

# ***ANNUAL REPORT 2010***

For Year Ended March 31, 2010



# Setting a Standard for 100 Years Ahead

(Fukushima Yabuki Plant)

## Company Profile

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Ever since introducing the first corrugated board in Japan over a century ago in 1909, the Rengo Group has striven to excel as a packaging solutions company. While responding to customers' diverse packaging needs, the Rengo Group has been contributing to society through optimization of the flow of products.

In recent years, packaging requirements have become increasingly diversified and more demanding in line with changes in lifestyles and growing environmental awareness. With a wide range of products, a highly refined service network, and a wealth of packaging technologies accumulated over the years, the Rengo Group has continued to conceive the most efficient, optimal forms of packaging attuned to customers' specific needs.

Rengo has embarked on its second century in 2010. Pursuing its mission as a packaging solutions company delivering new and added value through packaging in the next hundred years, Rengo continues to innovate and embrace new challenges, endeavoring to earn trust through consistent high performance while displaying ingenuity to help underpin sustainable economic and social development and enhance lifestyles.

### Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding the Rengo Group's plans, strategies, and beliefs. These forward-looking statements are based on management's assumptions and beliefs in the light of information available at the time of publication, and actual results may differ materially from the information presented in this report depending on a number of factors.

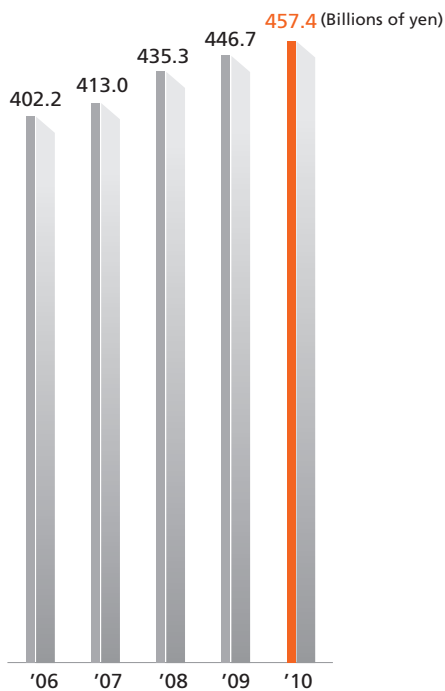
# Consolidated Financial Highlights

For the years ended March 31, 2010 and 2009

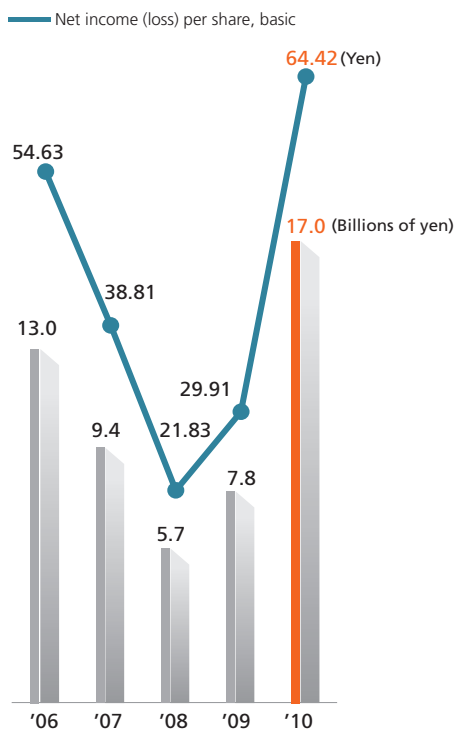
|                                       | Millions of yen |           | % change<br>10/09 | Thousands of<br>U. S. dollars |
|---------------------------------------|-----------------|-----------|-------------------|-------------------------------|
|                                       | 2010            | 2009      |                   | 2010                          |
| <b>For the Year:</b>                  |                 |           |                   |                               |
| Net sales                             | ¥ 457,386       | ¥ 446,660 | 2.4               | \$ 4,918,129                  |
| Operating income                      | 33,727          | 15,213    | 121.7             | 362,656                       |
| Net income                            | 16,987          | 7,831     | 116.9             | 182,656                       |
| Capital expenditures                  | 29,363          | 20,526    | 43.1              | 315,731                       |
| Depreciation and amortization         | 25,223          | 24,337    | 3.6               | 271,215                       |
| <b>At Year-End:</b>                   |                 |           |                   |                               |
| Total assets                          | ¥ 498,137       | ¥ 457,263 | 8.9               | \$ 5,356,312                  |
| Interest-bearing debt                 | 199,237         | 193,374   | 3.0               | 2,142,333                     |
| Net assets                            | 163,926         | 140,779   | 16.4              | 1,762,645                     |
|                                       | Yen             | Change    | U.S.dollars       |                               |
| <b>Per Share Amounts:</b>             |                 |           |                   |                               |
| Net income, basic                     | ¥ 64.42         | ¥ 29.91   | ¥ 34.51           | \$ 0.69                       |
| Net income, diluted                   | —               | —         | —                 | —                             |
| Cash dividends applicable to the year | 10.00           | 10.00     | 0.00              | 0.11                          |

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥93 to US\$1 prevailing on March 31, 2010

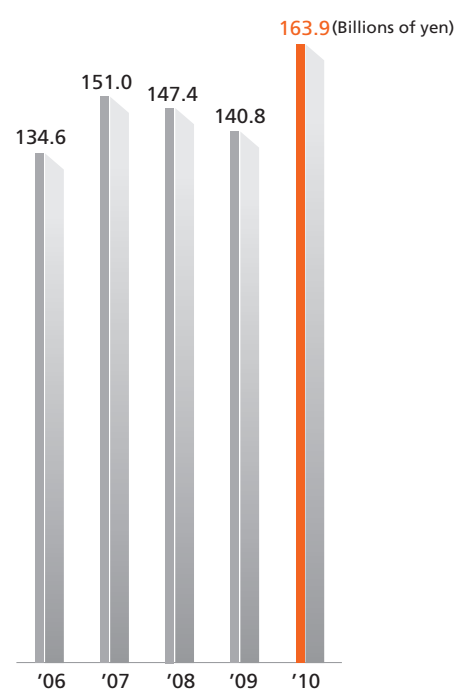
## Net Sales



## Net Income / Net Income per Share, Basic



## Net Assets

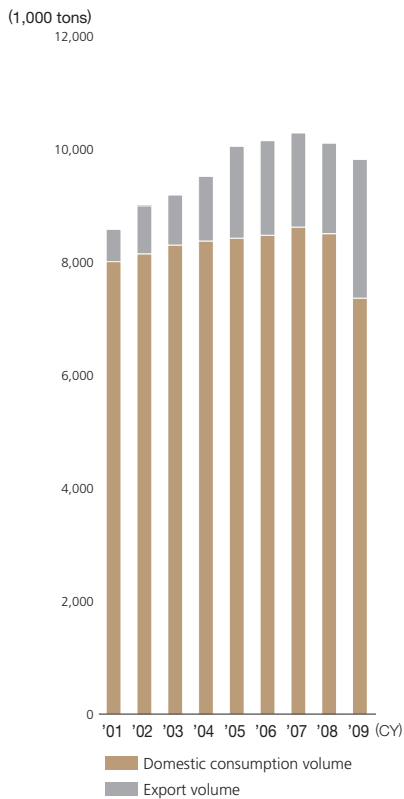


# Market Data

## Recovered Paper

### Domestic Consumption and Export Volumes of Old Corrugated Containers

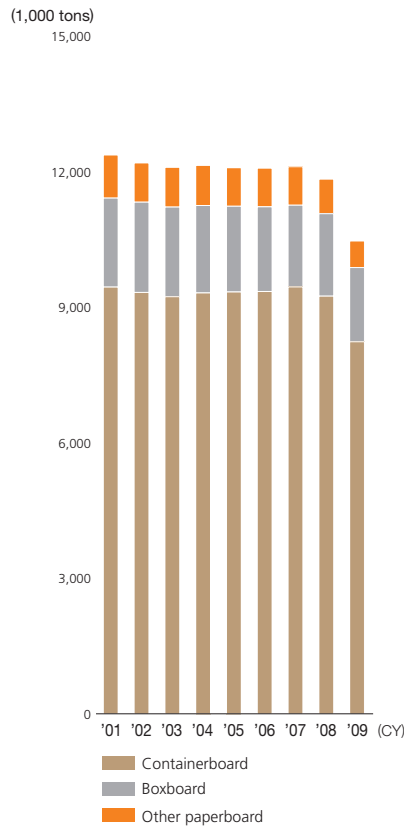
Source: Ministry of Economy, Trade and Industry  
Ministry of Finance



## Containerboard

### Production Volume of Paperboard

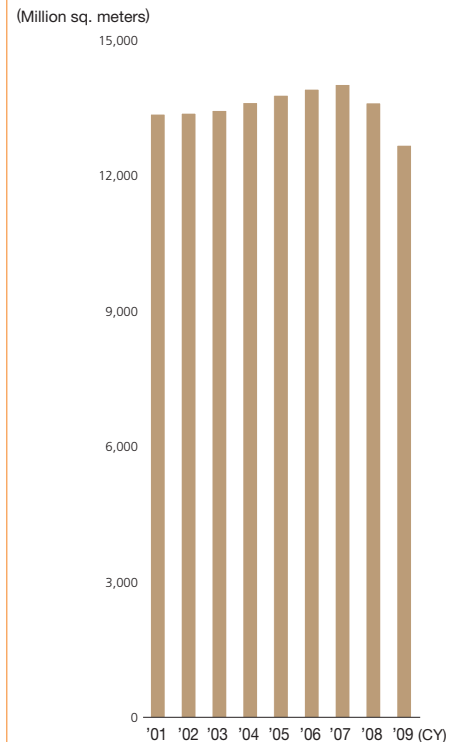
Source: Ministry of Economy, Trade and Industry



## Corrugated Packaging

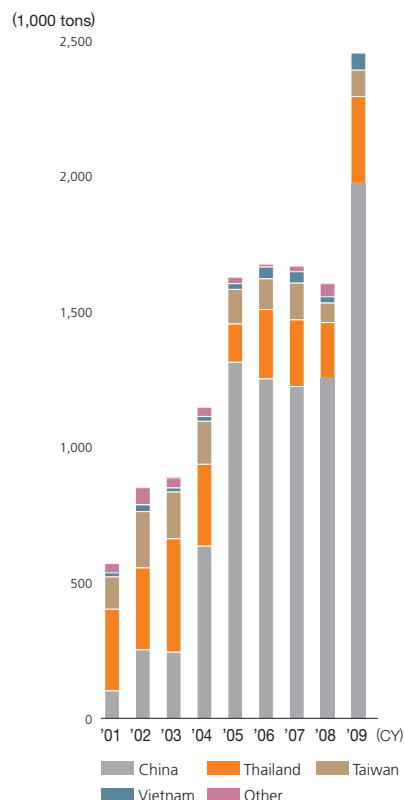
### Production Volume of Corrugated Board

Source: Ministry of Economy, Trade and Industry



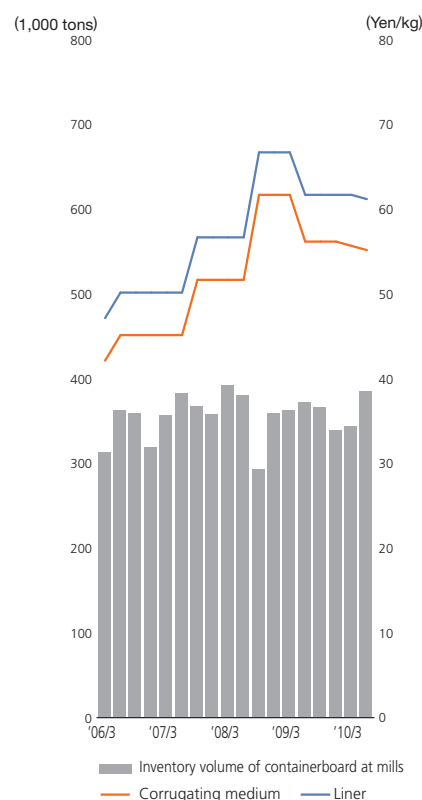
### Export Volume of Old Corrugated Containers by Country

Source: Ministry of Finance



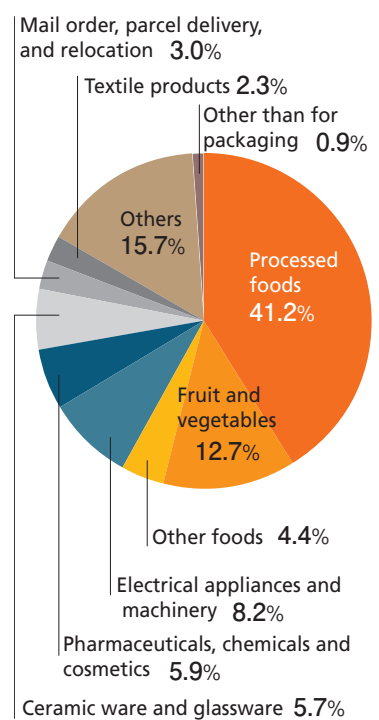
### Price and Inventory Volume of Containerboard

Sources: Nikkei Inc. and Ministry of Economy, Trade and Industry



### Breakdown of Demand for Corrugated Containers by Market (2009 calendar year)

Source: Ministry of Economy, Trade and Industry



## A Message from the President



With the aim of laying a solid foundation for sustainable growth, the Rengo Group has continued implementing measures to reinforce cost competitiveness and the financial position throughout its operations covering paperboard, corrugated packaging, folding cartons, flexible packaging, and overseas business, while working to develop a stable pricing structure capable of maintaining a level of profits enabling sustainable operation.

At the same time, we pursued focus and selection of the Rengo Group's businesses. Following the dissolution of printing machine manufacturing and sales subsidiary Hamada Printing Press Co., Ltd., which had been unprofitable in April 2009, Rengo made Nihon Matai Co., Ltd., a full-line packaging and container manufacturer, a subsidiary in May 2009 and subsequently a wholly owned subsidiary in December 2009. These efforts resulted in record-high sales and profits for the fiscal year ended March 31, 2010 (fiscal 2009), despite a harsh economic environment.

With an eye to the next 100 years, we will strive to enhance the Rengo Group's comprehensive capabilities as a packaging solutions company in the six business fields, namely, paperboard, corrugated packaging, folding cartons, flexible packaging, overseas business, and heavy duty bags, which is a new business field for the Group, so as to enhance the Rengo Group's corporate value.

As a leading company in the paperboard and corrugated industries and a good corporate citizen committed to fulfilling CSR, in order to ensure compliance and enhance the corporate value, we proactively engage in dialogues with society and contribute to the sustainable development of society through the packaging business. We request the continued support and encouragement of our stakeholders in the years ahead.

### Operating Results

For fiscal 2009, consolidated net sales increased 2.4% year on year, to ¥457,386 million, thanks to the impact of the inclusion of Nihon Matai Co., Ltd. in the scope of consolidation despite a decrease in demand owing to the recession. We set a new record for net sales for the seventh consecutive year. Regarding profits, owing to efforts to achieve stable product prices as well as reduced costs reflecting declines in prices of raw materials and fuel, operating income soared 121.7% to ¥33,727 million and net income jumped 116.9% to ¥16,987 million, the highest ever.

### Outlook for the Fiscal Year Ending March 31, 2011 (fiscal 2010) —

Although the pace of economic activity in Japan is expected to quicken in light of the trend toward an improvement in companies' operating results, the outlook is likely to remain uncertain in view of deflationary pressure and the persisting weakness of the labor market. In these circumstances, the Rengo Group's net sales are expected to rise to ¥473,000 million owing to higher production volumes in line with the economic recovery and also because Nihon Matai Co., Ltd. will be in the scope of consolidation for the full year for fiscal 2010. However, operating income and net income are expected to decrease to ¥28,500 million and ¥15,000 million, respectively, because of increases in prices of raw materials and fuel and an increase in depreciation and amortization.

**Kiyoshi Otsubo**  
Representative Director, President & Chief Executive Officer

## Laying the Foundation for Sustainable Growth

A decade of leadership in promoting reform of the paperboard and corrugated industries



The Rengo Group has recently added operations in a sixth area, heavy duty bags, to its five core competences in paperboard, corrugated packaging, folding cartons, flexible packaging and overseas business. As a packaging solutions company, Rengo is achieving steady growth in sales and profits by strengthening the proposal-based sales approach and maximizing Group synergies. After ten years leading the company, Rengo's president looks back on the progress made in that decade and discusses the challenges that Rengo faces today.

Kiyoshi Otsubo Representative Director, President & Chief Executive Officer

### Stabilization of the Paperboard and Corrugated Industries

**Q** Looking back, how do you view the ten years since you were appointed president?

**A** **Otsubo:** I became president and CEO of Rengo in June 2000. At the time, Japan's paperboard and corrugated industries were engaged in cutthroat price competition due to excess capacity. In late 2001, we began to work on creating a new platform for the paperboard industry. The Rengo Group decided to take the initiative. We led the industry in scrapping excess production capacity to bring output back in line with demand and reduce inventories to appropriate levels. An important consolidation process began, with small and medium-sized players either merging or going out of business. These developments marked a turning point for the industry. As the industry achieved structural stabilization, the market share of the three leading containerboard manufacturers increased from 44% in 1998 to 63% in 2009.

Next, we turned our attention to creating a platform for the corrugated industry, which is downstream. As part of this, we advocated the industry-wide adoption of the "full-cost pricing principle" as a fundamental management strategy to help the industry improve its position. In place of the traditional focus on marginal profit, the full-cost pricing approach involves pricing products so that profits can be allocated in four ways, to capital, labor, taxes and social contribution. In my opinion, productivity improvements are meaningless unless you first set up your cost structure according to this principle. This pricing

approach has been adopted by many parts of the corrugated industry, which as a result has been able to generate more stable earnings.

I think the biggest change in the past ten years has been in the attitude of management working in the corrugated industry. I take every opportunity I can to discuss these changes in thinking with people inside and outside Rengo based on the following three ideas.

The first is how to solve the "prisoners' dilemma." This is one of the classic examples of game theory applied in economics. Imagine two rival companies that both fear losing market share to the other if either cuts prices. If they succumb to this fear, the companies will engage in a price war that squeezes profits all round. This was exactly what was occurring in our industry. Companies would feel compelled to lower the price of their corrugated board by two yen simply because a rival had lowered their price by one yen.

The second trap to avoid is known as the "fallacy of composition." In logic, this is the idea that what is true for the component parts, does not necessarily hold for the whole. In real life, it sometimes refers to the problem that the most appropriate courses of action at the individual level do not necessarily add up to positive outcomes for society as a whole. The correct microeconomic responses can have various unintended consequences at the macroeconomic level. For example, when a company fires workers or hires casual labor to reduce costs,

this may make sense at the micro level, but it undermines the broader economy and saps the vitality of society because consumers have lost purchasing power. This example illustrates how everybody doing what they believe is right can sometimes produce an adverse outcome for all of us.

