



# Consolidated Financial Results for the Nine Months Ended September 30, 2016 (Under Japanese GAAP)



October 31, 2016

Company name: SIOS Technology, Inc.  
 Shares listed on: Tokyo Stock Exchange  
 Code number: 3744  
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 Scheduled filing date of quarterly securities report: November 14, 2016  
 Scheduled commencement date of dividend payment: -  
 Supplementary materials prepared for quarterly financial results: No  
 Presentation of quarterly financial results: No

## 1. Consolidated Financial Results for the Nine Months Ended September 30, 2016

(Fractions less than one million yen are rounded off)

### (1) Results of operations (nine-month total)

(Percentages represent changes from the same period of the previous fiscal year)

|                                      | Net sales   |      | Operating income (loss) |   | Ordinary income (loss) |   | Net income (loss) attributable to owners of the parent company |   |
|--------------------------------------|-------------|------|-------------------------|---|------------------------|---|--|---|
|                                      | Million yen | %    | Million yen             | % | Million yen            | % | Million yen  | % |
| Nine months ended September 30, 2016 | 9,181       | 33.5 | 426                     | — | 367                    | — | 160  | — |
| Nine months ended September 30, 2015 | 6,877       | 27.5 | (101)                   | — | (106)                  | — | (139)  | — |

Note: Comprehensive income (loss) Nine months ended September 30, 2016: 60 million yen (-%)  
 Nine months ended September 30, 2015: (136) million yen (-%)

|                                      | Net income (loss) per share (Basic) | Net income per share (Diluted) |
|--------------------------------------|-------------------------------------|--------------------------------|
| Nine months ended September 30, 2016 | 18.65                               | 18.62                          |
| Nine months ended September 30, 2015 | (16.28)                             | —                              |

### (2) Financial position

|                          | Total assets | Net assets | Equity ratio |
|--------------------------|--------------|------------|--------------|
| As of September 30, 2016 | 5,210        | 1,457      | 27.5         |
| As of December 31, 2015  | 5,642        | 1,414      | 24.4         |

Note: Equity As of September 30, 2016: 1,434 million yen  
 As of December 31, 2015: 1,376 million yen

## 2. Dividends

|   | Annual dividend |           |           |          |        |
|---|-----------------|-----------|-----------|----------|--------|
|   | End of Q1       | End of Q2 | End of Q3 | Year-end | Annual |
| Fiscal year ended December 31, 2015             | —               | 0.00      | —         | 0.00     | 0.00   |
| Fiscal year ending December 31, 2016            | —               | 0.00      | —         |          |        |
| Fiscal year ending December 31, 2016 (Forecast) |                 |           |           | 0.00     | 0.00   |

Note: Revision to the previously announced forecast of dividend: None

### 3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2016

(Percentages represent changes from the previous fiscal year)

|                                      | Net sales   |      | Operating income |   | Ordinary income |   | Net income attributable to owners of the parent company |   | Net income per share |
|--------------------------------------|-------------|------|------------------|---|-----------------|---|---|---|----------------------|
|                                      | Million yen | %    | Million yen      | % | Million yen     | % | Million yen   | % | Yen                  |
| Fiscal year ending December 31, 2016 | 11,500      | 22.8 | 370              | — | 310             | — | 100   | — | 11.62                |

Note: Revision to the previously announced business forecasts: No

Notes:

(1) Material changes in subsidiaries during the nine months ended September 30, 2016: None

(Changes in specified subsidiaries resulting in a change in the scope of consolidation)

Newly included: —

Excluded: —

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies, changes in accounting estimates, and restatements

(i) Changes in accounting policies based on revisions of accounting standards : Yes

(ii) Changes in accounting policies other than the above (i) : None

(iii) Changes in accounting estimates : None

(iv) Restatements : None

Note: For details, refer to "2. Matters Concerning Summary Information (Notes): (3) Changes in Accounting Policies, Changes in Accounting Estimates, and Restatements" on Page 3 of the attached document.

