



## Consolidated Financial Result

(For the 9-month period ended September 30, 2022)



October 27, 2022

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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: November 14, 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 September 30, 2022)

(% of change from previous third quarter)

#### (1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
9-month period(2022/9)	10,686	-8.7	-468	-	-419	-	-566	-
9-month period(2021/9)	11,707	11.2	279	-	312	-	224	99.6

(Note) Comprehensive income

As of September. 30, 2022: -435 million yen/ -%

As of September. 30, 2021: 266 million yen/ 184.0%

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
9-month period(2022/9)	-65.31	-
9-month period(2021/9)	25.88	-

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
9-month period(2022/9)	5,796	1,361	22.1
FY2021	6,649	1,897	27.7

(Reference) Equity

As of September. 30, 2022: 1,280 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	-	0.00	-		
FY2022 (expected)				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	15,000	-4.6	-550	-	-500	-	-650	-	-74.98

(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)	Third quarter of FY2022	8,874,400 shares	FY2021	8,874,400 shares
(ii) Number of treasury stock	Third quarter of FY2022	205,838 shares	FY2021	205,838 shares
(iii) Average number of outstanding shares (9-month period)	Third quarter of FY2022	8,668,562 shares	Third quarter of FY2021	8,668,562 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 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 Quarterly Results

### (1) Results of Operations

During the nine months ended September 30, 2022, the global economy continued to face lingering uncertainty amid the pervasive COVID-19 pandemic, the Russia-Ukraine conflict, 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 transformation (DX)<sup>1</sup> 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 SaaS<sup>2</sup> business.

The Group achieved consolidated business results by segment for the period under review 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

While sales of LifeKeeper<sup>3</sup>, which is one of the Group's core software products, declined in Japan, its sales were strong in the Americas, Asia, and Oceania. In contrast, sales of Red Hat Enterprise Linux<sup>4</sup> and other software products sourced from Red Hat, Inc.<sup>5</sup> plummeted. This was primarily because high-volume sales to corporate clients were sluggish, due to delays in their system development projects caused by longer delivery lead times for hardware products at the height of chip shortages. As a result, net sales in this segment fell 11.6% year on year to 6,395 million yen.

The Group posted a segment loss of 20 million yen, compared with a profit of 271 million yen the year before, due to the decrease in sales described above and an increase in personnel expenses.

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

Revenue from the Gluegent series<sup>6</sup> and software applications for MFP<sup>7</sup> was up year on year. Sales of the management support system were slow to financial institutions. This was primarily because of delays in their system development projects, caused by longer delivery lead times for hardware products at the height of chip shortages. Combined with the effect of the application of the Accounting Standard for Revenue Recognition, net sales in this segment were down 4.3% year on year, to 4,282 million yen.

The Group posted a segment loss of 455 million yen, compared with a profit of 7 million yen the year before, due to the decrease in sales described above, an increase in personnel expenses, and an increase in investments in new products and services, mainly in the Med Tech<sup>8</sup> category.

The application of the Accounting Standard for Revenue Recognition resulted in a decrease of 344 million yen in segment sales and an increase of 22 million yen in segment profit.

The Group's combined net sales in these two segments for the period under review were down 8.7% year on year, to 10,686 million yen. The Company posted a consolidated operating loss of 468 million yen, compared with an operating profit of 279 million yen the year before, and an ordinary loss of 419 million yen, which reflected 40 million yen of the share of profit of entities accounted for using the equity method, compared with an ordinary profit of 312 million yen a year earlier. The Company posted a loss of 566 million yen, attributable to owners of parent, compared with a profit of 224 million yen the year before. The loss included an impairment loss of 29 million yen on non-current assets associated with sales of the management support system to financial institutions, and deferred income taxes of 77 million yen resulting from the reversal of deferred tax assets.

The application of the Accounting Standard for Revenue Recognition resulted in a decrease of 344 million yen in consolidated net sales, an increase of 22 million yen each in operating profit and ordinary profit, and an increase of 27 million yen in profit attributable to owners of parent.

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: -383 million yen, compared with +338 million yen for the same period the previous year

ROIC (annualized): -26.1%, compared with +10.9% for the same period the previous 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 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 the open solution provider Red Hat, Inc.
- 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.
- 7 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.
- 8 Med Tech  
Short for medical technology.  
It refers to technology that delivers medical services through software applications.

