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OUTSOURCING Inc.
Q2 FY12/13 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereinafter the Company or OS Group, held its Q2 FY12/13 business results meeting, and Trias Corporation conducted an interview with Chairman and CEO Haruhiko Doi. The following is a summary of the interview.

Summary of Q2 FY12/13 Consolidated Financial Results

Following the difficult start in Q1 to early Q2, momentum began to recover from late Q2. Table 1 below shows a summary of Q2 FY12/13 consolidated financial results. Following the 2.3% growth in Q1 net sales, Q2 net sales rose 7.7% YoY. However, the picture for mainstay Manufacturing Outsourcing varied greatly by sector. While Transport Equipment saw larger than expected production increases on the back of economic stimulus policies of the new administration as well as the weakening yen, ongoing decline of relative competitiveness and weakness in smartphones, large flat panel display TVs and certain semiconductors resulted in sharp production declines and cancellations of contracts and orders in Electric & Electronics.

● [Table 1] Summary of Q2 FY12/13 Consolidated Financial Results

| (¥ mn, %) | Q1.12 | Q1.13 | Q2.12 | Q2.13 | Q2 YoY | 1H.12 | 1H.13 | 1H YoY |
|-----------------------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|
| Net Sales | 10,179 | 10,415 | 10,228 | 11,017 | 7.7% | 20,408 | 21,433 | 5.0% |
| Cost of Sales | 8,247 | 8,655 | 8,123 | 8,841 | 8.8% | 16,371 | 17,497 | 6.9% |
| Gross Profit | 1,932 | 1,759 | 2,104 | 2,176 | 3.4% | 4,037 | 3,935 | -2.5% |
| SG&A Expenses | 1,880 | 1,948 | 1,906 | 1,986 | 4.2% | 3,787 | 3,934 | 3.9% |
| Operating Income | 52 | (188) | 197 | 189 | -4.1% | 249 | 1 | -99.6% |
| Non-operating Income | 166 | 197 | 172 | 153 | -11.0% | 338 | 350 | 3.6% |
| Non-operating Expenses | 148 | 200 | 130 | 113 | -13.1% | 279 | 313 | 12.2% |
| Ordinary Income | 70 | (191) | 238 | 230 | -3.4% | 309 | 38 | -87.7% |
| Extraordinary Income | 16 | 80 | 0 | 12 | — | 16 | 93 | 481.3% |
| Extraordinary Loss | 47 | 0 | 67 | 0 | — | 115 | 0 | — |
| Net Income | (9) | (121) | (14) | 151 | — | (23) | 29 | — |
| [Ratio to Net Sales] | | | | | | | | |
| Cost of Sales Ratio | 81.0% | 83.1% | 79.4% | 80.2% | — | 80.2% | 81.6% | |
| Gross Profit on Sales Ratio | 19.0% | 16.9% | 20.6% | 19.8% | — | 19.8% | 18.4% | |
| SG&A Expenses Ratio | 18.5% | 18.7% | 18.6% | 18.0% | — | 18.6% | 18.4% | |
| Operating Income Margin | 0.5% | -1.8% | 1.9% | 1.7% | — | 1.2% | 0.0% | |
| Ordinary Income Margin | 0.7% | -1.8% | 2.3% | 2.1% | — | 1.5% | 0.2% | |
| Net Income Margin | -0.1% | -1.2% | -0.1% | 1.4% | — | -0.1% | 0.1% | |

Source: Company IR materials

Profits in Q1 to early Q2 suffered from increased one-time expenses for breaking dormitory lease contracts, paying wages without related sales etc, however the Company was able to secure strong

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orders for late Q2 and 2H from Electric & Electronics and Construction & Plant-related sectors which will allow it to recoup leading investment in largely increased workers.

The key point is 1H profits were largely depressed by leading investment in increased personnel for Transport Equipment in Manufacturing Outsourcing, however this laid the foundation for higher sales and profits in the 2H. The impact from the flurry of additional hiring in March is shown in Table 3 on the top of the next page.

Cash and deposits increased due to acquisition of subsidiaries and working capital loans. Noncurrent assets increased largely due to acquisition of subsidiary shares. Short-term loans payable increased for working capital and with a view toward further M&A. Retained earnings decreased slightly after the payment of dividends.

● **[Table 2] Q2-end FY12/13 Consolidated B/S Summary**

| (¥ mn, %) | Q4.12 | % Total | Q2.13 | % Total | Change |
|---|---------------|---------------|---------------|---------------|--------------|
| Current Assets | 9,431 | 68.0% | 10,946 | 64.0% | 1,515 |
| Cash & Deposits | 3,363 | 24.3% | 4,402 | 25.7% | 1,039 |
| Notes and Accounts Receivable-trade | 5,232 | 37.7% | 5,341 | 31.2% | 109 |
| Inventory | 132 | 1.0% | 165 | 1.0% | 33 |
| Noncurrent Assets | 4,433 | 32.0% | 6,167 | 36.0% | 1,734 |
| Property, Plant and Equipment | 2,008 | 14.5% | 2,053 | 12.0% | 45 |
| Intangible assets | 1,372 | 9.9% | 1,872 | 10.9% | 500 |
| Investments & Other Assets | 1,051 | 7.6% | 2,241 | 13.1% | 1,190 |
| Total Assets | 13,866 | 100.0% | 17,114 | 100.0% | 3,248 |
| Current Liabilities | 6,875 | 49.6% | 9,302 | 54.4% | 2,427 |
| Notes and Accounts Payable-trade | 208 | 1.5% | 243 | 1.4% | 35 |
| Short-term Loans Payable | 2,574 | 18.6% | 3,729 | 21.8% | 1,155 |
| Accounts Payable-other | 2,341 | 16.9% | 3,434 | 20.1% | 1,093 |
| Noncurrent Liabilities | 2,478 | 17.9% | 3,141 | 18.4% | 663 |
| Long-term Loans Payable | 1,582 | 11.4% | 1,907 | 11.1% | 325 |
| Total Liabilities | 9,354 | 67.5% | 12,444 | 72.7% | 3,090 |
| Shareholders' Equity | 4,008 | 28.9% | 3,918 | 22.9% | (90) |
| Capital Stock | 485 | 3.5% | 492 | 2.9% | 7 |
| Capital Surplus | 881 | 6.4% | 888 | 5.2% | 7 |
| Retained Earnings | 3,032 | 21.9% | 2,928 | 17.1% | (104) |
| Treasury Stock | (391) | -2.8% | (391) | -2.3% | 0 |
| Valuation and Translation Adjustment | 78 | 0.6% | 165 | 1.0% | 87 |
| Subscription Rights to Shares | 103 | 0.7% | 127 | 0.7% | 24 |
| Minority Interests | 321 | 2.3% | 458 | 2.7% | 137 |
| Total Net Assets | 4,511 | 32.5% | 4,670 | 27.3% | 159 |
| Total Liabilities & Net Assets | 13,866 | 100.0% | 17,114 | 100.0% | 3,248 |

