

Financial Results for Fiscal Year Ended December 31, 2017

February 5, 2018

SIOS Corporation

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

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Summary of Business Results for FY 2017

Consolidated Financial Results for FY 2017



(In millions of yen)

	FY 2016 Results	FY 2017 Results	Change	% Change
Net sales	12,080	12,470	+390	+3.2%
Gross profit	4,367	4,386	+19	+0.4%
Operating profit	474	320	-153	-32.4%
Ordinary profit	389	326	-63	-16.3%
Profit (loss) attributable to owners of parent	254	(587)	-841	—
EBITDA	653	497	-156	-23.9%

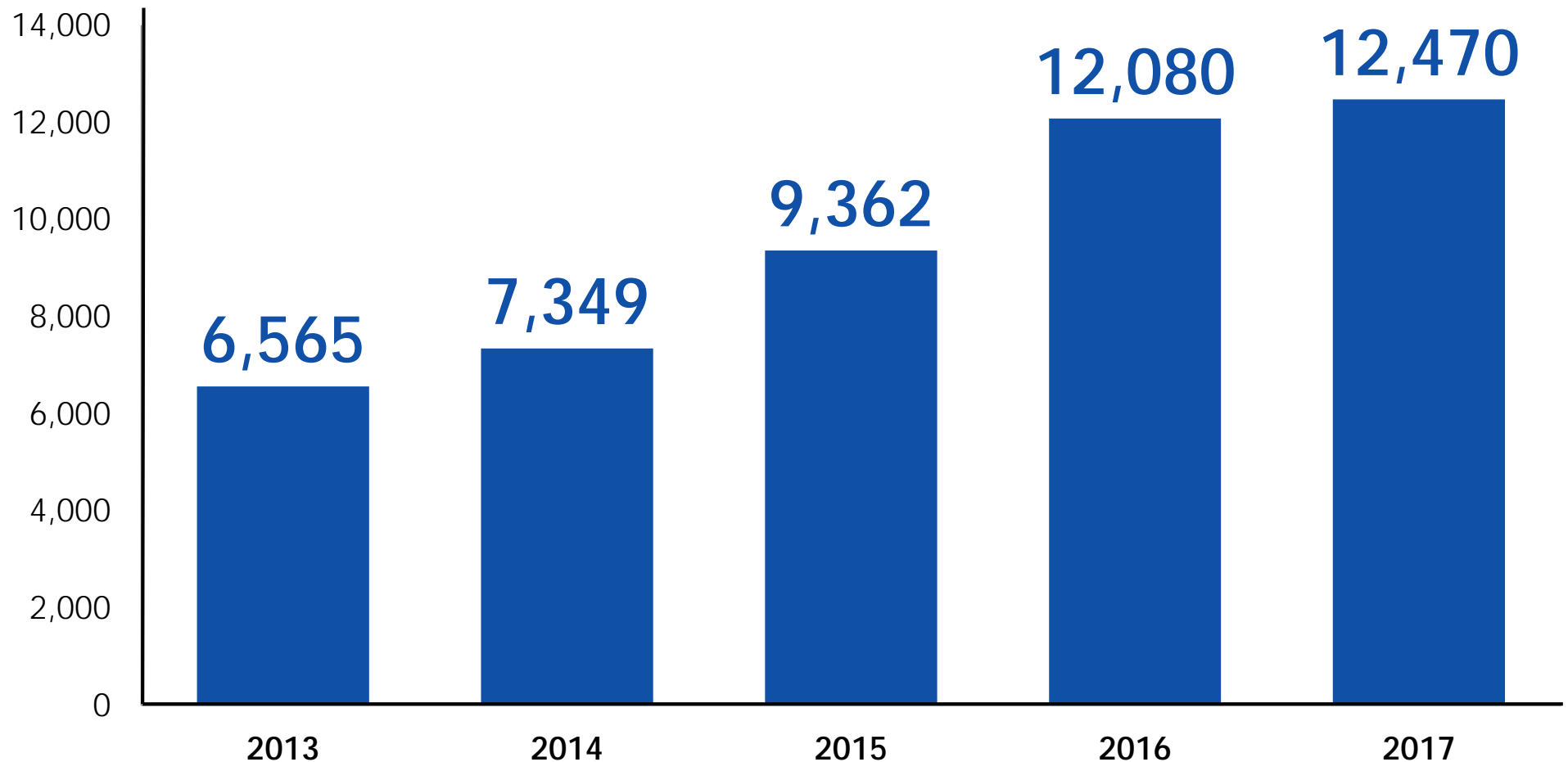
*EBITDA: Operating profit + Depreciation + Amortization of goodwill

