

Consolidated Financial Results for the Six Months Ended June,30 2018 (Under Japanese GAAP)

July 31, 2018

Company name: SIOS Corporation
 Shares listed on: Tokyo Stock Exchange
 Code number: 3744
 URL: <http://www.sios.com>
 Representative: Nobuo Kita, Representative Director and President
 Contact person: Tokutaro Kobayashi, Managing Executive Officer
 Telephone: 03-6401-5111
 Scheduled filing date of quarterly securities report: August 10, 2018
 Scheduled commencement date of dividend payment: -
 Supplementary materials prepared for quarterly financial results: Yes
 Presentation of quarterly financial results: Yes(for institutional investors and analysts)

1. Consolidated Financial Results of FY 2018 Q2 (From January 1, 2018 through June 30, 2018)

(Fractions less than one million yen are rounded off)

(1) Consolidated Results of Operations (cumulative) (Percentage of change from the same period of the previous year)

| | Net sales | | Operating income | | Ordinary income | | Quarterly net income attributable to owners of the parent company | |
|------------|-------------|------|------------------|-------|-----------------|-------|---|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY 2018 Q2 | 6,270 | 0.7 | 127 | Δ26.5 | 131 | Δ28.5 | 79 | Δ12.0 |
| FY 2017 Q2 | 6,226 | Δ0.2 | 173 | Δ47.5 | 184 | Δ37.0 | 89 | 1.1 |

Note: Comprehensive income FY 2018 Q2 58 million yen (Δ9.5%)
 FY 2017 Q2 65 million yen (-%)

| | Quarterly net income per share (Basic) | Quarterly net income per share (Diluted) |
|------------|--|--|
| FY 2018 Q2 | Yen 9.17 | Yen 9.11 |
| FY 2017 Q2 | 10.43 | 10.39 |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio |
|------------|--------------|-------------|--------------|
| | Million yen | Million yen | % |
| FY 2018 Q2 | 5,049 | 1,147 | 22.0 |
| FY 2017 | 4,849 | 1,076 | 21.5 |

Note: Equity FY 2018 Q2 1,110 million yen
 FY 2017 1,043 million yen

2. Cash Dividends

| | Annual dividend | | | | |
|--------------------|-----------------|-----------|-----------|----------|--------|
| | End of Q1 | End of Q2 | End of Q3 | Year-end | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| FY 2017 | — | 0.00 | — | 0.00 | 0.00 |
| FY 2018 | — | 0.00 | — | 0.00 | 0.00 |
| FY 2018 (expected) | — | 0.00 | — | 0.00 | 0.00 |

Note: Revision to the previously announced forecasts of dividend: No

3. Consolidated Business Forecasts for FY 2018 (From January 1, 2018 through December 31, 2018)

(Percentage of change from previous fiscal year)

| | Sales | | Operating income | | Ordinary income | | Profit attributable to owners of the parent company | | Net income per share |
|---------|-------------|-----|------------------|-----|-----------------|-----|---|---|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Million yen |
| FY 2018 | 13,000 | 4.2 | 330 | 2.8 | 330 | 1.1 | 260 | — | 30.13 |

Note: Revision to the previously announced business forecasts: No

* Notes

(1) Material changes in subsidiaries during the Six months ended June 30, 2018: No

(Changes in specified subsidiaries resulting in the change of scope of consolidation)

Newly included: –company (Company name) Excluded: –company (Company name)

Notes relating to material changes in subsidiaries during the period

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements : None

Notes relating to the adoption of special accounting treatments for the preparation of quarterly consolidated financial statements

(3) Changes in accounting policies and accounting estimates and retrospective restatement

(i) Changes in accounting policies based on revisions of accounting standard : None

