



# Consolidated Financial Results for Fiscal Year Ended December 31, 2019

(Under Japanese GAAP)



February 5, 2020

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Scheduled date of annual shareholders' meeting: March 27, 2020  
 Scheduled date of financial report FSA filing: March 30, 2020  
 Scheduled date of dividend payment: March 30, 2020

(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 December 31, 2019)

(% of change from previous year)

### (1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
<b>FY2019</b>	<b>13,686</b>	<b>6.9</b>	<b>54</b>	<b>-81.1</b>	<b>96</b>	<b>-69.0</b>	<b>32</b>	<b>-85.7</b>
FY2018	12,799	2.6	290	-9.4	310	-4.8	225	-

(Note) Comprehensive income : FY2019: -70 million yen/ -% FY2018: 263 million yen/ -%

	Net income per share - Basic	Net income per share - Diluted	Return on equity	Ratio of ordinary income to total assets	Operating income ratio
	Yen	Yen	%	%	%
<b>FY2019</b>	<b>3.73</b>	-	<b>2.5</b>	<b>1.8</b>	<b>0.4</b>
FY2018	26.15	-	19.1	6.1	2.3

(Note) Equity in earnings: FY2019: -6 million yen FY2018: 6 million yen

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
<b>FY2019</b>	<b>5,332</b>	<b>1,308</b>	<b>23.7</b>	<b>145.92</b>
FY2018	5,330	1,359	24.8	152.54

(Reference) Equity: As of Dec. 31, 2019: 1,264 million yen As of Dec. 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 fiscal 2019, the year ended December 31, 2019. "Total assets" and "Equity ratio" for the previous consolidated fiscal year are presented following retroactive application of this accounting standard.

### (3) Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents - ending
	Million yen	Million yen	Million yen	Million yen
<b>FY2019</b>	<b>363</b>	<b>-101</b>	<b>-130</b>	<b>2,136</b>
FY2018	78	-184	-127	2,008

## 2. Cash dividends

Record Date	Dividend per share					Total of dividend (annual)	Payout ratio (consolidated)	Net assets dividend ratio (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2018	-	0.00	-	0.00	0.00	-	-	-
FY2019	-	0.00	-	5.00	5.00	43	<b>133.9</b>	<b>3.4</b>
FY2020 (forecast)	-	0.00	-	5.00	5.00		<b>108.4</b>	

## 3. Forecast of consolidated results for FY2020 (January 1, 2020 through December 31, 2020)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2020	14,300	4.5	80	45.6	100	3.9	40	23.6	4.61

#### 4. Others

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

(i) Number of outstanding shares  
(including treasury stock)

FY2019	8,874,400 shares	FY2018	8,874,400 shares
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(ii) Number of treasury stock

FY2019	205,768 shares	FY2018	224,268 shares
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(iii) Average number of outstanding shares

FY2019	8,664,828 shares	FY2018	8,638,647 shares
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#### (Reference)

##### 1. Non-consolidated results (January 1, 2019 through December 31, 2019)

(% of change from previous year)

##### (1) Non-consolidated financial results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
<b>FY2019</b>	<b>1,160</b>	<b>17.0</b>	<b>343</b>	<b>186.9</b>	<b>364</b>	<b>213.5</b>	<b>318</b>	<b>205.4</b>
FY2018	991	-85.6	119	-63.6	116	-63.8	104	-

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
<b>FY2019</b>	<b>36.72</b>	-
FY2018	12.06	-

##### (2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
<b>FY2019</b>	<b>2,842</b>	<b>1,610</b>	<b>56.6</b>	<b>185.73</b>
FY2018	2,909	1,375	47.2	158.93

(Note) Equity As of Dec. 31, 2019: 1,610 million yen

As of Dec. 31, 2018: 1,374 million yen

#### 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 audit 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.
- 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. Business Results

### (1) Summary of Business Results

#### Overview of Consolidated Business Results for the Fiscal Year Ended December 31, 2019

The SIOS Group operates in the IT industry in which waves of technological innovation have been sweeping across the market in quick succession, and one new business opportunity after another has been presenting itself. The Group has been implementing a series of strategic initiatives, including investing in R&D, in order to become an influential player that will be well positioned to lead the IT industry.