Consolidated Net Sales over the Past 5 Fiscal Years



Record sales achieved in FY 2017

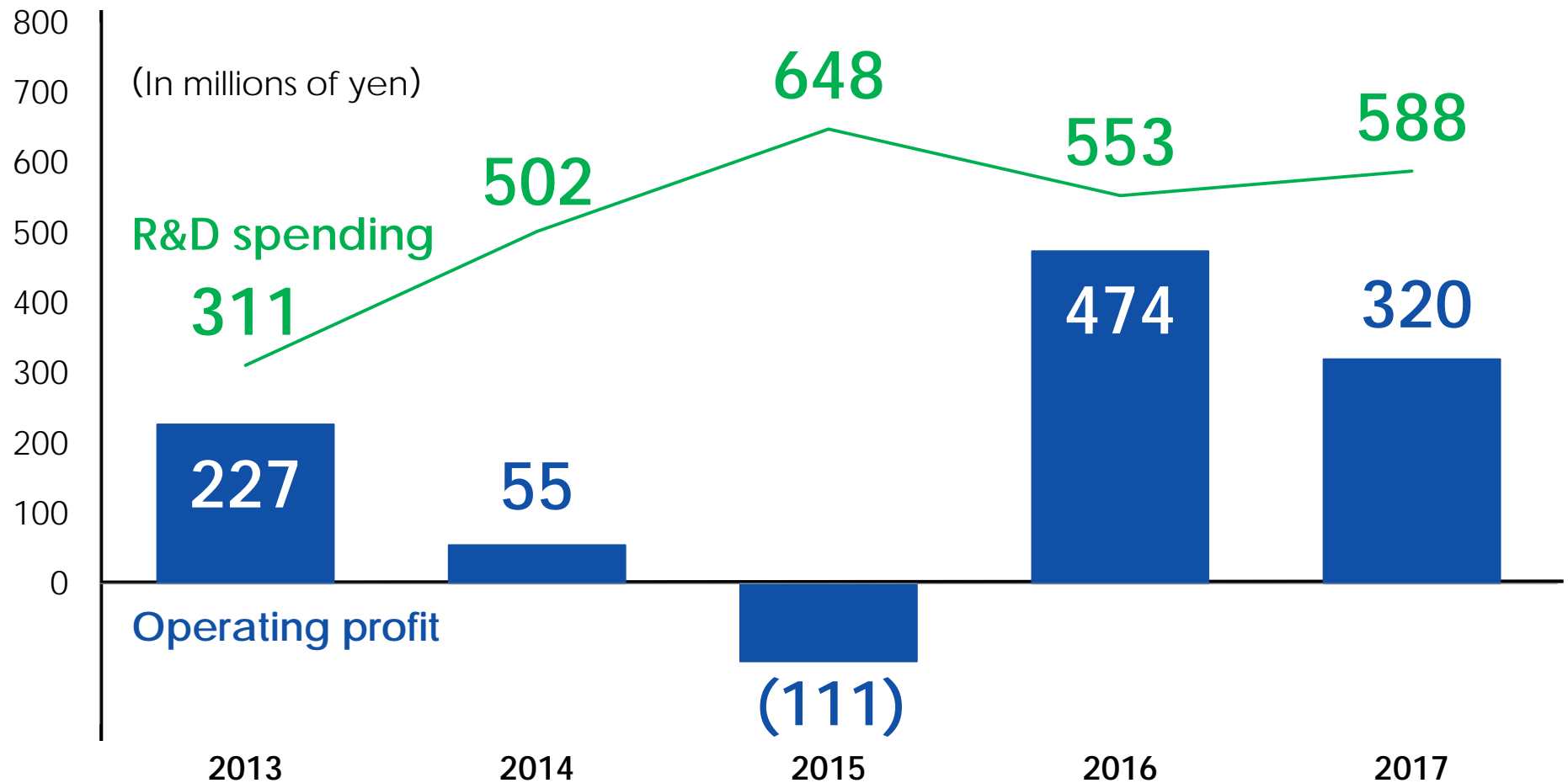
(In millions of yen)



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



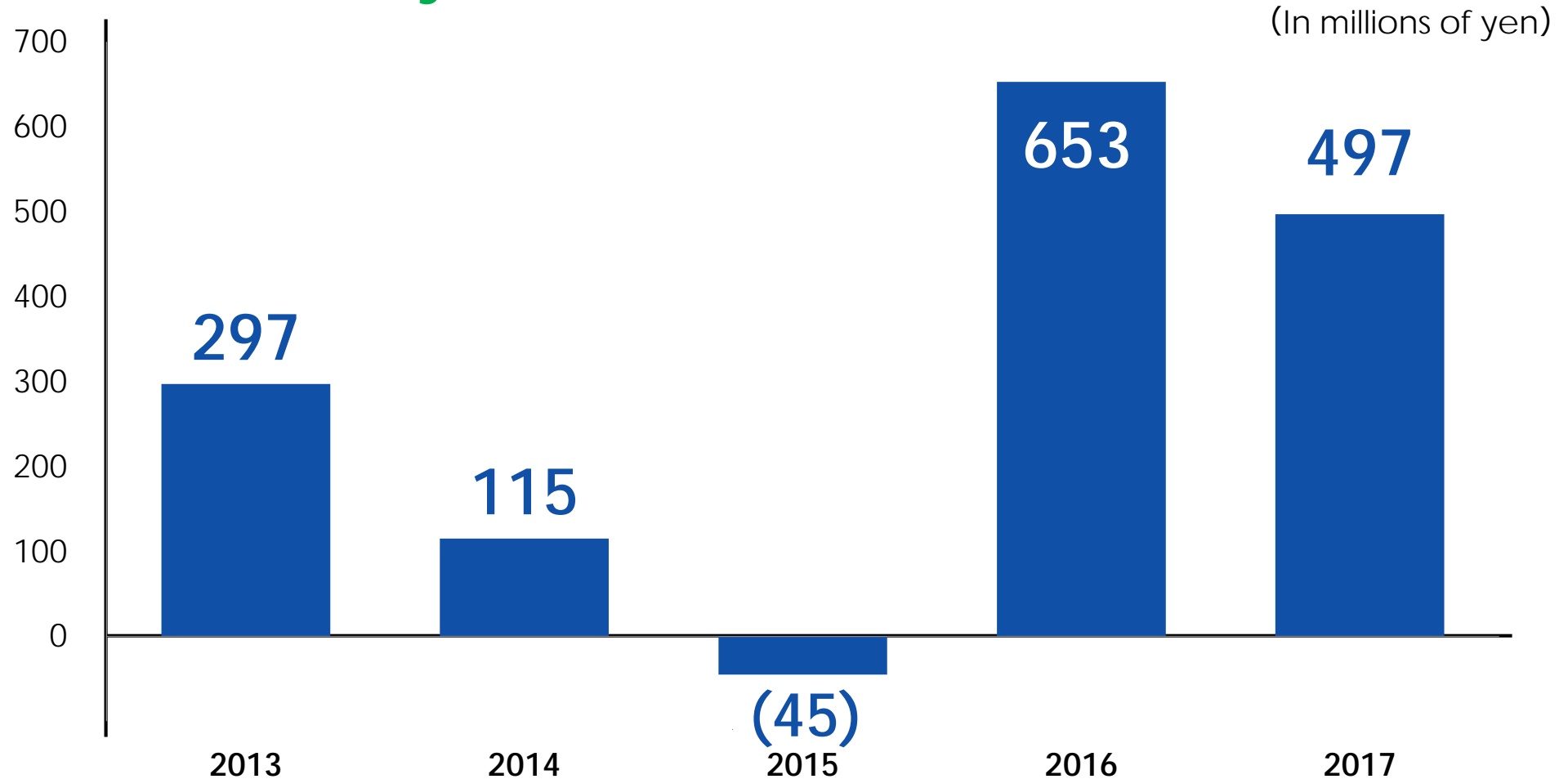
- Operating profit for FY 2017 declined by 153 million yen from the previous year.
- R&D spending has remained at a high level.



