

Financial Results for the 6 Months Ended June 30, 2017

July 31, 2017

SIOS Technology, Inc.

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

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**Summary of Business Results
for the 6 Months Ended
June 30, 2017**

Consolidated Financial Results

for the 6 Months Ended June 30, 2017



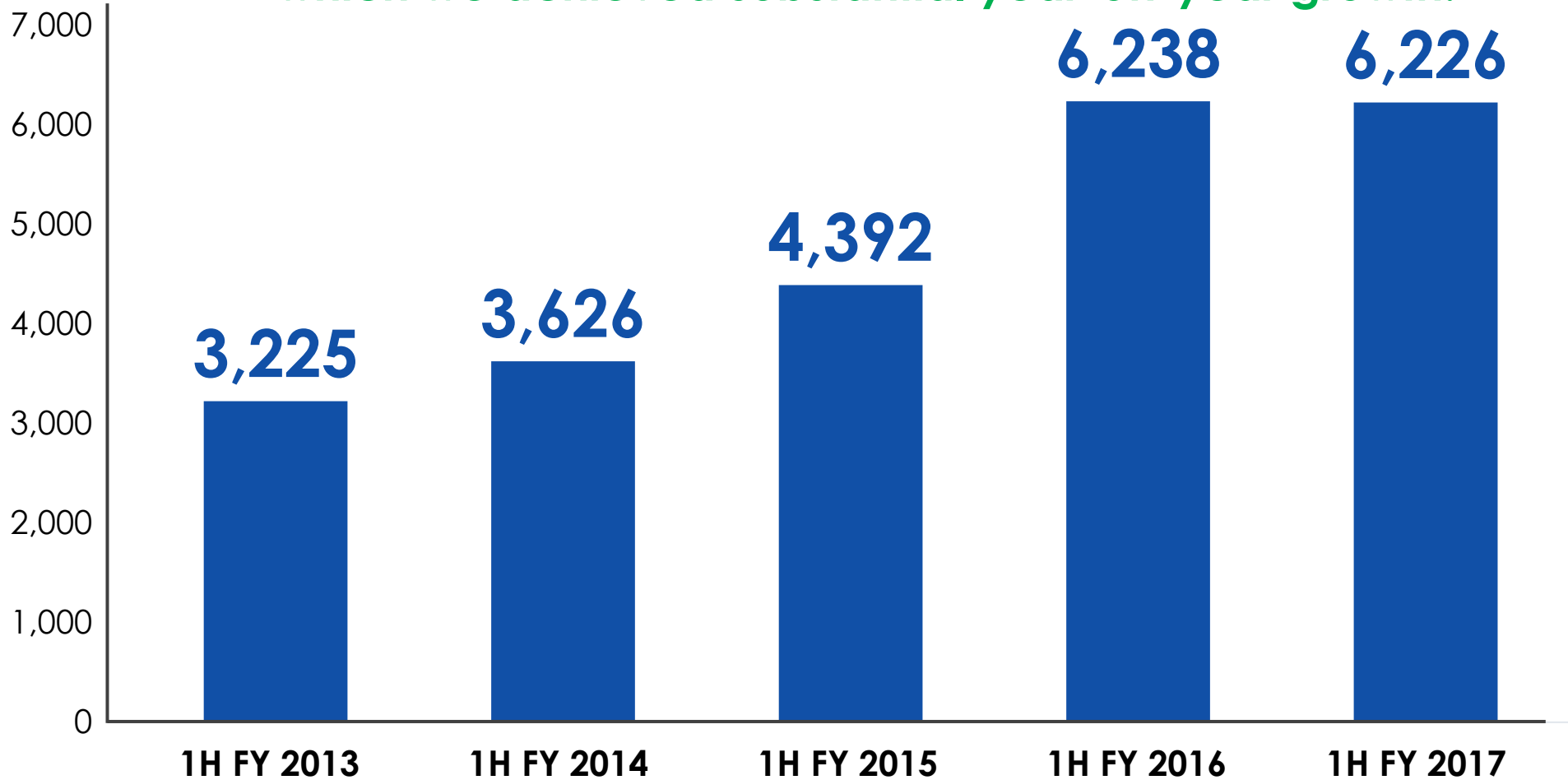
In millions of yen	Results for the 6 months ended June 30, 2016	Results for the 6 months ended June 30, 2017	Change	% Change
Net sales	6,238	6,226	(11)	(0.2%)
Gross profit	2,268	2,162	(106)	(4.7%)
Operating income	330	173	(156)	(47.5%)
Ordinary income	292	184	(108)	(37.0%)
Profit attributable to owners of parent	88	89	+0	+1.1%
EBITDA	417	260	(156)	(37.5%)

*EBITDA: Operating income + Depreciation + Amortization of goodwill

Consolidated Net Sales in First Halves of the Past 5 Fiscal Years

Net sales for the first 6 months of FY 2017 were slightly down from the same period the year before, during which we achieved substantial year-on-year growth.

