

[Translation]



December 13, 2018

Company Name: Prospect Company Limited
Representative: President and CEO Curtis Freeze
(Security Code: 3528 TSE 2nd Section)
Contact: Representative Director Masato Tabata
(TEL: 03-3470-8411)

Notice on Submission of “Correction Report of Internal Control Reports”

As stated in the “Notice on Submission of the Correction Report of the Past Financial Reports and Correction of Past Announcement of Closing, etc.,” disclosed on this date, the Company submitted on this date the correction report of the past financial reports to the Kanto Local Finance Bureau. In addition to the above, the Company submitted the “Correction Report of Internal Control Reports” under the Financial Instruments and Exchange Act, Article 24-4-5, paragraph 1 and we hereby notify you as follows.

Note

1. Internal Control Reports subject to Correction

116th Term Internal Control Report (from April 1, 2016 to March 31, 2017)

117th Term Internal Control Report (from April 1, 2017 to March 31, 2018)

2. Details of Correction

Out of the matters set forth in each of the above Internal Control Reports, 3 [Matters concerning Evaluation Results] shall be corrected as follows. The corrected portions are underlined.

(1) 116th Term Internal Control Report

3 [Matters concerning Evaluation Results]

(Before Correction)

As a result of the evaluation above, we determined that internal control over

financial reporting of the Company was effective as of the end of the current consolidated financial year.

(After Correction)

Matters concerning internal control over financial reporting set forth below would give material impact on financial reporting, which we determined to fall under material deficiency to be disclosed. Therefore, we determined that internal control over financial reporting of the Company Group as of March 31, 2017 was not effective.

Note

As it was proved on an occasion of tax payment for a specific overseas project in a foreign country that there was an error in the amount of tax recorded in the past years retrospectively to the year ended March 31, 2017, the Company established a Special Investigation Committee, comprised of the external experts who had no interests in the Company in November 20, 2018 and also added as of November 28, 2018 accounting treatment that made The Prospect Japan Fund Limited (hereinafter referred to as "PJF") a wholly owned subsidiary in the second quarter of the year ended March 31, 2018 as an investigation target and the Committee has conducted professional and objective investigations.

The Company received an investigation report from a Special Investigation Committee in December 13, 2018 and reviewed the corporation tax as from the year ended March 31, 2017 and deferred tax assets related thereto as well as PJF in terms of investment judgment of the users of financial statements in order to make more appropriate treatment of consolidated accounting. Therefore, the Company corrected accounting with respect to financial reports for the year ended March 31, 2017 and the year ended March 31, 2018 and quarterly reports from the first quarter of the year ended March 31, 2018 to the first quarter of the year ending March 31, 2019 and submitted a correction report in December 13, 2018.

The background cause for such correction was that there were not sufficient personnel who had adequate tax accounting skills for global projects in our accounting department. Specifically, in reviewing various issues on overseas projects, communication between personnel concerned, in particular, between our accounting department personnel and overseas personnel were insufficient and review of the accounting treatment from various perspectives was insufficient regarding foreign corporation tax on overseas real property business, which the

Company has recently started engagement and accounting treatment of acquisition of overseas business. With respect to these issues, we could not properly use external experts according to risk. Provided, however, that because the consolidated closing system of the Company was insufficient, the aforementioned correction of accounting treatment was required and we determined that it falls under a material deficiency to be disclosed for internal control related to closing and financial reporting process.

Regarding the above, as the error was revealed after the end of the business year, we could not correct by the end of the business year.

The Company will take the following recurrence prevention measures based on the Report of a Special Investigation Committee, facts related to the error and reflection, etc.

- (1) Training System for Tax Accounting, etc.
- (2) Expansion and Enhancement of Personnel, Including Employment of Personnel Familiar with Tax Accounting
- (3) Assignment of Proper Personnel Enabling Response to Global Projects
- (4) Proper Engagement of Experts According to Risk

End

(2) 117th Term Internal Control Report

3 [Matters concerning Evaluation Results]

(Before Correction)

As a result of the above evaluation, PJF became a consolidated subsidiary as of July 27, 2017 and acquisition of shares was conducted during the second quarter consolidated financial period of the Company. Sufficient evaluation procedures were not taken for part of the scope of internal control over financial reporting due to unavoidable reasons, however, we determined that internal control over financial reporting of the Company was effective as of the end of the current consolidated financial year.

(After Correction)

PJF became a consolidated subsidiary as of July 27, 2017 and acquisition of shares was conducted during the second quarter consolidated financial period of the Company. Sufficient evaluation procedures were not taken for part of the scope of internal control over financial reporting due to unavoidable reasons. The matters concerning internal control over financial reporting set forth below, however, would give material impact on financial reporting, which we determined to fall under material deficiency to be disclosed. Therefore, we determined that

internal control over financial reporting of the Company Group as of March 31, 2018 was not effective.

Note

As it was proved on an occasion of tax payment for a specific overseas project in a foreign country that there was an error in the amount of tax recorded in the past years retrospectively to the year ended March 31, 2017, the Company established a Special Investigation Committee, comprised of the external experts who had no interests in the Company in November 20, 2018 and also added as of November 28, 2018 accounting treatment that made PJF a wholly owned subsidiary in the second quarter of the year ended March 31, 2018 as an investigation target and the Committee has conducted professional and objective investigations.

The Company received an investigation report from a Special Investigation Committee in December 13, 2018 and reviewed the corporation tax as from the year ended March 31, 2017 and deferred tax assets related thereto as well as PJF in terms of investment judgment of the users of financial statements in order to make more appropriate treatment of consolidated accounting. Therefore, the Company corrected accounting with respect to financial reports for the year ended March 31, 2017 and the year ended March 31, 2018 and quarterly reports from the first quarter of the year ended March 31, 2018 to the first quarter of the year ending March 31, 2019 and submitted a correction report in December 13, 2018.

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- (4) Proper Engagement of Experts According to Risk

End

End