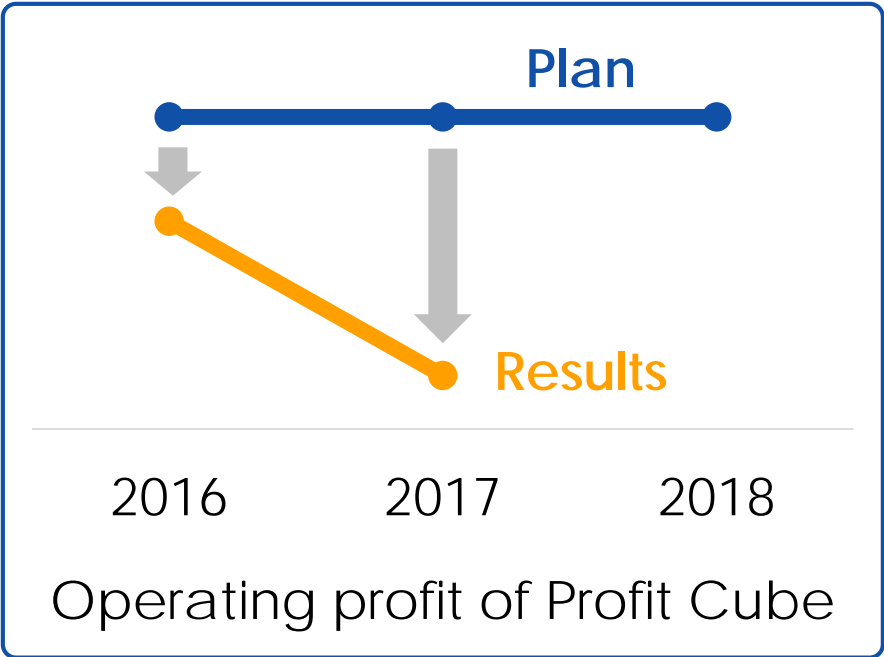
Consolidated EBITDA over the Past 5 Fiscal Years



EBITDA for FY 2017 down by 156 million yen from the year before



Impairment Loss on Goodwill and Others for Profit Cube



When the Company acquired Profit Cube Inc. (PCI) in September 2015, we did not anticipate that the Bank of Japan would implement a **negative interest-rate policy**, which would affect the business of financial institutions, the primary clients of PCI.



Financial institutions have been postponing capital investments.

Background

Changing business environments forced PCI to underperform substantially against its business plan formulated when the Company acquired it.



Based on PCI's business performance in recent months, the Group recognized an **impairment loss** on the goodwill and assets related to customers that the Company had recorded for PCI at the time of acquisition.

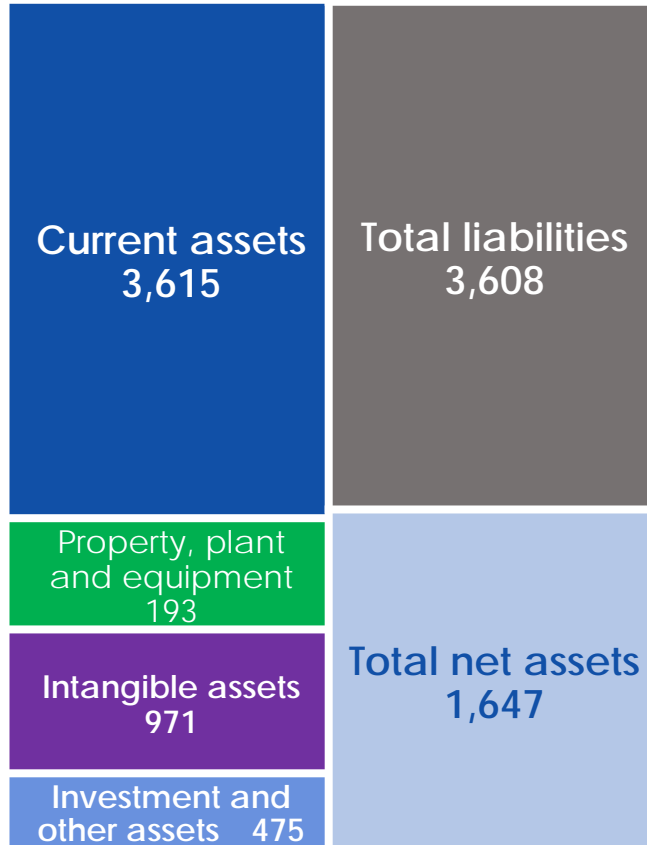
Recognized impairment loss

Type of assets	Amount
Goodwill	667 million yen
Assets related to customers	133 million yen

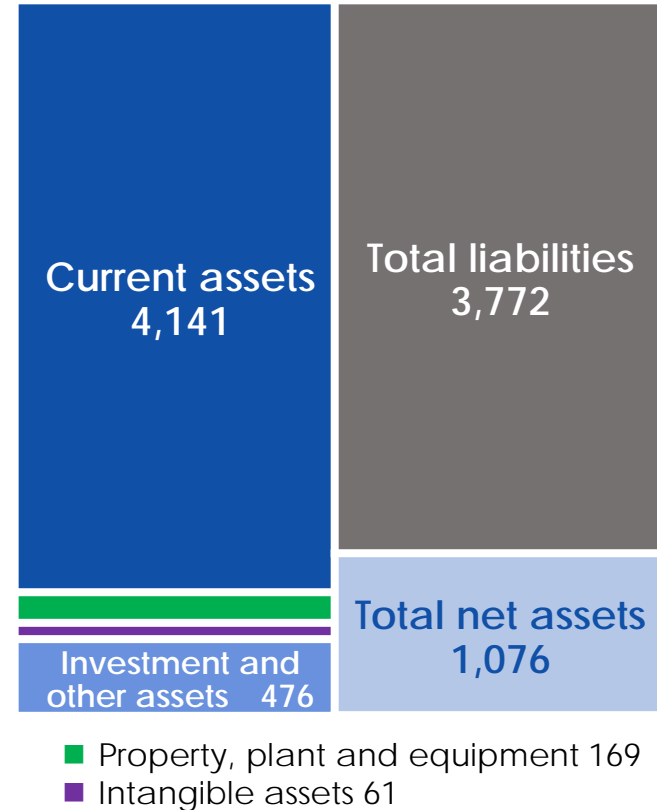
Consolidated Balance Sheets

(In millions of yen)

