

ANNUAL REPORT 2011

For Year Ended March 31, 2011



Growing beyond Packaging through Innovation

Drawing strength from achievements spanning more than a century,
Rengo embarks on a new round of development

GPIって、なんだろう。

102年続、レンゴの創業者がもつけた「箱ボール」。
以来、レンゴはつねに箱ボールに改良を加え、産業界のニーズに対応してきました。
現在は箱ボールだけでなく、紙箱、軟包装、蓄電池など、
製品全般にわたり幅広くソリューションを提供しています。
しかしこれが到達点ではありません。
今度は従来のパッケージング・ソリューション・カンパニーとしての融合力をさらに高め、
パッケージに関するすべてのニーズに対応できる
総合包装企業群「ゼネラル・パッケージング・インダストリー=GPI」をめざします。

時代は激しく変化を遂げています。
レンゴがその変化に対応するためには、これまで以上に大きなイノベーションが必要です。
とゆめない変革改革を行い、産業全般に積極的に働きかける
産業型の業界へとさらに進化しなければなりません。
包装は、まったく新しいカタチに生まれ変わらねばなりません。
そしてその中で、GPIレンゴが次々と新しい製品を創造していきます。

General Packaging Industry

New corporate slogan advertising

The Rengo Group placed a newspaper ad to raise public awareness of its new corporate slogan, “General Packaging Industry (GPI).”

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Company Profile

Rengo's history began with corrugated board.

Today, the Rengo Group is engaged in a business encompassing six core fields: paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging and overseas business.

The Rengo Group provides optimized solutions to packaging needs by deploying comprehensive capabilities rooted in the group's packaging technology and expertise accumulated over many years.

In April 2011, Rengo adopted “General Packaging Industry (GPI)” as a new corporate slogan expressing Rengo's new quest for greater prosperity based on the firm foundation of the initiatives undertaken in recent years.

As a comprehensive packaging provider proposing solutions from a wider perspective to meet the full spectrum of packaging requirements through innovation attuned to the emerging needs throughout the world, Rengo continues to act with dynamism and relishes new challenges.

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding the Rengo Group's plans, strategies, and beliefs.

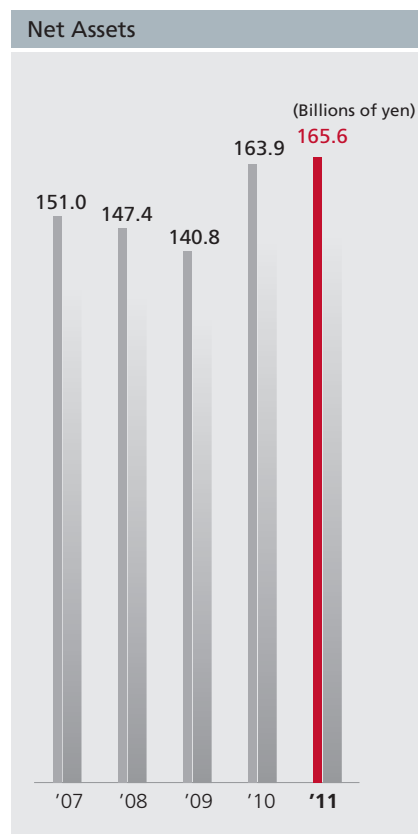
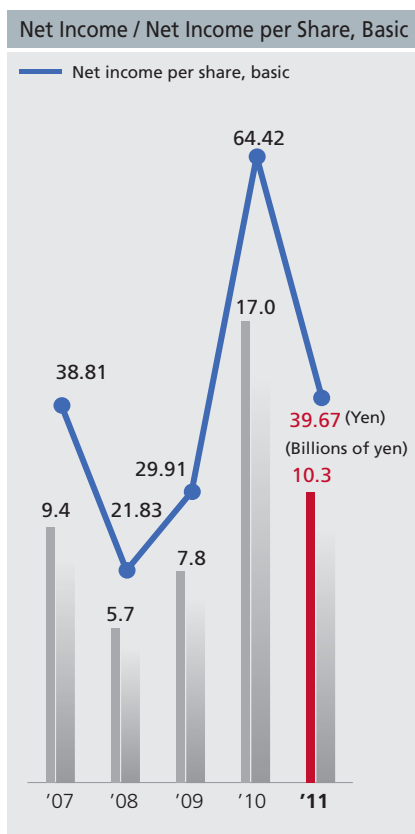
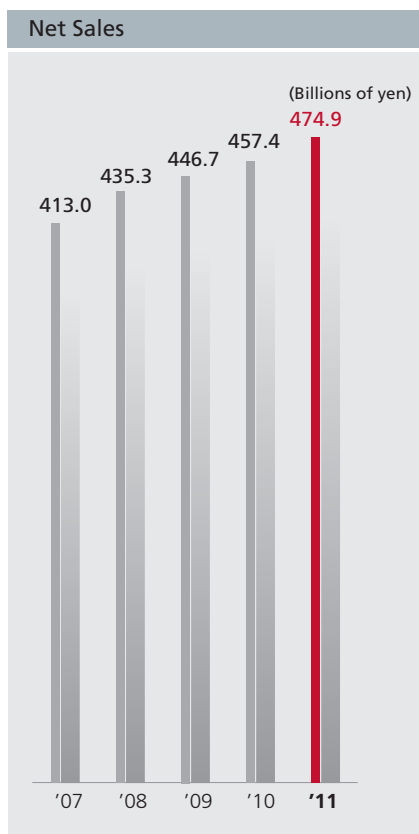
These forward-looking statements are based on management's assumptions and beliefs in the light of information available at the time of publication, and actual results may differ materially from the information presented in this report depending on a number of factors.

Consolidated Financial Highlights

For the years ended March 31, 2011 and 2010

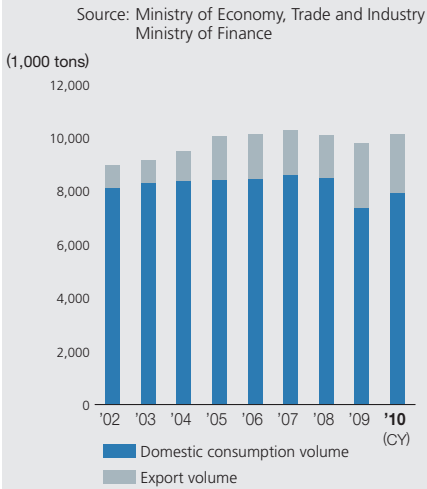
	Millions of yen		% change 11/10	Thousands of U. S. dollars
	2011	2010		2011
For the Year:				
Net sales	¥ 474,878	¥ 457,386	3.8	\$ 5,721,422
Operating income	32,391	33,727	(4.0)	390,253
Net income	10,291	16,987	(39.4)	123,988
Capital expenditures	22,650	29,363	(22.9)	272,892
Depreciation and amortization	26,394	25,223	4.6	318,000
At Year-End:				
Total assets	¥ 499,119	¥ 498,137	0.2	\$ 6,013,482
Interest-bearing debt	201,584	199,237	1.2	2,428,723
Net assets	165,613	163,926	1.0	1,995,337
	Yen		Change	U. S. dollars
Per Share Amounts:				
Net income, basic	¥ 39.67	¥ 64.42	(¥ 24.75)	\$ 0.48
Net income, diluted	—	—	—	—
Cash dividends applicable to the year	12.00	10.00	2.00	0.14

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥83 to US\$1 prevailing on March 31, 2011.

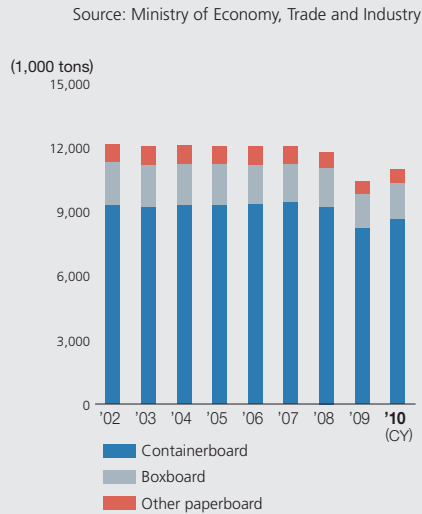


Market Data

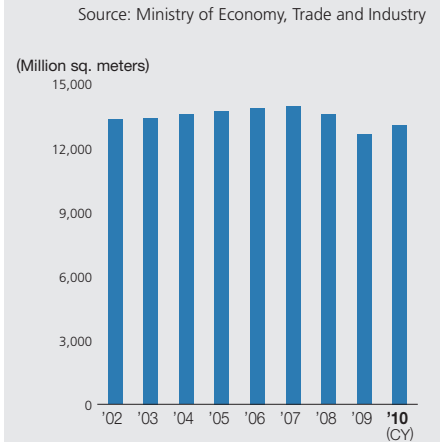
Domestic Consumption and Export Volumes of Old Corrugated Containers



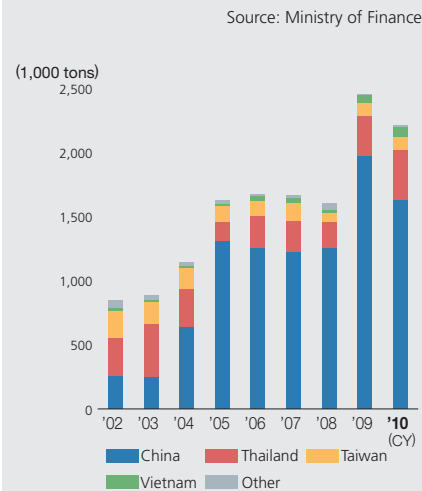
Production Volume of Paperboard



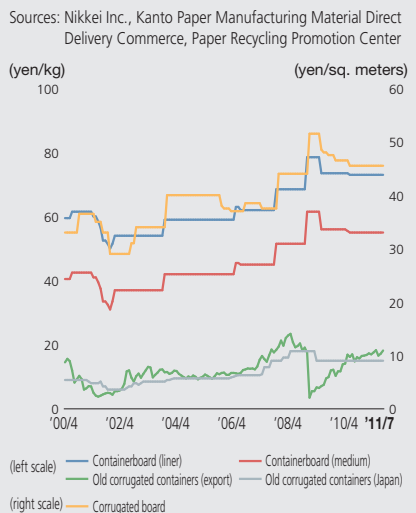
Production Volume of Corrugated Board



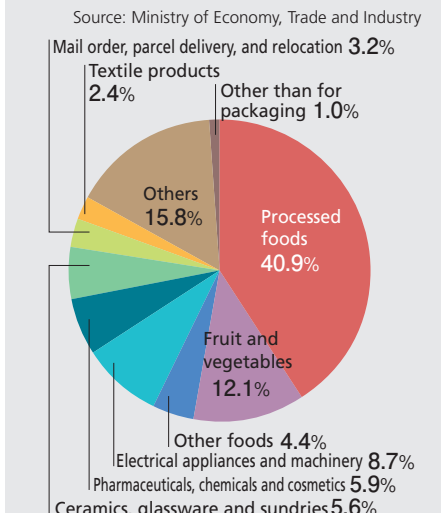
Export Volume of Old Corrugated Containers by Country



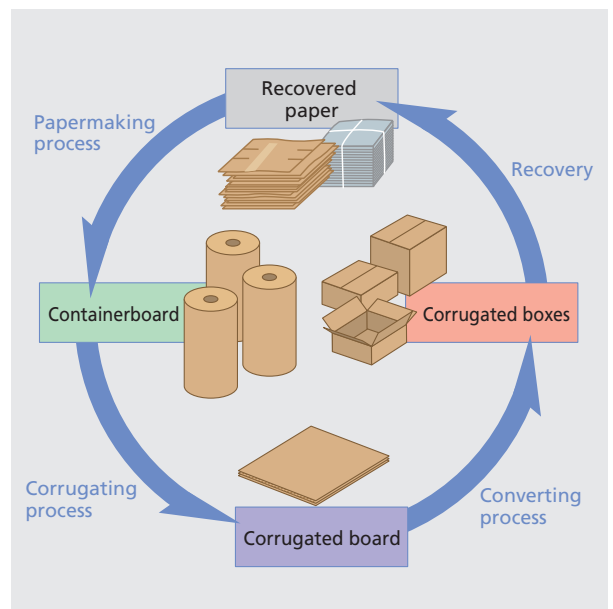
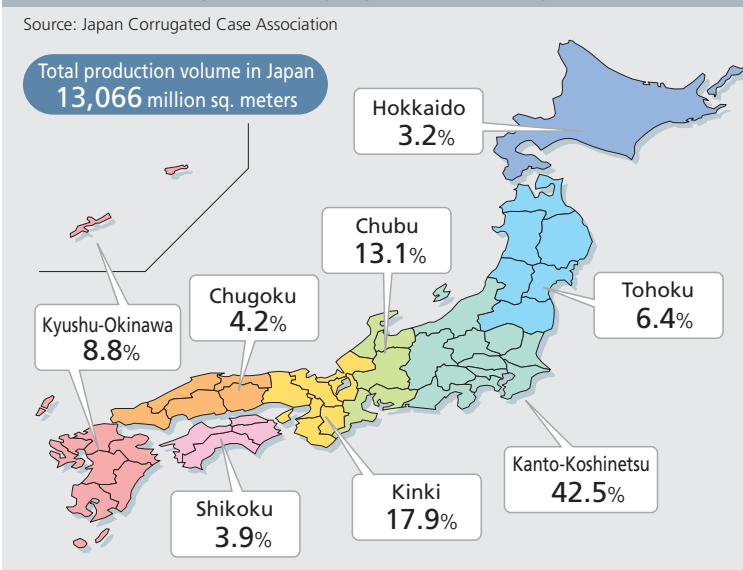
Prices of Old Corrugated Containers, Containerboard, and Corrugated Board



Breakdown of Demand for Corrugated Boxes by Market (2010 calendar year)



Production of Corrugated Board by Region (2010 calendar year)



A Message from the President



The Rengo Group has been strengthening its comprehensive capabilities as a packaging solutions company in its six business fields: paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas business. We have been addressing the diverse packaging needs of our customers by providing the optimum solutions. At the same time, we have worked to develop a stable pricing structure capable of maintaining a level of profits enabling sustainable operation and implemented various measures to improve productivity and quality, reduce costs and reinforce the financial position. These initiatives to establish a more solid foundation have steadily yielded results. Although we were greatly affected by the Great East Japan Earthquake that struck on March 11, 2011, we set a new record for net sales for the seventh consecutive year and achieved a high level of operating income.

