

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FY2018 (June 1, 2018 to May 31, 2019)

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/>
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Date of Annual General Meeting of shareholders: August 16, 2019

Scheduled payment date of cash dividends: August 19, 2019

Scheduled filing date of the securities report: August 16, 2019

Supplemental materials prepared for financial results: Yes

Holding of financial results meeting: Yes (for analysts and institutional investors)

(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 attributable to owners of parent	
		%		%		%		%
FY2018	326,984	5.0	9,465	44.7	9,237	39.3	1,975	53.4
FY2017	311,410	11.1	6,539	45.7	6,631	53.5	1,288	—

(Note) Comprehensive income FY2018: ¥4,599 million FY2017: ¥3,249 million

	Net Income per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2018	50.52	—	7.6	8.0	2.9
FY2017	34.94	—	6.0	6.4	2.1

(Reference) Equity in earnings of unconsolidated subsidiaries and affiliates FY2018: ¥(7) million FY2017: ¥47 million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2019	119,459	40,253	23.7	724.91
May 31, 2018	112,477	33,889	21.0	604.20

(Reference) Equity As of May 31, 2019: ¥28,355 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 FY2018. As for the financial position, the figures for the previous consolidated fiscal year were processed by the method.

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
FY2018	9,186	(6,519)	3,962	31,793
FY2017	9,505	(11,977)	6,496	25,054

2. DIVIDENDS

	Dividends per Share (Yen)					Total Dividend Payment (Annual)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Annual			
FY2017	—	0.00	—	13.00	13.00	514	37.2%	2.3%
FY2018	—	0.00	—	18.00	18.00	712	35.6%	2.7%
FY2019(Forecast)	—	0.00	—	19.00	19.00		32.3%	

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2020

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 Share
		%		%		%		%	Yen
FY2019 First Half	168,000	2.0	4,000	7.2	3,600	1.7	400	(36.6)	10.23
FY2019 Full Fiscal Year	344,000	5.2	11,000	16.2	10,700	15.8	2,300	16.4	58.80

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) 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
- (3) Number of shares issued and outstanding (Common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
May 31, 2019: 41,690,300 shares May 31, 2018: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
May 31, 2019: 2,574,573 shares May 31, 2018: 2,583,780 shares
 - 3) Average number of shares for the period
FY2018: 39,111,439 shares FY2017: 36,862,158 shares

(Reference) NON-CONSOLIDATED BUSINESS RESULTS

FY2018 (June 1, 2018 to May 31, 2019)

(1) Non-Consolidated Financial Results

Percentage figures represent year-on-year increase / (decrease).

	Net Sales		Operating Income (Loss)		Ordinary Income (Loss)		Net Income	
		%		%		%		%
FY2018	8,751	0.5	(1,809)	—	(2,139)	—	681	(8.0)
FY2017	8,709	11.6	99	(83.4)	(261)	—	741	84.0

	Net Income per Share		Diluted Net Income per Share	
		Yen		Yen
FY2018		17.42		—
FY2017		20.10		—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2019	59,306	19,292	32.5	493.21
May 31, 2018	57,853	19,115	33.0	488.81

(Reference) Equity as of May 31, 2019: ¥19,292 million As of May 31, 2018: ¥19,115 million

(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.

This Financial Report is not subject to a 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 7.

We are planning to hold a financial results meeting for analysts and institutional investors on July 19, 2019. Supplemental materials for the financial results will be posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) immediately after the meeting.

FY2018 Consolidated Financial Report

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FY2018 Consolidated Financial Report

(June 1, 2018 – May 31, 2019)

1. Information Concerning Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	FY2017	FY2018	YoY
Net sales	311,410	326,984	5.0%
Operating income	6,539	9,465	44.7%
Ordinary income	6,631	9,237	39.3%
Profit attributable to owners of parent	1,288	1,975	53.4%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	FY2017	FY2018	YoY
HR Solutions	308,194	322,876	4.8%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	261,614	272,309	4.1%
Expert Services (Temporary staffing)	159,850	158,601	(0.8)%
Insourcing (Contracting)	86,843	97,234	12.0%
HR Consulting, Education & Training, Others	7,703	8,508	10.4%
Global Sourcing (Overseas)	7,216	7,965	10.4%
Career Solutions (Placement / Recruiting, Outplacement)	13,923	15,377	10.4%
Outsourcing	32,656	35,188	7.8%
Life Solutions	5,129	5,660	10.4%
Public Solutions	2,277	3,082	35.3%
Eliminations and Corporate	(4,190)	(4,634)	-
Total	311,410	326,984	5.0%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	FY2017	FY2018	YoY
HR Solutions	14,294	18,547	29.7%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	5,135	7,316	42.5%
Expert Services (Temporary staffing)	5,135	7,316	42.5%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	2,947	3,510	19.1%
Outsourcing	6,211	7,719	24.3%
Life Solutions	268	168	(37.3)%
Public Solutions	(1,536)	(1,279)	-
Eliminations and Corporate	(6,487)	(7,970)	-
Total	6,539	9,465	44.7%

Segment classification of some businesses has been changed from this consolidated accounting period. In addition, the figures for the previous period have been reclassified by the new method.

