



FY 2015 Financial Results [Japanese Standards] (Consolidated)



February 2, 2016

Name of listed company SIOS Technology, Inc. Listing exchange Tokyo Stock Exchange

Code number 3744 URL <http://www.sios.com/>

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Contact (Title) Managing Executive Officer (Name) Tokutato Kobayashi (TEL) 03-6401-5111

Scheduled date of annual shareholders meeting: March 29, 2016 Scheduled date of commencing dividend payment: —
Scheduled date of submission of securities reports: March 30, 2016

Supplemental materials prepared for account settlement : Yes

Account settlement briefing : Yes (For institutional investors and analysts)

(Any fraction less than one million yen is rounded off)

1. Consolidated results (From January 1, 2015 through December 31, 2015)

(1) Consolidated financial results (% of change from previous year)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---------|-------------|------|------------------|--------|-----------------|--------|-------------|--------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY 2015 | 9,362 | 27.1 | (111) | — | (127) | — | (179) | — |
| FY 2014 | 7,367 | 11.2 | 65 | (73.4) | 81 | (69.3) | 39 | (64.5) |

(Note) Comprehensive income FY 2015 -173million yen(—%) FY 2014 115million yen(-50.0%)

| | Net income per share-Basic | Net income per share-Diluted | Return on equity | Ratio of ordinary income to total assets | Operating income ratio |
|---------|----------------------------|------------------------------|------------------|--|------------------------|
| | Yen | Yen | % | % | % |
| FY 2015 | (20.82) | — | (11.1) | (2.7) | (1.2) |
| FY 2014 | 4.48 | 3.37 | 2.3 | 2.4 | 0.9 |

(Reference)Equity in earnings FY 2015 -46million yen FY 2014 —million yen

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| FY 2015 | 5,642 | 1,539 | 26.6 | 174.66 |
| FY 2014 | 3,651 | 1,733 | 47.1 | 200.26 |

(Reference)Equity FY 2015 1,502million yen FY 2014 1,720million yen

(3) Consolidated cash flows

| | Cash flow from operating activities | Cash flow from investing activities | Cash flow from financing activities | Cash and cash equivalents - ending |
|---------|-------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| | Million yen | Million yen | Million yen | Million yen |
| FY 2015 | 168 | (996) | 988 | 2,045 |
| FY 2014 | 401 | (223) | (145) | 1,882 |

2. Cash dividends

| | Annual dividend | | | | | Total of dividend (annual) | Payout ratio (consolidated) | Net assets dividend ratio (consolidated) |
|--------------------|-----------------|-----------|-----------|----------|--------|----------------------------|-----------------------------|--|
| | End of Q1 | End of Q2 | End of Q3 | Year-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| FY 2014 | — | 0.00 | — | 5.00 | 5.00 | 42 | 111.6 | 2.5 |
| FY 2015 | — | 0.00 | — | 0.00 | 0.00 | — | — | — |
| FY 2016 (expected) | — | 0.00 | — | 0.00 | 0.00 | — | — | — |

3. Forecast of consolidated results for FY 2016 (From January 1, 2016 through December 31, 2016)

(% of change from previous year)

| | Sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | Net income per share |
|---------|-------------|------|------------------|---|-----------------|---|---|---|----------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| FY 2016 | 10,500 | 12.1 | 140 | — | 100 | — | 50 | — | 5.82 |

* Notes

- (1) Material changes in subsidiaries during the period (Changes in specified subsidiaries resulting in the scope of consolidation) : Yes

New 2companies (Company name) ^{Keyport Solutions, Inc., Profit Cube Inc.} Elimination —company (Company name)

(Note) For more details, please see “(5) Notes to consolidated financial statements (Significant matters related to the basis for preparation of the consolidated financial statements)” at the page 18 of the attached documents.

- (2) Changes in accounting policies and accounting estimates and retrospective restatement
- (i) Changes in accounting policies based on revisions of accounting standards : No
- (ii) Changes in accounting policies other than the above (i) : None
- (iii) Changes in accounting estimates : None
- (iv) Retrospective restatement : None

- (3) Number of issued and outstanding shares (common stock)

| | | | | |
|---|---------|-----------------|---------|-----------------|
| (i) Number of issued and outstanding shares at the end of the period (including treasury stock) | FY 2015 | 8,874,400shares | FY 2014 | 8,874,400shares |
| (ii) Number of treasury stock at the end of the period | FY 2015 | 274,241shares | FY 2014 | 281,641shares |
| (iii) Average number of shares during the period | FY 2015 | 8,598,621shares | FY 2014 | 8,773,147shares |

(Reference) Summary of unconsolidated results

1. Unconsolidated results for FY 2015 (From January 1, 2015 through December 31, 2015)

- (1) Unconsolidated financial results (% of change from previous year)

| | Sales | | Operating income | | Ordinary income | | Net income | |
|---------|-------------|------|------------------|-------|-----------------|------|-------------|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY 2015 | 6,990 | 11.7 | (63) | — | (52) | — | (102) | — |
| FY 2014 | 6,256 | 15.0 | 156 | (0.3) | 298 | 14.8 | 150 | — |

| | Net income per share - Basic | Net income per share - Diluted |
|---------|------------------------------|--------------------------------|
| | Yen | Yen |
| FY 2015 | (11.96) | — |
| FY 2014 | 17.10 | 17.08 |

- (2) Unconsolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| FY 2015 | 4,756 | 1,901 | 39.9 | 220.68 |
| FY 2014 | 3,553 | 2,045 | 57.4 | 237.53 |

(Reference) Equity FY 2015 1,897million yen FY 2014 2,041million yen

* Audit procedures

- The financial results are not subject to the audit procedures based on the Financial Instruments and Exchange Law. As of the release of the financial results, the audit procedures have not been completed for financial statements according to the Financial Instruments and Exchange Law

* Proper use of earnings forecasts and other important matters

- Forward-looking statements, such as earnings forecasts included in this document, are based on currently available information or certain assumptions that we think reasonable, and actual results may significantly differ due to various factors. For assumptions used as the basis for earnings forecast and notes to use of earnings forecasts, please see “(1) Analysis of Business Results” at the page 2 of the attached document
- We will hold the account settlement briefing for institutional investors and analysts on February 3, 2016. Materials for the account settlement briefing to be used on the day will be posted on our homepage immediately.

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1. Analysis of Business Results and Financial Positions

(1) Analysis of Business Results

< Overview of the current consolidated fiscal year >

Our group is engaged in continuing R&D investment, new business creation (including M&A), and strengthening competitiveness of core businesses to lead rapid changes in the market environment of the IT industry to achieve additional growth as indicated in the medium-term management strategy.

In the current consolidated fiscal year, the Group focused on development of machine learning technology^{(*)1} as continuing R&D investment.

As the first fruit of the development, IT operations analysis^{(*)2} software SIOS iQ^{(*)3} was launched in the United States and Japan in July 2015.

With regard to new business creation (including M&A), we made Keyport Solutions, Inc. (hereinafter “KPS”), a developer of applications mainly for financial institutions, a subsidiary April 2015. We also made Profit Cube Inc. (hereinafter “PCI”), which develops, sells, and maintains the ALM system^{(*)4} for financial institutions, a subsidiary in October 2015. These helped us to build the system for launching new products and services in the potential high growth area Fintech.^{(*)5}

With regard to strengthening competitiveness of core businesses, we focused on the support of the cloud^{(*)7} through a major upgrade of LifeKeeper^{(*)6} and feature expansion of software^{(*)8} products for MFP.

Business results for segments are as follows:

(Open system infra segment)

As a result of sales promotions, LifeKeeper, one of our core products, sales grew in all the areas of Japan, United States, Europe, and Asia/Oceania, and the Red Hat, Inc., products, including Red Hat Enterprise Linux^{(*)9}, also recorded a steady increase in sales due to expansion of sales and marketing activities. Open source software^{(*)10} (hereinafter “OSS”) support service and OSS-related products achieved solid sales growth. As a result, sales amounted to 5,541 million yen (up 10.7% yoy).

In terms of profit and loss, the segment recorded a loss of 165 million yen (a loss of 37 million yen for the previous fiscal year) due to active R&D investment with the aim of future contributions to revenues, including development of the IT operations analysis software SIOS iQ.

(Web application segment)

The segment sharply increased sales due to the addition of KPS to the Web application segment in April 2015. A steady increase in sales from software products for MFP sharply increased sales to 3,820 million yen (up 61.9% yoy). The SaaS^{(*)11} Gluegent series^{(*)12} linked to Google Apps showed a steady sales increase.

In terms of profit and loss, the sales growth pushed up the profit margin, but active R&D investment in functional enhancement of software products for MFP and the Gluegent series increased selling, general and administrative expenses. As a result, the segment recorded income of 53 million yen (down 48.4% yoy).

As a result of the above, net sales sharply increased to 9,362 million yen, up 27.1% yoy for the current consolidated fiscal year.

Selling, general, and administrative expenses amounted to 3,463 million yen (up 23.1% yoy) as R&D expenses were 648 million yen (up 29.1%) due to active investment in R&D. Consequently, we recorded an operating loss of 111 million yen (operating income of 65 million yen for the previous consolidated fiscal year), ordinary loss of 127 million yen (ordinary income of 81 million yen), and net loss of 179 million yen (net income of 39 million yen). The group’s key management indicator EBITDA (operating income + depreciation + amortization of goodwill) stood at -45 million yen (125 million yen).

(*1) Machine learning technology

The technology to give the computer the same learning ability as a human being and to explore beneficial information from a variety of data.

(*2) IT operations analysis

IT operations analysis to analyze the data from IT operations and convert the data into practical and clear information.

(*3) SIOS iQ

The product to comprehensively supervise, analyze, and optimize operations of applications in the virtual and cloud environments and seek to improve performance and efficiency and secure credibility for resolving complex issues.

- (*4) ALM system
The system to manage the risks of assets and liabilities of financial institutions.
- (*5) Fintech
The new technology developed by mixing finance with technology.
- (*6) LifeKeeper
The software to play a role of reserving another backup server in the same environment as a server in operation and automatically making the backup server take over services in the event of an unusual failure.
- (*7) Cloud
The service to provide data and software, which users had conventionally used on the computer available, online.
- (*8) Software for MFP
MFP (abbreviation for multi-function peripheral) represents the equipment with multiple functions of a printer, scanner, copier, and facsimile. We develop, sell, and maintain Quick Scan and Speedoc, the document management software running on MFP.
- (*9) Red Hat Enterprise Linux
Linux OS developed by the open solution provider Red Hat, Inc.
- (*10) Open source software
Software where the source code, the design of the software, is freely available and can be used, updated, and redistributed.
- (*11) SaaS
The service to provide software online and enable users to use what they need as needed.
- (*12) Gluegent series
The service to support companies' optimization of businesses with the cloud using Gluegent Flow, which enables the companies to execute internal workflows in the cloud, and Gluegent Apps Group Scheduler, a Google Calendar app with the function to manage the schedule of team members.

