

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

FY2014 (June 1, 2014 to May 31, 2015)

Three Months Ended August 31, 2014

Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: <http://www.pasonagroup.co.jp/>
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Scheduled filing date of quarterly report: October 14, 2014
 Supplementary 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		Ordinary Income		Net Income (Loss)	
		%		%		%		%
Three months ended August 31, 2014	58,727	14.7	320	(61.6)	286	(64.2)	(253)	—
Three months ended August 31, 2013	51,212	(0.1)	834	149.0	798	141.5	103	—

(Note) Comprehensive income 3M FY2014: ¥(114) million 3M FY2013: ¥270 million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 31, 2014	(6.87)	—
Three months ended August 31, 2013	2.76	2.76

(Note)

The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013. Net income (loss) per share has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
August 31, 2014	72,178	26,349	28.4
May 31, 2014	75,615	27,181	27.9

(Reference) Equity As of August 31, 2014: ¥20,514 million As of May 31, 2014: ¥21,097 million

2. 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
FY2013	—	0.00	—	10.00	10.00
FY2014	—	—	—	—	—
FY2014(Forecast)	—	0.00	—	12.00	12.00

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

3. FORECAST OF RESULTS FOR THE FISCAL YEAR ENDING MAY 31, 2015

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

	Net Sales		Operating Income		Ordinary Income		Net Income (Loss)		Net Income (Loss) per Shares	
		%		%		%		%		Yen
FY2014 First Half	115,500	12.6	650	(37.4)	650	(32.4)	(350)	—	(9.48)	
FY2014 Full Fiscal Year	232,000	11.2	3,550	10.6	3,550	13.2	600	14.0	16.25	

(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: Yes
 - 2) Changes of accounting principles other than 1) above: None
 - 3) Changes in accounting estimates: None
 - 4) Retrospective restatement: None
(Note)
Please refer to “2. Matters Relating to Summary Information (notes)” on page 5 for details.
- (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, 2014: 41,690,300 shares May 31, 2014: 41,690,300 shares
 - 2) The number of treasury stock as of the period-end
August 31, 2014: 4,893,100 shares May 31, 2014: 4,765,957 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Three Months ended August 31, 2014: 36,880,119 shares
Three Months ended August 31, 2013: 37,450,200 shares
(Note)
Number of shares issued and outstanding (common shares) has been calculated as if the stock split was conducted at the beginning of the previous fiscal year.

Information regarding the implementation of quarterly review procedures

As of the date of disclosure of this report, a review of the quarterly financial statements has completed 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 5 with regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2015.

Method to obtain supplementary materials for quarterly financial results

Supplementary materials for the quarterly financial results under review have been posted on the Company’s website on October 10, 2014.

As for FY2014 (June 1, 2014 – May 31, 2015), some of domestic consolidated subsidiaries changed their fiscal year end from March 31 to May 31, following adoption of consolidated taxation system. Therefore, business term for these subsidiaries is an irregular period of 14 months and five-month results combined in the Q1 FY2014.

Consolidated Financial Report

Three Months Ended August 31, 2014

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3M FY2014 Consolidated Financial Report

(June 1, 2014 - August 31, 2014)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	3M FY2013	3M FY2014	YoY
Net sales	51,212	58,727	14.7%
Operating income	834	320	(61.6)%
Ordinary income	798	286	(64.2)%
Net income (loss)	103	(253)	—

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	3M FY2013	3M FY2014	YoY
HR Solutions	50,753	57,266	12.8%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	43,140	50,230	16.4%
Expert Services (Temporary staffing)	31,169	35,211	13.0%
Insourcing (Contracting)	9,327	11,372	21.9%
HR Consulting, Education & Training, Others	1,013	1,356	33.8%
Place & Search (Placement / Recruiting)	762	1,201	57.6%
Global Sourcing (Overseas)	866	1,088	25.6%
Outplacement	3,060	2,184	(28.6)%
Outsourcing	4,552	4,852	6.6%
Life Solutions			
Public Solutions	1,194	1,926	61.3%
Shared			
Eliminations and Corporate	(735)	(465)	—
Total	51,212	58,727	14.7%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	3M FY2013	3M FY2014	YoY
HR Solutions	1,798	1,380	(23.2)%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	653	779	19.2%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	653	779	19.2%
Place & Search (Placement / Recruiting)			
Global Sourcing (Overseas)			
Outplacement	613	28	(95.4)%
Outsourcing	530	572	8.0%
Life Solutions			
Public Solutions	(19)	(58)	—
Shared			
Eliminations and Corporate	(944)	(1,001)	—
Total	834	320	(61.6)%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of August 31, 2014 stood at ¥72,178 million, a decrease of ¥3,437 million or 4.6%, compared with May 31, 2014. This was mainly attributable to certain factors including a decrease of ¥3,753 million in cash and deposits as well as a decrease of ¥506 million in notes and accounts receivable—trade.

