

Financial Results for Fiscal Year Ended December 31, 2016

February 2, 2017

SIOS Technology, Inc.

(Stock Code: 3744 on the Second Section of Tokyo Stock Exchange)

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Major Accomplishments in Fiscal Year Ended December 31, 2016

Major Accomplishments



1

Leveraged resources and expertise of Keyport Solutions (KPS) and Profit Cube (PCI), both acquired in 2015, to enter the emerging Fintech* sector.

2

Released an upgraded version of the SIOS iQ* software, born out of a stepped-up investment in artificial intelligence technology.

3

Strengthened the Group's revenue base by growing existing businesses, including OSS*, LifeKeeper*, and software applications for multifunction printers*.

Note: See the Glossary on Page 32 for descriptions of terms with an asterisk.

A New SIOS



Accelerating growth to the next level, passing the 10 billion yen mark in net sales



Leveraging proprietary FinTech and AI technologies to become a leading player in the IT solutions industry

SIOS is entering a new era of growth and innovation.



Maintaining a robust financial foundation with OSS, LifeKeeper, and software applications for MFPs



Enforcing vigorous compliance policies and practices to retain the trust of stakeholders



Summary of Business Results for FY 2016

Consolidated Financial Results for FY 2016



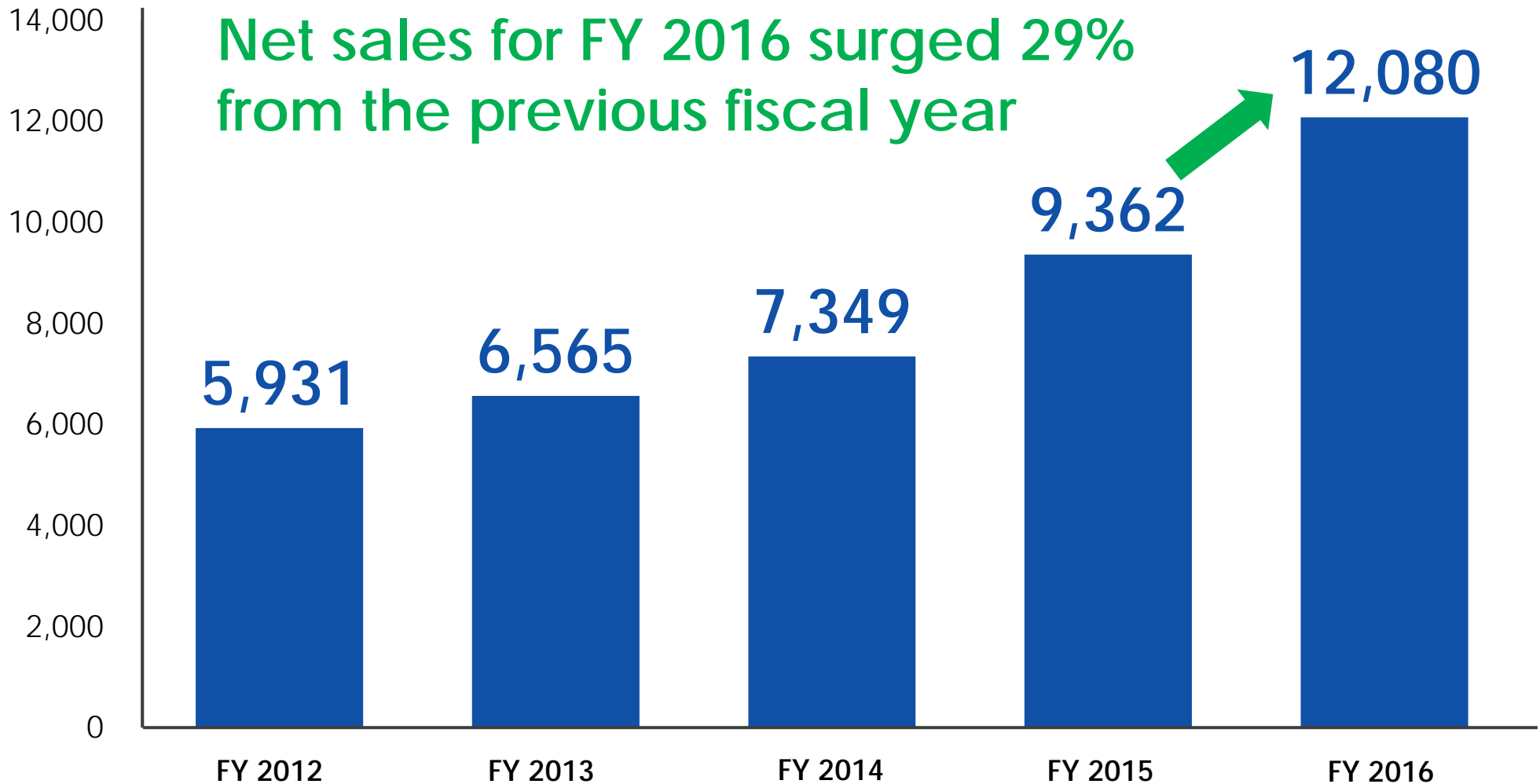
(In millions of yen)	FY 2015	FY 2016	Change	% Change
Net sales	9,362	12,080	+2,718	+29.0%
Gross margin	3,351	4,367	+1,016	+30.3%
Operating income (loss)	(111)	474	+585	—
Ordinary income (loss)	(137)	389	+526	—
Net income (loss) attributable to owners of the parent company	(186)	254	+440	—
EBITDA*	(45)	653	+698	—

*EBITDA: Operating income + Depreciation + Amortization of goodwill

Consolidated Net Sales over the Past 5 Fiscal Years



(In millions of yen)

