

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)
FY2014 (June 1, 2014 to May 31, 2015)
 First Half Ended November 30, 2014

Listing Stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
 URL: www.pasonagroup.co.jp/english
 Representative: Yasuyuki Nambu, Group CEO and President
 For further information contact: Yuko Nakase, Managing Director and CFO
 Tel. +81-3-6734-0200
 Scheduled filing date of quarterly report: January 13, 2015
 Supplementary materials prepared for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes

(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 Loss	
		%		%		%		%
First Half ended November 30, 2014	113,805	10.9	1,195	15.2	1,118	16.3	155	—
First Half ended November 30, 2013	102,619	(0.3)	1,038	45.3	961	38.8	25	—

(Note) Comprehensive income H1 FY2014: ¥287 million (+12.0%) H1 FY2013: ¥257 million

	Net Loss per Share	Diluted Net Income per Share
	Yen	Yen
First Half ended November 30, 2014	4.22	—
First Half ended November 30, 2013	0.67	—

(Note)

The Company conducted a 1:100 stock split on common stock with an effective date of December 1, 2013. Net 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 (%)
November 30, 2014	72,357	26,744	28.6
May 31, 2014	75,615	27,181	27.9

(Reference) Equity As of November 30, 2014: ¥20,673 million As of May 31, 2014: ¥21,097 million

2. DIVIDENDS

Record Date	Dividends per Share				
	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	—	0.00	—	—	—
FY2014(Forecast)	—	—	—	12.00	12.00

(Notes) 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		Net Income per Shares
		%		%		%		%	Yen
Full Fiscal Year	232,000	11.2	3,550	10.6	3,550	13.2	600	14.0	16.25

(Notes) 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
- (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)
November 30, 2014: 41,690,300 shares May 31, 2014: 41,690,300 shares
 - 2) The number of treasury stock as of the period-end
November 30, 2014: 4,893,100 shares May 31, 2014: 4,765,957 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
First Half ended November 30, 2014: 36,838,886 shares
First Half ended November 30, 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 been 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 6 with regard to the assumptions and other related matters concerning consolidated financial results forecasts for the fiscal year ending May 31, 2015.

Pasona Group Inc. intends to hold a financial results meeting in Tokyo on January 15, 2015 for the benefit of analysts and institutional investors. Presentation materials will be posted on our website after the meeting in a timely manner.

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 eight-month results combined in the H1 FY2014.

Consolidated Financial Report

First Half Ended November 30, 2014

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H1 FY2014 Consolidated Financial Report

(June 1, 2014 - November 30, 2014)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

(Millions of yen)

	H1 FY2013	H1 FY2014	YoY
Net sales	102,619	113,805	10.9%
Operating income	1,038	1,195	15.2%
Ordinary income	961	1,118	16.3%
Net loss	25	155	—

Segment Information (Figures include intersegment sales)

Consolidated Net Sales by Segment

(Millions of yen)

	H1 FY2013	H1 FY2014	YoY
HR Solutions	101,563	111,724	10.0%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	86,482	97,455	12.7%
Expert Services (Temporary staffing)	62,198	67,697	8.8%
Insourcing (Contracting)	18,967	22,362	17.9%
HR Consulting, Education & Training, Others	2,036	2,692	32.2%
Place & Search (Placement / Recruiting)	1,558	2,465	58.2%
Global Sourcing (Overseas)	1,720	2,238	30.1%
Outplacement	5,644	4,333	(23.2)%
Outsourcing	9,436	9,935	5.3%
Life Solutions			
Public Solutions	2,547	3,045	19.5%
Shared			
Eliminations and Corporate	(1,492)	(964)	—
Total	102,619	113,805	10.9%

Consolidated Operating Income (Loss) by Segment

(Millions of yen)

