TREND MICRO INC
Form 6-K
February 13, 2002

FORM 6-K

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

Commission File Number:333-10486

For the Month of January 2002

Trend Micro Incorporated
(Translation of registrant's name into English)

Odakyu Southern Tower, 10th Floor, 2-1, Yoyogi 2-chome,
Shibuya-ku, Tokyo 151-8583, Japan
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F X   Form 40-F ____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____   No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-__________

Information furnished on this form:

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1. Press release dated February 6, 2002 announcing results for the Fiscal Year Ended December 31, 2001.

2. Digest of Consolidated Earnings results for the Fiscal Year Ended December 31, 2001 (English translation).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Trend Micro Incorporated

Date: February 12, 2002

By: /s/ Mahendra Negi

Mahendra Negi
Director and Chief
Financial Officer

Attachment 1

Immediate release
Trend Micro Reports Record Fourth Quarter Revenue
Fourth Quarter Revenue Grows 57% to (Yen)10,838 Million under Japan GAAP

Tokyo, JAPAN - February 6, 2002 - Trend Micro Incorporated (TSE:4704, Nasdaq:TMIC), a worldwide leader in network antivirus and Internet content security solutions, today announced financial results for the fourth quarter ended December 31, 2001: consolidated net revenue was 10,838 million yen, an increase of 57% from the fourth quarter of FY2000, operating income climbed 51% to 3,916 million yen and ordinary income was up 72% to 4,239 million yen.

If the results were not adjusted in accordance with a new revenue recognition policy, net revenue, operating income and ordinary income would have grown by 77% to 12,247 million yen, 106% to 5,325 million yen and 129% to 5,648 million yen respectively.

"Given the difficult economic conditions faced by the technology sector in general, we are gratified that our innovative products and dedicated employees led to this result", said Steve Chang, CEO of Trend Micro. "We are even more excited to be leaving the year on the strongest possible note with our strongest quarter of the year."

Summary of Results for the Fourth Quarter of the fiscal year 2001

(in million yen, unaudited)	Three Month Ended December 31, 2001	Three Month Ended December 31, 2000	Change
Net sales	10,838	6,903	57%
Operating Income	3,916	2,588	51%
Ordinary Income	4,239	2,461	72%

[not adjusted for the new revenue recognition policy]

(in million yen, unaudited)	Three Month Ended December 31, 2001	Three Month Ended December 31, 2000	Change

Net sales	12,247	6,903	77%
Operating Income	5,325	2,588	106%
Ordinary Income	5,648	2,461	135%

For the annual results of the fiscal year ended December 31, 2001, the company reported consolidated net revenue of 31,326 million yen, ordinary income of 9,549 million yen and net income of 2,421 million yen.

Summary of Results for the fiscal year 2001

(in million yen)	The Fiscal Year Ended December 31,		Change
	2001	2000	
Net sales	31,326	21,834	43%
Operating Income	9,481	7,443	27%
Net Income	2,421	4,722	-49%

[not adjusted for the new revenue recognition policy]

(in million yen)	The Fiscal Year Ended December 31,		Change
	2001	2000	
Net sales	33,652	21,834	54%
Operating Income	11,807	7,443	59%
Net Income	5,555	4,722	18%

Description of the change of the recognition policy

Until the end of FY 2000, the Company (Japan) and Trend Micro Incorporated (Taiwan) booked revenue for Premium Support and other post-contract customer support services at the beginning of the support period. Effective from FY 2001, the method of recognizing this revenue recognition has been changed and sales revenues from customer support are deferred over the relevant support period. Under Japanese GAAP, Trend Micro is not required to restate its financial statements because of a change in its revenue recognition policy and has chosen not to do so in this case.

Financial Outlook

Trend Micro expects consolidated net revenue for the fiscal year 2002 of 40,000 million yen, ordinary income of 13,000 million yen and net income of 7,300 million yen.

For the first quarter of the fiscal year 2002, the company estimates consolidated net revenue will be between 8,500 million yen and 9,100 million yen, ordinary income between 2,300 million yen and 2,700 million yen and net income between 1,300 million yen and 1,500 million yen.

Highlights of 2001

Exceptional Growth - The IDC named Trend Micro the fastest-growing antivirus vendor and the worldwide leader in server-based antivirus software sales. Specifically, it found Trend Micro to be the global leader in the following segments of the antivirus industry in 2000:

- #1 in overall server AV market share - 33% market share
- #1 in Internet gateway AV market share - 63% worldwide market share
- #1 in groupware AV market share - 31% worldwide market share

New Customers - Trend Micro boosted its Fortune 1000 client base by securing many new enterprise customers, including HSBC, IBM, BMW, Commerzbank Securities, Conoco, Fuji Bank, Mitsubishi Heavy Industries, NEC, Asahi, Sprint, Sony, Colt, Deloitte & Touche, Ogilvy & Mather, and Verizon Wireless, the European Aeronautic Defence and Space Company (EADS) and Pemex. New government and institutional accounts included the US Army, Social Security Administration, Departments of Justice and Transportation, and Census Bureau, the Australian Defence Force, Italy's Ministry of Foreign Affairs, Malaysia's Ministries of Education and Employment, the Tokyo Metro government, City of San Francisco and the National University of Singapore.

Broadband and Wireless Initiatives Trend Micro unveiled GateLock(TM), an all-in-one plug-and-play device for broadband Internet connections offering security against hackers, viruses and other intruders, and released PC-cillin(R) for Wireless 2.0 supporting Palm OS, Microsoft Pocket PC, and Symbian EPOC platforms to help enable secure wireless communications.

Awards and Recognition - Trend Micro enterprise and desktop products continued to gather accolades from numerous publications. ScanMail for Microsoft Exchange and ScanMail eManager were PC Magazine's Editors' Choice for best enterprise email security solution. PC-cillin was named a "must-have" by PC World and an Editor's Choice by Australian PC Magazine; while its Japanese version, Virus Buster, picked up a Best Personal Computer Software Award from Nikkei Business. InterScan(R) VirusWall(R) and eManager were 'Highly Commended' at the Secure Computing Academy Awards 2001. Trend Micro was voted "Best Vendor" by the system integrator

community at VARVision(R) Spring 2001, and HouseCall finished first in a test of online virus scanners for PC World (German edition). Trend Micro also received a US patent for its active content security technology, used in AppletTrap to guard against harmful Java applets and ActiveX controls.

Notice Regarding Forward Looking Statements
These forward-looking statements include statements regarding our expectations about our earnings for the fiscal year ending December 31, 2002.

Many important factors could cause our actual results to differ materially from those expressed in our forward-looking statements. These factors include:

-Customer acceptance of our new products and services

-The impact of competing products and services

-Difficulties in adapting our products and services to the Internet

-Difficulties in addressing new virus and other computer security problems

-The potential lack of attractive investment targets and difficulties unsuccessfully executing our investment strategy

-Declining prices for our products and services

We assume no obligation to update any forward-looking statements.

For more details regarding risk factors relating to our future performance, please refer to our filings with the SEC including our annual report on Form 20-F which was filed on June 29,2001.

About Trend Micro
Trend Micro Inc. is a leader in network antivirus and Internet content security software and services. The Tokyo-based Corporation has its North American headquarters in Cupertino, CA, and business units worldwide. Trend Micro products are sold directly, through corporate, value-added resellers and managed service providers. For additional information and evaluation copies of all Trend Micro products, visit www.antivirus.com or www.trendmicro.com.

TREND MICRO INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

Account	Period	FY 2001 (From January 1, 2001 To December 31, 2001)		FY 200 (From Januar To December	
		Amount	Percentage	Amount	Perc
			%		
I	Sales	31,326,320	100.0	21,834,797	
II	Cost of sales	1,898,970	6.1	1,474,689	
	Gross profit	29,427,350	93.9	20,360,107	
III	Selling, general and administrative expenses	19,946,331	63.6	12,916,789	
	Operating income	9,481,018	30.3	7,443,318	
IV	Non-operating income	1,064,688	3.4	660,295	
V	Non-operating expenses	996,517	3.2	780,900	
	Ordinary income	9,549,189	30.5	7,322,712	
VI	Unusual gains	-	-	1,035,812	
VII	Unusual losses	5,180,970	16.6	7,805	

Income before taxes	4,368,218	13.9	8,350,719
Corporate, inhabitant and enterprise tax	4,205,850	13.4	4,560,562
Income tax - deferred	(2,258,958)	(7.2)	(939,507)
Minority interest income	-	-	6,845
Net income	2,421,326	7.7	4,722,818

TREND MICRO INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEET DATA

ASSETS

(Thousa

Period	FY 2001 (As of December 31,2001)		FY 2000 (As of December 31,2000)	
Account	Amount	Percentage	Amount	Percentage
		%		%
(Assets)				
I Current assets				
1. Cash and bank deposits	40,853,417		24,435,471	
2. Notes and accounts receivable,trade	12,280,759		8,780,266	
3. Marketable securities	-		1,872,520	
4. Inventories	238,881		318,187	
5. Deferred tax assets	3,209,029		1,562,172	
6. Other current assets	786,996		607,143	
7. Allowance for bad debt	(206,752)		(137,398)	
Total current assets	57,162,330	87.5	37,438,364	85.5
II Non current assets				

1.	Property and equipment				
(1)	Buildings	703,877		302,722	
(2)	Furniture and fixture	1,290,269		909,075	
(3)	Others	18,727		10,849	
	Total property and equipment	2,012,873	3.1	1,222,648	2.8
2.	Intangibles				
(1)	Software	661,116		241,385	
(2)	Software in progress	400,202		163,629	
(3)	Software Copyright	-		9,312	
(4)	Consolidation Goodwill	-		2,253,559	
(5)	Others	49,141		72,940	
	Total intangibles	1,110,461	1.7	2,740,827	6.2
3.	Other assets				
(1)	Investments in Securities	2,529,142		600,198	
(2)	Investments in capital funds	707,389		928,119	
(3)	Deferred tax Assets	926,772		301,123	
(4)	Others	882,995		586,276	
(5)	Allowance for bad debt	(14,617)		(15,534)	
	Total other assets	5,031,681	7.7	2,400,183	5.5
	Total non-current assets	8,155,017	12.5	6,363,659	14.5
	Total assets	65,317,347	100.0	43,802,023	100.0

