



Consolidated Financial Result

(For the 6-month period ended June 30, 2020)



August 3, 2020

Company name: **SIOS Corporation**
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 Stock exchange listings: Tokyo Stock Exchange (TSE)
 Code number : 3744
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Scheduled date for filing of quarterly financial report: August 13, 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, 2020 through June 30, 2020) (% of change from previous first quarter)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6-month period(2020/6)	7,276	5.2	54	42.0	57	-17.9	19	-
6-month period(2019/6)	6,914	10.3	38	-70.0	70	-46.5	-20	-

(Note) Comprehensive income

As of June.30, 2020: 8 million yen/ -%

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

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
6-month period(2020/6)	2.29	-
6-month period(2019/6)	-2.32	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
6-month period(2020/6)	5,527	1,277	22.2
FY2019	5,332	1,308	23.7

(Reference) Equity

As of June. 30, 2020: 1,229 million yen

As of Dec. 31, 2019: 1,264 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	%
FY2019	-	0.00	-	5.00	5.00
FY2020	-	0.00	-	-	-
FY2020 (expected)	-	-	-	5.00	5.00

(Note) Revisions to recent dividend forecast: None

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		Net income		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

(Note) Revisions to recent business forecast: None

4. Others

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

(i) Number of outstanding shares (including treasury stock)	Second quarter of FY2020	8,874,400 shares	FY2019	8,874,400 shares
(ii) Number of treasury stock	Second quarter of FY2020	205,812 shares	FY2019	205,768 shares
(iii) Average number of outstanding shares (6-month period)	Second quarter of FY2020	8,668,628 shares	Second quarter of FY2019	8,668,632 shares

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

- Information Regarding the Audit Review Procedure: This report is outside the scope of the procedures for quarterly review of financial statements as required under the financial instruments and Exchange Act of Japan. The aforementioned procedures have not been completed as of the time of disclosure of this document.
- Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
- Forecasts announced by the company referred to above were prepared based on management's assumption with information available at this time and therefore involve known and unknown risks and uncertainties. Please note such risks and uncertainties may cause the actual results to be materially different from the forecasts.
- This information to above is an UNOFFICIAL English-language translation of the original Japanese-language version. The format and contents of this document are defined by the requirements of the Tokyo Stock Exchange's 2nd Section.
To the extent that there are discrepancies between this translation and the original version, the original version shall be definitive.

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1. Qualitative Information on Quarterly Results

(1) Results of Operations

Overview of Consolidated Business Performance for the Six Months Ended June 30, 2020

Many corporations in Japan and the rest of the world have reported a substantial year-on-year decline in their earnings for the six months ended June 30, 2020, amid the increasingly serious COVID-19 crisis. Consequently, companies are becoming cautious in making new investments and are suspending or postponing large projects. In the IT arena in which the Group operates, however, companies have been investing at an accelerated pace in implementing digital transformation (DX)¹ solutions, including switching to teleworking and transitioning to cloud environments as well as streamlining and automating business processes. Under this business environment, the Group offers value-added products and services to assist corporate clients in moving forward with DX. To get through the significant changes in a socioeconomic environment brought about by the COVID-19 crisis, we have asked all our employees to switch to teleworking to protect their health and safety as well as to achieve greater work efficiency. In addition, we plan to merge three major subsidiaries operating in Japan on October 1, 2020, to consolidate their human, intellectual property, and financial resources in an effort to achieve even greater operational efficiency and productivity.

The Group achieved consolidated business results by segment for the six months ended June 30, 2020, as follows:

(i) Open System Infrastructure Business Segment

The Group achieved a solid increase in sales of our core LifeKeeper², thanks to its robust perpetual licensing business in Japan, which more than offset its declining sales in the Americas and Europe. In addition, sales of Red Hat Enterprise Linux³ and other software products sourced from Red Hat Inc.⁴ as well as revenues from OSS⁵-related products and support services increased over the same period the previous fiscal year. As a result, net sales in this segment jumped 7.5% year on year to 4,183 million yen.

This segment posted a loss of 5 million yen, compared with an income of 46 million yen a year earlier, due to additional R&D spending incurred to upgrade LifeKeeper and increased expenses associated with establishing new businesses.

(ii) Application Business Segment

Revenues from software applications for MFPs⁶ declined. This was because an increasing number of corporate users switched from a perpetual licensing model to a subscription model⁷ for these applications. By contract, revenues from the provision of support for system development and implementation were strong, especially to educational institutions. In addition, sales of the management support system to financial institutions increased, as revenues from projects orders for which had been received in the second half of the previous fiscal year were recognized during the period under review. As a result, net sales in this segment increased 2.4% year on year to 3,092 million yen.

