

**Business Results for the Second Quarter of the Year Ending December 31, 2018**  
**(Six Months Ended June 30, 2018)**  
**[Japan GAAP] (Consolidated)**

August 7, 2018

Company: **The Pack Corporation**

Listed on the TSE1

Stock code: 3950

URL: <http://www.thepack.co.jp>

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Expected date of filing of quarterly report: August 10, 2018

Expected starting date of dividend payment: September 5, 2018

Preparation of supplementary quarterly financial document: Yes

Quarterly results briefing: Yes (for institutional investors and securities analysts)

*(Rounded down to million yen)*

**1. Consolidated business results for the second quarter of the year ending December 31, 2018**  
**(January 1, 2018 through June 30, 2018)**

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Jun. 30, 2018	42,054	0.8	2,695	(11.7)	2,858	(11.1)	1,927	(8.5)
Six months ended Jun. 30, 2017	41,729	1.0	3,053	20.9	3,217	18.0	2,107	26.5

(Note) Comprehensive income Six months ended Jun. 30, 2018: 1,765 million yen (down 26.0%)

Six months ended Jun. 30, 2017: 2,384 million yen (up 157.3%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Jun. 30, 2018	98.22	98.11
Six months ended Jun. 30, 2017	107.42	107.31

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of Jun. 30, 2018	80,797	54,823	67.6
As of Dec. 31, 2017	81,928	53,457	65.1

(Reference) Owner's equity As of Jun. 30, 2018: 54,656 million yen As of Dec. 31, 2017: 53,372 million yen

**2. Dividends**

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Dec. 31, 2017	-	25.00	-	25.00	50.00
Year ending Dec. 31, 2018	-	25.00			
Year ending Dec. 31, 2018 (forecasts)			-	25.00	50.00

(Note) Revisions to the most recently announced dividend forecast: None

**3. Forecast of consolidated business results for the year ending December 31, 2018**

**(January 1, 2018 through December 31, 2018)** (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	94,000	4.1	7,400	1.7	7,700	1.5	5,400	3.6	275.23

(Note) Revisions to the most recently announced consolidated forecast: None

**\* Notes**

(1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from changes in subsidiaries): None

(2) Applying of specific accounting of the consolidated quarterly financial statements: None

(3) Changes in accounting policies, accounting estimates and retrospective restatement

1) Changes in accounting policies based on revisions of accounting standard: None

2) Changes in accounting policies other than ones based on revisions of accounting standard: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Number of issued and outstanding shares (common stock)

1) Number of issued and outstanding shares at the end of fiscal year (including treasury stock)

As of Jun. 30, 2018:	19,900,000 shares	As of Dec. 31, 2017:	19,900,000 shares
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2) Number of treasury stock at the end of fiscal year

As of Jun. 30, 2018:	278,526 shares	As of Dec. 31, 2017:	280,247 shares
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3) Average number of shares

Six months ended Jun. 30, 2018:	19,620,748 shares	Six months ended Jun. 30, 2017:	19,617,519 shares
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**\*The current quarterly financial summary is not subject to quarterly review by certified public accountants or auditing firms.**

**\*Explanation regarding appropriate use of business forecasts and other special instructions**

Forecasts regarding future performance in these materials are based on information that was available when this document was released and incorporates a number of current assumptions about uncertainties that may affect future results of operations. Therefore, actual results may differ significantly from the forecasts due to various factors. Please refer to "Explanation of Consolidated Forecasts and Other Forward-looking Statements" on page 3 for forecast assumptions.

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## 1. Qualitative Information on Quarterly Consolidated Financial Performance

### (1) Explanation of Results of Operations

In the first half of 2018, the Japanese economy continued to recover gradually as the employment and income environment improved supported by the government's economic and monetary policies. Nevertheless, the overall economic situation continues to be difficult amid higher crude oil prices, rising wages of temporary staff due to labor shortages and an increase in logistics costs.

Demand from foreign tourists in Japan is expected to remain firm. However, the outlook is uncertain because of global economic slowdown triggered by U.S. trade policies, concerns over political trends in the U.S. and Europe, and geopolitical risks involving East Asia and the Middle East.

During the first half, there were many activities to accomplish the goals of the medium-term management plan under the slogan of "Adapt to Changes and Advance with Vigor—Become an Even More Powerful Group—." All group companies were focused on entering new markets and selling products at adequate prices. Group companies are also engaged in activities such as making substantial capital expenditures, developing new products and improving quality management in order to increase earnings.

Net sales increased 0.8% year-on-year to 42,054 million yen, operating profit decreased 11.7% to 2,695 million yen, ordinary profit decreased 11.1% to 2,858 million yen, and profit attributable to owners of parent decreased 8.5% to 1,927 million yen.

