

Consolidated Financial Results for the Three Months Ended March 31, 2018
(Under Japanese GAAP)

April 27, 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: May 14, 2018
 Scheduled commencement date of dividend payment: -
 Supplementary materials prepared for quarterly financial results: None
 Presentation of quarterly financial results: None

(Fractions less than 1 million yen are rounded off)

1. Consolidated Financial Results for Three Months Ended March 31, 2018

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2018	3,363	1.3	223	83.8	225	78.2	138	133.8
Three months ended March 31, 2017	3,321	1.2	121	-45.7	126	-39.0	59	-54.3

Note: Comprehensive income : Three months ended March 31, 2018 100 million yen (208.3%)
 Three months ended March 31, 2017 32 million yen (-62.4%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended March 31, 2018	16.08	16.02
Three months ended March 31, 2017	6.89	6.86

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2018	5,161	1,178	22.2
As of December 31, 2017	4,849	1,076	21.5

Note: Equity: As of March 31, 2018: 1,145 million 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	-	-	-	-	-
Fiscal year ending December 31, 2018 (Forecast)	-	0.00	-	0.00	0.00

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

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

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending December 31, 2018	13,000	4.2	330	2.8	330	1.1	260	-	30.13

Note: Revision to the previously announced business forecasts: None

Notes:

(1) Material changes in subsidiaries during the three months ended March 31, 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 March 31, 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 March 31, 2018	246,541 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 three months ended March 31, 2018	8,627,859 shares	For three months ended March 31, 2017	8,615,159 shares
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* This summary of quarterly consolidated financial results is not subject to a quarterly review.

* Proper use of business forecasts and other important matters

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

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1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of the consolidated business performance for the three months ended March 31, 2018

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

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for the three months ended March 31, 2018, are as follows:

Open System Infrastructure Business Segment

Global sales of LifeKeeper² in the first quarter of FY 2018 were weaker than in the same period a year earlier. This was because licensing sales of the software were sluggish in Japan and the rest of the Asia-Oceania region, while sales were up in the Americas. While the gross profit ratio of products sold in this segment remained low, as in the previous fiscal year, Red Hat Enterprise Linux³ and other software products sourced from Red Hat, Inc. enjoyed strong sales.

As a result, net sales in this segment declined by 1.7% year on year to 1,858 million yen, and segment income fell 79.4% to 14 million yen.

Application Business Segment

Sales of business intelligence systems intended for financial institutions surged, helped by increased sales efforts as well as by the receipt of some of the orders delayed from the second half of the previous fiscal year. Revenues from providing support for system development and implementation were down for financial institutions, but up for educational institutions. The Group enjoyed strong sales of software applications for multifunction printers (MFPs)⁴.

As a result, net sales in this segment were up 5.1% year on year to 1,504 million yen. Segment income jumped 312.6% to 208 million yen, reflecting an increase in net sales and the absence of an impairment loss of 25 million yen, which had been recognized in the same period of the previous fiscal year on goodwill and assets related to customers for Profit Cube Inc., a consolidated subsidiary of the Company.

As a result, the Group's consolidated net sales for the first quarter of FY 2018 were up 1.3% year on year to a record 3,363 million yen.

The Group's consolidated operating profit surged 83.8% year on year to 223 million yen for the quarter, with a decrease in segment income in the Open System Infrastructure Business more than offset by a substantial increase in segment income in the Application Business. The Group posted an ordinary profit of 225 million yen, up 78.2% year on year, and a profit of 138 million yen attributable to owners of parent for the quarter, up 133.8% year on year. The Group's key management metrics EBITDA—which is the sum of operating profit, depreciation and amortization, and amortization of goodwill—stood at 241 million yen, up 46.6% from the year before.

1. Fintech

Emerging financial services driven by innovative IT solutions.

2. LifeKeeper

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

3. Red Hat Enterprise Linux

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

4. 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.

(2) Financial Position

(i) Assets

Current assets were 4,459 million yen as of March 31, 2018, up 7.7% from the end of the previous fiscal year, reflecting an increase of 243 million yen in notes and accounts receivable trade as well as an increase of 25 million yen in work in progress.

Non-current assets were down 0.7% to 702 million yen, reflecting a decrease of 4 million yen in investment securities.

As a result, total assets increased 6.5% to 5,161 million yen.

(ii) Liabilities

Current liabilities amounted to 3,087 million yen, up 9.0% from the end of the previous fiscal year, reflecting an increase of 214 million yen in accounts payable trade as well as an increase of 77 million yen in advance received.

Non-current liabilities were down 4.6% to 896 million yen, reflecting a decrease of 33 million yen in long-term loans payable.

As a result, total liabilities increased 5.6% to 3,983 million yen.

(iii) Net assets

Total net assets were up 9.4% to 1,178 million yen, reflecting a profit of 138 million yen attributable to owners of parent for the quarter.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The Group achieved business performance in the three months ended March 31, 2018 on track to meet the full-year consolidated business forecasts for the fiscal year ending December 31, 2018, which were announced on February 5, 2018. Those forecasts for FY 2018 stand for the remainder of the year.

