Consolidated Financial Results for Fiscal Year Ended December 31, 2016 (Under Japanese GAAP)

February 2, 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 date of the ordinary general meeting of shareholders: March 29, 2017
Scheduled commencement date of dividend payment: -
Scheduled filing date of securities report: March 30, 2017
Supplementary materials on financial results: Yes
Presentation of financial results: Yes (for institutional investors and analysts)

(Fractions less than 1 million yen are rounded down)

1. Consolidated Financial Results for Fiscal Year Ended December 31, 2016

(1) Consolidated Results of Operations

(In millions of yen)
(Percentages represent changes from the previous fiscal year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss) attributable to owners of the parent company	
Year ended December 31, 2016	12,080	29.0%	474	-	389	-	254	-
Year ended December 31, 2015	9,362	27.4%	(111)	-	(137)	-	(186)	-

Note: Comprehensive income (loss) Year ended December 31, 2016: 245 million yen (-%)
Year ended December 31, 2015: (181) million yen (-%)

	Net income (loss) per share (Basic)	Net income per share (Diluted)	Return on equity	Return on assets	Operating margin
Year ended December 31, 2016	29.56 yen	29.52 yen	17.0%	7.2%	3.9%
Year ended December 31, 2015	(21.67) yen	-	(12.5%)	(3.0%)	(1.2%)

Note: Equity in earnings (losses) of affiliates Year ended December 31, 2016: (65) million yen
Year ended December 31, 2015: (46) million yen

(2) Consolidated Financial Position

(In millions of yen, except per-share amounts)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2016	5,256	1,647	30.8%	188.00 yen
As of December 31, 2015	5,642	1,414	24.4%	160.02 yen

Note: Equity As of December 31, 2016: 1,619 million yen
As of December 31, 2015: 1,376 million yen

(3) Consolidated Cash Flows

(In millions of yen)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents at year-end
Year ended December 31, 2016	311	(123)	(414)	1,793
Year ended December 31, 2015	168	(996)	988	2,045

2. Dividends

	Dividends per share					Total amount of dividends	Payout ratio (Consolidated)	Ratio of dividends to shareholders' equity (Consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
		Yen		Yen	Yen	Million yen		
Year ended December 31, 2015	-	0.00	-	0.00	0.00	-	-	-
Year ended December 31, 2016	-	0.00	-	0.00	0.00	-	-	-
Year ending December 31, 2017 (Forecasted)	-	0.00	-	5.00	5.00		13.5%	

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

(In millions of yen, except per-share amounts)
(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%	37.15 yen

Notes:

(1) Material changes in subsidiaries during the fiscal year ended December 31, 2016 (Changes in specified subsidiaries resulting in a change in the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatements

(i) Changes in accounting policies based on revisions of accounting standards : Yes

(ii) Changes in accounting policies other than the above : None

(iii) Changes in accounting estimates : None

(iv) Restatements : None

(3) Number of outstanding shares (common stock)

(i) Number of outstanding shares at end of the period (including treasury stock)	As of December 31, 2016	8,874,400 shares	As of December 31, 2015	8,874,400 shares
(ii) Number of treasury stocks at end of the period	As of December 31, 2016	260,041 shares	As of December 31, 2015	274,241 shares
(iii) Average number of shares during the period	As of December 31, 2016	8,609,398 shares	As of December 31, 2015	8,598,621 shares

Supplementary Information: Unconsolidated Financial Results

1. Unconsolidated Financial Results for Fiscal Year Ended December 31, 2016

(1) Unconsolidated Results of Operations

(In millions of yen, except per-share amounts)
(Percentage represent changes from the previous fiscal year)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)	
Year ended December 31, 2016	7,950	13.7%	235	-	288	-	(7)	-
Year ended December 31, 2015	6,990	11.7%	(63)	-	(52)	-	(109)	-

	Net income (loss) per share (Basic)	Net income per share (Diluted)
Year ended December 31, 2016	(0.83) yen	-
Year ended December 31, 2015	(12.73) yen	-

(2) Unconsolidated Financial Position

(In millions of yen, except per-share amounts)
(Percentage represent changes from the previous fiscal year)

	Total assets	Net assets	Equity ratio	Net assets per share
As of December 31, 2016	4,629	1,789	38.6%	207.51 yen
As of December 31, 2015	4,752	1,776	37.3%	206.12 yen

Note: Equity As of December 31, 2016: 1,787 million yen
As of December 31, 2015: 1,772 million yen

* Presentation of the status of progress in carrying out annual review procedures

This summary of consolidated financial results is not subject to a review to be conducted in accordance with the Financial Instruments and Exchange Law of Japan. At the time of the release of this summary of consolidated financial results, the review procedures in accordance with the Financial Instruments and Exchange Law of Japan have not yet been completed.

* 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 “Business Forecasts for Fiscal Year Ending December 31, 2017” on Page 3 of the attached document.

The Company will hold a presentation on its financial results for institutional investors and analysts on Friday, February 3, 2017. Shortly thereafter, the Company will post on its website materials used in the presentation.

Table of Contents of the Attached Document

1. Qualitative Information on Consolidated Results

(1) Results of Operations

Overview of the consolidated business performance for consolidated fiscal year ended December 31, 2016

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, focusing its efforts on expanding into new business segments including Fintech[1], continuing to invest in research and development, and becoming more competitive in its core businesses.

During the fiscal year ended December 31, 2016, as part of efforts to expand into new business segments including Fintech, the Group launched the SIOS AI Academy and the SIOS AI Consulting Service to assist corporate clients in learning about and adopting machine-learning and AI solutions.

As part of efforts to invest in research and development, the Group continued to invest in machine-learning technology[2] and released an upgraded version of SIOS iQ[3], a software platform for IT operations analytics[4], to provide greater versatility.

Moreover, in an effort to become more competitive in the Group's core businesses, the Group upgraded LifeKeeper[5], which is one of its core products, and software applications for multifunction printers[6] (MFPs), and expanded services for open-source software[7] (OSS) for cloud[8].

Through the implementation of these initiatives, the Group achieved a 29.0% year-on-year increase in net sales to 12,080 million yen in the consolidated fiscal year ended December 31, 2016, thanks in part to a 13.7% increase in net sales of the Company resulting from efforts to become more competitive in its core businesses and in part due to the addition of sales by Keyport Solutions, Inc. (KPS) and Profit Cube Inc. (PCI), both of which the Company had acquired in the previous fiscal year.

In addition to an increased gross margin resulting from the addition of sales by KPS and PCI, the Group enjoyed a year-on-year increase in operating income from existing businesses resulting from efforts to become more competitive in its core businesses, which comprise sales of LifeKeeper and software applications for MFPs as well as support services for system implementation, as we delivered these products and services to a growing number of corporate customers. As a result, the Group posted an operating income of 474 million yen for the consolidated fiscal year ended December 31, 2016, compared with an operating loss of 111 million yen in the previous fiscal year, and an ordinary income of 389 million yen, compared with an ordinary loss of 137 million yen a year earlier. The Group also posted for the year a net income of 254 million yen attributable to owners of the parent company, more than offsetting expenses incurred related to a retrospective adjustment of 139 million yen recognized as an extraordinary loss in the April-June quarter of 2016, compared with a net loss of 186 million yen attributable to owners of the parent company the year before. The Group’s key management metrics EBITDA, which is the sum of operating income, depreciation and amortization, and amortization of goodwill, stood at 653 million yen, compared with a negative of 45 million yen a year earlier.

The Company recognized impairment losses on stocks of affiliates accounted for under the equity method and posted a loss of 119 million yen on valuation of stocks of subsidiaries and affiliates under extraordinary loss. This loss on the valuation of stocks of subsidiaries and affiliates had no effect on the Group's consolidated financial performance for the year, as it was eliminated in consolidation.

Business results by segment transpired as follows:

Open System Infrastructure Business Segment

The Group increased sales of LifeKeeper in Japan, Asia/Oceania, Europe, and the Americas. Red Hat Enterprise Linux[9] and other products sourced from Red Hat, Inc. also enjoyed robust sales, buoyed by stepped up sales and marketing activities. Support services for OSS and OSS-related products achieved solid sales growth as well. As a result, net sales in this segment amounted to 6,300 million yen, up 13.7% year on year with a segment income of 180 million yen, compared with a segment loss of 165 million yen in the previous fiscal year.

Application Business Segment

Net sales in this segment increased substantially due to the addition of sales by KPS and PCI, both of which the Company had acquired in the previous fiscal year. The increase in net sales also resulted from the provision of software applications for MFPs and support services for system implementation to a growing number of corporate customers. As a result, net sales in this segment soared 51.3% year on year to 5,779 million yen with a segment income of 239 million yen, up 451.8% from a year earlier.

1. Fintech

   An emerging technology for facilitating innovations in the financial sector.