LIABILITIES AND SHAREHOLDERS' EQUITY

		Period	FY 2001		FY 2000	
			(As of December 31,2001)		(As of December	
Account			Amount	Percentage	Amount	Per
					%	
	(Liabilities)					
I	Current liabilities					
1.	Notes and accounts payable, trade		1,381,995		929,280	
2.	Current portion of Long-term Debt		3,000,000		-	
3	Current portion of long-term borrowing		-		57,200	
4	Accrued corporate tax and others		3,006,182		1,877,631	
5.	Deferred revenue		9,342,597		2,350,813	
6.	Allowance for sales return		643,622		509,168	
7.	Others		4,185,534		1,715,783	
	Total current liabilities		21,559,933	33.0	7,439,877	
II	Long-term liabilities					
1.	Long-term debt		11,500,000		9,700,000	
2.	Long-term borrowing		-		99,900	
3.	Deferred revenue		916,873		239,439	
4.	Accrued pension and severance costs		-		85,896	
5	Allowance for Retirement Benefit		313,082		-	
6	Others		126,399		-	
	Total long-term liabilities		12,856,355	19.7	10,125,236	
	Total liabilities		34,416,288	52.7	17,565,113	
	(Shareholders' equity)					

I	Common stock	6,833,677	10.5	6,182,838
II	Suspense receipt on capital Subscriptions	-	-	427
III	Additional paid-in capital	11,236,702	17.2	10,842,946
IV	Consolidated Retained earnings	11,978,410	18.3	9,557,084
V	Valuated differences on other securities	21,735	0.0	-
VI	Cumulative translation adjustment	852,595	1.3	(324,477)
		30,923,122	47.3	26,258,818
VII	Treasury stock	(22,063)	(0.0)	(21,908)
	Total shareholders' equity	30,901,059	47.3	26,236,910
	Total liabilities and shareholders' equity	65,317,347	100.0	43,802,023

Attachment 2

February 6, 2002

Digest of Consolidated Earnings Results
for the Fiscal Year Ended December 31, 2001

Company: Trend Micro Incorporated Tokyo Stock Exchange 1/st/ section
Code: 4704 Location: Tokyo
Contact person: Position: Director, Chief Financial Officer

Name: Mahendra Negi (Phone: 81-3-5334-3600)
Date of the board of directors meeting: February 6, 2002
The company has prepared this document under Japan GAAP.

1. Financial Highlights for FY 2001 (January 1, 2001 through December 31, 2001)

(1) Consolidated Results of Operations

(All figures are r

	(Compared to	(Compared to

	Sales	the previous year)	Operating income	the previous year)	
	Millions of yen	%	Millions of yen	%	Mi
FY2001	31,326	(43.5)	9,481	(27.4)	9
FY2000	21,834	(58.9)	7,443	(75.0)	7

	Net income	(Compared to the) previous year	Net income per share (basic)	Net income per share (diluted)	Return on shareholder equity
	Millions of yen	%	Yen	Yen	%
FY2001	2,421	(- 48.7)	18.40	18.23	8.5
FY2000	4,722	(91.5)	72.44	70.78	21.1

(Note) 1) Loss on investment in affiliated companies: - 129 millions
- 87 millions

2) Number of weighted average shares outstanding: 131,594,913
65,194,481

3) The company made a change in accounting principle during the period.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
FY 2001	65,317	30,901	47.3
FY 2000	43,802	26,236	59.9

(Note) Number of shares issued at the end of fiscal year : 132,043,182 shares (FY 2001)
65,560,421 shares (FY 2000)

(3) Consolidated Cash Flow

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities
	Millions of yen	Millions of yen	Millions of yen
FY 2001	12,563	-2,918	5,460
FY 2000	7,776	-4,141	4,804

(4) Basis of consolidation and investments in affiliated companies:
The number of consolidated subsidiaries ....
The number of unconsolidated subsidiaries accounted by the equity method...................
The number of affiliated companies accounted by the equity method ....

(5) Change in reporting entities:
Changes in the subsidiaries and affiliates
(Subsidiaries) Two subsidiaries were newly consolidated and none was excluded from consolidation.

(Affiliates) Equity method of accounting was newly applied to one affiliated company.

2. Projected consolidated earnings

(1) Projected earnings for the next fiscal year (January 1, 2002 through December 31, 2002)

	Sales	Ordinary income
	Millions of yen	Millions of yen
FY 2002	40,000	13,000

Projected consolidated net income per share for the next fiscal year : 55.28 Yen

(2) Projected earnings for the next quarter (January 1, 2002 through March 31, 2002)

	Sales	Ordinary income
	Millions of yen	Millions of yen
1/st/ Qtr	8,500 to 9,100	2,300 to 2,700

(Note) Surrounding environment of Trend Micro Group may change significantly in very short period of time. Therefore, the Company has decided to disclose projected earnings range in a quarterly basis, but the actual earnings may deviate from the projection.

[Supplementary information on the results (January 1, 2001 through December 31, 2001)]

Sales revenues Trend Micro Group are mainly derived from licensing of its products, upgrading of its products and patterns files and post-contract support including customer support. Until December 31, 2000, the Company and Trend Micro Incorporated (Taiwan) had recognized sales revenues from customer support (which was included in post-contract support) at the beginning of the relevant support period. Effective January 1, 2001, the method of the revenue recognition has been changed and sales revenues from customer support are deferred and recorded as Deferred Revenue under current or non-current liabilities over the relevant support period.

For convenience of comparison, actual current fiscal year result, assumed result based on the old accounting policies and their differentials are stated in the below.

	Result of FY2001	Result of FY 2001 (based on Accounting policies applied until previous fiscal year)	Increace
	(millions of Yen)	(millions of Yen)	(mill
Sales	31,326	33,652	(
Ordinary income	9,549	11,875	(
Net income (loss)	2,421	5,555	(
	(Yen)	(Yen)	
Net income (loss) per share	18.40	42.22	(

[Information on net income per share and shareholders' equity per share]

For periodic comparison of restated net income per share and shareholders' equity per share reflecting the effect of stock split on March 31, 2001 is as follows:

	Net income (loss) per share (Yen)	Shareho per
FY2001	18.40	
FY2000	36.22	

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FY2001 (as of December 2001) Attachment to the Report

1. Condition of corporate group

Overview of corporate group

Trend Micro Group consists of Trend Micro Inc., and its 18 subsidiaries which develop and sell anti-virus products and offer other related services and Four affiliated companies are: NTT Data Security Corporation which offers total network securities, Soft Trend Capital Corporation which manages capital funds to be invested into Internet-related ventures, Japan JCN Co., Ltd which develops and offers the security system against unlawful access and NetSTAR Inc. which develops and offers the products of URL filtering.

The business related to anti-virus are described below:

The products related to anti-virus:

PC client products LAN server products Internet server products Other products	Trend Micro Inc develops and sells the products. Some parts of the research and development activities are entrusted to Trend Micro Incorporated (Taiwan), Trend Micro Inc.(U.S.A.), Trend Micro Deutschland GmbH (Germany), Trend Micro (UK) Limited, and Trend Micro (Shanghai) Inc. (China). Trend Micro Incorporated (Taiwan) also operates manufacturing and sales of the products, part of which are purchased by Trend Micro Inc (Japan), Trend Micro Inc.(U.S.A.), Trend Korea Inc., Trend Micro Deutschland GmbH(Germany), Trend Micro Italy S.r.l., Trend Micro Australia Pty. Ltd.(Australia), Trend Micro do Brasil Ltda.(Brazil), Trend Micro France, Trend Micro Hong Kong Limited, Trend Micro(UK)Limited, Trend Micro Latinoamerica S.A.de C.V (Mexico), Trend Micro (Shanghai) Inc. (China). 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.

[GRAPH APPEARS HERE]

(Note) All subsidiaries are consolidated.

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2. Management policies and results of operations

Trend Micro Group's Basic Management Policy
Since its founding, Trend Micro has provided "peace of mind" to all users of computer networks and the Internet by offering anti-virus and Internet content security solutions. We currently have the strong impression that needs of the market to be met by Trend Micro has been changing into larger one in accordance with development of the Internet followed by rapid growth of the market scale of business. Such dramatic change tells us that we have to change our current corporate scheme to sell products through a single sales organization to new global corporate scheme to provide value-added services through the Internet and in addition, that even among the corporations to provide value-added services through the Internet while competing to a greater extent in the market, we should aim at provision of high value-added products and services which show high difficulty level for competitors to develop them to enter the market. Upholding the slogan "your Internet VirusWall," we have become a reliable

partner to both corporate users and individual customers, working to block computer viruses, SPAM (unwanted e-mail) and Malicious Code (harmful programs created in such programs as JAVA and Active X), as well as to protect users from offensive URLs. We continue to contribute to the development of the networked society in Japan and globally by offering network security solutions and devices. We believe that our ongoing efforts to protect users' computer systems and expand our global client base will lead to an increase in shareholders' value.

Basic Policy on the Distribution of Profits
Although Trend Micro has steadily increased its profits in the past few years, we believe that the Internet security market has only begun its full-fledged expansion and that our market share has not stabilized in relation to our U.S. competitors. Our larger rivals may well concentrate their management resources to further enlarge their market share. Since our business areas are more concentrated on anti-virus solutions and Internet content security related solutions than other competitors with diversified Internet security solutions, we also face the possibility of larger profit fluctuations in the short term. In this business environment the most critical management challenges are to strengthen our financial structure and management foundation and aggressively develop new business operations in order to maintain our competitiveness in the market. Our priority, therefore, is to accumulate reserves, which means withholding dividends for the time being. Regarding our accumulated reserves, we would like to ask all shareholders to accept our decision to appropriate them for investment in research and development division to be further strengthened in the future by Trend Micro and for activities to improve brand awareness and corporate image.

Medium and Long-Term Management Strategy
Corporate IT investment has plateaued with the slowdown in North American and European economies. Chilled by this decrease in IT investment, the business climate surrounding Trend Micro is not bright. However, we expect network security solutions, including anti-virus measures, to continue gaining in importance, as more and more corporate users become dependent on using networks, and their systems' problems consequently subject them to huge losses, both in financial terms and opportunity costs. Thus the network security market is expected to grow steadily in the medium-to-long term. To take advantage of this opportunity, we are focusing on maintaining our competitive edge against major U.S. rival companies and expanding our global market share. Utilizing our global resources and networks spanning the United States, Europe and Taiwan, we will continue to strengthen our sales channels, improve brand awareness and corporate image and accelerate the development of products that meet customer needs.
The IT industry is evolving rapidly in conjunction with its constantly changing technology. The next generation of Internet-related technologies, including broadband, mobile communications and open platforms such as Linux, will likely bring about dramatic changes in the network environment. We must seize the opportunities afforded by this high-paced technological evolution, in advance of our major U.S. competitors, while strengthening our management structure and further increasing our operational efficiency.