## **(2) Financial Position**

### **(i) Assets**

Current assets amounted to 4,983 million yen as of September 30, 2022, down 13.7% from the end of the previous fiscal year, reflecting primarily a decrease of 674 million yen in cash and deposits.

Non-current assets amounted to 813 million yen, down 7.1%, reflecting a decrease of 34 million yen in guarantee deposits.

As a result, total assets decreased 12.8% to 5,796 million yen.

### **(ii) Liabilities**

Current liabilities amounted to 3,974 million yen, down 6.9% from the previous fiscal year-end, reflecting primarily a decrease of 307 million yen in accounts payable trade.

Non-current liabilities amounted to 460 million yen, down 4.7%, reflecting primarily a decrease of 49 million yen in long-term borrowings.

As a result, total liabilities decreased 6.7%, to 4,434 million yen.

### **(iii) Net assets**

Total net assets amounted to 1,361 million yen, down 28.2% from the previous fiscal year-end, reflecting primarily a decrease of 688 million yen in retained earnings.

## **(3) Forward-looking Statements Including Consolidated Business Forecasts**

The consolidated business forecasts for the fiscal year ending December 31, 2022, remain unchanged from those announced on July 28, 2022. The Company will announce promptly an update on consolidated business forecasts if any material change should arise.

## 2. Quarterly Consolidated Financial Statements

## (1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	FY 2021 (as of December 31, 2021)	FY 2022 Q3 (as of September 30, 2022)
<b>Assets</b>		
Current assets		
Cash and deposits	3,148,805	2,474,280
Notes and accounts receivable-trade	2,101,204	—
Notes and accounts receivable - trade, and contract assets	—	1,868,258
Merchandise	6,842	10,005
Work in progress	81,243	3,732
Advance payments to suppliers	223,317	245,799
Other	213,671	381,722
Allowance for doubtful accounts	-200	-200
Total current assets	5,774,885	4,983,600
Fixed assets		
Tangible fixed assets		
Buildings (net)	59,276	56,426
Other (net)	61,929	48,595
Total tangible fixed assets	121,206	105,022
Intangible fixed assets		
Software	86,913	59,955
Software in progress	11,524	29,879
Other	1,781	1,441
Total intangible fixed assets	100,218	91,275
Investment and other assets		
Investment securities	289,222	366,947
Retirement benefit asset	53,453	51,877
Guarantee deposits	172,939	138,851
Other	142,205	63,338
Allowance for doubtful accounts	-4,221	-4,221
Total investment and other assets	653,599	616,793
Total fixed assets	875,025	813,091
Total assets	6,649,910	5,796,691

(In thousands of yen)

	December 31, 2021	September 30, 2022
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	1,216,499	909,196
Current portion of long-term borrowings	109,000	66,000
Lease liabilities	6,000	5,368
Income taxes payable	24,484	—
Advances received	2,399,175	—
Contract liabilities	—	2,657,322
Other	513,734	336,533
Total current liabilities	4,268,894	3,974,421
Non-current liabilities		
Long-term borrowings	181,500	132,000
Retirement benefit liability	271,844	303,645
Lease liabilities	18,353	13,099
Long-term deposits received	11,632	11,632
Other	—	27
Total non-current liabilities	483,331	460,405
Total liabilities	4,752,225	4,434,827
<b>Net assets</b>		
Shareholders' equity		
Share capital	1,481,520	1,481,520
Legal retained earnings	630,831	-57,310
Treasury shares	-87,254	-87,254
Total shareholders' equity	2,025,096	1,336,954
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,592	972
Deferred gains or losses on hedges	—	52
Foreign currency translation adjustment	-182,701	-57,043
Total accumulated other comprehensive income	-186,294	-56,017
Subscription rights to shares	58,882	80,927
Total net assets	1,897,685	1,361,864
Total liabilities and net assets	6,649,910	5,796,691

**(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income**Quarterly Consolidated Statements of Income  
Nine months ended September 30