Source: Company IR Materials

● [Table 3] Flurry of Additional Hiring in March

| (Workers) | Q1.13 Plan | Q1.13 Actual | Change | (¥ mn) Startup Costs | Q2-Q4 Additional Sales |
|----------------------------|---------------|-----------------|--------|-------------------------|---------------------------|
| Temporary & Contract Hires | 982 | 1,292 | 310 | 60 | 900 |
| Enrolled Workers | 3,358 | 3,558 | 200 | — | 500 |
| Total Additional Sales | — | — | — | — | 1,400 |

Source: Compiled by Trias Corporation from Company IR materials

The Company announced changes to reporting operating segments on Q1 results, reflecting the expanding scope of business, and aiming to provide more accurate disclosure close to the business reality. Table 4 below gives an overview of changes to reporting operating segments. In a nutshell, the Company is splitting the old segment Domestic Outsourcing into Manufacturing Outsourcing and Engineering Outsourcing. Names of three of the remaining four segments changed, but the content is the same as the old segments.

● [Table 4] Overview of New Reporting Operating Segments

| | Before the change | After the change |
|-------------------------------------|--|-------------------------------------|
| Production Outsourcing Business | Domestic Outsourcing | Manufacturing Outsourcing |
| | Overseas Outsourcing | Engineering Outsourcing |
| Administrative Outsourcing Business | Administrative Operations Outsourcing | Overseas Business |
| | Recruitment Agency Service Outsourcing | Administrative Outsourcing Business |
| Other Operations | Other Business | Staff Agency Business |
| | | Other Business |

Source: Compiled by Trias Corporation from Company IR materials

● [Table 5] FY12/12 Operating Segment Results Restated using New Reporting Segments

| (¥ mn) Old Segments | 1H.12 | 2H.12 | FY12/12 | (¥ mn) New Segments | 1H.12 | 2H.12 | FY12/12 |
|---------------------------------------|---------------|---------------|---------------|----------------------------|---------------|---------------|---------------|
| Net Sales | 20,408 | 21,682 | 42,090 | Net Sales | 20,408 | 21,682 | 42,090 |
| Domestic Outsourcing | 18,055 | 18,850 | 36,905 | Manufacturing Outsourcing | 12,579 | 12,020 | 24,600 |
| Overseas Outsourcing | 1,997 | 2,542 | 4,539 | Engineering Outsourcing | 5,476 | 6,831 | 12,308 |
| Administrative Operations Outsourcing | 303 | 330 | 633 | Overseas Business | 1,997 | 2,542 | 4,539 |
| Recruitment Agency Service Outsourcir | 257 | 179 | 436 | Administrative Outsourcing | 303 | 330 | 633 |
| Other Business | 79 | 73 | 152 | Staff Agency | 257 | 179 | 436 |
| Intra-company transfers | (286) | (295) | (582) | Other Business | 79 | 73 | 152 |
| Operating Income | 249 | 750 | 1,000 | Intra-company transfers | (286) | (295) | (582) |
| Domestic Outsourcing | 246 | 533 | 779 | Operating Income | 249 | 750 | 1,000 |
| Overseas Outsourcing | (76) | 38 | (38) | Manufacturing Outsourcing | 19 | 94 | 113 |
| Administrative Operations Outsourcing | 90 | 158 | 248 | Engineering Outsourcing | 227 | 440 | 667 |
| Recruitment Agency Service Outsourcir | 78 | 70 | 148 | Overseas Business | (76) | 38 | (38) |
| Other Business | 4 | 3 | 8 | Administrative Outsourcing | 90 | 158 | 248 |
| Eliminations | (93) | (56) | (149) | Staff Agency | 78 | 70 | 148 |
| | | | | Other Business | 4 | 3 | 8 |
| | | | | Eliminations | (93) | (56) | (149) |

Source: Compiled by Trias Corporation from Company IR materials

In addition, the Company changed reporting classifications for the sales breakdown by industry. Table 6 on the following page shows the FY12/12 Sales Breakdown by Industry restated using the new sectors. In addition to dividing key sectors by Manufacturing Outsourcing and Engineering

Outsourcing, two new sectors for on-site building work supervisors and electrical appliance after-sales maintenance service have been added. Also, Overseas Business is split out from the old sector Others. Operating segments increased from five to six, and industry sectors increased from seven to fifteen.

