



**SIOS Consolidated Financial Results for the Three Months Ended March 31, 2017**  
(Under Japanese GAAP)



April 28, 2017

Company name: SIOS Technology, Inc.  
Stock listed on: Tokyo Stock Exchange  
Stock code: 3744  
URL: <http://www.sios.com>  
Representative: Nobuo Kita, Representative Director and President  
Contact person: Tokutaro Kobayashi, Managing Executive Officer  
Telephone: +81-3-6401-5111 (from outside Japan)  
Scheduled filing date of quarterly securities report: May 12, 2017  
Scheduled commencement date of dividend payment: -  
Supplementary materials prepared for quarterly financial results: None  
Presentation of quarterly financial results: None

(Fractions less than 1 million yen are rounded off)

**1. Consolidated Financial Results for the Three Months Ended March 31, 2017**

(1) Consolidated Results of Operations (cumulative) (Percentages represent changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended March 31, 2017	3,321	1.2	121	(45.7)	126	(39.0)	59	(54.3)
Three months ended March 31, 2016	3,281	56.3	223	760.1	207	562.7	129	-

Note: Comprehensive income: Three months ended March 31, 2017: 32 million yen (62.4%)  
Three months ended March 31, 2016: 86 million yen (-%)

	Net income per share (Basic)	Net income per share (Diluted)
Three months ended March 31, 2017	6.89 yen	6.86 yen
Three months ended March 31, 2016	15.09 yen	15.08 yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of March 31, 2017	5,580	1,680	29.6
As of December 31, 2016	5,256	1,647	30.8

Note: Equity: As of March 31, 2017: 1,652 million yen  
As of December 31, 2016: 1,619 million yen

**2. Dividends**

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
Year ended December 31, 2016	-	0.00 yen	-	0.00 yen	0.00 yen
Year ending December 31, 2017	-				
Year ending December 31, 2017 (Forecasted)		0.00 yen	-	5.00 yen	5.00 yen

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

### 3. Consolidated Business Forecasts for Fiscal Year Ending December 31, 2017

(In millions of yen, except per-share amount)  
(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
Year ending December 31, 2017	12,600	4.3%	500	5.4%	480	23.1%	320	25.7%	37.14 yen

Note: Revision to the previously announced business forecasts: None

#### Notes:

- (1) Material changes in subsidiaries during the three months ended March 31, 2017 : None
- (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 : None
  - (ii) Changes in accounting policies other than the above (i) : None
  - (iii) Changes in accounting estimates : None
  - (iv) Restatements : None
- (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 March 31, 2017	8,874,400 shares	As of December 31, 2016	8,874,400 shares
(ii) Number of treasury stocks at end of the period	As of March 31, 2017	259,241 shares	As of December 31, 2016	260,041 shares
(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)	For three months ended March 31, 2017	8,615,159 shares	For three months ended March 31, 2016	8,600,159 shares

- \* This summary of quarterly consolidated financial results is not subject to a quarterly review.
- \* 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 7 of the attached document.

## Table of Contents of the Attached Document

1. Qualitative Information on Consolidated Results.....	4
(1) Results of Operations.....	4
(2) Financial Position.....	6
(3) Forward-looking Statements Including Consolidated Business Forecasts.....	6
2. Matters Concerning Summary Information (Notes).....	7
(1) Material changes in subsidiaries during the three months ended March 31, 2017.....	7
(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements.....	7
(3) Changes in accounting policies, changes in accounting estimates, and restatements.....	7
(4) Additional information.....	7
3. Consolidated Financial Statements.....	8
(1) Consolidated Balance Sheet.....	8
(2) Consolidated Statements of Income and Comprehensive Income.....	10
(3) Notes on Consolidated Financial Statements.....	12
Notes on Going Concern Assumption.....	12
Notes on Material Changes in Shareholders' Equity.....	12
Segment Information.....	13
Significant Subsequent Events.....	14

## 1. Qualitative Information on Consolidated Results

### (1) Results of Operations

#### Overview of the consolidated business performance for the three months ended March 31, 2017

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

In the three months ended March 31, 2017, the Group expanded services for open source software<sup>2</sup> (OSS) for cloud and redoubled its sales efforts for LifeKeeper<sup>3</sup> and software applications for multifunction printers (MFPs)<sup>4</sup>. In addition, we launched SIOS Coati, which provides automatic disaster recovery in public cloud environments.