Summary of Consolidated Financial Results for the fiscal year 2001
The fiscal year under review saw a slowdown in demand within the IT industry, primarily the result of declining corporate IT spending in Japan, Europe and the United States. The corporate spending cuts also put the damper on demand for network security solutions, which have been positioned as a high priority in IT investment. According to the survey conducted by U.S. Information Security in October 2001, it reports that due to the decline in economic environment, about one-third of companies to be surveyed freeze investment in network security related products and degree of freeze on the investment is more distinguished in North America.
Although the business environment has been harsh and we expect some ups and

downs in the short term, we believe the network security market will enjoy steady growth over the medium and long term, as corporations continue to increase IT investment in advanced networks and the renewal of core business systems. In addition, malicious viruses as a new type of virus expanding serious damages over networks these days and typified by "Code Red" programmed to attack the White House computer systems and "Nimda" including a lot of attack tools have increased their number incurring serious damages to users by automatically attacking users'computer systems after detection of inherent vulnerability included therein on the Internet and further, have much more infectious capacity compared with conventional viruses. To vendors who provide network security related products has been directed further increased demand for more effective products and services than ever before. According to the report by Information-technology Promotion Agency (IPA), also in Japan, the frequency with which viruses appear reported in 2001 resulted in the worst figure, i.e., over two times that of last year, indicating the degree of virus-induced damages growing more seriously, and therefore, the recognition of importance in network security has been enhanced to a large extent in the face of dramatic increase in the number of subscribers to communicate through broadband transmission.

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During the fiscal FY2001, Trend Micro domestic operations significantly increased contracts for its Virus Buster Corporate Edition (OfficeScan) and "ServerProtect," winning not only large companies but also medium and small companies. Sales of InterScan, our anti-virus software for Internet servers, rose steadily, in response to the more frequent virus infections spread via e-mail. In addition, by releasing a new product "Virus Buster 2002" timely at the time when malicious viruses continuously infected many systems in the second half of the FY2001, we have succeeded in selling package types of products in the retail market achieving substantial increase in sales amount over the figure planned by Trend Micro. Furthermore, for the same reason, also as for our VirusWall E-Mail Service (Internet Outsourcing Service) operations, through which we offer anti-virus solutions as a service, by forming a partnership with ISP (Internet Service Provider) we succeeded in establishing the way to offer such services via major ISPs, such as @Nifty and OCN, and thus we continue to rapidly increase the number of our contracted customers.
In the phase of deployment of our business operations in North America and Europe, anti-virus products, such as "InterScan" series and "ScanMail" series, used in higher layers of hierarchy of the network mainly contributed to the steady growth in sales of the products for relatively large-sized corporate users. As a highly specialized anti-virus solutions provider, we have pioneered post-contract support services, called "Premium Support," introducing them before our major competitors in the industry. This service is in response to the trend among large corporate users to select a vendor based not only on the performance of its anti-virus software but also on the quality of support the vendor offers during the license period to swiftly alert customers to new viruses. In addition, in response to the growing needs for anti-virus measures against attack to storage systems in the network, two products, "ServerProtect for EMC Celerra" and "ServerProtect for Network Appliance," have joined our product lineup as a new product of "ServerProtect" series.

Security appliance server business for medium and small companies, which had been handled by our subsidiary ipTrend Incorporated, did not bring about the result to be achieved in building a solid client base of medium and small companies because of the harsh economic environment surrounding medium and small companies of Japan. IpTrend's Linux and Unix hardware-related technology has played an important role in the development of our next-generation anti-virus product for consumers, GateLock, and continues to be a crucial part of our group. However, the company's ipStax security appliance server business for small- and medium-sized companies urgently needed a restructuring review. We decided to dissolve ipTrend and integrate its operations into Trend Micro, while strategically reorganizing its operations and utilizing its technology in our anti-virus products. This integration and reorganization resulted in our writing off the entire goodwill of 2,000 million yen as a one-time amortization charge during the first half of FY2001. This goodwill had been recognized as a portion of the purchase price when we acquired ipTrend (formerly Nippon Unisoft).

Starting with the first quarter of FY2001, Trend Micro (Japan) and Trend Micro Incorporated (Taiwan) changed their accounting method for revenues from post-contract support services. Sales revenues for these services had been booked at the beginning of the support period; the new method defers the recognition of sales revenues from support services and recognizes as revenue over the support period. This new accounting treatment will reflect these transactions more accurately, and has been applied to all our financial filings with the Securities and Exchange Commission (SEC), including our Form 20-F filing, which was submitted on June 29, 2001. The conversion to deferred revenue recognition resulted in an extraordinary loss of 3,009 million yen for our half-year results.

During the fiscal year 2001, Trend Micro posted consolidated sales of 31,326 million yen, an increase of 43.5 percent over the last year. Consolidated ordinary income increased 30.4 percent to 9,549 million yen, while net income decreased 48.7 percent to 2,421 million yen.
(Sales in all geographical areas grew steadily during the first half of FY2001.) Sales in Japan posted an increase of 81.6 percent to 19,029 million yen, while operating income from these sales rose to 13,299 million yen, up 112.1 percent from the comparable period in FY2000. U.S. sales increased 41.3 percent to 11,107 million yen, with operating income totaling 1,070 million yen, a 58.8 percent decrease. In Europe, sales increased 61.5 percent to 6,881 million yen, and operating income decreased 65 percent to 532 million yen. Taiwan sales increased 48.1 percent to 4,184 million yen, and operating loss resulted 143 million yen from the previous period. Other areas posted combined sales of 1,979 million yen, a 54.8 percent increase, and operating income of 171 million yen, down 53.1 percent.

Prospects for next period

We expect the economies of Japan, Europe and the United States to continue their sluggish performance in 2002, further restraining corporate spending on IT. Our industry seriously suffered from expanded damages incurred by new type of viruses such as "Code Red" and "Nimda" last year, and even the company, which already had introduced and was running the network security related products, reported receiving frequent damages incurred by sophisticated polymorphic attacks by those new viruses having strong infecting power. Therefore, when selecting a network security product vendor, in addition to a quality of products, corporate users now are directing their eyes to an ability to show competitive edge against rival vendors in offering a total solution, which includes such critical elements as a quick and effective support and an effective system integration of the vendor's products and other network security products such as a firewall or an IDS (Intrusion Detection System: anti-unauthorized access system). Naturally, our competitors will likely well concentrate their management resources to provide new products and services to obtain such competitive edge. In consideration of those circumstances surrounding our company, we have decided to continuously expand and strengthen our operational resources in developing products and supporting users to meet customer needs in advance of competitors, powered by our competitive edge as a highly specialized provider to offer anti-virus content security solutions and strong partnerships with main vendors who provide network security products for other fields, such as firewall and IDS. Furthermore, we have determination to concentrate our management resources to further enlarge our share in each market by making effort to provide our products and services broader than ever

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before in the market for medium and small companies and the retail market, and offering more sophisticated solutions in the market for large-sized companies. As for our business development in the North American market, we have decided to newly enter the retail market and at the same time strengthen marketing activities to improve brand awareness and corporate image followed by expansion of customer base from leading medium-sized companies to small- and medium-sized companies. With respect to our business strategy for the European market, we will also strengthen marketing activities, as will be done in the North American market, to improve brand awareness and corporate image to increase our share mainly in the market for leading companies. Furthermore, we will accelerate operational efficiency and integration throughout our European business sites while strengthening our sales channels to maintain and further increase corporate growth rate.
The above-stated commitments make us forecast the following consolidated operating results for FY2002:

Projections for FY 2002(January 1, 2002 through December 31, 2002)

Consolidated sales: 40,000 million yen (+ 27.7 %)
Consolidated ordinary income: 13,000 million yen (+ 36.1 %)
Consolidated net income: 7,300 million yen (+ 201.5 %)

Projections for the first quarter of FY2002 (January 1, 2002 through March 31, 2002)

Consolidated sales: 8,500 million yen to 9,100 million yen
Consolidated ordinary income: 2,300 million yen to 2,700 million yen
Consolidated net income: 1,300 million yen to 1,500 million yen

Earnings projections are calculated based on estimated major currency exchange rates of $1 = 130 yen and 1 EUR = 110 yen.

We would be very grateful if all shareholders could accept our decision to defer distribution of profits of FY2002 following the previous fiscal year and appropriate our accumulated reserves for research/development division and marketing activities to improve brand awareness and corporate image in the North American market, and for promotion of activities to sell new product "GateLock" in Japan and North America, in order to maintain and strengthen our competitiveness against U.S. rival companies in the market.

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3. Condensed Consolidated Financial Statements

(1) Condensed consolidated balance sheets

Period	FY 2001		FY 2000	
	(As of December 31, 2001)		(As of December 31,	
Account	Amount	Percentage	Amount	Per

				%	
	(Assets)				
I	Current assets				
1.	Cash and bank deposits		40,853,417		24,435,471
2.	Notes and accounts receivable,trade		12,280,759		8,780,266
3.	Marketable securities		-		1,872,520
4.	Inventories		238,881		318,187
5.	Deferred tax assets		3,209,029		1,562,172
6.	Others current assets		786,996		607,143
7.	Allowance for bad debt		(206,752)		(137,398)
	Total current assets		57,162,330	87.5	37,438,364
II	Non current assets				
1.	Property and equipment	*1			
(1)	Buildings	*3	703,877		302,722
(2)	Furniture and fixture		1,290,269		909,075
(3)	Others		18,727		10,849
	Total property and equipment		2,012,873	3.1	1,222,648
2.	Intangibles				
(1)	Software	*3	661,116		241,385
(2)	Software in progress		400,202		163,629
(3)	Software Copyright		-		9,312
(4)	Consolidation Goodwill		-		2,253,559
(5)	Others		49,141		72,940
	Total intangibles		1,110,461	1.7	2,740,827
3.	Other assets				
(1)	Investments in Securities	*2,4	2,529,142		600,198
(2)	Investments in capital funds		707,389		928,119
(3)	Deferred tax Assets		926,772		301,123
(4)	Others		882,995		586,276

(5)	Allowance for bad debt	(14,617)		(15,534)
	Total other assets	5,031,681	7.7	2,400,183
	Total non-current assets	8,155,017	12.5	6,363,659
	Total assets	65,317,347	100.0	43,802,023

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Account	Period		FY 2001 (As of December 31, 2001)		FY (As of Dece
			Amount	Percentage	Amount
				%	
	(Liabilities)				
I	Current liabilities				
1.	Notes and accounts payable, trade		1,381,995		929,280
2.	Current portion of Long-term Debt	*4	3,000,000		-
3	Current portion of long-term borrowing	*3	-		57,200
4	Accrued corporate tax and others		3,006,182		1,877,631
5	Deferred revenue		9,342,597		2,350,813
6.	Allowance for sales return		643,622		509,168
7.	Others		4,185,534		1,715,783
	Total current liabilities		21,559,933	33.0	7,439,877
II	Long-term liabilities				
1.	Long-term debt	*4	11,500,000		9,700,000
2.	Long-term borrowing	*3	-		99,900
3.	Deferred revenue		916,873		239,439
4.	Accrued pension and severance costs		-		85,896
5	Allowance for Retirement Benefit		313,082		-
6	Others		126,399		-