2. 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.

3. 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. IT operations analytics

   Analyzing data generated in IT operations and converting them into practical and easy-to-digest information.

5. LifeKeeper

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

6. 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.

7. 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.

8. Cloud

   A new form of computing that provides computing resources as services over the Internet.

9. Red Hat Enterprise Linux

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

Business Forecasts for Fiscal Year Ending December 31, 2017

To achieve sustained growth in the fiscal year ending December 31, 2017, the Group will continue to implement three key medium-term strategic initiatives: (1) expanding into new business segments including Fintech; (2) continuing to invest in research and development; and (3) becoming more competitive in core businesses.

On December 26, 2016, the Company announced that the Group would reorganize into a holding-company structure through a company split in 2017 and would establish a split-preparation subsidiary prior to reorganization. A holding-company structure will enable the Group to: (1) enhance the effectiveness of its strategic planning as well as that of corporate governance and compliance; (2) ensure that each Group company will achieve sustained growth; and (3) redouble merger and acquisition efforts.

In Japan, financial institutions have been cutting back on their capital expenditures due to profitability concern triggered when the Bank of Japan introduced a negative interest rate policy in early 2016. This will likely affect PCI's and other Group companies' businesses of providing products and services to financial institutions in the first six months of 2017. Nevertheless, the Group projects it will achieve the performance outlined below for the year by continuing to implement the three key medium-term strategic initiatives described earlier.

Consolidated net sales are forecasted at 12.6 billion yen for FY 2017, up 4.3% from a year earlier, which would mark annual growth for the seventh consecutive year. The projected increase in net sales is expected to result in a higher gross margin, which—combined with reduced operating costs predicted from more effective and efficient operations under the planned holding-company structure as well as from standardizing and consolidating business processes and IT systems across the Group—will lead to an increase in profit for FY 2017: Operating income is projected at 500 million yen, up 5.4% year on year; and ordinary income and net income attributable to owners of the parent company are projected at 480 million yen (up 23.1%) and 320 million yen (up 25.7%), respectively.

(2) Financial Position

Assets, Liabilities, and Net Assets

(i) Assets

Current assets amounted to 3,615 million yen as of December 31, 2016, down 7.3% from the end of the previous fiscal year, reflecting a decrease of 282 million yen in cash and deposits, a decrease of 58 million yen in work in progress, an increase of 45 million yen in deferred tax assets, and an increase of 21 million yen in advance payments.

Fixed assets were down 5.8% to 1,640 million yen, reflecting a decrease of 85 million yen in goodwill.

As a result, total assets decreased 6.8% to 5,256 million yen for the year.

(ii) Liabilities

Current liabilities amounted to 2,541 million yen as of December 31, 2016, down 11.5% from the end of the previous fiscal year, reflecting a decrease of 100 million yen in accounts payable and a decrease of 240 million yen in short-term loans payable.

Fixed liabilities were down 21.3% to 1,066 million yen, reflecting a decrease of 161 million yen in long-term loans payable and a decrease of 100 million yen in long-term deposits received.

As a result, total liabilities were down 14.7% to 3,608 million yen for the year.

(iii) Net assets

Total assets amounted to 1,647 million yen as of December 31, 2016, up 16.5% from the end of the previous fiscal year, reflecting a net income of 254 million yen attributable to owners of the parent company posted for the year.

Cash Flows

The balance of cash and cash equivalents (hereinafter "cash") amounted to 1,793 million yen as of December 31, 2016, a decrease of 251 million yen from the end of the previous fiscal year.

Cash flows broken down by segment for the consolidated fiscal year ended December 31, 2016 were as follows:

・ Cash flows from operating activities

Net cash provided by operating activities amounted to 311 million yen for the year, compared with 168 million yen in net cash provided in the previous fiscal year. This reflected a net income of 225 million yen before income taxes, a decrease of 100 million yen in accounts payable-trade, depreciation and amortization of 93 million yen, amortization of goodwill of 85 million yen, an increase of 81 million yen in advances received, an investment loss of 65 million yen from application of equity methods, and a decrease of 58 million yen in accrued consumption taxes.

・ Cash flows from investing activities

Net cash used for investing activities amounted to 123 million yen for the year, compared with 996 million yen in net cash used in the previous fiscal year. This reflected proceeds of 292 million yen from the withdrawal of time deposits, the payment of 261 million yen into time deposits, the payment of 86 million yen for acquisition of tangible fixed assets, and the payment of 49 million yen for guarantee deposits.

・ Cash flows from financing activities

Net cash used for financing activities amounted to 414 million yen for the year, compared with 988 million yen in net cash provided in the previous fiscal year. This reflected the repayment of 213 million yen of short-term loans payable and the repayment of 181 million yen of long-term loans payable.

Supplementary information: Cash Flow Indicators over the Past 5 Fiscal Years

	Year ended December 31, 2012	Year ended December 31, 2013	Year ended December 31, 2014	Year ended December 31, 2015	Year ended December 31, 2016
Equity ratio (%)	47.9	51.7	43.9	24.4	30.8
Equity ratio based on market capitalization (%)	87.2	194.5	120.3	79.7	154.3
Debt service coverage ratio (%)	0.1	0.1	0.0	8.1	3.2
Interest coverage ratio (Times)	742.2	188.6	1,652.8	100.6	50.0

Equity ratio: Total shareholders' equity / Total assets

Equity ratio based on market capitalization: Market capitalization / Total assets

Debt service coverage ratio: Interest-bearing liabilities / Operating cash flow

Interest coverage ratio: Operating cash flow / Interest expenses

Notes:

1. All ratios are calculated based on consolidated financial data.
2. Market capitalization calculated based on the number of total shares outstanding at the end of FY 2016, excluding treasury stock.
3. Interest-bearing liabilities refer to all liabilities with interest payable recorded in the Liability section of the Consolidated Balance Sheets.

(3) Basic Policy on Distribution of Profits; Payment of Dividends for FY 2016 and FY 2017

The Company makes it a policy to continue to issue dividends to shareholders in proportion to its business performance while maintaining a level of retained earnings determined by the Group's operating results, financial positions, and business outlook.

For the fiscal year ended December 31, 2016, as announced on February 2, 2016, we have chosen, instead of paying dividends, to invest in research and development to increase our efforts to achieve our medium-term business plan.

For the fiscal year ending December 31, 2017, we project payment of an annual dividend of ¥5.00 per share, based on the business forecasts for the year, as described elsewhere in this document.

(4) Business Risks

Operational risks facing the Group that may significantly affect decision-making by investors are described below. Matters that are considered to not necessarily be risks as such, are included as part of our commitment to transparency as the information may be of value to investors when making investment decisions and understanding the Group's businesses.

The Group, acknowledging that these risks might materialize, takes steps to prevent such risks from occurring and will deal with them should they occur. Nevertheless, we believe that investors should make decisions to invest in the Company's stock after carefully weighing the risks described below as well as other information presented in this document. Please note that the risks described below by no means constitute all risks to be considered when making investment decisions regarding the Company's stock.

(i) Intellectual property rights in software

Some companies claim that publicly available free software applications and OSS applications infringe copyrights and patents they own and have taken legal actions against such alleged infringements.

The Group will continue to pay close attention to such companies that have filed lawsuits. Should their claims of infringement be upheld in court, the Group would be compelled to change course in its OSS-related businesses, which in turn could affect the Group's business performance. The Group has, to date, never faced any liability claims or injunctions filed by other companies for alleged infringements of intellectual property rights, including copyrights. There is, however, always a risk that other companies may own patents and other intellectual property rights the Group is not aware of in the business sectors in which we operate, as it is almost impossible to track every intellectual property right that others may have. Moreover, there is a possibility that a third party may establish a patent in the business sectors in which the Group operates and file a liability claim or injunction against the Group for patent infringement. Should that happen, the Group's business performance might be affected.

(ii) Competition

The IT industry is highly competitive with thousands of small and big system integrators, computer vendors, and software vendors[10] vying for business in commercial and technology fields in which they excel, as well as in industry sectors in which they have amassed experience and expertise.

The Group will continue to step up research and development efforts and enhance the effectiveness of sales and marketing so as to maintain an edge in this market. However, if the Group's competitive advantage were to be seriously threatened by existing competitors and disruptive new entrants, the Group's business performance might be affected.

10. Software vendor

A provider of software applications that does not have any special relationship with specific hardware vendors or developers of operating systems.

(iii) New businesses

The Group operates in the global IT arena, in which new technologies and solutions constantly emerge. To sustain the growth of the Group's business in this industry, it is imperative to fulfill the ever-changing needs of the market by creating new businesses, adding new subsidiaries and affiliates, and developing and delivering new products and services. However, if changes in internal and external business environments should hamper us from pursuing such projects as scheduled, we might reconsider our research-and-development and marketing plans. If we determine that any of these initiatives would not generate sufficient return as expected, we might terminate implementation in midcourse.