2. Matters Concerning Summary Information (Notes)

(1) Material changes in subsidiaries during the three months ended March 31, 2018

Not applicable

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

Not applicable

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

Not applicable

3. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2017	March 31, 2018
Assets		
Current assets		
Cash and deposits	2,379,099	2,434,480
Notes and accounts receivable-trade	1,377,939	1,621,399
Work in process	27,873	53,001
Advance payments- trade	139,488	137,594
Other	217,477	212,733
Allowance for doubtful accounts	(200)	(200)
Total current assets	4,141,679	4,459,008
Non-current assets		
Property, plant and equipment		
Buildings, net	95,944	93,195
Other, net	73,551	74,592
Total property, plant and equipment	169,496	167,788
Intangible assets		
Goodwill	995	497
Other	60,325	67,684
Total intangible assets	61,321	68,181
Investments and other assets		
Investment securities	192,970	188,527
Net defined benefit asset	35,988	34,892
Guarantee deposits	220,663	213,486
Other	36,896	35,045
Allowance for doubtful accounts	(9,820)	(5,071)
Total investments and other assets	476,698	466,881
Total non-current assets	707,515	702,851
Total assets	4,849,194	5,161,860

(In thousands of yen)

	December 31, 2017	March 31, 2018
Liabilities		
Current liabilities		
Accounts payable-trade	494,376	708,501
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	133,116
Lease obligations	4,018	4,035
Income taxes payable	104,721	65,840
Advances received	1,521,761	1,599,051
Provision for bonuses	42,816	59,395
Provision for loss on order received	-	7,173
Derivatives liabilities	-	30,439
Other	481,967	429,615
Total current liabilities	2,832,779	3,087,168
Non-current liabilities		
Long-term loans payable	679,039	645,760
Net defined benefit liability	212,520	202,568
Lease obligations	11,248	10,233
Long-term deposits received	11,632	11,632
Other	25,166	26,157
Total non-current liabilities	939,607	896,351
Total liabilities	3,772,386	3,983,519
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	468,241	469,642
Retained earnings	(654,232)	(515,499)
Treasury shares	(104,458)	(104,458)
Total shareholders' equity	1,191,070	1,331,204
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,140	30,260
Foreign currency translation adjustment	(181,724)	(216,367)
Total accumulated other comprehensive income	(147,584)	(186,106)
Subscription rights to shares	33,321	33,242
Total net assets	1,076,808	1,178,340
Total liabilities and net assets	4,849,194	5,161,860

(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, 2017	Three months ended March 31, 2018
Net sales	3,321,579	3,363,584
Cost of sales	2,233,214	2,218,393
Gross profit	1,088,365	1,145,190
Selling, general and administrative expenses	966,841	921,786
Operating profit	121,523	223,403
Non-operating income		
Interest income	941	2,971
Foreign exchange gains	2,105	32,130
Reversal of allowance for doubtful accounts	-	4,748
Other	3,618	3,705
Total non-operating income	6,664	43,555
Non-operating expenses		
Interest expenses	1,645	1,101
Loss on valuation of derivatives	-	36,726
Other	51	3,751
Total non-operating expenses	1,696	41,580
Ordinary profit	126,491	225,378
Extraordinary income		
Gain on reversal of subscription rights to shares	1,443	-
Total extraordinary income	1,443	-
Extraordinary losses		
Loss on valuation of investment securities	-	12,954
Total extraordinary losses	-	12,954
Profit before income taxes	127,935	212,424
Income taxes-current	78,223	69,223
Income taxes-deferred	(9,633)	4,467
Total income taxes	68,590	73,691
Profit	59,345	138,733
Profit attributable to owners of parent	59,345	138,733

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Profit	59,345	138,733
Other comprehensive income		
Foreign currency translation adjustment	(20,202)	(34,642)
Valuation difference on available-for-sale securities	(6,637)	(3,879)
Total other comprehensive income	(26,839)	(38,522)
Comprehensive income	32,505	100,210
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	32,505	100,210

(3) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

Notes on Material Changes in Shareholders' Equity

Not applicable

Segment Information

【Segment Information】

I Three months ended March 31, 2017

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	1,890,316	1,431,233	3,321,549	30	3,321,579
Intersegment sales and transfers	16	-	16	(16)	-
Total	1,890,332	1,431,233	3,321,565	13	3,321,579
Segment profit	70,900	50,593	121,493	30	121,523

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, 2017

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,163,874	90,080	32,408	35,216	3,321,579

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, 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	5,151,817	4,131,354	9,283,171	-	9,283,171
Intersegment sales and transfers	327	-	327	(327)	-
Total	5,152,144	4,131,354	9,283,498	(327)	9,283,171
Segment profit	134,129	49,896	184,025	-	184,025

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