

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP) FY2017 (June 1, 2017 to May 31, 2018)

Listed company name: Pasona Group Inc.
 Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: <https://www.pasonagroup.co.jp/>
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Date of the Annual General Meeting of shareholders: August 17, 2018

Scheduled payment date of cash dividends: August 20, 2018

Scheduled filing date of the securities report: August 17, 2018

Supplemental materials prepared for financial results: Yes

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

(All amounts are in millions of yen rounded down unless otherwise stated)

1. CONSOLIDATED BUSINESS RESULTS

(1) Consolidated Financial Results

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

	Net Sales		Operating Income		Ordinary Income		Profit (Loss) attributable to owners of parent	
		%		%		%		%
FY2017	311,410	11.1	6,539	45.7	6,631	53.5	1,288	—
FY2016	280,395	6.3	4,488	16.3	4,319	12.0	(129)	—

(Note) Comprehensive income FY2017: ¥3,249 million FY2016: ¥2,431 million

	Net Income (Loss) per Share	Diluted Net Income per Share	Return on Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2017	34.94	—	6.0	6.4	2.1
FY2016	(3.52)	—	(0.7)	4.8	1.6

(Reference) Equity in earnings of unconsolidated subsidiaries and affiliates FY2017: ¥47 million FY2016: ¥(74) million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2018	112,795	33,889	20.9	604.20
May 31, 2017	94,584	28,062	20.1	517.74

(Reference) Equity As of May 31, 2018: ¥23,628 million As of May 31, 2017: ¥19,056 million

(3) Consolidated Cash Flows

	Operating Activities	Investing Activities	Financing Activities	Cash and Cash Equivalents, End of Period
FY2017	9,505	(11,977)	6,496	25,054
FY2016	6,464	(3,713)	1,890	21,062

2. DIVIDENDS

(Record Date)	Dividends per Share (Yen)					Total Dividend Payment (Annual)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
	End of First Quarter	End of Second Quarter	End of Third Quarter	Fiscal Year-End	Annual			
FY2016	—	0.00	—	12.00	12.00	447	—	2.3%
FY2017	—	0.00	—	13.00	13.00	514	37.2%	2.3%
FY2018(Forecast)	—	0.00	—	14.00	14.00		34.2%	

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

FY2018 (June 1, 2018 to 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 (Loss) attributable to owners of parent		Net Income (Loss) per Share
		%		%		%		%	Yen
FY2018 First Half	170,000	12.9	3,100	18.4	3,100	17.7	350	(25.6)	8.95
FY2018 Full Fiscal Year	343,000	10.1	8,300	26.9	8,400	26.7	1,600	24.2	40.91

4. OTHERS

- (1) Changes in important subsidiaries during the current period: None
(Changes in special subsidiaries that caused changes in the scope of consolidation)
- (2) Changes of accounting principles, changes in accounting estimates and retrospective restatement
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: None
 - 2) Changes of accounting principles other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (3) Number of shares issued and outstanding (common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
May 31, 2018: 41,690,300 shares May 31, 2017: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
May 31, 2018: 2,583,780 shares May 31, 2017: 4,883,708 shares
 - 3) Average number of shares for the period
FY2017: 36,862,158 shares FY2016: 36,806,610 shares

(Reference) NON-CONSOLIDATED BUSINESS RESULTS

FY2017 (June 1, 2017 to May 31, 2018)

(1) Non-Consolidated Financial Results

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

	Net Sales		Operating Income		Ordinary Income (Loss)		Net Income	
		%		%		%		%
FY2017	8,709	11.6	99	(83.4)	(261)	—	741	84.0
FY2016	7,806	5.7	602	(37.8)	(52)	—	402	(30.4)

	Net Income per Share		Diluted Net Income per Share	
		Yen		Yen
FY2017		20.10		—
FY2016		10.94		—

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
May 31, 2018	57,853	19,115	33.0	488.81
May 31, 2017	48,853	15,040	30.8	408.63

(Reference) Equity as of May 31, 2018: ¥19,115 million As of May 31, 2017: ¥15,040 million

(Note)

The Company has introduced “Board Benefit Trust (BBT)” and “Employment Stock Ownership Plan (J-ESOP)”. The Company’s shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders’ equity, are counted as the number of treasury shares as of the period-end and the average number of shares outstanding for the period for the purpose of not including for computing earnings and net assets per share.

This Financial Report is not subject to a review conducted by CPA or audit firm.

Cautionary statement and other explanatory notes

The aforementioned forecasts are based on assumptions and beliefs in light of information available to management at the time of document preparation and accordingly include certain unconfirmed factors. As a result, readers are advised that actual results may differ materially from forecasts for a variety of reasons. Please refer to “Forecast for the Fiscal Year Ending May 31, 2019” on page 7.

