

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FY2013 (June 1, 2013 to May 31, 2014)

First Half Ended November 30, 2013

Listing Stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: <http://www.pasonagroup.co.jp/>
 Representative: Yasuyuki Nambu, Group CEO and President
 For further information contact: Yuko Nakase, Managing Director and CFO
 Tel. +81-3-6734-0200

Scheduled filing date of quarterly report: January 10, 2014

Supplementary materials prepared for quarterly financial results: Yes

Holding of quarterly financial results meeting: Yes

(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		Net Income (Loss)	
		%		%		%		%
First Half ended November 30, 2013	102,619	(0.3)	1,038	45.3	961	38.8	(25)	—
First Half ended November 30, 2012	102,976	13.3	714	(1.4)	692	(7.0)	(454)	—

(Note) Comprehensive income H1 FY2013: ¥257 million H1 FY2012: ¥(226) million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
First Half ended November 30, 2013	(0.67)	—
First Half ended November 30, 2012	(12.14)	—

(Note) The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013, at the same time, adopted a unit share system that set unit share at 100 shares. Net income (loss) per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
November 30, 2013	68,524	25,743	29.9
May 31, 2013	71,276	26,253	29.3

(Reference) Equity As of November 30, 2013: ¥20,495 million As of May 31, 2013: ¥20,915 million

2. DIVIDENDS

Record Date	Dividends per Share				Total
	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	
	Yen	Yen	Yen	Yen	Yen
FY2012	—	0.00	—	1,000.00	1,000.00
FY2013	—	0.00			
FY2013(Forecast)			—	10.00	10.00

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

The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013, at the same time, adopted a unit share system that set unit share at 100 shares. Dividend forecast for FY2013 takes into account a 1:100 stock split. If adjusted to reflect the number of shares prior to the stock split, the forecast of fiscal year-end dividend amount is equivalent to ¥1,000.

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2014

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Shares
		%		%		%		%	Yen
Full Fiscal Year	222,000	6.9	3,430	8.0	3,320	4.2	480	(21.4)	12.82

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

Forecast of net income per share takes into account the effect of a 1:100 stock split with an effective date of December 1, 2013.

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 stock)
November 30, 2013: 41,690,300 shares May 31, 2013: 41,690,300 shares
 - 2) The number of treasury stock as of the period-end
November 30, 2013: 4,240,100 shares May 31, 2013: 4,240,100 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2013: 37,450,200 shares
First Half ended November 30, 2012: 37,450,200 shares

(Note) The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013, at the same time, adopted a unit share system that set unit share at 100 shares. No. of shares issued and outstanding (common stock) has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

Information regarding the implementation of quarterly review procedures

As of the date of disclosure of this report, a review of the quarterly financial statements has been completed in accordance with the Financial Instruments and Exchange Act.

Cautionary statement and other explanatory notes

1. 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 “Qualitative Information Concerning Consolidated Forecasts” on page 6 with regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2014.
2. The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013, at the same time, adopted a unit share system that set unit share at 100 shares.

Pasona Group Inc. intends to hold a financial results meeting in Tokyo on January 15, 2014 for the benefit of analysts and institutional investors. Presentation materials will be posted on our website after the meeting in a timely manner.

Consolidated Financial Report

First Half Ended November 30, 2013

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H1 FY2013 Consolidated Financial Report

(June 1, 2013 - November 30, 2013)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	H1 FY2012	H1 FY2013	YoY
Net sales	102,976	102,619	(0.3)%
Operating income	714	1,038	45.3%
Ordinary income	692	961	38.8%
Net income (loss)	(454)	(25)	—

(Millions of yen)

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	H1 FY2012	H1 FY2013	YoY
HR Solutions	102,576	101,563	(1.0)%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	88,654	86,482	(2.5)%
Expert Services (Temporary staffing)	65,325	62,198	(4.8)%
Insourcing (Contracting)	18,657	18,967	1.7%
HR Consulting, Education & Training, Others	1,885	2,036	8.1%
Place & Search (Placement / Recruiting)	1,461	1,558	6.6%
Global Sourcing (Overseas)	1,323	1,720	29.9%
Outplacement	5,746	5,644	(1.8)%
Outsourcing	8,176	9,436	15.4%
Life Solutions			
Public Solutions	1,966	2,547	29.6%
Shared			
Eliminations and Corporate	(1,567)	(1,492)	—
Total	102,976	102,619	(0.3)%

(Millions of yen)

