



Consolidated Financial Result

(For the fiscal year ended December 31, 2022)



February 2, 2023

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Scheduled date of annual shareholders' meeting: March 28, 2023
 Scheduled date of financial report FSA filing: March 29, 2023
 Scheduled date of dividend payment: March 29, 2023

(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 December 31, 2022)

(% of change from previous year)

(1) Consolidated business results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2022	14,420	-8.3	-572	-	-499	-	-639	-
FY2021	15,725	6.0	358	51.7	400	56.1	367	18.6

(Note) Comprehensive income : FY2022: -548 million yen/ -% FY2021: 424 million yen/ 51.9%

	Net income per share - Basic	Net income per share - Diluted	Return on equity	Ratio of ordinary income to total assets	Operating income ratio
	Yen	Yen	%	%	%
FY2022	-73.81	-	-42.6	-7.9	-4.0
FY2021	42.42	-	22.0	5.9	2.3

(Note) Equity in earnings: FY2022: 51 million yen FY2021: 38 million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2022	6,022	1,243	19.4	134.76
FY2021	6,649	1,897	27.7	212.12

(Reference) Equity: As of Dec. 31, 2022: 1,168 million yen As of Dec. 31, 2021: 1,838 million yen

(3) Consolidated cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents - ending
	Million yen	Million yen	Million yen	Million yen
FY2022	-370	-107	-245	2,505
FY2021	587	58	-267	3,148

2. Cash dividends

Record Date	Dividend per share					Total of dividend (annual)	Payout ratio (consolidated)	Net assets dividend ratio (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2021	-	0.00	-	15.00	15.00	130	35.4	7.1
FY2022	-	0.00	-	10.00	10.00	86	-	7.4
FY2023 (forecast)	-	-	-	-	-		-	

(Notes) 1. Breakdown of the year-end dividend for the fiscal year ended December 31, 2021

Ordinary dividend: ¥10.00; Commemorative dividend to celebrate 25th founding anniversary: ¥5.00

2. The dividend forecast for the fiscal year ending December 31, 2023 is undecided.

3. Forecast of consolidated results for FY2023 (January 1, 2023 through December 31, 2023)

(% of change from previous year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2023	-	-	-	-	-	-	-	-	-

(Note) Regarding the consolidated earnings forecast for the fiscal year ending December 31, 2023, it is extremely difficult to reasonably calculate at this time. Since then, it is undecided. In the future, we will promptly announce it when it becomes possible to make a reasonable calculation.

4. Others

- (1) Reclassification of significant subsidiaries during the period (Reclassification due to change in scope of consolidation): None
- (2) 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
- (3) Number of outstanding shares (common shares)

- (i) Number of outstanding shares (including treasury stock)

FY2022	8,874,400 shares	FY2021	8,874,400 shares
FY2022	205,838 shares	FY2021	205,838 shares
FY2022	8,668,562 shares	FY2021	8,668,562 shares

- (ii) Number of treasury stock

- (iii) Average number of outstanding shares

(Reference)

1. Non-consolidated results (January 1, 2022 through December 31, 2022)

(% of change from previous year)

(1) Non-consolidated financial results

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2022	1,277	-2.2	318	-8.3	299	-11.8	285	-7.9
FY2021	1,306	30.3	346	185.2	339	187.3	310	296.8

	Net income per share - Basic	Net income per share - Diluted
	Yen	Yen
FY2022	32.97	-
FY2021	35.78	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2022	3,051	2,023	66.3	233.41
FY2021	2,903	1,867	64.3	215.39

(Note) Equity As of Dec. 31, 2022: 2,023 million yen As of Dec. 31, 2021: 1,867 million yen

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 audit 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. 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.
3. 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. Business Results

(1) Summary of Business Results

Overview of Consolidated Business Results for the Fiscal Year Ended December 31, 2022

During the 12 months ended December 31, 2022, the global economy continued to face lingering uncertainty amid the pervasive COVID-19 pandemic, surging materials and energy prices, and the devaluation of the Japanese yen—both caused partly by the prolonged Russia-Ukraine conflict—and the persistent shortages of semiconductors and other electronic components.

To better adapt to this fast-changing socioeconomic landscape, many businesses continued to invest aggressively in implementing digital transformation (DX)¹ 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 cloud environments, as well as on the SaaS² business.

