

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FY2019 (June 1, 2019 to May 31, 2020)

First Half Ended November 30, 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>
 Representative: Yasuyuki Nambu, Group CEO and President
 For further information contact: Yuko Nakase, Senior Managing Executive Officer and CFO
 Tel. +81-3-6734-0200

Scheduled filing date of quarterly report: January 14, 2020
 Supplemental materials prepared for quarterly financial results: Yes
 Holding of quarterly 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	
		%		%		%		%
First Half ended November 30, 2019	161,229	(2.1)	3,901	4.5	3,606	1.9	392	(37.8)
First Half ended November 30, 2018	164,692	9.3	3,732	42.5	3,538	34.3	631	34.2

(Note) Comprehensive income H1 FY2019: ¥1,884 million H1 FY2018: ¥1,677 million

	Net Income per Share	Diluted Net Income per Share
	Yen	Yen
First Half ended November 30, 2019	10.04	—
First Half ended November 30, 2018	16.14	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
November 30, 2019	116,930	42,341	27.7
May 31, 2019	119,459	40,253	23.7

(Reference) Equity As of November 30, 2019: ¥32,446 million As of May 31, 2019: ¥28,355 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
FY2018	—	0.00	—	18.00	18.00
FY2019	—	0.00	—	—	—
FY2019 (Forecast)	—	—	—	19.00	19.00

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

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 Shares
		%		%		%		%	Yen
FY2019 Full Fiscal Year	344,000	5.2	11,000	16.2	10,700	15.8	2,300	16.4	58.80

(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, 2019: 41,690,300 shares May 31, 2019: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
November 30, 2019: 2,574,776 shares May 31, 2019: 2,574,573 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2019: 39,115,655 shares
First Half ended November 30, 2018: 39,108,016 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 6.

We are planning to hold a financial results meeting for analysts and institutional investors on January 16, 2020. Supplemental 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, 2019

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H1 FY2019 Consolidated Financial Report

(June 1, 2019 - November 30, 2019)

1. Information Concerning Quarterly Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	H1 FY2018	H1 FY2019	YoY
Net sales	164,692	161,229	(2.1)%
Operating income	3,732	3,901	4.5%
Ordinary income	3,538	3,606	1.9%
Profit attributable to owners of parent	631	392	(37.8)%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	H1 FY2018	H1 FY2019	YoY
HR Solutions	162,632	158,301	(2.7)%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	138,592	132,959	(4.1)%
Expert Services (Temporary staffing)	83,814	76,459	(8.8)%
BPO Services (Contracting)	46,529	48,456	4.1%
HR Consulting, Education & Training, Others	4,324	4,005	(7.4)%
Global Sourcing (Overseas)	3,923	4,038	2.9%
Career Solutions (Placement / Recruiting, Outplacement)	7,632	7,384	(3.3)%
Outsourcing	16,407	17,957	9.4%
Life Solutions	2,743	3,104	13.2%
Regional Revitalization Solutions	1,194	1,638	37.1%
Eliminations and Corporate	(1,878)	(1,815)	—
Total	164,692	161,229	(2.1)%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	H1 FY2018	H1 FY2019	YoY
HR Solutions	8,110	9,352	15.3%
Expert Services (Temporary staffing), BPO Services (Contracting), Others	2,871	4,104	42.9%
Expert Services (Temporary staffing)			
BPO Services (Contracting)	2,496	3,853	54.3%
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)	374	251	(33.0)%
Career Solutions (Placement / Recruiting, Outplacement)	1,893	1,485	(21.5)%
Outsourcing	3,345	3,762	12.5%
Life Solutions	65	53	(18.1)%
Regional Revitalization Solutions	(665)	(861)	—
Eliminations and Corporate	(3,776)	(4,642)	—
Total	3,732	3,901	4.5%

※Since 3M FY2019, “Insourcing” has been changed to “BPO Services”, and “Public Solutions” has been changed to “Regional Revitalization Solutions”. In line with the segment name changes, the segment of some subsidiaries has been changed at the same time. With regard to the operating income(loss) by segment, “Global Sourcing” has been individually disclosed as an independent segment. The above tables regarding results in FY 2018 show the figures reclassified into the new segment classification.

