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OUTSOURCING Inc.

FY12/16 Financial Results and Follow-up Interview

OUTSOURCING Inc., hereafter the "Company" or the "OS Group," announced FY12/16 financial results, and Trias Corporation conducted an interview with Executive Vice President Kazuhiko Suzuki, as well as a part of department in charge of growth strategies. The following is a summary of the interview. Besides, the contents of the interview and this report is based on the figures of Japanese Generally Accepted Accounting Principles, hereafter "J-GAAP," since the interview had been held before the Company disclosed FY12/16 financial result based on International Financial Reporting Standards, hereafter "IFRS."

Summary of FY12/16 Consolidated Financial Results

FY12/16 consolidated financial performance delivered a sharp gain in net sales over FY12/15 and operating income recording a historical high. Operating and ordinary incomes, however, grew much slower YoY net sales due to increases in M&A related amortization expenses, one-time commissions, etc., and profit attributable to owners of parent (hereafter "net income") dropped significantly.

Nonetheless, real-term profits, which exclude these M&A related expenses, remain on a track to the rapid growth trend. In addition to continued favorable growth in domestic dispatching businesses, earnings from newly consolidated subsidiaries made remarkable contributions.

As shown in Table 1, FY12/16 results were: net sales at ¥134,482 million (up 66.3% YoY), gross profit at ¥27,608 million (up 67.0% YoY), operating income at ¥3,737 million (up 19.6% YoY), ordinary income at ¥3,380 million (up 4.8% YoY), and net income at ¥664 million (down 63.3% YoY).

●[Table 1] FY12/16 Consolidated Financial Results Summary

(￥million)	FY12/15 Actual		FY12/16 Actual		YoY Changes	
	Amount	Composision Ratio	Amount	Composision Ratio	Amount	Ratio
Net sales	80,861	100.0%	134,482	100.0%	53,621	66.3%
Cost of sales	64,327	79.6%	106,874	79.5%	42,547	66.1%
Gross profit	16,534	20.4%	27,608	20.5%	11,074	67.0%
SG&A expenses	13,408	16.6%	23,871	17.8%	10,463	78.0%
Operating income	3,125	3.9%	3,737	2.8%	611	19.6%
Ordinary income	3,225	4.0%	3,380	2.5%	156	4.8%
Profit attributable to owners of parent	1,810	2.2%	664	0.5%	(1,146)	-63.3%

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

By operating segment, domestic outsourcing businesses experienced continued demand strength in both engineering and manufacturing segments while newly added service outsourcing business for US military bases made a contribution. Also, overseas businesses saw significant increases in both net sales and income thanks mainly to newly consolidated subsidiaries. (See details on segment trends on page 6 and onward.)

Organic growth itself also looks healthy. Domestic businesses (including the Other Business), which are less affected by new consolidations, the sum of net sales rose by 27.9% YoY while aggregate operating income before consolidation adjustments, which exclude M&A related expenses, sustained strong growth and jumped by 54.5% YoY.

The overall consolidated gross profit margin improved slightly from 20.4% in FY12/15 to 20.5%. This was due to growth in high margin Domestic Engineering Outsourcing Business, as well as the contribution from newly consolidated subsidiaries for high value-added Overseas Engineering Outsourcing Business and overseas service operations outsourcing businesses. Among domestic operations, profitability for Domestic Manufacturing Outsourcing Business also improved and is now comparable to that for Domestic Engineering Business, the Company says.

SG&A expenses increased sharply by ¥10,463 million, or up 78.0% YoY. Large part of the increase is attributable to over ¥4.0 billion from the new consolidations as well as full contributions from subsidiaries newly consolidated in FY12/15. Additionally, goodwill amortization also increased, by ¥1,688 million YoY. Meanwhile, one-time M&A expenses of ¥1,476 million was incurred as a new accounting rule adopted from FY12/16 requires such M&A expenses as advisory commissions to be charged as one-time expenses rather than booked as assets to the goodwill account as was previously.

The SG&A expenses as net sales ratio rose from 16.6% for FY12/15 to 17.8%, however, excluding the aforementioned goodwill amortization and M&A related one-time expenses, it would have improved from 15.4% to 14.7%. This was partly thanks to improved efficiency of staff recruiting, expenses for which only increased by 23.8% YoY despite large increases in onsite workers.

Operating income rose by 19.6% YoY and the operating income margin decreased from 3.9% in FY12/15 to 2.8%. Again, on the pre-adjustments basis excluding M&A related expenses, the income soared by 101.4% YoY and the operating income margin in fact widened from 5.0% to 6.1%. The rise in the real-term operating income margin should be attributable to highly value-added operations at newly consolidated overseas subsidiaries in both engineering and service fields, as well as the rapidly improved profitability at Domestic Service Operations Outsourcing Business.

Non-operating balance deteriorated by ¥455 million, from a positive ¥99 million in FY12/15 to a negative ¥356 million. In addition to an actual of ¥327 million for borrowing commissions for M&A financing, interest paid increased by ¥226 million. As a result, ordinary income increased by ¥156 million YoY from FY12/15 to ¥3,380 million.

Net income plunged by ¥1,146 million YoY to a mere ¥664 million. This was because the aforementioned one-time expenses for M&A (¥1,476 million) as well as an increase in amortized goodwill (¥1,688 million), both viewed as expenses in consolidated accounting but non-deductible in terms of tax returns, led to higher tax burdens. The Company says this was almost the sole factor for the decline in net income.

As can be seen in Table 2 on page 4, total assets at the end of FY12/16 were ¥82,034 million, a significant increase of ¥44,992 million, or up 2.2 times YoY. This is mostly due to an increase in newly consolidated subsidiaries. The starting date of new consolidation of each subsidiary in terms of balance sheet is shown below. These six groups caused an increase of over ¥35.0 billion in aggregate to consolidated total assets.

April 1 :	2 groups - BEDDISON Group (Australia, hereafter "BEDDISON"), J.B.W./CDL Group (the U.K., hereafter "J.B.W./CDL")
May 1 :	OSHRS Group (Malaysia, hereafter "HRS")
August 1 :	2 groups - ALLEN LANE CONSULTANCY LIMITED (the U.K., hereafter "ALC"), LIBERATA UK LIMITED (the U.K., hereafter "LIBERATA")
September 1 :	OS Partners ("Recruit Factory Partners" at the time of acquisition)

Major changes in the asset side include accounts receivable-other increasing by ¥7,422 million due to new consolidations as well as organic business expansions. Also, goodwill assets increased by ¥18,484 million to ¥25,181 million thanks mainly to above M&A deals.

For liabilities and net assets, short- and long-term loans payable increased by ¥15,742 million and ¥18,897 million respectively, as the Company financed more than ¥43.0 billion for M&A deals completed in FY12/16. The sum of the short- and long-term loans increased by ¥34,639 million from ¥10,722 million at the end of FY12/15 to ¥45,361 million at the end of FY12/16.

Net assets rose by ¥827 million YoY to ¥13,199 million. The equity ratio dropped from 31.5% at the end of FY12/15 to 13.1% at the end of FY12/16 as borrowings increased sharply.