The Group achieved consolidated business results by segment for the fiscal year under review as follows:

On a side note, effective at the beginning of the fiscal year 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 perpetual license sales of LifeKeeper³, which is one of the Group's core software products, declined in Japan, sales were strong in the Americas, Asia, and Oceania. 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, due to delays and reassessments of their capital expenditure 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 9.1% year on year to 8,716 million yen.

The Company posted a segment loss of 13 million yen, compared with a profit of 352 million yen the year before, due to the decrease in sales described above and rising personnel expenses.

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

(ii) Application Business Segment

Revenue from the sales of the Gluegent series⁶ and software applications for MFPs⁷ was up year on year. In contrast, sales of the management support system were slow to financial institutions. This was primarily because of delays and reassessments of their capital expenditure 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 7.2% year on year, to 5,691 million yen.

The Company posted a segment loss of 570 million yen, compared with a profit of 4 million yen the year before, due to the decrease in sales described above, rising personnel expenses, and more aggressive investments in developing and marketing new products and services, mainly in the Med Tech⁸ business.

The application of the Accounting Standard for Revenue Recognition resulted in a decrease of 489 million yen in segment sales and an increase of 22 million yen in segment profit.

The Company's consolidated net sales for the fiscal year under review were down 8.3% year on year, to 14,420 million yen. The Company posted a consolidated operating loss of 572 million yen, which reflected an increase of 199 million yen in research and development expenses, compared with an operating profit of 358 million yen the year before, and an ordinary loss of 499 million yen, which reflected 51 million yen of the share of profit of entities accounted for using equity method, compared with an ordinary profit of 400 million yen a year earlier. The Company posted a loss of 639 million yen, attributable to owners of parent, compared with a profit of 367 million yen the year before. The loss included an impairment loss of 40 million yen on fixed assets associated with sales of the management support system to financial institutions, and deferred income taxes of 52 million yen resulting from the reversal of deferred tax assets.

The application of the Accounting Standard for Revenue Recognition resulted in a decrease of 489 million yen in consolidated net sales, an increase of 22 million yen each in operating profit and ordinary profit, and an increase of 26 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: -469 million yen, compared with +448 million yen for the previous year

ROIC (annualized): -25.1%, compared with +10.0% for the previous year

Notes: 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 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.

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. Med Tech

Short for medical technology. It refers to technology that delivers medical services through software applications.

(2) Summary of Financial Position

Assets, Liabilities, and Net Assets

(i) Assets

Current assets amounted to 5,195 million yen as of December 31, 2022, down 10.0% from the end of the previous fiscal year, reflecting primarily a decrease of 643 million yen in cash and deposits.

Fixed assets amounted to 827 million yen, down 5.5%, reflecting a decrease of 57 million yen in deferred tax assets and a decrease of 45 million yen in guarantee deposits.

As a result, total assets decreased 9.4% to 6,022 million yen.

(ii) Liabilities

Current liabilities amounted to 4,337 million yen, up 1.6% from the previous fiscal year-end, reflecting primarily an increase of 361 million yen in contract liabilities.

Non-current liabilities amounted to 441 million yen, down 8.6%, reflecting primarily a decrease of 66 million yen in long-term borrowings.

As a result, total liabilities increased 0.6% to 4,778 million yen.

(iii) Net assets

Total net assets amounted to 1,243 million yen, down 34.5% from the previous fiscal year-end, reflecting primarily a decrease of 761

million yen in legal retained earnings.

(3) Summary of Cash Flows

The balance of cash and equivalents at the end of the fiscal year under review increased by 643 million yen to 2,505 million yen, compared with the previous fiscal year-end.

(In millions of yen)

	FY 2021	FY 2022	Change
Cash flows from operating activities	587	-37	-957
Cash flows from investing activities	58	-10	-165
Cash flows from financing activities	-267	--24	21

Net cash used in operating activities amounted to 370 million yen for the fiscal year under review. This reflected the posting of loss before income taxes and a decrease in trade payables.

Net cash used in investing activities amounted to 107 million yen. This reflected primarily the purchase of investment securities.

Net cash used in financing activities amounted to 245 million yen. This reflected primarily the payment of dividends and the repayment of long-term borrowings.