As a result of all these efforts, the Group achieved consolidated business results by segment for the fiscal year ended December 31, 2019 (FY 2019), as follows:

#### (i) Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of business-continuity solutions, fueled by strong demand for LifeKeeper<sup>1</sup> in Japan, which is one of our core products, and the addition of products offered by ThirdWare Inc., which the Company acquired in December 2018. In addition, sales of Red Hat Enterprise Linux<sup>2</sup> and other software products sourced from Red Hat Inc.<sup>3</sup> increased from the previous year. As a result, annual net sales in this segment jumped 6.4% year on year to 7,695 million yen.

The segment income was down 49.0% year on year to 58 million yen, due primarily to increases in labor cost at a U.S. subsidiary as well as in development cost to upgrade LifeKeeper.

#### (ii) Application Business Segment

Revenues from the provision of support for system development and implementation to financial institutions showed steady growth. Revenues from the Gluegent series<sup>4</sup> also maintained momentum of growth. By contrast, revenues from software applications for MFPs<sup>5</sup> declined. This was because a larger-than-expected number of corporate customers switched from a perpetual licensing model for these applications to a subscription model<sup>6</sup> launched in the fourth quarter of FY 2019, and the recognition of some of the subscription revenues was deferred to FY 2020, bringing the FY 2019 revenues from these applications down. As a result, annual net sales in this segment were up 7.6% year on year to reach 5,991 million yen.

The Group posted a loss of 4 million yen in this segment, compared with an income of 174 million yen the year before. This was partly because the loss from unprofitable projects undertaken in the first half of the year to provide support for system development and implementation to financial institutions was not fully offset in the second half, partly because sales of the high-margin software applications for MFPs and management support system for financial institutions were weak, and partly because R&D spending on the Gluegent series and other software products increased.

With these two business segments combined, the Group's consolidated net sales for FY 2019 were up 6.9% year on year to achieve a record 13,686 million yen, maintaining annual growth for the ninth consecutive year.

The Group posted a consolidated operating profit of 54 million yen for FY 2019, down 81.1% from the previous year due to declines in income in the Open System Infrastructure Business Segment and the Application Business Segment. The Group posted an ordinary profit of 96 million yen, down 69.0% year on year, and a profit of 32 million yen attributable to owners of parent, down 85.7%.

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 FY 2019:

EBITDA: 145 million yen, down 61.4% from the previous year

ROIC: 1.7%, compared with 8.7% the previous year

Notes: 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 Red Hat, Inc., a provider of open-source solutions.

### 3. Red Hat, Inc. Related Items

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

### 4. Gluegent series

Service of subsidiary Gluegent. Services such as "Gluegent Gate" which manages ID in the cloud, "Gluegent Apps group scheduler" which added team calendar schedule management function etc. to Google Calendar, etc. Supporting business efficiency improvement. using enterprise cloud.

### 5. 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. The Group develops, markets, and updates document management software applications, such as Quick Scan and Speedoc, that run on an MFP.

### 6. Subscription model

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

## (2) Summary of Financial Position

### Assets, Liabilities, and Net Assets

#### (i) Assets

Current assets amounted to 4,479 million yen as of December 31, 2019, up 2.2% from the end of the previous fiscal year (the previous year-end), reflecting an increase of 141 million yen in notes and accounts receivable trade and an increase of 127 million yen in cash and deposits.

Non-current assets amounted to 852 million yen, down 9.9% from the previous year-end, reflecting a decrease of 172 million yen in investment securities, an increase of 134 million yen in software in progress, and a decrease of 34 million yen in property, plant and equipment.

#### (ii) Liabilities

Current liabilities amounted to 3,355 million yen as of December 31, 2019, up 6.4% from the previous year-end, reflecting an increase of 280 million yen in accounts payable trade.