The third concept is known as “noblesse oblige.” Traditionally this referred to the obligations of the aristocracy towards the lower classes. Today we can think of it as the idea that wealth, privilege, power and social status also entail broader responsibilities toward society. Japan’s corrugated industry has few big players—most are small or medium-sized companies supplying a local area. In this situation, those companies that regard themselves as industry leaders need to have the flexibility and magnanimity to consider the interests of the smaller companies rather than purely pursuing profit. In other words, we can think of noblesse oblige as an idea that guarantees a safety net for the entire industry.

In my view, the state of mind of managements is the foundation of business. I believe that the stabilization of this state of mind has contributed significantly to the improved conditions that now prevail within Japan’s corrugated industry.

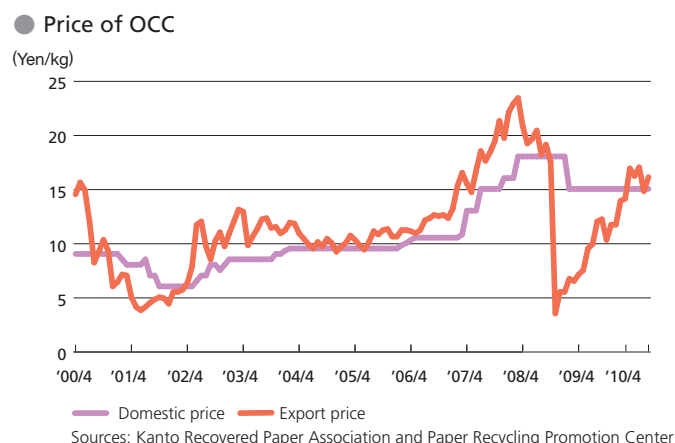
**Q** You have long argued that Japan’s paperboard and corrugated industries need to promote further reforms to better integrate the recovered paper sector. What progress has been made?

**A** **Otsubo:** As I said earlier, in 2001 I began leading efforts to build a platform for the paperboard and corrugated industries. But the fact is that you cannot have sustainable growth in these two sectors without also considering the recovered paper industry, which supplies the main raw material for corrugated packaging. I have been advocating the creation of a productive relationship between these three industries.

Old corrugated containers (OCC) are the main raw material for paperboard and corrugated packaging. From around 2007, rapid growth in demand from China caused export prices for OCC to soar, and domestic OCC prices in Japan also increased sharply as a result. These trends led to disparity between export and domestic OCC prices in Japan. Then, the export OCC prices fell sharply owing to the global recession. We have endeavored to stabilize domestic OCC prices by accepting this two-tier pricing structure to protect the recovered paper recycling system. Our priority has been to establish trust between the three industries so that we can try to avoid savage short-term fluctuations in the price of recovered paper.

Although the corrugated industry tends to be locally focused to a large degree, as shown by movements in OCC prices, we cannot afford to lose sight of the global situation. We have to think globally, but what is important for the corrugated industry is to act locally. I believe that this should be the strategy for the sector.

A sort of “invisible hand” links these three industries. I firmly believe pursuing such reforms and establishing a strong foundation of trust among the three industries based on a calmer state of mind is something that we must do, and is also the right course of action.



## Developing and Motivating People

**Q** The prolonged recession in Japan has caused widespread employment uncertainty. Has the policy of converting temporary workers to regular employee status proved effective for Rengo?

**A** **Otsubo:** In April 2009, we changed the status of 1,000 temporary workers dispatched from subsidiaries to that of regular full-time employees. We had observed a certain amount of distance between the regular and temporary workers, even though they were in many cases doing the same work. This growing reserve was starting to impede the progress of workplace operations. By making everyone regular employees, we noticeably boosted communication within our factories. We also saw an increase in the speed with which we could fill small-lot, short-leadtime orders, which demand a high degree of teamwork. Overall, the change resulted in significantly higher productivity and lower production costs. Alongside this, we have also begun skills training

and acquisition initiatives. Rengo has an internal “Meister” system under which senior engineers oversee and mentor development of technical skills within the workforce. We have also established an in-house training school specifically to facilitate more one-on-one technical skills training.

I have always maintained that labor is sacred and something that should never be treated as a commodity. Only human wisdom and intelligence can add new value for Rengo as packaging becomes ever more evolved. People are the true driving force for creating new value.

At Rengo, our ethos is to develop people as our major assets. In July 2010, we introduced a new overseas training program to help us develop employees capable of thinking globally and acting locally. This new training program will involve sending people overseas to work in English or Chinese language environments.

# An Interview with President Kiyoshi Otsubo

## From Pentagonal to Hexagonal Business Structure: The Addition of a Sixth Core Competence

**Q** How has the addition of Nihon Matai enhanced Rengo's capabilities as a packaging solutions company?

**A** **Otsubo:** To date, the Rengo Group has adopted a pentagonal business structure based on the five core competences of paperboard, corrugated packaging, folding cartons, flexible packaging and overseas business.

Nihon Matai Co., Ltd., a firm listed on the First Section of the Tokyo Stock Exchange, became a member of the Rengo Group in May 2009. The company specializes in kraft paper bags, synthetic resin bags and other heavy duty bags and containers used to package grain, fertiliser, compost, plastics and industrial chemicals. Nihon Matai possesses advanced expertise in resin processing and handles an exceptionally broad range of products. The addition of Nihon Matai, whose core businesses are heavy duty bags and processed-resin materials, endows the Rengo Group with a sixth core competence in heavy duty bags. This means that we are now even better placed to design the optimal packaging solutions for all types of customers to fit their specific needs.

The addition of heavy duty bags realizes an even more stable six-sided, hexagonal business structure for Rengo. As well as promoting a hexagonal business structure, Rengo now refers to itself as a "senary" industry. Industries are usually classified as primary, secondary or tertiary. As packaging supports all industries, we are a "senary," or sixth-order, industry, the sum of primary, secondary and tertiary industries, which means we can supply our products to every industry.

We are promoting Rengo as a packaging solutions company. This ongoing transformation reflects our aspiration to reposition Rengo as a group with a competitive advantage in all aspects of packaging, capable of devising solutions that address the specific packaging-related needs of our customers, rather than just supplying packaging materials.

As we have entered Asian markets such as China, Malaysia, Thailand, Indonesia and Vietnam, the Rengo Group's global footprint as a packaging solutions company is getting bigger.

## "Less Weight, Less Carbon": Completion of Eco-friendly Production Facility

**Q** The new Fukushima Yabuki Plant has various eco-friendly features. What is unique about this new production facility?

**A** **Otsubo:** The new Fukushima Yabuki Plant commenced operation in May 2010. We built this facility to take over the operations of the Koriyama Plant, which has become obsolete. The new plant is an eco-factory that incorporates various environmentally friendly features as part of our contribution to help realize a low-carbon society in Japan.

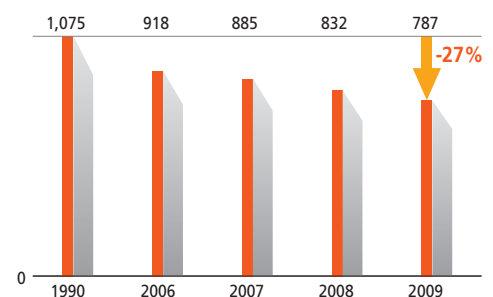
Approximately 9,000 solar panels have been installed at the site. Their total power output is 1,535kW, equivalent to an annual capacity of around 1,450MWh. This is about the same amount of power as that consumed by 400 households a year. We expect to be able to power all the daytime operations of the entire factory using only this solar power source. We plan to sell any surplus electricity generated to the local power utility. The boilers utilize liquefied natural gas (LNG) as fuel, which produces less carbon dioxide emissions. We have also taken steps to restrict the plant's CO<sub>2</sub> emissions by installing a recycling system to reuse the steam created during production, and by installing battery-powered forklifts rather than ones that use engines. Other resource conservation features include a system to extract sludge from the wastewater effluent to recycle as compost. Our calculations suggest that the Fukushima Yabuki Plant will emit approximately 40% less CO<sub>2</sub> emissions than the former Koriyama Plant.

The importance of protecting the environment and conserving resources is a core element of Rengo's corporate culture. Corrugated packaging is a valuable resource because it is 100% recyclable. We cannot permit these important resources to be wasted. Recovery rate for corrugated packaging in Japan now exceed 95%. To make more efficient use of these resources, we are advocating that domestic customers switch to C-flute corrugated board (C-flute). Although only 1mm thinner than the traditional A-flute corrugated board (A-flute), C-flute results in significant environmental benefits.

Standard A-flute is 5mm thick. C-flute is as strong, but is only 4mm thick. Switching to C-flute means less recovered paper is used to make new corrugated board. When stacked, the C-flute also has 20% less volume, which creates value by saving warehouse space. It also contributes to significant reduc-

### ● Changes in Rengo's CO<sub>2</sub> Emissions

(1,000 tons of CO<sub>2</sub>)



tions in CO<sub>2</sub> emissions through enhanced transport efficiencies and reduced fuel consumption.

We are promoting the carbon-offsetting benefits of this thinner, lightweight corrugated board using a special Japanese phrase that we coined meaning “Less Weight, Less Carbon.” Within the industry we talk about the carbon footprint of packaging. I believe we need to consider not just the carbon-offsetting benefits of packaging materials, but also take the concept to a more advanced level by developing materials with a smaller environmental footprint.

By promoting low-carbon alternatives, we are helping the environment by addressing the challenge of global warming. Other aspects of our environmental measures to consider are water, a resource whose value is increasingly recognized, the atmosphere and the soil. Unless we consider all three of these aspects and take meaningful environmental action, I believe that we could be entering an era when the continued existence of human beings on the Earth could be in jeopardy. By making environmentally advanced products in an eco-friendly manner, the new Fukushima Yabuki Plant symbolizes Rengo’s “Less Weight, Less Carbon” philosophy.

- Fukushima Yabuki Plant Starts Operation  
Advertisement in the Nihon Keizai Shimbun, May 10, 2010



## A Company with Centripetal and Centrifugal Forces Developing Inwards and Outwards

**Q** How do you see Rengo developing in the future amid rapid social change?

**A** **Otsubo:** Having celebrated our centenary in April 2009, in its 101st year Rengo has just embarked on its second century. Going forward, we will continue to develop our business as a packaging solutions company based on a hexagonal business model. A key point is that we need to continue to channel our corporate efforts both internally and externally with centripetal and centrifugal forces. Teijiro Inoue founded Rengo back in 1909. I believe that centripetal force toward the founder is as important now for Rengo as a publicly listed company as it was when the business was founded.

I am the fifth president of Rengo since Teijiro Inoue. Management also needs to have centrifugal force for outward development of a company. Striking a balance between centripetal force toward the founder and management’s centrifugal force is Rengo’s fundamental management policy. This concept will remain a core element of Rengo’s business philosophy.

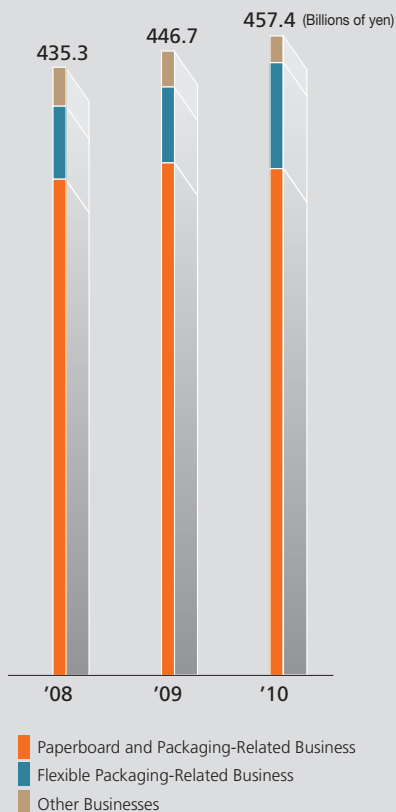
In the fiscal year ending March 2011, we will continue with the “Power Up 10” campaign, which is aimed at reinforcing the Rengo Group by targeting a 10% gain in the performance of each individual employee. Through these actions, we aim not only to boost Rengo’s overall financial performance, but also to achieve sustainable growth of the business. I hope that all of our shareholders, investors and other stakeholders will give us their continued support.



# Rengo at a Glance

The Rengo Group, a packaging solutions company capable of responding to diverse packaging needs and globalization, will establish a solid foundation for sustainable growth for the next 100 years by strengthening its core paperboard, corrugated packaging, folding carton, flexible packaging, and heavy duty bag businesses and associated businesses.

Net Sales by Business Segment



For the fiscal year ended March 31, 2010, sales from the paperboard and packaging-related business decreased 1.1% year on year to ¥362.5 billion, while operating income rose 103.7% to ¥30.4 billion. Sales from the flexible packaging-related business increased 39.6% to ¥75.9 billion, while operating income rose 106.0% to ¥2.8 billion. Sales from other businesses decreased 25.9% to ¥19.1 billion, and operating income was ¥0.4 billion.

## Paperboard and Packaging-Related Business

### Paperboard



#### Main Products

- Containerboard
- Coated board
- Tube board
- Chipboard

#### Main Group Companies

- Marusan Paper Mfg.Co., Ltd.
- Osaka Paper Co., Ltd.

### Corrugated Packaging / Folding Cartons



#### Main Products

- Corrugated board
- Corrugated containers
- Folding cartons

#### Main Group Companies

- Yamato Shiki Co., Ltd.
- Settsu Carton Corporation
- Tokai Shiki Co., Ltd.
- Hinode Shiki Kogyo Co., Ltd.

## Flexible Packaging-Related Business



#### Main Products

- Flexible packaging
- Cellophane
- Synthetic resin bags

#### Main Group Companies

- Howa Sangyo Co., Ltd.
- Nihon Matai Co., Ltd.
- Jiangsu Zhongjin Matai Medicinal Packaging Co., Ltd.

## Other Businesses

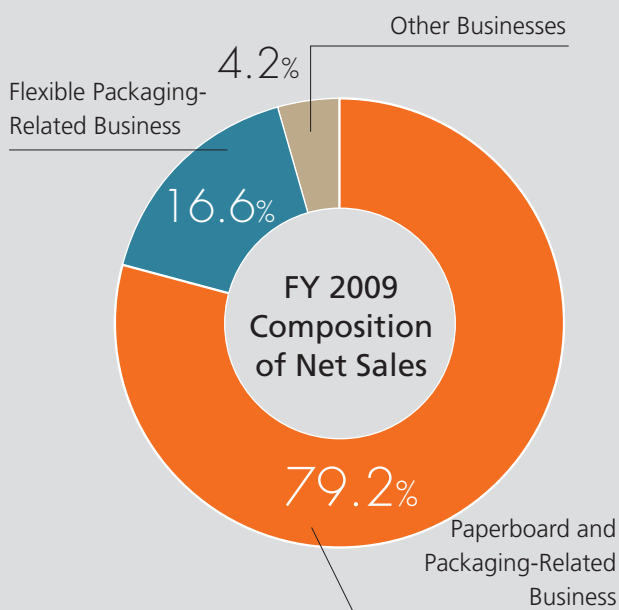


#### Main Products

- Newsprint
- Chemical products
- Nonwoven products
- Paper packaging machinery
- Transport

#### Main Group Companies

- Osaka Paper Co., Ltd.
- Rengo Nonwoven Products Co., Ltd.
- Rengo Logistics Co., Ltd.



# Review of Operations

## Paperboard and Packaging-Related Business

## Paperboard



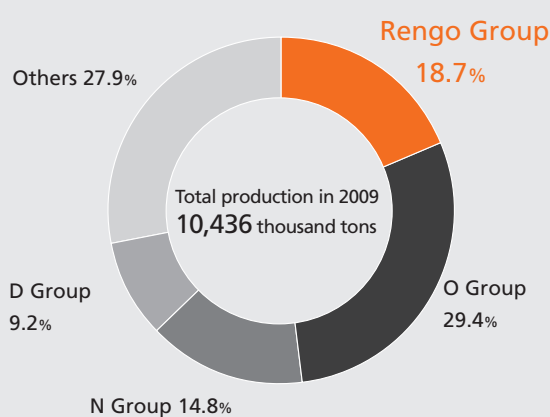
### Sales (after intersegment elimination) (Millions of yen)

|            | 2008   | 2009   | 2010   |
|------------|--------|--------|--------|
| Paperboard | 59,810 | 56,411 | 50,303 |

### Production (Consolidated) (1,000 tons)

|            | 2008  | 2009  | 2010  |
|------------|-------|-------|-------|
| Paperboard | 2,197 | 2,057 | 1,978 |

### Major Manufacturing Groups' Share of the Paperboard Market in Japan



Source: Japan Paper Association

## Market Environment and Business Results

During the fiscal year under review, demand in the paperboard market was sluggish in the first half of the year, reflecting the lackluster economy since autumn 2008 and unsettled weather. Despite signs of recovery in the second half of the year, full-year demand was lower than the previous year's level.

Meanwhile, the export price of recovered paper, Rengo's principal raw material, fell sharply in November 2008 owing to the global recession and rose again, but to a lower level than before the sharp fall. Although the price of recovered paper in Japan had previously been linked with the export price, paperboard manufacturers in Japan tolerated a disparity between the domestic and export prices and maintained the purchase price at a certain level to protect the country's recovered paper recycling system. In response to falling of fuel prices, paperboard manufacturers reduced the standard prices of containerboard and other types of paperboard in April 2009.

The Rengo Group's production of paperboard in Japan decreased 3.8% year on year to 1,978,000 tons and production in China fell 33.7% to 189,000 tons, while production in Vietnam, which started in April 2009, amounted to 69,000 tons. As a result, the Group's total production of paperboard, including production overseas, decreased 4.5% year on year to 2,236,000 tons. Paperboard sales decreased 10.8% to ¥50.3 billion, accounting for 11.0% of consolidated net sales.

## Highlights of the Year under Review

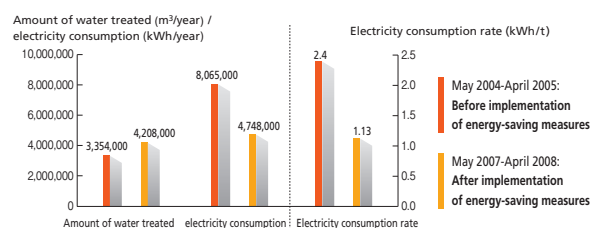
### Shutting down of No. 1 paper machine at the Kanazu Mill

Since the level of demand for containerboard has been about 10% lower than for the previous year and a rapid recovery in demand is not in prospect, Rengo permanently shut down the Kanazu Mill's No. 1 paper machine, whose operation was suspended in April 2009.