	H1 FY2013	H1 FY2014	YoY
HR Solutions	2,935	3,258	11.0%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	1,173	1,959	66.9%
Expert Services (Temporary staffing)			
Insourcing (Contracting)			
HR Consulting, Education & Training, Others	1,173	1,959	66.9%
Place & Search (Placement / Recruiting)			
Global Sourcing (Overseas)			
Outplacement	796	111	(86.0)%
Outsourcing	965	1,188	23.0%
Life Solutions			
Public Solutions	8	(34)	—
Shared			
Eliminations and Corporate	(1,905)	(2,028)	—
Total	1,038	1,195	15.2%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of November 30, 2014 stood at ¥72,357 million, a decrease of ¥3,258 million or 4.3%, compared with May 31, 2014. This was mainly attributable to certain factors including a decrease of ¥4,747 million in the balance of cash and deposits. This was partly offset by an increase of ¥984 million in notes and accounts receivable—trade.

2) Liabilities

Total liabilities as of November 30, 2014 decreased ¥2,821 million or 5.8%, compared with May 31, 2014 totaling ¥45,613 million. The principal decreases in total liabilities were accounts payable—trade of ¥1,102 million and long-term loans payable of ¥1,694million.

3) Net Assets

Net assets as of November 30, 2014 stood at ¥26,744 million, a decline of ¥437 million or 1.6%, compared with May 31, 2014. This was mainly attributable to the net loss of ¥155 million and the payment of cash dividends totaling ¥374 million as well as a decrease of ¥13 million in minority interests.

Accounting for the aforementioned, the equity ratio as of November 30, 2014 increased 0.7 points to 28.6% compared with the end of the previous fiscal year.

Status of Cash Flows

Cash and cash equivalents (hereafter “net cash”) as of November 30, 2014 decreased ¥4,703 million compared with the end of the previous fiscal year to ¥13,317 million.

1) Cash Flows from Operating Activities

Net cash provided by operating activities for H1 FY2014 amounted to ¥781 million (For H1 FY2013, ¥2,197 million was used in). Major cash inflows were income before income taxes totaling ¥1,088 million (¥920 million for H1 FY2013), depreciation and amortization of ¥1,249 million (¥1,219 million for H1 FY2013) as well as an increase in accrued consumption taxes of ¥1,922 million (For H1 FY2013, decreased ¥15 million). The principal cash outflows were an increase in notes and accounts receivable—trade of ¥967 million (¥985 million for H1 FY2013), decrease in operating debt of ¥1,753 million (¥1,018 million for H1 FY2013) as well as income taxes paid of ¥897 million (¥1,317 million for H1 FY2013).

2) Cash Flows from Investing Activities

Net cash used in investing activities for H1 FY2014 was ¥1,800 million (¥2,465 million for H1 FY2013). Major cash outflows were purchase of noncurrent assets of ¥1,710 million (¥1,087 million for H1 FY2013), purchase of investment securities of ¥152 million (¥859 million for H1 FY2013) as well as payments for lease and guarantee deposits of ¥158 million (¥258 million for H1 FY2013).

3) Cash Flows from Financing Activities

Net cash used in financing activities was ¥3,884 million (¥312 million for H1 FY2013). Major cash outflows were repayment of long-term loans payable totaling ¥2,232 million (¥1,291 million for H1 FY2013) and cash dividends paid amounted to ¥792 million (¥729 million for H1 FY2013).

(3) Qualitative Information Concerning Consolidated Forecasts

There is no change to the consolidated forecasts of business results for the fiscal year ending May 31, 2015 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 half of the current fiscal year. The effect of these adjustments on consolidated operating income, ordinary income and income before income taxes for the first half 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.

(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”), a wholly owned subsidiary of Panasonic Corporation and executed it on the same day.

