



Consolidated Financial Results for Fiscal Year Ended December 31, 2018
(Under Japanese GAAP)



February 5, 2019

Company name: SIOS Corporation
 Stock listed on: Tokyo Stock Exchange
 Stock code: 3744
 URL: <http://www.sios.com/>
 Representative: Nobuo Kita, Representative Director and President
 Contact person: Tokutaro Kobayashi, Managing Executive Officer
 Telephone: +81-3-6401-5111 (from outside Japan)
 Scheduled date of ordinary meeting of shareholders: March 28, 2019
 Scheduled commencement date of dividend payment: -
 Scheduled filing date of securities report: March 29, 2019
 Supplementary materials on financial results: Yes
 Presentation of financial results: Yes (for institutional investors and analysts)

(Fractions less than 1 million yen are rounded down)

1. Consolidated results (January 1, 2018 through December 31, 2018)

(1) Consolidated Results of Operations (Percentages represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	12,799	2.6	290	-9.4	310	-4.8	225	-
FY2017	12,470	3.2	320	-32.4	326	-16.3	-587	-

Note: Comprehensive income (loss) FY 2018 263 million yen (-%) FY 2017 (583)million yen (-%)

	Basic earnings (loss) per share	Diluted earnings per share	Return on equity	Return on assets	Operating profit ratio
	Yen	Yen	%	%	%
FY2018	26.15	-	19.1	6.1	2.3
FY2017	-68.11	-	-44.1	6.5	2.6

Note: Equity in earnings (loss) of affiliates FY 2018 6 million yen FY 2017 - million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2018	5,357	1,359	24.6	152.54
As of Dec. 31, 2017	4,849	1,076	21.5	120.94

Note: Equity As of Dec. 31, 2018: 1,319 million yen As of Dec. 31, 2017: 1,043million yen

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY2018	78	-184	-127	2,008
FY2017	640	-26	-109	2,249

2. Cash Dividends

	Dividend per share					Total amount of dividends	Payout ratio (Consolidated)	Dividends on equity (Consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2017	-	0.00	-	0.00	0.00	-	-	-
FY2018	-	0.00	-	0.00	0.00	-	-	-
FY2019 (expected)	-	0.00	-	5.00	5.00	-	30.9	-

3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2019 (FY2019)

(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
FY2019	13,200	3.1	200	-31.2	210	-32.4	140	-38.0	16.18

Notes:

- (1) Changes in significant subsidiaries during the period
(Changes in specified subsidiaries resulting in a change in the scope of consolidation) : None
- (2) Changes in accounting policies, changes in accounting estimates, and restatements
- (i) Changes in accounting policies based on revisions of accounting standards : Yes
- (ii) Changes in accounting policies other than the above (i) : None
- (iii) Changes in accounting estimates : None
- (iv) Restatements : None

Note: For details, please refer to "4. Notes on Consolidated Financial Statements and Major Notes (5) Consolidated Financial Statements" on page 12 of the attached document.

(3) Number of outstanding shares (common shares)

(i) Number of outstanding shares at end of the period (including treasury shares)	FY2018	8,874,400 shares	FY2017	8,874,400 shares
(ii) Number of treasury shares at end of the period	FY2018	224,268 shares	FY2017	246,541 shares
(iii) Average number of outstanding shares during the period	FY2018	8,638,647 shares	FY2017	8,621,643 shares

Supplementary Information: Non-consolidated Financial Results
(Reference)

1. Non-consolidated Financial Results for Fiscal Year Ended December 31, 2018 (FY2018)

(1) Non-consolidated Results of Operations (Percentage represent changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	991	-85.6	120	-63.3	116	-63.8	104	-
FY2017	6,896	-13.8	328	14.0	321	11.5	-614	-

	Basic earnings (loss) per share	Diluted earnings per share
	Yen	Yen
FY2018	12.06	-
FY2017	-71.26	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2018	2,923	1,375	47.0	158.93
As of Dec. 31, 2017	2,786	1,207	43.3	139.87

(Note) Equity As of Dec. 31, 2018: 1,374 million yen As of Dec. 31, 2017: 1,206 million yen

- * Financial report is not subject to audits by certified public accountants or auditing corporations.
- * Explanations regarding the 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 "(4) Forward-looking Statements" under "1. Business Results" on Page 4 of the attached document.