Non-current liabilities amounted to 667 million yen, down 18.2% from the previous year-end, reflecting a decrease of 132 million yen in long-term loans payable.

As a result, total liabilities amounted to 4,023 million yen, up 1.3% from the previous year-end.

#### (iii) Net assets

Total net assets amounted to 1,308 million yen as of December 31, 2019, down 3.7% from the previous year-end, reflecting a decrease of 94 million yen in valuation difference on available-for-sale securities and a profit of 32 million yen attributable to owners of parent.

## (3) Summary of Cash Flows

The Group's balance of cash and cash equivalents amounted to 2,136 million yen as of December 31, 2019, up by 127 million yen from the previous year-end.

(In millions of yen)

	FY 2018	FY 2019	Change
Cash flows from operating activities	78	363	285
Cash flows from investing activities	-184	-101	83
Cash flows from financing activities	-127	-130	-3

Net cash provided by operating activities increased to 363 million yen for FY 2019, reflecting an increase of 280 million yen in notes and accounts payable trade and an increase of 117 million yen in advances received.

Net cash used in investing activities increased to 101 million yen, reflecting the purchase of intangible assets.

Net cash used in financing activities decreased to 130 million yen, reflecting the repayment of long-term loans payable.

#### **(4) Forward-looking Statements**

As companies have been investing aggressively in implementing digital transformation (DX), the Group and other players in the IT industry are expected to provide products and services that assist corporate customers in their DX efforts, including making a transition to cloud environments and streamlining and automating business processes. Under these business environments, the Group intends to lay the groundwork for sustained growth under the medium-term business plan for FY 2020-2022 and will implement strategic initiatives to achieve EBITDA of 560 million yen and ROIC of 14.7% in FY 2022.

The Group anticipates achieving consolidated net sales of 14.3 billion yen for the fiscal year ending December 31, 2020, up 4.5% from the previous year, an operating profit of 80 million yen (up 45.6% year on year), an ordinary profit of 100 million yen (up 3.9%), and a profit of 40 million yen attributable to owners of parent (up 23.6%).

As announced on February 5, 2019, the Company plans to pay a year-end dividend of 5.0 yen per share for FY 2019. The Company anticipates paying a year-end dividend of 5.0 yen per share also for the fiscal year ending December 31, 2020, based on the business forecasts just mentioned.

#### **2. Basic Policy on the Selection of Accounting Standards**

The Group will, for the time being, continue to prepare its consolidated financial statements under the Japanese GAAP in consideration of comparability of period-to-period operating performance as well as comparability with other Japanese companies.

We will consider adopting IFRS in the preparation of consolidated financial statements if developments in Japan and abroad warrant it.

**3. Consolidated Financial Statements**  
**(1) Consolidated Balance Sheets**

(In thousands of yen)

	December 31, 2018	December 31, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	2,138,821	2,266,069
Notes and accounts receivable - trade	1,613,603	1,754,762
Work in progress	132,680	47,536
Advance payments - trade	155,332	181,936
Other	343,735	229,853
Allowance for doubtful accounts	-200	-200
<b>Total current assets</b>	<b>4,383,972</b>	<b>4,479,958</b>
Non-current assets		
Property, plant and equipment		
Buildings	225,432	224,331
Accumulated depreciation	-89,657	-112,019
Buildings, net	135,774	112,312
Tools, furniture and fixtures	287,218	294,838
Accumulated depreciation	-221,844	-239,549
Tools, furniture and fixtures, net	65,373	55,288
Leased assets	30,411	33,592
Accumulated depreciation	-10,179	-16,685
Leased assets, net	20,231	16,906
Construction in progress	-	2,285
<b>Total property, plant and equipment</b>	<b>221,380</b>	<b>186,792</b>
Intangible assets		
Goodwill	1,644	786
Software	35,791	39,720
Software in progress	49,931	184,413
Other	2,363	1,916
<b>Total intangible assets</b>	<b>89,730</b>	<b>226,835</b>
Investment and other assets		
Investment securities	309,148	137,073
Net defined benefit asset	39,574	43,741
Guarantee deposits	216,956	207,904
Deferred tax assets	42,315	21,651
Other	32,571	33,582
Allowance for doubtful accounts	-5,071	-5,071
<b>Total investment and other assets</b>	<b>635,495</b>	<b>438,881</b>
<b>Total non-current assets</b>	<b>946,606</b>	<b>852,509</b>
<b>Total assets</b>	<b>5,330,579</b>	<b>5,332,468</b>