●[Table 2] Consolidated Balance Sheet Summary at the End of FY12/16

(¥ million)	FY12/15-End		FY12/16-End		YoY	
	Amount	Composition Ratio	Amount	Composition Ratio	Changes Amount	Major Factors
Current assets	**24,658**	**66.6%**	**43,937**	**53.6%**	**19,280**	
Cash and deposits	9,215	24.9%	12,602	15.4%	3,386	
Notes and accounts receivable - trade	12,979	35.0%	20,401	24.9%	7,422	Increased due to acquisition of subsidiaries' shares and expansion of business scale
Non-current assets	**12,385**	**33.4%**	**38,097**	**46.4%**	**25,712**	
Property, plant and equipment	2,734	7.4%	2,989	3.6%	254	
Intangible assets	7,261	19.6%	30,448	37.1%	23,187	Increased in goodwill, etc. due to acquisition of subsidiaries' shares
Investments and other assets	2,389	6.5%	4,660	5.7%	2,271	
Total assets	**37,043**	**100.0%**	**82,034**	**100.0%**	**44,992**	
Current liabilities	**20,155**	**54.4%**	**41,990**	**51.2%**	**21,834**	
Short-term loans payable	8,704	23.5%	24,445	29.8%	15,742	Increased due to loans for working capital
Accounts payable - other	5,745	15.5%	8,788	10.7%	3,042	
Non-current liabilities	**4,515**	**12.2%**	**26,846**	**32.7%**	**22,331**	
Bonds payable	25	0.1%	-	-	-	
Long-term loans payable	2,018	5.4%	20,915	25.5%	18,897	Increased due to loans for M&A funding
Total liabilities	**24,670**	**66.6%**	**68,836**	**83.9%**	**44,165**	
Shareholders' equity	11,574	31.2%	11,698	14.3%	123	Increased due to exercise of the subscription rights to shares
Total net assets	**12,372**	**33.4%**	**13,199**	**16.1%**	**827**	
Total liabilities and net assets	**37,043**	**100.0%**	**82,034**	**100.0%**	**44,992**	

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 will officially apply IFRS to financial statements for FY12/17. It is looking for essentially sharp growth in both revenue and profits for FY12/17 although back-to-back comparisons are not possible as FY12/16 financial figures are based on J-GAAP. IFRS based FY12/16 financial figures should be released within March 2017.

The Company positions FY12/17 as well as FY12/18 as the period that it aims to build a strong foothold for within its Medium-Term Management Plans. Holding back from large scale M&A deals, it will concentrate on pursuing synergies among already acquired companies, reinforcing governance and building solid financial bedrock. On top of this solid foundation, it intends to resume large scale M&A deals in both FY12/19 and FY12/20 in order to become a global company resilient more than ever to outside environments.

Table 3 shows its forecasts for financial performance for FY12/17. Revenue is estimated at ¥213,000 million or a sharp increase by 58.4% YoY. Operating profit is forecast at ¥9,500 million and profit before tax at ¥8,900 million. Revenue, without any impacts caused by the IFRS transition, should grow rapidly thanks to both organic growths and contributions from newly consolidated subsidiaries. On the profit side, large growths should be seen on an operational basis as are discussed below although back-to-back comparisons between FY12/16 and FY12/17 are not possible.

●[Table 3] Full-Year FY12/16 Results (J-GAAP) and FY12/17 Forecasts (IFRS)

(¥million)	FY12/16 Actual	
J-GAAP	Amount	Composition Rate
Net sales	134,482	100.0%
Cost of sales	106,874	79.5%
Gross profit	27,608	20.5%
SG&A expenses	23,871	17.8%
Operating income	3,737	2.8%
Ordinary income	3,380	2.5%
Profit attributable to owners of parent	664	0.5%
	FY12/17 Forecasts (as of Feb.14)	
Internationarl Financial Reporting Standards (IFRS)	Amount	Composition Rate
Revenue	213,000	100.0%
Operating profit	9,500	4.5%
Profit before tax	8,900	4.2%
Profit for the year	5,800	2.7%
Profit for the year attributable to owners of the parent	5,100	2.4%

Source: Compiled by Trias Corporation from the Company IR materials

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

Revenue is to increase by ¥78.6 billion in FY12/17, which are broken down to ¥36.7 billion for existing operations and the rest ¥41.9 billion contributed by two subsidiaries to be newly consolidated from FY12/17, the Company explains. The breakdowns by segment are shown in Table 6 on page 12.

By operating segment, significant contributors to the overall revenue growth are led by Overseas Manufacturing and Service Operations Outsourcing Business, revenue of which should increase by ¥47.6 billion from FY12/16. Following are three outsourcing businesses: Domestic Engineering, Manufacturing and Service Outsourcing Businesses, each growing by around ¥9.0 billion in revenue. (See details on segment trends on page 6 and onward.)

Operating profit, forecast at ¥9,500 million for FY12/17 increasing from ¥3,737 million for FY12/16 operating income, is not directly comparable YoY as the IFRS accounting does not book goodwill amortizations, etc. as yearly expenses. Therefore, looking at operating profit before consolidation adjustments (*1) which largely allows direct comparisons, the profit is expected to increase from ¥8,147 million for FY12/16 to ¥11,571 million, or up 42.0% YoY. This growth is most contributed by nearly 50% from Overseas Manufacturing and Service Operations Outsourcing Business, followed by over 20% each from Domestic Engineering and Domestic Manufacturing Outsourcing Businesses which receives favorable demands.

Meanwhile, operating profit margin before adjustments is forecast in fact to drop from 6.1% for FY12/16 to 5.4%. This is mainly due to the change in business mixtures resulted from consolidations of newly acquired subsidiaries in 2016 and 2017. In other words, so far, highly profitable subsidiaries with small net sales has pushed up overall profitability, but additions of subsidiaries with much larger revenue and relatively lower profit margins could narrow the average profit margin. Nonetheless, each subsidiary is expected to grow further on local currency basis, the Company says.

Finally, the consolidation adjustment, a subtracting account from the overall consolidated operating profit, should decrease from ¥4,410 million for FY12/16 to ¥2,071 million for FY12/17. The most significant factor is the absence of the goodwill amortization of ¥2,611 million posted for FY12/16. The major breakdowns of the adjustment for FY12/17 include amortizations of intangible assets at subsidiaries (i.e. PPA: purchase price allocation) and M&A related one-time expenses, etc. The latter, without large scale M&A deals being anticipated in FY12/17, should decrease sharply from ¥1,476 million in FY12/16 to a low end of single hundred million level.

Profit before tax is forecast to rise from ¥3,023 million for FY12/16 to ¥8,900 million, which is translated into a roughly 40% YoY growth from approximately ¥5.0 billion (*1), an amount conveniently adjusted for the FY12/16 profit on a would-be IFRS basis. Profit for the year attributable to owners of the parent is expected to soar by impressive 7.7 times YoY from FY12/16 as such expenses in consolidated accounts as goodwill amortizations are not taken into account.

(*1) For FY12/16, both goodwill amortization expenses (¥2,611 million) and M&A expenses (¥1,476 million) are included in the consolidation adjustment, or non-segmental account of ¥4,410 million, which thus roughly allows a YoY comparison estimates at the operating income before adjustments levels on a similar basis. FY12/16 profit before tax would be calculated as roughly ¥5.0 billion after adding back approximately total ¥2.0 billion such as impairment losses. An accurate calculation will be viable once IFRS based FY12/16 results are disclosed.

Trends by Key Operating Segments

FY12/16 saw domestic businesses sustain favorable growth while overseas businesses expanded sharply thanks to M&A deals

For FY12/16, domestic outsourcing businesses enjoyed continued growth and better profitability as tight labor markets helped to push up dispatching contract unit prices. Overseas businesses also grew rapidly as newly consolidated firms contributed through M&A deals.

●[Table 4] FY12/16 Financial Summary by Operating Segment

(¥ million)	FY12/15 Actual Amount	FY12/16 Actual Amount	YoY Changes Amount	YoY Changes Ratio/pp
Net sales	**80,861**	**134,482**	**53,621**	**66.3%**
Domestic Engineering Outsourcing (OS)	31,553	40,426	8,874	28.1%
Domestic Manufacturing OS	29,468	34,669	5,200	17.6%
Domestic Service Operations OS	1,083	3,470	2,387	220.4%
Domestic Administrative OS	537	874	336	62.6%
Domestic Recruiting and Placing	872	1,378	506	58.1%
Overseas Engineering OS	3,832	20,977	17,144	447.3%
Overseas Manufacturing and Service Operations OS	13,349	32,089	18,739	140.4%
Other	166	600	434	262.0%
Operating income before adjustments	**4,046**	**8,147**	**4,102**	**101.4%**
Domestic Engineering OS	2,398	3,191	792	33.0%
Domestic Manufacturing OS	1,010	1,527	517	51.1%
Domestic Service Operations OS	(82)	226	308	-
Domestic Administrative OS	56	278	222	396.7%
Domestic Recruiting and Placing	413	647	233	56.4%
Overseas Engineering OS	183	847	664	363.3%
Overseas Manufacturing and Service Operations OS	53	1,414	1,361	2567.5%
Other	14	19	5	32.9%
Operating income margin before adjustments	**5.0%**	**6.1%**	**-**	**+1.1pp**
Domestic Engineering OS	7.6%	7.9%	-	+0.3pp
Domestic Manufacturing OS	3.4%	4.4%	-	+1.0pp
Domestic Service Operations OS	-7.6%	6.5%	-	+14.1pp
Domestic Administrative OS	10.4%	31.9%	-	+21.5pp
Domestic Recruiting and Placing	47.4%	46.9%	-	- 0.5pp
Overseas Engineering OS	4.8%	4.0%	-	- 0.8pp
Overseas Manufacturing and Service Operations OS	0.4%	4.4%	-	+4.0pp
Other	8.5%	3.1%	-	- 5.4pp
Adjustments	(920)	(4,411)	(3,491)	-
Operating income	**3,125**	**3,737**	**611**	**19.6%**
Operating income margin	**3.9%**	**2.8%**	**-**	**- 1.1pp**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio/pp**
Domestic Engineering OS	4,742	6,066	1,324	27.9%
[Utilization rate for Domestic Engineering OS]	98.4%	98.2%	-	- 0.2pp
Domestic Manufacturing OS	7,463	9,033	1,570	21.0%
Domestic Service Operations OS	1,671	1,609	(62)	-3.7%
Overseas Engineering OS	895	1,836	941	105.1%
Overseas Manufacturing and Service Operations OS	14,644	24,290	9,646	65.9%

