

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2017 (June 1, 2017 to May 31, 2018)
 First Half Ended November 30, 2017

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 12, 2018
 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		Profit (Loss) attributable to owners of parent	
	Yen	%	Yen	%	Yen	%	Yen	%
First Half ended November 30, 2017	150,619	10.0	2,618	229.4	2,634	246.8	470	—
First Half ended November 30, 2016	136,867	7.3	794	(25.9)	759	(22.3)	(816)	—

(Note) Comprehensive income H1 FY2017: ¥1,173 million H1 FY2016: ¥(41) million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
First Half ended November 30, 2017	12.78	—
First Half ended November 30, 2016	(22.18)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
November 30, 2017	100,881	27,886	18.9
May 31, 2017	94,584	28,062	20.1

(Reference) Equity As of November 30, 2017: ¥19,074 million As of May 31, 2017: ¥19,056 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
FY2016	—	0.00	—	12.00	12.00
FY2017	—	0.00	—	—	—
FY2017 (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, 2018

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	%	Yen	%	Yen	%	Yen	%	Yen	%
FY2017 Full Fiscal Year	323,300	15.3	5,650	25.9	5,600	29.6	1,000	—	27.17	—

(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, 2017: 41,690,300 shares May 31, 2017: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
November 30, 2017: 4,883,754 shares May 31, 2017: 4,883,708 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2017: 36,806,552 shares
First Half ended November 30, 2016: 36,806,630 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.

The Quarterly Financial Report is not subject to a quarterly review.

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.

Method to obtain supplementary materials for quarterly financial results

We are planning to hold a financial results meeting for analysts and institutional investors on January 18, 2018. Supplementary materials for the meeting will be posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) in a timely manner.

Consolidated Financial Report

First Half Ended November 30, 2017

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H1 FY2017 Consolidated Financial Report

(June 1, 2017 - November 30, 2017)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	H1 FY2016	H1 FY2017	YoY
Net sales	136,867	150,619	10.0%
Operating income	794	2,618	229.4%
Ordinary income	759	2,634	246.8%
Profit (loss) attributable to owners of parent	(816)	470	-

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	H1 FY2016	H1 FY2017	YoY
HR Solutions	135,260	148,832	10.0%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	113,536	124,431	9.6%
Expert Services (Temporary staffing)	71,469	78,491	9.8%
Insourcing (Contracting)	36,082	39,197	8.6%
HR Consulting, Education & Training, Others	2,918	3,236	10.9%
Global Sourcing (Overseas)	3,067	3,506	14.3%
Career Solutions (Placement/Recruiting, Outplacement)	7,178	8,151	13.6%
Outsourcing	14,545	16,249	11.7%
Life Solutions	2,255	2,511	11.4%
Public Solutions	851	1,198	40.7%
Eliminations and Corporate	(1,500)	(1,923)	-
Total	136,867	150,619	10.0%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	H1 FY2016	H1 FY2017	YoY
HR Solutions	3,623	6,334	74.8%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	436	2,330	434.0%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	436	2,330	434.0%
Global Sourcing (Overseas)			
Career Solutions (Placement/Recruiting, Outplacement)	704	1,489	111.3%
Outsourcing	2,482	2,514	1.3%
Life Solutions	74	110	48.4%
Public Solutions	(235)	(732)	-
Eliminations and Corporate	(2,667)	(3,094)	-
Total	794	2,618	229.4%

(2) Qualitative Information Concerning Consolidated Financial Position and Notes

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of November 30, 2017 stood at ¥100,881 million, an increase of ¥6,296 million or 6.7%, compared with May 31, 2017. This was mainly attributable to certain factors including a decrease of ¥3,338 million in cash and deposits as well as an increase of ¥4,898 million in notes and accounts receivable - trade, and an increase of ¥3,935 million in accounts of property, plant and equipment.

2) Liabilities

Total liabilities as of November 30, 2017 stood at ¥72,995 million, an increase of ¥6,472 million or 9.7%, compared with May 31, 2017. This was mainly attributable to certain factors including a decrease of ¥2,669 million in accounts payable – trade, an increase of ¥2,674 million in accrued expenses, an increase of ¥3,327 million in long-term loans payable, and an increase of ¥1,274 million in lease liabilities included in ‘other’ in non-current liabilities.

3) Net Assets

Net assets as of November 30, 2017 stood at ¥27,886 million, a decrease of ¥176 million or 0.6%, compared with May 31, 2017. This was mainly due to profit attributable to owners of parent of ¥470 million, a decrease of ¥194 million in non-controlling interests, and the payment of cash dividends totaling ¥447 million.

Status of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of November 30, 2017 decreased ¥3,278 million compared with the end of the previous fiscal year to ¥17,783 million.

1) Cash Flows from Operating Activities

Net cash gained in operating activities for H1 FY2017 amounted to ¥457 million (decreased ¥515 million in H1 FY2016).

Major cash inflows were income before income taxes totaling ¥3,053 million (¥724 million in H1 FY2016), depreciation and amortization of ¥1,737 million (¥1,624 million in H1 FY2016), amortization of goodwill of ¥495 million (¥487 million in H1 FY2016).