Business segment performance was as follows.

#### (Paper Products)

The paper products segment accounted for 62.6% of consolidated sales in the first half of 2018. Sales of paper bags, which accounted for 31.3% of consolidated sales, decreased 1.4% to 13,134 million yen. This decrease was attributable to lower sales of specialty retail stores in Japan.

Sales of paper folding cartons, which accounted for 17.3% of consolidated sales, increased 8.6% to 7,275 million yen. Sales of cartons for food products were firm. Sales to the e-commerce sector were also favorable. Sales of Kannaru Printing Co., Ltd., a new subsidiary included in the consolidation from the current fiscal year, contributed to higher segment sales.

Sales of corrugated boxes, which accounted for 11.7% of consolidated sales, increased 3.3% to 4,934 million yen. This increase was attributable to strong sales of boxes to manufacturers and e-commerce sector.

Printing sales, which accounted for 2.3% of consolidated sales, decreased 2.6% to 977 million yen as sales were weak at NIKKO PRINT CORPORATION.

Overall, sales in this segment increased 2.0% to 26,321 million yen. Operating profit was down 7.1% to 2,092 million yen.

#### (Film Packaging)

The film packaging segment accounted for 21.1% of consolidated sales in the first half of 2018. There was a decrease in sales for products for disposable diapers. As a result, sales decreased 1.2% to 8,867 million yen. Operating profit was down 28.2% to 363 million yen.

#### (Other Businesses)

Other businesses accounted for 16.3% of consolidated sales in the first half of 2018. While sales of promotional items at Kannaru Printing were included in the consolidation, there was a decline in sales of products used in conjunction with the Pack Assortment Service system, which is the parent company's comprehensive outsourcing vendor system that covers everything from manufacturing and procuring packaging materials and other products to inventory control and delivery. As a result, sales decreased 1.3% to 6,865 million yen. Operating profit decreased 5.2% to 618 million yen.

## **(2) Explanation of Financial Position**

### **1) Balance sheet position**

Assets totaled 80,797 million yen at the end of the second quarter of 2018, down 1,130 million yen from the end of 2017. The main factors were increases of 1,240 million yen in cash and deposits, 490 million yen in merchandise and finished goods, 317 million yen in buildings and structures and 4,369 million yen in investment securities, and decreases of 5,653 million yen in notes and accounts receivable-trade and 2,599 million yen in securities.

Liabilities decreased 2,496 million yen to 25,974 million yen. The main factors were an increase of 206 million yen in long-term loans payable and a decrease of 2,688 million yen in notes and accounts payable-trade.

Net assets increased 1,366 million yen to 54,823 million yen. The main factor was an increase of 1,436 million yen in retained earnings.

### **2) Cash flow position**

The balance of cash and cash equivalents at the end of the second quarter of 2018 decreased 1,619 million yen, or 7.7% from the end of the second quarter of 2017 to 19,471 million yen.

#### **Cash flows from operating activities**

Operating activities provided net cash of 5,000 million yen (net cash provided of 5,498 million yen in the first half of 2017). The principal factors were profit before income taxes of 2,858 million yen and a decrease of 6,231 million yen in notes and accounts receivable-trade, while there was a decrease of 3,450 million yen in notes and accounts payable-trade.

#### **Cash flows from investing activities**

Investing activities used net cash of 3,171 million yen (net cash provided of 3,191 million yen in the first half of 2017). The principal factor were outlays of 4,090 million yen for the purchase of investment securities and 1,300 million yen for the purchase of securities, while there were proceeds from sales of securities of 2,900 million yen.

#### **Cash flows from financing activities**

Financing activities used net cash of 1,572 million yen (net cash used of 485 million yen in the first half of 2017). This was mainly due to outlays of 672 million yen for repayments of long-term loans payable and 490 million yen for the cash dividends paid.

## **(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements**

The consolidated forecasts announced on February 9, 2018 remain unchanged.

## **2. Matters Related to Summary Information (Notes)**

### **(1) Material Changes in Subsidiaries during This Period**

Not applicable.

### **(2) Applying of Specific Accounting of the Consolidated Quarterly Financial Statements**

Not applicable.

### **(3) Changes in Accounting Policies, Accounting Estimates and Retrospective Restatement**

Not applicable.

