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 Stock exchange listings: Tokyo Stock Exchange (TSE)
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Scheduled date for filing of quarterly financial report: May 13, 2022

(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, 2022 through March 31, 2022) (% 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	%
3-month period(2022/3)	3,767	-14.4	-18	-	1	-99.3	-4	-
3-month period(2021/3)	4,398	10.5	223	57.5	237	74.4	159	116.8

(Note) Comprehensive income

As of Mar.31, 2022: 31 million yen/ -83.7%

As of Mar. 31, 2021: 196 million yen/ 192.9%

	Net income per share	Net income per share
	- Basic	- Diluted
	Yen	Yen
3-month period(2022/3)	-0.48	-
3-month period(2021/3)	18.41	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
3-month period(2022/3)	6,465	1,813	27.0
FY2021	6,649	1,897	27.7

(Reference) Equity

As of Mar. 31, 2022: 1,748 million yen

As of Dec. 31, 2021: 1,838 million yen

2. Cash dividends

Record Date	Dividend per share				
	End of Q1	Interim	End of Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2021	-	0.00	-	15.00	15.00
FY2022	-				
FY2022 (expected)		0.00	-	10.00	10.00

(Note) Revisions to recent dividend forecast: None

3. Forecast of consolidated results for FY2022 (January 1, 2022 through December 31, 2022)

(% 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
FY2022	16,000	1.7	100	-72.1	120	-70.0	60	-83.7	6.92

(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: YES
 - (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)	First quarter of FY2022	8,874,400 shares	FY2021	8,874,400 shares
(ii) Number of treasury stock	First quarter of FY2022	205,838 shares	FY2021	205,838 shares
(iii) Average number of outstanding shares (3-month period)	First quarter of FY2022	8,668,562 shares	First quarter of FY2021	8,668,562 shares

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

1. 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.
2. Net income per share was calculated by the number of outstanding shares (excluding treasury stocks) at the end of fiscal year.
3. 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.
4. 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 Standard. 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 Consolidated Results

(1) Results of Operations

Overview of consolidated business performance for the three months ended March 31, 2022 (Q1 2022)

During the three months ended March 31, 2022, the global economy continued to face lingering uncertainty amid the alarming resurgence of COVID-19 fueled by new virus variants, the Russian invasion of Ukraine, the sharp devaluation of the Japanese yen, and the prolonged chip shortages.

To better adapt to this fast-changing socioeconomic landscape, many businesses continued to invest aggressively in implementing digital transformation¹ solutions, including making greater use of cloud environments. In this business environment, the SIOS Group leveraged its vast technical expertise and experience in open-source software development to offer corporate clients the right solutions to assist them in moving forward with DX, with a focus on products and services that work in the cloud, as well as the SaaS² business.

The Group achieved consolidated business results by segment for the three months ended March 31, 2022, as follows:

On a side note, effective at the beginning of the period under review, the Company has adopted the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 31, 2020) in its financial reporting.

i. Open System Infrastructure Business Segment

Sales of LifeKeeper³, which is one of the Group's core software products, increased over the same period the previous year. This was because high-volume sales to corporate clients in the United States and a favorable yen-dollar exchange rate more than offset a decline in perpetual license sales of the software in Japan. In contrast, sales of Red Hat Enterprise Linux⁴ and other software products sourced from Red Hat, Inc.⁵ plummeted. This was primarily because high-volume sales to corporate clients were sluggish. As a result, net sales in this segment fell 21.7% year on year to 2,241 million yen.

Segment profit dropped 64.3% to 56 million yen, due to an increase in personnel expenses and a sharp decline in sales of products sourced from Red Hat, Inc.

The application of the Accounting Standard for Revenue Recognition had no effect on the segment sales or profit during the period under review.

ii. Application Business Segment

Net sales in this segment declined 0.8% year on year to 1,523 million yen. This was because slow sales of the management support system to financial institutions and the adverse effect of the application of the Accounting Standard for Revenue Recognition more than offset increased revenue from the Gluegent series⁶ services.

The Group posted a loss of 77 million yen in this segment, compared with a profit of 64 million yen a year earlier. This was because of an increase in personnel expenses, investments in developing and marketing new products and services, and declined sales of the management support system to financial institutions.

