



Consolidated Financial Results for the Nine Months Ended September 30, 2018
(Under Japanese GAAP)

October 31, 2018

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, 2018
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, 2018

(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, 2018	9,462	1.9	107	-41.9	118	-39.1	47	-39.7
9 months ended September 30, 2017	9,283	1.1	184	-56.9	194	-46.9	79	-50.7

Note: Comprehensive income : 9 months ended September 30, 2018 41 million yen (-27.3%)
9 months ended September 30, 2017 57 million yen (-5.4%)

	Earnings per share (Basic)	Earnings per share (Diluted)
	Yen	Yen
9 months ended September 30, 2018	5.52	5.51
9 months ended September 30, 2017	9.18	9.14

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	4,792	1,135	22.9
As of December 31, 2017	4,849	1,076	21.5

Note: Equity: As of September 30, 2018: 1,096million yen As of December 31, 2017: 1,043 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, 2017	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2018	-	0.00			
Fiscal year ending December 31, 2018 (Forecast)			-	0.00	0.00

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

3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2018

(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, 2018	12,400	-0.6	70	-78.2	80	-75.5	0	-	0.0

Note: Revision to the previously announced business forecasts: Yes

Notes:

(1) Material changes in subsidiaries during the 9 months ended September 30, 2018 : 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, 2018	8,874,400 shares	As of December 31, 2017	8,874,400 shares
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(ii) Number of treasury stocks at end of the period

As of September 30, 2018	226,968 shares	As of December 31, 2017	246,541 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, 2018	8,635,429 shares	For 9 months ended September 30, 2017	8,620,334 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.

○Table of Contents of the Attached Document

1. Qualitative Information on Quarterly Results	4
(1) Results of Operations	4
(2) Financial Position	5
(3) Forward-looking Statements Including Consolidated Business Forecasts	5
2. Quarterly Consolidated Financial Statements	6
Quarterly Consolidated Balance Sheet	6
Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	8
(3) Notes to Quarterly Consolidated Financial Statements	10
Notes to Going Concern Assumption	10
Notes to Significant Changes in Shareholders' Equity	10
Changes in Accounting Policies	10
Segment Information	11

1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of the consolidated business performance for the Nine months ended September 30, 2018

The SIOS Group continued to implement its growth initiatives, which are outlined in the Group's medium-term business strategy and focused on expanding into new business segments including FinTech¹, investing in research and development, and becoming more competitive in its core businesses, so as to become a leading player in the fast-changing IT industry.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for the nine months ended September 30, 2018, are as follows:

During the quarter ended September 30, 2018, we worked more closely with our distribution partners and stepped up our sales efforts to win large contracts with corporate clients to make up for the weaker-than-expected sales of LifeKeeper² and software applications for MFPs³ in the previous quarter. Furthermore, as part of our efforts to become more competitive in our core businesses, we released as a freemium model⁴ an upgraded version of SIOS Coati⁵ based on the latest serverless architecture⁶.

(i) Open System Infrastructure Business Segment

Aided by enhanced sales efforts in the reported quarter, LifeKeeper achieved a significant jump in sales in Japan from the previous quarter, when sales declined due to a fall in high-volume deals. Sales and profit of LifeKeeper in overseas markets, however, continued to slide compared with the same period the previous year. While the Group achieved steady growth of sales of Red Hat Enterprise Linux⁷ and other software products sourced from Red Hat, Inc⁸., profit from the sales of software products fell as their gross profit ratio declined, which was a trend continued from the previous fiscal year. OSS⁹ support services achieved a year-on-year increase in sales and profit. Expenses associated with the release of an upgraded version of SIOS Coati also contributed to the year-on-year decline in profit in this segment.

As a result, net sales in this segment amounted to 5,402 million yen, up 4.9% from the same period a year earlier, with a segment profit of 52 million yen, down 60.7% year on year.

(ii) Application Business Segment

While sales of software applications for MFPs picked up from the previous quarter, buoyed by joint efforts with our distribution partners, the recovery was not strong enough to make up for the lost sales in the previous quarter, when we won fewer large contracts, resulting in a year-on-year decline in their sales and profit for the nine months. Revenue and profit from providing financial institutions with support for system development and implementation declined due to a delay in completing some of the contracted system development projects. Although sales of business support systems to financial institutions weakened in the reported quarter due to delays in investment decisions by regional banks, sales and profit for the nine months were up year on year. Gluegent series¹⁰ cloud services enjoyed year-on-year growth of sales and profit.

As a result, net sales in this segment declined 1.7% year on year to 4,060 million yen. Segment profit increased 8.6% to 54 million yen, due to an absence of 75 million yen in amortization of goodwill and assets related to customers that the Company recognized the previous fiscal year for Profit Cube Inc., a consolidated subsidiary of the Company, which more than offset a reduced gross profit resulting from a decline in sales of some products explained above as well as an increase in expenses related to new businesses.