< Outlook for the Following Period >

Also for the following period (FY 2016), our group will be continuously engaged in continuing R&D investment and strengthening the competitiveness of core businesses. It will also aim at new business creation in new areas including Fintech, using KPS and PCI, which were made a subsidiary in the current period (FY 2015). Following the current fiscal year, it will be actively engaged in M&A.

For R&D, we will continue to actively invest in machine learning technology with the aim of expanding the functions of SIOS iQ released July 2015 and starting to offer new products and services in new areas including Fintech. We will also continuously invest in strengthening the functions of our core product LifeKeeper, a software product for the MFP Gluegent series, and PCI's software products for financial institutions.

For the following period, the planned R&D expenses are 880 million yen in total (up 35.8% from the current consolidated fiscal year)

Given the above, for consolidated business results for the following period, we expected sales of 10,500 million yen (up 12.1% from the current consolidated fiscal year), sales growth for sixth consecutive period.

For items stated after operating profit or loss, because of the promotion of rationalization resulting from the tighter cooperation within the group and an increase in the composition ratio of higher-margin in-house products despite continuously estimated increase in R&D expenses, we expect to turn into the black with operating income of 140 million yen (operating loss of 111 million yen for the current consolidated fiscal year), ordinary income of 100 million yen (ordinary loss of 127 million yen) and net income attributable to the owners of the parent of 50 million yen (net loss of 179 million yen). EBITDA is estimated to be 300 million yen (-45 million yen).

(2) Analysis of Financial Positions

< Assets, liabilities and net assets >

(i) Assets

Current assets amounted to 3,901 million yen (up 20.0% from the end of the previous consolidated fiscal year) due to an increase in cash and deposits, notes and accounts receivable-trade, work in progress, and advance payment of 224 million yen, 418 million yen, and 92 million yen, respectively, and a decrease in the advance payment of 54 million yen.

Fixed assets amounted to 1,741 million yen (up 334.4%) due to an increase in goodwill and investment securities of 831 million yen and 190 million yen respectively.

As a result of the above, total assets amounted to 5,642 million yen (up 54.5%).

(ii) Liabilities

Current liabilities amounted to 2,872 million yen (up 61.0% from the end of the previous consolidated fiscal year) due to an increase in accounts payable-trade, short-term loans payable, the current portion of long-term loans payable and advance received of 193 million yen, 240 million yen, 152 million yen and 271 million yen, respectively.

Fixed liabilities amounted to 1,230 million yen (up 815.0%) due to an increase in long-term loans payable and deferred tax liabilities of 971 million yen and 68 million yen, respectively.

As a result of the above, total liabilities amounted to 4,102 million yen (up 113.9%).

(iii) Net assets

Total net assets amounted to 1,539 million yen (down 11.2% from the end of the previous consolidated fiscal year) due to dividends paid of 42 million yen and net loss of 179 million yen.

< Cash flow >

For the current consolidated fiscal year, the balance of cash and cash equivalents (hereinafter "cash") increased to 2,045 million yen, up 163 million yen from the end of the previous consolidated fiscal year.

For the current consolidated fiscal year, by section, cash flow is as follows:

(Cash flow from operating activities)

Net cash provided by operating activities amounted to 168 million yen (gain of 401 million yen for the previous period) due to net loss before income taxes of 145 million yen, depreciation of 59 million yen, loss on equity method investment of 46 million yen, an increase in notes and accounts payable-trade and advances received of 99 million yen and 77 million yen, respectively, a decline in advance payment of 54 million yen, an increase in accounts payable-other of 43 million yen and income taxes paid of 154 million yen.

(Cash flow from investing activities)

Net cash used in investing activities amounted to 996 million yen (use of 223 million yen for the previous period) due to proceeds from the withdrawal of time deposits of 100 million yen, purchase of shares of a subsidiary resulting in changes in the scope of consolidation, and the acquisition of investment securities of 924 million yen and 670 million yen, respectively and revenues from the sale of investment securities of 573 million yen.

(Cash flow from financing activities)

Cash provided by financing activities amounted to 988 million yen (use of 145 million yen for the previous period) due to cash dividends paid of 42 million yen, proceeds from long-term loans payable of 1,060 million yen, and expenditures for payment of long-term loans payable of 33 million yen.

(Reference) Trends of cash flow-related indices

| | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|--|---------|---------|---------|---------|---------|
| Equity ratio (%) | 51.1 | 50.2 | 54.7 | 47.1 | 26.6 |
| Equity ratio on a market value basis (%) | 50.4 | 86.2 | 196.3 | 120.3 | 79.7 |
| Ratio of interest-bearing debts to cash flow (%) | 0.1 | 0.1 | 0.1 | 0.0 | 8.1 |
| Interest coverage ratio (multiple) | 150.8 | 742.2 | 188.6 | 1,652.8 | 100.6 |

Equity ratio: Equity capital/total assets

Equity ratio on a market value basis: Market capitalization/total assets

Ratio of interest-bearing debts to cash flow: Interest-bearing debts/cash flow

Interest coverage ratio: Cash flow/interest payments

(Note 1) All indices are based on consolidated financial figures.

(Note 2) Market capitalization is based on the number of outstanding shares issued excluding treasury shares.

(Note 3) Interest-bearing debts include all debts with their interests being paid among those recorded on the consolidated balance sheet.

(3) Basic Policy for Profit Allocation and Dividends for the Current and Following Periods

The Company has the basic policy for maintaining payments of dividends according to business results with ensuing required internal reserves in light of business results, financial positions, and future business deployment.

For the current period (FY 2015), as announced on February 2, 2015, we made no dividends and prioritized R&D activities to seek achievement of the medium-term management plan. For the following period (FY 2016), we will record net income attributable to owners of the parent, but we intend to make no dividends but prioritize investment in R&D toward further growth in future.

(4) Operational Risks

The following describes the main matters we think have a significant effect on decisions of investors in respect of the risk of business deployment of our group. Also for matters not applicable to such risk factors, those we think significant in investment decisions and the understanding of our group's business activities are described from the viewpoint of aggressive information disclosure to investors.

Our group will strive to avoid these risks and deal with these risks if occurring after recognizing the potential occurrence of these risks. We think it necessary to make decisions on investment in our shares after carefully examining the matters stated in this item and matters other than this item stated herein. Please note that those stated below do not comprehensively cover all risks related to investment in shares of the Company.

(i) Intellectual property of software

Some companies insist that the free software open for public consumption and OSS violate intellectual property, including copyrights and patents.

Our group closely watches the activities of the companies conducting these litigation acts. If these arguments were accepted, our group would be forced to review its OSS-related business. This could affect the business results of our group. The group has not yet experienced a claim for damages or an injunction involving property rights including copyrights, but it is difficult to completely understand the current state of intellectual property rights in our group's business areas, and so there is the possibility that other companies have patents beyond our group's knowledge. It is possible that a third party's patents will be newly established in the business areas of our group and a claim for loss or an injunction on use is filed against the group. This could affect the business results of our group.

(ii) Competition

The IT industry is experiencing severe competition as large- and small-sized system integrators, computer manufacturers, and software vendors^(*13) operate business in their specialized business areas and technology areas and in their experienced and proven industries.

Our group will strive to further strengthen the systems for development and sales, but competition with existing competitors and entry of new competitive companies weaken our advantage and could affect the business results of our group.

(*13) Software vendors

It means companies providing application software with no special relationship to specific hardware manufacturers or OS (operating system) developers.

(iii) New businesses

Our group operates business in the global IT industry where new technologies are developed every day. To maintain businesses under such an environment, the group needs to create businesses corresponding to the new needs of the market, establish subsidiaries and affiliates, and actively develop new products and services. In a case where changes in the internal and external business environment prevent an advance as planned, the group may review the plan (including changes in development and marketing plans). They may be suspended when we determine them unprofitable in light of business plans.

To create new businesses and develop new products and services, our group may make a prior investment. If funds were not raised for the prior investment, they could not be conducted as planned. This could have an effect on the financial positions and business results of our group.

(iv) Fluctuations in exchange rates

Our group sells and purchases some products in the US dollar and converts revenues and assets of overseas subsidiaries into the yen on the consolidated financial statements. Fluctuations in exchange rates may have an effect on the profit and loss and the financial positions of our group. We take effective measures to avoid such risks, but larger-than-expected fluctuations in exchange rates could have an effect on the business results of our group when we cannot avoid such risks.

(v) Business system of our group

1) Securing human resources

For further growth in the future, our group needs to develop new technologies toward the next generation in an open system infra business and application business and consider securing and developing superior human resources as a significant task. Our group had given top priority to securing human resources and strived to keep an optimal personnel composition.

If our group failed to hire and develop human resources as planned, our business system would be weakened. This could have a negative effect on the business strategy and the business results of our group.

2) Dependency on specific persons

The businesses of our group are driven by the Representative Director and President Nobuo Kita. He plays a significant role in determining management policy and general management strategy of our group, and then it is considered that the group significantly depends on him.

Our group promotes delegation of authority within the management system, increases members of the management system to strengthen the management organization following the expansion of business scale while it strives to increase organizational strength by recruiting experts and experienced persons in various areas according to the expansion of business areas. In respect of the execution of daily operations, the “executive board” and the “management council”, which consist of executive officers, were established. The group establishes the system not excessively depending on the individual competence of the President Kita by granting the deliberation function for daily operations to these systems. Those with rich experience in the IT sector were externally brought on to the Board of Directors to get sound advice.

We will continue to secure superior human resources to build a management system not excessively depending on the president and focus on an improvement in the quality of officers and employees. If it was difficult for the president to be engaged in the management of our group for any reason before achieving construction of the system and improvement in human resources as planned, the business strategy and the business results of our group could be negatively affected.

(vi) Subsidiaries

Our group makes capital subscription and acquires corporations to lead changes in the market environment of the IT sector. The Company will continue to seek further growth in business results by developing new products and services through a combination of management resources of investees and subsidiaries, including technology, sales capacity, and management know-how. Weak business results of investees and subsidiaries may have an effect on the business results of our group. If changes in the business environment and competition surrounding investees and subsidiaries bring about obstacles to implement business plans as planned, impairment loss will arise in goodwill. This may have an effect on the business results of our group.

(vii) Corporate buyout and strategic alliance

Our group, in the course of business expansion, may invest in other companies through corporate buyouts or strategic alliances. In making such decisions, the group does detailed due diligence on business activities, contracts, and financial composition of potential acquisitions and examines them in order to avoid risks, but the occurrence of contingent/unrecognized liabilities, unexpected weak business results, and disappointing results of measures after corporate buyouts or strategic alliances could have an effect on the financial positions and business results of our group.

(viii) Stock options

To improve officers’ and employees’ willingness to contribute to our businesses and their awareness of participating in business management, the Company adopts the stock option plan using equity warrants. Specifically, there is the stock option plan in the company based on a resolution approved by the Board of Directors as of May 13, 2014 and May 20, 2015.

The exercise of stock options would dilute the value of shares of our group per share. The balance of supply and demand may fluctuate for the short term depending on the equity price of our group, and this has an effect on stock prices.

Our group may grant stock options as an incentive plan in future to motivate officers and employees and secure superior human resources. Additional grants of stock options could dilute the value of shares.

