



Consolidated Financial Result

(For the 6-month period ended June 30, 2019)



July 31, 2019

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 Stock exchange listings: Tokyo Stock Exchange (TSE)
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(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 June 30, 2019) (% of change from the previous corresponding term)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6-month period(2019/6)	6,914	10.3	38	-70.0	70	-46.5	-20	-
6-month period(2018/6)	6,270	0.7	127	-26.5	131	-28.5	79	-12.0

(Note) Comprehensive income

As of June 30, 2019: -36 million yen/ -%

As of June 30, 2018: 58 million yen/ -9.5%

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
6-month period(2019/6)	-2.32	-
6-month period(2018/6)	9.17	9.11

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
6-month period(2019/6)	5,386	1,333	24.0
FY2018	5,330	1,359	24.8

(Reference) Equity

As of June 30, 2019: 1,292 million yen

As of December 31, 2018: 1,319 million 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	End of Q2	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	%
FY2018	-	0.00	-	0.00	0.00
FY2019	-	0.00	-	-	-
FY2019 (expected)	-	-	-	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 restatements
 (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) Restatements:None

(4) Number of outstanding shares (common shares)

(i) Number of outstanding shares (including treasury stocks)	Second quarter of FY2019	8,874,400 shares	FY2018	8,874,400 shares
(ii) Number of treasury stocks	Second quarter of FY2019	205,768 shares	FY2018	224,268 shares
(iii) Average number of outstanding shares (6-month period)	Second quarter of FY2019	8,668,632 shares	Second quarter of FY2018	8,630,042 shares

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

- 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.
- Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
- 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.
- 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 Quarterly Results

(1) Results of Operations

Overview of consolidated business performance for the six months ended June 30, 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 has been striving to make its business foundation more solid and has been implementing strategic initiatives, including investing in R&D, in order to become an influential player that is well-positioned to lead the IT industry.

As a result of all these efforts, the Group achieved consolidated business results by segment for the first six months ended June 30, 2019 (H1 2019), as follows:

(i) Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of LifeKeeper¹, which is one of its core products. In addition, sales of Red Hat Enterprise Linux² and other software products sourced from Red Hat Inc.³ maintained their momentum of growth. As a result, net sales in this segment jumped 9.9% year on year to 3,893 million yen.

The segment income for H1 2019 soared by 128.2% year-on-year to 46 million yen, thanks primarily to the strong sales of business-continuity solutions bolstered by the addition of products offered by ThirdWare Inc., which the Company acquired in December 2018.

(ii) Application Business Segment

The Group achieved a solid increase in revenues from the provision of support for system development and implementation to financial institutions. Our sales of software applications for multifunction printers (MFPs)⁴ as well as revenues from the Gluegent series⁵ also achieved steady growth from the previous year. In contrast, sales of management support systems to financial institutions declined year-on-year; most of their sales are projected to materialize in the second half of FY 2019. As a result, net sales in this segment were down 10.8% year-on-year to 3,021 million yen.

The Group posted a loss of 7 million yen in this segment for H1 2019, compared with an income of 107 million yen the year before. This was because of weaker sales of high-margin management support systems to financial institutions and several unprofitable projects undertaken to provide support for system development and implementation to financial institutions.

After years of R&D work, we released in June 2019 a beta version of SIOS bilink, which serves as a platform that supports a wide range of subscription business models⁶, and we plan to release in September 2019 an AI-enabled service solution that recognizes confidentiality designations placed on documents, using image-analysis technology originally developed for our software applications for MFPs.

With these two business segments combined, the Group's consolidated net sales for H1 2019 were up 10.3% year-on-year to a record 6,914 million yen.

The Group's consolidated operating profit for H1 2019 was down 70.0% year-on-year to 38 million yen due to a decrease in segment income of the application business explained earlier, which more than offset an increase in segment income of the open system infrastructure business. The Group posted an ordinary profit of 70 million yen, which was down 46.5% from the previous year, and a loss of 20 million yen attributable to owners of parent—compared with a profit of 79 million yen for the year before—after deducting income taxes of 91 million yen from a profit of 71 million yen before income taxes, resulting primarily from the reversal of deferred tax assets of consolidated subsidiaries.

The Group's key management metrics EBITDA (the sum of operating profit, depreciation, and amortization of goodwill) and ROIC (ratio obtained by dividing operating profit after tax by the sum of shareholders' equity and interest-bearing debts) are as follows for H1 2019:

EBITDA: 82 million yen, down 50.3% year-on-year

ROIC (annualized): 2.4%, compared with 8.1% the previous year

1 LifeKeeper

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

2 Red Hat Enterprise Linux

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

3 Red Hat, Inc. Related Items

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

4 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.

5 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.

6 Subscription business model

A business model that charges customers a recurring monthly or annual fee to access a software product or service.