(In thousands of yen)

	December 31, 2018	December 31, 2019
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	576,123	856,680
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	132,303
Lease obligations	6,710	7,156
Income taxes payable	44,951	19,619
Advance received	1,730,552	1,842,348
Provision for bonuses	39,141	34,262
	36,864	326
Other	537,125	413,077
Total current liabilities	3,154,585	3,355,774
Non-current liabilities		
Long-term loans payable	545,923	413,620
Deferred tax liabilities	27,172	-
Net defined benefit liability	214,916	230,539
Lease obligations	15,448	11,362
Long-term deposits received	11,632	11,632
Other	1,294	750
Total non-current liabilities	816,388	667,905
Total liabilities	3,970,973	4,023,679
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	472,257	-
Retained earnings	-429,287	82,963
Treasury shares	-95,038	-87,198
Total shareholders' equity	1,429,451	1,477,284
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	90,497	-3,961
Foreign currency translation adjustment	-200,465	-208,398
Total accumulated other comprehensive income	-109,967	-212,360
Subscription rights to shares	40,121	43,863
Total net assets	1,359,605	1,308,788
<b>Total liabilities and net assets</b>	<b>5,330,579</b>	<b>5,332,468</b>



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

## Consolidated Statements of Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Net sales	12,799,750	13,686,915
Cost of sales	8,589,645	9,341,312
Gross profit	4,210,105	4,345,602
Selling, general and administrative expenses	3,919,295	4,290,665
Operating profit	290,809	54,937
Non-operating income		
Interest income	12,298	12,624
Dividend income	622	545
Fiduciary obligation fee	2,400	2,755
Reversal of allowance for doubtful accounts	4,748	-
Foreign exchange gains	8,813	11,957
Gain on investments in investment partnerships	-	9,956
Share of profit of entities accounted for using equity method	6,691	-
Gain on valuation of derivatives	-	3,354
Other	6,647	11,081
Total non-operating income	42,221	52,274
Non-operating expenses		
Interest expenses	4,298	3,821
Share of loss of entities accounted for using equity method	-	6,691
Loss on investments in partnership	7,079	-
Loss on valuation of derivatives	11,173	-
Other	7	435
Total non-operating expenses	22,559	10,947
Ordinary profit	310,471	96,263
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	-	50,999
Gain on sale of investment securities	929	-
Gain on liquidation of subsidiaries	8,350	-
Gain on reversal of subscription rights to shares	-	450
Total extraordinary income	9,280	51,450
Extraordinary losses		
Loss on sales of investment securities	31,578	10,358
Loss on retirement of non-current assets	1,194	0
Other	2,056	1,480
Total extraordinary loss	34,829	11,838
Profit before income taxes	284,922	135,875
Income taxes-current	62,242	69,004
Income taxes-deferred	-3,212	34,510
Total income taxes	59,030	103,515
Profit	225,892	32,360
Profit attributable to owners of parent	225,892	32,360

Consolidated Statements of Comprehensive Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
Profit	225,892	32,360
Other comprehensive income		
Valuation difference on available-for-sale securities	56,357	-94,459
Foreign currency translation adjustment	-18,741	-7,717
Share of other comprehensive income of entities accounted for using equity method	-	-215
Total other comprehensive income	37,616	-102,392
Comprehensive income	263,508	-70,031
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	263,508	-70,031

