



Consolidated Financial Result

(For the 3-month period ended March 31, 2019)



April 26, 2019

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 Stock exchange listings: Tokyo Stock Exchange (TSE)
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 Scheduled date for filing of quarterly financial report: May 14, 2019

(Note) All figures in the financial statements are rounded down to the nearest millionth.
 ‘-’ indicates a loss or negative figure.

1. Consolidated results (January 1, 2019 through March 31, 2019) (% of change from previous first quarter)

(1) Consolidated business results

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|-------------------------------|--------------|------------|------------------|--------------|-----------------|--------------|-------------|--------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| 3-month period(2019/3) | 3,529 | 4.9 | 91 | -58.8 | 106 | -52.5 | 34 | -75.0 |
| 3-month period(2018/3) | 3,363 | 1.3 | 223 | 83.8 | 225 | 78.2 | 138 | 133.8 |

(Note) Comprehensive income

As of Mar.31, 2019: 33 million yen/ -66.6%

As of Mar. 31, 2018: 100 million yen/ 208.3%

| | Net income per share - Basic | Net income per share - Diluted |
|-------------------------------|---------------------------------|-----------------------------------|
| | Yen | Yen |
| 3-month period(2019/3) | 4.00 | - |
| 3-month period(2018/3) | 16.08 | 16.02 |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|-------------------------------|--------------|--------------|--------------|
| | Million yen | Million yen | % |
| 3-month period(2019/3) | 5,512 | 1,403 | 24.7 |
| FY2018 | 5,330 | 1,359 | 24.8 |

(Reference) Equity

As of Mar. 31, 2019: 1,362 million yen

As of Dec. 31, 2018: 1,319million yen

(Note) “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) has been applied from the start of the first quarter of fiscal 2019, the year ending December 31, 2019. “Total assets” and “Equity ratio” for the previous consolidated fiscal year are presented following retroactive application of this accounting standard.

2. Cash dividends

| Record Date | Dividend per share | | | | |
|-------------------|--------------------|---------|-----------|----------|--------|
| | End of Q1 | Interim | End of Q3 | Year-end | Annual |
| | Yen | Yen | Yen | Yen | % |
| FY2018 | - | 0.00 | - | 0.00 | 0.00 |
| FY2019 | - | | | | |
| FY2019 (expected) | | 0.00 | - | 5.00 | 5.00 |

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2019 (January 1, 2019 through December 31, 2019)

(% of change from previous year)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|--------|-------------|-----|------------------|-------|-----------------|-------|-------------|-------|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| FY2019 | 13,200 | 3.1 | 200 | -31.2 | 210 | -32.4 | 140 | -38.0 | 16.18 |

(Note) Revisions to recent business forecast: None

4. Others

- (1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): None
- (2) Application of special accounting methods for the preparation of the consolidated quarterly financial statements: None
- (3) Change in accounting policies, accounting estimates and restatement
 - (i) Change in accounting policies associated with revision of accounting standards: None
 - (ii) Change arising from other factors: None
 - (iii) Change in accounting estimates: None
 - (iv) Restatement: None
- (4) Number of outstanding shares (common shares)

| | | | | |
|--|----------------------------|------------------|----------------------------|------------------|
| (i) Number of outstanding shares (including treasury stock) | First quarter of FY2019 | 8,874,400 shares | FY2018 | 8,874,400 shares |
| (ii) Number of treasury stock | First quarter of FY2019 | 205,768 shares | FY2018 | 224,268 shares |
| (iii) Average number of outstanding shares (3-month period) | First quarter of FY2019 | 8,653,204 shares | First quarter of FY2018 | 8,627,859 shares |

Explanation about proper use of forecasts of consolidated financial results and other special notes

1. Information Regarding the Audit Review Procedure: This report is outside the scope of the procedures for quarterly review of financial statements as required under the financial instruments and Exchange Act of Japan. The aforementioned procedures have not been completed as of the time of disclosure of this document.
2. Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
3. Forecasts announced by the company referred to above were prepared based on management's assumption with information available at this time and therefore involve known and unknown risks and uncertainties. Please note such risks and uncertainties may cause the actual results to be materially different from the forecasts.
4. This information to above is an UNOFFICIAL English-language translation of the original Japanese-language version. The format and contents of this document are defined by the requirements of the Tokyo Stock Exchange's 2nd Section.
To the extent that there are discrepancies between this translation and the original version, the original version shall be definitive.

