverable amount is considered individually. B. Allowance for bonuses Bonuses for employees are provided at an estimate of the amount. C. Allowance for sales returns In order to reserve future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on the past experience in the sales return. D. Allowance for retirement benefits In order to reserve future losses arising from retirement of employees, allowance for retirement benefits is provided based on retirement benefit liabilities projected and pension asset projected at the end of the period. Actuarial gains and losses are expensed in a certain periods in less than average future service years of employees of the year (1-23 years). Amortization of prior service cost is expensed in a certain period in less than average future service years of employees (24 years).	A. Allowance for doubtful accounts Same as left B. Allowance for sales returns Same as left C. Allowance for bonuses Same as left D. Allowance for retirement benefits In order to reserve future losses arising from retirement of employees, allowance for retirement benefits is provided based on retirement benefit liabilities projected and pension asset projected at the end of the period. Actuarial gains and losses are expensed in a certain periods in less than average future service years of employees of the year (1-25 years). Amortization of prior service cost is expensed in a certain period in less than average future service years of employees (24 years).
(4) Translation of foreign currencies	Foreign currency denominated receivables and payables are translated into Japanese yen at period-end rates of exchange and the resulting translation gains or losses are taken into current income. All asset and liability accounts of foreign subsidiaries are translated into Japanese yen at period-end rates of exchange and all income and expense accounts are translated at average exchange rate. The resulting foreign currency translation adjustments are included in accumulated other comprehensive income (loss) and minority interest.	Same as left
(5) Accounting policy for leased assets .	Finance lease without transfer of ownership of the leased assets are accounted for in the same manner as applied for operating lease.	Same as left

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
(6) Other important matters for preparing financial statements	A. Consumption tax Transactions subject to consumption tax is stated at the amount net of the related consumption tax. B. Revenue recognition method for Post Contract Customer Support Service Basically, the product license agreement contracted with the end-user states the article for PCS (customer support and upgrading of products and its pattern files). The company applies the following revenue recognition method for the portion of PCS. Portion of PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.	A. Consumption tax Same as left B. Revenue recognition method for Post Contract Customer Support Service Same as left
6.Valuation of assets and liabilities of consolidated subsidiaries	Assets and liabilities of the consolidated subsidiaries are measured at fair value.	Same as left
7.Amortization of Goodwill	Goodwill is amortized evenly over the appropriate period in less than 20 years.	Same as left
8. Definition of cash and cash equivalent in the consolidated statements of cash flows	Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and representing a minor risk of fluctuations in value.	Same as left

Change in Significant Accounting Policies and Practices for Preparing Consolidated Financial Statements

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
(Accounting standard for measurement of inventories) Effective from the fiscal year ending December 31, 2007, the Company early adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No.9 which was issued on July 5, 2006). There is no material effect in balance sheet and income statement.	――――――
(Revision of the depreciable limit for newly acquired asset) Effective from the fiscal year ending December 31, 2007, the Company adopted the revision of corporate tax law with respect to the depreciable limit for newly acquired assets. There is no material effect.	――――――

Change in presentation

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
(Consolidated balance sheet) Software, which was disclosed as "Software development costs" and "Others" separately, is disclosed as "Software" from the current fiscal year. The balance of software, which was disclosed in the section of "Others" was (Yen) 1,510 million as of December 31, 2006.	――――――

Supplementary information

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
(Method of Sales recording) Sales of packaged goods were used to be recognized on the date that goods were delivered to customers. Assuming a day for the carriage to customers, the sales on the year end shipment were recognized in next accounting period. The company reverts to recognize the sales of packaged goods on the shipping date from the current fiscal year. The effect of this change is not material.	――――――
――――――	(Method of depreciation) In accordance with the revision of corporate tax law, the difference between 5% for the acquired cost and memorandum value is recognized as depreciation expense with using straight-line method since the next fiscal year that the book value becomes 5% for the acquired cost, which was adopted the depreciation methods with the previous corporate tax law. The effect of this change is not material.

Consolidated Balance Sheets

(Millions of Yen)

At the end of the previous fiscal year (As of December 31, 2007)	At the end of the current fiscal year (As of December 31, 2008)
*1 Accumulated depreciation of property and equipment 6,761	*1 Accumulated depreciation of property and equipment 6,556

Consolidated Income Statement

(Millions of Yen)

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
*1 Major components of selling, general and administrative expenses are as follows	*1 Major components of selling, general and administrative expenses are as follows
Advertising 2,139	Advertising 2,104
Sales promotions 5,473	Sales promotions 7,279
Salaries 17,770	Salaries 19,105
Bonuses 1,066	Bonuses 813
Outside service fee 4,637	Outside service fee 5,758
Depreciation expense 2,096	Depreciation expense 2,879
Tel communication & delivery 3,126	Tel communication & delivery 2,639
Traveling costs 2,378	Traveling costs 1,881
Research and development costs 4,237	Research and development costs 6,167
*2 Reserch and development costs were 4,237 millions of yen and included in Operating expenses.	*2 Reserch and development costs were 6,167 millions of yen and included in Operating expenses.
*3 The details of loss on disposal of property, equipment and software Property and equipment 35	――――――

(Stockholders' Equity Statements)

For the year ended December 31, 2007

1. Number of common stock issued

Class of stock	As of Dec 31, 2006	Increase	Decrease	As of Dec 31, 2007
Common stock	137,344,504	2,546,500	-	139,891,004

The increase by 2,546,500 shares is due to exercise of stock acquisition rights.