**(3) Consolidated Statements of Changes in Equity**

Fiscal Year Ended December 31, 2018

(In thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,481,520	468,241	-654,232	-104,458	1,191,070
Changes of items during period					
Profit attributable to owners of parent			225,892		225,892
Change of scope of consolidation		1,401	-947		454
Purchase of treasury shares				-29	-29
Disposal of treasury shares		2,615		9,449	12,064
Total changes of items during period					
Balance at end of current period	-	4,016	224,945	9,419	238,381
Balance at beginning of current period	1,481,520	472,257	-429,287	-95,038	1,429,451

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	34,140	-181,724	-147,584	33,321	1,076,808
Changes of items during period					
Profit attributable to owners of parent					225,892
Change of scope of consolidation					454
Purchase of treasury shares					-29
Disposal of treasury shares					12,064
Total changes of items during period	56,357	-18,741	37,616	6,800	44,416
Balance at end of current period	56,357	-18,741	37,616	6,800	282,797
Balance at end of current period	90,497	-200,465	-109,967	40,121	1,359,605

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,481,520	472,257	-429,287	-95,038	1,429,451
Cumulative effects of changes in accounting policies			5,464		5,464
Restated balance	1,481,520	472,257	-423,823	-95,038	1,434,916
Changes of items during period					
Deficit disposition		-480,279	480,279		-
Profit attributable to owners of parent			32,360		32,360
Disposal of treasury shares		2,168		7,839	10,008
Transfer to capital surplus from retained earnings		5,853	-5,853		-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-472,257	506,786	7,839	42,368
Balance at end of current period	1,481,520	-	82,963	-87,198	1,477,284

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	90,497	-200,465	-109,967	40,121	1,359,605
Cumulative effects of changes in accounting policies					5,464
Restated balance					1,365,069
Changes of items during period					
Deficit disposition					-
Profit attributable to owners of parent					32,360
Disposal of treasury shares					10,008
Transfer to capital surplus from retained earnings					-
Net changes of items other than shareholders' equity	-94,459	-7,932	-102,392	3,741	-98,650
Total changes of items during period	-94,459	-7,932	-102,392	3,741	-56,281
Balance at end of current period	-3,961	-208,398	-212,360	43,863	1,308,788

**(4) Consolidated Statements of Cash Flows**

(In thousands of yen)

	Fiscal Year Ended December 31, 2018	Fiscal Year Ended December 31, 2019
<b>Cash flows from operating activities</b>		
Profit before income taxes	284,922	135,875
Amortization of goodwill	84,018	89,385
Impairment loss	1,067	857
Interest and dividend income	△12,921	△13,169
Interest expenses	4,298	3,821
Loss (gain) on investments in partnership	7,079	△9,956
Share of (profit) loss of entities accounted for using equity method	△6,691	6,691
Decrease (increase) in notes and accounts receivable-trade	△224,964	△142,341
Decrease (increase) in inventories	△107,605	86,332
Increase (decrease) in notes and accounts payable-trade	28,727	280,557
Increase (decrease) in net defined benefit liabilities	2,396	15,622
Increase (decrease) in advance received	215,973	117,669
Decrease (increase) in advance payment	△15,843	△26,604
Increase (decrease) in consumption taxes payable	77,891	△109,604
Other	△108,176	△10,523
Sub-total	230,172	424,611
Interest and dividend income received	12,921	13,169
Interest expenses paid	△4,298	△3,821
Income taxes refund	-	53,157
Income taxes paid	△160,588	△123,213
Net cash provided by (used in ) operating activities	78,206	363,904
<b>Cash flows from investing activities</b>		
Payment into time deposits	△260,000	△260,000
Proceeds from withdrawal of time deposits	260,000	260,000
Purchase of property, plant and equipment	△89,921	△19,475
Purchase of intangible assets	△50,789	△159,597
Payments for guarantee deposits	△11,668	△4,290
Proceeds from collection of guarantee deposits	6,823	3,807
Purchase of investment securities	△70,000	△1,000
Proceeds from sales of investment securities	2,149	-
Proceeds from redemption of investment securities	-	30,000
Proceeds from sales of shares of subsidiaries and associates	-	51,000
Proceeds from merger	30,217	-
Other	△1,470	△1,445
Net cash provided by (used in) investing activities	△184,661	△101,001
<b>Cash flows from financing activities</b>		
Repayments of long-term loans payable	△133,116	△133,116
Other	6,043	2,825
Net cash provided by (used in) financing activities	△127,072	△130,290
Effect of exchange rate changes on cash and cash equivalents	△6,751	△5,364
Net increase (decrease) in cash and cash equivalents	△240,278	△5,364
Cash and cash equivalents at beginning of year	2,249,099	2,008,821
Cash and cash equivalents at end of year	2,008,821	2,136,069

