

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2018 (June 1, 2018 to May 31, 2019)
Three Months Ended August 31, 2018

Listed company name: Pasona Group Inc.
 Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: <https://www.pasonagroup.co.jp/>
 Representative: Yasuyuki Nambu, Group CEO and President
 For further information contact: Yuko Nakase, Senior Managing Executive Officer and CFO
 Tel. +81-3-6734-0200

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 Supplemental materials prepared for quarterly financial results: Yes
 Holding of quarterly financial results meeting: No

(All amounts are in millions of yen rounded down unless otherwise stated)

1. CONSOLIDATED BUSINESS RESULTS

(1) Consolidated Financial Results

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Profit (Loss) attributable to owners of parent	
		%		%		%		%
Three months ended August 31, 2018	82,997	14.5	1,451	40.5	1,222	21.4	(7)	—
Three months ended August 31, 2017	72,458	4.7	1,033	378.9	1,006	476.5	533	—

(Note) Comprehensive income 3M FY2018: ¥458 million 3M FY2017: ¥901 million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 31, 2018	(0.19)	—
Three months ended August 31, 2017	14.48	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
August 31, 2018	110,599	36,321	23.8
May 31, 2018	112,477	33,889	21.0

(Reference) Equity As of August 31, 2018: ¥26,348 million As of May 31, 2018: ¥23,628 million

(Note) As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018. As for the financial position, the figures for the previous consolidated fiscal year were processed by the method.

2. DIVIDENDS PER SHARE

	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0.00	—	13.00	13.00
FY2018	—				
FY2018 (Forecast)		0.00	—	14.00	14.00

(Note) Revision to dividend forecast in the current quarter: None

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2019

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Shares
		%		%		%		%	Yen
FY2018 First Half	170,000	12.9	3,100	18.4	3,100	17.7	350	(25.6)	8.95
FY2018 Full Fiscal Year	343,000	10.1	8,300	26.9	8,400	26.7	1,600	24.2	40.91

(Note) Revision to forecast of results in the current quarter: None

4. NOTES

- (1) Changes in important subsidiaries during the current period: None
(Changes in specified subsidiaries that caused changes in the scope of consolidation)
- (2) Application of the special accounting practices in the preparation of quarterly consolidated financial statements:
None
- (3) Changes of accounting principles, changes in accounting estimates and retrospective restatement
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: None
 - 2) Changes of accounting principles other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of shares issued and outstanding (Common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
August 31, 2018: 41,690,300 shares May 31, 2018: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
August 31, 2018: 2,583,780 shares May 31, 2018: 2,583,780 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Three months ended August 31, 2018: 39,106,520 shares
Three months ended August 31, 2017: 36,806,557 shares

(Note)

The Company has introduced “Board Benefit Trust (BBT)” and “Employment Stock Ownership Plan (J-ESOP)”. The Company’s shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders’ equity, are counted as the number of treasury shares as of the average number of shares outstanding for the period for the purpose of not including for computing earnings and net assets per share.

The Quarterly Financial Report is not subject to a quarterly review conducted by CPA or audit firm.

Cautionary statement and other explanatory notes

The aforementioned forecasts are based on assumptions and beliefs in light of information available to management at the time of document preparation and accordingly include certain unconfirmed factors. As a result, readers are advised that actual results may differ materially from forecasts for a variety of reasons. Please refer to “Overview of Consolidated Forecasts” on page 5.

Method to obtain supplemental materials for quarterly financial results

Supplemental materials for the quarterly financial results have been posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) since October 5, 2018.

Consolidated Financial Report

Three Months Ended August 31, 2018

INDEX

1. Information Concerning Quarterly Consolidated Business Results	
(1) Consolidated Business Results	... p. 4
(2) Overview of Consolidated Financial Position	... p. 5
(3) Overview of Consolidated Forecasts	... p. 5
2. Quarterly Consolidated Financial Statements and Notes	
(1) Quarterly Consolidated Balance Sheets	... p. 6
(2) Quarterly Consolidated Statements of Income	... p. 8
(3) Quarterly Consolidated Statements of Comprehensive Income	... p. 9
(4) Notes to Going Concern Assumption	... p. 9
(5) Notes on Significant Changes in the Shareholders' Equity	... p. 9
(6) Additional Information	... p. 9
(7) Segment Information	... p.10
(8) Important Subsequent Events	... p.11

3M FY2018 Consolidated Financial Report

(June 1, 2018 - August 31, 2018)

1. Information Concerning Quarterly Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	3M FY2017	3M FY2018	YoY
Net sales	72,458	82,997	14.5%
Operating income	1,033	1,451	40.5%
Ordinary income	1,006	1,222	21.4%
Profit (loss) attributable to owners of parent	533	(7)	—