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1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of consolidated business performance for the three months ended March 31, 2019 (Q1 2019)

In the IT industry in which the SIOS Group operates, waves of technological innovation have been sweeping across the market in quick succession, and one new business opportunity after another has been presenting itself. Under the medium-term business plan for FY 2019-2021, the Group, in an effort to make its business foundation more solid, has been investing in R&D and implementing other strategic initiatives to become an influential player poised to lead the IT industry.

During Q1 2019, DataKeeper¹, our business-continuity solution, received a Cloud Computing Excellence Award from the U.S.-based Cloud Computing Magazine. In addition, we expanded the scope of our service offerings. For instance, we developed the SIOS Authn Module for Azure AD, a software application that enables highly secure authentication provided by Azure Active Directory² to work in the environment offered by the Academic Access Management Federation in Japan³, and launched an integration service built around the application. Furthermore, in the United States, we started to offer business-continuity solutions for SAP⁴, optimized for the AWS⁵ environment and designed to work on AWS Solution Space.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for Q1 2019 are as follows:

i. Open System Infrastructure Business Segment

The Group achieved steady growth of sales of business-continuity solutions, primarily driven by the strong sales of LifeKeeper⁶, which is one of our core products, and helped by the addition of products offered by ThirdWare Inc., which the Company acquired in December 2018. In addition, Red Hat Enterprise Linux⁷ and other software products sourced from Red Hat Inc.⁸ enjoyed robust sales. As a result, net sales in this segment jumped 9.1% year on year to 2,028 million yen.

The segment profit soared by 328.7% to 62 million yen, thanks to the strong sales of business-continuity solutions explained above.

ii. Application Business Segment

We saw an increase in sales of software applications for multifunction printers (MFPs)⁹ as well as in revenues from the Gluegent series¹⁰. In contrast, sales of management support systems to financial institutions declined from the same period the previous year. As a result, net sales in this segment were down 0.3% year on year to 1,500 million yen.

The segment profit fell 86.0% year on year to 29 million yen, due to weak sales of management support systems to financial institutions and a delay in an on-going project to provide support for system development and implementation to a financial institution.

With these two business segments combined, the Group's consolidated net sales for Q1 2019 were up 4.9% year on year to a record 3,529 million yen.

The Group's consolidated operating profit was down 58.8% year on year to 91 million yen, primarily due to a decrease in segment profit of the application business. The Group posted an ordinary profit of 106 million yen, which was down 52.5% from the previous year, and a profit of 34 million yen attributable to owners of parent, down 75.0% year on year.

The Group's key management metrics EBITDA (the sum of operating profit, depreciation and amortization, and amortization of goodwill) and ROIC (ratio obtained by dividing net operating profit after tax by the sum of shareholders' equity and interest-bearing debts) are as follows for Q1 2019:

EBITDA: 113 million yen, down 52.9% year on year

ROIC (annualized): 10.9%, as compared with 26.7% the previous year

1. DataKeeper

Software that provides real-time data replication for disaster protection

2. Azure Active Directory

One of the Azure services provided by Microsoft Corporation. It is a cloud-based ID and access management service that centrally manages access to cloud applications with a single-sign-on.

3. Academic Access Management Federation in Japan

A federation consisting of colleges and universities that use academic e-resources, such as online journals and document information databases, and institutions and publishers that provide such e-resources. Members trust rules for coordinated authentication established by the Federation to access e-resources provided by multiple sources.

4. SAP
SAP SE, headquartered in Germany, is one of the leading enterprise software companies in the world. SAP is also the name of enterprise software offered by SAP SE.
5. AWS
Amazon Web Services. Cloud services provided by Amazon.com, Inc.
6. LifeKeeper
A failover software product that automatically switches a failed primary server to a backup server.
7. Red Hat Enterprise Linux
Linux OS developed by Red Hat, Inc., a provider of open-source solutions.
8. Red Hat, Inc. Related Items
Linux OS product developed by Red Hat, Inc., a provider of open source solutions.
9. 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.
10. Gluegent series
A series of cloud-based enterprise services to achieve greater efficiency in business processes, including Gluegent Gate for cloud-based ID management, Gluegent Apps group scheduler, which adds team schedule management to Google Calendar, and Gluegent Flow, a cloud-based workflow.