In April 2011, the Rengo Group adopted “General Packaging Industry (GPI)” as a new corporate slogan with a view to achieving another hundred years of development on the firm foundation of the initiatives undertaken in recent years.

Aiming to be a “General Packaging Industry,” we propose solutions addressing the packaging needs of diverse industries through unceasing innovation. We continue to act with dynamism and relish new challenges as a leading company in the paperboard and corrugated industries. We are doing our utmost to ensure thorough compliance and working to enhance corporate value.

Mindful of CSR, we are resolved to contribute to the sustainable development of society by championing environmental protection and addressing social issues through the packaging business. We request the continued support and encouragement of our shareholders and other stakeholders in the years ahead.

Operating Results

Consolidated net sales for fiscal 2010 were a record high of ¥474,878 million, having increased 3.8% year on year, underpinned by rising

demand attributable to the modest recovery of the Japanese economy and reflecting the contribution throughout the fiscal year of Nihon Matai Group, which became a consolidated subsidiary midway through the previous fiscal year.

An increase in costs owing to increased prices of raw materials and fuel was offset by higher sales volumes and improved productivity. As a result, operating income and ordinary income were almost the same level as the results for the previous year, the highest ever recorded. Operating income decreased 4.0% to ¥32,391 million. However, net income plunged 39.4% to ¥10,291 million because of huge extraordinary losses incurred owing to the Great East Japan Earthquake.

Outlook for the Fiscal Year Ending March 31, 2012 (Fiscal 2011)

The outlook of the Japanese economy is expected to remain uncertain owing to the impact of the Great East Japan Earthquake and the persisting crisis at the crippled nuclear power plant, as well as concern about the possibility of a sharp increase in crude oil prices and other energy costs.

In this national crisis, the Rengo Group is committed to expediting reconstruction of the stricken area and recovery of the Japanese economy through business activities marshaling all of the Group’s resources while striving through unceasing innovation to offer packaging enriched with new value.

Consolidated net sales for fiscal 2011 are forecast to increase to ¥490,000 million owing to an increase in the number of consolidated subsidiaries in Japan and overseas and an increase in sales volumes. Operating income is forecast to decrease slightly to ¥31,000 million, because of increases in prices of raw materials and fuel and an increase in depreciation and amortization, but net income is forecast to surge to ¥16,000 million owing to a decrease in extraordinary losses attributable to the Great East Japan Earthquake.

A handwritten signature in black ink, appearing to read 'Kiyoshi Otsubo', written in a fluid, cursive style.

Kiyoshi Otsubo
President & Chief Executive Officer

An Interview with the President

Targeting Another 100 Years of Growth Driven by Innovation



The Rengo Group has developed a hexagonal operating structure based on the six core business competences of paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging and overseas business. Rengo's aim is to become a "General Packaging Industry (GPI)" capable of proposing from a wider perspective to meet the full spectrum of packaging needs. President Kiyoshi Otsubo discusses what the "General Packaging Industry" is all about in the following interview.

Kiyoshi Otsubo President & Chief Executive Officer

Marshaling Group Resources to Support Disaster Recovery First Priority to Protect Lives and Reassure People

Q The Great East Japan Earthquake was an unprecedented natural disaster that hit Tohoku and eastern Kanto hard. What was the impact on the Rengo Group?

Otsubo: The Great East Japan Earthquake struck the Pacific coast of northeast Japan on March 11 with huge force, causing damage on an unprecedented scale across Tohoku and Kanto. Combined with the ensuing calamity at the Fukushima Daiichi nuclear power plant, it plunged Japan into a national crisis.

We established the Great East Japan Earthquake Task Force on the day of the disaster with myself as the task force leader. Protecting lives and confirming the safety of employees was our first priority. We immediately began trying to assess the damage status. The Rengo Group suffered extensive material damage across its six facilities in eastern Japan. The tsunami caused such devastating damage at our Sendai Plant (Sendai-shi, Miyagi Prefecture) that we decided to abandon the site and build a new factory as quickly as possible at another site in Miyagi Prefecture. Through communication with our employees at the Sendai Plant, we noticed that many of them are deeply attached to the area and have ties to the community going back generations. I knew in my heart that it was critically important to make it clear that Rengo would not run away from Miyagi

Prefecture but would build a new factory there. The first objective is to provide some reassurance to people by maintaining employment at Rengo Group facilities. But we also thought that taking the lead in reconstruction by building a new corrugated plant closely linked with the local economy would give an impetus to the recovery of Miyagi Prefecture and Tohoku. We have transferred production personnel to other sites in the area until the new plant is finished, at which point the workers will be transferred back.

Rengo Group subsidiary Marusan Paper Mfg. Co., Ltd. (Minamisoma-shi, Fukushima Prefecture) also suffered damage to buildings and equipment in the earthquake. We were forced to suspend operations at the mill because it is located 25 kilometers from the Fukushima Daiichi nuclear power plant



Artist's impression of the Shin-Sendai Plant

and within the in-house evacuation zone (later, the emergency evacuation preparation zone), which meant that initially we were not allowed to enter the site. After discussions with the Fukushima prefectural government and Minamisoma-shi, we resumed operations at the site on June 20. Prior to operations resuming we conducted a detailed investigation and confirmed that on-site radiation levels were substantially below the regulatory safety standard. To be doubly sure, we have also covered the entrances to all factory buildings with Cellgaia® sheeting, a product developed by Rengo that is impregnated with zeolites to absorb radiation. We are also passing all the water used in papermaking processes through water tanks

containing bags packed with zeolites to eliminate any radiation. Naturally, we are also monitoring radiation levels at the mill around the clock, since we must be scrupulous about the health and safety of workers.

During this period we have made every effort to fulfill our responsibilities to supply the customers that sourced products from the affected factories. We immediately set up systems to begin supplying these customers from other facilities in the region and marshaled all of the Rengo Group's resources to accomplish this.

A Decade of Industry Restructuring

Q Japanese industry has been suffering since the collapse of Lehman Brothers, particularly with the resurgence of deflationary conditions. How do you view the past ten years in the paperboard and corrugated industries?

Otsubo: The focus in our industry during the past ten years has been on achieving sustainable growth. This has involved extensive restructuring within the paperboard, corrugated and recovered paper industries to realize a more integrated and productive sector overall.

From around 2000, Rengo began working on the development of a new platform for the paperboard industry in Japan. We led the industry in scrapping excess production capacity to help stabilize prices. This process spurred industry consolidation, with the major players undertaking M&A and the small and medium-sized players either merging or going out of business. The Japanese containerboard industry had over 50 manufacturers back in 1998, but today that number has shrunk to 27. This consolidation represents substantial progress for the industry, in my view. I think we have now nearly constructed a sustainable platform for paperboard in Japan.

The corrugated industry has also undergone restructuring. We have been working to create a broader safety net by investing in small and medium-sized corrugated manufacturers. This approach has enabled us to introduce the Rengo style of management at these firms and to integrate their operations into our value chain so that we can optimize the Rengo Group's overall corrugated packaging setup. Since 2000 we have taken equity stakes in over ten small and medium-sized corrugated manufacturers, increasing our market share from 19.9% in 1998 to 27.9% in 2009.

A stable recovered paper industry is also essential for the sustainable growth of the paperboard and corrugated industries. Growth in Chinese demand due to rapid economic

growth caused Japanese export prices for recovered paper to soar from around 2007. Export prices then slumped when the global economy went into recession in 2009, jeopardizing Japan's recovered paper recycling system. In these extreme conditions, Japan's paperboard manufacturers moved to accept a two-tiered pricing structure and tried to stabilize domestic recovered paper prices. Our priority has been to establish trust between the three industries to create an economically stable system for recycling paper in Japan.

My belief is that the adoption of the "full-cost pricing principle" has also been a major factor behind the recovery of the paperboard and corrugated industries in Japan. This approach involves pricing products so that profits can be allocated in four ways, to capital, labor, taxes and social contribution. This pricing approach has been adopted by many parts of the paperboard and corrugated industries, which as a result have been able to generate more stable earnings.

With regard to reconstruction following the Great East Japan Earthquake and recovery of the Japanese economy, a critical issue for many companies today is how to raise productivity. In addition to productivity that can be presented quantitatively, productivity concerning psychological factors, such as managerial attitudes and employee motivation, will be increasingly important. Accordingly, we have to enhance total factor productivity (TFP). Peace of mind, which requires stable employment, is a prerequisite for accomplishing this. If people have peace of mind, they can understand one another and connect with one another, resulting in increased productivity. I am convinced that the nationwide spread of initiatives to ensure peace of mind through stable employment could offer a way of re-energizing the country and escaping the effects of deflation, leading to growth of the Japanese economy.

An Industry Moving from Japanese to Global Standards

Q Paperboard and corrugated packaging are seen as typically domestic industrial sectors. Do you think that these industries need to undertake further reform to seize opportunities presented by faster economic growth in Asia?

Otsubo: In a more globalized and integrated world, I believe the corrugated industry does need to pay attention to global as well as domestic trends. The emerging economies, such as those of the BRICS (Brazil, Russia, India, China and South Africa) and the VISTA countries (Vietnam, Indonesia, South Africa, Turkey and Argentina), are notable for their large populations and high growth rates. Asia has become a key driver of global economic growth.

Forecast Japanese production volumes in 2011 are 12 million tons for paperboard and nearly 9 million tons for containerboard, even with the increasing trend toward lightweight containerboard. Output of corrugated board is expected to reach 13.1 billion square meters. Demand could be slightly higher owing to increased distribution activity as a result of demand associated with reconstruction following the natural disaster. However, while domestic production and demand are both recovering, Japanese productivity still has room for improvement. Annual output per corrugating machine in Japan is only about 32 million square meters, against some 50 million square meters in Europe and America.

Japan is one of the first countries in the world to confront the demographic issues of long life expectancy coupled with low birth rates. As a result, we cannot expect the domestic market to achieve significant volume growth in the future. We must therefore actively undertake further structural reform in our industry to perform at the global level.

More Innovation in Packaging

Q Environmental issues and other social issues are becoming increasingly challenging. How do you see innovation shaping the future of packaging?

Otsubo: Japan has a well-established recycling system of corrugating packaging that achieves an extremely high collection rate of 99.3%. Corrugated packaging is one of the best examples of a recycled product, and Rengo has been a leading proponent of its development. We are contributing to the realization of a recycling-oriented society through our business activities. We continue to promote innovation in packaging to improve the environmental performance of our products, based on the concept "Less Weight, Less Carbon."

As I have mentioned, the paperboard and corrugated industries have been countering the effects of deflation based on their own initiative. But our industries cannot survive alone. I think that a range of industries in Japan need to embrace reform in their own ways and act decisively amid ongoing globalization.

The Rengo Group has positioned China and the rest of Asia as growth markets for the future. Paperboard and packaging related operations have been the main thrust of our business development in these overseas markets. Over the past year we have converted our Chinese corrugated packaging joint ventures in Shanghai and Qingdao into wholly owned subsidiaries of Rengo and increased our equity stake in the Zhongshan containerboard joint venture, making it a subsidiary. In August, we also acquired an equity stake in Hong Kong-based Hung Hing Printing Group Limited, which has book binding, printing and packaging operations in China. These moves have further strengthened our presence in paperboard manufacturing and packaging within the rapidly growing Chinese market.

In Vietnam, we established a joint venture to manufacture and sell containerboard in 2007. Our Thai affiliated company engaged in corrugated business has built up production and supply capabilities in the key demand regions in the north and south of the country around Hanoi and Ho Chi Minh City.