The principal cash outflows were an increase in notes and accounts receivable - trade of ¥2,449 million (decreased ¥423 million in H1 FY2016), a decrease in operating debt of ¥1,720 million (¥1,247 million in H1 FY2016), as well as income taxes paid of ¥1,466 million (¥1,253 million in H1 FY2016).

2) Cash Flows from Investing Activities

Net cash used in investing activities for H1 FY2017 was ¥7,915 million (¥2,046 million in H1 FY2016). Major cash outflows were purchase of property, plant and equipment of ¥6,557 million (¥1,248 million in H1 FY2016), purchase of investments in subsidiaries resulting in change in scope of consolidation of ¥801 million (none in H1 FY2016) and payments for transfer of business of ¥645 million (none in H1 FY2016).

3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥4,155 million (decreased ¥1,961 million in H1 FY2016). Major cash inflow was proceeds from long-term loans payable of ¥7,150 million (none in H1 FY2016) and proceeds from sale and leaseback of ¥1,593 million (none in H1 FY2016).

The principal cash outflows were repayment of long-term loans payable totaling ¥2,735 million (¥2,546

million in H1 FY2016) and cash dividends paid amounted to ¥1,370 million (¥1,115 million in H1 FY2016).

(3) Qualitative Information Concerning Consolidated Forecasts

In terms of full-year forecasts, although recent demand for human resources is strong, the impact of legal aspects such as Labor Contract Act and Worker Dispatch Law is uncertain and costs on Public Solutions come to a point. Accordingly, there is no change to the consolidated full-year forecasts of business results previously announced on July 14, 2017.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2017	As of November 30, 2017
ASSETS		
Current assets		
Cash and deposits	21,754	18,416
Notes and accounts receivable - trade	34,202	39,101
Inventories	1,504	1,613
Other	7,210	7,206
Allowance for doubtful accounts	(53)	(51)
Total current assets	64,617	66,286
Non-current assets		
Property, plant and equipment	9,258	13,193
Intangible assets		
Goodwill	3,701	4,139
Other	5,377	5,669
Total intangible assets	9,079	9,809
Investments and other assets		
Other	11,740	11,720
Allowance for doubtful accounts	(111)	(129)
Total investments and other assets	11,629	11,591
Total non-current assets	29,966	34,594
Total assets	94,584	100,881

(Millions of yen)

	As of May 31, 2017	As of November 30, 2017
LIABILITIES		
Current liabilities		
Accounts payable - trade	5,850	3,181
Short-term loans payable	5,362	6,365
Accrued expenses	14,140	16,815
Income taxes payable	1,730	1,614
Provision for bonuses	3,189	3,562
Provision for directors' bonuses	27	26
Asset retirement obligations	97	71
Other	19,412	19,760
Total current liabilities	49,811	51,397
Non-current liabilities		
Long-term loans payable	12,017	15,345
Net defined benefit liability	1,829	1,915
Provision for directors' stock benefit	28	41
Provision for employees' stock grant	34	41
Asset retirement obligations	879	1,007
Other	1,921	3,246
Total non-current liabilities	16,710	21,597
Total liabilities	66,522	72,995
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,013	5,014
Retained earnings	12,593	12,616
Treasury shares	(4,008)	(4,008)
Total shareholders' equity	18,598	18,622
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	293	306
Foreign currency translation adjustment	90	108
Remeasurements of defined benefit plans	74	38
Total accumulated other comprehensive income	458	452
Non-controlling interests	9,006	8,811
Total net assets	28,062	27,886
Total liabilities and net assets	94,584	100,881

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2016	H1 FY2017
Net sales	136,867	150,619
Cost of sales	109,867	118,687
Gross profit	27,000	31,931
Selling, general and administrative expenses	26,205	29,313
Operating income	794	2,618
Non-operating income		
Interest income	15	14
Subsidy	26	24
Real estate rent	20	263
Other	114	131
Total non-operating income	176	433
Non-operating expenses		
Interest expenses	77	91
Commitment fee	29	31
Equity in losses of affiliates	40	9
Rent expenses on real estates	8	241
Other	56	42
Total non-operating expenses	211	417
Ordinary income	759	2,634
Extraordinary income		
Gain on sales of investment securities	9	-
Gain on bargain purchase	-	601
Total extraordinary income	9	601
Extraordinary loss		
Loss on sales and retirement of non-current assets	44	106
Loss on valuation of investment securities	-	67
Loss on valuation of shares of subsidiaries and associates	-	9
Total extraordinary loss	44	182
Income before income taxes	724	3,053
Income taxes - current	1,098	1,863
Income taxes - deferred	(229)	29
Income taxes	868	1,893
Profit (loss)	(144)	1,160
Profit attributable to non-controlling interests	672	690
Profit (loss) attributable to owners of parent	(816)	470

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2016	H1 FY2017
Profit (loss)	(144)	1,160
Other comprehensive income		
Valuation difference on available-for-sale securities	83	23
Foreign currency translation adjustment	(190)	26
Remeasurements of defined benefit plans	212	(37)
Share of other comprehensive income of entities accounted for using equity method	(2)	0
Total other comprehensive income	102	13
Comprehensive income	(41)	1,173
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(724)	464
Comprehensive income attributable to non-controlling interests	683	708

