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OUTSOURCING Inc.

Q2 FY12/17 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereafter the "Company" or the "OS Group," announced its 1H FY12/17 (January-June) financial results, and Trias Corporation conducted an interview with Executive Vice President Kazuhiko Suzuki. The following is a summary of the results and the interview.

1H FY12/17 Consolidated Financial Results

1H FY12/17 consolidated financial results delivered sharp YoY gains in both revenue and profits, also exceeding its initial forecasts disclosed on February 14, 2017. Revenue recorded the historic high for Company's 1H for the eight consecutive years. Its domestic dispatching businesses sustained strong growth on the back of tight labor markets where Japan's overall job openings-to-applicants ratio on seasonally adjusted terms reached 1.51 in June for the first time in 43 years. Overseas businesses also enjoyed additions of newly consolidated subsidiaries since April 2016 through active M&As. Management look back operational environments in 1H as in fact more favorable than they had anticipated.

●[Table 1] Summary of 1H FY12/17 Consolidated Financial Results

(¥ million)	FY12/16	FY12/17			
	1H	1H		YoY Changes	
	Actual	Forecasts	Actual	Amount	Ratio
Revenue	57,380	97,000	105,811	48,431	84.4%
Cost of sales	46,042	-	86,035	39,993	86.9%
Gross profit	11,338	-	19,776	8,438	74.4%
Ratio of gross profit	*19.8%*	*-*	*18.7%*	*-*	*- 1.1pp*
SG&A expenses	9,372	-	16,401	7,029	75.0%
Ratio of SG&A expenses	*16.3%*	*-*	*15.5%*	*-*	*- 0.8pp*
Operating profit	2,367	2,900	3,562	1,195	50.5%
Ratio of operating profit	*4.1%*	*3.0%*	*3.4%*	*-*	*- 0.8pp*
Profit before tax	1,531	2,600	3,241	1,710	111.7%
Ratio of profit before tax	*2.7%*	*2.7%*	*3.1%*	*-*	*+0.4pp*
Profit for the period	722	1,600	1,879	1,157	160.3%
Profit attributable to owners of the Company	650	1,400	1,529	878	135.0%
Ratio of profit attributable to owners of the Company	*1.1%*	*1.4%*	*1.4%*	*-*	*+0.3pp*

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

As Table 1 shows, 1H consolidated performance showed very strong growth. Revenue were at ¥105,811 million (up 84.4% YoY), gross profit ¥19,776 million (up 74.4% YoY), operating profit ¥3,562 million (up 50.5% YoY), profit before tax ¥3,241 million (up 111.7% YoY), and profit attributable to owners of the Company (hereafter "net income") ¥1,529 million (up 135.0% YoY). Note that Company now applies the International Financial Reporting Standards (IFRS) from this term and FY12/16 numbers are retroactively restated on the IFRS basis.

The 1H results exceeded the initial forecasts - revenue ¥97,000 million and operating profit ¥2,900 million - by approximately ¥8.8 billion and almost ¥700 million, respectively. This means Q2 results (April-June) further strengthened after Q1 results were better than corresponding forecasts by approximately ¥3.1 billion and ¥250 million, respectively.

Outperformance was mostly seen in two segments: Overseas Manufacturing and Service Operations Outsourcing Business and Domestic Service Operations Outsourcing Business. Each surpassed their initial forecasts by roughly ¥3.8 billion and approximately ¥1.4 billion in revenue respectively, and by ¥550 million and ¥240 million in operating profit before consolidation adjustments (hereafter "pre-adjusted operating profit"). In contrast, pre-adjusted operating profit from the major domestic outsourcing segments fell short by slightly less than ¥1.0 billion in aggregate: by nearly ¥600 million for Manufacturing Outsourcing Business and by close to ¥400 million for Domestic Engineering Outsourcing Business.

These shortages, however, were rather nominal than material, as major factors behind were allocations of expenses at headquarters, the whole amount of which was originally included in consolidated adjustment account in the initial forecasts. At the close of 1H, the expenses were allocated to two segments: Domestic Manufacturing Outsourcing Business and Domestic Engineering Outsourcing Business. In fact, the consolidation adjustments amounted to ¥790 million less than initially estimated. A roughly ¥200 million left for the shortage, i.e. aggregate shortage of nearly ¥1,000 million for the two segments less ¥790 million, is explained by increased recruiting expenses and labor costs associated with more-than-planned hires of worksite employees in the period. These additional costs can be seen as upfront investments for revenue and profit growth for 2H FY12/17 and onward.

Consolidated ratio of gross profit stood at 18.7%, narrowing from 19.8% for 1H FY12/16. Domestic outsourcing businesses for Manufacturing and Engineering largely maintained their ratio of gross profit thanks to rises in dispatching contract prices per head, despite higher labor costs resulted from sharply increased hires. Meanwhile, ratio of gross profit for overseas businesses declined as changes in business mixtures caused by new consolidations of large scale subsidiaries lowered the overall overseas profit margins.

SG&A expenses rose sharply by ¥7,029 million, or by 75.0% YoY, though its percentage to sales (hereafter SG&A ratio) declined from 16.3% in 1H FY12/16 to 15.5%. The improved ratio is attributed to economies of scale from revenue growth and new consolidations of overseas subsidiaries with low

SG&A ratios.

Yet heavy expenses were incurred due to transition to IFRS. This is because newly consolidated subsidiaries adopted IFRS and all the existing group companies restated on IFRS basis their 1H FY12/16 results previously compliant to Japanese GAAP (J-GAAP). The Company also reinforced its support and administration backup staffs at its headquarters as the number of consolidated firms increased. In addition, recruiting costs for worksite employees raised from ¥750 million in 1H FY12/16 to ¥1,155 million as the Company proactively hired them on the back of stronger-than-expected business performance.

The amount of consolidation adjustments decreased from 1H FY12/16 thanks to the transfer to IFRS. Goodwill assets based on J-GAAP is now divided into both IFRS-based goodwill assets (amortization not required) and intangible fixed assets (amortization required), and this leaves the item subject to amortize being only purchase price allocations (PPAs). On the other hand, M&A related expenses (e.g. legal-related expenses and consulting fees), which must be posted as spending for FY12/17, decreased from ¥338 million for 1H FY12/16 to ¥180 million as the Company plans no large-scale M&As this term, leading directly to the decline in the consolidation adjustment amount.

Operating profit jumped by 50.5% from ¥2,367 million to ¥3,562 million although the margin to revenue declined from 4.1% to 3.4%. Despite the improved SG&A ratio, ratio of operating profit narrowed due to: lower ratio of gross profit caused by changes in business mixtures resulted from new consolidations; transitory increases in expenses accompanied with consolidation of new subsidiaries as well as transition to the IFRS; and temporary increases in frontloaded investments including labor outlays for mass hires of new graduates who do not contribute to revenues and profits before they are assigned to actual positions.

Ratio of operating profit before consolidation adjustments (hereafter "pre-adjusted operating profit margin") also narrowed from 4.6% in 1H FY12/16 to 3.4%. By operating segment, Overseas Manufacturing and Service Operations Outsourcing Business performed favorably to significant extent while major domestic operations suffered heavy cost burden incurred from allocations of headquarters functions (*1).

