

# Financial Results for the Six Months Ended June 30, 2016

July 29, 2016

SIOS Technology, Inc.

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

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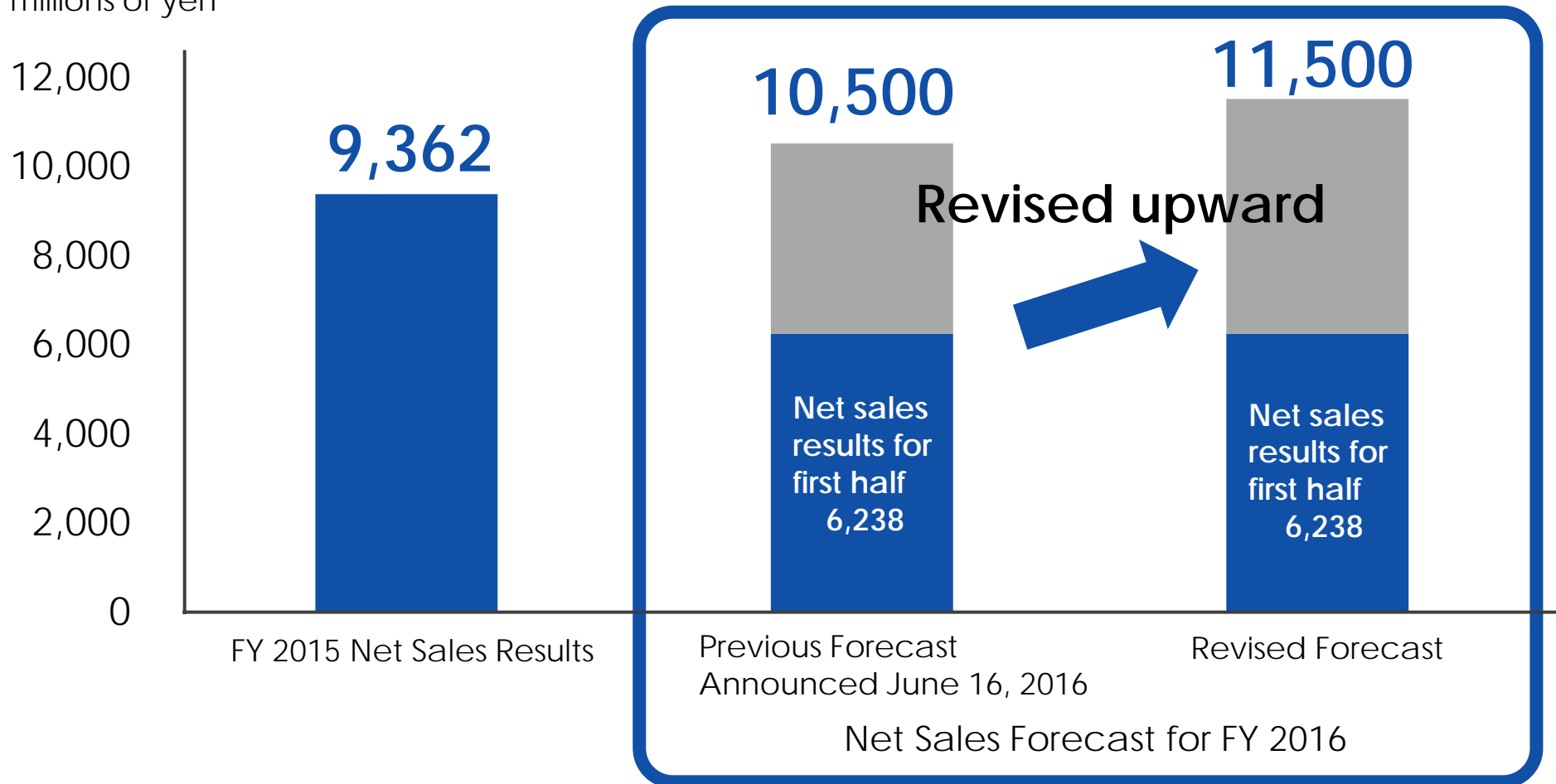


# Major Accomplishments in the Six Months Ended June 30, 2016

# Revised Sales Forecast for FY 2016

on track to become **a 10 billion yen company**

In millions of yen



Net sales forecast for FY 2016 **revised upward to 11.5 billion yen**

# Major Accomplishments in the Six Months Ended June 30, 2016



1

Leveraged the acquisition of Keyport Solutions and Profit Cube in 2015 to enter the emerging FinTech\* sector

2

Released an upgraded version of the SIOS iQ\* software, born out of a stepped-up investment in artificial intelligence technology

3

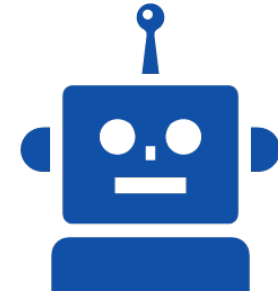
Achieved a solid financial foundation thanks to healthy growth in existing businesses, including OSS\*, LifeKeeper\*, and software applications for MFPs\*

See the Glossary on Page 36 for descriptions of terms with an asterisk.

# A New SIOS



Accelerating growth to the next level, passing the 10 billion yen mark in net sales



Leveraging proprietary FinTech and AI technologies to become a leading player in the IT solutions industry

SIOS is entering a new era of growth and innovation.



Maintaining a robust financial foundation with OSS, LifeKeeper, and software applications for MFPs



Enforcing vigorous compliance policies and practices to retain the trust of stakeholders



# Summary of Business Results for the Six Months Ended June 30, 2016

# Consolidated Financial Results for the Six Months Ended June 30, 2016



In millions of yen

	Results for six months ended June 30, 2015	Results for six months ended June 30, 2016	Change	% Change
Net sales	4,392	<b>6,238</b>	+1,845	+42.0%
Gross margin	1,580	<b>2,268</b>	+688	+43.6%
Operating income	△55	<b>330</b>	+386	—
Ordinary income	△38	<b>292</b>	+330	—
Net income attributable to owners of the parent company	△59	<b>88</b>	+148	—
EBITDA*	△21	<b>417</b>	+438	—

