



Consolidated Financial Results for Fiscal Year Ended December 31, 2017  
(Under Japanese GAAP)



February 5, 2018

Company name: SIOS Corporation  
Stock listed on: Tokyo Stock Exchange  
Stock code: 3744  
URL: <https://www.sios.com/>

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Scheduled date of ordinary meeting of shareholders: March 29, 2018

Scheduled commencement date of dividend payment: -

Scheduled filing date of securities report: March 30, 2018

Supplementary materials on financial results: Yes

Presentation of financial results: Yes (for institutional investors and analysts)

(Fractions less than 1 million yen are rounded down)

**1. Consolidated Financial Results for Fiscal Year Ended December 31, 2017 (FY 2017)**

**(1) Consolidated Results of Operations**

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit (loss) attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2017	12,470	3.2	320	-32.4	326	-16.3	(587)	-
FY 2016	12,080	29.0	474	-	389	-	254	-

Note: Comprehensive income (loss) FY 2017 (583) million yen (-%) FY 2016 245 million yen (-%)

	Basic earnings (loss) per share	Diluted earnings per share	Return on equity	Return on assets	Operating profit ratio
	Yen	Yen	%	%	%
FY 2017	(68.11)	-	(44.1)	6.5	2.6
FY 2016	29.56	29.52	17.0	7.2	3.9

Note: Equity in earnings (loss) of affiliates FY 2017 - million yen FY 2016 (65) million yen

**(2) Consolidated Financial Position**

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Dec. 31, 2017	4,849	1,076	21.5	120.94
As of Dec. 31, 2016	5,256	1,647	30.8	188.00

Note: Equity As of Dec. 31, 2017 1,043 million yen As of Dec. 31, 2016 1,619 million yen

**(3) Consolidated Cash Flows**

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
FY 2017	640	(26)	(109)	2,249
FY 2016	311	(123)	(414)	1,793

**2. Cash Dividends**

	Dividends per share					Total amount of dividends	Payout ratio (Consolidated)	Dividends on equity (Consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Annual			
FY 2016	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Million yen -	% -	% -
FY 2017	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Million yen -	% -	% -
FY 2018 (Forecast)	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Million yen -	% -	% -

**3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2018 (FY 2018)**

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY 2018	13,000	4.2	330	2.8	330	1.1	260	-	30.13

Notes:

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

(3) Number of outstanding shares (common shares)

(i) Number of outstanding shares at end of the period (including treasury shares)	FY 2017	8,874,400 shares	FY 2016	8,874,400 shares
(ii) Number of treasury shares at end of the period	FY 2017	246,541 shares	FY 2016	260,041 shares
(iii) Average number of outstanding shares during the period	FY 2017	8,621,643 shares	FY 2016	8,609,398 shares

Supplementary Information: Non-consolidated Financial Results

**1. Non-consolidated Financial Results for Fiscal Year Ended December 31, 2017 (FY 2017)**

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

	Net sales		Operating profit		Ordinary profit		Profit (loss)	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2017	6,896	-13.8	328	14.0	321	11.5	(614)	-
FY 2016	8,003	14.4	288	-	288	-	(7)	-
	Basic earnings (loss) per share		Diluted earnings per share					
	Yen		Yen					
FY 2017	(71.26)		-					
FY 2016	(0.83)		-					

**(2) Non-consolidated Financial Position**

	Total assets		Net assets		Equity ratio		Net assets per share	
	Million yen		Million yen		%		Yen	
As of Dec. 31, 2017	2,786		1,207		43.3		139.87	
As of Dec. 31, 2016	4,629		1,789		38.6		207.51	

Note: Equity As of Dec. 31, 2017 1,206 million yen As of Dec. 31, 2016 1,787 million yen

Note: The Company became a holding company of the SIOS Group effective October 1, 2017, and transferred all its businesses except group management business to the newly established SIOS Technology, Inc., the trade name of which was changed from SIOS Technology Split Preparatory Company effective October 1, 2017. Therefore, the revenue that the Company recorded on and after October 1, 2017, primarily comprised dividend income, management fee income, and fiduciary obligation fee income from subsidiaries of the Company.

\* This document is an unaudited financial report.

