October 8, 2010

# CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

**FY2010 ( June 1, 2010 to May 31, 2011)**

Three Months Ended August 31, 2010

Listing Stock exchange: The First Section of the Tokyo Stock Exchange
Securities code number: 2168
URL: http://www.pasonagroup.co.jp/
Representative: Yasuyuki Nambu, Group CEO and President
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Tel. +81-3-6734-0200
Scheduled filing date of quarterly report: October 14, 2010
Supplemental materials prepared for quarterly financial results: Yes
Holding of quarterly financial results meeting: None

(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 (Loss) | | Ordinary Income (Loss) | | Net Loss | |
|---|---|---|---|---|---|---|---|---|
| | | % | | % | | % | | % |
| Three months ended August 31, 2010 | 44,574 | (5.5) | 310 | — | 319 | — | (471) | — |
| Three months ended August 31, 2009 | 47,161 | (20.2) | (134) | — | (119) | — | (1,102) | — |

| | Net Loss per Share | Diluted Net Income per Share |
|---|---|---|
| | Yen | Yen |
| Three months ended August 31, 2010 | (1,260.11) | — |
| Three months ended August 31, 2009 | (3,074.63) | — |

### (2) Consolidated Financial Position

| | Total Assets | Net Assets | Equity Ratio (%) | Net Assets per Share (Yen) |
|---|---|---|---|---|
| August 31, 2010 | 55,264 | 24,056 | 36.1 | 53,284.05 |
| May 31, 2010 | 52,269 | 24,979 | 39.6 | 55,243.50 |

(Reference) Equity as of August 31, 2010: ¥19,954 million As of May 31, 2010: ¥20,688 million

## 2. DIVIDENDS

| | Dividends per Share | | | | |
|---|---|---|---|---|---|
| Record Date | End of First Quarter | End of Second Quarter | End of Third Quarter | Fiscal Year-End | Total |
| | Yen | Yen | Yen | Yen | Yen |
| FY2009 | — | 0.00 | — | 500.00 | 500.00 |
| FY2010 | — | | | | |
| FY2010 (Forecast) | | 0.00 | — | 1,000.00 | 1,000.00 |

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

## 3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2011

Percentage figures are the increase / (decrease) for the corresponding period of the previous fiscal year.

| | Net Sales | | Operating Income | | Ordinary Income | | Net Income | | Net Income per Shares |
|---|---|---|---|---|---|---|---|---|---|
| | | % | | % | | % | | % | Yen |
| Six months ending November 30, 2010 | 90,000 | (2.2) | 500 | (44.8) | 550 | (41.1) | (500) | — | (1,335.11) |
| Full Fiscal Year | 186,000 | 1.4 | 2,800 | (23.5) | 2,900 | (28.3) | 500 | 144.0 | 1,335.11 |

(Note) Revision to forecast of results in the current quarter: Yes

## 4. OTHERS

Please refer to “2. Others” on page 9 for details.

(1) Changes in important subsidiaries during the current period : None
(Changes in specified subsidiaries during the current period that caused changes in the scope of consolidation)

(2) Application of the simplified accounting method and special accounting practices: None
(Application of the simplified accounting method and special accounting practices in the preparation of quarterly consolidated financial statements)

(3) Changes in accounting principles, procedures and disclosure methods

1) Changes in line with revisions to accounting and other standards: Yes
2) Changes in items other than 1) above: None
(Recorded under “Changes in Important Items Considered Fundamental to the Preparation of Quarterly Consolidated Financial Statements”)

(4) Number of shares issued and outstanding (Common shares)

1) The number of shares issued and outstanding as of the period-end (including treasury stock)
August 31, 2010 : 416,903 shares May 31, 2010: 416,903 shares

2) The number of treasury stock as of the period-end
August 31, 2010 : 42,401 shares May 31, 2010: 42,401 shares

3) Average number of shares for the period (Quarterly cumulative period)
Three Months ended August 31, 2010: 374,502 shares
Three Months ended August 31, 2009: 358,650 shares

Information regarding the implementation of quarterly review procedures

As of the date of disclosure of this report, a review of the quarterly financial statements is being carried out in accordance with the Financial Instruments and Exchange Act.

