Financial Results for the 6 Months Ended June 30,2018

July31,2018

SIOS ,Corp.

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

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I

Summary of Business Results for the 6 Months Ended June 30 ,2018

Consolidated Financial Results
for the 6 Months Ended June 30,2018

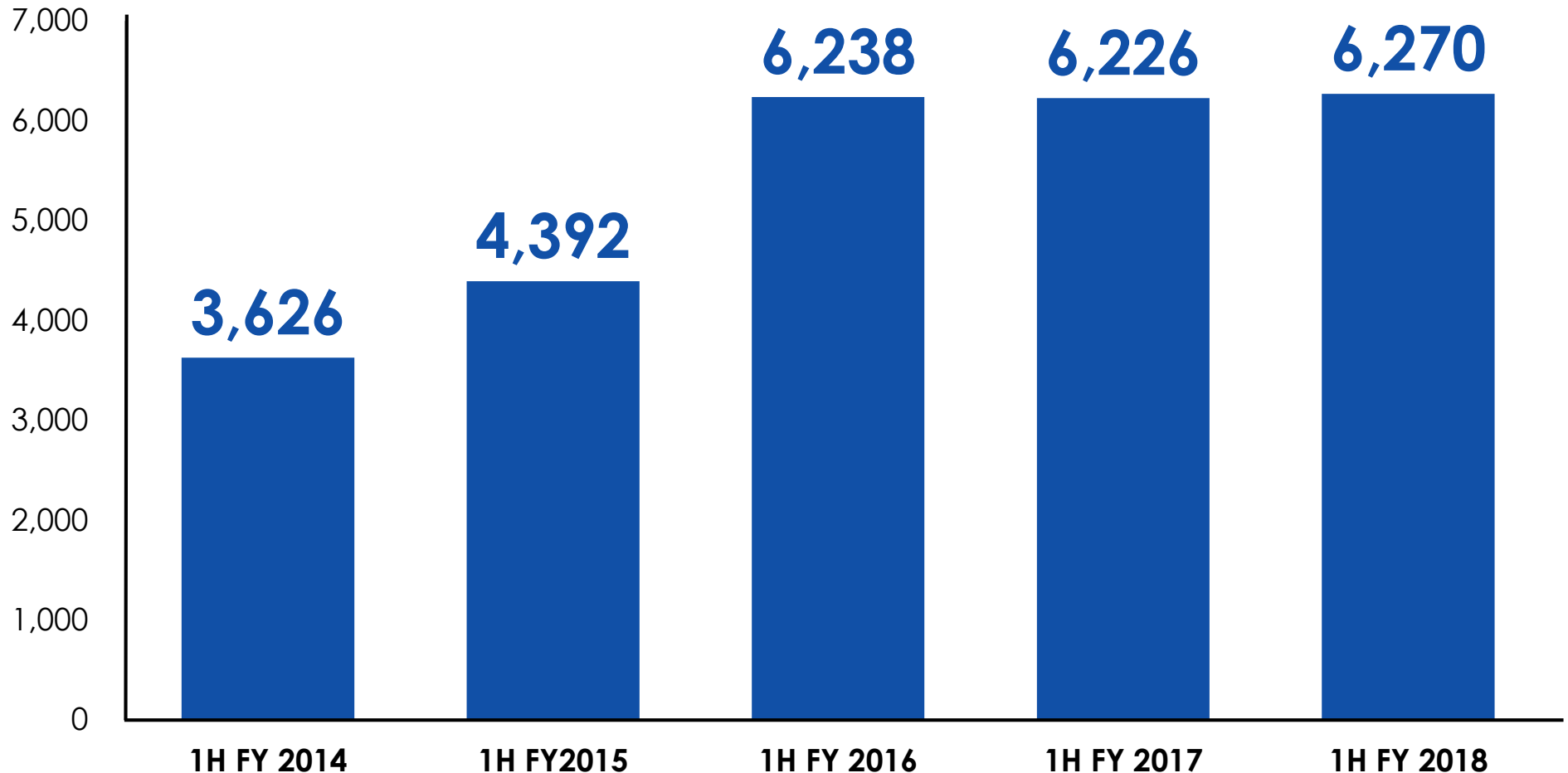| (In millions of yen)	Results for the 6 months ended June 30,2017	Results for the 6 months ended June30,2018	Change	%Change
Net Sales	6,226	6,270	+44	+0.7%
Gross profit	2,162	2,056	△106	△4.9%
Operating income	173	127	△45	△26.5%
Ordinary income	184	131	△52	△28.5%
Profit attributable to owners of parent	89	79	△10	△12.0%
EBITDA	260	166	△94	△36.2%

※EBITDA・・・Operating Income＋Depreciation＋Amortization of goodwill

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

SIOS

Net sales were slightly up from the same period the year before

(In millions of yen)