Income from the sales of management support systems to financial institutions as well as the provision of support for system development and implementation to educational institutions increased year on year. In addition, income from the provision of support for system development and implementation to financial institutions was up year on year due in part to a higher gross profit margin resulting primarily from reduced subcontract expenses and in part to the absence of unprofitable projects that had affected negatively the profitability of this segment the previous fiscal year. As a result, the segment income was 59 million yen, compared with a loss of 7 million yen for the same period the previous fiscal year.

The Group's combined net sales of these two segments jumped 5.2% year on year to 7,276 million yen, which marked record-high six-month sales for the Group.

While the Group's consolidated operating profit surged 42.0% year on year to 54 million yen, ordinary profit was down 17.9% to 57 million yen due to a decrease in foreign exchange gains and the posting of a share of loss of entities accounted for using equity method. The Group posted a profit of 19 million yen attributable to owners of parent, compared with a loss of 20 million yen the previous fiscal year.

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 the six months ended June 30, 2020:

EBITDA: 101 million yen, up 44.8% year on year

ROIC (annualized): 3.5%, compared with 2.4% for the same period the previous fiscal year

- 1 Digital transformation(DX)
A process in which a company uses data and digital technology to transform its products, services, and business models to more effectively respond to constantly changing business environments and deliver greater value to customers and society as well as to transform its business processes and organizational structure and culture to gain greater competitive advantage.
- 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 the open solution provider Red Hat, Inc.
- 4 Red Hat, Inc. Related Items
Linux OS product developed by Red Hat, Inc., a provider of open source solutions.
- 5 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.
- 6 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.
- 7 Subscription business model
A business model that charges customers a recurring monthly or annual fee to access a software product or service.

(2) Financial Position

(i) Assets

Current assets amounted to 4,652 million yen as of June 30, 2020, up 3.9% from the end of the previous fiscal year, reflecting an increase of 329 million yen in cash and deposits and a decrease of 147 million yen in notes and accounts receivable trade.

Non-current assets amounted to 875 million yen, up 2.6% from the previous fiscal year-end, reflecting an increase of 86 million yen in software, a decrease of 65 million yen in software in progress, and a decrease of 18 million yen in property, plant and equipment.

As a result, total assets amounted to 5,527 million yen, up 3.7% from the previous fiscal year-end.

(ii) Liabilities

Current liabilities amounted to 3,646 million yen, up 8.7% from the previous fiscal year-end, reflecting an increase of 359 million yen in advances received.

Non-current liabilities amounted to 603 million yen, down 9.7% from the previous fiscal year-end, reflecting a decrease of 61 million yen in long-term loans payable.

As a result, total liabilities amounted to 4,250 million yen, up 5.6% from the previous fiscal year-end.

(iii) Net assets

Total net assets amounted to 1,277 million yen, down 2.4% from the previous fiscal year-end, reflecting a profit of 19 million yen attributable to owners of parent for the period under review and cash dividends paid.

(3) Forward-looking Statements Including Consolidated Business Forecasts

The consolidated business forecasts for the fiscal year ending December 31, 2020, remain unchanged from as stated in Consolidated Financial Results for the Fiscal Year Ended December 31, 2019, announced on February 5, 2020.

Since April 7, 2020, when the Japanese government declared a state of emergency over the COVID-19 outbreak, all our employees have switched to teleworking. The group-wide implementation of teleworking has not had a material impact on the Group's business operations; however, a prolonged duration of the COVID-19 crisis might adversely affect the Group's business performance going forward.

We will announce promptly an update on consolidated business forecasts for the fiscal year ending December 31, 2020, if any material change should arise.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2019 (as of December 31, 2019)	FY 2020 Q2 (as of June 30, 2020)
Assets		
Current assets		
Cash and deposits	2,266,069	2,595,132
Notes and accounts receivable-trade	1,754,762	1,607,303
Work in progress	47,536	50,028
Advance payment	181,936	254,547
Other	229,853	145,945
Allowance for doubtful accounts	-200	-200
Total current assets	4,479,958	4,652,756
Fixed assets		
Tangible fixed assets		
Buildings (net)	112,312	101,163
Other (net)	74,480	67,084
Total tangible fixed assets	186,792	168,248
Intangible fixed assets		
Goodwill	786	357
Software	39,720	126,387
Software in progress	184,413	119,117
Other	1,916	1,848
Total intangible fixed assets	226,835	247,710
Investment and other assets		
Investment securities	137,073	137,286
Net defined retirement assets	43,741	40,701
Guarantee deposits	207,904	220,973
Other	55,233	65,230
Allowance for doubtful accounts	-5,071	-5,071
Total investment and other assets	438,881	459,119
Total fixed assets	852,509	875,079
Total assets	5,332,468	5,527,835