(2) Overview of Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

Assets

Total assets as of May 31, 2019 stood at ¥119,459 million, an increase of ¥6,982 million or 6.2%, compared with May 31, 2018. This was mainly attributable to an increase of ¥6,926 million in cash and deposits, an increase of ¥1,334 million in property, plant and equipment, and a decrease of ¥1,302 million in intangible assets.

Liabilities

Total liabilities as of May 31, 2019 stood at ¥79,206 million, an increase of ¥618 million or 0.8%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥1,493 million in accrued expenses, an increase of ¥3,172 million in short-term loans payable, and a decrease of ¥1,309 million in long-term loans payable.

Net Assets

Net assets as of May 31, 2019 stood at ¥40,253 million, an increase of ¥6,363 million or 18.8%, compared with May 31, 2018. This was mainly due to profit attributable to owners of parent of ¥1,975 million, an increase of ¥3,344 million in capital surplus due to the partial sales of shares of one of our subsidiaries, the payment of dividends totaling ¥514 million, and an increase of ¥1,636 million in non-controlling interests.

As a result, equity ratio improved by 2.7 percentage points from the end of previous consolidated fiscal year to 23.7%.

As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of FY2018. With respect to 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 Cash Flows

Cash and cash equivalents (hereafter "net cash") as of May 31, 2019 increased by ¥6,739 million, compared with previous fiscal year end to ¥31,793 million.

Cash Flows from Operating Activities

Net cash used in operating activities in FY2018 amounted to ¥9,186 million (¥9,505 million in FY2017). Major cash inflows included income before income taxes totaling ¥8,894 million (¥6,735 million in FY2017), depreciation and amortization totaling ¥4,303 million (¥3,804 million in FY2017), amortization of goodwill totaling ¥963 million (¥993 million in FY2017), and a decrease in notes and accounts receivable—trade totaling ¥737 million (increase in ¥3,053 million in FY2017).

Principal cash outflows included income taxes paid totaling ¥4,175 million (¥3,345 million in FY2017) and decrease in operating debt totaling ¥1,524 million (increase in ¥1,854 million in FY2017).

Cash Flows from Investing Activities

Net cash used in investing activities in FY2018 amounted to ¥6,519 million (¥11,977 million in FY2017). Major cash outflows were purchase of fixed assets totaling ¥3,628 million (¥8,592 million in FY2017) and purchase of intangible assets totaling ¥1,577 million (¥2,012 million in FY2017).

Cash Flows from Financing Activities

Net cash provided in financing activities in FY2018 amounted to ¥3,962 million (¥6,496 million in

FY2017).

Major cash inflows were proceeds from long-term loans payable totaling ¥5,328 million (¥9,118 million in FY2017) and proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation totaling ¥4,899 million (none in FY2017).

Principal cash outflows were repayment of long-term loans payable amounting to ¥6,541 million (¥6,078 million in FY2017).

(Reference) **Cash Flow Benchmarks**

	FY2014	FY2015	FY2016	FY2017	FY2018
Equity ratio	24.1%	22.2%	20.1%	21.0%	23.7%
Equity ratio based on market capitalization	35.0%	32.2%	35.8%	58.9%	54.8%
Ratio of interest-bearing debt to cash flows (years)	1.6	32.3	2.9	2.5	2.7
Interest coverage ratio	49.5	3.0	43.0	51.1	41.9

Notes:

- Equity ratio: Shareholders' equity / Total assets
Equity ratio based on market capitalization: Market capitalization / Total assets
Ratio of interest-bearing debt to cash flows: Interest-bearing debt / Cash flows
Interest coverage ratio: Cash flows / Interest payments
- Each benchmark is calculated based on the consolidated financial statements.
- Market capitalization is calculated by multiplying the period-end closing share price with the number of outstanding shares at the period-end (after deducting treasury shares).
- Cash flows from operating activities are used in calculations for cash flows.
- Interest-bearing debt includes all interest-bearing debt under liabilities recorded on the consolidated balance sheets.
- FY2015's ratio of interest-bearing debt to cash flows, in comparison to FY2014's ratio, changed drastically. The main reason behind this was the reduction in accrued consumption taxes of cash flows from operating activities. Due to consumption tax rate increase, the balance of accrued consumption taxes had grown largely by the end of FY2014. Payment of these accrued consumption taxes led to a decrease in cash flows from operating activities in FY2015.