The Company will hold a presentation on its financial results for institutional investors and analysts on Monday, February 6, 2019. Shortly thereafter, the Company will post on its website materials used in the presentation.

Table of Contents of the Attached Document

1. Business Results	4
(1) Summary of Business Results	4
(2) Summary of Financial Position	5
(3) Summary of Cash Flows	5
(4) Forward-looking Statements	5
2. Basic Policy on the Selection of Accounting Standards	6
3. Consolidated Financial Statements	7
(1) Consolidated Balance Sheets	7
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	9
(3) Consolidated Statements of Changes in Equity	11
(4) Consolidated Statements of Cash Flows	13
(5) Notes on Consolidated Financial Statements	15
Changes in accounting policy	15
Segment Information	15
Related Information	17
Per-Share Information	19
Significant Subsequent Events	19

1. Business Results

(1) Summary of Business Results

Overview of Consolidated Business Results for Fiscal Year Ended December 31, 2018 (FY 2018)

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

During the consolidated fiscal year ended December 31, 2018, as part of our efforts to become more competitive in our core businesses, we acquired ThirdWare Inc. and expanded the lineup of business-continuity solutions. In addition, we worked closely with our distribution partners to bolster sales of our core products, the sales of which fell in the first six months of FY 2018, and achieved a year-on-year increase in their sales in the second half.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for FY 2018 are as follows:

Open System Infrastructure Business Segment

Although sales of LifeKeeper² declined in the first half of FY 2018 from the same period the previous year, we worked closely with our distribution partners and achieved a year-on-year increase in its sales in the second half. In addition, Red Hat Enterprise Linux⁴ and other software products sourced from Red Hat, Inc.⁵ enjoyed robust sales, and OSS³ support services achieved steady growth in revenue as well. As a result, net sales in this segment increased by 5.8% year on year to 7,231 million yen.

The segment profit fell by 19.3% to 115 million yen partly due to the declining gross profit ratio of products sold, which was a trend continuing from the previous fiscal year, and partly due to an increase in expenses associated with releasing an upgraded version of SIOS Coati⁶.

Application Business Segment

Although sales of software applications for multifunction printers (MFPs)⁷ were slow in the second quarter of FY 2018, we worked closely with our distribution partners and achieved a year-on-year increase in their sales in the second half of the year. In addition, Gluegent⁸ series cloud services achieved a significant increase in revenue. In contrast, revenues from providing support for system development and implementation fell from the previous year. As a result, net sales in this segment were down 1.2% to 5,568 million yen.

The segment income declined by 1.4% year on year to 174 million yen partly due to an increase in expenses associated with new businesses and partly due to a delay in an on-going project to provide support for system development and implementation to a financial institution, both of which more than offset the absence of an impairment loss of 100 million yen, which had been recognized in 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 FY 2018 were up 2.6% year on year to a record 12,799 million yen, marking uninterrupted growth for the eighth consecutive fiscal year. The Group's consolidated operating profit was down 9.4% year on year to 290 million yen, and ordinary profit was down 4.8% to 310 million yen. The Group posted a profit of 225 million yen attributable to owners of parent for the year, which was an increase of 813 million yen from the previous year. The Group's key management metrics EBITDA—which is the sum of operating profit, depreciation and amortization, and amortization of goodwill—stood at 375 million yen, down 24.5% from the year before.

Notes: 1. Fintech

An emerging technology for facilitating innovations in the financial sector.

2. LifeKeeper

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

3. OSS

Abbreviation for 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.

4. Red Hat Enterprise Linux

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

5. Red Hat, Inc. Related Items

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

6. SIOS Coati

Software that automatically restores system failures in the cloud.

7. 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.

8. 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.