\*EBIADA: Operating income + Depreciation + Amortization of goodwill

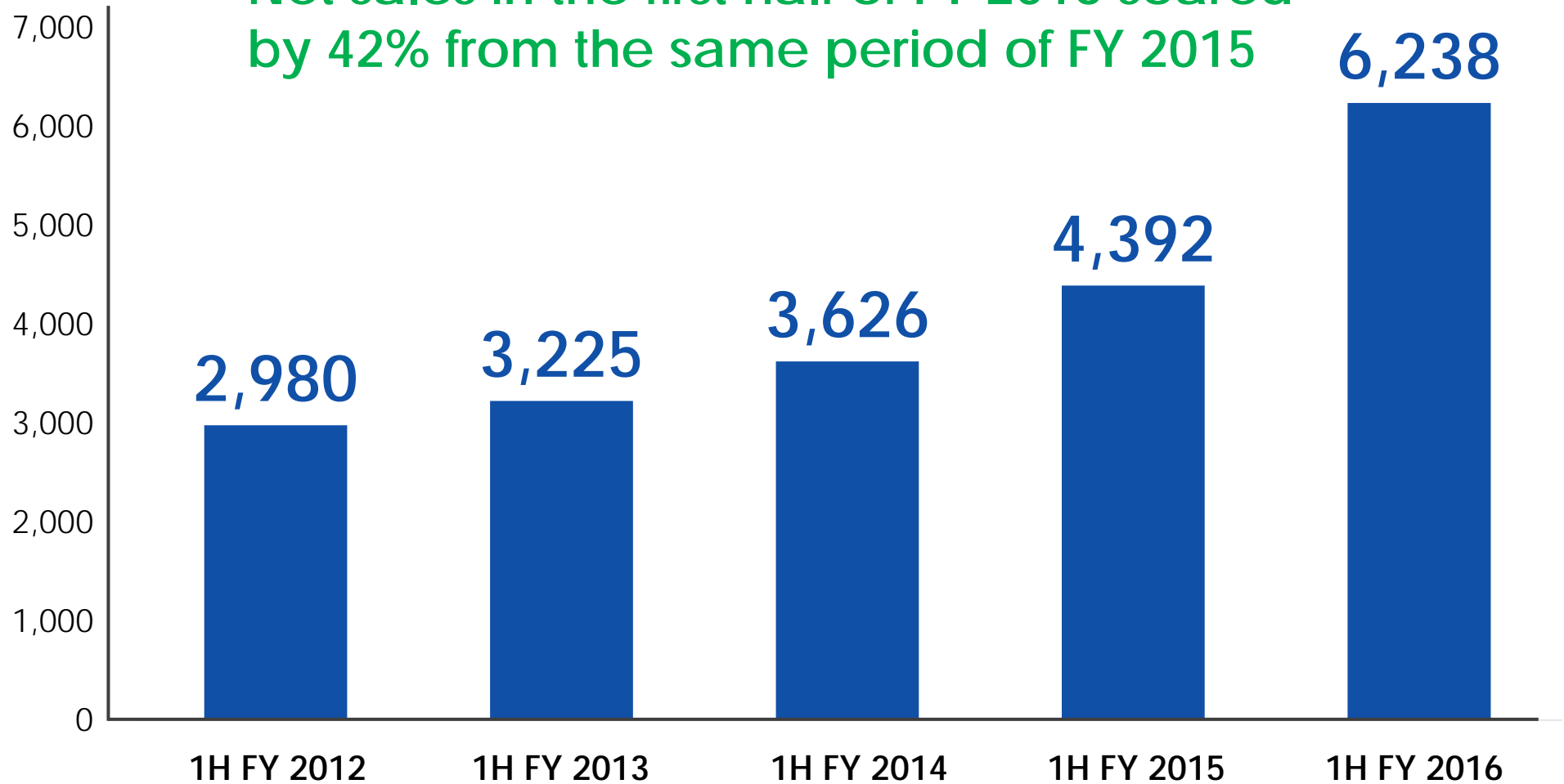


# Consolidated Net Sales in First Halves of the Past 5 Years



In millions of yen

Net sales in the first half of FY 2016 soared by 42% from the same period of FY 2015



# Aggressive Acquisitions Completed in FY 2015

The SIOS Group achieved a substantial increase in net sales in the first half of FY 2016 as a result of having acquired these two fast-growing companies in the previous year.



Keyport Solutions, Inc.  
(KPS)



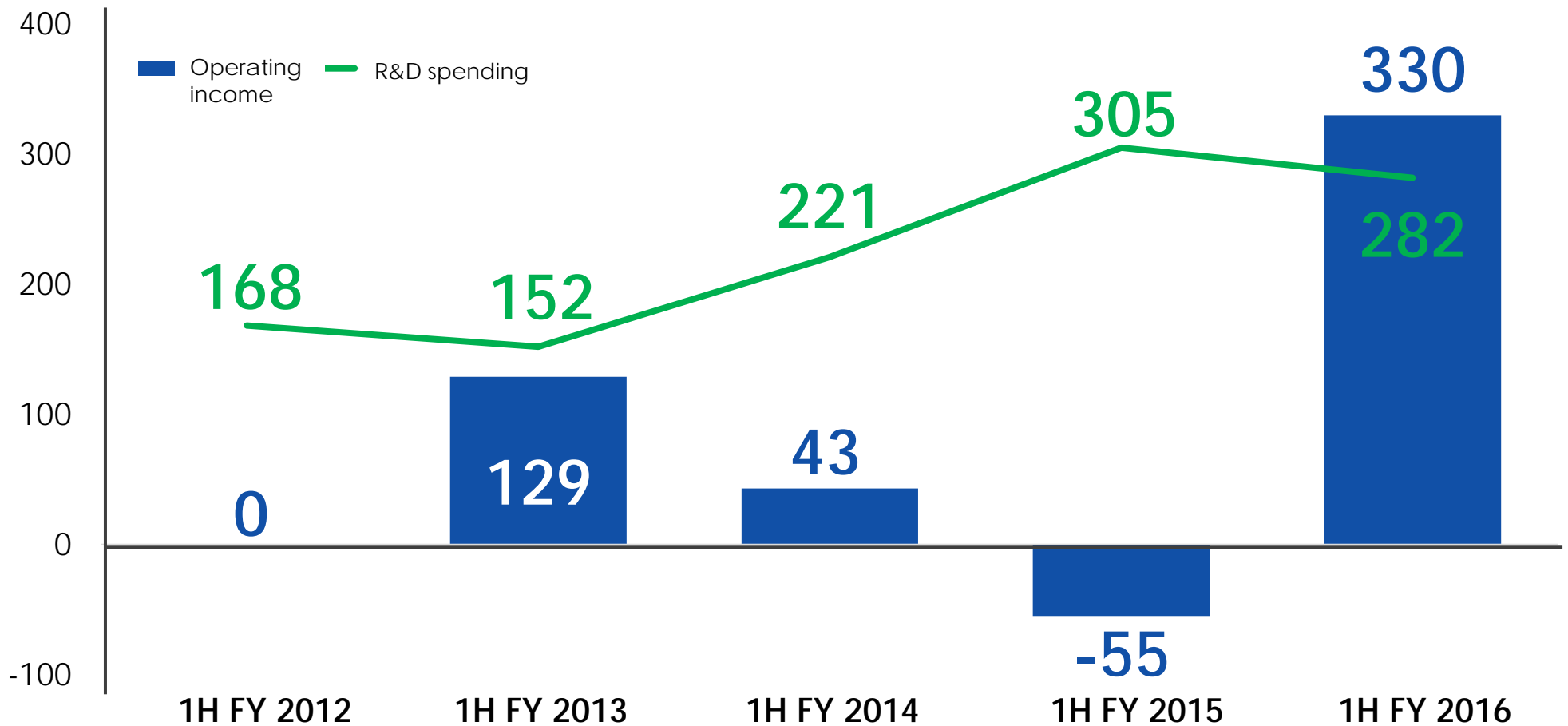
Profit Cube Inc.  
(PCI)

# Consolidated Operating Income and R&D Spending in First Halves of the Past 5 Years



- Operating income in the first half of FY 2016 **up by 385 million yen** from the same period of the year before
- R&D spending **has been following an upward trend.**

In millions of yen

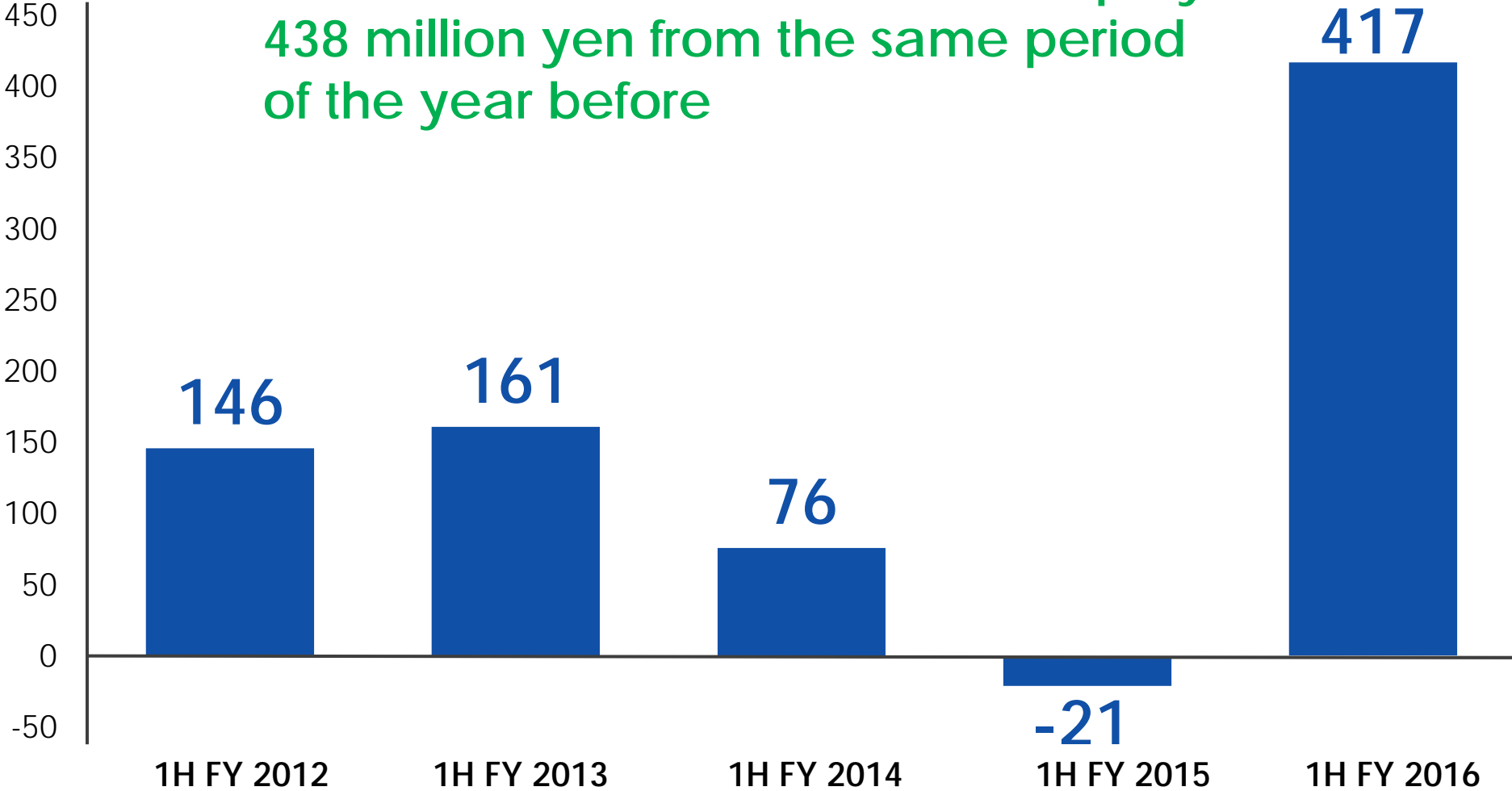


# Consolidated EBITDA in First Halves of the Past 5 Years



In millions of yen

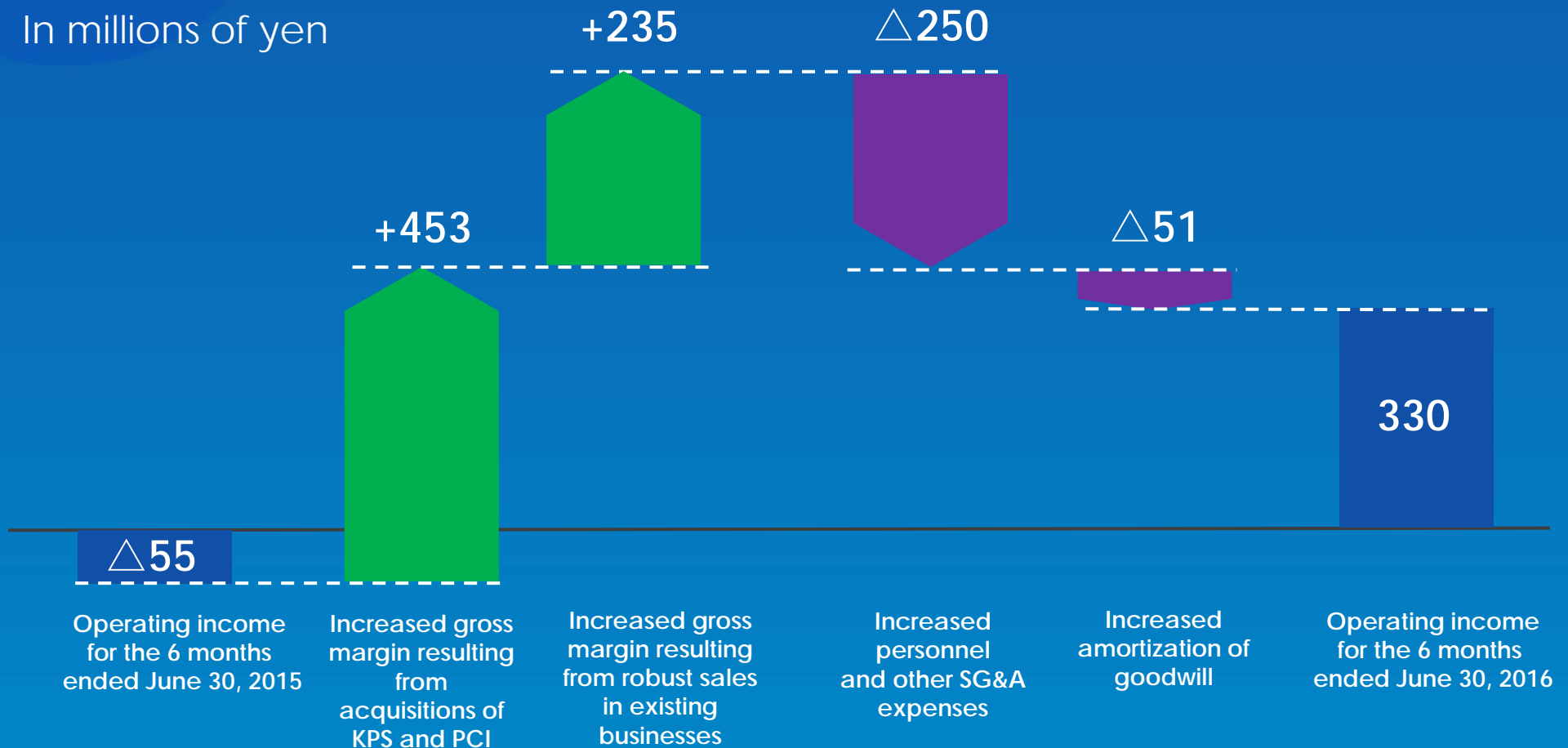
EBITDA in the first half of FY 2016 up by 438 million yen from the same period of the year before