(4) Forward-looking Statements

As the Group's revenue comes largely from the sales of products and services intended for on-premise environments, its business performance tends to be significantly affected by external factors beyond its control, such as corporate customers' capital expenditure projects and the supply-demand balance of electronic components. To make the Group's revenue base more robust to changes in external environments, we intend to restructure our business operations and bolster our cloud-based business, including the SaaS business and the subscription-based version of LifeKeeper.

We are not disclosing at this time the Group's consolidated business forecasts for the fiscal year ending December 31, 2023, or its medium-term business plan, as we are unable to make reasonable assumptions or estimates. As soon as we can make reasonable assumptions and estimates, we will disclose the above-mentioned information.

The Company intends to pay a dividend of 10 yen per share for the fiscal year under review, as stated in the Consolidated Financial Result for the Fiscal Year Ended December 31, 2021, announced on February 3, 2022. We have not determined yet the dividend rate for the fiscal year ending December 31, 2023. We will announce it as soon as we finalize it.

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, 2021	December 31, 2022
Assets		
Current assets		
Cash and deposits	3,148,805	2,505,766
Notes and accounts receivable - trade	2,101,204	-
Notes and accounts receivable - trade, and contract assets	-	2,028,395
Merchandise	6,842	13,558
Work in progress	81,243	13,267
Advance payments to suppliers	223,317	272,047
Other	213,671	362,291
Allowance for doubtful accounts	-200	-200
Total current assets	5,774,885	5,195,125
Non-current assets		
Property, plant and equipment		
Buildings	204,594	182,331
Accumulated depreciation	-145,317	-132,199
Buildings, net	59,276	50,131
Tools, furniture and fixtures	284,682	173,538
Accumulated depreciation	-244,777	-143,142
Tools, furniture and fixtures, net	39,905	30,396
Leased assets	36,363	132,117
Accumulated depreciation	-14,338	-99,814
Leased assets, net	22,024	32,303
Total property, plant and equipment	121,206	112,830
Intangible assets		
Software	86,913	48,496
Software in progress	11,524	29,879
Other	1,781	1,441
Total intangible assets	100,218	79,817
Investment and other assets		
Investment securities	289,222	380,634
Retirement benefit asset	53,453	50,635
Guarantee deposits	172,939	127,063
Deferred tax assets	86,244	28,865
Other	55,961	47,359
Allowance for doubtful accounts	-4,221	-
Total investment and other assets	653,599	634,558
Total non-current assets	875,025	827,206
Total assets	6,649,910	6,022,332

(In thousands of yen)

	December 31, 2021	December 31, 2022
Liabilities		
Current liabilities		
Accounts payable-trade	1,216,499	1,084,110
Current portion of long-term borrowings	109,000	66,000
Lease liabilities	6,000	29,700
Income taxes payable	24,484	-
Advances received	2,399,175	-
Contract liabilities	-	2,760,665
Other	513,734	396,729
Total current liabilities	4,268,894	4,337,206
Non-current liabilities		
Long-term borrowings	181,500	115,500
Retirement benefit liability	271,844	302,712
Lease liabilities	18,353	11,746
Long-term deposits received	11,632	11,632
Total non-current liabilities	483,331	441,591
Total liabilities	4,752,225	4,778,798
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Retained earnings	630,831	-130,975
Treasury shares	-87,254	-87,254
Total shareholders' equity	2,025,096	1,263,289
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	-3,592	5,147
Foreign currency translation adjustment	-182,701	-100,273
Total accumulated other comprehensive income	-186,294	-95,125
Subscription rights to shares	58,882	75,369
Total net assets	1,897,685	1,243,534
Total liabilities and net assets	6,649,910	6,022,332