(In thousands of yen)

	December 31, 2019	June 30, 2020
Liabilities		
Current liabilities		
Accounts payable-trade	856,680	773,558
Short-term loans payable	50,000	50,000
Current portion of long-term loans payable	132,303	126,472
Lease obligations	7,156	7,340
Income taxes payable	19,619	31,324
Advances received	1,842,348	2,202,221
Provision for bonuses	34,262	25,251
Provision for loss on order received	326	371
Other	413,077	430,384
Total current liabilities	3,355,774	3,646,923
Non-current liabilities		
Long-term loans payable	413,620	352,060
Net defined benefit liability	230,539	226,330
Lease obligations	11,362	12,430
Long-term deposits received	11,632	11,632
Other	750	754
Total non-current liabilities	667,905	603,207
Total liabilities	4,023,679	4,250,131
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	82,963	59,430
Treasury shares	-87,198	-87,230
Total shareholders' equity	1,477,284	1,453,719
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,961	-7,649
Foreign currency translation adjustment	-208,398	-216,501
Total accumulated other comprehensive income	-212,360	-224,151
Subscription rights to shares	43,863	48,135
Total net assets	1,308,788	1,277,703
Total liabilities and net assets	5,332,468	5,527,835

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

(In thousands of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Net sales	6,914,723	7,276,483
Cost of sales	4,789,986	5,097,568
Gross profit	2,124,736	2,178,914
Selling, general and administrative expenses	2,086,416	2,124,512
Operating profit	38,319	54,402
Non-operating income		
Interest income	6,382	3,956
Foreign exchange gains	27,166	9,053
Share of profit of entities accounted for using equity method	5,785	-
Other	3,603	7,887
Total non-operating income	42,939	20,897
Non-operating expenses		
Interest expenses	1,981	1,617
Loss on investments in partnership	12	1,269
Share of loss of entities accounted for using equity method	-	11,087
Loss on valuation of derivatives	8,272	3,172
Other	435	214
Total non-operating expenses	10,701	17,362
Ordinary profit	70,557	57,938
Extraordinary income		
Gain on reversal of subscription rights to shares	450	-
Total extraordinary income	450	-
Extraordinary losses		
Loss on retirement of non-current assets	-	615
Other	-	268
Total extraordinary losses	-	883
Profit before income taxes	71,008	57,055
Income taxes-current	61,501	37,245
Income taxes-deferred	29,637	-
Total income taxes	91,138	37,245
Profit (loss)	-20,130	19,809
Profit (loss) attributable to owners of parent	-20,130	19,809

Quarterly Consolidated Statements of Comprehensive Income
Six months ended June 30

(Unit: thousand yen)

	Six months ended June 30, 2019 (From January 1, 2019 through June 30, 2019)	Six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)
Profit (loss)	-20,130	19,809
Other comprehensive income		
Valuation difference on available-for-sale securities	-209	-3,687
Foreign currency translation adjustment	-16,168	-8,206
Share of other comprehensive income of entities accounted for using equity method	-324	103
Total other comprehensive income	-16,702	-11,791
Quarterly comprehensive income	-36,832	8,018
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	-36,832	8,018

(3) Quarterly Consolidated Statements of Cash Flows

(In thousands of yen)