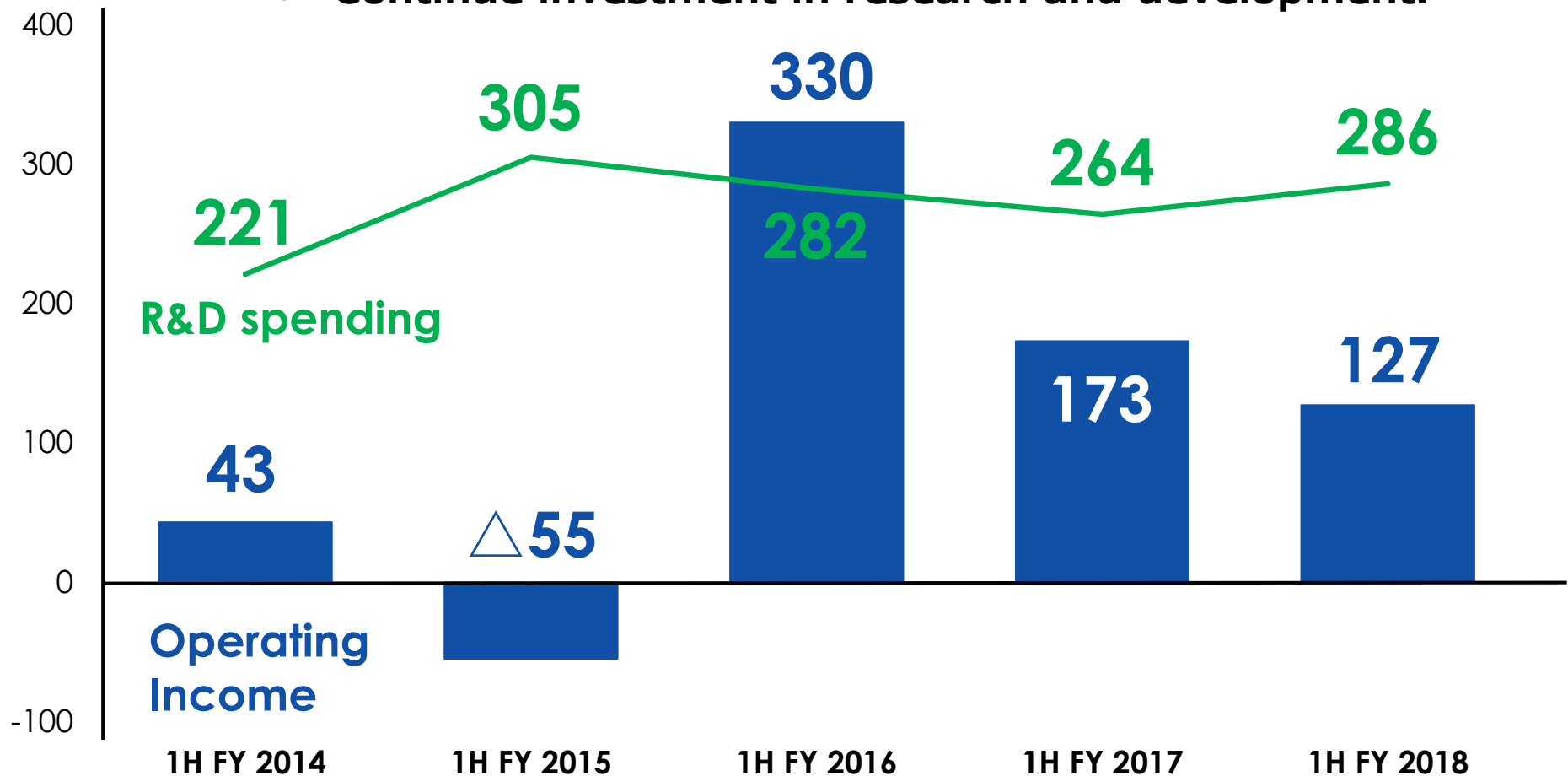|	1H FY 2014	1H FY2015	1H FY 2016	1H FY 2017	1H FY 2018
	3,626	4,392	6,238	6,226	6,270

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

SIOS

- Operating income for the first half of FY 2018 down by 45 million yen from the same period the year before.
- Continue investment in research and development.