\* Explanations regarding the proper use of business forecasts and other important matters

Forward-looking statements, such as business forecasts included in this document, are based on currently available information or assumptions that the Company considers reasonable, and business results may differ significantly from forecasts due to various factors. For assumptions used as a basis for making business forecasts and notes on the use of business forecasts, refer to “(4) Forward-looking Statements” under “1. Business Results” on Page 3 of the attached document.

The Company will hold a presentation on its financial results for institutional investors and analysts on Monday, February 5, 2018. Shortly thereafter, the Company will post on its website materials used in the presentation.

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## 1. Business Results

### (1) Summary of Business Results

#### Overview of Consolidated Business Results for Fiscal Year Ended December 31, 2017 (FY 2017)

The SIOS Group has been implementing its strategic initiatives, which are outlined in the Group's medium-term business strategy and which are focused on expanding into new business segments including Fintech<sup>1</sup>, on continuing to invest in research and development, and on becoming more competitive in its core businesses, so as to remain at the forefront of the fast-evolving IT industry and grow the Group's businesses at an accelerated pace.

In FY 2017, as part of efforts to expand into new business segments including Fintech, Profit Cube Inc. (hereinafter referred to as PCI), a consolidated subsidiary of the Company, obtained patents on its proprietary new technologies incorporated into the profit-management system developed in-house for financial institutions.

In addition, as part of our commitment to continue to invest in research and development, we rolled out SIOS Coati, a public-cloud-based service for automatic system failure detection and recovery.

Furthermore, as part of efforts to become more competitive in our core businesses, we added feature enhancements to our core products LifeKeeper<sup>2</sup> and software applications for multifunction printers (MFPs)<sup>3</sup> and expanded service offerings for open-source software (OSS)<sup>4</sup> for cloud environments.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for FY 2017 are as follows:

#### Open System Infrastructure Business Segment

The Group achieved a substantial increase in sales of LifeKeeper in the Americas and a steady increase in its sales in Japan and the Asia-Oceania region. Helped by bolstered sales and marketing efforts, Red Hat Enterprise Linux<sup>5</sup> and other software products sourced from Red Hat, Inc. enjoyed robust sales, and OSS-related products achieved steady growth of sales as well. As a result, net sales in this segment increased by 8.5% year on year to 6,834 million yen, while the segment profit declined by 20.7% to 143 million yen due primarily to a declining gross profit ratio of products sold and stepped-up advertising spending.

#### Application Business Segment

The Group achieved a steady increase in sales of software applications for MFPs as well as in revenues from providing support for system development and implementation. On the other hand, sales of software applications intended for financial institutions fell sharply due to a delay in receiving orders from customers. As a result, net sales in this segment declined by 2.5% year on year to 5,636 million yen.

The segment profit declined by 39.6% to 177 million yen due partly to weak sales of high-margin software applications for financial institutions and partly to a slimmer profit margin on large projects to support system implementation.

As a result, the Group's consolidated net sales for FY 2017 were up 3.2% year on year to a record 12,470 million yen. However, with both business segments posting declined segment profit, the Group's consolidated operating profit fell by 32.4% year on year to 320 million yen, and its ordinary profit was down 16.3% to 326 million yen for the year. The Group posted a loss of 587 million yen attributable to owners of parent for the year, as compared with a profit of 254 million yen posted for the previous year. This was due primarily to an impairment loss of 800 million yen on the goodwill and assets related to customers for PCI, which was recognized as an extraordinary loss. The Group's key management metrics EBITDA—which is the sum of operating profit, depreciation and amortization, and amortization of goodwill—stood at 497 million yen, down 23.9% from the year before.

The Company wrote off its stake in PCI and posted a loss of 812 million yen on valuation of shares of subsidiaries and associates as an extraordinary loss in its non-consolidated financial results for the year, which was recorded as an impairment loss in the consolidated financial results for the year.

Notes: 1. Fintech

An emerging technology for facilitating innovations in the financial sector.

2. LifeKeeper

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

3. 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.

4. Open-source software

Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.

5. Red Hat Enterprise Linux

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

## (2) Summary of Financial Position

### Assets, Liabilities, and Net Assets

(i) Assets

Current assets were 4,141 million yen as of December 31, 2017, up 14.6% from the end of the previous fiscal year, reflecting an increase of 455 million yen in cash and deposits and an increase of 31 million yen in accounts receivable-trade.