(2) Summary of Financial Position

Assets, Liabilities, and Net Assets

(i) Assets

Current assets were 4,450 million yen as of December 31, 2018, up 7.5% from the end of the previous fiscal year, reflecting an increase of 240 million yen in cash and deposits and an increase of 235 million yen in accounts receivable-trade.

Non-current assets were up 28.3% year on year to 907 million yen, reflecting an increase of 116 million yen in Investment securities.

As a result, total assets were up 10.5% year on year to 5,357 million yen as of December 31, 2018.

(ii) Liabilities

Current liabilities amounted to 3,154 million yen, up 11.4% from a year earlier, due primarily to an increase of 208 million yen in advance received and an increase of 81 million yen in accounts payable trade.

Non-current liabilities were down 10.2% year on year to 843 million yen, reflecting a decrease of 133 million yen in long-term loans payable.

As a result, total liabilities were up 6.0% year on year to 3,998 million yen as of December 31, 2018.

(iii) Net assets

Total net assets were up 26.3% year on year to 1,359 million yen as of December 31, 2018, reflecting a profit of 225 million yen attributable to owners of parent company for the year.

(3) Summary of Cash Flows

The Group's balance of consolidated cash and cash equivalents as of December 31, 2018, totaled 2,008 million yen, reflecting a decrease of 240 million yen from the end of the previous fiscal year.

(In millions of yen)

	FY 2017	FY 2018	Change
Cash flows from operating activities	640	78	-562
Cash flows from investing activities	-26	-184	-158
Cash flows from financing activities	-109	-127	-18

Net cash provided by operating activities increased to 78 million yen for FY 2018. The increase was due profit before income taxes in advance received.

Net cash used in investing activities decreased to 184 million yen. The decrease was due primarily to the purchase of non-current assets.

Net cash used in financing activities decreased to 127 million yen. The decrease was due primarily to the repayment of long-term loans payable.

(4) Forward-looking Statements

Under the mission of making the impossible possible for the people of the world, the Group works toward achieving its primary management objective of pursuing innovative solutions to resolve issues affecting people and to contribute to a better society.

In addition to EBITDA, the Group has established ROIC9 as another key management metric to continue to generate positive cash flow. Positive cash flow enables the Group to invest in the three driving forces for its growth—people, research and development, and a corporate culture that fosters innovation—and to return profit to our shareholders and stakeholders. Through these efforts, the Group works toward achieving its primary management objective.

Consolidated net sales for FY 2019 are projected at 13.2 billion yen, up 3.1% from FY 2018, which will mark the ninth consecutive year of growth. The Group intends to increase its R&D spending in FY 2019 and expects to achieve an operating profit of 200 million

yen (down 31.2% year on year), an ordinary profit of 210 million yen (down 32.4%), and a profit of 140 million yen (down 38.0%) attributable to owners of parent for FY 2019.

As announced on February 5, 2018, the Company will not pay any year-end dividends for FY 2018. Based on the most current business forecast for FY 2019, the Company plans to pay a year-end dividend of 5.00 yen per share for FY 2019.

9. Return on invested capital. $ROIC = \text{Operating income} \times (1 - \text{Effective tax rate}) / (\text{Interest-bearing debts} + \text{Shareholders' equity})$

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, 2017	December 31, 2018
Assets		
Current assets		
Cash and deposits	2,379,099	2,138,821
Notes and accounts receivable - trade	1,377,939	1,613,603
Work in progress	27,873	132,680
Deferred tax assets	55,558	66,477
Advance payments - trade	139,488	155,332
Other	161,919	343,735
Allowance for doubtful accounts	(200)	(200)
Total current assets	4,141,679	4,450,450
Non-current assets		
Property, plant and equipment		
Buildings	179,416	225,432
Accumulated depreciation	(83,471)	(89,657)
Buildings, net	95,944	135,774
Tools, furniture and fixtures	288,453	287,218
Accumulated depreciation	(228,835)	(221,844)
Tools, furniture and fixtures, net	59,618	65,373
Leased assets	18,619	30,411
Accumulated depreciation	(4,686)	(10,179)
Leased assets, net	13,932	20,231
Total property, plant and equipment	169,496	221,380
Intangible assets		
Goodwill	995	1,644
Software in progress	8,770	49,931
Other	51,554	38,154
Total intangible assets	61,321	89,730
Investment and other assets		
Investment securities	192,970	309,148
Net defined benefit asset	35,988	39,574
Guarantee deposits	220,663	216,956
Deferred tax assets	958	3,141
Other	35,938	32,571
Allowance for doubtful accounts	(9,820)	(5,071)
Total investment and other assets	476,698	596,321
Total non-current assets	707,515	907,432
Total assets	4,849,194	5,357,883