(ix) Relationship to Otsuka Corporation

Otsuka Corporation (hereinafter “Otsuka”) is the largest shareholder with 18.53% of voting rights of the Company as of December 31, 2015, and falls into the category of Other Affiliate. The Company has a tight business relationship with Otsuka, but there is no restriction on fundraising and business management. Decisions are made under the responsibility of our group ensuring the independence of management. The Company will seek to increase transactions with Otsuka, but if there was any problem in cooperation with Otsuka for any reason or if Otsuka changed its cooperative system with the Company due to changes in its management policy, this could have an effect on the business results of our group.

(x) Managerially significant contracts

Our group considers the following contract in its businesses a managerially significant contract. If the contract were not renewed, this would have significant effect on the business results of the group.

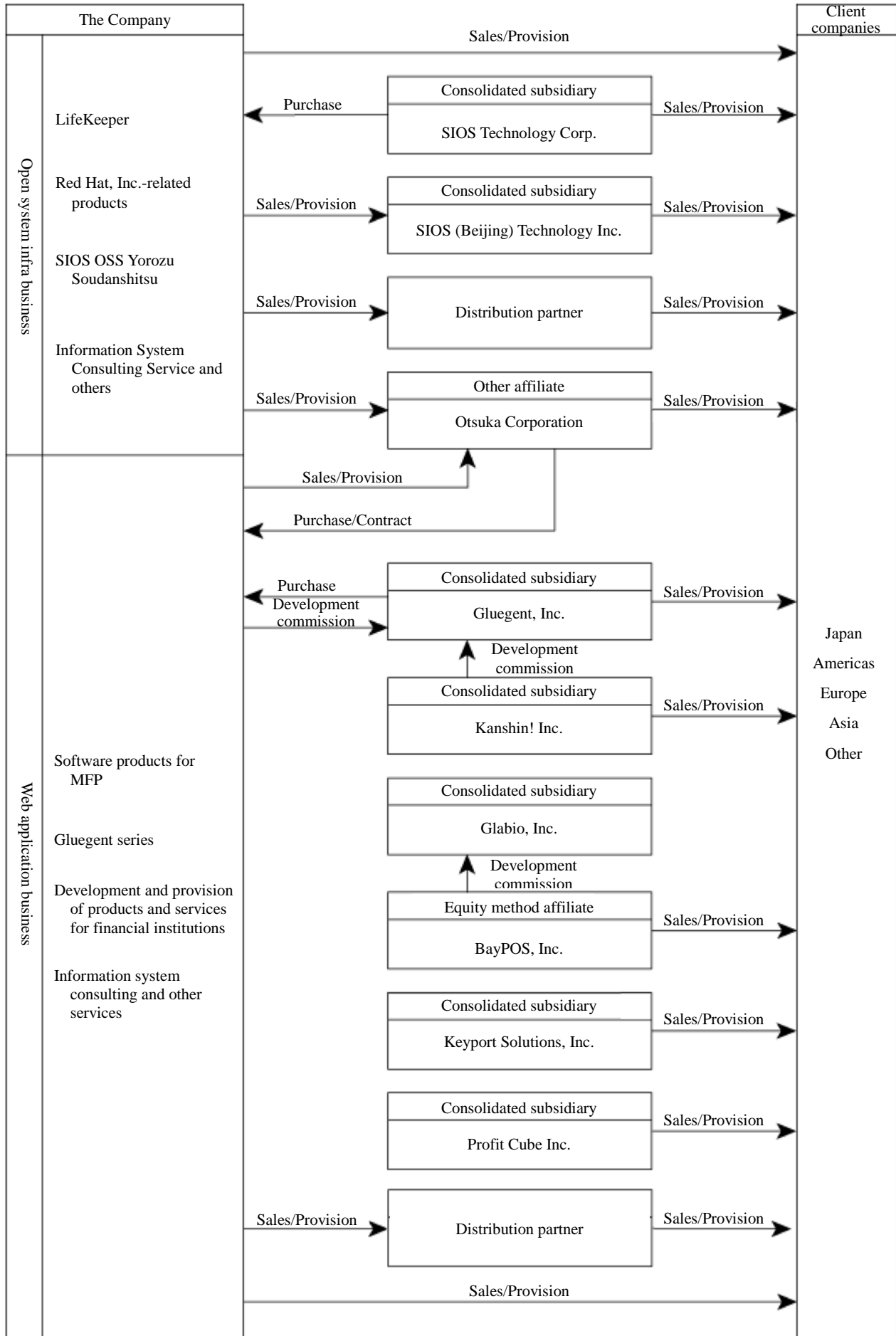
Name of contracting company: SIOS Technology, Inc.

Name of counterparty: Red Hat K.K. (subsidiary of Red Hat, Inc.)

Term of contract: One year from July 1, 2010 (after then, automatically renewed every year)

Details of contract: Contract to sell products of Red Hat K.K. (“Distribution contract”)

2. Corporate Group



3. Management Policy

(1) Basic Policy of Corporate Management

Our group seeks further growth by setting the following items as the basic policy of the medium-term management strategy.

- (i) Continuing R&D investment
- (ii) Strengthening competitiveness of core businesses
- (iii) New business creation in new areas including Fintech

(2) Target Management Indices

Our group aims at achieving mid- and long-term development to grow into an entity reliable to society under a daily changing business environment. The group seeks further growth and strengthening of the business base by setting the two indices (i) sales and (ii) EBITDA as its significant management index.

(3) Mid- and Long-term Corporate Management Strategy

Our group will continue to make investment for achieving mid- and long-term growth based on the basic policy for corporate management. Specifically, the group will do R&D in new areas, including machine learning technology and Fintech, while it will promote continuing R&D investment in core businesses of OSS-related products, LifeKeeper, software products for MFP, Google Apps linked- SaaS Gluegent series, software products of PCI, and strengthening of marketing and sales capabilities.

The group sets the target to achieve sales of 10.5 billion yen, 12.0 billion yen and 14.0 billion yen and EBITDA of 0.3 billion yen, 0.5 billion yen and 0.7 billion yen for FY 2016, FY 2017 and FY 2018, respectively, because of these measures.

(4) Corporate Issues to Be Dealt

Our group thinks as main issues (i) globally securing human resources, (ii) strengthening group management, (iii) promotion of global business expansion, and (iv) strengthening compliance management. Specifically, the group will deal with the following items.

- (i) Globally securing human resources
Our group globally operates businesses in Japan, as well as the Americas, Europe, and the Asia/Oceania region. To achieve further growth in each area, it is essential to secure superior human resources. Therefore, the group will secure diverse human resources without regional restrictions.
- (ii) Strengthening group management
Our group provides optimal products and services according to the issues and needs of business and operations of client companies and seeks to maximize synergy on a group-wide basis by sharing and using advanced know-how and expertise of the group companies. The group also strives to reduce cost increases by standardizing and consolidating common operations and systems scattered within the group. It will continuously seek to maximize its value including costs.
- (iii) Promotion of global business expansion
Our group will increase global competitiveness by expanding the sales channel in the United States, Europe, and Asia and strengthen R&D in the United States.
- (iv) Strengthening compliance management
In addition to the strong promotion of the above-mentioned items (i)-(iii), our group will strive to promote fair and transparent business management by further strengthening compliance management.

4. Basic View on Selection of Accounting Standards

Our group will prepare consolidated financial statements based on Japanese accounting standards at the moment, taking account the comparability of consolidated financial statements over periods and companies. The group will appropriately implement application of IFRS given situations on the application in Japan and overseas.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheet

(Unit: thousand yen)

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|-------------------------------------|--------------------------------------|--------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,982,108 | *3 2,206,352 |
| Notes and accounts receivable-trade | 927,978 | 1,346,277 |
| Merchandise | 8,786 | - |
| Work in progress | 22,221 | *1 114,680 |
| Advance payment | 161,063 | 106,473 |
| Other | 149,064 | 127,536 |
| Allowance for doubtful accounts | (200) | (200) |
| Total current liabilities | 3,251,022 | 3,901,120 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | 95,075 | 168,445 |
| Accumulated depreciation | (32,726) | (75,604) |
| Buildings (net) | 62,349 | 92,841 |
| Tool, furniture and fixtures | 209,952 | 374,528 |
| Accumulated depreciation | (169,421) | (308,406) |
| Tool, furniture and fixtures (net) | 40,530 | 66,121 |
| Lease assets | - | 6,089 |
| Accumulated depreciation | - | (247) |
| Lease assets (net) | - | 5,842 |
| Construction in progress | 2,505 | - |
| Total tangible fixed assets | 105,386 | 164,805 |
| Intangible fixed assets | | |
| Goodwill | 6,970 | 838,787 |
| Software in progress | 47,423 | 11,425 |
| Other | 19,276 | 237,046 |
| Total intangible fixed assets | 73,669 | 1,087,259 |
| Investment and other assets | | |
| Investment securities | 54,773 | *2 244,983 |
| Net defined retirement assets | - | 26,249 |
| Guarantee deposits | 166,657 | 216,140 |
| Other | 449 | 7,193 |
| Allowance for doubtful accounts | - | (5,071) |
| Investment and other assets | 221,880 | 489,494 |
| Total fixed assets | 400,936 | 1,741,559 |
| Total assets | 3,651,958 | 5,642,680 |

(Unit: thousand yen)

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|---|--------------------------------------|--------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 350,106 | 543,741 |
| Short-term loans payable | - | *3 240,000 |
| Current portion of long-term loans payable | 3,108 | 155,442 |
| Lease obligations | - | 1,244 |
| Income taxes payable | 107,227 | 28,450 |
| Advance received | 1,068,860 | 1,339,886 |
| Reserve for bonuses | - | 26,678 |
| Reserve for loss on orders received | 2,763 | *1 2,515 |
| Other | 251,687 | 534,409 |
| Total current liabilities | 1,783,753 | 2,872,367 |
| Fixed liabilities | | |
| Long-term loans payable | 3,040 | 974,765 |
| Deferred tax liabilities | 204 | 68,814 |
| Net defined benefit liabilities | 115,400 | 158,985 |
| Lease obligations | - | 5,132 |
| Other | 15,814 | 22,653 |
| Total fixed liabilities | 134,459 | 1,230,351 |
| Total liabilities | 1,918,213 | 4,102,719 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,481,520 | 1,481,520 |
| Capital surplus | 476,233 | 474,415 |
| Retained earnings | 26,358 | (195,609) |
| Treasury stock | (119,329) | (116,194) |
| Total shareholders' equity | 1,864,782 | 1,644,131 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 368 | 1,420 |
| Foreign currency translation adjustment | (144,398) | (143,423) |
| Total accumulated other comprehensive income | (144,029) | (142,002) |
| Equity warrants | 12,992 | 22,281 |
| Minority interests | - | 15,551 |
| Total net assets | 1,733,745 | 1,539,961 |
| Total liabilities and net assets | 3,651,958 | 5,642,680 |

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

(Unit: thousand yen)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Sales | 7,367,860 | 9,362,562 |
| Cost of sales | *1 4,489,276 | *1 6,011,232 |
| Gross margin | 2,878,583 | 3,351,330 |
| Selling, general and administrative expenses | *2,*3 2,813,204 | *2,*3 3,463,132 |
| Operating income (loss) | 65,379 | (111,802) |
| Non-operating revenues | | |
| Interest income | 1,964 | 1,833 |
| Dividends income | 155 | 120 |
| Exchange gain | 12,911 | 21,838 |
| Compensation received | - | 10,000 |
| Other | 2,759 | 3,624 |
| Total non-operating revenues | 17,791 | 37,416 |
| Non-operating expenses | | |
| Interest expenses | 240 | 1,680 |
| Loss on investment of investment partnership | 1,368 | 3,864 |
| Investment loss on the equity method | - | 46,461 |
| Other | 111 | 824 |
| Total non-operating expenses | 1,720 | 52,831 |
| Ordinary income (loss) | 81,450 | (127,217) |
| Extraordinary income | | |
| Gain on sale of investment securities | 88,776 | 8,169 |
| Gain from negative goodwill | - | 14,372 |
| Gain on reversal of equity warrants | 100 | 1,330 |
| Gain on changes in equity | - | 3,000 |
| Gain on sale of fixed assets | - | 10 |
| Total extraordinary gain | 88,877 | 26,882 |
| Extraordinary loss | | |
| Loss on sale of shares of subsidiaries and affiliates | 432 | - |
| Loss on sale of fixed assets | *4 180 | - |
| Loss on retirement of fixed assets | *5 13 | *5 678 |
| Loss on valuation of golf club membership | - | 2,358 |
| Loss on withdrawal from employees' pension fund | - | *6 12,968 |
| Settlement money | - | *7 29,108 |
| Total extraordinary loss | 625 | 45,113 |
| Net income (loss) before income taxes | 169,702 | (145,448) |
| Income taxes-current | 104,785 | 30,559 |
| Income taxes-deferred | 26,356 | — |
| Total income taxes | 131,141 | 30,559 |
| Net income (loss) before minority interests | 38,560 | (176,007) |
| Minority interests in income (loss) | (743) | 2,996 |
| Net income (loss) | 39,304 | (179,003) |

Consolidated Statements of Comprehensive Income

(Unit: thousand yen)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| Net income (loss) before minority interests | 38,560 | (176,007) |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 368 | 1,051 |
| Foreign currency translation adjustment | 76,404 | 975 |
| Total other comprehensive income | * 76,772 | * 2,027 |
| Comprehensive income | 115,333 | (173,980) |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of the parent | 116,076 | (176,950) |
| Comprehensive income attributable to minority shareholders | (743) | 2,969 |

(3) Consolidated Statements of Changes in Shareholders' Equity
 FY 2014 (From January 1, 2014 through December 31, 2014)

(Unit: thousand yen)

| | Shareholder's equity | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period | 1,481,520 | 476,557 | 30,997 | (20,582) | 1,968,492 |
| Changes during period | | | | | |
| Dividend of surplus | | | (43,943) | | (43,943) |
| Net income (loss) | | | 39,304 | | 39,304 |
| Purchase of treasury stock | | | | (99,995) | (99,995) |
| Disposal of treasury stock | | (323) | | 1,248 | 925 |
| Changes in items other than shareholders equity during period (net) | | | | | - |
| Total changes during period | - | (323) | (4,639) | (98,747) | (103,710) |
| Balance at end of period | 1,481,520 | 476,233 | 26,358 | (119,329) | 1,864,782 |

| | Accumulated other comprehensive income | | | Equity warrants | Minority interests | Total net assets |
|---|---|---|--|-----------------|--------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | - | (220,802) | (220,802) | 2,502 | 1,755 | 1,751,948 |
| Changes during period | | | | | | |
| Dividend from surplus | | | - | | | (43,943) |
| Net income (loss) | | | - | | | 39,304 |
| Purchase of treasury stock | | | - | | | (99,995) |
| Disposal of treasury stock | | | - | | | 925 |
| Changes in items other than shareholders equity during period (net) | 368 | 76,404 | 76,772 | 10,490 | (1,755) | 85,507 |
| Total changes during period | 368 | 76,404 | 76,772 | 10,490 | (1,755) | (18,202) |
| Balance at end of period | 368 | (144,398) | (144,029) | 12,992 | - | 1,733,745 |

FY 2015 (From January 1, 2015 through December 31, 2015)

(Unit: thousand yen)

| | Shareholder's equity | | | | |
|---|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of period | 1,481,520 | 476,233 | 26,358 | (119,329) | 1,864,782 |
| Changes during period | | | | | |
| Dividend from surplus | | | (42,963) | | (42,963) |
| Net income (loss) | | | (179,003) | | (179,003) |
| Purchase of treasury stock | | | | | - |
| Disposal of treasury stock | | (1,818) | | 3,135 | 1,316 |
| Changes in items other than shareholders equity during period (net) | | | | | - |
| Total changes during period | - | (1,818) | (221,967) | 3,135 | (220,651) |
| Balance at end of period | 1,481,520 | 474,415 | (195,609) | (116,194) | 1,644,131 |

| | Accumulated other comprehensive income | | | Equity warrants | Minority interest | Total net assets |
|---|---|---|--|-----------------|-------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 368 | (144,398) | (144,029) | 12,992 | - | 1,733,745 |
| Changes during period | | | | | | |
| Dividend of surplus | | | - | | | (42,963) |
| Net income (loss) | | | - | | | (179,003) |
| Purchase of treasury stock | | | - | | | - |
| Disposal of treasury stock | | | - | | | 1,316 |
| Changes in items other than shareholders equity during period (net) | 1,051 | 975 | 2,027 | 9,288 | 15,551 | 26,866 |
| Total changes during period | 1,051 | 975 | 2,027 | 9,288 | 15,551 | (193,784) |
| Balance at end of period | 1,420 | (143,423) | (142,002) | 22,281 | 15,551 | 1,539,961 |

(4) Consolidated Statements of Cash Flows

(Unit: thousand yen)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| Net cash provided by (used in) operating activities | | |
| Income (loss) before income taxes | 169,702 | (145,448) |
| Depreciation and amortization | 56,942 | 59,687 |
| Amortization of premiums | 222 | 118 |
| Amortization of goodwill | 2,861 | 6,192 |
| Increase (decrease) in allowance for doubtful accounts | (290) | - |
| Increase (decrease) in reserve for loss on orders received | (4,137) | (6,863) |
| Interest and dividends income | (2,119) | (1,953) |
| Compensation received | - | (10,000) |
| Interest expenses | 240 | 1,680 |
| Exchange loss (gain) | (1,795) | (1,792) |
| Loss (gain) on investment of investment partnership | 1,368 | 3,864 |
| Investment loss (gain) on the equity method | - | 46,461 |
| Gain from negative goodwill | - | (14,372) |
| Gain on reversal of equity warrants | (100) | (1,330) |
| Loss (gain) on changes in equity | - | (3,000) |
| Loss (gain) on sale of shares of subsidiaries and affiliates | 432 | - |
| Loss (gain) on sale of investment securities | (88,776) | (8,169) |
| Loss on retirement of fixed assets | 13 | 678 |
| Loss (gain) on sale of fixed assets | 180 | (10) |
| Loss on valuation of golf club membership | - | 2,358 |
| Settlement money | - | 29,108 |
| Decrease (increase) in notes and accounts receivable-trade | (77,939) | (40,372) |
| Decrease (increase) in inventories | (7,451) | (4,954) |
| Increase (decrease) in notes and accounts payable-trade | 118,573 | 99,561 |
| Increase (decrease) in net defined benefit liabilities | 2,869 | 20,522 |
| Increase (decrease) in advance received | 152,522 | 77,308 |
| Decrease (increase) in advance payment | (39,609) | 54,583 |
| Increase (decrease) in notes and accounts payable-other | 16,850 | 43,045 |
| Decrease (increase) in notes and accounts receivable-other | 15,467 | (405) |
| Increase (decrease) in consumption taxes payable | (11,206) | 79,729 |
| Other | 49,659 | 58,647 |
| Sub-total | 354,481 | 344,875 |
| Interest and dividends income | 2,122 | 1,955 |
| Interest expenses paid | (242) | (1,680) |
| Compensation money paid | - | 7,000 |
| Settlement money paid | - | (29,108) |
| Income taxes refund | 47,115 | - |
| Income taxes paid | (2,244) | (154,090) |
| Net cash provided (used in) operating activities | 401,231 | 168,952 |

(Unit: thousand yen)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Net cash provided by (used in) investing activities | | |
| Payment into time deposits | (100,000) | - |
| Proceeds from withdrawal of time deposits | - | 100,000 |
| Purchase of tangible fixed assets | (21,910) | (14,773) |
| Purchase of intangible fixed assets | (45,061) | (29,784) |
| Placement of guarantee deposits pledged | (368) | (3,200) |
| Proceeds from collection of guarantee deposits pledged | 170 | 2,916 |
| Purchase of golf club membership | - | (3,958) |
| Proceeds from business transfers | 3,585 | - |
| Sale of shares of subsidiaries resulting in changes in the scope of consolidation | (6,084) | - |
| Purchase of shares of subsidiaries resulting in changes in the scope of consolidation | - | (924,270) |
| Purchase of shares of subsidiaries and affiliates | - | (27,552) |
| Purchase of investment securities | (55,690) | (670,255) |
| Proceeds from sales of investment securities | - | 573,940 |
| Other | 1,856 | 394 |
| Net cash used in investing activities | (223,504) | (996,543) |
| Net cash provided by (used in) financing activities | | |
| Cash dividends paid | (43,175) | (42,846) |
| Purchase of treasury stock | (99,995) | - |
| Payment from minority shareholders | - | 3,000 |
| Proceeds from long-term loans payable | - | 1,060,000 |
| Repayment of long-term loans payable | (5,308) | (33,888) |
| Repayment of lease obligations | (954) | - |
| Proceeds from exercise of stock option | 204 | 1,258 |
| Proceeds from issuance of equity warrants | 3,890 | 921 |
| Net cash provided by (used in) financing activities | (145,339) | 988,444 |
| Effect of exchange change rate on cash and cash equivalents | 116,709 | 1,678 |
| Increase (decrease) in cash and cash equivalents | 149,097 | 162,531 |
| Cash and cash equivalents at beginning of period | 1,733,011 | 1,882,108 |
| Increase in cash and cash equivalents resulting from mergers | - | 712 |
| Cash and cash equivalents at end of period | *1 1,882,108 | *1,*2 2,045,352 |

(5) Notes to Consolidated Financial Statements

(Notes to going concern assumption)

Not applicable

(Significant matters related to the basis for preparation of the consolidated financial statements)

1 Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 8 companies

SIOS Technology Corp.
Gluegent, Inc.
SIOS (Beijing) Technology Inc.
Kanshin!, Inc.
Glabio, Inc.
Keyport Solutions, Inc.
Agrion Creative Office Co., Ltd.
Profit Cube Inc.

For the current consolidated fiscal year, Keyport Solutions, Inc., and its subsidiary Agrion Creative Office Co., Ltd., were included in the scope of consolidation as a result of the purchase of shares of Keyport Solutions.