We are planning to hold a financial results meeting for analysts and institutional investors on July 18, 2018. Supplementary materials for the financial results will be posted on the Company’s website (<https://www.pasonagroup.co.jp/ir/>) immediately after the meeting.

FY2017 Consolidated Financial Report

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FY2017 Consolidated Financial Report

(June 1, 2017 - May 31, 2018)

1. Information Concerning Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	FY2016	FY2017	YoY
Net sales	280,395	311,410	11.1%
Operating income	4,488	6,539	45.7%
Ordinary income	4,319	6,631	53.5%
Profit (Loss) attributable to owners of parent	(129)	1,288	—

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	FY2016	FY2017	YoY
HR Solutions	277,187	308,075	11.1%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	232,285	258,781	11.4%
Expert Services (Temporary staffing)	142,662	159,851	12.0%
Insourcing (Contracting)	77,100	84,429	9.5%
HR Consulting, Education & Training, Others	6,133	7,283	18.7%
Global Sourcing (Overseas)	6,388	7,216	13.0%
Career Solutions (Placement/Recruiting, Outplacement)	15,008	16,638	10.9%
Outsourcing	29,893	32,656	9.2%
Life Solutions	4,657	5,129	10.1%
Public Solutions	1,670	2,277	36.3%
Eliminations and Corporate	(3,119)	(4,071)	—
Total	280,395	311,410	11.1%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	FY2016	FY2017	YoY
HR Solutions	10,072	14,307	42.0%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	2,297	5,075	120.9%
Expert Services (Temporary staffing)	2,297	5,075	120.9%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement/Recruiting, Outplacement)	1,992	3,020	51.6%
Outsourcing	5,782	6,211	7.4%
Life Solutions	237	268	13.3%
Public Solutions	(450)	(1,536)	—
Eliminations and Corporate	(5,370)	(6,500)	—
Total	4,488	6,539	45.7%

(2) Overview of Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of May 31, 2018 stood at ¥112,795 million, an increase of ¥18,210 million or 19.3%, compared with May 31, 2017. This was mainly attributable to certain factors including an increase of ¥3,624 million in cash and deposits, an increase of ¥5,880 million in notes and accounts receivable—trade, and an increase of ¥6,133 million in property, plant and equipment.

2) Liabilities

Total liabilities as of May 31, 2018 stood at ¥78,905 million, an increase of ¥12,383 million or 18.6%, compared with May 31, 2017. This was mainly attributable to certain factors including an increase of ¥2,442 million in accrued expense, an increase of ¥1,126 million in deposits received which is included in ‘other’ item in current liabilities, an increase of ¥2,956 million in loans payable, and an increase of ¥1,245 million in lease obligations.

3) Net Assets

Net assets as of May 31, 2018 stood at ¥33,889 million, an increase of ¥5,827 million or 20.8%, compared with May 31, 2017. This was mainly due to profit attributable to owners of parent of ¥1,228 million, an increase of ¥1,255 million in non-controlling interests, the payment of cash dividends totaling ¥447 million, and an increase in shareholders’ equities by selling the treasury shares totaling ¥3,781 million.

(3) Overview of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of May 31, 2018 increased by ¥3,992 million, compared with previous fiscal year end to ¥25,054 million.

1) Cash Flows from Operating Activities

Net cash provided by operating activities for FY2017 amounted to ¥9,505 million (increase in ¥6,464 million for FY2016).

Major cash inflows included income before income taxes totaling ¥6,735 million (¥4,090 million for FY2016), depreciation and amortization totaling ¥3,804 million (¥3,327 million for FY2016), amortization of goodwill totaling ¥993 million (¥984 million for FY2016), an increase in operating debt totaling ¥1,854 million (¥1,615 million for FY2016) as well as an increase in deposits received totaling ¥1,080 million (¥101 million for FY2016).

Principal cash outflows included an increase in notes and accounts receivable—trade totaling ¥3,053 million (¥2,187 million for FY2016) and income taxes paid totaling ¥3,345 million (¥2,744 million for FY2016).

2) Cash Flows from Investing Activities

Net cash used in investing activities for FY2017 amounted to ¥11,977 million (decrease in ¥3,713 million for FY2016).

Principal cash outflows were purchase of property, plant and equipment totaling ¥8,592 million (¥1,292 million for FY2016), purchase of intangible assets totaling ¥2,012 million (¥1,385 million for FY2016) as well as purchase of investments in subsidiaries resulting in change in scope of consolidation totaling ¥1,172 million. (¥95 million for FY2016)

3) Cash Flows from Financing Activities

Net cash provided by financing activities for FY2017 amounted to ¥6,496 million (increase in ¥1,890 million for FY2016).