(ii) Changes in accounting policies other than the above (i) : None

(iii) Changes in accounting estimates : None

(iv) Retrospective restatement : None

Notes relating to changes in accounting policies

(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)

| | | | |
|------------|------------------|------------|------------------|
| FY 2018 Q2 | 8,874,400 shares | FY 2017 Q2 | 8,874,400 shares |
| FY 2018 Q2 | 232,868 shares | FY 2017 Q2 | 246,541 shares |
| FY 2018 Q2 | 8,630,042 shares | FY 2017 Q2 | 8,624,159 shares |

(ii) Number of treasury stocks at the end of the period

(iii) Average number of shares during the period (on a quarterly cumulative basis)

Notes relating to the number of issued and outstanding shares

* Presentation of the status of progress in carrying out quarterly review procedures

This summary of quarterly consolidated financial results is not subject to a quarterly review to be conducted in accordance with the Financial Instruments and Exchange Law of Japan. At the time of the release of this summary of quarterly consolidated financial results, the quarterly review procedures in accordance with the Financial Instruments and Exchange Law of Japan have not been completed.

* 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 3 of the attached document.

○Table of Contents of the Attached Document

| | |
|---|---|
| 1. Qualitative Information on Quarterly Results..... | 2 |
| (1) Results of Operations..... | 2 |
| (2) Financial Position..... | 3 |
| (3) Forward-looking Statements Including Consolidated Business Forecasts..... | 3 |
| 2. Matters Concerning Summary Information (Notes) | 3 |
| (1) Material Changes in Subsidiaries during the Six Months Ended June 30, 2018..... | 3 |
| (2) Adoption of Special Accounting Treatments for the Preparation of Quarterly Consolidated Financial Statements..... | 3 |
| (3) Changes in Accounting Policies, Changes or Restatement of Accounting Estimates..... | 3 |
| 3. Quarterly Consolidated Financial Statements..... | 4 |
| (1) Quarterly Consolidated Balance Sheet..... | 4 |
| (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income..... | 6 |
| (3) Quarterly Consolidated Statements of Cash Flows..... | 8 |
| (4) Notes to Quarterly Consolidated Financial Statements..... | 9 |
| Notes to Going Concern Assumption..... | 9 |
| Notes to Significant Changes in Shareholders' Equity..... | 9 |
| Segment Information..... | 9 |

1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of the consolidated business performance for the Six months ended June 30, 2018

The SIOS Group continued to implement its growth initiatives, which are outlined in the Group's medium-term business strategy and focused on expanding into new business segments including FinTech(*1), investing in research and development, and becoming more competitive in its core businesses, so as to become a leading player in the fast-changing IT industry.

During the six months ended June 30, 2018, as part of our efforts to expand into new business segments including Fintech, we formed a capital and business alliance with Rhelixa, Inc., a venture firm originating in a laboratory at the University of Tokyo, and embarked—in a first for us—on a foray into the bioscience field with a joint project to develop and build a cloud2-based platform for analyzing epigenomes³.

In addition, as part of our commitment to continue to invest in research and development, SIOS Technology Corp, a California-based consolidated subsidiary of the Company, opened an R&D center at the University of South Carolina to step up its efforts to develop advanced AI technologies and hire skilled talent from the campus.

Furthermore, as part of our efforts to become more competitive in our core businesses, we started to use the latest architecture to reconfigure SIOS Coati, our cloud-based service for automatic system failure detection and recovery, and released new software applications for MFPs⁴.

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

Open System Infrastructure Business Segment

While the Group achieved steady growth of sales of Red Hat Enterprise Linux⁵ and other software products sourced from Red Hat, Inc. as well as of OSS⁶ support services and OSS-related products, the gross profit ratio of products sold declined, which was a trend continued from the previous fiscal year. Sales and profit of LifeKeeper⁷ declined from the previous year due to a fall in high-volume deals.

As a result, net sales in this segment amounted to 3,543 million yen, up 3.5% from the same period a year earlier, with a segment profit of 20 million yen, down 81.2% year on year.

Application Business Segment

While the Group achieved a substantial year-on-year increase in sales of business support systems to regional banks and other financial institutions, revenue from providing financial institutions with support for system development and implementation declined. Sales of software applications for MFPs declined, due to a decrease in high-volume deals compared with the previous year.