(4) Overview of Consolidated Forecasts

Consolidated Business Results Forecast

(Millions of yen)

	FY2018	FY2019 Forecast	YoY
Net sales	326,984	344,000	5.2%
Operating income	9,465	11,000	16.2%
Ordinary income	9,237	10,700	15.8%
Profit attributable to owners of parent	1,975	2,300	16.4%

Segment Information (Figures include intersegment sales)**Forecast of Consolidated Sales by Segment**

(Millions of yen)

	FY2018	FY2019 Forecast	YoY
HR Solutions	322,405	336,800	4.5%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	272,801	280,600	2.9%
Expert Services (Temporary staffing)	158,597	158,100	(0.3)%
BPO Services (Contracting)	97,152	104,500	7.6%
HR Consulting, Education & Training, Others	9,086	8,900	(2.1)%
Global Sourcing (Overseas)	7,965	9,100	14.2%
Career Solutions (Placement/Recruiting, Outplacement)	15,142	17,000	12.3%
Outsourcing	34,461	39,200	13.8%
Life Solutions	5,660	6,300	11.3%
Regional Revitalization Solutions	2,561	4,400	71.8%
Eliminations and Corporate	(3,642)	(3,500)	-
Total	326,984	344,000	5.2%

Forecast of Consolidated Operating Income (Loss) by Segment

(Millions of yen)

	FY2018	FY2019 Forecast	YoY
HR Solutions	18,557	20,030	7.9%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	7,353	6,970	(5.2)%
Expert Services (Temporary staffing)	6,690	6,180	(7.6)%
BPO Services (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)	662	790	19.2%
Career Solutions (Placement/Recruiting, Outplacement)	3,562	4,060	14.0%
Outsourcing	7,641	9,000	17.8%
Life Solutions	168	170	1.0%
Regional Revitalization Solutions	(1,254)	(1,100)	-
Eliminations and Corporate	(8,006)	(8,100)	-
Total	9,465	11,000	16.2%

Notes:

From FY2019, in light of the actual business situation, “Insourcing” will be changed to “BPO Services”, and “Public Solutions” will be changed to “Regional Revitalization Solutions”. In line with the segment name changes, the segment of some subsidiaries will be changed at the same time.

With regard to the operating income by segment, “Global Sourcing” will be individually disclosed as an independent segment.

The above tables regarding results in FY 2018 show the figures reclassified into the new segment classification.

(5) Policy on the Appropriation of Profits and Dividends for FY2018 and FY2019

In connection with the appropriation of profits, the Company takes into consideration the funds required to engage in new businesses and capital investments aimed at fulfilling the Company's responsibilities to continuously develop the growing human resources business market, to strengthen the Company's operating platform and earnings capacity and to expand shareholders' returns by enhancing corporate value. On this basis and for the foreseeable future, the Company has adopted the basic policy to implement a consolidated dividend payout ratio target of 30% in an effort to continuously deliver adequate and stable returns to shareholders taking into consideration its operating performance.

The Company has declared an annual dividend for the fiscal year ended May 31, 2019 of ¥18 per share following ratification at a Board of Directors' meeting held on July 12, 2019.

Regarding dividends for the fiscal year ending May 31, 2020, based on our basic policy for consolidated dividend payout ratio target and increase in profit attributable to owners of parent, the Company intend to pay a period-end cash dividend of ¥19 per share.

2. Basic consideration on selecting our accounting standard

The Group has adopted Japanese GAAP as our accounting standard, considering the period comparability of the consolidated financial statements and the comparability between companies. Regarding the application for IFRS (International Financial Reporting Standards), we will proceed with consideration based on domestic and international situation.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2018	As of May 31, 2019
ASSETS		
Current assets		
Cash and deposits	25,378	32,305
Notes and accounts receivable-trade	40,082	39,412
Inventories	1,938	2,035
Income taxes receivable	560	10
Other	6,085	6,662
Allowance for doubtful accounts	(58)	(107)
Total current assets	73,987	80,317
Non-current assets		
Property, plant and equipment		
Buildings	11,870	12,883
Accumulated depreciation	(5,028)	(5,162)
Buildings, net	6,842	7,721
Land	2,340	3,060
Lease assets	4,151	3,044
Accumulated depreciation	(2,173)	(1,415)
Lease assets, net	1,978	1,629
Other	8,829	9,356
Accumulated depreciation	(4,599)	(5,041)
Other, net	4,229	4,314
Total property, plant and equipment	15,391	16,725
Intangible assets		
Goodwill	3,900	3,029
Software	4,196	4,022
Lease assets	169	170
Customer assets	1,160	896
Other	128	133
Total intangible assets	9,555	8,252
Investments and other assets		
Investment securities	3,792	4,359
Long-term loans receivable	170	159
Net defined benefit asset	1,138	1,043
Deferred tax assets	2,638	2,369
Lease and guarantee deposits	4,649	4,913
Other	1,249	1,445
Allowance for doubtful accounts	(95)	(126)
Total investments and other assets	13,543	14,163
Total non-current assets	38,490	39,141
Total assets	112,477	119,459