### Yashio Mill receives the Energy Conservation Center Award

At the fiscal 2009 convention for presenting cases of energy saving in the Kanto Area jointly held by the Energy Conservation Center, Japan, and the Kanto Bureau of Economy, Trade and Industry, the Yashio Mill's presentation on energy saving measures for an activated sludge system received the Energy Conservation Center Award. The Yashio Mill has been vigorously engaging in energy-saving initiatives. The award-winning case involved the introduction of a microbial preparation to achieve consistent water quality and increase the amount of water treated, the change of an aeration tube to save energy and achieve stable operation, and the introduction of a high-efficiency turbo blower. The objective was to achieve stable operation and increase the efficiency of the Yashio Mill's activated sludge system. As a result of implementation of these energy-saving measures, the system's power consumption was slashed about 40% compared with that in fiscal 2004 (equivalent to an approximately 1,350-ton reduction in CO<sub>2</sub> emissions).

### ● Before and after implementation of energy-saving measures for the activated sludge system



# Review of Operations

## Paperboard and Packaging-Related Business

## Corrugated Packaging



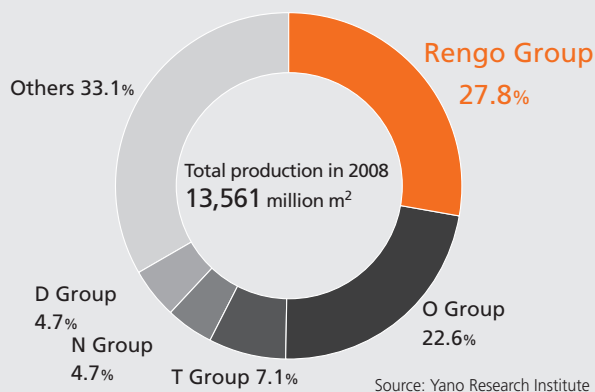
### Sales (after intersegment elimination) (Millions of yen)

|                                  | 2008    | 2009    | 2010    |
|----------------------------------|---------|---------|---------|
| Corrugated packaging             | 273,781 | 289,599 | 289,211 |
| Other packaging-related products | 21,690  | 20,581  | 22,944  |

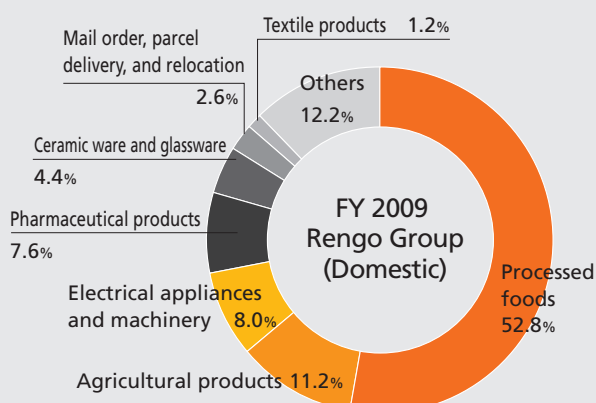
### Production (Consolidated) (Million sq. meters)

|                       | 2008  | 2009  | 2010  |
|-----------------------|-------|-------|-------|
| Corrugated board      | 3,679 | 3,599 | 3,602 |
| Corrugated Containers | 2,756 | 2,735 | 2,732 |

### Major Manufacturing Groups' Share of the Corrugated Board Market in Japan



### Breakdown of Demand for Corrugated Packaging by Market



## Market Environment and Business Results

During the fiscal year under review, demand in the corrugated market in the first half was lower than that for the same period of the previous year, owing to the economic crisis since the autumn of 2008. Additionally, unsettled weather in the summer had an adverse impact on corrugated packaging for beer and other beverages and for fruit and vegetables. Although demand picked up in the second half, centering on corrugated packaging for electrical appliances and machinery, full-year demand was below the previous year's level. With regard to price, manufacturers of corrugated packaging reduced the standard prices of corrugated packaging commensurate with the decrease in the price of containerboard since April 2009.

The Rengo Group's total production volume of corrugated board decreased 3.0% year on year to 4,627 million square meters. Domestic production volume increased 0.9% to 3,423 million square meters, while production in China and Southeast Asia decreased 12.6% to 1,204 million square meters.

Corrugated packaging sales decreased 0.1% to ¥289.2 billion, accounting for 63.2% of consolidated net sales.

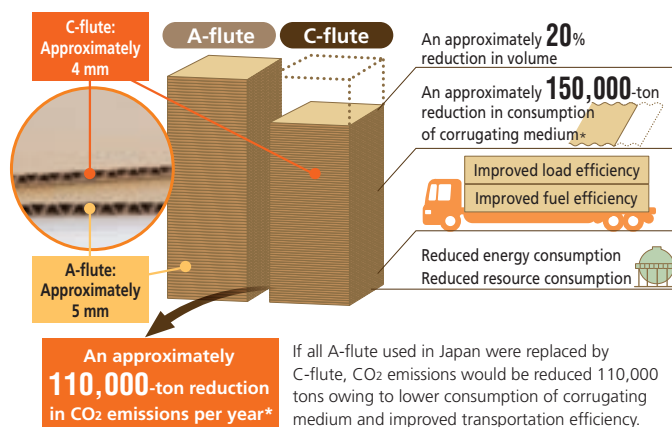
## Highlights of the Year under Review

### Construction of the Fukushima Yabuki Plant completed

The Fukushima Yabuki Plant in Fukushima Prefecture, which replaced the Koriyama Plant, started operation on May 10, 2010. This is an eco-friendly plant, conceived as the ideal corrugated plant for the 21st century. The plant is intended to relieve the production load on plants in the northern Kanto area and improve production efficiency.

### Rengo's drive to use C-flute receives the Clean Japan Center Chairman's Award

With the aim of enhancing the environmental performance of corrugated board, which is by definition a recycling-based, environmentally friendly packaging material, Rengo is vigorously promoting the switch to C-flute, whose environmental impact is lower than that of A-flute. Our initiatives on this front received the Clean Japan Center's fiscal 2009 commendation for resource recycling technologies and systems and the Clean Japan Center Chairman's Award.



\* Quantitative figures are estimates calculated using the industry's data, assuming replacement of all A-flute used in Japan by C-flute and of all AB-flute by BC-flute.

### Newly consolidated subsidiaries

From the fiscal year under review, three subsidiaries of Nihon Matai Co., Ltd., which manufacture corrugated packaging, Chuo Danboru Co., Ltd. and Dalian Guoli Packaging Co., Ltd. are consolidated subsidiaries.

## Flexible Packaging-Related Business



### Market Environment and Business Results

In the flexible packaging-related business, the inclusion of Nihon Matai Co., Ltd. within the scope of consolidation in the second quarter of fiscal 2009 increased sales and profits.

As a result, sales from the flexible packaging-related business soared 39.6% year on year to ¥75.9 billion and operating income jumped 106.0% to ¥2.8 billion.

### Highlights of the Year under Review

#### Nihon Matai Group companies become Rengo's wholly owned subsidiaries

Nihon Matai Co., Ltd., a full-line packaging and container manufacturer, which became Rengo's subsidiary in May 2009, became a wholly owned subsidiary in December 2009. As a result, Nihon Matai Co., Ltd. of Japan, Jiangsu Zhongjin Matai Medicinal Packaging Co., Ltd. of China, and MATAI (VIETNAM) Co., Ltd. joined the Rengo Group.

#### Takefu Plant switches from heavy oil to LNG

In addition to its primary product of cellophane, the Takefu Plant also manufactures functional materials such as coated films, tinted films, viscose-processed paper, porous cellulose beads, and natural antibacterial/anti-mold agents.

Rengo has switched the fuel used at the Takefu Plant for boilers from heavy fuel oil to LNG and installed an LNG storage facility at the plant site since February 2010.

This switch in fuel types is expected to reduce annual CO<sub>2</sub> emissions from the Takefu Plant by 4,500 tons, equivalent to 24% of the plant's CO<sub>2</sub> emissions in fiscal 2008.



#### Sales (after intersegment elimination) (Millions of yen)

|                    | 2008   | 2009   | 2010   |
|--------------------|--------|--------|--------|
| Flexible packaging | 52,275 | 54,339 | 75,850 |

## Other Businesses



### Market Environment and Business Results

The Rengo Group engages in other businesses, including the manufacture and sale of paper packaging machinery, newsprint and nonwoven products, and transport operations. During the fiscal year under review, although sales decreased greatly owing to the dissolution of an unprofitable business, operating income was recorded, whereas an operating loss was recorded for the previous year. This improvement in profitability reflected the decreases in prices of raw materials and fuel in the newsprint business in addition to the positive impact of the dissolution of the unprofitable business.

Sales from other businesses decreased 25.9% year on year to ¥19.1 billion and operating income was ¥0.4 billion.

### Highlights of the Year under Review

In April 2009 Rengo changed the status of about 1,000 workers of temporary staffing subsidiary Rengo Service Co., Ltd. to that of regular employees.

Additional production lines at Rengo Nonwoven Products Co., Ltd., a subsidiary engaged in manufacturing and sales of nonwoven products, which were installed to cope with an increase in orders received, started operation in the second half of fiscal 2009.

#### Sales (after intersegment elimination) (Millions of yen)

|                  | 2008   | 2009   | 2010   |
|------------------|--------|--------|--------|
| Other businesses | 27,783 | 25,730 | 19,078 |

# Overseas Operations

## Expanding Rengo Group's Overseas Network to Provide Packaging Solutions in Asia



### Dissolution of JVs in the Philippines

In April 2009 Rengo sold its entire stake in San Miguel Rengo Packaging Corp. and Mindanao Corrugated Fibreboard, Inc., joint-venture companies between Rengo and San Miguel Corp. in the Philippines, to its partner San Miguel Corp. This dissolution of the joint ventures 14 years after their establishment was prompted by the emergence of differences in the partners'

strategies. Furthermore, it was considered that sustained improvement of the joint-venture companies' financial performances could not be expected in view of the unlikelihood of an early recovery in demand for corrugated packaging because of slowing economic growth of the Philippines and fierce competition in the industry.

### Qingdao Rengo Packaging Co., Ltd. Starts Operation at New Premises

Having completed the relocation in July 2009, Qingdao Rengo Packaging Co., Ltd., Rengo's joint-venture company in China, started operation at its new plant. Qingdao Rengo's customers include Qingdao Beer, Haier and other major Chinese companies as well as leading foreign enterprises, including Japanese companies. The production capacity of the retooled new plant

is double that of the former plant. Additionally, Qingdao Rengo plans to introduce an eight-color pre-print printing machine in 2010 in order to respond to rising demand for pre-printed products in China. The company intends to expand and strengthen the business foundation in Qingdao.

### Acquisition of a Corrugated Packaging Manufacturer in Vietnam for Integrated Production

In November 2009, Thai Containers Group Co., Ltd. (TCG), joint-venture company between Rengo and SCG in Thailand, concluded an agreement to acquire all the shares of New Asia Industries Co., Ltd. from Toprife Hong Kong Ltd.

capacity of 220,000 tons), a containerboard manufacturer in Vietnam, which started operation in 2009, the acquisition of New Asia Industries gives Rengo and SCG an integrated production capability in Vietnam encompassing containerboard and corrugated packaging to meet rapidly growing packaging needs in Vietnam.

In addition to Vina Kraft Paper Co., Ltd. (annual production

# Research and Development

Rengo, the pioneer of the corrugated packaging business in Japan, has been the source of a stream of innovative products. The driving force behind this is Rengo's research and development structure led by the East and West Packaging Technical Centers and the Central Laboratory, which carries out R&D in Rengo's business fields, namely, paperboard, corrugated packaging, folding cartons, flexible packaging, functional materials, and chemicals, and associated businesses. The R&D covers diverse themes, ranging from the realization of a wide range of packaging functions, such as water resistance, moisture proofing and freshness retention, to the development of environmentally friendly products and functional materials. Packages developed by Rengo are highly regarded, receiving awards at contests around the world.

## Principal R&D Themes

- **R&D relating to paper manufacturing (paperboard):**
  - Development of paper recycling technologies
  - Development of environmentally friendly natural paper strengthening agents
- **R&D relating to corrugated packaging:**
  - Improvement of functional properties, such as strength and printability
  - Development of functional properties, such as water resistance, moisture proofing, freshness retention, and corrosion resistance
- **R&D relating to folding cartons and flexible packaging:**
  - Research on function-enhancing coating agents and film composites, etc.
- **R&D relating to new functional materials:**
  - Cellgaia® zeolite and cellulose fiber composite, etc.
- **Analysis:**
  - Chemical analysis relating to product safety and quality and quality of materials
  - Chemical analysis relating to environmental protection

## Winning Awards at 2009 Japan Packaging Contest

The Japan Packaging Contest is held every year sponsored by the Japan Packaging Institute to promote the development and widespread use of high-quality packages and packaging techniques. At the 2009 contest, Rengo's two entries won awards.

- **Japan Star President of Japan Productivity Center Award:**
  - "Pot Motto!" corrugated container for potted plants
- **Good Packaging Logistics Award:**
  - "HANA RAKUPPA" easy-to-assemble corrugated container for flowers



"Pot Motto!" corrugated container for potted plants

## Selected as a WorldStar Winner by the World Packaging Organisation

"HANA RAKUPPA," an easy-to-assemble corrugated container for flowers developed by Rengo, was selected as a WorldStar winner at the 2009 WorldStar Competition held by the World Packaging Organisation (WPO). The sole international contest in the packaging field, the WorldStar Competition recognizes excellent packages from around the world in terms of ease of use, design, and environmental performance. It promotes excellence in packaging worldwide by honoring innovation from which people throughout the packaging industry can learn.



"HANA RAKUPPA" easy-to-assemble corrugated container for flowers

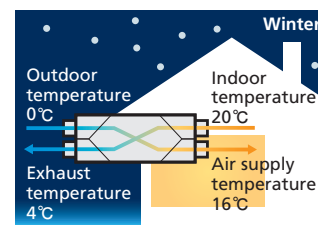
## Moisture Permeable Cellulose Membrane for Total Heat Exchanger Elements Wins the Cellulose Society of Japan Technical Award

The moisture permeable cellulose membrane for total heat exchanger elements developed by Rengo based on its cellophane production technology won the fiscal 2009 Cellulose Society of Japan Technical Award. This was the third time for Rengo to receive this award, following the success of Viscopar® in fiscal 1997 and Cellgaia® in fiscal 2004.

At the heart of a total heat exchanger, which is a ventilation device that operates without changing the indoor temperature and humidity, is a total heat exchanger element that performs heat exchange when exhausting indoor air and introducing outdoor air.

A moisture permeable cellulose membrane is made of processed viscose (raw material of cellophane), which is chemically treated cellulose derived from wood. Endowed with moisture permeability and wet strength unavailable from conventional membranes, the total heat exchange rate of a total heat exchanger element using the moisture permeable cellulose membrane exceeds 80%, which is performance far superior to that of conventional products.

In view of the pressing need for energy saving in homes and offices to mitigate global warming, total heat exchangers incorporating elements made of moisture permeable cellulose membrane have great potential for widespread application.



Total heat exchange ventilation (image)

# Environmental Protection

Taking the opportunity of its centenary in 2009, the Rengo Group established the Rengo Group Environmental Charter and the Eco Challenge 020 with the aim of reinforcing the Group's environmental protection activities.

The Rengo Group Environmental Charter sets new targets for Rengo's environmental protection activities and establishes a structure for promoting environmental protection activities throughout Rengo Group.

The Eco Challenge 020 Mid-term Plan sets targets for achievement in fiscal 2020. In addition to a 32% reduction of CO<sub>2</sub> emissions, Eco Challenge items include reduction of emissions of volatile organic compounds (VOCs), reduction of the amounts of transfer/release of substrates covered by the Pollutant Release and Transfer Register (PRTR), and maintenance of a high recovered paper usage rate.

As a packaging solutions company, Rengo will strive to meet a wide range of packaging needs while promoting environmental protection to contribute to a better tomorrow for people and the environment.

## Rengo Group Environmental Charter



## Eco Challenge 020 Mid-term Plan

### Fundamental Philosophy

Rengo Group considers the carrying out of business with consideration to conserving the global environment as indispensable to the Group's sustainable development, and thus endeavors to continually undertake environmental conservation activities.

| Items  | Targets for fiscal 2020   |
|--|---|
| <b>Reduction of CO<sub>2</sub> emissions derived from fossil fuel</b>      | <b>32% reduction compared with fiscal 1990</b>  |
| Maintenance of a high recovered paper usage rate                           | Maintain a rate of 97% or higher  |
| Promotion of recycling of waste generated within sites                     | Maintain the recycling rate of 98% or higher  |
| Reduction of the volume of waste for final disposal                        | Amount of waste for final disposal: 4,000t  |
| Reduction of the weight of corrugated board                                | Promote lightweight corrugated containers<br>Maintain high recovery rate of corrugated containers |
| Reduction of VOC emissions   | Promote management of chemical substances   |
| Reduction of the amounts of transfer/release of substances covered by PRTR |   |

### Fukushima Yabuki Plant starts operation—"Less Weight, Less Carbon," green corrugated plant

In May 2010, the Fukushima Yabuki Plant, replacing the former Koriyama Plant, started operation.

Employing state-of-the-art production equipment and an advanced production management system to achieve high product quality and energy saving, the plant carries out integrated production of corrugated packaging—from corrugated board to various types of corrugated containers. At the same time, the new plant leverages Rengo's accumulated technological expertise and know-how in saving energy and other resources. Solar power generated by approximately 9,000 solar panels satisfies the plant's entire daytime electricity demand and the plant uses liquefied natural gas (LNG) as boiler fuel. Utilization of these green technologies is expected to lead to a 40% reduction per basic unit in CO<sub>2</sub> emissions compared with the former Koriyama Plant.

The Fukushima Yabuki Plant is a green factory embodying Rengo's vision of the ideal corrugated plant for the 21st century, which manufactures "Less Weight, Less Carbon," super eco-corrugated packaging.



Bird's-eye view of the Fukushima Yabuki Plant

**Rengo's initiatives to reduce weight of corrugated packaging and promote recycling win the 3R Promotion Conference Chairman's Award**

In October 2009, Rengo received the 3R Promotion Conference Chairman's Award at the Fiscal 2009 Commendation of Parties Contributing to 3R sponsored by the Reduce, Reuse, Recycle (3R) Promotion Conference. Rengo's initiatives to reduce the weight of corrugated packaging by promoting the use of lightweight containerboard and C-flute and its recycling activities, indicated by the high recovered paper usage rate, were recognized.

**Eco-Products 2009**

In December 2009, Rengo participated in Eco-Products, one of the largest environmental exhibitions in Japan.