As of December 31, 2016

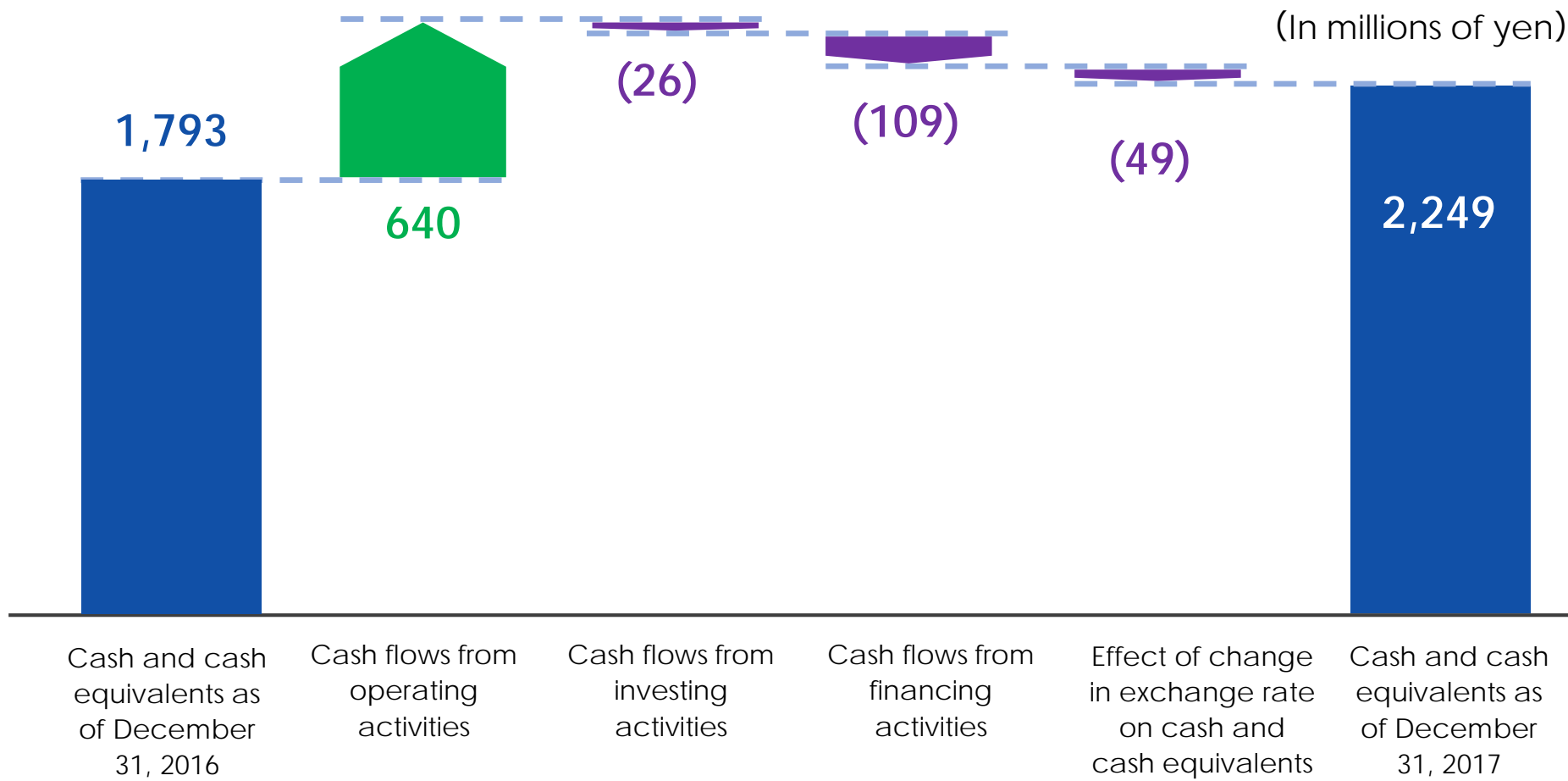


As of December 31, 2017



- Current assets: An increase of 455 million yen in cash and deposits
- Intangible assets: A decrease of 752 million yen in goodwill

Analysis of Consolidated Cash Flows

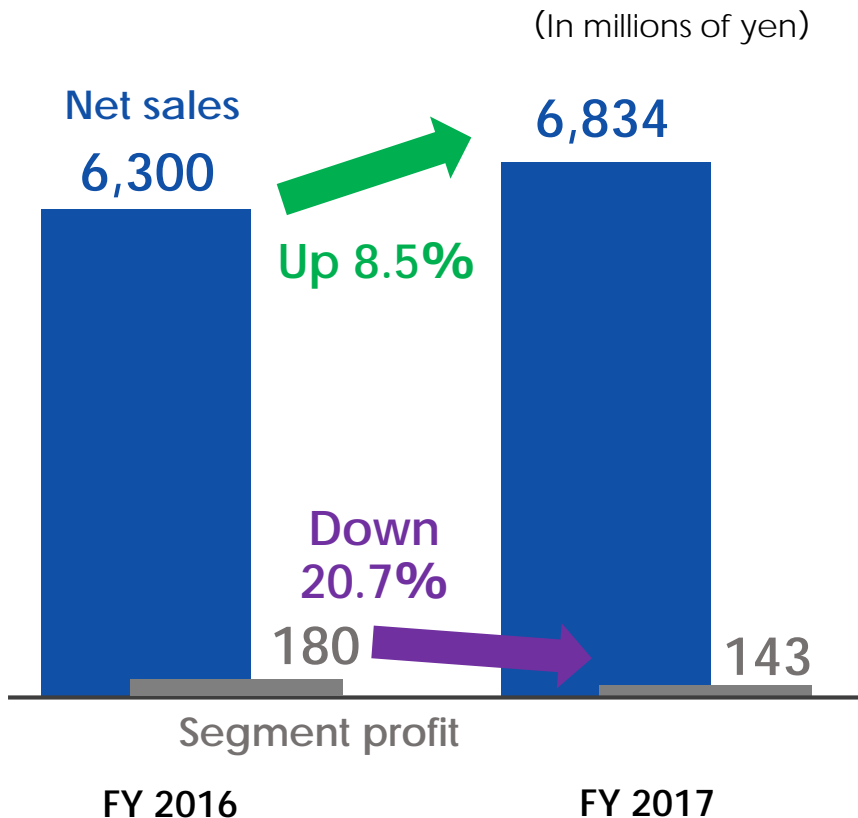


- The SIOS Group had **sufficient cash and cash equivalents** as of December 31, 2017, thanks to substantial net cash provided by operating activities.