● **[Table 6] FY12/12 Sales Breakdown by Industry Restated using New Reporting Sectors**

| (¥ mn) Old Segments | 1H.12 | 2H.12 | FY12/12 | (¥ mn) New Segments | 1H.12 | 2H.12 | FY12/12 |
|-------------------------------|---------------|---------------|---------------|----------------------------------|---------------|---------------|---------------|
| Production Outsourcing | 19,768 | 21,127 | 40,895 | Manufacturing Outsourcing | 12,303 | 11,875 | 24,178 |
| Transport Equipment | 6,245 | 5,708 | 11,954 | Transport Equipment | 4,254 | 3,368 | 7,623 |
| Electrical/Electronics | 3,703 | 4,079 | 7,782 | Electric & Electronics | 2,516 | 2,803 | 5,320 |
| Pharma/Chemicals | 2,093 | 2,302 | 4,396 | Chemicals & Medicals | 1,732 | 1,929 | 3,662 |
| Building Materials | 1,919 | 1,820 | 3,740 | Metals & Construction Material | 1,903 | 1,802 | 3,706 |
| IT | 1,005 | 1,950 | 2,956 | Foods | 866 | 872 | 1,739 |
| Foods | 868 | 986 | 1,854 | Others | 1,029 | 1,098 | 2,127 |
| Others | 3,932 | 4,278 | 8,211 | Engineer Outsourcing | 5,470 | 6,789 | 12,260 |
| | | | | Transport Equipment | 1,974 | 2,134 | 4,108 |
| | | | | Electric & Electronics | 1,159 | 1,142 | 2,301 |
| | | | | Chemicals & Medicals | 358 | 370 | 728 |
| | | | | Metals & Construction Material | 13 | 9 | 23 |
| | | | | IT-related | 905 | 1,863 | 2,769 |
| | | | | Construction & Plant-related | — | — | — |
| | | | | After-services Maintenance | — | — | — |
| | | | | Others | 1,059 | 1,269 | 2,328 |
| | | | | Overseas Business | 1,994 | 2,462 | 4,457 |

Source: Compiled by Trias Corporation from Company IR materials

Table 7 on the following page shows the sales breakdown by industry. In Manufacturing Outsourcing, while Transport Equipment posted an unseasonal Q2 pickup QoQ from vertical ramp-ups of the auto and auto parts makers, Electric & Electronics suffered from production adjustments related to handsets, TVs and some semiconductors. However, Engineering Outsourcing was a completely different story. Management focus initiatives place high priority on diversifying into sectors not influenced by high volatility of the busy/slack manufacturing cycle, and in Q1 and Q2 IT-related became the third largest sector after mainstay Transport Equipment and Electric & Electronics, driven by demand for big data-related systems etc.

Overseas Business continues to post brisk expansion, rising 19.2% QoQ and 77.3% YoY in Q2. According to the Company, while leading investment and startup costs hold down profits initially, it achieved high sales growth in both Thailand and Vietnam. The total number of overseas workers rose 2,576 persons from the end of last term to 6,956 persons, rivaling the level of workers in Japan.

One of the most important revelations from the new reporting classifications is the size of contribution to profits of Engineering Outsourcing. In FY12/12, Engineering Outsourcing accounted for two-thirds of operating income. This is partly due to higher pay structures for engineers, but last term 2H Manufacturing Outsourcing was dramatically depressed by the impact of cancellations following the Senkaku Islands dispute and China boycotting Japanese products.

Overseas Business is also making an increasingly larger contribution. Q1 posted an operating loss

due to sharp increase of 1,400 workers in Thailand, however this laid the foundation for higher sales and profits in Q2.

● **[Table 7] Quarterly Trend of Sales Breakdown by Industry**

| (¥ mn, %) | Q1.12 | Q2.12 | Q3.12 | Q4.12 | Q1.13 | Q2.13 | Q2 YoY |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Manufacturing Outsourcing | 6,147 | 6,155 | 6,031 | 5,843 | 4,834 | 5,033 | -18.2% |
| Transport Equipment | 2,119 | 2,135 | 1,849 | 1,518 | 1,355 | 1,532 | -28.2% |
| Electric & Electronics | 1,230 | 1,285 | 1,405 | 1,398 | 1,049 | 965 | -24.9% |
| Chemicals & Medicals | 869 | 863 | 909 | 1,019 | 897 | 888 | 2.9% |
| Metals & Construction Materials | 995 | 907 | 942 | 860 | 675 | 642 | -29.2% |
| Foods | 439 | 427 | 425 | 447 | 378 | 375 | -12.2% |
| Others | 493 | 535 | 500 | 598 | 478 | 628 | 17.4% |
| Engineering Outsourcing | 2,686 | 2,784 | 3,224 | 3,566 | 3,850 | 3,917 | 40.7% |
| Transport Equipment | 1,073 | 900 | 981 | 1,152 | 1,126 | 1,174 | 30.4% |
| Electric & Electronics | 515 | 643 | 559 | 582 | 532 | 552 | -14.2% |
| Chemicals & Medicals | 170 | 187 | 182 | 188 | 213 | 195 | 4.3% |
| Metals & Construction Materials | 7 | 6 | 4 | 4 | 1 | 3 | -50.0% |
| IT-related | 426 | 479 | 852 | 1,010 | 1,344 | 1,295 | 170.4% |
| Construction & Plant-related | — | — | — | — | 72 | 93 | — |
| After-services Maintenance | — | — | — | — | 34 | 51 | — |
| Others | 491 | 567 | 642 | 627 | 525 | 550 | -3.0% |
| Overseas Business | 998 | 996 | 1,199 | 1,262 | 1,482 | 1,766 | 77.3% |
| [% Total] | | | | | | | |
| Manufacturing Outsourcing | 62.5% | 62.0% | 57.7% | 54.8% | 47.6% | 47.0% | |
| Engineering Outsourcing | 27.3% | 28.0% | 30.8% | 33.4% | 37.9% | 36.6% | |
| Overseas Business | 10.2% | 10.0% | 11.5% | 11.8% | 14.6% | 16.5% | |
| [Key Domestic Sectors] | | | | | | | |
| Transport Equipment | 32.5% | 30.5% | 27.1% | 25.0% | 24.4% | 25.3% | |
| Electric & Electronics | 17.7% | 19.4% | 18.8% | 18.6% | 15.6% | 14.2% | |
| Chemicals & Medicals | 10.6% | 10.6% | 10.4% | 11.3% | 10.9% | 10.1% | |
| Metals & Construction Materials | 10.2% | 9.2% | 9.0% | 8.1% | 6.6% | 6.0% | |
| IT-related | 4.3% | 4.8% | 8.1% | 9.5% | 13.2% | 12.1% | |