Source: Compiled by Trias Corporation from the Company IR materials

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

The Company's largest operation Domestic Engineering Outsourcing Business, accounting for approximately 30% of total net sales, continued to grow strongly with net sales jumping by 28.1% YoY and consolidated operating income before adjustments expanding by 33.0%. Operating income margin before adjustments, rising from 7.6% for FY12/15 to 7.9%, in fact appears widening further than nominal increase. The reason behind is that Domestic and Overseas Engineering Outsourcing

Business unit became able to share more holding company functions as it has grown enough to afford relevant part of M&A related administration expenses which were previously allocated mostly to Domestic Manufacturing Outsourcing Business (*2).

(*2) Large part of expenses incurred from head office functions as well as investments for company-wide growth had been allocated to Domestic Manufacturing Outsourcing Business as the segment was the Company's mainstay up until recently. However, the Company changed internal allocations from FY12/16 of these expenses more proportionately to both Domestic Engineering Outsourcing Business and Overseas Engineering Outsourcing Business as the two segments grew enough to afford more reasonable burdens.

By client industry, IT-related net sales (33.7% of the segment net sales) grew sharply by 36.5% YoY, Transport Equipment-related (25.6%) by 22.1% YoY and Electrical & Electronics-related (17.4%) by 31.5% YoY. As for Construction & Plant-related (12.7%), another key focus sector for the Company alongside IT-related, net sales grew handsomely by 18.9% YoY bolstered by strong demand.

The number of worksite employees for Domestic Engineering Outsourcing Business reached 6,066 at the end of FY12/16, increasing by 27.9% YoY from 4,742 in FY12/15. The utilization rate during FY12/16 was running at 98.2%, declining slightly from 98.4% in FY12/15 but nearly at full capacity, despite the large increase in the number of workers. Solid progress has been made in the internal job conversion scheme which utilizes KEN School, from the manufacturing to engineering sector, since the Company started in earnest from FY12/15.

For Domestic Manufacturing Outsourcing Business, net sales increased by 17.6% YoY, and as a result of operating income before adjustments soaring 51.1% YoY, its operating income margin jumped from 3.4% in FY12/15 to 4.4%. The better profitability, despite increases in operation and administration expenses caused by large scale M&A deals, is partly attributed to solid growth in the PEO Business (*3), a new human resources utilization scheme to which the Group has been devoting efforts, as well as aforementioned transfers of M&A related administration expenses to other segments.

(*3) 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 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 lease them back to makers participating in the Scheme. The Labor Contracts Act requires 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 for more than 5 years since 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 burdens of fixed costs.

The number of worksite employees for the segment increased by 21.0% YoY from 7,463 to 9,033 at the end of FY12/16. The new consolidation of OS Partners from August 2016 as well as the growing number of PEO employees mainly contributed to the increase. The number of employees enrolled at PEO increased to 5,519 at the end of FY12/16, accelerating from 3,024 at the end of FY12/15 and

4,063 at the end of June 2016, now accounting for approximately60% of the whole worksite employees for Domestic Manufacturing Outsourcing Business. Recruitment media expenses are not needed for this type of hiring, and favorable dispatching contract unit prices have also been leading to improved profitability. The number of maker sites participating in the Scheme continued to grow, up from 158 at the end of FY12/15 to more than 200 at the end of FY12/16. Potentials for increases in PEO employees seem promising as not all the participating clients have actually transferred their personnel to date.

By client industry, Transport Equipment-related net sales (35.7% of the segment net sales) grew by a solid 7.3% YoY and Electrical & Electronics-related (34.3%), largely for auto batteries, jumped by 34.2% YoY thanks partly to the addition of OS Partners. In 2016, some makers were obliged to suspend production due to disastrous earthquakes or fires, impacts from these proved to be minor for the Company. This should be attributable to its tireless efforts in diversifying business arenas.

Overseas businesses expanded rapidly mainly from the new contributions from M&A deals realized in FY12/15 and FY12/16. For Overseas Engineering Outsourcing Business, net sales skyrocketed by roughly 5.5 times to ¥20,977 million from ¥3,832 million for FY12/15. This is thanks to 12 month full contributions from BLUEFIN RESOURCES Group (Australia, hereafter "BLUEFIN") and NTRINSIC Group (the U.K. and Europe, hereafter "NTRINSIC") both acquired in August 2015, and new additions of J.B.W./CDL (the U.K.) as well as part of BEDDISON (Australia) in April 2016 onward. Operating income before adjustments for the segment expanded notably from ¥183 million to ¥847 million.

The segment operating income margin declined from 4.8% in FY12/15 to 4.0%. This is due to negative impacts from forex translations which dented both net revenues and incomes as the JPY appreciated markedly against both the GBP and the AUD in Q3 FY12/16. Although the Q3 dip was partly offset in Q4 FY12/16 as the yen weakened toward the fiscal year end, this is anyway technical effects simply caused by forex translations, and the Company says each overseas subsidiary has been faring well in its local currency terms.

Meanwhile, **Overseas Manufacturing and Service Operations Outsourcing Business** saw net sales jumping by 2.4 times YoY and operating income before adjustments soaring from ¥53 million in FY12/15 to ¥1,414 million, accounting for most significant one-third of an increase in the whole operating income before adjustments. New contributions came from Expro Group (Chile, hereafter "Expro") acquired at the end of FY12/15, BEDDISON's service-oriented operations and HRS (Malaysia), both consolidated from April 2016, and thereafter ALC and LIBERATA joining from August.

Contributions from ALC and LIBERATA seem significant in terms of operating income. This would be proved by the fact that bi-annual segment operating income soared from ¥245 million in the 1H FY12/16 to ¥1,169 million in the 2H. As a result, operating income margin before adjustments for this segment widened notably from 0.4% in FY12/15 4.4%, catching up with the profit margin at Domestic Manufacturing Outsourcing Business.

For **Domestic Service Operations Outsourcing Business**, a newly disclosed segment from FY12/16, net sales of ¥1,083 million FY12/15 and ¥3,470 million in FY12/16 are not yet significant in light of the overall performance, but the segment is expected to achieve high growth going forward. Operating income before adjustments turned from a loss of ¥82 million to a profit of ¥226 million. On a quarterly basis, the segment turned into the profit in the Q2 FY12/16 and has been tracking a growth trajectory thereafter, although, until then, expenses had been up front in the start-up phases of dispatching/subcontracting businesses for welfare facilities within Okinawa US military bases, which started from FY12/15, as well as in the business for convenience stores.

Table 5 on page 11 indicates FY12/16 performance contributions from each segment. As the table shows, the most significant contributor in terms of operating income growth was Overseas Manufacturing and Service Operations Outsourcing Business (33.2% of the YoY increment of the consolidated operating income before adjustments), followed by Domestic Engineering Outsourcing Business (19.3%), Overseas Engineering Outsourcing Business (16.2%), and Domestic Manufacturing Outsourcing Business (12.6%). The two overseas segments drove overall income growth for FY12/16, with the aggregate operating income before adjustments increasing significantly from ¥236 million in FY12/15 to ¥2,261 million, or up by ¥2,025 million, accounting for 49.4% of the whole consolidated income increase of ¥4,102 million.