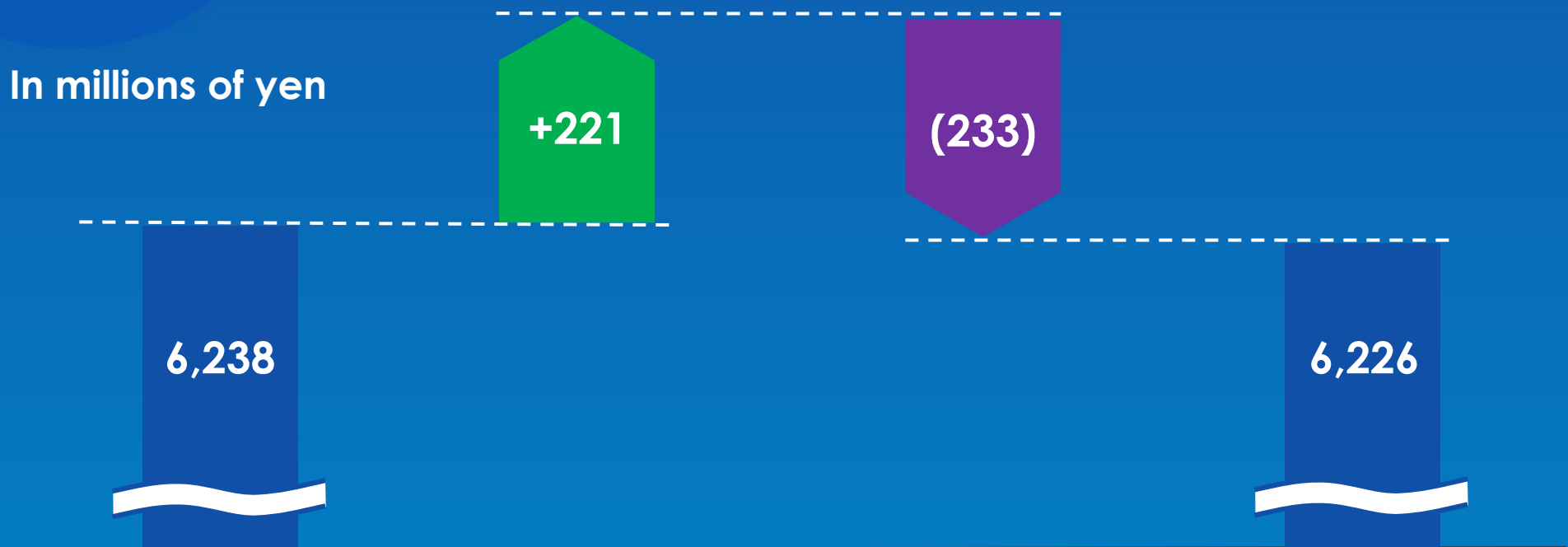
In millions of yen



Analysis of Consolidated Net Sales

Net sales for the 6 months ended June 30, 2017, were slightly down from the same period the year before, with **a sales increase in the open system infrastructure business** offset by **a comparable decrease in the application business** due to a projected shift of sales to the second half of the fiscal year.

In millions of yen



Net sales for the
6 months ended
June 30, 2016

Increase in net sales
in open system
infrastructure business

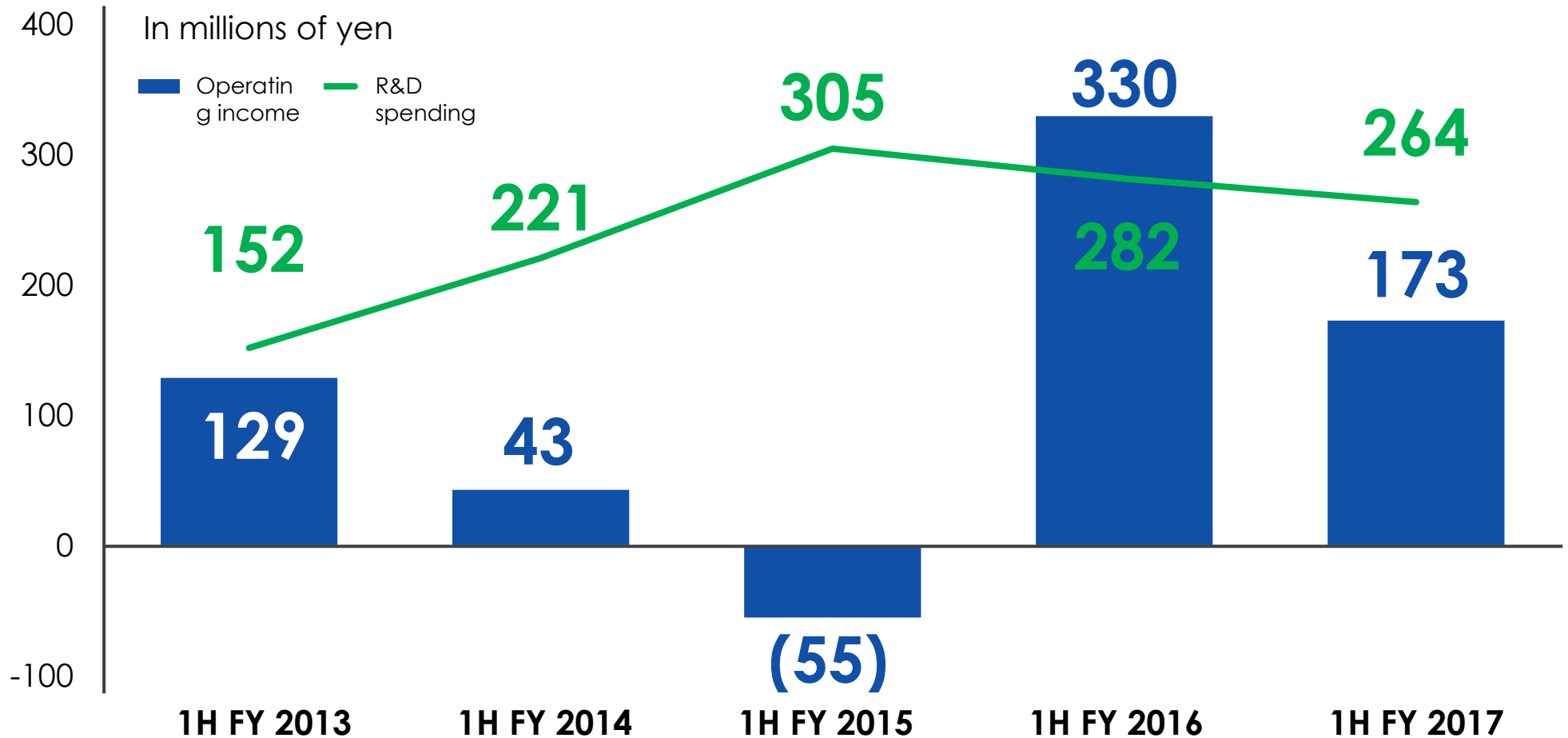
Decrease in net sales
in application
business

Net sales for the
6 months ended
June 30, 2017

Consolidated Operating Income and R&D Spending in First Halves of the Past 5 Fiscal Years