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2016	H1 FY2017
Cash flows from operating activities		
Income before income taxes	724	3,053
Depreciation and amortization	1,624	1,737
Amortization of goodwill	487	495
Gain on bargain purchase	-	(601)
Increase (decrease) in allowance for doubtful accounts	(5)	6
Increase (decrease) in provision for bonuses	147	351
Increase (decrease) in provision for directors' bonuses	(6)	(0)
Increase (decrease) in net defined benefit liability	88	34
Decrease (increase) in net defined benefit asset	287	(104)
Interest and dividends income	(30)	(30)
Interest expenses	77	91
Subsidy income	(26)	(24)
Share of (profit) loss of entities accounted for using equity method	40	9
Loss (gain) on sales and retirement of non-current assets	44	106
Loss (gain) on sales of investment securities	(9)	-
Decrease (increase) in notes and accounts receivable - trade	423	(2,449)
Increase (decrease) in operating debt	(1,247)	(1,720)
Increase (decrease) in accrued consumption taxes	(278)	(197)
Other	(1,594)	1,175
Subtotal	746	1,933
Interest and dividends income received	45	49
Interest expenses paid	(79)	(83)
Proceeds from subsidy	26	24
Income taxes paid	(1,253)	(1,466)
Net cash used in operating activities	(515)	457

	H1 FY2016	H1 FY2017
Cash flows from investment activities		
Purchase of property, plant and equipment	(685)	(5,501)
Proceeds from sales of property, plant and equipment	-	14
Purchase of intangible assets	(562)	(1,056)
Purchase of investment securities	(213)	(36)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(801)
Payments of loans receivable	(72)	(25)
Payments for lease and guarantee deposits	(192)	(231)
Proceeds from collection of lease and guarantee deposits	106	428
Payments for transfer of business	-	(645)
Other	(426)	(60)
Net cash used in investment activities	(2,046)	(7,915)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,050	(147)
Proceeds from long-term loans payable	-	7,150
Repayment of long-term loans payable	(2,546)	(2,735)
Proceeds from sale and leaseback	-	1,593
Repayments of finance lease obligations	(369)	(355)
Proceeds from share issuance to non-controlling shareholders	19	19
Purchase of treasury shares of subsidiaries	(229)	-
Proceeds from disposal of treasury shares of subsidiaries	229	0
Cash dividends paid	(445)	(446)
Dividends paid to non-controlling interests	(669)	(923)
Other	(0)	(0)
Net cash used in financing activities	(1,961)	4,155
Effect of exchange rate change on cash and cash equivalents	(165)	24
Net increase (decrease) in cash and cash equivalents	(4,688)	(3,278)
Cash and cash equivalents at the beginning of the period	16,441	21,062
Cash and cash equivalents at the end of the period	11,752	17,783

(5) Notes to Going Concern Assumption

Not applicable

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

Not applicable

(7) Changes in Presentation

Pasona Panasonic Business Service Co., Ltd., our consolidated company, has recorded some portion of their expenses as selling, general and administrative expenses since the first quarter of the FY2017, which was previously recorded as cost of sales. This is attributable to the fact that the company intends to clarify the position of their indirect department, triggered by introduction of new accounting system. As a result, gross profit increased by ¥1,295 million compared with the previous method, but there is no impact on operating income, ordinary income, income before income taxes, as well as net income per share.

As it is practically impossible to calculate the past figure in accordance with this classification, the consolidated financial statements prior to the second quarter of FY2017 haven't been revised.

(8) Segment Information

i) First Half ended November 30, 2016

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	112,844	7,166	14,219	2,220	416	136,867	-	136,867
(2) Intersegment sales and transfers	692	11	325	34	435	1,500	(1,500)	-
Total	113,536	7,178	14,545	2,255	851	138,367	(1,500)	136,867
Operating income (loss)	436	704	2,482	74	(235)	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. Adjustments are 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.
3. Segment income is adjusted with operating income under consolidated statements of income.

ii) First Half ended November 30, 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	123,484	8,125	15,851	2,462	695	150,619	-	150,619
(2) Intersegment sales and transfers	947	26	397	48	502	1,923	(1,923)	-
Total	124,431	8,151	16,249	2,511	1,198	152,542	(1,923)	150,619
Operating income (loss)	2,330	1,489	2,514	110	(732)	5,713	(3,094)	2,618

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 are as follows: Operating income of ¥(3,094) million includes the elimination of intersegment transactions of ¥7 million and corporate expenses of ¥3,102 million. Corporate expenses, primarily consist of Group management costs relating to the Company, are not allocated to reporting segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Matters concerning changes in reporting segment

From the second quarter of FY2017, "Public Solutions" previously included in "Others" are described as a part of reporting segment because of their increased quantitative importance. Along with that, "Life Solutions" previously included in "Others" are also described as an independent reporting segment.

In addition, segment information for H1 FY2016 is stated based on newly changed classification.

(9) Important Subsequent Events

Not applicable