(Millions of yen)

	As of May 31, 2018	As of May 31, 2019
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,545	6,534
Short-term loans payable	6,219	9,391
Lease obligations	781	665
Accounts payable-other	7,533	7,424
Accrued expenses	16,583	15,090
Income taxes payable	2,210	2,708
Accrued consumption taxes	4,128	3,502
Unearned revenue	1,527	1,471
Provision for bonuses	3,811	4,143
Provision for directors' bonuses	48	41
Asset retirement obligations	42	1
Other	8,195	8,142
Total current liabilities	57,629	59,116
Non-current liabilities		
Bonds payable	344	288
Long-term loans payable	14,116	12,806
Lease obligations	1,817	1,499
Provision for directors' stock benefit	170	315
Provision for employees' stock grant	141	257
Net defined benefit liability	1,949	1,996
Deferred tax liabilities	53	198
Asset retirement obligations	1,482	1,854
Other	882	872
Total non-current liabilities	20,958	20,089
Total liabilities	78,587	79,206
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,967	10,263
Retained earnings	13,461	14,907
Treasury shares	(2,194)	(2,185)
Total shareholders' equity	23,233	27,985
Other comprehensive income		
Valuation difference on available-for-sale securities	345	447
Foreign currency translation adjustment	9	14
Remeasurements of defined benefit plans	39	(91)
Total other comprehensive income	394	370
Non-controlling interests	10,261	11,898
Total net assets	33,889	40,253
Total liabilities and net assets	112,477	119,459

(2) Consolidated Statements of Income

(Millions of yen)

	FY2017	FY2018
Net sales	311,410	326,984
Cost of sales	244,382	252,274
Gross profit	67,028	74,710
Selling, general and administrative expenses	60,489	65,245
Operating income	6,539	9,465
Non-operating income		
Interest income	35	37
Share of profit of entities accounted for using equity method	47	-
Subsidy	97	54
Real estate rent	603	748
Other	196	249
Total non-operating income	981	1,089
Non-operating expenses		
Interest expenses	192	217
Share of loss of entities accounted for using equity method	-	7
Commitment fee	54	49
Provision of allowance for doubtful accounts	48	79
Rent expenses on real estates	473	597
Commission fee	-	236
Other	119	131
Total non-operating expenses	889	1,318
Ordinary income	6,631	9,237
Extraordinary income		
Gain on sales of non-current assets	-	17
Gain on bargain purchase	601	-
Total extraordinary income	601	17
Extraordinary loss		
Loss on sales and retirement of non-current assets	144	129
Impairment loss	190	214
Loss on valuation of investment securities	129	16
Loss on valuation of shares of subsidiaries and associates	32	-
Total extraordinary loss	497	360
Income before income taxes	6,735	8,894
Income taxes-current	3,855	3,652
Income taxes-deferred	(396)	470
Income taxes	3,458	4,122
Profit	3,276	4,771
Profit attributable to non-controlling interests	1,988	2,795
Profit attributable to owners of parent	1,288	1,975

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2017	FY2018
Profit	3,276	4,771
Other comprehensive income		
Valuation difference on available-for-sale securities	94	(42)
Foreign currency translation adjustment	(81)	3
Remeasurements of defined benefit plans	(35)	(133)
Share of other comprehensive income of entities accounted for using equity method	(3)	(0)
Total other comprehensive income	(26)	(172)
Comprehensive income	3,249	4,599
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	1,224	1,829
Comprehensive income attributable to non-controlling interests	2,025	2,770

(4) Consolidated Statements of Changes in Shareholders' Equity

FY2017 (For the fiscal year ended May 31, 2018)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	5,000	5,013	12,593	(4,008)	18,598
Changes of items during the period					
Dividends from surplus			(447)		(447)
Net income attributable to owners of parent			1,288		1,288
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		1,967		1,814	3,781
Change of scope of equity method			26		26
Change in treasury shares of parent arising from transactions with non-controlling shareholders		0			0
Capital increase of consolidated subsidiaries		(14)			(14)
Net changes of items other than shareholders' equity					-
Total changes of items during the period	-	1,953	867	1,814	4,635
Balance at the end of current period	5,000	6,967	13,461	(2,194)	23,233