	Total long-term liabilities	12,856,355	19.7	10,125,236
	Total liabilities	34,416,288	52.7	17,565,113
	(Shareholders' equity)			
I	Common stock	6,833,677	10.5	6,182,838
II	Suspense receipt on capital Subscriptions	-	-	427
III	Additional paid-in capital	11,236,702	17.2	10,842,946
IV	Consolidated Retained earnings	11,978,410	18.3	9,557,084
V	Valuated differences on other securities	21,735	0.0	-
VI	Cumulative translation adjustment	852,595	1.3	(324,477
		30,923,122	47.3	26,258,818
VII	Treasury stock	(22,063)	(0.0)	(21,908
	Total shareholders' equity	30,901,059	47.3	26,236,910
	Total liabilities and shareholders' equity	65,317,347	100.0	43,802,023

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(2) Condensed consolidated income statements

Account	Period		FY 2001 (From January 1, 2001 To December 31, 2001)		FY (From Janua To Decembe
			Amount	Percentage	Amount
				%	
I	Sales		31,326,320	100.0	21,834,797
II	Cost of sales		1,898,970	6.1	1,474,689
	Gross profit		29,427,350	93.9	20,360,107
III	Selling, general and administrative expenses	*1	19,946,331	63.6	12,916,789
	Operating income		9,481,018	30.3	7,443,318

IV	Non-operating income	*2	1,064,688	3.4	660,295
V	Non-operating expenses	*3	996,517	3.2	780,900
	Ordinary income		9,549,189	30.5	7,322,712
VI	Unusual gains	*4	-	-	1,035,812
VII	Unusual losses	*5	5,180,970	16.6	7,805
	Income before taxes		4,368,218	13.9	8,350,719
	Corporate, inhabitant and enterprise tax		4,205,850	13.4	4,560,562
	Income tax - deferred		(2,258,958)	(7.2)	(939,507
	Minority interest income		-	-	6,845
	Net income		2,421,326	7.7	4,722,818

(3) Consolidated statement of retained earnings

Account	Period	FY 2001 (From January 1, 2001 To December 31, 2001)	FY (From Janua To Decembe
		Amount	Amo
I	Beginning balance of consolidated retained earnings	9,557,084	
II	Net income	2,421,326	
III	Ending balance of consolidated retained earnings	11,978,410	

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(4) Condensed Consolidated Cash Flow Statement

(T

Account	Period	(From January 1, To December 31,

I Cash flows from operating activities

1.	Income before taxes	4,368,
2.	Depreciation	1,350,
3.	Amortization for Consolidation goodwill	2,253,
4.	Investment loss due to equity method accounting	129,
5.	Increase (Decrease) in allowance for bad debt	62,
6.	Decrease in accrued pension and severance costs	(85,
7.	Increase in allowance for retirement benefits	307,
8.	(Decrease) Increase in allowance for sales returns	134,
9.	Interest Income and Dividends earned	(393,
10.	Interest Cost	296,
11.	Bond-issuing expense	108,
12.	Gain on sales of marketable securities	
13.	Evaluation loss on marketable securities	
14.	Loss on evaluation of investment in capital funds	220,
15.	Loss on disposal inventories	150,
16.	Loss on repurchased treasury stock	12,
17.	Unusual gain from settlement of lawsuit	
18.	Decrease (Increase) in accounts receivables	(2,857,
19.	Decrease (Increase) in inventories	(62,
20.	Increase in account payables	360,
21.	Increase in deferred revenue	7,168,
22.	(Increase) Decrease in others current assets	(41,
23.	Increase in other current liabilities	2,203,
24.	Others	(423,
	Sub-Total	15,262,
25.	Receipts of interest	403,
26.	Payments for interest	(284,
27.	Receipts of lawsuit settlement	
28.	Payments for corporate taxes	(2,817,
	Net cash flow from operating activities	12,563,
II	Cash flows from investment activities	
1.	Payments for time-deposit	(70,
2.	Proceeds from sales of marketable securities	
3.	Proceeds from matured bond	
4.	Payments for acquired tangible and intangible fixed assets	(2,729,
5.	Payments for investment in securities	(2,929,
6.	Proceeds from sale of investment in securities	2,811,
7.	Payments for investment in subsidiaries affected to consolidation	
8.	Payments for additional acquisition of consolidated subsidiary's Stock	
9.	Others	
	Net cash flow from *used(by investing activities	(2,918,
III	Cash flows from financing activities	
1.	Payments for short-term borrowings	
2.	Payments for long-term borrowings	(157,
3.	Proceeds from bond with detachable warrants	12,500,
4.	Payments for bond-issuing expense	(108,
5.	Payments for bonds maturing	(900,
6.	Payments for repurchasing treasury stock	(6,812,
7.	Proceeds from marketable securities issuing	958,
8.	Proceeds (Payments) for treasury stocks, net	(13,
9.	Others	(7,
	Net cash flow provided *used(by financing activities	5,460,

IV	Translation difference with Cash and Cash Equivalents	1,241,
V	Increase (Decrease) in Cash and Cash Equivalents	16,347,
VI	Beginning balance of Cash and Cash Equivalents	24,435,
VII	Ending balance of Cash and Cash Equivalents	40,782,

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Significant accounting policies and practices for preparing consolidated financial statements

	FY 2001 (From January 1, 2001 to December 31, 2001)
1. Basis of consolidation	All subsidiaries are consolidated. The subsidiaries are the following 18 companies: Trend Micro Incorporated (Taiwan) Trend Micro Inc. (USA), Trend Korea Inc. Trend Micro Italy S.r.l. Trend Micro Deutschland Gmbh (Germany) Trend Micro Australia Pty.Ltd Trend Micro do Brasil Ltda. (Brazil), Trend Micro France Trend Micro Hong Kong Limited Trend Micro Incorporated Sdn.Bhd (Malaysia). Trend Micro (UK) Limited Trend Micro Latinoamerica S.A.de C.V. (Mexico) Wells Antivirus Research Laboratory, Inc.(U.S.A.) Trend Micro (NZ) Limited (Newzealand) ip Trend Incorporated (Tokyo Shibuya-ku) ip Trend Incorporated (Tokyo Chuo-ku) ipTrend Incorporated (Taiwan) Trend Micro (Shanghai) Inc. (China) Trend Micro Incorporated Sdn.Bhd. (Malaysia), ipTrend Incorporated (Taiwan) are on the process of the liquidation. Additionaly, Wells Antivirus Research Laboratory, Inc. (U.S.A.) has been dissolved in June 2001, and ipTrend Incorporated (Tokyo, Shibuya-ku) and ipTrend Incorporated (Tokyo, Chuo-ku) have been dissolved in December 2001. ipTrend Incorporated (Tokyo, Chuo-ku) has been moved the office to Tokyo Shibuya-ku in August 2001.

2. Basis of applying equity method	Equity method is applied to investment in affiliated companies NTT Data Security Corporation (Japan) Soft Trend Capital Corporation (Japan) JCN Co.,Ltd (Japan) Net Star Inc. (Japan) Total 4 companies
3. Fiscal year of consolidated subsidiaries	All financial statements included in a set of consolidated financial statements are prepared as of the same date.

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4. Accounting policies and practices

(1) Valuation of significant assets

(1) Securities

Other securities:

Other securities with fair market value:

The securities are stated at the market value method based on the value at the end of the period (valuated differences are recognized in equity directly, not to reflect to net earnings and cost of selling is determined by the weighted average method.)

Other securities without a market value:

The securities are stated at the weighted average cost.

(Additional information)

Effective January 1, 2001, the company began to apply "Accounting Standard for financial instruments" ((Argument of establishment for Accounting Standard for Financial Instruments") Business Accounting Deliberation Council, January 22, 1999)) for the financial instruments. Cumulative effect of change in this accounting principle are resulted in increase of ordinary income by 77,483 thousand yen and income before taxes by 772,483282 thousand yen. In addition, the change of classification resulted in decrease of other securities in "Investment in securities" by 25,362 thousand yen and "Deferred tax assets" of 10,664 thousand yen was recognized. As a result,-14,697 thousand yen of "Valuated difference on other securities" is recognized under Shareholders equity (The difference from 21,735 thousand yen disclosed on the consolidated balance sheet is caused by the translation of security in foreign currencies).

Finally, the company evaluated Other securities owned for holding purposes at the beginning of fiscal year. The company changed classification of such securities included in Current assets to Investment in securities.

This change in classification resulted in decrease of Marketable securities under Current assets and in increase of Investment in securities by 1,872,475 thousand yen.

(2) The transaction of derivatives

The market value method

(Additional information)
For the financial instruments, "Accounting Standard for financial instruments" ((Argument of establishment for Accounting Standard for Financial Instruments") Business Accounting Deliberation Council, January 22, 1999)), is applied from the current consolidated fiscal year.
This change has resulted in decrease of "Ordinary income" by 11,986 thousand yen and "Income before taxes".

(3) Inventories
Finished goods - Raw materials - Supplies -
Finished goods, raw materials and supplies are stated at the weighted average cost.
In Trend Micro Incorporated (Taiwan) and Trend Micro Inc. (U.S.A), such inventories are stated at the cost being determined by the first-in-first-out method.

Work in process and Expense for Finished Goods
Work in process and Expense for finished goods are stated at the cost being determined by accumulated production and development cost for individual projects.

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(2) Depreciation and amortization

(1) Property and equipment
Parent company and domestic consolidated subsidi
Depreciation is computed by declining-balance me

Foreign consolidated subsidiaries -
Depreciation is computed by a straight-line meth

(2) Intangibles

Parent company and domestic consolidated subsidia
(Software for sale)
Straight-line method over the estimated useful li

(Software for internaluse)
Straight-line method over the estimated useful li

(Other intangibles)
Straight-line method

*Foreign consolidated subsidiaries

(Software for internaluse)
Straight-line method over the estimated economic

(3) Accounting for significant deferred assets

Issueing costs of stocks and bonds are changed to expe

(4) Accounting policies for significant provisions

(1) Allowance for doubtful accounts

As contingency against losses from default of note
allowance for doubtful accounts is provided. The a
percentage based on own actual doubtful account lo
amount, which takes into consideration the possibi
liabilities.

(Additional information)
From the current consolidated fiscal year, the com
Standards for financial instruments" ((Argument of
Standard for Financial Instruments") Business Acco
January 22, 1999)) for the accounting of Allowance
adoption had no significant effect.

(2) Allowance for sales return
In order to reserve future losses from sales retur
end, allowance for sales return is provided based
return.

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(3) Allowance for retirement be

In order to reserve future
employees, allowance for re
based on retirement benefit
the end of the period under
by change in accounting pri
recognized as an expense un

(Additional Information)
Form the current consolidat
"Accounting Standards for R
(("Argument of establishmen
Retirement Benefits Obligat
Deliberation Council, June
The adoption resulted in in
expense by 168,807 thousand
income by 48,042 thousand y
taxes by 167,119 thousand y
severance costs, which was
year, is included and discl

The effect on segment infor

information).

