

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2017 (June 1, 2017 to May 31, 2018)
Nine Months Ended February 28, 2018

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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 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	
	Yen	%	Yen	%	Yen	%	Yen	%
Nine months ended February 28, 2018	228,690	11.3	3,857	105.4	3,947	119.5	194	—
Nine months ended February 28, 2017	205,480	5.7	1,877	(6.2)	1,798	(7.0)	(914)	—

(Note) Comprehensive income 9M FY2017: ¥1,551 million 9M FY2016: ¥801 million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Nine months ended February 28, 2018	5.29	—
Nine months ended February 28, 2017	(24.86)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
February 28, 2018	99,099	28,292	19.0
May 31, 2017	94,584	28,062	20.1

(Reference) Equity As of February 28, 2018: ¥18,868 million As of May 31, 2017: ¥19,056 million

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
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 Share
	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)
February 28, 2018: 41,690,300 shares May 31, 2017: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
February 28, 2018: 4,883,780 shares May 31, 2017: 4,883,708 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Nine months ended February 28, 2018: 36,806,549 shares
Nine months ended February 28, 2017: 36,806,617 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 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 “Qualitative Information Concerning Consolidated Forecasts” on page 5.

Method to obtain supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results have been posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) since April 6, 2018.

Consolidated Financial Report

Nine Months Ended February 28, 2018

INDEX

1. Qualitative Information Concerning Quarterly Consolidated Business Results	
(1) Information Concerning Consolidated Business Results	..... p. 4
(2) Qualitative Information Concerning Consolidated Financial Position	..... p. 5
(3) Qualitative Information Concerning Consolidated Forecasts	..... p. 5
2. Quarterly Consolidated Financial Statements and Notes	
(1) Quarterly Consolidated Balance Sheets	..... p. 6
(2) Quarterly Consolidated Statements of Income	..... p. 8
(3) Quarterly Consolidated Statements of Comprehensive Income	..... p. 9
(4) Notes to Going Concern Assumption	..... p. 10
(5) Notes on Significant Changes in the Shareholders' Equity	..... p. 10
(6) Changes in Presentation	..... p. 10
(7) Segment Information	..... p. 10
(8) Important Subsequent Events	..... p. 11

9M FY2017 Consolidated Financial Report

(June 1, 2017 - February 28, 2018)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	9M FY2016	9M FY2017	YoY
Net sales	205,480	228,690	11.3%
Operating income	1,877	3,857	105.4%
Ordinary income	1,798	3,947	119.5%
Profit (loss) attributable to owners of parent	(914)	194	—

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	9M FY2016	9M FY2017	YoY
HR Solutions	203,090	226,117	11.3%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	170,350	189,620	11.3%
Expert Services (Temporary staffing)	105,767	118,715	12.2%
Insourcing (Contracting)	55,421	60,445	9.1%
HR Consulting, Education & Training, Others	4,584	5,113	11.5%
Global Sourcing (Overseas)	4,577	5,345	16.8%
Career Solutions (Placement/Recruiting, Outplacement)	10,785	12,129	12.5%
Outsourcing	21,953	24,367	11.0%
Life Solutions	3,392	3,781	11.5%
Public Solutions	1,270	1,761	38.7%
Eliminations and Corporate	(2,272)	(2,970)	—
Total	205,480	228,690	11.3%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	9M FY2016	9M FY2017	YoY
HR Solutions	6,068	9,447	55.7%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	833	3,059	267.0%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	833	3,059	267.0%
Global Sourcing (Overseas)			
Career Solutions (Placement/Recruiting, Outplacement)	1,093	2,115	93.5%
Outsourcing	4,141	4,272	3.1%
Life Solutions	140	187	33.2%
Public Solutions	(352)	(1,072)	—
Eliminations and Corporate	(3,979)	(4,704)	—
Total	1,877	3,857	105.4%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of February 28, 2018 stood at ¥99,099 million, an increase of ¥4,515 million or 4.8%, compared with May 31, 2017. This was mainly attributable to certain factors including a decrease of ¥3,169 million in cash and deposits as well as an increase of ¥2,463 million in notes and accounts receivable—trade, and an increase of ¥4,413 million in accounts of property, plant and equipment.

2) Liabilities

Total liabilities as of February 28, 2018 stood at ¥70,807 million, an increase of ¥4,285 million or 6.4%, compared with May 31, 2017. This was mainly attributable to certain factors including a decrease of ¥2,590 million in accounts payable – trade, an increase of ¥3,044 million in short-term loans payable, and an increase of ¥2,097 million in long-term loans payable.

3) Net Assets

Net assets as of February 28, 2018 stood at ¥28,292 million, an increase of ¥230 million or 0.8%, compared with May 31, 2017. This was mainly due to profit attributable to owners of parent of ¥194 million, an increase of ¥417 million in non-controlling interests, and the payment of cash dividends totaling ¥447 million.