The Group's combined net sales for these two segments were up 1.9% year on year to 9,462 million yen in this period. Operating income down by 41.9% year on year to 107 million yen. The Group posted an ordinary income of 118 million yen, down 39.1% year on year. The Group's profit attributable to owners of the parent company amounted to 47 million yen, down 39.7% year on year. The Group's key management metrics EBITDA, which is the sum of operating income, depreciation and amortization, and amortization of goodwill, stood at 167 million yen, down 47.0% 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 application 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) Freemium model

A pricing strategy whereby basic features are offered for free for users to try and premium features are available for a fee.

(*5) SIOS Coati

Cloud-based service for automatic system failure detection and recovery

(*6) Serverless Architectures

Technology that enables the use of a system without the need to build a server environment.

(*7) Red Hat Enterprise Linux

Linux OS developed by the open solution provider Red Hat, Inc.

(*8) Software products sourced from Red Hat, Inc.

Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.

(*9) Open-source software

Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.

(*10) Gluegent series

Cloud-based business-efficiency services offered to corporate users by Gluegent, a consolidated subsidiary of the Group. Services include Gluegent Gate, which manages user IDs in the cloud, and Gluegent Apps Group Scheduler, which adds to Google Calendar a schedule management function for members of a project team.

(2) Financial Position

(i) Assets

Current assets amounted to 3,997 million yen, down 3.5% from the end of the previous consolidated fiscal year, mainly due to a decrease of 307 million yen in cash and deposits, and an increase of 68 million yen in work in progress.

Fixed assets amounted to 795 million yen, up 12.4% from the end of the previous consolidated fiscal year, mainly due to an increase of 29 million yen in investment securities.

As a result, total assets amounted to 4,792 million yen (down 1.2% from the end of the previous fiscal year).

(ii) Liabilities

Current liabilities amounted to 2,808 million yen, down 0.9% from the end of the previous fiscal year, due to a decrease of 79 million yen in income taxes payable and a decrease of 36 million yen in account payable-trade.

Fixed liabilities amounted to 849 million yen, down 9.6% from the end of the previous fiscal year, due to a decrease of 99 million yen in long-term loans payable.

As a result, total liabilities amounted to 3,657 million yen, down 3.0% from the end of the previous fiscal year.

(iii) Net assets

Total net assets amounted to 1,135 million yen, up 5.4% from the end of the previous fiscal year, mainly due to a quarterly net income of 47 million yen attributable to owners of the parent company posted in the nine months ended September 30, 2018.

(3) Forward-looking Statements Including Consolidated Business Forecasts

We have updated the consolidated business forecasts for the fiscal year ending December 31, 2018, which were announced on February 5, 2018

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

In thousands of yen

	FY 2017 (as of December 31, 2017)	FY 2018 Q3 (as of September 30, 2018)
Assets		
Current assets		
Cash and deposits	2,379,099	2,071,964
Notes and accounts receivable-trade	1,377,939	1,426,421
Work in progress	27,873	96,210
Advance payment	139,488	158,465
Other	217,477	244,537
Allowance for doubtful accounts	△200	△200
Total current assets	4,141,679	3,997,399
Fixed Assets		
Tangible fixed assets		
Building (net)	95,944	120,549
Other (net)	73,551	90,358
Total tangible fixed assets	169,496	210,908
Intangible fixed assets		
Goodwill	995	-
Other	60,325	76,968
Total intangible fixed assets	61,321	76,968
Investment and other assets		
Investment securities	192,970	222,064
Net defined retirement assets	35,988	39,768
Guarantee deposits	220,663	217,279
Other	36,896	33,627
Allowance for doubtful accounts	△9,820	△5,071
Total investment and other assets	476,698	507,668
Total fixed assets	707,515	795,545
Total assets	4,849,194	4,792,944

In thousands of yen

	FY 2017 (as of December 31, 2017)	FY 2018 Q3 (as of September 30, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	494,376	457,894
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	133,116
Lease obligations	4,018	6,693
Income taxes payable	104,721	24,889
Advances received	1,521,761	1,746,598
Provision for bonuses	42,816	31,283
Other	481,967	357,641
Total current liabilities	2,832,779	2,808,116
Non-current liabilities		
Long-term loans payable	679,039	579,202
Net defined benefit liability	212,520	211,858
Lease obligations	11,248	17,098
Long-term deposits received	11,632	11,632
Other	25,166	29,765
Total non-current liabilities	939,607	849,556
Total liabilities	3,772,386	3,657,673
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	468,241	471,941
Retained earnings	△654,232	△607,478
Treasury shares	△104,458	△96,182
Total shareholders' equity	1,191,070	1,249,800
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,140	34,394
Foreign currency translation adjustment	△181,724	△188,089
Total accumulated other comprehensive income	△147,584	△153,694
Subscription rights to shares	33,321	39,166
Total net assets	1,076,808	1,135,271
Total liabilities and net assets		4,792,944