Non-current assets were down 56.9% year on year to 707 million yen, reflecting a decrease of 752 million yen in goodwill.

As a result, total assets decreased 7.7% year on year to 4,849 million yen as of December 31, 2017.

(ii) Liabilities

Current liabilities amounted to 2,832 million yen, up 11.5% from a year earlier, due primarily to an increase of 112 million yen in advance received and an increase of 51 million yen in accounts payable trade.

Non-current liabilities were down 11.9% year on year to 939 million yen, reflecting a decrease of 133 million yen in long-term loans payable.

As a result, total liabilities were up 4.5% year on year to 3,772 million yen as of December 31, 2017.

(iii) Net assets

Total net assets were down 34.6% year on year to 1,076 million yen as of December 31, 2017, reflecting a loss of 587 million yen attributable to owners of parent company for the year.

## (3) Summary of Cash Flows

The Group's balance of consolidated cash and cash equivalents as of December 31, 2017, totaled 2,249 million yen, an increase of 455 million yen from the end of the previous fiscal year.

(In millions of yen)

	FY 2016	FY 2017	Change
Cash flows from operating activities	311	640	+328
Cash flows from investing activities	-123	-26	+97
Cash flows from financing activities	-414	-109	+305

Net cash provided by operating activities increased to 640 million yen for FY 2017. The increase was due primarily to an increase in advance received.

Net cash used in investing activities decreased to 26 million yen. The decrease was due primarily to the purchase of non-current assets.

Net cash used in financing activities decreased to 109 million yen. The decrease was due primarily to the repayment of long-term loans payable.

## (4) Forward-looking Statements

The Group intends to continue to invest for the fiscal year ending December 31, 2018 (FY 2018), in achieving medium- and long-term growth of its business, with a focus on expanding into new business segments including Fintech, continuing to invest in research and development, and becoming more competitive in its core businesses. The Group will continue to upgrade our core products such as LifeKeeper and software applications for MFPs and will step up its efforts to develop new offerings and technologies for products and services intended for financial institutions. To facilitate these efforts, our R&D spending for FY 2018 is projected at 720 million yen, up 22.4% from FY 2017.

Consolidated net sales for FY 2018 are projected at 13 billion yen, up 4.2% from FY 2017, which will mark the eighth consecutive

year of growth. The Group intends to drive greater efficiency in business operations to achieve an operating profit of 330 million yen (up 2.8% year on year), an ordinary profit of 330 million yen (up 1.1%), and a profit of 260 million yen attributable to owners of parent for FY 2018, as compared with a loss of 587 million yen for FY 2017, even with a planned increase in R&D spending to ensure the Group's medium- and long-term business growth.

#### **(5) Basic Policy on Distribution of Profit, and Cash Dividends for FY 2017 and FY 2018**

The Company's longstanding policy is to pay cash dividends to shareholders in proportion to its business performance while maintaining a level of retained earnings as determined by its business results, financial position, and business outlook.

As announced on December 22, 2017, the Company will not pay any year-end dividends for FY 2017. The decision reflects the fact that the Company posted a loss for the year after having recognized an extraordinary loss.

Although the Company projects posting a profit attributable to owners of parent for FY 2018, the Company plans to pay no dividends for FY 2018, considering an erosion of its capital base in its non-consolidated financial results.

The Company will strive to make our financial foundation more solid by achieving medium- and long-term profit growth to resume dividend payment as soon as possible.

## **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, 2016	December 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	1,923,658	2,379,099
Notes and accounts receivable - trade	1,346,923	1,377,939
Work in progress	56,008	27,873
Deferred tax assets	45,866	55,558
Advance payments - trade	128,189	139,488
Other	114,951	161,919
Allowance for doubtful accounts	(200)	(200)
Total current assets	3,615,398	4,141,679
Non-current assets		
Property, plant and equipment		
Buildings	178,424	179,416
Accumulated depreciation	(69,305)	(83,471)
Buildings, net	109,119	95,944
Tools, furniture and fixtures	279,267	288,453
Accumulated depreciation	(203,044)	(228,835)
Tools, furniture and fixtures, net	76,222	59,618
Leased assets	9,899	18,619
Accumulated depreciation	(1,719)	(4,686)
Leased assets, net	8,180	13,932
Total property, plant and equipment	193,521	169,496
Intangible assets		
Goodwill	753,414	995
Software in progress	5,633	8,770
Other	212,298	51,554
Total intangible assets	971,347	61,321
Investment and other assets		
Investment securities	171,942	192,970
Net defined benefit asset	27,674	35,988
Guarantee deposits	229,513	220,663
Deferred tax assets	17,421	958
Other	39,316	35,938
Allowance for doubtful accounts	(9,966)	(9,820)
Total investment and other assets	475,901	476,698
Total non-current assets	1,640,770	707,515
Total assets	5,256,168	4,849,194