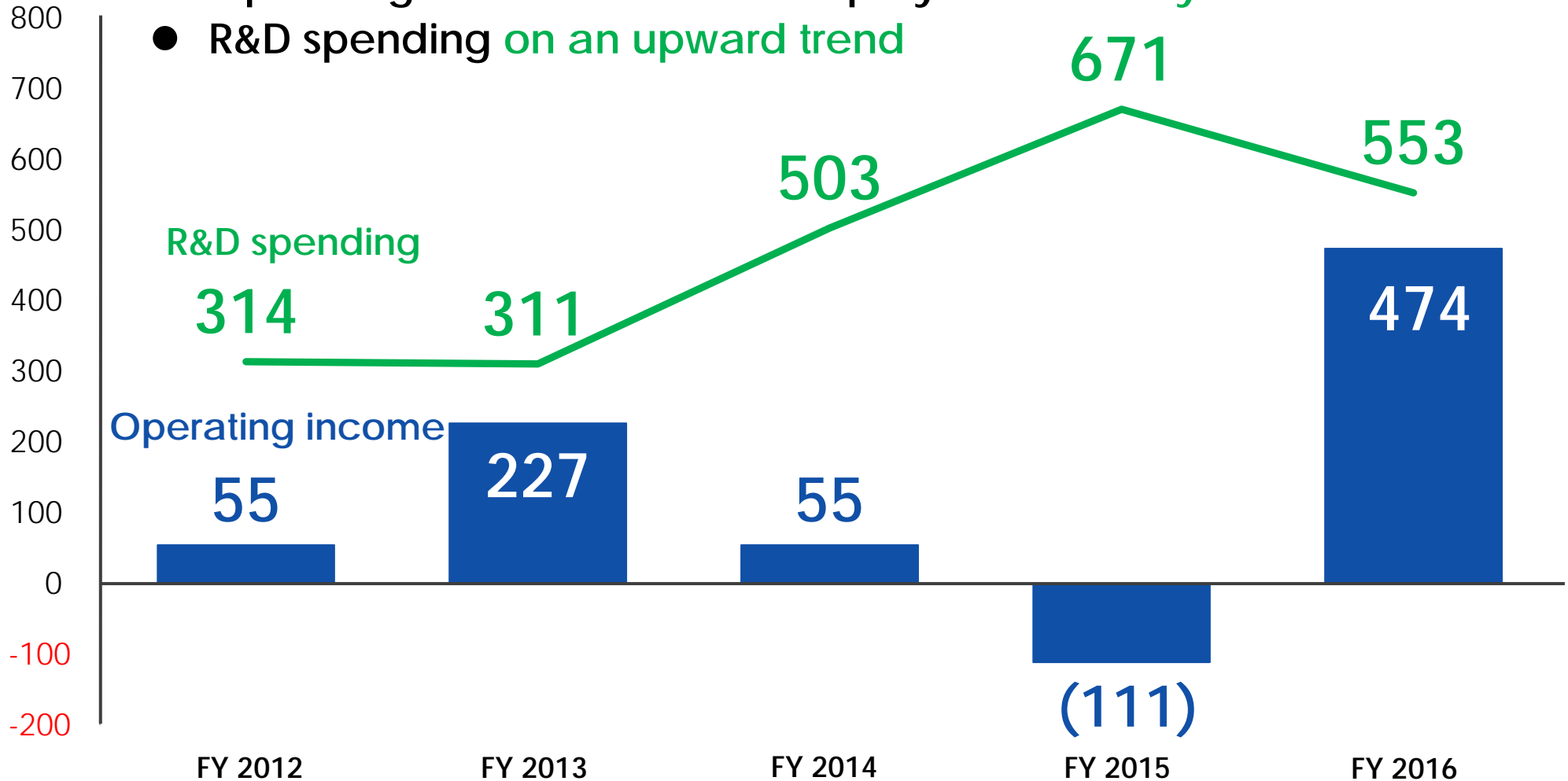


Consolidated Operating Income and R&D Spending over the Past 5 Fiscal Years



(In millions of yen)

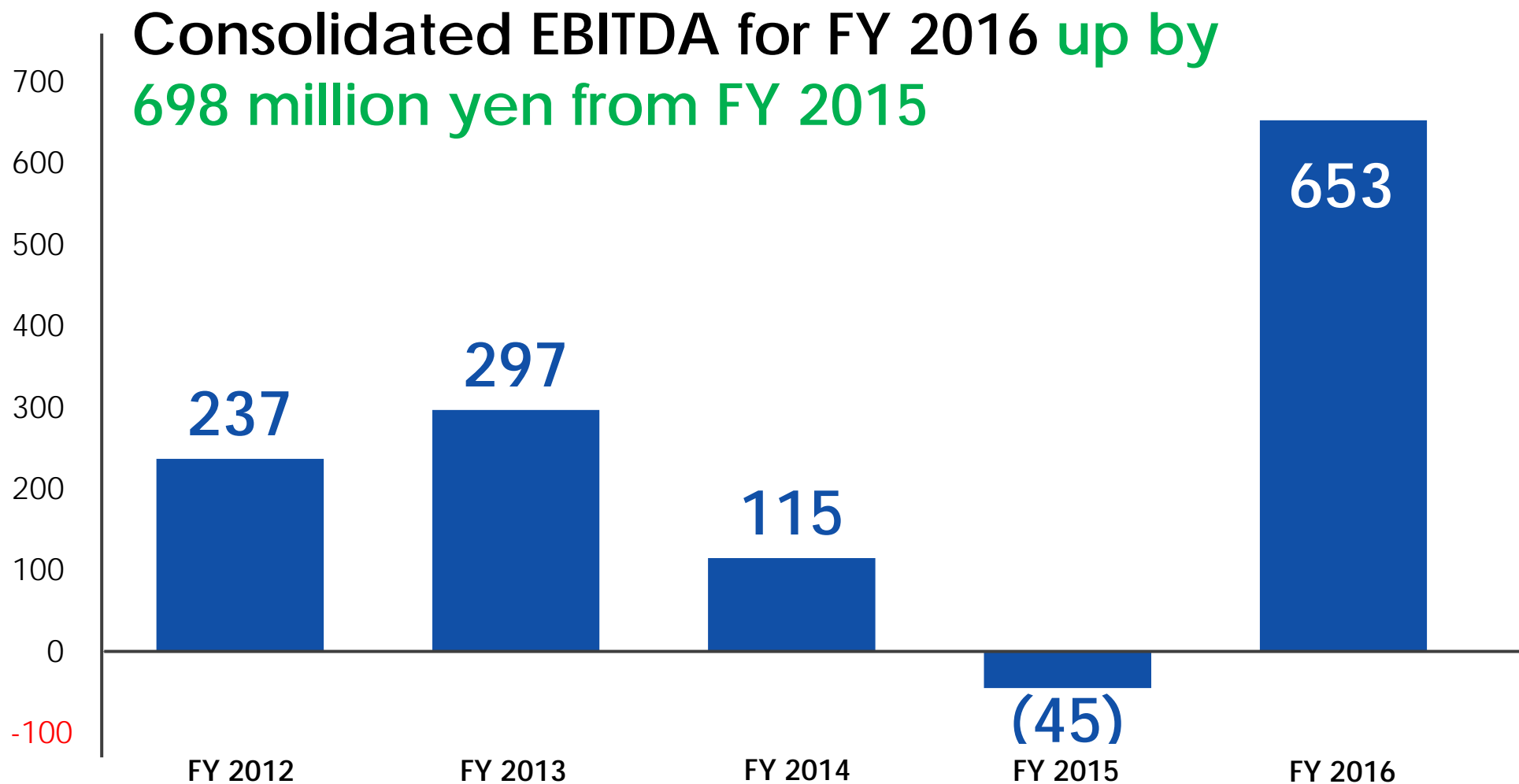
- Operating income for FY 2016 up by 585 million yen from FY 2015
- R&D spending on an upward trend