The Rengo booth presented the flow of recycling of used corrugated containers discharged from homes and stores, including production of new containerboard from recovered corrugated containers and production of new corrugated containers. Visitors were able to learn about the advantages of corrugated containers, which are gentle on the environment yet strong. Exhibits included C-flute corrugated containers and other eco-friendly products. Furthermore, Rengo publicized various environmental initiatives, such as the introduction of solar power generation systems and biomass incinerators for power generation.

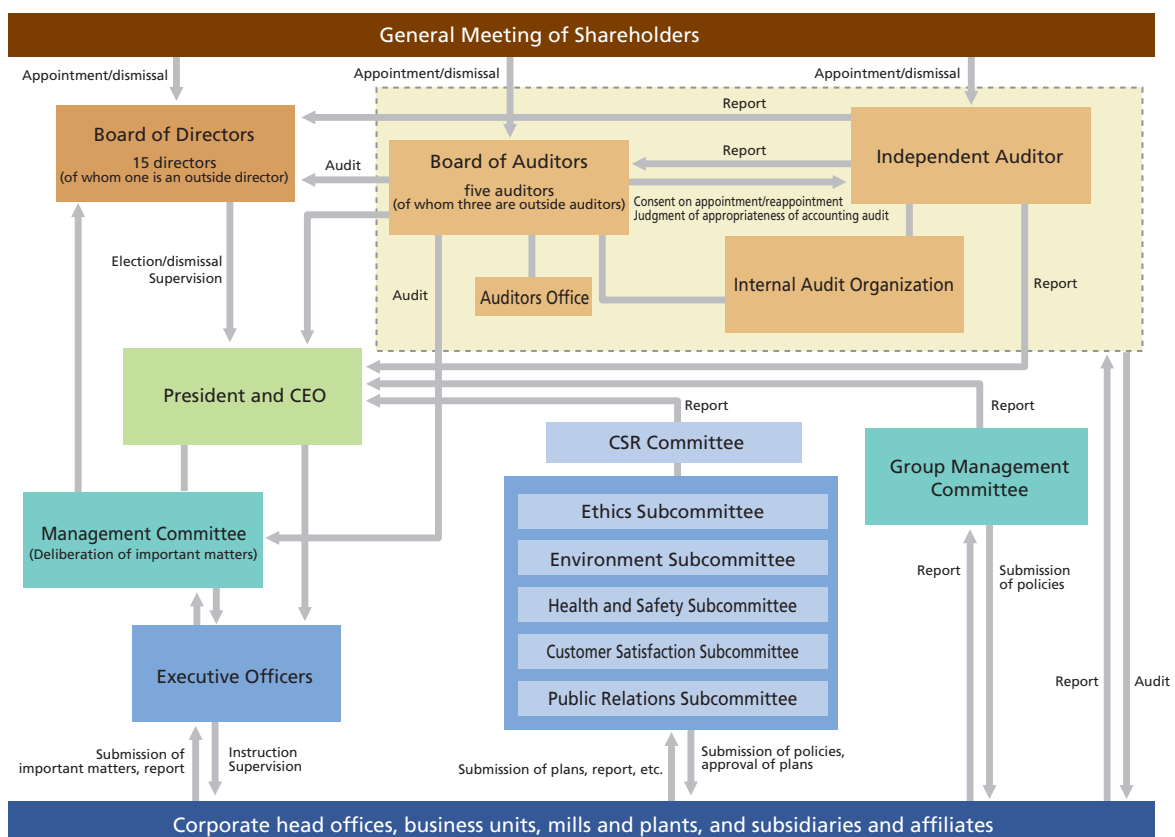


Rengo booth at Eco-Products 2009

# Corporate Governance

In keeping with our philosophy whose essence is "The truth is in the workplace," the Company intends to enhance corporate governance by strengthening its current director and corporate auditor systems while delegating authority and increasing the speed of decision-making. Rengo will increase management transparency by striving to ensure rapid and accurate disclosure of information to shareholders and the wider investor community.

## Corporate Governance Structure



# Board of Directors and Corporate Auditors (As of September 1, 2010)



Kazuteru Kishimoto



Kiyoshi Otsubo



Toshihide Seki

|   |                     |                                   |                   |
|---|---------------------|-----------------------------------|-------------------|
| <b>Representative Director, President and Chief Executive Officer</b> | Kiyoshi Otsubo      | <b>Corporate Auditors</b>         | Yukio Okabe       |
| <b>Directors and Executive Vice Presidents</b>                        | Kazuteru Kishimoto  |                                   | Toshihito Miura   |
|   | Toshihide Seki      |                                   | Shogo Itoda       |
| <b>Directors and Senior Managing Executive Officers</b>               | Jun Takenaka        |                                   | Kenji Tsujimoto   |
|   | Ichiro Hasegawa     |                                   | Ikuho Inoue       |
| <b>Directors and Managing Executive Officers</b>                      | Moriaki Maeda       | <b>Managing Executive Officer</b> | Osamu Nishimura   |
|   | Yoshitaka Ozawa     | <b>Executive Officers</b>         | Yosuke Kawamoto   |
|   | Kiwamu Hashimoto    |                                   | Sadatoshi Inoue   |
|   | Sadaaki Goto        |                                   | Sakae Shinotsuka  |
|   | Takashi Inaba       |                                   | Shigechika Ishida |
| <b>Directors and Executive Officers</b>                               | Misao Wakamatsu     |                                   | Hiroyuki Kimura   |
|   | Hidemi Ogino        |                                   | Masao Fujita      |
|   | Yasuhiro Baba       |                                   | Akiyoshi Yoshino  |
|   | Hiromi Sambe        |                                   | Hirokazu Nakai    |
| <b>Director</b>   | Yoshifumi Nishikawa |                                   | Ryuzo Shinano     |
|   |                     |                                   | Shunji Ogawa      |
|   |                     |                                   | Toshihiro Yoneda  |

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## Consolidated Five-Year Summary

Rengo Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2006, 2007, 2008, 2009 and 2010

|  | Millions of yen |          |          |          |                 |
|--|-----------------|----------|----------|----------|-----------------|
|  | 2006            | 2007     | 2008     | 2009     | 2010            |
| <b>For the Year:</b>                           |                 |          |          |          |                 |
| Net sales                                      | ¥402,168        | ¥412,986 | ¥435,339 | ¥446,660 | <b>¥457,386</b> |
| Gross profits                                  | 71,002          | 70,941   | 66,226   | 69,813   | <b>91,645</b>   |
| Operating income                               | 21,701          | 19,057   | 12,799   | 15,213   | <b>33,727</b>   |
| Income before income taxes                     | 23,712          | 16,292   | 9,654    | 14,215   | <b>29,633</b>   |
| Net income                                     | 13,032          | 9,442    | 5,659    | 7,831    | <b>16,987</b>   |
| Research and development expenses              | 1,316           | 1,507    | 1,486    | 1,663    | <b>1,507</b>    |
| Depreciation and amortization                  | 20,822          | 21,589   | 24,227   | 24,337   | <b>25,223</b>   |
| Capital expenditures                           | 22,408          | 34,351   | 21,083   | 20,526   | <b>29,363</b>   |
| Per share amounts (yen):                       |                 |          |          |          |                 |
| Net income, basic                              | 54.63           | 38.81    | 21.83    | 29.91    | <b>64.42</b>    |
| Net income, diluted                            | 47.72           | —        | —        | —        | <b>—</b>        |
| Cash dividends applicable to the year          | 9.00            | 10.00    | 10.00    | 10.00    | <b>10.00</b>    |
| <b>At Year-End:</b>                            |                 |          |          |          |                 |
| Total assets                                   | ¥447,390        | ¥471,855 | ¥468,887 | ¥457,263 | <b>¥498,137</b> |
| Working capital                                | (50,872)        | (66,525) | (53,538) | (43,897) | <b>(37,080)</b> |
| Interest-bearing debt                          | 176,323         | 185,065  | 194,251  | 193,374  | <b>199,237</b>  |
| Net assets                                     | 134,613         | 150,961  | 147,382  | 140,779  | <b>163,926</b>  |
| Total shareholders' equity*                    | 134,613         | 145,590  | 142,221  | 136,175  | <b>159,384</b>  |
| <b>Ratios:</b>                                 |                 |          |          |          |                 |
| Return on equity (%)                           | 10.5            | 6.7      | 3.9      | 5.6      | <b>11.5</b>     |
| Return on total assets (%)                     | 3.0             | 2.1      | 1.2      | 1.7      | <b>3.6</b>      |
| Debt to equity ratio (times)                   | 1.31            | 1.27     | 1.37     | 1.42     | <b>1.25</b>     |
| Total shareholders' equity to total assets (%) | 30.1            | 30.9     | 30.3     | 29.8     | <b>32.0</b>     |
| <b>Other statistics:</b>                       |                 |          |          |          |                 |
| Number of shares of common stock (thousand)    | 241,927         | 263,774  | 263,774  | 263,774  | <b>271,056</b>  |
| Number of employees                            | 9,545           | 9,747    | 10,181   | 9,089    | <b>11,182</b>   |
| <b>Stock prices (yen):</b>                     |                 |          |          |          |                 |
| High   | ¥1,000          | ¥ 952    | ¥927     | ¥849     | <b>¥652</b>     |
| Low  | 501             | 616      | 451      | 425      | <b>483</b>      |

\*Total shareholders' equity = Net assets - Minority interests (from year ended March 31, 2007 onward)

# Management's Discussion and Analysis

## Overview

In the fiscal year ended March 31, 2010 (fiscal 2009), the Rengo Group achieved record-high net sales and profits as a result of continued implementation of measures to reinforce cost competitiveness and improve the financial position as well as efforts to establish a stable product pricing structure. Above all, the change of the employment status of temporary employees to regular employees in April 2009 greatly contributed to the improvement of productivity and reduction of manufacturing costs.

Moreover, the Company reduced prices of containerboard and corrugated packaging in April 2009 owing to lower prices of raw materials and fuel.

Partly because Nihon Matai Co., Ltd., a full-line packaging and container manufacturer, became a subsidiary of the Company in May 2009, as of March 31, 2010, the number of consolidated subsidiaries was 43, five more than at the end of the previous year, and the number of affiliates accounted for by the equity method was eight, one less than at the end of the previous year.

## Sales

Consolidated net sales increased ¥10.7 billion or 2.4% year on year from ¥446.7 billion for the previous year to ¥457.4 billion for fiscal 2009. Although sales of the mainstay paperboard and corrugated packaging decreased because of sluggish demand in the first half of the year, which was not fully offset by the recovery of demand in the second half, net sales increased owing to the rise in the number of consolidated subsidiaries, following the acquisition of the Nihon Matai Group.

Sales from the paperboard and packaging-related business segment decreased 1.1% year on year while sales from the flexible packaging-related business segment increased 39.6%. Sales from other businesses decreased 25.9% because of the dissolution of an unprofitable business.

Sales volumes of corrugated containers were virtually unchanged from the previous year, having edged downward 0.5%.

## Income and Expenses

### Operating Expenses and Operating Income

Cost of sales decreased 2.9% year on year from ¥376.8 billion to ¥365.7 billion owing to lower costs of raw materials and fuel, including recovered paper and city gas. Selling, general and administrative expenses increased 6.1% from ¥54.6 billion to ¥57.9 billion owing to an increase in labor costs as a result of inclusion of the Nihon Matai Group in the scope of consolidation and higher freight charges.

Operating income increased ¥18.5 billion or 121.7% year on year from ¥15.2 billion to ¥33.7 billion. This improvement was attributable to the efforts to maintain appropriate product prices and to promote cost reduction coupled with decreases in costs of raw materials and fuel.

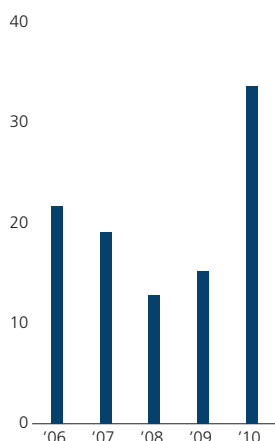
### Other Income and Expenses

Regarding the net balance of other income and expenses, a loss of ¥4.1 billion was recorded for fiscal 2009, compared with a loss of ¥1.0 billion for the previous year. Whereas a gain on sales of property, plant and equipment as a result of the disposal of sites of closed plants offset restructuring costs associated with the dissolution of an unprofitable business in the previous year, no major items of other income was recorded for fiscal 2009.

Among the main items recorded for fiscal 2009 were ¥0.8 billion business structure improvement expenses associated with the decision to dispose of the No. 1 paper machine at the Company's Kanazu Mill in March 2010. Operation of this paper machine had been suspended since April 2009 because of a low facility utilization rate and no rapid recovery in demand was in prospect. In addition, ¥0.5 billion impairment loss of idle fixed assets and a ¥0.9 billion loss on reduction of

Operating Income

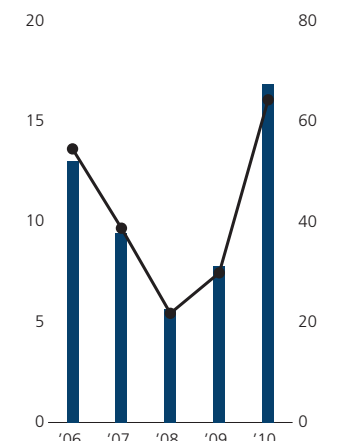
(Billions of yen)



Net Income and Net Income per Share, Basic

(Billions of yen)

(Yen)



■ Net Income (left scale)  
— Net Income per Share, Basic (right scale)

Income and Expenses as a Percentage of Net Sales

|                  | 2008  | 2009  | 2010         |
|------------------|-------|-------|--------------|
| Cost of sales    | 84.8% | 84.4% | <b>80.8%</b> |
| SG&A expenses    | 12.3  | 12.2  | <b>12.6</b>  |
| Operating income | 2.9   | 3.4   | <b>7.4</b>   |
| Net income       | 1.3   | 1.8   | <b>3.7</b>   |

noncurrent assets was recorded corresponding to subsidy and compensation income amounting to ¥1.4 billion.

Equity in losses of affiliates was recorded for the second consecutive year mainly because Vina Kraft Paper Co., Ltd. in Vietnam recorded a net loss for its first year of operation.

### Income Taxes and Minority Interests

Income taxes increased ¥5.0 billion from ¥6.7 billion for the previous year to ¥11.7 billion as a result of an increase in income before income taxes. The Company recorded minority interests in income of consolidated subsidiaries for the first time since fiscal 2004, five years ago, which amounted to ¥0.9 billion for fiscal 2009 compared with minority interests in losses of ¥0.3 billion for the previous year.

### Net Income

Net income was ¥17.0 billion for fiscal 2009, an increase of ¥9.2 billion or 116.9% from ¥7.8 billion for the previous year. Net income per share was ¥64.42 compared with ¥29.91 for the previous year. Cash dividends applicable to the year were ¥10, unchanged from the previous year.

## Financial Position and Cash Flows

### Assets

Total assets amounted to ¥498.1 billion, having increased ¥40.8 billion from ¥457.3 billion at the end of the previous year. The principal factors were a ¥16.9 billion increase in current assets, a ¥19.5 billion increase in property, plant and equipment, a ¥0.5 billion decrease in intangible assets, and a ¥4.9 billion increase in investments and other assets.

The principal reason for increased assets was the inclusion of Nihon Matai Co., Ltd. as a subsidiary within the scope of consolidation, which increased current assets by ¥15.5 billion and property, plant and equipment by ¥15.8 billion.

### Liabilities and Net Assets

Total liabilities amounted to ¥334.2 billion, having increased ¥17.7 billion from ¥316.5 billion at the end of the previous year. The main items were an increase of ¥11.0 billion in payables and an increase of ¥4.4 billion in short-term borrowings and long-term debt. Similar to assets, the inclusion of Nihon Matai Co., Ltd. within the scope of consolidation had a large impact on liabilities. Interest-bearing debt at the end of the year stood at ¥199.2 billion, having increased ¥5.8 billion from ¥193.4 billion at the end of the previous year. However, if a ¥14.0 billion increase in the interest-bearing debt associated with the newly consolidated subsidiaries is not taken into account, the interest-bearing debt on a like-for-like basis decreased ¥8.2 billion.

Net assets amounted to ¥163.9 billion, having increased ¥23.1 billion from ¥140.8 billion at the end of the previous year. This was mainly due to a ¥13.9 billion increase in retained earnings.

### Cash Flows

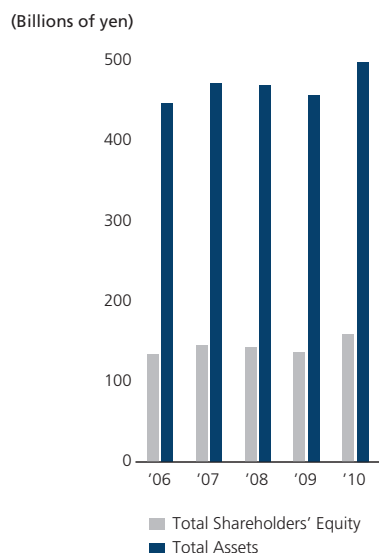
Net cash provided by operating activities amounted to ¥45.7 billion, an increase of ¥16.4 billion from ¥29.3 billion for the previous year. Major items were income before income taxes and minority interests (¥29.6 billion), depreciation and amortization (¥25.2 billion) and income taxes paid (¥8.5 billion).

Net cash used in investing activities increased ¥4.4 billion from ¥18.6 billion for the previous year to ¥23.0 billion. This increase was mainly attributable to purchases of property, plant and equipment amounting to ¥21.3 billion.

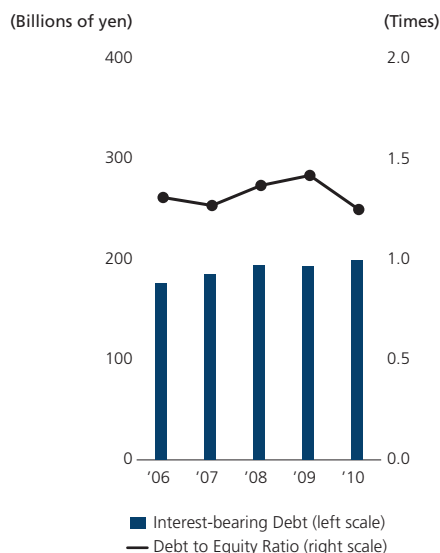
Net cash used in financing activities increased ¥10.4 billion from ¥7.8 billion for the previous year to ¥18.2 billion, which comprised a net decrease in short-term and long-term loans payable (¥8.6 billion) and redemption of bonds (¥5.9 billion).

As a result, cash and cash equivalents were ¥14.3 billion at the end of fiscal 2009, having increased ¥4.7 billion.

