

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2018 (June 1, 2018 to May 31, 2019)
First Half Ended November 30, 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/>
 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 11, 2019

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, 2018	164,692	9.3	3,732	42.5	3,538	34.3	631	34.2
First Half ended November 30, 2017	150,619	10.0	2,618	229.4	2,634	246.8	470	—

(Note) Comprehensive income H1 FY2018: ¥1,677 million H1 FY2017: ¥1,173 million

	Net Income per Share		Diluted Net Income per Share	
	Yen		Yen	
First Half ended November 30, 2018	16.14		—	
First Half ended November 30, 2017	12.78		—	

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
November 30, 2018	114,914	37,529	23.5
May 31, 2018	112,477	33,889	21.0

(Reference) Equity As of November 30, 2018: ¥26,970 million As of May 31, 2018: ¥23,628 million

(Note) As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018. As for the financial position, the figures for the previous consolidated fiscal year were processed by the method.

2. DIVIDENDS PER SHARE

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

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

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

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

	Net Sales		Operating Income		Ordinary Income		Profit attributable to owners of parent		Net Income per Shares
		%		%		%		%	Yen
FY2018 Full Fiscal Year	343,000	10.1	8,300	26.9	8,400	26.7	1,600	24.2	40.91

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

4. NOTES

- (1) Changes in important subsidiaries during the current period: None
(Changes in specified subsidiaries that caused changes in the scope of consolidation)
- (2) Application of the special accounting practices in the preparation of quarterly consolidated financial statements:
None
- (3) Changes of accounting principles, changes in accounting estimates and retrospective restatement
 - 1) Changes of accounting principles in line with revisions to accounting and other standards: None
 - 2) Changes of accounting principles other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
- (4) Number of shares issued and outstanding (Common shares)
 - 1) The number of shares issued and outstanding as of the period-end (including treasury shares)
November 30, 2018: 41,690,300 shares May 31, 2018: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
November 30, 2018: 2,576,380 shares May 31, 2018: 2,583,780 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2018: 39,107,976 shares
First Half ended November 30, 2017: 36,806,552 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 17, 2019. 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, 2018

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H1 FY2018 Consolidated Financial Report

(June 1, 2018 - November 30, 2018)

1. Information Concerning Quarterly Consolidated Business Results

(1) Consolidated Business Results

	(Millions of yen)		
	H1 FY2017	H1 FY2018	YoY
Net sales	150,619	164,692	9.3%
Operating income	2,618	3,732	42.5%
Ordinary income	2,634	3,538	34.3%
Profit attributable to owners of parent	470	631	34.2%

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

	(Millions of yen)		
	H1 FY2017	H1 FY2018	YoY
HR Solutions	148,832	162,661	9.3%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	124,431	136,689	9.9%
Expert Services (Temporary staffing)	78,491	83,827	6.8%
Insourcing (Contracting)	39,197	45,119	15.1%
HR Consulting, Education & Training, Others	3,236	3,817	17.9%
Global Sourcing (Overseas)	3,506	3,923	11.9%
Career Solutions (Placement / Recruiting, Outplacement)	8,151	9,209	13.0%
Outsourcing	16,249	16,763	3.2%
Life Solutions	2,511	2,743	9.2%
Public Solutions	1,198	1,612	34.5%
Eliminations and Corporate	(1,923)	(2,325)	-
Total	150,619	164,692	9.3%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	H1 FY2017	H1 FY2018	YoY
HR Solutions	6,334	8,118	28.2%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	2,330	2,801	20.2%
Expert Services (Temporary staffing)	2,330	2,801	20.2%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	1,489	1,942	30.5%
Outsourcing	2,514	3,374	34.2%
Life Solutions	110	65	(41.2)%
Public Solutions	(732)	(685)	-
Eliminations and Corporate	(3,094)	(3,765)	-
Total	2,618	3,732	42.5%

(2) Overview of Consolidated Financial Position

1) Status of Assets, Liabilities and Net Assets

Assets

Total assets as of November 30, 2018 stood at ¥114,914 million, an increase of ¥2,437 million or 2.2%, compared with May 31, 2018. This was mainly attributable to an increase of ¥1,736 million in cash and deposits, a decrease of ¥603 million in notes and accounts receivable-trade, and an increase of ¥892 million in property, plant and equipment.