As a result, net sales in this segment declined 2.7% year on year to 2,727 million yen. Segment profit jumped 63.1% to 107 million yen, due to an absence of 50 million yen in amortization of goodwill and assets related to customers that the Company recognized the previous fiscal year for Profit Cube Inc., a consolidated subsidiary of the Company, which more than offset a reduced gross profit resulting from a decline in sales of some products explained above as well as an increase in expenses related to new businesses.

(*1) Fintech

An emerging technology for facilitating innovations in the financial sector.

(*2) Cloud

A new form of computing that provides computing resources as services over internet.

(*3) Epigenome

While a genome is the complete genetic information of an organism inherited at birth, an epigenome is a set of time- and environment-dependent acquired changes at the molecular level to an organism's genome that modify gene expression.

(*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) Red Hat Enterprise Linux

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

(*6) Open-source software

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

(*7) LifeKeeper

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

(2) Financial Position

Current assets amounted to 4,275 million yen, up 3.2% from the end of the previous consolidated fiscal year, mainly due to an increase of 66 million yen in work in progress and an increase of 62 million yen in accounts cash and deposits.

Fixed assets amounted to 774 million yen, up 9.4% from the end of the previous consolidated fiscal year, mainly due to an increase of 28 million yen in buildings.

As a result, total assets amounted to 5,049 million yen (up 4.1% from the end of the previous fiscal year).

(ii) Liabilities

Current liabilities amounted to 3,026 million yen, up 6.9% from the end of the previous fiscal year, due to an increase of 288 million yen in advance received and an increase of account payable-trade.

Fixed liabilities amounted to 875 million yen, down 6.9% from the end of the previous fiscal year, due to a decrease of 66 million yen in long-term loans payable.

As a result, total liabilities amounted to 3,902 million yen, up 3.4% from the end of the previous fiscal year.

(iii) Net assets

Total net assets amounted to 1,147 million yen, up 6.5% from the end of the previous fiscal year, mainly due to a quarterly net income of 79 million yen attributable to owners of the parent company posted in the six months ended June 30, 2018.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2018, which were announced on February 5, 2018, still stand.

2. Matters Concerning Summary Information (Notes)

(1) Material changes in subsidiaries during the Six months ended June 30, 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 or restatement of accounting estimates

Not applicable

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

| | FY 2017 (as of December 31, 2017) | FY 2018 Q2 (as of June 30, 2018) |
|-------------------------------------|--------------------------------------|-------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 2,379,099 | 2,441,852 |
| Notes and accounts receivable-trade | 1,377,939 | 1,376,993 |
| Work in progress | 27,873 | 94,717 |
| Advance payment | 139,488 | 162,255 |
| Other | 217,477 | 199,491 |
| Allowance for doubtful accounts | △200 | △200 |
| Total current assets | 4,141,679 | 4,275,111 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings (net) | 95,944 | 124,502 |
| Other (net) | 73,551 | 95,023 |
| Total tangible fixed assets | 169,496 | 219,525 |
| Intangible fixed assets | | |
| Goodwill | 995 | - |
| Other | 60,325 | 70,517 |
| Total intangible fixed assets | 61,321 | 70,517 |
| Investment and other assets | | |
| Investment securities | 192,970 | 196,716 |
| Net defined retirement assets | 35,988 | 37,200 |
| Guarantee deposits | 220,663 | 220,976 |
| Other | 36,896 | 34,194 |
| Allowance for doubtful accounts | △9,820 | △5,071 |
| Total investment and other assets | 476,698 | 484,015 |
| Total fixed assets | 707,515 | 774,058 |
| Total assets | 4,849,194 | 5,049,169 |