Open System Infrastructure Business



Net sales	6,834 million yen, up 8.5% year on year
Segment profit	143 million yen, down 20.7% year on year



Net sales

Japan

- **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.*

Overseas

- Achieved a **substantial increase in net sales** in the Americas

Segment profit

- A decline in gross profit ratio of products sold and stepped-up advertising spending resulted in a **decrease in segment profit**.

Note: See the Glossary on Page 34 for descriptions of terms with an asterisk.

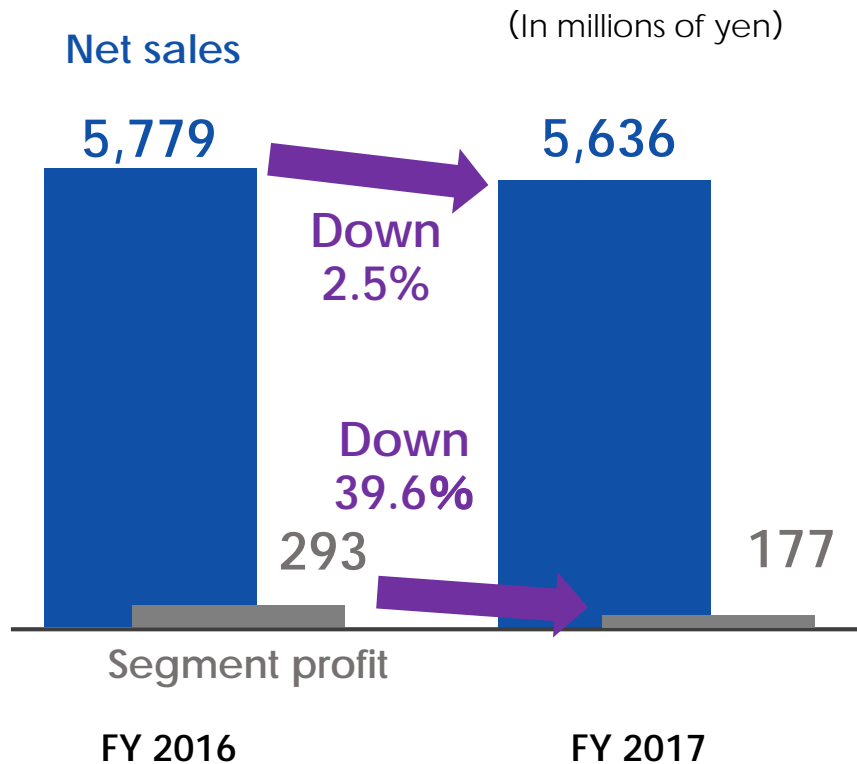
Application Business

Net sales

5,636 million yen, down 2.5% year on year

Segment profit

177 million yen, down 39.6% year on year



Net sales

- **Increased sales** of software applications for MFPs*
- **Increased revenue** from providing support for system development and implementation
- **Lost substantial sales** of software applications for financial institutions due to a delay in receiving orders from customers

Segment profit

A decline in segment profit resulted from:

- Weak sales of high-margin software applications for financial institutions
- Slimmer profit margin on large projects to support system implementation



Key Medium-Term Strategic Initiatives and Progress Achieved in FY 2017

3 Key Medium-Term Strategic Initiatives

1 Expand into new business segments including Fintech

2 Continue to invest in research and development

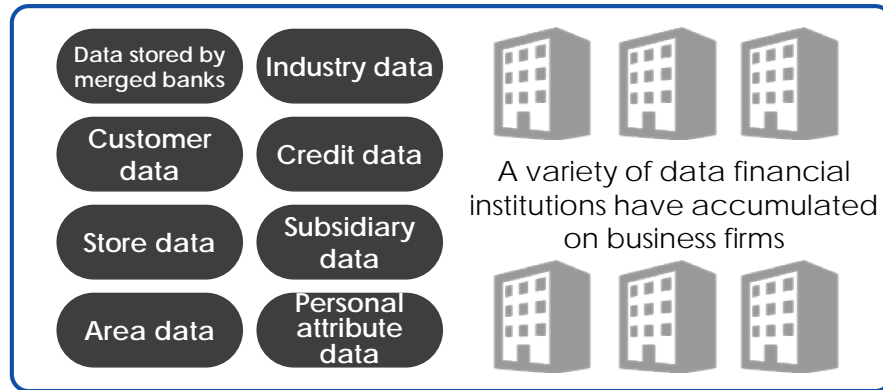
3 Become more competitive in core businesses

(i) Expanding into new business segments including Fintech

**Patents obtained
on technologies incorporated into
a profit-management system
for financial institutions**

(i) Expanding into new business segments including Fintech

Profit Cube obtained patents on proprietary technologies incorporated into its profit-management system for financial institutions in May and November 2017



Based on:

- Industries
- Business sizes
- Business areas

Financial institutions can **make the best use of their accumulated data.**



- The patented system enables financial institutions to **analyze profitability more flexibly** than previous systems do.
- The system enables financial institutions to **manage their profitability** based on their customers' industries, business sizes, and areas.
 - ➔ Financial institutions can **make the best use of** a variety of data they have accumulated.
- With an expanded patent portfolio comprising the two newly acquired patents and the one acquired in March 2016, the **IP value** of our proprietary profit-management system has become more robust.