## (5) Notes on Consolidated Financial Statements

### Notes on Going Concern Assumption

Not applicable

#### Accounting Standards Issued but Not Yet Adopted

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, issued on March 30, 2018) (Statement No. 29)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, issued on March 30, 2018) (Guidance No. 30)

##### (1) Overview

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) collaborated on a project to develop a single, comprehensive revenue-recognition model and jointly issued new revenue-recognition standards “Revenue from Contracts with Customers” (IFRS 15 published by IASB and Topic 606 published by FASB) in May 2014. IFRS 15 became effective for annual reporting periods beginning on or after January 1, 2018, and Topic 606 became effective for annual reporting periods beginning after December 15, 2017. Under these circumstances, the Accounting Standard Board of Japan (ASBJ) developed a new revenue-recognition standard and issued Statement No. 29 along with Guidance No. 30.

ASBJ’s basic policy regarding the development of a new revenue-recognition standard is to, first, incorporate the core principle of IFRS 15 into a new standard so as to ensure the international comparability of financial statements and then to incorporate into the standard additional alternative treatments to the extent that international comparability will not be significantly impaired where business practices commonly conducted in Japan need to be taken into consideration.

##### (2) Effective date

Effective from the beginning of the fiscal year ending December 31, 2022

##### (3) Effects of the adoption of the standards

The Company is currently in the process of determining the effects of adopting Statement No. 29 and Guidance No. 30 on the consolidated financial statements.

#### Changes in Presentation

Changes resulting from the adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting

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

As a result, deferred tax assets decreased by 66,477,000 yen under the current assets, while deferred tax assets increased by 39,174,000 yen under other investments, and deferred tax liabilities decreased by 27,303,000 yen under non-current liabilities presented in Consolidated Balance Sheet for the fiscal year ended December 31, 2018.

In addition, total assets decreased by 27,303,000 yen because deferred tax assets and deferred tax liabilities were offset to the extent that they were considered to be taxed on the same entity.

#### Segment Information

##### Segment Information

###### 1. Outline of reportable segments

The Group’s reportable segments are components of the Group for which separate financial information is available and which are subject to periodic reviews by the Company’s Board of Directors to determine the allocations of resources and evaluate business performance.

The Company has established business units and subsidiaries, each of which serves specific markets and customers as well as specializes in specific technology fields: Some provide products and services in the open system infrastructure field, which includes operating systems and middleware, and some in the application field, which includes enterprise applications.

Therefore, the Group has two reportable segments: the open system infrastructure business segment, and the application business segment.

The description of each segment is as follows:

##### • Open System Infrastructure Business Segment

In this business segment, the Group markets LifeKeeper, which automatically switches a failed primary system to a backup system, and OSS-related software products, including those sourced from Red Hat, Inc., and provides OSS support services as well as consulting services for a wide range of information systems.

##### • Application Business Segment

In this business segment, the Group markets software applications for MFPs, management support system for financial institutions, and the Gluegent series, which is a SaaS product that works with cloud, develops enterprise information systems for corporate clients on a contract basis, and provides consulting services for a wide range of information systems.

###### 2. Basis for calculating net sales, profit or loss, assets, liabilities, and other items by reportable segment

Accounting methods used for the reported business segments are the same as those described in "Basis for the Preparation of the Consolidated Financial Statements."

Profit of reportable segments is based on operating profit. Intersegment sales and transfers are calculated based on market prices.