(In thousands of yen)

	December 31, 2017	December 31, 2018
Liabilities		
Current liabilities		
Accounts payable-trade	494,376	576,123
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	133,116	133,116
Lease obligations	4,018	6,710
Income taxes payable	104,721	44,951
Advance received	1,521,761	1,730,552
Provision for bonuses	42,816	39,141
	-	36,864
Other	481,967	537,125
Total current liabilities	2,832,779	3,154,585
Non-current liabilities		
Long-term loans payable	679,039	545,923
Deferred tax liabilities	23,170	54,476
Net defined benefit liability	212,520	214,916
Lease obligations	11,248	15,448
Long-term deposits received	11,632	11,632
Other	1,996	1,294
Total non-current liabilities	939,607	843,691
Total liabilities	3,772,386	3,998,277
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	468,241	472,257
Retained earnings	(654,232)	(429,287)
Treasury shares	(104,458)	(95,038)
Total shareholders' equity	1,191,070	1,429,451
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,140	90,497
Foreign currency translation adjustment	(181,724)	(200,465)
Total accumulated other comprehensive income	(147,584)	(109,967)
Subscription rights to shares	33,321	40,121
Total net assets	1,076,808	1,359,605
Total liabilities and net assets	4,849,194	5,357,883

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

(In thousands of yen)

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2017
Net sales	12,470,303	12,799,750
Cost of sales	8,083,444	8,589,645
Gross profit	4,386,858	4,210,105
Selling, general and administrative expenses	4,065,997	3,919,295
Operating profit	320,861	290,809
Non-operating income		
Interest income	6,990	12,298
Dividend income	712	622
Fiduciary obligation fee	2,400	2,400
Reversal of allowance for doubtful accounts	-	4,748
Foreign exchange gains	-	8,813
Share of profit of entities accounted for using equity method	-	6,691
Gain on valuation of derivatives	6,287	-
Other	3,328	6,647
Total non-operating income	19,719	42,221
Non-operating expenses		
Interest expenses	4,756	4,298
Foreign exchange loss	5,493	-
Loss on investments in partnership	3,994	7,079
Loss on valuation of derivatives	-	11,173
Other	52	7
Total non-operating expenses	14,296	22,559
Ordinary profit	326,283	310,471
Extraordinary income		
Gain on sale of investment securities	-	929
Gain on liquidation of subsidiaries	-	8,350
Gain on reversal of subscription rights to shares	1,477	-
Total extraordinary income	1,477	9,280
Extraordinary losses		
Loss on sales of investment securities	6,803	31,578
Impairment loss	800,646	-
Loss on retirement of non-current assets	-	1,194
Other	-	2,056
Total extraordinary loss	807,450	34,829
Profit (loss) before income taxes	(479,689)	284,922
Income taxes-current	141,633	62,242
Income taxes-deferred	(34,135)	(3,212)
Total income taxes	107,498	59,030
Profit (loss)	(587,188)	225,892
Profit (loss) attributable to owners of parent	(587,188)	225,892

Consolidated Statements of Comprehensive Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018
Profit (loss)	(587,188)	225,892
Other comprehensive income		
Valuation difference on available-for-sale securities	20,131	56,357
Foreign currency translation adjustment	(16,238)	18,741
Total other comprehensive income (loss)	3,893	37,616
Comprehensive income (loss)	(583,295)	263,508
Comprehensive income (loss) attributable to:		
Comprehensive income (loss) attributable to owners of parent	(583,295)	263,508