Liabilities

Total liabilities as of November 30, 2018 stood at ¥77,385 million, a decrease of ¥1,202 million or 1.5%, compared with May 31, 2018. This was mainly attributable to a decrease of ¥2,261 million in accounts payable-trade, an increase of ¥1,777 million in long-term loans payable, and a decrease of ¥538 million in accrued consumption taxes included in other item of current liabilities.

Net Assets

Net assets as of November 30, 2018 stood at ¥37,529 million, an increase of ¥3,639 million or 10.7%, compared with May 31, 2018. This was mainly due to profit attributable to owners of parent of ¥631 million, an increase of ¥3,344 million in capital surplus due to the partial sales of shares of one of our subsidiaries, and the payment of dividends totaling ¥514 million.

As a result, equity ratio improved by 2.5 percentage points from the end of previous consolidated fiscal year to 23.5%.

As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018. With respect to the financial position, the figures for the previous consolidated fiscal year were processed by the method and were compared with the current financial position.

2) Status of Cash Flows

Cash and cash equivalents (hereafter "net cash") as of November 30, 2018 increased by ¥1,576 million, compared with previous fiscal year end to ¥26,630 million.

Cash Flows from Operating Activities

Net cash used in operating activities in H1 FY2018 amounted to ¥41 million (increase in ¥457 million in H1 FY2017).

Major cash inflows included income before income taxes totaling ¥3,508 million (¥3,053 million in H1 FY2017), depreciation and amortization totaling ¥2,125 million (¥1,737 million in H1 FY2017), amortization of goodwill totaling ¥511 million (¥495 million in H1 FY2017), and a decrease in notes and accounts receivable-trade totaling ¥658 million (increase in ¥2,449 million in H1 FY2017).

Principal cash outflows included a decrease in operating debt totaling ¥2,733 million (¥1,720 million in H1 FY2017), income taxes paid totaling ¥2,016 million (¥1,466 million in H1 FY2017), and increase in advances paid included in other item totaling ¥1,525 million (¥267 million in H1 FY2017).

Cash Flows from Investing Activities

Net cash used in investing activities in H1 FY2018 amounted to ¥3,650 million (decrease in ¥7,915 million in H1 FY2017).

Major cash outflows were purchase of fixed assets totaling ¥3,030 million (¥6,557 million in H1

FY2017), and payment for lease and guarantee deposits totaling ¥447 million (¥231 million in H1 FY2017).

Cash Flows from Financing Activities

Net cash provided in financing activities in H1 FY2018 amounted to ¥5,205 million (increase in ¥4,155 million in H1 FY2017).

Major cash inflows were proceeds from long-term loans payable totaling ¥5,328 million (¥7,150 million in H1 FY2017), and proceeds from sales of shares of subsidiaries that do not result in change in scope of consolidation totaling ¥4,899 million (none in H1 FY2017).

Principal cash outflows were repayment of long-term loans payable amounting to ¥3,073 million (¥2,735 million in H1 FY2017), and payment of dividends totaling ¥1,629 million (¥1,370 million in H1 FY2017).

(3) Overview of Consolidated Forecasts

As for the financial income in H1 FY2018, due to expanding sales and improving gross margin by accumulating know-how in Insourcing, improving work efficiency in Outsourcing, and increasing the profit in Career Solutions, the actual consolidated profits in H1 FY2018 exceeded the forecasts of the beginning of this fiscal year. Regarding the consolidated full-year forecasts, as there are uncertainties in the business circumstances, the forecasts previously announced on July 13, 2018 have been unchanged.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2018	As of November 30, 2018
ASSETS		
Current assets		
Cash and deposits	25,378	27,114
Notes and accounts receivable-trade	40,082	39,479
Inventories	1,938	2,154
Other	6,645	7,377
Allowance for doubtful accounts	(58)	(68)
Total current assets	73,987	76,057
Non-current assets		
Property, plant and equipment	15,391	16,283
Intangible assets		
Goodwill	3,900	3,439
Other	5,655	5,550
Total intangible assets	9,555	8,989
Investments and other assets		
Other	13,638	13,680
Allowance for doubtful accounts	(95)	(97)
Total investments and other assets	13,543	13,583
Total non-current assets	38,490	38,857
Total assets	112,477	114,914