2. Number of Treasury stocks

Class of treasury stock	As of Dec 31, 2006	Increase	Decrease	As of Dec 31, 2007
Common stock	4,509,612	822,310	504,000	4,827,922

The increase by 822,310 shares is due to 3,310 shares for purchasing of shares less than one unit and 819,000 shares for purchasing from stock market.
The decrease by 504,000 shares is due to disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

Detail	Class of shares subject to stock acquisition right	Number of shares subject to the exercise of stock acquisition rights				Amount outstanding (Millions of yen)
		As of Dec 31,2006	Increase	Decrease	As of Dec 31, 2007	
Stock Option	-	-	-	-	-	1,550

4. Dividend of surplus

(1) Dividends payment

Resolution	Class of stock	Total dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 27, 2007	Common stock	11,158	84.00	Dec 31, 2006	Mar 28, 2007

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

Resolution	Class of stock	Dividends resource	Total dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 26, 2008	Common stock	Retained earnings	14,992	111.00	Dec 31,2007	Mar 27,2008

For the year ended December 31, 2008

1. Number of common stock issued

Class of stock	As of Dec 31, 2007	Increase	Decrease	As of Dec 31, 2008
Common stock	139,891,004	402,000	-	140,293,004

The increase by 402,000 shares is due to exercise of stock acquisition rights.

2. Number of Treasury stocks

Class of treasury stock	As of Dec 31, 2007	Increase	Decrease	As of Dec 31, 2008
Common stock	4,827,922	2,000,381	105,500	6,722,803

The increase by 2,000,381 shares is due to 1,381 shares for purchasing of shares less than one unit and 1,999,000 shares for purchasing from stock market.
The decrease by 105,500 shares is due to disposition of treasury stock upon the exercise of stock acquisition right.

3. Stock acquisition rights

Detail	Class of shares subject to stock acquisition right	Number of shares subject to the exercise of stock acquisition rights				Amount outstanding (Millions of yen)
		As of Dec 31, 2007	Increase	Decrease	As of Dec 31, 2008	
Stock Option	-	-	-	-	-	3,745

4. Dividend of surplus

(1) Dividends payment

Resolution	Class of stock	Total dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 26, 2008	Common stock	14,992	111.00	Dec 31,2007	Mar 27,2008

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

Resolution	Class of stock	Dividends resource	Total dividends (Millions of yen)	Cash dividends per share (yen)	Record date	Effective date
Shareholders' meeting on Mar 25, 2009	Common stock	Retained earnings	12,956	97.00	Dec 31,2008	Mar 26,2009

(Consolidated Statements of Cash Flows)

(Millions of yen)

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
*1 Reference of cash and cash equivalents on balance sheet is as follows. Cash and bank deposits 54,091 Time deposits with original maturities of longer than three months (1,724) Cash and cash equivalent 52,367	*1 Reference of cash and cash equivalents on balance sheet is as follows. Cash and bank deposits 60,861 Time deposits with original maturities of longer than three months (326) Cash and cash equivalent 60,535
*2 The details of assets and liabilities of acquired company. The acquistion costs (Net) and assets and liabilities of acquired company's ties are as follows; Current assets 41 Fixed assets 1,043 Goodwill 1,687 Other liabilities (60) Deferred tax liabilities (132) Acquisition Costs for Trend Micro Mountain View, Inc. 2,578 Cash and Cash equivalents of Trend Micro Mountain View, Inc. (1) Acquisition Costs (Net) for Trend Micro Mountain View, Inc. 2,576	―――――――――――

(Segment Information)

1 Sales and operating income results of business segments

The main businesses of the Company are develop and sell anti-virus products and offer other related services. For the previous fiscal year (from January 1, 2007 to December 31, 2007) and the current fiscal year (from January 1, 2008 to December 31, 2008), the ratio of the main businesses account more than 90% of total sales amount and operationg income.

Therefore the Company omits "Sales and operating income results of business segments"

2 Sales and operating income results of regional segments

For the year ended December 31, 2007

(Millions of Yen)

	Japan	North America	Europe	Asia Pacific	Latin America	Corporate or Elimination	Consolidation
Ⅰ Sales							
(1) Net sales to external customers	36,531	25,033	24,350	10,708	3,182	—	99,805
(2) Intercompany sales	25,348	8,286	6,599	10,143	365	(50,743)	—
Total sales	61,879	33,319	30,950	20,851	3,548	(50,743)	99,805
Operating Expense	16,832	32,855	29,633	22,122	3,105	(38,221)	66,329
Operating income or (loss)	45,046	463	1,316	(1,270)	442	(12,522)	33,476
Ⅱ Assets	46,240	40,853	51,863	19,124	6,222	36,747	201,052

For the year ended December 31, 2008

(Millions of Yen)

	Japan	North America	Europe	Asia Pacific	Latin America	Corporate or Elimination	Consolidation
Ⅰ Sales							
(1) Net sales to external customers	39,102	26,191	23,891	9,596	2,925	-	101,707
(2) Intercompany sales	23,212	11,099	1,087	9,460	-	(44,859)	-
Total sales	62,315	37,291	24,978	19,057	2,925	(44,859)	101,707
Operating Expense	18,737	33,863	24,962	20,160	2,176	(29,997)	69,903
Operating income or (loss)	43,577	3,427	15	(1,103)	748	(14,862)	31,803
Ⅱ Assets	54,341	36,690	25,754	14,626	4,068	43,282	178,766

(Note)

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

2 Major countries other than Japan:

North America	U.S.A.
Europe	Ireland, Germany, Italy, France, UK
Asia pacific	Taiwan, Korea, Australia, China, Philippine, Singapore, Malaysia, Thailand, India
Latin America	Brazil, Mexico

3 The unapportionable amount of operating expenses that is included in "Corporate or Elimination".

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)	Content
The unapportionable amount of operating expenses that is included in "Corporate or Elimination"	12,478	15,850	Corporate segment is composed of research and development, marketing and administrative departments that operate and bring benefits to the Company worldwide.