We sometimes invest upfront when creating new businesses and developing new products and services. If we cannot raise sufficient capital to invest in such projects, we might not be able to pursue them as planned, which might affect the Group's financial position and business performance.

(iv) Currency fluctuations

Fluctuations in foreign exchange rates may affect the Group’s profit and loss as well as its financial position, as some of the Group's products are procured and sold in U.S. dollars, and as the revenues, profits, and assets of our overseas subsidiaries posted in local currencies are translated into yen in consolidated financial statements. Although the Company takes steps to effectively alleviate risks associated with transactions denominated in foreign currencies, unforeseen fluctuations in exchange rates beyond our control might affect the Group’s business performance.

(v) Talent pipeline

1) Talent acquisition, development, and retention

To remain on a solid growth path, the Group must continue to research and develop advanced technologies that will drive our open system infrastructure business and application business and to acquire, develop, and retain talent capable of meeting diverse business needs. The Group has been filling gaps in its talent portfolio by hiring employees with potential for growth.

If talent acquisition, development, and retention should not proceed as planned, our talent pipeline is likely to lose its robustness, which might affect the Group's business strategy and performance.

2) Dependence on a key person

Nobuo Kita, the Company's Representative Director and President, has been at the helm of driving the growth of the Group's business by setting long-term management policies and making strategic business decisions. The Group realizes it depends heavily on his leadership and vision for the success of its business.

To manage the growing business more effectively, the Group has been shoring up the management team by delegating decision-making authority to lower-level members in the team and bringing in additional members to the team. To accelerate business expansion, the Group has been hiring experts and professionals with experience in the fields into which the Group has been diversifying. The Executive Committee and the Management Committee, which comprise executive officers and others, have been established to collectively address day-to-day operational issues without relying too heavily on Kita's leadership and counsel. In addition, the Company has on its Board of Directors outside members who have years of experiences in the IT industry, and seeks their professional advice.

The Group will continue to build a stronger management team by bringing in new members internally and externally so as to make it less dependent solely on Kita's leadership. If, for whatever reason, Kita should become unable to assume his leadership role in the Group before the Group makes its management team more robust as planned, it might affect the Group's business strategy and performance.

(vi) Subsidiaries and affiliates

The Group has been investing in and acquiring other companies to remain at the forefront of the changes taking place in the IT industry. The Group will continue to leverage the technical prowess as well as the sales and management expertise provided by subsidiaries and affiliates so as to develop and market new products and services as well as to maintain growth momentum. However, poor performance of subsidiaries and affiliates could undermine the Group's business performance. If any of the subsidiaries and affiliates should fail to deliver on its business plan in the face of unforeseen changes in the market and competitive landscape, the Group might be forced to write off remaining goodwill on the underperforming entity, which might affect the Group's business performance.

(vii) Acquisitions and strategic partnerships

The Group may continue to acquire all or a portion of other companies as part of its efforts to expand the Group's business. We routinely conduct a thorough due diligence assessment of the business details, contractual obligations, and financial soundness of a potential target for acquisition or partnership to identify and avoid risks. This, however, does not preclude the possibility that, after investing in or acquiring the company, the company might be found to have contingent or unidentified liabilities or might not deliver performance as expected or planned, which might affect the Group's financial position and business performance.

(viii) Stock options

As per resolutions adopted by the Board of Directors on May 13, 2014 and on May 20, 2015, the Company offers a stock option program that grants stock acquisition rights to officers and employees as an incentive for them to work for and manage the success of the Company.

If officers and employees who are granted incentive stock options exercise them, the Company's stock value per share will be diluted. Depending on the Company's stock price at the time stock options are exercised, a short-term balance of the stock's supply and demand might be disrupted, which might affect the stock price.

The Group may continue to offer an incentive stock option program to attract, motivate, and retail talented officers and employees; however, a continued offer of stock options might dilute the Company's per-share stock value.

(ix) Relationship with Otsuka Corporation

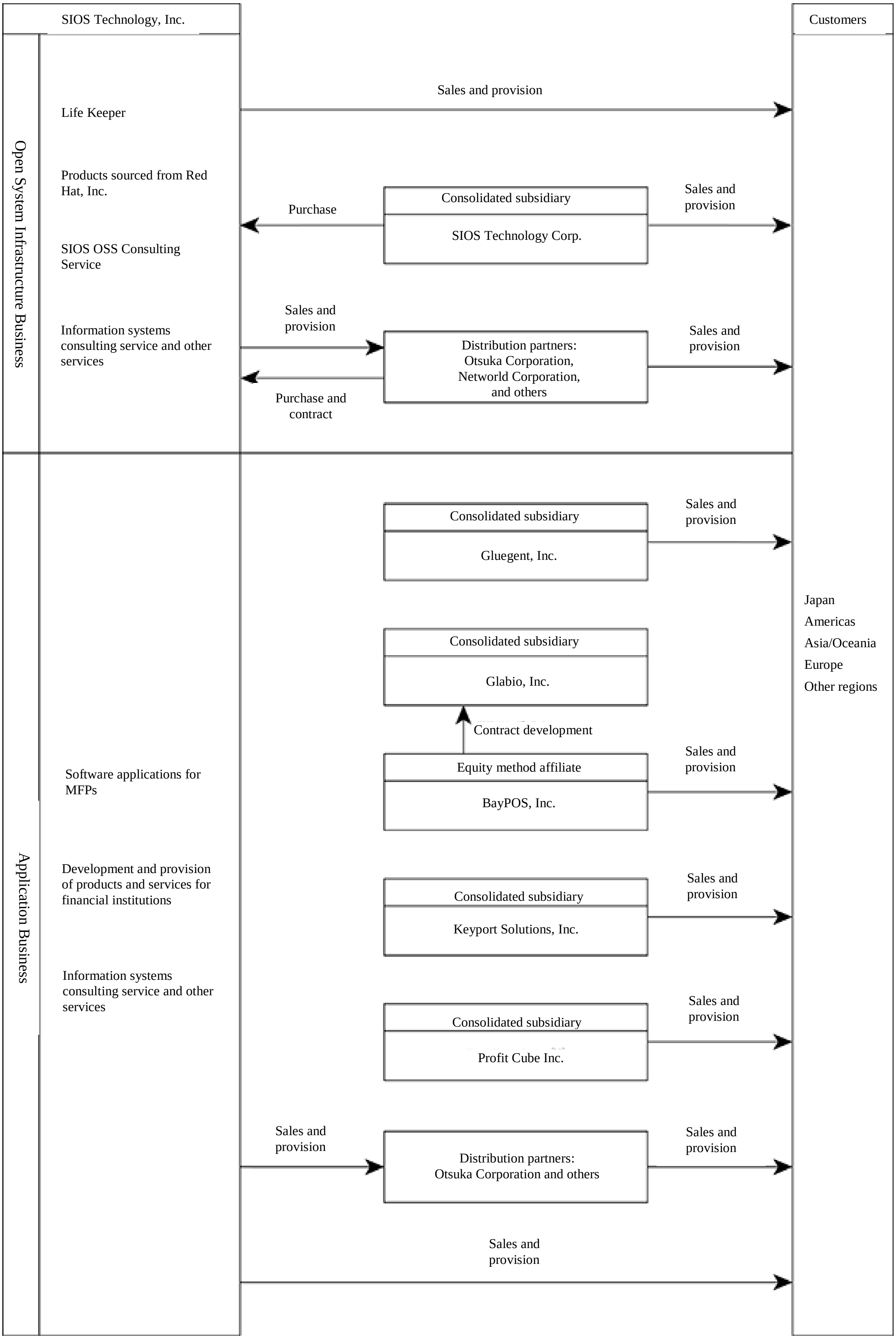
Otsuka Corporation (hereinafter "Otsuka"), which held 18.50% of the voting rights of the Company as of December 31, 2016, is the largest shareholder in the Company and its affiliate company. Although the Company maintains a close commercial relationship with Otsuka, the Company makes business decisions independently and manages its business for the best interests of the Group, free from interference from Otsuka in terms of financing and operational decisions. The Company intends to increase business with Otsuka, but if the relationship with Otsuka should deteriorate or if Otsuka's management should decide to reconsider its support for the Company, this might affect the Group's business performance.

(x) Significant business contract

The Company has the following significant business contract. If this contract is not renewed regularly, it might materially affect the Group's business performance.

- Contract signed between SIOS Technology, Inc. and Red Hat K.K. (a Japanese subsidiary of Red Hat, Inc.)
- Contract period: One year from July 1, 2010, automatically extended thereafter for another year successively after expiration of the one-year period
- Description: A contract that allows SIOS Technology, Inc. to act as a distributor for products sourced from Red Hat K.K.

2. The SIOS Group



3. Management Policy

(1) Basic Management Policy

The Group has been implementing the following three medium-term strategic initiatives to achieve sustained business growth:

(i) Expanding into new business segments including Fintech

(ii) Continuing to invest in research and development

(iii) Becoming more competitive in core businesses

(2) Key Management Metrics

The Group strives to achieve sustained business growth in an ever-changing business environment and retain the trust of society. We use net sales and EBITDA as the key management metrics to measure the achievement of our goals of keeping our business growing and making our business foundation stronger.

(3) Medium- to Long-Term Management Strategy

As called for by the Group's basic management policy, the Group will continue to invest to achieve medium- and long-term growth.

Specifically, we will step up research and development efforts in such emerging fields as machine-learning technology, artificial intelligence, and Fintech; continue to invest in improving our core products such as OSS-related products, LifeKeeper, software applications for MFPs, and software products developed by PCI; and invest in enhancing the effectiveness of marketing and sales activities.

By implementing these initiatives, the Group aims to achieve net sales of 12.6 billion yen and an EBITDA of 670 million yen for the fiscal year ending December 31, 2017; net sales of 14 billion yen and an EBITDA of 770 million yen for the fiscal year ending December 31, 2018; and net sales of 16 billion yen and an EBITDA of 1 billion yen for the fiscal year ending December 31, 2019.

(4) Management Priorities

The Group will focus on the following four management priorities:

(i) Achieving greater effectiveness of group management

(ii) Enforcing more vigorous compliance policies and practices

(ii) Hiring and retaining talented employees

(iv) Expanding the Group's presence in the global market

(i) Achieving greater effectiveness of group management

The Group will reorganize into a holding-company structure to enable each Group company to make business decisions more timely in fast-changing markets as well as to enable Group companies to share their specialized knowledge and expertise to maximize synergy among them. In addition, we will standardize and consolidate business processes and IT systems across the Group to reduce operating costs and maximize the Group's value.

(ii) Enforcing more vigorous compliance policies and practices

Under a holding-company structure, we will enforce more vigorous compliance policies and practices across the Group to improve the accountability and transparency of its business operations.

(iii) Hiring and retaining talented employees

The Group operates not just in Japan but also in Asia/Oceania, Europe, and the Americas. To grow our business in each region, it is imperative for each Group company to have talented employees. The Group will continue to hire and retain diverse talent regardless of their nationalities.

(iv) Expanding the Group's presence in the global market

The Group will expand its sales networks in Asia/Oceania, Europe, and the Americas and become more competitive in the global market by stepping up U.S.-based research and development efforts.

4. Basic Policy on the Selection of Accounting Standards

The Group will, for the time being, continue to prepare its consolidated financial statements under the Japanese GAAP in consideration of comparability of period-to-period operating performance as well as comparability with other Japanese companies.

We will consider adopting IFRS in the preparation of consolidated financial statements if developments in Japan and abroad warrant it.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	*3 2,206,352	*3 1,923,658
Notes and accounts receivable-trade	1,346,277	1,346,923
Work in progress	*1 114,680	56,008
Deferred tax assets	-	45,866
Advance payment	106,473	128,189
Other	127,536	114,951
Allowance for doubtful accounts	(200)	(200)
Total current assets	3,901,120	3,615,398
Fixed assets		
Tangible fixed assets		
Buildings	168,445	178,424
Accumulated depreciation	(75,604)	(69,305)
Buildings (net)	92,841	109,119
Tools, furniture and fixtures	374,528	279,267
Accumulated depreciation	(308,406)	(203,044)
Tools, furniture and fixtures (net)	66,121	76,222
Lease assets	6,089	9,899
Accumulated depreciation	(247)	(1,719)
Lease assets (net)	5,842	8,180
Total tangible fixed assets	164,805	193,521
Intangible fixed assets		
Goodwill	838,787	753,414
Software in progress	11,425	5,633
Other	237,046	212,298
Total intangible fixed assets	1,087,259	971,347
Investment and other assets		
Investment securities	*2 244,983	*2 171,942
Net defined benefit assets	26,249	27,674
Guarantee deposits	216,140	229,513
Deferred tax assets	-	17,421
Other	7,193	39,316
Allowance for doubtful accounts	(5,071)	(9,966)
Total investment and other assets	489,494	475,901
Total fixed assets	1,741,559	1,640,770
Total assets	5,642,680	5,256,168

(In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Accounts payable-trade	543,741	443,227
Short-term loans payable	*3 240,000	*3 -
Current portion of long-term loans payable	155,442	162,283
Lease obligations	1,244	2,110
Income taxes payable	28,450	65,018
Advance received	1,339,886	1,409,377
Reserve for bonuses	26,678	24,556
Provision for loss on contracts	*1 2,515	-
Other	534,409	435,080
Total current liabilities	2,872,367	2,541,654
Fixed liabilities		
Long-term loans payable	974,765	812,988
Deferred tax liabilities	68,814	52,625
Provision for surcharge resulting from repayment of subsidies	32,267	-
Net defined benefit liabilities	158,985	178,589
Lease obligations	5,132	6,862
Long-term deposits received	109,955	9,767
Other	6,359	6,086
Total fixed liabilities	1,356,280	1,066,920
Total liabilities	4,228,648	3,608,575
Net assets		
Shareholders’ equity		
Capital stock	1,481,520	1,481,520
Capital surplus	474,415	466,657
Retained earnings	(321,538)	(67,044)
Treasury stock	(116,194)	(110,178)
Total shareholders’ equity	1,518,201	1,770,954
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,420	14,008
Foreign currency translation adjustment	(143,423)	(165,485)
Total accumulated other comprehensive income	(142,002)	(151,477)
Stock acquisition rights	22,281	28,116
Non-controlling interests	15,551	-
Total net assets	1,414,031	1,647,593
Total liabilities and net assets	5,642,680	5,256,168

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net sales	9,362,562	12,080,054
Cost of sales	6,011,232	7,712,419
Gross margin	3,351,330	4,367,635
Selling, general and administrative expenses	3,463,132	3,893,021
Operating income (loss)	(111,802)	474,613
Non-operating income		
Interest income	1,833	1,338
Dividends income	120	729
Foreign exchange gain	21,838	-
Compensation received	10,000	-
Fiduciary obligation fee	-	2,490
Settlement received	-	5,684
Other	3,624	4,054
Total non-operating income	37,416	14,297
Non-operating expenses		
Interest expenses	1,680	6,238
Foreign exchange loss	-	8,417
Loss on investment of investment partnerships	3,864	8,151
Equity in losses of affiliates	46,461	65,176
Provision for surcharge resulting from repayment of subsidies	10,255	5,668
Other	824	5,399
Total non-operating expenses	63,087	99,052
Ordinary income (loss)	(137,473)	389,858
Extraordinary income		
Gain on sale of investment securities	8,169	627
Gain on negative goodwill	14,372	-
Gain on reversal of stock acquisition rights	1,330	1,289
Gain on change in equity	3,000	-
Gain on sale of fixed assets	10	-
Total extraordinary income	26,882	1,916
Extraordinary loss		
Loss on retirement of fixed assets	678	6,598
Loss on sale of fixed assets	-	260
Loss on valuation of golf club membership	2,358	1,550
Loss on withdrawal from employees' pension fund	12,968	-
Settlement paid	29,108	-
Loss on valuation of investment securities	-	13,886
Expense related to retrospective adjustment	-	139,212
Other	-	4,703
Total extraordinary loss	45,113	166,211
Net income (loss) before income taxes	(155,704)	225,563
Income taxes-current	27,663	56,030
Income taxes-deferred	-	(85,879)
Total income taxes	27,663	(29,849)
Net income (loss)	(183,367)	255,413
Net income attributable to non-controlling interests	2,996	918
Net income (loss) attributable to owners of the	(186,364)	254,494

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
parent company		

Consolidated Statements of Comprehensive Income

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net income (loss)	(183,367)	255,413
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	1,051	12,587
Foreign currency translation adjustment	975	(22,062)
Total other comprehensive income (loss)	2,027	(9,474)
Comprehensive income (loss)	(181,340)	245,938
Comprehensive income (loss) attributable to:		
Owners of the parent company	(184,310)	245,019
Non-controlling interests	2,969	918

(3) Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2015

(In thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 1, 2015	1,481,520	476,233	(92,210)	(119,329)	1,746,213
Amount of changes during the period					
Dividends from surplus			(42,963)		(42,963)
Net income (loss) attributable to owners of the parent company			(186,364)		(186,364)
Disposal of treasury stock		(1,818)		3,135	1,316
Net amount of changes in items not included in shareholders' equity					-
Total amount of changes during the period	-	(1,818)	(229,328)	3,135	(228,011)
Balance as of December 31, 2015	1,481,520	474,415	(321,538)	(116,194)	1,518,201