Source: Compiled by Trias Corporation from Company IR materials

Note: Does not include Administrative Outsourcing, Staff Agency or Other Business

● **[Table 8] Quarterly Trend of Consolidated Financial Results**

| (¥ mn) | Q1.12 | Q2.12 | Q3.12 | Q4.12 | Q1.13 | Q2.13 | Q2 YoY |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|
| Net Sales | 10,179 | 10,228 | 10,719 | 10,962 | 10,415 | 11,017 | 7.7% |
| Manufacturing Outsourcing | 6,294 | 6,285 | 6,099 | 5,920 | 4,891 | 5,133 | -18.3% |
| Engineering Outsourcing | 2,688 | 2,788 | 3,243 | 3,588 | 3,882 | 3,934 | 41.1% |
| Administrative Outsourcing | 190 | 112 | 161 | 168 | 164 | 154 | 37.5% |
| Staff Agency | 113 | 144 | 93 | 86 | 38 | 103 | -28.5% |
| Overseas Business | 999 | 997 | 1,233 | 1,308 | 1,513 | 1,799 | 80.4% |
| Other Business | 43 | 35 | 36 | 37 | 48 | 45 | 28.6% |
| Intra-company transfers | (150) | (136) | (148) | (147) | (123) | (153) | — |
| Operating Income | 52 | 197 | 286 | 463 | (188) | 189 | -4.1% |
| Manufacturing Outsourcing | (32) | 52 | 4 | 89 | (255) | 100 | 92.3% |
| Engineering Outsourcing | 90 | 136 | 191 | 249 | 112 | 55 | -59.6% |
| Administrative Outsourcing | 50 | 40 | 94 | 64 | 45 | 36 | -10.0% |
| Staff Agency | 30 | 48 | 14 | 56 | 15 | 11 | -77.1% |
| Overseas Business | (38) | (38) | 24 | 13 | (18) | 57 | — |
| Other Business | 2 | 2 | 3 | 0 | 5 | 0 | — |
| Eliminations | (50) | (43) | (46) | (9) | (93) | (71) | — |

Source: Compiled by Trias Corporation from Company IR materials

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● [Table 9] Quarterly Trend of Consolidated Financial Results

| (¥ mn) | Q1.12 | Q2.12 | Q3.12 | Q4.12 | Q1.13 | Q2.13 | YoY |
|-----------------------------|--------|--------|--------|--------|--------|--------|-------|
| Net Sales | 10,179 | 10,228 | 10,719 | 10,962 | 10,415 | 11,017 | 7.7% |
| Gross Profit | 1,932 | 2,104 | 2,131 | 2,304 | 1,759 | 2,176 | 3.4% |
| SG&A Expenses | 1,880 | 1,906 | 1,844 | 1,840 | 1,948 | 1,986 | 4.2% |
| Operating Income | 52 | 197 | 286 | 463 | (188) | 189 | -4.1% |
| Ordinary Income | 70 | 238 | 321 | 523 | (191) | 230 | -3.4% |
| Net Income | (9) | (14) | 228 | 436 | (121) | 151 | — |
| (Ratio to Net Sales) | | | | | | | |
| Gross Profit on Sales Ratio | 19.0% | 20.6% | 19.9% | 21.0% | 16.9% | 19.8% | |
| SG&A Expenses Ratio | 18.5% | 18.6% | 17.2% | 16.8% | 18.7% | 18.0% | |
| Operating Income Margin | 0.5% | 1.9% | 2.7% | 4.2% | -1.8% | 1.7% | |
| Ordinary Income Margin | 0.7% | 2.3% | 3.0% | 4.8% | -1.8% | 2.1% | |
| Net Income Margin | -0.1% | -0.1% | 2.1% | 4.0% | -1.2% | 1.4% | |

Source: Compiled by Trias Corporation from Company IR materials

FY12/13 Consolidated Financial Forecasts

As mentioned earlier, the Company fully expects to recover the profit shortfall in Q1 and Q2 as a result of rapid start-up costs for Transport Equipment at the end of Q1 and cancellations for Electric & Electronics in Q1 and Q2 during the 2H. Chairman Doi notes that demand from the Transport Equipment sector is extremely brisk, and despite the high base last year for comps given strong domestic demand driven by eco-car tax subsidies, domestic auto sales this year are quite strong driven by the high level of new model launches for both passenger and mini vehicles. Toyota raised its 1H domestic production forecast by 150,000 units to 1.65mn units, and full-term forecast by 250,000 units to 3.35mn units, and there appears to be room to revise the 2H further.

● [Table 10] Revised 2H FY12/13 Company Estimates

| (¥ mn, %) | Q1.13 Init CE | Q1.13 Actual | Q2.13 Init CE | Q2.13 Actual | 2H.13 Init CE | 2H.13 New CE | Amount Revised | FY12/13 UNCH CE |
|-----------------------------|------------------|-----------------|------------------|-----------------|------------------|-----------------|-------------------|--------------------|
| Net Sales | 10,354 | 10,415 | 11,976 | 11,017 | 27,670 | 28,566 | 896 | 50,000 |
| Operating Income | (52) | (188) | 317 | 189 | 1,255 | 1,518 | 263 | 1,520 |
| Ordinary Income | — | (191) | — | 230 | 1,290 | 1,551 | 261 | 1,590 |
| Net Income | — | (121) | — | 151 | 845 | 970 | 125 | 1,000 |
| [Ratio to Net Sales] | | | | | | | | |
| Operating Income Margin | -0.5% | -1.8% | 2.6% | 1.7% | 4.5% | 5.3% | — | 3.0% |
| Ordinary Income Margin | — | -1.8% | — | 2.1% | 4.7% | 5.4% | — | 3.2% |
| Net Income Margin | — | -1.2% | — | 1.4% | 3.1% | 3.4% | — | 2.0% |
| [YoY Change] | | | | | | | | |
| Net Sales | 1.7% | 2.3% | 17.1% | 7.7% | 27.6% | 31.7% | — | 18.8% |
| Operating Income | — | — | 60.9% | -4.1% | 67.1% | 102.1% | — | 52.0% |
| Ordinary Income | — | — | — | -3.4% | 52.8% | 83.8% | — | 37.9% |
| Net Income | — | — | — | — | 27.3% | 46.1% | — | 56.0% |

Source: Compiled by Trias Corporation from Company IR Materials

Table 11 below shows company estimates by operating segments. The key takeaways from this table are 1) the shortfall in 1H operating income was largely due to rapid ramp-up costs for Transport Equipment in Manufacturing Outsourcing which will be recouped in 2H higher sales, and

2) the “cooling off” period following Senkaku Islands dispute allowed for a reset of the 3-year period, so administrative outsourcing demand will be lower than expected, somewhat offset by higher staff introductions business.