(3) Consolidated Statements of Changes in Equity

Fiscal Year Ended December 31, 2017

(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	466,657	(67,044)	(110,178)	1,770,954
Changes of items during period					
Profit (loss) attributable to owners of parent			(587,188)		(587,188)
Disposal of treasury shares		1,584		5,719	7,304
Total changes of items during period		1,584	(587,188)	5,719	(579,884)
Balance at end of current period	1,481,520	468,241	(654,232)	(104,458)	1,191,070
Balance at beginning of current period	1,481,520	466,657	(67,044)	(110,178)	1,770,954

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	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	14,008	(165,485)	(151,477)	28,116	-	1,647,593
Changes of items during period						
Profit (loss) attributable to owners of parent			-			(587,188)
Disposal of treasury shares			-			7,304
Net changes of items other than shareholders' equity	20,131	(16,238)	3,893	5,205		9,098
Total changes of items during period	20,131	(16,238)	3,893	5,205	-	(570,785)
Balance at end of current period	34,140	(181,724)	(147,584)	33,321	-	1,076,808
Balance at end of current period	14,008	(165,485)	(151,477)	28,116	-	1,647,593

	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
Net changes of items other than shareholders' equity					
Total changes of items during period	-	4,016	224,945	9,419	238,381
Balance at end 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
Net changes of items other than shareholders' equity	56,357	(18,741)	37,616	6,800	44,416
Total changes of items during 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

(4) Consolidated Statements of Cash Flows

(In thousands of yen)

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018
Cash flows from operating activities		
Profit (loss) before income taxes	(479,689)	284,922
Depreciation	91,414	84,018
Amortization of goodwill	85,372	1,067
Impairment loss	800,646	-
Interest and dividend income	(7,702)	(12,921)
Interest expenses	4,756	4,298
Loss (gain) on investments in partnership	3,994	7,079
Share of (profit) loss of entities accounted for using equity method	-	(6,691)
Decrease (increase) in notes and accounts receivable-trade	(35,531)	(224,964)
Decrease (increase) in inventories	28,135	(107,605)
Increase (decrease) in notes and accounts payable-trade	51,754	28,727
Increase (decrease) in net defined benefit liabilities	33,930	2,396
Increase (decrease) in advance received	124,339	215,973
Decrease (increase) in advance payment	(11,298)	(12,843)
Increase (decrease) in consumption taxes payable	12,929	77,891
Other	36,388	(108,176)
Sub-total	739,438	230,172
Interest and dividend income received	7,702	12,921
Interest expenses paid	(4,756)	(4,298)
Income taxes paid	(101,737)	(160,588)
Net cash provided by (used in) operating activities	640,646	78,206
Cash flows from investing activities		
Payment into time deposits	(260,000)	(260,000)
Proceeds from withdrawal of time deposits	260,000	260,000
Purchase of property, plant and equipment	(12,100)	(89,921)
Purchase of intangible assets	(14,175)	(50,789)
Payments for guarantee deposits	-	(11,668)
Proceeds from collection of guarantee deposits	-	6,823
Purchase of investment securities	-	(70,000)
Proceeds from sales of investment securities	-	2,149
Proceeds from merger	-	30,217
Other	30	(1,470)
Net cash provided by (used in) investing activities	(26,246)	(184,661)

(In thousands of yen)

	Fiscal Year Ended December 31, 2017	Fiscal Year Ended December 31, 2018
Cash flows from financing activities		
Cash dividends paid	(38)	-
Net increase (decrease) in short-term loans payable	20,000	-
Repayments of long-term loans payable	(133,116)	(133,116)
Other	4,112	6,043
Net cash provided by (used in) financing activities	(109,041)	(127,072)
Effect of exchange rate changes on cash and cash equivalents	(49,917)	(6,751)
Net increase (decrease) in cash and cash equivalents	455,441	(240,278)
Cash and cash equivalents at beginning of year	1,793,658	2,249,099
Cash and cash equivalents at end of year	2,249,099	2,008,821

(5) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

Change in Accounting Policy

Effective April 1, 2018, the Company adopted the Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, Which Involve Considerations, with Vesting Conditions (PITF No. 36 issued by the ASBJ on January 12, 2018; hereinafter referred to as "PITF No. 36"), under which the Company applies the Accounting Standards for Share-based Payment (ASBJ Statement No. 8 issued on December 27, 2005) to transactions that grant employees stock acquisition rights, which involve considerations, with vesting conditions.