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 8 with regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2011.

# Consolidated Financial Report

FY2010 Three Months Ended August 31, 2010

## INDEX

## 1. Qualitative Information Concerning Quarterly Consolidated Business Results

### (1) Qualitative Information Concerning Consolidated Business Results

In the first quarter of the fiscal year ending May 31, 2011, the three-month period from June 1, 2010 to August 31, 2010, the Japanese economy continued to be shrouded in uncertainty. Despite signs that business conditions were heading toward a mild recovery, on the back of growing demand in newly emerging countries, this uncertainty is largely attributable to difficulties in dispelling concerns about a slowdown in the global economy and the pressure placed on corporate-sector earnings by the sharp and dramatic appreciation in the value of the yen.

Under these circumstances, demand for temporary staff was driven by companies seeking to further enhance business efficiency. This in turn contributed to an increase in new orders in the Group’s Expert Services (Temporary staffing) business. At the same time, the Place & Search (Placement / Recruiting) business also exhibited signs of an upswing. This mainly reflected a recovery in job offers for mid-career employees, focusing primarily on employees with the skills to deliver immediate results, particularly from those companies where the drop in business results had bottomed out. On the other hand, following a round of corporate downsizing, orders in the Outplacement business, which in the previous fiscal year had peaked at a high level, declined.

As a result of the aforementioned factors, consolidated net sales for the first quarter of the fiscal year ending May 31, 2011 declined 5.5% compared with the corresponding period of the previous fiscal year to ¥44,574 million.

From a profit perspective, the gross profit margin contracted 0.4 of a percentage point year on year to 18.3% due mainly to the increase in costs as priority was placed on the quick and definitive turnaround in the placement of service users in the Outplacement business, which had enjoyed a substantial increase in orders in the previous fiscal year. However, buoyed by steady career consulting endeavors that brought forward decisions on outplacement at a pace greater than anticipated gross profit for the three-month period ended August 31, 2010 amounted to ¥8,142 million, a drop of 7.8% compared with the corresponding period of the previous fiscal year. Despite this year-on-year decrease, results surpassed initial plans.

Turning to selling, general and administrative (SG&A) expenses, results were boosted by the consolidation of bases to a new comprehensive Group office as a part of efforts to raise business efficiency, successful steps to reduce costs and the redistribution of a portion of SG&A expenses to other periods. Accordingly, SG&A expenses decreased ¥1,136 million, or 12.7%, year on year to ¥7,831 million. In the first quarter of the fiscal year under review, consolidated operating income and ordinary income were ¥310 million and ¥319 million, respectively. This was compared with an operating loss of ¥134 million and an ordinary loss of ¥119 million in the corresponding period of the previous fiscal year. Taking into account an extraordinary loss of ¥480 million attributable to the loss on adjustment for changes of accounting standard for asset retirement obligations, Pasona Group incurred a consolidated net loss for the period of ¥471 million compared with the net loss of ¥1,102 million incurred in the corresponding period of the previous fiscal year. Despite the net loss, this was a significant year-on-year improvement.

**Consolidated Business Results**

(Millions of yen)

| | Three months ended August 31, 2010 | Three months ended August 31, 2009 | YoY |
|---|---|---|---|
| Net sales | 44,574 | 47,161 | (5.5)% |
| Operating income (loss) | 310 | (134) | — |
| Ordinary income (loss) | 319 | (119) | — |
| Net income (loss) | (471) | (1,102) | — |

**Segment Information** (Figures include intersegment sales)

In conjunction with the implementation of the Accounting Standard on Disclosure of Segment Information, and moves to introduce and adopt the "Management Approach," the Company reclassified its business segments effective from the fiscal year ending May 31, 2011. Therefore, percentage increases and decreases compared with the corresponding period of the fiscal year ended May 31, 2010 have not been provided.

