

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2016 (June 1, 2016 to May 31, 2017)
 First Half Ended November 30, 2016

Listing Stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
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Scheduled filing date of quarterly report: January 13, 2017
 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		Loss attributable to owners of parent	
		%		%		%		%
First Half ended November 30, 2016	136,867	7.3	794	(25.9)	759	(22.3)	(816)	—
First Half ended November 30, 2015	127,602	12.1	1,072	(10.3)	977	(12.7)	(334)	—

(Note) Comprehensive income H1 FY2016: ¥(41) million H1 FY2015: ¥(369) million

	Net Loss per Share	Diluted Net Income per Share
	Yen	Yen
First Half ended November 30, 2016	(22.18)	—
First Half ended November 30, 2015	(9.08)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
November 30, 2016	80,517	25,591	22.1
May 31, 2016	85,356	26,735	22.2

(Reference) Equity As of November 30, 2016: ¥17,789 million As of May 31, 2016: ¥18,958 million

2. DIVIDENDS

Record Date	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2015	—	0.00	—	12.00	12.00
FY2016	—	0.00	—	—	—
FY2016 (Forecast)	—	—	—	12.00	12.00

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

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2017

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	283,000	7.3	4,300	11.4	4,200	8.9	500	105.1		13.59

(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)
November 30, 2016: 41,690,300 shares May 31, 2016: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
November 30, 2016: 4,883,708 shares May 31, 2016: 4,893,138 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2016: 36,806,630 shares
First Half ended November 30, 2015: 36,797,173 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 not counted toward the average number of shares outstanding for the period for the purpose of computing earnings per share.

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

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, 2017.

Pasona Group Inc. intends to hold a financial results meeting in Tokyo on January 19, 2017 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, 2016

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H1 FY2016 Consolidated Financial Report

(June 1, 2016 - November 30, 2016)

1. Summary Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	H1 FY2015	H1 FY2016	YoY
Net sales	127,602	136,867	7.3%
Operating income	1,072	794	(25.9)%
Ordinary income	977	759	(22.3)%
Loss attributable to owners of parent	(334)	(816)	-

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	H1 FY2015	H1 FY2016	YoY
<i>HR Solutions</i>	126,038	135,260	7.3%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	105,818	113,536	7.3%
Expert Services (Temporary staffing)	65,708	71,469	8.8%
Insourcing (Contracting)	34,375	36,082	5.0%
HR Consulting, Education & Training, Others	2,924	2,918	(0.2)%
Global Sourcing (Overseas)	2,809	3,067	9.2%
Career Solutions (Placement/Recruiting, Outplacement)	8,267	7,178	(13.2)%
Outsourcing	11,952	14,545	21.7%
<i>Life Solutions, Public Solutions</i>	2,734	3,107	13.6%
Eliminations and Corporate	(1,171)	(1,500)	-
Total	127,602	136,867	7.3%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	H1 FY2015	H1 FY2016	YoY
<i>HR Solutions</i>	3,866	3,623	(6.3)%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	755	436	(42.2)%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	755	436	(42.2)%
Global Sourcing (Overseas)			
Career Solutions (Placement/Recruiting, Outplacement)	1,628	704	(56.7)%
Outsourcing	1,481	2,482	67.5%
<i>Life Solutions, Public Solutions</i>	(356)	(161)	-
Eliminations and Corporate	(2,437)	(2,667)	-
Total	1,072	794	(25.9)%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of November 30, 2016 stood at ¥80,517 million, a decrease of ¥4,839 million or 5.7%, compared with May 31, 2016. This was mainly attributable to certain factors including a decrease of ¥4,205 million in cash and deposits as well as a decrease of ¥480 million in notes and accounts receivable - trade.

2) Liabilities

Total liabilities as of November 30, 2016 stood at ¥54,925 million, a decrease of ¥3,695 million or 6.3%, compared with May 31, 2016. The principal decreases in total liabilities were accounts payable - trade of ¥1,907 million, income taxes payable of ¥226 million, accrued expenses included in “ other ” in non-current liabilities of ¥486 million and accrued consumption taxes of ¥330 million.

3) Net Assets

Net assets as of November 30, 2016 stood at ¥25,591 million, a decline of ¥1,143 million or 4.3%, compared with May 31, 2016. This was mainly due to loss attributable to owners of parent of ¥816 million and the payment of cash dividends totaling ¥447 million.

Status of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of November 30, 2016 decreased ¥4,688 million compared with the end of the previous fiscal year to ¥11,752 million.

1) Cash Flows from Operating Activities

Net cash used in operating activities for H1 FY2016 amounted to ¥515 million (Decreased ¥4,919 million for H1 FY2015).

Major cash inflows were income before income taxes totaling ¥724 million (¥985 million for H1 FY2015), depreciation and amortization of ¥1,624 million (¥1,618 million for H1 FY2015), amortization of goodwill of ¥487 million (¥485 million for H1 FY2015), as well as a decrease in notes and accounts receivable - trade of ¥423 million (Decreased ¥401 million for H1 FY2015).