The application of the Accounting Standard for Revenue Recognition decreased the segment sales by 123 million yen and the segment profit/loss by 5 million yen.

The Group's combined net sales of these two segments in the period under review were down 14.4% year on year to 3,767 million yen. The Company posted a consolidated operating loss of 18 million yen, compared with an operating profit of 223 million yen the year before. The consolidated ordinary profit was down 99.3% to 1 million yen, reflecting the posting of a share of profit of entities accounted for using the equity method. The consolidated loss attributable to owners of parent amounted to 4 million yen, compared with a profit of 159 million yen the previous year.

The application of the Accounting Standard for Revenue Recognition decreased consolidated net sales by 123 million yen, operating profit/loss and ordinary profit by 5 million yen each, and profit/loss attributable to owners of parent by 0 million yen.

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) for the fiscal year under review are as follows:

EBITDA: 15 million yen, down 93.8% year on year

ROIC (annualized): -2.2%, compared with 26.2% the year before

1. Digital transformation

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. SaaS

Software as a Service. A software licensing and distribution model that allows users to connect to and use cloud-based software applications over the internet.

3. LifeKeeper

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

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. Gluegent series

Service products designed to assist corporate clients in achieving greater operational efficiency using cloud solutions. The series includes the Gluegent Gate cloud-based management of user IDs, the Gluegent Flow cloud-based workflow system, and the Gluegent Apps Group Scheduler, which incorporated a function to manage schedules of team members into Google Calendar.

(2) Financial Position

i. Assets

Current assets amounted to 5,566 million yen as of March 31, 2022, down 3.6% from the end of the previous fiscal year, reflecting primarily a decrease of 421 million yen in cash and deposits.

Non-current assets amounted to 899 million yen, up 2.8%, reflecting primarily an increase of 19 million yen in investment securities.

As a result, total assets decreased 2.8% to 6,465 million yen.

ii. Liabilities

Current liabilities amounted to 4,178 million yen, down 2.1% from the previous fiscal year-end, reflecting primarily a decrease of 22 million yen in income taxes payable.

Non-current liabilities amounted to 473 million yen, down 2.0%, reflecting primarily a decrease of 16 million yen in long-term borrowings.

As a result, total liabilities decreased 2.1% to 4,652 million yen.

iii. Net assets

Total net assets amounted to 1,813 million yen, down 4.5% from the previous fiscal year-end, reflecting primarily a decrease of 126 million yen in retained earnings.

(3) Forward-looking Statements Including Consolidated Business Forecasts

As discussed in the earnings presentation for the fiscal year ended December 31, 2021, published on February 3, 2022, the Company has been stepping up investments in hiring and developing talents as part of its efforts to implement two of its key strategic initiatives: enhancing the competitiveness of existing products and services; and developing and marketing new products and services. In the SaaS business, the Gluegent series services have achieved consistent growth in revenue. The Group will continue its efforts to make its revenue base robust enough to achieve sustainable growth of business.

The consolidated business forecasts for the fiscal year ending December 31, 2022, remain unchanged from as stated in Consolidated Financial Results for the Fiscal Year Ended December 31, 2021, announced on February 3, 2022. The Company will announce promptly an update on consolidated business forecasts if any material change should arise.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2021	March 31, 2022
Assets		
Current assets		
Cash and deposits	3,148,805	2,727,301
Notes and accounts receivable-trade	2,101,204	-
	-	2,316,786
Merchandise	6,842	7,809
Work in process	81,243	5,192
Advance payments to suppliers	223,317	216,700
Other	213,671	292,631
Allowance for doubtful accounts	-200	-200
Total current assets	5,774,885	5,566,221
Non-current assets		
Property, plant and equipment		
Buildings, net	59,276	68,708
Other, net	61,929	55,674
Total property, plant and equipment	121,206	124,383
Intangible assets		
Software	86,913	79,312
Software in progress	11,524	26,931
Other	1,781	1,781
Total intangible assets	100,218	108,025
Investments and other assets		
Investment securities	289,222	308,948
Retirement benefit asset	53,453	54,339
Guarantee deposits	172,939	162,729
Other	142,205	144,983
Allowance for doubtful accounts	-4,221	-4,221
Total investments and other assets	653,599	666,779
Total non-current assets	875,025	899,188
Total assets	6,649,910	6,465,409

