

Consolidated Financial Results for the Nine Months Ended September 30, 2017
(Under Japanese GAAP)

October 31, 2017

Company name: SIOS Corporation
 Stock listed on: Tokyo Stock Exchange
 Stock code: 3744
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 Scheduled filing date of quarterly securities report: November 13, 2017
 Scheduled commencement date of dividend payment: -
 Supplementary materials prepared for quarterly financial results: None
 Presentation of quarterly financial results: No

(Fractions less than 1 million yen are rounded off)

1. Consolidated Financial Results for 9 Months Ended September 30, 2017

(1) Consolidated Results of Operations (cumulative) (Percentages represent changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
9 months ended September 30, 2017	9,283	1.1	184	-56.9	194	-46.9	79	-50.7
9 months ended September 30, 2016	9,181	33.5	426	-	367	-	160	-

Note: Comprehensive income : 9 months ended September 30, 2017 57 million yen (-5.4%)
 9 months ended September 30, 2016 60 million yen (-%)

	Earnings per share (Basic)	Earnings per share (Diluted)
	Yen	Yen
9 months ended September 30, 2017	9.18	9.14
9 months ended September 30, 2016	18.65	18.62

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2017	5,654	1,713	29.7
As of December 31, 2016	5,256	1,647	30.8

Note: Equity: As of September 30, 2017: 1,681 million yen As of December 31, 2016: 1,619 million yen

2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2017	-	0.00			
Fiscal year ending December 31, 2017 (Forecast)			-	5.00	5.00

Note: Revision to the previously announced forecasts of dividend: None

3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2017

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending December 31, 2017	12,600	4.3	500	5.4	480	23.1	320	25.7	37.12

Note: Revision to the previously announced business forecasts: None

Notes:

(1) Material changes in subsidiaries during the 9 months ended September 30, 2017 : None

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatements

(i) Changes in accounting policies based on revisions of accounting standards : None

(ii) Changes in accounting policies other than the above (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatements : None

(4) Number of issued and outstanding shares (common stock)

(i) Number of issued and outstanding shares at the end of the period (including treasury stock)

As of September 30, 2017	8,874,400 shares	As of December 31, 2016	8,874,400 shares
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(ii) Number of treasury stocks at end of the period

As of September 30, 2017	250,241 shares	As of December 31, 2016	260,041 shares
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(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 9 months ended September 30, 2017	8,620,334 shares	For 9 months ended September 30, 2016	8,608,538 shares
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* This summary of quarterly consolidated financial results is not subject to a quarterly review.

* Proper use of business forecasts and other important matters

Forward-looking statements, such as business forecasts included in this document, are based on currently available information or assumptions that the Company considers reasonable, and business results may differ significantly from forecasts due to various factors. For assumptions used as a basis for making business forecasts and notes on the use of business forecasts, refer to "(3) Forward-looking Statements Including Consolidated Business Forecasts" on Page 5 of the attached document.

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1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of the consolidated business performance for the 9 months ended September 30, 2017

The SIOS Group has long been at the forefront of the fast-evolving IT industry and has been implementing its strategic initiatives, which are outlined in the Group's medium-term business strategy, by focusing its efforts on continuing to invest in research and development, expanding into new business segments including Fintech¹, and becoming more competitive in its core businesses.

In the nine months ended September 30, 2017, the Group redoubled its sales efforts for LifeKeeper² and software applications for multifunction printers (MFPs)³. We also expanded service and product offerings, including the rolling out of SIOS Coati, which provides automatic disaster recovery of systems in public cloud environments.

As the Group celebrates its 20th anniversary this year, we have a new corporate mission: "Making the impossible possible for the people of the world." Under the holding-company structure, which was implemented October 1, 2017, we continue to enhance our organizational effectiveness and to invest in new technologies and our talent of people.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for the nine months ended September 30, 2017, are as follows:

Open System Infrastructure Business Segment

The Group achieved a substantial jump in sales of LifeKeeper in the Americas and a steady increase in its sales in Japan and the Asia-Oceania region. Buoyed by stepped-up sales and marketing efforts, Red Hat Enterprise Linux⁴ and other software products sourced from Red Hat, Inc. enjoyed robust sales, and OSS-related products also achieved steady sales growth.

As a result, net sales in this segment amounted to 5,151 million yen, up 8.6% from the same period a year earlier. The segment income decreased by 8.1% year on year to 134 million yen. This was partly because the gross profit margin from product sales declined and partly because we increased spending on advertising.