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of January 1, 2015	368	(144,398)	(144,029)	12,992	-	1,615,176
Amount of changes during the period						
Dividends from surplus			-			(42,963)
Net income (loss) attributable to owners of the parent company			-			(186,364)
Disposal of treasury stock			-			1,316
Net amount of changes in items not included in shareholders' equity	1,051	975	2,027	9,288	15,551	26,866
Total amount of changes during the period	1,051	975	2,027	9,288	15,551	(201,145)
Balance as of December 31, 2015	1,420	(143,423)	(142,002)	22,281	15,551	1,414,031

Fiscal year ended December 31, 2016

(In thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of January 1, 2016	1,481,520	474,415	(321,538)	(116,194)	1,518,201
Amount of changes during the period					
Net income attributable to owners of the parent company			254,494		254,494
Disposal of treasury stock		1,664		6,016	7,681
Change in equity by purchase of shares of consolidated subsidiaries		(9,422)			(9,422)
Net amount of changes in items not included in shareholders' equity					-
Total amount of changes during the period	-	(7,757)	254,494	6,016	252,753
Balance as of December 31, 2016	1,481,520	466,657	(67,044)	(110,178)	1,770,954

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total equity
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance as of January 1, 2016	1,420	(143,423)	(142,002)	22,281	15,551	1,414,031
Amount of changes during the period						
Net income attributable to owners of the parent company			-			254,494
Disposal of treasury stock			-			7,681
Change in equity by purchase of shares of consolidated subsidiaries						(9,422)
Net amount of changes in items not included in shareholders' equity	12,587	(22,062)	(9,474)	5,835	(15,551)	(19,190)
Total amount of changes during the period	12,587	(22,062)	(9,474)	5,835	(15,551)	233,562
Balance as of December 31, 2016	14,008	(165,485)	(151,477)	28,116	-	1,647,593

(4) Consolidated Statements of Cash Flows

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Cash flows from operating activities		
Net income (loss) before income taxes	(155,704)	225,563
Depreciation and amortization	59,687	93,643
Provision for surcharge resulting from repayment of subsidies	10,255	(32,267)
Amortization of goodwill	6,192	85,372
Interest and dividends income	(1,953)	(2,068)
Interest expenses	1,680	6,238
Loss (gain) on investment of investment partnership	3,864	8,151
Investment loss (gain) on the equity method	46,461	65,176
Decrease (increase) in notes and accounts receivable-trade	(40,372)	(6,217)
Decrease (increase) in inventories	(4,954)	58,671
Increase (decrease) in notes and accounts payable-trade	99,561	(100,488)
Increase (decrease) in net defined benefit liabilities	20,522	19,604
Increase (decrease) in advance received	77,308	81,396
Decrease (increase) in advance payment	54,583	(21,734)
Increase (decrease) in consumption taxes payable	79,729	(58,421)
Other	88,012	(117,788)
Sub-total	344,875	304,833
Interest and dividends income	1,955	2,068
Interest expenses paid	(1,680)	(6,238)
Compensation received	7,000	-
Settlement paid	(29,108)	-
Income taxes refund	-	39,797
Income taxes paid	(154,090)	(28,699)
Cash flows from operating activities	168,952	311,761
Cash flows from investing activities		
Payment into time deposits	-	(261,400)
Proceeds from withdrawal of time deposits	100,000	292,400
Purchase of tangible fixed assets	(14,773)	(86,705)
Purchase of intangible fixed assets	(29,784)	(14,485)
Payment of guarantee deposits	(3,200)	(49,592)
Proceeds from collection of guarantee deposits	2,916	45,405
Payment of asset retirement obligations	-	(18,800)
Purchase of golf club membership	(3,958)	(27,276)
Purchase of investments in subsidiaries resulting in change in the scope of consolidation	(924,270)	-
Purchase of shares of subsidiaries and affiliates	(27,552)	(2,205)
Purchase of investment securities	(670,255)	(7,955)
Proceeds from sales of investment securities	573,940	6,634
Other	394	386
Cash flows from investing activities	(996,543)	(123,594)

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Cash flows from financing activities		
Cash dividends paid	(42,846)	(54)
Net increase (decrease) in short-term loans payable	-	(213,040)
Proceeds from long-term loans payable	1,060,000	-
Repayment of long-term loans payable	(33,888)	(181,896)
Purchase of shares of subsidiaries not resulting in changes in the scope of consolidation	-	(25,888)
Other	5,179	6,396
Cash flows from financing activities	988,444	(414,482)
Effect of exchange-rate changes on cash and cash equivalents	1,678	(25,378)
Increase (decrease) in cash and cash equivalents	162,531	(251,693)
Cash and cash equivalents at beginning of period	1,882,108	2,045,352
Increase in cash and cash equivalents resulting from merger of subsidiaries	712	-
Cash and cash equivalents at end of period	2,045,352	1,793,658

(5) Notes on Consolidated Financial Statements

Going Concern Assumption

Not applicable

Basis for the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 7

SIOS Technology Corp.

Gluegent, Inc.

SIOS (Beijing) Technology Inc.

My Office Co., Ltd.

Glabio, Inc.

Keyport Solutions, Inc.

Profit Cube Inc.

・ Kanshin! Inc. changed its company name to My Office Co., Ltd. effective November 1, 2016.

・ Agrion Creative Office Co., Ltd., a former consolidated subsidiary, was acquired by Keyport Solutions, Inc. and was excluded from the scope of consolidation.

(2) Names of unconsolidated subsidiaries

Not applicable

2. Application of the Equity Method

(1) Unconsolidated subsidiaries accounted for under the equity method

Not applicable

(2) Number of affiliates accounted for under the equity method: 2

BayPOS, Inc.

K-ZONE Corp.

(3) Unconsolidated subsidiaries and affiliates not accounted for under the equity method:

Codyl Technologies Corporation

Reason for not being accounted for under the equity method:

This company was not accounted for under the equity method due to its insignificance in light of its net income or loss (to the extent of the Company's equity position) and its retained earnings (to the extent of the Company's equity position).

3. Balance Sheet Dates of Consolidated Subsidiaries

Balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date.

4. Accounting Policies

(1) Valuation standards and methods for significant assets:

(i) Securities

a. Stocks of subsidiaries and affiliates

Stocks of subsidiaries and affiliates are stated at cost determined by the moving average method.

b. Other securities

Securities with no fair market value:

Other securities with no fair market value are stated at cost determined by the moving average method.

Investments in limited-liability investment partnerships and other partnerships of a similar nature, which are considered marketable securities under Article 2, Clause 2 of the Financial Instruments and Exchange Act of Japan, are stated at net value proportional to the Company's ownership interests and on the basis of the latest financial statements for the respective partnership available on the reporting date stipulated in the respective partnership agreement.

(ii) Inventories

Inventories held for sale in the ordinary course of business:

Inventories held for sale are valued using the cost method (method of reducing book value when the contribution of inventories to profitability declines).

a. Finished products

Finished products are valued principally at cost determined by the moving average method. Some consolidated subsidiaries value finished products at cost determined by the identified cost method.

b. Work in progress

Work in progress is valued at cost determined by the identified cost method.

(2) Depreciation methods for significant depreciable assets

(i) Tangible fixed assets (lease assets not included)

The Company and its consolidated subsidiaries in Japan use the declining-balance method to compute depreciation of tangible fixed assets; however, the straight-line method is applied to buildings and accompanying facilities and to structures acquired on and after April 1, 2016. The Company's overseas consolidated subsidiaries use the straight-line method under the domestic accounting standards applied in their respective countries of domicile.

The range of estimated useful lives for principal assets is as follows:

Buildings:	3 to 18 years
Tools, furniture, and fixtures:	3 to 15 years

Tangible fixed assets acquired on and before March 31, 2007 are depreciated uniformly over a five-year period from the year following the end of their depreciation to the depreciable limit.

(ii) Intangible fixed assets (lease assets not included)

a. Software for sale

Amortization of software for sale is stated at an amortizable amount based on the estimated sales volume during the valid sales period (less than three years) or an amortizable amount based on a straight-line method over the remaining valid sales period, whichever is greater.

b. Software for internal use

Software for internal use is amortized using the straight-line method over an estimated useful life of less than five years.

(iii) Lease assets

Lease assets relating to finance lease transactions without the transfer of ownership:

Lease assets relating to finance lease transactions without the transfer of ownership are depreciated using the straight-line method, with the lease period being the useful life and the residual value being zero.

(iv) Long-term prepaid expenses

Long-term prepaid expenses are amortized using the straight-line method.

(3) Accounting standards for significant allowances

(i) Allowance for doubtful accounts

To provide against potential losses from uncollectable notes and accounts receivables, a provision is made on general receivables based on historical write-off rates, and specific cases of concern are evaluated individually to determine the amount of uncollectable receivables.

(ii) Reserve for bonuses

To facilitate bonus payments to employees, an amount corresponding to the current portion of estimated bonus payments was recorded.

(iii) Provision for loss on contracts

To provide against possible losses on contracts, estimated losses were recorded for uncompleted contracts that, as of December 31, 2016, were considered highly likely to incur losses in the future whose amount can be reasonably estimated.

(iv) Provision for surcharge resulting from repayment of subsidies

To provide for payment of a surcharge resulting from repayment of subsidies, the amount of surcharge estimated at the end of the fiscal year ended December 31, 2016 was recorded.

(4) Accounting methods for retirement benefits

The Company and some of its consolidated subsidiaries use a simplified method of using the amount payable to employees on voluntary resignation at year-end to calculate retirement benefit obligations and retirement expenses.

Some consolidated subsidiaries in Japan use a simplified method of using actuarial obligation calculated based on the latest pension plan finance under a corporate pension plan to record retirement benefit obligations.

(5) Accounting standards for recognizing significant revenues and cost

(i) Standards for recognizing sales and cost of sales relating to the development of made-to-order software

a. Contracts whose outcome was deemed certain based on the degree of completion of software development at the end of the fiscal year ended December 31, 2016:

The percentage-of-completion method was applied (the percentage of completion was estimated based on the percentage of cost of development incurred by that date compared with the estimated total cost of development).

b. Other contracts:

The completed-contract method was applied.

(6) Primary hedge accounting methods

(i) Hedge accounting methods

When financial instruments are used to hedge foreign exchange risks of liabilities denominated in foreign currencies, appropriation accounting is applied in cases where requirements for appropriation are met. Deferral hedge accounting was applied to foreign exchange forward contracts that hedged foreign exchange risks of transactions to be completed by December 31, 2016.

(ii) Hedging instrument and hedged item

Hedge accounting was applied to the following hedging instrument and hedged item in the consolidated fiscal year ended December 31, 2016:

・ Hedging instrument: foreign exchange forward contracts

・ Hedged item: Foreign currency denominated payables for imported finished products and raw materials

(iii) Hedging policy

The Company uses hedge accounting to mitigate future risks arising from fluctuations in foreign exchange rates related to foreign currency denominated liabilities and to improve the Company's financial balance.

(iv) Assessing the effectiveness of hedging

The effectiveness of hedging is evaluated by comparing the change in aggregated amount of fair value or cash flows of the hedging instrument with the change in aggregated amount of fair value or cash flows of the hedged item.

(7) Amortization method and period for goodwill

Goodwill is amortized equally for an estimated period when its effect is generated.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that mature within three months of the acquisition date and that can be easily converted into cash with insignificant risk of volatility.

(9) Other significant matters for the preparation of the consolidated financial statements

Consumption taxes are accounted for using the tax-exclusion method.

Changes in Accounting Policies

Application of Accounting Policies for Business Combinations

Effective at the beginning of the consolidated fiscal year ended December 31, 2016, the Company adopted the “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on September 13, 2013), the “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013), and the “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013). Under these revised accounting standards, the Company recognizes as capital surplus any difference arising from changes in the Company's ownership interests in its subsidiaries over which the Company retains control, and recognizes the acquisition-related costs as expenses in the fiscal year in which they are incurred. In addition, regarding a business combination conducted at or after the beginning of the consolidated fiscal year ended December 31, 2016, the Company, when it finalizes its provisional accounting treatments, revises acquisition cost allocation in the annual consolidated financial statements to which the date of the business combination belongs. Furthermore, the Company changed the way its net income is presented, and records minority interests as non-controlling interests. To reflect these changes in presentation, the consolidated financial statements for the previous consolidated fiscal year ended December 31, 2015 were reclassified.

In the consolidated statements of cash flows for the consolidated fiscal year ended December 31, 2016, cash flows related to the acquisition or sale of shares of subsidiaries not resulting in changes in the scope of consolidation are recognized under “cash flows from financing activities,” and cash flows related to the cost associated with the acquisition of shares of subsidiaries resulting in changes in the scope of consolidation or to the cost associated with the acquisition or sale of shares of subsidiaries not resulting in changes in the scope of consolidation are recognized under “cash flows from operating activities.”

With respect to the application of the Accounting Standard for Business Combinations and other accounting standards, the Company has been following the transitional arrangement set forth in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures since the beginning of the consolidated fiscal year ended December 31, 2016.

As a result, capital surplus decreased by 9,422 thousand yen at the end of the consolidated fiscal year ended December 31, 2016, compared with a year earlier. These changes have no significant effect on per-share information for the fiscal year ended December 31, 2016.

Application of the Practical Solution on a Change in Depreciation Methods due to Tax Reform 2016

In accordance with the revision of the Corporation Tax Act of Japan, the Company adopted the “Practical Solution on a Change in Depreciation Method due to Tax Reform 2016” (ASBJ Practical Issues Task Force (PITF) No. 32, issued on June 17, 2016) in the consolidated fiscal year ended December 31, 2016, and changed the depreciation method for buildings and accompanying facilities and for structures acquired on and after April 1, 2016, from the declining-balance method to the straight-line method.

This change has no significant effect on the consolidated financial statements for the fiscal year ended December 31, 2016.

Notes on Consolidated Balance Sheets

*1. Work in progress and provision for loss on contracts related to contracts likely to incur losses are presented as assets and liabilities, respectively, and are not offset each other.

Work in progress corresponding to provision for loss on contracts (In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Work in progress	6,278	—

*2. The total amount of stocks in unconsolidated subsidiaries and affiliates is as follows. (In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Investment securities (stocks)	73,529	2,205

*3. Pledged assets and secured liabilities

Assets pledged as collateral are as follows. (In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Time deposit	160,000	130,000

Total	160,000	130,000

Liabilities corresponding to the above pledged assets are as follows. (In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Short-term loans payable	40,000	30,000
Total	40,000	30,000

Notes on Consolidated Statements of Income

*1. The amount of provision for loss on contracts included in the cost of sales is as follows. (In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
	(6,863)	-

*2. Selling, general and administrative expenses include the following major items and amounts. (In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Salaries and allowances	1,100,302	1,358,418
Sales support expenses	125,753	132,878
Amortization of goodwill	6,192	85,372
Rent	106,411	194,195
Bonuses	191,297	199,856
Reserve for bonuses	9,090	13,710
Retirement benefits	22,447	35,894

*3. The total amount of research and development expenses included in selling, general and administrative expenses is as follows.
(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
	648,160	553,518

*4. Details of loss on sales of fixed assets are as follows. (In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Buildings	—	260

*5. Details of loss on retirement of fixed assets are as follows. (In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Buildings	678	4,290
Tools, furniture and fixtures	—	2,294
Software	—	13

Notes on Consolidated Statements of Comprehensive Income

The amount of reclassification adjustment and tax effect relating to other comprehensive income (In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Valuation difference on available-for-sale securities:		
Incurred during the period	1,675	19,055
Reclassification adjustment	—	(65)
Amount before tax effect adjustment	—	18,990
Amount of tax effect	(623)	(6,402)
Valuation difference on available-for-sale securities	1,051	12,587
Foreign currency translation adjustment		

Incurred during the period	975	(22,062)
Total other comprehensive income (loss)	2,027	(9,474)

Notes on Consolidated Statements of Changes in Equity

Fiscal year ended December 31, 2015

1. Type and total number of outstanding shares and type and number of shares of treasury stock

	Number of shares as of January 1, 2015	Increased number of shares during the period	Decreased number of shared during the period	Number of shares as of December 31, 2015
Outstanding shares				
Common stock	8,874,400	-	-	8,874,400
Total	8,874,400	-	-	8,874,400
Treasury stock				
Common stock	281,641	-	7,400	274,241
Total	281,641	-	7,400	274,241

Note: The decrease of 7,400 shares of common stock for treasury stock was the result of exercising stock options.

2. Stock acquisition rights and treasury stock acquisition rights

Classification	Details of stock acquisition rights	Type of shares subject to unexercised stock acquisition rights	Number of shares subject to unexercised stock acquisition rights				Balance as of December 31, 2015 (In thousands of yen)
			As of January 1, 2015	Increase during the period	Decrease during the period	As of December 31, 2015	
The Company	Share acquisition rights as stock options	-	-	-	-	-	3,559
Consolidated subsidiaries	-	-	-	-	-	-	18,721
Total		-	-	-	-	-	22,281

3. Dividends

(1) Dividend payments

Resolution	Type of shares	Total amount of dividends	Dividend per share	Record date	Effective date
Ordinary general meeting of shareholders held on March 25, 2015	Common stock	42,963 thousand yen	5.00 yen	December 31, 2014	March 26, 2015

(2) Dividends for which the record date fell in the fiscal year ended December 31, 2015 with an effective date falling in the following fiscal year

Not applicable

Fiscal year ended December 31, 2016

1. Type and total number of outstanding shares and type and number of shares of treasury stock

	Number of shares as of January 1, 2016	Increased number of shares during the period	Decreased number of shared during the period	Number of shares as of December 31, 2016
Outstanding shares				
Common stock	8,874,400	-	-	8,874,400
Total	8,874,400	-	-	8,874,400
Treasury stock				
Common stock	274,241	-	14,200	260,041
Total	274,241	-	14,200	260,041

Note: The decrease of 14,200 shares of common stock for treasury stock was the result of exercising stock options.

2. Stock acquisition rights and treasury stock acquisition rights

Classification	Details of stock acquisition rights	Type of shares subject to unexercised stock acquisition rights	Number of shares subject to unexercised stock acquisition rights				Balance as of December 31, 2016 (In thousands of yen)
			As of January 1, 2016	Increase during the period	Decrease during the period	As of December 31, 2016	
The Company	Share acquisition rights as stock options	-	-	-	-	-	2,199
Consolidated subsidiaries	-	-	-	-	-	-	25,916
Total			-	-	-	-	28,116

3. Dividends

(1) Dividend payments

Not applicable

(2) Dividends for which the record date fell in the fiscal year ended December 31, 2016 with an effective date falling in the following fiscal year

Not applicable

Notes on Consolidated Statements of Cash Flows

1. Reconciliation of cash and cash equivalents at the end of the fiscal year with the balance sheet accounts

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Cash and cash deposits	2,206,352	1,923,658
Time deposits with a term of three months or more	(161,000)	(130,000)
Cash and cash equivalents at end of period	2,045,352	1,793,658

2. Breakdown of principal assets and liabilities of newly consolidated subsidiaries acquired through purchases of shares

Fiscal year ended December 31, 2015

Assets and liabilities of Keyport Solutions, Inc. and Agrion Creative Office Co., Ltd. at time of initial consolidation resulting from the acquisition of their shares by the Company as well as the relationship between the acquisition price of shares and the net payment for such acquisition are as follows: (In thousands of yen)

Current assets	527,396
Fixed assets	59,344
Goodwill	4,200
Current liabilities	(134,113)
Non-controlling interests	(43,119)
Gain on negative goodwill	(11,386)
Acquisition price of shares	402,322
Cash and cash equivalents	(294,907)
Balance: purchase of investments in subsidiaries resulting in change in scope of consolidation	107,414

Assets and liabilities of Profit Cube Inc. at time of initial consolidation resulting from the acquisition of its shares by the Company as well as the relationship between the acquisition price of shares and the net payment for such acquisition are as follows: (In thousands of yen)

Current assets	651,735
Fixed assets	327,946
Goodwill	833,808
Current liabilities	(579,264)
Fixed liabilities	(170,574)
Acquisition price of shares	1,063,651

Cash and cash equivalents	(246,794)
Balance: purchase of investments in subsidiaries resulting in change in scope of consolidation	816,856

Fiscal year ended December 31, 2016

Not applicable

Notes on Business Combination

Not applicable

Segment Information

Segment Information

1. Outline of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available and that are subject to periodic reviews by the Company's Board of Directors to determine the allocations of resources and evaluate business performance.

The Company establishes business units and subsidiaries, each of which serves specific markets and customers as well as specializes in specific technology fields, to provide products and services in the open system infrastructure field, which includes operating systems and middleware, and the application field, which includes business applications.

Therefore, the Group uses two reportable segments: the open system infrastructure business, and the application business.

The description of each segment is as follows:

・Open system infrastructure business

In this business, the Group markets LifeKeeper, failover software that automatically switches a failed primary system to a backup system, and OSS-related products, including products sourced from Red Hat, Inc. and provides OSS support services as well as consulting services for a wide range of information systems.

・Application business

In this business, the Group provides software applications for MFPs, products and services for financial institutions, the Gluegent series, which is a SaaS product that works with Google Apps, and consulting services for a wide range of information systems, and develops enterprise information systems on a contract basis.

Note: The segment formerly presented as the "Web application business" was reclassified as the "application business" effective January 1, 2016. As this was a change in the segment name, it has no effect on the segment information.

2. Basis for calculating net sales, profit or loss, assets, liabilities, and other items by reportable segment

Accounting methods used for the reported business segments are the same as those described in "Basis for the Preparation of the Consolidated Financial Statements."

Income of reportable segments is based on operating income. Intersegment sales and transfers are calculated based on market prices.

Please note that the Company does not report assets or liabilities by segment.

3. Information on net sales, profit or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended December 31, 2015

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Sales					
Sales to external customers	5,541,881	3,820,681	9,362,562	-	9,362,562
Intersegment sales and transfers	569	175	744	(744)	-
Total	5,542,450	3,820,856	9,363,307	(744)	9,362,562
Segment income (loss)	(165,055)	53,253	(111,802)	-	(111,802)
Other items					
Depreciation and amortization	25,908	33,897	59,806	-	59,806
Amortization of goodwill	-	6,192	6,192	-	6,192

* The total amount of segment loss is the same as the amount of operating loss shown in the consolidated statements of income for the year.

Fiscal year ended December 31, 2016

(In thousands of yen)

	Reportable segment			Adjustments	Amount on consolidated financial statements*
	Open system infrastructure business	Application business	Total		
Sales					
Sales to external customers	6,300,865	5,779,189	12,080,054	-	12,080,054
Intersegment sales and transfers	343	-	343	(343)	-
Total	6,301,208	5,779,189	12,080,398	(343)	12,080,054
Segment income	180,781	293,831	474,613	-	474,613
Other items					
Depreciation and amortization	19,092	74,551	93,643	-	93,643
Amortization of goodwill	-	85,372	85,372	-	85,372

* The total amount of segment income is the same as the amount of operating income shown in the consolidated statements of income for the year.

Related Information

Fiscal year ended December 31, 2015

1. Information by product and service

Information is omitted as similar information is disclosed in the Segment Information section.

2. Information by region

(1) Sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
8,709,759	425,667	118,176	108,959	9,362,562

Note: Sales are classified by country or region in which customers are located.

(2) Tangible fixed assets

(In thousands of yen)

Japan	Americas	Other regions	Total
156,388	8,416	-	164,805

3. Information by major customer

(In thousands of yen)

Name of customer	Sales	Relevant segments
Otsuka Corporation	2,604,182	Open system infrastructure business and application business

Fiscal year ended December 31, 2016

1. Information by product and service

Information is omitted as similar information is disclosed in the Segment Information section.

2. Information by region

(1) Sales

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
11,349,852	497,767	121,322	111,111	12,080,054

Note: Sales are classified by country or region in which customers are located.

(2) Tangible fixed assets

(In thousands of yen)

Japan	Americas	Other regions	Total
185,759	7,762	-	193,521

3. Information by major customer

(In thousands of yen)

Name of customer	Sales	Relevant segments
Otsuka Corporation	3,041,764	Open system infrastructure business and application business

Information Regarding Loss on Impairment of Fixed Assets by Reportable Segment

Not applicable

Information Regarding Amortization of Goodwill and Remaining Goodwill Balance by Reportable Segment

Fiscal year ended December 31, 2015

(In thousands of yen)

	Reportable segment			Other	Adjustment	Total
	Open system infrastructure business	Application business	Total			
Balance as of December 31, 2015	-	838,787	838,787	-	-	838,787

Note: Information on amortization of goodwill is omitted as similar information is disclosed in the Segment Information section.

Fiscal year ended December 31, 2016

(In thousands of yen)

	Reportable segment			Other	Adjustment	Total
	Open system infrastructure business	Application business	Total			
Balance as of December 31, 2016	-	753,414	753,414	-	-	753,414

Note: Information on amortization of goodwill is omitted as similar information is disclosed in the Segment Information section.

Information Regarding Gain on Negative Goodwill by Reportable Segment

Fiscal year ended December 31, 2015

A gain of 14,372 thousand yen on negative goodwill was posted in the Application Business segment, as a result of including Keyport Solutions, Inc. in the scope of consolidation in the fiscal year ended December 31, 2015 by acquiring common shares of Keyport Solutions, Inc.