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2020
Cash flows from operating activities		
Profit (loss) before income taxes	71,008	57,055
Depreciation	43,823	46,192
Amortization of goodwill	428	428
Interest and dividend income	-6,676	-4,464
Interest expenses	1,981	1,617
Loss (gain) on investments in partnership	12	1,269
Share of (profit) loss of entities accounted for using equity method	-5,785	11,087
Decrease (increase) in notes and accounts receivable-trade	76,166	145,501
Decrease (increase) in inventories	77,205	-4,771
Increase (decrease) in notes and accounts payable-trade	85,851	-83,122
Increase (decrease) in net defined benefit liabilities	2,360	-4,208
Increase (decrease) in advance received	216,415	367,997
Decrease (increase) in advance payment	-57,256	-72,610
Increase (decrease) in consumption taxes payable	-99,752	91,035
Other	80,019	-14,223
Sub-total	485,802	538,783
Interest and dividend income received	6,676	4,464
Interest expenses paid	-1,981	-1,617
Income taxes refund	53,157	30,033
Income taxes paid	-93,641	-31,657
Net cash provided by (used in) operating activities	450,014	540,005
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	-7,846	-2,134
Purchase of intangible assets	-40,537	-44,975
Payments for guarantee deposits	-594	-17,741
Proceeds from collection of guarantee deposits	2,647	336
Purchase of investment securities	-	-25,000
Proceeds from distributions from investment partnerships	-	19,813
Loan advances to subsidiaries and associates	-	-21,542
Other	1,087	271
Net cash provided by (used in) investing activities	-45,243	-90,971
Cash flows from financing activities		
Dividends paid	-	-42,707
Repayments of long-term loans payable	-66,558	-67,391
Other	6,466	-4,120
Net cash provided by (used in) financing activities	-60,091	-114,219
Effect of exchange rate changes on cash and cash equivalents	-10,965	-5,751
Net increase (decrease) in cash and cash equivalents	333,713	329,063
Cash and cash equivalents at beginning of year	2,008,821	2,136,069
Cash and cash equivalents at end of quarter	2,342,535	2,465,132

(4) Notes to Quarterly Consolidated Financial Statements**Notes to Going Concern Assumption**

Not applicable

(Notes on significant changes in the amount of shareholders' equity)

Six months ended June 30, 2019

1. Dividend payments

Not applicable.

2. Dividends for which the record date fell in this period with an effective date falling after the last day of this period

Not applicable.

3. Significant changes in shareholders' equity

As per the resolution adopted at the 22nd general meeting of shareholders held on March 28, 2019, and pursuant to Article 452 of the Companies Act of Japan, the Company, on the same date, reduced other capital surplus by 480,279,000 yen and transferred it to retained earnings brought forward to dispose deficit.

There was no significant change in the total amount of shareholders' equity.

Six months ended June 30, 2020

1. Dividend payments

The following resolution was adopted at the Board of Directors' Meeting held on February 21, 2020:

Matters concerning dividends on common stocks

- i. Total amount of dividends: 43,343,000 yen
- ii. Source of dividends: Retained earnings
- iii. Dividend per share: 5.00 yen
- iv. Record date: December 31, 2019
- v. Effective date: March 30, 2020

2. Dividends for which the record date fell in this period with an effective date falling after the last day of this period

Not applicable.

3. Significant changes in shareholders' equity

Not applicable.

Segment Information 【Segment Information】

I. For the Six months ended June 30, 2019 (From January 1, 2019 through June 30, 2019)

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

(Unit: thousand yen)

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

Note: The total amount of segment income (loss) is adjusted to be equal to operating profit presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by “Accounting Standard for Quarterly Financial Statements,” information (Sales) by region is disclosed in accordance with “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statement with valuable information.

Net sales

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

(Unit: thousand yen)

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

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

2. Information on impairment loss of fixed assets or goodwill by reportable segment

Not applicable

II. For the six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)

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	4,183,428	3,092,935	7,276,363	120	7,276,483
Inter-segment sales and transfers	694	1,498	2,192	-2,192	—
Total	4,184,122	3,094,433	7,278,555	-2,072	7,276,483
Segment profit	-5,517	59,800	54,282	120	54,402

Note: The total amount of segment income (loss) is adjusted to be equal to operating profit presented in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by “Accounting Standard for Quarterly Financial Statements,” information (Sales) by region is disclosed in accordance with “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statement with valuable information.

For the six months ended June 30, 2020 (From January 1, 2020 through June 30, 2020)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
6,959,197	217,520	69,551	30,213	7,276,483

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

(Significant subsequent events)

(Simplified absorption-type company split of SIOS Technology, Inc., a consolidated subsidiary)

The board of directors of SIOS Technology, Inc., a consolidated subsidiary of the Company, adopted on June 11, 2020, a resolution to divest its DirectorGear business to BMAT Music Innovation Co., Ltd. by means of an absorption-type company split. On the same day, SIOS Technology, Inc. signed an agreement to that effect with BMAT Music Innovation Co., Ltd.

As per this agreement, said business was transferred to BMAT Music Innovation Co., Ltd., with the effective date of July 1, 2020.

1. Outline of Business Divestiture**(1) Name of succeeding company**

BMAT Music Innovation Co., Ltd.