With the implementation of these initiatives and activities, the Group's consolidated business results by segment turned out as follows:

#### (i) Open System Infrastructure Business Segment

The Group increased sales of LifeKeeper in Japan and the Asia-Oceania region. Red Hat Enterprise Linux<sup>5</sup> and other products sourced from Red Hat, Inc. enjoyed robust sales, buoyed by stepped up sales and marketing efforts. OSS-related products achieved solid sales growth as well.

As a result, net sales in this segment amounted to 1,890 million yen, up 9.8% from the same period of a year earlier, with a segment income of 70 million yen, up 38.6% from the previous year.

#### (ii) Application Business Segment

Contract-based development of software applications for financial institutions generated increased revenue, and sales of software applications for MFPs also achieved a year-on-year increase. However, sales of software applications to regional banks declined sharply in this period from the previous year. This was primarily because their sales for this fiscal year are projected to shift toward the second half of the year, while the majority of their annual sales had been posted in the first half of the year previously.

As a result, net sales in this segment were down 8.2% year on year to 1,431 million yen with a segment income of 50 million yen, down 70.7% from a year earlier.

The Group's combined net sales of these two segments were up 1.2% year on year to 3,321 million yen, marking record quarterly sales for the Group.

The Group posted an operating income of 121 million yen in this period, down 45.7% from the year before. The decline in operation income was because a substantial year-on-year drop in segment income in the application business segment more than offset an increase in segment income in the open system infrastructure business segment. With smaller non-operating expenses recorded in this period compared with the same period of the previous year, when an equity in losses of affiliates had been recorded, the Group posted an ordinary income of 126 million yen, down 39.0% year on year, and a net income of 59 million yen attributable to owners of the parent company, down 54.3% from a year earlier. The Group's key management metrics EBITDA, which is the sum of operating income, depreciation and amortization, and amortization of goodwill, stood at 164 million yen, down 38.0% year on year.

#### 1. FinTech

An emerging technology for facilitating innovations in the financial sector.

#### 2. 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.

#### 3. LifeKeeper

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

#### 4. 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.

#### 5. Red Hat Enterprise Linux

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

## **(2) Financial Position**

### **(i) Assets**

Current assets amounted to 3,986 million yen as of March 31, 2017, up 10.3% from the end of the previous fiscal year, reflecting an increase of 408 million yen in notes and accounts receivable-trade and a decrease of 36 million yen in work in progress.

Fixed assets were down 2.8% to 1,594million yen, reflecting a decrease of 21 million yen in goodwill and a decrease of 7 million yen in investment securities.

As a result, total assets were up 6.2% to 5,580 million yen as of March 31, 2017.

### **(ii) Liabilities**

Current liabilities amounted to 2,856 million yen as of March 31, 2017, up 12.4% from the end of the previous fiscal year, reflecting an increase of 386 million yen in accounts payable.

Fixed liabilities were down 2.1% to 1,044 million yen, reflecting a decrease of 34 million yen in long-term loans payable.

As a result, total liabilities were up 8.1% to 3,900 million yen as of March 31, 2017.

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

Total net assets amounted to 1,680 million yen as of March 31, 2017, up 2.0% from the end of the previous fiscal year, reflecting a net income of 59 million yen attributable to owners of the parent company posted for the three months ended March 31, 2017.

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

The Group achieved business performance in the three months ended March 31, 2017 on track to meet the full-year consolidated business forecasts for the fiscal year ending December 31, 2017, which were announced on February 2, 2017. Those forecasts for FY 2017 stand for the remainder of the year.

**2. Matters Concerning Summary Information (Notes)**

(1) Material changes in subsidiaries during the three months ended March 31, 2017

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

Not applicable

(4) Additional information

Three Months Ended March 31, 2017 (From January 1, 2017 through March 31, 2017)
Effective at the beginning of the first quarter of the current fiscal year, the Company adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Implementation Guidance No. 26, issued on March 28, 2016).

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheet

(In thousands of yen)

	As of December 31, 2016	As of March 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	1,923,658	1,920,099
Notes and accounts receivable-trade	1,346,923	1,755,651
Work in progress	56,008	19,734
Advance payment	128,189	118,976
Other	160,818	171,792
Allowance for doubtful accounts	(200)	(200)
<b>Total current assets</b>	<b>3,615,398</b>	<b>3,986,054</b>
Fixed assets		
Tangible fixed assets		
Buildings (net)	109,119	105,372
Other (net)	84,402	83,882
<b>Total tangible fixed assets</b>	<b>193,521</b>	<b>189,254</b>
Intangible fixed assets		
Goodwill	753,414	732,071
Other	217,932	211,686
<b>Total intangible fixed assets</b>	<b>971,347</b>	<b>943,758</b>
Investment and other assets		
Investment securities	171,942	164,710
Net defined benefit assets	27,674	27,475
Guarantee deposits	229,513	227,058
Other	56,738	52,400
Allowance for doubtful accounts	(9,966)	(9,966)
<b>Total investment and other assets</b>	<b>475,901</b>	<b>461,678</b>
<b>Total fixed assets</b>	<b>1,640,770</b>	<b>1,594,691</b>
<b>Total assets</b>	<b>5,256,168</b>	<b>5,580,746</b>