However, in accordance with the stipulation on a transitional treatment provided in Paragraph 10, Item 3 of PITF No. 36, the Company continues to apply the previously adopted accounting treatment to the transactions that granted employees on or before March 31, 2018, stock acquisition rights, which involve considerations, with vesting conditions.

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, the Group markets LifeKeeper, Software "SIOS Coati" that automatically restores system failures in the cloud, failover software that automatically switches a failed primary system to a backup system, and OSS-related products, including products 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, the Group markets software applications for MFPs, products and services for financial institutions, and the Gluegent series, which is a SaaS product that works with Google Apps, provides consulting services for a wide range of information systems, and develops enterprise information systems for corporate clients on a contract basis.

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, 2017

(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	6,834,028	5,636,154	12,470,183	120	12,470,303
Intersegment sales and transfers	279	-	279	(279)	-
Total	6,834,307	5,636,154	12,470,462	(159)	12,470,303
Segment profit	143,339	177,401	320,741	120	320,861
Other items					
Depreciation	20,758	70,655	91,414	-	91,414
Amortization of goodwill	-	85,372	85,372	-	85,372
Impairment loss	-	800,646	800,646	-	800,646

* 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, 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.

Related Information

Fiscal year ended December 31, 2017

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
11,614,986	607,137	123,771	124,408	12,470,303

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
164,519	4,976	169,496

3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,111,301	Open system infrastructure business and application business

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
Networld Corporation	1,221,476	Open system infrastructure business and application business

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

Fiscal year ended December 31, 2017

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

Fiscal year ended December 31, 2018

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, 2017

(In thousands of yen)

	Reportable segment			Other	Adjustment	Total
	Open system infrastructure business	Application business	Total			
Year-end balance	-	995	995	-	-	995

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

Fiscal year ended December 31, 2018

(In thousands of yen)

	Reportable segment			Other	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.

Information Regarding Gain on Negative Goodwill by Reportable Segment

Fiscal year ended December 31, 2017

Not applicable

Fiscal year ended December 31, 2018

Not applicable

Per-Share Information

	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Net assets per share	188.00 yen	120.94 yen
Basic earnings (loss) per share	29.56 yen	(68.11) yen
Diluted earnings per share	29.52 yen	-

Notes:

1. As a loss was posted per share for FY 2017, the diluted earnings per share were not presented for the year, although, technically, potential common stock with dilutive effects existed.
2. Diluted net income per share for the year ended December 31, 2018 is not stated because there are no potential shares with dilutive effect.
3. The basis for calculating basic earnings or loss per share and diluted earnings per share is as follows:

Item	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Basic earnings or loss per share		
Profit (loss) attributable to owners of parent (in thousands of yen)	254,494	(587,188)
Amounts not attributable to common stock (in thousands of yen)	-	-
Profit (loss) attributable to owners of parent, related to common stock (in thousands of yen)	254,494	(587,188)
Average number of common stock outstanding during the period (in shares)	8,609,398	8,621,643
Diluted earnings per share		
Adjustments to profit attributable to owners of parent (in thousands of yen)	-	-
Increase in common stock (in shares)	12,125	-
(Stock acquisition rights included above) (in shares)	(12,125)	-
Outline of potential common shares outstanding that were not used to calculate diluted earnings per share, because they had no dilutive effects	-	(Subscription rights to shares) 20th May 2015 Resolution of the Board of Directors 108,600 shares of common stock.-

Significant Subsequent Events

Not applicable