# Analysis of Operating Income

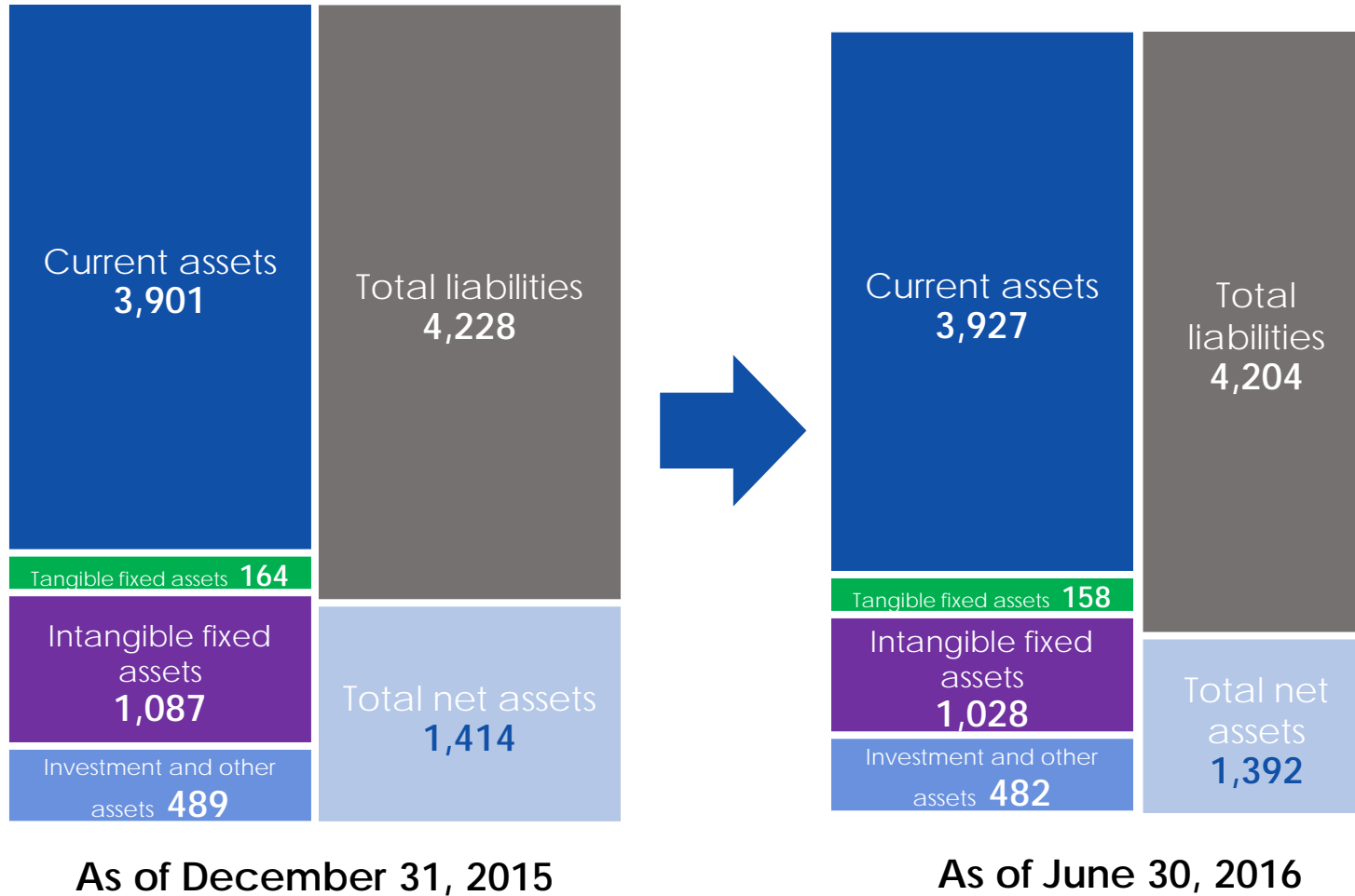
An increased gross margin resulting from the acquisitions of KPS and PCI and from robust sales in existing businesses more than offset an increase in personnel costs and amortization of goodwill, resulting in a substantial increase in operating income for the six months ended June 30, 2016.

In millions of yen



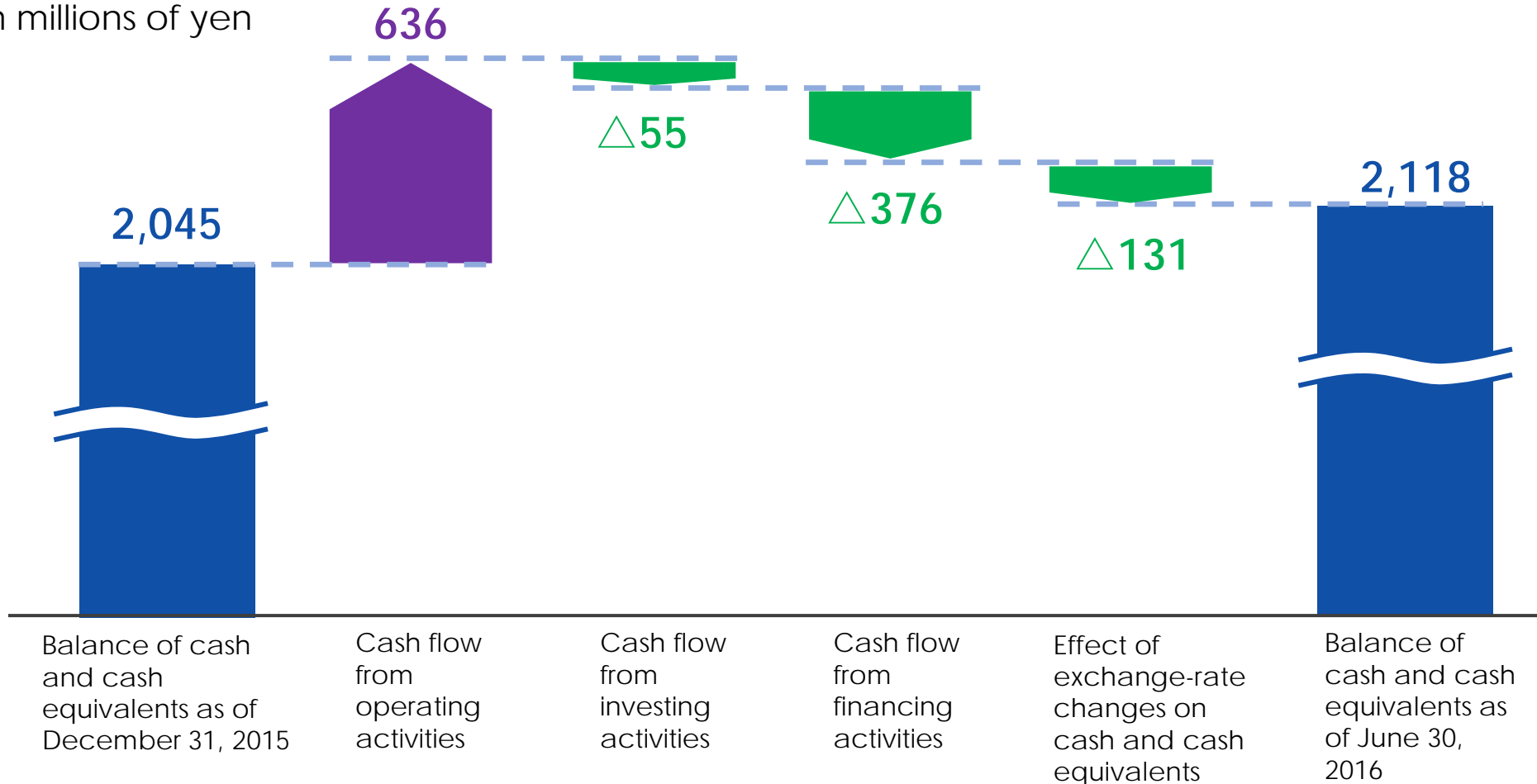
# Consolidated Balance Sheet

In millions of yen



# Analysis of Consolidated Cash Flow

In millions of yen



●As of June 30, 2016, the SIOS Group had a cash reserve of 2.1 billion yen, including cash and deposits, which is more than sufficient to finance the accelerated implementation of the Group's growth strategy.

# Open System Infrastructure Business

Sales and Profit for the 6 Months Ended June 30, 2016

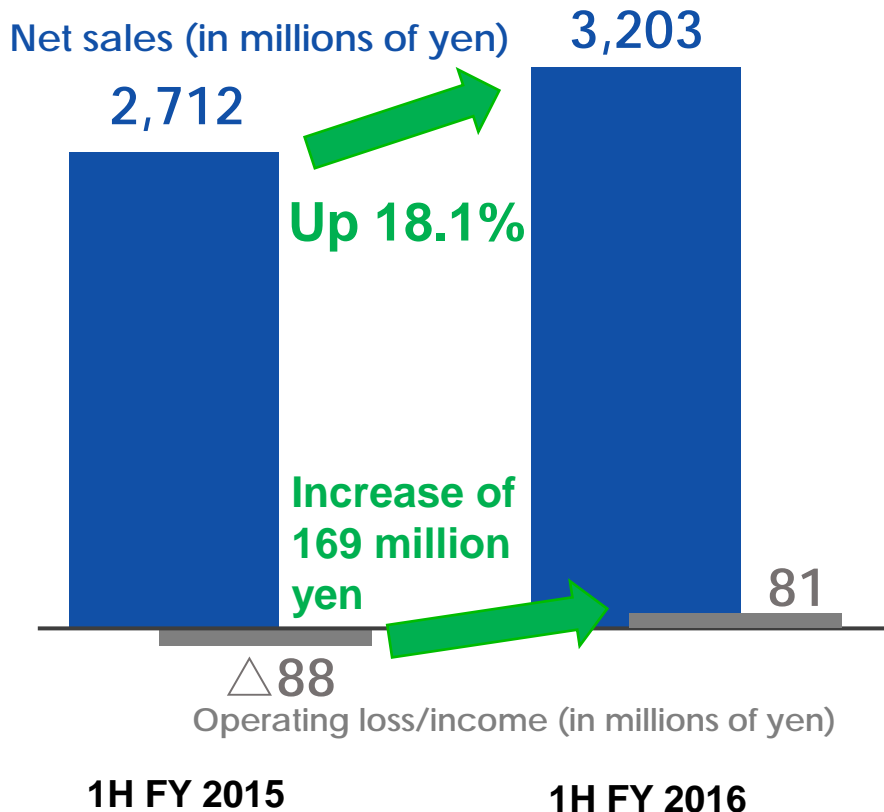


Net sales

3,203 million yen, up 18.1% from the year before

Segment income

81 million yen, as compared with an operating loss of 88 million yen the year before



Net sales

Japan

- Achieved **increased sales** of LifeKeeper
- Achieved **increased sales** of products sourced from Red Hat, Inc.
- Achieved **increased sales** of OSS support services and related products

Overseas

- Achieved **increased sales** in the Americas, Europe, and Asia/Oceania

Segment income

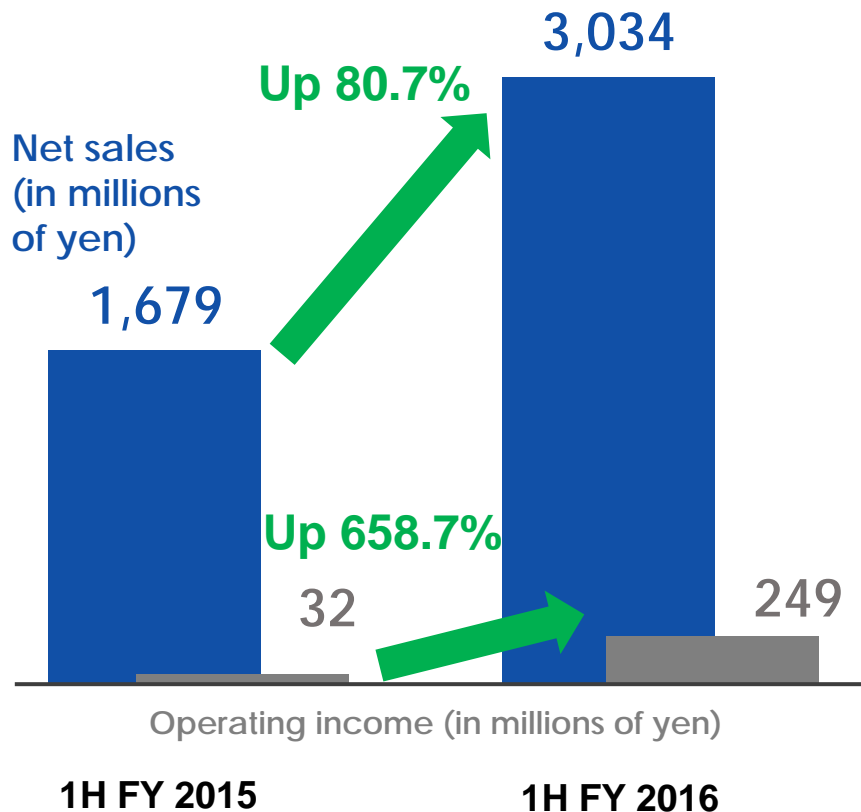
- Continued to invest in R&D for SIOS iQ, machine learning\*-based IT analytics software
- **Returned to profitability**, buoyed by strong sales in existing businesses



# Application Business

Sales and Profit for the 6 Months Ended June 30, 2016

Net sales	3,034 million yen, up 80.7% from the year before
Segment income	249 million yen, up 658.7% from the year before



## Net sales

- Acquisitions of KPS and PCI resulted in a **substantial increase in the Group's consolidated net sales**.
- Achieved **increased sales** of software applications for MFPs\*

## Segment income

- Acquisitions of KPS and PCI resulted in increases in personnel costs and rent, which were more than offset by the growth of gross margin resulting from a surge in net sales.



**Key Medium-Term Strategic  
Initiatives and Progress Achieved  
in the April-June Quarter of 2016**

# 3 Key Medium-Term Strategic Initiatives



**1** Expand into new business segments including FinTech

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

**3** Become more competitive in core businesses

# ① Expand into new business segments including FinTech

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**Acquired a patent for technology** that supports a profit management system developed for financial institutions

Developed an automated loan-screening system for financial institutions, and **filed a patent for the technology** that supports the system

# ① Expand into new business segments including FinTech



In March 2016, SIOS acquired a patent for technology that supports a profit management system developed for financial institutions.

- The patent covers the system's ability to help a financial institution analyze the profitability of doing business with its corporate and retail customers from a variety of aspects as a basis for **formulating a budget and tracking performance against it.**
- Filed two divisional patent applications in June 2016

In April 2016, SIOS developed an automated loan-screening system for financial institutions, and filed a patent for the technology that supports the system.

- The patent covers the system's **ability to automatically determine the creditworthiness** of a loan applicant based on the applicant's transaction records.
- This innovative system utilizes the large amount of data that a financial institution has about its customers to maximize profit opportunities.

## ② Continue to invest in research and development

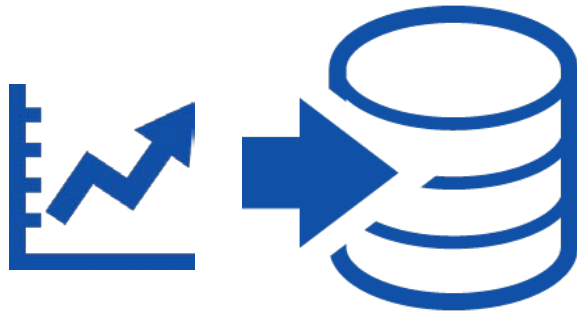
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Released an upgraded version of **SIOS iQ**, machine learning-based IT analytics software

## ② Continue to invest in research and development

In March 2016, SIOS released SIOS iQ v3.5, an upgraded version of machine learning-based IT analytics software.

Added feature: the ability to understand a system's pattern of utilizing its data-storage capacity and predict how many days remain before the storage runs out of free space



### Ability to forecast storage-capacity utilization added

SIOS iQ understands a system's pattern of utilizing its storage capacity and minimizes the need to provide redundancy in storage capacity, resulting in cost savings.



### Redesigned analysis reports that illuminate performance issues

Provide greater usefulness and efficiency in referring to reports

### ③ Become more competitive in core businesses

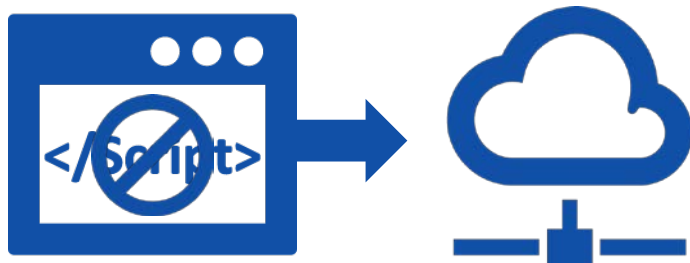
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- i ) Released an upgraded version of **LifeKeeper**
- ii ) Added more functions to **software applications for MFPs**
- iii ) Launched new **OSS services for cloud\***



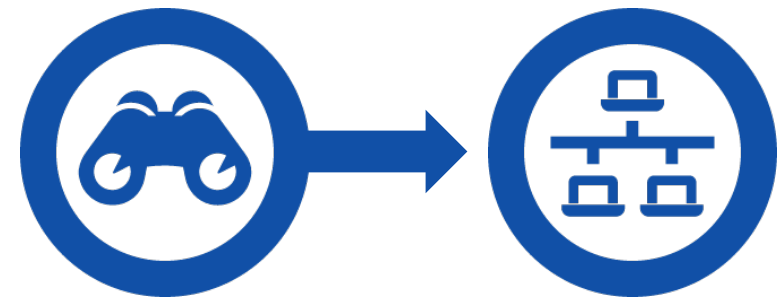
### ③ Become more competitive in core businesses

#### i ) Released LifeKeeper for Linux v9.1 in July 2016



#### Quick Service Protection

- **Reduces labor-hours** by eliminating the need for scripting that requires experience and advanced skills
- **Accelerates system implementation** in a cloud environment