In addition, ARS Holding Co., Ltd. (hereinafter "ARSHD") and its subsidiary Profit Cube Inc. (hereinafter "PCI") were added to the scope of consolidation due to the purchase of shares of ARSHD. ARSHD was excluded from the scope of consolidation because the company was dissolved due to the absorption-type merger with the Company being a surviving company on December 31, 2015.

For PCI, only consolidated balance sheets were consolidated for the current period because the company sets the deemed date of acquisition as the end of the current consolidated fiscal year.

(2) Names of unconsolidated subsidiaries

Not applicable

2 Matters related with application of equity method

(1) Unconsolidated subsidiaries applying equity method

Not applicable

(2) Number of affiliates applying equity method: 2 companies

BayPOS, Inc.
K-ZONE Corp.

For the current consolidated fiscal year, BayPOS, Inc., was included into the scope of application of the equity method as a result of a joint venture established with Plenus Company Limited in the United States. K-ZONE Corp., the affiliate of Keyport Solutions, Inc., was included into the scope of application of the equity method as a result of the acquisition of Keyport Solutions. K-ZONE Corp. was remained from Fanet Corp. on October 1, 2015.

(3) Unconsolidated subsidiaries and affiliates not applying equity method

Not applicable

3 Matters related to accounting period of consolidated subsidiaries

The settlement date of consolidated subsidiaries is the same as the consolidated settlement date.

4 Matters related to accounting standards

(1) Basis and method of valuation for significant assets

(i) Securities

- a. Shares of subsidiaries and affiliates
Stated at cost based on the moving average method

- b. Other securities
 - Those without market value
 - Stated at cost based on the moving average method
 - Investment in limited partnerships for investment and similar partnerships (those deemed as securities according to the Article 2, Paragraph 2 of the Financial Instruments and Exchange Act) is valued by the method of calculating an amount equal to the equity on net based on the latest financial statements available according to the settlement report date as stipulated in the partnership contracts.
 - (ii) Inventories
 - Inventories held for sale
 - Stated at cost (The balance sheet amount is adjusted by writing down the book value where the profitability declines)
 - a. Merchandise
 - Mainly stated at cost based on the moving average method, but stated at cost based on the specific identification method for some consolidated subsidiaries.
 - b. Work in progress
 - Stated at cost based on the specific identification method.
- (2) Depreciation method for significant depreciable assets
- (i) Tangible fixed assets (excluding lease assets)
 - The Company and its domestic consolidated subsidiaries apply the declining balance method while overseas consolidated subsidiaries apply the straight-line method based on the provisions of the local accounting standards.
 - The major useful lives are as follows:

| | |
|-----------------------------|------------|
| Building | 3-18 years |
| Tool furniture and fixtures | 3-15 years |

 - The assets acquired on or before March 31, 2007 are equally depreciated over five years from the year following the completion of depreciation to the allowed depreciation limit.
 - (ii) Intangible fixed assets (excluding lease assets)
 - a. Software for sale
 - The method is applied of comparing the depreciation amount based on sales volume estimated for the estimated selling period (three years or less) with the amount equally allocated based on the residual period available for sale to record the greater amount.
 - b. Software for own use
 - The straight-line method is applied over internally usable period (5 years or less)
 - (iii) Lease assets
 - Lease assets in finance leases that do not transfer ownership to the lease
 - Lease assets are depreciated using the straight-line method over the corresponding lease term as useful lives with their residential values to be zero.
 - (iv) Long-term prepaid expenses
 - The straight-line method is applied.
- (3) Accounting for significant allowance and reserves
- (i) Allowance for doubtful accounts
 - To prepare for loss on bad debts, the allowance for general accounts is provided using the rate of past bad debt experience and the allowance for specific accounts, such as doubtful accounts receivable, is provided for an estimated amount considered uncollectable after reviewing the individual collectability of the accounts.
 - (ii) Reserve for bonuses
 - For payment of bonuses to employees, the reserve for bonus is provided for an amount payable for the current fiscal year, based on estimated amount of payment.
 - (iii) Reserve for loss on orders received
 - To prepare for future loss on orders received, the reserve for loss on orders received is provided for the estimated loss for contracts in a case that future loss is expected at the end of the current consolidated fiscal year and such loss can be reasonably estimated.

(4) Accounting methods of retirement benefits

For calculation of net defined benefit liabilities and retirement benefit expenses, the Company and some consolidated subsidiaries apply the simplified method that retirement benefits to voluntary retirees required to be paid at the end of year are deemed as retirement benefit obligations. Some domestic consolidated subsidiaries apply to corporate pension plan the simplified method that actuarial obligations in the latest pension financing calculation are deemed as retirement benefit obligations.

(Additional information)

The Company and some consolidated subsidiaries decided to transfer the amount funded to the existing defined benefit corporate pension plan after October 1, 2015, to the defined contribution pension plan in the current consolidated fiscal year.

Loss on the transfer of 12,968,000 yen was recorded in extraordinary loss.

(5) Recognition standards for significant revenues and expenses

(i) Recognition methods for sales and cost of sales of software developed on a contract basis

- a. Contracts that the outcome is considered sure for the portion completed by the end of the current consolidated fiscal year.

Percentage of completion method (The progression rate is estimated based on the cost proportion method.)

- b. Other contracts

Completed contract method

(6) Significant hedge accounting methods

(i) Hedge accounting methods

When the requirements for the designated hedge accounting are satisfied, the designated hedge accounting is applied to the hedge against currency risk. Exchange contracts for hedging transactions corresponding to planned transactions at the end of the current consolidated fiscal year are accounted for using the designated hedge accounting.

(ii) Hedging instruments and hedged items

The following shows the hedging instruments and hedged items accounted for by hedge accounting for the current consolidated fiscal year.

Hedging instrument: Forward exchange contract

Hedged items: Notes and accounts payable in foreign currencies arising from import of merchandise and raw materials

(iii) Hedging policy

Hedge is used to avoid the risk exposure to fluctuations in foreign currency exchange rates for foreign currency denominated liabilities and improve net financial revenue.

(iv) Method for assessment of hedge effectiveness

Hedge effectiveness is determined by comparing accumulated fluctuations in hedging instruments with those in hedged items.

(7) Method and term of amortization of goodwill

Goodwill is equally amortized over the estimated period that it becomes effective.

(8) Scope of cash in the consolidated statements of cash flow

Cash includes cash on hand, deposits withdrawable at any time, and short-term investment with only limited risk exposure to changes in value and due within three months from the acquisition date.

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

Consumption taxes are accounted for based on the tax-exclusion method.

(Notes to consolidated balance sheet)

- *1. For contracts received with estimated losses, inventories and reserve for loss on orders received are not offset but stated on a gross basis.

Amount of the inventories corresponding to the reserve for loss on orders received

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|------------------|--------------------------------------|--------------------------------------|
| Work in progress | —thousand yen | 6,278 thousand yen |

| *2. Investment securities of unconsolidated subsidiaries and affiliates are: | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|--|--------------------------------------|--------------------------------------|
| Investment securities (stock) | —thousand yen | 119,991 thousand yen |

| *3. Secure assets and secured debts The assets pledged as collateral are: | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|--|--------------------------------------|--------------------------------------|
| Time deposits | —thousand yen | 160,000 thousand yen |
| Total | —thousand yen | 160,000 thousand yen |

The debts corresponding to the above are:

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|--------------------------|--------------------------------------|--------------------------------------|
| Short-term loans payable | —thousand yen | 40,000 thousand yen |
| Total | —thousand yen | 40,000 thousand yen |

(Notes to consolidated statements of income)

| *1. Provision of the reserve for loss on orders received included in cost of sales is: | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| | 2,763thousand yen | (6,863thousand yen) |

| *2. Major items of selling, general and administrative expenses and their amounts are: | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| Salaries and allowances | 965,827 thousand yen | 1,100,302 thousand yen |
| Sales support expense | 149,731 thousand yen | 125,753 thousand yen |
| Amortization of goodwill | 2,861 thousand yen | 6,192 thousand yen |
| Rent | 73,340 thousand yen | 106,411 thousand yen |
| Bonuses | 159,195 thousand yen | 191,297 thousand yen |
| Provision of the reserve for bonuses | — thousand yen | 9,090 thousand yen |
| Retirement benefit expenses | 31,289 thousand yen | 22,447 thousand yen |

| *3. Total amount of R&D expenses included in general and administrative expenses is: | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| | 502,066 thousand yen | 648,160 thousand yen |

| *4. Details of loss on sales of fixed assets are: | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Tool, furniture and fixtures | 180 thousand yen | —thousand yen |

| *5. Details of loss on retirement of fixed assets are: | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| Tool, furniture and fixtures | 13 thousand yen | 678 thousand yen |

- *6. Details of loss on withdrawal from the employees' pension fund are:
Loss on withdrawal from the employees' pension fund represents a loss arising from withdrawal from the Kanto IT Software Pension Fund.
- *7. Details of settlement money are:
With regard to the objection on investment contract, which was entered into before the Company's investment, against our consolidated subsidiary Keyport Solutions, Inc., (hereinafter "KPS") made by the contracting party shareholders of KPS, the reconciliation was reached. Following this, the settlement money was paid to shareholders of KPS.

(Notes to consolidated statements of comprehensive income)

* Adjustments of reclassification and tax effect related with other comprehensive income

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Valuation difference on available-for-sale securities | | |
| Current amount | 572 thousand yen | 1,675 thousand yen |
| Adjustments to reclassification | —thousand yen | —thousand yen |
| before tax effect | —thousand yen | —thousand yen |
| Tax effect | (204 thousand yen) | (623 thousand yen) |
| Valuation difference on available for sale securities | 368 thousand yen | 1,051 thousand yen |
| Foreign currency translation adjustment | | |
| Amount occurred during period | 76,404 thousand yen | 975 thousand yen |
| Total other comprehensive income | 76,772 thousand yen | 2,027 thousand yen |

(Notes to consolidated statements of changes in shareholders' equity)

FY 2014 (From January 1, 2014 through December 31, 2014)

1 Class and number of issued shares and treasury stock

| | Number of shares at beginning of the consolidated fiscal year (shares) | Increase in shares during the consolidated fiscal year (shares) | Decrease in shares during the consolidated fiscal year (shares) | Number of shares at end of consolidated fiscal year (shares) |
|----------------|---|---|---|--|
| Issued shares | | | | |
| Common stock | 8,874,400 | — | — | 8,874,400 |
| Total | 8,874,400 | — | — | 8,874,400 |
| Treasury stock | | | | |
| Common stock | 85,700 | 201,141 | 5,200 | 281,641 |
| Total | 85,700 | 201,141 | 5,200 | 281,641 |

(Note) 1. 201,141 increase in treasury common stock was due to an acquisition of 201,100 treasury shares upon the resolution of the Board of Directors and a purchase of 41 shares less than the share unit number.

2. 5,200 decrease in treasury common stock was due to exercise of stock option.