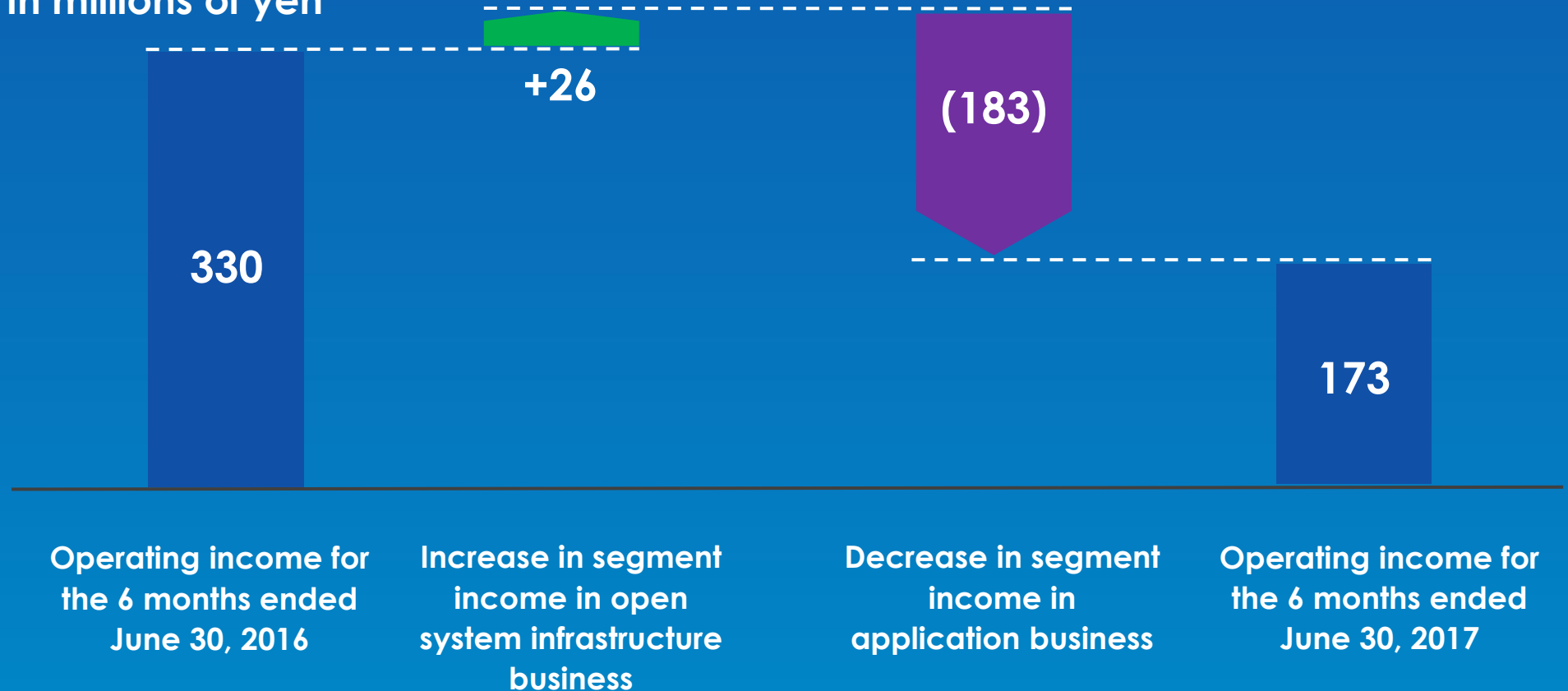
- Operating income for the first half of FY 2017 **down by 156 million yen** from the same period the year before
- R&D spending **on a general upward trend**



Analysis of Consolidated Operating Income

Operating income for the 6 months ended June 30, 2017, was down from the same period the year before, with **an increase in segment income in the open system infrastructure business** more than offset by **a larger decrease in the application business**.