Major cash inflow were proceeds from long-term loans payable totaling ¥9,118 million (¥8,500 million for

FY2016) and proceeds from sales of treasury shares totaling ¥3,781 million (none for FY2016). Principal cash outflows were repayment of long-term loans payable amounting to ¥6,078 million (¥4,956 million for FY2016) and payment of cash dividends totaling ¥1,372 million (¥1,116 million for FY2016).

(Reference) Cash Flow Benchmarks

	FY2013	FY2014	FY2015	FY2016	FY2017
Equity ratio	27.9%	24.1%	22.2%	20.1%	20.9%
Equity ratio based on market capitalization	24.1%	35.0%	32.2%	35.8%	58.7%
Ratio of interest-bearing debt to cash flows (years)	8.8	1.6	32.3	2.9	2.5
Interest coverage ratio	9.8	49.5	3.0	43.0	51.1

Notes:

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

(4) Forecast for the Fiscal Year Ending May 31, 2019

Consolidated Business Results Forecast

	(Millions of yen)		
	FY2017	FY2018 Forecast	YoY
Net sales	311,410	343,000	10.1%
Operating income	6,539	8,300	26.9%
Ordinary income	6,631	8,400	26.7%
Profit attributable to owners of parent	1,288	1,600	24.2%

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

(Millions of yen)

	FY2017	FY2018 Forecast	YoY
HR Solutions	308,075	338,000	9.7%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	258,781	281,600	8.8%
Expert Services (Temporary staffing)	159,851	172,800	8.1%
Insourcing (Contracting)	84,429	91,800	8.7%
HR Consulting, Education & Training, Others	7,283	8,900	22.2%
Global Sourcing (Overseas)	7,216	8,100	12.2%
Career Solutions (Placement/Recruiting, Outplacement)	16,638	18,800	13.0%
Outsourcing	32,656	37,600	15.1%
Life Solutions	5,129	5,900	15.0%
Public Solutions	2,277	3,200	40.5%
Eliminations and Corporate	(4,071)	(4,100)	—
Total	311,410	343,000	10.1%

Forecast of Consolidated Operating Income (Loss) by Segment

(Millions of yen)

	FY2017	FY2018 Forecast	YoY
HR Solutions	14,307	16,320	14.1%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	5,075	5,900	16.3%
Expert Services (Temporary staffing)	5,075	5,900	16.3%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement/Recruiting, Outplacement)	3,020	2,880	(4.7)%
Outsourcing	6,211	7,540	21.4%
Life Solutions	268	170	(36.7)%
Public Solutions	(1,536)	(1,300)	—
Eliminations and Corporate	(6,500)	(6,890)	—
Total	6,539	8,300	26.9%

(5) Policy on the Appropriation of Profits and Dividends for FY2017 and FY2018

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

The Company has declared an annual dividend for the fiscal year ended May 31, 2018 of ¥13 per share

following ratification at a Board of Directors' meeting held on July 13, 2018.

Regarding dividends for the fiscal year ending May 31, 2019, based on our basic policy for consolidated dividend payout ratio target and increase in profit attributable to owners of parent, the Company intend to pay a period-end cash dividend of ¥14 per share.

2. Basic consideration on selecting our accounting standard

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

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2017	As of May 31, 2018
ASSETS		
Current assets		
Cash and deposits	21,754	25,378
Notes and accounts receivable—trade	34,202	40,082
Inventories	1,504	1,938
Deferred tax assets	1,431	1,953
Income taxes receivable	647	560
Other	5,131	6,085
Allowance for doubtful accounts	(53)	(58)
Total current assets	64,617	75,940
Non-current assets		
Property, plant and equipment		
Buildings	9,418	11,870
Accumulated depreciation	(4,995)	(5,028)
Buildings, net	4,422	6,842
Land	2,089	2,340
Lease assets	3,042	4,151
Accumulated depreciation	(1,985)	(2,173)
Lease assets, net	1,056	1,978
Other	5,983	8,829
Accumulated depreciation	(4,294)	(4,599)
Other, net	1,688	4,229
Total property, plant and equipment	9,258	15,391
Intangible assets		
Goodwill	3,701	3,900
Software	3,733	4,196
Lease assets	91	169
Customer assets	1,425	1,160
Other	127	128
Total intangible assets	9,079	9,555
Investments and other assets		
Investment securities	3,699	3,792
Long-term loans receivable	187	170
Net defined benefit asset	1,015	1,138
Deferred tax assets	745	1,003
Lease and guarantee deposits	4,987	4,649
Other	1,104	1,249
Allowance for doubtful accounts	(111)	(95)
Total investments and other assets	11,629	11,908
Total non-current assets	29,966	36,854
Total assets	94,584	112,795