Consolidated EBITDA over the Past 5 Fiscal Years

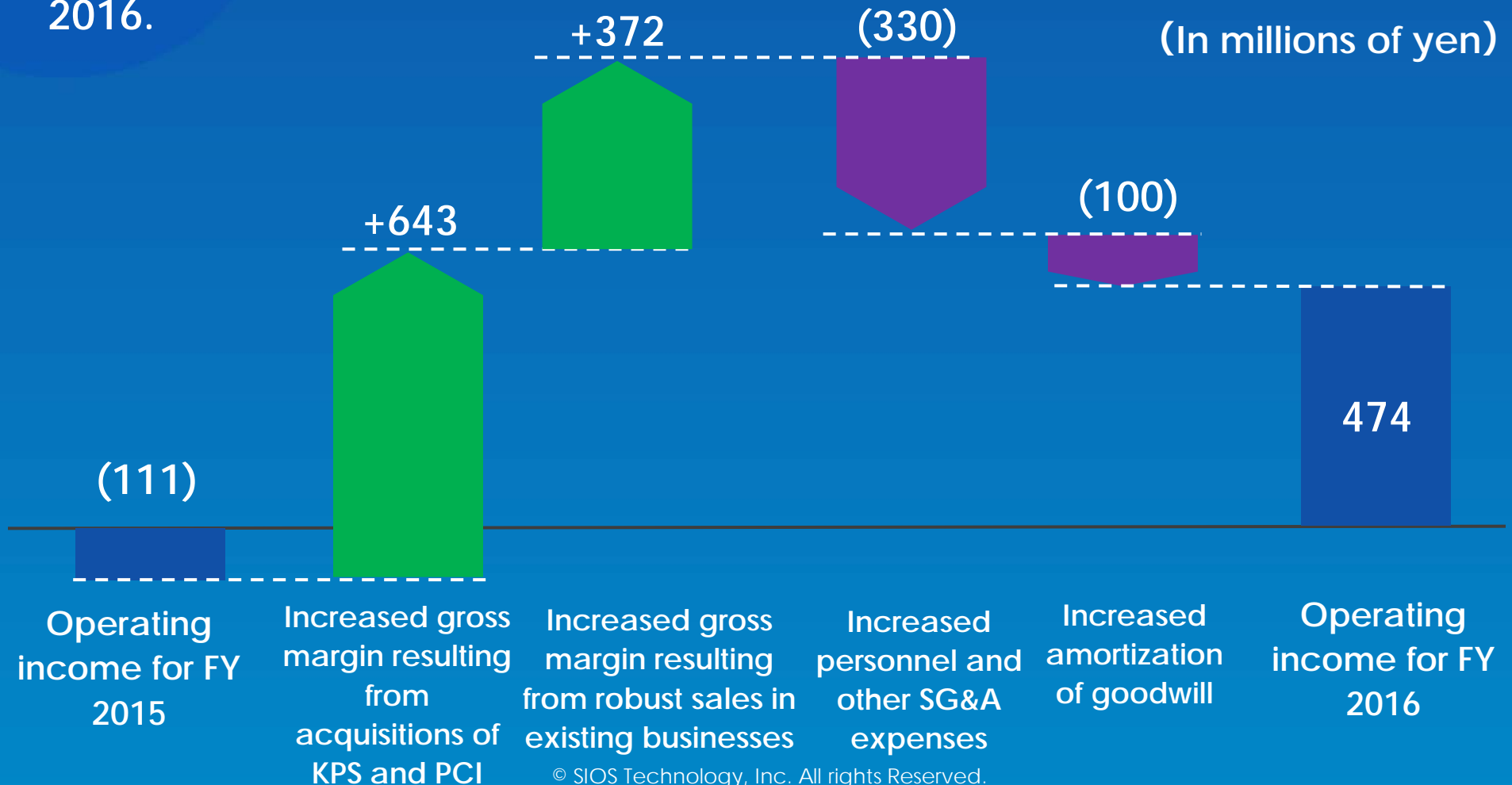


(In millions of yen)