Consolidated Operating Income by Segment

	H1 FY2012	H1 FY2013	YoY
HR Solutions	3,068	2,935	(4.3)%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	1,276	1,173	(8.0)%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	1,276	1,173	(8.0)%
Place & Search (Placement / Recruiting)			
Global Sourcing (Overseas)			
Outplacement	916	796	(13.1)%
Outsourcing	875	965	10.3%
Life Solutions			
Public Solutions	18	8	(54.3)%
Shared			
Eliminations and Corporate	(2,371)	(1,905)	—
Total	714	1,038	45.3%

(Millions of yen)

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of November 30, 2013 stood at ¥68,524 million, a decrease of ¥2,752 million or 3.9%, compared with May 31, 2013. This was mainly attributable to certain factors including a decrease of ¥4,894 million in the balance of cash and deposits. This was partly offset by an increase of ¥1,149 million in notes and accounts receivable—trade.

2) Liabilities

Total liabilities as of November 30, 2013 decreased ¥2,241 million or 5.0%, compared with May 31, 2013 totaling ¥42,781 million. The principal decreases in total liabilities were accounts payable—trade of ¥1,029 million, income taxes payable of ¥754 million and provision for retirement benefits of ¥211 million.

3) Net Assets

Net assets as of November 30, 2013 stood at ¥25,743 million, a decline of ¥510 million or 1.9%, compared with May 31, 2013. This was mainly attributable to the net loss of ¥25 million and the payment of cash dividends totaling ¥374 million, as well as a decrease of ¥89 million in minority interests.

Accounting for the aforementioned, the equity ratio as of November 30, 2013 increased 0.6 points to 29.9% compared with the end of the previous fiscal year.

Status of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of November 30, 2013 decreased ¥4,865 million compared with the end of the previous fiscal year to ¥15,083 million.

1) Cash Flows from Operating Activities

Net cash used in operating activities for H1 FY2013 amounted to ¥2,197 million (¥681 million for H1 FY2012). Major cash inflows included income before income taxes totaling ¥920 million (¥654 million for H1 FY2012), depreciation and amortization of ¥1,219 million (¥1,253 million for H1 FY2012). The principal cash outflows were an increase in notes and accounts receivable—trade of ¥985 million (¥688 million for H1 FY2012), decrease in operating debt of ¥1,018 million (¥765 million for H1 FY2012) as well as income taxes paid of ¥1,317 million (¥717 million for H1 FY2012).

2) Cash Flows from Investing Activities

Net cash used in investing activities for the period under review was ¥2,465 million (¥3,001 million for H1 FY2012). Major cash outflows were purchase of noncurrent assets of ¥1,087 million (¥2,339 million for H1 FY2012), purchase of investment securities of ¥859 million (¥595 million for H1 FY2012) and purchase of investments in subsidiaries of ¥355 million (none recognized for H1 FY2012).

3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥312 million (¥3,688 million for H1 FY2012). Major cash inflow was proceeds from long-term loans payable totaling ¥2,000 million (none recognized for H1 FY2012). Major cash outflows were repayment of long-term loans payable totaling ¥1,291 million (¥1,303 million for H1 FY2012) and cash dividends paid amounted to ¥729 million (¥790 million for H1 FY2012).

(3) Qualitative Information Concerning Consolidated Forecasts

As of the date of this report, there are no changes to the forecast of full fiscal year results announced on July 12, 2013.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	As of May 31, 2013	As of November 30, 2013
ASSETS		
Current assets		
Cash and deposits	20,572	15,677
Notes and accounts receivable — trade	22,280	23,430
Other	5,037	5,134
Allowance for doubtful accounts	(53)	(61)
Total current assets	47,836	44,179
Noncurrent assets		
Property, plant and equipment	8,468	8,362
Intangible assets		
Goodwill	4,063	4,173
Other	3,650	3,761
Total intangible assets	7,714	7,934
Investments and other assets		
Other	7,610	8,399
Allowance for doubtful accounts	(14)	(11)
Allowance for investment loss	(340)	(340)
Total investments and other assets	7,256	8,047
Total noncurrent assets	23,439	24,344
Total assets	71,276	68,524

As of May 31, 2013

As of November 30, 2013

LIABILITIES**Current liabilities**

Accounts payable—trade	2,282	1,252
Short-term loans payable	3,005	3,684
Accrued expenses	12,119	12,456
Income taxes payable	1,535	781
Provision for bonuses	2,113	2,245
Provision for directors' bonuses	15	11
Asset retirement obligations	8	5
Other	12,658	11,341
Total current liabilities	33,737	31,779