In this way, we are gradually developing vertically integrated production and supply operations from containerboard to corrugated packaging across China and Southeast Asia. To become a global enterprise, however, we must also increase our presence in the West. We are first trying to forge stronger connections in the United States. We established a new subsidiary, Rengo Packaging, Inc., in Hawaii to sell corrugated packaging and packaging materials to the US market. In the future we are looking to establish operations on the west coast of America. We see Asia and the Asia-Pacific region driving our future growth.

Lighter Packaging for Tomorrow

To offer more environmentally friendly packaging, we are promoting the adoption of C-flute to replace traditional A-flute corrugated board as a way of conserving resources, saving energy and reducing CO₂ emissions. C-flute is about 1mm thinner than A-flute. We are also working on the development of "LCC", or Lower Cost & Carbon Containerboard, to try to reduce the weight of these products further.



Less Weight, Less Carbon Project

The Fukushima-Yabuki Plant, which started operation in May 2010, embodies our "Less Weight, Less Carbon" drive. This facility brings together all of the technical expertise Rengo has

cultivated to conserve resources and energy through better environmental performance. It is a corrugated plant for the 21st century in which daytime operations are entirely powered using solar panels. We are proud of this production facility because it exemplifies the sustainable way forward.

We take a hands-on approach at Rengo to packaging innovation.

We try to cultivate a corporate culture that values the ideas and contributions of all employees, in keeping with our philosophy whose essence is “The truth is in the workplace.” We are confident that innovation will not only stimulate the vitalization of the Japanese economy, but also help to elevate the social status of the packaging industry.

GPI Ambition and Development of Six Core Competences

The business structure of the Rengo Group continues to develop, having recently evolved from a pentagon to a hexagon. How do you view this change?

Otsubo: For many years we called Rengo a “packaging solutions company” to make the point that our business was about defining our customers’ packaging needs and developing related solutions rather than simply supplying packaging materials. This phrase also signaled our drive to be a leader in related consulting and sales skills.

The Rengo Group has grown by adding core business competences while remaining within the packaging sphere. Originally the structure was pentagonal, with five core competences. In 2009 we increased that to six to create the

Rengo Hexagon. This is not an end but just a milestone on our journey. We aim to keep on expanding into new areas of core competence while staying in the packaging sphere, ultimately creating a globe-type structure. This “global” ambition is in tune with worldwide trends. The Rengo Group aims to endow itself with the ideal configuration for responding to global economic needs.

We have adopted “General Packaging Industry (GPI)” as a new corporate slogan expressing the direction in which we aim to take Rengo. GPI includes the notion that we are expanding the Rengo Group in response to the needs of the global economy. As the shape becomes more globe-like with the addition of further core competences to the Rengo Group, we will transform Rengo into a “General Packaging Industry” with global capabilities.

Surmounting Disaster to Forge the Future of the Rengo Group

Otsubo: In the aftermath of the disaster, I think it is important for us to remember that we are all in this together. I express it as “A Million Souls, One Spirit.” Legend tells us that Mori Motonari, a 16th century daimyo, was a notable advocate of strength through unity. Rather than offering a traditional sacrifice, he inscribed a stone stele with the words “One Power, One Spirit Each Day” to mark the construction of his castle at Yoshida-Koriyama. I take these words to mean we can achieve anything if we work together unified in spirit. I want everyone in the Rengo Group to work together in this same spirit as we strive to support disaster recovery and reconstruction efforts. We will continue to do our utmost to vitalize and achieve sustainable growth of not just the Rengo Group, but also the whole of Japan, and make it better than before.

I hope that all of our shareholders, investors and other stakeholders will give us their continued support.



Rengo at a Glance

Based on its hexagonal operating structure corresponding to paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas business, the Rengo Group aims to be a “General Packaging Industry” group capable of addressing the comprehensive spectrum of packaging needs.

For the fiscal year ended March 31, 2011, sales from the paperboard and packaging-related business increased 2.1% year on year to ¥361.5 billion and operating income fell 4.0% to ¥28.8 billion.

Sales from the flexible packaging-related business edged up 0.3% to ¥54.0 billion and operating income increased 5.1% to ¥1.5 billion.

Sales from the heavy duty packaging-related business soared 27.7% to ¥24.0 billion and operating income surged 24.2% to ¥1.3 billion.

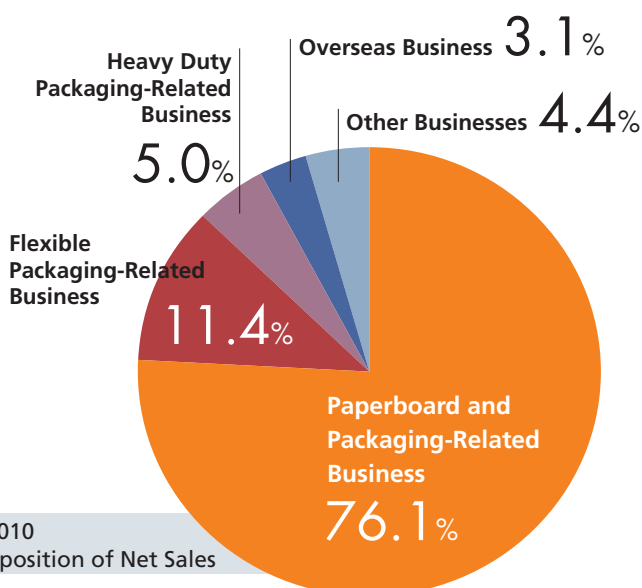
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business					
FY 2010	Net Sales ¥ 361,491 million (year-on-year increase of 2.1 %)	Net Sales ¥ 54,015 million (year-on-year increase of 0.3 %)					
	Operating Income ¥ 28,823 million (year-on-year decrease of 4.0 %)	Operating Income ¥ 1,523 million (year-on-year increase of 5.1 %)					
Net Sales	(Millions of yen) 	(Millions of yen) 					
	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #444; color: white;">Paperboard</th> <th style="background-color: #444; color: white;">Corrugated Packaging</th> </tr> </thead> <tbody> <tr> <td style="background-color: #eee;"> <ul style="list-style-type: none"> ● Containerboard ● Coated board ● Tube board ● Chipboard </td> <td style="background-color: #eee;"> <ul style="list-style-type: none"> ● Corrugated board ● Corrugated boxes ● Folding cartons </td> </tr> <tr> <td style="background-color: #eee;"> <ul style="list-style-type: none"> ● Marusan Paper Mfg. Co., Ltd. ● Osaka Paper Co., Ltd. </td> <td style="background-color: #eee;"> <ul style="list-style-type: none"> ● Yamato Shiki Co., Ltd. ● Settsu Carton Corporation ● Tokai Shiki Co., Ltd. ● Hinode Shiki Kogyo Co., Ltd. </td> </tr> </tbody> </table>	Paperboard	Corrugated Packaging	<ul style="list-style-type: none"> ● Containerboard ● Coated board ● Tube board ● Chipboard 	<ul style="list-style-type: none"> ● Corrugated board ● Corrugated boxes ● Folding cartons 	<ul style="list-style-type: none"> ● Marusan Paper Mfg. Co., Ltd. ● Osaka Paper Co., Ltd. 	<ul style="list-style-type: none"> ● Yamato Shiki Co., Ltd. ● Settsu Carton Corporation ● Tokai Shiki Co., Ltd. ● Hinode Shiki Kogyo Co., Ltd.
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Main Products							
Main Group Companies		<ul style="list-style-type: none"> ● Howa Sangyo Co., Ltd. 					

Sales from the overseas business jumped 25.6% to ¥14.6 billion but operating income fell 27.7% to ¥0.5 billion.

Sales from other businesses increased 9.0% to ¥20.8 billion while operating income plunged 55.0% to ¥0.2 billion.

In accordance with the application of the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" and related guidance, segment classification has been changed from the fiscal year ended March 31, 2011. (Results for prior years presented here have been reclassified in accordance with the new segment classification.)

FY 2010
Composition of Net Sales



Heavy Duty Packaging-Related Business	Overseas Business	Other Businesses	
<p>Net Sales</p> <p>¥ 24,002 million (year-on-year increase of 27.7%)</p> <p>Operating Income</p> <p>¥ 1,262 million (year-on-year increase of 24.2%)</p> <p>(Millions of yen)</p>	<p>Net Sales</p> <p>¥ 14,568 million (year-on-year increase of 25.6%)</p> <p>Operating Income</p> <p>¥ 503 million (year-on-year decrease of 27.7%)</p> <p>(Millions of yen)</p>	<p>Net Sales</p> <p>¥ 20,801 million (year-on-year increase of 9.0%)</p> <p>Operating Income</p> <p>¥ 171 million (year-on-year decrease of 55.0%)</p> <p>(Millions of yen)</p>	FY 2010
<ul style="list-style-type: none"> ● Polyethylene heavy-duty bags ● Kraft paper bags 	<ul style="list-style-type: none"> ● Corrugated board ● Corrugated boxes ● Flexible packaging ● Flexible container bags 	<ul style="list-style-type: none"> ● Newsprint ● Chemical products ● Nonwoven products ● Packaging machinery 	Net Sales
<ul style="list-style-type: none"> ● Nihon Matai Co., Ltd. 	<ul style="list-style-type: none"> ● Dalian Rengo Packaging Co., Ltd. ● Jiangsu Zhongjin Matai Medicinal Packaging Co., Ltd. ● MATAI (VIETNAM) Co., Ltd. 	<ul style="list-style-type: none"> ● Rengo Nonwoven Products Co., Ltd. ● Rengo Logistics Co., Ltd. ● Yamada Kikai Kogyo Co., Ltd. 	Main Products
			Main Group Companies

Review of Operations

Paperboard and Packaging-Related Business

Recovery of product demand and an increase in the number of consolidated subsidiaries led to higher sales than for the previous year but operating income edged down owing to increased prices of raw materials and fuel.

Segment sales were ¥361.5 billion, an increase of 2.1% year on year, and operating income was ¥28.8 billion, a decrease of 4.0%. The paperboard and packaging-related business accounted for 76.1% of consolidated net sales.

Paperboard



Containerboard



Various types of paperboard



Processed paper

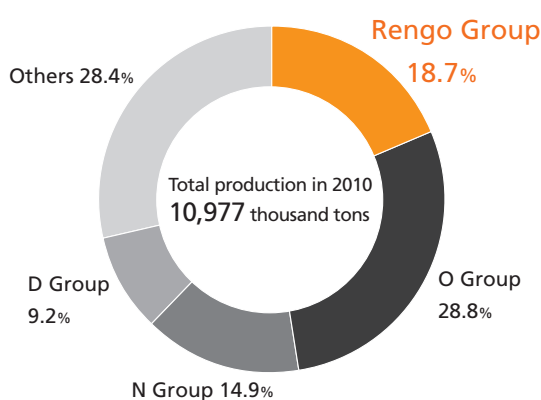
Sales (after intersegment elimination) (Millions of yen)

	2009	2010	2011
Paperboard	56,411	50,303	50,365

Production (in Japan, consolidated basis) (Thousand tons)

	2009	2010	2011
Paperboard	2,057	1,978	2,081

Major Manufacturing Groups' Shares of the Paperboard Market in Japan



Source: Japan Paper Association

The Rengo Group's paperboard manufacturing and sales business is carried out by Rengo Co., Ltd., Marusan Paper Mfg. Co., Ltd. and Osaka Paper Co., Ltd. Their products are distributed via Rengo Paper Business Co., Ltd. and other sales channels and are also supplied to companies within the Rengo Group via Rengo Co., Ltd. and Rengo Paper Business Co., Ltd. as raw materials for corrugated packaging.

Market Environment and Business Results

Despite the impact of the Great East Japan Earthquake, demand in the paperboard market was on a recovery track throughout almost the entire year under review. As a result, paperboard production volume exceeded the previous year's level. Regarding costs, energy prices were on an upward trend. Whereas the export prices of recovered paper, which is the principal raw material, trended upward, the domestic price of recovered paper remained stable.

The Rengo Group's paperboard production volume in Japan amounted to 2,081 thousand tons, an increase of 5.2% year on year. Paperboard sales increased 0.1% to ¥50.4 billion, accounting for 10.6% of consolidated net sales.

Rengo Recognized at the Osaka Environmental Awards for Lightweight Containerboard

With "Less Weight, Less Carbon" as the key phrase, Rengo is vigorously promoting environmental protection initiatives through packaging. "Reduction of corrugated packaging through lightweight containerboard," which is one of our initiatives, was recognized at the Osaka Environmental Awards in the corporate category. Under the auspices of Osaka Congress on Creating a Rich Environment, the Osaka Environmental Awards commend individuals, organizations, and businesses involved in environmental activities that have outstanding exemplary achievements to their credit.

Corrugated Packaging

The Rengo Group's business for manufacturing and sales of corrugated board and boxes is carried out by Rengo Co., Ltd. and its Group companies nationwide, such as Rengo Co., Ltd., Yamato Shiki Co., Ltd., and Settsu Carton Corporation, with each working closely with their local communities. Rengo Co., Ltd. and Rengo Riverwood Packaging, Ltd. manufacture and sell multi-packs used for six packs of canned beer etc.