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly Consolidated Statements of Income

Nine months ended September 30

	In thousands of yen	
	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net sales	9,283,261	9,462,803
Cost of sales	6,087,092	6,445,222
Gross profit	3,196,168	3,017,580
Selling, general and administrative expenses	3,012,053	2,910,535
Operating profit	184,115	107,045
Non-operating income		
Interest income	5,011	9,167
Gain on valuation of derivatives	11,546	-
Reversal of allowance for doubtful accounts	-	4,748
Fiduciary obligation fee	1,200	1,800
Other	4,168	11,858
Total non-operating income	21,926	27,574
Non-operating expenses		
Interest expenses	3,537	3,223
Loss on investments in partnership	2,407	4,733
Loss on valuation of derivatives	-	2,731
Foreign exchange losses	5,130	5,204
Other	50	2
Total non-operating expenses	11,125	15,896
Ordinary profit	194,916	118,723
Extraordinary income		
Gain on liquidation of subsidiaries	-	8,350
Gain on reversal of subscription rights to shares	1,471	-
Other	-	896
Total extraordinary income	1,471	9,246
Extraordinary losses		
Loss on retirement of non-current assets	-	22
Loss on valuation of investment securities	-	13,718
Total extraordinary losses	-	13,740
Profit before income taxes	196,388	114,229
Income taxes-current	124,279	39,086
Income taxes-deferred	△6,995	27,440
Total income taxes	117,283	66,527
Profit	79,104	47,701
Profit attributable to owners of parent	79,104	47,701

Quarterly Consolidated Statements of Comprehensive Income

Nine months ended September 30

	In thousands of yen	
	Nine months ended September 30, 2017 (From January 1, 2017 through September 30, 2017)	Nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)
Quarterly net income (loss)	79,104	47,701
Other comprehensive income		
Valuation difference on available-for-sale securities	△4,815	254
Foreign currency translation adjustment	△17,076	△6,365
Total other comprehensive income	△21,891	△6,110
Quarterly comprehensive income	57,212	41,590
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	57,212	41,590

(3) Notes to Quarterly Consolidated Financial Statements

Notes to Going Concern Assumption

Not applicable

Notes to Significant Changes in Shareholders' Equity

Not applicable

Change in Accounting Policies

For the Nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)

(Change in Accounting Policies)

Effective April 1, 2018, the Company adopted the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, Which Involve Considerations, with Vesting Conditions (PITF No. 36 issued by the ASBJ on January 12, 2018; hereinafter referred to as "PITF No. 36"), under which the Company applies the Accounting Standards for Share-based Payment (ASBJ Statement No. 8 issued on December 27, 2005) to transactions that grant employees stock acquisition rights, which involve considerations, with vesting conditions.

However, in accordance with the stipulation on a transitional treatment provided in Paragraph 10, Item 3 of PITF No. 36, the Company continues to apply the previously adopted accounting treatment to the transactions that granted employees on or before March 31, 2018, stock acquisition rights, which involve considerations, with vesting conditions.

【Segment Information】

I. For the Nine months ended September 30, 2017 (From January 1, 2017 through September 30, 2017)

1. Information on the amount of sales and income/loss by reportable segment

In thousands of yen

	Reportable segment			Adjustment	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	5,151,817	4,131,354	9,283,171	90	9,283,261
Inter-segment sales and transfers	327	—	327	△327	—
Total	5,152,144	4,131,354	9,283,498	△237	9,283,261
Segment profit	134,129	49,896	184,025	90	184,115

Note: The total amount of segment profit (loss) 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 “Accounting Standard for Quarterly Financial Statements,” information (Sales) by region is disclosed in accordance with “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statement with valuable information.

Net Sales

Nine months ended September 30, 2018

(From January 1, 2017 through September 30, 2017)

In thousands of yen

Japan	Americas	Europe	Other regions	Total
8,745,980	357,770	87,568	91,942	9,283,261

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

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable

II For the nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)

1. Information on the amount of sales and income/loss by reportable segment

In thousands of yen

	Reportable segment			Adjustment	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	5,402,043	4,060,609	9,462,653	150	9,462,803
Inter-segment sales and transfers	10,663	3,290	13,954	△13,954	—
Total	5,412,706	4,063,900	9,476,607	△13,804	9,462,803
Segment profit	52,695	54,199	106,895	150	107,045

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

Supplementary Information

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

Net sales

For the nine months ended September 30, 2018 (From January 1, 2018 through September 30, 2018)

In thousands of yen

Japan	Americas	Europe	Other regions	Total
8,882,756	439,000	84,198	56,848	9,462,803

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

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable