

Consolidated Financial Results for the Six Months Ended June 30, 2017  
(Under Japanese GAAP)

July 31, 2017

Company name: SIOS Technology, Inc.  
 Stock listed on: Tokyo Stock Exchange  
 Stock code: 3744  
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 Scheduled filing date of quarterly securities report: August 10, 2017  
 Scheduled commencement date of dividend payment: -  
 Supplementary materials prepared for quarterly financial results: Yes  
 Presentation of quarterly financial results: Yes (for institutional investors and analysts)

(Fractions less than 1 million yen are rounded off)

### 1. Consolidated Financial Results for 6 Months Ended June 30, 2017

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
6 months ended June 30, 2017	6,226	-0.2	173	-47.5	184	-37.0	89	1.1
6 months ended June 30, 2016	6,238	42.0	330	-	292	-	88	-

Note: Comprehensive income : 6 months ended June 30, 2017 65 million yen (-%)  
 6 months ended June 30, 2016 (2) million yen (-%)

	Earnings per share (Basic)	Earnings per share (Diluted)
	Yen	Yen
6 months ended June 30, 2017	10.43	10.39
6 months ended June 30, 2016	10.34	10.32

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2017	5,537	1,719	30.5
As of December 31, 2016	5,256	1,647	30.8

Note: Equity: As of June 30, 2017: 1,689 million yen As of December 31, 2016: 1,619 million yen

### 2. Dividends

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2016	-	0.00	-	0.00	0.00
Fiscal year ending December 31, 2017	-	0.00			
Fiscal year ending December 31, 2017 (Forecast)			-	5.00	5.00

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

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

(Percentages represent changes from the previous fiscal year)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending December 31, 2017	12,600	4.3	500	5.4	480	23.1	320	25.7	37.11

Note: Revision to the previously announced business forecasts: None

Notes:

(1) Material changes in subsidiaries during the 6 months ended June 30, 2017 : None

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements : None

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

(i) Changes in accounting policies based on revisions of accounting standards : None

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

(iii) Changes in accounting estimates : None

(iv) Restatements : None

(4) Number of issued and outstanding shares (common stock)

(i) Number of issued and outstanding shares at the end of the period (including treasury stock)

As of June 30, 2017	8,874,400 shares	As of December 31, 2016	8,874,400 shares
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(ii) Number of treasury stocks at end of the period

As of June 30, 2017	250,241 shares	As of December 31, 2016	260,041 shares
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(iii) Average number of shares during the period (cumulative from the beginning of the fiscal year)

For 6 months ended June 30, 2017	8,624,159 shares	For 6 months ended June 30, 2016	8,605,613 shares
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\* This summary of quarterly consolidated financial results is not subject to a quarterly review.

\* Proper use of business forecasts and other important matters

Forward-looking statements, such as business forecasts included in this document, are based on currently available information or assumptions that the Company considers reasonable, and business results may differ significantly from forecasts due to various factors. For assumptions used as a basis for making business forecasts and notes on the use of business forecasts, refer to "(3) Forward-looking Statements Including Consolidated Business Forecasts" on Page 5 of the attached document.

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## 1. Qualitative Information on Consolidated Results

### (1) Results of Operations

#### Overview of the consolidated business performance for the 6 months ended June 30, 2017

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

In the six months ended June 30, 2017, the Group expanded service offerings for open-source software<sup>2</sup> (OSS) for cloud, including the launch of operational support for Ansible<sup>3</sup>, an IT automation framework. We redoubled our sales efforts for LifeKeeper<sup>4</sup> and software applications for multifunction printers (MFPs)<sup>5</sup>. In addition, we launched SIOS Coati, which provides automatic disaster recovery in public cloud environments.

With the implementation of these initiatives and efforts, the Group's consolidated business results by segment for the six months ended June 30, 2017 turned out as follows:

#### Open System Infrastructure Business Segment

The Group achieved a substantial increase in sales of LifeKeeper in the Americas and a steady increase in their sales in Japan and the Asia-Oceania region. Buoyed by stepped-up sales and marketing efforts, Red Hat Enterprise Linux<sup>6</sup> and other software products sourced from Red Hat, Inc. enjoyed robust sales, and OSS-related products achieved steady sales growth as well.

As a result, net sales in this segment amounted to 3,424 million yen, up 6.9% from the same period a year earlier, with a segment income of 107 million yen, up 32.7% year on year.

#### Application Business Segment

The Group achieved a steady increase in sales of software applications for MFPs as well as in revenues from providing system development and implementation support. However, sales of software applications to regional banks declined sharply in this period from the previous year. This was primarily because their sales for this fiscal year are projected to shift toward the second half of the year, while the majority of their annual sales had been posted in the first half of the year previously.

As a result, net sales in this segment amounted to 2,801 million yen, down 7.7% from the same period a year earlier, with a segment income of 65 million yen, down 73.6% year on year.

With an increase in net sales and segment income in the open system infrastructure business segment more than offset by a decline in net sales and segment income in the application business segment, the Group's combined net sales for these two segments were down 0.2% year on year to 6,226 million yen, with an operating income of 173 million yen, down 47.5% year on year. With smaller non-operating expenses recorded in this period compared with the same period the previous year, when a share of loss of entities accounted for using equity method had been recorded, the Group posted an ordinary income of 184 million yen, down 37.0% year on year. The Group's profit attributable to owners of parent amounted to 89 million yen, up 1.1% from the same period the previous year, when expenses related to a retrospective adjustment of 139 million yen had been recognized as extraordinary losses. The Group's key management metrics EBITDA, which is the sum of operating income, depreciation, and amortization of goodwill, stood at 260 million yen, down 37.5% year on year.

#### 1. Fintech

An emerging technology for facilitating innovations in the financial sector.

#### 2. Open-source software

Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.

#### 3. Ansible

An open-source IT automation framework capable of controlling multiple servers and cloud infrastructures in a unified manner.

#### 4. LifeKeeper

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

#### 5. 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.

#### 6. Red Hat Enterprise Linux

Linux OS developed by Red Hat, Inc., a provider of open-source solutions.

### (2) Financial Position

Total assets were 5,537 million yen as of June 30, 2017, up 5.3% from the end of the previous fiscal year; this was primarily due to an increase of 320 million yen in cash and cash deposits. Total liabilities were up 5.8% to 3,817 million yen, primarily due to an increase of 244 million yen in advances received. Total net assets were up 4.4% to 1,719 million yen, reflecting a profit of 89 million yen attributable to owners of parent posted in this period.

#### Cash Flows

The balance of cash and cash equivalents amounted to 2,114 million yen as of June 30, 2017, an increase of 320 million yen from the end of the previous fiscal year.

(In millions of yen)

	6 months ended June 30, 2016	6 months ended June 30, 2017	Change
Cash flows from operating activities	636	469	(166)
Cash flows from investing activities	(55)	(11)	43
Cash flows from financing activities	(376)	(93)	283

Net cash provided by operating activities amounted to 469 million yen for the six months ended June 30, 2017. This reflected primarily a profit of 185 million yen before income taxes and an increase of 260 million yen in advances received.

Net cash used for investing activities amounted to 11 million yen. This reflected primarily payment for purchasing of intangible assets.

Net cash used for financing activities amounted to 93 million yen. This reflected primarily the repayment of loans payable.

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

The Group achieved business performance in the six months ended June 30, 2017 on track to meet the full-year consolidated business forecasts for the fiscal year ending December 31, 2017, which were announced on February 2, 2017. Those forecasts for FY 2017 stand for the remainder of the year.

## 2. Matters Concerning Summary Information (Notes)

(1) Material changes in subsidiaries during the three months ended June 30, 2017

Not applicable

(2) Adoption of special accounting treatments for the preparation of quarterly consolidated financial statements

Not applicable

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

Not applicable

(4) Additional information

Consolidated business performance for the six months ended June 30, 2017 (From January 1, 2017 through June 30, 2017)
Effective as of the beginning of the first quarter of the current fiscal year, the Company adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Implementation Guidance No. 26, issued on March 28, 2016).

### 3. Consolidated Financial Statements

#### (1) Consolidated Balance Sheet

(In thousands of yen)