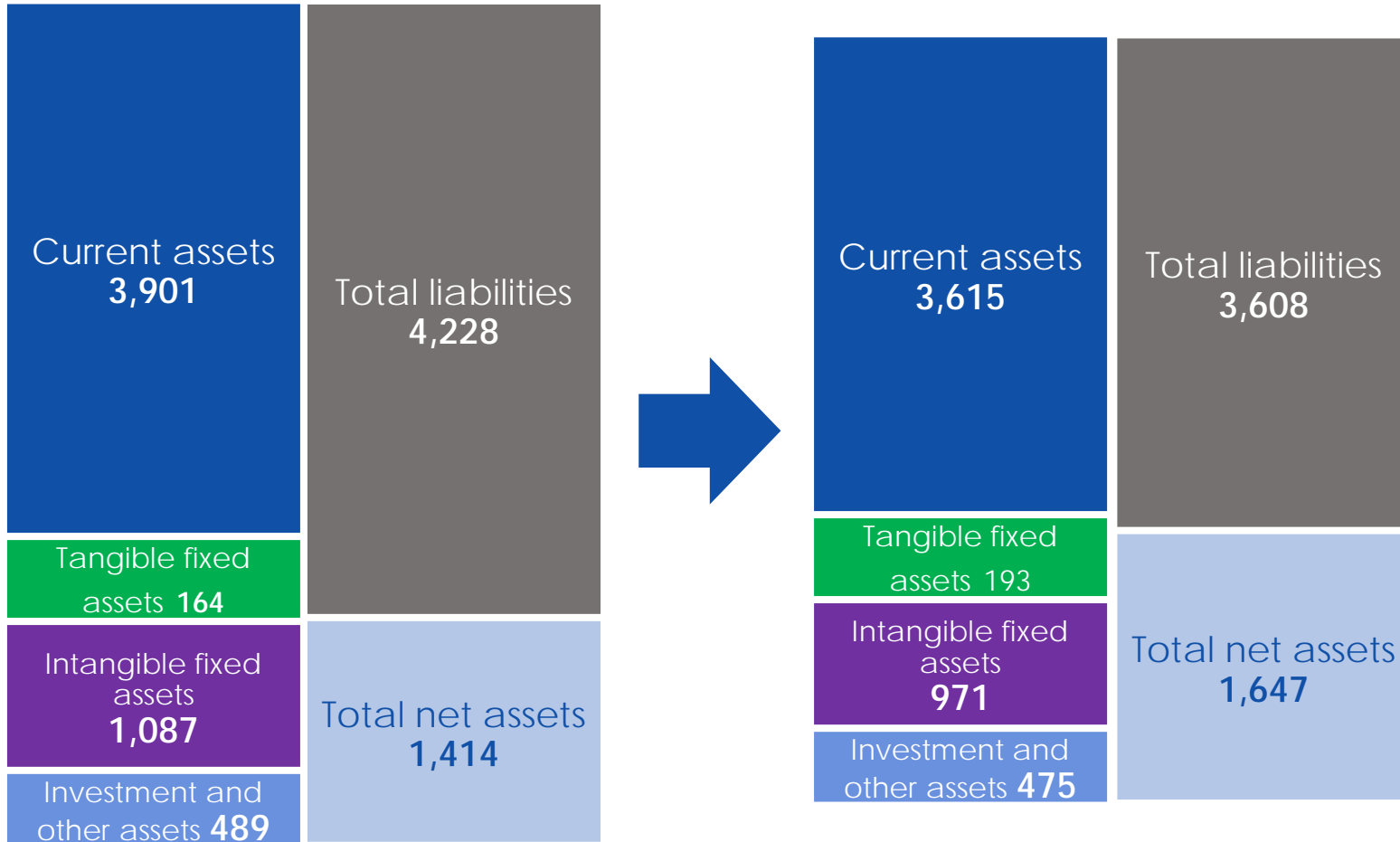
Analysis of Consolidated Operating Income for FY 2016

An increased gross margin resulting from the acquisitions of KPS and PCI and from robust sales in existing businesses more than offset increased SG&A expenses and substantially boosted operating income for FY 2016.



Consolidated Balance Sheets

(In millions of yen)

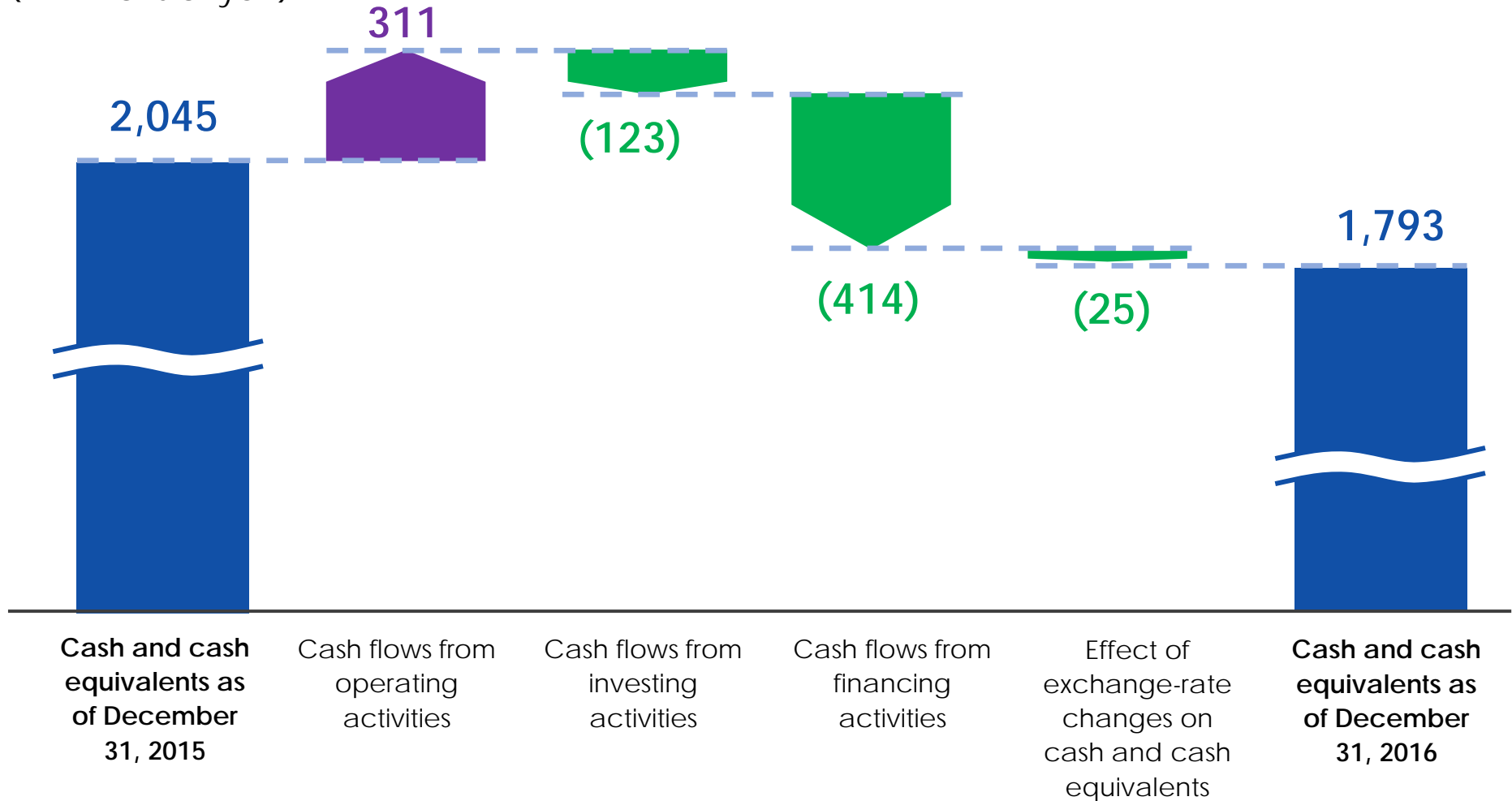


As of December 31, 2015

As of December 31, 2016

Analysis of Consolidated Cash Flows for FY 2016

(In millions of yen)