（In millions of yen）

R&D spending

Operating Income

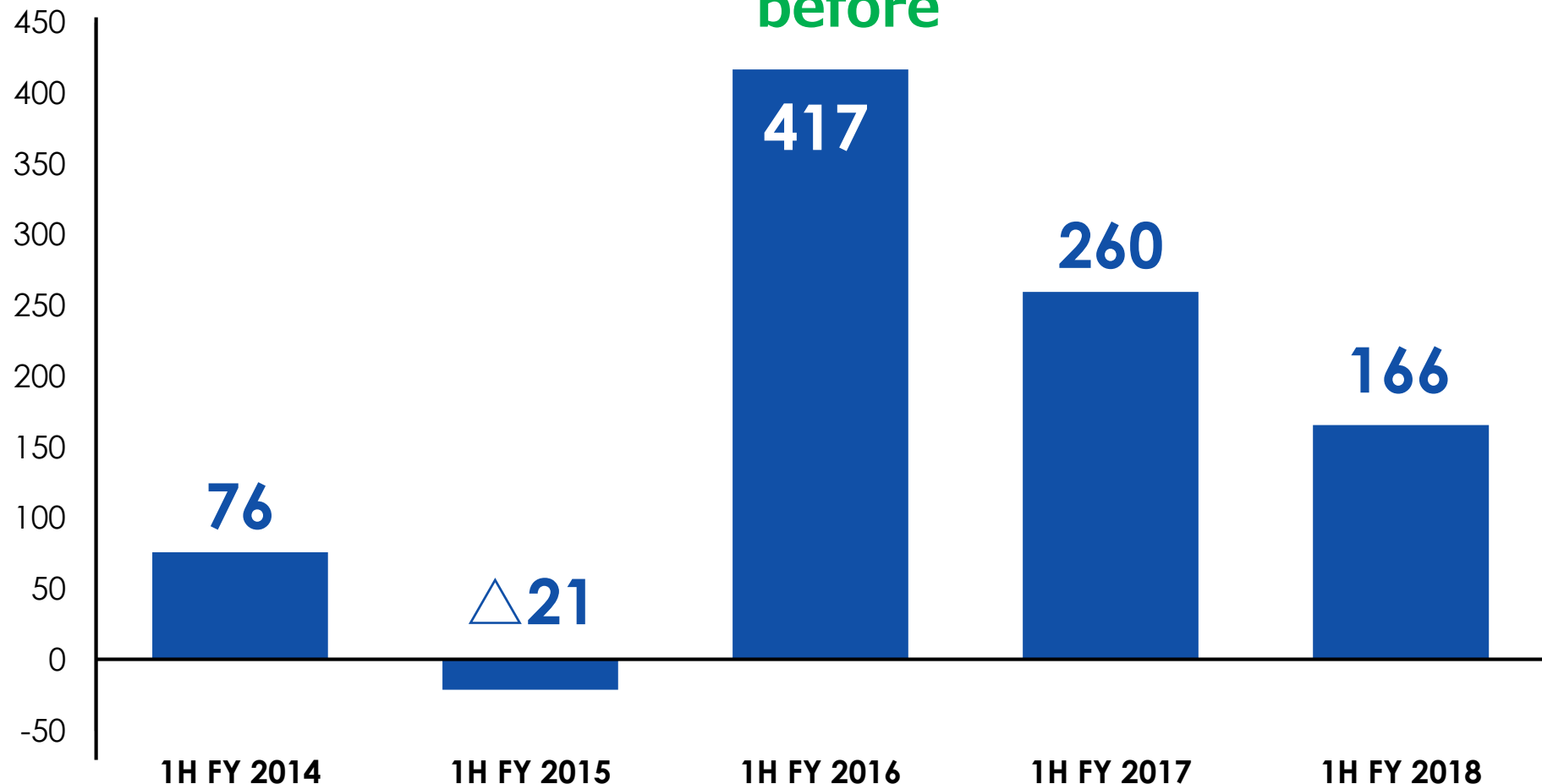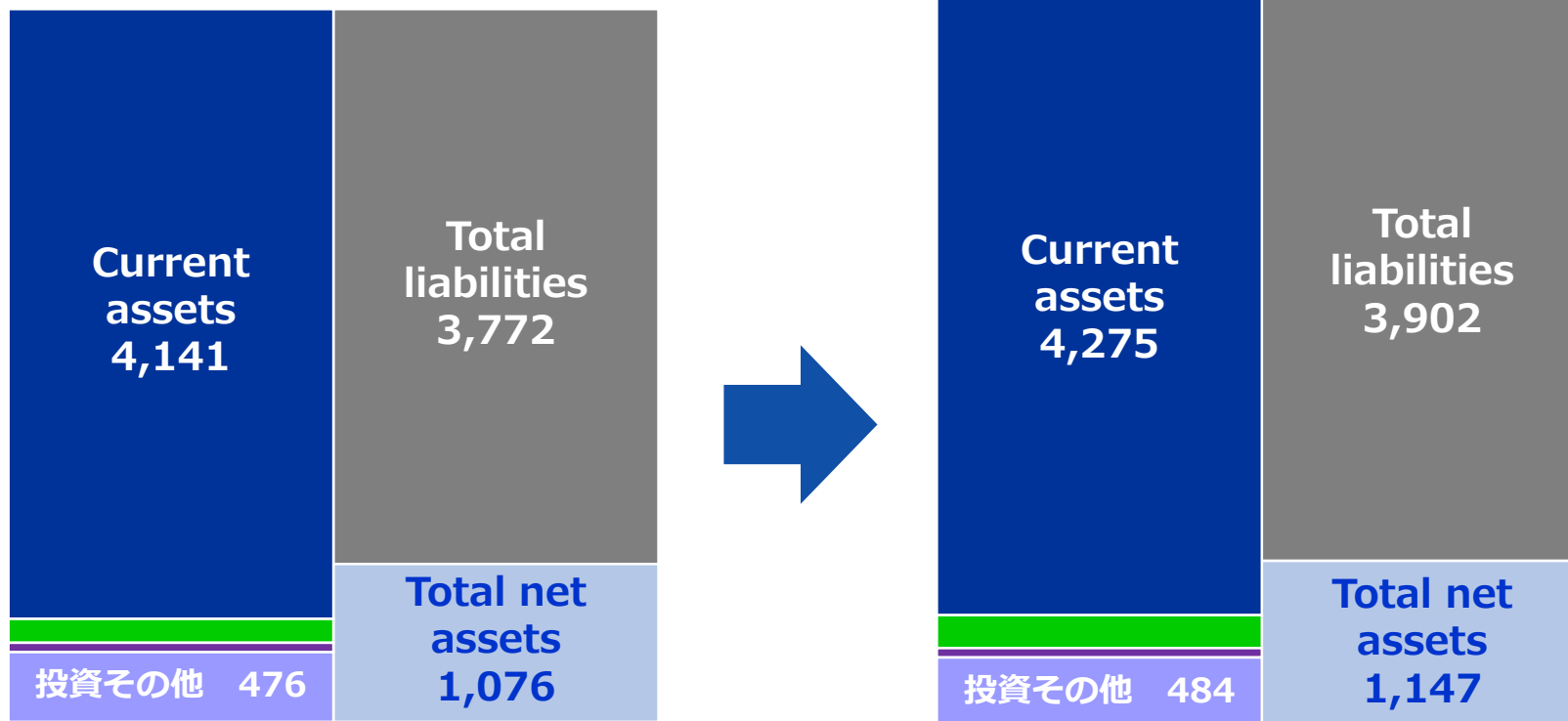|	1H FY 2014	1H FY 2015	1H FY 2016	1H FY 2017	1H FY 2018
R&D spending	221	305	282	264	286
Operating Income	43	△55	330	173	127