(*1) The headquarters function expenses include those incurred at the parent company for consolidation procedures and more vigorous governance for overseas subsidiaries, as well as transition to IFRS. This 1H in particular, significant amounts of related expenses including labor costs were incurred as restatement works from J-GAAP to IFRS for past two fiscal terms (FY12/15 and FY12/16) as well as Q1 and 1H FY12/16 concentrated, and also as the number of consolidated subsidiaries increased sharply. In the initial forecasts, these expected amounts were counted in consolidation adjustments, and when 1H closed they were subsequently allocated to corresponding segments, namely Domestic Engineering Outsourcing Business and Domestic Manufacturing Outsourcing Business, where the impacts were substantial.

The net negative impact of financial profits/losses improved substantially by ¥515 million, from ¥836 million for 1H FY12/16 to ¥321 million. Positive factors include loan repayments backed by equity finance, and forex conversions of overseas financial assets and loans. In IFRS, non-operating and extraordinary accounting items disclosed in J-GAAP profit and loss statements are posted in SG&A accounts except for net financial account balance.

As a result, pretax income jumped from ¥1,531 million in 1H FY12/16 to ¥3,241 million, or up approximately 2.1 times YoY, and net income soared from ¥650 million to ¥1,529 million.

Summary of statement of financial position (equivalent to J-GAAP balance sheet) at the end of 1H FY12/17 is shown in Table 2 on page 5. Total assets stood at ¥115,942 million at the 1H end, increasing by ¥25,587 million, or by 28.3% from the end of FY12/16. Newly added are increments (of approximately ¥11.0 billion mainly for goodwill and current assets) from German subsidiary Orizon Holding GmbH (hereafter "Orizon," under Overseas Manufacturing and Service Operations Outsourcing Business) which was consolidated on January 4, 2017, and (similarly roughly ¥10.0 billion) from American Engineering Corporation (hereafter "AEC," under Domestic Service Operations Outsourcing Business) in April, 2017.

On the asset side, a major change is seen in goodwill assets increasing by ¥12,802 million from ¥26,315 million at the end of FY12/16 to ¥39,118 million. Orizon and AEC are the main factors behind the increase. Also, trade and other receivables rose by ¥9,892 million thanks to business growth and new consolidations. Other financial assets under non-current assets decreased by ¥7,292 million as a bank deposit prepared for the Orizon acquisition at the end of FY12/16 was eventually paid out after the completion of the deal.

On the liability and capital side, trade and other payables increased by ¥10,341 million for the same reason as its receivables counterpart's. Equity increased by ¥11,439 million as share warrants issued in January 2017 were partly converted to the Company common shares. As a result, the ratio of the equity attributable to owners of the Company to total assets (i.e. equity ratio) rose from 14.0% at the end of FY12/16 to 20.7%.

For a reference, the transition to IFRS caused the total assets at the end of FY12/16 to inflate from ¥82,034 million in J-GAAP to ¥90,355 million in IFRS, an increase of approximately ¥8.3 billion. The main factor behind the increase was retroactive add-backs of cumulative goodwill amortization booked since FY12/14 to comply with IFRS.

●[Table 2] Consolidated Statement of Financial Position Summary as of the end of 1H FY12/17

(¥ million)	FY12/16		1H FY12/17		YoY Changes	
	Amount	Composition Ratio	Amount	Composition Ratio	Amount	Major Factors
Current assets	**36,251**	**40.1%**	**54,529**	**47.0%**	**18,279**	
Cash and cash equivalents	11,746	13.0%	18,267	15.8%	6,521	
Trade and other receivables	21,006	23.2%	30,897	26.6%	9,892	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Non-current assets	**54,104**	**59.9%**	**61,413**	**53.0%**	**7,308**	
Property, plant and equipment	4,994	5.5%	6,603	5.7%	1,609	
Goodwill	26,315	29.1%	39,118	33.7%	12,802	Increased due to acquisition of subsidiaries' shares
Intangible assets	8,640	9.6%	8,598	7.4%	(43)	
Other non-current financial assets	9,671	10.7%	2,378	2.1%	(7,292)	
Total assets	**90,355**	**100.0%**	**115,942**	**100.0%**	**25,587**	
Current liabilities	**45,319**	**50.2%**	**57,382**	**49.5%**	**12,063**	
Trade and other payables	13,763	15.2%	24,104	20.8%	10,341	
Bonds and borrowings	24,375	27.0%	24,246	20.9%	(130)	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Income tax payables	948	1.0%	3,889	3.4%	2,941	
Non-current liabilities	**30,104**	**33.3%**	**32,189**	**27.8%**	**2,085**	
Bonds and borrowings	21,114	23.4%	23,712	20.5%	2,598	
Total liabilities	**75,423**	**83.5%**	**89,571**	**77.3%**	**14,148**	
Equity attributable to owners of the Company	**12,630**	**14.0%**	**24,046**	**20.7%**	**11,416**	Increased due to exercise of the subscription rights to shares
Equity	**14,932**	**16.5%**	**26,371**	**22.7%**	**11,439**	
Total liabilities and equity	**90,355**	**100.0%**	**115,942**	**100.0%**	**25,587**	

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

FY12/17 Consolidated Financial Forecasts Summary

The Company left its consolidated FY12/17 full-year forecasts unchanged from its initial projections. Sharp increases in revenue and profits are forecast to continue thanks to growth in domestic operations and contributions from newly consolidated subsidiaries both domestically and overseas. The Company plans to basically refrain from large-scale M&As in FY12/17 as well as in FY12/18, as it positions these two years to build a strong foothold in order to achieve its Medium-Term Management Plan set forth towards the year 2020. The Company decisively intends to focus on strengthening governance at subsidiaries acquired to date and synergies among them, preparing for another takeoff in the latter half of the Plan.

YoY growth should be moderating quarter by quarter as contributions from newly acquired subsidiaries in FY12/16 will be diminishing in order. In fact, as the Table 5 on page 7 indicates growth in revenue and operating profit for Q2 were 70.6% YoY and 22.1% YoY, respectively, compared to 102.6% YoY and 127.8% YoY reported in Q1. Instead, organic growth, so far difficult to be identified due to a spate of acquisitions, should gradually become apparent going forward.

●[Table 3] Quarterly Revenue and Operating Profit Growth in 1H FY12/17

(¥ million)	FY12/16		FY12/17			
	Q1 Actual	Q2 Actual	Q1 Actual	YoY Changes	Q2 Actual	YoY Changes
Revenue	24,796	32,584	50,238	102.6%	55,573	70.6%
Operating profit	635	1,732	1,447	127.9%	2,115	22.1%

Source: Compiled by Trias Corporation from the Company IR materials

Note: The amounts shown are rounded off to the nearest million yen.

For example, as is seen in Table 4, Q2 revenue grew by 4.8% QoQ and pre-adjusted operating profit by 14.8% QoQ even after excluding Domestic Service Operations Outsourcing Business segment which newly consolidated AEC, a sign proving anticipated organic growth.

●[Table 4] Summary of Quarterly Revenue and Profits in Q1 and Q2 FY12/17

(¥ million)	FY12/17		
	Q1 Actual	Q2 Actual	
Consolidated			
Revenue	50,238	55,573	
Operating profit	1,447	2,115	
Adjustments	143	10	
Pre-adjusted operating profit	1,590	2,125	
Domestic Service Operations Outsourcing Business			
Revenue	823	3,801	
Pre-adjusted operating profit	-22	275	
	FY12/17		
Excluding Domestic Service Operations Outsourcing Business	Q1 Actual	Q2 Actual	QonQ Changes
Revenue	49,415	51,772	4.8%
Pre-adjusted operating profit	1,612	1,850	14.8%

Source: Compiled by Trias Corporation from the Company IR materials

Note: The amounts shown are rounded off to the nearest million yen.