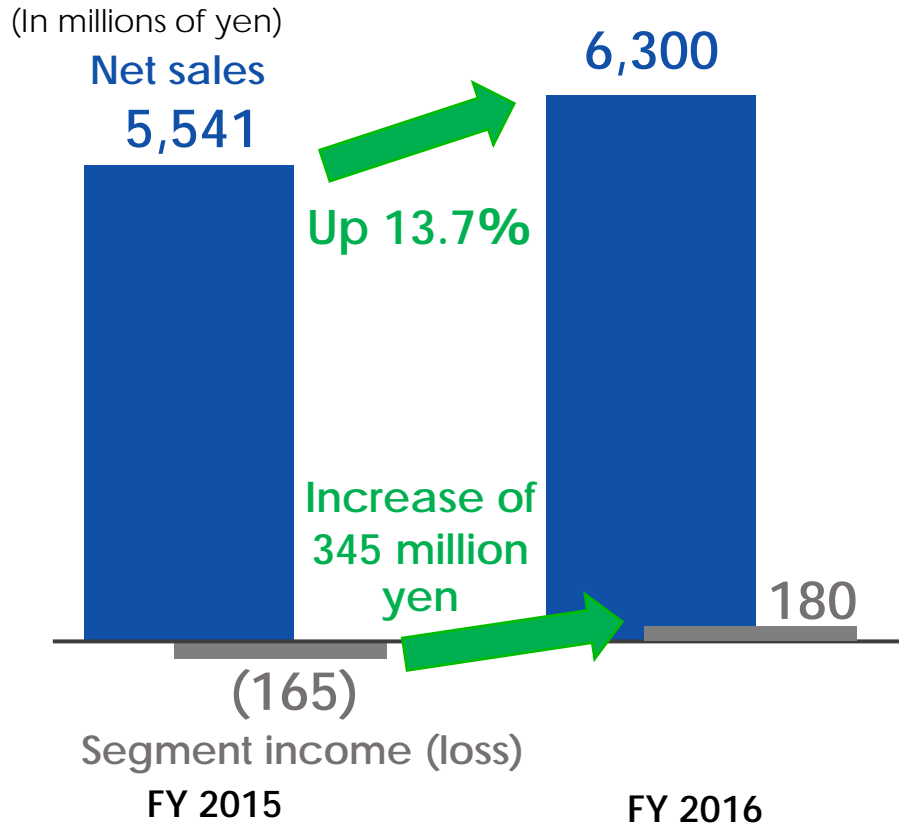


- The balance of cash and cash equivalents as of December 31, 2016 was down by 251 million yen from the year before, reflecting repayment of short-term loans payable (213 million yen) and long-term loans payable (181 million yen).

Open System Infrastructure Business



Net sales	6,300 million yen, up 13.7% year on year
Segment income	180 million yen, compared with a loss of 165 million yen the year before



Net sales

Japan

- Increased sales of LifeKeeper
- Increased sales of products sourced from Red Hat, Inc.
- Increased sales of OSS support services and related products

Overseas

- Increased sales in Asia/Oceania, Europe, and the Americas

Segment income

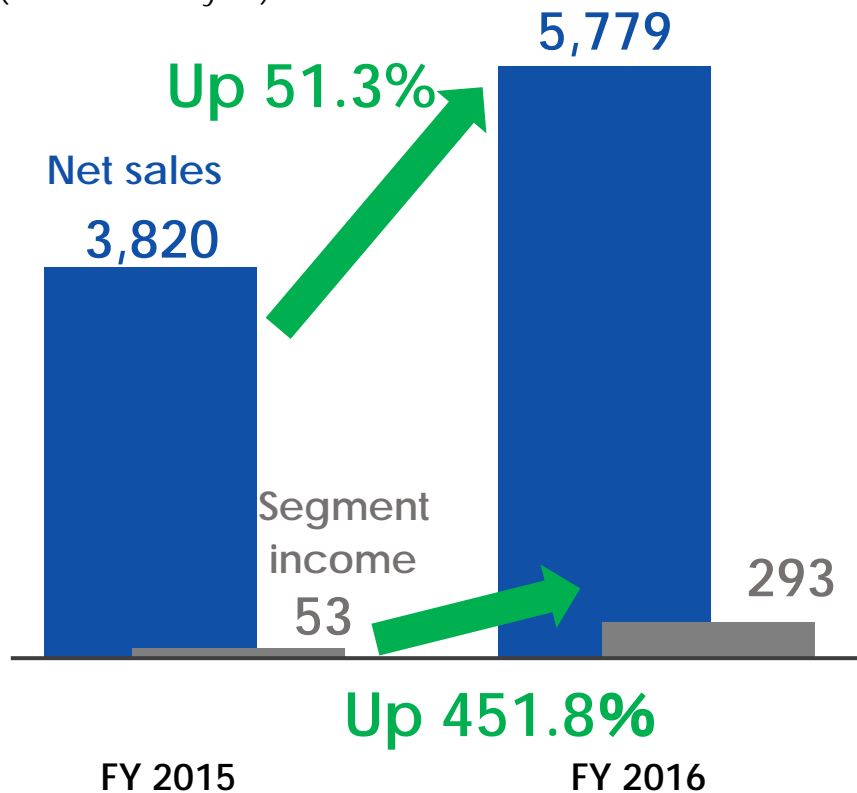
- Continued to invest in R&D for SIOS iQ, machine learning*- based IT analytics software
- Returned to profitability, buoyed by strong sales in existing businesses

Application Business



Net sales	5,779 million yen, up 51.3% year on year
Segment income	293 million yen, up 451.8% year on year

(In millions of yen)



Net sales

- **Achieved a substantial increase in net sales** as a result of acquisitions of KPS and PCI
- **Increased sales** of software applications for MFPs

Segment income

- Higher personnel costs resulting from the acquisitions of KPS and PCI were more than offset by an increase in gross margin resulting from a surge in net sales.



Key Medium-Term Strategic Initiatives and Progress Achieved in FY 2016

3 Key Medium-Term Strategic Initiatives

1 Expand into new business segments including Fintech

2 Continue to invest in research and development

3 Become more competitive in core businesses

① Expand into new business segments including Fintech

Launched **the SIOS AI Consulting Service**
and **the SIOS AI Academy** to assist
corporate clients in adopting
machine-learning and AI solutions

① Expand into new business segments including Fintech

Launched the SIOS AI Consulting Service in August 2016
and the SIOS AI Academy in October 2016

SIOS AI Consulting Service

Launched
August
2016

- Assist corporate clients in adopting **machine-learning and AI solutions** efficiently and effectively for their businesses **with minimum risk and investment**

SIOS AI Academy

Launched
October
2016

- Train corporate IT engineers and analysts on the **basics of machine-learning and AI solutions and applications**
- **All five classes held to date were full.**
- Surveys show that **90% of participants were happy** with the courses.