4 The unapportionable amount of assets that is included in “Corporate or Elimination”.

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)	Content
The unapportionable amount of assets that is included in “Corporate or Elimination”	75,139	55,473	Corporate assets are composed of software for sale, software that is utilized in the Company worldwide, marketable securities and investments securities.

3 Sales to overseas

For the year ended December 31, 2007

(Millions of Yen)

	North America	Europe	Asia Pacific	Latin America	Total
1 Sales to overseas	25,176	24,341	10,715	3,215	63,449
2 Consolidated total sales	—	—	—	—	99,805
3 Sales % to Overseas to Consolidated total sales	25.2	24.4	10.7	3.2	63.6

For the year ended December 31, 2008

(Millions of Yen)

	North America	Europe	Asia Pacific	Latin America	Total
1 Sales to overseas	26,355	23,914	9,614	2,940	62,824
2 Consolidated total sales	-	-	-	-	101,707
3 Sales % to Overseas to Consolidated total sales	25.9	23.5	9.5	2.9	61.8

(Note)

1 The classification of the regional segment is based on geographic proximity.
2 Sales to overseas are sales amount to foreign countries or areas other than Japan.
3 Major countries other than Japan:

North America	U.S.A.
Europe	Ireland, Germany, Italy, France, UK, Middle East, Africa
Asia pacific	Taiwan, Korea, Australia, China, Philippine, Singapore, Malaysia, Thailand, India
Latin America	Brazil, Mexico

(Marketable securities and security investments)

As of December 31, 2007

1 Available-for-sale investments with fair market value

(Millions of yen)

	Securities	Purchase Cost	Fair value on consolidated balance sheet	Difference
Marketable securities with fair value over purchase cost	Bonds			
	(1)Government bonds	33,093	33,684	591
	(2)Corporate bonds	7,131	7,142	11
	(3)Others	-	-	-
	Others	33,453	34,131	678
	Total	73,678	74,958	1,280
Marketable securities with purchase cost over fair value	Bonds			
	(1)Government bonds	-	-	-
	(2)Corporate bonds	919	917	(2)
	(3)Others	3,998	2,881	(1,116)
	Others	6,849	6,593	(256)
	Total	11,767	10,391	(1,375)
Grand Total		85,445	85,350	(94)

2 Sales of available-for-sales investments (From January 1, 2007 to December 31, 2007)

(Millions of yen)

Sales amount	Gain on sales of investments in securities	Loss on sales of investments in securities
92,444	2,521	71

3 Major securities without fair market value and their stated value on consolidated balance sheet

Available-for-sale	(Millions of yen)
Unlisted security	0

4 The contractual maturities of available-for-sales securities

(Millions of yen)

	Due less than one year	Due after one to five years	Due after five to ten years	Due after ten years
Bonds				
(1)Government bonds	9,696	23,837	-	-
(2)Corporate bonds	7,929	132	-	-
(3)Others	-	4,000	-	-
Others	-	-	-	-
Total	17,626	27,969	-	-

As of December 31, 2008

1 Available-for-sale investments with fair market value

(Millions of yen)

	Securities	Purchase Cost	Fair value on consolidated balance sheet	Difference
Marketable securities with fair value over purchase cost	Bonds			
	(1)Government bonds	24,008	24,196	187
	(2)Corporate bonds	2,000	2,003	2
	(3)Others	202	232	29
	Others	-	-	-
	Total	26,212	26,432	220
Marketable securities with purchase cost over fair value	Bonds			
	(1)Government bonds	1,488	1,290	(198)
	(2)Corporate bonds	4,997	4,995	(1)
	(3)Others	1,443	1,275	(168)
	Others	30,349	24,961	(5,387)
	Total	38,278	32,523	(5,755)
Grand Total		64,490	58,955	(5,535)

2 Sales of available-for-sales investments (From January 1, 2008 to December 31, 2008)

(Millions of yen)

Sales amount	Gain on sales of investments in securities	Loss on sales of investments in securities
54,582	93	730

3 Major securities without fair market value and their stated value on consolidated balance sheet

Available-for-sale	(Millions of yen)
Unlisted security and bond	460

4 The contractual maturities of available-for-sales securities

(Millions of yen)

	Due less than one year	Due after one to five years	Due after five to ten years	Due after ten years
Bonds				
(1)Government bonds	14,193	11,107	-	-
(2)Corporate bonds	7,005	-	-	-
(3)Others	-	3,758	-	-
Others	-	-	-	-
Total	21,199	14,865	-	-

(Employee benefit plans)

(Millions of yen)