(4) Number of issued and outstanding shares (common stock)

|   |  |                  |  |                  |
|---|--|------------------|--|------------------|
| (i) Number of issued and outstanding shares at the end of the period (including treasury stock)     | As of September 30, 2016                     | 8,874,400 shares | As of December 31, 2015                      | 8,874,400 shares |
| (ii) Number of treasury stocks at the end of the period   | As of September 30, 2016                     | 260,041 shares   | As of December 31, 2015                      | 274,241 shares   |
| (iii) Average number of shares during the period (cumulative from the beginning of the fiscal year) | For the nine months ended September 30, 2016 | 8,608,538 shares | For the nine months ended September 30, 2015 | 8,598,103 shares |

\* Presentation of the status of progress in carrying out quarterly review procedures

This summary of quarterly consolidated financial results is not subject to a quarterly review to be conducted in accordance with the Financial Instruments and Exchange Law of Japan. At the time of the release of this summary of quarterly consolidated financial results, the quarterly review procedures in accordance with the Financial Instruments and Exchange Law of Japan have not been completed.

\* 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 "(3) Forward-looking Statements Including Consolidated Business Forecasts" on Page 2 of the attached document.

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## 1. Qualitative Information on Consolidated Results

### (1) Results of Operations

#### Overview of the consolidated business performance for the nine months ended September 30, 2016

In the nine months ended September 30, 2016, the SIOS Group's net sales soared by 33.5% year on year to 9,181 million yen, bolstered in part by a 13.8% year-on-year increase in net sales of the Company and in part by the addition of sales by Keyport Solutions, Inc. (KPS) and Profit Cube Inc. (PCI), both of which the Company had acquired in the previous fiscal year.

In addition to an increased gross margin resulting from the addition of sales by KPS and PCI, the Group enjoyed a year-on-year increase in operating income from existing businesses, which comprise sales of LifeKeeper<sup>(\*)1</sup> and software applications for multifunction printers<sup>(\*)2</sup> as well as support services for system implementation, as we delivered these products and services to a growing number of corporate customers. As a result, the Group posted an operating income of 426 million yen for the nine months ended September 2016, compared with an operating loss of 101 million yen in the same period of the previous fiscal year, and an ordinary income of 367 million yen, compared with an ordinary loss of 106 million yen in the same period of the previous year. The Group also posted a net income of 160 million yen attributable to owners of the parent company, despite incurring expenses related to a retrospective adjustment of 139 million yen recognized as extraordinary loss in the second quarter of the current fiscal year, compared with a net loss of 139 million yen in the same period of the previous fiscal year. The Group's key management indicator EBITDA, which is the sum of operating income, depreciation, and amortization of goodwill, stood at 559 million yen, compared with a negative of 51 million yen in the same period of the previous fiscal year.

The Group continued to implement its growth initiatives, which are outlined in the Group's medium-term business strategy and focused on expanding into new business segments including FinTech<sup>(\*)3</sup>, investing in research and development, and becoming more competitive in its core businesses.

As part of an initiative to expand into new business segments including FinTech, PCI, which is the Company's subsidiary, acquired in March 2016 a patent for its proprietary technology that enables greater flexibility and agility of a profit management system for financial institutions. PCI also developed an automated loan-screening system for financial institutions and filed in April 2016 a patent for the technology incorporated into the system.

As part of efforts to invest in research and development, the Group continued to invest in machine-learning technology<sup>(\*)4</sup> and released an upgraded version of SIOS iQ<sup>(\*)6</sup>, a software platform for IT operations analytics<sup>(\*)5</sup>, to provide greater versatility.

In an effort to become more competitive in the Group's core businesses, the Group significantly upgraded LifeKeeper, which is one of its core products, and software applications for multifunction printers, and expanded services for open-source software<sup>(\*)7</sup> (OSS) for cloud<sup>(\*)8</sup>.

With the implementation of these initiatives, business results by segment turned out as follows:

#### Open System Infrastructure Business Segment

The Group increased sales of LifeKeeper in Japan, the Americas, Europe, and Asia/Oceania. Red Hat Enterprise Linux<sup>(\*)9</sup> and other products sourced from Red Hat, Inc. also enjoyed robust sales, buoyed by stepped up sales and marketing efforts. Support services for OSS and OSS-related products achieved solid sales growth as well. As a result, net sales in this segment amounted to 4,746 million yen in the nine months ended September 2016, up 13.6% year on year, with a segment income of 145 million yen, compared with a segment loss of 118 million yen in the same period of the previous fiscal year.