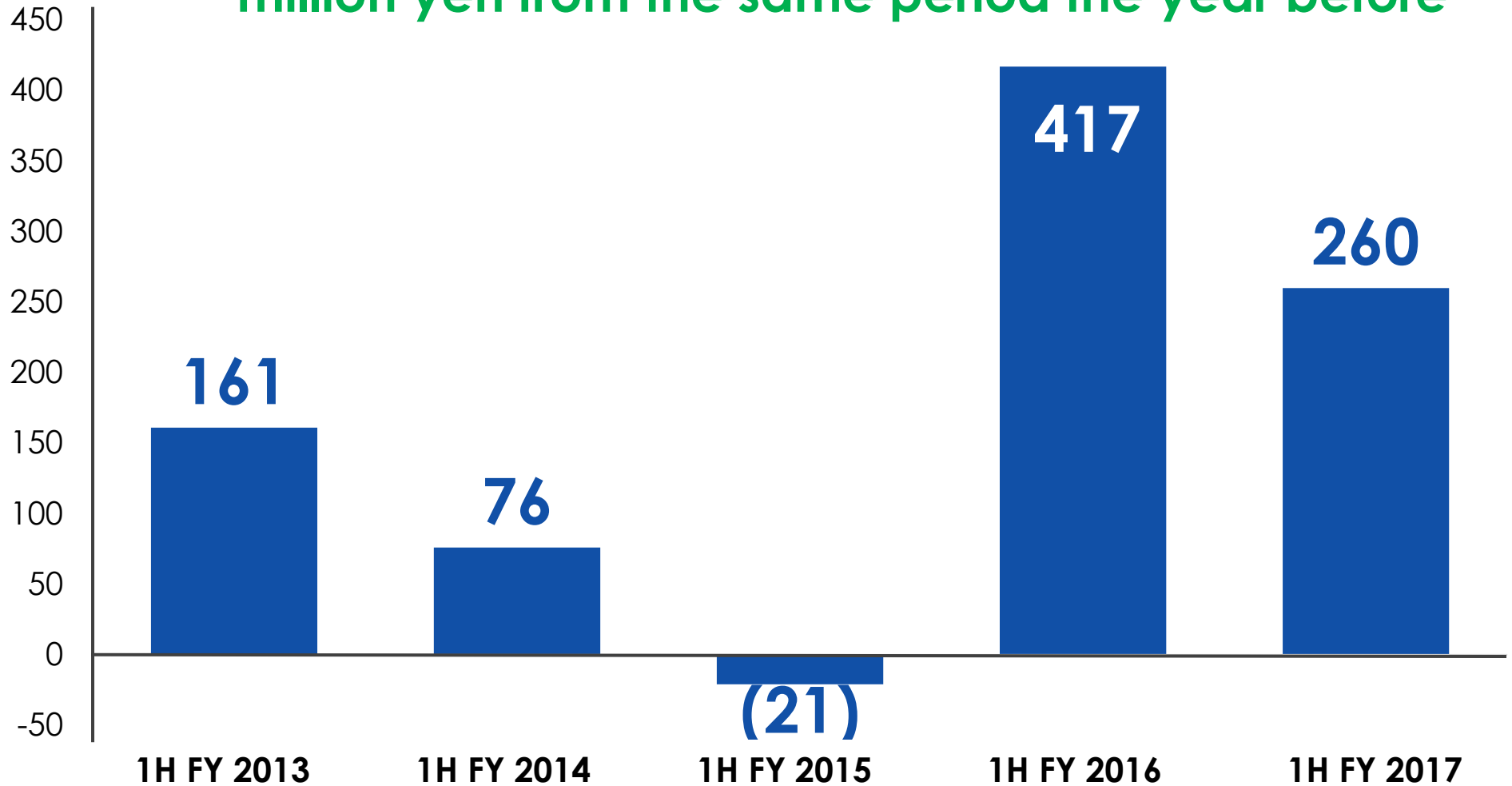
In millions of yen



Consolidated EBITDA in First Halves of the Past 5 Fiscal Years



In millions of yen **EBITDA in the first half of FY 2017 down by 156 million yen from the same period the year before**