	December 31, 2016	December 31, 2017
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	443,227	494,376
Short-term loans payable	30,000	50,000
Current portion of long-term loans payable	132,283	133,116
Lease obligations	2,110	4,018
Income taxes payable	65,018	104,721
Advance received	1,409,377	1,521,761
Provision for bonuses	24,556	42,816
Other	435,080	481,967
<b>Total current liabilities</b>	<b>2,541,654</b>	<b>2,832,779</b>
Non-current liabilities		
Long-term loans payable	812,988	679,039
Deferred tax liabilities	52,625	23,170
Net defined benefit liability	178,589	212,520
Lease obligations	6,862	11,248
Long-term deposits received	9,767	11,632
Other	6,086	1,996
<b>Total non-current liabilities</b>	<b>1,066,920</b>	<b>939,607</b>
<b>Total liabilities</b>	<b>3,608,575</b>	<b>3,772,386</b>
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	466,657	468,241
Retained earnings	(67,044)	(654,232)
Treasury shares	(110,178)	(104,458)
<b>Total shareholders' equity</b>	<b>1,770,954</b>	<b>1,191,070</b>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,008	34,140
Foreign currency translation adjustment	(165,485)	(181,724)
<b>Total accumulated other comprehensive income</b>	<b>(151,477)</b>	<b>(147,584)</b>
Subscription rights to shares	28,116	33,321
<b>Total net assets</b>	<b>1,647,593</b>	<b>1,076,808</b>
<b>Total liabilities and net assets</b>	<b>5,256,168</b>	<b>4,849,194</b>

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

## Consolidated Statements of Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
Net sales	12,080,144	12,470,303
Cost of sales	7,712,419	8,083,444
Gross profit	4,367,725	4,386,858
Selling, general and administrative expenses	3,893,021	4,065,997
Operating profit	474,703	320,861
Non-operating income		
Interest income	1,338	6,990
Dividend income	729	712
Fiduciary obligation fee	2,400	2,400
Settlement received	5,684	-
Gain on valuation of derivatives	-	6,287
Other	4,054	3,328
Total non-operating income	14,207	19,719
Non-operating expenses		
Interest expenses	6,238	4,756
Foreign exchange loss	8,417	5,493
Loss on investments in partnership	8,151	3,994
Share of loss of entities accounted for using equity method	65,176	-
Provision for interest on refund for subsidy repayment	5,668	-
Other	5,399	52
Total non-operating expenses	99,052	14,296
Ordinary profit	389,858	326,283
Extraordinary income		
Gain on sale of investment securities	627	-
Gain on reversal of subscription rights to shares	1,289	1,477
Total extraordinary income	1,916	1,477
Extraordinary losses		
Loss on retirement of non-current assets	6,598	-
Loss on sale of non-current assets	260	-
Loss on valuation of golf club membership	1,550	-
Loss on valuation of investment securities	13,886	6,803
Impairment loss	-	800,646
Expense related to retrospective adjustment	139,212	-
Other	4,703	-
Total extraordinary loss	166,211	807,450
Profit (loss) before income taxes	225,563	(479,689)
Income taxes-current	56,030	141,633
Income taxes-deferred	(85,879)	(34,135)
Total income taxes	(29,849)	107,498
Profit (loss)	255,413	(587,188)
Profit attributable to non-controlling interests	918	-
Profit (loss) attributable to owners of parent	254,494	(587,188)

Consolidated Statements of Comprehensive Income

(In thousands of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
Profit (loss)	255,413	(587,188)
Other comprehensive income		
Valuation difference on available-for-sale securities	12,587	20,131
Foreign currency translation adjustment	(22,062)	(16,238)
Total other comprehensive income (loss)	(9,474)	3,893
Comprehensive income (loss)	245,938	(583,295)
Comprehensive income (loss) attributable to:		
Comprehensive income (loss) attributable to owners of parent	245,019	(583,295)
Comprehensive income attributable to non-controlling interests	918	-