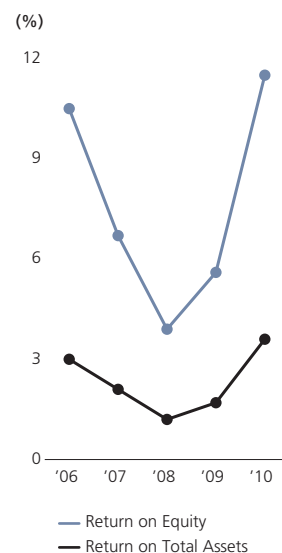
Total Shareholders' Equity and Total Assets



Interest-bearing Debt and Debt to Equity Ratio



Return on Equity and Return on Total Assets



# Consolidated Balance Sheets

Rengo Co., Ltd. and Consolidated Subsidiaries

March 31, 2010 and 2009

|  | Millions of yen |           | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------|--|
|  | 2010            | 2009      | 2010                                     |
| <b>Assets</b>                                  |                 |           |  |
| <b>Current assets:</b>                         |                 |           |  |
| Cash and deposits (Notes 4 and 16)             | ¥ 15,468        | ¥ 10,305  | \$ 166,323                               |
| Receivables—                                   |                 |           |  |
| Notes and accounts receivable-trade (Note 4)   | 122,665         | 112,703   | 1,318,978                                |
| Other  | 1,748           | 1,595     | 18,797                                   |
| Allowance for doubtful accounts                | (2,193)         | (1,255)   | (23,581)                                 |
|  | 122,220         | 113,043   | 1,314,194                                |
| Inventories (Note 6)                           | 24,546          | 25,169    | 263,935                                  |
| Deferred tax assets (Note 15)                  | 4,507           | 4,058     | 48,462                                   |
| Other  | 4,892           | 2,134     | 52,602                                   |
| Total current assets                           | 171,633         | 154,709   | 1,845,516                                |
| <b>Property, plant and equipment (Note 8):</b> |                 |           |  |
| Buildings and structures                       | 175,262         | 152,930   | 1,884,538                                |
| Machinery, equipment and vehicles              | 370,160         | 342,643   | 3,980,215                                |
| Land   | 100,278         | 94,611    | 1,078,258                                |
| Construction in progress                       | 2,427           | 3,019     | 26,097                                   |
| Other  | 19,771          | 17,162    | 212,591                                  |
|  | 667,898         | 610,365   | 7,181,699                                |
| Less accumulated depreciation                  | (421,082)       | (383,069) | (4,527,763)                              |
| Total property, plant and equipment            | 246,816         | 227,296   | 2,653,936                                |
| <b>Intangible assets:</b>                      |                 |           |  |
| Goodwill                                       | 1,810           | 2,406     | 19,462                                   |
| Other (Note 8)                                 | 6,354           | 6,210     | 68,323                                   |
| Total intangible assets                        | 8,164           | 8,616     | 87,785                                   |
| <b>Investments and other assets:</b>           |                 |           |  |
| Investment securities (Notes 4, 5 and 8)       | 61,487          | 51,305    | 661,151                                  |
| Long-term loans receivable                     | 686             | 327       | 7,376                                    |
| Deferred tax assets (Note 15)                  | 717             | 5,830     | 7,710                                    |
| Other (Notes 8 and 13)                         | 10,874          | 10,693    | 116,924                                  |
| Allowance for doubtful accounts (Note 13)      | (2,240)         | (1,513)   | (24,086)                                 |
| Total investments and other assets             | 71,524          | 66,642    | 769,075                                  |
|  | ¥498,137        | ¥457,263  | \$5,356,312                              |

The accompanying notes are an integral part of these statements.

|  | Millions of yen |          | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|----------|--|
|  | 2010            | 2009     | 2010                                     |
| <b>Liabilities and Net Assets</b>  |                 |          |  |
| <b>Current liabilities:</b>  |                 |          |  |
| Short-term borrowings, including current portion<br>of long-term debt (Notes 4, 7 and 8) | ¥ 94,817        | ¥ 95,658 | \$1,019,538                              |
| Payables—  |                 |          |  |
| Notes and accounts payable-trade (Notes 4 and 8)   | 67,435          | 62,623   | 725,108                                  |
| Other (Note 8)   | 16,853          | 10,667   | 181,215                                  |
|  | 84,288          | 73,290   | 906,323                                  |
| Income taxes payable   | 5,643           | 5,575    | 60,677                                   |
| Provision for directors' bonuses   | 169             | 145      | 1,817                                    |
| Other  | 23,796          | 23,938   | 255,871                                  |
| Total current liabilities  | 208,713         | 198,606  | 2,244,226                                |
| <b>Noncurrent liabilities:</b>   |                 |          |  |
| Long-term debt due after one year (Notes 4, 7 and 8)                                     | 101,518         | 96,269   | 1,091,591                                |
| Deferred tax liabilities (Note 15)   | 5,649           | 3,166    | 60,742                                   |
| Provision for retirement benefits (Note 12)  | 10,460          | 12,710   | 112,473                                  |
| Provision for directors' retirement benefits   | 846             | 764      | 9,097                                    |
| Other (Notes 8 and 13)   | 7,025           | 4,969    | 75,538                                   |
| Total noncurrent liabilities   | 125,498         | 117,878  | 1,349,441                                |
| <b>Contingent liabilities</b> (Note 9)   |                 |          |  |
| <b>Net assets</b> (Note 11):   |                 |          |  |
| <b>Shareholders' equity:</b>   |                 |          |  |
| Capital stock:   |                 |          |  |
| Authorized – 800,000,000 shares  |                 |          |  |
| Issued – 271,056,029 shares  | 31,067          | 31,067   | 334,054                                  |
| Capital surplus  | 33,998          | 27,442   | 365,570                                  |
| Retained earnings (Note 24)  | 98,713          | 84,854   | 1,061,430                                |
| Treasury stock:  |                 |          |  |
| 3,343,418 shares in 2010<br>and 2,147,578 shares in 2009                                 | (2,280)         | (1,614)  | (24,516)                                 |
| Total shareholders' equity   | 161,498         | 141,749  | 1,736,538                                |
| <b>Valuation and translation adjustments:</b>  |                 |          |  |
| Valuation difference on available-for-sale securities                                    | 314             | (3,579)  | 3,376                                    |
| Foreign currency translation adjustment  | (2,428)         | (1,995)  | (26,108)                                 |
| Total valuation and translation adjustments  | (2,114)         | (5,574)  | (22,732)                                 |
| <b>Minority interests</b>  | 4,542           | 4,604    | 48,839                                   |
| Total net assets   | 163,926         | 140,779  | 1,762,645                                |
|  | ¥498,137        | ¥457,263 | \$5,356,312                              |

# Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2009

|   | Millions of yen |          | Thousands of U.S. dollars (Note 1) |
|---|-----------------|----------|------------------------------------|
|   | 2010            | 2009     | 2010                               |
| <b>Net sales</b> (Note 18)                                    | <b>¥457,386</b> | ¥446,660 | <b>\$4,918,129</b>                 |
| <b>Cost of sales</b>  | <b>365,741</b>  | 376,847  | <b>3,932,699</b>                   |
| <b>Selling, general and administrative expenses</b> (Note 14) | <b>57,918</b>   | 54,600   | <b>622,774</b>                     |
| Operating income (Note 18)                                    | <b>33,727</b>   | 15,213   | <b>362,656</b>                     |
| <b>Other income (expenses):</b>                               |                 |          |                                    |
| Interest and dividends income                                 | <b>1,485</b>    | 1,762    | <b>15,968</b>                      |
| Rent income   | <b>503</b>      | 498      | <b>5,409</b>                       |
| Equity in losses of affiliates                                | <b>(183)</b>    | (72)     | <b>(1,968)</b>                     |
| Interest expenses   | <b>(2,857)</b>  | (2,719)  | <b>(30,720)</b>                    |
| Gain on sales of noncurrent assets                            | <b>—</b>        | 6,551    | <b>—</b>                           |
| Subsidy   | <b>840</b>      | 630      | <b>9,032</b>                       |
| Compensation income   | <b>554</b>      | —        | <b>5,957</b>                       |
| Impairment loss (Note 19)                                     | <b>(479)</b>    | —        | <b>(5,151)</b>                     |
| Loss on sales and retirement of noncurrent assets             | <b>(597)</b>    | (612)    | <b>(6,419)</b>                     |
| Loss on reduction of noncurrent assets                        | <b>(897)</b>    | (1,026)  | <b>(9,645)</b>                     |
| Business structure improvement expenses (Note 21)             | <b>(775)</b>    | —        | <b>(8,333)</b>                     |
| Loss on liquidation of business (Note 20)                     | <b>—</b>        | (2,919)  | <b>—</b>                           |
| Other, net  | <b>(1,688)</b>  | (3,091)  | <b>(18,152)</b>                    |
| Income before income taxes and minority interests             | <b>29,633</b>   | 14,215   | <b>318,634</b>                     |
| <b>Income taxes</b> (Note 15):                                |                 |          |                                    |
| Income taxes-current  | <b>8,517</b>    | 7,215    | <b>91,581</b>                      |
| Income taxes-deferred   | <b>3,187</b>    | (504)    | <b>34,269</b>                      |
|   | <b>11,704</b>   | 6,711    | <b>125,850</b>                     |
| <b>Minority interests in income (loss)</b>                    | <b>942</b>      | (327)    | <b>10,128</b>                      |
| Net income  | <b>¥ 16,987</b> | ¥ 7,831  | <b>\$ 182,656</b>                  |

|                                       | Yen            |         | U.S. dollars (Note 1) |
|---------------------------------------|----------------|---------|-----------------------|
|                                       | 2010           | 2009    | 2010                  |
| <b>Per share data:</b>                |                |         |                       |
| Net income per share, basic           | <b>¥ 64.42</b> | ¥ 29.91 | <b>\$ 0.69</b>        |
| Net income per share, diluted         | <b>—</b>       | —       | <b>—</b>              |
| Cash dividends applicable to the year | <b>10.00</b>   | 10.00   | <b>0.11</b>           |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2009

|  | Thousands                        |                |                 | Millions of yen   |                 |  |   |                    |                 |  |
|--|----------------------------------|----------------|-----------------|-------------------|-----------------|--|---|--------------------|-----------------|--|
|  | Number of shares of common stock | Capital stock  | Capital surplus | Retained earnings | Treasury stock  | Valuation difference on available -for-sale securities | Foreign currency translation adjustment | Minority interests | Total           |  |
| Balance at March 31, 2008                            | 263,774                          | ¥31,067        | ¥27,442         | ¥79,512           | (¥1,428)        | ¥5,037   | ¥ 591                                   | ¥5,161             | ¥147,382        |  |
| Dividends from surplus                               |                                  |                |                 | (2,619)           |                 |  |   |                    | (2,619)         |  |
| Net income   |                                  |                |                 | 7,831             |                 |  |   |                    | 7,831           |  |
| Purchase of treasury stock                           |                                  |                |                 |                   | (270)           |  |   |                    | (270)           |  |
| Disposal of treasury stock                           |                                  |                |                 | (23)              | 84              |  |   |                    | 61              |  |
| Change of scope of consolidation                     |                                  |                |                 | 152               |                 |  |   |                    | 152             |  |
| Other  |                                  |                |                 | 1                 |                 |  |   |                    | 1               |  |
| Net changes of items other than shareholders' equity |                                  |                |                 |                   |                 | (8,616)  | (2,586)                                 | (557)              | (11,759)        |  |
| Balance at March 31, 2009                            | 263,774                          | ¥31,067        | ¥27,442         | ¥84,854           | (¥1,614)        | (¥3,579)   | (¥1,995)                                | ¥4,604             | ¥140,779        |  |
| Increase by share exchanges (Note 16)                | 7,282                            |                | 4,129           |                   |                 |  |   |                    | 4,129           |  |
| Dividends from surplus                               |                                  |                |                 | (2,616)           |                 |  |   |                    | (2,616)         |  |
| Net income   |                                  |                |                 | 16,987            |                 |  |   |                    | 16,987          |  |
| Purchase of treasury stock                           |                                  |                |                 |                   | (673)           |  |   |                    | (673)           |  |
| Disposal of treasury stock                           |                                  |                |                 | 23                | 7               |  |   |                    | 30              |  |
| Change of scope of consolidation                     |                                  |                | 2,427           | (554)             |                 |  |   |                    | 1,873           |  |
| Other  |                                  |                |                 | 19                |                 |  |   |                    | 19              |  |
| Net changes of items other than shareholders' equity |                                  |                |                 |                   |                 | 3,893  | (433)                                   | (62)               | 3,398           |  |
| <b>Balance at March 31, 2010</b>                     | <b>271,056</b>                   | <b>¥31,067</b> | <b>¥33,998</b>  | <b>¥98,713</b>    | <b>(¥2,280)</b> | <b>¥ 314</b>   | <b>(¥2,428)</b>                         | <b>¥4,542</b>      | <b>¥163,926</b> |  |

| Thousands of U.S. dollars (Note 1)                   |                  |                  |                    |                   |  |   |                    |                    |  |
|--|------------------|------------------|--------------------|-------------------|--|---|--------------------|--------------------|--|
|  | Capital stock    | Capital surplus  | Retained earnings  | Treasury stock    | Valuation difference on available -for-sale securities | Foreign currency translation adjustment | Minority interests | Total              |  |
| Balance at March 31, 2009                            | \$334,054        | \$295,075        | \$ 912,409         | (\$17,354)        | (\$38,484)   | (\$21,452)                              | \$49,505           | \$1,513,753        |  |
| Increase by share exchanges (Note 16)                |                  | 44,398           |                    |                   |  |   |                    | 44,398             |  |
| Dividends from surplus                               |                  |                  | (28,129)           |                   |  |   |                    | (28,129)           |  |
| Net income   |                  |                  | 182,656            |                   |  |   |                    | 182,656            |  |
| Purchase of treasury stock                           |                  |                  |                    | (7,237)           |  |   |                    | (7,237)            |  |
| Disposal of treasury stock                           |                  |                  | 247                | 75                |  |   |                    | 322                |  |
| Change of scope of consolidation                     |                  | 26,097           | (5,957)            |                   |  |   |                    | 20,140             |  |
| Other  |                  |                  | 204                |                   |  |   |                    | 204                |  |
| Net changes of items other than shareholders' equity |                  |                  |                    |                   | 41,860   | (4,656)                                 | (666)              | 36,538             |  |
| <b>Balance at March 31, 2010</b>                     | <b>\$334,054</b> | <b>\$365,570</b> | <b>\$1,061,430</b> | <b>(\$24,516)</b> | <b>\$ 3,376</b>  | <b>(\$26,108)</b>                       | <b>\$48,839</b>    | <b>\$1,762,645</b> |  |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2010 and 2009

|  | Millions of yen |          | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|----------|--|
|  | 2010            | 2009     | 2010                                     |
| <b>Net cash provided by (used in) operating activities</b>   |                 |          |  |
| Income before income taxes and minority interests  | ¥29,633         | ¥14,215  | \$318,634                                |
| Depreciation and amortization  | 25,223          | 24,337   | 271,215                                  |
| Impairment loss  | 479             | —        | 5,151                                    |
| Amortization of goodwill   | 245             | 412      | 2,634                                    |
| Decrease in provision for retirement benefits  | (1,869)         | (2,153)  | (20,097)                                 |
| Increase (decrease) in provision for directors' retirement benefits  | (0)             | 83       | (0)                                      |
| Interest and dividends income  | (1,485)         | (1,762)  | (15,968)                                 |
| Interest expenses  | 2,857           | 2,719    | 30,720                                   |
| Equity in losses of affiliates   | 183             | 72       | 1,968                                    |
| Gain on sales of investment securities   | (149)           | (66)     | (1,602)                                  |
| Loss on valuation of investment securities   | 294             | 685      | 3,161                                    |
| Loss (gain) on sales of property, plant and equipment  | 17              | (6,360)  | 183                                      |
| Loss on retirement of property, plant and equipment  | 685             | 955      | 7,366                                    |
| Loss on liquidation of business  | —               | 2,919    | —  |
| Decrease (increase) in notes and accounts receivable-trade   | (2,191)         | 2,734    | (23,559)                                 |
| Decrease in inventories  | 2,113           | 235      | 22,720                                   |
| Decrease in notes and accounts payable-trade   | (2,146)         | (7,172)  | (23,075)                                 |
| Other, net   | 1,405           | 1,535    | 15,108                                   |
| Subtotal   | 55,294          | 33,388   | 594,559                                  |
| Interest and dividends income received   | 1,787           | 2,050    | 19,215                                   |
| Interest expenses paid   | (2,887)         | (2,692)  | (31,043)                                 |
| Income taxes paid  | (8,459)         | (3,472)  | (90,957)                                 |
| Net cash provided by operating activities  | 45,735          | 29,274   | 491,774                                  |
| <b>Net cash provided by (used in) investing activities</b>   |                 |          |  |
| Decrease in time deposits  | 1,067           | 69       | 11,473                                   |
| Purchase of property, plant and equipment  | (21,265)        | (19,482) | (228,656)                                |
| Proceeds from sales of property, plant and equipment   | 619             | 7,195    | 6,656                                    |
| Purchase of intangible assets  | (1,523)         | (1,695)  | (16,376)                                 |
| Purchase of investment securities  | (4,421)         | (2,448)  | (47,538)                                 |
| Proceeds from sales and redemption of investment securities  | 1,798           | 294      | 19,333                                   |
| Payments for investments in capital of subsidiaries and affiliates   | —               | (2,661)  | —  |
| Decrease (increase) in short-term loans receivable   | (71)            | 132      | (763)                                    |
| Payments of long-term loans receivable   | (167)           | (131)    | (1,796)                                  |
| Collection of long-term loans receivable   | 378             | 103      | 4,065                                    |
| Proceeds from purchase of investments in subsidiaries<br>resulting in change in scope of consolidation (Note 16) | 621             | —        | 6,677                                    |
| Net cash used in investing activities  | (22,964)        | (18,624) | (246,925)                                |
| <b>Net cash provided by (used in) financing activities</b>   |                 |          |  |
| Net decrease in short-term loans payable   | (2,621)         | (6,335)  | (28,183)                                 |
| Proceeds from long-term loans payable  | 14,972          | 26,950   | 160,989                                  |
| Repayment of long-term loans payable   | (20,910)        | (14,758) | (224,839)                                |
| Redemption of bonds  | (5,904)         | (10,450) | (63,484)                                 |
| Purchase of treasury stock   | (673)           | (270)    | (7,237)                                  |
| Proceeds from sales of treasury stock  | 64              | 61       | 688                                      |
| Cash dividends paid  | (2,616)         | (2,619)  | (28,129)                                 |
| Other, net   | (470)           | (369)    | (5,052)                                  |
| Net cash used in financing activities  | (18,158)        | (7,790)  | (195,247)                                |
| <b>Effect of exchange rate change on cash and cash equivalents</b>   | (0)             | (131)    | (0)                                      |
| <b>Net increase in cash and cash equivalents</b>   | 4,613           | 2,729    | 49,602                                   |
| <b>Cash and cash equivalents at beginning of year</b>  | 9,639           | 6,527    | 103,645                                  |
| <b>Increase in cash and cash equivalents<br/>by newly consolidated subsidiaries</b>                              | 633             | 383      | 6,807                                    |
| <b>Decrease in cash and cash equivalents resulting from<br/>exclusion of subsidiaries from consolidation</b>     | (586)           | —        | (6,301)                                  |
| <b>Cash and cash equivalents at end of year (Note 16)</b>  | ¥14,299         | ¥ 9,639  | \$153,753                                |

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

Rengo Co., Ltd. and Consolidated Subsidiaries

## 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Rengo Co., Ltd. (the "Company") and its consolidated subsidiaries (together, the "Companies") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded disclosure) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2010, which was ¥93 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 43 (38 in 2009) significant subsidiaries over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control by the Company. Certain subsidiaries are consolidated on the basis of fiscal years ending on December 31, which differs from that of the Company. However, necessary adjustments have been made if the effect of the difference in year-ends is material.

Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are principally accounted for on the equity method and, accordingly, stated at cost adjusted for equity in the undistributed earnings and losses from the date of acquisition.

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion attributable to minority interests is charged/credited to minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority interests, are evaluated based on the fair value at the time the Company acquired control of the subsidiary. The difference between the cost and the underlying net equity of the acquisition is amortized on a straight-line basis over a period in which the economic benefits are expected to be realized. However, such amounts for certain consolidated subsidiaries were fully expensed.

### (2) Translation of Foreign Currencies

#### A. Translation of Foreign Currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

#### B. Translation of Foreign Currency Financial Statements

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates except for shareholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at the year-end rates except for transactions with the Company, which are translated at the rates used by the Company. Resulting adjustments are included in net assets.

### (3) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided for possible losses on unrecoverable receivables. The Companies provide the allowance for doubtful accounts for normal receivables based on the historical rate of loss and for specific doubtful accounts based on individual valuation.

### (4) Securities

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly and is not expected to recover, such securities are stated at fair market value, and the difference between the fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and

affiliated companies is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

#### **(5) Inventories**

Inventories held for sale in the ordinary course of business are measured at the lower of cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate. The cost of finished goods, merchandise, semi-finished goods, work in process and supplies are determined primarily by the average cost method, while the cost of raw materials is determined primarily by the moving average cost method.

#### **(6) Property, Plant and Equipment (Except Lease Assets)**

Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining balance method at rates based on the estimated useful life of the assets in accordance with the Corporation Tax Law. Buildings acquired after April 1, 1998 are depreciated by the straight-line method.

(Additional Information)

Effective in the year ended March 31, 2009, in accordance with revisions to the Corporation Tax Law, the Company and its consolidated domestic subsidiaries changed the useful life of machinery and equipment principally based on the reassessment of the useful life of the assets.

As a result, in the year ended March 31, 2009, operating income decreased by ¥735 million and income before income taxes and minority interests decreased by ¥740 million.

The effects of this adaptation on business segment information are described in Note 18.

#### **(7) Intangible Assets (Except Lease Assets)**

The Companies include internal use software in other intangible assets and depreciate it using the straight-line method over the estimated useful life of 5 years.

Other intangible assets are being amortized principally on a straight-line method over their useful life in accordance with the Corporation Tax Law of Japan.

#### **(8) Lease Assets**

Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life or the lease term of the respective assets.

The Companies account for finance leases commencing prior to April 1, 2008 which do not transfer ownership of the leased property to the lessee as operating leases with the disclosure of certain "as if capitalized" information.

#### **(9) Provision for Directors' Bonuses**

The Companies provide a reserve for directors' and corporate auditors' bonuses based on the estimated amounts of payment.

#### **(10) Provision for Retirement Benefits**

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded pension plans, under which substantially all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the end of the year. Actuarial gains and losses are recognized in income and expenses over certain periods (mainly 13 years), within the average of the estimated remaining service years of the employees, commencing with the following period. Past service cost is amortized in expenses over certain periods (10 years), within the average of the estimated remaining service years of the employees.

(Changes in Accounting Policies)

Effective from the year ended March 31, 2010, the Companies adopted "Partial Amendments to Accounting Standard for Retirement Benefits" (Part3) (Accounting Standards Board of Japan Statement No. 19, July 31, 2008).

The adoption of this accounting standard had no effect on net income.

#### **(11) Provision for Directors' Retirement Benefits**

Certain consolidated subsidiaries pay lump-sum retirement benefits to directors and corporate auditors. Those consolidated subsidiaries provide the amounts that would be required if directors and corporate auditors all retired at the balance sheet date, in accordance with internal rules.

#### **(12) Allowance for investment loss**

Allowance for investment loss is provided at an estimated amount of possible investment losses, according to internal rules, considering the financial condition of the investees.

Such allowance of ¥232 million (U.S. \$2,495 thousand) and ¥498 million are deducted directly from the amounts of investment securities at March 31, 2010 and 2009, respectively.

### **(13) Income Taxes**

The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

### **(14) Derivative Transactions and Hedge Accounting**

In principal, the Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of derivative financial instruments until the related loss or gain on the hedged item is recognized. However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

- A. If a forward foreign exchange contract or option contract is executed to hedge an existing foreign currency receivable or payable,
  - (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statement of income in the period which includes the inception date, and
  - (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
- B. If a forward foreign exchange contract or option contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward or option rate, and no gain or loss on the forward foreign exchange contract is recognized.

### **(15) Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

### **(16) Net Income Per Share**

Basic net income per share is based on the weighted average number of shares of common stock outstanding during the year.

Diluted net incomes per share for the year ended March 31, 2010 and 2009 are not disclosed because there were no outstanding dilutive potential common stock equivalents.

Cash dividends per share represent actual amounts applicable to the respective years.

## **3. CHANGES IN ACCOUNTING POLICIES**

### **(1) New accounting standard for inventories**

From the fiscal year ended March 31, 2009, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006). Prior to April 1, 2008, the Company and its consolidated domestic subsidiaries stated inventories at the lower of market or cost determined by the weighted average method. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate.

As a result, in the year ended March 31, 2009, operating income decreased by ¥93 million and income before income taxes and minority interests decreased by ¥219 million.

The effects of this adaptation on business segment information are described in Note 18.

### **(2) Unification of accounting policies applied to foreign subsidiaries for consolidated financial statements**

From the fiscal year ended March 31, 2009, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No.18, issued by the Accounting Standards Board of Japan on May 17, 2006). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles (GAAP). In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is minor.

- (a) Goodwill not subject to amortization
- (b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
- (c) Capitalized expenditures for research and development activities
- (d) Fair value measurement of investment properties, and revaluation of property, plant and equipment and intangible assets

- (e) Retroactive treatment of a change in accounting policies
- (f) Accounting for net income attributable to minority interests.

This adaptation had no impact on retained earnings and net income.

### **(3) New accounting standards for lease transactions**

Prior to the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries accounted for finance leases which do not transfer ownership of the leased property to the lessee as operating leases with the disclosure of certain "as if capitalized" information in the notes to the consolidated financial statements.

On March 30, 2007, the Accounting Standards Board of Japan issued Statement No. 13, "Accounting Standard for Lease Transactions" and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance lease transactions be treated as capital leases.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which commenced prior to April 1, 2008 and have been accounted for as operating leases, continue to be accounted for as operating leases with the disclosure of certain "as if capitalized" information. The effects of this adaptation have been minor.

## **4. FINANCIAL INSTRUMENTS**

### **(1) Status of financial instruments**

#### **A. Policies for using financial instruments**

The Companies procure necessary capital in accordance with the plan for capital expenditure, investment and long-term loan from banks and bond issues. On occasion, the Companies manage surplus capital using financial instruments that carry little or no risk and procure short-term working capital from bank loans. The Company and certain subsidiaries use derivatives to mitigate the risks of interest rate fluctuations associated with long-term loans and exchange rate fluctuations associated with foreign currency transactions. As a matter of policy, the Companies do not use derivatives for speculative purposes.

#### **B. Details of financial instruments, associated risks and the risk management system**

Notes and accounts receivable-trade expose the Companies to customer credit risk. The Companies set the customer's credit limit and manage receivables.

Investments in securities are primarily investments in companies with whom the Companies do business. These investments expose the Companies to the risk of changes in market prices. These investments are periodically examined for fair value and regularly revised its portfolio based on the relationship with issuing entity.

Notes and accounts payable-trade are due within one year. In addition, certain payables are denominated in foreign currencies, which exposes the holder to the risk of exchange rate fluctuations. The Company and certain subsidiaries use appropriate forward foreign exchange contracts to hedge the risk of such exchange rate fluctuations.

The Companies generally procure the capital required for business transactions through short-term loans and procure the capital required for capital expenditure, investment and loans through long-term loans and bond issues. Although some long term loans are exposed to the risk of interest rate fluctuations, the Companies hedge the risk with derivatives transactions such interest rate swaps. The risks of fluctuations in interest rates have been assumed to be completely hedged over the period of the hedging contracts as major conditions of the hedging instruments and hedged items are consistent. Accordingly, an evaluation of the effectiveness of the hedging contracts is unnecessary.

The derivative transactions are executed and managed by the Company in accordance with its established policies. In using derivatives transactions, the Companies mitigate counterparty risk by conducting transactions with highly creditworthy financial institutions. The Companies recognize almost no risk of default.

The Companies manage liquidity risk associated with capital procurement (payment default risk) by creating and updating a capital deployment plan based on regular reports.

#### **C. Supplemental information on fair values**

The fair value of financial instruments is based on market prices, or a reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions.

In addition, the contract amounts of the derivatives transaction discussed in Note 22 below are not an indicator of the market risk associated with derivatives transactions.

## (2) Fair values of financial instruments

Information about amounts for financial instruments presented in the consolidated balance sheets, the market value and any differences as of March 31, 2010 are set for in the tables below. Items whose fair market value is considered to be very difficult to determine are not presented in the tables (See note (2)).

|  | Millions of yen  |                  |                | Thousands of U.S. dollars |                     |                  |
|--|------------------|------------------|----------------|---------------------------|---------------------|------------------|
|  | 2010             |                  |                | 2010                      |                     |                  |
|  | Book value       | Market value     | Difference     | Book value                | Market value        | Difference       |
| (A) Cash and deposits                                      | ¥ 15,468         | ¥ 15,468         | ¥ —            | \$ 166,323                | \$ 166,323          | \$ —             |
| (B) Notes and accounts receivable-trade                    | 122,665          | 122,665          | —              | 1,318,978                 | 1,318,978           | —                |
| (C) Investment securities<br>Available-for-sale securities | 50,571           | 50,571           | —              | 543,774                   | 543,774             | —                |
| <b>Total assets</b>  | <b>¥ 188,704</b> | <b>¥ 188,704</b> | <b>¥ —</b>     | <b>\$ 2,029,075</b>       | <b>\$ 2,029,075</b> | <b>\$ —</b>      |
| (A) Notes and accounts payable-trade                       | ¥ 67,435         | ¥ 67,435         | ¥ —            | \$ 725,108                | \$ 725,108          | \$ —             |
| (B) Short-term borrowings                                  | 94,087           | 94,087           | —              | 1,011,688                 | 1,011,688           | —                |
| (C) Current portion of bonds                               | 730              | 736              | 6              | 7,850                     | 7,915               | 65               |
| (D) Bonds payable  | 20,865           | 21,340           | 475            | 224,355                   | 229,462             | 5,107            |
| (E) Long-term loans payable                                | 80,653           | 82,316           | 1,663          | 867,236                   | 885,118             | 17,882           |
| <b>Total liabilities</b>                                   | <b>¥ 263,770</b> | <b>¥ 265,914</b> | <b>¥ 2,144</b> | <b>\$ 2,836,237</b>       | <b>\$ 2,859,291</b> | <b>\$ 23,054</b> |
| Derivatives transactions (*1)                              |                  |                  |                |                           |                     |                  |
| (a) Hedge accounting is not applied (*2)                   | (¥541)           | (¥541)           | ¥—             | (\$5,817)                 | (\$5,817)           | \$—              |
| (b) Hedge accounting is applied                            | —                | —                | —              | —                         | —                   | —                |
| <b>Total derivatives transactions</b>                      | <b>(¥541)</b>    | <b>(¥541)</b>    | <b>¥—</b>      | <b>(\$5,817)</b>          | <b>(\$5,817)</b>    | <b>\$—</b>       |

(\*1) Assets and liabilities which result from derivative transactions are net amounts. As a result of this, if this account balance is a debt, it is shown parentheses ( ).

(\*2) This derivative liability had already been extinguished on the day when financial statements were submitted. The details are described in Note 13.

Note (1) Marketable securities, derivatives transactions and methods for estimating fair value of financial instruments

### Assets

(A) Cash and deposits, and (B) Notes and accounts receivable-trade

All deposits are short-term. Therefore, the book value is used for the fair value of deposits because these amounts are essentially the same.

(C) Investment securities

The fair value of investments in securities is the price listed on securities exchanges for equities. In addition Note 5 provides information on marketable securities by the intent for which they are held.

### Liabilities

(A) Notes and accounts payable-trade, and (B) Short-term borrowings

The book value is used for the fair value of these of short-term investments because these amounts are essentially equivalent.

(C) Current portion of bonds, and (D) Bonds payable

The fair value of bonds issued by the Company with available fair market value is estimated based on market prices. The fair value of these investments with no available fair market value is estimated as the discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

(E) Long-term loans payable

The book value is used for the fair value of these long-term floating-rate loans because these amounts are essentially equivalent. Fair value of these investments is estimated as the discounted present value of total principal and interest using assumed interest rates for equivalent new loans.

(\*) Interest rate swaps subject to special treatment are used for long-term loan, (Note 22 provides additional explanation.) The principal and interest on the loans in which these interest rate swaps are embedded are discounted using a reasonable estimate of the interest rate on the loan at the time of issue.

### Derivatives transactions

The details are described in Note 22.

Note (2) Financial instruments for which determining fair value is difficult

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
|  | 2010            | 2010                      |
| Available-for-sale securities  | ¥3,561          | \$38,291                  |
| Equity securities issued by unconsolidated subsidiaries and affiliated companies | 7,355           | 79,086                    |

Financial instruments for which determining fair value is difficult because no market price is available are not included in (C) Investment securities.

Note (3) The redemption schedule for receivables and marketable securities with maturity dates after the close of the fiscal year

|                                     | Millions of yen |                                     |                                      |                |
|-------------------------------------|-----------------|-------------------------------------|--------------------------------------|----------------|
|                                     | 2010            |                                     |                                      |                |
|                                     | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits                   | ¥ 15,468        | ¥ —                                 | ¥ —                                  | ¥ —            |
| Notes and accounts receivable-trade | 122,665         | —                                   | —                                    | —              |
| Investment securities               |                 |                                     |                                      |                |
| Available-for-sale securities       | 0               | —                                   | 1,000                                | —              |
| Total                               | ¥138,133        | ¥ —                                 | ¥1,000                               | ¥ —            |

|                                     | Thousands of U.S. dollars |                                     |                                      |                |
|-------------------------------------|---------------------------|-------------------------------------|--------------------------------------|----------------|
|                                     | 2010                      |                                     |                                      |                |
|                                     | Within one year           | Over one year but within five years | Over five years but within ten years | Over ten years |
| Cash and deposits                   | \$ 166,323                | \$ —                                | \$ —                                 | \$ —           |
| Notes and accounts receivable-trade | 1,318,978                 | —                                   | —                                    | —              |
| Investment securities               |                           |                                     |                                      |                |
| Available-for-sale securities       | 0                         | —                                   | 10,753                               | —              |
| Total                               | \$1,485,301               | \$ —                                | \$10,753                             | \$ —           |

(Additional Information)

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 10 revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 revised on March 10, 2008).

## 5. INFORMATION ON SECURITIES

(1) The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2010 and 2009:

|  | Millions of yen |                  |            |            |                  |            | Thousands of U.S. dollars |                  |            |
|--|-----------------|------------------|------------|------------|------------------|------------|---------------------------|------------------|------------|
|  | 2010            |                  |            | 2009       |                  |            | 2010                      |                  |            |
|  | Book value      | Acquisition cost | Difference | Book value | Acquisition cost | Difference | Book value                | Acquisition cost | Difference |
| Securities with book values (fair values) exceeding acquisition costs:     |                 |                  |            |            |                  |            |                           |                  |            |
| Equity securities  | ¥26,342         | ¥16,224          | ¥10,118    | ¥16,066    | ¥10,481          | ¥5,585     | \$283,247                 | \$174,451        | \$108,796  |
| Bonds  | —               | —                | —          | —          | —                | —          | —                         | —                | —          |
| Others   | 9               | 4                | 5          | —          | —                | —          | 97                        | 43               | 54         |
|  | 26,351          | 16,228           | 10,123     | 16,066     | 10,481           | 5,585      | 283,344                   | 174,494          | 108,850    |
| Securities with book values (fair values) not exceeding acquisition costs: |                 |                  |            |            |                  |            |                           |                  |            |
| Equity securities  | 23,213          | 32,210           | (8,997)    | 23,951     | 35,337           | (11,386)   | 249,602                   | 346,344          | (96,742)   |
| Bonds  | 997             | 1,010            | (13)       | 989        | 1,002            | (13)       | 10,720                    | 10,860           | (140)      |
| Others   | 10              | 10               | —          | 8          | 11               | (3)        | 108                       | 108              | —          |
|  | 24,220          | 33,230           | (9,010)    | 24,948     | 36,350           | (11,402)   | 260,430                   | 357,312          | (96,882)   |
| Total  | ¥50,571         | ¥49,458          | ¥ 1,113    | ¥41,014    | ¥46,831          | (¥5,817)   | \$543,774                 | \$531,806        | \$ 11,968  |

(2) The following table summarizes book values of securities with no fair values as of March 31, 2009:

|  | Millions of yen |
|--|-----------------|
|  | 2009            |
| Available-for-sale securities  | ¥2,205          |
| Equity securities issued by unconsolidated subsidiaries and affiliated companies | 8,086           |

(3) Available-for-sale securities with maturities mature as follows:

|                               | Millions of yen |                                     |                                      |                |
|-------------------------------|-----------------|-------------------------------------|--------------------------------------|----------------|
|                               | 2009            |                                     |                                      |                |
|                               | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Available-for-sale securities | ¥ —             | ¥ 1,000                             | ¥ 10                                 | ¥ —            |

(4) Total sales of available-for-sale securities in the years ended March 31, 2010 and 2009 amounted to ¥266 million (U.S. \$2,860 thousand) and ¥79 million, respectively. The related gains for the years ended March 31, 2010 and 2009 amounted to ¥106 million (U.S. \$1,140 thousand) and ¥13 million, respectively. The related losses for the year ended March 31, 2010 and 2009 amounted to ¥3 million (U.S. \$32 thousand) and ¥3 million.