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	3M FY2017	3M FY2018	YoY
HR Solutions	71,706	82,042	14.4%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	59,926	69,540	16.0%
Expert Services (Temporary staffing)	37,172	43,626	17.4%
Insourcing (Contracting)	19,449	22,094	13.6%
HR Consulting, Education & Training, Others	1,580	1,857	17.6%
Global Sourcing (Overseas)	1,724	1,961	13.7%
Career Solutions (Placement / Recruiting, Outplacement)	4,004	4,568	14.1%
Outsourcing	7,775	7,933	2.0%
Life Solutions	1,250	1,355	8.4%
Public Solutions	462	756	63.6%
Eliminations and Corporate	(961)	(1,157)	—
Total	72,458	82,997	14.5%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	3M FY2017	3M FY2018	YoY
HR Solutions	2,706	3,710	37.1%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	851	1,162	36.6%
Expert Services (Temporary staffing)	851	1,162	36.6%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	670	863	28.9%
Outsourcing	1,184	1,684	42.1%
Life Solutions	49	18	(62.6)%
Public Solutions	(124)	(389)	—
Eliminations and Corporate	(1,597)	(1,887)	—
Total	1,033	1,451	40.5%

(2) Overview of Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of August 31, 2018 stood at ¥110,599 million, a decrease of ¥1,878 million or 1.7%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥3,511 million in notes and accounts receivable - trade, and an increase of ¥1,257 million in cash and deposits.

2) Liabilities

Total liabilities as of August 31, 2018 stood at ¥74,277 million, a decrease of ¥4,309 million or 5.5%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥3,103 million in accounts payable - trade, and a decrease of ¥1,109 million in income taxes payable.

3) Net Assets

Net assets as of August 31, 2018 stood at ¥36,321 million, an increase of ¥2,431 million or 7.2%, compared with May 31, 2018. This was mainly due to loss attributable to owners of parent of ¥7 million, an increase of ¥3,344 million in capital surplus due to the partial sale of shares of one of our subsidiaries, a decrease of ¥289 million in non-controlling interests, and the payment of cash dividends totaling ¥514 million.

As a result, equity ratio improved by 2.8 percentage points from the end of previous consolidated fiscal year to 23.8%.

Furthermore, as the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018. As for the financial position, the figures for the previous consolidated fiscal year were processed by the method and were compared with the current financial position.

(3) Overview of Consolidated Forecasts

Regarding the business results for the first quarter of FY2018, although there are uncertainties in the outlook for Expert Services that are affected by revision of Worker Dispatch Law and Labor Contract Act, human resource demand continues to be strong, and profit is generally in line with the plan as a result for promoting efficient operations, etc. Therefore, there is no change to the consolidated forecasts of business results previously announced on July 13, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2018	As of August 31, 2018
ASSETS		
Current assets		
Cash and deposits	25,378	26,636
Notes and accounts receivable - trade	40,082	36,571
Inventories	1,938	1,796
Other	6,645	6,844
Allowance for doubtful accounts	(58)	(64)
Total current assets	73,987	71,783
Non-current assets		
Property, plant and equipment	15,391	16,527
Intangible assets		
Goodwill	3,900	3,649
Other	5,655	5,611
Total intangible assets	9,555	9,261
Investments and other assets		
Other	13,638	13,123
Allowance for doubtful accounts	(95)	(96)
Total investments and other assets	13,543	13,026
Total non-current assets	38,490	38,815
Total assets	112,477	110,599

(Millions of yen)

	As of May 31, 2018	As of August 31, 2018
LIABILITIES		
Current liabilities		
Accounts payable - trade	6,545	3,442
Short-term loans payable	6,219	6,332
Accrued expenses	16,583	16,399
Income taxes payable	2,210	1,101
Provision for bonuses	3,811	2,951
Provision for directors' bonuses	48	20
Asset retirement obligations	42	57
Other	22,166	22,090
Total current liabilities	57,629	52,395
Non-current liabilities		
Bonds payable	344	344
Long-term loans payable	14,116	14,699
Net defined benefit liability	1,949	2,007
Provision for directors' stock benefit	170	183
Provision for employees' stock grant	141	141
Asset retirement obligations	1,482	1,644
Other	2,753	2,862
Total non-current liabilities	20,958	21,882
Total liabilities	78,587	74,277
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,967	10,310
Retained earnings	13,461	12,882
Treasury shares	(2,194)	(2,194)
Total shareholders' equity	23,233	25,998
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	345	309
Foreign currency translation adjustment	9	12
Remeasurements of defined benefit plans	39	28
Total accumulated other comprehensive income	394	350
Non-controlling interests	10,261	9,972
Total net assets	33,889	36,321
Total liabilities and net assets	112,477	110,599