External system

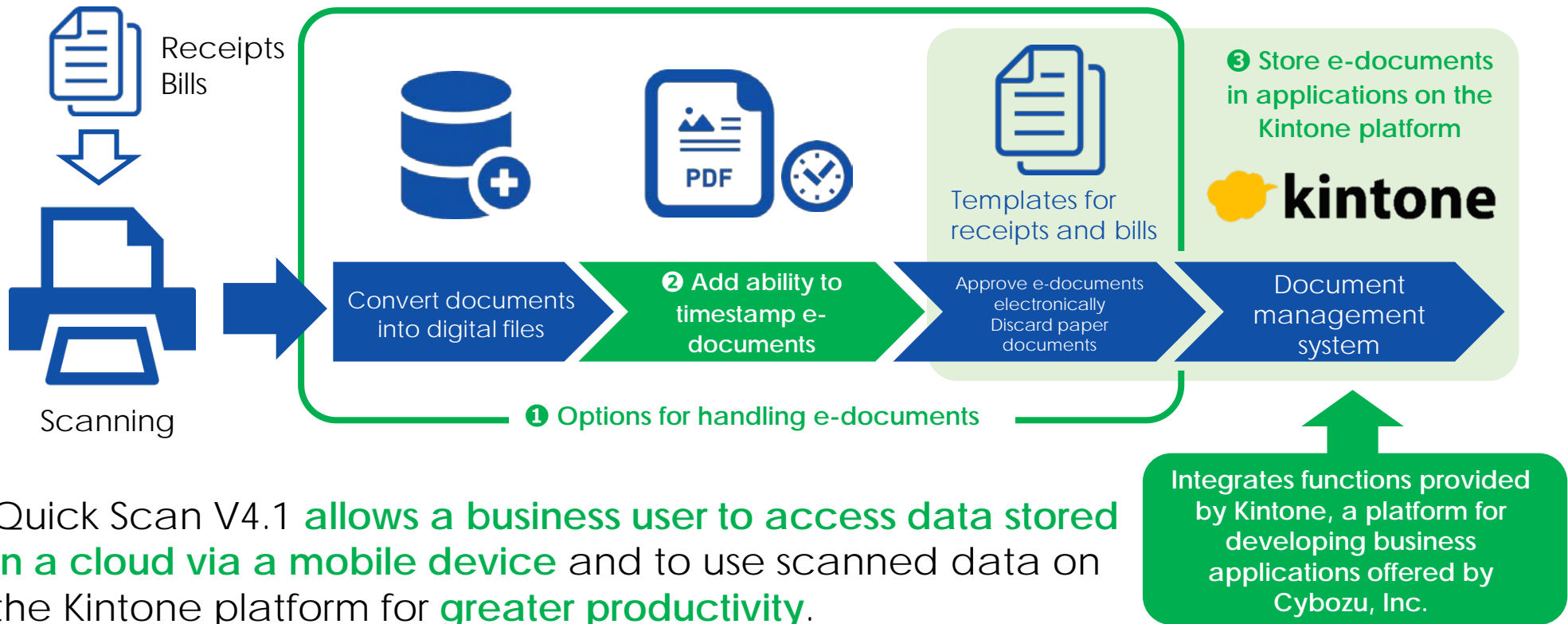
LifeKeeper

#### LifeKeeper APIs

- Allows the monitoring of LifeKeeper from an external system
- **Enables the integrated monitoring of an entire system**, including LifeKeeper

### ③ Become more competitive in core businesses

ii ) Released Quick Scan V4.1 in April 2016, which offers enhancements to software applications for MFPs

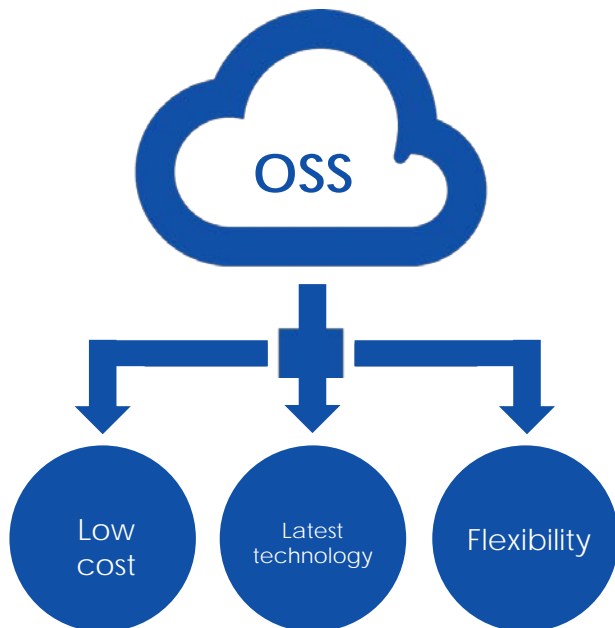


Quick Scan V4.1 allows a business user to access data stored in a cloud via a mobile device and to use scanned data on the Kintone platform for greater productivity.

### ③ Become more competitive in core businesses

iii ) Launched “OSS on Cloud Integration Service” for enterprises on Microsoft Azure in May 2016

Launched an implementation service for Red Hat Enterprise Linux on Azure



- The combination of cloud and OSS **enables the implementation of a variety of latest technologies at low cost and within a short timeframe.**
- OSS, with its **great cost-efficiency and flexibility**, enhances the adoption of cloud-based enterprise and business systems in a corporate environment.