***HR Solutions***

**Expert Services** (Temporary staffing)**, Insourcing** (Contracting)**, Others**

**Sales:** ¥38,219 million; **Operating income:** ¥356 million

**Expert Services** (Temporary staffing)**, Insourcing** (Contracting)**, HR Consulting**

**Sales:** ¥37,360 million

In the Expert Services (Temporary staffing) business, which mainly encompasses general office work, signs of a positive turnaround in new orders across most sectors, and particularly from the manufacturing and IT industries, began to emerge. As a result, new orders recovered to a level that surpassed that of the corresponding period of the previous fiscal year. By job type, in addition to trends in orders for clerical positions, demand for such job types as secretarial, trading and other technical positions were firm, where the rate of decline improved. On this basis, sales in the Expert Services (Temporary staffing) business amounted to ¥33,667 million.

In the Company's priority Insourcing (Contracting) business, results benefited from the positive flow-on effects of the corporate sector's efforts to raise business efficiency, a steady increase in commissioned reception, administrative and call center operations as well as the Company's measures to strengthen customers' solution-oriented consulting and marketing services to public sectors. Taking the aforementioned factors into consideration, sales in the Insourcing (Contracting) business climbed to ¥3,177 million.

For the first three months of the fiscal year ending May 31, 2011, collective sales in the Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting business amounted to ¥37,360 million.

**Place & Search** (Placement / Recruiting) **Sales:** ¥345 million

On the domestic front, there were indications of a recovery in job offers particularly for human resources capable of delivering an immediate impact. As a result, sales in this segment entered a recovery trajectory amounting to ¥345 million.

Note: Placement and recruiting sales outside of Japan are included in the Global Sourcing (Overseas) segment.

**Global Sourcing** (Overseas)  **Sales:** ¥513 million

Reflecting the globalization of activities undertaken by Japan's corporate sector and the ongoing trend toward engaging in business overseas, the demand for human resources capable of excelling on the world stage is rising with a positive turnaround in new demand particularly in Asia such as China. Most notably, this surge in placement and recruiting in Asia is surpassing activity in North America and driving sales growth. In addition, orders for commissioned outsourcing services, encompassing salary and wage calculation as well as peripheral overseas human resource fields, are expanding.

On the earnings front in each of the aforementioned segment activities, the Expert Services (Temporary staffing) business witnessed an upswing in temporary staffing employee social insurance rates as well as a drop in the unit price spread for temporary staffing in certain fields. In addition to growth in the Insourcing (Contracting) business and improvements in Place & Search (Placement / Recruiting) and Global Sourcing (Overseas) activities, on the other hand, the Group experienced an improvement in earnings on the back of successful efforts to reduce SG&A expenses. As a result, operating income in this segment was ¥356 million.

### Outplacement

**Sales:** ¥2,634 million; **Operating income:** ¥312 million

Following a round of corporate downsizing measures implemented throughout the corporate sector, orders, which had hovered at a high level during the previous fiscal year, declined. In placing priority on a quick and definitive turnaround in the placement of users who took up services in the previous period as well as the emphasis placed on counseling and efforts to cultivate job offers, costs ballooned. On a positive note, however, momentum gathered in the bringing forward ahead of plans outplacement decisions. As a result, sales in this segment amounted to ¥2,634 million while operating income totaled ¥312 million.

### Outsourcing

**Sales:** ¥3,404 million; **Operating income:** ¥285 million

Benefit One Inc., a Pasona Group subsidiary company engaged in the provision of employee fringe benefit outsourcing services, continues to promote customers' solution-oriented marketing to its corporate member customers including major companies as well as government and other public offices, while placing considerable weight on increasing and upgrading its menu of employee benefit services that help to realize work and lifestyle balance. As a result, sales in this segment amounted to ¥3,404 million while operating income came to ¥285 million.

### *Life Solutions, Public Solutions, Shared*

**Sales:** ¥897 million; **Operating income:** ¥41 million

In this business segment, the Pasona Group is engaged in child-care-related businesses and educational activities such as the management and operation of language classes overseas, as well as shared service company activities within the Group.