In addition, according to a resolution of the Board of Directors at a meeting held on December 25, 2014, the Company resolved to acquire equity interest in Panasonic Business Services. Therefore, stock purchase agreement 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%

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2014	As of November 30, 2014
ASSETS		
Current assets		
Cash and deposits	18,203	13,456
Notes and accounts receivable—trade	24,666	25,650
Other	5,732	5,973
Allowance for doubtful accounts	(56)	(52)
Total current assets	48,545	45,027
Noncurrent assets		
Property, plant and equipment	8,342	8,520
Intangible assets		
Goodwill	5,173	4,480
Other	4,200	4,750
Total intangible assets	9,373	9,230
Investments and other assets		
Other	9,700	9,925
Allowance for doubtful accounts	(10)	(10)
Allowance for investment loss	(335)	(335)
Total investments and other assets	9,353	9,579
Total noncurrent assets	27,069	27,330
Total assets	75,615	72,357

	As of May 31, 2014	As of November 30, 2014
LIABILITIES		
Current liabilities		
Accounts payable—trade	2,547	1,444
Short-term loans payable	5,306	4,374
Accrued expenses	12,884	12,531
Income taxes payable	1,121	948
Provision for bonuses	2,268	2,490
Provision for directors' bonuses	22	13
Asset retirement obligations	18	11
Other	12,798	14,124
Total current liabilities	36,967	35,939
Noncurrent liabilities		
Bonds payable	56	30
Long-term loans payable	6,503	4,809
Provision for retirement benefits	1,139	1,134
Asset retirement obligations	835	840
Other	2,931	2,859
Total noncurrent liabilities	11,467	9,674
Total liabilities	48,434	45,613
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	6,054	6,068
Retained earnings	13,402	13,021
Treasury stock	(3,827)	(3,899)
Total shareholders' equity	20,629	20,190
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	82	146
Foreign currency translation adjustment	70	180
Remeasurements of defined benefit plans	314	156
Total accumulated other comprehensive income	467	482
Minority interests	6,083	6,070
Total net assets	27,181	26,744
Total liabilities and net assets	75,615	72,357

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	H1 FY2013	H1 FY2014
Net sales	102,619	113,805
Cost of sales	83,208	91,344
Gross profit	19,410	22,461
Selling, general and administrative expenses	18,372	21,265
Operating income	1,038	1,195
Non-operating income		
Interest income	11	13
Subsidy	25	23
Real estate rent	24	24
Other	57	69
Total non-operating income	118	131
Non-operating expenses		
Interest expenses	83	83
Commitment fee	24	24
Equity in losses of affiliates	40	40
Other	47	58
Total non-operating expenses	195	207
Ordinary income	961	1,118
Extraordinary income		
Gain on sales of investment securities	0	—
Gain on sales of subsidiaries and affiliates' stocks	0	—
Total extraordinary income	0	—
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	28	25
Impairment loss	11	2
Loss on valuation of investment securities	—	2
Loss on change in equity	1	—
Total extraordinary loss	40	30
Income before income taxes	920	1,088
Income taxes—current	666	879
Income taxes—deferred	15	(28)
Income taxes	682	851
Income before minority interests	238	237
Minority interests in income	263	392
Net loss	25	155

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	H1 FY2013	H1 FY2014
Income before minority interests	238	237
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(12)	106
Foreign currency translation adjustment	31	96
Remeasurements of defined benefit plans	—	(158)
Share of other comprehensive income of entities accounted for using equity method	—	5
Total other comprehensive income	18	50
Comprehensive income	257	287
Comprehensive income attributable to		
Comprehensive income (loss) attributable to owners of the parent	(13)	(155)
Comprehensive income attributable to minority interests	270	443