At the end of previous fiscal year (As of Dec 31, 2007)	At the end of current fiscal year (As of Dec 31, 2008)
1. Pension and severance plans The parent company has an unfunded retirement plan ("Plan") as a defined benefit plan and has been a member of Kanto IT Software welfare pension fund. Kanto IT Software pension fund is categorized as multi-employer pension fund. Pension assets corresponding to the Company's contribution to the multi-employer pension fund was (Yen) 961 million in 2007. The consolidated subsidiaries adopt defined benefit plan or defined contribution plan and certain subsidiary has a 401(k) retirement plan.	1. Pension and severance plans The parent company has an unfunded retirement plan ("Plan") as a defined benefit plan and has been a member of Kanto IT Software welfare pension fund. Kanto IT Software pension fund is categorized as multi-employer pension fund. The consolidated subsidiaries adopt defined benefit plan or defined contribution plan and certain subsidiary has a 401(k) retirement plan. The overview of multi-employer pension fund is as follows. (1) Funded status of Kanto IT Software pension plan (as of Mar 31, 2008) Pension asset 145,958 Benefit obligation 140,968 Variance 4,989 (2) The ratio of the Company's contribution for Kanto IT Software pension fund (as of Mar 31, 2008) 0.74% (3) Supplemental information The reasons for the variance of (1) are as follows. Other reserve 12,896 Retained earnings 5,860 Asset valuation adjustment (13,766) Variance 4,989 The unfunded prior service cost is amortized evenly over 20 years.
2. Allowance for retirement benefits 1.Benefit obligation (1,449) 2.Plan assets 182 3.Unfunded status (1 + 2) (1,266) 4.Unrecognized prior service cost 27 5.Unrecognized net actuarial loss 140 6.Allowance for retirement benefits (3 + 4 + 5) (1,098) (Note) In calculation of allowance for retirement benefits, certain subsidiaries adopt compendium method.	2. Allowance for retirement benefits 1.Benefit obligation (1,352) 2.Plan assets 150 3.Unfunded status (1 + 2) (1,201) 4.Unrecognized prior service cost 19 5.Unrecognized net actuarial loss (30) 6.Allowance for retirement benefits (3 + 4 + 5) (1,211) (Note) In calculation of allowance for retirement benefits, certain subsidiaries adopt compendium method.
3. Pension expense (From January 1, 2007 To December 31, 2007) 1.Service cost 159 2.Interest cost 28 3.Expected return of plan assets (4) 4.Amortization of prior service cost 1 5.Recognition of actuarial gain / loss (1) Sub-total (1+2+3+4+5) 183 6.Contribution to Kanto IT Software pension plan 144 7.Pension expense for Defined contribution plan 207 Net periodic pension cost (1+2+3＋4＋5+6+7) 535 (Note) Pension expenses of the consolidated subsidiaries adopting compendium method are booked as service cost.	3.Pension expense (From January 1, 2008 To December 31, 2008) 1.Service cost 175 2.Interest cost 25 3.Expected return of plan assets (3) 4.Amortization of prior service cost 1 5.Recognition of actuarial gain / loss 61 Sub-total (1+2+3+4+5) 260 6.Contribution to Kanto IT Software pension plan 155 7.Pension expense for Defined contribution plan 495 Net periodic pension cost (1+2+3＋4＋5+6+7) 911 (Note) Pension expenses of the consolidated subsidiaries adopting compendium method are booked as service cost.

(Millions of yen)

At the end of previous fiscal year (As of Dec 31, 2007)	At the end of current fiscal year (As of Dec 31, 2008)
4. Assumption used for calculating the pension benefit obligation 1. Projected cost allocation method: Straight line basis 2. Discount rate: 1.5 – 2.75% 3. Rate of return on asset: 2.75% 4. Amortization of actuarial gain and loss: 1 – 23 years 5. Amortization of prior service cost: 24 years	4. Assumption used for calculating the pension benefit obligation 1. Projected cost allocation method: Straight line basis 2. Discount rate: 1.5 – 2.50% 3. Rate of return on asset: 2.50% 4. Amortization of actuarial gain and loss: 1 – 25 years 5. Amortization of prior service cost: 24 years (Additional note) Effective from the fiscal year ending December 31, 2008, the Company adopted the partial revision of "Accounting Standard for Retirement Benefits" (ASBJ Statement No.14 which was issued on May 15, 2007).

(Reconciliation of the difference between basic and diluted net income per share ("EPS"))

(Yen)

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the currentfiscal year (From January 1, 2008 To December 31, 2008)
Shareholders' equity per share	808.24	711.96
Basic EPS	176.95	143.88
Diluted EPS	175.88	143.05

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

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
<Basic EPS>		
Net income (Millions of Yen)	23,561	19,247
-to common stock holders	23,561	19,247
-not to attributable to common stock holders	—	—
Weighted-average number of common shares (Shares)	133,150,302	133,772,262
<Diluted EPS>		
Increased common stock (Shares)	811,168	775,805
*Breakdown of increased common stock		
- Stock acquisition rights (Shares)	811,168	775,805