② Continue to invest in research and development

Released an upgraded version of **SIOS iQ**,
machine learning-based IT analytics
software

② Continue to invest in research and development

Released SIOS iQ v3.8, an upgraded version of machine learning-based IT analytics software, in August 2016

Performance-Forecasting Dashboard added

Predicts a performance issue likely to occur within the next 7 days and indicates **correlations, dates, and hours** of relevant objects



Prevents a performance issue from becoming serious so as to ensure **more stable operation of a virtual environment**

Predicts a performance issue



Indicates correlations, dates, and hours

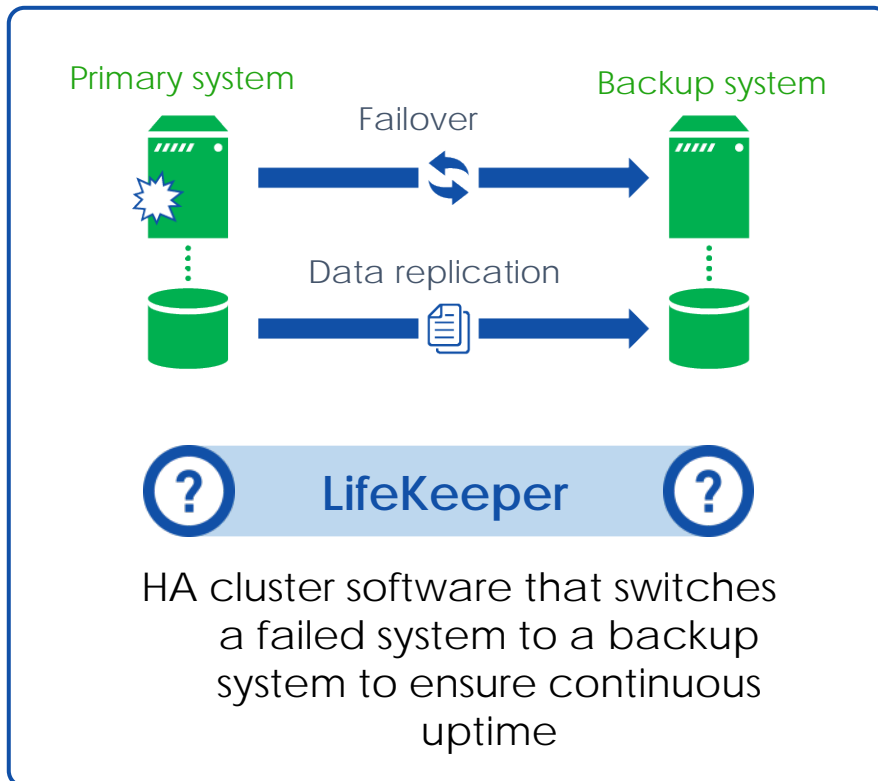


③ Become more competitive in core businesses

Upgraded LifeKeeper to work in **diverse cloud* environments** and ensure **higher system availability**

③ Become more competitive in core businesses

Upgraded LifeKeeper to work in diverse cloud environments and ensure higher system availability



+ Works in diverse cloud environments

→ Provides solutions that work in **Microsoft Azure, Amazon EC2, and a variety of other cloud environments**

+ Assists migration of a system to a cloud environment without any loss of availability of existing applications

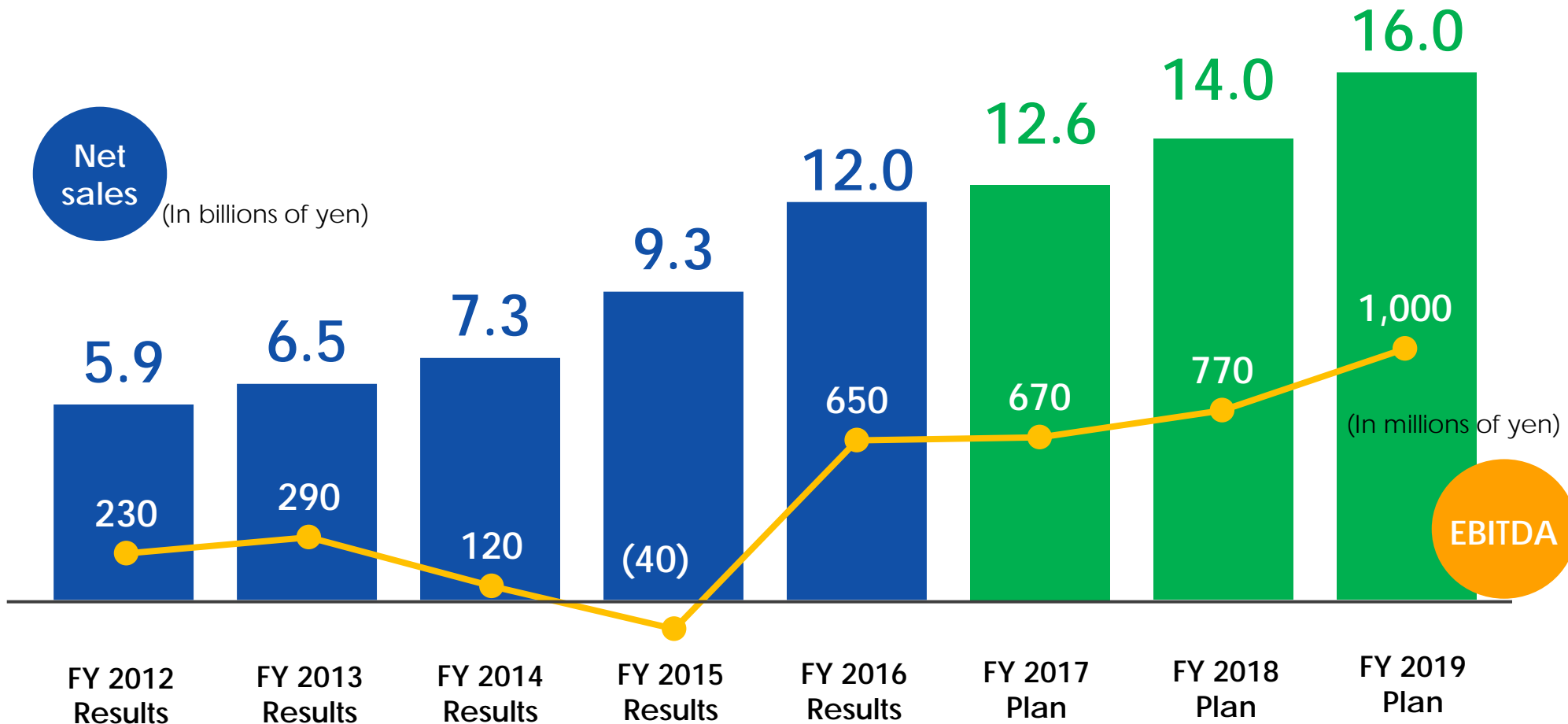
→ **Maintains the availability** of applications and middleware in a cloud environment at the on-premise level