## 6. INVENTORIES

Inventories as of March 31, 2010 and 2009 were as follows:

|                                | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------------|-----------------|---------|---------------------------|
|                                | 2010            | 2009    | 2010                      |
| Merchandise and finished goods | ¥12,360         | ¥12,572 | \$132,903                 |
| Work in process                | 1,580           | 1,682   | 16,989                    |
| Raw materials and supplies     | 10,606          | 10,915  | 114,043                   |
| Total                          | ¥24,546         | ¥25,169 | \$263,935                 |

## 7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2010 and 2009 consisted of the following:

|                                   | Millions of yen |         | Thousands of U.S. dollars | Weighted average interest rate |
|-----------------------------------|-----------------|---------|---------------------------|--------------------------------|
|                                   | 2010            | 2009    | 2010                      | 2010                           |
| Short-term borrowings             | ¥80,492         | ¥73,353 | \$ 865,505                | 0.97%                          |
| Current portion of long-term debt | 14,325          | 22,305  | 154,033                   | 1.48                           |
| Total                             | ¥94,817         | ¥95,658 | \$1,019,538               | —                              |

Long-term debt at March 31, 2010 and 2009 were as follows:

|  | Millions of yen |          | Thousands of U.S. dollars |
|--|-----------------|----------|---------------------------|
|  | 2010            | 2009     | 2010                      |
| 0.45% to 5.41% loans, principally from banks and insurance companies, due in installments through 2022 | ¥ 94,248        | ¥92,349  | \$1,013,419               |
| Unsecured 1.25% bonds, due March 2011  | 140             | —        | 1,505                     |
| Unsecured 1.69% bonds, due July 2011   | 675             | 1,125    | 7,258                     |
| Unsecured 1.54% bonds, due September 2011  | 5,000           | 5,000    | 53,764                    |
| Unsecured 1.60% bonds, due February 2012   | 500             | —        | 5,376                     |
| Unsecured 1.37% bonds, due February 2012   | 80              | —        | 860                       |
| Unsecured 1.37% bonds, due March 2012  | 200             | —        | 2,150                     |
| Unsecured 1.42% bonds, due November 2012   | 5,000           | 5,000    | 53,764                    |
| Unsecured 1.91% bonds, due September 2013  | 5,000           | 5,000    | 53,764                    |
| Unsecured 1.71% bonds, due November 2014   | 5,000           | 5,000    | 53,764                    |
| Unsecured 1.37% bonds, due December 2009   | —               | 100      | —                         |
| Unsecured 0.93% bonds, due March 2010  | —               | 5,000    | —                         |
|  | 115,843         | 118,574  | 1,245,624                 |
| Less current portion   | (14,325)        | (22,305) | (154,033)                 |
|  | ¥101,518        | ¥96,269  | \$1,091,591               |

Annual maturities of long-term debt at March 31, 2010 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|----------------------|-----------------|---------------------------|
| 2011                 | ¥ 14,325        | \$ 154,033                |
| 2012                 | 25,424          | 273,376                   |
| 2013                 | 27,895          | 299,946                   |
| 2014                 | 24,731          | 265,925                   |
| 2015 and thereafter  | 23,468          | 252,344                   |
| <b>Total</b>         | <b>¥115,843</b> | <b>\$1,245,624</b>        |

## 8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral for short-term borrowings of ¥14,940 million (U.S. \$160,645 thousand) including the current portion of long-term debt, long-term debt of ¥6,695 million (U.S. \$71,989 thousand), account payable-trade of ¥7 million (U.S. \$75 thousand) and others of ¥1,491 million (U.S. \$16,032 thousand) at March 31, 2010 were summarized as follows:

|                               | Millions of yen | Thousands of U.S. dollars |
|-------------------------------|-----------------|---------------------------|
| Property, plant and equipment | ¥87,897         | \$945,129                 |
| Investment securities         | 1,389           | 14,935                    |
| Other                         | 102             | 1,097                     |

## 9. CONTINGENT LIABILITIES

As of March 31, 2010, the Companies' contingent liabilities were as follows:

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| As endorser of notes discounted                    | ¥ 272           | \$ 2,925                  |
| As endorser of notes endorsed                      | 1,557           | 16,742                    |
| As guarantor of indebtedness and lease obligations | 1,564           | 16,817                    |

## 10. LEASES

(1) Finance leases

Information relating to finance leases commenced prior to April 1, 2008 that did not transfer ownership of the leased property to the lessee at March 31, 2010 and 2009 and for the fiscal years then ended, as lessee, was as follows:

Acquisition costs, accumulated depreciation and net leased property at March 31, 2010 and 2009:

|                          | Millions of yen |         | Thousands of U.S. dollars |
|--------------------------|-----------------|---------|---------------------------|
|                          | 2010            | 2009    | 2010                      |
| Acquisition costs        | <b>¥14,668</b>  | ¥13,156 | <b>\$157,720</b>          |
| Accumulated depreciation | <b>9,068</b>    | 6,880   | <b>97,505</b>             |
| Net leased property      | <b>¥ 5,600</b>  | ¥ 6,276 | <b>\$ 60,215</b>          |

Future minimum finance lease payments for the remaining lease periods at March 31, 2010 and 2009:

|                     | Millions of yen |        | Thousands of U.S. dollars |
|---------------------|-----------------|--------|---------------------------|
|                     | 2010            | 2009   | 2010                      |
| Due within one year | <b>¥1,674</b>   | ¥1,727 | <b>\$18,000</b>           |
| Due over one year   | <b>3,926</b>    | 4,549  | <b>42,215</b>             |
| <b>Total</b>        | <b>¥5,600</b>   | ¥6,276 | <b>\$60,215</b>           |

Lease payments in the years ended March 31, 2010 and 2009 amounted to ¥2,002 million (U.S. \$21,527 thousand) and ¥2,163 million, respectively.

(2) Operating leases

Future minimum non-cancelable operating lease payments for the remaining lease periods at March 31, 2010 and 2009:

|                     | Millions of yen |      | Thousands of U.S. dollars |
|---------------------|-----------------|------|---------------------------|
|                     | 2010            | 2009 | 2010                      |
| Due within one year | <b>¥10</b>      | ¥ 5  | <b>\$108</b>              |
| Due over one year   | <b>8</b>        | 7    | <b>86</b>                 |
| <b>Total</b>        | <b>¥18</b>      | ¥12  | <b>\$194</b>              |

## 11. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as capital stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of capital stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

## 12. PROVISION FOR RETIREMENT BENEFITS

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consisted of the following:

|                                    | Millions of yen |          | Thousands of<br>U.S. dollars |
|------------------------------------|-----------------|----------|------------------------------|
|                                    | 2010            | 2009     | 2010                         |
| Projected benefit obligation       | <b>¥43,844</b>  | ¥43,365  | <b>\$471,441</b>             |
| Unrecognized actuarial differences | <b>(7,489)</b>  | (9,986)  | <b>(80,527)</b>              |
| Unrecognized past service costs    | <b>176</b>      | 199      | <b>1,892</b>                 |
| Less fair value of pension assets  | <b>(26,083)</b> | (20,913) | <b>(280,462)</b>             |
| Prepaid pension costs              | <b>12</b>       | 45       | <b>129</b>                   |
| Provision for retirement benefits  | <b>¥10,460</b>  | ¥12,710  | <b>\$112,473</b>             |

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2010 and 2009 comprised the following:

|  | Millions of yen |        | Thousands of<br>U.S. dollars |
|--|-----------------|--------|------------------------------|
|  | 2010            | 2009   | 2010                         |
| Service costs – benefits earned during the year        | <b>¥2,085</b>   | ¥2,140 | <b>\$22,419</b>              |
| Interest cost on projected benefit obligation          | <b>800</b>      | 797    | <b>8,602</b>                 |
| Expected return on plan assets                         | <b>(343)</b>    | (347)  | <b>(3,688)</b>               |
| Amortization of net unrecognized actuarial differences | <b>1,120</b>    | 801    | <b>12,043</b>                |
| Amortization of past service costs                     | <b>(23)</b>     | (23)   | <b>(247)</b>                 |
| Other severance and retirement benefit expenses        | <b>418</b>      | 1,137  | <b>4,495</b>                 |
| Severance and retirement benefit expenses              | <b>¥4,057</b>   | ¥4,505 | <b>\$43,624</b>              |

The discount rate of the projected benefit obligation used by the Companies for the years ended March 31, 2010 and 2009 is 2.0%. The rate of expected return on plan assets used by the Companies for the years ended March 31, 2010 and 2009 is 1.5%. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statements of income principally over 13 years commencing with the following period. Past service cost is amortized in the statements of income over 10 years.

## 13. CLAIMS PROVABLE IN REHABILITATION AND OTHER

(For the year ended March 31 2010)

Lehman Brothers Japan Inc. ("LBJ"), which made currency option trading (U.S. dollar income, Japanese yen payment, comprehensive long-term foreign exchange reservation trading) with Nihon Matai Co., Ltd. ("NM"), a consolidated subsidiary, applied to the Tokyo District Court under the Civil Rehabilitation Law on September 16, 2008.

According to the agreement between LBJ and NM, the continuation of the transaction requires notification from LBJ. However, LBJ did not notify NM after September 16, 2008, and, as a result, the transaction has not been continuing. In addition, the transaction may be terminated after the petition for commencement of rehabilitation proceedings, but NM has not received any information about the termination of this transaction from the trustee of LBJ; so a settlement amount has not been determined. Therefore, the Company has accounted for the settlement amount based on the market value as of September 12, 2008 (¥541 million (U.S. \$5,817 thousand) in derivatives liabilities). NM is recognizable in the last days of the commencement of rehabilitation proceedings filed under the Civil Rehabilitation Law.

NM has pledged investment securities to LBJ as transaction guarantee deposits (with the right to set-off unconfirmed deposits). Registration of claim for this guarantee deposits was rejected by the trustee of LBJ on December 12, 2008.

Therefore, NM made a motion to assess the rehabilitation claim with the Tokyo District Court on December 26, 2008. In the previous consolidated accounting year, NM's claim has been transferred to claims provable in rehabilitation and other from investment securities with the market value of ¥1,175 million (U.S. \$12,634 thousand) at September 12, 2008 (the last trading day of a holiday for September 15, 2008). This amount and the above ¥541 million (U.S. \$5,817 thousand) of derivatives liabilities have been carried in gross amount. During the liquidation of this transaction, assuming that the guarantee deposits and the debt derivatives are offset, allowance for doubtful accounts has been posted at ¥634 million (U.S. \$6,817 thousand) the difference between the two.

(Subsequent event)

On 28 May 2010, NM and LBJ agreed on the motion NM made to assess the rehabilitation claim by LBJ which started the rehabilitation proceedings. There will be no effect from this agreement in the next consolidated accounting year.

#### 14. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in "General and administrative expenses" and are charged to income as incurred. Research and development expenses charged to income amounted to ¥1,507 million (U.S. \$16,204 thousand) and ¥1,663 million for the years ended March 31, 2010 and 2009, respectively.

#### 15. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicated a statutory rate in Japan of approximately 40.4% for the years ended March 31, 2010 and 2009.

At March 31, 2010 and 2009, significant components of deferred tax assets and liabilities were as follows:

|   | Millions of yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2010            | 2009    | 2010                         |
| Deferred tax assets:  |                 |         |                              |
| Loss carried forward for tax purposes   | ¥ 3,908         | ¥ 3,816 | \$ 42,022                    |
| Provision for retirement benefits   | 4,144           | 5,099   | 44,559                       |
| Accrued bonuses   | 2,461           | 2,009   | 26,462                       |
| Loss on valuation of golf club membership   | 763             | 692     | 8,204                        |
| Provision for directors' retirement benefits  | 586             | 618     | 6,301                        |
| Loss on valuation of investment securities  | 811             | 3,044   | 8,720                        |
| Allowance for doubtful accounts   | 1,058           | 993     | 11,376                       |
| Unrealized gain on sale of property, plant and<br>equipment eliminated on consolidation | 295             | 296     | 3,172                        |
| Accrued enterprise taxes  | 506             | 489     | 5,441                        |
| Impairment loss   | 702             | 340     | 7,548                        |
| Loss on valuation of inventories  | 78              | 801     | 839                          |
| Valuation difference on available-for-sale securities                                   | 243             | 2,477   | 2,613                        |
| Other   | 2,670           | 1,541   | 28,711                       |
| Subtotal deferred tax assets  | 18,225          | 22,215  | 195,968                      |
| Valuation allowance   | (6,892)         | (5,771) | (74,108)                     |
| Total deferred tax assets   | 11,333          | 16,444  | 121,860                      |
| Deferred tax liabilities:   |                 |         |                              |
| Special tax-purpose reserves  | (6,066)         | (5,710) | (65,226)                     |
| Revaluation reserve for land  | (4,653)         | (3,789) | (50,032)                     |
| Valuation difference on available-for-sale securities                                   | (660)           | (172)   | (7,097)                      |
| Other   | (379)           | (51)    | (4,075)                      |
| Total deferred tax liabilities  | (11,758)        | (9,722) | (126,430)                    |
| Net deferred tax assets (liabilities)   | (¥ 425)         | ¥ 6,722 | (\$ 4,570)                   |

At March 31, 2009, the reconciliation of the aggregate statutory income tax rate to the effective income tax rate was as follows:

|   | 2009  |
|---|-------|
| Statutory tax rate                              | 40.4% |
| Nondeductible expenses                          | 3.9   |
| Nontaxable dividend income                      | (1.9) |
| Per capita inhabitants taxes                    | 1.6   |
| Tax credit                                      | (2.2) |
| Elimination of dividend income in consolidation | 1.8   |
| Valuation allowance                             | 3.5   |
| Other   | 0.1   |
| Effective income tax rate                       | 47.2% |

The difference between the aggregate statutory income tax rate and the effective tax rate for the year ended March 31, 2010 was not significant.

## 16. CASH FLOW STATEMENTS

### (1) Cash and cash equivalents

Cash and cash equivalents comprised cash on hand, bank deposits that were withdrawable on demand and short-term highly liquid investments due within three months at date of purchase and substantially free from any price fluctuation risk.

Reconciliations of cash and deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2010 and 2009 were as follows:

|   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2010            | 2009    | 2010                      |
| Cash and deposits   | <b>¥15,468</b>  | ¥10,305 | <b>\$166,323</b>          |
| Less: Time deposits with maturities exceeding three months                  | <b>(1,169)</b>  | (667)   | <b>(12,570)</b>           |
| Add: Short-term loans receivable with maturities not exceeding three months | <b>0</b>        | 1       | <b>0</b>                  |
| Cash and cash equivalents   | <b>¥14,299</b>  | ¥ 9,639 | <b>\$153,753</b>          |

### (2) Purchases of newly consolidated subsidiaries

For the year ended March 31, 2010, Nihon Matai Co., Ltd. ("NM") and 6 other companies were acquired by the Company. Assets and liabilities of these companies at the time of consolidation, cash paid for the capital and cash paid in conjunction with the purchases of consolidated subsidiaries were as follows:

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
|  | 2010            | 2010                      |
| Assets   | <b>¥47,484</b>  | <b>\$ 510,581</b>         |
| Liabilities  | <b>(33,711)</b> | <b>(362,484)</b>          |
| Negative goodwill  | <b>(1,119)</b>  | <b>(12,032)</b>           |
| Minority interests   | <b>(4,867)</b>  | <b>(52,334)</b>           |
| Cash paid for the capital  | <b>7,787</b>    | <b>83,731</b>             |
| Cash paid for the capital of purchase for the current fiscal year        | <b>3,560</b>    | <b>38,280</b>             |
| Cash and cash equivalents of consolidated subsidiaries                   | <b>4,181</b>    | <b>44,957</b>             |
| Cash paid in conjunction with the purchases of consolidated subsidiaries | <b>¥ 621</b>    | <b>\$ 6,677</b>           |

### (3) Significant non-fund transactions

For the year ended March 31, 2001, the Company acquired NM as a wholly-owned subsidiary through a share exchange. Consequently, its capital surplus is increased by ¥4,129 million (U.S. \$44,398 thousand).

## 17. RENTAL AND OTHER REAL ESTATE ASSET-RELATED

Since the aggregate amount of rental and other real estate asset was not material, rental and other real estate asset-related note has not been presented.

### (Additional Information)

Effective from the year ended March 31, 2010, the Companies adopted "Accounting Standard for Disclosure about Fair Value of Investment and Rental Property" (Accounting Standards Board of Japan Statement No. 20, issued by the Accounting Standards Board of Japan on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (Accounting Standards Board of Japan Guidance No. 23, issued by the Accounting Standards Board of Japan on November 28, 2008).

## 18. SEGMENT INFORMATION

### (1) Business segments

Paperboard and packaging-related products division includes paperboard, corrugated board, corrugated containers and other. Flexible packaging-related products division includes flexible packaging, cellophane and other. The other division includes printing machinery, newsprint, chemical synthetics, non-woven products and other.