	For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
Details of shares not included in the computation of diluted EPS since it did not have dilutive effect	- Issuance of 2,093,500 shares on April 28, 2004 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 1,768,500 shares on October 28, 2004 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 1,216,500 shares on July 10, 2006 for stock acquisition rights were based on the resolution of shareholders' meeting on March 28, 2006 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 2,070,000 shares on September 14, 2007 for stock acquisition rights were based on the resolution of shareholders' meeting on March 27, 2007 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 1,100,000 shares on November 26, 2007 for stock acquisition rights were based on the resolution of shareholders' meeting on March 27, 2007 and regulated by previous commercial law 280-20 and 280-21.	- Issuance of 2,093,500 shares on April 28, 2004 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 1,768,500 shares on October 28, 2004 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 2,350,500 shares on July 22, 2005 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2005 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 2,023,000 shares on December 14, 2005 for stock acquisition rights were based on the resolution of shareholders' meeting on March 25, 2005 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 1,206,500 shares on July 10, 2006 for stock acquisition rights were based on the resolution of shareholders' meeting on March 28, 2006 and regulated by previous commercial law 280-20 and 280-21. - Issuance of 2,070,000 shares on September 14, 2007 for stock acquisition rights were based on the board resolution on August 28, 2007 and regulated by the Company Law 238 and 240. - Issuance of 1,100,000 shares on November 26, 2007 for stock acquisition rights were based on the board resolution on November 8, 2007 and regulated by the Company Law 238 and 240.

The Company omits the notes for “Lease transaction”, “Related party transaction”, “Deferred tax accounting”, ”Derivatives”, ”Stock Option”, and “Business combination” because for the current fiscal year, the Company considers there is not a strong need to release them.

(Significant Subsequent Events)

For the previous fiscal year (From January 1, 2007 To December 31, 2007)	For the current fiscal year (From January 1, 2008 To December 31, 2008)
The Company adopted, at the meeting of the Board of Directors on February 19, 2008, the following share repurchase programs under the provisions of the Articles of Incorporation pursuant to Article 165(3) of the Corporate Law of Japan in order to gain flexibility in implementing its capital policy in response to any changes in the business environment. *Resolution (Class of capital stock to be purchased) Common Shares of the Company (Number of shares to be repurchase) Up to 2 million shares (1.48% of the total outstanding shares) (Total purchase price) Up to 7 billion yen (Purchase period) From February 20, 2008 to March 31, 2008 (Purchase method) Transactions through the Tokyo Stock Exchange *Others As a result of the transactions through a stock market, the Company repurchased 1,999,000 shares of its common stock for a total cost of (Yen) 6,994 million and completed the share repurchase program on March 19, 2008.	――――――――――

Non-consolidated Financial Statements

(1) Non-consolidated balance sheets

(Millions of yen)

	Period	FY2007 (As of December 31,2007)			FY2008 (As of December 31,2008)		
Account	Note	Amount		%	Account		%
(Assets)							
I Current assets							
1 Cash and bank deposits			9,589			19,388	
2 Accounts receivable, trade	*1		19,767			11,494	
3 Marketable securities			50,363			40,301	
4 Product			132			120	
5 Raw material			11			9	
6 Stores			23			18	
7 Intercompany short-term loan receivables			27			—	
8 Prepaid expense			83			98	
9 Other receivables			437			433	
10 Deferred tax assets			9,338			12,238	
11 Others			932			118	
Allowance for bad debt			—			(32)	
Total current assets			90,706	73.7		84,190	76.8
II Non-current assets							
1 Tangible fixed assets							
(1) Buildings		507			519		
Accumulated depreciation		251	256		289	229	
(2) Office furniture and equipment		786			916		
Accumulated depreciation		540	246		657	258	
Total Tangible fixed assets			502	0.4		488	0.4
2 Intangible fixed assets							
(1) Software			2,099			1,544	
(2) Software in progress			299			842	
(3) Others			265			320	
Total intangible fixed assets			2,665	2.2		2,707	2.5
3 Investments and other non-current assets							
(1) Investments in securities			22,273			12,892	
(2) Investments in subsidiaries and affiliates			2,152			2,175	
(3) Investments in capital of affiliates			5			7	
(4) Security deposits			348			594	
(5) Membership			4			4	
(6) Deferred tax assets			4,769			6,641	
(7) Others			15			—	
Allowance for bad debt			(15)			—	
Allowance for loss on investments in subsidiaries and affiliates			(299)			(42)	
Total investments and other non-current assets			29,254	23.7		22,272	20.3
Total non-current assets			32,422	26.3		25,468	23.2
Total assets			123,129	100.0		109,659	100.0

		FY2007 (As of December 31,2007)			FY2008 (As of December 31,2008)		
Account	Note	Amount		%	Amount		%
(Liabilities)							
I Current liabilities							
1 Accounts payable, trade			90			115	
2 Account payables, other	*1		10,565			7,828	
3 Accrued expenses			167			198	
4 Accrued corporate tax and others			8,408			2,558	
5 Accrued consumption taxes			429			323	
6 Advances received			88			10	
7 Deposits received			61			63	
8 Allowance for bonuses			56			120	
9 Allowance for sales return			357			516	
10 Deferred revenue			20,548			22,145	
11 Others			52			71	
Total current liabilities			40,826	33.2		33,952	31.0
II Non-current liabilities							
1 Deferred revenue			6,238			9,378	
2 Allowance for retirement benefits			781			939	
3 Allowance for retirement benefits for directors and corporate auditors			8			10	
Total non-current liabilities			7,029	5.7		10,328	9.4
Total liabilities			47,855	38.9		44,280	40.4
(Net assets)							
I Shareholders' equity							
1 Common stock			17,838	14.5		18,386	16.8
2 Capital surplus							
(1) Additional paid-in capital		20,561			21,108		
Total capital surplas			20,561	16.7		21,108	19.2
3 Accumulated earnings							
(1) Legal reserve		20			20		
(2) Accumulated profit							
Retained earnings carried forward		50,571			47,243		
Total retained earnings			50,591	41.1		47,263	43.1
4 Treasury stock			(15,140)	(12.3)		(21,798)	(19.9)
Total shareholders' equity			73,850	60.0		64,960	59.2
II Valuation and translation adjustment							
1 Unrealized gain on available for sale securities			(127)			(3,326)	
Total valuation and translation adjustment			(127)	(0.1)		(3,326)	(3.0)
III Stock acquisition rights			1,550	1.2		3,745	3.4
Total net assets			75,273	61.1		65,378	59.6
Total liabilities and net assets			123,129	100.0		109,659	100.0