	December 31, 2016	June 30, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	1,923,658	2,244,590
Notes and accounts receivable-trade	1,346,923	1,388,910
Work in process	56,008	29,262
Advance payments- trade	128,189	143,294
Other	160,818	171,199
Allowance for doubtful accounts	(200)	(200)
<b>Total current assets</b>	<b>3,615,398</b>	<b>3,977,057</b>
Non-current assets		
Property, plant and equipment		
Buildings, net	109,119	102,552
Other, net	84,402	80,269
<b>Total property, plant and equipment</b>	<b>193,521</b>	<b>182,822</b>
Intangible assets		
Goodwill	753,414	710,728
Other	217,932	205,302
<b>Total intangible assets</b>	<b>971,347</b>	<b>916,031</b>
Investments and other assets		
Investment securities	171,942	168,100
Net defined benefit asset	27,674	28,751
Guarantee deposits	229,513	224,891
Other	56,738	49,629
Allowance for doubtful accounts	(9,966)	(9,966)
<b>Total investments and other assets</b>	<b>475,901</b>	<b>461,404</b>
<b>Total non-current assets</b>	<b>1,640,770</b>	<b>1,560,258</b>
<b>Total assets</b>	<b>5,256,168</b>	<b>5,537,316</b>

(In thousands of yen)

	December 31, 2016	June 30, 2017
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	443,227	486,264
Short-term loans payable	30,000	-
Current portion of long-term loans payable	132,283	133,116
Income taxes payable	65,018	105,861
Advances received	1,409,377	1,654,284
Provision for bonuses	24,556	26,658
Other	437,191	395,004
Total current liabilities	2,541,654	2,801,189
Non-current liabilities		
Long-term loans payable	812,988	744,764
Net defined benefit liability	178,589	197,825
Other	75,342	74,165
Total non-current liabilities	1,066,920	1,016,754
Total liabilities	3,608,575	3,817,944
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,481,520	1,481,520
Capital surplus	466,657	467,807
Retained earnings	(67,044)	22,929
Treasury shares	(110,178)	(106,025)
Total shareholders' equity	1,770,954	1,866,231
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,008	10,539
Foreign currency translation adjustment	(165,485)	(186,837)
Total accumulated other comprehensive income	(151,477)	(176,297)
Subscription rights to shares	28,116	29,438
Total net assets	1,647,593	1,719,372
Total liabilities and net assets	5,256,168	5,537,316



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

Consolidated Statements of Income

For 6 months ended June 30

(In thousands of yen)

	6 months ended June 30, 2016	6 months ended June 30, 2017
Net sales	6,238,401	6,226,613
Cost of sales	3,969,671	4,063,956
Gross profit	2,268,729	2,162,657
Selling, general and administrative expenses	1,938,404	1,989,202
Operating income	330,325	173,454
Non-operating income		
Interest income	718	2,498
Foreign exchange gains	10,488	-
Fiduciary obligation fee	1,200	1,260
Gain on valuation of derivatives	-	9,905
Other	3,092	4,024
Total non-operating income	15,499	17,688
Non-operating expenses		
Interest expenses	3,686	2,408
Loss on investments in partnership	4,254	2,407
Provision for interest on refund for subsidy repayment	5,127	-
Share of loss of entities accounted for using equity method	38,081	-
Other	2,057	1,969
Total non-operating expenses	53,207	6,785
Ordinary income	292,617	184,357
Extraordinary income		
Gain on reversal of subscription rights to shares	1,166	1,448
Total extraordinary income	1,166	1,448
Extraordinary losses		
Loss on valuation of golf club membership	1,350	-
Loss on retirement of non-current assets	379	-
Loss on valuation of investment securities	799	-
Expense related to retrospective adjustment	139,212	-
Total extraordinary losses	141,741	-
Profit before income taxes	152,043	185,806
Income taxes-current	65,926	88,701
Income taxes-deferred	(3,792)	7,131
Total income taxes	62,134	95,832
Profit	89,909	89,973
Profit attributable to non-controlling interests	918	-
Profit attributable to owners of parent	88,990	89,973

Consolidated Statements of Comprehensive Income

For 6 months ended June 30

(In thousands of yen)

	6 months ended June 30, 2016	6 months ended June 30, 2017
Profit	89,909	89,973
Other comprehensive income		
Valuation difference on available-for-sale securities	(11,266)	(3,468)
Foreign currency translation adjustment	(80,989)	(21,351)
Total other comprehensive income	(92,255)	(24,819)
Comprehensive income	(2,346)	65,153
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(3,264)	65,153
Comprehensive income attributable to non-controlling interests	918	-

### (3) Consolidated Statements of Cash Flows

(In thousands of yen)