Consolidated EBITDA in First Halves of the past 5 fiscal years.

EBITDA in the first half of FY 2018 down by 94 million yen from the same period the year before

(In millions of yen)

76	△21	417	260	166
1H FY 2014	1H FY 2015	1H FY 2016	1H FY 2017	1H FY 2018

Consolidated Balance Sheets

（In millions of yen）

Current assets 4,141	Total liabilities 3,772
投資その他　476	Total net assets 1,076

■ Tangible fixed assets　169
■ Intangible fixed assets 61

As of December 31, 2017

Current assets 4,275	Total liabilities 3,902
投資その他　484	Total net assets 1,147

■ Tangible fixed assets　219
■ Intangible fixed assets　70

As of June 30,2018

- **Current assets：An increase of 66 million yen in work in progress, an increase of 62 million yen in cash and deposits**
- **Current liabilities：An increase of 288 million yen in advance received**
- **Fixed liabilities：An decrease of 66 million yen in long term loan payable**

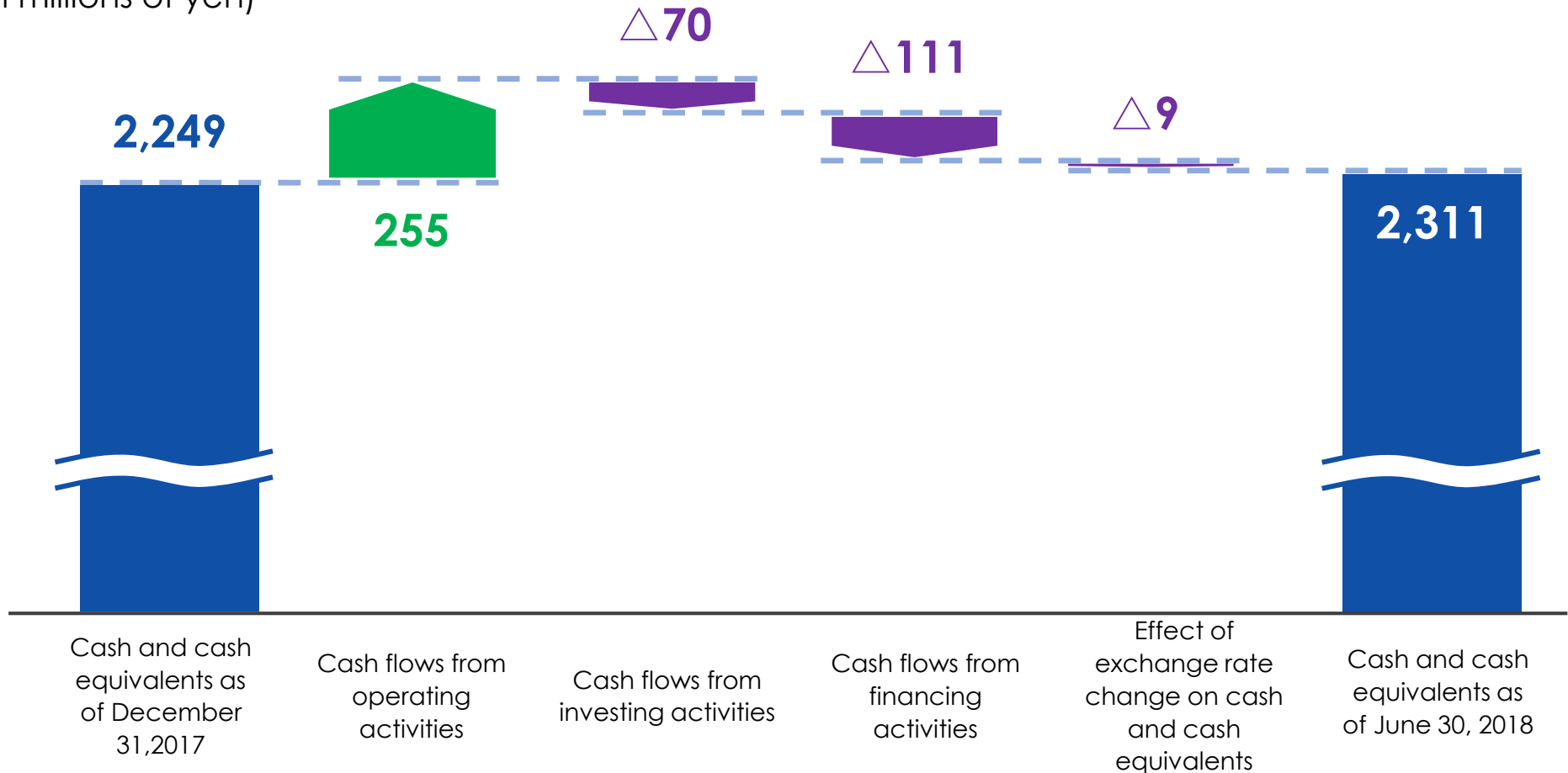# Analysis of Consolidated Cash Flows

(In millions of yen)

2,249

255

△70

△111

△9

2,311

Cash and cash equivalents as of December 31,2017