Noncurrent liabilities

Long-term loans payable	5,655	5,684
Provision for retirement benefits	1,614	1,403
Asset retirement obligations	821	820
Other	3,193	3,092
Total noncurrent liabilities	11,284	11,001

Total liabilities	45,022	42,781
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NET ASSETS**Shareholders' equity**

Capital stock	5,000	5,000
Capital surplus	6,054	6,054
Retained earnings	13,283	12,851
Treasury stock	(3,493)	(3,493)
Total shareholders' equity	20,845	20,412

Accumulated other comprehensive income

Valuation difference on available-for-sale securities	85	65
Foreign currency translation adjustment	(14)	16
Total accumulated other comprehensive income	70	82

Minority interests	5,337	5,247
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Total net assets	26,253	25,743
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Total liabilities and net assets	71,276	68,524
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(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2012	H1 FY2013
Net sales	102,976	102,619
Cost of sales	83,905	83,208
Gross profit	19,070	19,410
Selling, general and administrative expenses	18,355	18,372
Operating income	714	1,038
Non-operating income		
Interest income	7	11
Equity in earnings of affiliates	21	—
Subsidy	23	25
Rent expenses on real estates	8	24
Other	64	57
Total non-operating income	125	118
Non-operating expenses		
Interest expenses	94	83
Commitment fee	24	24
Equity in losses of affiliates	—	40
Other	28	47
Total non-operating expenses	147	195
Ordinary income	692	961
Extraordinary income		
Gain on sales of investment securities	—	0
Gain on sales of subsidiaries and affiliates' stocks	—	0
Total extraordinary income	—	0
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	36	28
Impairment loss	—	11
Loss on change in equity	1	1
Total extraordinary loss	38	40
Income before income taxes	654	920
Income taxes—current	716	666
Income taxes—deferred	91	15
Income taxes	807	682
Income (loss) before minority interests	(152)	238
Minority interests in income	301	263
Net income (loss)	(454)	(25)

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2012	H1 FY2013
Income (loss) before minority interests	(152)	238
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(16)	(12)
Foreign currency translation adjustment	(56)	31
Total other comprehensive income (loss)	(73)	18
Comprehensive income (loss)	(226)	257
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(518)	(13)
Comprehensive income attributable to minority interests	292	270

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2012	H1 FY2013
Cash flows from operating activities		
Income before income taxes	654	920
Depreciation and amortization	1,253	1,219
Impairment loss	—	11
Amortization of goodwill	325	388
Increase (decrease) in allowance for doubtful accounts	(8)	0
Increase (decrease) in provision for bonuses	(8)	101
Increase (decrease) in provision for directors' bonuses	(9)	(4)
Increase (decrease) in provision for retirement benefits	132	(284)
Interest and dividends income	(17)	(19)
Interest expenses	94	83
Subsidy income	(23)	(25)
Equity in (earnings) losses of affiliates	(21)	40
Loss (gain) on change in equity	1	1
Loss (gain) on sales and retirement of noncurrent assets	36	28
Loss (gain) on sales of investment securities	—	(0)
Loss (gain) on sales of subsidiaries and affiliates' stocks	—	(0)
Decrease (increase) in notes and accounts receivable—trade	(688)	(985)
Increase (decrease) in operating debt	(765)	(1,018)
Other	(943)	(1,313)
Subtotal	13	(855)
Interest and dividends income received	29	30
Interest expenses paid	(96)	(79)
Proceeds from subsidy	89	25
Income taxes paid	(717)	(1,317)
Net cash used in operating activities	(681)	(2,197)

	H1 FY2012	H1 FY2013
Cash flows from investment activities		
Purchase of property, plant and equipment	(1,884)	(442)
Proceeds from sales of property, plant and equipment	—	0
Purchase of intangible assets	(455)	(644)
Proceeds from sales of intangible assets	—	2
Purchase of investment securities	(595)	(859)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(355)
Payments of loans receivable	(207)	(3)
Payments for lease and guarantee deposits	(168)	(258)
Proceeds from collection of lease and guarantee deposits	430	149
Payments for transfer of business	—	(145)
Other	(120)	92
Net cash used in investment activities	(3,001)	(2,465)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	20	—
Proceeds from long-term loans payable	—	2,000
Repayment of long-term loans payable	(1,303)	(1,291)
Cash dividends paid	(373)	(372)
Cash dividends paid to minority shareholders	(417)	(356)
Payments made to trust account	(1,400)	—
Other	(214)	(291)
Net cash used in financing activities	(3,688)	(312)
Effect of exchange rate change on cash and cash equivalents	(40)	29
Net increase (decrease) in cash and cash equivalents	(7,411)	(4,946)
Cash and cash equivalents at the beginning of the period	22,739	19,948
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	234	80
Cash and cash equivalents at the end of the period	15,561	15,083