	6 months ended June 30, 2016	6 months ended June 30, 2017
<b>Cash flows from operating activities</b>		
Profit before income taxes	152,043	185,806
Depreciation	44,077	44,560
Provision for interest on refund for subsidy repayment	5,127	-
Amortization of goodwill	42,686	42,686
Interest and dividend income	(1,172)	(2,900)
Interest expenses	3,686	2,408
Loss (gain) on investments in partnership	4,254	2,407
Share of (profit) loss of entities accounted for using equity method	38,081	-
Decrease (increase) in notes and accounts receivable-trade	24,104	(47,598)
Decrease (increase) in inventories	20,426	26,746
Increase (decrease) in notes and accounts payable-trade	(51,656)	43,627
Increase (decrease) in net defined benefit liability	10,919	19,235
Increase (decrease) in advances received	356,801	260,894
Decrease (increase) in advance payments	(66,772)	(15,104)
Increase (decrease) in accrued consumption taxes	(74,184)	(6,659)
Other, net	106,321	(34,251)
Subtotal	614,743	521,859
Interest and dividend income received	1,172	2,900
Interest expenses paid	(3,686)	(2,408)
Income taxes refund	38,155	-
Income taxes paid	(13,827)	(52,627)
Net cash provided by (used in) operating activities	636,557	469,722
<b>Cash flows from investing activities</b>		
Payments into time deposits	(131,200)	(130,000)
Proceeds from withdrawal of time deposits	160,000	130,000
Purchase of property, plant and equipment	(16,228)	(5,433)
Purchase of intangible assets	(7,649)	(6,180)
Payments of guarantee deposits	(49,592)	-
Proceeds from collection of guarantee deposits	166	435
Purchase of golf club memberships	(8,776)	-
Purchase of shares of subsidiaries and affiliates	(2,205)	-
Other, net	163	(328)
Net cash provided by (used in) investing activities	(55,321)	(11,506)
<b>Cash flows from financing activities</b>		
Cash dividends paid	(28)	(30)
Net increase (decrease) in short-term loans payable	(240,000)	(30,000)
Repayment of long-term loans payable	(117,725)	(67,391)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(25,888)	-
Other, net	7,181	4,264
Net cash provided by (used in) financing activities	(376,460)	(93,156)
Effect of exchange rate change on cash and cash equivalents	(131,861)	(44,126)
Net increase (decrease) in cash and cash equivalents	72,913	320,932
Cash and cash equivalents at beginning of period	2,045,352	1,793,658
Cash and cash equivalents at end of period	2,118,266	2,114,590

#### (4) Notes on Consolidated Financial Statements

##### Notes on Going Concern Assumption

Not applicable

##### Notes on Material Changes in Shareholders' Equity

Not applicable

##### Segment Information

###### 【Segment Information】

I 6 months ended June 30, 2016

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

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	3,203,462	3,034,939	6,238,401	-	6,238,401
Intersegment sales and transfers	311	-	311	(311)	-
Total	3,203,773	3,034,939	6,238,712	(311)	6,238,401
Segment income	81,104	249,221	330,325	-	330,325

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

##### Supplementary Information

###### Information by region

In addition to the disclosure required by the "Accounting Standard for Quarterly Financial Statements," information (net sales) by region is disclosed in accordance with the "Accounting Standard for the Disclosure of Segment Information" for the purpose of providing users of financial statements with valuable information.

###### Net sales

For 6 months ended June 30, 2016

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
5,883,577	229,644	68,115	57,063	6,238,401

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

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

II 6 months ended June 30, 2017

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

(In thousands of yen)

	Reportable segment			Adjustments	Amount recorded in quarterly consolidated statements of income*
	Open system infrastructure business	Application business	Total		
Net sales					
Sales to external customers	3,424,696	2,801,917	6,226,613	-	6,226,613
Intersegment sales and transfers	32	-	32	(32)	-
Total	3,424,728	2,801,917	6,226,645	(32)	6,226,613
Segment income	107,643	65,811	173,454	-	173,454

Note: The total amount of segment income is equal to operating income recorded in the quarterly consolidated statements of income.

Supplementary Information

Information by region

In addition to the disclosure required by the “Accounting Standard for Quarterly Financial Statements,” information (net sales) by region is disclosed in accordance with the “Accounting Standard for the Disclosure of Segment Information” for the purpose of providing users of financial statements with valuable information.

**Net sales**

For 6 months ended June 30, 2017

(In thousands of yen)

Japan	Americas	Europe	Other regions	Total
5,859,456	246,952	57,004	63,200	6,226,613

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

2. Information regarding loss on impairment of non-current assets or goodwill by reportable segment

Not applicable

**Significant Subsequent Events**

Not applicable