● **[Table 11] 2H FY12/13 Revised Company Estimates by Operating Segment**

| (¥ mn, %) | Q1.13 Initial CE | Q1.13 Actual | Q2.13 Initial CE | Q2.13 Actual | 2H.13 Initial CE | 2H.13 New CE | FY12/13 Initial CE | FY12/13 New CE |
|----------------------------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|-----------------------|-------------------|
| Net Sales | 10,354 | 10,415 | 11,976 | 11,017 | 27,670 | 28,566 | 50,000 | 50,000 |
| Manufacturing Outsourcing | 5,009 | 4,891 | 5,570 | 5,133 | 12,393 | 13,557 | 22,972 | 23,582 |
| Engineering Outsourcing | 3,660 | 3,882 | 4,317 | 3,934 | 10,646 | 10,657 | 18,623 | 18,475 |
| Administrative Outsourcing | 183 | 164 | 263 | 154 | 715 | 270 | 1,161 | 590 |
| Staff Agency | 49 | 38 | 64 | 103 | 135 | 259 | 248 | 401 |
| Overseas Business | 1,504 | 1,513 | 1,835 | 1,799 | 3,911 | 3,936 | 7,250 | 7,250 |
| Other Business | 47 | 48 | 47 | 45 | 96 | 91 | 190 | 184 |
| Intra-company transfers | (98) | (123) | (122) | (153) | (229) | (206) | (449) | (483) |
| Operating Income | (52) | (188) | 317 | 189 | 1,255 | 1,518 | 1,520 | 1,520 |
| Manufacturing Outsourcing | (87) | (255) | 185 | 100 | 298 | 759 | 396 | 603 |
| Engineering Outsourcing | 0 | 112 | 11 | 55 | 610 | 601 | 621 | 769 |
| Administrative Outsourcing | 24 | 45 | 64 | 36 | 217 | 78 | 305 | 160 |
| Staff Agency | 15 | 15 | 20 | 11 | 42 | 73 | 77 | 100 |
| Overseas Business | 33 | (18) | 75 | 57 | 162 | 128 | 270 | 167 |
| Other Business | 4 | 5 | 3 | 0 | 7 | 11 | 14 | 16 |
| Eliminations | (43) | (93) | (43) | (71) | (86) | (133) | (172) | (298) |

Source: Compiled by Trias Corporation from Company IR materials

● **[Table 12] 2H FY12/13 Revised Company Estimates by Operating Segment YoY**

| (¥ mn, %) | 2H.12 | 2H.13 New CE | Change | YoY |
|----------------------------|---------------|-----------------|--------------|---------------|
| Net Sales | 21,682 | 28,566 | 6,884 | 31.7% |
| Manufacturing Outsourcing | 12,020 | 13,557 | 1,537 | 12.8% |
| Engineering Outsourcing | 6,831 | 10,657 | 3,826 | 56.0% |
| Overseas Business | 330 | 270 | (60) | -18.2% |
| Administrative Outsourcing | 179 | 259 | 80 | 44.7% |
| Staff Agency | 2,542 | 3,936 | 1,394 | 54.8% |
| Other Business | 73 | 91 | 18 | 24.7% |
| Intra-company transfers | (295) | (206) | 89 | — |
| Operating Income | 750 | 1,518 | 768 | 102.4% |
| Manufacturing Outsourcing | 94 | 759 | 665 | 707.4% |
| Engineering Outsourcing | 440 | 601 | 161 | 36.6% |
| Overseas Business | 158 | 78 | (80) | -50.6% |
| Administrative Outsourcing | 70 | 73 | 3 | 4.3% |
| Staff Agency | 38 | 128 | 90 | 236.8% |
| Other Business | 3 | 11 | 8 | 266.7% |
| Eliminations | (56) | (133) | (77) | — |

Source: Compiled by Trias Corporation from Company IR materials

Further explanation for the upward revision largely to 2H Manufacturing Outsourcing profits can be found in the two tables below. Table 13 shows the Company has revised up its forecast for Q4 temporary and contract manufacturing outsourcing workers by 650 persons. Table 14 shows that while Q1 hiring costs were higher than expected, 1) hiring costs for the rest of the term are lower than expected, and 2) the ratio of workers staying two months (efficiency of hiring) is actually higher than initial estimates, with the net effect being hiring cost per person staying two months is actually

¥6,400 (10% lower) than initial budget.