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

Consolidated Statements of Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Net sales	15,725,371	14,420,269
Cost of sales	10,840,759	9,753,613
Gross profit	4,884,612	4,666,656
Selling, general and administrative expenses	4,526,318	5,239,539
Operating profit (loss)	358,293	-572,883
Non-operating income		
Interest income	4,900	6,435
Dividend income	497	1,310
Outsourcing service income	1,318	1,711
Share of profit of entities accounted for using equity method	38,537	51,710
Gain on valuation of derivatives	54,348	75,384
Other	6,576	9,777
Total non-operating income	106,178	146,328
Non-operating expenses		
Interest expenses	2,181	1,541
Foreign exchange losses	57,753	64,915
Loss on investments in investment partnerships	3,434	6,364
Other	792	-
Total non-operating expenses	64,162	72,821
Ordinary profit (loss)	400,309	-499,376
Extraordinary income		
Gain on sale of non-current assets	75	-
Total extraordinary income	75	-
Extraordinary losses		
Loss on valuation of investment securities	1,000	-
Impairment loss	-	40,609
Loss on retirement of non-current assets	2,856	2,409
Total extraordinary losses	3,856	43,019
Profit (loss) before income taxes	396,528	-542,395
Income taxes-current	73,757	44,435
Income taxes-deferred	-44,979	52,962
Total income taxes	28,777	97,397
Profit (loss)	367,750	-639,793
Profit (loss) attributable to owners of parent	367,750	-639,793

Consolidated Statements of Comprehensive Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Profit (loss)	367,750	-639,793
Other comprehensive income		
Valuation difference on available-for-sale securities	3,255	8,740
Foreign currency translation adjustment	54,031	81,966
Share of other comprehensive income of entities accounted for using equity method	-524	462
Total other comprehensive income	56,763	91,168
Comprehensive income	424,513	-548,624
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	424,513	-548,624

(3) Consolidated Statements of Changes in Equity

Fiscal Year Ended December 31, 2021

	Shareholders' equity			
	Capital stock	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,481,520	349,766	-87,254	1,744,031
Changes during period				
Dividends of surplus		-86,685		-86,685
Profit (loss) attributable to owners of parent		367,750		367,750
Net changes in items other than shareholders' equity				
Balance at end of current period	-	281,065	-	281,065
Balance at beginning of current period	1,481,520	630,831	-87,254	2,025,096

	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	-6,848	-236,209	-243,057	47,315	1,548,289
Changes during period					
Dividends of surplus					-86,685
Profit attributable to owners of parent					367,750
Net changes in items other than shareholders' equity	3,255	53,507	56,763	11,567	68,330
Balance at end of current period	3,255	53,507	56,763	11,567	349,395
Balance at end of current period	-3,592	-182,701	-186,294	58,882	1,897,685

Fiscal Year Ended December 31, 2022

	Shareholders' equity			
	Capital stock	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,481,520	630,831	-87,254	2,025,096
Cumulative effects of changes in accounting policies		8,014		8,014
Restated balance	1,481,520	638,846	-87,254	2,033,111
Changes of items during period				
Dividends of surplus		-130,028		-130,028
Profit (loss) attributable to owners of parent		-639,793		-639,793
Net changes in items other than shareholders' equity				
Total changes of items during period	--	-769,821	-	-769,821
Balance at end of current period	1,481,520	-130,975	-87,254	1,263,289

	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	-3,592	-182,701	-186,294	58,882	1,897,685
Cumulative effects of changes in accounting policies					8,014
Restated balance	-3,592	-182,701	-186,294	58,882	1,905,699
Changes of items during period					
Dividends of surplus					-130,028
Profit attributable to owners of parent					-639,793
Net changes in items other than shareholders' equity	8,740	82,428	91,168	16,487	107,656
Total changes of items during period	8,740	82,428	91,168	16,487	-662,165
Balance at end of current period	5,147	-100,273	-95,125	75,369	1,243,534

(4) Consolidated Statements of Cash Flows

(In thousands of yen)