Table 5 on page 7 shows the Company's full-year forecasts for FY12/17 financial performance. It looks for revenue increasing by 58.6% YoY to ¥213,000 million. Profits are forecast to grow by at least 70% YoY at all the levels, with operating profit at ¥9,500 million (up 70.8% YoY), profit before tax at ¥8,900 million (up 82.4% YoY) and net income at ¥5,100 million (up 71.3% YoY).

●[Table 5] FY12/16 Actual Results and FY12/17 Forecasts (IFRS)

(¥ million)	FY12/16 Full-Year Actual	FY12/17 Full-Year Forecasts	FY12/17 YoY Changes
Revenue	**134,283**	**213,000**	**58.6%**
Cost of sales	106,519	-	-
Gross profit	27,764	-	-
Ratio of gross profit	*20.7%*	-	-
SG&A expenses	21,649	-	-
Ratio of SG&A expenses	*16.1%*	-	-
Operating Profit	**5,563**	**9,500**	**70.8%**
Ratio of operating profit	*4.1%*	*4.5%*	*+0.3pp*
Profit before tax	**4,879**	**8,900**	**82.4%**
Ratio of profit before tax	*3.6%*	*4.2%*	*+0.5pp*
Profit for the year	**3,388**	**5,800**	**71.2%**
Ratio of profit for the period	*2.5%*	*2.7%*	*+0.2pp*
Profit attributable to owners of the Company	**2,977**	**5,100**	**71.3%**
Ratio of profit attributable to owners of the Company	*2.2%*	*2.4%*	*+0.2pp*

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

The increase of ¥78.6 billion in revenue is broken down to existing and newly consolidated businesses as are seen in Table 6. In addition to organic growth of existing businesses, newly consolidated subsidiaries in Domestic Manufacturing Outsourcing Business and two overseas businesses in FY12/16 should be fully contributing for 12 months. New consolidations in 2017 are Orizon from January and AEC from April.

●[Table 6] Breakdown of FY12/17 Revenue Increase by Conventional Operation and New Consolidation (IFRS)

(¥ billion)	FY12/16 Actual	FY12/17 Forecasts	YoY Changes
Domestic Engineering Outsourcing Business	40.2	48.7	8.5
Domestic Manufacturing/Administrative Outsourcing Business (total)	35.5	45.6	10.1
Overseas Business (total)	53.2	70.2	17.0
Dispatching business such as for welfare facilities in the US military base	5.4	6.6	1.2
Existing Business Total	134.4	171.1	36.7
Orizon Holding GmbH (Orizon)	-	34.3	34.3
AMERICAN ENGINEERING CORPORATION (AEC)	-	7.6	7.6
New Cosolidation Total	-	41.9	41.9
Existing Business + New Consolidation	134.4	213.0	78.6

Source: Compiled by Trias Corporation from the Company IR materials

The most contributing segment to the increase in revenue is Overseas Manufacturing and Service Operations Outsourcing Business with a ¥47.5 billion YoY growth in revenue which accounts for 60% of the overall consolidated growth. Following next are three domestic operations - Engineering, Manufacturing and Service Operations Outsourcing Businesses - each expected to drive its revenue by around ¥9.0 billion YoY. (For details on trends by operating segment, please refer to "Trends by Key

Operating Segments" on page 8)

Consolidated operating profit is forecast to jump by 70.8% YoY from ¥5,563 million in FY12/16 to ¥9,500 million in FY12/17, leading to improvement in ratio of operating profit from 4.2% to 4.5%. Looking at contributions from each segment to the growth in overall pre-adjusted operating profit (up 64.5% YoY), Overseas Manufacturing and Service Operations Outsourcing Business consists of 35.9%, the most among segments, largely boosted by new consolidations, while the two domestic mainstay segments account for more than 20% each thanks to favorable demand.

Domestic Manufacturing Outsourcing Business could fall short of the segment profit forecast, affected by the heavier allocation burden of headquarters function expenses. But the Company seems confident about achieving overall forecasts as overseas businesses are already outperforming and as consolidation adjustments should be smaller because most part of the forecast amount will be eventually allocated to individual segments.

Among major segments, segment foreseen for a lower profit margin is Overseas Manufacturing and Service Operations Outsourcing Business only due mainly to the change in business mixtures. Nonetheless, each subsidiary in the segment is expected to grow further at least on the local currency basis, the Company says.

Finally, the consolidation adjustments, a subtraction factor for the overall consolidated operating profit, are estimated to increase from ¥1,471 million in FY12/16 to ¥2,071 million in FY12/17. However, headquarters function expenses and PPA amortization, which account for the majority of the adjustments, will be ultimately assigned to individual segments as was seen in 1H. At the same time, M&A related expenses, also included in the adjustments, should be insignificant due to the Company's stance to withhold large-scale acquisitions this term.

Profit before tax and subsequent profits are all forecast to jump by more than 70% YoY, similarly to the operating profit growth. In J-GAAP adopted up to FY12/16, nominal net income was excessively small, or distorted, as tax calculations did not allow M&A related expenses to be deducted as a loss, but this impact will be much less due to the abovementioned Company's stance to M&A.

Trends by Key Operating Segments: 1H FY12/17

1H Saw Domestic Businesses Sustain Good Growth while Overseas Businesses Expand Sharply Thanks to M&As

The Group's 1H performances of each operating segment are summarized in Table 7 on page 10. Revenue from domestic outsourcing businesses continued to grow nicely thanks to even tighter labor markets and higher dispatching contract unit prices. Overseas businesses also expanded rapidly as newly consolidated subsidiaries contributed through M&As.

Overseas Manufacturing and Service Operations Outsourcing Business has become the largest segment for the Company as was also the case in Q1 due to its active M&As carried out all the year through FY12/16. Overall profits jumped sharply as overseas businesses far more than offset the negative impacts on domestic pre-adjusted operating profits caused by heavier allocation burden of headquarters function expenses imposed to Domestic Engineering and Manufacturing Outsourcing Businesses. Business trends in major operating segments are as follows:

Domestic Engineering Outsourcing Business continued to enjoy strong demand, with revenue growing by 23.9% YoY, but pre-adjusted operating profit declined by 14.5% YoY and its ratio of operating profit softened from 4.6% in 1H FY12/16 to 3.2%. This is owing to a jump in headquarters function expenses borne in the segment which has grown sharply and also to increases in both recruiting and labor costs resulted from upfront investments such as mass hiring of new employees.

Pre-adjusted operating profit also fell short of the initial forecast by slightly less than ¥400 million. The shortfall is attributed to the allocation of increased headquarters function expenses as well as larger-than-expected expenses such as in labor costs. This is because hires of worksite employees advanced by a stronger pace than originally anticipated. The Company took the opportunity as rather positive and even raised budgets for recruitment as workforce reinforcements would contribute to stronger growth for 2H FY12/17 and onward. The segment, having been most significant operation within the company in recent years, declined in terms of percentage of consolidated revenue from approximately 30% to slightly more than 20%.

