

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2018 (June 1, 2018 to May 31, 2019)
Nine Months Ended February 28, 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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 Scheduled filing date of quarterly report: April 11, 2019
 Supplemental 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 attributable to owners of parent	
	Yen	%	Yen	%	Yen	%	Yen	%
Nine months ended February 28, 2019	243,295	6.4	5,827	51.1	5,618	42.3	917	371.6
Nine months ended February 28, 2018	228,690	11.3	3,857	105.4	3,947	119.5	194	—

(Note) Comprehensive income 9M FY2018: ¥2,573 million 9M FY2017: ¥1,551 million

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended February 28, 2019	23.46	—
Nine months ended February 28, 2018	5.29	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
February 28, 2019	108,180	38,427	25.1
May 31, 2018	112,477	33,889	21.0

(Reference) Equity As of February 28, 2019: ¥27,165 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 the first quarter of FY2018. As for the financial position, the figures for the previous consolidated fiscal year were processed by the method.

2. DIVIDENDS PER SHARE

	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0.00	—	13.00	13.00
FY2018	—	0.00	—	—	—
FY2018 (Forecast)	—	—	—	14.00	14.00

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

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2019

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
FY2018 Full Fiscal Year	343,000	10.1	8,300	26.9	8,400	26.7	1,600	24.2	40.91

(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)
February 28, 2019: 41,690,300 shares May 31, 2018: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
February 28, 2019: 2,574,543 shares May 31, 2018: 2,583,780 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Nine months ended February 28, 2019: 39,109,987 shares
Nine months ended February 28, 2018: 36,806,549 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 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.

The Quarterly Financial Report is not subject to a quarterly 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 5.

Method to obtain supplemental materials for quarterly financial results

Supplemental materials for the quarterly financial results have been posted on the Company's website (<https://www.pasonagroup.co.jp/ir/>) since April 10, 2019.

Consolidated Financial Report

Nine Months Ended February 28, 2019

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9M FY2018 Consolidated Financial Report

(June 1, 2018 – February 28, 2019)

1. Information Concerning Quarterly Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	9M FY2017	9M FY2018	YoY
Net sales	228,690	243,295	6.4%
Operating income	3,857	5,827	51.1%
Ordinary income	3,947	5,618	42.3%
Profit attributable to owners of parent	194	917	371.6%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	9M FY2017	9M FY2018	YoY
HR Solutions	226,166	240,306	6.3%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	191,724	203,413	6.1%
Expert Services (Temporary staffing)	118,715	120,638	1.6%
Insourcing (Contracting)	62,244	70,410	13.1%
HR Consulting, Education & Training, Others	5,419	6,490	19.8%
Global Sourcing (Overseas)	5,345	5,872	9.9%
Career Solutions (Placement / Recruiting, Outplacement)	10,075	11,196	11.1%
Outsourcing	24,367	25,696	5.5%
Life Solutions	3,781	4,129	9.2%
Public Solutions	1,761	2,349	33.4%
Eliminations and Corporate	(3,019)	(3,490)	-
Total	228,690	243,295	6.4%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	9M FY2017	9M FY2018	YoY
HR Solutions	9,442	12,368	31.0%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	3,106	4,517	45.4%
Expert Services (Temporary staffing)	3,106	4,517	45.4%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	2,063	2,408	16.7%
Outsourcing	4,272	5,441	27.4%
Life Solutions	187	131	(30.0)%
Public Solutions	(1,072)	(999)	-
Eliminations and Corporate	(4,700)	(5,671)	-
Total	3,857	5,827	51.1%

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 February 28, 2019 stood at ¥108,180 million, a decrease of ¥4,296 million or 3.8%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥2,590 million in cash and deposits, a decrease of ¥2,358 million in notes and accounts receivable-trade, and an increase of ¥1,326 million in property, plant and equipment.

Liabilities

Total liabilities as of February 28, 2019 stood at ¥69,753 million, a decrease of ¥8,834 million or 11.2%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥2,643 million in accounts payable-trade, a decrease of ¥2,205 million in accrued expenses, a decrease of ¥1,415 million in provision for bonuses, and a decrease of ¥1,019 million in income taxes payable.

Net Assets

Net assets as of February 28, 2019 stood at ¥38,427 million, an increase of ¥4,537 million or 13.4%, compared with May 31, 2018. This was mainly due to profit attributable to owners of parent of ¥917 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 ¥999 million in non-controlling interests.

As a result, equity ratio improved by 4.1 percentage points from the end of previous consolidated fiscal year to 25.1%.