(In thousands of yen)

| | December 31, 2017 | June 30, 2018 |
|---|-------------------|------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 494,376 | 591,093 |
| Short-term loans payable | 50,000 | - |
| Current portion of long-term loans payable | 133,116 | 133,116 |
| Lease obligations | 4,018 | 6,676 |
| Income taxes payable | 104,721 | 27,992 |
| Advances received | 1,521,761 | 1,809,986 |
| Provision for bonuses | 42,816 | 24,859 |
| Provision for loss on order received | - | 1,485 |
| Other | 481,967 | 431,778 |
| Total current liabilities | 2,832,779 | 3,026,986 |
| Non-current liabilities | | |
| Long-term loans payable | 679,039 | 612,481 |
| Net defined benefit liability | 212,520 | 204,082 |
| Lease obligations | 11,248 | 18,742 |
| Long-term deposits received | 11,632 | 11,632 |
| Other | 25,166 | 28,198 |
| Total non-current liabilities | 939,607 | 875,136 |
| Total liabilities | 3,772,386 | 3,902,123 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,481,520 | 1,481,520 |
| Capital surplus | 468,241 | 471,249 |
| Retained earnings | △654,232 | △576,019 |
| Treasury shares | △104,458 | △98,683 |
| Total shareholders' equity | 1,191,070 | 1,278,066 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 34,140 | 36,285 |
| Foreign currency translation adjustment | △181,724 | △204,068 |
| Total accumulated other comprehensive income | △147,584 | △167,783 |
| Subscription rights to shares | 33,321 | 36,762 |
| Total net assets | 1,076,808 | 1,147,046 |
| Total liabilities and net assets | 4,849,194 | 5,049,169 |

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

Quarterly Consolidated Statements of Income

Six months ended June 30

(In thousands of yen)

| | Six months ended June 30, 2017 | Six months ended June 30, 2018 |
|---|--------------------------------|--------------------------------|
| Net sales | 6,226,673 | 6,270,760 |
| Cost of sales | 4,063,956 | 4,214,511 |
| Gross profit | 2,162,717 | 2,056,249 |
| Selling, general and administrative expenses | 1,989,202 | 1,928,630 |
| Operating profit | 173,514 | 127,618 |
| Non-operating income | | |
| Interest income | 2,498 | 5,973 |
| Foreign exchange gains | - | 9,365 |
| Gain on valuation of derivatives | 9,905 | - |
| Reversal of allowance for doubtful accounts | - | 4,748 |
| Fiduciary obligation fee | 1,200 | 1,200 |
| Other | 4,024 | 6,983 |
| Total non-operating income | 17,628 | 28,270 |
| Non-operating expenses | | |
| Interest expenses | 2,408 | 2,185 |
| Loss on investments in partnership | 2,407 | 4,733 |
| Loss on valuation of derivatives | - | 17,095 |
| Other | 1,969 | 0 |
| Total non-operating expenses | 6,785 | 24,014 |
| Ordinary profit | 184,357 | 131,874 |
| Extraordinary income | | |
| Gain on liquidation of subsidiaries | - | 8,350 |
| Gain on reversal of subscription rights to shares | 1,448 | - |
| Total extraordinary income | 1,448 | 8,350 |
| 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 | 185,806 | 127,248 |
| Income taxes-current | 88,701 | 28,787 |
| Income taxes-deferred | 7,131 | 19,301 |
| Total income taxes | 95,832 | 48,089 |
| Profit | 89,973 | 79,159 |
| Profit attributable to owners of parent | 89,973 | 79,159 |

Quarterly Consolidated Statements of Comprehensive Income

Six months ended June 30

(Unit: thousand yen)

| | Six months ended June 30, 2017 (From January 1, 2017 through June 30, 2017) | Six months ended June 30, 2018 (From January 1, 2018 through June 30, 2018) |
|---|--|--|
| Quarterly net income (loss) | 89,973 | 79,159 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | △3,468 | 2,145 |
| Foreign currency translation adjustment | △21,351 | △22,344 |
| Total other comprehensive income | △24,819 | △20,198 |
| Quarterly comprehensive income | 65,153 | 58,960 |
| (Comprehensive income attributable to) | | |
| Quarterly comprehensive income attributable to owners of the parent | 65,153 | 58,960 |