(In thousands of yen)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
Net sales	11,707,510	10,686,284
Cost of sales	8,079,864	7,285,377
Gross profit	3,627,646	3,400,907
Selling, general and administrative expenses	3,348,367	3,869,156
Operating profit (loss)	279,278	-468,249
Non-operating income		
Interest income	3,412	4,231
Gain on valuation of derivatives	42,370	135,244
Share of profit of entities accounted for using equity method	28,956	40,415
Other	7,231	9,550
Total non-operating income	81,970	189,441
Non-operating expenses		
Interest expenses	1,689	1,235
Loss on investments in investment partnerships	—	4,450
Foreign exchange losses	46,451	135,444
Other	255	—
Total non-operating expenses	48,396	141,130
Ordinary profit (loss)	312,853	-419,939
Extraordinary income		
Gain on sale of non-current assets	74	—
Total extraordinary income	74	—
Extraordinary losses		
Impairment losses	—	29,909
Loss on retirement of non-current assets	2,856	2,409
Total extraordinary losses	2,856	32,319
Profit (loss) before income taxes	310,071	-452,258
Income taxes - current	56,289	36,381
Income taxes - deferred	29,438	77,489
Total income taxes	85,727	113,870
Profit (loss)	224,343	-566,128
Profit (loss) attributable to owners of parent	224,343	-566,128

Quarterly Consolidated Statements of Comprehensive Income  
**Nine months ended September 30**

(Unit: thousand yen)

	Nine months ended September 30, 2021 (From January 1, 2021 through September 30, 2021)	Nine months ended September 30, 2022 (From January 1, 2022 through September 30, 2022)
Profit (loss)	224,343	-566,128
Other comprehensive income		
Valuation difference on available-for-sale securities	3,367	4,564
Deferred gains or losses on hedges	—	52
Foreign currency translation adjustment	39,187	125,147
Share of other comprehensive income of entities accounted for using equity method	-415	510
Total other comprehensive income	42,139	130,276
Quarterly comprehensive income	266,483	-435,852
(Comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of the parent	266,483	-435,852

**(3) Notes to Quarterly Consolidated Financial Statements  
(Notes to 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 under 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 the 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.

As a result of the application of these new accounting policies, consolidated net sales decreased by 344.179 million yen for the period under review; cost of sales decreased by 367.006 million yen; operating profit, ordinary profit, and profit before income taxes increased by 22.827 million yen each; deferred income taxes decreased by 4.238 million yen; and profit attributable to owners of parent increased by 27.065 million yen. 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" in 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" in 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 this new accounting policy has no effect on the Company's quarterly consolidated financial statements.

**(Segment Information)****【Segment Information】**

I. For the nine months ended September 30, 2021 (From January 1, 2021 through September 30, 2021)

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	7,232,576	4,474,484	11,707,060	450	11,707,510
Inter-segment sales and transfers	920	15,458	16,379	-16,379	—
Total	7,233,496	4,489,943	11,723,439	-15,929	11,707,510
Segment profit (loss)	271,157	7,671	278,828	450	279,278

Note: The total amount of segment profits is equal to the operating profit presented in the Consolidated Statements of Income for the period under review.

**(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

Nine months ended September 30, 2021

(From January 1, 2021 through September 30, 2021)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
11,231,753	308,167	113,038	54,550	11,707,510

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 nine months ended September 30, 2022 (From January 1, 2022 through September 30, 2022)

## 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	6,395,070	4,282,653	10,677,723	8,561	10,686,284
Inter-segment sales and transfers	—	5,342	5,342	-5,342	—
Total	6,395,070	4,287,995	10,683,065	3,219	10,686,284
Segment profit	-20,999	-455,811	-476,810	8,561	-468,249

Note: The total amount of segment losses is equal to the operating loss presented in the Consolidated Statements of Income for the period under review.

**(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 nine months ended September 30, 2022 (From January 1, 2022 through September 30, 2022)

(Unit: thousand yen)

Japan	Americas	Europe	Other regions	Total
10,112,955	380,692	125,305	67,331	10,686,284

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

(Significant impairment loss on non-current assets)

The Company posted an impairment loss of 29.909 million yen on non-current assets in the Application Business Segment.

## 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 344.179 million yen, and the segment profit increased by 22.827 million yen, compared with the numbers under the previous method. 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