#### Application Business Segment

Net sales in this segment increased substantially due to the addition of sales by KPS and PCI, both of which the Company had acquired in the previous fiscal year. The increase in sales also resulted from the provision of software applications for multifunction printers and support services for system implementation to a growing number of corporate customers. As a result, net sales in this segment soared 64.2% year on year to 4,435 million yen.

The income in this segment surged to 280 million yen compared with an income of 17 million a year earlier, as an increased gross profit gained from an increase in net sales more than offset an increase in personnel costs and rents resulting from the acquisitions of the two consolidated subsidiaries mentioned earlier.

(\*1) LifeKeeper

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

(\*2) 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. SIOS develops, markets, and updates Quick Scan and Speedoc, document-management software applications running on an MFP.

(\*3) FinTech

An emerging technology for facilitating innovations in the financial sector.

(\*4) Machine-learning technology

A technology for giving the computer the same learning ability as a human being and for extracting useful information from a variety of data.

(\*5) IT operations analytics

Analyzing data generated in IT operations and converting them into practical and easy-to-digest information.

(\*6) SIOS iQ

A software platform that comprehensively monitors, analyzes, and optimizes operations of applications in virtual and cloud environments to improve performance and efficiency and ensure reliability in resolving complex issues.

(\*7) 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.

(\*8) Cloud

A new form of computing that provides computing resources as services over the Internet.

(\*9) Red Hat Enterprise Linux

Linux OS developed by the open-solution provider Red Hat, Inc.

## **(2) Financial Position**

(i) Assets

Current assets amounted to 3,524 million yen as of September 30, 2016, down 9.7% from the end of the previous fiscal year, mainly due to a decrease of 429 million yen in cash and deposits, an increase of 65 million yen in notes and accounts receivable-trade, and an increase of 39 million yen in advance payments.

Fixed assets amounted to 1,685 million yen, down 3.2% from the end of the previous fiscal year, mainly due to a decrease of 82 million yen in investment securities.

As a result, total assets amounted to 5,210 million yen, down 7.7% from the end of the previous fiscal year.

(ii) Liabilities

Current liabilities amounted to 2,644 million yen as of September 30, 2016, down 7.9% from the end of the previous fiscal year, mainly due to a decrease of 210 million yen in short-term loans payable, an increase of 134 million yen in advance received, and a decrease of 63 million yen in accounts payable.

Fixed liabilities amounted to 1,109 million yen, down 18.2% from the end of the previous fiscal year, mainly due to a decrease of 129 million yen in long-term loans payable and a decrease of 100 million yen in long-term deposits received.

As a result, total liabilities amounted to 3,753 million yen, down 11.2% from the end of the previous fiscal year.

(iii) Net assets

Total net assets amounted to 1,457 million yen as of September 30, 2016, up 3.0% from the end of the previous fiscal year, mainly due to a net income of 160 million yen attributable to owners of the parent company posted for the nine months ended September 30, 2016, and a decrease of 92 million yen in foreign currency translation adjustment.

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

The Group achieved business performance in the nine months ended September 2016 on track to meet the full-year consolidated business forecasts for fiscal year ending December 31, 2016, which were updated and announced on July 29, 2016. Those forecasts for FY 2016 still stand despite uncertainties for the remainder of the year.

## 2. Matters Concerning Summary Information (Notes)

### (1) Material changes in subsidiaries during the nine months ended September 30, 2016

Not applicable

### (2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements

Not applicable

### (3) Changes in accounting policies, changes in accounting estimates, and restatements

Nine months ended September 30, 2016  
(From January 1, 2016 through September 30, 2016)

- Application of Accounting Standard for Business Combinations

Effective at the beginning of the first quarter of the current fiscal year, the Company adopted the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013), and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013). Under these revised accounting standards, the Company recognizes as capital surplus any difference arising from changes in the Company's ownership interests in its subsidiaries over which the Company retains control, and recognizes the acquisition-related costs as expenses in the fiscal year in which they are incurred. In addition, regarding a business combination conducted at or after the beginning of the first quarter of the current fiscal year, the Company, when it finalizes its provisional accounting treatments, revises acquisition cost allocation in the quarterly consolidated financial statements to which the date of the business combination belongs. Furthermore, the Company changed the way its quarterly net income is presented, and records minority interests as non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the nine months ended September 30, 2015, and for the previous fiscal year were reclassified.