	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Cash flows from operating activities		
Profit (loss) before income taxes	396,528	-542,395
Depreciation	90,105	103,079
Impairment loss	-	40,609
Interest and dividend income	-5,397	-7,745
Interest expenses	2,181	1,541
Loss (gain) on investments in investment partnerships	3,434	6,364
Share of loss (profit) of entities accounted for using equity method	-38,537	-51,710
Decrease (increase) in trade receivables	222,029	-
Decrease (increase) in trade receivables and Contract assets	-	177,759
Decrease (increase) in inventories	429,884	-9,335
Increase (decrease) in trade payables	-628,541	-132,389
Increase (decrease) in retirement benefit liability	30,528	30,868
Increase (decrease) in advances received	271,378	-
Increase (decrease) in contract liabilities	-	265,931
Decrease (increase) in advance payments to suppliers	22,247	-48,729
Increase (decrease) in accrued consumption taxes	12,479	-144,217
Other	-83,392	-5,504
Sub-total	724,929	-315,873
Interest and dividends received	5,397	13,320
Interest paid	-2,181	-1,541
Income taxes refund	-	40,802
Income taxes paid	141,004	-107,086
Net cash provided by (used in) operating activities	587,141	-370,380
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	130,000	-
Purchase of property, plant and equipment	-25,759	-43,146
Purchase of intangible assets	-17,824	-18,996
Payments of guarantee deposits	-7,297	-447
Proceeds from refund of guarantee deposits	46,267	8,918
Purchase of investment securities	-25,000	-45,000
Proceeds from collection of short-term loans receivable	5,995	6,583
Payments for asset retirement obligations	-30,535	-35,864
Other	-17,841	20,237
Net cash provided by (used in) investing activities	58,005	-107,717
Cash flows from financing activities		
Dividends paid	-87,163	-129,638
Net increase (decrease) in short-term borrowings	-50,000	-
Repayments of long-term borrowings	-123,120	-109,000
Other	-7,161	-7,232
Net cash provided by (used in) financing activities	-267,445	-245,871
Effect of exchange rate change on cash and cash equivalents	42,813	80,929
Net increase (decrease) in cash and cash equivalents	420,515	-643,038
Cash and cash equivalents at beginning of year	2,728,289	3,148,805
Cash and cash equivalents at end of year	3,148,805	2,505,766

(5) Notes on Consolidated Financial Statements

Notes on Going Concern Assumption

Not applicable

Changes in accounting policies

Application of the Accounting Standard for Revenue Recognition

Effective at the beginning of the fiscal year 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 previously acted as an agent in providing a good or service to a customer, the Company 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 received from customers for the product or service, less amounts paid to suppliers (principal).

(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 fiscal year under review, and has begun to apply the new accounting policies to the beginning balance of retained earnings from the fiscal year under review.

As a result of the application of these new accounting policies, consolidated net sales decreased by 489.434 million yen for the fiscal year under review; cost of sales decreased by 511.525 million yen; operating loss, ordinary loss, and loss before income taxes increased by 22.090 million yen each; deferred income taxes decreased by 4.238 million yen; and profit attributable to owners of parent increased by 26.329 million yen. Retained earnings increased by 8.014 million yen at the beginning of the fiscal year under review.

The effect of these changes on per-share information is described in the relevant section of this document.

With the application of the Accounting Standard for Revenue Recognition, "Notes and accounts receivable trade," presented under "Current assets" in the Consolidated Balance Sheet for the previous fiscal year, is included in "Notes and accounts receivable trade, and contract assets," beginning in the fiscal year 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 fiscal year under review. "Decrease (increase) in trade receivables," presented under "Cash flows from operating activities" in the Consolidated Statement of Cash Flows for the previous fiscal year, is included in "Decrease (increase) in trade receivables and contract assets," and "Increase (decrease) in advances received" is included in "Increase (decrease) in contract liabilities," beginning in the fiscal year 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

When estimating the amount of impairment loss on non-current assets and the recoverability of deferred tax assets, the Company assumed at this time that the impact of the COVID-19 crisis on the Group's business performance would be limited and that the spread of the pandemic would trend down toward the end of the fiscal year ending December 31, 2021, and beyond.

However, as the extent of the impact of the pandemic on the Group's business performance is difficult to predict with certainty, a change in assumptions mentioned above might affect the Group's financial position, results of operations, and cash flow performance going forward.

Application of the Accounting Standard Update (ASU) Topic 842 on Leases, published by the U.S. Financial Accounting Standards Board

Effective in the fiscal year under review, the Company's consolidated subsidiary in the United States has adopted the ASU Topic 842 on Leases ("this standard"). This standard requires lessees to recognize all leases as assets or liabilities on their balance sheets. In applying this standard, the Company has adopted an accepted method for the transitional treatment, under which the cumulative effect of a change in accounting policy is recognized on the date of adoption of this standard.

As a result, net leased assets, presented under "Tangible fixed assets" in the Consolidated Balance Sheet for the fiscal year under review, increased by 18.912 million yen, and lease liabilities, presented under "Current liabilities," increased by 24.325 million yen. The application of this standard has no significant effect on the Consolidated Statement of Income for the fiscal year under review.