(2) Description of divested business

Web services for broadcasters

(3) Reason for business divestiture

To make SIOS Technology's management foundation more robust by focusing on its core businesses

(4) Effective date of business divestiture

July 1, 2020

(5) Other matters related to the outline of transaction including the legal form of transaction

This is an absorption-type company split under which SIOS Technology, Inc. acts as a divesting company and BMAT Music Innovation Co., Ltd. acts as a succeeding company. The latter will pay to the former 190,000,000 yen in cash for succeeding the rights and obligations associated with the divested business. This company split falls under the simplified absorption-type company split defined in the provisions of Article 784-2 of the Companies Act of Japan.

2. Outline of Accounting Processing Completed**(1) Amount of gain or loss on transfer**

Gain on transfer of business: 68,358,000 yen

(2) Descriptions and fair book value of assets and liabilities associated with the divested business

Non-current assets (primarily software in progress): 121,452,000 yen

Non-current liabilities (provision for retirement benefits): 1,955,000 yen

(3) Accounting processing

For this company split, the divesting company will complete accounting processing in accordance with the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, published on September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on January 16, 2019).

3. Reporting segment in which the divested business was included

The DirectorGear business was included in the Application Business segment.

4. Estimated amount of profit and loss from the divested business included in the consolidated statement of income for the period under review

Net sales: 80,132,000 yen

Operating profit: 25,071,000 yen

(Simplified absorption-type company split of Keyport Solutions, Inc., a consolidated subsidiary)

The board of directors of Keyport Solutions, Inc., a consolidated subsidiary of the Company, adopted on July 14, 2020, a resolution to divest its public outsourcing business to Hirokei Co., Ltd. by means of an absorption-type company split. On the same day, Keyport Solutions, Inc. signed an agreement to that effect with Hirokei Co., Ltd.

1. Outline of Business Divestiture

(1) Name of succeeding company

Hirokei Co., Ltd.

(2) Description of divested business

Public outsourcing business

(3) Reason for business divestiture

To make Keyport Solutions' management foundation more robust by focusing on its core businesses

(4) Scheduled effective date of business divestiture

September 1, 2020

(5) Other matters related to the outline of transaction including the legal form of transaction

This is an absorption-type company split under which Keyport Solutions, Inc. acts as a divesting company and Hirokei Co., Ltd. acts as a succeeding company. The latter will pay to the former 142,000,000 yen in cash for succeeding the rights and obligations associated with the divested business. This company split falls under the simplified absorption-type company split defined in the provisions of Article 784-2 of the Companies Act of Japan.

2. Outline of Accounting Processing Completed

(1) Estimated amount of gain or loss on transfer

Gain on transfer of business: 124,784,000 yen

(2) Descriptions and estimated fair book value of assets and liabilities associated with the divested business

Current assets: 15,930,000 yen

Non-current assets: 940,000 yen

(3) Accounting processing

For this company split, the divesting company will complete accounting processing in accordance with the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, published on September 13, 2013) and the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on January 16, 2019).

3. Reporting segment in which the divested business was included

The public outsourcing business to be divested was included in the Application Business segment.

4. Estimated amount of profit and loss from the divested business included in the consolidated statement of income for the period under review

Net sales: 84,470,000 yen

Operating loss: 15,104,000 yen

(Absorption-type merger of consolidated subsidiaries)

The Board of Directors of the Company adopted on July 6, 2020, a resolution to resolve and merge Keyport Solutions, Inc. and Gluegent, Inc., both consolidated subsidiaries of the Company, into SIOS Technology, Inc., another subsidiary of the Company.

1. Outline of transaction**(1) Names and natures of business of the parties involved in business combination****(i) Absorbing company**

Name: SIOS Technology, Inc.

Description of business: Development of, infrastructure implementation for, and operation support for information systems

(ii) Resolving companies

Name: Keyport Solutions, Inc.

Description of business: Consulting services for and development of information systems

Name: Gluegent, Inc.

Description of business: Development and sales of cloud services; contracted development of information systems

(2) Reason for business combination

To consolidate human, intellectual property, and financial assets of these three key subsidiaries in Japan to achieve greater operational efficiency and productivity

(3) Scheduled effective date of business combination

October 1, 2020

(4) Legal form of business combination

Absorption-type merger in which Keyport Solutions, Inc. and Gluegent, Inc. will be resolved and merged into SIOS Technology, Inc., which will be a surviving company

(5) Company name after business combination

SIOS Technology, Inc.

(6) Other matters related to the outline of transaction

As this merger is among wholly owned subsidiaries of the Company, no share or other monetary consideration will be allotted to the Company.

2. Outline of Accounting Processing to Be Completed

The Company will process this transaction as one under common control in accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, published on January 16, 2019) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on Jan