**Business Results for Three Months ended August 31, 2010 by Segments**

(Millions of yen)

| | | Net sales | Operating income (loss) |
|---|---|---|---|
| ***HR Solutions*** | | 44,259 | 955 |
| | Expert Services (Temporary staffing)<br>Insourcing (Contracting)<br>HR Consulting | 37,360 | 356 |
| | Place & Search (Placement / Recruiting) | 345 | |
| | Global Sourcing (Overseas) | 513 | |
| | Outplacement | 2,634 | 312 |
| | Outsourcing | 3,404 | 285 |
| ***Life Solutions***<br>***Public Solutions***<br>***Shared*** | | 897 | 41 |
| Eliminations and Corporate | | (581) | (685) |
| Total | | 44,574 | 310 |

Note: Percentage increases and decreases compared with the corresponding period of the fiscal year ended May 31, 2010 have not been provided due to the reclassification of business segments.

**(Reference)**

**Business Results for Three Months ended August 31, 2009 by Former Segments**

(Millions of yen)

| | | Net sales | Operating income (loss) |
|---|---|---|---|
| Temporary staffing / Contracting, Placement / Recruiting | | 41,220 | (154) |
| | Temporary staffing / Contracting | 40,396 | |
| | Placement / Recruiting | 823 | |
| Outplacement | | 2,280 | 616 |
| Outsourcing | | 3,432 | 165 |
| Other | | 1,020 | (25) |
| Eliminations and Corporate | | (791) | (735) |
| Total | | 47,161 | (134) |

### (2) Qualitative Information Concerning Consolidated Financial Position

**Status of Assets, Liabilities and Net Assets**

1) Assets

Total assets as of August 31, 2010 stood at ¥55,264 million, an increase of ¥2,995 million, or 5.7%, compared with the end of the previous fiscal year. This was mainly attributable to certain factors including an increase of ¥4,183 million in the balance of cash and deposits.

2) Liabilities

Total liabilities as of August 31, 2010 increased ¥3,918 million or 14.4%, compared with May 31, 2010 totaling ¥31,208 million. The principal increases in total liabilities were short-term loans payable of ¥999 million and long-term loans payable of ¥4,726 million. These were partly offset by a decrease in accounts payable-trade of ¥913 million.

3) Net Assets

Net assets as of August 31, 2010 stood at ¥24,056 million, a decline of ¥923 million, or 3.7%, compared with the end of the previous fiscal year. This was mainly attributable to the net loss of ¥471 million and the payment of cash dividends totaling ¥187 million.

Accounting for the aforementioned, the equity ratio as of August 31, 2010 decreased 3.5 percentage points to 36.1% compared with the end of the previous fiscal year.

**Status of Cash Flows**

Cash and cash equivalents (hereafter "net cash") as of August 31, 2010 increased ¥4,427 million compared with the end of the previous fiscal year to ¥16,751 million.

1) Cash Flows from Operating Activities

Net cash used in operating activities for the first three months of the fiscal year ending May 31, 2011 amounted to ¥504 million. (net cash used in operating activities for the corresponding period of the previous fiscal year was ¥1,528 million.) This is mainly attributable to the loss before income taxes of ¥134 million (¥155 million for the corresponding period of the previous fiscal year), depreciation and amortization of ¥537 million (¥434 million for the corresponding period of the previous fiscal year) as well as income taxes paid of ¥767 million (¥771 million for the corresponding period of the previous fiscal year).

2) Cash Flows from Investing Activities

Net cash used in investing activities for the period under review was ¥275 million. (net cash provided by investing activities for the corresponding period of the previous fiscal year was ¥48 million.) The major components included purchase of investment securities of ¥380 million as well as proceeds from collection of lease and guarantee deposits of ¥118 million (¥1,271 million for the corresponding period of the previous fiscal year).