	As of May 31, 2017	As of May 31, 2018
LIABILITIES		
Current liabilities		
Accounts payable—trade	5,850	6,545
Short-term loans payable	5,362	6,219
Lease obligations	514	781
Accounts payable—other	7,133	7,533
Accrued expenses	14,140	16,583
Income taxes payable	1,730	2,210
Accrued consumption taxes	3,427	4,128
Unearned revenue	1,630	1,527
Provision for bonuses	3,189	3,811
Provision for directors' bonuses	27	48
Asset retirement obligations	97	42
Other	6,705	8,196
Total current liabilities	49,811	57,630
Non-current liabilities		
Bonds payable	—	344
Long-term loans payable	12,017	14,116
Lease obligations	839	1,817
Provision for directors' stock benefit	28	170
Provision for employees' stock grant	34	141
Net defined benefit liability	1,829	1,949
Deferred tax liabilities	365	370
Asset retirement obligations	879	1,482
Other	716	882
Total non-current liabilities	16,710	21,274
Total liabilities	66,522	78,905
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,013	6,967
Retained earnings	12,593	13,461
Treasury shares	(4,008)	(2,194)
Total shareholders' equity	18,598	23,233
Other comprehensive income		
Valuation difference on available-for-sale securities	293	345
Foreign currency translation adjustment	90	9
Remeasurements of defined benefit plans	74	39
Total other comprehensive income	458	394
Non-controlling interests	9,006	10,261
Total net assets	28,062	33,889
Total liabilities and net assets	94,584	112,795

(2) Consolidated Statements of Income

(Millions of yen)

	FY2016	FY2017
Net sales	280,395	311,410
Cost of sales	223,778	244,382
Gross profit	56,617	67,028
Selling, general and administrative expenses	52,128	60,489
Operating income	4,488	6,539
Non-operating income		
Interest income	31	35
Share of profit of entities accounted for using equity method	—	47
Subsidy	74	97
Real estate rent	74	603
Other	158	196
Total non-operating income	339	981
Non-operating expenses		
Interest expenses	161	192
Share of loss of entities accounted for using equity method	74	—
Commitment fee	48	54
Provision of allowance for doubtful accounts	72	48
Rent expenses on real estates	40	473
Other	111	119
Total non-operating expenses	508	889
Ordinary income	4,319	6,631
Extraordinary income		
Gain on sales of investment securities	17	—
Gain on sales of shares of subsidiaries and associate	19	—
Gain on bargain purchase	—	601
Total extraordinary income	36	601
Extraordinary loss		
Loss on sales and retirement of non-current assets	113	144
Impairment loss	140	190
Loss on valuation of investment securities	—	129
Loss on valuation of shares of subsidiaries and associates	11	32
Total extraordinary loss	265	497
Income before income taxes	4,090	6,735
Income taxes — current	2,883	3,855
Income taxes — deferred	(396)	(396)
Income taxes	2,487	3,458
Profit	1,603	3,276
Profit attributable to non-controlling interests	1,732	1,988
Profit (loss) attributable to owners of parent	(129)	1,288

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016	FY2017
Profit	1,603	3,276
Other comprehensive income		
Valuation difference on available-for-sale securities	354	94
Foreign currency translation adjustment	(25)	(81)
Remeasurements of defined benefit plans	498	(35)
Share of other comprehensive income of entities accounted for using equity method	(0)	(3)
Total other comprehensive income	828	(26)
Comprehensive income	2,431	3,249
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	549	1,224
Comprehensive income attributable to non-controlling interests	1,881	2,025

(4) Consolidated Statements of Changes in Shareholders' Equity

FY2016 (For the fiscal year ended May 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained Earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	5,000	5,023	13,172	(4,016)	19,179
Changes of items during the period					
Dividends from surplus			(447)		(447)
Net loss attributable to owners of parent			(129)		(129)
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		(0)		7	7
Change of scope of consolidation			(2)		(2)
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(6)			(6)
Capital increase of consolidated subsidiaries		(2)			(2)
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(9)	(579)	7	(581)
Balance at the end of current period	5,000	5,013	12,593	(4,008)	18,598

	Total accumulated other comprehensive income				Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	97	104	(422)	(221)	7,776	26,735
Changes of items during the period						
Dividends from surplus				—		(447)
Net loss attributable to owners of parent				—		(129)
Purchase of treasury shares				—		(0)
Disposal of treasury shares				—		7
Change of scope of consolidation				—		(2)
Change in treasury shares of parent arising from transactions with non-controlling shareholders				—		(6)
Capital increase of consolidated subsidiaries				—		(2)
Net changes of items other than shareholders' equity	196	(14)	497	679	1,229	1,908
Total changes of items during the period	196	(14)	497	679	1,229	1,327
Balance at the end of current period	293	90	74	458	9,006	28,062