(In thousands of yen)

	As of December 31, 2016	As of March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	443,227	829,322
Short-term loans payable	30,000	-
Current portion of long-term loans payable	132,283	133,116
Income taxes payable	65,018	87,649
Advance received	1,409,377	1,395,053
Reserve for bonuses	24,556	63,912
Other	437,191	347,382
Total current liabilities	2,541,654	2,856,436
Fixed liabilities		
Long-term loans payable	812,988	778,043
Net defined benefit liabilities	178,589	193,815
Other	75,342	72,225
Total fixed liabilities	1,066,920	1,044,083
Total liabilities	3,608,575	3,900,520
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	466,657	466,750
Retained earnings	(67,044)	(7,698)
Treasury stock	(110,178)	(109,839)
Total shareholders' equity	1,770,954	1,830,732
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,008	7,371
Foreign currency translation adjustment	(165,485)	(185,688)
Total accumulated other comprehensive income	(151,477)	(178,316)
Stock acquisition rights	28,116	27,809
Total net assets	1,647,593	1,680,225
Total liabilities and net assets	5,256,168	5,580,746

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

Consolidated Statements of Income

for the three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Sales	3,281,064	3,321,549
Cost of sales	2,097,012	2,233,214
Gross margin	1,184,052	1,088,335
Selling, general and administrative expenses	960,492	966,841
Operating income	223,560	121,493
Non-operating income		
Interest income	476	941
Foreign exchange gain	5,293	2,105
Fiduciary obligation fee	600	630
Other	1,057	3,018
Total non-operating income	7,427	6,694
Non-operating expenses		
Interest expenses	2,373	1,645
Equity in losses of affiliates	17,682	-
Loss on investment of investment partnerships	676	-
Provision for surcharge resulting from repayment of subsidies	2,563	-
Other	227	51
Total non-operating expenses	23,524	1,696
Ordinary income	207,464	126,491
Extraordinary income		
Gain on reversal of stock acquisition rights	1,166	1,443
Total extraordinary income	1,166	1,443
Extraordinary loss		
Loss on retirement of fixed assets	116	-
Total extraordinary loss	116	-
Net income before income taxes	208,514	127,935
Income taxes-current	79,732	78,223
Income taxes-deferred	(1,950)	(9,633)
Total income taxes	77,781	68,590
Net income	130,733	59,345
Net income attributable to non-controlling interests	918	-
Net income attributable to owners of the parent company	129,814	59,345

Consolidated Statements of Comprehensive Income  
for the three months ended March 31

(In thousands of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Net income	130,733	59,345
Other comprehensive income (loss)		
Foreign currency translation adjustment	(33,846)	(20,202)
Valuation difference on available-for-sale securities	(10,485)	(6,637)
Total other comprehensive income (loss)	(44,332)	(26,839)
Comprehensive income loss	86,400	32,505
Comprehensive income loss attributable to:		
Owners of the parent company	85,482	32,505
Non-controlling interests	918	-

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

Notes on Going Concern Assumption

Not applicable

Notes on Material Changes in Shareholders' Equity

Not applicable

**Segment Information****【Segment Information】**

I. Three months ended March 31, 2016

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

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Sales					
Sales to external customers	1,721,466	1,559,598	3,281,064	-	3,281,064
Intersegment sales and transfers	16	-	16	(16)	-
Total	1,721,482	1,559,598	3,281,080	(16)	3,281,064
Segment income	51,154	172,405	223,560	-	223,560

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 (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.

**Sales**

For three months ended March 31, 2016

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,106,036	114,113	35,956	24,958	3,281,064

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. Three months ended March 31, 2017

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

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Sales					
Sales to external customers	1,890,316	1,431,233	3,321,549	-	3,321,549
Intersegment sales and transfers	16	-	16	(16)	-
Total	1,890,332	1,431,233	3,321,565	(16)	3,321,549
Segment income	70,900	50,593	121,493	-	121,493

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 (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.

**Sales**

For three months ended March 31, 2017

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
3,163,844	90,080	32,408	35,216	3,321,549

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

**Significant Subsequent Events**

Not applicable