Market Environment and Business Results

During the year under review, the corrugated packaging market benefited from the impact of government policies, such as subsidies for eco-friendly vehicles and the eco-points scheme for green home appliances, as well as the moderate recovery of the Japanese economy, and experienced an increase in demand centering on corrugated boxes for beverages reflecting the extremely hot summer of 2010. As a result, production of corrugated packaging exceeded the previous year's level.

The Rengo Group's production volumes of corrugated packaging in Japan were as follows. Production of corrugated board increased 4.0% to 3,559 million square meters and production of corrugated boxes increased 3.7% to 2,656 million square meters. Sales of corrugated packaging increased 1.5% to ¥285.1 billion, accounting for 60.0% of consolidated net sales.

Sales of other packaging-related products increased 13.4% to ¥26.0 billion.

Plant Renovation and Reorganization

Settsu Carton Corporation, a subsidiary of Rengo, will renovate its Itami Plant and reorganize its plants in the Kansai region. The renovations will include expansion and repair of buildings, upgrading of corrugator, and expansion and retooling of converting lines. In conjunction with the renovations, Settsu Carton will create a state-of-the-art plant with complete insect-proofing and paper dust countermeasures. The renovations are scheduled for completion in October 2011. The Minami Osaka Plant will be relocated. In addition, the corrugator of the Higashi Osaka Plant will be removed and the plant will become a specialized converting plant. Settsu Carton will optimize its production and supply structures through the plant renovation and the reorganization in the Kansai region in order to respond faster to customer needs, enhance product quality, and reinforce the Rengo Group's corrugated packaging business.

Rengo Invests in Corrugated Packaging Manufacturers to Expand the Group's Business

Rengo has invested in Shinwa Shiki Co., Ltd. (Hikari-shi, Yamaguchi Prefecture) and Tohoku Kogyo Co., Ltd. (Kooriyama-shi, Fukushima Prefecture), which are corrugated packaging manufacturers. Additionally, Rengo increased its stake in Kyowa Shigyo Co., Ltd. (Otaru-shi, Hokkaido Prefecture) and Sakaiminato Gyokan Co., Ltd. (Sakaiminato-shi, Tottori Prefecture) and made them subsidiaries.

Sales (after intersegment elimination) (Millions of yen)

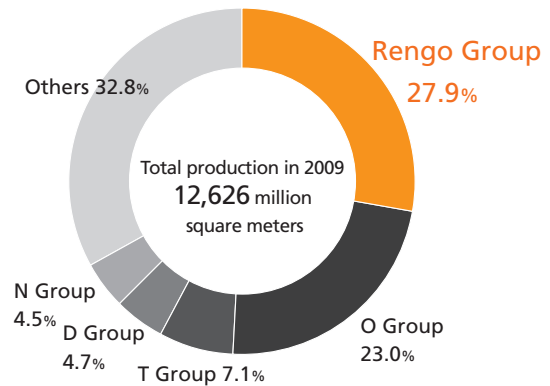
	2009	2010	2011
Corrugated packaging	279,113	280,797	285,078
Other packaging-related products	20,993	22,979	26,048

Production (in Japan, consolidated basis) (Million sq. meters)

	2009	2010	2011
Corrugated board	3,394	3,423	3,559
Corrugated boxes	2,540	2,561	2,656

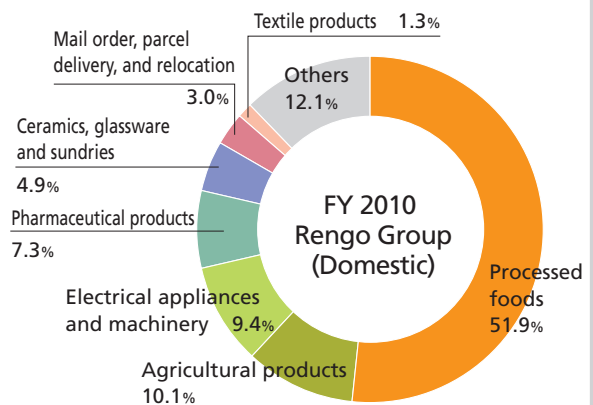
*Corrugated board production volume includes those converted into corrugated boxes.

Major Manufacturing Groups' Shares of the Corrugated Board Market in Japan



Source: Yano Research Institute

Breakdown of Demand for Corrugated Boxes by Market



While strengthening collaboration of these companies with Rengo's plants and other Rengo Group companies in their vicinity, we intend to expand the corrugated packaging business in these geographical areas.



Corrugated board



Corrugated boxes



Folding cartons

Flexible Packaging-Related Business



Film wraps



Labels



Cellophane

The Rengo Group's business for manufacturing and sales of flexible packaging is carried out by Howa Sangyo Co., Ltd. and Rengo Co., Ltd. also sells flexible packaging. Manufacturing and sales of cellophane are carried out by Rengo Co., Ltd.

Sales (after intersegment elimination) (Millions of yen)

	2009	2010	2011
Flexible Packaging-Related Business	53,736	53,830	54,015

Market Environment and Business Results

Whereas prices of raw materials and fuel increased, the Rengo Group worked to further reduce costs and raise productivity.

Segment sales were ¥54.0 billion, an increase of 0.3% year on year, and operating income was ¥1.5 billion, an increase of 5.1%. The flexible packaging-related business accounted for 11.4% of consolidated net sales.

Heavy Duty Packaging-Related Business



Polyethylene heavy-duty bags



Kraft paper bags



Flexible container bag

Sales (after intersegment elimination) (Millions of yen)

	2009	2010	2011
Heavy Duty Packaging-Related Business	—	18,794	24,002

The Rengo Group's business for manufacturing and sales of heavy duty packaging is carried out by Nihon Matai Co., Ltd. and its subsidiary in Japan.

Market Environment and Business Results

Both sales and profits of heavy duty packaging-related business greatly increased due to the contribution throughout the year under review of Nihon Matai Co., Ltd., which became a consolidated subsidiary in the second quarter of the previous fiscal year.

Segment sales were ¥24.0 billion, an increase of 27.7% year on year, and operating income was ¥1.3 billion, an increase of 24.2%. The heavy duty packaging-related business accounted for 5.0% of consolidated net sales.

Overseas Business

Overseas business includes overseas paperboard and packaging-related business, flexible packaging-related business, and heavy duty packaging-related business.

Manufacturing and sales of the Rengo Group's products overseas are carried out by Zhongshan Rengo Hung Hing Paper Manufacturing Co., Ltd. for paperboard, Dalian Rengo Packaging Co., Ltd. for corrugated board and boxes, Jiangsu Zhongjin Matai Medicinal Packaging Co., Ltd. for flexible packaging, and MATAI (VIETNAM) Co., Ltd. for heavy duty packaging.

Two Chinese containerboard subsidiaries were newly consolidated in February 2011. As a result, their impact on the Group's results will not take effect until fiscal 2011.

Market Environment and Business Results

Sales from overseas business increased due to the contribution of the overseas subsidiaries of Nihon Matai Group throughout the year under review in addition to an increase in demand for corrugated packaging in China. However, profits of overseas operations decreased owing to a steep increase in the price of containerboard, the principal material for subsidiaries engaged in corrugated packaging in China.

Sales (after intersegment elimination) (Millions of yen)

	2009	2010	2011
Overseas business	10,919	11,604	14,568

Production (overseas, consolidated basis) (Million sq. meters)

	2009	2010	2011
Corrugated board	205	179	237
Corrugated boxes	195	171	220

*Corrugated board production volume includes those converted into corrugated boxes.

Overseas production volume of corrugated packaging by Rengo's consolidated subsidiaries amounted to 237 million square meters for corrugated board and 220 million square meters for corrugated boxes, having increased 32.2% and 28.2% year on year, respectively. While segment sales soared 25.6% to ¥14.6 billion, operating income decreased 27.7% to ¥0.5 billion. Overseas business accounted for 3.1% of consolidated net sales.

The Rengo Group's production volume of paperboard in China and Southeast Asia amounted to 374 thousand tons and that of corrugated packaging was 1,406 million square meters.

Other Businesses

Manufacturing and sales of other products are carried out by the following companies: Rengo Nonwoven Products Co., Ltd. for nonwoven products, Yamada Kikai Kogyo Co., Ltd. for packaging machines, Osaka Paper Co., Ltd. for newsprint, and Rengo Co., Ltd. for chemical products. Transport, insurance agency, leasing, and real estate businesses are carried out by Rengo Logistics Co., Ltd.

Market Environment and Business Results

Sales from other businesses increased thanks to increased production by the nonwoven products business and a recovery in demand for packaging machines. However, profits decreased owing to deterioration of the profitability of the newsprint business in line with an increase in prices of raw materials and fuel.

Although segment sales increased 9.0% year on year to ¥20.8 billion, operating income plunged 55.0% to ¥0.2 billion. Other businesses accounted for 4.4% of consolidated net sales.

Sales (after intersegment elimination) (Millions of yen)

	2009	2010	2011
Other Businesses	25,486	19,079	20,801

Rengo Makes Sanyo Jidosha Unso Co., Ltd. a Subsidiary

In May 2011, Rengo acquired a 51% stake in Sanyo Jidosha Unso (Osaka-shi, Osaka Prefecture) and made it a subsidiary. Sanyo Jidosha Unso is a transportation company that focuses on the special mixed-load transportation business. Utilizing Sanyo Jidosha Unso's know-how, the Rengo Group will enhance its comprehensive capabilities beyond its focus on packaging.

Merger between Yamada Kikai Kogyo Co., Ltd. and Star Maintenance Co., Ltd.

Subsidiaries of Rengo, Yamada Kikai Kogyo and Star Maintenance merged in September 2010. Yamada Kikai Kogyo is a leading manufacturer of automatic tying machines and supplies packaging and packing machines. It also manufactures tying machines for corrugated boxes and pallet packaging machines for the Rengo Group. Star Maintenance had been supplying service parts and maintenance services to users of offset printing presses manufactured by Hamada Printing Press Co., Ltd., which filed for voluntary closure in June 2009 and whose liquidation was completed in March 2011. Yamada Kikai Kogyo took over Star Maintenance's operations and employees and Star Maintenance was dissolved.



Nonwoven products



Packaging machine



Viscopearl® (porous cellulose beads)

Overseas Business

Overseas Business Is One of Our Six Core Competences

Putting in Place a Structure as a “General Packaging Industry” Capable of Responding to the Needs of the Global Economy

In addition to the existing paperboard, corrugated packaging, folding cartons, flexible packaging, and heavy duty packaging, we are increasing the scope of our overseas business to include book binding, printing and paper distribution. We are also expanding our geographical coverage from Asia to Hawaii.

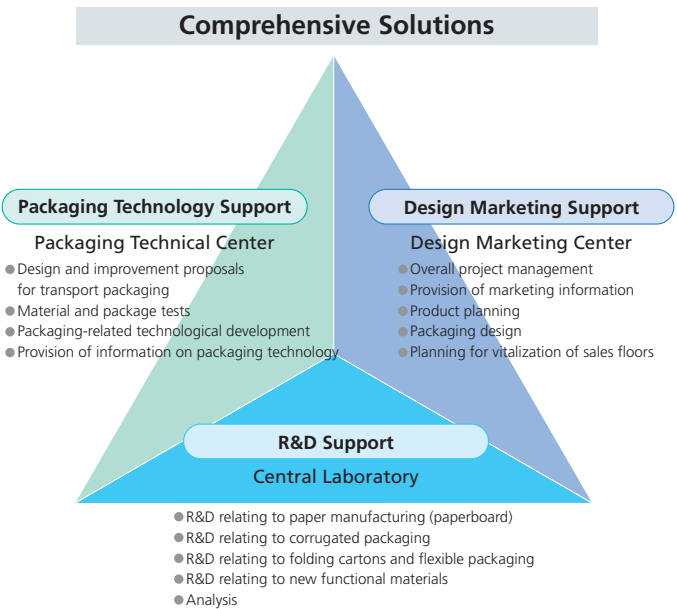
Full ownership of corrugated packaging joint ventures in China	
June 2010	Shanghai Rengo Packaging Co., Ltd. became a wholly owned subsidiary.
November 2010	Qingdao Rengo Packaging Co., Ltd. became a wholly owned subsidiary.
Expansion of the corrugated packaging operations in Vietnam—establishing an integrated production structure from containerboard to corrugated packaging	
January 2011	Thai Containers Group Co., Ltd., 30.0% owned by Rengo, signed an agreement to acquire Alcamax Packaging (Vietnam) Joint Stock Company, a corrugated packaging manufacturer in Vietnam, and its two subsidiaries.
Containerboard manufacturing JVs in China became Rengo subsidiaries	
February 2011	Rengo increased its stake in Zhongshan Rengo Hung Hing Paper Manufacturing Co., Ltd. and Zhongshan Ren Hing Paper Manufacturing Co., Ltd. from 35.0% to 62.8% through share subscription and they became Rengo subsidiaries.
Cultivation of a new business field	
May 2011	Rengo agreed to acquire a 29.9% stake in Hung Hing Printing Group Limited, a Hong Kong-based company engaged in book binding, printing and packaging operations in China.
Expanding the geographical coverage from Asia to Pan-Pacific	
June 2011	Rengo established a new subsidiary, Rengo Packaging, Inc., in Hawaii, which acquired the entire business of Hawaii Box & Packaging, Inc., a supplier of corrugated packaging and other packaging materials.