(In thousands of yen)

	December 31, 2021	March 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	1,216,499	1,235,082
Current portion of long-term borrowings	109,000	94,720
Lease liabilities	6,000	5,887
Income taxes payable	24,484	1,890
Advances received	2,399,175	-
Contract liabilities	-	2,392,100
Other	513,734	448,875
Total current liabilities	4,268,894	4,178,556
Non-current liabilities		
Long-term borrowings	181,500	165,000
Retirement benefit liability	271,844	280,329
Lease liabilities	18,353	16,885
Long-term deposits received	11,632	11,632
Total non-current liabilities	483,331	473,847
Total liabilities	4,752,225	4,652,403
Net assets		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Retained earnings	630,831	504,622
Treasury shares	-87,254	-87,254
Total shareholders' equity	2,025,096	1,898,887
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,592	-1,834
Foreign currency translation adjustment	-182,701	-148,351
Total accumulated other comprehensive income	-186,294	-150,186
Share acquisition rights	58,882	64,304
Total net assets	1,897,685	1,813,005
Total liabilities and net assets	6,649,910	6,465,409

(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, 2021	Three months ended March 31, 2022
Net sales	4,398,750	3,767,245
Cost of sales	3,138,799	2,586,554
Gross profit	1,259,951	1,180,690
Selling, general and administrative expenses	1,036,531	1,198,843
Operating profit	223,419	-18,152
Non-operating income		
Interest income	1,098	1,241
Gain on valuation of derivatives	35,589	29,572
Share of profit of entities accounted for using equity method	16,216	20,750
Other	5,862	4,779
Total non-operating income	58,766	56,344
Non-operating expenses		
Interest expenses	630	439
Foreign exchange losses	43,523	31,659
Loss on investments in investment partnerships	-	4,450
Other	232	-
Total non-operating expenses	44,386	36,550
Ordinary profit	237,799	1,640
Extraordinary losses		
Loss on retirement of property, plant and equipment	1,172	5
Total extraordinary losses	1,172	5
Profit before income taxes	236,627	1,635
Income taxes-current	72,006	11,106
Income taxes-deferred	5,046	-5,276
Total income taxes	77,053	5,830
Profit	159,573	-4,195
Profit attributable to owners of parent	159,573	-4,195

Consolidated Statements of Comprehensive Income

For three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2021	Three months ended March 31, 2022
Profit	159,573	-4,195
Other comprehensive income		
Foreign currency translation adjustment	34,307	34,367
Valuation difference on available-for-sale securities	2,334	1,758
Share of other comprehensive income of entities accounted for using equity method	-147	-17
Total other comprehensive income	36,495	36,108
Comprehensive income	196,068	31,912
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	196,068	31,912

(3) Notes on Consolidated Financial Statements

(Notes on Going Concern Assumption)

Not applicable

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

Not applicable

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition)

Effective at the beginning of the period under review, the Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 31, 2020) in its financial reporting. Under this standard, the Company recognizes revenue when control of a promised good or service has been transferred to a customer, and the recognized amount of revenue is the amount of the consideration expected to be received from the customer in exchange for the good or service.

With the application of the Accounting Standard for Revenue Recognition, the Company has made the following changes to its accounting policies:

(1) Recognizing revenue from transactions in which the Group acts as an agent

When the Group acts as an agent in providing a good or service to a customer, the Company previously recognized as revenue the total amount of the consideration to be received from the customer in exchange for the good or service. Under the new accounting policy, the Company recognizes as revenue the net amount after the amount to be paid to the supplier (principal) for the product or service is deducted from the amount of the consideration to be received from the customer.

(2) Recognizing revenue from made-to-order software development projects

The Company previously recognized revenue from made-to-order software development projects, based on the percentage-of-completion method when the outcome of the completed portion of development was deemed certain, and based on the completed-contract method when it was not. Under the new accounting policy, the Company recognizes revenue from such a project over a period of time, based on a reasonably estimated performance obligation satisfied to date as a percentage of the total obligation to be performed under the contract. In cases where such a reasonable estimate cannot be made, the Company recognizes revenue based on the cost-recovery method.