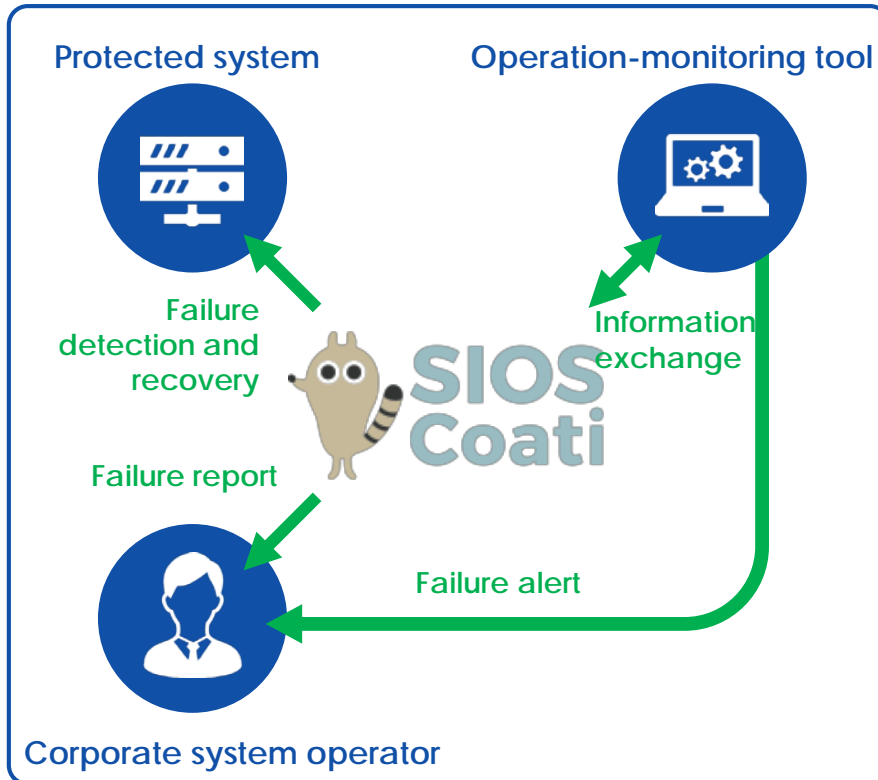
(ii) Continuing to invest in research and development

SIOS Coati, a public-cloud-based service, rolled out

SIOS iQ received international recognition for innovation

(ii) Continuing to invest in research and development

SIOS Technology rolled out SIOS Coati, a public-cloud-based service, in February 2017



Automatic monitoring and disaster recovery reduce operation costs

- **Automatically** tracks fluctuating server instances
➔ Continuously monitors a system regardless of its configuration on AWS*
- Detects a system failure and **automatically returns the system to its normal state**
- Provides **detailed failure reports** to assist corporate users in identifying root causes of failures and implementing preventive measures



Eases the workload of corporate system operators and **reduces the cost of operating a system hosted on a public cloud**

(ii) Continuing to invest in research and development

SIOS iQ received international recognition for demonstrating technological innovation



VMworld 2017, an annual international conference hosted by VMware

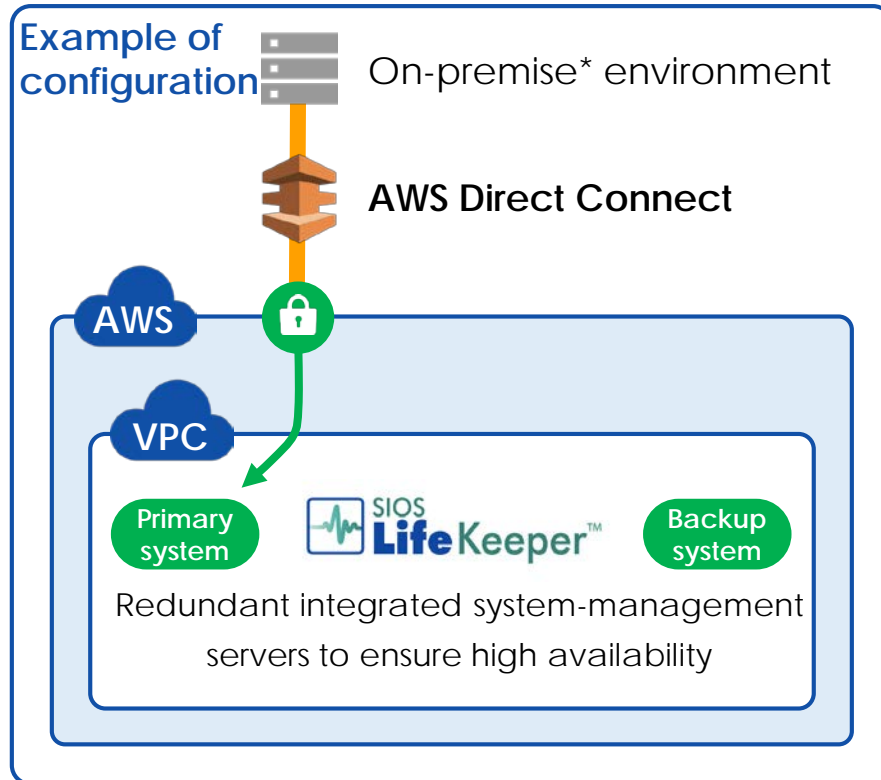
SIOS iQ was among the Best of Show finalists.

(iii) Becoming more competitive in core businesses

LifeKeeper for Linux v9.2 released

(iii) Becoming more competitive in core businesses

LifeKeeper for Linux v9.2 released in October 2017



Feature enhancements

- Greater compatibility with AWS
- Now working with HCI
- Now working with SAP



Respond to a trend in which more and more business firms have been migrating their mission-critical systems to cloud environments



Key Initiatives for FY 2018

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

Profit Cube



(i) Expanding into new business segments including Fintech

(ii) Continuing to invest in research and development

(iii) Becoming more competitive in core businesses

Establish a new business model

Assist financial institutions in meeting regulatory guidelines, such as the new Supervisory Approaches, imposed by the Japanese Financial Services Agency

Take advantage of business opportunities offered by financial institutions' stepped up efforts to ensure the transparency of their business, to make their operations more efficient and effective, and to adhere to the proposed IRRBB* framework

Offer cloud-based services

Achieve a more steady revenue stream by shifting from a transactional business model to a recurring-revenue business model that offers cloud-based services to financial institutions looking to migrate their mission-critical systems to cloud environments