(5) Translation of major foreign-currency assets and liabilities into Yen

Foreign-currency financial receivabl
into yen at the spot rate effective at
differential is treated as a profit/lo
liabilities held by overseas subsidiar
spot rate effective at the end of the
overseas subsidiaries are translated i
the period. Exchange differential is i
adjustment" under Shareholders' equity

(Additional information)
From the current consolidated fiscal y
accounting standards for foreign curre
Revision of Accounting Standards for F
issued by Business Accounting Delibera
The adoption had no significant effect

(6) Accounting for leased assets

Finance leases without tran
assets are accounted for in
operating leases.

(7) Accounting for consumption tax

Transactions subject to consumption ta
the related consumption tax.

(8) Accounting treatment for stock warrants and stock option granted to directors and some employees under the Company's incentive plan

The parent company and its subsidiaries have adopte
which warrants to purchase directors and some emplo
incentive plan parent company shares were granted t
Employees. Under these plans, the parent company is
warrants and immediately repurchased all of the war
In addition, our U.S. subsidiary adopted an incenti
shares, that were transferred to a special purpose
shareholders, and from the current fiscal year, bas
the compensation plan of stock option (subscription
certain employees of the company and subsidiaries t
entrepreneur on the Industrial Revitalization Speci
certain directors and employees (these three plans
"stock option plan").
The total compensation cost under the stock option
between the quoted market price of the parent compa
(the first date on which both the number of shares
to receive and the exercise price are known (normal
price and is recognized as expense over the exercis
The warrant portion of the bonds with detachable wa
option plan is recorded as "warrant account" in cur
bonds and eliminated upon repurchasing the warrants
The accounting policy on compensation cost is the s
For the purpose of unification of accounting polici
and results of operation as a group more accurately
consolidation of parent company and its subsidiarie
have been adjusted through consolidation.
The adjustment of the parent company's financial st
process of consolidation, resulted in an increase i
and income before taxes of 293,655 thousand yen eac
after tax of 170,173 thousand yen.

In addition, the balance of consolidated retained e
consolidated fiscal year is increased by 582,309 th

(9) Change in revenue recognition method for Post Contract Customer Support Service (PCS)	Basically, The product license agreement, which the subsidiaries contract with the end-user, states th support and upgrading of products and its pattern f Until previous consolidated fiscal year, whole reve Micro Incorporated (Taiwan) applied to each product portion of PCS revenue had been recognized when the Effective current consolidated fiscal year, the rev of PCS has changed as follows. Portion of PCS reven total revenue and it is deferred as Deferred revenu Non-current liabilities based on contracted period. recognized for the contracted period evenly.
	As per the tendency of the parent company and Trend the ratio of the consideration of Post Contract Cus than as before. As the result of the above, the com recognition policy on PCS, in order to recognize pr accurately. On the other hand, there is no change f subsidiaries in USA and Europe, the policy has been over for those subsidiaries.

According to the above change, P
yen), which should be deferred b
subsidiary as of the beginning o
to the prior year's revenues, is
adjustment under Unusual losses
Effect of change in method resul
income, Ordinary income 2,326,53
taxes by 5,335,545 thousand yen,

The effect on segment informatio
Information).

5 . Valuation of assets and liabilities of the consolidated subsidiaries	Full fair value method.
6. Amortization of consolidated goodwill	Consolidated goodwill is amortized over 5 to resolution of winding up and liquidatio held in August 3, 2001, consolidated goodw 2000 as purchasing ipTrend Incorporated (e amortized unamortization balance as Unusua consolidated current fiscal period.
7. Appropriation of retained earnings	Consolidated statement of retained earning appropriation of retained earnings which a

8. Definition of cash and cash equivalent in the consolidated cash flow Cash statement	Cash and cash equivalents in the consolida composed of cash in hand, bank deposits st demand and short-term investments with an or less which represent a minor risk of fl

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Notes

(Consolidated balance sheets) (Thousands of yen)

FY 2001 (As of December 31, 2001)		(As of
*1. Accumulated depreciation of property and equipment	1,308,385	*1. Accu pro
*2. Major assets owned toward affiliates Investments in securities	84,928	*2. Majo Inv
*3. Pledged assets and liabilities applied to its assets are as follows:		*3. Pled to its a [Pledged Software Building -------- Total [Liabili Current Long-te Long-ter Borrow -------- Total

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*4 Treasury bonds

In order for the warrants to be granted or transferred to the directors and certain employees of the Company and the directors and certain employees of the affiliated company, the Company issued unsecured bonds with detachable warrants. Under section 341-8-4 of the Business Law, the redemption and retirement of these bonds are restricted when total amount of bonds is less than the total amount of issue price of the stocks from unexecuted warrants. To reduce interest costs, the Company repurchased a part of the issued bonds after warrants were detached. The purpose of the repurchase is to hold the treasury bonds until they can be retired legally and it is same as the redemption substantially.

Thus, bonds and treasury bonds are disclosed in net amount in the balance sheet as follows. The difference between the repurchased price and book value of the treasury bonds at the time of transaction are booked as loss on repurchase of treasury bonds in the unusual loss section.

(Thousands of yen)

	Current liability	Non-current liability
Bonds	3,800,000	17,500,000
Treasury bonds	(800,000)	(6,000,000)
	3,000,000	11,500,000

(Consolidated income statements)

(Thousands of yen)

FY 2001 (From January 1, 2001 to December 31, 2001)	FY 2000 (From January 1, 2000 to December 31, 2000)
*1. Major components of selling, general and administrative expenses	*1. Major components of selling, general and administrative expenses

Advertising and sales promotions	2,617,250	Advertising and sales promotions	2,575,
Salaries and bonuses	5,827,285	Salaries and bonuses	3,748,
Service charge	1,643,626	Service charge	910,
Depreciation expense	462,450	Depreciation expense	343,
Research and development costs	1,901,434	Research and development costs	974,
Amortizaion of consolidated goodwill	252,763	Amortizaion of consolidated goodwill	276,
Software maintenance fee	853,766	Software maintenace fee	966,
*2. Major component of non-operating income		*2. Major components of non-operating income	
Interest income	393,254	Interest income	241,
Foreign exchange gain	567,551	Foreign exchange gain	277,
		Gain on sales of marketable securities	119,
*3. Major components of non-operating expense		*3. Major components of non-operating expense	
Interest expense	296,625	Interest expense	214,
Equity in loss of affiliated companies	129,543	Equity in loss of affiliated companies	87,
Bonds issued cost	108,438	Loss on evaluation of marketable securities	245,
Loss on disposal inventories	150,041		
Loss on eveluation of Investments in capital fund	220,730		
*4. Major components of unusual gains		*4. Major components of unusual gains	
		Gain from lawsuit settlement	1,019,
*5. Major components of unusual losses		* 5. Major components of unusual losses	
Loss on disposal of fixed assets fixed assets	30,307	Loss on disposal of fixed assets	5,
Amortization of Consolidated Goodwill (the component of Unusual Losses)	2,000,795		
Loss on prior year Adjustment (due to change in revenue Recognition)	3,009,009		
Retirement benefit expense	119,077		
Loss on repurchased treasury stock	12,000		

(Consolidated cash flow statement)

(Th

For the current fiscal year	For the previous fiscal
(From January 1, 2001	(From January 1, 200

To December 31, 2001)		To December 31, 200
1. The ending balance of cash and cash equivalents and accounts in the consolidated balance sheet		1. The ending balance of cash and c and accounts in the consolidated
Cash and deposits	40,853,417	Cash and deposits
Time deposit matured Over 3 months (excluded from Cash and deposit)	(70,767)	Marketable securities
Cash and cash equivalents	40,782,649	Cash and cash equivalents

2. The breakdown of assets and liab consolidated subsidiaries which newly. Through acquisition of it breakdown of assets and liabilit the acquisition, acquisition cos expenses incurred through acquis as follows.

Nihon Unisoft Incorporated (Tokyo C
(As of Feb. 29, 2000)

Current Assets	8
Non-current assets	1
Consolidated Goodwill	1,4
Current liabilities	(3
Non-current liabilities	(2
Minority interest	(
Acquisition cost for Nihon Unisoft Incorporated	1,
Cash and cash equivalent of Nihon Unisoft Incorporated	
Net: Actual payment for Acquisition	1,

(*) Present corporate name is ipTren
(Tokyo Chuo-ku)

3. Major non-cash transaction Tax benefit of JPY 1,474,901 thousand due from exercise of stock options that Trend Micro Inc. (U.S.A.) got in previous fiscal year was canceled in this current fiscal year. It resulted to decrease of Additional Paid-in-Capital by 263,978 thousand yen.	3. 3 Major non-cash transaction Trend Micro Inc. (U.S.A.) got tax JPY 1,474,901 thousand in this cur year due from exercise of stoc It resulted to increase of Add Paid-in-Capital.

(Segment Information)

(1) Industry segment information

The company and its subsidiaries operate principally in two industry segments: "security software business" and "Internet-related products/service business". However, industry segment information is not currently disclosed Segment Information based on the ratio of software business related Security since more than 90% of sales, operating income and assets in all segments are from the "security software business". ipTrend Incorporated (Tokyo Shibuya-ku) and ipTrend Incorporated (Tokyo Chuo-ku) which operate "Internet-related products/service business" is liquidated in the current fiscal year. Also, ipTrend Incorporated (Taiwan) has been processed to liquidate.

(2) Geographic segment information

	FY 2001				(From January 1, 2001 to December 31, 2001)	
	Japan	North America	Taiwan	Europe	Others	Tot
I Sales and operating income/loss Sales						
(1) Sales to third parties	12,114,971	8,577,200	1,896,325	6,860,192	1,877,630	31,3
(2) Intersegment sales	6,914,741	2,530,239	2,288,584	21,285	101,687	11,8
Total	19,029,713	11,107,439	4,184,909	6,881,478	1,979,317	43,1
Operating expenses	5,730,025	10,037,183	4,328,060	6,349,022	1,807,521	28,2
Operating income(loss)	13,299,688	1,070,256	(143,150)	532,455	171,795	14,9
II Assets	32,942,562	13,426,526	3,296,190	7,499,876	2,116,496	59,2

	FY 2001				(From January 1, 2001 to December 31, 2001)	
	Japan	North America	Taiwan	Europe	Others	Tot
I Sales and operating income/loss Sales						
(1) Sales to third parties	8,447,154	6,258,300	1,869,024	4,126,420	1,133,898	21,834
(2) Intersegment sales	2,031,350	1,602,229	957,303	135,633	144,804	4,871
Total	10,478,504	7,860,529	2,826,327	4,262,053	1,278,702	26,706
Operating expenses	4,207,010	5,264,325	1,987,241	2,739,898	912,699	15,111
Operating	6,271,493	2,596,204	839,086	1,522,155	366,003	11,594

income(loss)						
II Assets	34,399,769	7,638,018	2,244,741	3,968,890	909,393	49,160

(Notes)

1. Classification of countries and regions is based on geographical proximity.

2. Classificaton of countries and regions into each geographic segment
   North America : U.S.A.
   Europe : Italy, Germany, France, UK
   Others : Korea, Australia, Brazil, Hong Kong, Malaysia, Mexico, New Zealand, China (Note) "China" that classified as "Others" has added since the current consolidated fiscal year.
3. Unallocable operating expense for the current period and the previous period (JPY 6,310 millions and JPY 4,429 millions respectively) in the operating expense is included in "Eliminations or Corporate". Major components are expenses for the administrative department in parent company and research and development costs for our products.
4. Major components of total assets for the current period and the previous period (JPY 18,537 millions and JPY 2,049 millions respectively) with "elimination or corporate" are marketable securities in parent company, copyright and software used to develop our products.
5. Unallocable operating expenses are included in "elimination or corporate" due to the diffculty in recognizing their contribution to each segments' profit and loss.