(2)Non-consolidated income statements

(Millions of yen)

	Period	For the year ended December 31,2007			For the year ended December 31,2008		
Account	Note	Amount		%	Amount		%
I Total sales							
1 Sales		36,355			38,876		
2 Royalty	*1	25,376	61,731	100.0	23,438	62,315	100.0
II Cost of sales	*1		10,626	17.2		10,084	16.2
Gross profit			51,105	82.8		52,230	83.8
III Selling, general and administrative expense	*1,2,3		23,655	38.3		28,405	45.6
Operating income			27,450	44.5		23,825	38.2
IV Non-operating income							
1 Interest income		50			65		
2 Interest on marketable securities		494			551		
3 Dividend		50			45		
4 Gain on sale of securities		2,521			93		
5 Global system income		147			65		
6 Investment fund income		—			198		
7 Others		14	3,278	5.3	19	1,039	1.7
V Non-operating expense							
1 Loss on sale of securities		71			730		
2 Exchange loss		282			1,411		
3 Global system expense		260			203		
4 Others		60	675	1.1	153	2,499	4.0
Ordinary income			30,052	48.7		22,364	35.9
VI Extraordinary gain							
1 Legal settlement		—			358		
2 Reversal of allowance for bad debt		33			—		
3 Reversal of allowance for investment loss		8			289		
4 Reversal of share warrant		5	47	0.1	20	668	1.1
VII Extraordinary loss							
1 Loss on disposal of fixed assets		31			—		
2 Provision of investment loss		247			32		
3 Devaluation loss on investment in securities		114			2,892		
4 Bad debt loss		69			—		
5 Legal settlement		—	463	0.8	248	3,173	5.1
Net income before tax			29,637	48.0		19,859	31.9
Income tax current		15,154			10,689		
Income tax -deferred		(3,096)	12,058	19.5	(2,577)	8,112	13.0
Net income			17,579	28.5		11,747	18.9

(3)Non-consolidated statements of changes in net assets

From January 1, 2007 to December 31, 2007 (Millions of yen)

	Shareholder' equity						Revaluation Surplus	
	Common stock	Capital surplus	Accumulated earnings		Treasury stock	Total shareholder' equity	Unrealized gain on available for sale securities	Share warrant
		Additional paid-in capital	Legal reserve	Accumulated Profit / Retained earnings carried forward				
Balance as of December 31, 2006	13,479	16,202	20	44,216	(14,166)	59,752	1,061	425
Movement for this period								
Issuance of new stock	4,239	4,238				8,477		
Transfer from stock warrant	120	120				240		
Dividend of surplus				(11,158)		(11,158)		
Net income				17,579		17,579		
Sales of treasury stock				(67)	1,572	1,505		
Purchase of treasury stock					(2,546)	(2,546)		
Movement for this period excluding shareholders'equity							(1,189)	1,125
Total movement	4,359	4,358	—	6,354	(974)	14,098	(1,189)	1,125
Balance as of December 31, 2007	17,838	20,561	20	50,571	(15,140)	73,850	(127)	1,550

From January 1, 2008 to December 31, 2008 (Millions of yen)

	Shareholder' equity						Revaluation Surplus	
	Common stock	Capital surplus	Accumulated earnings		Treasury stock	Total shareholder' equity	Unrealized gain on available for sale securities	Share warrant
		Additional paid-in capital	Legal reserve	Accumulated Profit / Retained earnings carried forward				
Balance as of December 31, 2007	17,838	20,561	20	50,571	(15,140)	73,850	(127)	1,550
Movement for this period								
Issuance of new stock	527	527				1,055		
Transfer from stock warrant	20	20				40		
Dividend of surplus				(14,992)		(14,992)		
Net income				11,747		11,747		
Sales of treasury stock				(83)	341	258		
Purchase of treasury stock					(6,999)	(6,999)		
Movement for this period excluding shareholders'equity							(3,198)	2,194
Total movement	547	547	—	(3,328)	(6,658)	(8,890)	(3,198)	2,194
Balance as of December 31, 2008	18,386	21,108	20	47,243	(21,798)	64,960	(3,326)	3,745

Significant accounting policies and practices for preparing annual financial statements