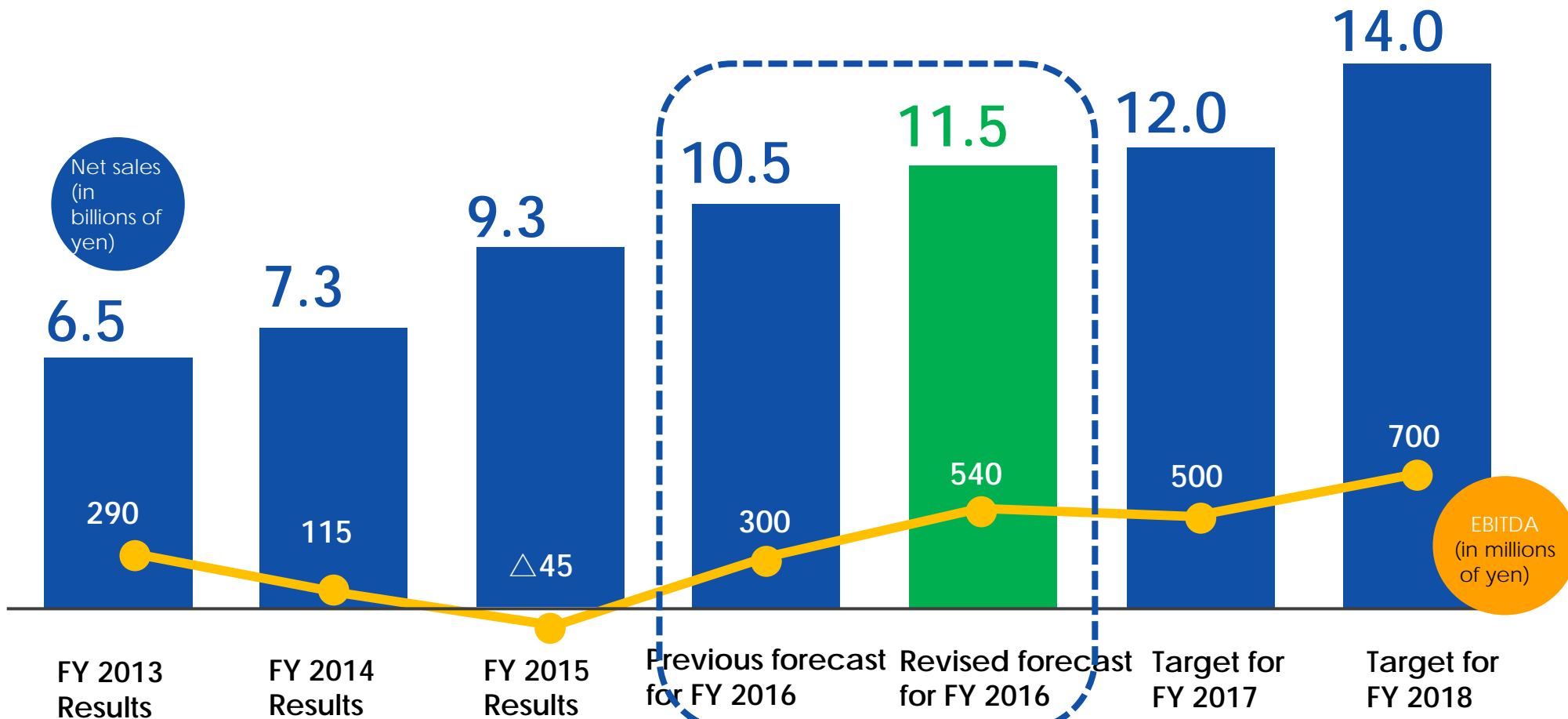


# Medium-Term Sales and Profit Plan and Financial Forecast for FY 2016

# Medium-Term Sales and Profit Plan



Revised forecast for FY 2016 places net sales and EBITDA for the year on a par with their respective targets for FY 2017 established in the medium-term plan.



# Financial Forecast for FY 2016 Ending December 31, 2016



	Results for six months ended June 30, 2016 (in millions of yen)	Forecast for FY 2016 Ending December 31, 2016 (in millions of yen)	Percentage of achievement
Net sales	6,238	<b>11,500</b>	54.2%
Operating income	330	<b>370</b>	89.2%
Ordinary income	292	<b>310</b>	94.2%
Net income attributable to owners of the parent company	88	<b>100</b>	88.0%
EBITDA	417	<b>540</b>	77.2%



# Ensuring Regulatory Compliance across the SIOS Group

# Inappropriate Accounting Practices Conducted by a Consolidated Subsidiary



## Revised Consolidated Financial Results for Past Fiscal Years

(in millions of yen)

	FY 2012			FY 2013			FY 2014			FY 2015			Four-year total
	Previously announced	Revised	Diff.	Previously announced	Revised	Diff.	Previously announced	Revised	Diff.	Previously announced	Revised	Diff.	Difference
Net sales	6,029	5,931	△98	6,624	6,565	△59	7,367	7,349	△18	9,362	9,362	—	△175
Operating income	111	55	△55	246	227	△19	65	55	△9	△111	△111	—	△84
Ordinary income	106	43	△62	265	238	△27	81	61	△19	△127	△137	△10	△119
Net income	34	△50	△84	110	99	△11	39	16	△22	△179	△186	△7	△125
Net assets	1,514	1,429	△84	1,751	1,656	△95	1,733	1,615	△118	1,539	1,414	△125	△125
Total assets	3,005	2,974	△31	3,196	3,194	△1	3,651	3,651	—	5,642	5,642	—	—

Note: SIOS announced on June 16, 2016, revised consolidated financial results for the Group for the past four fiscal years to reflect the impact of inappropriate accounting practices conducted by Kanshin!, Inc. (formerly SIII Inc.), one of our consolidated subsidiaries.



# Why Misconduct Occurred and How We Can Prevent it in the Future



## Why misconduct occurred



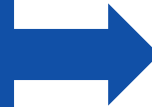
## How we can prevent misconduct in the future

SIOS did not perform thorough due diligence prior to investing in SIIS.



Perform thorough due diligence when considering acquiring other companies

SIIS did not have an effective corporate governance structure.



Enhance the corporate governance structure in every company in the SIOS Group

As a parent company, SIOS did not exercise tight enough control over SIIS.



Ensure that every company in the SIOS Group has a heightened awareness of regulatory compliance

By implementing the three measures outlined on the previous page, we ensure that every company in the SIOS Group **vigorously enforces compliance policies and practices** so as to regain the trust of our stakeholders.

# About SIOS



## SIOS is Innovative Open Solutions

SIOS Technology, which is focused on commercializing open-source software such as Linux, is a leading provider of software products and services that support operating systems, servers, web applications, cloud computing, and Big Data for enterprises. To broaden our offerings, we recently introduced a machine learning-based analytics tool for IT operations to support fast-evolving virtual IT infrastructures.

We are committed to pursuing innovative software solutions and remaining in the global IT arena as an influential player that creates greater value and contributes to a better society.

Headquarters	SIOS building, 2-12-3 Minami Azabu Minato-ku, Tokyo, Japan
Capital	1,481 million yen
Established	May 23, 1997
No. of employees	458 on a consolidated basis (as of December 31, 2015)
Consolidated subsidiaries	SIOS Technology Corp. (USA); SIOS (Beijing) Technology Inc. (China); Gluegent, Inc. (Japan); Kanshin! Inc. (Japan); Glabio, Inc. (USA); Keyport Solutions, Inc. (Japan); Profit Cube Inc. (Japan)



# Glossary



Page	Term	Description
5	<b>FinTech</b>	An emerging technology for facilitating innovations in the financial sector.
5	<b>SIOS iQ</b>	A software platform that comprehensively monitors, analyzes, and optimizes operations of applications in virtual and cloud environments to improve performance and efficiency and ensure reliability in resolving complex issues.
5	<b>Open-Source Software (OSS)</b>	Software whose source code, which is the fundamental component of the program, is made available for free and can be used, modified, and redistributed.
5	<b>LifeKeeper</b>	A failover software product that automatically switches a failed primary server to a backup server.
5	<b>Software applications for MFPs</b>	A multifunction printer (MFP) is a piece of office equipment that incorporates print, scan, copy, and fax capabilities into one unit. SIOS develops, markets, and updates Quick Scan, a document-management software application running on an MFP, and other applications
16	<b>Machine-learning technology</b>	A technology for giving the computer the same learning ability as a human being and for extracting useful information from a variety of data.
24	<b>Cloud</b>	A new form of computing that provides computing resources as services over the Internet.

# Cautionary Statement

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Forward-looking statements about our future performance contained in this document are based on management's assumptions and judgment made in light of the information currently available to us, and may include risks and uncertainties. We caution that significant risks and uncertainties could cause actual performance to differ materially from what is discussed in the forward-looking statements. Significant risks and uncertainties that might affect our performance include, but are not limited to, the economic environment and market conditions in which we operate.

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or fill in and send an inquiry form available at:  
[https://lp.sios.jp/MRK\\_Inquiry\\_SIOS\\_english.html](https://lp.sios.jp/MRK_Inquiry_SIOS_english.html)



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