**(3) Consolidated Statements of Changes in Equity**

Fiscal Year Ended December 31, 2016

(In thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,481,520	474,415	(321,538)	(116,194)	1,518,201
Changes of items during period					
Profit attributable to owners of parent			254,494		254,494
Disposal of treasury shares		1,664		6,016	7,681
Purchase of shares of consolidated subsidiaries		(9,422)			(9,422)
Net changes of items other than shareholders' equity					-
Total changes of items during period	-	(7,757)	254,494	6,016	252,753
Balance at end of current period	1,481,520	466,657	(67,044)	(110,178)	1,770,954

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	1,420	(143,423)	(142,002)	22,281	15,551	1,414,031
Changes of items during period						
Profit attributable to owners of parent			-			254,494
Disposal of treasury shares			-			7,681
Purchase of shares of consolidated subsidiaries			-			(9,422)
Net changes of items other than shareholders' equity	12,587	(22,062)	(9,474)	5,835	(15,551)	(19,190)
Total changes of items during period	12,587	(22,062)	(9,474)	5,835	(15,551)	233,562
Balance at end of current period	14,008	(165,485)	(151,477)	28,116	-	1,647,593

(In thousands of yen)

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

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

**(4) Consolidated Statements of Cash Flows**

(In thousands of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
<b>Cash flows from operating activities</b>		
Profit (loss) before income taxes	225,563	(479,689)
Depreciation	93,643	91,414
Provision for interest on refund for subsidy repayment	(32,267)	-
Amortization of goodwill	85,372	85,372
Impairment loss	-	800,646
Interest and dividend income	(2,068)	(7,702)
Interest expenses	6,238	4,756
Loss (gain) on investments in partnership	8,151	3,994
Share of (profit) loss of entities accounted for using equity method	65,176	-
Decrease (increase) in notes and accounts receivable-trade	(6,217)	(35,531)
Decrease (increase) in inventories	58,671	28,135
Increase (decrease) in notes and accounts payable-trade	(100,488)	51,754
Increase (decrease) in net defined benefit liabilities	19,604	33,930
Increase (decrease) in advance received	81,396	124,339
Decrease (increase) in advance payment	(21,734)	(11,298)
Increase (decrease) in consumption taxes payable	(58,421)	12,929
Other	(117,788)	36,388
Sub-total	304,833	739,438
Interest and dividend income received	2,068	7,702
Interest expenses paid	(6,238)	(4,756)
Income taxes refund	39,797	-
Income taxes paid	(28,699)	(101,737)
Net cash provided by (used in ) operating activities	311,761	640,646
<b>Cash flows from investing activities</b>		
Payment into time deposits	(261,400)	(260,000)
Proceeds from withdrawal of time deposits	292,400	260,000
Purchase of property, plant and equipment	(86,705)	(12,100)
Purchase of intangible assets	(14,485)	(14,175)
Payments for guarantee deposits	(49,592)	-
Proceeds from collection of guarantee deposits	45,405	-
Payment of asset retirement obligations	(18,800)	-
Purchase of golf club memberships	(27,276)	-
Purchase of shares of subsidiaries and associates	(2,205)	-
Purchase of investment securities	(7,955)	-
Proceeds from sales of investment securities	6,634	-
Other	386	30
Net cash provided by (used in) investing activities	(123,594)	(26,246)

(In thousands of yen)

	Fiscal Year Ended December 31, 2016	Fiscal Year Ended December 31, 2017
Cash flows from financing activities		
Cash dividends paid	(54)	(38)
Net increase (decrease) in short-term loans payable	(213,040)	20,000
Repayments of long-term loans payable	(181,896)	(133,116)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(25,888)	-
Other	6,396	4,112
Net cash provided by (used in) financing activities	(414,482)	(109,041)
Effect of exchange rate changes on cash and cash equivalents	(25,378)	(49,917)
Net increase (decrease) in cash and cash equivalents	(251,693)	455,441
Cash and cash equivalents at beginning of year	2,045,352	1,793,658
Cash and cash equivalents at end of year	1,793,658	2,249,099

## (5) Notes on Consolidated Financial Statements

### Notes on Going Concern Assumption

Not applicable

### Additional information

Effective January 1, 2017, the Group applied the Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, published on March 28, 2016).