Cash flows from operating activities

Cash flows from investing activities

Cash flows from financing activities

Effect of exchange rate change on cash and cash equivalents

Cash and cash equivalents as of June 30, 2018

- **The SIOS Group had Sufficient cash and cash equivalents as of June 30,2018 thanks to substantial cash flows collected from operating activities.**
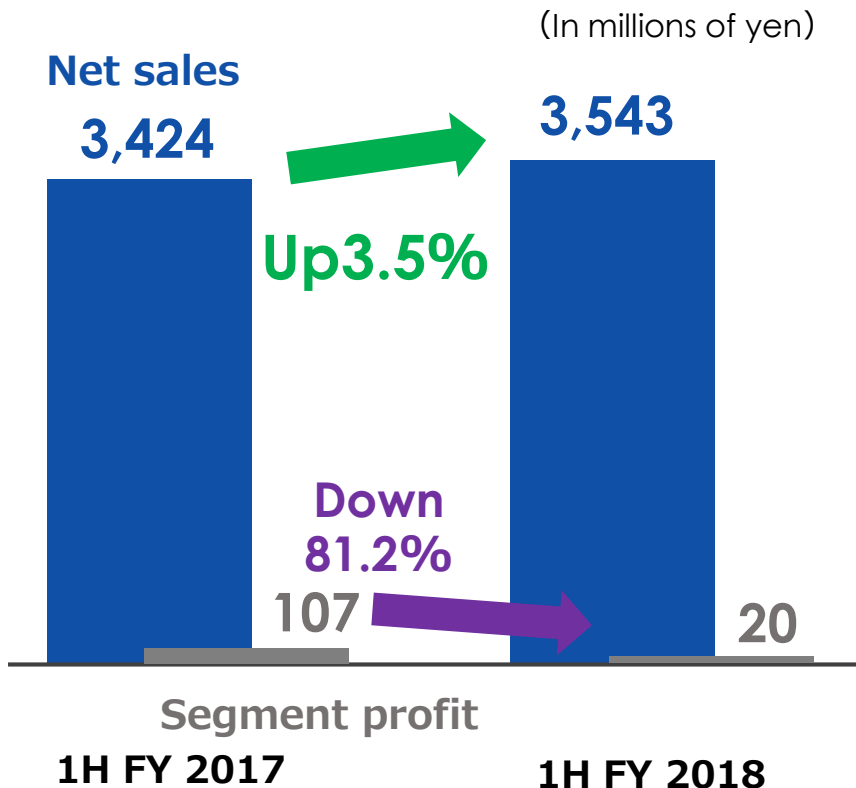
Open System Infrastructure Business

Net sales	3,543 million yen, up 3.5% year on year
Segment profit	20 million yen, down 81.2% year on year

(In millions of yen)

Net sales
3,424

Up3.5%

3,543

Down
81.2%

107

20

Segment profit

1H FY 2017

1H FY 2018

Net sales

Japan

● Sales of LifeKeeper, core product was declined YoY.
● Sales of software products sourced from Red Hat, Inc.increased.
● OSS* support and OSS-related products increased steadily.

Overseas

● Sales decreased in all areas except Europe.

Segment profit

A decline in gross profit ratio of products sold and less sales of LifeKeeper resulted in a decrease in segment profit.