Information by business segment for the years ended March 31, 2010 and 2009 was as follows:

|   | Millions of yen |          | Thousands of U.S. dollars |
|---|-----------------|----------|---------------------------|
|   | 2010            | 2009     | 2010                      |
| <b>Net sales:</b>                         |                 |          |                           |
| Paperboard and packaging-related products | ¥363,177        | ¥366,671 | \$3,905,129               |
| Flexible packaging-related products       | 76,616          | 54,342   | 823,828                   |
| Other                                     | 37,817          | 51,688   | 406,634                   |
|   | 477,610         | 472,701  | 5,135,591                 |
| Elimination or Corporate                  | (20,224)        | (26,041) | (217,462)                 |
|   | ¥457,386        | ¥446,660 | \$4,918,129               |
| <b>Operating costs and expenses</b>       |                 |          |                           |
| Paperboard and packaging-related products | ¥332,799        | ¥351,757 | \$3,578,484               |
| Flexible packaging-related products       | 73,789          | 52,970   | 793,430                   |
| Other                                     | 37,437          | 52,948   | 402,548                   |
|   | 444,025         | 457,675  | 4,774,462                 |
| Elimination or Corporate                  | (20,366)        | (26,228) | (218,989)                 |
|   | ¥423,659        | ¥431,447 | \$4,555,473               |
| <b>Operating income:</b>                  |                 |          |                           |
| Paperboard and packaging-related products | ¥ 30,378        | ¥ 14,914 | \$ 326,645                |
| Flexible packaging-related products       | 2,827           | 1,372    | 30,398                    |
| Other                                     | 380             | (1,260)  | 4,086                     |
|   | 33,585          | 15,026   | 361,129                   |
| Elimination or Corporate                  | 142             | 187      | 1,527                     |
|   | ¥ 33,727        | ¥ 15,213 | \$ 362,656                |
| <b>Assets:</b>                            |                 |          |                           |
| Paperboard and packaging-related products | ¥412,422        | ¥420,783 | \$4,434,645               |
| Flexible packaging-related products       | 77,922          | 24,525   | 837,871                   |
| Other                                     | 24,628          | 24,537   | 264,817                   |
|   | 514,972         | 469,845  | 5,537,333                 |
| Elimination or Corporate                  | (16,835)        | (12,582) | (181,021)                 |
|   | ¥498,137        | ¥457,263 | \$5,356,312               |
| <b>Depreciation and amortization</b>      |                 |          |                           |
| Paperboard and packaging-related products | ¥ 20,946        | ¥ 21,144 | \$ 225,226                |
| Flexible packaging-related products       | 3,239           | 1,947    | 34,828                    |
| Other                                     | 1,094           | 1,436    | 11,763                    |
|   | 25,279          | 24,527   | 271,817                   |
| Elimination or Corporate                  | (56)            | (190)    | (602)                     |
|   | ¥ 25,223        | ¥ 24,337 | \$ 271,215                |
| <b>Impairment loss</b>                    |                 |          |                           |
| Paperboard and packaging-related products | ¥ 955           | ¥ 2      | \$ 10,269                 |
| Flexible packaging-related products       | 169             | —        | 1,817                     |
| Other                                     | —               | 256      | —                         |
|   | 1,124           | 258      | 12,086                    |
| Elimination or Corporate                  | —               | —        | —                         |
|   | ¥ 1,124         | ¥ 258    | \$ 12,086                 |
| <b>Capital expenditure</b>                |                 |          |                           |
| Paperboard and packaging-related products | ¥ 23,798        | ¥ 17,549 | \$ 255,892                |
| Flexible packaging-related products       | 3,943           | 2,323    | 42,398                    |
| Other                                     | 1,687           | 732      | 18,140                    |
|   | 29,428          | 20,604   | 316,430                   |
| Elimination or Corporate                  | (65)            | (78)     | (699)                     |
|   | ¥ 29,363        | ¥ 20,526 | \$ 315,731                |

As explained in Note 3(1), the Companies have applied "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan Statement No. 9, July 5, 2006) for the year ended March 31, 2009. The effect of this adaptation was to increase operating costs and expenses for the year ended March 31, 2009 in Paperboard and packaging-related products division and Other division by ¥89 million and ¥4 million, respectively, and to decrease operating income (to increase operating loss) of each division for the year ended March 31, 2009 by same amounts, respectively.

As explained in Note 2(6), in accordance with revisions to the Corporation Tax Law, the Company and its consolidated domestic subsidiaries changed the useful life of machinery and equipment principally based on a reassessment of the useful life of the assets.

The effect of this adaptation was to increase operating costs and expenses for the year ended March 31, 2009 in Paperboard and packaging-related products division, Flexible packaging-related products division, and Other division by ¥656 million, ¥1 million and ¥78 million, respectively, and to decrease operating income (to increase operating loss) of each division for the year ended March 31, 2009 by same amounts, respectively.

(2) Geographic segments

Since sales and assets in Japan accounted for more than 90% of consolidated sales and assets for the years ended March 31, 2010 and 2009, geographic segment information has not been presented.

(3) Overseas sales

Since overseas sales of the Companies accounted for less than 10% of consolidated sales for the years ended March 31, 2010 and 2009, overseas sales information has not been presented.

## 19. IMPAIRMENT LOSS

For the year ended March 31 2010, the components of impairment loss were as follows:

| Place                    | Use   | Type of assets                    | Millions of yen | Thousands of U.S. dollars |
|--------------------------|---|-----------------------------------|-----------------|---------------------------|
| Awara City, Fukui        | Containerboard products production facilities (assets scheduled for disposal) | Buildings and structures          | ¥ 8             | \$ 86                     |
|                          |   | Machinery, equipment and vehicles | 637             | 6,849                     |
|                          |   | Other                             | 0               | 0                         |
|                          |   | Total                             | 645             | 6,935                     |
| Utsunomiya City, Tochigi | Idle assets   | Buildings and structures          | 12              | 129                       |
|                          |   | Land                              | 226             | 2,430                     |
|                          |   | Total                             | 238             | 2,559                     |
| Taito-ku, Tokyo          | Infusion-related facilities (assets scheduled for disposal)                   | Construction in progress          | 166             | 1,785                     |
| Other                    | Idle assets   | Buildings and structures          | 57              | 613                       |
|                          |   | Machinery, equipment and vehicles | 5               | 54                        |
|                          |   | Land                              | 10              | 108                       |
|                          |   | Other                             | 3               | 32                        |
|                          |   | Total                             | ¥ 75            | \$ 807                    |

The Companies grouped their fixed assets based on the relationship in terms of operating activities, and idle assets, rental assets and assets scheduled for disposal were each treated as separate property.

Assets scheduled for disposal: The Companies reduced the book values to the recoverable values and recognized the reduction in value as business structure improvement expenses of ¥645 million (U.S. \$6,935 thousand) and impairment loss of ¥166 million (U.S. \$1,785 thousand) due to the decision made to dispose of the above assets.

Idle assets: The Companies reduced the book values to the recoverable values and recognized the reduction in values as an impairment loss because the assets are not expected to be used in the future individually.

The recoverable values of the assets were measured on the basis of the net selling price, evaluations of lands were based on real estate appraisal and property tax assessment benchmarks, evaluations of buildings and structures and others were principally zero.

## 20. LOSS ON LIQUIDATION OF BUSINESS

For the year ended March 31 2009, the loss on liquidation of business was caused by the dissolutive resolution of Hamada Printing Press Co., Ltd., which consisted of loss on valuation of inventories of ¥1,799 million, provision of allowance for doubtful accounts of ¥315 million, impairment loss of ¥256 million and others.

The principle components of impairment loss were as follows:

| place             | Use  | Type of asset   | Millions of yen |
|-------------------|--|---|-----------------|
| Sanda City, Hyogo | Sheet-fed offset presses production facilities | Buildings and structures<br>Machinery, equipment and vehicles<br>Land, etc. | ¥256            |

The Companies grouped their fixed assets based on the relationship in terms of operating activities, and idle assets, rental assets and assets scheduled for disposal were each treated as separate property.

The Companies reduced the book values to the recoverable values and recognized the reduction in values as a loss on liquidation of business, due to the resolution made to dissolve Hamada Printing Press Co., Ltd. of the above assets. The recoverable values of the assets were measured on the basis of the net selling price, evaluations of lands, buildings and structures were based on real estate appraisal benchmarks, evaluations of machinery, equipment and vehicles were anticipated selling price, and others were nil principally.

## 21. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

For the year ended March 31 2010, the business structure improvement expenses were caused by the decision to dispose the No.1 paper machine at the Kanazu Mill, which created of impairment loss of ¥645 million (U.S.\$ 6,935 thousand), loss on valuation of inventories of ¥68 million (U.S.\$ 731 thousand) and others.

## 22. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

(1) Derivatives transactions for which hedge accounting does not apply

This derivative liability had been already extinguished on the day when financial statements were submitted. The details are described in Note 13.

(2) Derivatives transactions for which hedge accounting applies

| Million yen                              |   |                         |                 |                     |            |
|--|---|-------------------------|-----------------|---------------------|------------|
| 2010                                     |   |                         |                 |                     |            |
| Hedge accounting method                  | Type of transaction   | Hedge item              | Contract amount | Portion over 1 year | Fair value |
| Special treatment of interest rate swaps | Interest rate swaps transaction<br>Payable fixed rate swaps / receivable floating interest rate | Long-term loans payable | 41,275          | 40,368              | (*)        |

| Thousands of U.S. dollars                |   |                         |                 |                     |            |
|--|---|-------------------------|-----------------|---------------------|------------|
| 2010                                     |   |                         |                 |                     |            |
| Hedge accounting method                  | Type of transaction   | Hedge item              | Contract amount | Portion over 1 year | Fair value |
| Special treatment of interest rate swaps | Interest rate swaps transaction<br>Payable fixed rate swaps / receivable floating interest rate | Long-term loans payable | 443,817         | 434,065             | (*)        |

(\*) The fair value of interest rate swaps subject to special treatment is included in the fair value of the corresponding long-term loans. The details have been described in Note 4.

### 23. Business Combination

The Company conducted an exchange of shares on December 1, 2009 to make Nihon Matai Co., Ltd. ("NM"), a completely affiliated company ("Exchange of Shares") in the year ended March 31, 2010.

(1) Name and business of combined entity, form of reorganization, name of entity after reorganization, outline and purpose of transaction,

A. Name and business of combined entity

| Name                  | Business   |
|-----------------------|--|
| Nihon Matai Co., Ltd. | Manufacture, processing and sales of resin processed products, polyethylene bags, kraft paper bags, corrugated board and containers, resin products and other industrial materials; property leasing |

B. Form of reorganization

Exchange of shares

C. Name of entity after reorganization

Nihon Matai Co., Ltd. (The Company's consolidated subsidiary)

D. Outline and purpose of transaction

The Company conducted the Exchange of Shares to achieve a higher corporate value at the Companies by assessing and using the management resources of the Companies more effectively, conduct business restructuring with other companies and implement other plans without conflicts of interest.

E. Outline of parent of a wholly-owned subsidiary after exchange of shares

|                        |  |
|------------------------|--|
| Corporate name         | Rengo Co., Ltd.  |
| Address of head office | 1-186 Ohiraki 4-chome, Fukushima-ku, Osaka City  |
| Representative         | Kiyoshi Otsubo<br>Representative Director, President and Chief Executive Officer   |
| Business               | •Manufacturing and sales of paperboard, corrugated board, and corrugated boxes<br>•Manufacturing and sales of flexible packaging and cellophane<br>•Manufacturing and sales of paper packaging machinery, newsprint, chemical products and nonwoven products; insurance agency; transport, leasing, and property |
| Capital stock          | ¥31,067 million (U.S.\$ 334,054 thousand)<br>(As of March 31, 2010)  |

(2) Accounting method

In line with stipulations in the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan Statement No. 9, issued by the Accounting Standards Board of Japan on October 31, 2003) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement Guidance No. 10 issued by the Accounting Standards Board of Japan on November 15, 2007), the Company applied the accounting treatment about Exchange of Shares with the transaction under common control.

(3) Additional acquisition of subsidiary's shares

A. Acquisition cost

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Common shares                            | ¥4,129          | \$44,398                  |
| Expenses for acquiring the common shares | 86              | 925                       |
| Total                                    | ¥4,215          | \$45,323                  |

B. Ratio of share exchange, basis for determination, number of shares delivered and values

(a) Type of shares and share exchange ratio

Common shares of NM 1: The Company 0.19

MN's common share which the Company holds has not delivered through the Exchange of Shares.

(b) Basis for determination of share exchange ratio

The Company made request to Nomura Securities Co., Ltd., and NM to Daiwa Securities SMBC to assess the exchange ratio. The Company carried out extensive negotiations with NM to determine the appropriate exchange ratio using examples from the results calculated by the third-party organizations. As a result, the examples were used in the calculation.

(c) Shares delivered and values

|                  |   |
|------------------|---|
| Shares delivered | 7,281,579 shares                        |
| Values           | ¥4,129 million (U.S. \$44,398 thousand) |

C. Negative goodwill, reason for recognizing negative goodwill, amortization method and amortization term

(a) Amount of negative goodwill  
¥650 million (U.S. \$6,989 thousand)

(b) Reason for recognizing negative goodwill

The Companies accounted for the difference between the amount of an equity increase and the acquisition cost to acquire shares of common stock of NM as negative goodwill.

(c) Method and term to amortize negative good will

Straight-line method over 5 years

## 24. SUBSEQUENT EVENTS

(1) At the Board of Directors meeting held on May 13, 2010, the Company resolved the following year-end appropriation of non-consolidated retained earnings:

|   | Millions of yen | Thousands of U.S. dollars |
|---|-----------------|---------------------------|
| Year-end cash dividends (¥5.00 = U.S. \$0.05 per share) | ¥1,339          | \$14,398                  |

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved.

(2) Acquisition of Treasury Stock

At a meeting of the Board of Directors of the Company held on May 13, 2010, in accordance with the Company's Articles of Incorporation under Article 459, Section 1, Paragraph 1 of the Corporate Law, the Company approved a purchase of shares up to 10,000,000 of treasury stock for an aggregate acquisition cost not exceeding ¥6,000 million (U.S.\$ 64,516 thousand) during the period from May14, 2010 through September 30, 2010. Such repurchases are intended to ensure flexible capital strategy.

(3) Issuance of Bonds

Based on a comprehensive resolution to issue unsecured straight bonds passed at a meeting of the Board of Directors on March 25, 2010, the Company decided to issue its 14th unsecured straight bonds (with a limited interbond pari passu clause) on June 15, 2010. The issue was made as follows.

|                       |                                      |
|-----------------------|--------------------------------------|
| Total amount of issue | ¥10,000 million (\$107,527 thousand) |
| Issue price           | ¥100 per ¥100 face value             |
| Interest rate         | 0.617% annually                      |
| Payment date          | June 22, 2010                        |
| Maturity date         | June 22, 2015                        |
| Purpose for funds     | Repayment of debt working capital    |

# Independent Auditors' Report

To the Board of Directors of Rengo Co., Ltd.

We have audited the accompanying consolidated balance sheets of Rengo Co., Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rengo Co., Ltd. and its consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan  
June 29, 2010

*KPMG AZSA & Co.*

KPMG AZSA & Co.

**Head Office**

2-7 Nakanoshima 2-chome,  
Kita-ku, Osaka 530-0005,  
Japan  
Phone: 81-6-6223-2371  
Fax: 81-6-4706-9909

**Tokyo Head Office**

16-1 Konan 2-chome, Minato-  
ku, Tokyo 108-0075, Japan  
Phone: 81-3-6716-7300  
Fax: 81-3-6716-7330

**Plants and Mills**

**Corrugated:**

Eniwa, Asahikawa, Aomori,  
Sendai, Fukushima-Yabuki,  
Oyama, Maebashi, Tokyo,  
Chiba, Shonan, Shimizu,  
Nagano, Niigata, Toyohashi,  
Nagoya, Fukui, Shiga, Kyoto,  
Sanda, Wakayama, Okayama,  
Hiroshima, Hofu, Matsuyama,  
Tosu

**Paperboard Packaging:**

Katsushika, Tonegawa, Kyoto

**Paperboard:**

Tonegawa, Yodogawa, Kanazu,  
Yashio, Amagasaki

**Paperboard Converting:**

Tonegawa

**Chemical/Biotechnological  
Products:**

Kanazu

**Cellophane:**

Takefu

**Laboratories**

Osaka, Fukui

**Overseas Representative  
Offices**

Shanghai

**Principal Subsidiaries and Affiliates**

**Japan**

Asahi Shiko Co., Ltd.  
Asahi Danboru Co., Ltd.  
Awaji Shiko Co., Ltd.  
Ihara Shiki Co., Ltd.  
Osaka Paper Co., Ltd.  
Kyoei Danboru Co., Ltd.  
Kofu Daiichi Jitugyo Co., Ltd.  
Kowa Sangyo Co., Ltd.  
Saito Shiki Co., Ltd.  
Sankyo Danboru Co., Ltd.  
Sanko Co., Ltd.  
Settsu Carton Corporation  
Taiko Seikan Co., Ltd.  
Taiyo Industry Ltd.  
Chuo Danboru Co., Ltd.  
Tokai Shiki Co., Ltd.  
Nitto Shiki Kogyo Co., Ltd.  
Nihon Matai Co., Ltd.  
Hinode Shiki Kogyo Co., Ltd.  
Hokkaido Hoso Shizai  
Co., Ltd.  
Hokuriku Shiki Co., Ltd.  
Howa Sangyo Co., Ltd.  
Marusan Paper Mfg. Co., Ltd.  
Yamada Kikai Kogyo Co., Ltd.  
Yamato Shiki Co., Ltd.  
Yamatoya Co., Ltd.  
Rengo Nonwoven Products  
Co., Ltd.  
Rengo Paper Business Co., Ltd.  
Rengo Riverwood Packaging,  
Ltd.  
Rengo Logistics Co., Ltd.

**Asia**

**China:**

Dalian Rengo Packaging  
Co., Ltd.  
Dalian Guoli Packaging  
Co., Ltd.  
Guangdong Rengo Packaging  
Co., Ltd.  
Qingdao Rengo Packaging  
Co., Ltd.  
Shanghai Rengo Packaging  
Co., Ltd.  
Tianjin Rengo Packaging Co.,  
Ltd.  
Wuxi Rengo Packaging Co.,  
Ltd.  
Zhongshan Rengo Hung Hing  
Paper Manufacturing Co.,  
Ltd.  
Zhongshan Ren Hing Paper  
Manufacturing Co., Ltd.  
Jiangsu Zhongjin Matai  
Medicinal Packaging Co.,  
Ltd.

**Malaysia:**

Sime Rengo Packaging  
(Malaysia) Sdn. Bhd.

**Thailand:**

Thai Containers Group  
Co., Ltd.

**Indonesia:**

P. T. Surya Rengo Containers

**Vietnam:**

Vina Kraft Paper Co., Ltd.  
MATAI (VIETNAM) Co., Ltd.

## Investor Information (As of March 31, 2010)

|                        |   |        |
|------------------------|---|--------|
| Founded                | April 12, 1909  |        |
| Incorporated           | May 2, 1920   |        |
| Capital Stock          | ¥31,067 million   |        |
| Number of Shares       | Authorized: 800,000,000   |        |
|                        | Issued: 271,056,029   |        |
| Number of Shareholders | 20,721  |        |
| Number of Employees    | Parent Company  | 3,570  |
|                        | Consolidated Subsidiaries   | 7,612  |
|                        | Total   | 11,182 |
| Stock Listings         | Tokyo, Osaka  |        |
| Transfer Agent         | The Sumitomo Trust and Banking Co., Ltd.<br>5-33 Kitahama 4-chome, Chuo-ku,<br>Osaka, Japan |        |

### Major Shareholders

|  | % of total<br>shares issued |
|--|-----------------------------|
| Japan Trustee Services Bank, Ltd.                                    | 16.76%                      |
| The Master Trust Bank of Japan, Ltd.                                 | 6.94                        |
| Nippon Paper Group, Inc.   | 4.87                        |
| Sumitomo Mitsui Banking Corporation                                  | 3.53                        |
| National Mutual Insurance Federation<br>of Agricultural Cooperatives | 3.48                        |
| Trust & Custody Services Bank, Ltd.                                  | 2.95                        |
| Mitsui Sumitomo Insurance Company, Limited                           | 2.88                        |
| Sumitomo Life Insurance Company                                      | 2.69                        |
| Sumitomo Corporation   | 2.68                        |
| The Norinchukin Bank   | 2.20                        |



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