By client industry, IT-related revenue (30.3% of the segment revenue) grew by 7.9% YoY and Transport Equipment (24.3%) by 20.3% YoY, and Electrical & Electronics (20.6%) increased sharply by 51.1% YoY driven mainly by clients manufacturing electrical and electronics components implemented in vehicles. As for Construction & Plant-related category (13.0%), another focus for the Company alongside the IT-related sector, revenue grew handsomely by 26.2% YoY bolstered by strong demand.

The number of worksite employees for Domestic Engineering Outsourcing Business increased by 25.2% YoY from 5,720 as of the 1H FY12/16 end to 7,161 at the end of 1H FY12/17. The utilization rate during 1H was running at 97.5%, just shy of 97.6%, despite the large increase in the number of workers. Rather, the underlying utilization rate can be seen in fact stronger, when considering approximately 550 hires of new graduates who do not contribute much to the performance in the period this year. Solid progress has been made in its unique recruiting scheme which makes the best use of KEN School in training skills of new hires, contributing to more hires as well as raising dispatching contract prices thanks to the workers' higher capabilities.

●[Table 7] 1H FY12/17 Financial Summary by Operating Segment (IFRS)

(¥ million)	FY12/16 1H Actual	FY12/17 1H Actual	YoY Changes Amount	YoY Changes Ratio/pp	Earnings Contribution Ratio
Reveue	**57,380**	**105,811**	**48,431**	**84.4%**	**100.0%**
Domestic Engineering Outsourcing (OS)	18,821	23,315	4,494	23.9%	9.3%
Domestic Manufacturing OS	15,452	21,258	5,806	37.6%	12.0%
Domestic Service Operations OS	1,475	4,624	3,149	213.5%	6.5%
Domestic Administrative OS	356	436	80	22.5%	0.2%
Domestic Recruiting and Placing	593	848	255	43.0%	0.5%
Overseas Engineering OS	8,520	13,560	5,040	59.2%	10.4%
Overseas Manufacturing and Service Operations OS	11,781	41,536	29,755	252.6%	61.4%
Other	382	234	(148)	-38.7%	-0.3%
Domestic businesses total	**37,079**	**50,715**	**13,636**	**36.8%**	**28.2%**
Overseas businesses total	**20,301**	**55,096**	**34,795**	**171.4%**	**71.8%**
Operating profit before adjustments	**2,707**	**3,715**	**1,008**	**37.2%**	**100.0%**
Domestic Engineering Outsourcing (OS)	869	743	(126)	-14.5%	-12.5%
Domestic Manufacturing OS	1,014	337	(677)	-66.8%	-67.2%
Domestic Service Operations OS	(80)	253	333	-	33.0%
Domestic Administrative OS	99	48	(51)	-51.5%	-5.1%
Domestic Recruiting and Placing	280	244	(36)	-12.9%	-3.6%
Overseas Engineering OS	287	455	168	58.5%	16.7%
Overseas Manufacturing and Service Operations OS	224	1,635	1,411	629.9%	140.0%
Other	14	0	(14)	-100.0%	-1.4%
Domestic businesses total	**2,196**	**1,625**	**(571)**	**-26.0%**	**-56.6%**
Overseas businesses total	**511**	**2,090**	**1,579**	**309.0%**	**156.6%**
Ratio of operating profit before adjustments	**4.6%**	**3.4%**	**-**	**-1.2pp**	**-**
Domestic Engineering Outsourcing (OS)	4.6%	3.2%	-	-1.4pp	-
Domestic Manufacturing OS	6.6%	1.6%	-	-5.0pp	-
Domestic Service Operations OS	-5.4%	5.5%	-	+10.9pp	-
Domestic Administrative OS	27.8%	11.0%	-	-16.8pp	-
Domestic Recruiting and Placing	47.2%	28.8%	-	-18.4pp	-
Overseas Engineering OS	3.4%	3.4%	-	-0.0pp	-
Overseas Manufacturing and Service Operations OS	1.9%	3.9%	-	+2.0pp	-
Other	3.7%	0.0%	-	-3.7pp	-
Domestic businesses total	**5.9%**	**3.2%**	**-**	**-2.7pp**	**-**
Overseas businesses total	**2.5%**	**3.8%**	**-**	**+1.3pp**	**-**
Adjustments	(340)	(153)	187	-	-
Consolidated operating profit	**2,367**	**3,562**	**1,195**	**50.5%**	-
Ratio of consolidated operating profit	**4.1%**	**3.4%**	**-**	**-0.7pp**	**-**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio/pp**	
Domestic Engineering OS	5,720	7,161	1,441	25.2%	-
[Utilization rate for Domestic Engineering OS]	97.6%	97.5%	-	-0.1pp	-
Domestic Manufacturing OS	7,482	10,293	2,811	37.6%	-
Domestic Service Operations OS	1,521	2,503	982	64.6%	-
Overseas Engineering OS	1,778	2,038	260	14.6%	-
Overseas Manufacturing and Service Operations OS	19,647	32,219	12,572	64.0%	-

Source: Compiled by Trias Corporation from the Company IR materials

Note: Overseas businesses total suggests the total of 2 overseas businesses and domestic businesses total suggests the total of the rest of the businesses. The amounts shown are rounded off to the nearest million yen.

For **Domestic Manufacturing Outsourcing Business**, revenue increased sharply by 37.6% YoY, but pre-adjusted operating profit resulted in ¥337 million in 1H FY12/17 compared to ¥1,014 million in 1H FY12/16, leading ratio of operating profit to erode from 6.6% to 1.6%. Although ratio of gross profit for the segment improved as mentioned above, the upfront investment in new graduates on top of the sharp increase in headquarters function expenses weighed on. Excluding these temporary increases in expenses, the underlying business has been performing well, the Company says.

Pre-adjusted operating profit fell short of the initial forecast of ¥930 million by nearly ¥600 million. Most of this shortfall is attributed to the allocation of headquarters function expenses, although additional costs with upfront nature were also incurred due to increased recruitment by more than planned. Although overall expenses have been increasing, excluding headquarters function expenses, the segment operating profit would be ¥1.5 billion or more, an increase from approximately ¥1.3 billion in 1H FY12/16 on the same basis, the Company explains. The higher would-be profit is attributable to, in addition to higher dispatching contract prices, well-doing of PEO Business (*2), a new HR utilization scheme to which the Group has been devoting efforts.

(*2) The Company has been refraining from marketing activities for traditional manufacturing dispatching business. Reasons for this include: demand fluctuation is very volatile such as for rapid response to client production ramp-ups for new models; unit contract prices are 20% less or even lower than those for engineering; and using external media results in high recruiting expenses. As an alternative, the Company is devoting its efforts to the PEO Scheme, which attempts to hire fixed-term contract employees of client makers, whose contracts will soon be expired, as regular employees of PEO Co., Ltd., and then dispatch them to makers participating in the Scheme. The Labor Contract Act mandates employers to switch to labor contracts without a definite period set forth with fixed-term contract employees who were employed based on labor contracts in or after April 2013 have worked since for more than 5 years on repeated contracts, and also wish to continue their works. Many of the OS Group's maker clients are looking to the Scheme with positive stances in order to avoid heavier burden of fixed costs.