**3. Quarterly Consolidated Financial Statements and Notes****(1) Quarterly Consolidated Balance Sheet**

(Million yen)

	Previous fiscal year (As of December 31, 2017)	Second quarter of the current fiscal year (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	13,308	14,549
Notes and accounts receivable-trade	24,227	18,574
Securities	10,099	7,499
Merchandise and finished goods	5,232	5,722
Work in process	761	844
Raw materials and supplies	759	719
Deferred tax assets	260	251
Other	613	723
Allowance for doubtful accounts	(28)	(29)
Total current assets	55,235	48,855
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	6,878	7,196
Machinery, equipment and vehicles, net	5,132	5,360
Tools, furniture and fixtures, net	199	219
Land	8,122	8,397
Construction in progress	272	90
Total property, plant and equipment	20,606	21,265
Intangible assets	186	165
Investments and other assets		
Investment securities	4,944	9,314
Deferred tax assets	423	446
Other	637	807
Allowance for doubtful accounts	(106)	(57)
Total investments and other assets	5,899	10,511
Total non-current assets	26,692	31,942
Total assets	81,928	80,797

(Million yen)

	Previous fiscal year (As of December 31, 2017)	Second quarter of the current fiscal year (As of June 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	14,486	11,797
Electronically recorded obligations-operating	5,246	4,674
Current portion of long-term loans payable	-	84
Income taxes payable	1,353	966
Provision for bonuses	289	280
Provision for directors' bonuses	44	23
Other	2,567	3,330
Total current liabilities	23,987	21,158
Non-current liabilities		
Long-term loans payable	-	206
Deferred tax liabilities	326	525
Net defined benefit liability	4,009	3,932
Other	146	152
Total non-current liabilities	4,483	4,816
Total liabilities	28,470	25,974
<b>Net assets</b>		
Shareholders' equity		
Capital stock	2,553	2,553
Capital surplus	3,166	3,166
Retained earnings	46,883	48,320
Treasury shares	(728)	(723)
Total shareholders' equity	51,875	53,316
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,023	1,871
Deferred gains or losses on hedges	7	2
Foreign currency translation adjustment	(181)	(225)
Remeasurements of defined benefit plans	(353)	(308)
Total accumulated other comprehensive income	1,496	1,340
Subscription rights to shares	56	81
Non-controlling interests	28	85
Total net assets	53,457	54,823
Total liabilities and net assets	81,928	80,797

**(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income****Quarterly Consolidated Statement of Income  
(For the Six-month Period)**

(Million yen)

	First six months of the previous fiscal year (from January 1, 2017 to June 30, 2017)	First six months of the current fiscal year (from January 1, 2018 to June 30, 2018)
Net sales	41,729	42,054
Cost of sales	31,590	32,034
Gross profit	10,139	10,019
Selling, general and administrative expenses		
Freightage and packing expenses	1,923	2,031
Salaries and allowances	1,863	1,913
Directors' compensations	254	263
Provision of allowance for doubtful accounts	(5)	(8)
Provision for bonuses	148	137
Provision for directors' bonuses	21	20
Retirement benefit expenses	221	194
Depreciation	199	190
Rent expenses	1,123	1,164
Other	1,335	1,418
Total selling, general and administrative expenses	7,086	7,324
Operating profit	3,053	2,695
Non-operating income		
Interest income	47	40
Dividend income	50	50
Rent income	30	28
Foreign exchange gains	26	33
Other	26	25
Total non-operating income	180	178
Non-operating expenses		
Interest expenses	0	5
Cost of lease revenue	6	5
Sales discounts	-	2
Other	9	1
Total non-operating expenses	16	15
Ordinary profit	3,217	2,858
Extraordinary income		
Gain on sales of investment securities	0	-
Gain on sales of non-current assets	0	-
Gain on bargain purchase	-	54
Total extraordinary income	1	54
Extraordinary losses		
Loss on retirement of non-current assets	3	47
Loss on sales of non-current assets	-	8
Total extraordinary losses	3	55
Profit before income taxes	3,215	2,858
Income taxes-current	1,033	891
Income taxes-deferred	74	44
Total income taxes	1,107	935
Profit	2,108	1,922
Profit (loss) attributable to non-controlling interests	0	(4)
Profit attributable to owners of parent	2,107	1,927



**Quarterly Consolidated Statement of Comprehensive Income**  
**(For the Six-month Period)**

(Million yen)

	First six months of the previous fiscal year (from January 1, 2017 to June 30, 2017)	First six months of the current fiscal year (from January 1, 2018 to June 30, 2018)
Profit	2,108	1,922
Other comprehensive income		
Valuation difference on available-for-sale securities	274	(151)
Deferred gains or losses on hedges	(17)	(4)
Foreign currency translation adjustment	(35)	(45)
Remeasurements of defined benefit plans, net of tax	55	44
Total other comprehensive income	276	(156)
Comprehensive income	2,384	1,765
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,383	1,770
Comprehensive income attributable to non-controlling interests	0	(5)

**(3) Quarterly Consolidated Statement of Cash Flows**

(Million yen)