Add feature enhancements to existing software products

Incorporate AI technologies into existing software products

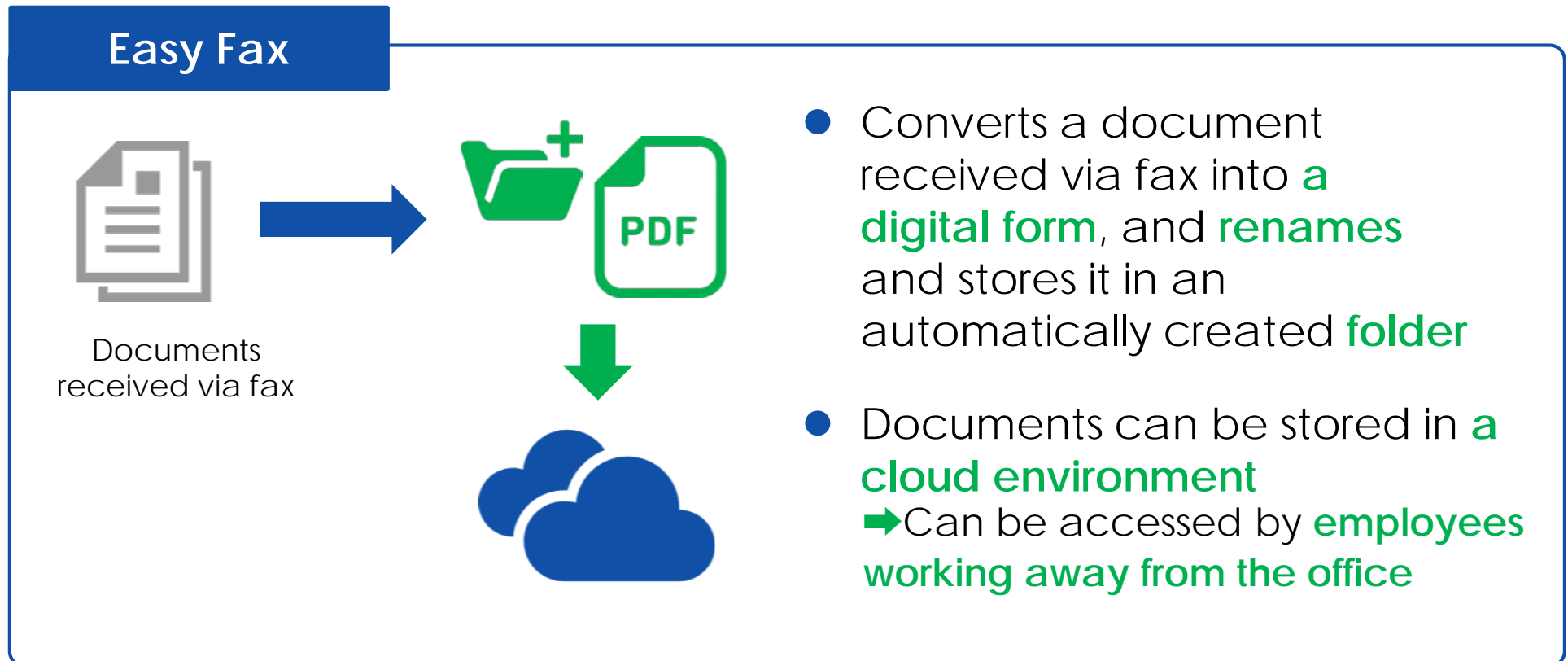
Paperless Fax Solution

(i) Expanding into new business segments including Fintech

(ii) Continuing to invest in research and development

(iii) Becoming more competitive in core businesses

A cloud-based document-management solution assists business firms in implementing more flexible working arrangements for employees



LifeKeeper + SIOS iQ



(i) Expanding into new business segments including Fintech

(ii) Continuing to invest in research and development

(iii) Becoming more competitive in core businesses

Incorporate SIOS iQ's machine-learning capabilities into LifeKeeper to assist business firms in migrating their mission-critical systems to cloud environments

LifeKeeper + SIOS iQ



SIOS iQ

Take LifeKeeper's already well-received **failure-prevention and cost-saving solutions** to a yet higher level



Medium-Term Sales and Profit Plan, and Business Forecasts for FY 2018

Mission Statement of the SIOS Group

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

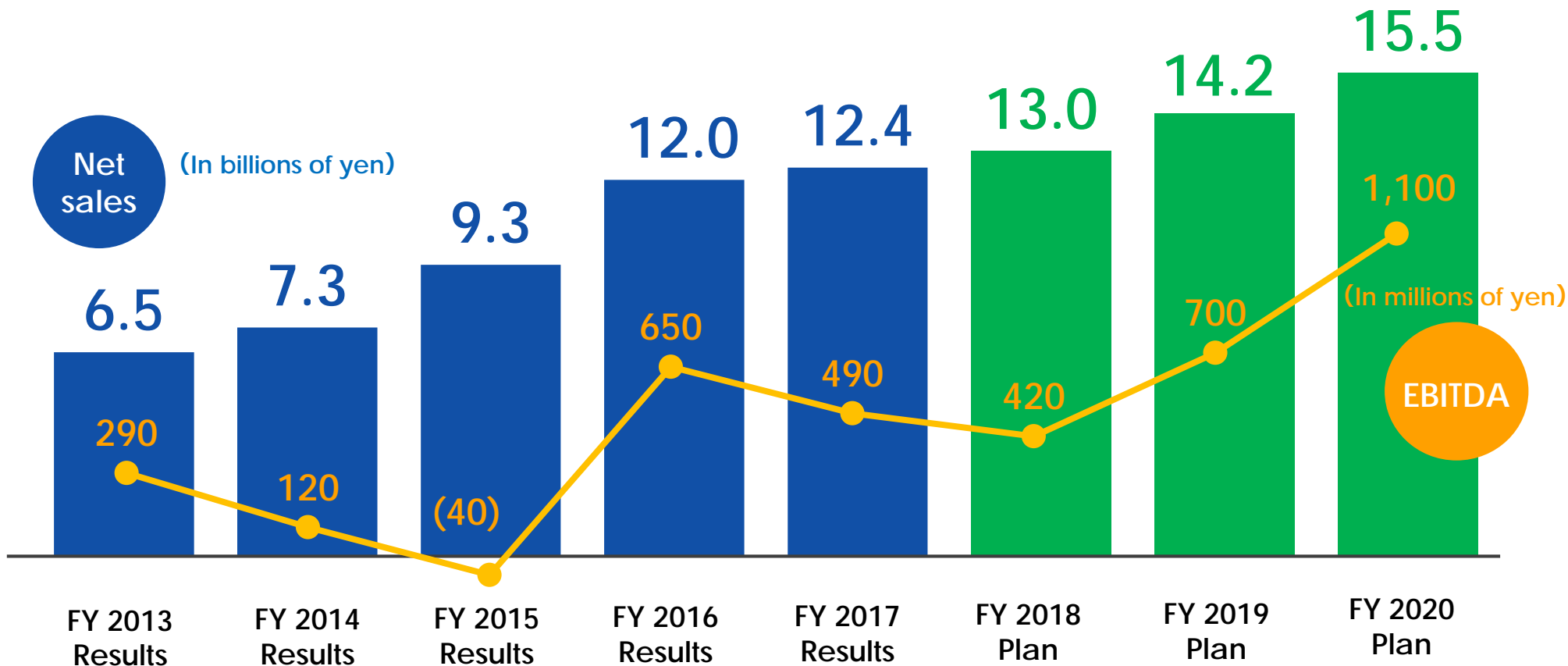
**SIOS operates its businesses
to pursue the three aspects of a better society**