The number of worksite employees for the segment at the end of 1H FY12/16 increased by 37.6% YoY to 10,293 from 7,482 at the end of 1H FY12/16. This increase is mainly attributed to the new consolidation of OS Partners CO., LTD. (hereafter "OS Partners") from September 2016 as well as the growing number of PEO employees. The number of PEO employees was 7,072 at the end of 1H, rapidly rising from 4,063, 5,519 and 6,189 at the end of 1H FY12/16, FY12/16 and Q1 FY12/17 respectively, thus sustaining a growth pace of more than 600 per quarter since last year.

With the PEO Scheme, recruitment media expenses are not needed while dispatching contract unit prices are favorable based on already higher skills of experienced employees. The potential for further increase in PEO employees is enormous as not all the 200 or more sites already joining the scheme have not yet transferred their workers entirely. Given the ever tightening in overall labor markets afoot, this scheme should be seen as very effective in securing workforce.

By client industry, Electrical & Electronics (39.6% of the segment revenue) turned to be the largest dispatching criteria after soaring 92.0% YoY in revenue, partly contributed by new consolidation of OS Partners. The subsidiary, serving many car battery makers, is running at its full capacity as production of hybrid and electric cars are increasing. Meanwhile, Transport Equipment (31.3%) grew by a relatively modest 8.6% YoY in revenue. Its revenue converged largely in line with a pace of domestic car production after growing sharply for about 2 years until FY12/16 when clients rushed to launch brand new models, the Company explains.

At this point, let us quantitatively sort out the shortfalls compared to the forecasts in pre-adjusted operating profits from Domestic Engineering and Domestic Manufacturing Outsourcing segments. As is mentioned, the main reason for the shortfalls is that headquarters function expenses originally lumped in consolidation adjustments in initial forecasts were eventually allocated to the two segments. Therefore, comparing the initial forecasts with actual results by adding up pre-adjusted operating profits from the two segments as well as the consolidation adjustments should give a clearer picture for the genuine shortfall.

●[Table 8] 1H FY12/17 Pre- and Post-adjusted Operating Profit for Domestic Engineering and Manufacturing Outsourcing Businesses

(¥ million)	FY12/16 1H Actual	FY12/17 1H Initial Forecasts	FY12/17 1H Actual
Operating profit before adjustments			
Domestic Engineering Outsourcing Business	869	1,130	743
Domestic Manufacturing Outsourcing Business	1,014	929	337
Aggregated operating profit before adjustments of above two busines	1,883	2,059	1,080
Adjustments	(340)	(945)	(153)
Aggregated adjusted operating profit of above two businesses	1,543	1,114	927

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.

Most of the consolidation adjustments are allocated to Domestic Engineering and Manufacturing Outsourcing Businesses. For 1H, as is shown in Table 8, the sum for the initial forecasts was ¥1,114 million (aggregated operating profit ¥2,059 million plus adjustments -¥945 million) and that for the actual results was ¥927 million (aggregated operating profit ¥1,080 million plus adjustments -¥153 million). Accordingly, the genuine net shortfall was in fact ¥187 million (¥927 million less ¥1,114 million), which is mostly composed of upfront investments spent more than initially planned in labor outlays and recruiting expenses aiming for business growth in 2H FY12/17 and beyond. Therefore, actual results for the two segments can be seen as mostly in line with initial forecasts from a generous view. On a YoY comparison, that sum decreased from ¥1,543 million in 1H FY12/16 to ¥927 million, or by ¥616 million, which is explained by the increases in headquarters function expenses, labor and recruitment.

Overseas Manufacturing and Service Operations Outsourcing Business grew to become the most significant segment in both name and reality, accounting for 39.3% of consolidated revenue and 44.0% of pre-adjusted operating profit. Revenue jumped by 252.6% YoY (approximately 3.5 times) from ¥11,781 million in 1H FY12/16 to ¥41,536 million and pre-adjusted operating profit soared by roughly 7.3 times YoY from ¥224 million to ¥1,635 million. Also, compared to the initial forecasts, results were significantly better as is mentioned, with revenue topping by approximately ¥3.8 billion and operating profit by approximately ¥550 million, driven by stronger operations in local currencies as well as favorable moves in forex conversion rates where the yen remained weaker than expected.

New contributions from this 1H are four service related outsourcing groups: BEDDISON Group (United Kingdom, *3) and OS HRS Group (Malaysia, *3), both joining the OS Group at the end April 2016, and VERA (UK, *3) and LIBERATA (UK, *3), both newly consolidated from August in the same year. In addition, Orizon (*3), a German manufacturing oriented outsourcing company, joined from January 2017, the acquisition of which was announced in December 2016.

Pre-adjusted operating profit margin for the segment rose sharply from 1.9% in 1H FY12/16 to 3.9%. In particular, VERA and Orizon are seen to have contributed much to the segment profit.

(*3) Outlines of each company are as follows:

Abbreviation	Registered Name	Headquarters	Major Businesses	Consolidation Date
BEDDISON	BEDDISON Group	Australia	Public service oriented dispatching	Apr. 2016
OS HRS	OS HRS Group	Malaysia	Payroll accounting service	May 2016
VERA	VERACITY OSI UK LIMITED	the U.K.	Outsourcing services to various public bodies	Aug. 2016
LIBERATA	LIBERATA UK LIMITED	the U.K.	BPO service to governments	Jul. 2016
Orizon	Orizon Holding GmbH	Germany	Manufacturing related dispatching	Jan. 2017

Note: ALLEN LANE CONSULTANCY LIMITED (ALC), the name at the acquisition has been changed to VERACITY OSI UK LIMITED in June 2017

Overseas Engineering Outsourcing Business also expanded rapidly contributed by new consolidations through M&As. Segment revenue jumped by 59.2% YoY from ¥8,520 million in 1H FY12/16 to ¥13,560 million. Consolidated subsidiaries newly contributed are engineering dispatching operations of above-mentioned BEDDISON (*4), and J.B.W./CDL Group (*4). Segment pre-adjusted operating profit increased by 58.5% YoY from ¥287 million to ¥455 million.

(*4) Outlines of each company are as follows:

Abbreviation	Registered Name	Headquarters	Major Businesses	Consolidation Date
BEDDISON	BEDDISON Group	Australia	Public IT service oriented dispatching	Apr. 2016
J.B.W./CDL	J.B.W./CDL Group	the U.K.	IT intensive collection and legal enforcement services for unpaid debts for governments	Apr. 2016

Pre-adjusted operating profit margin of the segment was unchanged at 3.4% with every subsidiary appearing performing well.

Finally, **Domestic Service Operations Outsourcing Business** is yet small in terms of its scale but expected to grow fast going forward. Revenue raised from ¥1,475 million in 1H FY12/16 to ¥4,624 million and pre-adjusted operating profitability improved considerably from a loss of ¥80 million to a profit of ¥253 million.

The outsourcing business for US military bases grew rapidly and became the largest operation in the segment thanks to the new consolidation of AEC from April 3, 2017. The subsidiary offers air-conditioner and other electrical works, repair and maintenance works for military facilities and associated services to mainly US military bases in Japan. Therefore, the military related business should substantially widen its service fields as AEC will be adding to the already existing Company's dispatching operations for US military bases (for details please refer to "Topics" later in this note).