(Millions of yen)

	As of May 31, 2018	As of November 30, 2018
LIABILITIES		
Current liabilities		
Accounts payable-trade	6,545	4,284
Short-term loans payable	6,219	6,795
Accrued expenses	16,583	16,151
Income taxes payable	2,210	2,530
Provision for bonuses	3,811	3,906
Provision for directors' bonuses	48	23
Asset retirement obligations	42	34
Other	22,166	20,786
Total current liabilities	57,629	54,511
Non-current liabilities		
Bonds payable	344	316
Long-term loans payable	14,116	15,893
Net defined benefit liability	1,949	1,973
Provision for directors' stock benefit	170	180
Provision for employees' stock grant	141	154
Asset retirement obligations	1,482	1,660
Other	2,753	2,695
Total non-current liabilities	20,958	22,874
Total liabilities	78,587	77,385
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,967	10,310
Retained earnings	13,461	13,521
Treasury shares	(2,194)	(2,187)
Total shareholders' equity	23,233	26,644
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	345	273
Foreign currency translation adjustment	9	37
Remeasurements of defined benefit plans	39	14
Total accumulated other comprehensive income	394	325
Non-controlling interests	10,261	10,559
Total net assets	33,889	37,529
Total liabilities and net assets	112,477	114,914

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2017	H1 FY2018
Net sales	150,619	164,692
Cost of sales	118,687	128,533
Gross profit	31,931	36,158
Selling, general and administrative expenses	29,313	32,425
Operating income	2,618	3,732
Non-operating income		
Interest income	14	17
Subsidy	24	21
Real estate rent	263	372
Other	131	165
Total non-operating income	433	577
Non-operating expenses		
Interest expenses	91	108
Commitment fee	31	31
Share of loss of entities accounted for using equity method	9	35
Rent expenses on real estates	241	298
Commission fee	-	236
Other	42	61
Total non-operating expenses	417	771
Ordinary income	2,634	3,538
Extraordinary income		
Gain on sales of non-current assets	-	8
Gain on bargain purchase	601	-
Total extraordinary income	601	8
Extraordinary loss		
Loss on sales and retirement of non-current assets	106	33
Loss on valuation of investment securities	67	5
Loss on valuation of shares of subsidiaries and associates	9	-
Total extraordinary loss	182	38
Income before income taxes	3,053	3,508
Income taxes-current	1,863	1,294
Income taxes-deferred	29	404
Income taxes	1,893	1,698
Profit	1,160	1,809
Profit attributable to non-controlling interests	690	1,178
Profit attributable to owners of parent	470	631

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2017	H1 FY2018
Profit	1,160	1,809
Other comprehensive income		
Valuation difference on available-for-sale securities	23	(131)
Foreign currency translation adjustment	26	26
Remeasurements of defined benefit plans	(37)	(26)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	13	(131)
Comprehensive income	1,173	1,677
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	464	562
Comprehensive income attributable to non-controlling interests	708	1,115

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2017	H1 FY2018
Cash flows from operating activities		
Income before income taxes	3,053	3,508
Depreciation and amortization	1,737	2,125
Amortization of goodwill	495	511
Gain on bargain purchase	(601)	-
Increase (decrease) in allowance for doubtful accounts	6	11
Increase (decrease) in provision for bonuses	351	89
Increase (decrease) in provision for directors' bonuses	(0)	(26)
Increase (decrease) in net defined benefit liability	34	14
Decrease (increase) in net defined benefit asset	(104)	(44)
Interest and dividends income	(30)	(28)
Interest expenses	91	108
Subsidy income	(24)	(21)
Share of (profit) loss of entities accounted for using equity method	9	35
Loss (gain) on sales and retirement of non-current assets	106	25
Decrease (increase) in notes and accounts receivable-trade	(2,449)	658
Increase (decrease) in operating debt	(1,720)	(2,733)
Increase (decrease) in accrued consumption taxes	(197)	(107)
Other	1,175	(2,119)
Subtotal	1,933	2,005
Interest and dividends income received	49	53
Interest expenses paid	(83)	(106)
Proceeds from subsidy	24	21
Income taxes paid	(1,466)	(2,016)
Net cash provided by (used in) operating activities	457	(41)