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6. As described in Significant accounting policies and practices for preparing consolidated financial statements, Deferred revenue is recognized by Trend Micro Incorporated (Japan) and Trend Micro Incorporated (Taiwan). It resulted in decrease of Sales to third parties and Operating income by JPY2,284,871 thousand in Japan and in decrease of Sales to third parties and in increase of Operating loss by JPY 41,664 thousand in Taiwan.
7. As described in Significant accounting policies and practices for preparing consolidated financial statements, Allowance for retirement benefit is reserved by Trend Micro Incorporated (Japan) and Trend Micro Incorporated (Taiwan). It resulted in increase of Operating expense and decrease of Operating income by JPY35,539 thousand in Japan and in increase of Operating expense and Operating loss by JPY12,502 thousand in Taiwan.

(3) Overseas sales

	FY 2001			(Fro to
	North America	Taiwan	Europe	Othe
I. Overseas sales	8,577,200	1,905,389	6,860,192	1,877,
II.Consolidated sales				
III.Ratio of overseas sales against consolidated sales	27.4%	6.1%	21.9%	

	FY 2000			
	North America	Taiwan	Europe	Othe
I. Overseas sales	6,258,300	1,503,037	4,126,420	1,595,
II.Consolidated sales				
III.Ratio of overseas sales against consolidated sales	28.7%	6.9%	18.9%	

(Note) 1. Overseas sales are sales to countries/regions other than Japan by Trend Micro Inc. and its consolidated subsidiaries.
2. Classification of countries/region is based on geographical proximity.
3. Classification of countries and regions

NorthAmerica : U.S.A.
Europe : Italy, Germany, France,UK
Others : Korea, Australia, Brazil
Hong Kong, Malaysia, Mexico,
New Zealand and China

*"China" that classified as "Others" had added since the current consolidated fiscal year.

(Lease transactions)

None.

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(Accounting for deferred tax)

FY 2001

1. Major items causing deferred tax assets and liabilities

(Deferred tax assets) (thousands of Yen)

Deferred revenue
Loss carry-forward
Sales return allowance
Accrued enterprise taxes
Research and development cost (Taiwan)
Others

Sub-total of deferred tax assets
Valuation allowance

Total of deferred tax assets

(Deferred tax liabilities)
Valuated difference on other securities

Deferred tax liabilities total

Total of deferred tax net assets

2. Major items causing differences between statutory and effective rate after tax effect accounting.

Statutory rate
(Adjustment)
Difference between foreign subsidiaries
U.S. State tax
Permanent difference, such as entertainment cost
Research and development cost
Others

Effective rate after tax effect accounting

FY 2000

Factors of deferred tax assets and liabilities
(Deferred tax assets) (thousands of Yen)
Deferred revenue
Loss carry-forward
Sales return allowance
Accrued corporate taxes
Loss on evaluation of marketable securities
Others

Sub-total of deferred tax assets
Allowance

Total of deferred tax assets

24

(Marketable Securities)

(For the consolidated current fiscal year)
(1) Other securities with fair market value for FY2001 (as of December 31, 2001)

Classification	Acquisition Cost	Record conso
The market value of securities is greater than consolidated B/S		
1. Equity securities	-	

2. Debt securities		-
Government bond/Municipal bond		
Corporate bond		1,700,000
Others		-
3. Others		-
	Sub-total	1,700,000
The market value of securities is less than consolidated B/S		
1. Equity securities		172,475
2. Debt securities		
Government bond/Municipal bond		-
Corporate bond		-
Others		-
3. Others		-
	Sub-total	172,475
	Total	1,872,475

(2) Other major securities market value non-applicable for FY2001 (as of December 31, 2001)

Classification	Recorde
1. Unlisted securities (excluding OTC transaction securities)	
2. Others	
Total	68

Market value of the marketable securities

	FY 2000 (as of December 3	
Current / Non-current	Recorded amount on B/S	Fair Market Value
Current assets		
Equity securities	172,475	172,475
Debt securities	1,700,000	1,711,050
Others	-	-
Sub-total	1,872,475	1,883,525
Non-current assets		
Equity securities	-	-
Debt securities	-	-
Others	-	-
Sub-total	-	-
Total	1,872,475	1,883,525

(Note) 1. Calculation method of fair (market) value
I. Securities traded in the overseas over-the-counter market
Based on price quotations in NASDAQ.
II. Debt securities whose fair value are determinable
Based on the standard indication price announced by Japan Securities Association.

2. The amount of securities included in the balance sheets but excluded from the above table.

	(As of De
Securities classifed as current assets:	
Mutual fund that is not affected by market volatility including medium-term JGB fund and MMF [MMF included in above]	
Securities classifed as non-current assets:	
Non-listed equity securities excluding equity securities traded in the over-the-counter market	[including the investment

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(Contract or Notional amount, FMV and Valuation gain/loss of Derivatives)

1. Basic policies for derivatives transactions.

   A corporate policy of Trend Micro Group does not engage in derivative transactions. However, the interest cap trading and the interest rate swap had been made by ipTrend Incorporated (Tokyo, Chuo-ku), before the company acquisition. (Due to business transfer to Trend Micro in the current fiscal year, Trend Micro Inc. has been transferred the interest cap trading and the interest rate swap.) Trend Micro Group has no intention of changing, so there will no newly derivative transactions in future. These transactions had been made to avoid risks for interest rate fluctuation. The borrowing applied to the hedge was paid completely, when ipTrend Incorporated became a consolidated subsidiary. The contractor for the interest cap trading and the interest rate swap is the financial institution, which is trustworthy institution. No expectation is required for future losses because of any defaults. In addition, these transactions have a risk related to rate changing, but there is no significant effect for the company business. The contract amount of "Fair market value of the derivative transaction" doesn't show the amount of risks on the derivative market.

2. Fair market value of the derivative transaction

Contract amount, fair market value and appraisal gain/loss (Thousand

	FY 2001 (As of December		
Transaction type	Contract amount	Over 1 year	Fair market v
Other than market transactions			
Interest rate cap			
Buy	100,000	100,000	
[Option premium]	(3,200)	(3,200)	
Interest rate swap			
Receive / floating and pay / fixed	200,000	200,000	(9
Total	300,000	300,000	(9

Contract amount, fair market value and appraisal gain (loss) (Thous

	FY 2000 (As of December		
Transaction type	Contract amount	Over 1 year	Fair market v

Other than market transactions			
Interest rate cap			
Buy	100,000	100,000	
[Option premium]	(3,200)	(2,275)	
Interest rate swap			
Receive / floating and pay / fixed	200,000	200,000	(7
Total	300,000	300,000	(6

(Note) 1. The amount of option premium is stated in [_] and the fair market value of it and Appraisal gain (loss) are stated on the above.
2. Fair market value is determined based on the price, which is provided by the contractor of the financial institute.

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(Employee Benefit Plans)

1. Basic policy of employee benefit plans

The company and consolidated subsidiaries adopt retirement benefit plan, as defined-benefit plan. Also, the company has been a member of Tokyo Small Computer Software Industry Welfare pension plan.

2. Projected Benefit Obligation information (as of December 31, 2001)

	(Thousands of yen)
(1) Projected Benefit Obligation	420,118
(2) Plan assets	(57,843)
(3) Funded status (1) + (2)	362,274
(4) Unrecognized prior service cost	(23,999)
(5) Unrecognized net actuarial gain/loss	(25,192)
(6) Accrued benefit cost (3) + (4) + (5)	313,082

(Note) 1. Tokyo Small Computer Software Industry Welfare pension plan that the company has joined is a synthetic-type, so it is impossible to calculate efficiently for an amount of plan asset compared to a contribution.
Therefore, the amount of contribution of pension fund in the amount of 53,237 thousand yen is recognized as retirement benefit cost. The plan assets for the contribution of pension fund in the amount of 325,791 thousand yen is calculated based on the ratio of members for the organization concerned.

2.For calculation of projected benefit obligation, the company adopts simplified method to subsidiaries that have no significant effect.

3. Component of net periodic benefit cost (From January 1, 2001 to December 31, 2001)

	(Thousands of yen)
(1) Service cost	108,162
(2) Interest cost	11,114
(3) Expected return on plan assets	(2,705)

(4) Amortization of unrecognized transition obligation	119,077
(5) Amortization of prior service cost	1,142
(6) Recognized actuarial loss	789
(7) Net periodic benefit cost	237,579

(Note 1) The company deducts employees' contribution to welfare pension plan.

(Note 2) Service cost includes pension costs of subsidiaries under simplified method.

4. Basis of projected benefit obligation calculation

Basis of projected benefit obligation calculation of the company and Taiwan subsidiary that adopt principle method are as follows. Subsidiaries, except Taiwan, do not recognize transition obligation.

(1) Method of allocation of estimated pension cost	Straight line method
(2) Discount rate	3.0 - 6.0%
(3) Expected long-term return rate on plan assets	6.0%
(4) Estimated life of actuarial loss	1 - 23 years
(5) Estimated life of transition obligation	one year
(6) Estimated life of prior service cost	24 years

(Significant Subsequent events)
None

4. Status of manufacturing, orders received and actual sales

(1) Manufacturing result

(Thousands of Yen)

Period / Products	For the current fiscal year (From January 1, 2001 To December 31, 2001)	For the (From To D
PC Client	150,846	
LAN Server	25,031	
Internet Server	570,641	
Other Products	205,382	

Internet based products/service	354,040
Sub-total	1,305,942
Other service	-
Total	1,305,942

(Note)
1. Amount is based on manufacturing expense.
2. Consumption tax is not included in the amount above.

(2) Sales result

(Thousands of Yen)

Period / Products	For the current fiscal year (From January 1, 2001 To December 31, 2001)	For the (From To D
PC Client	11,283,846	
LAN Server	3,400,685	
Internet Server	10,070,003	
Other Products	681,483	
Internet based products/service	574,197	
Sub-total	26,010,216	
Other service	5,316,103	
Total	31,326,320	

(Note)
1. Quantity is omitted dues to many types of products included in one product line.