Application Business Segment

The Group achieved a steady increase in sales of software applications for MFPs as well as in revenues from providing support for system development and implementation. On the other hand, sales of software applications for regional banks fell sharply from the previous year. This was partly because their sales for this fiscal year are projected to shift toward the second half of the year, while most of their sales had been posted in the first half of the year previously, and partly because some sales that were expected to be made in the third quarter were deferred until the fourth quarter.

As a result, net sales in this segment amounted to 4,131 million yen, down 6.9% from the same period a year earlier, with a segment income of 49 million yen, down 82.2% year on year.

The Group's combined net sales for these two segments were up 1.1% year on year to 9,283 million yen in this period. A sharp decline in operating income in the application business segment was primarily responsible for driving the Group's consolidated operating income down by 56.9% year on year to 184 million yen. With smaller non-operating expenses recorded in this period compared with the same period the previous year, during which an equity in losses of affiliates had been recorded, the Group posted an ordinary income of 194 million yen, down 46.9% year on year. The Group's profit attributable to owners of the parent company amounted to 79 million yen, down 50.7% year on year. This was primarily because, although expenses related to a retrospective adjustment of 139 million yen posted as extraordinary losses in the previous year were not a factor in this period, we paid 64 million yen more in current income taxes than a year earlier. The Group's key management metrics EBITDA, which is the sum of operating income, depreciation and amortization, and amortization of goodwill, stood at 315 million yen, down 43.6% year on year.

1. Fintech

An emerging technology for facilitating innovations in the financial sector.

2. LifeKeeper

A failover software product that automatically switches a failed primary server to a backup server.

3. Software applications for multifunction printers

A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. SIOS develops, markets, and updates Quick Scan and Speedoc, document management software applications running on an MFP.

4. Red Hat Enterprise Linux

Linux OS developed by Red Hat, Inc., a provider of open-source solutions.

(2) Financial Position

Total assets were 5,654 million yen as of September 30, 2017, up 7.6% from the end of the previous fiscal year; this was primarily due to an increase of 333 million yen in cash and cash deposits. Total liabilities were up 9.2% to 3,941 million yen, primarily due to an increase of 186 million yen in advances received. Total net assets were up 4.0% to 1,713 million yen, reflecting a profit of 79 million yen attributable to owners of parent posted in this period.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The Group's consolidated business forecasts for the fiscal year ending December 31, 2017, which were announced on February 2, 2017, stand for the remainder of the year, considering that shortfalls from the forecasts in operating income and other profit items for the nine months ended September 30, 2017 were attributed primarily to the deferment of some sales in the application business segment from the third quarter to the fourth quarter, as mentioned earlier in this report.

However, depending on how orders turn out in the fourth quarter, there is a risk that some sales may shift from the fourth quarter of this fiscal year to the next fiscal year. If this should eventuate, the Group's consolidated business results for the fiscal year ending December 31, 2017 might fall short of the forecasts announced on February 2, 2017.

2. Matters Concerning Summary Information (Notes)

(1) Material changes in subsidiaries during the three months ended September 30, 2017

Not applicable

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements

Not applicable

(3) Changes in accounting policies, changes in accounting estimates, and restatements

Not applicable

(4) Additional information

Consolidated business performance for the nine months ended September 30, 2017 (From January 1, 2017 through September 30, 2017)
Effective as of the beginning of the first quarter of the current fiscal year, the Company adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Implementation Guidance No. 26, issued on March 28, 2016).

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2016	September 30, 2017
Assets		
Current assets		
Cash and deposits	1,923,658	2,257,543
Notes and accounts receivable-trade	1,346,923	1,462,030
Work in process	56,008	58,473
Advance payments- trade	128,189	141,823
Other	160,818	210,796
Allowance for doubtful accounts	(200)	(200)
Total current assets	3,615,398	4,130,467
Non-current assets		
Property, plant and equipment		
Buildings, net	109,119	98,938
Other, net	84,402	79,787
Total property, plant and equipment	193,521	178,725
Intangible assets		
Goodwill	753,414	689,385
Other	217,932	195,879
Total intangible assets	971,347	885,265
Investments and other assets		
Investment securities	171,942	166,784
Net defined benefit asset	27,674	33,947
Guarantee deposits	229,513	222,795
Other	56,738	46,409
Allowance for doubtful accounts	(9,966)	(9,966)
Total investments and other assets	475,901	459,970
Total non-current assets	1,640,770	1,523,961
Total assets	5,256,168	5,654,428

(In thousands of yen)

