

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2016 (June 1, 2016 to May 31, 2017)
Three Months Ended August 31, 2016

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

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 Supplementary 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, 2016	69,231	8.4	215	(38.5)	174	(32.1)	(539)	—
Three months ended August 31, 2015	63,891	8.8	350	9.5	256	(10.2)	(323)	—

(Note) Comprehensive income 3M FY2016: ¥(332) million 3M FY2015: ¥(147) million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 31, 2016	(14.66)	—
Three months ended August 31, 2015	(8.79)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
August 31, 2016	80,859	25,310	22.2
May 31, 2016	85,356	26,735	22.2

(Reference) Equity As of August 31, 2016: ¥17,924 million As of May 31, 2016: ¥18,958 million

2. DIVIDENDS PER SHARE

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	—	—	—	—	—
FY2016 (Forecast)	—	0.00	—	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		Profit (Loss) attributable to owners of parent		Net Income (Loss) per Shares
		%		%		%		%	Yen
FY2016 First Half	136,800	7.2	700	(34.7)	600	(38.6)	(700)	—	(19.02)
FY2016 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 stock)
August 31, 2016: 41,690,300 shares May 31, 2016: 41,690,300 shares
 - 2) The number of treasury stock as of the period-end
August 31, 2016: 4,883,661 shares May 31, 2016: 4,893,138 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Three months ended August 31, 2016: 36,806,639 shares
Three months ended August 31, 2015: 36,797,184 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 stock 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 is being carried out 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 5 with regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2017.

Method to obtain supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results under review have been posted on the Company’s website on October 6, 2016.

Consolidated Financial Report

Three Months Ended August 31, 2016

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3M FY2016 Consolidated Financial Report

(June 1, 2016 - August 31, 2016)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	3M FY2015	3M FY2016	YoY
Net sales	63,891	69,231	8.4%
Operating income	350	215	(38.5)%
Ordinary income	256	174	(32.1)%
Profit (loss) attributable to owners of parent	(323)	(539)	—

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	3M FY2015	3M FY2016	YoY
<i>HR Solutions</i>	63,074	68,496	8.6%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	53,070	57,631	8.6%
Expert Services (Temporary staffing)	33,221	36,378	9.5%
Insourcing (Contracting)	16,925	18,174	7.4%
HR Consulting, Education & Training, Others	1,504	1,541	2.5%
Global Sourcing (Overseas)	1,420	1,536	8.2%
Career Solutions (Placement / Recruiting, Outplacement)	4,032	3,386	(16.0)%
Outsourcing	5,971	7,478	25.2%
<i>Life Solutions, Public Solutions</i>	1,342	1,508	12.4%
Eliminations and Corporate	(524)	(773)	—
Total	63,891	69,231	8.4%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	3M FY2015	3M FY2016	YoY
<i>HR Solutions</i>	1,761	1,621	(8.0)%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	325	380	16.8%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	325	380	16.8%
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	794	107	(86.5)%
Outsourcing	641	1,134	76.9%
<i>Life Solutions, Public Solutions</i>	(192)	(100)	—
Eliminations and Corporate	(1,218)	(1,305)	—
Total	350	215	(38.5)%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of August 31, 2016 stood at ¥80,859 million, a decrease of ¥4,496 million or 5.3%, compared with May 31, 2016. This was mainly attributable to a decrease of ¥2,981 million in cash and deposits as well as a decrease of ¥2,016 million in notes and accounts receivable—trade.

2) Liabilities

Total liabilities as of August 31, 2016 decreased ¥3,072 million or 5.2%, compared with May 31, 2016 totaling ¥55,548 million. The principal decreases in total liabilities were accounts payable—trade of ¥2,048 million and income taxes payable of ¥860 million.

3) Net Assets

Net assets as of August 31, 2016 stood at ¥25,310 million, a decline of ¥1,424 million or 5.3%, compared with May 31, 2016. This was mainly due to loss attributable to owners of parent of ¥539 million, the payment of cash dividends totaling ¥447 million and a decrease of ¥389 million in non-controlling interests.

Accounting for the aforementioned, the equity ratio as of August 31, 2016 was 22.2%, the same point as the end of the previous fiscal year.

(3) Qualitative Information Concerning Consolidated Forecasts

Consolidated business results for the first quarter of the fiscal year ending May 31, 2017 are essentially in line with initial plans. Accordingly, there is no change to the consolidated forecasts of business results previously announced on July 15, 2016.