	Total accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	293	90	74	458	9,006	28,062
Changes of items during the period						
Dividends from surplus				-		(447)
Net income attributable to owners of parent				-		1,288
Purchase of treasury shares				-		(0)
Disposal of treasury shares				-		3,781
Change of scope of equity method				-		26
Change in treasury shares of parent arising from transactions with non-controlling shareholders				-		0
Capital increase of consolidated subsidiaries				-		(14)
Net changes of items other than shareholders' equity	51	(80)	(35)	(63)	1,255	1,191
Total changes of items during the period	51	(80)	(35)	(63)	1,255	5,827
Balance at the end of current period	345	9	39	394	10,261	33,889

FY2018 (For the fiscal year ended May 31, 2019)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity
Balance at beginning of current period	5,000	6,967	13,461	(2,194)	23,233
Changes of items during the period					
Dividends from surplus			(514)		(514)
Net income attributable to owners of parent			1,975		1,975
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares				9	9
Change of scope of consolidation		(35)	19		(15)
Change of scope of equity method			(34)		(34)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		3,331			3,331
Capital increase of consolidated subsidiaries		(0)			(0)
Net changes of items other than shareholders' equity					-
Total changes of items during the period	-	3,295	1,446	9	4,751
Balance at the end of current period	5,000	10,263	14,907	(2,185)	27,985

	Total accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	345	9	39	394	10,261	33,889
Changes of items during the period						
Dividends from surplus				-		(514)
Net income attributable to owners of parent				-		1,975
Purchase of treasury shares				-		(0)
Disposal of treasury shares				-		9
Change of scope of consolidation				-		(15)
Change of scope of equity method				-		(34)
Change in treasury shares of parent arising from transactions with non-controlling shareholders				-		3,331
Capital increase of consolidated subsidiaries				-		(0)
Net changes of items other than shareholders' equity	101	5	(131)	(24)	1,636	1,612
Total changes of items during the period	101	5	(131)	(24)	1,636	6,363
Balance at the end of current period	447	14	(91)	370	11,898	40,253

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2017	FY2018
Cash flows from operating activities		
Income before income taxes	6,735	8,894
Depreciation and amortization	3,804	4,303
Impairment loss	190	214
Amortization of goodwill	993	963
Gain on bargain purchase	(601)	-
Increase (decrease) in allowance for doubtful accounts	(20)	81
Increase (decrease) in provision for bonuses	605	329
Increase (decrease) in net defined benefit liability	24	41
Decrease (increase) in net defined benefit asset	(190)	(95)
Increase (decrease) in provision for directors' stock benefit	142	156
Increase (decrease) in provision for employees' stock grant	107	115
Interest and dividends income	(62)	(59)
Interest expenses	192	217
Subsidy income	(97)	(54)
Share of (profit) loss of entities accounted for using equity method	(47)	7
Loss (gain) on sales and retirement of non-current assets	144	111
Loss (gain) on valuation of investment securities	161	16
Decrease (increase) in notes and accounts receivable-trade	(3,053)	737
Decrease (increase) in inventories	(407)	(86)
Decrease (increase) in other assets	(410)	(1,089)
Increase (decrease) in operating debt	1,854	(1,524)
Increase (decrease) in accrued consumption taxes	545	(162)
Increase (decrease) in deposits received	1,080	(170)
Increase (decrease) in other liabilities	1,105	262
Other	59	235
Subtotal	12,856	13,446
Interest and dividends income received	83	80
Interest expenses paid	(186)	(219)
Proceeds from subsidy	97	54
Income taxes paid	(3,345)	(4,175)
Net cash provided by operating activities	9,505	9,186