(3) Qualitative Information Concerning Consolidated Forecasts

Despite continued strong demand for human resources and streamlining of operational cost, the impact of direct hiring by our client due to the application of Labor Contract Act has been gradually emerging. Accordingly, the consolidated full-year forecasts of business results previously announced on July 14, 2017 have been unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2017	As of February 28, 2018
ASSETS		
Current assets		
Cash and deposits	21,754	18,584
Notes and accounts receivable — trade	34,202	36,666
Inventories	1,504	1,710
Other	7,210	7,331
Allowance for doubtful accounts	(53)	(49)
Total current assets	64,617	64,244
Non-current assets		
Property, plant and equipment	9,258	13,671
Intangible assets		
Goodwill	3,701	3,891
Other	5,377	5,704
Total intangible assets	9,079	9,596
Investments and other assets		
Other	11,740	11,708
Allowance for doubtful accounts	(111)	(119)
Total investments and other assets	11,629	11,588
Total non-current assets	29,966	34,855
Total assets	94,584	99,099

(Millions of yen)

	As of May 31, 2017	As of February 28, 2018
LIABILITIES		
Current liabilities		
Accounts payable—trade	5,850	3,260
Short-term loans payable	5,362	8,406
Accrued expenses	14,140	15,633
Income taxes payable	1,730	845
Provision for bonuses	3,189	2,369
Provision for directors' bonuses	27	32
Asset retirement obligations	97	42
Other	19,412	19,932
Total current liabilities	49,811	50,523
Non-current liabilities		
Long-term loans payable	12,017	14,115
Net defined benefit liability	1,829	1,934
Provision for directors' stock benefit	28	49
Provision for employees' stock grant	34	51
Asset retirement obligations	879	1,016
Other	1,921	3,114
Total non-current liabilities	16,710	20,283
Total liabilities	66,522	70,807
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,013	5,001
Retained earnings	12,593	12,367
Treasury shares	(4,008)	(4,008)
Total shareholders' equity	18,598	18,360
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	293	355
Foreign currency translation adjustment	90	133
Remeasurements of defined benefit plans	74	19
Total accumulated other comprehensive income	458	508
Non-controlling interests	9,006	9,424
Total net assets	28,062	28,292
Total liabilities and net assets	94,584	99,099

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	9M FY2016	9M FY2017
Net sales	205,480	228,690
Cost of sales	164,950	180,675
Gross profit	40,530	48,015
Selling, general and administrative expenses	38,652	44,157
Operating income	1,877	3,857
Non-operating income		
Interest income	25	27
Share of profit of entities accounted for using equity method	—	13
Subsidy	44	30
Real estate rent	30	432
Other	139	178
Total non-operating income	239	682
Non-operating expenses		
Interest expenses	115	141
Commitment fee	38	43
Share of loss of entities accounted for using equity method	68	—
Rent expenses on real estates	20	336
Other	75	70
Total non-operating expenses	318	591
Ordinary income	1,798	3,947
Extraordinary income		
Gain on sales of investment securities	11	—
Gain on sales of shares of subsidiaries and associate	19	—
Gain on bargain purchase	—	601
Total extraordinary income	31	601
Extraordinary loss		
Loss on sales and retirement of non-current assets	97	121
Impairment loss	107	173
Loss on valuation of investment securities	—	67
Loss on valuation of shares of subsidiaries and associates	—	9
Total extraordinary loss	204	371
Income before income taxes	1,625	4,178
Income taxes—current	1,664	2,144
Income taxes—deferred	(253)	593
Income taxes	1,410	2,738
Profit	214	1,439
Profit attributable to non-controlling interests	1,129	1,245
Profit (loss) attributable to owners of parent	(914)	194

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	9M FY2016	9M FY2017
Profit	214	1,439
Other comprehensive income		
Valuation difference on available-for-sale securities	248	113
Foreign currency translation adjustment	15	55
Remeasurements of defined benefit plans	324	(56)
Share of other comprehensive income of entities accounted for using equity method	(1)	0
Total other comprehensive income	586	112
Comprehensive income	801	1,551
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(435)	244
Comprehensive income attributable to non-controlling interests	1,236	1,306

(4) Notes to Going Concern Assumption

Not applicable

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

Not applicable

(6) 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 was 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 ¥2,281 million compared with the previous method, but there was no impact on operating income, ordinary income, income before income taxes, as well as net income per share.

As it was practically impossible to calculate the past figure in accordance with this classification, the consolidated financial statements prior to the third quarter of FY2017 were not revised.

(7) Segment Information

i) Nine months ended February 28, 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	169,321	10,761	21,441	3,339	615	205,480	—	205,480
(2) Intersegment sales and transfers	1,029	23	512	52	654	2,272	(2,272)	—
Total	170,350	10,785	21,953	3,392	1,270	207,753	(2,272)	205,480
Operating income (loss)	833	1,093	4,141	140	(352)	5,857	(3,979)	1,877

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 ¥ (3,979) million includes the elimination of intersegment transactions of ¥8 million and corporate expenses of ¥3,987 million. Corporate expenses, primarily consist of Group management costs relating to the Company and incubation cost of our new business, are not allocated to reporting segments.
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 FY2016 was ¥107 million.

ii) 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	188,179	12,067	23,755	3,709	977	228,690	—	228,690
(2) Intersegment sales and transfers	1,440	61	612	71	784	2,970	(2,970)	—
Total	189,620	12,129	24,367	3,781	1,761	231,661	(2,970)	228,690
Operating income (loss)	3,059	2,115	4,272	187	(1,072)	8,562	(4,704)	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 are as follows: Operating income of ¥ (4,704) million includes the elimination of intersegment transactions of ¥20 million and corporate expenses of ¥4,724 million. Corporate expenses, primarily consist of Group management costs relating to the Company and incubation cost of our new business, 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

Since the second quarter of FY2017, “Public Solutions” previously included in “Others” has been described as a part of reporting segment because of their increased quantitative importance. Along with that, “Life Solutions” previously included in “Others” has been also described as an independent reporting segment.

In addition, segment information for 9M FY2016 was stated based on newly changed classification.

c) 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.

(8) Important Subsequent Events

Not applicable