Research and Development

Packaging has several functions—protection of products, attractive presentation of products, and conveying of information, while it should also be friendly to people and environment. Packaging is constantly evolving as a medium linking our customers to consumers.

Rengo helps provide solutions to all manner of packaging-related issues from three perspectives: packaging technology, design marketing, and research and development. Based on the wealth of packaging technology we have accumulated over the years, we offer comprehensive solutions corresponding to all the phases of our customers' products from product development, packaging and distribution through to in-store sales promotions.



Rengo's outstanding R&D recognized

- Five Rengo entries won Appropriate Packaging Awards and Category Awards at the 2010 Japan Packaging Contest sponsored by the Japan Packaging Institute.
- Rengo won a WorldStar Packaging Award for a hybrid car battery pack corrugated container, jointly developed with Primearth EV Energy Co., Ltd., in the WorldStar Competition run by the World Packaging Organisation.
- An application product of Cellgaia®, a material developed by Rengo, received the Japan Packaging Institute's Kinoshita Award.
- A research paper on corrugated packaging received The Most Interesting Readings Award of the Japan Society for Design Engineering.

Moving Forward and Rebuilding After the Earthquake

The Great East Japan Earthquake caused damage to several of the Rengo Group's plants.

"A Million Souls, One Spirit"

The Rengo Group, unified in spirit, is committed to reconstruction and revitalization after the Great East Japan Earthquake.

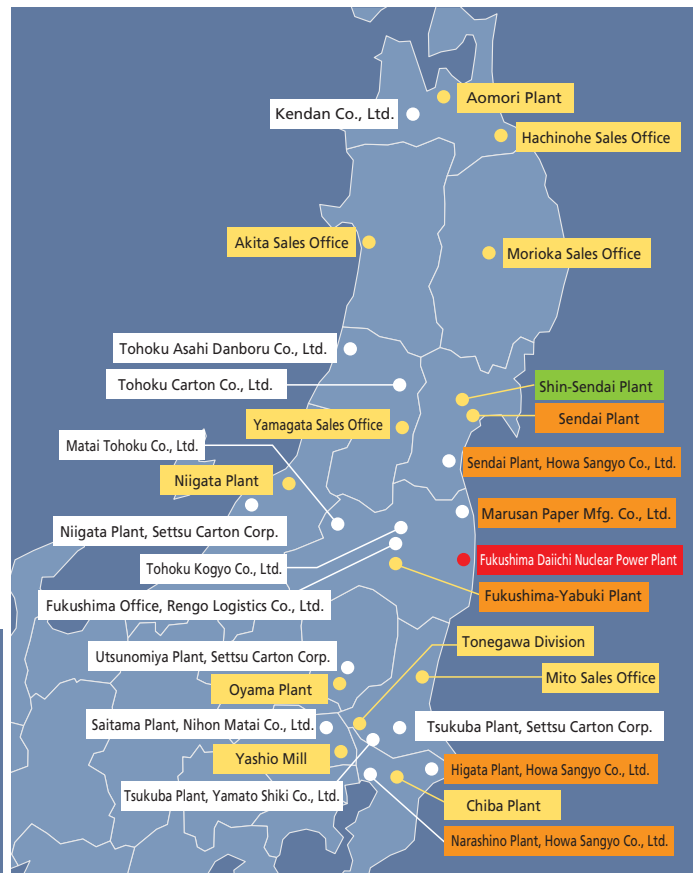
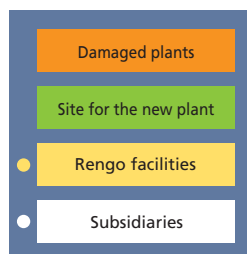
Construction of the Shin-Sendai Plant, a symbol of this effort, will contribute to the revival of the local economy and logistics.

- The Fukushima-Yabuki Plant and Howa Sangyo Co., Ltd., a subsidiary for flexible packaging, achieved early recovery in March.
- Marusan Paper Mfg. Co., Ltd., a paper manufacturing subsidiary, resumed operation on June 20.
- The Sendai Plant was heavily damaged by the tsunami. Construction of a new plant, the Shin-Sendai Plant, at another site in Miyagi Prefecture, is underway and scheduled for completion in the year ending March 2012.



Conceptual Drawing of the Completed Shin-Sendai Plant

Address: North Sendai Central Industrial Area, 6-3-2 Matsusakadaira, Taiwa-cho, Kurokawa-gun, Miyagi Prefecture, Japan



Environmental Protection

Expectations for corrugated packaging in the 21st century

Rengo develops and proposes corrugated packaging offering ease of use and reduced environmental burden by promoting eco-friendliness of corrugated packaging throughout its life cycle to benefit not only customers but also society.

“Less Weight, Less Carbon”—a key phrase of Rengo’s environmental commitment for the future of people and the Earth

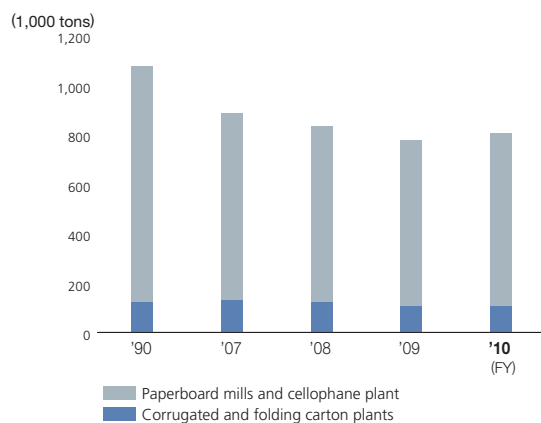
Less Weight, Less Carbon is one of the key phrases of the Rengo Group. Aiming to make corrugated packaging that is thin but robust, lightweight but strong and involving minimal CO₂ emissions, we position environmental protection, including mitigation of global warming, as one of the most important management tasks.

Efficient use of resources and energy

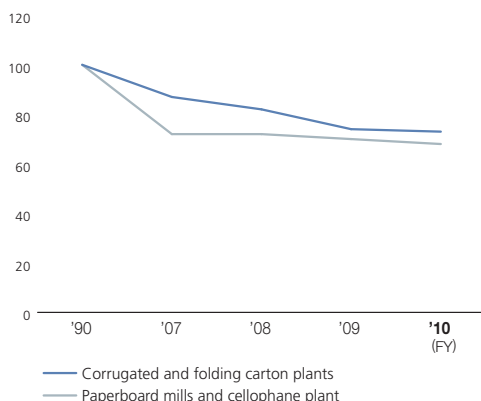
In order to save energy at production processes, we are working to improve production efficiency, introduce energy-saving technologies, convert to clean energy with minimal CO₂ emissions, and expand use of renewables, such as biomass fuels and solar power.

Fiscal 2010 CO₂ emissions reduced 26% compared with fiscal 1990

CO₂ emissions



CO₂ emissions per unit (FY 1990 = 100)



Fukushima-Yabuki Plant started operation in May 2010—This “Less Weight, Less Carbon” corrugated plant meets all its daytime electricity needs with photovoltaic

The Fukushima-Yabuki Plant represents the pinnacle of Rengo’s accumulated expertise in environmental technology for resource and energy conservation. In addition to large-scale photovoltaic generation, the plant uses liquefied natural gas (LNG), which is clean energy, and is equipped with various energy-saving facilities. Fukushima-Yabuki Plant’s CO₂ emissions per unit in fiscal 2010 were about 40% less than those of the former Kooriyama Plant, as planned.

Rengo won environmental awards

- Incentive Award, the Osaka Environmental Awards by Osaka Congress on Creating for a Rich Environment**
 Rengo’s initiative to reduce the weight of corrugated packaging through use of lightweight containerboard was recognized.
- The Sankei Shimbun Award, 20th Global Environmental Awards by Fujisankei Communications Group**
 Efforts to maintain and improve the recycling system for old corrugated containers and opening of the Fukushima-Yabuki Plant and commitment to “Less Weight, Less Carbon” were recognized.
- Superior Award, Environmental Report Category, 14th Green Reporting Awards by Toyo Keizai Inc.**
 Rengo was praised for the innate environmental friendliness of its business activities, published in an easy-to-read, appropriate format in the Environment and Social Report 2010.

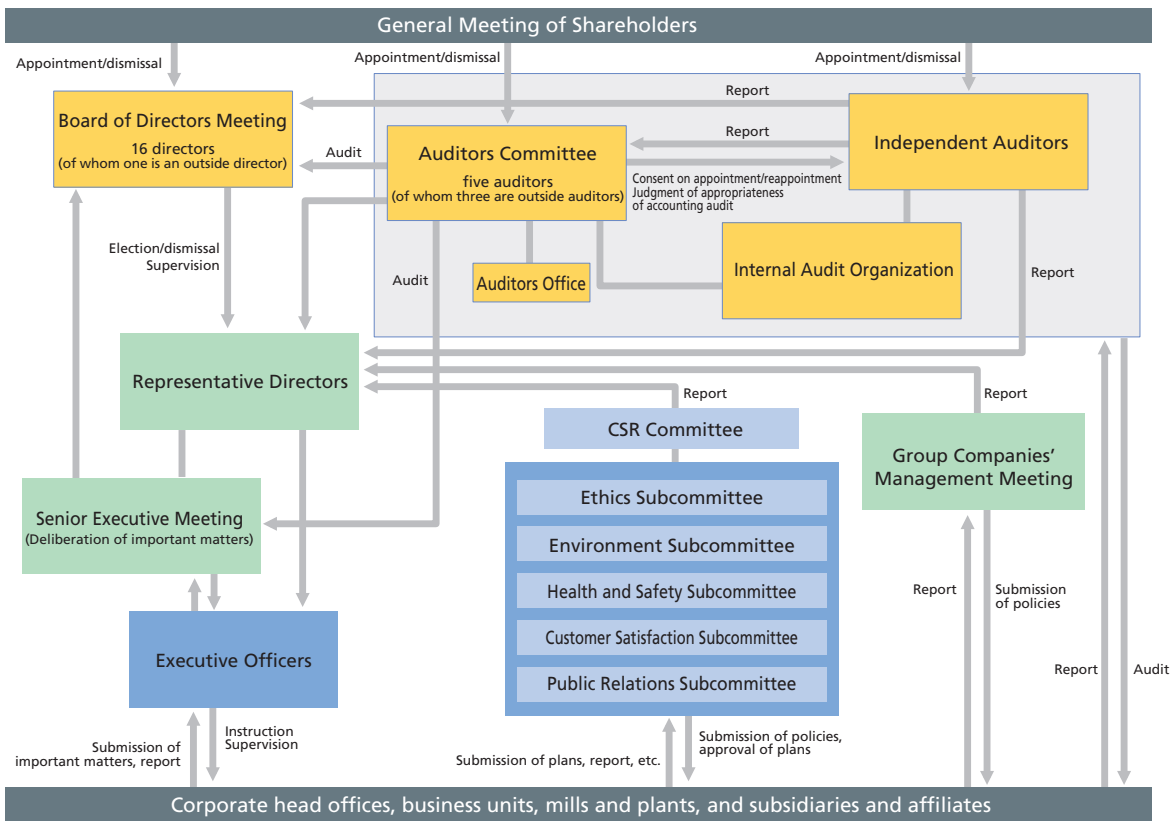
Eco-Products 2010

Corrugated boxes are 100% recyclable. Exhibiting actual corrugated packaging, the Rengo booth presented the flow of recycling of used corrugated boxes discharged from homes and stores, including production of new containerboard from recovered corrugated boxes and production of new corrugated boxes. This exhibit on the recycling of corrugated boxes offered visitors an enjoyable learning experience.

Corporate Governance

In keeping with the corporate philosophy whose essence is “The truth is in the workplace,” Rengo is enhancing corporate governance by strengthening the current director and corporate auditor systems while delegating authority and accelerating 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



CSR Activity

Rengo has been recognized by the Osaka Labor Bureau of the Ministry of Health, Labour and Welfare for its compliance with the 2011 standards pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children. This was the second time Rengo has been so recognized, the first time being in 2008.



The United Nations Global Compact

In November 2009 Rengo endorsed the United Nations Global Compact. We support the 10 principles of the UN Global Compact and adhere to its philosophy in fulfilling our responsibility as a corporate citizen.