IV

Medium-Term Sales and Profit Plan and Business Forecasts for Fiscal Year Ending December 31, 2017

Medium-Term Sales and Profit Plan

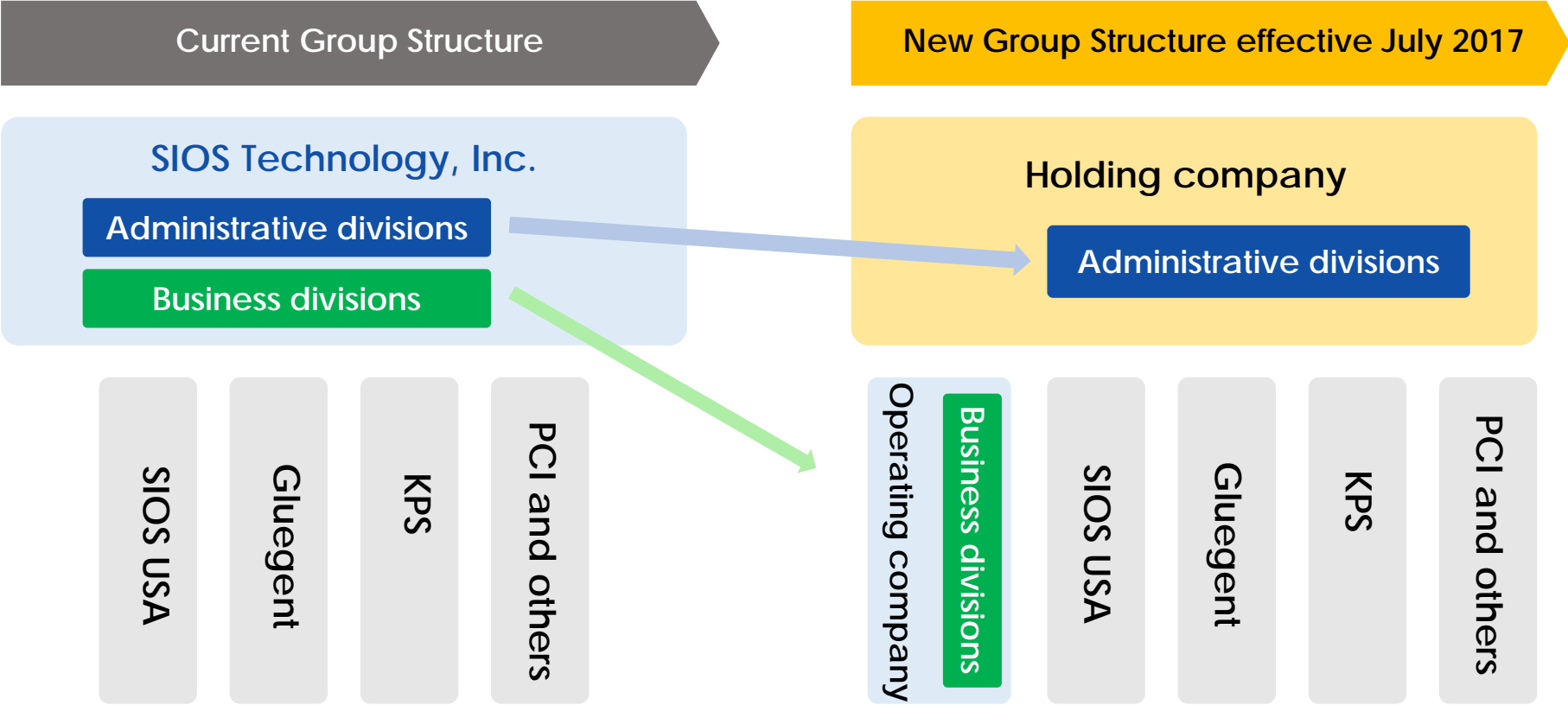
Continue to invest in R&D and improve effectiveness in marketing and sales so as to achieve net sales of 16 billion yen and EBITDA of 1 billion yen in FY 2019



SIOS Group to Reorganize into a Holding-Company Structure



The SIOS Group is scheduled to **reorganize into a holding-company structure** in July 2017 so as to make each Group company **more adaptive in an ever-changing business environment** and **maximize the Group's value**—all with the goal of accelerating the growth of the Group



Why a Holding-Company Structure?



① Enhance the effectiveness of the Group's strategic planning as well as that of corporate governance and compliance

- Consolidate the Group's **back-office functions** into a holding company to achieve greater effectiveness of the Group's **strategic planning** as well as that of **corporate governance and compliance**
- **Standardize and consolidate** business processes and IT systems across the Group to reduce operating costs and **maximize the Group's value**