AEC's performance was in fact much stronger than initially expected. Initially, the Company expected related expenses would weigh on for reviewing the subsidiary's accounting and administration structures as well as strengthening governance in order to align them to OS Group policies. Instead, the results were much better thanks to an accounting change in the way of recognizing revenue and profits from the completed contract method to the percentage of completion method. Other operations in the segment were also growing, the Company says.

As a result of the above performance at each segment, aggregate domestic operations grew by 36.8% YoY in revenue but their pre-adjusted operating profit fell by 26.0% YoY as are seen in each total for domestic and overseas segments in Table 7 on page 10. On the other hand, each of the two overseas segments grew sharply, with aggregate revenue leaping by 171.4% (approximately 2.7 times) YoY and pre-adjusted operating profit soaring by 309.0% (approximately 4.1 times). Pre-adjusted operating profit margin for domestic operations declined from 5.9% in 1H FY12/16 to 3.2% while that for overseas operations rose from 2.5% to 3.8%.

Looking at the contribution ratios of each segment, or the percentage of changes in each segment's pre-adjusted operating profit out of the change in overall pre-adjusted consolidated operating profit, the largest contributors were Overseas Manufacturing and Service Operations Outsourcing Business (with contribution ratio of 140.0% = segment pre-adjusted operating profit gain ¥1,411 million / overall pre-adjusted operating profit gain ¥1,008 million）and Overseas Engineering Outsourcing Business (16.7%). Domestic Service Operations Outsourcing Business, though yet small in its scale, also contributed with a considerable contribution ratio of 33.0% as it turned profitable.

The consolidation adjustments, a negative factor to the overall profit, declined from ¥340 million in 1H FY12/16 to ¥153 million. The IFRS does not mandate regular amortization of goodwill assets but instead does call for timely assessment (i.e. goodwill impairment tests) of economic values of acquired subsidiaries. Therefore, the adjustment amount is much less compared to J-GAAP where goodwill amortization for other than PPAs swells in parallel with increases in goodwill balances.

Trends by Key Operating Segment: FY12/17 Forecasts

Full Year: Further Robust Growth to be Driven by Organic Growth and New Consolidation

FY12/17 performances of each operating segment are summarized in Table 9 on page 15. Profits from domestic businesses are expected to grow sharply after the weakness in 1H. Overseas businesses should continue to grow rapidly thanks to newly consolidated subsidiaries. For the full year, domestic businesses should contribute more to overall profits than overseas segments as growth of the latter will be moderating towards the year end in accordance with new consolidation effects gradually diminishing.

●[Table 9] FY12/17 Forecasts by Operating Segment

(¥ million)	FY12/16 Full-Year Actual	FY12/17 Full-Year Forecasts	YoY Changes Amount	YoY Changes Ratio/pp	Earnings Contribution Ratio
Reveue	**134,283**	**213,000**	**78,717**	**58.6%**	**100.0%**
Domestic Engineering Outsourcing (OS)	40,182	48,666	8,484	21.1%	10.8%
Domestic Manufacturing OS	34,608	44,509	9,901	28.6%	12.6%
Domestic Service Operations OS	3,470	12,101	8,631	248.7%	11.0%
Domestic Administrative OS	873	1,098	225	25.8%	0.3%
Domestic Recruiting and Placing	1,378	1,501	123	8.9%	0.2%
Overseas Engineering OS	21,022	24,845	3,823	18.2%	4.9%
Overseas Manufacturing and Service Operations OS	32,150	79,645	47,495	147.7%	60.3%
Other	600	635	35	5.8%	0.0%
Domestic business revenue total	**81,111**	**108,510**	**27,399**	**33.8%**	**34.8%**
Overseas business revenue total	**53,172**	**104,490**	**51,318**	**96.5%**	**65.2%**
Operating profit before adjustments	**7,034**	**11,571**	**4,537**	**64.5%**	**100.0%**
Domestic Engineering Outsourcing (OS)	2,936	3,879	943	32.1%	20.8%
Domestic Manufacturing OS	1,329	2,330	1,001	75.3%	22.1%
Domestic Service Operations OS	(258)	492	750	-	16.5%
Domestic Administrative OS	278	702	424	152.5%	9.3%
Domestic Recruiting and Placing	647	302	(345)	-53.3%	-7.6%
Overseas Engineering OS	688	1,157	469	68.2%	10.3%
Overseas Manufacturing and Service Operations OS	1,376	3,007	1,631	118.5%	35.9%
Other	38	(298)	(336)	-	-7.4%
Domestic business operating profit total	**4,970**	**7,407**	**2,437**	**49.0%**	**53.7%**
Overseas business operating profit total	**2,064**	**4,164**	**2,100**	**101.7%**	**46.3%**
Ratio of operating profit before adjustments	**5.1%**	**-**	**-**	**-**	**-**
Domestic Engineering Outsourcing (OS)	7.3%	8.0%	-	+0.7pp	-
Domestic Manufacturing OS	3.8%	5.2%	-	+1.4pp	-
Domestic Service Operations OS	-7.4%	4.1%	-	+11.5pp	-
Domestic Administrative OS	31.8%	63.9%	-	+32.1pp	-
Domestic Recruiting and Placing	47.0%	20.1%	-	-26.9pp	-
Overseas Engineering OS	3.3%	4.7%	-	+1.4pp	-
Overseas Manufacturing and Service Operations OS	4.3%	3.8%	-	-0.5pp	-
Other	6.3%	-46.9%	-	+53.2pp	-
Ratio of domestic business operating profit	**6.1%**	**6.8%**	**-**	**+0.7pp**	**-**
Ratio of overseas business operating profit	**3.9%**	**4.0%**	**-**	**+0.1pp**	**-**
Adjustments	(1,471)	(2,071)	(600)	-	-
Consolidated operating profit	**5,563**	**9,500**	**3,937**	**70.8%**	**-**
Ratio of consolidated operating profit	**4.1%**	**4.5%**	**-**	**+0.4pp**	**-**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio/pp**	
Domestic Engineering OS	6,066	8,566	2,500	41.2%	-
[Utilization rate for Domestic Engineering OS]	98.2%	-	-	-	-
Domestic Manufacturing OS	9,033	13,097	4,064	45.0%	-
Domestic Service Operations OS	1,609	3,836	2,227	138.4%	-
Overseas Engineering OS	1,836	1,982	146	8.0%	-
Overseas Manufacturing and Service Operations OS	24,290	39,456	15,166	62.4%	-

Source: Compiled by Trias Corporation from the Company IR materials

Note: Overseas businesses total suggests the total of 2 overseas businesses and domestic businesses total suggests the total of the rest of the businesses. The amounts shown are rounded off to the nearest million yen.

Domestic Engineering Outsourcing Business is forecast to grow by 21.1% YoY in revenue and by 32.1% YoY in pre-adjusted operating profit. Strong demand should be continuing in particular from Electrical & Electronics, IT-related and Transport Equipment sectors. Pre-adjusted operating profit margin is forecast to rise from 7.3% in FY12/16 to 8.0% although the profit may fall short due to aforementioned heavier burden from headquarters function expenses.