Board of Directors and Corporate Auditors

(As of June 29, 2011)



Kazuteru Kishimoto



Kiyoshi Otsubo



Toshihide Seki

Representative Director and President and Chief Executive Officer	Kiyoshi Otsubo	Corporate Auditor	Toshihito Miura
Representative Director and Executive Vice President	Kazuteru Kishimoto		Hiromi Hirayama
	Toshihide Seki		Shogo Itoda
Director and Senior Managing Executive Officer	Moriaki Maeda		Kenji Tsujimoto
	Yoshitaka Ozawa		Ikuho Inoue
	Ichiro Hasegawa	Managing Executive Officer	Osamu Nishimura
	Takashi Inaba	Executive Officer	Sadatoshi Inoue
Director and Managing Executive Officer	Misao Wakamatsu		Sakae Shinotsuka
	Kiwamu Hashimoto		Hiroyuki Kimura
	Sadaaki Goto		Hirokazu Nakai
	Hiromi Sambe		Ryuzo Shinano
Director and Executive Officer	Hidemi Ogino		Shunji Ogawa
	Yasuhiro Baba		Toshihiro Yoneda
	Shigechika Ishida		Iwao Shiozaki
	Yosuke Kawamoto		Yasuhiro Miyoshi
Director	Yoshifumi Nishikawa		Hiroshi Ebihara

Financial Section

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Consolidated Five-Year Summary

Rengo Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2007, 2008, 2009, 2010 and 2011

	Millions of yen				
	2007	2008	2009	2010	2011
For the Year:					
Net sales	¥412,986	¥435,339	¥446,660	¥457,386	¥474,878
Gross profits	70,941	66,226	69,813	91,645	91,888
Operating income	19,057	12,799	15,213	33,727	32,391
Income before income taxes	16,292	9,654	14,215	29,633	18,042
Net income	9,442	5,659	7,831	16,987	10,291
Research and development expenses	1,507	1,486	1,663	1,507	1,486
Depreciation and amortization	21,589	24,227	24,337	25,223	26,394
Capital expenditures	34,351	21,083	20,526	29,363	22,650
Per share amounts (yen):					
Net income, basic	38.81	21.83	29.91	64.42	39.67
Net income, diluted	—	—	—	—	—
Cash dividends applicable to the year	10.00	10.00	10.00	10.00	12.00
At Year-End:					
Total assets	¥471,855	¥468,887	¥457,263	¥498,137	¥499,119
Working capital	(66,525)	(53,538)	(43,897)	(37,080)	(36,385)
Interest-bearing debt	185,065	194,251	193,374	199,237	201,584
Net assets	150,961	147,382	140,779	163,926	165,613
Total shareholders' equity*	145,590	142,221	136,175	159,385	159,395
Ratios:					
Return on equity (%)	6.7	3.9	5.6	11.5	6.5
Return on total assets (%)	2.1	1.2	1.7	3.6	2.1
Debt to equity ratio (times)	1.27	1.37	1.42	1.25	1.27
Total shareholders' equity to total assets (%)	30.9	30.3	29.8	32.0	31.9
Other statistics:					
Number of shares of common stock (thousand)	263,774	263,774	263,774	271,056	271,056
Number of employees	9,747	10,181	9,089	11,182	12,267
Stock prices (yen):					
High	¥952	¥927	¥849	¥652	¥597
Low	616	451	425	483	414

*Total shareholders' equity = Net assets - Minority interests

Management's Discussion and Analysis

Overview

In the fiscal year ended March 31, 2011 (fiscal 2010), the Rengo Group continued implementing measures to reinforce the foundation of the business, including establishment of a stable product pricing structure, improvement of productivity and quality, reduction of costs and reinforcement of the financial position. However, the Great East Japan Earthquake and the crisis at a stricken nuclear power plant caused immense damage to the Rengo Group.

As a result, despite record high net sales, net income decreased from the previous year because of extraordinary losses incurred from the Great East Japan Earthquake.

In fiscal 2010, the business segment classification was changed. Whereas previously the Rengo Group's businesses were classified into three segments, namely, "paperboard and packaging-related business," "flexible packaging-related business," and "other businesses," they are now classified into five segments in accordance with the change of the accounting standard: "paperboard and packaging-related business," "flexible packaging-related business," "heavy duty packaging-related business," "overseas business," and "other businesses." The "overseas business" includes "paperboard and packaging-related business," "flexible packaging-related business," and "heavy duty packaging-related business" conducted overseas. For presentation of comparison with the previous year, figures for the previous year were restated in accordance with the new segment classification.

As of March 31, 2011, the number of consolidated subsidiaries was 46, three more than at the end of the previous year, and the number of affiliates accounted for by the equity method was six, two less than at the end of the previous year.

Sales

Consolidated net sales increased ¥17.5 billion or 3.8% year on year from ¥457.4 billion for the previous year to ¥474.9 billion for fiscal 2010. This increase reflected higher sales volumes of the mainstay

paperboard and corrugated packaging owing to the extremely hot summer in 2010 and the impact of the government's economic policies, such as the eco-point scheme. The contribution throughout the fiscal year of Nihon Matai Group was another factor tending to increase net sales, as Nihon Matai Group was within the scope of consolidation only for ten months for the previous year.

Sales exceeded the previous year for all segments. Sales from the paperboard and packaging-related business segment increased 2.1% year on year, sales from the flexible packaging-related business segment edged up 0.3%, sales from the heavy duty packaging-related business soared 27.7%, sales from overseas business surged 25.6%, and sales from other businesses rose 9.0%.

Sales volumes of corrugated boxes in Japan increased 3.2% year on year, owing to the extremely hot summer and the impact of the eco-point scheme and other government policies as mentioned above.

Income and Expenses

Operating Expenses and Operating Income

Cost of sales increased 4.7% year on year from ¥365.7 billion for the previous year to ¥383.0 billion owing to higher costs of raw materials and fuel, including recovered paper and city gas. Selling, general and administrative expenses increased 2.7% year on year from ¥57.9 billion for the previous year to ¥59.5 billion owing to an increase in freight charges in line with the increased sales volumes.

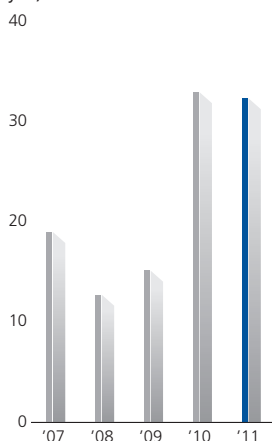
Operating income decreased ¥1.3 billion or 4.0% year on year from ¥33.7 billion for the previous year to ¥32.4 billion. This decrease arose because the impact of increased prices of raw materials and fuel exceeded the impact of higher sales volumes.

Other Income and Expenses

Regarding the net balance of other income and expenses, a loss of ¥14.3 billion was recorded for fiscal 2010, compared with a loss of ¥4.1 billion for the previous year. This was attributable to the recording of a ¥7.4 billion loss on valuation of investment securities reflecting a decline in the value of certain equities held by the

Operating Income

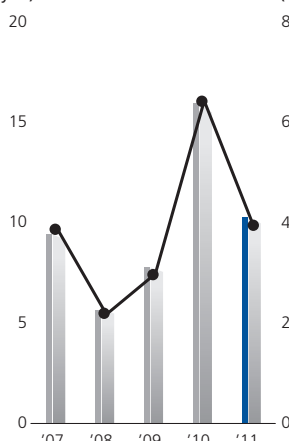
(Billions of yen)



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

	2009	2010	2011
Cost of sales	84.4%	80.8%	80.7%
SG&A expenses	12.2	12.6	12.5
Operating income	3.4	7.4	6.8
Net income	1.8	3.7	2.2

Company as a result of the Great East Japan Earthquake and a ¥4.0 billion loss on disaster.

Income Taxes and Minority Interests

Income taxes decreased ¥4.2 billion from ¥11.7 billion for the previous year to ¥7.5 billion as a result of a decrease in income before income taxes and minority interests. Minority interests in income decreased ¥0.7 billion from ¥0.9 billion for the previous year to ¥0.2 billion for fiscal 2010.

Net Income

Net income was ¥10.3 billion for fiscal 2010, a decrease of ¥6.7 billion or 39.4% from ¥17.0 billion for the previous year. Net income per share was ¥39.67 compared with ¥64.42 for the previous year.

Despite a decline in profit from the previous year, which is expected to be temporary, annual cash dividends per share were increased from ¥10 for the previous year to ¥12, taking into account the trend of financial performance, financial condition, and business development from now on from a comprehensive and long-term perspective.

Financial Position and Cash Flows

Assets

Total assets amounted to ¥499.1 billion, having increased ¥1.0 billion from ¥498.1 billion at the end of the previous year. The principal factors were a ¥10.4 billion increase in current assets, a ¥3.6 billion decrease in property, plant and equipment, a ¥0.2 billion increase in intangible assets, and a ¥6.0 billion decrease in investments and other assets.

The principal reason for the increase in current assets was an increase in the number of consolidated subsidiaries and the decrease in investments and other assets was mainly attributable to the reporting of a loss on valuation of investment securities owing to a decline in stock prices.

Liabilities and Net Assets

Total liabilities amounted to ¥333.5 billion, having decreased ¥0.7

billion from ¥334.2 billion at the end of the previous year. A decrease in other payables ¥4.8 billion in line with the completion of the Fukushima-Yabuki Plant exceeded an increase in notes and accounts payable-trade ¥4.1 billion as a result of the increased number of consolidated subsidiaries.

Interest-bearing debt at the end of the year stood at ¥201.6 billion, having increased ¥2.3 billion from ¥199.2 billion at the end of the previous year. However, if a ¥19.0 billion increase in the interest-bearing debt associated with the newly consolidated subsidiaries is not taken into account, the increase in the interest-bearing debt was ¥0.4 billion.

Net assets amounted to ¥165.6 billion, having increased ¥1.7 billion from ¥163.9 billion at the end of the previous year. Although the Company acquired treasury stock at a cost of ¥5.6 billion, a ¥7.5 billion increase in retained earnings contributed to the increase in net assets.

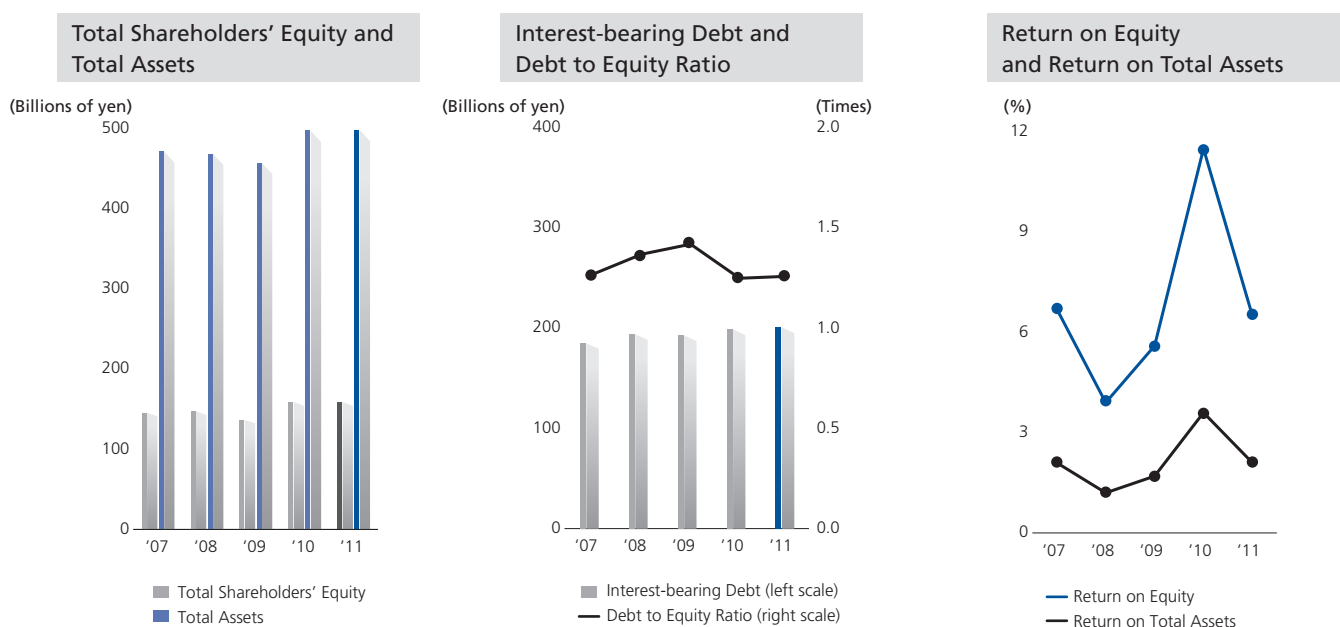
Cash Flows

Net cash provided by operating activities amounted to ¥42.0 billion, a decrease of ¥3.8 billion from ¥45.7 billion for the previous year. Major items were income before income taxes and minority interests ¥18.0 billion, depreciation and amortization ¥26.4 billion and income taxes paid ¥10.1 billion.

Net cash used in investing activities increased ¥3.4 billion from ¥23.0 billion for the previous year to ¥26.4 billion. This increase was mainly attributable to purchases of property, plant and equipment amounting to ¥25.4 billion.

Net cash used in financing activities decreased ¥8.6 billion from ¥18.2 billion for the previous year to ¥9.6 billion, which comprised a net decrease in short-term and long-term loans payable ¥9.4 billion and proceeds from issuance of bonds ¥10.0 billion.

As a result, cash and cash equivalents were ¥20.2 billion at the end of fiscal 2010, having increased ¥5.9 billion.



