

CONSOLIDATED FINANCIAL REPORT (Japanese GAAP)

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

Three Months Ended August 31, 2017

Listing stock exchange: The First Section of the Tokyo Stock Exchange
 Securities code number: 2168
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 Supplementary materials prepared for quarterly financial results: Yes
 Holding of quarterly financial results meeting: No

(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	
		%		%		%		%
Three months ended August 31, 2017	72,458	4.7	1,033	378.9	1,006	476.5	533	—
Three months ended August 31, 2016	69,231	8.4	215	(38.5)	174	(32.1)	(539)	—

(Note) Comprehensive income 3M FY2017: ¥901 million 3M FY2016: ¥(332) million

	Net Income (Loss) per Share	Diluted Net Income per Share
	Yen	Yen
Three months ended August 31, 2017	14.48	—
Three months ended August 31, 2016	(14.66)	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio (%)
August 31, 2017	96,777	27,608	19.8
May 31, 2017	94,584	28,062	20.1

(Reference) Equity As of August 31, 2017: ¥19,132 million As of May 31, 2017: ¥19,056 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
FY2016	—	0.00	—	12.00	12.00
FY2017	—	—	—	—	—
FY2017 (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, 2018

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 Shares
		%		%		%		%	Yen
FY2017 First Half	154,620	13.0	1,240	56.0	1,190	56.7	(500)	—	(13.58)
FY2017 Full Fiscal Year	323,300	15.3	5,650	25.9	5,600	29.6	1,000	—	27.17

(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 stock)
August 31, 2017: 41,690,300 shares May 31, 2017: 41,690,300 shares
 - 2) The number of treasury shares as of the period-end
August 31, 2017: 4,883,754 shares May 31, 2017: 4,883,708 shares
 - 3) Average number of shares for the period (Quarterly cumulative period)
Three months ended August 31, 2017: 36,806,557 shares
Three months ended August 31, 2016: 36,806,639 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 stock under Shareholders’ equity, are not counted toward the average number of shares outstanding for the period for the purpose of computing earnings per share.

The Quarterly Financial Report is not subject to a quarterly review.

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.

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 6, 2017.

Consolidated Financial Report

Three Months Ended August 31, 2017

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3M FY2017 Consolidated Financial Report

(June 1, 2017 - August 31, 2017)

1. Qualitative Information Concerning Quarterly Consolidated Business Results

(1) Information Concerning Consolidated Business Results

Consolidated Business Results

	(Millions of yen)		
	3M FY2016	3M FY2017	YoY
Net sales	69,231	72,458	4.7%
Operating income	215	1,033	378.9%
Ordinary income	174	1,006	476.5%
Profit (loss) attributable to owners of parent	(539)	533	—

Segment Information (Figures include intersegment sales)

Consolidated Sales by Segment

	(Millions of yen)		
	3M FY2016	3M FY2017	YoY
HR Solutions	68,496	71,706	4.7%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	57,631	59,926	4.0%
Expert Services (Temporary staffing)	36,378	37,172	2.2%
Insourcing (Contracting)	18,174	19,449	7.0%
HR Consulting, Education & Training, Others	1,541	1,580	2.5%
Global Sourcing (Overseas)	1,536	1,724	12.3%
Career Solutions (Placement / Recruiting, Outplacement)	3,386	4,004	18.3%
Outsourcing	7,478	7,775	4.0%
Life Solutions	1,116	1,250	12.0%
Public Solutions	391	462	18.0%
Eliminations and Corporate	(773)	(961)	-
Total	69,231	72,458	4.7%

Consolidated Operating Income (Loss) by Segment

	(Millions of yen)		
	3M FY2016	3M FY2017	YoY
HR Solutions	1,621	2,706	66.9%
Expert Services (Temporary staffing), Insourcing (Contracting), Others	380	851	124.0%
Expert Services (Temporary staffing)	380	851	124.0%
Insourcing (Contracting)			
HR Consulting, Education & Training, Others			
Global Sourcing (Overseas)			
Career Solutions (Placement / Recruiting, Outplacement)	107	670	525.9%
Outsourcing	1,134	1,184	4.5%
Life Solutions	40	49	20.6%
Public Solutions	(140)	(124)	-
Eliminations and Corporate	(1,305)	(1,597)	-
Total	215	1,033	378.9%

(2) Qualitative Information Concerning Consolidated Financial Position

Status of Assets, Liabilities and Net Assets

1) Assets

Total assets as of August 31, 2017 stood at ¥96,777 million, an increase of ¥2,192 million or 2.3%, compared with May 31, 2017. This was mainly attributable to an increase of ¥2,127 million in accounts of property, plant and equipment.