2 Equity warrants and treasury equity warrants

| Division | Details of equity warrants | Class of shares subject to equity warrants | Number of shares subject to equity warrants (share) | | | | Balance at end of the consolidate fiscal year (thousand yen) |
|------------------------------|---|---|---|---|---|--|---|
| | | | Beginning at the consolidate fiscal year | Increase during the consolidate fiscal year | Decrease during the consolidate fiscal year | End of the consolidate fiscal year | |
| Submitting company | Equity warrant granted as stock option | — | — | — | — | — | 4,028 |
| Consolidated subsidiaries | — | — | — | — | — | — | 8,964 |
| Total | | — | — | — | — | — | 12,992 |

3 Cash dividends

(1) Cash dividends paid

| Resolution | Class of shares | Total cash dividends (million yen) | Cash dividend per share (yen) | Record date | Effective date |
|---|-----------------|------------------------------------|-------------------------------|-------------------|----------------|
| March 28, 2014 Annual shareholders meeting | Common stock | 43 | 5.00 | December 31, 2013 | March 31, 2014 |

(2) Among the dividends whose record date is within the current consolidated fiscal year, those having effective in the following consolidated fiscal year

As stated below, the resolution will be adopted at the annual shareholders meeting held on March 25, 2015.

| Resolution | Class of shares | Dividend resource | Total cash dividends (million yen) | Cash dividend per share (yen) | Record date | Effective date |
|---|-----------------|-------------------|------------------------------------|-------------------------------|-------------------|----------------|
| March 25, 2015 Annual shareholders meeting | Common stock | Retained earnings | 42 | 5.00 | December 31, 2014 | March 26, 2015 |

FY 2015 (From January 1, 2015 through December 31, 2015)

1 Class and number of issued shares and treasury stock

| | Number of shares at beginning of consolidated fiscal year (shares) | Increase in shares during the consolidated fiscal year (shares) | Decrease in shares during the consolidated fiscal year (shares) | Number of shares at end of consolidated fiscal year (shares) |
|----------------|--|---|---|--|
| Issued 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 7,400 decrease in treasury common shares is attributable to exercise of stock options.

2 Equity warrants and treasury equity warrants

| Division | Details of equity warrants | Class of shares subject to equity warrants | Number of shares subject to equity warrants (share) | | | | Balance at end of the consolidate fiscal year (thousand yen) |
|---------------------------|---|--|---|---|---|------------------------------------|--|
| | | | Beginning at the consolidate fiscal year | Increase during the consolidate fiscal year | Decrease during the consolidate fiscal year | End at the consolidate fiscal year | |
| Submitting company | Equity warrants granted as stock option | — | — | — | — | — | 3,559 |
| Consolidated subsidiaries | — | — | — | — | — | — | 18,721 |
| Total | | — | — | — | — | — | 22,281 |

3 Cash dividends

(1) Cash dividends paid

| Resolution | Class of shares | Total cash dividends (million yen) | Cash dividend per share (yen) | Record date | Effective date |
|---|-----------------|------------------------------------|-------------------------------|-------------------|----------------|
| March 25, 2015 Annual shareholders meeting | Common stock | 42 | 5.00 | December 31, 2014 | March 26, 2015 |

(2) Among the dividends whose record date is within the current consolidated fiscal year, those having effective in the following consolidated fiscal year

Not applicable

(Notes to consolidated statements of cash flow)

- *1. Relationship between cash and cash equivalents at end of period and amounts of the accounts stated on the consolidated balance sheet

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|--|--|--|
| Cash and deposits | 1,982,108 thousand yen | 2,206,352 thousand yen |
| Time deposits with their term exceeding three months | (100,000 thousand yen) | (161,000 thousand yen) |
| Cash and cash equivalents | 1,882,108 thousand yen | 2,045,352 thousand yen |

- *2. Major items of assets and liabilities of the comparing becoming a consolidated subsidiary due to acquisition of shares
FY 2014 (From January 1, 2014 through December 31, 2014)
Not applicable

FY 2015 (From January 1, 2015 through December 31, 2015)

The following shows details of assets and liabilities at the start of the consolidation associated with consolidation of Keyport Solutions, Inc., and Agrion Creative Office Co., Ltd., due to acquisition of shares and relationship between acquisition value of the shares and acquisition cost (net).

| | |
|---|------------------------|
| Current assets | 527,396 thousand yen |
| Fixed assets | 59,344 thousand yen |
| Goodwill | 4,200 thousand yen |
| Current liabilities | (134,113 thousand yen) |
| Minority interests | (43,119 thousand yen) |
| Gain from negative goodwill | (11,386 thousand yen) |
| Acquisition value of shares | 402,322 thousand yen |
| Cash and cash equivalents | (294,907 thousand yen) |
| Deduction: Purchase of shares of subsidiaries resulting in the change in the scope of consolidation | 107,414 thousand yen |

The following shows details of assets and liabilities at the start of the consolidation associated with consolidation of Profit Cube Inc. due to acquisition of shares and relationship between acquisition value of the shares and acquisition cost (net).

| | |
|---|------------------------|
| Current assets | 651,735 thousand yen |
| Fixed assets | 327,946 thousand yen |
| Goodwill | 833,808 thousand yen |
| Current liabilities | (579,264 thousand yen) |
| Fixed liabilities | (170,574 thousand yen) |
| Acquisition value of shares | 1,063,651 thousand yen |
| Cash and cash equivalents | (246,794 thousand yen) |
| Deduction: Purchase of shares of subsidiaries resulting in change in the scope of consolidation | 816,856 thousand yen |

(Notes to business combination)

Business combination through acquisition

1. Acquisition of shares of Keyport Solutions, Inc.

(1) Summary of business combination

- (i) Name and businesses activities of the acquired company

Name of acquired company Keyport Solutions, Inc. (hereinafter "KPS") and its subsidiary Agrion Creative Office Co., Ltd.

Businesses activities System consulting and development of Internet and object-oriented technology in particular

- (ii) Main reasons for business combination

Mainly in the financial industry, including the securities industry, KPS develops system applications based on object technology with the advantage in multi-processing and scalability and offers consistent IT services from design, development, and operation through maintenance to healthcare and real estate industries. Our group made the judgement that the combination of its fostering development capability in open source software and cloud computing-related leading-edge technology and KPS's development capability and past results of application software in the financial industry would strengthen development and consulting services for new and existing products and lead to the expansion of services to clients of both companies and the acquisition of new clients.

- (iii) Date of business combination
April 17, 2015
- (iv) Legal form of business combination
Acquisition of shares for cash
- (v) Name of company after the business combination
Company name remains unchanged after business combination
- (vi) Ratio of voting rights acquired
90.52%
- (vii) Main reason for determining acquisition of the acquired company
This is because the Company acquired shares of KPS for cash.
- (2) Period of business results of the acquired company included in the consolidated financial statements
From April 1, 2015 to December 31, 2015
- (3) Acquisition cost of the acquired company and its details
- | | | |
|---|-------------------------|----------------------|
| Compensation for acquisition | Cash | 400,000 thousand yen |
| Expenses directly necessary for the acquisition | Advisory fee paid, etc. | 322 thousand yen |
| Acquisition cost | | 400,322 thousand yen |
- (4) Gain from negative goodwill and cause of the occurrence
- (i) Gain from negative goodwill
11,386 thousand yen
- (ii) Cause of the occurrence
The fair value of net assets as of business combination exceeds acquisition cost, and the difference is recorded as a gain from negative goodwill.
- (5) Assets received and liabilities assumed on the date of business combination and their main details
- | | |
|---------------------|----------------------|
| Current assets | 527,396 thousand yen |
| Fixed assets | 59,344 thousand yen |
| Total assets | 586,740 thousand yen |
| Current liabilities | 134,113 thousand yen |
| Total liabilities | 134,113 thousand yen |
- (6) Approximated amounts of the effect of the business combination on the consolidated statements of income for the current consolidated fiscal year in the assumption that the business combination was completed on the start date of the consolidated fiscal year.
- | | |
|--------------------------------|----------------------|
| Sales | 364,127 thousand yen |
| Operating income | 13,574 thousand yen |
| Ordinary income | 14,345 thousand yen |
| Net income before income taxes | 6,614 thousand yen |
| Net income | 4,625 thousand yen |

(Calculation method for approximated amounts)

A difference is deemed as an approximated amount of the effect between sales and profit and loss information calculated in the assumption that the business combination was completed on the start date of the consolidated fiscal year and sales and profit and loss information on the consolidated statements of income of the acquiring company. The notes are not subject to audit certification.

2. Acquisition of shares of ARS Holding Co., Ltd.

(1) Summary of business combination

(i) Name and business activities of acquired company

Name of acquired company ARS Holding Co., Ltd. (hereinafter “ARSHD”)

Business activities Holding and investment of securities

(ii) Main reasons for business combination

ARSHD is a holding company of Profit Cube Inc. (hereinafter “PCI”), which is mainly engaged in the development, sale, and maintenance of the ALM system implementing risk management of assets and liabilities for financial institutions. PCI is a substantial target of the acquisition of shares. But the Company set the direct target of acquiring shares of ARSHD due to capital composition where PCI is the wholly owned subsidiary of ARSHD. As a result, two companies ARSHD and PCI become a consolidated subsidiary.

Since the first release of the ALM system in Japan, PCI sophisticated the system as the leading ALM solution vendor in Japan by recently forming an aggregate of solutions covering risk and earnings management and marketing based on the ALM3.0[®] concept beyond the conventional framework. It also adopted the advanced design concept early, backed by financial engineering and big data processing technology developed for a long period, has the technology to meet requests from financial institutions that are largely changing, and demands high quality and reaches a level possible to support the cloud. In addition to the provision of the only solution, engineers engaged in the upstream process of the system and consultants to support operations to financial institutions implement advanced operation support and consulting. Our group made the judgement that the participation of PCI into the Company group would strengthen advanced technology and expertise for financial institutions and lead to business expansion in the finance IT sector and would further accelerate R&D in the Fintech sector to generate the core service of the Company group as a new earnings source.

(iii) Date of business combination

October 19, 2015 (deemed date of acquisition: December 31, 2015)

(iv) Legal form of business combination

Acquisition of shares for cash

(v) Name of company after the business combination

Name of the company remains unchanged after business combination. The absorption-type merger was done on December 31, 2015 with the Company being a surviving company and ARSHD being a dissolving company.

(vi) Ratio of voting rights acquired

100.00%

(vii) Main reason for determining acquisition of the acquired company

This is because the Company acquired shares of ARSHD for cash.

(2) Period of business results of the acquired company included in the consolidated financial statements

Business results of the acquired company are not reflected in the consolidated financial statements because the closing date of the current consolidated fiscal year is set as the deemed date of acquisition.