(2) Overview of Consolidated Financial Position

1) Status of Assets, Liabilities and Net Assets

Assets

Total assets as of November 30, 2019 stood at ¥116,930 million, a decrease of ¥2,529 million or 2.1%, compared with May 31, 2019. This was mainly attributable to a decrease of ¥5,728 million in cash and deposits, an increase of ¥1,275 million in notes and accounts receivable-trade, an increase of ¥591 million in investment securities included in other item of investments and other assets, and an increase of ¥637 million in property, plant and equipment.

Liabilities

Total liabilities as of November 30, 2019 stood at ¥74,589 million, a decrease of ¥4,617 million or 5.8%, compared with May 31, 2019. This was mainly attributable to a decrease of ¥1,828 million in accounts payable-trade, a decrease of ¥3,729 million in short-term loans payable, an increase of ¥1,708 million in accrued expenses, an increase of ¥1,310 million in income taxes payable, and a decrease of ¥2,407 million in long-term loans payable.

Net Assets

Net assets as of November 30, 2019 stood at ¥42,341 million, an increase of ¥2,087 million or 5.2%, compared with May 31, 2019. This was mainly due to profit attributable to owners of parent of ¥392 million, an increase of ¥5,956 million in capital surplus due to the partial sales of shares of one of our subsidiaries, a decrease of ¥1,694 million in acquisition of treasury shares, a decrease of ¥2,003 million in non-controlling interests, and the payment of dividends totaling ¥712 million.

As a result, equity ratio improved by 4.0 percentage points from the end of previous consolidated fiscal year to 27.7 %.

2) Status of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of November 30, 2019 decreased by ¥658 million, compared with previous fiscal year end to ¥25,972 million.

Cash Flows from Operating Activities

Net cash provided in operating activities in H1 FY2019 amounted to ¥1,495 million (decrease in ¥41 million in H1 FY2018).

Major cash inflows included income before income taxes totaling ¥3,160 million (¥3,508 million in H1 FY2018), depreciation and amortization totaling ¥1,979 million (¥2,125 million in H1 FY2018), amortization of goodwill totaling ¥409 million (¥511 million in H1 FY2018).

Principal cash outflows included an increase in notes and accounts receivable-trade totaling ¥1,462 million (decrease in ¥658 million in H1 FY2018), a decrease in operating debt totaling ¥224 million (¥2,733 million in H1 FY2018), income taxes paid totaling ¥2,981 million (¥2,016 million in H1 FY2018).

Cash Flows from Investing Activities

Net cash used in investing activities in H1 FY2019 amounted to ¥2,981 million (decrease in ¥3,650 million in H1 FY2018).

Major cash outflows were purchase of fixed assets totaling ¥2,849 million (¥3,030 million in H1 FY2018), and payment for lease and guarantee deposits totaling ¥126 million (¥447 million in H1 FY2018).

Cash Flows from Financing Activities

Net cash used in financing activities in H1 FY2019 amounted to ¥4,132 million (increase in ¥5,205 million in H1 FY2018).

Major cash inflows were proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation totaling ¥8,658 million (¥4,899 million in H1 FY2018).

Principal cash outflows were repayment of short-term loans payable amounting to ¥2,997 million (increase in ¥37 million in H1 FY2018), repayment of long-term loans payable amounting to ¥3,154 million (¥3,073 million in H1 FY2018), payment of dividends totaling ¥2,760 million (¥1,629 million in H1 FY2018), and purchase of treasury shares of subsidiaries amounting to ¥3,526 million (none in H1 FY2018).