2. Matters Relating to Summary Information (notes)

Additional Information

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

Effective from the first quarter of 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. Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2016	As of August 31, 2016
ASSETS		
Current assets		
Cash and deposits	16,775	13,794
Notes and accounts receivable—trade	31,987	29,971
Inventories	1,074	1,252
Other	6,404	7,063
Allowance for doubtful accounts	(55)	(53)
Total current assets	56,187	52,029
Non-current assets		
Property, plant and equipment	8,722	8,788
Intangible assets		
Goodwill	4,483	4,239
Other	5,378	5,298
Total intangible assets	9,861	9,537
Investments and other assets		
Other	10,636	10,548
Allowance for doubtful accounts	(51)	(44)
Total investments and other assets	10,584	10,504
Total non-current assets	29,169	28,830
Total assets	85,356	80,859

(Millions of yen)

	As of May 31, 2016	As of August 31, 2016
LIABILITIES		
Current liabilities		
Accounts payable—trade	4,974	2,925
Short-term loans payable	4,861	4,413
Accrued expenses	13,010	13,408
Income taxes payable	1,603	743
Provision for bonuses	3,214	2,579
Provision for directors' bonuses	25	10
Asset retirement obligations	4	4
Other	17,500	18,402
Total current liabilities	45,195	42,488
Non-current liabilities		
Long-term loans payable	8,807	8,404
Net defined benefit liability	1,705	1,748
Asset retirement obligations	938	941
Other	1,975	1,965
Total non-current liabilities	13,426	13,060
Total liabilities	58,621	55,548
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,023	5,018
Retained earnings	13,172	12,185
Treasury stock	(4,016)	(4,008)
Total shareholders' equity	19,179	18,195
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	97	90
Foreign currency translation adjustment	104	(45)
Remeasurements of defined benefit plans	(422)	(316)
Total accumulated other comprehensive income	(221)	(271)
Non-controlling interests	7,776	7,386
Total net assets	26,735	25,310
Total liabilities and net assets	85,356	80,859

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	Three months ended August 31, 2015	Three months ended August 31, 2016
Net sales	63,891	69,231
Cost of sales	50,479	55,858
Gross profit	13,412	13,372
Selling, general and administrative expenses	13,061	13,156
Operating income	350	215
Non-operating income		
Interest income	9	8
Subsidy	10	18
Rent expenses on real estates	12	10
Other	24	21
Total non-operating income	57	58
Non-operating expenses		
Interest expenses	37	40
Commitment fee	9	9
Equity in losses of affiliates	68	15
Foreign exchange losses	2	22
Other	32	11
Total non-operating expenses	151	99
Ordinary income	256	174
Extraordinary income		
Gain on sales of non-current assets	5	—
Gain on donation of non-current assets	17	—
Total extraordinary income	22	—
Extraordinary loss		
Loss on sales and retirement of non-current assets	21	34
Total extraordinary loss	21	34
Income before income taxes	258	140
Income taxes—current	479	591
Income taxes—deferred	(61)	(198)
Income taxes	417	392
Net income (loss)	(159)	(252)
Profit attributable to non-controlling interests	163	287
Profit (loss) attributable to owners of parent	(323)	(539)

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended August 31, 2015	Three months ended August 31, 2016
Net income (loss)	(159)	(252)
Other comprehensive income		
Valuation difference on available-for-sale securities	43	(12)
Foreign currency translation adjustment	45	(169)
Remeasurements of defined benefit plans	(79)	106
Share of other comprehensive income of entities accounted for using equity method	1	(3)
Total other comprehensive income	12	(79)
Comprehensive income	(147)	(332)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(343)	(589)
Comprehensive income attributable to non-controlling interests	195	257

(4) Notes to Going Concern Assumption

Not applicable

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

Not applicable

(6) Segment Information

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

Three months ended August 31, 2015

(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	52,828	4,030	5,901	62,760	1,131	63,891	—	63,891
(2) Intersegment sales and transfers	241	2	70	313	210	524	(524)	—
Total	53,070	4,032	5,971	63,074	1,342	64,416	(524)	63,891
Operating income (loss)	325	794	641	1,761	(192)	1,569	(1,218)	350

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 ¥(1,218) million includes the elimination of intersegment transactions of ¥1 million and corporate expenses of ¥1,220 million. Corporate expenses are not allocated to reporting segments, and primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

Three months ended August 31, 2016

(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	57,245	3,380	7,319	67,945	1,285	69,231	—	69,231
(2) Intersegment sales and transfers	385	6	158	550	222	773	(773)	—
Total	57,631	3,386	7,478	68,496	1,508	70,004	(773)	69,231
Operating income (loss)	380	107	1,134	1,621	(100)	1,521	(1,305)	215

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 ¥(1,305) million includes the elimination of intersegment transactions of ¥(12) million and corporate expenses of ¥1,293 million. Corporate expenses are not allocated to reporting segments, and primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

(7) Important Subsequent Events

Not applicable