Fiscal year ended December 31, 2016

Not applicable

Per-Share Information

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net assets per share	160.02 yen	188.00 yen
Net income (loss) per share (Basic)	(21.67) yen	29.56 yen
Net income per share (Diluted)	-	29.52 yen

Notes:

1. As for net income per share (diluted) for the fiscal year ended December 31, 2015, potential common shares outstanding existed, but are not stated due to the net loss per share posted for the year.
2. The basis for calculating net income (loss) per share (basic) and net income per share (diluted) is as follows:

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net income (loss) per share (Basic)		
Net income (loss) attributable to owners of the parent company (in thousands of yen)	(186,364)	254,494
Amounts not attributable to common stock (in thousands of yen)	-	-
Net income (loss) attributable to owners of the parent company related to common stock (in thousands of yen)	(186,364)	254,494
Average number of common stock outstanding during the period (in shares)	8,598,621	8,609,398
Net income per share (Diluted)		
Adjustments to net income attributable to owners of the parent company (in thousands of yen)	-	-
(Loss on change in equity included in the above) (in thousands of yen)	-	-
Increase in common stock (in shares)	-	12,125
(Stock acquisition rights included above) (in shares)	-	(12,125)
Outline of potential common shares outstanding that were not used to calculate net income per share (diluted) because they had no dilutive effects	-	-

Significant Subsequent Events

Not applicable

6. Unconsolidated Financial Statements

(1) Unconsolidated Balance Sheets

(In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Assets		
Current assets		
Cash and deposits	457,033	267,626
Accounts receivable-trade	881,506	922,074
Work in progress	16,892	15,054
Deferred tax assets	-	18,418
Advance payment	259,601	286,773
Prepaid expenses	38,781	57,128
Accounts receivable-other	3,297	23,898
Income taxes receivable	38,155	-
Other	5,745	635
Allowance for doubtful accounts	(5,854)	(6,514)
Total current assets	1,695,159	1,585,094
Fixed assets		
Tangible fixed assets		
Buildings	52,680	65,798
Tools, furniture and fixtures	27,694	31,940
Lease assets	-	3,556
Total tangible fixed assets	80,375	101,294
Intangible fixed assets		
Trademark rights	2,399	1,571
Software	52,480	51,022
Software in progress	11,425	5,633
Other	1,028	1,028
Total intangible fixed assets	67,333	59,254
Investment and other assets		
Investment securities	242,946	128,954
Stocks of subsidiaries and affiliates	2,506,267	2,534,361
Long-term loans receivable from subsidiaries and affiliates	63,000	63,000
Guarantee deposits	158,867	196,700
Other	1,600	28,406
Allowance for doubtful accounts	(63,000)	(67,895)
Total investment and other assets	2,909,682	2,883,526
Total fixed assets	3,057,390	3,044,075
Total assets	4,752,550	4,629,170

(In thousands of yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Accounts payable-trade	429,351	368,083
Short-term loans payable to subsidiaries and affiliates	118,119	100,000
Current portion of long-term loans payable	123,120	123,120
Accounts payable-other	122,598	102,144
Accrued expenses	51,870	49,663
Lease obligations	-	822
Income taxes payable	265	37,040
Accrued consumption taxes	118,462	44,922
Advance received	786,276	904,617
Deposits received	30,738	35,990
Other	1,376	1,855
Total current liabilities	1,782,180	1,768,262
Fixed liabilities		
Long-term loans payable	906,100	782,980
Long-term loans payable to subsidiaries and affiliates	-	114,160
Deferred tax liabilities	827	6,603
Provision for retirement benefits	135,922	153,242
Provision for loss on business of subsidiaries and affiliates	134,981	1,368
Lease obligations	-	3,017
Long-term deposits received	16,294	9,767
Total fixed liabilities	1,194,126	1,071,139
Total liabilities	2,976,307	2,839,401
Net assets		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus		
Other capital surplus	474,415	476,079
Total capital surplus	474,415	476,079
Retained earnings		
Other retained earnings		
Retained earnings brought forward	(68,730)	(75,902)
Total retained earnings	(68,730)	(75,902)
Treasury stock	(116,194)	(110,178)
Total shareholders' equity	1,771,010	1,771,519
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	1,672	16,049
Total valuation and translation adjustments	1,672	16,049
Stock acquisition rights	3,559	2,199
Total net assets	1,776,243	1,789,768
Total liabilities and net assets	4,752,550	4,629,170

(2) Unconsolidated Statements of Income

(In thousands of yen)

	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016
Net sales	6,990,010	7,950,611
Cost of sales	5,051,903	5,735,992
Gross margin	1,938,107	2,214,618
Selling, general and administrative expenses	2,001,442	1,979,312
Operating income (loss)	(63,334)	235,306
Non-operating income		
Interest income	943	638
Foreign exchange gain	46	7,518
Fiduciary obligation fee	5,993	9,190
Compensation received	10,000	-
Management fee received from subsidiaries and affiliates	-	47,000
Other	250	7,379
Total non-operating income	17,234	71,726
Non-operating expenses		
Interest expenses	2,125	5,843
Loss on investment of investment partnership	3,864	8,151
Provision of allowance for doubtful accounts	-	4,895
Other	310	-
Total non-operating expenses	6,300	18,890
Ordinary income (loss)	(52,401)	288,142
Extraordinary income		
Gain on sale of investment securities	8,169	-
Gain on reversal of stock acquisition rights	1,330	1,289
Total extraordinary income	9,499	1,289
Extraordinary loss		
Loss on retirement of fixed assets	678	1,299
Loss on valuation of stocks of subsidiaries and affiliates	30,000	119,991
Provision for loss on business of subsidiaries and affiliates	14,533	8,484
Loss on valuation of investment securities	-	13,886
Loss on withdrawal from employees’ pension fund	11,566	-
Loss on valuation of golf club membership	2,358	1,550
Expense related to retrospective adjustment	-	139,212
Other	-	918
Total extraordinary loss	59,137	285,341
Net income (loss) before income taxes	(102,038)	4,090
Income taxes-current	7,395	30,162
Income taxes-deferred	-	(18,898)
Total income taxes	7,395	11,263
Net income (loss)	(109,433)	(7,172)

(3) Unconsolidated Statements of Changes in Equity

Fiscal year ended December 31, 2015

(In thousands of yen)

	Shareholders' equity					
		Capital surplus			Retained earnings	
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retailed earnings
Balance as of January 1, 2015	1,481,520	361,305	114,928	476,233	83,667	83,667
Amount of changes during the period						
Dividends from surplus				-	(42,963)	(42,963)
Net income (loss)				-	(109,433)	(109,433)
Disposal of treasury stock			(1,818)	(1,818)		-
Transfer from legal capital surplus to other capital surplus		(361,305)	361,305	-		-
Net amount of changes in items not included in shareholders' equity						
Total amount of changes during the period	-	(361,305)	359,486	(1,818)	(152,397)	(152,397)
Balance as of December 31, 2015	1,481,520	-	474,415	474,415	(68,730)	(68,730)

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total equity
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of January 1, 2015	(119,329)	1,922,091	368	368	4,028	1,926,488
Amount of changes during the period						
Dividends from surplus		(42,963)				(42,963)
Net income (loss)		(109,433)				(109,433)
Disposal of treasury stock	3,135	1,316				1,316
Transfer from legal capital surplus to other capital surplus		-				-
Net amount of changes in items not included in shareholders' equity		-	1,304	1,304	(468)	835
Total amount of changes during the period	3,135	(151,080)	1,304	1,304	(468)	(150,245)
Balance as of December 31, 2015	(116,194)	1,771,010	1,672	1,672	3,559	1,776,243

Fiscal year ended December 31, 2016

(In thousands of yen)

	Shareholders' equity					
		Capital surplus			Retained earnings	
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance as of January 1, 2016	1,481,520	-	474,415	474,415	(68,730)	(68,730)
Amount of changes during the period						
Dividends from surplus				-		-
Net income (loss)				-	(7,172)	(7,172)
Disposal of treasury stock			1,664	1,664		-
Transfer from legal capital surplus to other capital surplus				-		-
Net amount of changes in items not included in shareholders" equity				-		-
Total amount of changes during the period	-	-	1,664	1,664	(7,172)	(7,172)
Balance as of December 31, 2016	1,481,520	-	476,079	476,079	(75,902)	(75,902)

	Shareholders' equity		Valuation and translation adjustments		Stock acquisition rights	Total equity
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance as of January 1, 2016	(116,194)	1,771,010	1,672	1,672	3,559	1,776,243
Amount of changes during the period						
Dividends from surplus		-				-
Net income (loss)		(7,172)				(7,172)
Disposal of treasury stock	6,016	7,681				7,681
Transfer from legal capital surplus to other capital surplus		-				-
Net amount of changes in items not included in shareholders" equity		-	14,377	14,377	(1,360)	13,016
Total amount of changes during the period	6,016	508	14,377	14,377	(1,360)	13,525
Balance as of December 31, 2016	(110,178)	1,771,519	16,049	16,049	2,199	1,789,768

(4) Notes on Unconsolidated Financial Statements

Going Concern Assumption

Not applicable

7. Other

(1) Changes in Executives

We will disclose changes in executives under the rule of timely disclosure.