The planned number of worksite employees for the segment increases sharply to 8,566 at the end of FY12/17 from 6,066 at the end of FY12/16. On top of roughly 550 new graduates already hired, the Company will continue to take advantage of KEN School proactively. In addition, it is highly likely that personnel inflows from small- to medium-sized dispatching business operators will gradually accelerate going forward as not a few of them will be suffering to survive as the suspended term of the 2015 Revised Worker Dispatching Act is to expire at the end of September 2018. Aiming to attract these firms, the Company has set up joint venture OS Capital Partners Inc., an M&A advisor, and should these potential transactions be successfully carried out, more worksite staffs would be hired.

Domestic Manufacturing Outsourcing Business expects revenue to grow by 28.6% YoY and pre-adjusted operating profit by 75.3% YoY. The profit, however, could fall short because of the heavier burden from allocations of expenses as was mentioned. OS Partners, fully consolidated in FY12/17, will be one of the factors for the large increases in revenue and profits. Electrical & Electronics and Transport Equipment outsourcing is expected to grow rapidly on the back of strong demand for vehicle-related products including batteries. The Company foresees the pre-adjusted operating profit margin for the segment to rise sharply from 3.8% in FY12/16 to 5.2%, though for now.

The segment plans to increase worksite employee counts from 9,033 at the end of FY12/16 to 13,097 at the end of FY12/17. There may be increasing worker inflows from client makers as the suspended term of the Labor Contract Act is due at the end of March 2018 as is described in note (*2) on Page 11. The number of employees enrolled via the PEO Scheme is planned to increase markedly from 5,519 to 10,000, leading the percentage to the segment headcount total to rise significantly from 61.1% to 76.4% at the end of FY12/16 and FY12/17, respectively.

Revenue for **Domestic Service Operations Outsourcing Business** should soar from ¥3,470 million for FY12/16 to ¥12,101 million. AEC will add revenue of ¥7.6 billion this term after being consolidated from April 3, 2017. As a result, the number of worksite employee is to increase sharply from 1,609 at the end of FY12/16 to 3,836 at the end of FY12/17.

Pre-adjusted operating profitability of the segment is forecast to turn around significantly from a loss of ¥258 million in FY12/16 to a profit of ¥492 million, and the profit margin is to improve by 11.5% points to 4.1% thanks mainly to new contribution from AEC.

Overseas Engineering Outsourcing Business is looking for revenue to grow by 18.2% YoY and pre-adjusted operating profit by 68.2% YoY. This strength should be largely coming from organic growths despite full contributions from the BEDDISON's engineering business and J.B.W./CDL, both consolidated since April 2016, as business scales of these two subsidiaries are not very significant. Pre-adjusted operating income margin for the segment should be rising substantially from 3.3% in FY12/16 to 4.7%.

Overseas Manufacturing and Service Operations Outsourcing Business is expected to drive its revenue by roughly 2.5 times YoY and operating profit by roughly 2.2 times YoY. Aforementioned four groups including BEDDISON newly consolidated in 1H will fully contribute in 2H FY12/17. Moreover, revenue from Orizon of ¥34.3 billion will be added on, consolidation of which started in January 2017.

Nonetheless, pre-adjusted operating profit margin of the segment is forecast to decline from 4.3% in FY12/16 to 3.8% in FY12/17 due to changes in revenue mixtures, after improving significantly in FY12/16 thanks to highly profitable subsidiaries such as OS HRS and VERA.

Finally, **Other Businesses segment** is forecast to turn to an operating loss of ¥298 million, perhaps reflecting a setup of a joint-venture which aims to attract small- and medium-sized dispatching business operators likely destined for squeeze out of the industry as is mentioned previously.

As a result, by domestic and overseas operations, aggregate revenue from the two overseas businesses should jump by 96.5% YoY to ¥104.5 billion for FY12/17 and their total pre-adjusted operating profit by 101.7% YoY to roughly ¥4.2 billion, both approximately doubling. In terms of contributions to overall consolidated growth, as is shown in Table 6 on page 7, the overseas component is expected to contribute significantly, accounting for 65.2% of the revenue growth and 46.3% of the pre-adjusted operating profit gain. Accordingly, the overseas component would be growing to 49.1% of revenue and 36.0% of operating profit of overall consolidation, up sharply from 39.6% and 29.3% respectively in FY12/16.

On the other hand, revenue from overall domestic operations is expected to be up 33.8% YoY, and their organic growth is also sustaining strength, rising by 24.4% YoY even without the new consolidation of AEC (revenue forecast: ¥7.6 billion). This leads domestic pre-adjusted operating profit margin including AEC to expand from 6.1% in FY12/16 to 6.8%, still meaningfully outweighing aggregate overseas profit margin of 4.1%. As Table 6 on page 7 indicates, contributions from domestic operations would be 34.8% in revenue and 53.7% in pre-adjusted operating profit of overall consolidated growth, and account for 50.9% and 64.0% of each total, down from 60.4% and 70.7%, respectively.

The Company seems very confident to achieve the overall consolidated forecasts as stronger overseas operations, as was seen in 1H, and eventually smaller consolidation adjustments would be enough to cover potential shortfalls in nominal profits at the two major domestic operations.

Topics: Business Development for US Military Bases

In its Medium-Term Management Plan through FY12/20, the OS Group is promoting development of business fields that are less susceptible to impact from fluctuations in the economy, and that are expected to grow over the medium term. Among new business fields, here we introduce service operations outsourcing business for US military bases which is included in Domestic Service Operations Outsourcing Business.

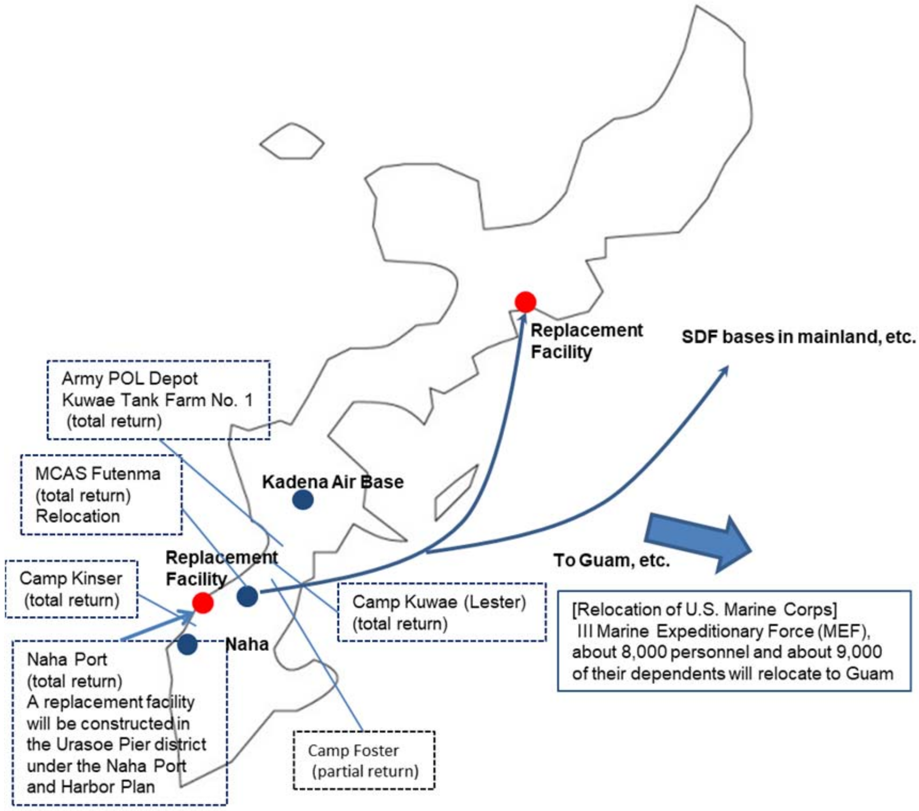
In March 2015, the Company established subsidiary IOD Inc., entering dispatching business for facilities within US military bases including restaurants, shops, golf courses, etc. In the same year in August, the Company won an order for dispatching business for welfare benefit facilities within Kadena Air Base in Okinawa Prefecture. Based on a foothold in dispatching business in Kadena Air Base, the Company acquired the shares of AMERICAN ENGINEERING CORPORATION (OKINAWA) (AEC), entering the larger market for construction, maintenance and repairs of facilities and equipment on US military bases.