Note: See the Glossary on Page 24 for descriptions of terms with an asterisk.
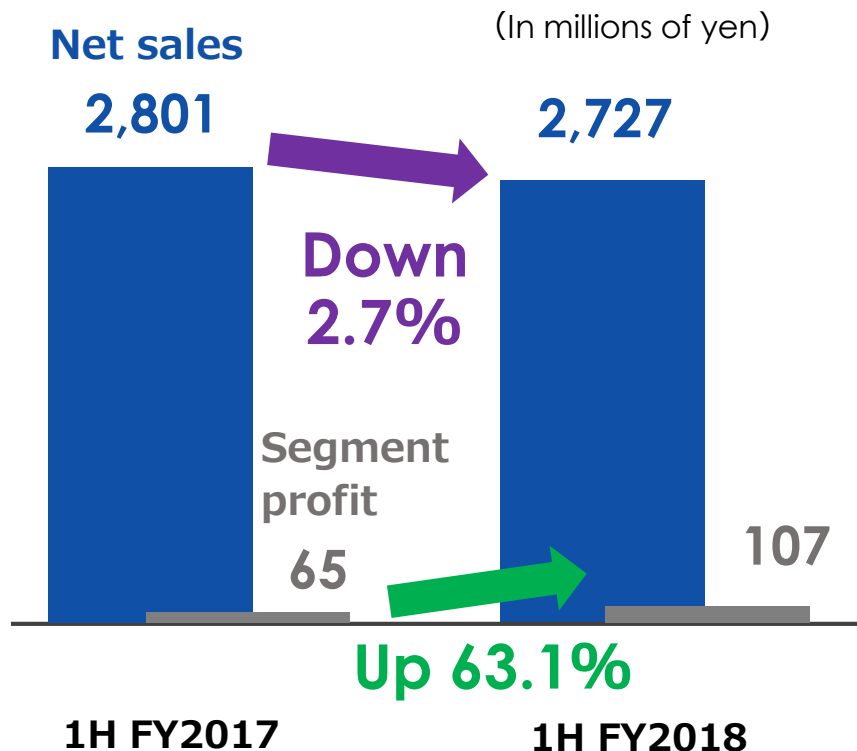
Application Business

Net sales	2,727 million yen, down 2.7% year on year
Segment profit	107 million yen, up 63.1% year on year

Net sales (In millions of yen)

2,801 → 2,727

Down 2.7%

Segment profit 65

107

Up 63.1%

1H FY2017   1H FY2018

Net sales

- Sales of software applications for MFPs* **declined** YoY.
- Revenue from providing financial institutions with support for system development and implementation **declined**.
- Sales of business support systems to regional banks and other financial institutions **surged.**
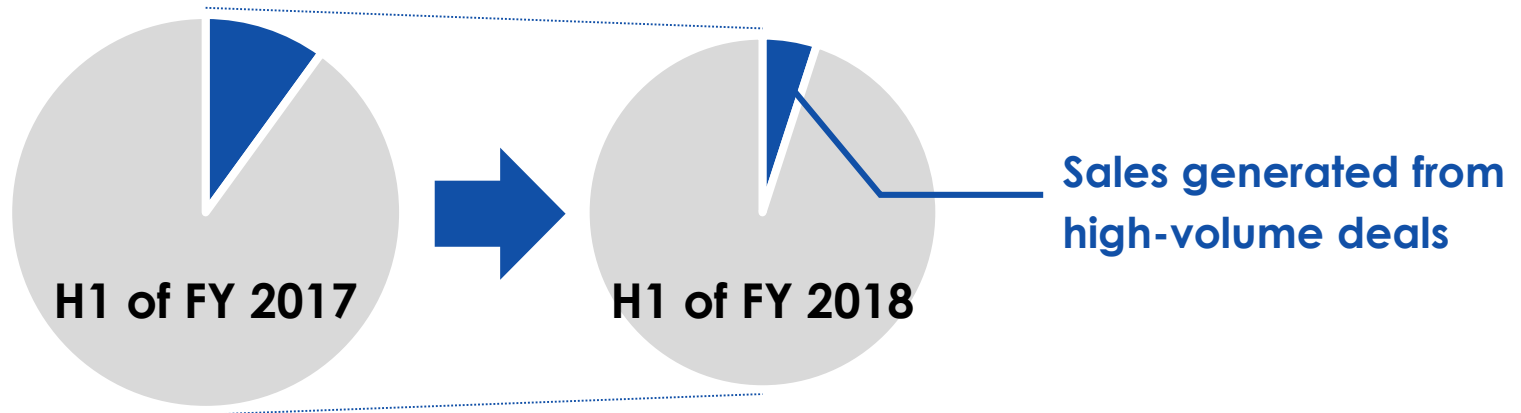
Segment profit

- **Segment profit jumped** as a result of a decrease of 50 million yen in amortization of goodwill and assets related to customers, which more than offset an increase in expenses associated with new businesses.

Sales of LifeKeeper and Software Applications for MFPs

Reasons for declining sales

A fall in high-volume deals for both products compared with the same period the year before

- Sales of software applications for MFPs slowed in the April-June quarter after achieving a solid performance in the preceding quarter.

H1 of FY 2017 → **H1 of FY 2018**

Sales generated from high-volume deals

Actions to be taken

- **Work more closely with sales partners**
- **Focus sales efforts on pursuing high-volume deals**
- **Push sales of such new products as a new generation of SIOS Coati*, log capturer NX Plus*, and Easy Fax***

Ⅱ

Progress Achieved

for First 6 months of FY 2018

3 Key Medium-Term Strategic Initiatives

SIOS

1   **Expand into new Business segments Including Fintech**

NEW

2   **Continue to invest in Research and development**

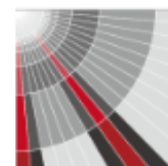**3**   **Become more Competitive in core business**

1. Expand into New Business Segments including Fintech

SIOS and Rhelixa, Inc. formed a capital and business alliance, under which to jointly develop a cloud-based platform for analyzing epigenomes.

SIOS   **and**   **Rhelixa**
Decoding Life, Creating Future

The alliance will provide SIOS with opportunities to acquire expertise in analyzing epigenomes and to expand its business into the bioscience field.

The alliance will provide Rhelixa with opportunities to acquire cloud technology that enables the development of a platform for analyzing epigenomes and to accelerate its business.