With respect to the application of the Accounting Standard for Business Combinations and other accounting standards, the Company has been following the transitional arrangement set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures since the beginning of the first quarter of the current fiscal year.

As a result, capital surplus decreased by 9 million yen at the end of the third quarter of the current fiscal year.

- Change in Depreciation Method

In accordance with the revision of the Corporation Tax Act of Japan, the Company adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, issued on June 17, 2016) in the six months ended June 30, 2016, and changed the depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

This change has no material impact on the consolidated financial statements for the nine months ended September 30, 2016.

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheet

(In thousands of yen)

|  | As of December 31, 2015 | As of September 30, 2016 |
|--|-------------------------|--------------------------|
| <b>Assets</b>                            |                         |                          |
| Current assets                           |                         |                          |
| Cash and deposits                        | 2,206,352               | 1,776,549                |
| Notes and accounts receivable-trade      | 1,346,277               | 1,412,128                |
| Work in progress                         | 114,680                 | 78,314                   |
| Advance payment                          | 106,473                 | 146,109                  |
| Other                                    | 127,536                 | 111,582                  |
| Allowance for doubtful accounts          | (200)                   | (200)                    |
| <b>Total current assets</b>              | <b>3,901,120</b>        | <b>3,524,484</b>         |
| Fixed assets                             |                         |                          |
| Tangible fixed assets                    |                         |                          |
| Buildings (net)                          | 92,841                  | 112,709                  |
| Other (net)                              | 71,963                  | 90,716                   |
| <b>Total tangible fixed assets</b>       | <b>164,805</b>          | <b>203,426</b>           |
| Intangible fixed assets                  |                         |                          |
| Goodwill                                 | 838,787                 | 774,758                  |
| Other                                    | 248,472                 | 226,305                  |
| <b>Total intangible fixed assets</b>     | <b>1,087,259</b>        | <b>1,001,063</b>         |
| Investment and other assets              |                         |                          |
| Investment securities                    | 244,983                 | 162,388                  |
| Net defined benefit assets               | 26,249                  | 26,594                   |
| Guarantee deposits                       | 216,140                 | 275,810                  |
| Other                                    | 7,193                   | 21,703                   |
| Allowance for doubtful accounts          | (5,071)                 | (5,071)                  |
| <b>Total investment and other assets</b> | <b>489,494</b>          | <b>481,425</b>           |
| <b>Total fixed assets</b>                | <b>1,741,559</b>        | <b>1,685,915</b>         |
| <b>Total assets</b>                      | <b>5,642,680</b>        | <b>5,210,400</b>         |

(In thousands of yen)