(2) Financial Position**(i) Assets**

Current assets amounted to 4,451 million yen as of June 30, 2019, up 1.5% from the end of the previous fiscal year, reflecting an increase of 333 million yen in cash and deposits, a decrease of 80 million yen in notes and accounts receivable trade, and a decrease of 75 million yen in work in progress.

Non-current assets amounted to 935 million yen, down 1.2% from the end of the previous fiscal year, reflecting an increase of 16 million yen in software in progress, an increase of 10 million yen in software, and a decrease of 18 million yen in property, plant and equipment.

As a result, total assets were 5,386 million yen, up 1.0% from the end of the previous fiscal year.

(ii) Liabilities

Current liabilities amounted to 3,291 million yen as of June 30, 2019, up 4.3% from the end of the previous fiscal year, reflecting an increase of 202 million yen in advances received.

Non-current liabilities amounted to 762 million yen, down 6.6% from the end of the previous fiscal year, reflecting a decrease of 66 million yen in long-term loans payable.

As a result, total liabilities were 4,053 million yen, down 2.1% from the end of the previous fiscal year.

(iii) Net assets

Total net assets were 1,333 million yen as of June 30, 2019, down 2.0% from the end of the previous fiscal year, reflecting a loss of 20 million yen for the quarter attributable to owners of parent.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2019, remain unchanged from as announced on February 5, 2019.

The reduced profit for H1 2019 resulting from several unprofitable projects undertaken to provide support for system development and implementation to financial institutions is expected to be offset by a pickup in business in the second half of the fiscal year; a decrease in revenues and profit for H1 2019 from the sales of management support systems to financial institutions is projected to be offset by an increase in revenues and profit in the second half.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2018 (as of December 31, 2018)	FY 2019 Q2 (as of June 30, 2019)
Assets		
Current assets		
Cash and deposits	2,138,821	2,472,535
Notes and accounts receivable-trade	1,613,603	1,533,178
Work in progress	132,680	56,834
Advance payment	155,332	212,588
Other	343,735	176,343
Allowance for doubtful accounts	-200	-200
Total current assets	4,383,972	4,451,280
Fixed assets		
Tangible fixed assets		
Buildings (net)	135,774	122,489
Other (net)	85,605	80,518
Total tangible fixed assets	221,380	203,007
Intangible fixed assets		
Goodwill	1,644	1,215
Software	35,791	46,074
Software in progress	49,931	66,407
Other	2,363	2,139
Total intangible fixed assets	89,730	115,836
Investment and other assets		
Investment securities	309,148	314,429
Net defined retirement assets	39,574	40,989
Guarantee deposits	216,956	209,639
Other	74,887	56,364
Allowance for doubtful accounts	-5,071	-5,071
Total investment and other assets	635,495	616,350
Total fixed assets	946,606	935,195
Total assets	5,330,579	5,386,475

(In thousands of yen)

	December 31, 2018	June 30, 2019
Liabilities		
Current liabilities		
Accounts payable-trade	576,123	661,975
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	133,116
Lease obligations	6,710	7,408
Income taxes payable	44,951	55,822
Advances received	1,730,552	1,932,829
Provision for bonuses	39,141	21,887
Provision for loss on order received	36,864	680
Other	537,125	427,461
Total current liabilities	3,154,585	3,291,179
Non-current liabilities		
Long-term loans payable	545,923	479,365
Net defined benefit liability	214,916	217,277
Lease obligations	15,448	14,752
Long-term deposits received	11,632	11,632
Other	28,467	39,204
Total non-current liabilities	816,388	762,231
Total liabilities	3,970,973	4,053,411
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	472,257	-
Retained earnings	-429,287	25,009
Treasury shares	-95,038	-87,198
Total shareholders' equity	1,429,451	1,419,330
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	90,497	90,287
Foreign currency translation adjustment	-200,465	-216,957
Total accumulated other comprehensive income	-109,967	-126,670
Subscription rights to shares	40,121	40,404
Total net assets	1,359,605	1,333,064
Total liabilities and net assets	5,330,579	5,386,475

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive IncomeQuarterly Consolidated Statements of Income
Six months ended June 30

(In thousands of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	6,270,760	6,914,723
Cost of sales	4,214,511	4,789,986
Gross profit	2,056,249	2,124,736
Selling, general and administrative expenses	1,928,630	2,086,416
Operating profit	127,618	38,319
Non-operating income		
Interest income	5,973	6,382
Foreign exchange gains	9,365	27,166
Reversal of allowance for doubtful accounts	4,748	-
Share of profit of entities accounted for using equity method	708	5,785
Fiduciary obligation fee	1,200	1,200
Other	6,274	2,403
Total non-operating income	28,270	42,939
Non-operating expenses		
Interest expenses	2,185	1,981
Loss on investments in partnership	4,733	12
Loss on valuation of derivatives	17,095	8,272
Other	0	435
Total non-operating expenses	24,014	10,701
Ordinary profit	131,874	70,557
Extraordinary income		
Gain on liquidation of subsidiaries	8,350	-
Gain on reversal of subscription rights to shares	-	450
Total extraordinary income	8,350	450
Extraordinary losses		
Loss on retirement of non-current assets	22	-
Loss on valuation of investment securities	12,954	-
Total extraordinary losses	12,976	-
Profit before income taxes	127,248	71,008
Income taxes-current	28,787	61,501
Income taxes-deferred	19,301	29,637
Total income taxes	48,089	91,138
Profit (loss)	79,159	-20,130
Profit (loss) attributable to owners of parent	79,159	-20,130