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

(Millions of yen)

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

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

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2016	FY2017
Cash flows from operating activities		
Income before income taxes	4,090	6,735
Depreciation and amortization	3,327	3,804
Impairment loss	140	190
Amortization of goodwill	984	993
Gain on bargain purchase	—	(601)
Increase (decrease) in allowance for doubtful accounts	58	(20)
Increase (decrease) in provision for bonuses	(25)	605
Increase (decrease) in net defined benefit liability	118	24
Decrease (increase) in net defined benefit asset	573	(190)
Increase (decrease) in provision for directors' stock benefit	28	142
Increase (decrease) in provision for employees' stock grant	34	107
Interest and dividends income	(46)	(62)
Interest expenses	161	192
Subsidy income	(74)	(97)
Share of (profit) loss of entities accounted for using equity method	74	(47)
Loss (gain) on sales and retirement of non-current assets	113	144
Loss (gain) on sales of investment securities	(17)	—
Loss (gain) on valuation of investment securities	11	161
Decrease (increase) in notes and accounts receivable—trade	(2,187)	(3,053)
Decrease (increase) in inventories	(425)	(407)
Decrease (increase) in other assets	(628)	(410)
Increase (decrease) in operating debt	1,615	1,854
Increase (decrease) in accrued consumption taxes	232	545
Increase (decrease) in deposits received	101	1,080
Increase (decrease) in other liabilities	932	1,105
Other	29	59
Subtotal	9,222	12,856
Interest and dividends income received	62	83
Interest expenses paid	(150)	(186)
Proceeds from subsidy	74	97
Income taxes paid	(2,744)	(3,345)
Net cash provided by operating activities	6,464	9,505

	FY2016	FY2017
Cash flows from investment activities		
Decrease (increase) in time deposits	(354)	364
Purchase of property, plant and equipment	(1,292)	(8,592)
Proceeds from sales of property, plant and equipment	0	19
Purchase of intangible assets	(1,385)	(2,012)
Purchase of investment securities	(448)	(56)
Proceeds from sales of investment securities	121	0
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(95)	(1,172)
Payments of loans receivable	(161)	(28)
Collection of loans receivable	48	33
Payments for lease and guarantee deposits	(320)	(516)
Proceeds from collection of lease and guarantee deposits	176	959
Payments for asset retirement obligation	(39)	(223)
Payments for transfer of business	—	(685)
Other	37	(65)
Net cash used in investment activities	(3,713)	(11,977)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	137	(152)
Proceeds from long-term loans payable	8,500	9,118
Repayment of long-term loans payable	(4,956)	(6,078)
Proceeds from sale and leaseback	84	1,593
Repayments of finance lease obligations	(746)	(800)
Proceeds from issuance of bonds	—	390
Proceeds from share issuance to non-controlling shareholders	19	38
Proceeds from sales of treasury shares	—	3,781
Purchase of treasury shares of subsidiaries	(230)	—
Proceeds from disposal of treasury shares of subsidiaries	229	0
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(31)	(23)
Cash dividends paid	(446)	(447)
Dividends paid to non-controlling interests	(669)	(924)
Other	(0)	(0)
Net cash provided by (used in) financing activities	1,890	6,496
Effect of exchange rate change on cash and cash equivalents	(21)	(33)
Net increase (decrease) in cash and cash equivalents	4,620	3,992
Cash and cash equivalents at the beginning of the period	16,441	21,062
Cash and cash equivalents at the end of the period	21,062	25,054

(6) Notes to Consolidated Financial Statements

(Notes to Going Concern Assumption)

None

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

1. Scope of Consolidation

1) Consolidated subsidiaries

a. No. of consolidated subsidiaries: 66 companies

b. Leading consolidated subsidiaries

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

c. New consolidated subsidiaries: 7 companies

Establishment

- Job-Hub Inc.
- DG1 Inc.

Stock acquisition

- Pasona Human Solutions Inc. *1
- Pasona Job Support Inc. *2
- Pasona Digital Solutions Inc. *3
- Nagasaki diamond staff Inc. *4
- Agensi Pekerjaan Pasona Sdn. Bhd.

d. Exclusion from the scope of consolidation: 1 company

KIS Co., Ltd. *5

*1 Pasona Human Solutions Inc. has been changed the company name from NTT Human Solutions Corporation.

*2 Pasona Job Support Inc. has been changed the company name from TelWel Job Support Corporation.