Performances of each segment are summarized in Table 4 on page 7. Operating income before consolidated eliminations doubled from ¥4,046 million in FY12/15 to ¥8,147 million, and the operating income margin before adjustments improved sharply by 1.1 pp to 6.1%.

The consolidation adjustment, a negative account against the overall consolidated operating income, increased significantly from ¥920 million for FY12/15 to ¥4,411 million. The major FY12/16 adjustment items include ¥2,611 million for goodwill amortizations and ¥1,476 million for one-time expenses incurred for M&A related activities.

●[Table 5] FY12/16 Summary and FY12/17 Forecasts of Earnings Contribution Ratio by Operating Segment

(¥ million)	FY12/15 Actual	FY12/16 Actual	YoY Changes	Earnings Contribution Ratio	FY12/17 Forecasts	YoY Changes	Earnings Contribution Ratio
Net sales (revenue in IFRS)							
Domestic Engineering Outsourcing (OS)	31,553	40,426	8,874	16.5%	48,666	8,240	10.5%
Domestic Manufacturing OS	29,468	34,669	5,200	9.7%	44,509	9,840	12.5%
Domestic Service Operations OS	1,083	3,470	2,387	4.5%	12,101	8,631	11.0%
Domestic Administrative OS	537	874	336	0.6%	1,098	224	0.3%
Domestic Recruiting and Placing	872	1,378	506	0.9%	1,501	123	0.2%
Domestic Business net sales total	**63,513**	**80,816**	**17,303**	**32.3%**	**107,875**	**27,059**	**34.5%**
Overseas Engineering OS	3,832	20,977	17,144	32.0%	24,845	3,868	4.9%
Overseas Manufacturing and Service Operations OS	13,349	32,089	18,739	34.9%	79,645	47,556	60.6%
Overseas Business net sales total	**17,182**	**53,065**	**35,884**	**66.9%**	**104,490**	**51,425**	**65.5%**
Other	166	600	434	0.8%	635	35	0.0%
Net sales total	**80,861**	**134,482**	**53,621**	**100.0%**	**213,000**	**78,518**	**100.0%**
Consolidated operating income (operating profit in IFRS) before adjustments							
Domestic Engineering OS	2,398	3,191	792	19.3%	3,879	688	20.1%
Domestic Manufacturing OS	1,010	1,527	517	12.6%	2,330	803	23.5%
Domestic Service Operations OS	(82)	226	308	7.5%	492	266	7.8%
Domestic Administrative OS	56	278	222	5.4%	702	424	12.4%
Domestic Recruiting and Placing	413	647	233	5.7%	302	(345)	-10.1%
Domestic Business operating income/profit total	**3,796**	**5,868**	**2,072**	**50.5%**	**7,705**	**1,837**	**53.7%**
Overseas Engineering OS	183	847	664	16.2%	1,157	310	9.1%
Overseas Manufacturing and Service Operations OS	53	1,414	1,361	33.2%	3,007	1,593	46.5%
Overseas Business operating income/profit total	**236**	**2,261**	**2,025**	**49.4%**	**4,164**	**1,903**	**55.6%**
Other	14	19	5	0.1%	(298)	(317)	-9.3%
Consolidated operating income/profit before adjustments total	**4,046**	**8,147**	**4,102**	**100.0%**	**11,571**	**3,424**	**100.0%**

Source: Compiled by Trias Corporation from the Company IR materials
Note: The amounts shown are rounded off to the nearest million yen.
Note: FY12/16 is based on J-GAAP while FY12/17 based on IFRS. Calculation of net sales and revenue is based on the same standards. Since the difference between operating income and operating profit before adjustments is considerd nominal, the above comparisons are applied for FY12/17 YoY changes and ratio.

FY12/17: Further Robust Growth to be driven by organic growth and new consolidation

The planned increase of ¥78.6 billion in revenue from ¥134.4 billion for FY12/16 to ¥213.0 billion for FY12/17 is broken down to those from organic growth and from new consolidations as is seen in Table 6 on page 12. On top of organic growth in existing operations, newly consolidated subsidiaries in FY12/16 for Domestic Manufacturing Outsourcing Business and each overseas business will fully contribute for 12 months. As for the new subsidiaries to be consolidated from FY12/17, AMERICAN ENGINEERING CORPORATION (hereafter "AEC") will belong to Domestic Service Operations Outsourcing Business while Orizon Holding GmbH (Germany, hereafter "Orizon") to Overseas Manufacturing and Service Operations Outsourcing Business. FY12/17 forecasts by every operating segment including these two are shown in Table 7 on page 13.

Growth ratios and YoY comparisons cited in the following discussions are calculated based on figures in Table 7 on page 13 although FY12/16 is based on the J-GAAP while FY12/17 is compliant to the IFRS. This should be mostly justified since net sales/revenue accounting standards are the same and operating income/operating profit before adjustments should allow sufficiently accurate comparison proximity although they may differ slightly.

●[Table 6] Break Down of Revenue Growth in FY12/17 Forecasts by Existing and Newly Consolidated Business

(¥ billion)	FY12/16 Actual	FY12/17 Forecasts	YoY Changes
Domestic Engineering Outsourcing Business	40.4	48.7	8.3
Domestic Manufacturing/Administrative Outsourcing Business (total)	35.5	45.6	10.1
Overseas Business (total)	53.1	70.2	17.1
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

Domestic Engineering Outsourcing Business is forecast to achieve revenue growth of 20.4% YoY and operating profit before adjustments up 21.6% YoY. Demand is expected to sustain strength namely from IT- and Transport Equipment-related industries. The operating profit margin is estimated to rise slightly from 7.9% in FY12/16 to 8.0%.

The number of worksite employees for the segment is planned to further increase sharply to 8,566 at the end of FY12/17 from 6,066 at the end of FY12/16. Hiring of new graduates will add 600 and KEN School will be proactively utilized as was the case in FY12/16. In addition, it is highly likely that personnel inflows from small- and medium-sized dispatching business operators will 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. In order to attract these companies, the Company has set up joint venture OS Capital Partners and should these transactions be successful, more worksite staff members would be recruited.

Domestic Manufacturing Outsourcing Business expects revenue to grow by 28.4% YoY and operating profit before adjustments by 52.6% YoY. The impressive performance should be partly attributed to a full contribution of OS Partners which joined the Group on September 1, 2016. The subsidiary, serving many car battery makers, is running almost at its full capacity as hybrid and electric vehicles are increasingly becoming popular. Operating profit margin for the segment is estimated to rise strongly again from 4.4% in FY12/16 to 5.2%.

The segment plans to enhance worksite employee counts from 9,033 at the end of FY12/16 to 13,097 at the end of FY12/17. There may be worker inflows from client makers as the suspended term of the Labor Contracts Act, which requires to hire qualified fixed-term contruct workers as indefinite-term contract employees, is due at the end of March 2018 as is described in note (*3) on page 8. Out of the above head counts, the number of PEO employees is planned to increase markedly from 5,519 to 10,000, hence the ratio to the segment total rises significantly from 61.1% for FY12/16 to 76.4%.