In a contract in which a performance obligation is expected to be fully satisfied shortly after the transaction begins, the Company employs an alternative method of recognizing revenue only when the performance obligation is fully satisfied.

(3) Recognizing revenue from the transfer of control of a licensed intellectual property

The Company previously recognized revenue from the transfer of control of a licensed intellectual property when a right to access the property was granted to a customer.

Under the new accounting policy, the Company recognizes revenue when the customer has acquired the ability to direct the use of, and receive the benefit from, a licensed intellectual property.

In accordance with the transitional treatment as permitted in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition, the Company has treated the assumed cumulative amount of effect from retroactively applying the new accounting policies up to the end of the previous fiscal year as an adjustment to retained earnings at the beginning of the period under review, and has begun to apply the new accounting policies to the beginning balance of retained earnings from the period under review.

The application of the new accounting policies resulted in decreases of 123.783 million yen in net sales for the period under review; of 118.43 million yen in cost of sales; of 5.353 million yen each in operating profit, ordinary profit, and profit before income taxes; and of 77,000 yen in profit attributable to owners of parent. Retained earnings increased by 8.014 million yen at the beginning of the period under review.

With the application of the Accounting Standard for Revenue Recognition, "Notes and accounts payable trade," presented under Current Assets on the Consolidated Balance Sheet for the previous fiscal year, is included in "Notes, accounts payable trade, and contract assets," beginning in the period under review. "Advances received," presented under Current Liabilities on the Consolidated Balance Sheet for the previous fiscal year, is included in "Contract liabilities," beginning in the period under review.

In accordance with the transitional treatment as permitted in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Company has not restated the results for the previous fiscal year, using the new presentation methods described above.

(Application of the Accounting Standard for Fair Value Measurement)

Effective at the beginning of the period under review, the Company has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, issued on July 4, 2019) in its financial reporting. In accordance with the transitional treatment as permitted in Paragraph 19 of the standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, issued on July 4, 2019), the Company will prospectively apply a new accounting policy as prescribed by the Accounting Standard for Fair Value Measurement. The application of the new accounting policy has no effect on the Company's quarterly consolidated financial statements.

(Segment Information)

I Three months ended March 31, 2021

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	2,863,457	1,535,143	4,398,600	150	4,398,750
Intersegment sales and transfers	829	6,881	7,710	-7,710	-
Total	2,864,286	1,542,024	4,406,310	-7,560	4,398,750
Segment profit	159,062	64,207	223,269	150	223,419

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, 2021

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
4,246,076	84,609	51,015	17,048	4,398,750

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, 2022

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	2,241,709	1,523,275	3,764,984	2,261	3,767,245
Intersegment sales and transfers	-	2,090	2,090	-2,090	-
Total	2,241,709	1,525,365	3,767,074	170	3,767,245
Segment profit	56,841	-77,255	-20,414	2,261	-18,152

Note: The total amount of segment profits or losses is the same as the amount of operating loss shown on the Consolidated Statements of Income for the period under review.

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, 2022

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,568,459	138,628	39,932	20,224	3,767,245

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

3. Changes in reportable segments

As described in “Changes in accounting policies,” effective at the beginning of the period under review, the Company has adopted the Accounting Standard for Revenue Recognition and revised the accounting methods for revenue recognition. Accordingly, the Company has changed the methods of accounting for net sales and profit/loss for each reportable segment.

As a result of this change, net sales in the Application Business Segment for the period under review decreased by 123.783 million yen, and the segment profit/loss decreased by 5.353 million yen, compared with using the previous methods. The change had no effect on net sales or profit/loss in the Open System Infrastructure Business Segment.

(Additional Information)

There is no significant change to the assumptions we made earlier about the effect that the COVID-19 crisis might have on the Group's business performance going forward, which were provided in the "Additional information" section of the Company's securities filings for the fiscal year ended December 31, 2021.

(Significant Subsequent Events)

Not applicable