● **[Table 13] Revised 2H Outlook for Quarterly Contract and Outsourced Workers**

| | Term | Q1 | Q2 | Q3 | Q4 | FY |
|------------------------------------|---------------|-------|-------|-------|-------|-------|
| [No. of Worksite Employees] | | | | | | |
| Manufacturing Outsourcing | 12/12 Actual | 6,279 | 6,229 | 5,871 | 5,550 | 5,550 |
| | 12/13 Init CE | * | 6,077 | 6,695 | 6,888 | 6,888 |
| | 12/13 New CE | 5,313 | 5,969 | 7,147 | 7,538 | 7,538 |
| Engineering Outsourcing | 12/12 Actual | 1,600 | 1,597 | 1,818 | 1,902 | 1,902 |
| | 12/13 Init CE | * | 2,453 | 2,777 | 2,937 | 2,937 |
| | 12/13 New CE | 2,097 | 2,282 | 2,726 | 2,991 | 2,991 |
| [No. of Outsourced Workers] | | | | | | |
| Administrative Outsourcing | 12/12 Actual | 2,834 | 1,690 | 1,960 | 2,156 | 2,156 |
| | 12/13 Init CE | * | 3,205 | 4,105 | 4,405 | 4,405 |
| | 12/13 New CE | 2,317 | 2,179 | 2,168 | 2,147 | 2,147 |
| [Workers Hired through ORJ] | | | | | | |
| Staff Agency | 12/12 Actual | 512 | 694 | 523 | 410 | 2,139 |
| | 12/13 Init CE | * | 462 | 547 | 389 | 1,748 |
| | 12/13 New CE | 261 | 531 | 799 | 710 | 2,301 |

Source: Compiled by Trias Corporation from Company IR materials

*Note: New operating segment reoprtng classifications were announced in Q1 results; the initial estimate for Production Outsourcing was 7,502 for Contract Workers in Q1. The total for Manufacturing and Engineering Outsourcing was 7,410.

● **[Table 14] Revised 2H Hiring Plan for FY12/13**

| Initial Plan | FY12/12 | Q1.13 | Q2.13 | Q3.13 | Q4.13 | FY12/13 |
|--------------------------------------|---------|---------|---------|---------|---------|---------|
| | Actual | CE | CE | CE | CE | CE |
| [Temp & Contract Workers] | | | | | | |
| Number recruited (persons) | 6,789 | 948 | 1,672 | 1,818 | 1,070 | 5,508 |
| Hiring cost (¥/person) | 49,443 | 48,000 | 45,000 | 44,000 | 42,500 | 44,701 |
| % remaining 2 months | 65.9% | 69.0% | 70.5% | 71.0% | 72.5% | 70.8% |
| Hiring cost for remaining | 75,027 | 69,565 | 63,830 | 61,972 | 58,621 | 63,141 |
| [Paid Introductions] | | | | | | |
| Number recruited (persons) | 2,139 | 350 | 462 | 547 | 389 | 1,748 |
| Hiring cost (¥/person) | 109,807 | 120,000 | 113,000 | 106,000 | 100,000 | 109,318 |
| [Engineers and Others] | | | | | | |
| Number recruited (persons) | 578 | 258 | 373 | 306 | 292 | 1,229 |
| Hiring cost (¥/person) | 226,998 | 316,547 | 211,823 | 221,761 | 210,993 | 236,085 |
| Revised 2H Plan | FY12/12 | 1Q.13 | 2Q.13 | 3Q.13 | 4Q.13 | FY12/13 |
| | Actual | Actual | Actual | CE | CE | CE |
| [Temp & Contract Workers] | | | | | | |
| Number recruited (persons) | 6,789 | 1,116 | 1,426 | 2,173 | 1,894 | 6,609 |
| Hiring cost (¥/person) | 49,443 | 52,412 | 33,245 | 42,000 | 40,000 | 41,296 |
| % remaining 2 months* | 65.9% | 72.8% | 72.2% | 72.5% | 73.5% | 72.8% |
| Hiring cost for remaining* | 75,027 | 71,981 | 46,046 | 57,931 | 54,422 | 56,745 |
| [Paid Introductions] | | | | | | |
| Number recruited (persons) | 2,139 | 261 | 545 | 675 | 550 | 2,031 |
| Hiring cost (¥/person) | 109,807 | 128,066 | 78,967 | 106,000 | 100,000 | 99,957 |
| [Engineers and Others] | | | | | | |
| Number recruited (persons) | 578 | 153 | 326 | 306 | 292 | 1,077 |
| Hiring cost (¥/person) | 226,998 | 295,977 | 240,018 | 221,761 | 210,993 | 234,911 |

Source: Compiled by Trias Corporation from Company IR materials

*Note: Estimated values will be fixed in the end of August

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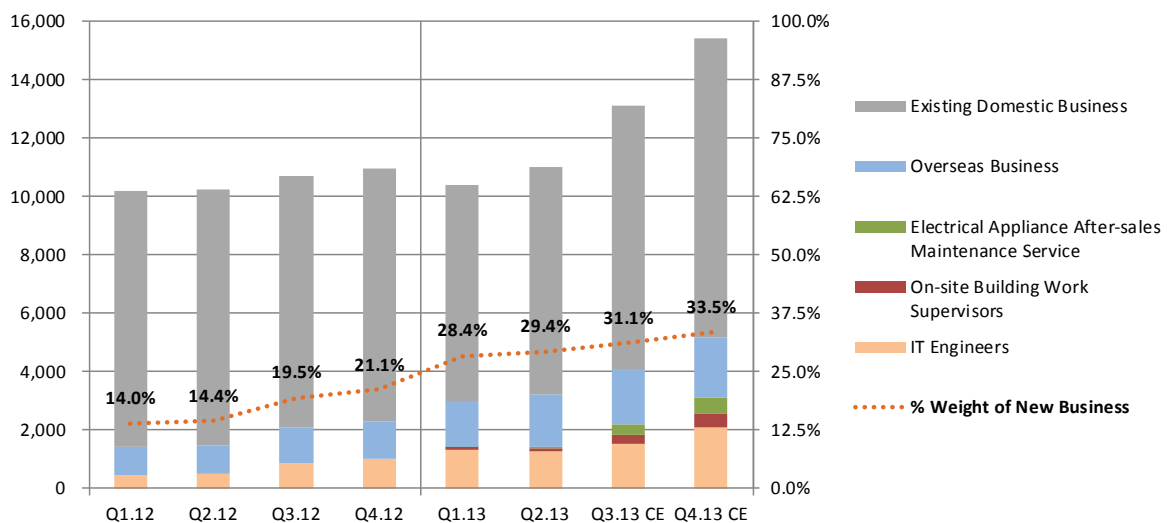
As for a shareholder return measure, despite the shortfall in 1H operating income, the Company secured net income through negative goodwill from M&A and sale of portfolio securities, and paid a 1H dividend of ¥5 per share on September 6, commemorating the successful move to the TSE1 in March. With a 2H dividend of ¥8 per share, the Company projects an annual dividend of ¥13 per share.