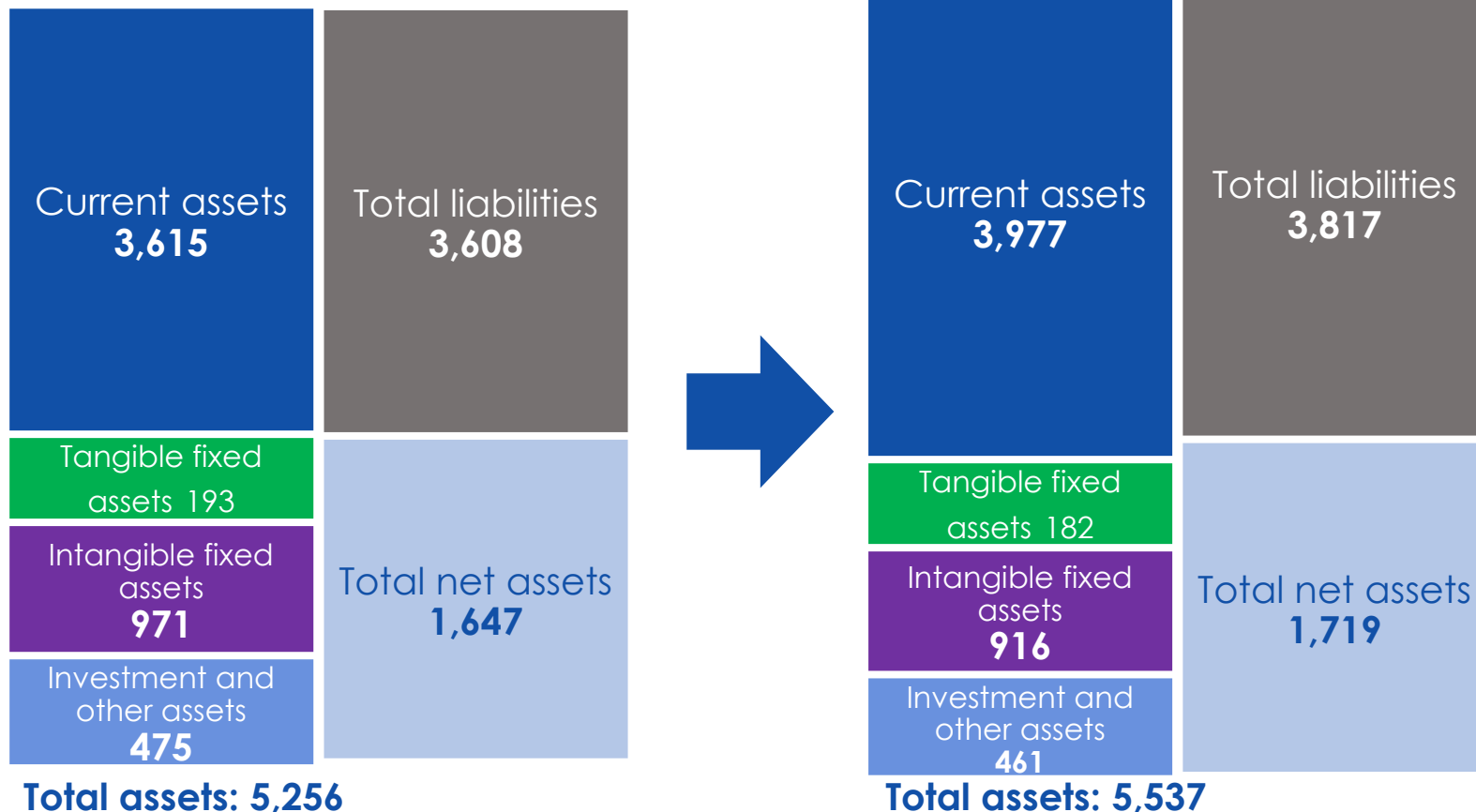


Consolidated Balance Sheets

As of December 31, 2016

As of June 30, 2017

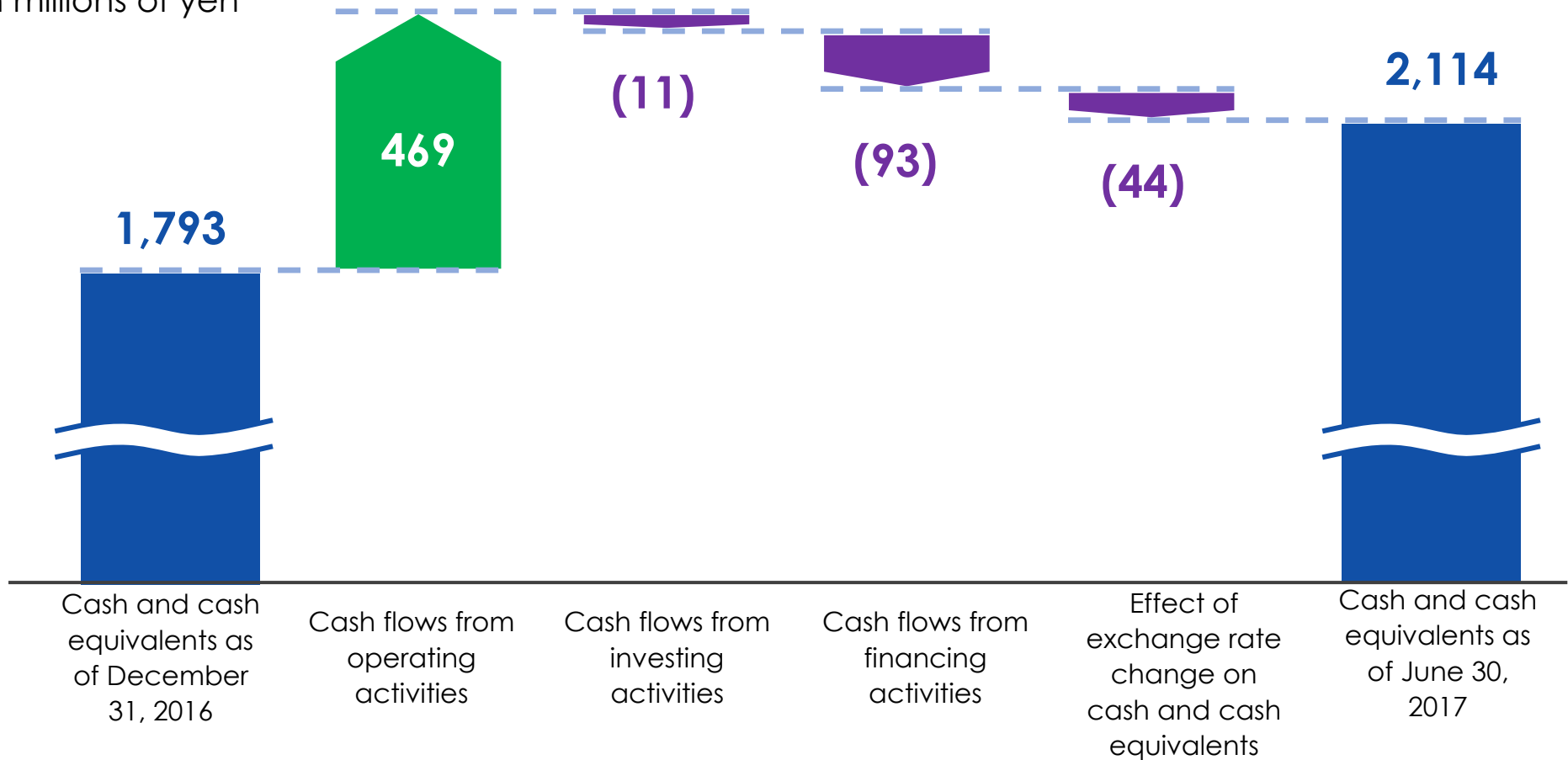
In millions of yen



- An increase in current assets from December 31, 2016, to June 30, 2017, reflected an increase of 320 million yen in cash and deposits.
- An increase in total liabilities reflected an increase of 244 million yen in advance received.

Analysis of Consolidated Cash Flows

In millions of yen



- The SIOS Group had **sufficient cash and cash equivalents** as of June 30, 2017, thanks to substantial cash flows collected from operating activities.

Open System Infrastructure Business



Net sales

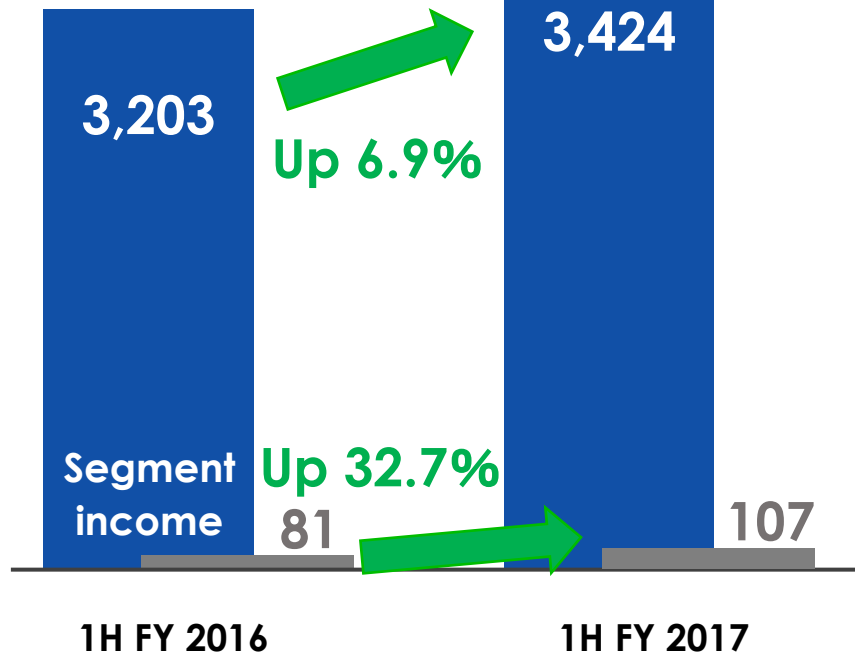
3,424 million yen, up 6.9% year on year

Segment income

107 million yen, up 32.7% year on year

In millions of yen

Net sales



Net sales

- **Increased sales** of LifeKeeper*, one of our core products
- **Increased sales** of OSS* support services and related products
- **Increased sales** of software products sourced from Red Hat, Inc.*