3) Cash Flows from Financing Activities

Net cash provided by financing activities was ¥5,234 million. (net cash used in financing activities for the corresponding period of the previous fiscal year was ¥3,914 million.) Major cash inflow was proceeds from long-term loans payable of ¥5,946 million (¥649 million for the corresponding period of the previous fiscal year). Principal cash outflow was cash dividends paid totaling ¥403 million (¥448 million for the corresponding period of the previous fiscal year).

**(3) Qualitative Information Concerning Consolidated Forecasts**

In addition to successful efforts to contain SG&A expenses, the Pasona Group's high earnings overseas businesses are performing well during the first half of the fiscal year ending May 31, 2011. At the same time, with the redistribution of a portion of SG&A expenses as well as direct input costs to other periods and other factors both operating income and ordinary income are projected to surpass plans. Taking into consideration the decision to forego the recording of the tax effect relating to asset disposal liabilities for accounting purposes the forecast for net income remains unchanged. Moreover, the Company has decided to leave the forecasts of consolidated business results for the full fiscal year ending May 31, 2011 previously disclosed on July 20, 2010 unchanged.

**Revisions to Consolidated Business Results Forecasts**

For the First Half of the Fiscal Year Ending May 31, 2011 (June 1, 2010 to November 30, 2010)

(Millions of yen unless otherwise stated)

| | Net sales | Operating income | Ordinary income | Net income (loss) | Net income (loss) per share (Yen) |
|---|---|---|---|---|---|
| Previous forecast (A) | 90,000 | 100 | 100 | (500) | (1,335.11) |
| Revised forecast (B) | 90,000 | 500 | 550 | (500) | (1,335.11) |
| Net change (B – A) | 0 | 400 | 450 | 0 | – |
| Net change (%) | 0.0 | 400.0 | 450.0 | 0.0 | – |
| (Reference) First half of the fiscal year ended May 31, 2010 | 92,069 | 905 | 933 | (1,696) | (4,730.99) |

## 2. Others

(1) Changes in Significant Subsidiaries (specified subsidiaries that caused changes in the scope of consolidation)

Not applicable

(2) Simplified Accounting Method and Special Accounting Practices

Not applicable

(3) Changes in Accounting Principles, Procedures and Disclosure Methods

1) Application of Accounting Standard for Equity Method of Accounting for Investments and Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from the first quarter of the current fiscal year, Accounting Standard for Equity Method of Accounting for Investments (Accounting Standards Board of Japan [ASBJ] Statement No. 16, issued on March 10, 2008) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (ASBJ Practical Issues Task Force [PITF] No. 24, issued on March 10, 2008) have been applied. According to this application, the Company made necessary adjustments to its quarterly consolidated financial statements. As a result, ordinary income decreased by ¥7 million and income before income taxes increased by ¥7 million for the three months ended August 31, 2010.

2) Application of Accounting Standard for Asset Retirement Obligations

Effective from the first quarter of the current fiscal year, Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, issued on March 31, 2008) and Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, issued on March 31, 2008) have been applied. As a result, operating income and ordinary income for the three months ended August 31, 2010 each decreased by ¥20 million. In addition, income before income taxes decreased by ¥500 million. The amount of change in asset retirement obligations incurred due to the initial application of the accounting standard for the period was ¥753 million.

3) Application of Accounting Standards for Business Combinations

Effective from the first quarter of the current fiscal year, Accounting Standard for Business Combinations (ASBJ Statement No. 21, issued on December 26, 2008), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, issued on December 26, 2008), Partial Amendments to Accounting Standard for Research and Development Costs (ASBJ Statement No. 23, issued on December 26, 2008), Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, issued on December 26, 2008), Revised Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, revised on December 26, 2008), and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, issued on December 26, 2008) have been applied.