	For the year ended December 31,2007	For the year ended December 31,2008
1.Accounting for evaluation of securities	(1) Investments in subsidiaries and affiliates. Cost basis by moving average method (2)Available-for-sale -Available-for-sale with market value: The securities are stated at the market value method based on the value at the end of the period (Unrealized gains and losses, net of applicable taxes, are reported in a separate component of equity. Cost of selling is determined by the moving average method.) -Availalble-for-sale without a market value: Cost basis by moving average method	(1) Investments in subsidiaries and affiliates. Same as left (2)Available-for-sale -Available-for-sale with market value: Same as left -Availalble-for-sale without a market value: Cost basis by moving average method The securities for investment fund and such funds, which are recognized as marketable securities on Financial Instruments and Exchange Law 2-2, are recognized the net ownership amount with the latest available financial statements that is defined on the fund contracts.
2.Accounting for evaluation of Inventories	Finished goods・Raw materials・Supplies Cost basis by moving average method Unprofitable inventories are devaluated	Finished goods・Raw materials・Supplies Same as left
3.Depreciation and amortization method for fixed assets	(1) Property and equipment Declining-balance method Building (excluding facilities and leasehold improvement) acquired after April 1, 1998 are depreciated by straight- line method. Useful lives of the main property and equipment are as follows : Buildings : 3 – 28 years Equipments : 2 – 10 years (2) Intangibles -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	(1) Property and equipment Same as left (2) Intangibles -Software for sale Same as left -Software for internal use Same as left -Other intangibles Same as left
4.Accounting policies for allowances	(1)Allowance for bad debt In order to reserve future losses from default of notes and account receivable, allowance for bad debt is provided. The amount is determined with using the percentage based on actual doubtful account loss against total of debts. As for high-risk receivables, expected unrecoverable amount is considered individualy. (2)Allowance for loss on investments in subsidiaries and affiliates In order to reserve future loss from investments in subsidiaries and affiliates, allowance for loss on investments in subsidiaries and affiliates is provided based on consideration of subsidiary's financial condition and expected recoverability.	(1)Allowance for bad debt Same as left (2)Allowance for loss on investments in subsidiaries and affiliates Same as left

	For the year ended December 31,2007	For the year ended December 31,2008
	(3) Allowance for sales return In order to reserve future losses from sales return subsequent to the fiscal year end, allowance for sales return is provided based on the past experience in the sales return. (4) Allowance for bonuses Bonuses for employees are provided at an estimate of the amount. (5) Allowance for retirement benefits In order to reserve future expenses arising from retirement of employees, allowance for retirement benefits is provided based on retirement benefit liabilities projected at the end of the period. Actuarial gains and losses are recognized in the following accounting period. (6)Allowance for retirement benefits for directors and corporate auditors Allowance for retirement benefits for directors and corporate auditors is provided at an estimate of the amount to be paid in accordance with the internal rules if all eligible directors and corporate auditors resigned their offices at the balance sheet date.	(3) Allowance for sales return Same as left (4) Allowance for bonuses Same as left (5) Allowance for retirement benefits Same as left (6)Allowance for retirement benefits for directors and corporate auditors Same as left
5.Policy for translation of major foreign- currency assets and liabilities into Yen.	Balance sheet accounts denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.The foreign exchange gains and losses from translation are recognized in the income statements.	Same as left
6.Revenue recognition method for Post Contract Customer Support Service	Basically, the product license agreement contracted with the end-user states the article for PCS (customer support and upgrading of products and its pattern files). The company applies the following revenue recognition method for the portion of PCS. Portion of PCS revenue is recognized separately from total revenue and is deferred as deferred revenues under current and non-current liabilities based on the contracted period. Deferred revenue is finally recognized as revenue evenly over the contracted period.	Same as left
7.Accounting policy for leased assets	Finance leases without transfer of ownership of leased assets are accounted for in the same manner as applied for operating leases.	Same as left
8.Other important matters for preparing interlevel financial statements	Consumption tax Transactions subject to consumption tax are stated at the net amount of the related consumption tax.	Same as left

Change in Presentation

For the year ended December 31,2007	For the year ended December 31,2008
(Accounting standard for measurement of inventories) Effective from this period, the company early adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 which was issued on July 5, 2006). There is no effect in balance sheet and income statement. (Revision of the depreciable limit for newly acquired asset) Effective from this period, the company adopted the revision of corporate tax law with respect to the depreciable limit for newly acquired asset. There is not material effect.	――――

Supplementary information

For the year ended December 31,2007	For the year ended December 31,2008
(Accounting for revenue recognition) Sales of packaged goods were used to be recognized on the date that goods were delivered to customers. Assuming a day for the carriage to customers, the sales on the year end shipment were recognized in next accounting period. The company reverts to recognize the sales of packaged goods on the shipping date from current annual accounting. The effect of this change is not material.	――――
――――	(Method of the depreciation) In accordance with the revision of corporate tax law, the difference between 5% for the acquired cost and memorandum value is recognized as depreciation expense with using straight- line method since the next fiscal year that the book value becomes 5% for the acquired cost, which was adopted the depreciation methods with the previous corporate tax law.