	FY2017	FY2018
Cash flows from investment activities		
Decrease (increase) in time deposits	364	(188)
Purchase of property, plant and equipment	(8,592)	(3,628)
Proceeds from sales of property, plant and equipment	19	95
Purchase of intangible assets	(2,012)	(1,577)
Purchase of investment securities	(56)	(515)
Proceeds from sales of investment securities	0	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,172)	-
Payments of loans receivable	(28)	(58)
Collection of loans receivable	33	28
Payments for lease and guarantee deposits	(516)	(681)
Proceeds from collection of lease and guarantee deposits	959	433
Payments for asset retirement obligation	(223)	(99)
Payments for transfer of business	(685)	(327)
Other	(65)	(0)
Net cash used in investment activities	(11,977)	(6,519)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(152)	3,016
Proceeds from long-term loans payable	9,118	5,328
Repayment of long-term loans payable	(6,078)	(6,541)
Proceeds from sale and leaseback	1,593	87
Repayments of finance lease obligations	(800)	(800)
Proceeds from issuance of bonds	390	-
Redemption of bonds	-	(56)
Proceeds from share issuance to non-controlling shareholders	38	-
Proceeds from sales of treasury shares	3,781	-
Purchase of treasury shares of subsidiaries	-	(325)
Proceeds from disposal of treasury shares of subsidiaries	0	-
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(23)	(0)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	4,899
Cash dividends paid	(447)	(514)
Dividends paid to non-controlling interests	(924)	(1,131)
Other	(0)	(0)
Net cash provided by (used in) financing activities	6,496	3,962
Effect of exchange rate change on cash and cash equivalents	(33)	(3)
Net increase (decrease) in cash and cash equivalents	3,992	6,626
Cash and cash equivalents at the beginning of the period	21,062	25,054
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	-	112
Cash and cash equivalents at the end of the period	25,054	31,793

(6) Notes to Going Concern Assumption

None

(7) Important Items Considered Fundamental to the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

1) Consolidated subsidiaries

a. No. of consolidated subsidiaries: 67 companies

b. Major consolidated subsidiaries

- Pasona Inc.
- Benefit One Inc.
- Bewith, Inc.
- Pasona Tech, Inc.
- CAPLAN Corporation
- Pasona Panasonic Business Service Co., Ltd.

c. New consolidated subsidiaries: 5 companies

Increased importance

- Chihou Sousei Inc.
- REWARDZ BENEFITS SDN. BHD.
- FLABULESS FZ LLC

1 other company

Establishment

- BENEFITONE ENGAGEMENT TECHNOLOGIES PRIVATE LIMITED

d. Exclusion from the scope of consolidation: 4 companies

- Benefit One Solutions Inc. *1
- Anime Egg Inc. *2
- Art Ribbon Inc. *3

1 other company

*1 Benefit One Solutions Inc. merged with Benefit One Inc. and expired.

*2 Anime Egg Inc. merged with Pasona Furusato Incubation Inc. and expired.

*3 Art Ribbon Inc. merged with Pasona Furusato Incubation Inc. and expired.

2) Non-consolidated subsidiary

a. No. of non-consolidated subsidiaries: 12 companies

b. Major non-consolidated subsidiaries

- DF Management Co., Ltd.

- Power of Seeds Inc.

ed1. co., Ltd. was newly consolidated, merged with Pasona Inc. and expired.

c. Reasons for exclusion from the scope of consolidation

The assets, sales, net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) are considered insignificant and deemed to have immaterial impact on the consolidated financial statements. As a result, these non-consolidated subsidiaries have been excluded from the scope of consolidation.

2. Application of the Equity Method

1) Affiliated companies that are accounted for by the equity method

a. No. of affiliated companies that are accounted for by the equity method: 11 companies

b. Major affiliated companies that are accounted for by the equity method

- E-Staffing Co., Ltd.

- National Examination Center Inc.

c. New affiliated companies that are accounted for by the equity method: 8 companies

Increased importance

- Visit Tohoku Inc.
- IHATOV TOHOKU Inc.

5 other companies

Establishment

- GM 7 Inc.

- 2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
 - a. No. of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: 14 companies
 - b. Major non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
 - DF Management Co., Ltd.
 - Power of Seeds Inc.
 - c. Reasons for exclusion from the scope of the equity method

Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method were excluded from the scope of consolidation as their net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) had an immaterial impact on the Group, and their overall importance to the Group's performance was limited.

(8) Change 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".

(9) Segment Information, etc.

1. Overview of reportable segments

The business segments reported by the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine the distribution of management resources and evaluate their business results.

The Company's principal business activities are human resource-related support services as typified by temporary staffing, contracting, placement and recruiting, outplacement, employee fringe benefit outsourcing services, childcare and nursing care, and regional revitalization. Accordingly, the Company has designated "Expert Services (Temporary staffing), Insourcing (Contracting), Others", "Career Solutions (Placement/Recruiting, Outplacement)", "Outsourcing", "Life Solutions" and "Public Solutions" as reporting segments. Pasona Group, a holding company, pursues the formulation of strategies for Group management and support operation execution, governance of management and the proper allocation of management resources, as well as developing new businesses related to job creation.