The principal cash outflows were a decrease in operating debt of ¥1,247 million (Decreased ¥2,685 million for H1 FY2015), a decrease in accrued consumption taxes of ¥278 million (Decreased ¥3,570 million for H1 FY2015) as well as income taxes paid of ¥1,253 million (¥1,088 million for H1 FY2015).

2) Cash Flows from Investing Activities

Net cash used in investing activities for H1 FY2016 was ¥2,046 million (Decreased ¥497 million for H1 FY2015).

Major cash outflows were purchase of non-current assets of ¥1,248 million (¥1,269 million for H1 FY2015) and purchase of investment securities of ¥213 million (¥482 million for H1 FY2015).

3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥1,961 million (Decreased ¥1,273 million for H1 FY2015). Major cash inflow was increase in short-term loans payable of ¥2,050 million (Increased ¥38 million for H1 FY2015).

The principal cash outflows were repayment of long-term loans payable totaling ¥2,546 million (¥2,293 million for H1 FY2015) and cash dividends paid amounted to ¥1,115 million (¥961 million for H1 FY2015).

(3) Qualitative Information Concerning Consolidated Forecasts

Consolidated business results for H1 FY2016 are essentially in line with initial plans. Accordingly, there is no change to the consolidated full-year forecasts of business results previously announced on July 15, 2016.

2. Matters Relating to Summary Information (Notes)

(1) Additional Information

(Adoption of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from Q1 FY2016, the Company has adopted “Implementation Guidance on Recoverability of Deferred Tax Assets (The Accounting Standards Board of Japan Guidance No. 26 of March 28, 2016)”

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2016	As of November 30, 2016
ASSETS		
Current assets		
Cash and deposits	16,775	12,570
Notes and accounts receivable - trade	31,987	31,507
Inventories	1,074	1,335
Other	6,404	6,491
Allowance for doubtful accounts	(55)	(58)
Total current assets	56,187	51,846
Non-current assets		
Property, plant and equipment	8,722	8,506
Intangible assets		
Goodwill	4,483	3,995
Other	5,378	5,207
Total intangible assets	9,861	9,203
Investments and other assets		
Other	10,636	11,005
Allowance for doubtful accounts	(51)	(43)
Total investments and other assets	10,584	10,961
Total non-current assets	29,169	28,671
Total assets	85,356	80,517

(Millions of yen)

	As of May 31, 2016	As of November 30, 2016
LIABILITIES		
Current liabilities		
Accounts payable - trade	4,974	3,066
Short-term loans payable	4,861	6,023
Accrued expenses	13,010	13,505
Income taxes payable	1,603	1,377
Provision for bonuses	3,214	3,353
Provision for directors' bonuses	25	17
Asset retirement obligations	4	4
Other	17,500	15,788
Total current liabilities	45,195	43,136
Non-current liabilities		
Long-term loans payable	8,807	7,133
Net defined benefit liability	1,705	1,788
Provision for board benefit trust	-	10
Provision for stocks payment	-	13
Asset retirement obligations	938	939
Other	1,975	1,903
Total non-current liabilities	13,426	11,789
Total liabilities	58,621	54,925
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,023	5,018
Retained earnings	13,172	11,908
Treasury shares	(4,016)	(4,008)
Total shareholders' equity	19,179	17,918
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	97	143
Foreign currency translation adjustment	104	(62)
Remeasurements of defined benefit plans	(422)	(210)
Total accumulated other comprehensive income	(221)	(129)
Non-controlling interests	7,776	7,802
Total net assets	26,735	25,591
Total liabilities and net assets	85,356	80,517

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2015	H1 FY2016
Net sales	127,602	136,867
Cost of sales	102,167	109,867
Gross profit	25,435	27,000
Selling, general and administrative expenses	24,362	26,205
Operating income	1,072	794
Non-operating income		
Interest income	23	15
Subsidy	29	26
Real estate rent	22	20
Other	87	114
Total non-operating income	163	176
Non-operating expenses		
Interest expenses	78	77
Commitment fee	29	29
Share of loss of entities accounted for using equity method	83	40
Other	67	65
Total non-operating expenses	258	211
Ordinary income	977	759
Extraordinary income		
Gain on sales of non-current assets	5	-
Gain on sales of investment securities	63	9
Gain on donation of non-current assets	17	-
Total extraordinary income	85	9
Extraordinary loss		
Loss on sales and retirement of non-current assets	30	44
Impairment loss	37	-
Loss on sales of shares of subsidiaries and associates	9	-
Total extraordinary loss	77	44
Income before income taxes	985	724
Income taxes - current	973	1,098
Income taxes - deferred	(9)	(229)
Income taxes	964	868
Net income (loss)	21	(144)
Profit attributable to non-controlling interests	355	672
Loss attributable to owners of parent	(334)	(816)

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2015	H1 FY2016
Profit (loss)	21	(144)
Other comprehensive income		
Valuation difference on available-for-sale securities	(147)	83
Foreign currency translation adjustment	(82)	(190)
Remeasurements of defined benefit plans	(158)	212
Share of other comprehensive income of entities accounted for using equity method	(2)	(2)
Total other comprehensive income	(390)	102
Comprehensive income	(369)	(41)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(666)	(724)
Comprehensive income attributable to non-controlling interests	297	683