AEC was established in 1964 as a general contractor mainly for US military bases in Japan, receiving orders as the original contractor for building construction, civil engineering, piping and electrical work, and due to its strength in specialized facilities work on US specifications, it is also a subcontractor to major general contractors on telecommunications and firefighting facilities. Its five domestic offices are located in Okinawa, Tokyo, Misawa, Iwakuni and Sasebo. According to TOKYO SHOKO RESEARCH, AEC ranked 7th in Okinawa Prefecture on FY2015 completions (announced October, 2016), and as of June 2017 has roughly 600 employees. Through acquisition of AEC, the OS Group acquired a company with a proven track record in work on facilities and equipment on US military bases.

While AEC does not disclose a breakdown of revenue and orders, it has stable demand from after-sales maintenance projects. According to the 2016 Defense White Paper, there are plans for relocation of the US Navy's Carrier Air Wing from Atsugi Base in Kanagawa Prefecture to Iwakuni Base in Yamaguchi Prefecture, in Okinawa construction of a new base in Henoko subsequent to relocation and return of the Marine Corps Futenma Air Station, and relocation and return of the Kadena Air Base South as part of the reorganization plan of US Armed Forces (USAF) stationed in Japan, suggesting strong demand going forward.

AEC also has a view toward expanding business in the Pacific Rim going forward. Regarding Guam, relocation of US Marine Corp troops has already been announced along with relocation and return of the Futenma Air Station, and going forward relocation work is set to go into full swing. There is potential for large opportunity for AEC which has a strong track record in US military bases in Japan to advance overseas.

●Realignment of US Military Bases in Okinawa



Source: compiled by Trias Corporation from the 2016 Defense White Paper

References

●Consolidated Key Financial Data

No. of shares issued	Jun-17	20,303,200
No. of treasury shares	Jun-17	98
Market value (¥mn)	20-Sep-17	146,183
BPS (¥)	Jun-17	1,184.33
ROE (%)	Dec-16	25.7
ROA (%)	Dec-16	4.6
PER (times) FY12/16 fcst.	20-Sep-17	25.4
PCFR (times) 1H FY12/17 actual	20-Sep-17	55.6
PBR (times) 1H FY12/17 actual	20-Sep-17	6.1
Share price (¥)	20-Sep-17	7,200
Unit share (shares)	20-Sep-17	100
Average daily volume (shs)	20-Sep-17	323,131

Note: The amounts shown are rounded off to the nearest milli

Total assets (¥mn)	Jun-17	115,942
Equity attributable to owners of the Company (¥mn)	Jun-17	24,046
Interest-bearing debt (¥mn)	Jun-17	(*)50,422
Ratio of equity attributable to owners of the Company to total assets (%)	Jun-17	20.7
Ratio of interest-bearing debt (%)	Jun-17	209.7
Free cash flows (¥mn)	Jun-17	(1,774)

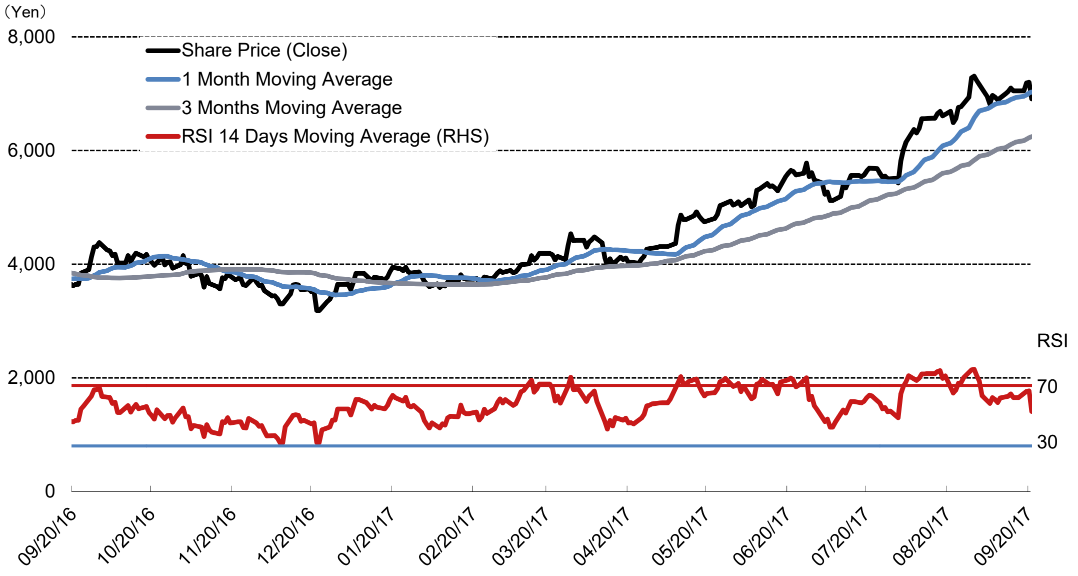
ROE = Profit attributable to owners of the Company / Averaged equity attributable to owners of the Company
ROA = Profit attributable to owners of the Company / Averaged total assets
PCFR = Market value / (Profit attributable to owners of the Company + Depreciation)
Ave. daily vol. = Ave. daily vol. (from 20-Sep-16 to 20-Sep-17)
Interest-bearing debts* ratio = I.B.D. / Equity attributable to owners of the Company
Free cash flows = Operating CF + Investment CF
*Incl. current portion of accounts payable-installment purchase

●Consolidated Financial Results

Consolidated (¥million) J-GAAP	Net Sales	Operating Income	Ordinary Income	-	Profit Attributable to Owners of Parent	EPS (¥)	DPS (¥)
FY12/13	47,384	1,203	1,357	-	1,122	77.54	13.00
FY12/14	59,421	2,010	2,197	-	1,317	89.81	35.00
FY12/15	80,860	3,125	3,225	-	1,810	110.15	35.00
FY12/16	134,482	3,737	3,380	-	664	38.11	42.00
IFRS	Revenue	Operating Profit	Profit Before Tax	Profit for the Year	Profit for the Year Attributable to Owners of the Parent	EPS (¥)	DPS (¥)
FY12/17 1H	97,000	2,900	2,600	1,600	1,400	77.82	-
FY12/17 full year fcst.	213,000	9,500	8,900	5,800	5,100	283.52	85.00

Note 1: FY12/17 forecasts announced on February 14, 2017.
Note 2: The amounts shown are rounded off to the nearest million yen.

●Stock Price Charts and RSI (September 20, 2016 – September 20, 2017)



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) x100