2) Liabilities

Total liabilities as of August 31, 2014 decreased ¥2,605 million or 5.4%, compared with May 31, 2014 totaling ¥45,829 million. The principal decreases in total liabilities were accounts payable—trade of ¥1,316 million, provision for bonuses of ¥835 million and income taxes payable of ¥751 million.

3) Net Assets

Net assets as of August 31, 2014 stood at ¥26,349 million, a decline of ¥832 million or 3.1%, compared with May 31, 2014. This was mainly attributable to the net loss of ¥253 million, the payment of cash dividends totaling ¥374 million and a decrease of ¥249 million in minority interests.

Accounting for the aforementioned, the equity ratio as of August 31, 2014 raised 0.5 percentage points to 28.4% compared with the end of the previous fiscal year.

(3) Qualitative Information Concerning Consolidated Forecasts

Consolidated business results for the first quarter of the fiscal year ending May 31, 2015 are essentially in line with initial plans. Accordingly, there is no change to the consolidated forecasts of business results previously announced on July 11, 2014.

2. Matters Relating to Summary Information (notes)

(1) Changes of accounting principles, changes in accounting estimates and retrospective restatement

(Changes in Accounting Policies)

The Company adopted the provisions of the main clauses in Paragraph 35 of the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and in Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012) starting in the first quarter of the current fiscal year. Accordingly, the Company has revised the method of calculating retirement benefit obligations and service costs; changed the method of attributing expected retirement benefits to periods from a straight line-basis to a benefit formula basis; and changed the method of determining a discount rate from a method in which bond duration as the basis for determining the discount rate is determined based on a number of years similar to the average remaining service period of employees to a method that mainly uses multiple discount rates established for each period of expected retirement benefit payments. With the adoption of the Accounting Standard for Retirement Benefits, in accordance with the transitional treatment stipulated in Paragraph 37, the Company reflected in retained earnings the amount of the impact of the change in the method of calculating retirement benefit obligations and service costs at the start of the first quarter of the current fiscal year.

As a result, net defined benefit asset increased by ¥318 million, and retained earnings increased by ¥206 million at the beginning of the first quarter of the current fiscal year. The effect of these adjustments on consolidated operating income, ordinary income and income before income taxes for the first quarter of the current fiscal year is immaterial.

(2) Additional Information

(Adoption of Consolidated Taxation System)

The Company and some of its domestic consolidated subsidiaries adopted consolidated taxation system from the first quarter of the current fiscal year.

3. Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2014	As of August 31, 2014
ASSETS		
Current assets		
Cash and deposits	18,203	14,450
Notes and accounts receivable—trade	24,666	24,159
Other	5,732	6,289
Allowance for doubtful accounts	(56)	(55)
Total current assets	48,545	44,843
Noncurrent assets		
Property, plant and equipment	8,342	8,631
Intangible assets		
Goodwill	5,173	4,712
Other	4,200	4,579
Total intangible assets	9,373	9,292
Investments and other assets		
Other	9,700	9,756
Allowance for doubtful accounts	(10)	(10)
Allowance for investment loss	(335)	(335)
Total investments and other assets	9,353	9,410
Total noncurrent assets	27,069	27,334
Total assets	75,615	72,178

(Millions of yen)

	As of May 31, 2014	As of August 31, 2014
LIABILITIES		
Current liabilities		
Accounts payable—trade	2,547	1,230
Short-term loans payable	5,306	5,245
Accrued expenses	12,884	12,698
Income taxes payable	1,121	369
Provision for bonuses	2,268	1,433
Provision for directors' bonuses	22	11
Asset retirement obligations	18	8
Other	12,798	14,037
Total current liabilities	36,967	35,035
Noncurrent liabilities		
Bonds payable	56	56
Long-term loans payable	6,503	5,823
Provision for retirement benefits	1,139	1,136
Asset retirement obligations	835	838
Other	2,931	2,938
Total noncurrent liabilities	11,467	10,793
Total liabilities	48,434	45,829
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,054	6,068
Retained earnings	13,402	12,914
Treasury stock	(3,827)	(3,899)
Total shareholders' equity	20,629	20,083
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	82	119
Foreign currency translation adjustment	70	77
Remeasurements of defined benefit plans	314	234
Total accumulated other comprehensive income	467	430
Minority interests	6,083	5,834
Total net assets	27,181	26,349
Total liabilities and net assets	75,615	72,178