Please note that the Company does not report assets or liabilities by segment.

3. Information on net sales, profit or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended December 31, 2018

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	7,231,026	5,568,514	12,799,540	210	12,799,750
Intersegment sales and transfers	10,663	4,505	15,169	-15,169	-
Total	7,241,690	5,573,019	12,814,710	-14,959	12,799,750
Segment profit	115,632	174,966	290,599	210	290,809
Other items					
Depreciation	24,593	59,425	84,018	-	84,018
Amortization of goodwill	71	995	1,067	-	1,067

\* The total amount of segment profit is the same as the amount of operating profit shown in the consolidated statements of income for the year.

Fiscal year ended December 31, 2019

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	7,695,447	5,991,227	13,686,675	240	13,686,915
Intersegment sales and transfers	-	1,575	1,575	△1,575	-
Total	7,695,447	5,992,803	13,688,250	△1,335	13,686,915
Segment profit	58,918	△4,221	54,697	240	54,937
Other items					
Depreciation	27,203	62,181	89,385	-	89,385
Amortization of goodwill	857	-	857	-	857

\* The total amount of segment profit is the same as the amount of operating profit shown in the consolidated statements of income for the year.

## Related Information

### Fiscal year ended December 31, 2018

#### 1. Information by product and service

Information is omitted as similar information is disclosed in the Segment Information section.

#### 2. Information by region

##### (1) Net sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
12,007,817	602,068	108,548	81,316	12,799,750

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

##### (2) Property, plant and equipment

(In thousands of yen)

Japan	Americas	Total
161,718	59,661	221,380

#### 3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,450,954	Open system infrastructure business and application business

### Fiscal year ended December 31, 2019

#### 1. Information by product and service

Information is omitted as similar information is disclosed in the Segment Information section.

#### 2. Information by region

##### (1) Net sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
12,917,269	554,494	151,327	63,823	13,686,915

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

##### (2) Property, plant and equipment

(In thousands of yen)

Japan	Americas	Total
141,035	45,756	186,792

#### 3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,455,569	Open system infrastructure business and application business



**Information Regarding Impairment Loss on Non-Current Assets by Reportable Segment**

Fiscal year ended December 31, 2018

Information is omitted as similar information is disclosed in the Segment Information section.

Fiscal year ended December 31, 2019

Information is omitted as similar information is disclosed in the Segment Information section.

**Information Regarding Amortization of Goodwill and Remaining Goodwill Balance by Reportable Segment**

Fiscal year ended December 31, 2018

	Reportable segment			Adjustment	Total
	Open system infrastructure business	Application business	Total		
Year-end balance	1,644	-	1,644	-	1,644

Note: Information on amortization of goodwill is omitted as similar information is disclosed in the Segment Information section.

Fiscal year ended December 31, 2019

	Reportable segment			Adjustment	Total
	Open system infrastructure business	Application business	Total		
Year-end balance	786	-	786	-	786

Note: Information on amortization of goodwill is omitted as similar information is disclosed in the Segment Information section.

**Information Regarding Gain on Negative Goodwill by Reportable Segment**

Fiscal year ended December 31, 2018

Not applicable

Fiscal year ended December 31, 2019

Not applicable

**Per-Share Information**

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Net assets per share	152.54 yen	145.92 yen
Profit per share	26.15 yen	3.73 yen

Notes: 1. Diluted profit per share is not presented because the Company has no outstanding dilutive shares.

2. The basis for calculating profit per share is as follows:

	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019
Profit per share		
Profit attributable to owners of parent (thousand yen)	225,892	32,360
Amount not attributable to ordinary shareholders (thousand yen)	-	-
Profit attributable to owners of parent relating to common stock (thousand yen)	225,892	32,360
Average number of common stock outstanding during the period (shares)	8,638,647	8,664,828

Descriptions of potentially dilutive common shares that were not included in the calculation of diluted profit per share	Share options for 108,600 common shares resolved by the Board of Directors on May 20, 2015	-
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**Significant Subsequent Events**

Not applicable