Since FY2018, contracting business with government offices and HR consulting business which had been previously included in "Career Solutions" in the past, were changed to be included in "Expert Services (Temporary staffing), Insourcing (Contracting), Others".

The segment information of this report was provided through the new method, and the result was referred to the following "3. Information regarding net sales, income (loss), assets, liabilities and other items by reporting segment".

2. Method of computing net sales, income (loss), assets, liabilities and other items by reporting segment

The accounting treatment method for the Company's reporting segments is generally same as the consolidated financial statements.

Also, segment income is based on operating income.

The prices of intersegment transactions and transfers are determined by price negotiations based on the Company's submission of preferred prices after taking market conditions into account.

3. Information regarding net sales, income (loss), assets, liabilities and other items by reporting segment

FY2017 (For the fiscal year ended May 31, 2018)

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	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	259,560	13,836	31,813	5,024	1,175	311,410	-	311,410
(2) Intersegment sales and transfers	2,054	86	842	104	1,101	4,190	(4,190)	-
Total	261,614	13,923	32,656	5,129	2,277	315,600	(4,190)	311,410
Operating income (loss)	5,135	2,947	6,211	268	(1,536)	13,026	(6,487)	6,539
Segment assets	64,063	12,725	30,673	1,620	6,016	115,099	(2,622)	112,477
Other items								
Depreciation and Amortization	1,583	275	906	45	304	3,116	688	3,804
Amortization of Goodwill	898	5	89	-	-	993	-	993
Impairment losses	-	4	13	-	172	190	-	190
Increase in tangible and intangible fixed assets	3,304	783	1,057	134	5,286	10,566	2,048	12,615

Notes:

- 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).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(6,487) million includes Group management costs relating to the Company and incubation cost of our new business totaling ¥(6,527) million as well as intersegment sales and transfers totaling ¥39 million.
 - Adjustment of segment assets totaling ¥(2,622) million includes the Company’s cash and deposits and assets relating to Group management totaling ¥20,965 million as well as intersegment sales and transfers totaling ¥(23,587) million.
 - Adjustment of depreciation and amortization totaling ¥688 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥698 million as well as intersegment sales and transfers totaling ¥(9) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥2,048 million are mainly comprised of an increase of assets relating to Group management totaling ¥2,057 million and intersegment sales and transfers totaling ¥(9) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	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	270,285	15,271	34,231	5,502	1,693	326,984	-	326,984
(2) Intersegment sales and transfers	2,024	106	956	157	1,388	4,634	(4,634)	-
Total	272,309	15,377	35,188	5,660	3,082	331,619	(4,634)	326,984
Operating income (loss)	7,316	3,510	7,719	168	(1,279)	17,435	(7,970)	9,465
Segment assets	60,901	13,563	35,300	1,768	7,214	118,749	709	119,459
Other items								
Depreciation and Amortization	1,737	367	834	51	551	3,543	760	4,303
Amortization of Goodwill	911	14	38	-	-	963	-	963
Impairment losses	-	-	93	-	19	112	101	214
Increase in tangible and intangible fixed assets	1,486	262	803	27	1,767	4,347	1,540	5,887

Notes:

- 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).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(7,970) million includes Group management costs relating to the Company and the cost of business incubation totaling ¥(8,017) million, as well as intersegment sales and transfers totaling ¥46 million.
 - Adjustment of segment assets totaling ¥709 million includes the Company's cash and deposits and assets relating to Group management totaling ¥23,428 million as well as intersegment sales and transfers totaling ¥(22,718) million.
 - Adjustment of depreciation and amortization totaling ¥760 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥762 million as well as intersegment sales and transfers totaling ¥(2) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥1,540 million are mainly comprised of an increase of assets relating to Group management totaling ¥1,629 million as well as intersegment sales and transfers totaling ¥(89) million.
 - Adjustment of impairment losses totaling ¥101 million are mainly impairment losses for assets relating to group management.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

(10) Related information

FY2017 (For the fiscal year ended May 31, 2018)

1. Information by product and service

Nothing is stated herein as similar information is disclosed in Segment information.

2. Information on geographic areas

1) Net sales

Since the percentage of net sales in Japan exceeds 90%, information on geographic areas is omitted in this report.

2) Property, plant and equipment

Since the percentage of total property, plant and equipment located in Japan exceeds 90%, information on geographic areas is omitted in this report.

3. Information by major customer

No major customer is stated because no customer accounted for more than 10% of net sales.

FY2018 (For the fiscal year ended May 31, 2019)

1. Information by product and service

Nothing is stated herein as similar information is disclosed in Segment information.

2. Information on geographic areas

1) Net sales

Since the percentage of net sales in Japan exceeds 90%, information on geographic areas is omitted in this report.