Digest of Non-consolidated Earnings Results
for the Fiscal Year Ended December 31, 2001

Company: Trend Micro Incorporated Tokyo Stock Exchange 1st section
Code: 4704
Location: Tokyo

Contact person:	Position	Director, Chief Financial Officer
	Name	Mahendra Negi (Phone: 81-3-5334-3600)

Date of the board of directors meeting: February 6, 2002

Date of the ordinary shareholders' meeting: March 26, 2002

The company can distribute semi-annual cash dividends based on the Articles of corporation.
The company adopts Unit Stock method. (One unit: 500 shares)

1. Financial Highlights for FY 2001(January 1, 2001 through December 31, 2001)

(1) Results of operations

(All figures are roun

	Sales	(Compared to the previous year)	Operating income	(Compared to the previous year)	Ordi inc
	Millions of yen	%	Millions of yen	%	Mill
FY 2001	18,454	(95.8)	7,579	(177.2)	
FY 2000	9,426	(30.6)	2,734	(37.0)	

	Net income	(Compared to the previous year)	Net income per share (Basic)	Net income per share (Diluted)	Return on shareholders' equity
	Millions of yen	%	Yen	Yen	%
FY 2001	393	(- 80.7)	2.99	2.96	1.9
FY 2000	2,038	(81.1)	31.26	30.54	11.5

(Note)
1. Number of weighted average shares outstanding: 131,594,913 shares (FY 2001)
   65,194,481 shares (FY 2000)
2. The company made a change in accounting principle during the period.

(2) Cash dividends

	Annual cash dividends per share		Total dividends (Annual)	Di
	As of June end	As of Dec end		

	Yen	Yen	Yen	Millions of Yen
FY 2001	0.00	0.00	0.00	-
FY 2000	0.00	0.00	0.00	-

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(3) Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholder s
	Millions of yen	Millions of yen	%	
FY 2001	49,142	21,139	43.0	16
FY 2000	33,493	19,655	58.7	29

(Note)

1. Number of shares issued at the end of fiscal year: 132,052,284 shares (FY 2001)
   65,560,421 shares (FY 2000)

2. Number of treasury Stocks at the end of fiscal year: 9,102 shares (FY 2001)
   2,631 shares (FY 2000)

[Supplementary information on the results (January 1, 2001 through December 31, 2001)]

The Company's sales revenues are mainly derived from licensing of its products, upgrading of its products and patterns files and post-contract support including customer support. Until December 31, 2000, the Company had recognized sales revenues from customer support (which was included in post-contract support) at the beginning of the relevant support period. Effective from January 1, 2001, the method of the revenue recognition has been changed and sales revenues from customer support are deferred and recorded as Deferred Revenue under current liabilities or non-current liabilities over the relevant support period.

For convenience of comparison, actual current fiscal year result, assumed result based on the old accounting policies and their differentials are stated in the below.

(Millions of yen except for per share information)

	Result of the FY2001	Assumed result of FY2001 (based on Accounting policies applied until previous fiscal year)

	Millions of yen	Millions of yen
Sales Revenue	18,454	20,739
Ordinary income	7,589	9,874
Net income (loss)	393	3,340
Net income (loss)	Yen	Yen
Per share	2.99	25.38

[Information on net income per share and shareholders' equity per share]

For periodic comparison of restated net income per share and shareholders' equity per share, reflecting the effect of stock split on March 31, 2001 is as follows:

	Net income (loss) per share (Yen)	Shareholders' equity per share (Yen)	Number of weighted average shares outstanding
FY2001	2.99	160.10	131,594,913
FY2000	15.63	149.90	130,388,962

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Non-consolidated Financial Statements

(1) Condensed non-consolidated balance sheets

	Account	Period	FY2001 (As of December 31, 2001) Amount	Percentage	FY (As of Dece Amount
	(Assets)			%	
I	Current assets				
	1. Cash and bank deposits	*3	27,935,721		16,271,731
	2. Accounts receivable, trade	*3,4	9,062,033		4,131,960
	3. Marketable securities	*3,7	--		1,872,506
	4. Treasury stocks	*6	--		21,908
	5. Inventories		110,253		39,025
	6. Intercompany short-term loan receivables	*3	508,266		762,169
	7. Other receivables	*4	553,079		290,375
	8. Deffered tax assets		2,704,514		500,494
	9. Other current assets	*4	155,031		161,832
	10. Allowance for bad debt		(127,923)		(106,649)

Total current assets		40,900,977	83.2	23,945,356
II Non-current assets				
1. Property and equipment	*2	676,311	1.4	260,871
2. Intangibles				
(1) Software copyright		--		115,175
(2) Software		465,072		162,799
(3) Software in progress		400,202		163,629
(4) Others		44,411		62,103
Total intangibles		909,686	1.9	503,707
3. Investments and Other assets				
(1) Investments in securities	*3	2,444,213		397,730
(2) Investments in Subsidiaries and affiliates	*3	2,255,464		6,960,940
(3) Investments in capital funds		707,389		928,119
(4) Investments in capital of affiliates		5,277		5,274
(5) Intercompany long-term loan receivables	*3	66,169		57,590
(6) Claim in bankruptcy		14,616		14,616
(7) Long-term prepaid expenses		75		120
(8) Security deposits		593,363		351,854
(9) Deffered tax assets		584,069		81,544
(10) Others		902		1,004
(11) Allowance for bad debt		(15,559)		(15,534)
Total investments and other assets		6,655,983	13.5	8,783,260
Total non-current assets		8,241,981	16.8	9,547,839
Total assets		49,142,958	100.0	33,493,195

Accounts	Period	FY2001 (As of December 31, 2001) Amount	Percentage	(As of D Amount
			%	
(Liabilities)				
I Current liabilities				
1. Accounts payable, trade	*4	231,874		36,65
2. Current portion of long-term debt	*5	3,000,000		-
3. Other payables	*3,4	1,840,557		819,82
4. Accrued corporate tax and other		2,269,000		1,229,92

	5.	Accrued consumption taxes		303,266		108,80
	6.	Accrued expenses		419,157		98,12
	7.	Deposits received		27,548		90,27
	8.	Advances received	*4	23,556		34,39
	9.	Allowance for sales return		505,309		287,66
	10.	Warrant		2,556,691		1,345,66
	11.	Deferred Revenue		4,619,339		-
	12.	Other	*4	10,358		32,45
		Total current liabilities		15,806,660	32.2	4,083,78
II		Long-term liabilities				
	1.	Long-term debt	*5	11,500,000		9,700,00
	2.	Deferred Revenue		466,493		-
	3.	Accrued pension and severance costs		--		53.71
	4.	Allowance for retirement benefit		229,924		-
		Total long-term liabilities		12,196,418	24.8	9,753,71
		Total liabilities		28,003,079	57.0	13,837,50
		(Shareholders' equity)				
I		Common stock	*1,9	6,833,677	13.9	6,182,83
II		Suspense receipt on capital subscriptions	*10	--	--	42
III		Additional paid-in capital		8,553,818	17.4	8,112,84
IV		Legal reserve		20,833	0.0	20,83
V		Retained earnings				
	1.	Unappropriated retained earnings at the end of period		5,731,876		5,338,74
		Total retained earnings		5,731,876	11.7	5,338,74
VI		Valuated difference on other securities	*8	21,735	0.0	-
VII		Treasury Stock	*6	(22,063)	0.0	-
		Total shareholders' equity		21,139,878	43.0	19,655,69
		Total liabilities and shareholders' equity		49,142,958	100.0	33,493,19

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(2) Condensed non-consolidated income statements

Period	FY 2001	FY 2000
	(From January 1, 2001 to December 31, 2001)	(From January 1, 20 to December 31, 20

	Account		Amount	Percentage	Amount	Percent
				%		
I	Sales	*1	18,454,367	100.0	9,426,589	10
II	Cost of sales	*5	1,171,372	6.3	625,267	
	Provision for sales return		--	--	195,458	
	Gross profit		17,282,995	93.7	8,605,863	9
III	Selling, general and administrative expenses	*2,5	9,703,516	52.6	5,871,643	6
	Operating income		7,579,478	41.1	2,734,219	2
IV	Non-operating income	*3	669,696	3.6	439,650	
V	Non-operating expenses	*4	659,572	3.6	639,873	
	Ordinary income		7,589,602	41.1	2,533,996	2
VI	Unusual gains	*6	--	--	1,019,734	1
VII	Unusual losses	*7	6,607,963	35.8	5,027	
	Income before taxes		981,639	5.3	3,548,703	3
	Corporate, inhabitant and enterprise tax		3,310,828	17.9	1,945,570	2
	Income taxes - deffered		(2,722,317)	(14.7)	(434,886)	(
	Net income		393,127	2.1	2,038,019	2
	Retained earnings at the beginning of the year		5,338,749		3,153,577	
	Adjustment of previous year tax effect		--		147,152	
	Unappropriated retained earnings at the end of the period		5,731,876		5,338,749	

(3) Proposed appropriation of retained earnings

	Account	Period	FY 2001 (From January 1, 2001 to December 31, 2001)	FY 2000 (From January 1, 20 to December 31, 20
I	Unappropriated retained earnings at the end of the period		5,731,876	5,338,749
II	Profit appropriation		--	--
III	Unappropriated retained earnings carried forward		5,731,876	5,338,749

Significant accounting policies and practices for preparing annual financial statements

1. Accounting for evaluation and method of evaluation	(1) Marketable securities (1) Investments in affiliate Moving average cost me (2) Other securities Other securities with The securities are sta based on the value at differences are recogn reflect to net earning determined by the weig Other securities wit The securities are s (Additional information) For the financial instru financial instruments" (Accounting Standard for Accounting Deliberation applied from the current adoption, the valuation are changed. The change income by 72,282 thousan before taxes by 72,282 t The classification resul in "Investment in securi "Deferred tax liabilitie recognized. Finally, -14 difference on other secu Shareholders equity (The yen disclosed on the bal translation of security In addition, the other s "Marketable securities" classified as "Investmen beginning of current fis The classification also securities under Current and in increase of Inves thousand yen. (2) Assets (or liabilities) Market Value method (3) Inventories Finished goods, Raw mate method

2. Depreciation and amortization method for fixed assets	(1) Property and equipment Declining-balance meth (2) Intangibles (Software for sales) Straight-line method ove lives.(mainly for 12 mon (Software for internal u Straight-line method ove years) (Other intangibles) Straight-line method (3) Long-term prepaid expen

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	Amortization is compute
3. Accounting for deferred assets	Issuing costs of stocks when incurred.
4. Accounting policies for provision	(1) Allowance for doubt As contingency ag and account recei accounts is provi a percentage base loss against tota takes into consid recovering specif (Additional Infor For the financial fiscal year, purs financial instrum for Accounting St Business Accounti 22,1999), The rec doubtful accounts debts is recogniz accomplishments i percentage). The (2) Allowance for sales In order to reser subsequent to the sales return is p experience in the (3) Allowance for retir

In order to reser
retirement of emp
benefits is provi
liabilities at th
reviewing. The di
accounting standa
recognized as an

(Additional Infor

From the current
"Accounting Stand
Obligation" (("Ar
Accounting Standa
Obligation") Busi
Council, June 16,
adoption resulted
expense by 143,80
Ordinary income b
decrease of incom
yen. Amount of ac
which was recogni
included and disc
benefits.