② Ensure that each Group company achieves sustained growth

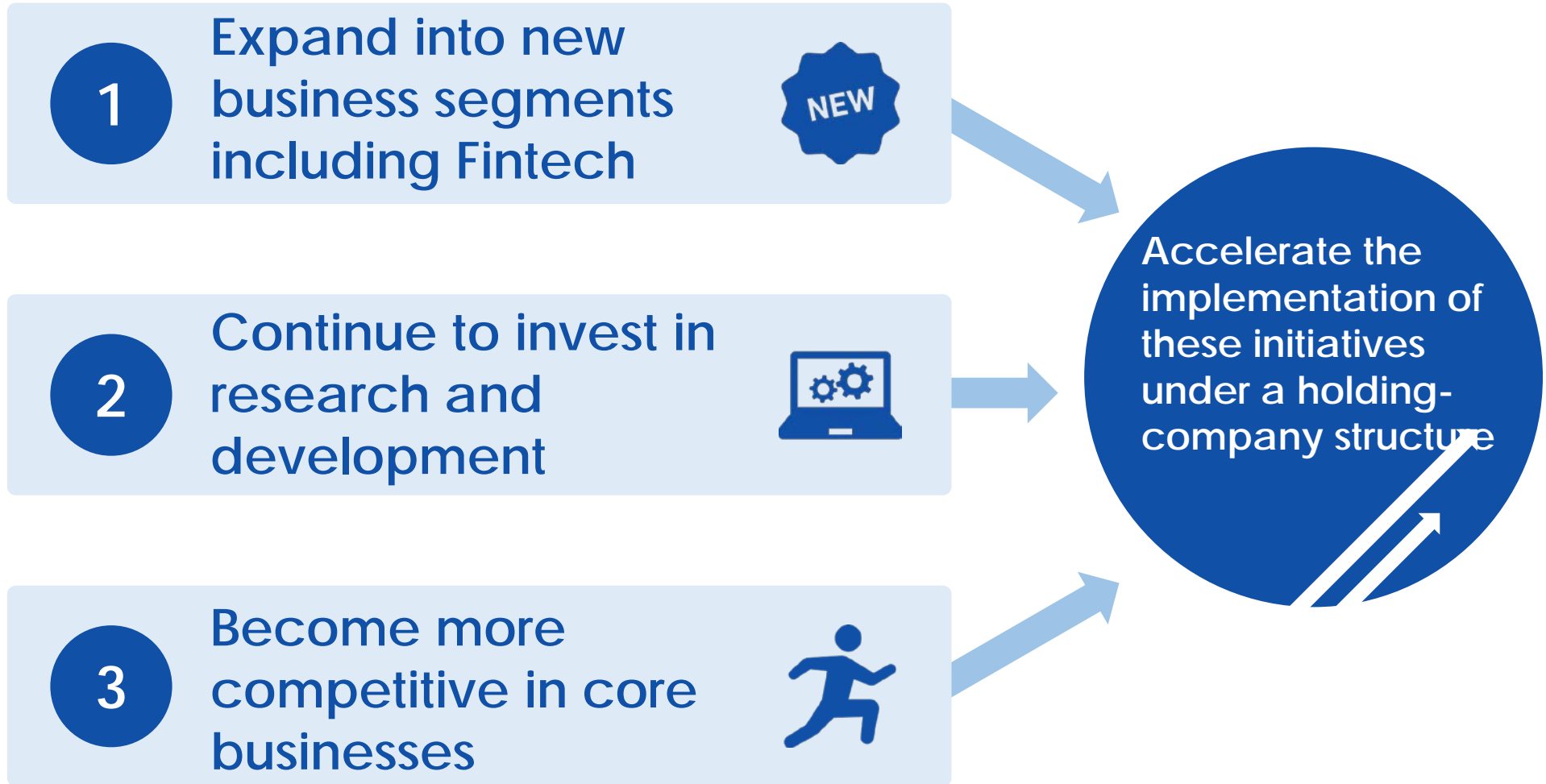
- Ensure that each Group company will operate **more effectively and efficiently** by enabling it to **make business decisions more timely** in an ever-changing business environment



③ Redouble merger and acquisition efforts

- Aggressively pursue merger and acquisition opportunities to diversify **revenue models** using **innovative technology solutions** and to expand into **new business segments**

3 Key Medium-Term Strategic Initiatives for FY 2017 - 2019



Consolidated Business Forecasts for Fiscal Year Ending December 31, 2017



The Group projects **net sales of 12.6 billion yen, operating income of 500 million yen, and EBITDA of 670 million yen** for FY 2017 by continuing to implement medium-term key strategic initiatives and conducting **more efficient and cost-effective operations** under a new holding-company structure.

(In millions of yen)

	FY 2016 Results	FY 2017 Forecasts	Change	% Change
Net sales	12,080	12,600	+520	+4.3%
Operating income	474	500	+26	+5.4%
Ordinary income	389	480	+91	+23.1%
Net income attributable to owners of the parent company	254	320	+66	+25.7%
EBITDA	653	670	+17	+2.5%

Payment of Dividends for FY 2016 and 2017

Annual dividends
for FY 2016
(Declared)

As announced on February 2, 2016, we have chosen, instead of paying dividends, to **invest in research and development** in FY 2016 to increase our efforts to achieve the medium-term business plan.

Annual dividends
for FY 2017
(Forecasted)

Based on the business forecasts for FY 2017 outlined in the previous page, we project payment of a dividend of ¥5.00 per share for FY 2017.

	18 th term FY2014	19 th term FY 2015	20 th term FY 2016 (Declared)	21 st term FY 2017 (Forecasted)
Annual dividends	5.00 yen	0.00 yen	0.00 yen	5.00 yen

SIOS is Innovative Open Solutions

SIOS Technology, Inc. has been focused on commercializing **open-source software** based primarily on Linux, and marketing and providing support for software products developed in-house. To broaden our offerings into new segments, we recently launched products and services that leverage such emerging technologies as **artificial intelligence, Fintech, and cloud computing**.

We are committed to 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.

Headquarters	SIOS Building, 2-12-3 Minami Azabu Minato-ku, Tokyo, Japan	
Capital	1,481 million yen	
Established	May 23, 1997	
No. of employees	460 on a consolidated basis (as of December 31, 2016)	
Main consolidated subsidiaries	Japan: Gluegent, Inc. Keyport Solutions, Inc. Profit Cube Inc.	U.S.A.: SIOS Technology Corp. Glabio, Inc.



Glossary



Page	Term	Description
4	Fintech	An emerging technology for facilitating innovations in the financial sector.
4	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 to ensure reliability in resolving complex issues.
4	Open source software (OSS)	Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.
4	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
4	Software applications for MFPs	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 other document management software applications running on an MFP.
14	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.
22	Cloud	A new form of computing that provides computing resources as services over the Internet.

Cautionary Statement

Forward-looking statements about the Company's business outlook contained in this document reflect its management's assumptions and judgments made on the basis of available information, and may include risks and uncertainties. We caution that significant risks and uncertainties could cause actual performance to differ materially from what is discussed in the forward-looking statements. Significant risks and uncertainties that might affect our performance include, but are not limited to, the economic environment and market conditions in which we operate.

For inquiries about this document

Call the IR Section of SIOS Technology, Inc. on **03-6401-5111**

(+81-3-6401-5111 from outside Japan)

or fill in and send an online inquiry form available at:

https://lp.sios.jp/MRK_Inquiry_SIOS_english.html



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