- **Achieved record sales** for the first half of a fiscal year

Segment income

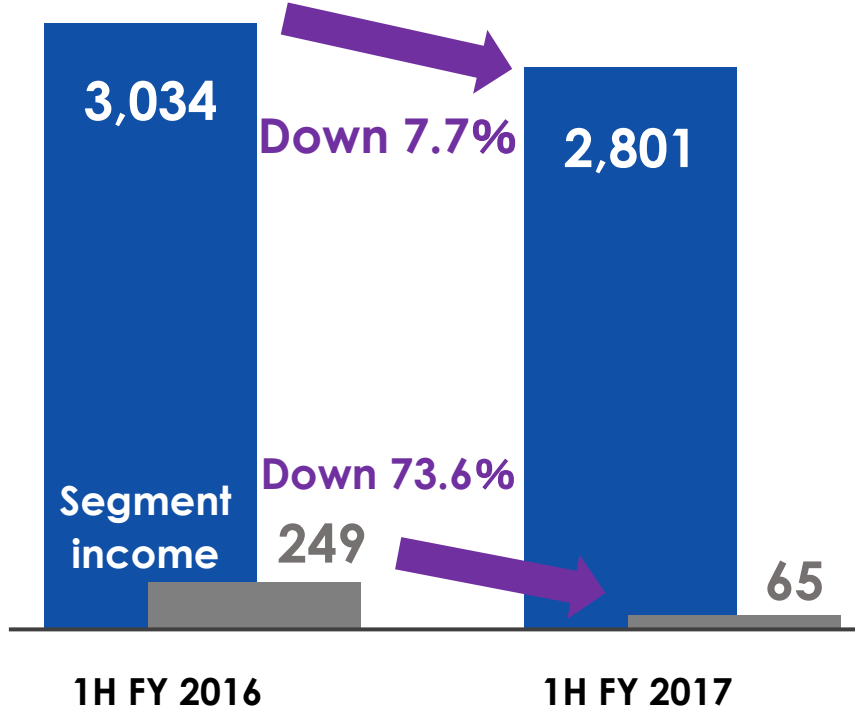
- **Achieved an increase in segment income** primarily due to increased sales of the profitable LifeKeeper

Note: See the Glossary on Page 26 for descriptions of terms with an asterisk.

Application Business

Net sales	2,801 million yen, down 7.7% year on year
Segment income	65 million yen, down 73.6% year on year

In millions of yen
Net sales



Net sales

- **Increased sales** of software applications for MFPs*
- Sales of software applications for financial institutions **declined substantially** year on year, primarily because the majority of their sales was projected to shift to the second half of the fiscal year.

Segment income

- A substantial decline in sales of software applications for financial institutions **drove** the segment income in the application business **down**.



Initiatives for Sustainable Growth

- Beyond the 20th Anniversary of SIOS -

Beyond the 20th Anniversary of SIOS



2017 marks the 20th anniversary of SIOS Technology, Inc., which was originally founded under the trade name Ten Art-ni Corporation **in 1997**. At the time, Microsoft Windows, UNIX, and mainframe OSs* were the mainstream OSs, and **Linux** was considered a variant for hobbyists.



Nevertheless, we saw the great potential of Linux to go beyond the hobbyist community and into the mainstream business community and set out to promote Linux in a variety of business applications.

Today, Linux has become **one of the most widely used OSs in the world**, finding its way into millions of **smartphones running on Google's Android**.

Our business with **open source software**, which includes Linux, has grown to become one of the pillars that sustain the growth of the SIOS Group.

The drive to **make the impossible possible** is at the heart of our actions. As we celebrate our 20th anniversary, we have a new corporate mission: **Making the impossible possible for the people of the world.**

The SIOS Group pursues innovative solutions to resolve issues affecting people and to contribute to a better society.



Notes: Linux is a trademark of Linus Torvalds.

All other company names and product names in this document are registered trademarks or trademarks of their respective companies.