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5. Translation of major foreign-currency assets and liabilities into Yen

Foreign-currency
liabilities are t
effective at the
differential is t

(Additional infor

From the current
revised accountin
transactions (Vie
Standards for For
issued by Busines
on October 22, 19
significant effec

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6. Accounting for leased assets

Finance leases wi
leased assets are
as applied for op

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7. Other important matters for preparing annual financial statements

(1) Consumption tax

Transactions subj
at the amount net

(2) Accounting treatme
option granted to
under the company'

The Company has ad
warrants to purcha
granted to directo
parent company iss
and immediately re
Compensation costs
of warrant securit
portion of the bon
upon issuance and
paid-in capital" u
In addition, from
company has adopte
(Subscription righ
employees based on
company doesn't re
transactions due t

(3) Change in revenue
Contract
Customer Support S

Basically, T
the company contra
article for PCS (c
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Till previou
company applied to
including a portio
recognized when th
From the current f
method for portion
Portion of PCS rev
whole revenue and
under Current liab
based on contracte
finally recognized
As per the t
ratio of the consi
Support is getting
result of the abov
recognition policy
proper periodic pr
According to
2,800,962 thousand
the company as of
year applied to th
as Losses on prior
losses at the begi
resulted in decrea
Ordinary income by
decrease of income
yen.

Changes in presentation

Allowance for sales return indicated independently until the previous fiscal year is deducted from sales amount immediately from the current fiscal year. Allowance for sales return cause sales revenue to decrease by 217,648 thousand yen in this period.

From the current fiscal year, pursuant to amendment of financial statement policy, treasury stock (22,063 thousand yen at the end of period) indicated independently under Current assets until the previous fiscal year is recorded in Shareholders' equity as deduction item from equity.

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Notes

(Non-consolidated balance sheets) (Thousands of yen)

FY2001 (As of December 31, 2001)	FY2000 (As of December 31,
*1 Number of shares authorized 250,000,000 shares Number of shares issued 132,052,284 shares	*1 Number of shares authoriz Number of shares issued
*2 Accumulated depreciation of property and equipment 287,601	*2 Accumulated depreciation property and
--------------------------------	*3 Major assets and liabilities denominate as follows.

Accounts	in
Cash and bank deposits	U
Accounts receivable, trade	U
Marketable securities	U
Intercompany short-term loan receivables	U G
Investments in securities	U U
Investment in subsidiaries and affiliates	N G
Intercompany long-term loan receivable	U
Other payable	U N D

G

*4 Notes to intercompany balances which are not disclosed separately are as follows.

(1) Receivables

Accounts receivables, trade	3,081,599
Other receivables	495,727
Other current assets	14,202
Total	3,591,528

(2) Payables

Accounts payables, trade	11,862
Other payables	698,627
Total	710,489

*4 Notes to intercompany bal
are not disclosed separat

(3) Receivables

Accounts receivables,
Other receivables
Other current assets
Total

(4) Payables

Accounts payables, tra
Other payables

Advances received
Other current liabilit
Total

*5 Treasury bonds

In order for the warrants to be granted or transferred to the directors and certain employees of the Company and the directors and certain employees of the affiliated company, the Company issued unsecured bonds with detachable warrants. Under section 341-8-4 of the Business Law, the redemption and retirement of these bonds are restricted when total amount of bonds is less than the total amount of issue price of the stocks from unexecuted warrants. To reduce interest costs, the Company repurchased a part of the issued bonds after warrants were detached. The purpose of the repurchase is to hold the treasury bonds until they can be retired legally and it is same as the redemption substantially. Thus, bonds and treasury bonds are disclosed in net amount in the balance sheet as follows. The difference between the repurchased price and book value of the treasury bonds at the time of transaction are booked as loss on repurchase of treasury bonds in the unusual loss section.

(Thousands of yen)

	Current liability	Non-current liability
Bonds	3,800,000	17,500,000
Treasury bonds	(800,000)	(6,000,000)

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                  -----------------     ---------------------
                        3,000,000             11,500,000
                  =================     =====================


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 *6  Number of treasury stocks                             *6  Number of treasury stocks
                                 9,102 shares                                              2,

--------------------------------------------------------------------------------------------------------------
                    -------------------------              *7  (Additional information)
                                                           We have changed the purpose for i
                                                           the temporary investment from the

                                                               SINA.COM                172,4
                                                               Softbank 7/th/ round bonds
                                                                                     1,700,0
                                                                                     -------

                                                                                     1,872,4

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 *8  Limitation of dividends                                                          --------

     Due to valuation of Marketable securities with fair
     value, sharholder's equity increased 21,735
     thousand yen. According to the Japanese Commercial
     Code, 290-1-6, the increased amount is limited to
     appropriate to dividends.
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 *9  Description of increases in the number of                 *9  Description of increases
                                  shares issued


                                                                   -Type of issuance of shar
     -Type of issuance of shares                                           Exercise of stock
           Exercise of stock warrant                                        Detached from bo
            Detached from bonds                                    -Number of shares issued

           Stock Split                                             -Issue price per share
     -Number of shares issued
                         812,636 shares                            -Increase in common stock
                         65,679,227 shares
     -Issue price per share
                         Yen -
                         Yen -

     -Increase in common stock
                         479,939
                         170,900

 (Note) Increase in common stock of stock split is due to
 capitalization of Additional paid in capital.
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*10 Exercise of stock warran

Suspense receipts on capi
consists of exercised stock w
issue 1,500 stocks and transf
thousands yen of Additional P
and 214 thousands yen of Comm

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(Non-consolidated income statement)

(Thousands of yen)

FY2001 (From January 1, 2001 To December 31, 2001)		FY (From Ja To Dece
*1 Intercompany sales included in net sales	6,905,819	*1 Intercompany sal
*2 Major components of selling, general and administrative expenses are as follows.		*2 Major components administrative expen
Sales promotion cost	697,172	Sales promotion cost
Salaries and bonuses	2,044,197	Salaries and bonuses
Retirement benefit cost	96,657	Pension and severanc
Allowance for bad debt	21,299	Allowance for bad de
Depreciation expense	82,480	Depreciation expense
Service charge	897,229	Service charge
Research and development costs	1,779,241	Research and develop
Software maintenance fee	803,224	Software maintenance
Intercompany charge	1,473,367	
*3 Major components of non-operating income		*3 Major components non-op
Investment income	62,325	Investment income
Gain on sales of marketable securities	19,974	Gain on sales of marketable secur
Foreign exchange gain	481,001	Foreign exchange gai
Interest income	51,690	Interest income
*4 Major components of non-operating expenses		*4 Major components non-op
Bonds interest expense	290,755	Loss from evalua
Bonds issued cost	108,438	Bonds interest e
Loss from sales of treasury stock	13,401	Bonds issued cos
Evaluation loss on investment in capital fund	220,730	Loss from sales

*5 Depreciation and amortization expense		*5 Depreciation and
Property and equipment	107,047	Property and equipme
Intangibles	579,993	Intangibles

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*6 Major components of unusual gain		*6 Major components
	-	Gain from lawsuit settlement

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*7 Major components of unusual loss		*7 Major components
Losses on prior year adjustment (Due to change in revenue recognition)	2,800,962	Loss on disposal of fixed assets
Loss on liquidation of affiliates	3,460,700	
Loss on revaluation of Investments in subsidiaries and affiliates	203,683	
Retirement Benefit	106,581	
Loss on disposal of fixed assets	24,034	
Loss on repurchased treasury stock	12,000	

(Lease Transactions)
None

(Marketable Securities)
*Marketable securities (except invenstments in subsidiaries and affiliates with fair value) for the current consolidated fiscal year, and market value of the marketable securities for the previous consolidated fiscal year indicated on the explanatory note on consolidated financial statements.

FY2001 (as of December 31, 2001)
None of investments in subsidiaries and affiliates have fair value.

(Accounting for derivative)
Derivative for the current and previous consolidated fiscal year indicated on the explanatory note on consolidated financial statements.

(Accounting for deferred tax)

(Thousands of yen)

FY 2001 (as of December 31, 2001)

1. Major items causing deferred tax assets and liabilities

(1) Current assets

(Deferred tax assets)	
Deferred Revenue	1,942,432
Accrued enterprise taxes	212,773
Allowance for sales return	212,482
Uncertainty accrued expenses	251,681
Other	127,195
Sub Total	2,746,564
Valuation allowance	(42,050)
Total	2,704,514

(2) Non-current assets

(Deferred tax assets)	
Deferred revenue	196,160

Intangibles	150,842
Loss on evaluation for investments in securities	171,148
Pension and severance costs	67,678
Other	14,010
Sub total	599,841
(Deferred tax liabilities)	
Valuated difference on other securities	(15,771)
Deferred tax liabilities Total	(15,771)
Total	584,069

2. Major items causing differences between statutory and effective rate after tax effect accounting.

Statutory rate	42.05%
(Adjustment)	
Permanent difference such as entertainment expense	13.29%
Inhabitant tax	0.77%
Adjustment for deferred tax assets	4.35%
Other	(0.51%)
Effective rate after tax effect accounting	59.95%

	FY2000 (as of December 31, 2000)
Major items causing deferred tax assets and liabilities	
(Deferred Tax assets)	
(1) Current assets	
Allowance for sales return	120,961
Accrued enterprise taxes	112,694
Devaluation of investment securities	103,074
Other	205,815
Valuation allowance	(42,050)
Total	500,494
(2) Non-current assets	
Intangibles	66,411
Retirement and severance benefit	15,133
Total	81,544

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(Changes of officers)

(1) Changes of representative director
Representative director who is intended to resign on March 26, 2002
Representative director,
Senior Executive Vice President Toshihiro Watanabe

(2) Changes of other officers
1. Nominees for Director (intended to be inaugurated on March 26, 2002)
Director Nick Dederer (Chief Operating Officer)
2. Nominees for Auditor (intended to be inaugurated on March 26, 2002)
Part-time Auditor (outside) Koji Fujita (Attorney)
3. Auditor who is intended to resign on March 26, 2002
Part-time Auditor (outside) Mitsuo Sano
4. Nominees for promoted Director (intended to be inaugurated on March 26, 2002)
Representative director (Director) Mahendra Negi

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