## 3. Consolidated Financial Statements

### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | As of August 31, 2010 | As of May 31, 2010 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and deposits | 16,813 | 12,629 |
| Notes and accounts receivable－trade | 17,452 | 17,900 |
| Other | 3,342 | 4,522 |
| Allowance for doubtful accounts | (57) | (65) |
| Total current assets | 37,550 | 34,986 |
| **Noncurrent assets** | | |
| Property, plant and equipment | 7,017 | 6,972 |
| Intangible assets | | |
| Goodwill | 714 | 798 |
| Other | 2,896 | 3,051 |
| Total intangible assets | 3,611 | 3,850 |
| Investments and other assets | | |
| Other | 7,436 | 6,810 |
| Allowance for doubtful accounts | (13) | (13) |
| Allowance for investment loss | (337) | (337) |
| Total investments and other assets | 7,085 | 6,460 |
| Total noncurrent assets | 17,714 | 17,282 |
| **Total assets** | 55,264 | 52,269 |

| (Millions of yen) | | |
|---|---|---|
| | As of August 31, 2010 | As of May 31, 2010 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable－trade | 609 | 1,523 |
| Short-term loans payable | 1,656 | 657 |
| Current portion of bonds | 36 | 36 |
| Accrued expenses | 7,846 | 7,952 |
| Income taxes payable | 215 | 862 |
| Provision for bonuses | 894 | 1,615 |
| Provision for directors' bonuses | 1 | 4 |
| Asset retirement obligations | 50 | ― |
| Other | 8,411 | 8,773 |
| Total current liabilities | 19,723 | 21,426 |
| **Noncurrent liabilities** | | |
| Bonds payable | 128 | 128 |
| Long-term loans payable | 6,876 | 2,149 |
| Provision for retirement benefits | 1,048 | 1,065 |
| Asset retirement obligations | 704 | ― |
| Other | 2,727 | 2,520 |
| Total noncurrent liabilities | 11,485 | 5,863 |
| **Total liabilities** | 31,208 | 27,289 |
| **NET ASSETS** | | |
| Shareholders' equity | | |
| Capital stock | 5,000 | 5,000 |
| Capital surplus | 6,054 | 6,054 |
| Retained earnings | 12,541 | 13,200 |
| Treasury stock | (3,493) | (3,493) |
| Total shareholders' equity | 20,102 | 20,761 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | (37) | 8 |
| Foreign currency translation adjustment | (109) | (81) |
| Total valuation and translation adjustments | (147) | (72) |
| Minority interests | 4,101 | 4,290 |
| **Total net assets** | 24,056 | 24,979 |
| **Total liabilities and net assets** | 55,264 | 52,269 |

## (2) Quarterly Consolidated Statements of Income

(Millions of yen)

| | Three months ended August 31, 2009 | Three months ended August 31, 2010 |
|---|---|---|
| Net sales | 47,161 | 44,574 |
| Cost of sales | 38,326 | 36,432 |
| Gross profit | 8,834 | 8,142 |
| Selling, general and administrative expenses | 8,968 | 7,831 |
| Operating income (loss) | (134) | 310 |
| Non-operating income | | |
| Interest income | 3 | 3 |
| Equity in earnings of affiliates | 34 | 13 |
| Subsidy | — | 60 |
| Other | 18 | 13 |
| Total non-operating income | 56 | 90 |
| Non-operating expenses | | |
| Interest expenses | 14 | 39 |
| Commitment fee | 12 | 16 |
| Other | 14 | 25 |
| Total non-operating expenses | 41 | 81 |
| Ordinary income (loss) | (119) | 319 |
| Extraordinary income | | |
| Gain on sales of noncurrent assets | 1 | — |
| Gain on change in equity | — | 3 |
| Reversal of allowance for doubtful accounts | 2 | 5 |
| Reversal of loss on liquidation of subsidiaries and affiliates | 18 | — |
| Other reversal of provision | — | 25 |
| Total extraordinary income | 22 | 34 |
| Extraordinary loss | | |
| Loss on sales and retirement of noncurrent assets | 56 | 4 |
| Loss on valuation of investment securities | 0 | 4 |
| Loss on change in equity | 2 | — |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | — | 480 |
| Total extraordinary loss | 59 | 488 |
| Income (loss) before income taxes | (155) | (134) |
| Income taxes—current | 100 | 170 |
| Income taxes—deferred | 750 | 79 |
| Income taxes | 850 | 250 |
| Income (loss) before minority interests | — | (385) |
| Minority interests in income | 96 | 86 |
| Net loss | (1,102) | (471) |