Consolidated Balance Sheets

Rengo Co., Ltd. and Consolidated Subsidiaries

March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Assets			
Current assets:			
Cash and deposits (Notes 4 and 17)	¥ 18,560	¥ 15,468	\$ 223,614
Short-term investment securities (Notes 4 and 5)	2,200	—	26,506
Receivables—			
Notes and accounts receivable-trade (Note 4)	125,986	122,665	1,517,904
Other	2,018	1,748	24,313
Allowance for doubtful accounts	(605)	(2,193)	(7,289)
	127,399	122,220	1,534,928
Inventories (Note 6)	26,806	24,546	322,964
Deferred tax assets (Note 16)	4,362	4,507	52,554
Other	2,735	4,892	32,952
Total current assets	182,062	171,633	2,193,518
Property, plant and equipment (Notes 8 and 14):			
Buildings and structures	174,832	175,262	2,106,410
Machinery, equipment and vehicles	373,853	370,160	4,504,253
Land	100,944	100,278	1,216,193
Construction in progress	3,718	2,427	44,795
Other	20,842	19,771	251,108
	674,189	667,898	8,122,759
Less accumulated depreciation	(430,986)	(421,082)	(5,192,602)
Total property, plant and equipment	243,203	246,816	2,930,157
Intangible assets:			
Goodwill	2,407	1,810	29,000
Other (Notes 8 and 14)	5,954	6,354	71,735
Total intangible assets	8,361	8,164	100,735
Investments and other assets:			
Investment securities (Notes 4, 5 and 8)	55,417	61,487	667,675
Long-term loans receivable	338	686	4,072
Deferred tax assets (Note 16)	2,663	717	32,084
Other (Notes 8 and 13)	8,543	10,874	102,928
Allowance for doubtful accounts (Note 13)	(1,468)	(2,240)	(17,687)
Total investments and other assets	65,493	71,524	789,072
	¥499,119	¥498,137	\$6,013,482

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings, including current portion of long-term debt (Notes 4, 7 and 8)	¥103,355	¥ 94,817	\$1,245,241
Payables—			
Notes and accounts payable-trade (Notes 4 and 8)	71,488	67,435	861,301
Other (Note 8)	12,040	16,853	145,060
	83,528	84,288	1,006,361
Income taxes payable	5,868	5,643	70,699
Provision for directors' bonuses	174	169	2,096
Other	25,522	23,796	307,495
Total current liabilities	218,447	208,713	2,631,892
Noncurrent liabilities:			
Long-term debt due after one year (Notes 4, 7 and 8)	94,504	101,518	1,138,602
Deferred tax liabilities (Note 16)	4,477	5,649	53,940
Provision for retirement benefits (Note 12)	7,918	10,460	95,398
Provision for directors' retirement benefits	881	846	10,614
Other (Notes 8 and 13)	7,279	7,025	87,699
Total noncurrent liabilities	115,059	125,498	1,386,253
Contingent liabilities (Note 9)			
Net assets (Note 11):			
Shareholders' equity:			
Capital stock:			
Authorized – 800,000,000 shares			
Issued – 271,056,029 shares	31,067	31,067	374,301
Capital surplus	33,998	33,998	409,614
Retained earnings	106,221	98,713	1,279,771
Treasury stock:			
13,383,132 shares in 2011 and 3,343,418 shares in 2010	(7,839)	(2,280)	(94,446)
Total shareholders' equity	163,447	161,498	1,969,240
Accumulated Other Comprehensive Income:			
Valuation difference on available-for-sale securities	(94)	314	(1,132)
Foreign currency translation adjustment	(3,958)	(2,428)	(47,687)
Total accumulated other comprehensive income	(4,052)	(2,114)	(48,819)
Minority interests	6,218	4,542	74,916
Total net assets	165,613	163,926	1,995,337
	¥499,119	¥498,137	\$6,013,482

Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales (Note 20)	¥474,878	¥457,386	\$5,721,422
Cost of sales	382,990	365,741	4,614,337
Selling, general and administrative expenses (Note 15)	59,497	57,918	716,832
Operating income (Note 20)	32,391	33,727	390,253
Other income (expenses):			
Interest and dividends income	1,642	1,485	19,783
Rent income	505	503	6,084
Equity in losses of affiliates	(18)	(183)	(217)
Interest expenses	(2,560)	(2,857)	(30,843)
Reversal of allowance for doubtful accounts	625	174	7,530
Gain on sales of noncurrent assets	224	154	2,699
Gain on sales of investment securities	164	152	1,976
Subsidy	155	840	1,867
Loss on disaster (Note 23)	(3,953)	—	(47,627)
Loss on valuation of investment securities	(7,436)	(280)	(89,590)
Other, net (Notes 21 and 22)	(3,697)	(4,082)	(44,542)
Income before income taxes and minority interests	18,042	29,633	217,373
Income taxes (Note 16):			
Income taxes-current	10,268	8,517	123,711
Income taxes-deferred	(2,738)	3,187	(32,989)
	7,530	11,704	90,722
Income before minority interests	10,512	17,929	126,651
Minority interests in income	221	942	2,663
Net income	¥ 10,291	¥ 16,987	\$ 123,988

	Yen		U.S. dollars (Note 1)
	2011	2010	2011
Per share data:			
Net income per share, basic	¥ 39.67	¥ 64.42	\$ 0.48
Net income per share, diluted	—	—	—
Cash dividends applicable to the year	12.00	10.00	0.14

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Income before minority interests	¥10,512	¥17,929	\$126,651
Other comprehensive income			
Valuation difference on available-for-sale securities	(438)	3,849	(5,277)
Foreign currency translation adjustment	(977)	(25)	(11,771)
Share of other comprehensive income of associates accounted for using equity method	(578)	(777)	(6,964)
Total other comprehensive income	(1,993)	3,047	(24,012)
Comprehensive income	8,519	20,976	102,639
Comprehensive income attributable to			
Comprehensive income attributable to owners of the parent	8,353	20,120	100,639
Comprehensive income attributable to minority interests	166	856	2,000

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, 2011 and 2010

	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, 2009	263,774	¥31,067	¥27,442	¥ 84,854	(¥1,614)	(¥3,579)	(¥1,995)	¥4,604	¥140,779	
Increase by share exchanges (Note 17)	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	
Balance at March 31, 2010	271,056	¥31,067	¥33,998	¥ 98,713	(¥2,280)	¥ 314	(¥2,428)	¥4,542	¥163,926	
Dividends from surplus				(2,884)					(2,884)	
Net income				10,291					10,291	
Purchase of treasury stock					(5,561)				(5,561)	
Disposal of treasury stock				(0)	2				2	
Change of scope of consolidation				20					20	
Other				81					81	
Net changes of items other than shareholders' equity						(408)	(1,530)	1,676	(262)	
Balance at March 31, 2011	271,056	¥31,067	¥33,998	¥106,221	(¥7,839)	(¥ 94)	(¥3,958)	¥6,218	¥165,613	

	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, 2010	\$374,301	\$409,614	\$1,189,313	(\$27,470)	\$3,784	(\$29,253)	\$54,723	\$1,975,012	
Dividends from surplus			(34,747)					(34,747)	
Net income			123,988					123,988	
Purchase of treasury stock				(67,000)				(67,000)	
Disposal of treasury stock			(0)	24				24	
Change of scope of consolidation			241					241	
Other			976					976	
Net changes of items other than shareholders' equity					(4,916)	(18,434)	20,193	(3,157)	
Balance at March 31, 2011	\$374,301	\$409,614	\$1,279,771	(\$94,446)	(\$1,132)	(\$47,687)	\$74,916	\$1,995,337	

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	¥18,042	¥29,633	\$217,373
Depreciation and amortization	26,394	25,223	318,000
Impairment loss	297	479	3,578
Amortization of goodwill	201	245	2,422
Decrease in provision for retirement benefits	(2,533)	(1,869)	(30,518)
Increase (decrease) in provision for directors' retirement benefits	19	(0)	229
Interest and dividends income	(1,642)	(1,485)	(19,783)
Interest expenses	2,560	2,857	30,843
Equity in losses of affiliates	18	183	217
Gain on sales of investment securities	(169)	(149)	(2,036)
Loss on valuation of investment securities	7,442	294	89,663
Loss (gain) on sales of property, plant and equipment	(153)	17	(1,843)
Loss on retirement of property, plant and equipment	1,799	685	21,675
Increase in notes and accounts receivable-trade	(1,703)	(2,191)	(20,518)
Decrease (increase) in inventories	(1,141)	2,113	(13,747)
Increase (decrease) in notes and accounts payable-trade	2,369	(2,146)	28,542
Other, net	859	1,405	10,349
Subtotal	52,659	55,294	634,446
Interest and dividends income received	1,939	1,787	23,361
Interest expenses paid	(2,579)	(2,887)	(31,072)
Income taxes paid	(10,059)	(8,459)	(121,193)
Net cash provided by operating activities	41,960	45,735	505,542
Net cash provided by (used in) investing activities			
Decrease in time deposits	592	1,067	7,133
Purchase of property, plant and equipment	(25,390)	(21,265)	(305,904)
Proceeds from sales of property, plant and equipment	601	619	7,241
Purchase of intangible assets	(956)	(1,523)	(11,518)
Purchase of investment securities	(2,480)	(4,421)	(29,880)
Proceeds from sales and redemption of investment securities	409	1,798	4,928
Payments for investments in capital of subsidiaries and affiliates	(2,102)	—	(25,325)
Decrease (increase) in short-term loans receivable	2,781	(71)	33,506
Payments of long-term loans receivable	(162)	(167)	(1,952)
Collection of long-term loans receivable	172	378	2,072
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 17)	—	621	—
Other, net	140	—	1,688
Net cash used in investing activities	(26,395)	(22,964)	(318,011)
Net cash provided by (used in) financing activities			
Net decrease in short-term loans payable	(4,477)	(2,621)	(53,940)
Proceeds from long-term loans payable	9,064	14,972	109,205
Repayment of long-term loans payable	(14,011)	(20,910)	(168,807)
Proceeds from issuance of bonds	10,000	—	120,482
Redemption of bonds	(730)	(5,904)	(8,795)
Purchase of treasury stock	(5,561)	(673)	(67,000)
Proceeds from sales of treasury stock	2	64	24
Cash dividends paid	(2,885)	(2,616)	(34,759)
Other, net	(963)	(470)	(11,603)
Net cash used in financing activities	(9,561)	(18,158)	(115,193)
Effect of exchange rate change on cash and cash equivalents	(160)	(0)	(1,928)
Net increase in cash and cash equivalents	5,844	4,613	70,410
Cash and cash equivalents at beginning of year	14,299	9,639	172,277
Increase in cash and cash equivalents from newly consolidated subsidiaries	64	633	771
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(586)	—
Cash and cash equivalents at end of year (Note 17)	¥20,207	¥14,299	\$243,458

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 from 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, 2011, which was ¥83 to U.S. \$1.00. The 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 46 (43 in 2010) 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 the March 31 date of the Company. However, necessary adjustments have been made if the effect of the difference in year-ends is material.

Investments in nonconsolidated 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 the 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 or 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 subsidiaries. Goodwill 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. Negative goodwill acquired prior to March 31, 2010 is amortized on a straight-line basis continuously.

(Changes in Accounting Policies)

From the fiscal year ended March 31, 2011, the Company adopted "Accounting Standard for Equity Method of Accounting for Investments" (Accounting Standards Board of Japan ("ASBJ") Statement No. 16, issued by the ASBJ on March 10, 2008) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issues Task Force No. 24, issued on March 10, 2008).

The adoption of this accounting standard had no effect on operating income and income before income taxes and minority interests.

(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 an 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 of Japan. Buildings acquired after April 1, 1998 are depreciated by the straight-line method.

(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 ¥339 million (U.S. \$4,084 thousand) and ¥232 million are deducted directly from the amounts of investment securities at March 31, 2011 and 2010, 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, 2011 and 2010 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.

(17) Accounting Standard for Presentation of Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company has adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued on June 30, 2010).

The amounts reported in "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the fiscal year ended March 31, 2010 in the accompanying Financial Statements are exactly same as those in "Valuation and translation adjustments" and "Total valuation and translation adjustments", respectively in the presentation of the previous fiscal year's Financial Statements.

In addition, the Company presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

3. CHANGES IN ACCOUNTING POLICIES

(1) Accounting Standard for Asset Retirement Obligations

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standards for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standards for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, in the year ended March 31, 2011, operating income decreased by ¥1 million (U.S. \$12 thousand), income before income taxes and minority interests decreased by ¥383 million (U.S. \$4,614 thousand) and the effect of Asset Retirement Obligations by this adoption is ¥342 million (U.S. \$4,120 thousand).

(2) Accounting Standards for Business Combinations and Others

Effective from the fiscal year ended March 31, 2011, the Companies have adopted "Accounting Standards for Business Combinations" (ASBJ Statement No. 21, issued on December 26, 2008), "Accounting Standards for Consolidated Financial Statement" (ASBJ Statement No. 22, issued on December 26, 2008) and "Partial Amendments to Accounting Standard for Research and Development Costs" (ASBJ Statement No. 23, issued on December 26, 2008) and "Revised Accounting Standards for Business Divestitures" (ASBJ Statement No. 7, issued on December 26, 2008), "Revised Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on December 26, 2008).