### Notes on Consolidated Statements of Income

Impairment loss

The Group recognized an impairment loss on the following two asset groups for FY 2017:

Location	Purpose	Type of assets	Impairment loss (in thousands of yen)
Shinagawa-ku, Tokyo, Japan	Other	Goodwill	667,046
Shinagawa-ku, Tokyo, Japan	Business assets	Assets related to customers	133,600
Total			800,646

The reason for recognizing an impairment loss is as follows: Profit Cube Inc. (PCI), a consolidated subsidiary of the Company, has been underperforming against its business plan formulated when the Company acquired it. Based on PCI's business performance in recent months, the Company determined that it would take a prolonged period of time to recoup all of the investments that the Company had made in PCI, and—in accordance with the provisions in Article 32 of the Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements (the Accounting Practice Committee Report No. 7, revised by the Japanese Institute of Certified Public Accountants on November 28, 2014)—wrote off its stake in PCI and recognized in the consolidated financial results an impairment loss on the goodwill and assets related to customers that the Company had recorded at the time of acquisition of PCI.

### Notes on Business Combination

#### Transactions under common control

#### Business combination resulting from a transition to a holding-company structure

The Group reorganized itself into a holding-company structure by company split effective October 1, 2017, when the Company changed its trade name from SIOS Technology, Inc. to SIOS Corporation, and the successor company in the absorption-type split changed its trade name from SIOS Technology Split Preparatory Company to SIOS Technology, Inc.

#### 1. Summary of transaction

##### (1) Description of business operations that were split

All business operations undertaken by the Company excluding management of group companies

##### (2) Effective date of business combination

October 1, 2017

##### (3) Legal form of business combination

An absorption-type split in which the Company served as the splitting company and SIOS Technology Split Preparatory Company served as the successor company

##### (4) Name of company after business combination

SIOS Technology, Inc.

##### (5) Purpose of transaction

The Group has been implementing its strategic initiatives, which are outlined in the Group's medium-term business strategy and are focused on expanding into new business segments including Fintech, continuing to invest in research and development, and becoming more competitive in its core businesses, and has been pursuing innovative software solutions to remain in the global IT arena as an influential player that continues to create greater value and contribute to a better society.

The Group has reorganized itself into a holding-company structure to implement these strategic initiatives and grow its businesses at an accelerates pace. The holding-company structure is expected to provide each group company with a greater

opportunity to become more responsive to changing business environments and provide the Group with a greater opportunity to maximize its corporate value.

## 2. Summary of accounting procedures implemented

The Group processed this transaction as one under common control in accordance with the Accounting Standard for Business Combination (ASBJ Accounting Standard No. 21, published on September 13, 2013) and the Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on September 13, 2013).

### **Absorption-type merger among consolidated subsidiaries of the Company**

#### 1. Summary of transaction

##### (1) Names and businesses of companies involved in business combination

Surviving company

Company name: SIOS Technology Corp.

Primary business: Development and sales of software products

Absorbed company

Company name: Glabio, Inc.

Primary business: Contract-based development of information systems

##### (2) Effective date of business combination

December 7, 2017

##### (3) Legal form of business combination

An absorption-type merger in which SIOS Technology Corp. served as the surviving company and Glabio, Inc. served as the absorbed company

##### (4) Name of company after business combination

SIOS Technology Corp.

##### (5) Purpose of transaction

This merger was intended to achieve greater operational efficiency among the Group.

#### 2. Summary of accounting procedures implemented

The Group processed this transaction as one under common control in accordance with the Accounting Standard for Business Combination (ASBJ Accounting Standard No. 21, published on September 13, 2013) and the Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, published on September 13, 2013).

## Segment Information

### Segment Information

#### 1. Outline of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available and which are subject to periodic reviews by the Company's Board of Directors to determine the allocations of resources and evaluate business performance.

The Company has established business units and subsidiaries, each of which serves specific markets and customers as well as specializes in specific technology fields: Some provide products and services in the open system infrastructure field, which includes operating systems and middleware, and some in the application field, which includes enterprise applications.

Therefore, the Group has two reportable segments: the open system infrastructure business segment, and the application business segment.