*3 Pasona Digital Solutions Inc has been changed the company name from Dropsystem Co.,Ltd.

*4 Nagasaki diamond staff Inc. has been changed the company name from MHI diamond staff Inc.

*5 KIS Co., Ltd. merged with Pasona Inc. and expired.

2) Non-consolidated subsidiary

a. No. of non-consolidated subsidiaries: 18 companies

b. Leading non-consolidated subsidiaries

- DF Management Co., Ltd.
- General Incorporated Association DIRECTFORCE
- ed1. co., Ltd.

c. Reasons for exclusion from the scope of consolidation

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

2. Application of the Equity Method

- 1) Affiliated companies that are accounted for by the equity method
 - a. No. of affiliated companies that are accounted for by the equity method: 3 companies
 - b. Leading affiliated companies that are accounted for by the equity method
 - E-Staffing Co., Ltd.
 - National Examination Center Inc.
 - Digibana Inc.

Since Pasona Cyber Lab Inc. and Chunghwa Benefit One Co., Ltd. have completed liquidation and MYDC Co., Ltd. was merged with MONEY DESIGN Co., Ltd. which was the surviving company on November 1st 2017, these three companies have been excluded in the scope of consolidation as affiliated companies accounted for by the equity method.

- 2) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
 - a. No. of non-consolidated subsidiaries and affiliated companies not accounted for by the equity method: 19 companies
 - b. Leading non-consolidated subsidiaries and affiliated companies not accounted for by the equity method
 - DF Management Co., Ltd.
 - General Incorporated Association DIRECTFORCE
 - ed1. co., Ltd.
 - c. Reasons for exclusion from the scope of the equity method
Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method were excluded from the scope of consolidation as their net profit and loss (the amount equivalent to equity shareholdings) and retained earnings (the amount equivalent to equity shareholdings) had an immaterial impact on the Group, and their overall importance to the Group's performance was limited.

(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 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 ¥2,619 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 FY2017 were not revised.

(Segment Information, etc.)

Segment Information

1. Overview of reportable segments

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

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

Since FY2017, "Public Solutions" which had previously been included in "Others", was changed to an independent reporting segment due to increasing quantitative importance. Along with that, "Life Solutions" previously included in "Others" was also described as an independent reporting segment.

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

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

The accounting treatment method for the Company's reporting segments is generally same as the consolidated financial statements. Also, segment income is based on operating income. The prices of intersegment transactions and transfers are determined by price negotiations based on the Company's submission of preferred prices after taking market conditions into account.

Reporting segments income is adjusted with operating income under consolidated statements of income.

Intersegment sales and transfer are based on prevailing market price basis.

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

FY2016 (For the fiscal year ended May 31, 2017)

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	HR Solutions			Life Solutions	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	230,873	14,961	29,184	4,585	790	280,395	—	280,395
(2) Intersegment sales and transfers	1,411	47	708	71	879	3,119	(3,119)	—
Total	232,285	15,008	29,893	4,657	1,670	283,514	(3,119)	280,395
Operating income (loss)	2,297	1,992	5,782	237	(450)	9,859	(5,370)	4,488
Segment assets	51,484	12,939	27,167	1,484	1,386	94,463	121	94,584
Other items								
Depreciation and Amortization	1,522	245	724	47	85	2,625	702	3,327
Amortization of Goodwill	822	—	162	—	—	984	—	984
Impairment losses	32	—	—	—	107	140	—	140
Increase in tangible and intangible fixed assets	1,486	279	807	34	164	2,772	1,559	4,332

Notes:

- The “Expert Services (Temporary staffing), Insourcing (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(5,370) million includes Group management costs relating to the Company and incubation cost of our new business totaling ¥(5,396) million as well as intersegment sales and transfers totaling ¥26 million.
 - Adjustment of segment assets totaling ¥121 million includes the Company’s cash and deposits and assets relating to Group management totaling ¥17,464 million as well as intersegment sales and transfers totaling ¥(17,342) million.
 - Adjustment of depreciation and amortization totaling ¥702 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥707 million as well as intersegment sales and transfers totaling ¥(5) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥1,559 million are mainly comprised of an increase of assets relating to Group management totaling ¥1,581 million and intersegment sales and transfers totaling ¥(21) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