|   | As of December 31, 2015 | As of September 30, 2016 |
|---|-------------------------|--------------------------|
| <b>Liabilities</b>  |                         |                          |
| Current liabilities   |                         |                          |
| Accounts payable-trade  | 543,741                 | 480,244                  |
| Short-term loans payable                                      | 240,000                 | 30,000                   |
| Current portion of long-term loans payable                    | 155,442                 | 133,167                  |
| Lease obligations   | 1,244                   | 2,099                    |
| Income taxes payable  | 28,450                  | 69,823                   |
| Advance received  | 1,339,886               | 1,474,564                |
| Reserve for bonuses   | 26,678                  | 66,624                   |
| Reserve for loss on orders received                           | 2,515                   | 9,456                    |
| Other   | 534,409                 | 378,366                  |
| Total current liabilities                                     | 2,872,367               | 2,644,345                |
| Fixed liabilities   |                         |                          |
| Long-term loans payable                                       | 974,765                 | 845,434                  |
| Deferred tax liabilities                                      | 68,814                  | 65,657                   |
| Provision for surcharge resulting from repayment of subsidies | 32,267                  | —                        |
| Net defined benefit liabilities                               | 158,985                 | 174,461                  |
| Lease obligations   | 5,132                   | 7,462                    |
| Long-term deposits received                                   | 109,955                 | 9,767                    |
| Other   | 6,359                   | 6,251                    |
| Total fixed liabilities                                       | 1,356,280               | 1,109,034                |
| Total liabilities   | 4,228,648               | 3,753,380                |
| Net assets  |                         |                          |
| Shareholders' equity  |                         |                          |
| Capital stock   | 1,481,520               | 1,481,520                |
| Capital surplus   | 474,415                 | 466,657                  |
| Retained earnings   | (321,538)               | (161,009)                |
| Treasury stock  | (116,194)               | (110,178)                |
| Total shareholders' equity                                    | 1,518,201               | 1,676,989                |
| Accumulated other comprehensive income                        |                         |                          |
| Valuation difference on available-for-sale securities         | 1,420                   | (6,817)                  |
| Foreign currency translation adjustment                       | (143,423)               | (236,127)                |
| Total accumulated other comprehensive income                  | (142,002)               | (242,945)                |
| Equity warrants   | 22,281                  | 22,975                   |
| Non-controlling interests                                     | 15,551                  | —                        |
| Total net assets  | 1,414,031               | 1,457,020                |
| Total liabilities and net assets                              | 5,642,680               | 5,210,400                |



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

Consolidated Statements of Income  
for nine months ended September 30

(In thousands of yen)

|  | Nine months ended<br>September 30, 2015 | Nine months ended<br>September 30, 2016 |
|--|---|---|
| Net Sales  | 6,877,377                               | 9,181,781                               |
| Cost of sales  | 4,472,595                               | 5,862,409                               |
| Gross margin   | 2,404,782                               | 3,319,371                               |
| Selling, general and administrative expenses                   | 2,506,092                               | 2,892,686                               |
| Operating income (loss)  | (101,309)                               | 426,684                                 |
| Non-operating income   |   |   |
| Interest income  | 1,368                                   | 642                                     |
| Foreign exchange gain  | 20,005                                  | 10,221                                  |
| Compensation received  | 10,000                                  | —                                       |
| Other  | 1,770                                   | 9,711                                   |
| Total non-operating income                                     | 33,145                                  | 20,575                                  |
| Non-operating expenses   |   |   |
| Interest expenses  | 107                                     | 4,888                                   |
| Loss on investment of investment partnership                   | 1,967                                   | 4,254                                   |
| Equity in losses of affiliates                                 | 27,327                                  | 63,254                                  |
| Provision for surcharge resulting from repayment of subsidies  | 7,691                                   | 5,668                                   |
| Other  | 798                                     | 2,187                                   |
| Total non-operating expenses                                   | 37,892                                  | 80,252                                  |
| Ordinary income (loss)   | (106,056)                               | 367,006                                 |
| Extraordinary income   |   |   |
| Gain on sale of investment securities                          | 8,169                                   | 67                                      |
| Gain on negative goodwill                                      | 11,386                                  | —                                       |
| Gain on reversal of equity warrants                            | 1,231                                   | 1,289                                   |
| Total extraordinary income                                     | 20,787                                  | 1,356                                   |
| Extraordinary loss   |   |   |
| Loss on valuation of golf club membership                      | 2,358                                   | 1,550                                   |
| Loss on withdrawal from employees' pension fund                | 12,968                                  | —                                       |
| Expense related to retrospective adjustment                    | —                                       | 139,212                                 |
| Loss on retirement of fixed assets                             | 341                                     | 6,598                                   |
| Other  | —                                       | 4,107                                   |
| Total extraordinary loss                                       | 15,668                                  | 151,467                                 |
| Net income (loss) before income taxes                          | (100,937)                               | 216,895                                 |
| Income taxes-current   | 35,756                                  | 60,172                                  |
| Income taxes-deferred  | —                                       | (4,724)                                 |
| Total income taxes   | 35,756                                  | 55,448                                  |
| Net income (loss)  | (136,693)                               | 161,447                                 |
| Net income attributable to non-controlling interests           | 3,255                                   | 918                                     |
| Net income (loss) attributable to owners of the parent company | (139,948)                               | 160,529                                 |