	December 31, 2016	September 30, 2017
Liabilities		
Current liabilities		
Accounts payable-trade	443,227	574,956
Short-term loans payable	30,000	50,000
Current portion of long-term loans payable	132,283	133,116
Lease obligations	2,110	4,002
Income taxes payable	65,018	106,469
Advances received	1,409,377	1,595,604
Provision for bonuses	24,556	82,949
Other	435,080	402,194
Total current liabilities	2,541,654	2,949,292
Non-current liabilities		
Long-term loans payable	812,988	712,318
Net defined benefit liability	178,589	202,967
Other	75,342	76,669
Total non-current liabilities	1,066,920	991,954
Total liabilities	3,608,575	3,941,247
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	466,657	467,807
Retained earnings	(67,044)	12,060
Treasury shares	(110,178)	(106,025)
Total shareholders' equity	1,770,954	1,855,362
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,008	9,193
Foreign currency translation adjustment	(165,485)	(182,562)
Total accumulated other comprehensive income	(151,477)	(173,369)
Subscription rights to shares	28,116	31,188
Total net assets	1,647,593	1,713,181
Total liabilities and net assets	5,256,168	5,654,428

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

For 9 months ended September 30

(In thousands of yen)

	9 months ended September 30, 2016	9 months ended September 30, 2017
Net sales	9,181,781	9,283,171
Cost of sales	5,862,409	6,087,092
Gross profit	3,319,371	3,196,078
Selling, general and administrative expenses	2,892,686	3,012,053
Operating income	426,684	184,025
Non-operating income		
Interest income	642	5,011
Foreign exchange gains	10,221	-
Gain on valuation of derivatives	-	11,546
Other	9,711	5,458
Total non-operating income	20,575	22,016
Non-operating expenses		
Interest expenses	4,888	3,537
Loss on investments in partnership	4,254	2,407
Share of loss of entities accounted for using equity method	63,254	-
Provision for interest on refund for subsidy repayment	5,668	-
Foreign exchange losses	-	5,130
Other	2,187	50
Total non-operating expenses	80,252	11,125
Ordinary income	367,006	194,916
Extraordinary income		
Gain on sales of investment securities	67	-
Gain on reversal of subscription rights to shares	1,289	1,471
Total extraordinary income	1,356	1,471
Extraordinary losses		
Loss on valuation of golf club membership	1,550	-
Expense related to retrospective adjustment	139,212	-
Loss on retirement of non-current assets	6,598	-
Other	4,107	-
Total extraordinary losses	151,467	-
Profit before income taxes	216,895	196,388
Income taxes-current	60,172	124,279
Income taxes-deferred	(4,724)	(6,995)
Total income taxes	55,448	117,283
Profit	161,447	79,104
Profit attributable to non-controlling interests	918	-
Profit attributable to owners of parent	160,529	79,104

Consolidated Statements of Comprehensive Income

For 9 months ended September 30

(In thousands of yen)

	9 months ended September 30, 2016	9 months ended September 30, 2017
Profit	161,447	79,104
Other comprehensive income		
Valuation difference on available-for-sale securities	(8,238)	(4,815)
Foreign currency translation adjustment	(92,704)	(17,076)
Total other comprehensive income	(100,942)	(21,891)
Comprehensive income	60,505	57,212
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	59,586	57,212
Comprehensive income attributable to non-controlling interests	918	-

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

Notes on Material Changes in Shareholders' Equity

Not applicable

Segment Information

【Segment Information】

I 9 months ended September 30, 2016

1. Information regarding the amount of net sales and income by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	4,746,027	4,435,753	9,181,781	-	9,181,781
Intersegment sales and transfers	327	-	327	(327)	-
Total	4,746,354	4,435,753	9,182,108	(327)	9,181,781
Segment income	145,971	280,713	426,684	-	426,684

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the "Accounting Standard for Quarterly Financial Statements," information (net sales) by region is disclosed in accordance with the "Accounting Standard for the Disclosure of Segment Information" for the purpose of providing users of financial statements with valuable information.

Net sales

For 9 months ended September 30, 2016

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
8,629,504	376,733	95,125	80,417	9,181,781

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

II 9 months ended September 30, 2017

1. Information regarding the amount of net sales and income by reportable segment

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	5,151,817	4,131,354	9,283,171	-	9,283,171
Intersegment sales and transfers	327	-	327	(327)	-
Total	5,152,144	4,131,354	9,283,498	(327)	9,283,171
Segment income	134,129	49,896	184,025	-	184,025

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

Net sales

For 9 months ended September 30, 2017

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
8,745,890	357,770	87,568	91,942	9,283,171

Note: Sales are classified by country or region in which customers are located.

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

Significant Subsequent Events

Not applicable