Notes

(Non-consolidated balance sheets)

(Millions of yen)

FY2007 (As of December 31, 2007)	FY2008 (As of December 31, 2008)
*1 Notes to intercompany balances which are not disclosed separately are as follows. (1) Receivables Accounts receivables, trade 10,929 (2) Payables Other payables 7, 959	*1 Notes to intercompany balances which are not disclosed separately are as follows. (1) Receivables Accounts receivables, trade 3,125 (2) Payables Other payables 5,187

(Non-consolidated income statements)

(Millions of yen)

For the year ended December 31,2007	For the year ended December 31,2008
*1 Major components of intercompany sales and selling, general and administrative expenses are as follows. Royalty sales 25,215 Research and development costs 3,726 Sustain cost 2,660 Bad debt loss 69	*1 Major components of intercompany sales and selling, general and administrative expenses are as follows. Royalty sales 23,212 Research and development costs 5,902 Sustain cost 2,122 Advertising and sales promotion cost 2,935 Outside service fee 5,269
*2 Major components of selling, general and administrative expenses are as follows. Advertising and sales promotion cost 4, 010 Salaries 3,974 Retirement benefit cost 200 Depreciation expense 113 Outside service fee 7,498 Communication expenses 1,176	*2 Major components of selling, general and administrative expenses are as follows. Advertising and sales promotion cost 5,853 Salaries 3,120 Stock option 1,922 Retirement benefit cost 262 Depreciation expense 141 Outside service fee 7,412 Communication expenses 1,403 (Supplementary information) Stock option expense for certain directors and employees of subsidiaries was used to be disclosed as “Salaries”. The company chooses to disclose this expense as “Stock option” separately. Stock option expense, which was disclosed as “Salaries”, was (Yen) 1,199 millions for the year ended December 31, 2007.
*3 Research and development costs 4,376 millions of yen of research and development cost s are included in general administrative expenses.	*3 Research and development costs 6,351 millions of yen of research and development cost s are included in general administrative expenses.

(Non-consolidated statements of changes in net assets)

From January 1, 2007 to December 31, 2007

Class of treasury stock and number of shares.

Class of treasury stock	As of Dec 31, 2006	Increase	Decrease	As of Dec 31, 2007
Common stock (Shares)	4,509,612	822,310	504,000	4,827,922

The increase by 822,310 shares is due to 3,310 shares for the purchase of shares less than one unit and 819,000 shares for the purchase from stock market, and the decrease by 504,000 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

From January 1, 2008 to December 31, 2008

Class of treasury stock and number of shares.

Class of treasury stock	As of Dec 31, 2007	Increase	Decrease	As of Dec 31, 2008
Common stock (Shares)	4,827,922	2,000,381	105,500	6,722,803

The increase by 2,000,381 shares is due to 1,381 shares for the purchase of shares less than one unit and 1,999,000 shares for the purchase from stock market, and the decrease by 105,500 shares is due to the disposition of treasury stock upon the exercise of stock acquisition right.

（Per Share Data）

	For the year ended December 31,2007	For the year ended December 31,2008
Net asset per share	545.84	461.43
Net income per share – Basic	132.03	87.82
Net income per share – Diluted	131.23	87.31

*Basis of calculation for net income per share and diluted net income per share as follows

Net income per share		
Net income (Millions of Yen)	17,579	11,747
Earnings not allocated to common stock (Millions of Yen)	—	—
Net income for common stock (Millions of Yen)	17,579	11,747
Numbers of weighted average shares outstanding	133,150,302	133,772,262
Net income per share – Diluted		
Adjustment to Net income (Millions of Yen)	—	—
Increased common stock (shares)	811,168	775,805
(stock acquisition right)	(811,168)	(775,805)
Details of shares not included in the computation of Diluted earning per share (Since it did not have dilutive effect)	2,093,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21 were issued on April 28, 2004. 1,768,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21 were issued on October 28, 2004 1,216,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 28, 2006 and regulated by previous commercial law 280-20 and 280-21 were issued on July 10, 2006 2,070,000 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 27, 2007 and regulated by previous commercial law 280-20 and 280-21 were issued on September 14, 2007 1,100,000 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 27, 2007 and regulated by previous commercial law 280-20 and 280-21 were issued on November 26, 2007.	2,093,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21 were issued on April 28, 2004. 1,768,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2004 and regulated by previous commercial law 280-20 and 280-21 were issued on October 28, 2004 2,350,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2005 and regulated by previous commercial law 280-20 and 280-21 were issued on July 22, 2005 2,023,000 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 25, 2005 and regulated by previous commercial law 280-20 and 280-21 were issued on December 14, 2005 1,206,500 stocks which were based on stock acquisition rights and approved at shareholder's meeting on March 28, 2006 and regulated by previous commercial law 280-20 and 280-21 were issued on July 10, 2006 2,070,000 stocks which were based on stock acquisition rights and resolved at board of directors' meeting on August 28, 2007 and regulated by company's act 238 and 240 were issued on September 14, 2007

	For the year ended December 31,2007	For the year ended December 31,2008
		1,100,000 stocks which were based on stock acquisition rights and resolved at board of directors' meeting on November 8, 2007 and regulated by company's act 238 and 240 were issued on November 26, 2007.

(Significant subsequent events)

For the year ended December 31,2007	For the year ended December 31,2007
The Company adopted, at the meeting of the Board of Directors on February 19, 2008, the following share repurchase program that is regulated by company law 165-3 and 156 in order to gain flexibility in implementing its capital policy in response to any changes in the business environment Class of capital stock to be purchased Common Shares of the Company Number of shares to be repurchased Up to 2,000,000 shares (1.48% of the total outstanding shares) Total purchase price Up to 7,000 millions of yen Purchase period From February 20, 2008 to March 31, 2008 Purchase method Transactions through the Tokyo Stock Exchange As a result of the transactions through a stock market, the Company repurchased 1,999,000 shares of its common stock for a total cost of 6,994 millions of yen and completed the share repurchase program on March 19, 2008.	――――――――――――――