Consolidated Statements of Comprehensive Income  
for nine months ended September 30

(In thousands of yen)

|   | Nine months ended September<br>30, 2015 | Nine months ended September<br>30, 2016 |
|---|---|---|
| Net income (loss)                                     | (136,693)                               | 161,447                                 |
| Other comprehensive income (loss)                     |   |   |
| Valuation difference on available-for-sale securities | 1,820                                   | (8,238)                                 |
| Foreign currency translation adjustment               | (2,075)                                 | (92,704)                                |
| Total other comprehensive income (loss)               | (254)                                   | (100,942)                               |
| Comprehensive income (loss)                           | (136,948)                               | 60,505                                  |
| Comprehensive income (loss) attributable to:          |   |   |
| Owners of the parent company                          | (140,188)                               | 59,586                                  |
| Non-controlling interests                             | 3,239                                   | 918                                     |

**(3) Notes to Consolidated Financial Statements**

**Notes to Going Concern Assumption**

Not applicable

**Notes to Significant Changes in Shareholders' Equity**

Not applicable

## Segment Information

### 【Segment Information】

I. Nine months ended September 30, 2015

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

(In thousands of yen)

|                                   | Reportable segment                  |                      |           | Adjustments | Amount recorded in quarterly consolidated statements of income (Note) |
|-----------------------------------|-------------------------------------|----------------------|-----------|-------------|---|
|                                   | Open system infrastructure business | Application business | Total     |             |   |
| Net sales                         |                                     |                      |           |             |   |
| Sales to external customers       | 4,176,477                           | 2,700,900            | 6,877,377 | —           | 6,877,377   |
| Inter-segment sales and transfers | 279                                 | 175                  | 454       | (454)       | —   |
| Total                             | 4,176,756                           | 2,701,075            | 6,877,831 | (454)       | 6,877,377   |
| Segment income (loss)             | (118,324)                           | 17,015               | (101,309) | —           | (101,309)   |

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

## Supplementary Information

Information by region

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

Net sales

For the nine months ended September 30, 2015

(In thousands of yen)

| Japan     | Americas | Europe | Other regions | Total     |
|-----------|----------|--------|---------------|-----------|
| 6,411,867 | 306,426  | 83,178 | 75,905        | 6,877,377 |

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

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

Not applicable

II. Nine months ended September 30, 2016

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

(In thousands of yen)

|                                   | Reportable segment                  |                      |           | Adjustments | Amount recorded in quarterly consolidated statements of income (Note) |
|-----------------------------------|-------------------------------------|----------------------|-----------|-------------|---|
|                                   | Open system infrastructure business | Application business | Total     |             |   |
| Net sales                         |                                     |                      |           |             |   |
| Sales to external customers       | 4,746,027                           | 4,435,753            | 9,181,781 | —           | 9,181,781   |
| Inter-segment sales and transfers | 327                                 | —                    | 327       | (327)       | —   |
| Total                             | 4,746,354                           | 4,453,753            | 9,182,108 | (327)       | 9,181,781   |
| Segment income                    | 145,971                             | 280,713              | 426,684   | —           | 426,684   |

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

**Supplementary Information**

Information by region

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

Net sales

For the nine months ended September 30, 2016

(In thousands of yen)

| Japan     | Americas | Europe | Other regions | Total     |
|-----------|----------|--------|---------------|-----------|
| 8,629,504 | 376,733  | 95,125 | 80,417        | 9,181,781 |

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

2. Matters related to changes in reportable segments

The Group’s Web application business segment is shown as the application business segment effective from the current fiscal year, considering that the business has expanded into fields beyond Web applications. Accordingly, the segment formerly presented as the “Web application business” was reclassified as the “application business” effective from the three-month period ended March 31, 2016. Likewise, the segment information pertaining to the said segment for the nine months ended September 30, 2015, is presented under the “application business.”

This change in the segment name has no impact on the segment information.

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

Not applicable