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. 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 Consolidated Forecasts

As for the financial income in the third quarter of FY2018, although the progress of Expert Services has been weakening under the influence of the revised Worker Dispatch Law and Labor Contract Act, other businesses have been progressing steadily. Therefore, regarding the consolidated full-year forecasts, the forecasts previously announced on July 13, 2018 have been unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2018	As of February 28, 2019
ASSETS		
Current assets		
Cash and deposits	25,378	22,788
Notes and accounts receivable-trade	40,082	37,723
Inventories	1,938	2,135
Other	6,645	7,082
Allowance for doubtful accounts	(58)	(63)
Total current assets	73,987	69,667
Non-current assets		
Property, plant and equipment	15,391	16,718
Intangible assets		
Goodwill	3,900	3,294
Other	5,655	5,381
Total intangible assets	9,555	8,676
Investments and other assets		
Other	13,638	13,216
Allowance for doubtful accounts	(95)	(96)
Total investments and other assets	13,543	13,119
Total non-current assets	38,490	38,513
Total assets	112,477	108,180

	As of May 31, 2018	As of February 28, 2019
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,545	3,902
Short-term loans payable	6,219	6,741
Accrued expenses	16,583	14,378
Income taxes payable	2,210	1,190
Provision for bonuses	3,811	2,396
Provision for directors' bonuses	48	24
Asset retirement obligations	42	29
Other	22,166	19,874
Total current liabilities	57,629	48,537
Non-current liabilities		
Bonds payable	344	316
Long-term loans payable	14,116	14,066
Net defined benefit liability	1,949	2,014
Provision for directors' stock benefit	170	187
Provision for employees' stock grant	141	164
Asset retirement obligations	1,482	1,805
Other	2,753	2,660
Total non-current liabilities	20,958	21,215
Total liabilities	78,587	69,753
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,967	10,310
Retained earnings	13,461	13,807
Treasury shares	(2,194)	(2,185)
Total shareholders' equity	23,233	26,932
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	345	225
Foreign currency translation adjustment	9	(3)
Remeasurements of defined benefit plans	39	10
Total accumulated other comprehensive income	394	232
Non-controlling interests	10,261	11,261
Total net assets	33,889	38,427
Total liabilities and net assets	112,477	108,180

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	9M FY2017	9M FY2018
Net sales	228,690	243,295
Cost of sales	180,675	189,059
Gross profit	48,015	54,236
Selling, general and administrative expenses	44,157	48,408
Operating income	3,857	5,827
Non-operating income		
Interest income	27	26
Share of profit of entities accounted for using equity method	13	-
Subsidy	30	38
Real estate rent	432	563
Other	178	187
Total non-operating income	682	815
Non-operating expenses		
Interest expenses	141	163
Commitment fee	43	40
Share of loss of entities accounted for using equity method	-	44
Rent expenses on real estates	336	447
Commission fee	-	236
Other	70	93
Total non-operating expenses	591	1,025
Ordinary income	3,947	5,618
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	121	41
Impairment loss	173	-
Loss on valuation of investment securities	67	5
Loss on valuation of shares of subsidiaries and associates	9	-
Total extraordinary loss	371	46
Income before income taxes	4,178	5,589
Income taxes-current	2,144	1,560
Income taxes-deferred	593	1,183
Income taxes	2,738	2,743
Profit	1,439	2,845
Profit attributable to non-controlling interests	1,245	1,928
Profit attributable to owners of parent	194	917

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	9M FY2017	9M FY2018
Profit	1,439	2,845
Other comprehensive income		
Valuation difference on available-for-sale securities	113	(223)
Foreign currency translation adjustment	55	(19)
Remeasurements of defined benefit plans	(56)	(29)
Share of other comprehensive income of entities accounted for using equity method	0	0
Total other comprehensive income	112	(272)
Comprehensive income	1,551	2,573
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	244	755
Comprehensive income attributable to non-controlling interests	1,306	1,817

(4) Notes to Going Concern Assumption

Not applicable

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

During the first quarter of FY2018, as the Company sold a portion of the shares of consolidated subsidiary Benefit One Inc., the capital surplus increased by ¥3,343 million. As a result, the capital surplus at the end of the third quarter of FY2018 was ¥10,310 million.

(6) Additional Information

(Changes 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".

(7) Segment Information

i) Nine months ended February 28, 2018

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	190,230	10,017	23,755	3,709	977	228,690	-	228,690
(2) Intersegment sales and transfers	1,493	57	612	71	784	3,019	(3,019)	-
Total	191,724	10,075	24,367	3,781	1,761	231,710	(3,019)	228,690
Operating income (loss)	3,106	2,063	4,272	187	(1,072)	8,557	(4,700)	3,857

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 of ¥(4,700) million with Operating income (loss) includes the elimination of intersegment transactions of ¥24 million, and corporate expenses of ¥4,724 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Information regarding impairment loss on fixed assets or goodwill by reporting segment
An impairment loss on fixed assets was recorded in “Public Solutions”. The amount recorded in 9M FY2017 was ¥173 million.

ii) Nine months ended February 28, 2019

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	201,857	11,113	24,977	4,021	1,325	243,295	-	243,295
(2) Intersegment sales and transfers	1,555	82	719	108	1,024	3,490	(3,490)	-
Total	203,413	11,196	25,696	4,129	2,349	246,785	(3,490)	243,295
Operating income (loss)	4,517	2,408	5,441	131	(999)	11,499	(5,671)	5,827

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 of ¥(5,671) million with Operating income (loss) includes the elimination of intersegment transactions of ¥36 million, and corporate expenses of ¥5,708 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

b) Matters concerning changes in reporting segment

Reviewing our business management department and organizations, new segment classification method has been adopted since the third quarter of FY2018, in which the public contract business and the human resource consulting business which were conventionally included in the “Career Solutions” are included in the “Expert Services, Insourcing, Others”.

In addition, the segment information in the previous year was recorded in the way of new segment classification method.

(8) Important Subsequent Events

Not applicable