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

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income
	HR Solutions			Life Solutions	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	256,828	16,568	31,813	5,024	1,175	311,410	—	311,410
(2) Intersegment sales and transfers	1,952	70	842	104	1,101	4,071	(4,071)	—
Total	258,781	16,638	32,656	5,129	2,277	315,482	(4,071)	311,410
Operating income (loss)	5,075	3,020	6,211	268	(1,536)	13,039	(6,500)	6,539
Segment assets	63,657	13,446	30,673	1,653	6,030	115,462	(2,667)	112,795
Other items								
Depreciation and Amortization	1,582	276	906	45	304	3,116	688	3,804
Amortization of Goodwill	898	5	89	—	—	993	—	993
Impairment losses	—	4	13	—	172	190	—	190
Increase in tangible and intangible fixed assets	3,304	783	1,057	134	5,286	10,566	2,041	12,608

Notes:

- The “Expert Services (Temporary staffing), Insourcing (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
- The following are included in the adjustment item.
 - Adjustment of segment income (loss) totaling ¥(6,500) million includes Group management costs relating to the Company and the cost of business incubation totaling ¥(6,527) million, as well as intersegment sales and transfers totaling ¥27 million.
 - Adjustment of segment assets totaling ¥(2,667) million includes the Company’s cash and deposits and assets relating to Group management totaling ¥20,965 million as well as intersegment sales and transfers totaling ¥(23,632) million.
 - Adjustment of depreciation and amortization totaling ¥688 million are mainly comprised of depreciation and amortization of assets relating to Group management totaling ¥701 million as well as intersegment sales and transfers totaling ¥(13) million.
 - Adjustment of increase in tangible and intangible fixed assets totaling ¥2,041 million are mainly comprised of an increase of assets relating to Group management totaling ¥2,057 million as well as intersegment sales and transfers totaling ¥(16) million.
- Segment income (loss) is adjusted with operating income under consolidated statements of income.

Related information

FY2016 (For the fiscal year ended May 31, 2017)

1. Information by product and service

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

2. Information on geographic areas

1) Net sales

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

2) Property, plant and equipment

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

3. Information by major customer

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

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

1. Information by product and service

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

2. Information on geographic areas

1) Net sales

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

2) Property, plant and equipment

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

3. Information by major customer

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

Information regarding impairment loss on fixed assets

FY2016 (For the fiscal year ended May 31, 2017)

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

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

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

Information regarding unamortized balance of goodwill by reporting segment

FY2016 (For the fiscal year ended May 31, 2017)

(Millions of yen)

	Reporting segments					Adjustment	Total
	Expert Services (Temporary staffing), Insourcing (Contracting), Others	Career Solutions (Placement/ Recruiting, Outplacement)	Outsourcing	Life Solutions	Public Solutions		
Balance at the end of the period	3,487	—	213	—	—	—	3,701

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

(Millions of yen)

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

Information regarding gain on bargain purchase by reporting segment

FY2016 (For the fiscal year ended May 31, 2017)

None

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

During FY2017 accounting period, gain on bargain purchase of ¥601 million was recorded in the segment of “Expert Services (Temporary staffing), Insourcing (Contracting), Others”. It was due to acquiring shares of TelWel Job Support Corporation (changing the name to Pasona Job Support Inc.) and making it a consolidated subsidiary. As gain on bargain purchase is a part of extraordinary income, it is not included in the segment income.

(Business Combination, etc.)

Acquisition of companies through acquiring of shares and business transfer

Pasona Inc., our consolidated subsidiary, has acquired the shares of NTT Human Solutions Corporation (changing the company name to Pasona Human Solutions Inc.) TelWel Job Support Corporation (changing the company name to Pasona Job Support Inc.) and has made them its subsidiaries on August 1st 2017. In addition, Pasona Inc. has acquired temporary staffing business of NTT-ME Service Corporation, NTT Solco & Hokkaido Telemart Corporation, TelWel West Nippon Corporation, and DOCOMO Data Com, Inc on August 1st 2017.

1. Outline of the Business Combination

1) Acquired companies and the businesses domain

Acquired company	The company's business domain
NTT Human Solutions Corporation	Temporary staffing, Placement/Recruitment, Outsourcing, etc.
TelWel Job Support Corporation	Temporary staffing, etc.

- 2) The name of company whose businesses were transferred
 NTT-ME Service Corporation
 NTT Solco & Hokkaido Telemart Corporation
 TelWel West Nippon Corporation
 DOCOMO Data Com (including BPO business and excluding SE staffing)
- 3) The purpose of acquiring companies and business transfer
 As temporary staffing companies in NTT group, NTT Human Solutions Corporation and TelWel Job Support Corporation had quickly and stably provided human resources to their customers. In addition, the companies had been trusted by a wide range of customers such as government agencies and major corporations. Pasona Inc. has been aiming for sales enhancement in the regional area and for expanding sales to NTT group in various business area such as insourcing (contracting) or education & training through the acquired companies and transferred business with their high trust and awareness.
- 4) Date of business combination: August 1st 2017
- 5) Legal form of business combination: Acquisition of shares and assignment of businesses
- 6) The company names of acquired companies:
 Pasona Human Solutions Inc. (changed the name from NTT Human Solutions Corporation)
 Pasona Job Support Inc. (changed the name from TelWel Job Support Corporation)
- 7) Voting right acquired: Pasona Human Solutions Inc. 100% (the Group total)
 Pasona Job Support Inc. 100% (the Group total)
- 8) Main reason for deciding acquisition for the companies
 Pasona Inc. acquired these two companies with cash and consolidated them as our subsidiaries.