Quarterly Consolidated Statements of Comprehensive Income
Six months ended June 30

(Unit: thousand yen)

	Six months ended June 30, 2018 (From January 1, 2018 through June 30, 2018)	Six months ended June 30, 2019 (From January 1, 2019 through June 30, 2019)
Profit (loss)	79,159	-20,130
Other comprehensive income		
Valuation difference on available-for-sale securities	2,145	-209
Foreign currency translation adjustment	-22,344	-16,168
Share of other comprehensive income of entities accounted for using equity method	-	-324
Total other comprehensive income	-20,198	-16,702
Quarterly comprehensive income	58,960	-36,832
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	58,960	-36,832

(3) Quarterly Consolidated Statements of Cash Flows

(In thousands of yen)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2019
Cash flows from operating activities		
Profit (loss) before income taxes	127,248	71,008
Depreciation	37,669	43,823
Amortization of goodwill	995	428
Interest and dividend income	-6,334	-6,676
Interest expenses	2,185	1,981
Loss (gain) on investments in partnership	4,733	12
Share of (profit) loss of entities accounted for using equity method	-708	-5,785
Decrease (increase) in notes and accounts receivable-trade	-959	76,166
Decrease (increase) in inventories	-66,843	77,205
Increase (decrease) in notes and accounts payable-trade	96,716	85,851
Increase (decrease) in net defined benefit liabilities	-8,438	2,360
Increase (decrease) in advance received	296,996	216,415
Decrease (increase) in advance payment	-22,767	-57,256
Increase (decrease) in consumption taxes payable	-41,622	-99,752
Other	-64,403	80,019
Sub-total	354,468	485,802
Interest and dividend income received	6,334	6,676
Interest expenses paid	-2,185	-1,981
Income taxes refund	-	53,157
Income taxes paid	-103,171	-93,641
Net cash provided by (used in) operating activities	255,446	450,014
Cash flows from investing activities		
Payment into time deposits	-130,000	-130,000
Proceeds from withdrawal of time deposits	130,000	130,000
Purchase of property, plant and equipment	-35,496	-7,846
Purchase of intangible assets	-21,905	-40,537
Payments for guarantee deposits	-3,710	-594
Proceeds from collection of guarantee deposits	5,112	2,647
Purchase of investment securities	-15,000	-
Other	9	1,087
Net cash provided by (used in) investing activities	-70,991	-45,243
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	-50,000	-
Repayments of long-term loans payable	-66,558	-66,558
Other	4,694	6,466
Net cash provided by (used in) financing activities	-111,863	-60,091
Effect of exchange rate changes on cash and cash equivalents	-9,838	-10,965
Net increase (decrease) in cash and cash equivalents	62,753	333,713
Cash and cash equivalents at beginning of year	2,249,099	2,008,821
Cash and cash equivalents at end of quarter	2,311,852	2,342,535

(4) Notes to Quarterly Consolidated Financial Statements**Notes to 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. For the Six months ended June 30, 2018 (From January 1, 2018 through June 30, 2018)

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

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	3,543,670	2,727,000	6,270,670	90	6,270,760
Inter-segment sales and transfers	8,753	2,246	11,000	-11,000	—
Total	3,552,423	2,729,247	6,281,671	-10,910	6,270,760
Segment profit (loss)	20,193	107,335	127,528	90	127,618

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

Six months ended June 30, 2019

(From January 1, 2018 through June 30, 2018)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
5,886,587	282,531	59,285	42,356	6,270,760

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 six months ended June 30, 2019 (From January 1, 2019 through June 30, 2019)

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

(Unit: thousand yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income (Note)
	Open system infrastructure business	Application business	Total		
Net sales	3,893,255	3,021,347	6,914,603	120	6,914,723
Sales to external customers	—	475	475	-475	—
Inter-segment sales and transfers	3,893,255	3,021,823	6,915,078	-355	6,914,723
Total	46,087	-7,887	38,199	120	38,319
Segment profit	3,893,255	3,021,347	6,914,603	120	6,914,723

Note: The total amount of segment income (loss) is equal to operating profit (loss) presented 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.

For the six months ended June 30, 2019 (From January 1, 2019 through June 30, 2019)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
6,472,353	317,015	91,337	34,016	6,914,723

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