TOPIC: Diversification Driving Sustainable Growth: Focus Initiatives for FY12/13

In recent Trias IR memos, we have covered in some detail major management initiatives to diversify outsourcing business from the increasingly volatile manufacturing busy/slack cycle, and rapid moves to expand overseas operations to meet the needs of ongoing globalization programs of major customers. In this memo we review progress to date of these focus initiatives, and outlook going forward. Graph 1 below shows the quarterly trend of net sales, and rapid increase of the weight of new businesses in total sales. **This is particularly significant given mainstay existing outsourcing business has not stopped growing, and still new business has grown to account for one-third of net sales.**

Table 15 on the top of the following page shows the quarterly trend of sales by new business, and YoY growth rates for the current term. For IT/Telecom-related infrastructure and network construction/installation outsourcing, this term the Company is estimating 128% YoY growth to ¥6.3bn. Although Q2 numbers declined slightly QoQ, this is normal seasonality with the Apr-Jun quarter as Q1 for most customers. Structural drivers include the sharp pickup in office relocation activity and increasingly larger volumes of data handled resulting in a pronounced shortage of engineers. Fortunately the Company is finding qualified engineers amongst maker early retirees.

● **[Graph1] Report Card: New Business has Grown to over 1/3 of Net Sales (¥ mn, %)**



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● [Table 15] High Growth Driven by Diversification Sectors and Overseas Expansion

| (¥ mn) | Q1.13 | Q2.13 | Q3.13 | Q4.13 | FY12/13 | YoY |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
| | Actual | Actual | CE | CE | CE | |
| IT Engineers | 1,344 | 1,295 | 1,550 | 2,111 | 6,300 | 127.7% |
| On-site Building Work Supervisors Engineers Temporary Placement | 72 | 93 | 300 | 435 | 900 | new |
| Electrical Appliance After-sales Maintenance Service Business | 34 | 51 | 323 | 592 | 1,000 | new |
| Non-busy/slack Cycle Total | 1,450 | 1,439 | 2,173 | 3,138 | 8,200 | 196.3% |
| Overseas Business | 1,513 | 1,799 | 1,908 | 2,030 | 7,250 | 59.8% |

Source: Compiled by Trias Corporation from Company IR materials

Table 7 described above shows that **IT engineers has become the third largest sector** after mainstay Transport Equipment and Electric & Electronics in Q1 and Q2. Actual projects include disaster prevention system relocation, system upgrades and reinforcement, core system for LTE, mobile applications for smartphones, and cloud service/data center-related work. Temporary placement of on-site building work supervisors is also seeing a pronounced shortage. In addition to disaster restoration work finally picking up momentum, residential building construction is booming ahead of the consumption tax hike, and urban redevelopment projects will get a strong boost ahead of the Tokyo Summer Olympics in 2020. Originally the Company saw a need for electronic appliance after-sales maintenance service for the growing number of Korean appliances sold in Japan, but discovered there is actually strong demand from Japan makers. Again it is finding qualified staff amongst early retirees.

Graph 2 below shows current overseas business locations in six countries with 20 subsidiaries. The Company opened its Ho Chi Minh office in Q2, but due to startup delays, will make a contribution from Q3. The Company reports particularly brisk demand from Japanese Transport Equipment makers in Thailand and Vietnam. The Company has completed due diligence for Malaysia, Myanmar, the Philippines and India, and is targeting establishment of local subsidiaries by year-end. According to Chairman Doi, the ultimate prize medium-term is capturing cross-border blue collar workforce fluidity primarily in ASEAN countries where visas are not required.

While growth in new businesses is particularly strong, mainstay Manufacturing Outsourcing Business has not stopped growing; existing business sales for the 2H are estimated to rise 11.8% YoY, in part reflecting the low base last term from rapid cancellations related to the Senkaku Islands dispute and impact from China boycotting Japanese products.

● [Graph 2] OS Group Currently Operates Overseas Subsidiaries in Six Countries

Overseas Companies Group : 20



- China
 - Out-Sourcing China, Inc.
 - Gray (Dalian) Information Technology Co., Ltd.
 - FARO RECRUITMENT (CHINA) CO.,LTD.
 - Faro Business Consulting (Dalian) Co., Ltd.
 - FARO RECRUITMENT (HONG KONG) CO., LIMITED
- Thailand
 - OS (THAILAND) CO., LTD.
 - OS Recruitment (Thailand) Co., Ltd.
 - J.A.R. Services Co., Ltd.
 - P-ONE SUBCONTRACT CO., LTD.
 - A-LINK RECRUITMENT COMPANY LIMITED *
 - WIDE SPREAD INTERTRADE RECRUITMENT COMPANY LIMITED *
 - BKK-LINK COMPANY LIMITED *
- Indonesia
 - PT. OS ENGINEERING & CONSULTANT INDONESIA
 - PT. OS SERVICE INDONESIA
 - PT. SELNAJAYA PRIMA
- Vietnam
 - OS VIETNAM CO., LTD.
 - OS POWER VIETNAM CO., LTD.
 - Faith Root Recruitment Vietnam Joint Stock Company
- Singapore
 - FARO RECRUITMENT (SINGAPORE) PTE. LTD.
- Australia
 - STAFF SOLUTIONS AUSTRALIA PTY LTD

Source: Company FACTBOOK for the six months ended June 30, 2013

● [Graph 3] Ultimate Target is Capturing Cross-border Blue Collar Workforce Fluidity across Asia


Global Expansion of the OUTSOURCING Group

We provide one-stop solutions to meet clients' diverse staffing needs through building our Asia staffing network