(5) Notes to Going Concern Assumption

Not applicable

(6) Segment Information

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

First Half ended November 30, 2012

(Millions of yen)

	Reporting segments				Others (Note 2)	Total	Adjustment (Note 3)	Figures in consolidated statements of income (Note 4)
	HR Solutions			Subtotal				
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Outplacement	Outsourcing					
Net sales								
(1) Sales to outside customers	88,332	5,745	8,064	102,142	833	102,976	—	102,976
(2) Intersegment sales and transfers	321	0	111	434	1,133	1,567	(1,567)	—
Total	88,654	5,746	8,176	102,576	1,966	104,543	(1,567)	102,976
Operating income	1,276	916	875	3,068	18	3,086	(2,371)	714

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 and others, Place & Search (Placement / Recruiting) as well as Global Sourcing (Overseas).
2. The “Others” segment includes Life Solutions, Public Solutions, and Shared operations, is not included in reporting segments.
3. Adjustment is as follows: Operating loss of ¥2,371 million includes the elimination of intersegment transactions of ¥2 million and corporate expenses of ¥2,373 million. Corporate expenses are not allocated to reporting segments. Corporate expenses primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

	Reporting segments				Others (Note 2)	Total	Adjustment (Note 3)	Figures in consolidated statements of income (Note 4)
	HR Solutions			Subtotal				
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Outplacement	Outsourcing					
Net sales								
(1) Sales to outside customers	86,158	5,644	9,324	101,127	1,491	102,619	—	102,619
(2) Intersegment sales and transfers	323	0	112	436	1,056	1,492	(1,492)	—
Total	86,482	5,644	9,436	101,563	2,547	104,111	(1,492)	102,619
Operating income	1,173	796	965	2,935	8	2,943	(1,905)	1,038

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 and others, Place & Search (Placement / Recruiting) as well as Global Sourcing (Overseas).
2. The “Others” segment includes Life Solutions, Public Solutions, and Shared operations, is not included in reporting segments.
3. Adjustment is as follows: Operating loss of ¥1,905 million includes the elimination of intersegment transactions of ¥2 million and corporate expenses of ¥1,908 million. Corporate expenses are not allocated to reporting segments. Corporate expenses primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

(7) Notes on Significant Changes in the Amount of Shareholders' Equity

Not applicable

(8) Important Subsequent Events

Share Split and Adoption of the Share Unit System

In accordance with the resolution at the meeting of the Board of Directors held on July 12, 2013, the Company conducted a stock split and adopted of the share unit system.

i. Purpose of Stock Split and Adoption of the Share Unit System

In view of the “Action Plan for the Aggregation of Trading Units” (dated November 27, 2007) and “Decision on Timeline for Transitioning to Trading Units of 100 and 1,000 Shares” (dated January 19, 2012) announced by all the securities exchanges of Japan with the aim of aggregating the number of unit shares (trading unit) into 100 shares, the Company conducted the stock split for each share into 100 shares, and adopted a unit share system with 100 shares per unit. There is no substantive change in the investment unit as a result of this share split and the adoption of a unit share system.

ii. Outline of Stock Split

a. Method of stock split

With the record date of November 30, 2013, each of the Company's common stocks held by shareholders whose names were stated or recorded in the latest Registry of Shareholders on the record date was split at a ratio of 1:100.

b. Number of increase in shares by stock split

Total number of issued shares before stock split	416,903 shares
Number of increase in shares by stock split	41,273,397 shares
Total number of issued shares after stock split	41,690,300 shares
Total number of authorized shares after stock split	150,000,000 shares

c. Schedule of stock split

Public notice date of the record date	November 14, 2013
Record date	November 30, 2013
Effective date	December 1, 2013

iii. Adoption of the Unit Share System

a. The Number of Shares Constituting the Newly Established Unit of Shares

The unit share system was adopted and one unit of shares became 100 shares.

b. Schedule for Adoption of the Unit Share System

Effective Date : December 1, 2013