## (3) Consolidated Statements of Cash Flows

(Millions of yen)

| | Three months ended August 31, 2009 | Three months ended August 31, 2010 |
|---|---|---|
| Cash flows from operating activities | | |
| Income (loss) before income taxes | (155) | (134) |
| Depreciation and amortization | 434 | 537 |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | — | 480 |
| Amortization of goodwill | 59 | 86 |
| Increase (decrease) in allowance for doubtful accounts | (4) | (7) |
| Increase (decrease) in provision for bonuses | (633) | (720) |
| Increase (decrease) in provision for directors' bonuses | (3) | (2) |
| Increase (decrease) in provision for retirement benefits | 27 | (14) |
| Increase (decrease) in provision for directors' retirement benefits | (11) | — |
| Interest and dividends income | (3) | (3) |
| Interest expenses | 14 | 39 |
| Subsidy income | (5) | (60) |
| Equity in (earnings) losses of affiliates | (34) | (13) |
| Loss (gain) on change in equity | 2 | (3) |
| Loss (gain) on sales and retirement of noncurrent assets | 54 | 4 |
| Loss (gain) on valuation of investment securities | 0 | 4 |
| Decrease (increase) in notes and accounts receivable—trade | 1,763 | 440 |
| Increase (decrease) in operating debt | (2,225) | (1,023) |
| Other | (100) | 524 |
| Subtotal | (821) | 130 |
| Interest and dividends income received | 4 | 7 |
| Interest expenses paid | (52) | (41) |
| Proceeds from subsidy | 112 | 165 |
| Income taxes paid | (771) | (767) |
| Net cash used in operating activities | (1,528) | (504) |

(Millions of yen)

| | Three months ended August 31, 2009 | Three months ended August 31, 2010 |
|---|---|---|
| Cash flows from investment activities | | |
| Purchase of property, plant and equipment | (153) | (74) |
| Proceeds from sales of property, plant and equipment | 1 | 0 |
| Purchase of intangible assets | (97) | (194) |
| Proceeds from sales of investment securities | — | (380) |
| Purchase of investments in subsidiaries | (729) | — |
| Payments for lease and guarantee deposits | (66) | (39) |
| Proceeds from collection of lease and guarantee deposits | 1,271 | 118 |
| Other | (178) | 292 |
| Net cash provided by (used in) investment activities | 48 | (275) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term loans payable | (4,100) | — |
| Proceeds from long-term loans payable | 649 | 5,946 |
| Repayment of long-term loans payable | (7) | (218) |
| Proceeds from stock issuance to minority shareholders | 1 | — |
| Cash dividends paid | (234) | (187) |
| Cash dividends paid to minority shareholders | (214) | (215) |
| Other | (9) | (90) |
| Net cash provided by (used in) financing activities | (3,914) | 5,234 |
| Effect of exchange rate change on cash and cash equivalents | (2) | (26) |
| Net increase (decrease) in cash and cash equivalents | (5,397) | 4,427 |
| Cash and cash equivalents at the beginning of the period | 14,120 | 12,324 |
| Cash and cash equivalents at the end of the period | 8,722 | 16,751 |

### (4) Notes to Going Concern Assumption

Not applicable

### (5) Segment Information

Business Results by segment

(Three months ended August 31, 2009)

(Millions of yen)

| | Temporary staffing / Contracting, Placement / Recruiting | Outplacement | Outsourcing | Others | Total | Eliminations and Corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| Net sales | | | | | | | |
| (1) Sales to outside customers | 41,095 | 2,279 | 3,365 | 420 | 47,161 | — | 47,161 |
| (2) Intersegment sales and transfers | 124 | 0 | 66 | 600 | 791 | (791) | — |
| Total | 41,220 | 2,280 | 3,432 | 1,020 | 47,952 | (791) | 47,161 |
| Operating income (loss) | (154) | 616 | 165 | (25) | 601 | (735) | (134) |