Mission Statement of the SIOS Group



**Making the impossible possible
for the people of the world**

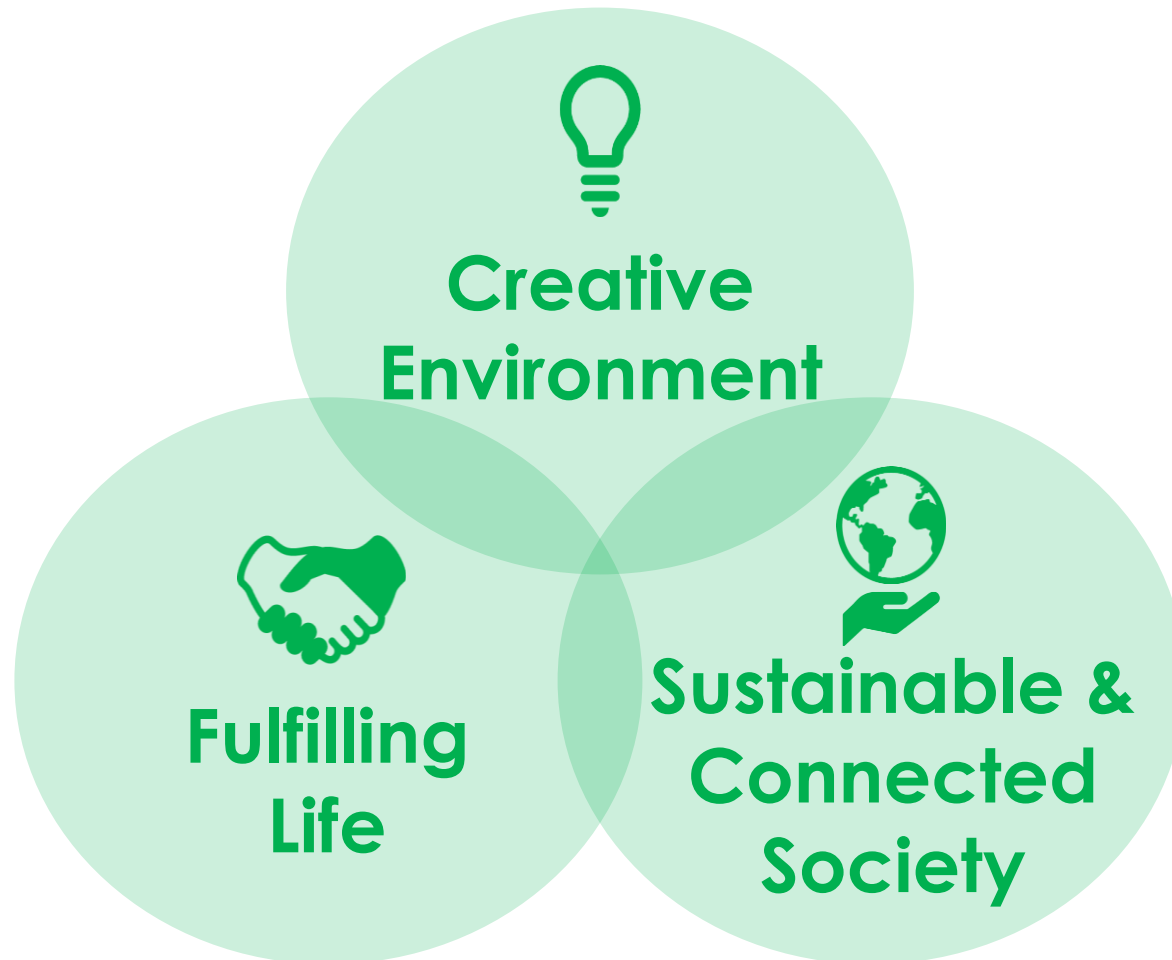


**The SIOS Group pursues innovative solutions
to resolve issues affecting people and to contribute
to a better society.**

The Better Society That SIOS Helps Build



SIOS contributes to a better society through its business growth



The Better Society That SIOS Pursues



Creative Environment

People focus on creative work while leaving mundane and repetitive tasks to machines.

Predict system problems



Identify causes of problems and assist in solving them



SIOS iQ*

Enable people to leave mundane and repetitive tasks to AI and use information provided by AI to focus on higher-level tasks that require human judgment and intelligence.

Data collection
Data processing



Data store
Data mart



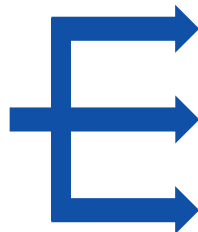
Data analysis
Operation and maintenance



Integration of big-data infrastructure

Analyze a vast amount of information and present it in a visualized format that is easy to understand and in a manner that serves as a basis for creating new business opportunities.

SIOS
OSS



Lower cost

Latest technology

Flexibility

OSS

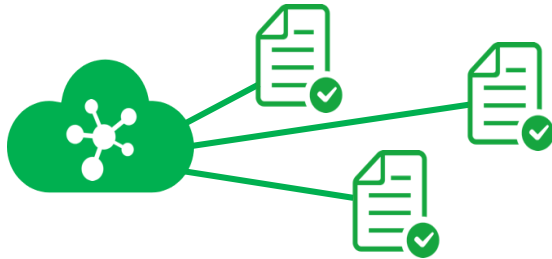
Provide business users with greater options and flexibility in selecting and implementing software applications, reducing their dependence on a small number of established software developers.

The Better Society That SIOS Pursues



Fulfilling Life

Everyone has the opportunity to develop their skills and reach their full potential in a comfortable and supportive workplace that promotes their physical and mental health.



Gluegent cloud services*

Provide secure, easy-to-use cloud-based services that assist corporate clients in building a workplace in which employees can achieve their full potential.

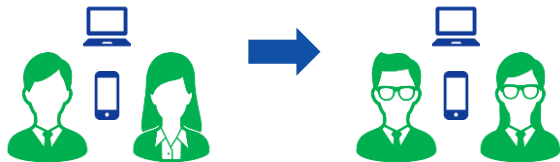


Single sign-on solutions

Allow a user to use a single username and password to safely access multiple applications in a corporate environment, eliminating the need to remember multiple usernames and passwords.

Employees self-assess their mental state

Managers monitor their employees' mental state



Willysm*

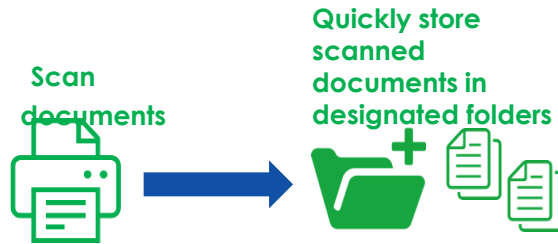
Visualize and enhance each employee's mental state so as to achieve greater communication and productivity in the workplace.

The Better Society That SIOS Pursues



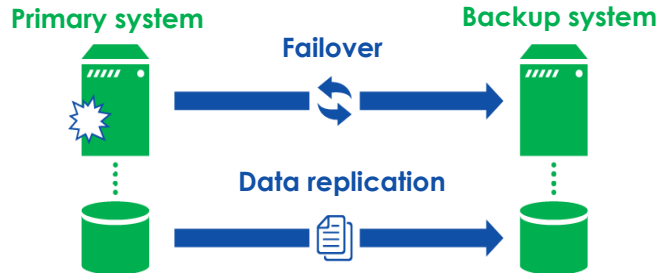
Sustainable & Connected Society

Enable people to live in a safe and secure environment.
Make efficient and responsible use of natural resources.
Create dynamic and thriving communities.



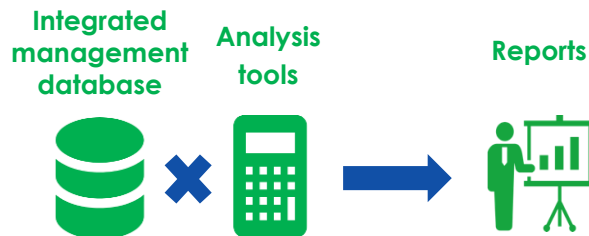
Speedoc*

Convert paper documents into digital files to achieve significantly greater productivity in sharing, storing, and reusing information as well as to reduce paper use to save finite natural resources and preserve the environment.



LifeKeeper, DataKeeper

Minimize downtime of enterprise information systems and keep them running in the event of a disaster to ensure continuity of mission-critical operations in society.



Ensure safe and secure financial transactions

Provide software applications that ensure safe and secure transactions at banks, securities companies, and insurance companies, and contribute to community development through regional financing.

Driving Forces Behind Our Mission

3 driving forces behind SIOS's mission to pursue a better society



Technology

SIOS continues to refine and upgrade its proprietary technologies to venture into new territories.

People

SIOS attracts employees with diverse values and professional backgrounds and helps them reach their full potential.