Under this alliance, SIOS is better positioned to launch a promising new business as part of efforts to achieve its mission of "making the impossible possible for the people of the world."

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2. Continue to Invest in Research and Development

California-based SIOS Technology Corp. opened an R&D center at the University of South Carolina to jointly research and develop leading-edge AI technologies with the university.

SIOS Technology Corp.

Step up R&D efforts for AI technologies

- Develop new AI-enabled technologies and products
- Participate in research projects initiated by the university
- Recruit skilled talent from the campus through an internship program and other programs

University of South Carolina

Nurture students to become AI specialists

- Provide students with opportunities to learn from SIOS engineers the latest AI technologies and apply them to address real-world issues
- Use SIOS-supplied software to work on leading-edge AI technologies

3. Become More Competitive in Core Businesses

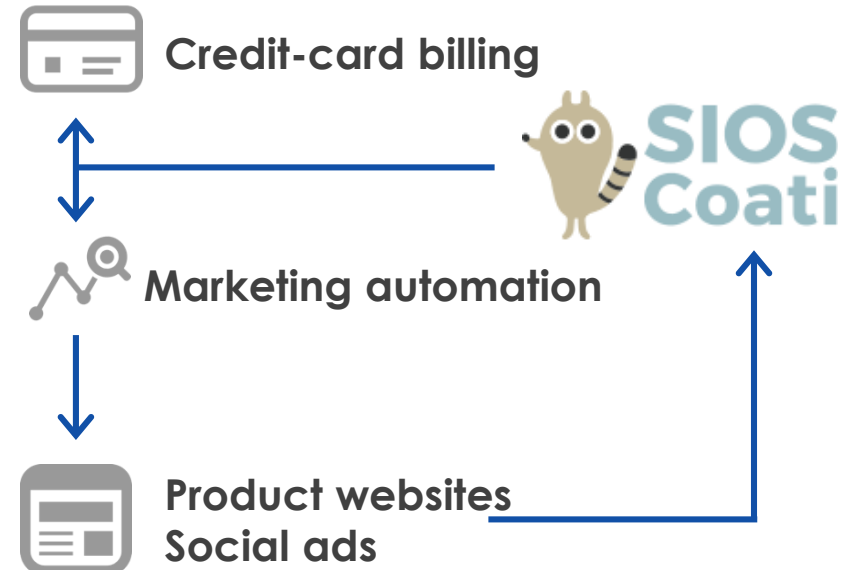**Conduct SIOS Coati projects to incorporate the latest IT solutions from around the world into our offerings**

Capitalize on technical expertise in applications development provided by a global cloud player

SIOS

Authorization necessary for the provision of services

Clients

Use the serverless architecture on Amazon Web Services* to offer secure services on a global scale

Offer enterprise SaaS* designed to fully automate a business cycle

Credit-card billing

Marketing automation

Product websites
Social ads

3. Become More Competitive in Core Businesses

AWS Summit Tokyo 2018

One of the largest cloud-computing conferences in Japan

Our presentation on the application of a serverless architecture drew a capacity audience.