(3) Consolidated Statements of Cash Flows

(In thousands of yen)

| | Six Months Ended June 30, 2017 | Six Months Ended June 30, 2018 |
|--|-----------------------------------|-----------------------------------|
| Cash flows from operating activities | | |
| Profit (loss) before income taxes | 185,806 | 127,248 |
| Depreciation | 44,560 | 37,669 |
| Amortization of goodwill | 42,686 | 995 |
| Interest and dividend income | △2,900 | △6,334 |
| Interest expenses | 2,408 | 2,185 |
| Loss (gain) on investments in partnership | 2,407 | 4,733 |
| Share of (profit) loss of entities accounted for using equity method | - | △708 |
| Decrease (increase) in notes and accounts receivable-trade | △47,598 | △959 |
| Decrease (increase) in inventories | 26,746 | △66,843 |
| Increase (decrease) in notes and accounts payable-trade | 43,627 | 96,716 |
| Increase (decrease) in net defined benefit liabilities | 19,235 | △8,438 |
| Increase (decrease) in advance received | 260,894 | 296,996 |
| Decrease (increase) in advance payment | △15,104 | △22,767 |
| Increase (decrease) in consumption taxes payable | △6,659 | △41,622 |
| Other | △34,251 | △64,403 |
| Sub-total | 521,859 | 354,468 |
| Interest and dividend income received | 2,900 | 6,334 |
| Interest expenses paid | △2,408 | △2,185 |
| Income taxes paid | △52,627 | △103,171 |
| Net cash provided by (used in) operating activities | 469,722 | 255,446 |
| 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 | △5,433 | △35,496 |
| Purchase of intangible assets | △6,180 | △21,905 |
| Payments for guarantee deposits | - | △3,710 |
| Proceeds from collection of guarantee deposits | 435 | 5,112 |
| Purchase of investment securities | - | △15,000 |
| Other | △328 | 9 |
| Net cash provided by (used in) investing activities | △11,506 | △70,991 |
| Cash flows from financing activities | | |
| Cash dividends paid | △30 | - |
| Net increase (decrease) in short-term loans payable | △30,000 | △50,000 |
| Repayments of long-term loans payable | △67,391 | △66,558 |
| Other | 4,264 | 4,694 |
| Net cash provided by (used in) financing activities | △93,156 | △111,863 |
| Effect of exchange rate changes on cash and cash equivalents | △44,126 | △9,838 |
| Net increase (decrease) in cash and cash equivalents | 320,932 | 62,753 |
| Cash and cash equivalents at beginning of year | 1,793,658 | 2,249,099 |
| Cash and cash equivalents at end of quarter | 2,114,590 | 2,311,852 |

(4) Notes to Quarterly Consolidated Financial Statements

Notes to Going Concern Assumption

Not applicable

Notes to Significant Changes in Shareholders' Equity

Not applicable

Segment Information

【Segment Information】

I. For the Six months ended June 30, 2017 (From January 1, 2017 through June 30, 2017)

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 | 3,424,696 | 2,801,917 | 6,226,613 | 60 | 6,226,673 |
| Inter-segment sales and transfers | 32 | — | 32 | Δ32 | — |
| Total | 3,424,728 | 2,801,917 | 6,226,645 | 27 | 6,226,673 |
| Segment profit (loss) | 107,643 | 65,811 | 173,454 | 60 | 173,514 |

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, 2018

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

(Unit: thousand yen)

| Japan | Americas | Europe | Other regions | Total |
|-----------|----------|--------|---------------|-----------|
| 5,859,516 | 246,952 | 57,004 | 63,200 | 6,226,673 |

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, 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 | Δ11,000 | — |
| Total | 3,552,423 | 2,729,247 | 6,281,671 | Δ10,910 | 6,270,760 |
| Segment profit | 20,193 | 107,335 | 127,528 | 90 | 127,618 |

Note: The total amount of segment profit 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.

For the six months ended June 30, 2018 (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