	H1 FY2017	H1 FY2018
Cash flows from investment activities		
Purchase of property, plant and equipment	(5,501)	(2,220)
Proceeds from sales of property, plant and equipment	14	69
Purchase of intangible assets	(1,056)	(810)
Purchase of investment securities	(36)	(116)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(801)	-
Payments of loans receivable	(25)	(14)
Payments for lease and guarantee deposits	(231)	(447)
Proceeds from collection of lease and guarantee deposits	428	146
Payments for transfer of business	(645)	(14)
Other	(60)	(243)
Net cash provided by (used in) investment activities	(7,915)	(3,650)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(147)	37
Proceeds from long-term loans payable	7,150	5,328
Repayment of long-term loans payable	(2,735)	(3,073)
Proceeds from sale and leaseback	1,593	87
Repayments of finance lease obligations	(355)	(415)
Redemption of bonds	-	(28)
Proceeds from share issuance to non-controlling shareholders	19	-
Proceeds from disposal of treasury shares of subsidiaries	0	-
Cash dividends paid	(446)	(513)
Dividends paid to non-controlling interests	(923)	(1,116)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	4,899
Other	(0)	-
Net cash provided by financing activities	4,155	5,205
Effect of exchange rate change on cash and cash equivalents	24	34
Net increase (decrease) in cash and cash equivalents	(3,278)	1,547
Cash and cash equivalents at the beginning of the period	21,062	25,054
Increase in cash and cash equivalents resulting from change of scope of consolidation	-	28
Cash and cash equivalents at the end of the period	17,783	26,630

(5) Notes to Going Concern Assumption

Not applicable

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

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

(7) Additional Information

(Changes in Presentation)

As the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018)" from the beginning of the first quarter of FY2018, "Deferred tax assets" are presented in the category of "Investments and other assets", and "Deferred tax liabilities" are presented in the category of "Non-current liabilities".

As a result, the consolidated balance sheet for the previous fiscal year has also been reclassified and "Deferred tax assets" of ¥1,953 million, which were presented in "Current assets", are reclassified into "Investments and other assets", and "Deferred tax liabilities" of ¥1 million, which were presented in "Current liabilities", are reclassified into "Non-current liabilities".

(8) Segment Information

i) First Half ended November 30, 2017

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

(Millions of yen)

	Reporting segments					Total	Adjustment (Note 2)	Figures in consolidated statements of income (Note 3)
	HR Solutions			Life Solutions	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	123,484	8,125	15,851	2,462	695	150,619	-	150,619
(2) Intersegment sales and transfers	947	26	397	48	502	1,923	(1,923)	-
Total	124,431	8,151	16,249	2,511	1,198	152,542	(1,923)	150,619
Operating income (loss)	2,330	1,489	2,514	110	(732)	5,713	(3,094)	2,618

Notes:

1. The "Expert Services (Temporary staffing), Insourcing (Contracting), Others" segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(3,094) million with Operating income (loss) includes the elimination of intersegment transactions of ¥7 million, and corporate expenses of ¥3,102 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

ii) 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	Public Solutions			
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	135,636	9,172	16,286	2,670	925	164,692	-	164,692
(2) Intersegment sales and transfers	1,052	36	477	73	686	2,325	(2,325)	-
Total	136,689	9,209	16,763	2,743	1,612	167,018	(2,325)	164,692
Operating income (loss)	2,801	1,942	3,374	65	(685)	7,498	(3,765)	3,732

Notes:

1. The “Expert Services (Temporary staffing), Insourcing (Contracting), Others” segment includes each of the businesses of Expert Services (Temporary staffing), Insourcing (Contracting), HR Consulting/Education & Training/Others and Global Sourcing (Overseas).
2. Adjustments of ¥(3,765) million with Operating income (loss) includes the elimination of intersegment transactions of ¥29 million, and corporate expenses of ¥3,795 million which are not allocated to reporting segments. The corporate expenses primarily consist of Group management costs relating to the Company and incubation cost for our new business.
3. Segment income is adjusted with operating income under consolidated statements of income.

(9) Important Subsequent Events

Not applicable