2) Property, plant and equipment

Since the percentage of total property, plant and equipment located in Japan exceeds 90%, information on geographic areas is omitted in this report.

3. Information by major customer

No major customer is stated because no customer accounted for more than 10% of net sales.

(11) Information regarding Impairment Loss on fixed assets

FY2017 (For the fiscal year ended May 31, 2018)

Since an impairment loss on fixed assets has been already disclosed in the segment information, it is omitted in this report.

FY2018 (For the fiscal year ended May 31, 2019)

Since an impairment loss on fixed assets has been already disclosed in the segment information, it is omitted in this report.

(12) Information regarding Unamortized Balance of Goodwill by reporting segment

FY2017 (For the fiscal year ended May 31, 2018)

(Millions of yen)

	Reporting segments					Adjustment	Total
	Expert Services (Temporary staffing), Insourcing (Contracting), Others	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing	Life Solutions	Public Solutions		
Balance at the end of the period	3,706	67	126	-	-	-	3,900

FY2018 (For the fiscal year ended May 31, 2019)

(Millions of yen)

	Reporting segments					Adjustment	Total
	Expert Services (Temporary staffing), Insourcing (Contracting), Others	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing	Life Solutions	Public Solutions		
Balance at the end of the period	2,922	86	21	-	-	-	3,029

(13) Information regarding Gain on Bargain Purchase by reporting segment

FY2017 (For the fiscal year ended May 31, 2018)

During 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 (changing the name to 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.

FY2018 (For the fiscal year ended May 31, 2019)

None

(14) Per Share Information

(Yen)

	FY2017	FY2018
Net assets per share	604.20	724.91
Net income per share	34.94	50.52

(Notes)

- Diluted net income per share of the current consolidated fiscal year is not stated because there was no diluted share.
- The Company's shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders' equity, are not counted toward the number of treasury shares as of the period-end and the average number of shares outstanding for the period for the purpose of computing earnings and net assets per share.
The number of treasury shares deducted for calculation of net assets per share were 291,000 in FY2017 and 283,600 in FY2018 in terms of BBT, and were 194,000 in FY2017 and 192,129 in FY2018 in terms of J-ESOP (year-end basis). The number of treasury shares deducted for calculation of net income per share were 291,000 in FY2017 and 286,560 in FY2018 in terms of BBT, and were 194,000 in FY2017 and 193,508 in FY2018 in terms of J-ESOP (year average basis).
- The following shows the basis of calculating net earnings per share

(Millions of yen)

Items	FY2017	FY2018
Earnings per share		
Profit attributable to owners of parent	1,288	1,975
Amount not applicable to shareholders of common stock	-	-
Profit attributable to owners of parent applicable to common stock	1,288	1,975
Average number of shares for the period (shares)	36,862,158	39,111,439

4. The following shows the basis of calculating net assets per share

(Millions of yen)

Items	As of May 31, 2018	As of May 31, 2019
Total net assets	33,889	40,253
Amount deducted from total net assets	10,261	11,898
Net assets applicable to common stock as of the fiscal period-end	23,628	28,355
Number of common stock used to calculate net assets per share (shares)	39,106,520	39,115,727

(15) Important Subsequent Events

Sales of partial shares of our subsidiary

The Company sold a part of the shares of Benefit One Co., Ltd., our consolidated subsidiary.

1. The reason for the sales

Given that the company's consolidated subsidiary Benefit One was listed at the First Section of the Tokyo Stock Exchange on November 28, 2018, the Company has sold some of its shares due to securing its share liquidity in the market.

Benefit One is one of our core companies. As Pasona Group and Benefit One are both listed companies, we have been operating independently of each other. However, from the view point of our group management, the Company will continue to hold Benefit One's shares.

2. Subsidiary's name and business contents

The name of the subsidiary: Benefit One Co., Ltd.

The business line: Welfare Outsourcing

3. The date of the sales

June 12, 2019

4. The number of shares

4,800,000

5. Proceeds from sales of shares

¥9,100 million

6. Our share ratio for Benefit One after the sales of the shares

50.01%

7. Legal form of business combination

Partial sales of subsidiary shares to non-controlling interests without change in scope of consolidation.

8. Accounting procedure for the partial sales of subsidiary shares

Among the transactions under common control, as a transaction with a non-controlling shareholder, we will reduce the equity interests corresponding to the shares sold, increase the equity interest for non-controlling interests, and process the difference between decrease of our equity interests and sales value as capital surplus. This accounting treatment is in accordance with "Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013)" and "Guidance on Accounting Standard for Business Combination and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, September 13, 2013)".