●[Table 7] FY12/17 Forecasts by Operating Segment

(¥ million)	FY12/16 Actual	FY12/17 Forecasts	YoY Changes	
	Amount	Amount	Amount	Ratio/pp
Net sales/Revenue	**134,482**	**213,000**	**78,518**	**58.4%**
Domestic Engineering Outsourcing (OS)	40,426	48,666	8,240	20.4%
Domestic Manufacturing OS	34,669	44,509	9,840	28.4%
Domestic Service Operations OS	3,470	12,101	8,631	248.7%
Domestic Administrative OS	874	1,098	224	25.7%
Domestic Recruiting and Placing	1,378	1,501	123	8.9%
Overseas Engineering OS	20,977	24,845	3,868	18.4%
Overseas Manufacturing and Service Operations OS	32,089	79,645	47,556	148.2%
Other	600	635	35	5.8%
Operating income/profit before adjustments	**8,147**	**11,571**	**3,424**	**42.0%**
Domestic Engineering OS	3,191	3,879	688	21.6%
Domestic Manufacturing OS	1,527	2,330	803	52.6%
Domestic Service Operations OS	226	492	266	118.0%
Domestic Administrative OS	278	702	424	152.2%
Domestic Recruiting and Placing	647	302	(345)	-53.3%
Overseas Engineering OS	847	1,157	310	36.7%
Overseas Manufacturing and Service Operations OS	1,414	3,007	1,593	112.7%
Other	19	(298)	(317)	-
Operating income/profit margin before adjustments	**6.1%**	**5.4%**	**-**	**- 0.7pp**
Domestic Engineering OS	7.9%	8.0%	-	+0.1pp
Domestic Manufacturing OS	4.4%	5.2%	-	+0.8pp
Domestic Service Operations OS	6.5%	4.1%	-	- 2.4pp
Domestic Administrative OS	31.9%	63.9%	-	+32.0pp
Domestic Recruiting and Placing	46.9%	20.1%	-	- 26.8pp
Overseas Engineering OS	4.0%	4.7%	-	+0.7pp
Overseas Manufacturing and Service Operations OS	4.4%	3.8%	-	- 0.6pp
Other	3.1%	-46.9%	-	- 50.0pp
Adjustments	(4,411)	(2,071)	2,340	-
Operating income/profit	**3,737**	**9,500**	**5,763**	**154.2%**
Operating income/profit margin	**2.8%**	**4.5%**	**-**	**+1.7pp**
No. of worksite employees at term-end	**No. of Employees**	**No. of Employees**	**Changed No.**	**Ratio**
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: The amounts shown are rounded off to the nearest million yen.

Note: FY12/16 is based on J-GAAP while FY12/17 based on IFRS. Calculation of net sales and revenue is based on the same standards. Since the difference between operating income and operating profit before adjustments is considerd nominal, the above comparisons are applied for FY12/17 YoY changes and ratio.

Revenue for **Domestic Service Operations Outsourcing Business** should soar from ¥3,470 million for FY12/16 to ¥12,101 million. AEC, the M&A of which was announced in August 2016, will add revenue of ¥7.6 billion in FY12/17 after being consolidated supposedly from April 3, 2017. AEC offers air conditioning and electrical facilities construction, repair and maintenance works for military facilities and accompanying services to US military bases in Japan. Therefore, the Company will be able to substantially widen its business fields as its existing operations for US military base are complemented by AEC. As a result, the number of worksite employees is to increase sharply from 1,609 at the end of FY12/16 to 3,836 at the end of FY12/17.

The segment's operating profit should jump from ¥226 million in FY12/16 to ¥492 million, or up by approximately2.2 times. The operating profit margin is estimated to decrease from 6.5% in FY12/16 to 4.1% as the addition of AEC is most likely to affect the business mixtures in the segment. AEC, after joining the Group in April 2017, will be subject to reviews of its accounting and administrative structures/ procedures as well as to reinforcements of its governance in line with OS Group's policies, which should be incurring meaningful upfront expenses.

Overseas Engineering Outsourcing Business is looking for revenue to grow by 18.4% YoY and operating profit by 36.7% YoY. This growth should be mainly coming from organic growths despite the full contributions of BEDDISON's technology related operations and J.B.W./CDL, both consolidated since April 2016, as revenues for these 2 subsidiaries are not very significant. The operating profit margin is estimated to rise from 4.0% in FY12/16 to 4.7%.

Overseas Manufacturing and Service Operations Outsourcing Business is expected to drive its revenue by approximately 2.5 times YoY and operating profit by roughly 2.1 times YoY. Fully contributing from FY12/17 are 3 groups, namely HRS Group (Malaysia) having joined at the end of April in 2016, and ALC as well as LIBERATA (both the U.K.) newly consolidated from August in the same year. In addition, Orizon (Germany), the M&A of which was announced in December 2016, will add revenue of ¥34.3 billion after being consolidated from January, 2017. The staff dispatching subsidiary ranked 8th in the country has expertise in worker dispatching to manufacturing industries such as mechanical engineering, aviation and medical sectors, and will be positioned as a foothold for th Group to expand its overseas manufacturing outsourcing businesses in Europe.

Meanwhile, operating profit margin for the whole segment is estimated to narrow from 4.4% in FY12/16 to 3.8% FY12/17. This is also due chiefly to the change in business mixtures caused by the new consolidation of Orizon. This is because overseas leading dispatching companies, in general, largely bear operating profit margin of 2 to 3%. Thus, the segment profit margin for FY12/17 is supposed to be diluted due to the addition of Orizon, after widening impressively in FY12/16 thanks to the contributions from highly profitable subsidiaries such as HRS, ALC and LIBERATA.

Above two overseas segments are forecast to add to roughly ¥104.5 billion in revenue and approximately ¥4.2 billion in operating profit before adjustments, leading overseas compositions of overall consolidated performance to 49.1% and 36.0% each, up markedly from respective 39.5% and 27.7% for FY12/16. At the same time, the overseas segments in FY12/17 should account for 66.5% of the overall YoY increment in consolidated revenue and similarly 55.6% in operating profit before adjustments, outweighing contributions from domestic businesses.

"Other businesses" is forecast to turn to an operating loss of ¥298 million, perhaps reflecting planned foundation of the joint-venture to attract small- and medium-sized dispatching business operators bound to be squeezed out of the industry as is mentioned above.

Topic 1: Year 2018 Problem and Growth Strategy

Domestic Outsourcing Business was strong in FY12/16. The active job opening-to-applicants ratio reached the highest level in 25 years, and the hiring environment for companies is becoming increasingly more difficult. Domestic demand for dispatching is expected to continue growing going forward, and in addition, the impact from law revisions referred to as the year 2018 problem are likely to be a tailwind for the Company.

Domestic Manufacturing Outsourcing Business: 2013 Revised Labor Contracts Act and the PEO Scheme

As a result of the Revised Labor Contracts Act that was enacted in April 2013, companies must honor a request by a fixed-term contract employee (part-time, non-indefinite-term contract employees including contract employees, etc.) who has worked for the same employer for over 5 years to convert his or her contract to indefinite-term contract employment. From April 2018 onward, 5 years on from enacting the Revised Labor Contracts Act, transition to indefinite-term contracts will begin as a matter of course, and labor expense for companies is expected to rise. The solution in response to this is the Company's PEO Scheme.

The PEO Scheme entails the Group company, PEO Co., Ltd. hiring as indefinite-term contract employees fixed-term contract employees hired directly by client makers participating in the PEO Scheme when their contracts expire, and then dispatching them back to those PEO participating makers as dispatched employees. Under the 2015 Revised Worker Dispatching Act, since employment term restrictions for dispatching indefinite-term contract employees with unlimited term has disappeared, PEO participating makers benefit by being able to use highly skilled workers as dispatched employees hired as indefinite-term contract employees by PEO, allowing them to hold down the increase in labor expenses for social welfare benefits, education and training expense, etc. Fixed-term contract employees whose contracts have expired also benefit by gaining stable work over the long term at client assignments, allowing them to use their respective skill sets. In the event that the dispatching contract period is terminated at the assignment client, that worker is then re-assigned to another PEO participating company, allowing him or her to continue working. The Company benefits by being able to expand hiring of highly skilled workers while holding down recruitment and hiring expense.

The recruitment unit price for the Company's Domestic Manufacturing Outsourcing Business has been declining since FY12/14. As a result of restarting hiring of 150 new graduates from FY12/16, giving rise to expense that did not exist in FY12/15, leading are recruitment unit price increased, however, this temporary factor disappears in FY12/17, and recruitment unit price is expected to resume declining.

The number of PEO participating companies at the end of December 2016 exceeded 200 companies. Over half of these companies are in the Transport Equipment sector including auto and auto parts makers, however, recently the base is expanding driven by semiconductors and building materials. By expanding the number of participating makers and by the current two-thirds of inactive participating makers becoming active, the Company expects 10,000 workers to be enrolled in the PEO Scheme in FY12/17. Within a universe of 10% of the 250,000-300,000 fixed-term contract workers related to the year 2018 problem, and assuming 70% are assigned to the PEO Scheme, the Company estimates that it can secure 17,500-21,000 workers, capturing just over half in FY12/17. Under this backdrop of the year 2018 problem going into full swing, the Company is targeting 20,000 workers to be enrolled in the PEO Scheme by FY12/20, the final year of the Medium-Term Management Plan.