(3) Acquisition cost of the acquired company and its details

| | | | |
|---|-------------------------|---------|--------------|
| Compensation for acquisition | Cash | 922,000 | thousand yen |
| Expenses directly necessary for the acquisition | Advisory fee paid, etc. | 2,098 | thousand yen |
| Acquisition cost | | 924,098 | thousand yen |

(4) Gain from occurrence of goodwill, cause of the occurrence, and amortization method and period

(i) Goodwill

833,808 yen

(ii) Cause of the occurrence

The goodwill occurs due to future excess earning power expected from future business deployment

(iii) Amortization method and period

Equally amortized over 10 years

(5) Assets received and liabilities assumed on the date of business combination and their main details

| | |
|---------------------|----------------------|
| Current assets | 651,735 thousand yen |
| Fixed assets | 327,946 thousand yen |
| Total assets | 979,681 thousand yen |
| Current liabilities | 579,264 thousand yen |
| Fixed liabilities | 170,574 thousand yen |
| Total liabilities | 749,838 thousand yen |

(6) Detail and amount and amortization period of assets allocated to intangible fixed assets other than goodwill

| Type | Amount | Amortization period |
|-----------------------|----------------------|---------------------|
| Client-related assets | 167,000 thousand yen | 10 years |

(7) Approximated amounts of the effect of the business combination on the consolidated statements of income for the current consolidated fiscal year in the assumption that the business combination was completed on the start date of the consolidated fiscal year.

| | |
|------------------------------|------------------------|
| Net sales | 1,223,983 thousand yen |
| Operating income | 425 thousand yen |
| Ordinary loss | 6,289 thousand yen |
| Net loss before income taxes | 4,139 thousand yen |
| Net loss | 14,924 thousand yen |

(Calculation method for approximated amounts)

The difference is deemed an approximated amount of the effect between sales and profit and loss information calculated on the assumption that the business combination was completed on the start date of the consolidated fiscal year and sales and profit and loss information presented in the consolidated statements of income of the acquiring company. In calculating the amount of the effect, the amortization of goodwill is included from the start date of the current consolidated fiscal year.

The notes are not subject to audit certification.

Transactions under joint control

1. Additional acquisition of shares of subsidiaries

(1) Summary of transactions

(i) Name and businesses of the combined company

Name of combined company Keyport Solutions, Inc. (hereinafter "KPS")

Business activities System consulting and development of Internet and object-oriented technology in particular

(ii) Date of business combination

December 31, 2015

(iii) Legal form of business combination

Acquisition of shares from minority shareholders

(iv) Name of the company after business combination

The company name remains unchanged after business combination.

(v) Other summary of the transaction

For additionally acquired shares, the ratio of voting rights is 6.23%. This transaction increased the ownership ratio of KPS held by the Company to 96.75%. The additional acquisition is proposed to further stabilize management of the Company group and make agile and flexible decision making possible and seek to further strengthen the cooperation.

(2) Summary of accounting treatments

Transactions under joint control are accounted for as a transaction with a minority shareholder, based on the "Accounting Standard on Business Combination" (ASBJ Statement No. 21 published on December 26, 2008) and "Guidance on the Accounting Standard for Business Combination and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 published on December 26, 2008).

| | | |
|--------------------------------------|------|---------------------|
| (3) Purchase of shares of subsidiary | | |
| (i) Acquisition cost and its details | | |
| Compensation for acquisition | Cash | 27,552 thousand yen |
| Acquisition cost | | 27,552 thousand yen |

(ii) Amount of gain from negative goodwill and the cause for occurrence

a. Amount of gain from negative goodwill

2,985 thousand yen

b. Cause of the occurrence

This is because the consolidated acquisition cost of additionally purchased shares of the subsidiary is below the amount of a decline in minority interests resulting from the additional acquisition.

2. Absorption-type merger of consolidated subsidiary

(1) Summary of the transaction

(i) Name and businesses activities of the merged company

Name of the merged company: ARS Holding Co., Ltd. (hereinafter "ARSHD")

Business activities: Holding and investment of securities

(ii) Date of business combination

December 31, 2015

(iii) Legal form of business combination

Absorption-type merger with the Company being a surviving company and ARSHD being dissolved

(iv) Name of combined company

SIOS Technology, Inc.

(v) Other summary of the transaction

ARSHD is a holding company of Profit Cube Inc. (hereinafter "PCI"), which is mainly engaged in the development, sale, and maintenance of the ALM system implementing risk management of assets and liabilities for financial institutions. The Company decided to absorb and merge ARSHD to directly own PCI for the purpose of efficient execution of Company group management.

(2) Summary of accounting treatment

The transaction is accounted for as a transaction under joint control, based on the "Accounting Standard on Business Combination" (ASBJ Statement No. 21 published on December 26, 2008) and "Guidance on the Accounting Standard for Business Combination and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 published on December 26, 2008).

(Segment Information, etc.)

(Segment information)

1 Summary of reportable segments

Reportable segments of our group are those which financial information is available for the components of the Company and which are periodically examined by the Board of Directors to determine the allocation of management resources and evaluate business results. The Company establishes departments and subsidiaries according to markets/clients and technology areas and provides a variety of products and services in open system infra area including OS and middleware and web applications area including business applications. Therefore, our group set the open system infra business and the web application business as a reportable segment.

Business activities of the segments are as follows:

- Open system infra business
The business offers the business continuity solution using LifeKeeper, the software possible to avoid system downtime in the event of the failure of the IT system, OSS-related products including Red Hat, Inc., products, OSS-related solutions, including SIOS OSS Yorozu Soudanshitsu, in response to various inquiries related with OSS and consulting services for various information systems.
- Web application business
The business develops software products for MFP, cloud solutions including the Google Apps-linked SaaS Gluegent series, big data solutions for analyzing huge volume data in a short period and corporate information system on a contract basis and offers consulting services for a variety of information systems.

- * The existing Web application business will be renamed to Application business on January 1, 2016,
The change is related to the name of the segment and has no effect on segment information.

2 Methods for calculating sales, income or loss, assets, liabilities and other items of the reportable segments

The accounting methods for reportable business segments are the same as provided in the significant matters related to the basis for preparation of the consolidated financial statements. In reportable segments, income is on an operating income and loss basis. Internal sales and transfers among segments are based on the current market price.

The Company allocates no assets to reportable segments.

3 Information on sales, income or loss, assets, liabilities and other items for each reputable segment
FY 2014 (From January 1, 2014 through December 31, 2014)

(Unit: thousand yen)

| | Reportable segment | | | Adjustments | Amount on the consolidated financial statements (Note) |
|---|----------------------------|--------------------------|-----------|-------------|--|
| | Open system infra business | Web application business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 5,007,555 | 2,360,304 | 7,367,860 | — | 7,367,860 |
| Internal sales or transfer among segments | 279 | 708 | 987 | (987) | — |
| Total | 5,007,834 | 2,361,013 | 7,368,848 | (987) | 7,367,860 |
| Segment income (loss) | (37,880) | 103,259 | 65,379 | — | 65,379 |
| Other items | | | | | |
| Depreciation | 36,771 | 20,393 | 57,165 | — | 57,165 |
| Amortization of goodwill | 475 | 2,386 | 2,861 | — | 2,861 |

(Note) Segment income (loss) is equal to operating income stated on the consolidated statements of income.

FY 2015 (From January 1, 2015 through December 31, 2015)

(Unit: thousand yen)

| | Reportable segment | | | Adjustments | Amount on the consolidated financial statements (Note) |
|---|----------------------------|--------------------------|-----------|-------------|--|
| | Open system infra business | Web application business | Total | | |
| Net sales | | | | | |
| Net sales to external customers | 5,541,881 | 3,820,681 | 9,362,562 | — | 9,362,562 |
| Internal sales or transfer among segments | 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 | 25,908 | 33,897 | 59,806 | — | 59,806 |
| Amortization of goodwill | — | 6,192 | 6,192 | — | 6,192 |

(Note) Segment income (loss) is equal to operating loss stated on the consolidated statements of income.

【Related information】

FY 2014 (From January 1, 2014 through December 31, 2014)

1 Information by product and service

The information is omitted because the same information is disclosed in the segment information.

2 Information by region

(1) Net sales

(Unit: thousand yen)

| Japan | Americas | Europe | Other regions | Total |
|-----------|----------|---------|---------------|-----------|
| 6,916,905 | 252,205 | 103,970 | 94,778 | 7,367,860 |

(Note) Sales are classified by state or region, based on the location of customers.

(2) Tangible fixed assets

(Unit: thousand yen)

| Japan | Americas | Other regions | Total |
|---------|----------|---------------|---------|
| 100,980 | 4,068 | 337 | 105,386 |

3 Information by key customer

(Unit: thousand yen)

| Company or individual name of customers | Net sales | Name of related segment |
|---|-----------|--|
| Otsuka CORPORATION | 2,311,833 | Open system infra and web application businesses |
| Networld Corporation | 794,752 | Open system infra and web application businesses |

FY 2015 (From January 1, 2015 through December 31, 2015)

1 Information by product and service

The information is omitted because the same information is disclosed in the segment information.

2 Information by region

(1) Net sales

(Unit: thousand yen)

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

(Note) Sales are classified by state or region, based on the location of customers.

(2) Tangible fixed assets

(Unit: thousand yen)

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

3 Information by key customer

(Unit: thousand yen)

| Company or individual name of customers | Net sales | Name of related segment |
|---|-----------|--|
| Otsuka CORPORATION | 2,604,182 | Open system infra and web application businesses |

【Information on impairment loss of fixed assets by reportable segment】

Not applicable

【Information on amortization and unamortized balance of goodwill by reporting segment】

FY 2014 (From January 1, 2014 through December 31, 2014)

(Unit: thousand yen)

| | Reportable segment | | | Other | Whole company or elimination | Total |
|--------------------------|----------------------------|--------------------------|-------|-------|------------------------------|-------|
| | Open system infra business | Web application business | Total | | | |
| Balance at end of period | — | 6,970 | 6,970 | — | — | 6,970 |

(Note) Amortization of goodwill is omitted because the same information is disclosed in the segment information.

FY 2015 (From January 1, 2015 through December 31, 2015)

(Unit: thousand yen)

| | Reportable segment | | | Other | Whole company or elimination | Total |
|--------------------------|----------------------------|--------------------------|---------|-------|------------------------------|---------|
| | Open system infra business | Web application business | Total | | | |
| Balance at end of period | — | 838,787 | 838,787 | — | — | 838,787 |

(Note) Amortization of goodwill is omitted because the same information is disclosed in the segment information.

【Information on gain from negative goodwill by reportable segment】

FY 2014 (From January 1, 2014 through December 31, 2014)

Not applicable

FY 2015 (From January 1, 2015 through December 31, 2015)

Gain from negative goodwill of 14,372,000 yen was recorded in the Web application business segment because the shares of Keyport Solutions, Inc., were acquired to make the company a subsidiary.

(Per-share information)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|------------------------------|--|--|
| Net assets per share | 200.26 yen | 174.66 yen |
| Net income (loss) per share | 4.48 yen | (20.82 yen) |
| Net income per share-Diluted | 3.37 yen | — |

(Note) 1. Net income per share-diluted is not described for the current consolidated fiscal year because we recorded net loss despite dilutive shares.