(3) Overview of Consolidated Forecasts

As for the consolidated financial income in H1 FY2019, the profits have been generally in line with plans. Therefore, the forecasts previously announced on July 12, 2019 remain unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2019	As of November 30, 2019
ASSETS		
Current assets		
Cash and deposits	32,305	26,577
Notes and accounts receivable-trade	39,412	40,687
Inventories	2,035	2,474
Other	6,672	7,518
Allowance for doubtful accounts	(107)	(102)
Total current assets	80,317	77,154
Non-current assets		
Property, plant and equipment	16,725	17,363
Intangible assets		
Goodwill	3,029	2,620
Other	5,222	5,135
Total intangible assets	8,252	7,755
Investments and other assets		
Other	14,289	14,786
Allowance for doubtful accounts	(126)	(128)
Total investments and other assets	14,163	14,657
Total non-current assets	39,141	39,775
Total assets	119,459	116,930

	As of May 31, 2019	As of November 30, 2019
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,534	4,706
Short-term loans payable	9,391	5,662
Accrued expenses	15,090	16,798
Income taxes payable	2,708	4,018
Provision for bonuses	4,143	4,123
Provision for directors' bonuses	41	10
Asset retirement obligations	1	9
Other	21,206	21,626
Total current liabilities	59,116	56,957
Non-current liabilities		
Bonds payable	288	260
Long-term loans payable	12,806	10,399
Provision for directors' stock benefit	315	301
Provision for employees' stock grant	257	282
Net defined benefit liability	1,996	2,066
Asset retirement obligations	1,854	1,965
Other	2,570	2,356
Total non-current liabilities	20,089	17,631
Total liabilities	79,206	74,589
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	10,263	14,534
Retained earnings	14,907	14,587
Treasury shares	(2,185)	(2,185)
Total shareholders' equity	27,985	31,936
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	447	611
Foreign currency translation adjustment	14	(55)
Remeasurements of defined benefit plans	(91)	(45)
Total accumulated other comprehensive income	370	510
Non-controlling interests	11,898	9,894
Total net assets	40,253	42,341
Total liabilities and net assets	119,459	116,930

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2018	H1 FY2019
Net sales	164,692	161,229
Cost of sales	128,533	123,831
Gross profit	36,158	37,397
Selling, general and administrative expenses	32,425	33,496
Operating income	3,732	3,901
Non-operating income		
Interest income	17	17
Subsidy	21	25
Real estate rent	372	361
Other	165	225
Total non-operating income	577	629
Non-operating expenses		
Interest expenses	108	95
Commitment fee	31	28
Share of loss of entities accounted for using equity method	35	10
Rent expenses on real estates	298	299
Commission fee	236	411
Other	61	79
Total non-operating expenses	771	925
Ordinary income	3,538	3,606
Extraordinary income		
Gain on sales of non-current assets	8	—
Gain on sales of shares of subsidiaries and associates	—	4
Total extraordinary income	8	4
Extraordinary loss		
Loss on sales and retirement of non-current assets	33	13
Impairment loss	—	396
Loss on valuation of investment securities	5	26
Loss on valuation of shares of subsidiaries and associates	—	12
Total extraordinary loss	38	450
Income before income taxes	3,508	3,160
Income taxes-current	1,294	1,548
Income taxes-deferred	404	(30)
Income taxes	1,698	1,518
Profit	1,809	1,642
Profit attributable to non-controlling interests	1,178	1,249
Profit attributable to owners of parent	631	392

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2018	H1 FY2019
Profit	1,809	1,642
Other comprehensive income		
Valuation difference on available-for-sale securities	(131)	273
Foreign currency translation adjustment	26	(78)
Remeasurements of defined benefit plans	(26)	46
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(131)	241
Comprehensive income	1,677	1,884
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	562	533
Comprehensive income attributable to non-controlling interests	1,115	1,350