2. Period of the business results of the acquired companies and transferred businesses regarding the consolidated income statement for FY2017

The accounting closing date of Pasona Human Solutions Inc. and Pasona Job Support Inc. is March 31st which is different from closing date of the Company. So their income results from August 1st 2017 until March 31st 2018 were included in the consolidated income statement for FY2017. In addition, as for the transferred business, the income results from August 1st 2017 until March 31st 2018 were included in the consolidated income statement for FY2017.

3. Breakdown of acquisition consideration for acquired companies and businesses

1) Acquired companies

Consideration of acquisition cost	Cash	¥2,623 million
Acquisition cost		¥2,623 million

2) Transferred business

Consideration of acquisition cost	Cash	¥2,845 million
Acquisition cost		¥2,845 million

4. Major contents and amounts for the acquisition cost

1) Acquired companies

Advisory commission and fee	¥14 million
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2) Transferred businesses
 Advisory commission and fee ¥7 million

5. Amount of goodwill, reason for occurrence, method of depreciation and amortization period / amount of bargain purchase and reason for occurrence

1) Amount of goodwill and bargain purchase

Acquiring shares	goodwill	¥392 million
	gain on bargain purchase	¥601 million
Transferred businesses	goodwill	¥339 million

2) Reason for occurrence for goodwill and bargain purchase

As the acquisition cost exceeded the net assets of the acquired company and business, the excess amount was recorded as goodwill. And as the net assets of the acquired company exceeded the acquisition cost, the excess amount was recognized as gain on bargain purchase.

3) Method of depreciation and amortization period

Acquiring shares	goodwill	equal depreciation over 8 years
Transferred businesses	goodwill	equal depreciation over 10 years

6. Amount and breakdown for the assets and liabilities accepted on the date of business combination

1) Acquired companies

Current Assets	¥4,332 million
Non-current Assets	¥240 million
<hr/>	
Total Assets	¥4,572 million
Current Liabilities	¥1,606 million
Non-current Liabilities	¥133 million
<hr/>	
Total Liabilities	¥1,740 million

2) Transferred Business

Current Assets	¥2,324 million
<hr/>	
Total Assets	¥2,324 million

7. Approximate impact and calculation method of the impact on the consolidated income statement for FY2017, assuming that business combination was completed under the beginning of the current consolidated fiscal year

As far as the approximate amount of the impact is concerned, it is not described because it is impossible to

calculate it reasonably.

(Per Share Information)

	(Yen)	
	FY2016	FY2017
Net assets per share	517.74	604.20
Net income (loss) per share	(3.52)	34.94

(Notes)

- Diluted net income per share of the current consolidated fiscal year is not stated because there was no diluted share.
- The Company's shares in the BBT and J-ESOP, which are reported as treasury shares under Shareholders' equity, are not counted toward the number of treasury shares as of the period-end and the average number of shares outstanding for the period for the purpose of computing earnings and net assets per share.
The number of treasury shares outstanding for the period for the purpose of computing earnings and net assets per share consist of 291,000 shares for BBT and 194,000 shares for J-ESOP.
- As mentioned in 'Change in Presentation' on Page 19, Pasona Panasonic Business Service Co., Ltd. has recorded some portion of their expenses as selling, general and administrative expense which was previously recorded as cost of sales. There was no impact on income per share information in this fiscal year.
- The following shows the basis of calculating net earnings per share

	(Millions of yen)	
Items	FY2016	FY2017
Earnings per share		
Profit (loss) attributable to owners of parent	(129)	1,288
Amount not applicable to shareholders of common stock	—	—
Profit (loss) attributable to owners of parent applicable to common stock	(129)	1,288
Average number of shares for the period (shares)	36,806,610	36,862,158

- The following shows the basis of calculating net assets per share

	(Millions of yen)	
Items	As of May 31, 2017	As of May 31, 2018
Total net assets	28,062	33,889
Amount deducted from total net assets	9,006	10,261
Net assets applicable to common stock as of the fiscal period-end	19,056	23,628
Number of common stock used to calculate net assets per share (shares)	36,806,592	39,106,520

(Important Subsequent Events)

Not applicable.