Culture

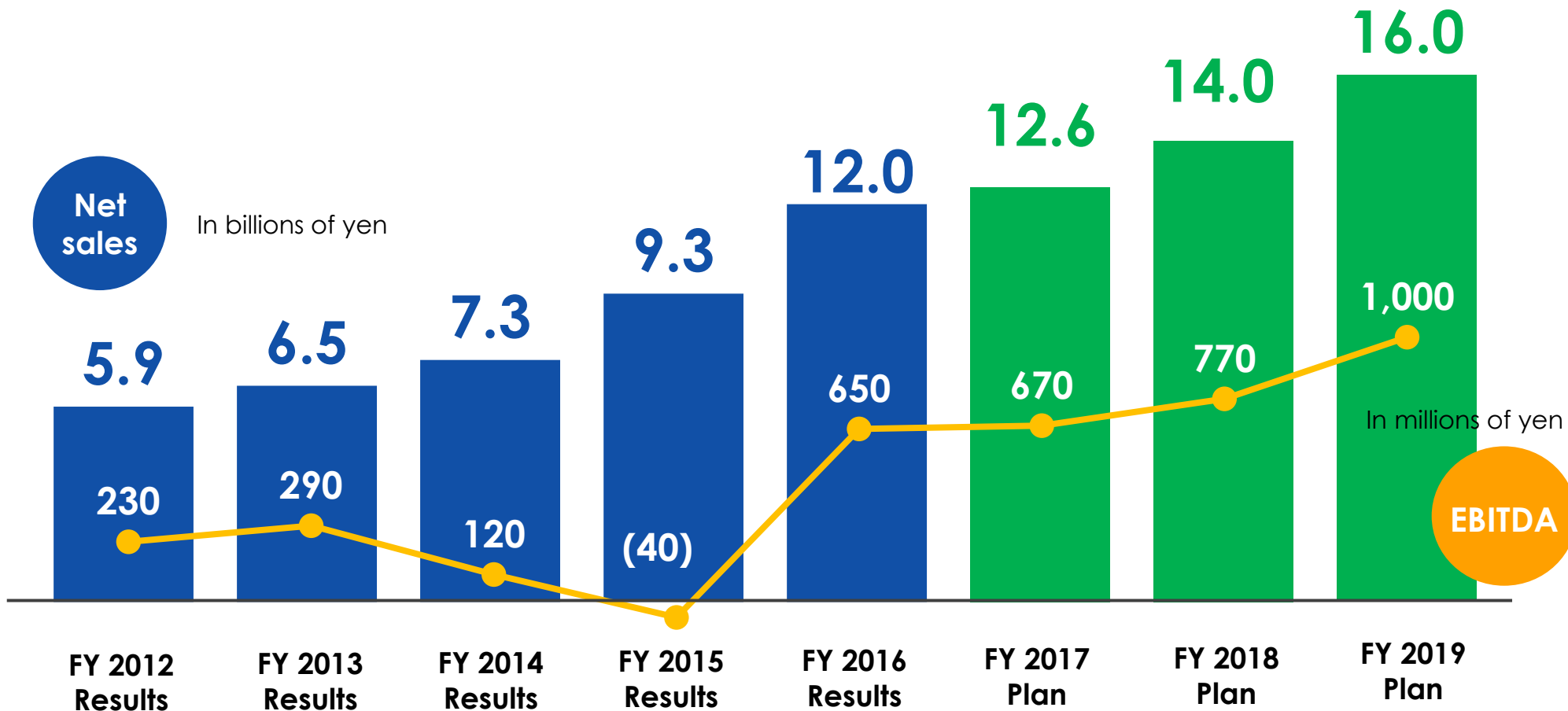
SIOS fosters a culture that encourages employees to be independent-minded and demonstrate the pioneering spirit of an entrepreneur who creates trends, not simply follows them.



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



Consolidated Business Forecasts for Fiscal Year Ending December 31, 2017



	Results for the 6 months ended June 30, 2017 (in millions of yen)	Forecasts for fiscal year ending December 31, 2017 (in millions of yen)	Percentage of achievement
Net sales	6,226	12,600	49.4%
Operating income	173	500	34.6%
Ordinary income	184	480	38.3%
Profit attributable to owners of parent	89	320	27.8%
EBITDA	260	670	38.8%

Payment of Dividends for Fiscal Year Ending December 31, 2017



**Annual dividends for
fiscal year ended
December 31, 2016
(Declared)**

We chose, instead of paying dividends, to invest in **research and development** in FY 2016 and increase our efforts to implement the medium-term business plan.

**Annual dividends for
fiscal year ending
December 31, 2017
(Forecast)**

Based on the business forecasts for fiscal year ending December 31, 2017 outlined in the previous page, we project payment of a dividend of 5.00 yen per share for FY 2017.

	18th term Fiscal year ended December 31, 2014	19th term Fiscal year ended December 31, 2015	20th term Fiscal year ended December 31, 2016 (Declared)	21st term Fiscal year ending December 31, 2017 (Forecast)
Annual dividends per share	5.00 yen	0.00 yen	0.00 yen	5.00 yen

Glossary



Page	Term	Description
12	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
12	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.
12	Software products sourced from Red Hat, Inc.	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
13	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.
15	OS (operating system)	A basic software program that manages a computer's hardware and software resources.
18	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.
19	Gluegent cloud services	Services that assist corporate clients in using the cloud to achieve greater operational efficiency, such as Gluegent Flow, a cloud-based workflow management system.
19	Willysm	A software application that monitors employees' mental state to manage stress in the workplace and enhance their motivation.
20	Quick Scan and Speedoc	Software applications that convert paper documents into digital files using an MFP scanner.

Cautionary Statement

Forward-looking statements about the Company's business outlook contained in this document reflect 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.

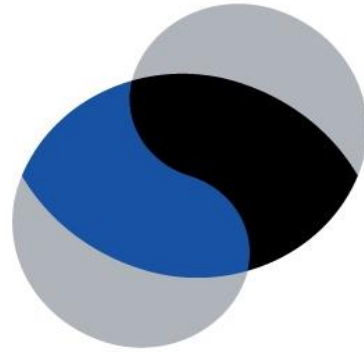
For inquiries about this document

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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