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2015	H1 FY2016
Cash flows from operating activities		
Income before income taxes	985	724
Depreciation and amortization	1,618	1,624
Impairment loss	37	-
Amortization of goodwill	485	487
Increase (decrease) in allowance for doubtful accounts	(10)	(5)
Increase (decrease) in provision for bonuses	254	147
Increase (decrease) in provision for directors' bonuses	(9)	(6)
Increase (decrease) in net defined benefit liability	(25)	88
Decrease (increase) in net defined benefit asset	(259)	287
Interest and dividends income	(36)	(30)
Interest expenses	78	77
Subsidy income	(29)	(26)
Share of (profit) loss of entities accounted for using equity method	83	40
Loss (gain) on sales and retirement of non-current assets	24	44
Loss (gain) on sales of investment securities	(63)	(9)
Loss (gain) on sales of shares of subsidiaries and associates	9	-
Decrease (increase) in notes and accounts receivable - trade	401	423
Increase (decrease) in operating debt	(2,685)	(1,247)
Increase (decrease) in accrued consumption taxes	(3,570)	(278)
Other	(1,128)	(1,594)
Subtotal	(3,838)	746
Interest and dividends income received	46	45
Interest expenses paid	(68)	(79)
Proceeds from subsidy	29	26
Income taxes paid	(1,088)	(1,253)
Net cash used in operating activities	(4,919)	(515)

	H1 FY2015	H1 FY2016
Cash flows from investment activities		
Purchase of property, plant and equipment	(576)	(685)
Proceeds from sales of property, plant and equipment	859	-
Purchase of intangible assets	(692)	(562)
Proceeds from sales of intangible assets	9	-
Purchase of investment securities	(482)	(213)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	(51)	-
Payments of loans receivable	(52)	(72)
Payments for lease and guarantee deposits	(202)	(192)
Proceeds from collection of lease and guarantee deposits	302	106
Payments for transfer of business	(60)	-
Other	448	(426)
Net cash used in investment activities	(497)	(2,046)
Cash flows from financing activities		
Net increase in short-term loans payable	38	2,050
Proceeds from long-term loans payable	3,000	-
Repayment of long-term loans payable	(2,293)	(2,546)
Redemption of bonds	(26)	-
Proceeds from share issuance to non-controlling shareholders	163	19
Purchase of treasury shares	(499)	(0)
Proceeds from disposal of treasury shares	499	-
Purchase of treasury shares of subsidiaries	(831)	(229)
Proceeds from disposal of treasury shares of subsidiaries	-	229
Cash dividends paid	(440)	(445)
Dividends paid to non-controlling interests	(521)	(669)
Other	(361)	(369)
Net cash used in financing activities	(1,273)	(1,961)
Effect of exchange rate change on cash and cash equivalents	(63)	(165)
Net increase (decrease) in cash and cash equivalents	(6,754)	(4,688)
Cash and cash equivalents at the beginning of the period	20,298	16,441
Increase in cash and cash equivalents resulting from change of scope of consolidation	20	-
Cash and cash equivalents at the end of the period	13,565	11,752

(5) Notes to Going Concern Assumption

Not applicable

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

Not applicable

(7) Segment Information

i) H1 FY2015

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

(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)	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	105,272	8,252	11,774	125,298	2,303	127,602	-	127,602
(2) Intersegment sales and transfers	546	15	178	740	430	1,171	(1,171)	-
Total	105,818	8,267	11,952	126,038	2,734	128,773	(1,171)	127,602
Operating income (loss)	755	1,628	1,481	3,866	(356)	3,509	(2,437)	1,072

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. The “Others” segment is not included in reporting segments, and includes Life Solutions as well as Public Solutions.
3. Adjustment is as follows: Operating income of ¥(2,437) million includes the elimination of intersegment transactions of ¥(4) million and corporate expenses of ¥2,432 million. Corporate expenses, primarily consist of Group management costs relating to the Company, are not allocated to reporting segments.
4. Segment income is adjusted with operating income under consolidated statements of income.

ii) H1 FY2016

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

(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)	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	112,844	7,166	14,219	134,230	2,636	136,867	-	136,867
(2) Intersegment sales and transfers	692	11	325	1,029	470	1,500	(1,500)	-
Total	113,536	7,178	14,545	135,260	3,107	138,367	(1,500)	136,867
Operating income (loss)	436	704	2,482	3,623	(161)	3,462	(2,667)	794

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. The “Others” segment is not included in reporting segments, and includes Life Solutions as well as Public Solutions.
3. Adjustment is as follows: Operating income of ¥(2,667) million includes the elimination of intersegment transactions of ¥1 million and corporate expenses of ¥2,669 million. Corporate expenses, primarily consist of Group management costs relating to the Company, are not allocated to reporting segments.
4. Segment income is adjusted with operating income under consolidated statements of income.

(8) Important Subsequent Events

Not applicable