Additional Information

When estimating the amount of impairment loss on non-current assets and the recoverability of deferred tax assets, the Company assumed at this time that the impact of the COVID-19 crisis on the Group's business performance would be limited and that the spread of the pandemic would trend down toward the end of the fiscal year ending December 31, 2021, and beyond.

However, as the extent of the impact of the pandemic on the Group's business performance is difficult to predict with certainty, a change in assumptions mentioned above might affect the Group's financial position, results of operations, and cash flow performance going forward.

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 segment, the Group markets LifeKeeper, which automatically switches a failed primary system to a backup system, and OSS-related software products, including those 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 segment, the Group markets software applications for MFPs, management support system for financial institutions, and the Gluegent series, which is a SaaS product that works with cloud, develops enterprise information systems for corporate clients on a contract basis, and provides consulting services for a wide range of information systems.

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. Changes in reportable segments

As described in "Changes in accounting policies," effective at the beginning of the fiscal year 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 fiscal year under review decreased by 489.434 million yen, and the segment profit increased by 26.329 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.

3. Information on net sales, profit or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended December 31, 2021

(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	9,588,328	6,136,443	15,724,771	600	15,725,371
Intersegment sales and transfers	939	19,503	20,443	-20,443	-
Total	9,589,267	6,155,947	15,745,215	-19,843	15,725,371
Segment profit	352,955	4,738	357,693	600	358,293
Other items					
Depreciation	25,374	64,730	90,105	-	90,105

* Note: The total amount of segment income is the same as the amount of operating profit presented in the Consolidated Statements of Income.

Fiscal year ended December 31, 2022

(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	8,716,945	5,691,612	14,408,558	11,711	14,420,269
Intersegment sales and transfers	-	6,651	6,651	-6,651	-
Total	8,716,945	5,698,263	14,415,209	5,060	14,420,269
Segment profit	-13,792	-570,802	-584,594	11,711	-572,883
Other items					
Depreciation	26,383	76,695	103,079	-	103,079

* Note: The total amount of segment loss is the same as the amount of operating loss presented in the Consolidated Statements of Income.

Related Information

Fiscal year ended December 31, 2021

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
15,103,423	394,516	153,383	74,048	15,725,371

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
101,542	19,663	121,206

3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,680,611	Open system infrastructure business and application business
Networld Corporation	1,650,433	Open system infrastructure business and application business

Fiscal year ended December 31, 2022

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
13,627,952	522,702	169,900	99,713	14,420,269

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
85,515	27,315	112,830

3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,895,330	Open system infrastructure business and application business
Networld Corporation	1,612,241	Open system infrastructure business and application business

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

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

	Reportable segment			Adjustment	Total
	Open system infrastructure business	Application business	Total		
Year-end balance	-	40,609	40,609	-	40,609

Information Regarding Amortization of Goodwill and Remaining Goodwill Balance by Reportable Segment

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

Information Regarding Gain on Negative Goodwill by Reportable Segment

Fiscal year ended December 31, 2021

Not applicable

Fiscal year ended December 31, 2022

Not applicable

Per-Share Information

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Net assets per share	212.12 yen	134.76 yen
Profit per share	42.42 yen	-73.81 yen

Notes: 1. Diluted profit per share is not presented because the Company has no outstanding dilutive shares.

2. As described in “Changes in accounting policies,” effective at the beginning of the fiscal year under review, the Company has adopted the Accounting Standard for Revenue Recognition. As a result, net assets per share and profit per share for the fiscal year under review increased by 3.04 yen each.

3. The basis for calculating profit (loss) per share is as follows:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit per share		
Profit attributable to owners of parent (thousand yen)	367,750	-639,793
Amount not attributable to ordinary shareholders (thousand yen)	-	-
Profit attributable to owners of parent relating to common stock (thousand yen)	367,750	-639,793
Average number of common stock outstanding during the period (shares)	8,668,562	8,668,562
Descriptions of potentially dilutive common shares that were not included in the calculation of diluted profit per share	Share options for 654,875 common shares resolved by the Board of Directors on May 22, 2012	Share options for 570,750 common shares resolved by the Board of Directors on May 22, 2012 Share options for 107,000 common shares resolved by the Board of Directors on May 30, 2022

Significant Subsequent Events

Not applicable