(2) Financial Position

i. Assets

Current assets amounted to 4,566 million yen as of March 31, 2019, up 4.2% from the end of the previous fiscal year, reflecting an increase of 192 million yen in notes and accounts receivable trade.

Non-current assets amounted to 946 million yen, flat from the end of the previous fiscal year, reflecting an increase of 16 million yen in software in progress and a decrease of 8 million yen in property, plant and equipment.

As a result, total assets were 5,512 million yen, up 3.4% from the end of the previous fiscal year.

ii. Liabilities

Current liabilities amounted to 3,320 million yen as of March 31, 2019, up 5.3% from the end of the previous fiscal year, reflecting an increase of 252 million yen in accounts payable trade, a decrease of 40 million yen in advance received, and a decrease of 20 million yen in provision for bonuses.

Non-current liabilities amounted to 788 million yen, down 3.5% from the end of the previous fiscal year, reflecting a decrease of 33 million yen in long-term loans payable.

As a result, total liabilities were 4,108 million yen, up 3.5% from the end of the previous fiscal year.

iii. Net assets

Total net assets were 1,403 million yen, up 3.2% from the end of the previous fiscal year, reflecting a profit of 34 million yen attributable to owners of parent for the quarter.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2019 still stands, as net sales as well as operating profit and all other profit items, on the whole, have been on track to meet the business forecasts for the year announced on February 5, 2019.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

| | December 31, 2018 | March 31, 2019 |
|-------------------------------------|-------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,138,821 | 2,204,597 |
| Notes and accounts receivable-trade | 1,613,603 | 1,806,151 |
| Work in process | 132,680 | 161,679 |
| Advance payments- trade | 155,332 | 151,091 |
| Other | 343,735 | 242,761 |
| Allowance for doubtful accounts | -200 | -200 |
| Total current assets | 4,383,972 | 4,566,081 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings, net | 135,774 | 129,707 |
| Other, net | 85,605 | 83,640 |
| Total property, plant and equipment | 221,380 | 213,347 |
| Intangible assets | | |
| Goodwill | 1,644 | 1,429 |
| Software | 35,791 | 52,672 |
| Software in progress | 49,931 | 49,261 |
| Other | 2,363 | 2,251 |
| Total intangible assets | 89,730 | 105,614 |
| Investments and other assets | | |
| Investment securities | 309,148 | 311,645 |
| Net defined benefit asset | 39,574 | 41,363 |
| Guarantee deposits | 216,956 | 211,740 |
| Other | 74,887 | 67,558 |
| Allowance for doubtful accounts | -5,071 | -5,071 |
| Total investments and other assets | 635,495 | 627,236 |
| Total non-current assets | 946,606 | 946,197 |
| Total assets | 5,330,579 | 5,512,278 |

(In thousands of yen)

| | December 31, 2018 | March 31, 2019 |
|---|-------------------|------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 576,123 | 828,340 |
| Short-term loans payable | 50,000 | 50,000 |
| Current portion of long-term loans payable | 133,116 | 133,116 |
| Lease obligations | 6,710 | 6,727 |
| Income taxes payable | 44,951 | 51,022 |
| Advances received | 1,730,552 | 1,689,909 |
| Provision for bonuses | 39,141 | 19,008 |
| Provision for loss on order received | 36,864 | 72,714 |
| Other | 537,125 | 470,007 |
| Total current liabilities | 3,154,585 | 3,320,845 |
| Non-current liabilities | | |
| Long-term loans payable | 545,923 | 512,644 |
| Net defined benefit liability | 214,916 | 212,678 |
| Lease obligations | 15,448 | 13,791 |
| Long-term deposits received | 11,632 | 11,632 |
| Other | 28,467 | 37,269 |
| Total non-current liabilities | 816,388 | 788,016 |
| Total liabilities | 3,970,973 | 4,108,862 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,481,520 | 1,481,520 |
| Capital surplus | 472,257 | — |
| Retained earnings | -429,287 | 79,789 |
| Treasury shares | -95,038 | -87,198 |
| Total shareholders' equity | 1,429,451 | 1,474,110 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 90,497 | 89,485 |
| Foreign currency translation adjustment | -200,465 | -200,616 |
| Total accumulated other comprehensive income | -109,967 | -111,131 |
| Subscription rights to shares | 40,121 | 40,437 |
| Total net assets | 1,359,605 | 1,403,416 |
| Total liabilities and net assets | 5,330,579 | 5,512,278 |