Notes:

1. Business segments are classified on the basis of operating markets and service details.
2. Principal components of each business segment

| Business segment | Principal services |
|---|---|
| Temporary staffing / Contracting, Placement / Recruiting | Temporary staffing and contracting, placement and recruiting, other |
| Outplacement | Outplacement support services |
| Outsourcing | Employee welfare and benefit agency services |
| Others | Group shared services, child-care operation services, other |

3. Additional information

   (Accounting method for subsidy income)

   Effective from the first quarter of the fiscal year ended May 31, 2010, the Pasona Group changed its accounting method for subsidy income relating to development support and training directed toward the agriculture, forestry and fisheries sectors. Under the newly adopted method, subsidy income is no longer posted as non-operating and it is offset against SG&A expenses. As a result, the operating loss recorded under Eliminations and Corporate for the first quarter of the fiscal year ended May 31, 2010 decreased ¥19 million compared with the previous implemented method.

Information on Geographic Areas

(Three months ended August 31, 2009)

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

Overseas Sales

(Three months ended August 31, 2009)

Since the percentage of overseas sales to total consolidated sales is less than 10%, information relating to overseas sales is omitted from this report.

(Additional information)

Effective from the first quarter ended August 31, 2010, Pasona Group applied the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, issued on March 27, 2009) and the Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, issued on March 21, 2008).

1. Overview of reportable segments

The business segments reported by Pasona Group 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 Pasona Group's principal business activities are human resource-related support services as typified by temporary staffing, contracting, placement and recruiting, outplacement as well as employee fringe benefit outsourcing services. Accordingly, the Company has designated "Expert Services (Temporary staffing), Insourcing (Contracting), Others", "Outplacement" and "Outsourcing" as its 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.

2. Information regarding net sales and segment income (loss) by reporting segment

(Three months ended August 31, 2010)

(Millions of yen)

<table>
<tr><th rowspan="3"></th><th colspan="4">Reporting segments</th><th rowspan="3">Others (Note 2)</th><th rowspan="3">Total</th><th rowspan="3">Adjustment (Note 3)</th><th rowspan="3">Figures in consolidated statements of income (Note 4)</th></tr>
<tr><th colspan="3">HR Solutions</th><th rowspan="2">Subtotal</th></tr>
<tr><th>Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)</th><th>Outplacement</th><th>Outsourcing</th></tr>
<tr><td>Net sales</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>(1) Sales to outside customers</td><td>38,004</td><td>2,634</td><td>3,348</td><td>43,987</td><td>404</td><td>44,392</td><td>182</td><td>44,574</td></tr>
<tr><td>(2) Intersegment sales and transfers</td><td>215</td><td>—</td><td>56</td><td>271</td><td>492</td><td>763</td><td>(763)</td><td>—</td></tr>
<tr><td>Total</td><td>38,219</td><td>2,634</td><td>3,404</td><td>44,259</td><td>897</td><td>45,156</td><td>(581)</td><td>44,574</td></tr>
<tr><td>Operating income (loss)</td><td>356</td><td>312</td><td>285</td><td>955</td><td>41</td><td>996</td><td>(685)</td><td>310</td></tr>
</table>

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, Place & Search (Placement / Recruiting) and Global Sourcing (Overseas).
2. The "Others" segment incorporates operations not included in reporting segments, including Life Solutions, Public Solutions, Shared.
3. Adjustment is as follows: Included within the operating loss of ¥685 million is the elimination of intersegment transactions of ¥4 million, corporate earnings of ¥182 million and corporate expenses of ¥872 million. Corporate earnings and expenses are not allocated to reporting segments. Corporate earnings are mainly comprised of sales relating to operations commissioned from government and other public offices. Corporate expenses primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

3. Information regarding impairment loss on noncurrent assets and goodwill by reporting segment

Not applicable

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

Not applicable

(7) Important Subsequent Events

Not applicable