2. The following shows the basis for the calculation of net income (loss) per share and net income per shares-Diluted

| Items | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Net income (loss) per share | | |
| Net income (loss) (thousand yen) | 39,304 | (179,003) |
| Amount not attributable to common shareholders (thousand yen) | — | — |
| Net income (loss) available to common stock (thousand yen) | 39,304 | (179,003) |
| Average number of common stock during the period (shares) | 8,773,147 | 8,598,621 |
| Net income per share-Diluted | | |
| Adjustments to net income (thousand yen) | (9,665) | — |
| (Among this, loss on changes in equity) (thousand yen) | (10,973) | — |
| Increase in common stock (shares) | 10,629 | — |
| (among this, equity warrants) (shares) | (10,629) | — |
| Summary of dilutive shares not included in calculating net income per share-diluted due to no dilutive effect | — | — |

(Significant subsequent events)

Not applicable

6. Unconsolidated Financial Statements

(1) Balance Sheet

(Unit: thousand yen)

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|--|--------------------------------------|--------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 951,556 | 457,033 |
| Accounts receivable-trade | 845,538 | 881,506 |
| Merchandise | 8,786 | - |
| Work in progress | 19,863 | 16,892 |
| Advance payment | 205,992 | 259,601 |
| Prepaid expenses | 38,357 | 38,781 |
| Accounts receivable-other | 86,015 | 3,297 |
| Refunded income taxes receivable | - | 38,155 |
| Other | 549 | 5,745 |
| Allowance for doubtful accounts | - | (5,854) |
| Total current liabilities | 2,156,658 | 1,695,159 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings | 59,340 | 52,680 |
| Tool, furniture and fixtures | 37,299 | 27,694 |
| Construction in progress | 2,505 | - |
| Total tangible fixed assets | 99,146 | 80,375 |
| Intangible fixed assets | | |
| Trademark | 3,228 | 2,399 |
| Software | 10,020 | 52,480 |
| Software in progress | 47,423 | 11,425 |
| Other | 1,028 | 1,028 |
| Total intangible fixed assets | 61,700 | 67,333 |
| Investment and other assets | | |
| Investment securities | 54,773 | 242,946 |
| Shares of subsidiaries and affiliates | 1,014,741 | 2,506,267 |
| Long-term loans receivable to affiliates | 63,000 | 63,000 |
| Long-term prepaid expenses | 151 | - |
| Guarantee deposits | 162,200 | 158,867 |
| Other | 208 | 1,600 |
| Allowance for doubtful accounts | (59,541) | (59,541) |
| Investment and other assets | 1,235,533 | 2,913,140 |
| Total fixed assets | 1,396,380 | 3,060,848 |
| Total assets | 3,553,038 | 4,756,008 |

(Unit: thousand yen)

| | FY 2014 (as of December 31, 2014) | FY 2015 (as of December 31, 2015) |
|---|--------------------------------------|--------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 366,862 | 429,351 |
| Short-term loans payable from affiliates | - | 118,119 |
| Current portion of long-term loans payable | - | 123,120 |
| Accounts payable-trade | 83,908 | 122,598 |
| Accrued expenses | 44,177 | 51,870 |
| Income taxes payable | 97,127 | 265 |
| Consumption taxes payable | 14,135 | 118,462 |
| Advance received | 731,229 | 786,276 |
| Deposits payable | 26,880 | 30,738 |
| Reserve for loss on orders received | 2,763 | - |
| Other | 1,243 | 1,376 |
| Total current liabilities | 1,368,329 | 1,782,180 |
| Fixed liabilities | | |
| Long-term loans payable | - | 906,100 |
| Deferred tax liabilities | 204 | 827 |
| Reserve for retirement benefits | 115,400 | 135,922 |
| Reserve for loss on business of affiliates | 8,232 | 13,275 |
| Long-term deposits payable | 15,814 | 16,294 |
| Total fixed liabilities | 139,651 | 1,072,420 |
| Total liabilities | 1,507,980 | 2,854,600 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,481,520 | 1,481,520 |
| Capital surplus | | |
| Capital reserve | 361,305 | - |
| Other capital surplus | 114,928 | 474,415 |
| Total capital surplus | 476,233 | 474,415 |
| Retained earnings | | |
| Other retained earnings | | |
| Retained earnings carried forward | 202,236 | 56,434 |
| Total retained earnings | 202,236 | 56,434 |
| Treasury stock | (119,329) | (116,194) |
| Total shareholders' equity | 2,040,660 | 1,896,174 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 368 | 1,672 |
| Total Valuation and translation adjustments | 368 | 1,672 |
| Equity warrants | 4,028 | 3,559 |
| Total net assets | 2,045,057 | 1,901,407 |
| Total liabilities and net assets | 3,553,038 | 4,756,008 |

(2) Statements of Income

(Unit: thousand yen)

| | FY 2014 (From January 1, 2014 through December 31, 2014) | FY 2015 (From January 1, 2015 through December 31, 2015) |
|---|--|--|
| Sales | 6,256,061 | 6,990,010 |
| Cost of sales | 4,340,725 | 5,051,903 |
| Gross margin | 1,915,336 | 1,938,107 |
| Selling, general and administrative expenses | 1,759,242 | 2,001,442 |
| Operating income (loss) | 156,093 | (63,334) |
| Non-operating revenues | | |
| Interest income | 775 | 943 |
| Dividends income | 134,900 | - |
| Exchange gain | 897 | 46 |
| Outsourcing fee | - | 5,993 |
| Compensation received | - | 10,000 |
| Other | 7,315 | 250 |
| Total non-operating revenues | 143,889 | 17,234 |
| Non-operating expenses | | |
| Interest expenses | 10 | 2,125 |
| Loss on investment of investment partnership | 1,368 | 3,864 |
| Other | 99 | 310 |
| Total non-operating expenses | 1,479 | 6,300 |
| Ordinary income (loss) | 298,504 | (52,401) |
| Extraordinary gain | | |
| Gain on sale of investment securities | 88,776 | 8,169 |
| Gain on reversal of equity warrants | 100 | 1,330 |
| Total extraordinary income | 88,877 | 9,499 |
| Extraordinary loss | | |
| Loss on retirement of fixed assets | 13 | 678 |
| Loss on sale of shares of subsidiaries and affiliates | 6,216 | - |
| Loss on valuation of shares of subsidiaries and affiliates | 53,663 | 30,000 |
| Provision of the reserve for loss on businesses of subsidiaries and affiliates | 8,232 | 5,042 |
| Provision of the allowance for doubtful accounts of subsidiaries and affiliates | 59,541 | - |
| Loss on withdrawal from employees' pension fund | - | 11,566 |
| Loss on valuation of golf club membership | - | 2,358 |
| Total extraordinary loss | 127,667 | 49,646 |
| Net income (loss) before income taxes | 259,714 | (92,547) |
| Income taxes-current | 101,639 | 10,290 |
| Income taxes-deferred | 8,013 | - |
| Total income taxes | 109,652 | 10,290 |
| Net income (loss) | 150,061 | (102,838) |

(3) Statements of Changes in Net Assets
 FY 2014 (From January 1, 2014 through December 31, 2014)

(Unit: thousand yen)

| | Shareholder's equity | | | | | |
|---|----------------------|-----------------|-----------------------|-----------------------|--|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | |
| | | Capital reserve | Other capital surplus | Total capital surplus | Other retained earnings Retained earnings carried forward | Total retained earnings |
| Balance at beginning of period | 1,481,520 | 361,305 | 115,252 | 476,557 | 96,118 | 96,118 |
| Changes during period | | | | | | |
| Dividends from surplus | | | | - | (43,943) | (43,943) |
| Net income (loss) | | | | - | 150,061 | 150,061 |
| Purchase of treasury stock | | | | - | | - |
| Disposal of treasury stock | | | (323) | (323) | | - |
| Transfer from reserve to surplus | | | | - | | - |
| Changes in items other than shareholders equity during period (net) | | | | | | |
| Total changes during period | - | - | (323) | (323) | 106,117 | 106,117 |
| Balance at end of period | 1,481,520 | 361,305 | 114,928 | 476,233 | 202,236 | 202,236 |

| | Shareholder's equity | | Valuation and translation adjustments | | Equity warrants | Total net assets |
|---|----------------------|----------------------------|---|---|-----------------|------------------|
| | Treasury stock | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at beginning of period | (20,582) | 2,033,613 | - | - | 158 | 2,033,771 |
| Changes during period | | | | | | |
| Dividends from surplus | | (43,943) | | | | (43,943) |
| Net income (loss) | | 150,061 | | | | 150,061 |
| Purchase of treasury stock | (99,995) | (99,995) | | | | (99,995) |
| Disposal of treasury stock | 1,248 | 925 | | | | 925 |
| Transfer from reserve to surplus | | - | | | | - |
| Changes in items other than shareholders equity during period (net) | | - | 368 | 368 | 3,869 | 4,238 |
| Total changes during period | (98,747) | 7,046 | 368 | 368 | 3,869 | 11,285 |
| Balance at end of period | (119,329) | 2,040,660 | 368 | 368 | 4,028 | 2,045,057 |

FY 2015 (From January 1, 2015 through December 31, 2015)

(Unit: thousand yen)

| | Shareholder's equity | | | | | |
|---|----------------------|-----------------|-----------------------|-----------------------------------|-------------------------|-------------------------|
| | Capital stock | Capital surplus | | | Retained earnings | |
| | | Capital reserve | Other capital surplus | Total capital surplus | Other retained earnings | Total retained earnings |
| | | | | Retained earnings carried forward | | |
| Balance at beginning of period | 1,481,520 | 361,305 | 114,928 | 476,233 | 202,236 | 202,236 |
| Changes during period | | | | | | |
| Dividends from surplus | | | | - | (42,963) | (42,963) |
| Net income (loss) | | | | - | (102,838) | (102,838) |
| Purchase of treasury stock | | | | - | | - |
| Disposal of treasury stock | | | (1,818) | (1,818) | | - |
| Transfer from reserve to surplus | | (361,305) | 361,305 | - | | - |
| Changes in items other than shareholders equity during period (net) | | | | | | |
| Total changes during period | - | (361,305) | 359,486 | (1,818) | (145,802) | (145,802) |
| Balance at end of period | 1,481,520 | - | 474,415 | 474,415 | 56,434 | 56,434 |

| | Shareholder's equity | | Valuation and translation adjustment | | Equity warrants | Total net assets |
|---|----------------------|---------------------------|---|---|-----------------|------------------|
| | Treasury stock | Total shareholders equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | | |
| Balance at beginning of period | (119,329) | 2,040,660 | 368 | 368 | 4,028 | 2,045,057 |
| Changes during period | | | | | | |
| Dividends from surplus | | (42,963) | | | | (42,963) |
| Net income (loss) | | (102,838) | | | | (102,838) |
| Purchase of treasury stock | | - | | | | - |
| Disposal of treasury stock | 3,135 | 1,316 | | | | 1,316 |
| Transfer from reserve to surplus | | - | | | | - |
| Changes in items other than shareholders equity during period (net) | | - | 1,304 | 1,304 | (468) | 835 |
| Total changes during period | 3,135 | (144,485) | 1,304 | 1,304 | (468) | (143,649) |
| Balance at end of period | (116,194) | 1,896,174 | 1,672 | 1,672 | 3,559 | 1,901,407 |

(4) Notes to Unconsolidated Financial Statements
(Notes to going concern assumption)
Not applicable

7. Other

(1) Changes in Directors

They will be disclosed at the time when details of disclosure are determined.