2) Liabilities

Total liabilities as of August 31, 2017 increased ¥2,646 million or 4.0%, compared with May 31, 2017 totaling ¥69,168 million. The principal increase in total liabilities was attributable to an increase of long-term loans payable of ¥2,531 million and accrued expenses of ¥2,321 million and to a decrease of accounts payable-trade of ¥2,716 million.

3) Net Assets

Net assets as of August 31, 2017 stood at ¥27,608 million, a decline of ¥453 million or 1.6%, compared with May 31, 2017. This was mainly due to loss attributable to owners of parent of ¥533 million, a decrease of ¥530 million in non-controlling interests and the payment of cash dividends totaling ¥447 million.

(3) Qualitative Information Concerning Consolidated Forecasts

Although consolidated income for the first quarter of the fiscal year have increased significantly, they are essentially in line with the initial plans. As they have expanded ahead of schedule due to timing deviation of expenses etc., there is no change to the consolidated forecasts of business results previously announced on July 14, 2017.

2. Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of May 31, 2017	As of August 31, 2017
ASSETS		
Current assets		
Cash and deposits	21,754	16,562
Notes and accounts receivable - trade	34,202	35,365
Inventories	1,504	1,518
Other	7,210	10,700
Allowance for doubtful accounts	(53)	(48)
Total current assets	64,617	64,098
Non-current assets		
Property, plant and equipment	9,258	11,385
Intangible assets		
Goodwill	3,701	4,192
Other	5,377	5,504
Total intangible assets	9,079	9,697
Investments and other assets		
Other	11,740	11,716
Allowance for doubtful accounts	(111)	(120)
Total investments and other assets	11,629	11,596
Total non-current assets	29,966	32,678
Total assets	94,584	96,777

(Millions of yen)

	As of May 31, 2017	As of August 31, 2017
LIABILITIES		
Current liabilities		
Accounts payable - trade	5,850	3,134
Short-term loans payable	5,362	6,127
Accrued expenses	14,140	16,462
Income taxes payable	1,730	800
Provision for bonuses	3,189	2,573
Provision for directors' bonuses	27	17
Asset retirement obligations	97	135
Other	19,412	19,278
Total current liabilities	49,811	48,530
Non-current liabilities		
Long-term loans payable	12,017	14,549
Net defined benefit liability	1,829	1,898
Provision for directors' stock benefit	28	35
Provision for employees' stock grant	34	34
Asset retirement obligations	879	882
Other	1,921	3,237
Total non-current liabilities	16,710	20,638
Total liabilities	66,522	69,168
NET ASSETS		
Shareholders' equity		
Capital stock	5,000	5,000
Capital surplus	5,013	5,013
Retained earnings	12,593	12,678
Treasury shares	(4,008)	(4,008)
Total shareholders' equity	18,598	18,683
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	293	293
Foreign currency translation adjustment	90	98
Remeasurements of defined benefit plans	74	56
Total accumulated other comprehensive income	458	448
Non-controlling interests	9,006	8,476
Total net assets	28,062	27,608
Total liabilities and net assets	94,584	96,777

(2) Quarterly Consolidated Statements of Income

(Millions of yen)