(4) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	H1 FY2013	H1 FY2014
Cash flows from operating activities		
Income before income taxes	920	1,088
Depreciation and amortization	1,219	1,249
Impairment loss	11	2
Amortization of goodwill	388	465
Increase (decrease) in allowance for doubtful accounts	0	(4)
Increase (decrease) in provision for bonuses	101	216
Increase (decrease) in provision for directors' bonuses	(4)	(9)
Increase (decrease) in provision for retirement benefits	(284)	—
Increase (decrease) in net defined benefit liability	—	(5)
Increase (decrease) in net defined benefit asset	—	(289)
Interest and dividends income	(19)	(28)
Interest expenses	83	83
Subsidy income	(25)	(23)
Equity in (earnings) losses of affiliates	40	40
Loss (gain) on change in equity	1	—
Loss (gain) on sales and retirement of noncurrent assets	28	25
Loss (gain) on sales of investment securities	(0)	—
Loss (gain) on valuation of investment securities	—	2
Loss (gain) on sales of subsidiaries and affiliates' stocks	(0)	—
Decrease (increase) in notes and accounts receivable—trade	(985)	(967)
Increase (decrease) in operating debt	(1,018)	(1,753)
Increase (decrease) in accrued consumption taxes	(15)	1,922
Other	(1,298)	(319)
Subtotal	(855)	1,697
Interest and dividends income received	30	41
Interest expenses paid	(79)	(99)
Proceeds from subsidy	25	39
Income taxes paid	(1,317)	(897)
Net cash provided by (used in) operating activities	(2,197)	781

	H1 FY2013	H1 FY2014
Cash flows from investment activities		
Purchase of property, plant and equipment	(442)	(820)
Proceeds from sales of property, plant and equipment	0	3
Purchase of intangible assets	(644)	(890)
Proceeds from sales of intangible assets	2	—
Purchase of investment securities	(859)	(152)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	(355)	—
Payments of loans receivable	(3)	(26)
Payments for lease and guarantee deposits	(258)	(158)
Proceeds from collection of lease and guarantee deposits	149	177
Payments for transfer of business	(145)	—
Other	92	68
Net cash used in investment activities	(2,465)	(1,800)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(394)
Proceeds from long-term loans payable	2,000	—
Repayment of long-term loans payable	(1,291)	(2,232)
Redemption of bonds	—	(26)
Purchase of treasury stock	—	(64)
Cash dividends paid	(372)	(373)
Cash dividends paid to minority shareholders	(356)	(419)
Other	(291)	(373)
Net cash used in financing activities	(312)	(3,884)
Effect of exchange rate change on cash and cash equivalents	29	87
Net increase (decrease) in cash and cash equivalents	(4,946)	(4,815)
Cash and cash equivalents at the beginning of the period	19,948	18,021
Increase in cash and cash equivalents resulting from change of scope of consolidation	80	112
Cash and cash equivalents at the end of the period	15,083	13,317

(5) Notes to Going Concern Assumption

Not applicable

(6) Segment Information

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

First Half ended November 30, 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	86,158	5,644	9,324	101,127	1,491	102,619	—	102,619
(2) Intersegment sales and transfers	323	0	112	436	1,056	1,492	(1,492)	—
Total	86,482	5,644	9,436	101,563	2,547	104,111	(1,492)	102,619
Operating income	1,173	796	965	2,935	8	2,943	(1,905)	1,038

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 and others, Place & Search (Placement / Recruiting) as well as Global Sourcing (Overseas).
2. The “Others” segment includes Life Solutions, Public Solutions, and Shared operations, is not included in reporting segments.
3. Adjustment is as follows: Operating loss of ¥1,905 million includes the elimination of intersegment transactions of ¥2 million and corporate expenses of ¥1,908 million. Corporate expenses are not allocated to reporting segments. 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.

First Half ended November 30, 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	97,020	4,333	9,804	111,158	2,647	113,805	—	113,805
(2) Intersegment sales and transfers	435	—	131	566	398	964	(964)	—
Total	97,455	4,333	9,935	111,724	3,045	114,770	(964)	113,805
Operating income	1,959	111	1,188	3,258	(34)	3,224	(2,028)	1,195

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 and others, Place & Search (Placement / Recruiting) as well as Global Sourcing (Overseas).
2. The “Others” segment includes Life Solutions, Public Solutions, and Shared operations, is not included in reporting segments.
3. Adjustment is as follows: Operating loss of ¥2,028 million includes the elimination of intersegment transactions of ¥37 million and corporate expenses of ¥2,066 million. Corporate expenses are not allocated to reporting segments. 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.

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

Not applicable

(8) Important Subsequent Events

Not applicable