Domestic Engineering Outsourcing Business: market changes caused by the 2015 Revised Worker Dispatching Act

Another aspect of the year 2018 problem is the tightening of regulations under the 2015 Revised Worker Dispatching Act. Since there were many problems under the previous notification system of registration for Specified Dispatching Undertakings, specified dispatching business is being abolished by September 2018, and all dispatching business operators will be subject to a licensing system for General Dispatching Undertakings. Under the Revised Act, dispatching business operators become responsible for stable employment of dispatched workers as well as their education and training. One requirement for approval is minimum assets over ¥20 million, and administrative expenses for dispatching business operators will increase. In particular, there are many small-scale and local dispatching business operators for engineer dispatch, and feasibility of conducting education and training will require a certain minimum number of enrolled dispatched engineers, or will have a major negative impact on profitability. Roughly 80% of the estimated 6,000 dispatching business operators nationwide will likely be unable to gain approval in meeting the new requirements under the Revised Act. Training to acquire new technologies is a necessity for engineer dispatching business, and there is high potential that having enhanced educational training programs will be a selection criteria for dispatching business operators not only by client companies, but also by dispatched engineer employees themselves.

The Group has already established a mechanism for long-term stable employment of dispatched employees, with opportunities for career upward mobility through ongoing training. Under the PEO Scheme, each employee is assigned a full-time career consultant upon joining PEO, and after counseling sessions, career development programs suitable for each employee are created. A feature of the PEO Scheme is that it adopts a membership structure, and that participating companies share the same philosophy of offering stable employment. After contracts expire for fixed-term contract workers hired directly by makers, they join PEO as indefinite-term contract employees and are assigned, and there are career advancement examples including after acquiring the necessary qualifications for labor management through in-house training and after completing training as a business site manager, the individual is put in charge of branch management, rising to center head.

Domestic Engineering Outsourcing Business: the KEN School utilization scheme

The KEN School utilization scheme supports obtaining the necessary knowledge, skills and qualifications required for the workplace in Domestic Engineering Outsourcing Business. For people without engineering employment experience and those working in manufacturing areas, this scheme facilitates working as an engineer in different technical fields such as design, development, construction, etc. after receiving education and training at the Group's KEN School.

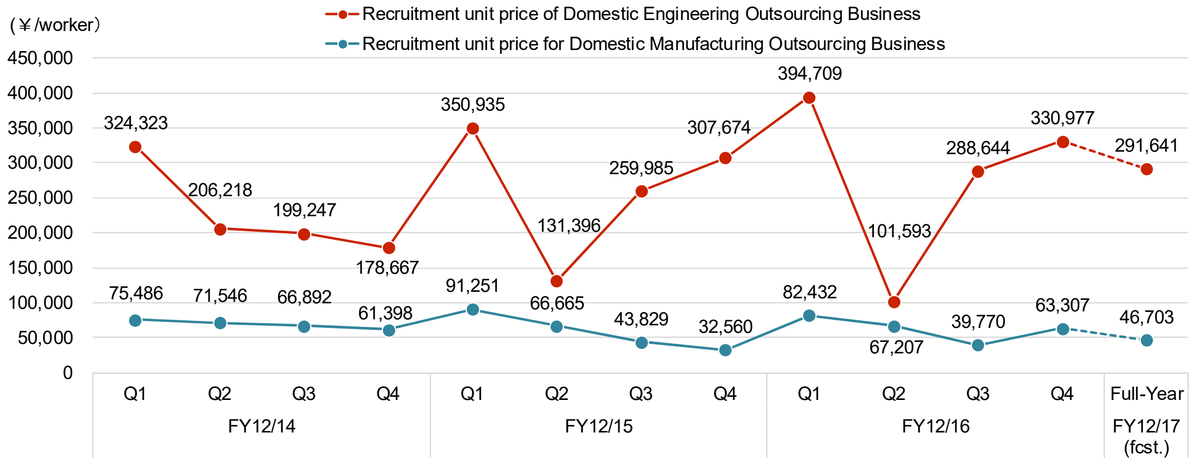
The KEN School started out as a school for training individuals on PCs, and has a 28 year history. It has been a pioneer in training for corporations, joining the Group in 2014, and has a strong reputation for offering highly useful practical training. The Group uses training programs jointly developed by the KEN School and client companies tailored to meet the specific human resources needs of clients. Program participants can learn a wide variety of subjects from basic knowledge required to work in an engineering workplace to specialized technical skills such as network construction, etc., getting assigned to engineering companies after 3-5 months of training. Regarding client assignment and career advancement after assignment, KEN School career advisors provide support for obtaining the required knowledge and qualifications in accordance with established goals and skills of each employee. There are paths for taking training courses for leadership roles, as well as for becoming KEN School instructors, according to the Company.

Benefits of using the KEN School include controlling recruitment and hiring expense, as well as securing engineering dispatched employees. As can be seen from Graph 1 on page 18, while the recruitment unit price itself rose from the Q2 FY12/16, however, relative to sales growth and the level in FY12/15, it is being controlled. Given the background that the Company was founded as a manufacturing outsourcing company, and since it is a latecomer in the field of engineering outsourcing, the current main strategy is geared toward expansion of clients and hiring more than emphasizing profit margins. Average contract unit prices for employees of the first year that come through the KEN School program are held down given the lack of previous experience as a dispatched engineers, however, these are apparently restored to the same level as experienced dispatched engineers from the second year.

Employee graduates of the KEN School are currently being used mainly in the IT and construction sectors, however, recently the number assigned to design and development related to electrical and machinery sectors is rising, and going forward KEN School plans to begin specialized technical training for medical care.

As of the end of FY12/16, 1,510 employees using the KEN School program have been assigned in engineering outsourcing jobs. In Japan, IT-related investment is expected to continue not only from needs to raise work efficiency, but also from growing demand for information security, the appearance of new technologies and services including big data and IoT, etc., as well as growing sophistication and diversification of IT. In the labor market, the shortage of engineers is expected to continue, and going forward KEN School plans to enhance specialized fields and locations, as well as beefing up curriculum that can be learned on demand. For FY12/17, the Company is targeting 2,810 assigned employees using the KEN School program.

●[Graph 1] Trends of Recruitment Unit Price for Domestic Engineering and Manufacturing Outsourcing Business



Source: Compiled by Trias Corporation from the Company IR materials

Summary of Hiring Plans by Business Model

Table 8 on page 19 shows a summary of recruiting and assignment model for Domestic Engineering Outsourcing and Domestic Manufacturing Outsourcing Businesses, revenue calculation and reporting segments.

In the same table, the number of foreign technical interns enrolled indicates the number of the interns hired directly by client makers and the corresponding number for administrative work on consignment. Onboarding is done in Asian countries including Thailand, Malaysia, Indonesia, etc., and the Company receives an administrative fee per foreign technical intern (roughly ¥50,000), and this revenue is booked under Domestic Administrative Outsourcing Business. Based on the outlook for growing demand by makers to use foreign technical interns as a result of the year 2018 problem, the Company already has a track record of administrative work on consignment for foreign technical interns with a number of client makers. In addition, the Company has incorporated growth in administrative work on consignment as one of its growth strategies, working in collaboration with intern supervisory groups which has over 6,000 interns, building relationships with local institutions which send foreign interns abroad, etc.

●[Table 8] Summary of Business Area/Segment and Recruiting Model

Business Area	Recruiting Model	Actual No. of Worksite Employees at FY12/16	Planned No. of Worksite Employees at FY12/17	Net Sales/ Revenue	Sales Segment
Domestic Engineering Outsourcing	New Graduates	875	1,475	No. of assigned worker x Average contract unit price per worker	Domestic Engineering Outsourcing Business
	General Recruitment	3,566	3,966		
	KEN School Utilization	1,510	2,810		
	Transfering/Aggregation, M&A	115	315		
Domestic Manufacturing Outsourcing	General Recruitment, New Graduates, etc.	3,885	3,900	No. of assigned worker x Average contract unit price per worker	Domestic Manufacturing Outsourcing Business
	PEO Scheme Utilization	5,519	10,000		
	Foreign Technical Interns	2,613	5,100	No. of administrative contract worker x Administrative contract fee per person	Domestic Administrative Outsourcing Business

Source: Compiled by Trias Corporation from the Company IR materials

Topic 2: Growth Strategy Summary from the Medium-Term Management Plan

Until now the Company has grown on the back Manufacturing Outsourcing Business as its main business, however, since it is easily susceptible to impact from the macro environment and is highly volatile, management has been strengthening development of businesses with cycles different from manufacturing industries, and into fields which are somewhat immune from the impact of economic fluctuation, on a global scale. The background for this is the Company's strong conviction as an HR outsourcing company for creation "of new employment opportunities as well as defending stable employment."