	First six months of the previous fiscal year (from January 1, 2017 to June 30, 2017)	First six months of the current fiscal year (from January 1, 2018 to June 30, 2018)
Cash flows from operating activities		
Profit before income taxes	3,215	2,858
Depreciation	790	837
Gain on bargain purchase	-	(54)
Increase (decrease) in allowance for doubtful accounts	(6)	(56)
Increase (decrease) in provision for bonuses	11	(36)
Increase (decrease) in provision for directors' bonuses	(24)	(22)
Increase (decrease) in net defined benefit liability	115	(88)
Interest and dividend income	(97)	(91)
Interest expenses	0	5
Loss (gain) on sales of non-current assets	(0)	8
Loss on retirement of non-current assets	3	47
Loss (gain) on sales of investment securities	(0)	-
Decrease (increase) in notes and accounts receivable-trade	5,680	6,231
Decrease (increase) in inventories	(260)	(391)
Increase (decrease) in notes and accounts payable-trade	(2,961)	(3,450)
Other, net	150	331
Subtotal	6,618	6,128
Interest and dividend income received	100	105
Interest expenses paid	(0)	(5)
Income taxes paid	(1,219)	(1,227)
Net cash provided by (used in) operating activities	5,498	5,000
Cash flows from investing activities		
Payments into time deposits	(83)	(69)
Proceeds from withdrawal of time deposits	83	68
Purchase of securities	(2,501)	(1,300)
Proceeds from sales of securities	6,002	2,900
Collection of loans receivable	0	8
Purchase of property, plant and equipment	(279)	(613)
Proceeds from sales of property, plant and equipment	1	3
Purchase of intangible assets	(60)	(2)
Purchase of investment securities	(14)	(4,090)
Proceeds from sales of investment securities	1	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(28)
Payments for lease and guarantee deposits	(2)	(84)
Other, net	45	36
Net cash provided by (used in) investing activities	3,191	(3,171)
Cash flows from financing activities		
Repayments of long-term loans payable	-	(672)
Redemption of bonds	-	(398)
Cash dividends paid	(490)	(490)
Other, net	4	(10)
Net cash provided by (used in) financing activities	(485)	(1,572)
Effect of exchange rate change on cash and cash equivalents	(13)	(13)
Net increase (decrease) in cash and cash equivalents	8,190	242
Cash and cash equivalents at beginning of period	12,900	19,228
Cash and cash equivalents at end of period	21,091	19,471

#### (4) Notes to Quarterly Consolidated Financial Statements

##### Going Concern Assumption

Not applicable.

##### Significant Changes in Shareholders' Equity

Not applicable.

##### Business Combinations

Business combination through acquisition

###### (1) Summary of business combination

###### 1) Name of company acquired and its business activity

Name of company acquired: Kannaru Printing Co., Ltd.

Business activities: Printing, and manufacture and sale of paper products

###### 2) Reasons for business combination

The Pack Group is a comprehensive manufacturer of packaging products and is engaged in the production and sale of packaging products, mainly paper bags, paper folding cartons, film packaging, and corrugated boxes. The Group plans to enter the medical packaging market, one of growing markets, to further expand its business lines.

Kannaru Printing Co., Ltd., a corporation with a history going back 70 years, specializes in the production and sale of packaging for drugs. The inclusion of Kannaru Printing in the consolidation is expected to enable the Group to acquire advanced quality control capability and know-how that Kannaru Printing has developed in the medical packaging market and lead to the strengthening and expansion of the its business.

###### 3) Date of business combination

April 1, 2018 (assumed acquisition date)

###### 4) Method of business combination

Acquisition of stock with cash

###### 5) Name of the company after business combination

There is no change.

###### 6) Ratio of voting rights acquired

93.7%

###### 7) Main reason for choosing the company to acquire

Because The Pack Corporation purchased the stock of Kannaru Printing with cash, and acquired 93.7% of its voting rights.

###### (2) Period of business results of the acquired company included in the quarterly consolidated statement of income

From April 1, 2018 to June 30, 2018

###### (3) Acquisition cost of the acquired company and breakdown by type of consideration

Payment for the acquisition (Cash and deposits)	882 million yen
Acquisition cost	882 million yen

###### (4) Details of major acquisition-related costs

Due diligence cost, etc.: 4 million yen

(5) Amount of gain on bargain purchase and its cause

1) Amount of gain on bargain purchase

54 million yen

The amount of gain on bargain purchase is calculated provisionally.

2) Cause for recognizing gain on bargain purchase

Since the market value of net assets at the time of the business combination exceeded the acquisition cost, the difference was recognized as gain on bargain purchase.

*\* This financial report is solely a translation of summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*