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	3M FY2017	3M FY2018
Net sales	72,458	82,997
Cost of sales	57,202	64,946
Gross profit	15,256	18,051
Selling, general and administrative expenses	14,222	16,599
Operating income	1,033	1,451
Non-operating income		
Interest income	6	7
Subsidy	14	6
Real estate rent	97	174
Other	30	81
Total non-operating income	149	269
Non-operating expenses		
Interest expenses	41	53
Commitment fee	10	11
Share of loss of entities accounted for using equity method	27	26
Rent expenses on real estates	78	144
Commission fee	—	236
Other	17	26
Total non-operating expenses	175	499
Ordinary income	1,006	1,222
Extraordinary income		
Gain on sales of non-current assets	—	8
Gain on bargain purchase	601	—
Total extraordinary income	601	8
Extraordinary loss		
Loss on sales and retirement of non-current assets	14	12
Loss on valuation of investment securities	—	5
Total extraordinary loss	14	17
Income before income taxes	1,593	1,212
Income taxes - current	677	(145)
Income taxes - deferred	10	821
Income taxes	687	675
Profit	905	536
Profit attributable to non-controlling interests	372	544
Profit (loss) attributable to owners of parent	533	(7)

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	3M FY2017	3M FY2018
Profit	905	536
Other comprehensive income		
Valuation difference on available-for-sale securities	1	(65)
Foreign currency translation adjustment	12	0
Remeasurements of defined benefit plans	(18)	(12)
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(4)	(77)
Comprehensive income	901	458
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	523	(51)
Comprehensive income attributable to non-controlling interests	377	510

(4) Notes to Going Concern Assumption

Not applicable

(5) Notes on Significant Changes in the Shareholders' Equity

During the first quarter of FY2018, as the Company sold a portion of the shares of consolidated subsidiary Benefit One Inc., capital surplus increased by ¥3,343 million. As a result, capital surplus at the end of the first quarter of FY2018 was ¥10,310 million.

(6) Additional Information**(Changes in Presentation)**

As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018, "Deferred tax assets" are presented in the category of "Investments and other assets", and "Deferred tax liabilities" are presented in the category of "Non-current liabilities".

As a result, the consolidated balance sheet for the previous fiscal year has also been reclassified and "Deferred tax assets" of ¥1,953 million, which were presented in "Current assets", are reclassified into "Investments and other assets", and "Deferred tax liabilities" of ¥1 million, which were presented in "Current liabilities", are reclassified into "Non-current liabilities".

(7) Segment Information

i) Three months ended August 31, 2017

a) Information regarding net sales and segment income (loss) by reporting segment

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	HR Solutions			Life Solutions	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	59,425	3,992	7,589	1,226	223	72,458	—	72,458
(2) Intersegment sales and transfers	500	11	186	23	238	961	(961)	—
Total	59,926	4,004	7,775	1,250	462	73,419	(961)	72,458
Operating income (loss)	851	670	1,184	49	(124)	2,630	(1,597)	1,033

Notes:

1. The “Expert Services (Temporary staffing), Insourcing (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(1,597) million with Operating income (loss) includes the elimination of intersegment transactions of ¥6 million, and corporate expenses of ¥1,604 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Information regarding impairment loss for fixed assets or goodwill

(Significant changes in the amount of goodwill)

During the first quarter of FY2017 accounting period, the amount of goodwill has increased by ¥731 million in the segment of “Expert Services (Temporary staffing), Insourcing (Contracting), Others”. It was due to acquiring shares of NTT Human Solutions Corporation (currently Pasona Human Solutions Inc.) and making it a consolidated subsidiary, and staffing business assignment of NTT-ME Service Corporation, NTT Solco & Hokkaido Telemart Corporation, TelWel West Nippon Corporation. and DOCOMO Data Com, Inc.

(Significant gain on bargain purchase)

During the first quarter of FY2017 accounting period, gain on bargain purchase of ¥601 million was recorded in the segment of “Expert Services (Temporary staffing), Insourcing (Contracting), Others”. It was due to acquiring shares of TelWel Job Support Corporation (currently Pasona Job Support Inc.) and making it a consolidated subsidiary. As gain on bargain purchase is a part of extraordinary income, it is not included in the segment income.

ii) Three months ended August 31, 2018

a) Information regarding net sales and segment income (loss) by reporting segment

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	HR Solutions			Life Solutions	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	68,983	4,555	7,698	1,320	438	82,997	—	82,997
(2) Intersegment sales and transfers	556	12	234	34	318	1,157	(1,157)	—
Total	69,540	4,568	7,933	1,355	756	84,154	(1,157)	82,997
Operating income (loss)	1,162	863	1,684	18	(389)	3,339	(1,887)	1,451

Notes:

1. The “Expert Services (Temporary staffing), Insourcing (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(1,887) million with Operating income (loss) includes the elimination of intersegment transactions of ¥9 million, and corporate expenses of ¥1,896 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Matters concerning changes in reporting segment

Since FY2017, “Public Solutions” which had previously been included in “Others”, was changed to an independent reporting segment due to increasing quantitative importance. Along with that, “Life Solutions” previously included in “Others” was also described as an independent reporting segment.

So, the segment figure for the previous first quarter result as a comparison information is prepared by the method after the change, the figure is different from the reporting segment figures disclosed in the previous first quarter period.

(8) Important Subsequent Events

Not applicable