The description of each segment is as follows:

- Open system infrastructure business segment

In this business, the Group markets LifeKeeper, failover software that automatically switches a failed primary system to a backup system, and OSS-related products, including products sourced from Red Hat, Inc. and provides OSS support services as well as consulting services for a wide range of information systems.

- Application business segment

In this business, the Group markets software applications for MFPs, products and services for financial institutions, and the Gluegent series, which is a SaaS product that works with Google Apps, provides consulting services for a wide range of information systems, and develops enterprise information systems for corporate clients on a contract basis.

#### 2. Basis for calculating net sales, profit or loss, assets, liabilities, and other items by reportable segment

Accounting methods used for the reported business segments are the same as those described in "Basis for the Preparation of the Consolidated Financial Statements."

Profit of reportable segments is based on operating profit. Intersegment sales and transfers are calculated based on market prices.

Please note that the Company does not report assets or liabilities by segment.

##### Method of determining segment profit or loss

Under the holding-company structure, the Company has been serving as a holding company responsible for managing group companies since October 1, 2017. The Company allocates expenses incurred by the Company to the two reportable segments—the open system infrastructure business segment and the application business segment—using a reasonable base. Such allocation of expenses has no material impact on segment information compared with when using the previous method.

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

Fiscal year ended December 31, 2016

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	6,300,865	5,779,189	12,080,054	90	12,080,144
Intersegment sales and transfers	343	-	343	(343)	-
Total	6,301,208	5,779,189	12,080,398	(253)	12,080,144
Segment profit	180,781	293,831	474,613	90	474,703
Other items					
Depreciation	19,092	74,551	93,643	-	93,643
Amortization of goodwill	-	85,372	85,372	-	85,372

\* The total amount of segment profit is the same as the amount of operating profit shown in the consolidated statements of income for the year.

Fiscal year ended December 31, 2017

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	6,834,028	5,636,154	12,470,183	120	12,470,303
Intersegment sales and transfers	279	-	279	(279)	-
Total	6,834,307	5,636,154	12,470,462	(159)	12,470,303
Segment profit	143,339	177,401	320,741	120	320,861
Other items					
Depreciation	20,758	70,655	91,414	-	91,414
Amortization of goodwill	-	85,372	85,372	-	85,372
Impairment loss	-	800,646	800,646	-	800,646

\* The total amount of segment profit is the same as the amount of operating profit shown in the consolidated statements of income for the year.

## Related Information

### Fiscal year ended December 31, 2016

#### 1. Information by product and service

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

#### 2. Information by region

##### (1) Net sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
11,349,942	497,767	121,322	111,111	12,080,144

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

##### (2) Property, plant and equipment

(In thousands of yen)

Japan	Americas	Other regions	Total
185,759	7,762	-	193,521

#### 3. Information by major customer

(In thousands of yen)

Name of customer	Net sales	Relevant segments
Otsuka Corporation	3,041,764	Open system infrastructure business and application business

### Fiscal year ended December 31, 2017

#### 1. Information by product and service

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

#### 2. Information by region

##### (1) Net sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
11,614,986	607,137	123,771	124,408	12,470,303

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

##### (2) Property, plant and equipment

(In thousands of yen)

Japan	Americas	Other regions	Total
164,519	4,976	-	169,496

#### 3. Information by major customer

(In thousands of yen)

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

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

Fiscal year ended December 31, 2016

Not applicable

Fiscal year ended December 31, 2017

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

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

Fiscal year ended December 31, 2016

(In thousands of yen)

	Reportable segment			Other	Adjustment	Total
	Open system infrastructure business	Application business	Total			
Year-end balance	-	753,414	753,414	-	-	753,414

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

Fiscal year ended December 31, 2017

(In thousands of yen)

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

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

**Information Regarding Gain on Negative Goodwill by Reportable Segment**

Fiscal year ended December 31, 2016

Not applicable

Fiscal year ended December 31, 2017

Not applicable

**Per-Share Information**

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

## Notes:

1. As a loss was posted per share for FY 2017, the diluted earnings per share were not presented for the year, although, technically, potential common stock with dilutive effects existed.
2. The basis for calculating basic earnings or loss per share and diluted earnings per share is as follows:

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

**Significant Subsequent Events**

Not applicable