Source: Company FACTBOOK for the six months ended June 30, 2013

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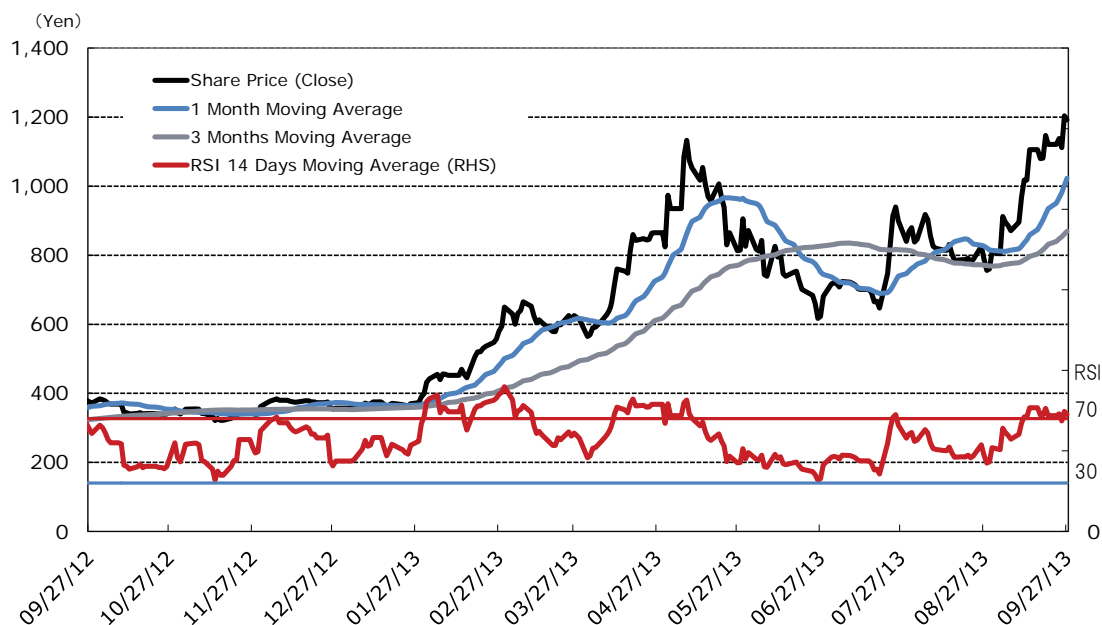
Increasing volatility of manufacturing only serves to heighten demand for outsourcing and temporary placement. The new LDP administration under the catch phrase “Abenomics” is keen to reverse policies promoted by the DPJ, specifically policies limiting the use of temporary dispatch. **A Labor Ministry panel published its recommendations on August 20, 2013, including allowing companies to continue filling positions with temporary workers beyond the current 3-year limit, as well as eliminating the 26 specialized occupations that are exempt.** An advisory council to the Labor Minister including management and labor representatives will debate the specific issues, and submit a bill at the Ordinary Session of the Diet at the beginning of next year. **Needless to say potential to increase existing business is large.** 

Reference
● Key Financial Data and Business Results (Consolidated)

| | | | | | |
|----------------------------|---------------|------------|---|--------|--------|
| No. of Shares Issued | Jun-13 | 15,606,400 | Total Assets (¥mn) | Jun-13 | 17,114 |
| No. of Treasury Stock | Jun-13 | 1,139,500 | Shareholders' Equity (¥mn) | Jun-13 | 4,084 |
| Market Value (¥mn) | 27-Sep-13 | 18,603 | Interest-Bearing Debt (¥mn)* | Jun-13 | 5,954 |
| BPS (¥) | Dec-12 | 283.24 | Equity Ratio (%) | Jun-13 | 23.9 |
| ROE (%) | Dec-12 | 17.0 | Ratio of Interest-Bearing Debt (%) | Jun-13 | 145.8 |
| ROA (%) | Dec-12 | 4.6 | Free Cash Flows (¥mn) | Jun-13 | 126 |
| PER (times) | FY12/13 fcst. | 17.2 | ROE = Net Income ÷ Shareholders' Equity | | |
| PCFR (times) | Jun-13 | 100.6 | ROA = Net Income ÷ Total Assets | | |
| PBR (times) | Dec-12 | 4.2 | PCFR = Market Value ÷ (Net Income+Depreciation) | | |
| Share Price (¥) | 27-Sep-13 | 1,192 | Ave. Daily Vol. = Ave. Daily Vol. for the last 12 months | | |
| Unit Share (shares) | 27-Sep-13 | 100 | Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity | | |
| Average Daily Volume (shs) | 27-Sep-13 | 142,677 | * Incl. current portion of accounts payable-installment purch | | |
| | | | Free Cash Flows = Operating CF + Investment CF | | |

| Consolidated (¥million) | Net Sales | Operating Income | Ordinary Income | Net Income | EPS (¥) | DPS (¥) |
|----------------------------|-----------|---------------------|--------------------|------------|------------|---------|
| FY12/08 | 24,148 | 1,113 | 1,134 | 641 | 5,412.28 | 644.00 |
| FY12/09 | 17,964 | (150) | 22 | (215) | (1,511.00) | 644.00 |
| FY12/10 | 28,386 | 1,173 | 1,401 | 760 | 52.46 | 7.21 |
| FY12/11 | 32,397 | 563 | 702 | 194 | 13.48 | 8.00 |
| FY12/12 | 42,090 | 1,000 | 1,153 | 641 | 44.46 | 8.00 |
| FY12/13 1H | 21,433 | 1 | 38 | 29 | 2.06 | 5.00 |
| FY12/13 Full-Year fcst. | 50,000 | 1,520 | 1,590 | 1,000 | 69.29 | 13.00 |

Notes: FY12/13 forecasts announced on February 12, 2013
1 to 100 stock splits implemented in November 2011

● Stock Price Charts and RSI


Source: Prepared by Trias Corp. with Bloomberg data.

Note: RSI, Relative Strength Index, is the index representing the ratio of overbought or oversold share prices. In general, over 70 in RSI shows overbought share price range, while below 30 shows oversold share price range.

RSI = averaged share price appreciation for N days ÷ (averaged share price appreciation for N days + averaged share price decline for N days) × 100

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