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	Three months ended August 31, 2013	Three months ended August 31, 2014
Net sales	51,212	58,727
Cost of sales	41,179	47,277
Gross profit	10,032	11,450
Selling, general and administrative expenses	9,197	11,130
Operating income	834	320
Non-operating income		
Interest income	3	6
Subsidy	14	17
Rent expenses on real estates	12	16
Other	19	23
Total non-operating income	50	63
Non-operating expenses		
Interest expenses	41	43
Commitment fee	7	6
Equity in losses of affiliates	20	14
Other	17	33
Total non-operating expenses	86	98
Ordinary income	798	286
Extraordinary income		
Gain on sales of investment securities	0	—
Total extraordinary income	0	—
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	19	9
Impairment loss	—	2
Loss on valuation of investment securities	—	2
Total extraordinary loss	19	13
Income before income taxes	778	272
Income taxes—current	290	359
Income taxes—deferred	243	(14)
Income taxes	533	344
Income (loss) before minority interests	245	(72)
Minority interests in income	142	180
Net income (loss)	103	(253)

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended August 31, 2013	Three months ended August 31, 2014
Income (loss) before minority interests	245	(72)
Other comprehensive income		
Valuation difference on available-for-sale securities	(19)	57
Foreign currency translation adjustment	44	(20)
Remeasurements of defined benefit plans	—	(80)
Share of other comprehensive income of entities accounted for using equity method	—	0
Total other comprehensive income	25	(42)
Comprehensive income	270	(114)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	127	(305)
Comprehensive income attributable to minority interests	143	190

(4) Notes to Going Concern Assumption

Not applicable

(5) Segment Information

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

Three months ended August 31, 2013

(Millions of yen)

	Reporting segments				Others (Note 2)	Total	Adjustment (Note 3)	Figures in consolidated statements of income (Note 4)
	HR Solutions			Subtotal				
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Outplacement	Outsourcing					
Net sales								
(1) Sales to outside customers	42,981	3,060	4,497	50,539	673	51,212	—	51,212
(2) Intersegment sales and transfers	158	0	55	214	521	735	(735)	—
Total	43,140	3,060	4,552	50,753	1,194	51,947	(735)	51,212
Operating income (loss)	653	613	530	1,798	(19)	1,779	(944)	834

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 is not included in reporting segments, and includes Life Solutions, Public Solutions, and Shared operations.
3. Adjustment is as follows: Operating income of ¥(944) million includes the elimination of intersegment transactions of ¥2 million and corporate expenses of ¥947 million. Corporate expenses are not allocated to reporting segments, and primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

Three months ended August 31, 2014

(Millions of yen)

	Reporting segments				Others (Note 2)	Total	Adjustment (Note 3)	Figures in consolidated statements of income (Note 4)
	HR Solutions			Subtotal				
	Expert Services (Temporary staffing), Insourcing (Contracting), Others (Note 1)	Outplacement	Outsourcing					
Net sales								
(1) Sales to outside customers	50,018	2,184	4,791	56,995	1,732	58,727	—	58,727
(2) Intersegment sales and transfers	211	—	60	271	193	465	(465)	—
Total	50,230	2,184	4,852	57,266	1,926	59,192	(465)	58,727
Operating income (loss)	779	28	572	1,380	(58)	1,321	(1,001)	320

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 is not included in reporting segments, and includes Life Solutions, Public Solutions, and Shared operations.
3. Adjustment is as follows: Operating income of ¥(1,001) million includes the elimination of intersegment transactions of ¥5 million and corporate expenses of ¥1,006 million. Corporate expenses are not allocated to reporting segments, and primarily consist of Group management costs relating to the Company.
4. Segment income is adjusted with operating income under consolidated statements of income.

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

Not applicable

(7) Important Subsequent Events

Company and other purchases through the acquisition of shares

In accordance with a resolution of the Board of Directors at a meeting held on September 30, 2014, Pasona Group resolved to execute a Letter of Intent to acquire 66.5% equity interest in Panasonic Business Services Co., Ltd. (hereafter “Panasonic Business Services”)

In addition, a Letter of Intent was executed on the same day.

i. Seller of Panasonic Business Services shares

Panasonic Corporation

ii. Name, business activities and size of company to be purchased

(Fiscal year ended March 31, 2014)

Company name	Panasonic Business Services Co., Ltd.
Business activities	General affairs and office support, manual and promotional materials preparation
Total shareholders' equity	¥2,212 million
Total assets	¥6,603 million
Net sales	¥20,350 million
Operating income	¥154 million
Ordinary income	¥122 million
Net income	¥34 million

(Note) Above figures based on financial statements of Panasonic Business Services for the fiscal year ended March 31, 2014 are unaudited by accounting auditors of the Company.

iii. Scheduled date of share transfer

April 1, 2015 (planned)

iv. Number of shares to be acquired, acquisition amount and shareholding ratio after acquisition

Number of shares to be acquired : 266 shares

Acquisition amount : It will be finalized up to the scheduled date of share transfer.

Shareholding ratio after acquisition : 66.5%