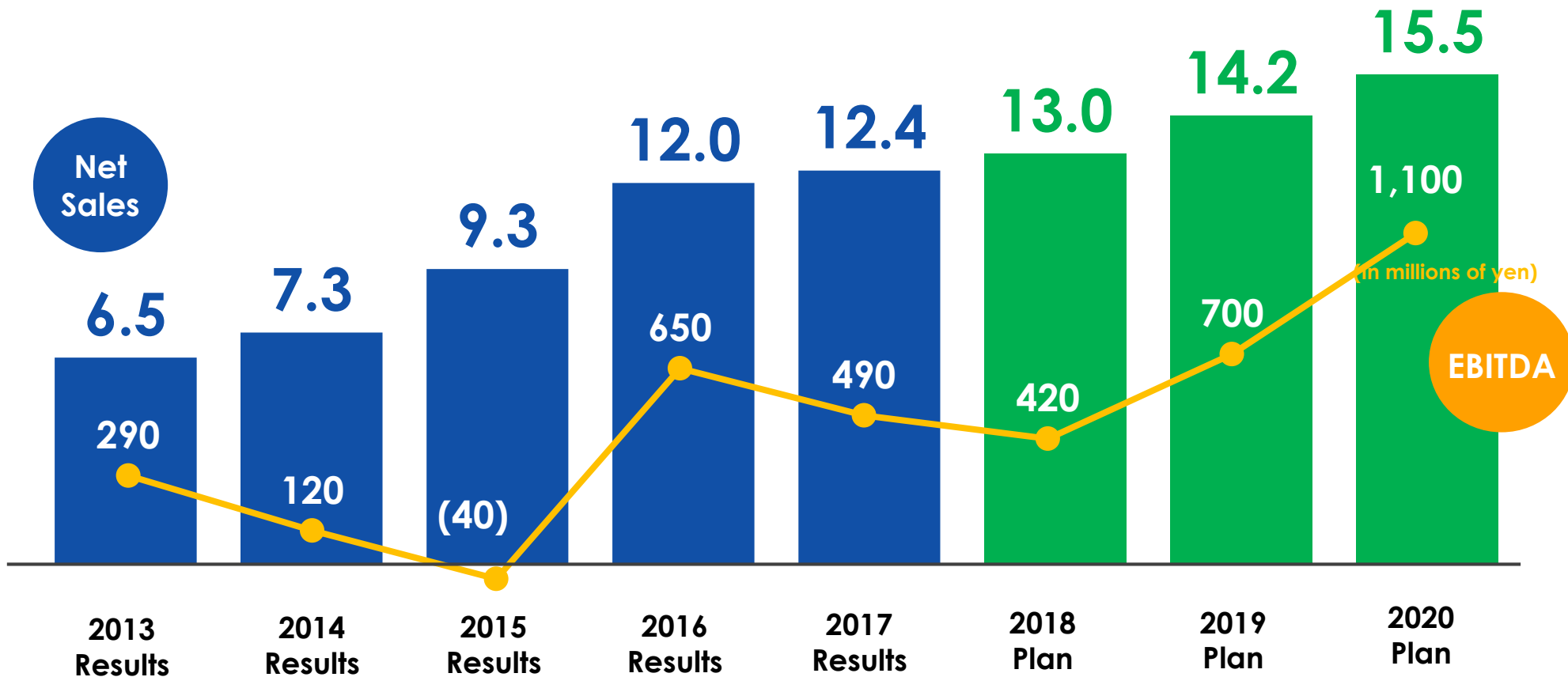**Presentation held on May 30, 2018**

- **Title: Rewriting the SIOS Coati Program Using Serverless Architecture**
- Presented by Masataka Kurihara, a member of the board of SIOS Technology Corp. , and SIOS Technology, Inc.

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Medium-Term Sales and Profit Plan and Business Forecasts for Fiscal Year Ending December 31, 2018

Medium-Term Sales and Profit Plan

Establish basis of growth in next 3 years and achieve net sales of 15.5 billion yen and EBITDA of 1.1 billion yen in FY2020

Net Sales

EBITDA

(in millions of yen)

	2013 Results	2014 Results	2015 Results	2016 Results	2017 Results	2018 Plan	2019 Plan	2020 Plan
Net Sales	6.5	7.3	9.3	12.0	12.4	13.0	14.2	15.5
EBITDA	290	120	(40)	650	490	420	700	1,100

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Consolidated Business Forecast for Fiscal Year Ending December31,

	Results for the 6 months ended June30,2018 (In millions of yen)	Forecast for fiscal year ending December 31, 2018 (in millions of yen)	Percentage of achievement
Net sales	6,270	13,000	48.2%
Operating income	127	330	38.5%
Ordinary income	131	330	39.7%
Profit attributable to owners of parent	79	260	30.4%
EBITDA	166	420	39.5%

Initiatives in 2H FY 2018

1 **Expand into new business segments including Fintech**
Accelerate growth of management support system for financial industry

2 **Continue to invest in research and development**
Continue to invest in research and development of Cloud/AI arena

3 **Become more competitive in core businesses**
Strengthen marketing activity of Lifekeeper/Software applications for MFPs

About SIOS

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. 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 **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	**May23, 1997**
No. of employees	**481 on a consolidated basis（as of June 30, 2018）**
Main consolidated subsidiaries	**Japan:** **U.S.A:** **SIOS Technology Inc.** **SIOS Technology Corp.** **Glugent Inc.** **Keyport Solutions, Inc.** **Profit Cube　Inc.**

Glossary

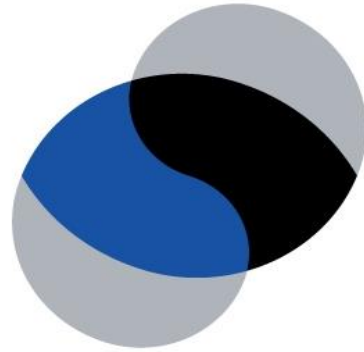| Page	Term	Description
10	**LifeKeeper**	A failover software product that automatically switches a failed primary server to a backup server
10	**Software Products sourced from Red Hat, Inc.**	Open-source software products developed by Red Hat,Inc. a provider of open-source solutions.
10	**OSS (Open-source 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.
11	**Software applications for MFPs**	A multifunction peripheral (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.
12	**SIOS Coati**	Cloud-based service for automatic system failure detection and recovery
12	**LogCapturerNXPlus**	Application for recording image and operation logs of what is copied, faxed, printed, and scanned on an MFP by users
12	**EasyFAX**	Application for converting a document received via fax into a digital form and renaming and storing it in an automatically created folder according to sender and receipt date
14	**Fintech**	An emerging technology for facilitating innovations in the financial sector.
15	**Cloud**	A new form of computing that provides computing resources as services over internet
17	**Amazon Web Service**	Cloud-based services provided by Amazon.com, Inc.
17	**Serverless Architectures**	Technology that enables the use of a system without the need to build a server environment
17	**SaaS**	A software distribution model in which a provider hosts a software application and makes it available to customers over the Internet

Cautionary Statement

Forward-looking statements about the Company`s business outlook contained in this document reflect management`s assumptions and judgements 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, Inc. on **03-6411-5111 (+81-3-6401-5111 from outside Japan)**

or fill in and send an online inquiry form available at:
https://lp.sios.jp/MRK_Inquiry_IR.html