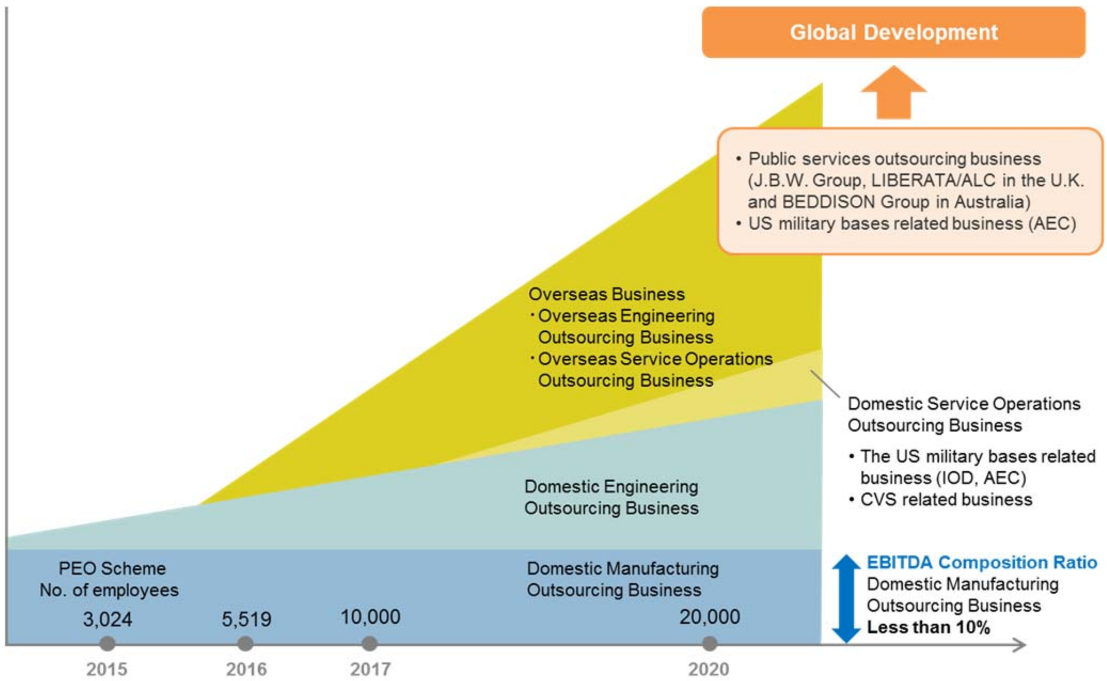
According to the Company, it estimates that in the event of a financial crisis on the order of the Lehman

Bros collapse, roughly 10-15% of employees under the PEO Scheme could potentially be affected. For example, this would suggest risk of 2,000-3,000 staff out of the FY12/20 targeted enrollment of 20,000 could not be deployed.

Provisionally even if these employees could not be deployed for a certain period, in order to allow for solid group management, the Company is aggressively promoting development of businesses that are immune from the impact of economic fluctuation including businesses for facilities within US military bases and for outsourcing public services to the private sector. As a result, the Company estimates the ratio of Domestic Manufacturing Outsourcing Business will decline below 10% of total EBITDA from FY12/20 onwards, with a view towards creating a group structure that can remain profitable without having to make headcount adjustments. Figure 1 is a concept diagram outlining growth strategies.

It is worth noting that for convenience store (CVS) related business started up in FY12/16, the Company is currently reviewing the business model in light of recent trends toward strengthening the equal pay for the equal work promotion act.

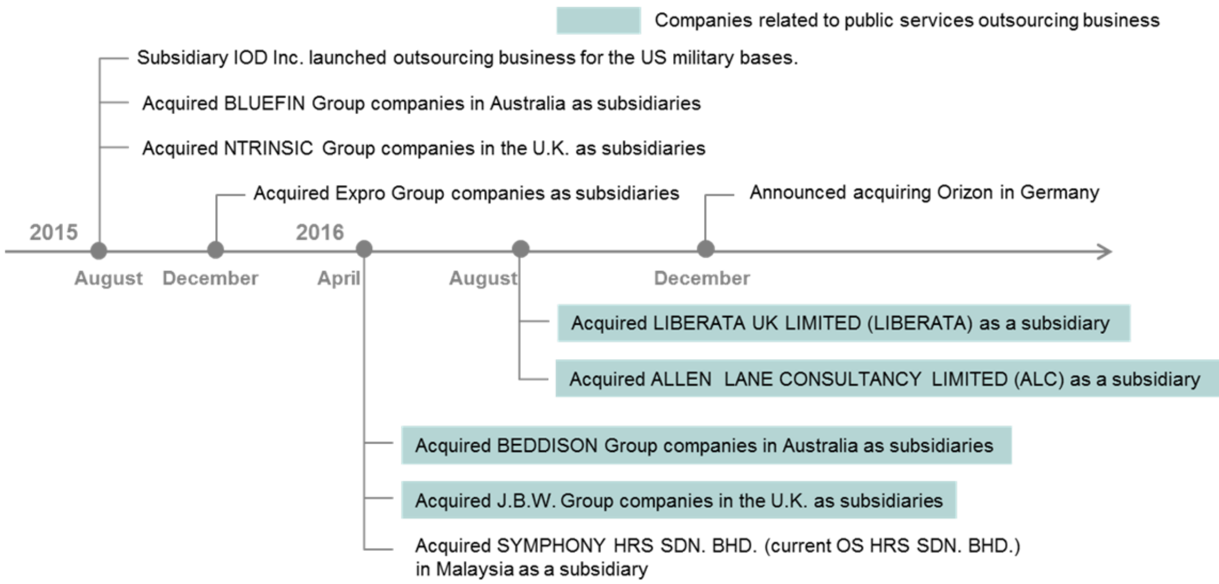
●[Figure 1] Concept Diagram Outlining Growth Strategy Based on the Medium-Term Management Plan



Source: Compiled by Trias Corporation from the Company IR materials

Figure 2 on page 21 shows the timeline for M&A acquisitions mainly overseas since 2015. It clearly shows an acceleration of M&A into the public services outsourcing business domain from 2016 onward.

●[Figure 2] Major M&A Deals since 2015



Source: Compiled by Trias Corporation from the Company IR materials

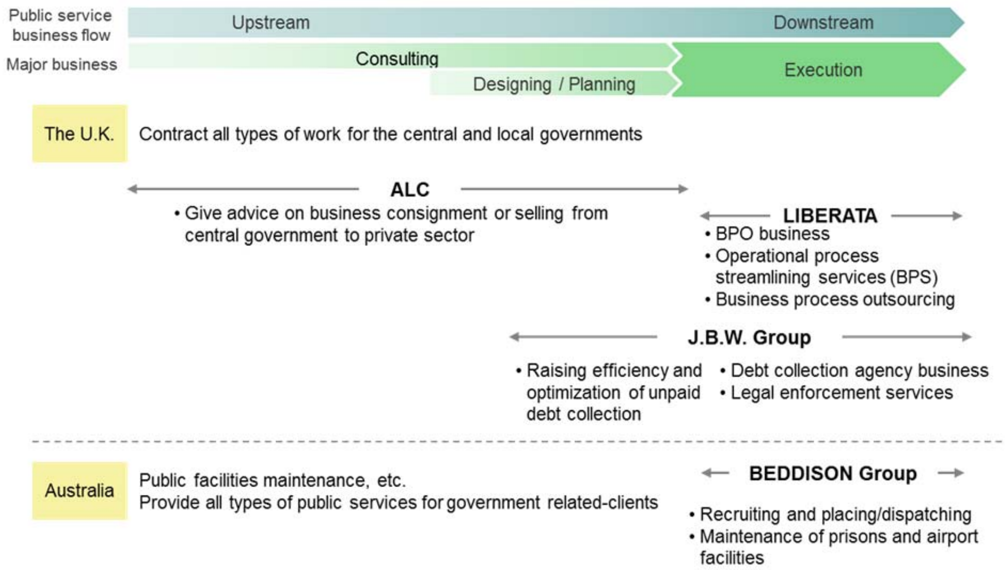
Here let's take a look at the features of the Group's business strategy in this area from the example of the U.K. The Group entered the public services outsourcing business domain starting with the acquisition of J.B.W. Group companies in April 2016. The Company then put the two companies of LIBERATA and ALC under its umbrella in August 2016. Through these M&A deals, the Group can create internal synergy and handle a wide range of public services-related operations from upstream to downstream.

