



March 29, 2018

To Whom It May Concern

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### **Notice Regarding Material Deficiency in Required Disclosures of Internal Controls Related to Financial Reporting**

OUTSOURCING Inc. (hereinafter the “Company”) today announces that in the fiscal year ended December 31, 2017 (hereinafter the “fiscal year under review”) Internal Controls Report submitted to the Kanto Local Finance Bureau, based on Article 24-4-4, Paragraph 1 of the Financial Instruments and the Exchange Act, the report contained material deficiency in required disclosures, and that internal controls related to financial reporting were not effective, as follows.

#### **Particulars**

##### **1. Details of the material deficiency in required disclosures**

In addition to amending accounts settlement for previous fiscal years, the Company also submitted amended reports for the fiscal year ended December 31, 2016 Annual Securities Report, and for Quarterly Reports for 1<sup>st</sup> Quarter through 3<sup>rd</sup> Quarter of the fiscal year under review.

The reason for having to amend accounting treatment in previous fiscal years was due to being informed by the auditor that a certain accounting treatment for M&A in the course of preparing the Company's consolidated financial statements for the fiscal year under review was not in compliance with International Financial Reporting Standards (IFRS), and pursuant to the application of International Accounting Standard IAS 32, Paragraph 23, consolidated financial statements from fiscal year ended December 31, 2016 onward were amended to reflect booking the financial liability stemming from written put options for the portion of non-controlling interest, and subtracting the equivalent amount from equity.

This case was due to insufficient knowledge of International Financial Reporting Standards regarding atypical pro forma items arising in connection with acquisitions, and inadequate review and monitoring system for the relevant pro forma items, resulting in a deficiency of internal controls related to the accounts settlement and financial reporting process, which has a material impact on financial reports, and was determined to fall under a material deficiency in required disclosures.

##### **2. Reason why it could not be corrected by the end of the fiscal year under review**

Since the items for amendment were only discovered after the end of the fiscal year under review, they could not be corrected by the end of the fiscal year under review.

3. Policy for correction of material deficiency in required disclosures

The Company is keenly aware of the importance of internal controls related to financial reporting, and the Company plans to promote systematic implementation of the firmwide initiative on global governance, as well as taking the following improvement measures to prevent recurrence.

- Acquiring specialized knowledge about International Financial Reporting Standards through in-house and external training, and strengthening the hiring of expert staff who are well-versed in accounting.
- Strengthening the checking function of material points at issue through review of the consolidated accounts settlement and financial reporting process.
- Raising the level of accuracy of accounts settlement processing work overall through review of the accounting manual, accounting-related rules and the accounts settlement package.

4. Impact on consolidated financial statements

The necessary items for amendment due to material deficiency in required disclosures above were identified through re-examination of atypical pro forma items arising in connection with acquisitions, are reflected in all consolidated financial statements, and there is no impact on consolidated or non-consolidated financial statements.

5. Auditor's opinion in the audit report of consolidated financial statements

It is an unqualified opinion.