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2018	H1 FY2019
Cash flows from operating activities		
Income before income taxes	3,508	3,160
Depreciation and amortization	2,125	1,979
Impairment loss	—	396
Amortization of goodwill	511	409
Increase (decrease) in allowance for doubtful accounts	11	(2)
Increase (decrease) in provision for bonuses	89	39
Increase (decrease) in provision for directors' bonuses	(26)	(19)
Increase (decrease) in net defined benefit liability	14	68
Decrease (increase) in net defined benefit asset	(44)	39
Interest and dividends income	(28)	(32)
Interest expenses	108	95
Subsidy income	(21)	(25)
Share of (profit) loss of entities accounted for using equity method	35	10
Loss (gain) on sales and retirement of non-current assets	25	13
Loss (gain) on sales of shares of subsidiaries and associates	—	(4)
Decrease (increase) in notes and accounts receivable-trade	658	(1,462)
Increase (decrease) in operating debt	(2,733)	(224)
Increase (decrease) in accrued consumption taxes	(107)	369
Other	(2,119)	(305)
Subtotal	2,005	4,506
Interest and dividends income received	53	43
Interest expenses paid	(106)	(99)
Proceeds from subsidy	21	25
Income taxes paid	(2,016)	(2,981)
Net cash provided by (used in) operating activities	(41)	1,495

	H1 FY2018	H1 FY2019
Cash flows from investment activities		
Purchase of property, plant and equipment	(2,220)	(1,996)
Proceeds from sales of property, plant and equipment	69	0
Purchase of intangible assets	(810)	(853)
Purchase of investment securities	(116)	(178)
Payments of loans receivable	(14)	(2)
Payments for lease and guarantee deposits	(447)	(126)
Proceeds from collection of lease and guarantee deposits	146	114
Payments for transfer of business	(14)	(0)
Other	(243)	60
Net cash provided by (used in) investment activities	(3,650)	(2,981)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	37	(2,997)
Proceeds from long-term loans payable	5,328	—
Repayment of long-term loans payable	(3,073)	(3,154)
Proceeds from sale and leaseback	87	—
Repayments of finance lease obligations	(415)	(330)
Redemption of bonds	(28)	(28)
Purchase of treasury shares of subsidiaries	—	(3,526)
Proceeds from disposal of treasury shares of subsidiaries	—	6
Cash dividends paid	(513)	(710)
Dividends paid to non-controlling interests	(1,116)	(2,049)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	4,899	8,658
other	—	(0)
Net cash provided (used in) by financing activities	5,205	(4,132)
Effect of exchange rate change on cash and cash equivalents	34	(86)
Net increase (decrease) in cash and cash equivalents	1,547	(5,704)
Cash and cash equivalents at the beginning of the period	25,054	31,793
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	28	—
Net increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	(116)
Cash and cash equivalents at the end of the period	26,630	25,972

(5) Notes to Going Concern Assumption

Not applicable

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

During the first quarter of FY2019, the Company sold a portion of the shares of consolidated subsidiary Benefit One Inc.. And during the second quarter of FY2019, Benefit One Inc. acquired treasury shares. Therefore, the capital surplus increased by ¥4,271 million. As a result, the capital surplus at the end of the first half of FY2019 was ¥14,534 million.

(7) Segment Information

i) First Half ended November 30, 2018

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	Regional Revitalization Solutions			
	Expert Services, BPO Services, Others (Note 1)	Career Solutions	Outsourcing					
Net sales								
(1) Sales to outside customers	137,259	7,591	16,231	2,670	938	164,692	—	164,692
(2) Intersegment sales and transfers	1,333	40	175	73	256	1,878	(1,878)	—
Total	138,592	7,632	16,407	2,743	1,194	166,571	(1,878)	164,692
Operating income (loss)	2,871	1,893	3,345	65	(665)	7,509	(3,776)	3,732

Notes:

1. The “Expert Services, BPO Services, Others” segment includes each of the businesses of Expert Services (Temporary staffing), BPO Services (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(3,776) million with Operating income (loss) includes corporate expenses of ¥(3,795) million which primarily consist of Group management costs relating to the Company and incubation cost for our new business and the elimination of intersegment transactions of ¥18 million.
3. Segment income is adjusted with operating income under consolidated statements of income.

ii) First Half ended November 30, 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	Regional Revitalization Solutions			
	Expert Services, BPO Services, Others (Note 1)	Career Solutions	Outsourcing					
Net sales								
(1) Sales to outside customers	131,666	7,357	17,737	3,001	1,466	161,229	—	161,229
(2) Intersegment sales and transfers	1,293	27	219	103	171	1,815	(1,815)	—
Total	132,959	7,384	17,957	3,104	1,638	163,044	(1,815)	161,229
Operating income (loss)	4,104	1,485	3,762	53	(861)	8,544	(4,642)	3,901

Notes:

1. The “Expert Services, BPO Service, Others” segment includes each of the businesses of Expert Services (Temporary staffing), BPO Services (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(4,642) million with Operating income (loss) includes the corporate expenses of ¥(4,672) million which primarily consist of Group management costs relating to the Company and incubation cost for our new business and the elimination of intersegment transactions of ¥29 million.
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 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 (Temporary staffing), BPO Services (Contracting), Others”.

Furthermore, since the first quarter of FY2019, “Insourcing” has been changed to “BPO Services”, and “Public Solutions” has been changed to “Regional Revitalization Solutions”. In line with the segment name changes, the segment of some subsidiaries has been changed at the same time.

The segment information in the previous fiscal year was recorded in the way of new segment classification method.

c) The information of impairment loss of fixed assets or goodwill every segment

Impairment loss of fixed assets is accounted with “Regional Revitalization Solutions” segment. The total impairment loss in first half of FY2019 was ¥396 million.

(8) Important Subsequent Events

Acquisition and cancellation of treasury shares by our subsidiary.

Our consolidated subsidiary, Benefit One Inc.(hereinafter “Benefit One”, one of the companies with fiscal year ended in March) resolved to acquire treasury shares and the method of specific acquisition at the Board of Directors meeting held on October 31, 2019, in accordance with the provisions of Article 459, Paragraph 1 of the Companies Act and implemented it.

Furthermore, they resolved to cancel the part of its treasury shares in accordance with Article 178 of the Companies Act at the Board of Directors meeting held on the same day and implemented it.

1.The reason for the acquisition and cancellation of the treasury shares by Benefit One

It was to improve their capital efficiency and return their profits to shareholders.

2.Matters concerning acquisition

The type of acquired share: Common share of Benefit One

The number of shares to be acquired: 630,000 shares (upper limit)

※The ratio to the total number of issued shares excluding treasury stock was 0.39% as of September 30, 2019.

Total amount of share acquisition price: ¥1,400 million (upper limit)

The day of share acquisition: November 1, 2019

The method of share acquisition: Purchase through the off-hours trading system (ToSTNeT-3) of the Tokyo Stock Exchange

3.The result of acquisition

The type of acquired share: Common share of Benefit One

The number of shares to be acquired: 630,000 shares

Total amount of share acquisition price: ¥1,388 million

The day of share acquisition: November 1, 2019

The method of share acquisition: Purchase through the off-hours trading system (ToSTNeT-3) of the Tokyo Stock Exchange

4.Matters concerning cancellation

The type of cancelled share: Common share of Benefit One

The number of shares to be cancelled: All treasury shares acquired based on 3 above.

The day of share cancellation: November 15, 2019

5.Impact on the Company's consolidated financial statements due to the acquisition

The acquisition of Benefit One treasury shares increased the Company's share in Benefit One.

As a result of the acquisition of Benefit One treasury shares, capital surplus is expected to decrease by ¥678 million in the third quarter of FY2019.