	Three months ended August 31, 2016	Three months ended August 31, 2017
Net sales	69,231	72,458
Cost of sales	55,858	57,202
Gross profit	13,372	15,256
Selling, general and administrative expenses	13,156	14,222
Operating income	215	1,033
Non-operating income		
Interest income	8	6
Subsidy	18	14
Real estate rent	10	97
Other	21	30
Total non-operating income	58	149
Non-operating expenses		
Interest expenses	40	41
Commitment fee	9	10
Equity in losses of affiliates	15	27
Foreign exchange losses	22	0
Rent expenses on real estates	3	78
Other	7	17
Total non-operating expenses	99	175
Ordinary income	174	1,006
Extraordinary income		
Gain on bargain purchase	-	601
Total extraordinary income	-	601
Extraordinary loss		
Loss on sales and retirement of non-current assets	34	14
Total extraordinary loss	34	14
Income before income taxes	140	1,593
Income taxes - current	591	677
Income taxes - deferred	(198)	10
Income taxes	392	687
Profit (loss)	(252)	905
Profit attributable to non-controlling interests	287	372
Profit (loss) attributable to owners of parent	(539)	533

(3) Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended August 31, 2016	Three months ended August 31, 2017
Profit (loss)	(252)	905
Other comprehensive income		
Valuation difference on available-for-sale securities	(12)	1
Foreign currency translation adjustment	(169)	12
Remeasurements of defined benefit plans	106	(18)
Share of other comprehensive income of entities accounted for using equity method	(3)	(0)
Total other comprehensive income	(79)	(4)
Comprehensive income	(332)	901
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(589)	523
Comprehensive income attributable to non-controlling interests	257	377

(4) Notes to Going Concern Assumption

Not applicable

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

Not applicable

(6) 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 the first quarter of the fiscal year, which was previously recorded as cost of sales. This is 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 ¥661 million compared with the previous method, but there is no impact on operating income, ordinary income, income before income taxes, as well as net income per share.

As it is practically impossible to calculate the past figure in accordance with this classification, the consolidated financial statements prior to the first quarter of FY2017 haven't been revised.

(7) Segment Information

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

Three months ended August 31, 2016

(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)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	57,245	3,380	7,319	67,945	1,285	69,231	-	69,231
(2) Intersegment sales and transfers	385	6	158	550	222	773	(773)	-
Total	57,631	3,386	7,478	68,496	1,508	70,004	(773)	69,231
Operating income (loss)	380	107	1,134	1,621	(100)	1,521	(1,305)	215

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. The “Others” segment is not included in reporting segments, and includes Life Solutions as well as Public Solutions.
3. Adjustments of ¥(1,305) million with Operating income (loss) includes the elimination of intersegment transactions of ¥(12) million and corporate expenses of ¥1,293 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, 2017

(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)	Career Solutions (Placement / Recruiting, Outplacement)	Outsourcing					
Net sales								
(1) Sales to outside customers	59,425	3,992	7,589	71,008	1,450	72,458	-	72,458
(2) Intersegment sales and transfers	500	11	186	698	262	961	(961)	-
Total	59,926	4,004	7,775	71,706	1,713	73,419	(961)	72,458
Operating income (loss)	851	670	1,184	2,706	(75)	2,630	(1,597)	1,033

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. The “Others” segment is not included in reporting segments, and includes Life Solutions as well as Public Solutions.
3. Adjustments of ¥(1,597) million with Operating income (loss) includes the elimination of intersegment transactions of ¥6 million and corporate expenses of ¥1,604 million. Corporate expenses are not allocated to reporting segments, and primarily consist of Group management costs relating to the Company and incubation cost for new business.
4. Segment income is adjusted with operating income under consolidated statements of income.

Information regarding impairment loss for fixed assets or goodwill

(Significant changes in the amount of goodwill)

During the first quarter of FY2017 accounting period, the amount of goodwill has increased by ¥731 million in the segment of “Expert Services (Temporary staffing), Insourcing (Contracting), Others”. It was due to acquiring shares of NTT Human Solutions Corporation (currently Pasona Human Solutions Inc.) and making it a consolidated subsidiary, and staffing business assignment of NTT-ME Service Corporation, NTT Solco & Hokkaido Telemart Corporation, TelWel West Nippon Corporation. and DOCOMO Data Com, Inc..

(Significant gain on bargain purchase)

During the first quarter of 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 (currently 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.

(8) Important Subsequent Events

Not applicable