In 2013, the U.K. deregulated collection of unpaid debts in public sectors such as local taxes and parking fines, etc., and going forward this is expected to be a growth field. The J.B.W. Group is engaged in all types of public debts collection service for the U.K. central and local governments. This company pioneered digitization raising efficiency and optimizing the debts collection process through its own in-house developed system, creating a major differentiating factor where manual-based operations were the mainstream. For example, accumulated big data from the company's in-house system is used to determine notification timing with the highest collection rates, sharply reducing the amount of manual-based work.

Figure 3 on page 22 shows a summary of business coverage by group companies in the public services outsourcing field. The Group is aiming to capture all work from upstream to downstream through collaboration of the strengths of each company.

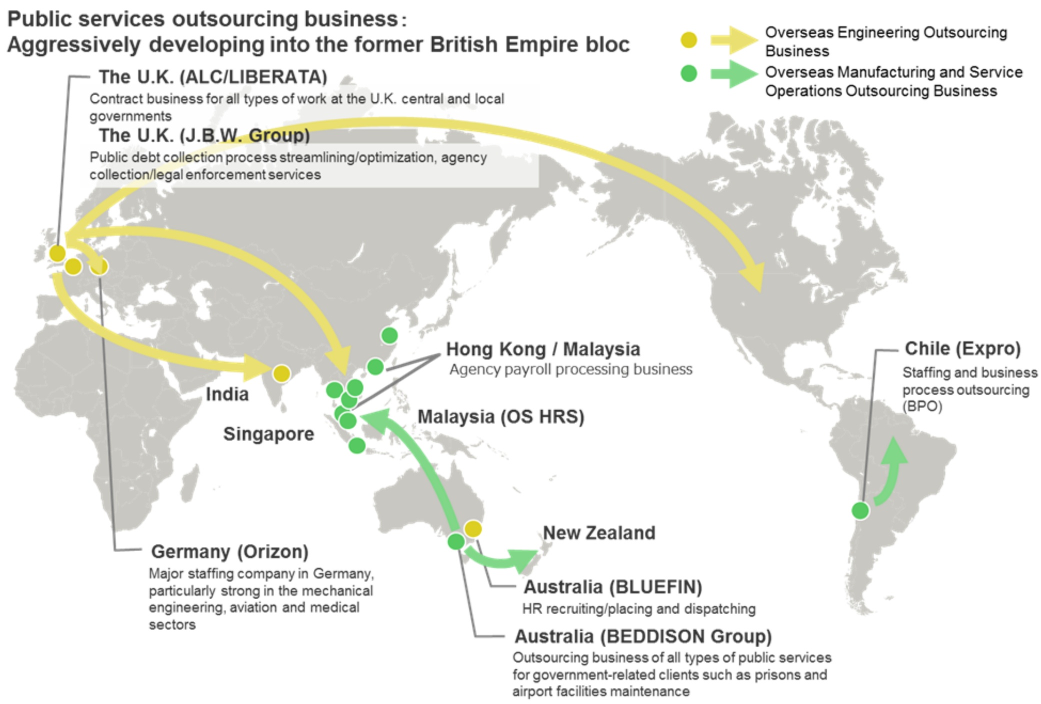
In addition, as can be seen in Figure 4 on page 22, going forward, the Company plans to develop business in Australia which shares the similar legal system and cultural heritage with the U.K., as well as leveraging know-how from consignment operation of prisons and airports in Australia which have not yet been privatized in the U.K., targeting to accelerate overseas business development, including expanding coverage areas for the public services outsourcing business.

●[Figure 3] Summary of Overseas Public Service Outsourcing Business Coverage



Source: Compiled by Trias Corporation from the Company IR materials

●[Figure 4] Direction of Overseas Business Development



Source: Compiled by Trias Corporation from the Company IR materials

Back number reports are available here : http://irtvnet.jp/e/

References

●Consolidated Key Financial Data

No. of Shares Issued	Dec-16	17,458,000	Total Assets (¥ mn)	Dec-16	82,034
No. of Treasury Shares	Dec-16	98	Shareholders' Equity (¥ mn)	Dec-16	10,746
Market Value (¥ mn)	6-Apr-17	77,338	Interest-Bearing Debt (¥ mn)	Dec-16	(*) 45,642
BPS (¥)	Dec-16	615.56	Equity Ratio (%)	Dec-16	13.1
ROE (%)	Dec-16	5.9	Ratio of Interest-Bearing Debt (%)	Dec-16	424.7
ROA (%)	Dec-16	1.1	Free Cash Flows (¥ mn)	Dec-16	(27,707)
PER (times) FY12/16 fcst.	6-Apr-17	116.2	ROE = Net Income ÷ Averaged Shareholders' Equity		
PCFR (times) Q2 FY12/16 actual	6-Apr-17	47.0	ROA = Net Income ÷ Averaged Total Assets		
PBR (times) Q2 FY12/16 actual	6-Apr-17	7.2	PCFR = Market Value ÷ (Net Income + Depreciation)		
Share Price (¥)	6-Apr-17	4,430	Ave. Daily Vol. = Ave. Daily Vol. (from 6-Apr-16 to 6-Apr-17)		
Unit Share (shares)	6-Apr-17	100	Interest-Bearing Debts* Ratio = I.B.D. ÷ Shareholders' Equity		
Average Daily Volume (shs)	6-Apr-17	311,472	Free Cash Flows = Operating CF + Investment CF		

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

*Incl. current portion of accounts payable-installment purchase

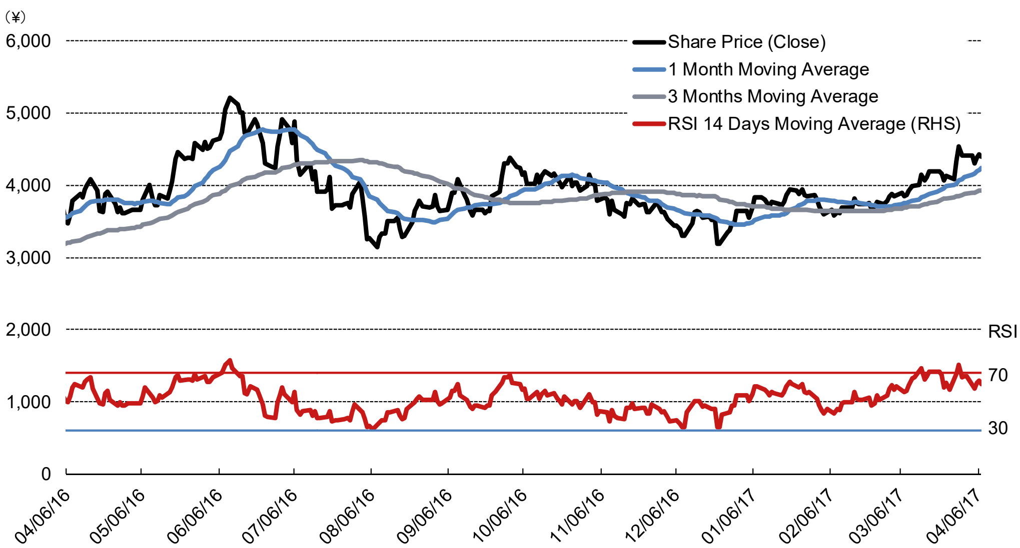
●Consolidated Financial Results

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 (April 6, 2016 – April 6, 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