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

For three months ended March 31

(In thousands of yen)

| | Three months ended March 31, 2018 | Three months ended March 31, 2019 |
|---|--------------------------------------|--------------------------------------|
| Net sales | 3,363,584 | 3,529,053 |
| Cost of sales | 2,218,393 | 2,443,768 |
| Gross profit | 1,145,190 | 1,085,285 |
| Selling, general and administrative expenses | 921,786 | 993,297 |
| Operating profit | 223,403 | 91,987 |
| Non-operating income | | |
| Interest income | 2,971 | 3,218 |
| Foreign exchange gains | 32,130 | 3,524 |
| Reversal of allowance for doubtful accounts | — | 4,099 |
| Loss on valuation of derivatives | 4,748 | — |
| Share of profit of entities accounted for using equity method | — | 3,695 |
| Other | 3,705 | 1,438 |
| Total non-operating income | 43,555 | 15,975 |
| Non-operating expenses | | |
| Interest expenses | 1,101 | 1,001 |
| Loss on valuation of derivatives | 36,726 | — |
| Other | 3,751 | 0 |
| Total non-operating expenses | 41,580 | 1,001 |
| Ordinary profit | 225,378 | 106,960 |
| Extraordinary income | | |
| Gain on reversal of subscription rights to shares | — | 450 |
| Total extraordinary income | — | 450 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | 12,954 | — |
| Total extraordinary losses | 12,954 | — |
| Profit before income taxes | 212,424 | 107,410 |
| Income taxes-current | 69,223 | 56,235 |
| Income taxes-deferred | 4,467 | 16,524 |
| Total income taxes | 73,691 | 72,760 |
| Profit | 138,733 | 34,650 |
| Profit attributable to owners of parent | 138,733 | 34,650 |

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

| | Three months ended March 31, 2018 | Three months ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| Profit | 138,733 | 34,650 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | -34,642 | -5 |
| Valuation difference on available-for-sale securities | -3,879 | -1,012 |
| Share of other comprehensive income of entities accounted for using equity method | — | -146 |
| Total other comprehensive income | -38,522 | -1,163 |
| Comprehensive income | 100,210 | 33,486 |
| Comprehensive income attributable to: | | |
| Comprehensive income attributable to owners of parent | 100,210 | 33,486 |

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

By resolution of the 22nd general meeting of shareholders held on March 28, 2019, and pursuant to Article 452 of the Companies Act of Japan, the Company, on the same date, reduced other capital surplus by 480,279,000 yen and transferred it to retained earnings brought forward to dispose deficit. There was no significant change in the total amount of shareholders' equity.

(Additional information)

The Company adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, dated February 16, 2018) at the beginning of Q1 2019 and reclassified deferred tax assets into investment and other assets and deferred tax liabilities into non-current liabilities.

Segment Information**【Segment Information】**

I Three months ended March 31, 2018

1. Information regarding the amount of net sales and profit 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 | 1,858,750 | 1,504,803 | 3,363,554 | 30 | 3,363,584 |
| Intersegment sales and transfers | — | — | — | — | — |
| Total | 1,858,750 | 1,504,803 | 3,363,554 | 30 | 3,363,584 |
| Segment profit | 14,617 | 208,756 | 223,373 | 30 | 223,403 |

Note: The total amount of segment profit is equal to operating profit 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 three months ended March 31, 2018

(In thousands of yen)

| Japan | Americas | Europe | Other regions | Total |
|-----------|----------|--------|---------------|-----------|
| 3,187,778 | 133,715 | 24,655 | 17,435 | 3,363,584 |

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 Three months ended March 31, 2019

1. Information regarding the amount of net sales and profit 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 | 2,028,054 | 1,500,938 | 3,528,993 | 60 | 3,529,053 |
| Intersegment sales and transfers | — | 226 | 226 | -226 | — |
| Total | 2,028,054 | 1,501,165 | 3,529,220 | -166 | 3,529,053 |
| Segment profit | 62,666 | 29,261 | 91,927 | 60 | 91,987 |

Note: The total amount of segment profit is equal to operating profit 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 three months ended March 31, 2018

(In thousands of yen)

| Japan | Americas | Europe | Other regions | Total |
|-----------|----------|--------|---------------|-----------|
| 3,297,351 | 152,015 | 63,913 | 15,772 | 3,529,053 |

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