SIOS lays the foundation step by step to fulfil its mission

Medium-Term Sales and Profit Plan

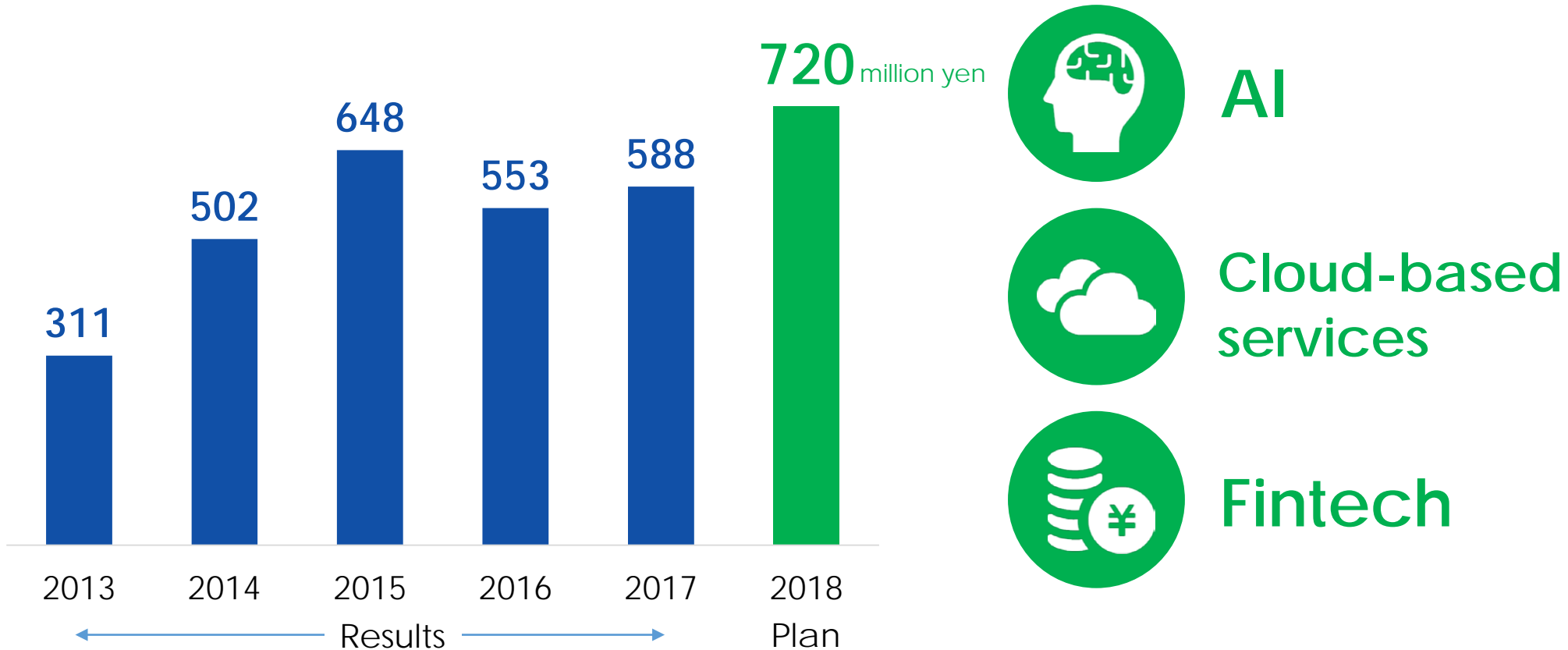
Over the next three years, we will lay the groundwork for future growth and strive to achieve net sales of 15.5 billion yen and EBITDA of 1.1 billion yen in FY 2020



Consolidated R&D Spending

Consolidated R&D spending

Focused fields



Consolidated Business Forecasts for FY 2018



- Achieve net sales of 13 billion yen to mark **the eighth consecutive year of growth**
- Drive **greater efficiency in business operations** to achieve an operating profit of 330 million yen, even with **an increase in R&D spending** to ensure medium- and long-term business growth

(In millions of yen)

	FY 2017 Results	FY 2018 Forecasts	Change	% Change
Net sales	12,470	13,000	+530	+4.2%
Operating profit	320	330	+10	+2.8%
Ordinary profit	326	330	+4	+1.1%
Profit (loss) attributable to owners of parent	(587)	260	+847	—
EBITDA	497	420	-77	-15.6%

Cash Dividends

Proposed dividends for FY 2017

As announced on December 22, 2017, the Company will not pay any year-end cash dividends for FY 2017 as a result of having posted a loss for the year.

We 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.

	21st term Fiscal year ending December 31, 2017 (Forecast)	21st term Fiscal year ended December 31, 2017 (Proposed)
Annual cash dividends per share	5.00 yen	0.00 yen

About SIOS Corporation



SIOS is Innovative Open Solutions

SIOS Corporation 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	470 on a consolidated basis (as of December 31, 2017)	
Main consolidated subsidiaries	Japan: SIOS Technology, Inc. Gluegent, Inc. Keyport Solutions, Inc. Profit Cube Inc.	U.S.A.: SIOS Technology Corp.



Glossary



Page	Term	Description
11	LifeKeeper	A failover software product that automatically switches a failed primary server to a backup server.
11	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.
11	Software products sourced from Red Hat, Inc.	Open-source software products developed by Red Hat, Inc., a provider of open-source solutions.
12	Software applications for multifunction printers (MFPs)	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.
14	Fintech	An emerging technology for facilitating innovations in the financial sector.
18	Cloud	Service that enables computing over the Internet.
18	AWS (Amazon Web Services)	Cloud-based services provided by Amazon.com, Inc.
21	On-premise	Implementing and operating an information system with enabling hardware installed on the premises of an operating business firm. A concept opposite to cloud solutions.
24	IRRBB	Interest Rate Risk in the Banking Book. The Japanese Financial Services Agency plans to impose tighter regulation on financial institutions' adherence to the IRRBB framework.

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 Corporation 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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