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 loans from banks and the issuance bonds. The Companies manage surplus capital using financial instruments that carry little or no risk and procure short-term working capital through 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 consist primarily of 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 the Companies regularly revised their portfolio based on the relationships with issuing entities.

Notes and accounts payable-trade are due within one year. In addition, certain payables are denominated in foreign currencies, which expose 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 the issuance bonds. Although some long-term loans are exposed to the risk of interest rate fluctuations, the Companies hedge the risk with derivatives transactions such as 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 24 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, 2011 and 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		
	2011			2010			2011		
	Book value	Market value	Difference	Book value	Market value	Difference	Book value	Market value	Difference
(A) Cash and deposits	¥ 18,560	¥ 18,560	¥ —	¥ 15,468	¥ 15,468	¥ —	\$ 223,614	\$ 223,614	\$ —
(B) Notes and accounts receivable-trade	125,986	125,986	—	122,665	122,665	—	1,517,904	1,517,904	—
(C) Securities and Investment securities									
Available-for-sale securities	45,813	45,813	—	50,571	50,571	—	551,964	551,964	—
Total assets	¥190,359	¥190,359	¥ —	¥188,704	¥188,704	¥ —	\$2,293,482	\$2,293,482	\$ —
(A) Notes and accounts payable-trade	¥ 71,488	¥ 71,488	¥ —	¥ 67,435	¥ 67,435	¥ —	\$ 861,301	\$ 861,301	\$ —
(B) Short-term borrowings	97,490	97,649	159	94,087	94,087	—	1,174,578	1,176,494	1,916
(C) Current portion of bonds	5,865	5,899	34	730	736	6	70,663	71,072	409
(D) Bonds payable	25,000	25,431	431	20,865	21,340	475	301,205	306,398	5,193
(E) Long-term loans payable	69,504	70,833	1,329	80,653	82,316	1,663	837,398	853,410	16,012
Total liabilities	¥269,347	¥271,300	¥1,953	¥263,770	¥265,914	¥2,144	\$3,245,145	\$3,268,675	\$23,530
Derivatives transactions (*1)									
(a) Hedge accounting is not applied (*2)	¥—	¥—	¥—	(¥541)	(¥541)	¥—	\$—	\$—	\$—
(b) Hedge accounting is applied	—	—	—	—	—	—	—	—	—
Total derivatives transactions	¥—	¥—	¥—	(¥541)	(¥541)	¥—	\$—	\$—	\$—

(*1) Assets and liabilities which are occurred from derivative transactions are net amounts. If the account balance is a debt, it is shown in parentheses ().

(*2) The details of this derivative liability are described in Note 24.

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) Securities and Investment securities

The fair value of investments which have market values in securities is the price listed on securities exchanges. Negotiable certificates of deposits are based on book values of interest due to their short terms. 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. The current portion of long-term debt and short-term borrowings use the same methods for estimating fair value as (E) Long-term loans payable.

(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 24 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 24.

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Available-for-sale securities	¥3,604	¥3,561	\$43,422
Equity securities issued by unconsolidated subsidiaries and affiliated companies	8,200	7,355	98,795

Financial instruments for which determining fair value is difficult because no market price is available are not included in (C) Securities and 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			
	2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 18,560	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	125,986	—	—	—
Investment securities				
Available-for-sale securities	—	—	1,000	—
Total	¥144,546	¥ —	¥1,000	¥ —

	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			
	2011			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	\$ 223,614	\$ —	\$ —	\$ —
Notes and accounts receivable-trade	1,517,904	—	—	—
Investment securities				
Available-for-sale securities	—	—	12,048	—
Total	\$1,741,518	\$ —	\$12,048	\$ —

(Additional Information)

Effective from the fiscal year ended March 31, 2010, the Company adopted the revised Accounting Standard, "Accounting Standard for Financial Instruments" (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) Acquisition Costs and Book Values (Fair Values) of Available-for-Sale Securities with Available Fair Values

The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2011 and 2010:

	Millions of yen						Thousands of U.S. dollars		
	2011			2010			2011		
	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	¥18,224	¥10,789	¥7,435	¥26,342	¥16,224	¥10,118	\$219,566	\$129,988	\$89,578
Bonds	—	—	—	—	—	—	—	—	—
Others	6	3	3	9	4	5	73	36	37
	18,230	10,792	7,438	26,351	16,228	10,123	219,639	130,024	89,615
Securities with book values (fair values) not exceeding acquisition costs:									
Equity securities	24,368	31,358	(6,990)	23,213	32,210	(8,997)	293,590	377,807	(84,217)
Bonds	1,006	1,008	(2)	997	1,010	(13)	12,120	12,145	(25)
Others	2,209	2,210	(1)	10	10	—	26,615	26,626	(11)
	27,583	34,576	(6,993)	24,220	33,230	(9,010)	332,325	416,578	(84,253)
Total	¥45,813	¥45,368	¥ 445	¥50,571	¥49,458	¥ 1,113	\$551,964	\$546,602	\$ 5,362

(2) Sales of Available-for-Sale Securities

Total sales of available-for-sale securities in the years ended March 31, 2011 and 2010 amounted to ¥365 million (U.S. \$4,398 thousand) and ¥266 million, respectively. The related gains for the years ended March 31, 2011 and 2010 amounted to ¥169 million (U.S. \$2,036 thousand) and ¥106 million, respectively. The related losses for the years ended March 31, 2011 and 2010 amounted to ¥1 million (U.S. \$12 thousand) and ¥3 million, respectively.

6. INVENTORIES

Inventories as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished goods	¥13,770	¥12,360	\$165,904
Work in process	1,559	1,580	18,783
Raw materials and supplies	11,477	10,606	138,277
Total	¥26,806	¥24,546	\$322,964

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate
	2011	2010	2011	2011
Short-term borrowings	¥ 77,626	¥80,492	\$ 935,253	0.88%
Current portion of long-term debt	25,729	14,325	309,988	1.30
Total	¥103,355	¥94,817	\$1,245,241	—

Long-term debt at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
0.05% to 5.41% loans, principally from banks and insurance companies, due in installments through 2022	¥ 89,368	¥ 94,248	\$1,076,723
Unsecured 1.69% bonds, due July 2011	225	675	2,711
Unsecured 1.54% bonds, due September 2011	5,000	5,000	60,241
Unsecured 1.60% bonds, due February 2012	500	500	6,024
Unsecured 1.37% bonds, due February 2012	40	80	482
Unsecured 1.37% bonds, due March 2012	100	200	1,204
Unsecured 1.42% bonds, due November 2012	5,000	5,000	60,241
Unsecured 1.91% bonds, due September 2013	5,000	5,000	60,241
Unsecured 1.71% bonds, due November 2014	5,000	5,000	60,241
Unsecured 0.62% bonds, due June 2015	10,000	—	120,482
Unsecured 1.25% bonds, due March 2011	—	140	—
	120,233	115,843	1,448,590
Less current portion	(25,729)	(14,325)	(309,988)
	¥ 94,504	¥101,518	\$1,138,602

Annual maturities of long-term debt at March 31, 2011 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 25,729	\$ 309,988
2013	28,195	339,699
2014	25,262	304,361
2015	19,147	230,687
2016 and thereafter	21,900	263,855
	¥120,233	\$1,448,590

8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral for short-term borrowings of ¥9,239 million (U.S. \$111,313 thousand), including the current portion of long-term debt, long-term debt of ¥4,964 million (U.S. \$59,807 thousand), account payable-trade of ¥252 million (U.S. \$3,036 thousand) and others of ¥1,400 million (U.S. \$16,867 thousand) at March 31, 2011 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥76,424	\$920,771
Investment securities	554	6,675
Other	91	1,096

9. CONTINGENT LIABILITIES

As of March 31, 2011, the Companies' contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted	¥ 476	\$ 5,735
As endorser of notes endorsed	2,596	31,277
As guarantor of indebtedness and lease obligations	1,246	15,012

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, 2011 and 2010 and for the fiscal years then ended, as lessee, were as follows:

Acquisition costs, accumulated depreciation and net leased property at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acquisition costs	¥12,256	¥14,668	\$147,663
Accumulated depreciation	8,358	9,068	100,699
Net leased property	¥ 3,898	¥ 5,600	\$ 46,964

Future minimum finance lease payments for the remaining lease periods at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥1,177	¥1,674	\$14,181
Due over one year	2,721	3,926	32,783
Total	¥3,898	¥5,600	\$46,964

Lease payments in the years ended March 31, 2011 and 2010 amounted to ¥1,700 million (U.S. \$20,482 thousand) and ¥2,002 million, respectively.

(2) Operating Leases

Future minimum non-cancelable operating lease payments for the remaining lease periods at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥7	¥10	\$84
Due over one year	1	8	12
Total	¥8	¥18	\$96

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, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥42,768	¥43,844	\$515,277
Unrecognized actuarial differences	(7,609)	(7,489)	(91,675)
Unrecognized past service costs	154	176	1,855
Less fair value of pension assets	(27,400)	(26,083)	(330,119)
Prepaid pension costs	5	12	60
Provision for retirement benefits	¥ 7,918	¥10,460	\$ 95,398

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service costs – benefits earned during the year	¥2,317	¥2,085	\$27,916
Interest cost on projected benefit obligation	779	800	9,386
Expected return on plan assets	(373)	(343)	(4,494)
Amortization of net unrecognized actuarial differences	1,020	1,120	12,289
Amortization of past service costs	(23)	(23)	(277)
Other severance and retirement benefit expenses	438	418	5,276
Severance and retirement benefit expenses	¥4,158	¥4,057	\$50,096

The discount rate of the projected benefit obligation used by the Companies for the years ended March 31, 2011 and 2010 is 2.0%. The rate of expected return on plan assets used by the Companies for the years ended March 31, 2011 and 2010 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 of the Company, applied to the Tokyo District Court under the Civil Rehabilitation Law on September 16, 2008.

According to the agreement between LBJ and NM, the continuing execution of the transactions required notification from LBJ. However, LBJ had not provided NM with any notifications after September 16, 2008 as of March 31, 2010. As a result, any transactions had not been executed yet. In addition, the option transactions might have been terminated by the petition for commencement of rehabilitation proceedings, and NM had not yet received any notification about the termination of the transactions from the trustee of LBJ as of March 31, 2010.

Therefore a settlement amount or the claims against LBJ were not determined as of March 31, 2010. The Company accounted for the settlement liability based on the market value as of September 12, 2008 (¥541 million in derivatives liabilities). NM was recognizable in the last days of the commencement of rehabilitation proceedings filed under the Civil Rehabilitation Law.

NM 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 consolidated financial statements of NM for the fiscal year ended February 28, 2009, NM's claim had been transferred to claims provable in rehabilitation and other from investment securities with the market value of ¥1,175 million at September 12, 2008 (the last trading day of a holiday for September 15, 2008). This amount and the above ¥541 million of derivatives liabilities had been carried in gross amount. During the liquidation of this transaction, assuming that the guarantee deposits and the debt derivatives were offset, allowance for doubtful accounts had been posted at ¥634 million the difference between the two.

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

14. INACTIVE NONCURRENT ASSETS

The operations of Marusan Paper Mfg. Co., Ltd., a consolidated subsidiary, located within 25 km of the Tokyo Electric Power Company Fukushima Daiichi Nuclear Power Plant, were suspended at March 31, 2011 due to the accident of this plant. The operations have been proceeding incrementally from June 20, 2011.

At March 31, 2011, the inactive property, plant and equipment and intangible assets of Marusan Paper Mfg. Co., Ltd. were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011		2011
Buildings and structures	¥ 1,890		\$ 22,771
Machinery, equipment and vehicles	3,277		39,483
Land	4,990		60,120
Other	126		1,518
Total	¥10,283		\$123,892

15. 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 ¥1,486 million (U.S. \$17,904 thousand) and ¥1,507 million for the years ended March 31, 2011 and 2010, respectively.

16. 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, 2011 and 2010.

At March 31, 2011 and 2010, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Loss carried forward for tax purposes	¥ 3,274	¥ 3,908	\$ 39,446
Provision for retirement benefits	3,237	4,144	39,000
Accrued bonuses	2,400	2,461	28,916
Loss on valuation of golf club membership	691	763	8,325
Provision for directors' retirement benefits	567	586	6,831
Loss on valuation of investment securities	3,680	811	44,337
Allowance for doubtful accounts	326	1,058	3,928
Unrealized gain on sale of property, plant and equipment eliminated on consolidation	289	295	3,482
Accrued enterprise taxes	507	506	6,108
Impairment loss	949	702	11,434
Other	3,192	2,991	38,458
Subtotal deferred tax assets	19,112	18,225	230,265
Valuation allowance	(6,109)	(6,892)	(73,602)
Total deferred tax assets	13,003	11,333	156,663
Deferred tax liabilities:			
Special tax-purpose reserves	(5,365)	(6,066)	(64,639)
Revaluation reserve for land	(4,655)	(4,653)	(56,084)
Other	(435)	(1,039)	(5,242)
Total deferred tax liabilities	(10,455)	(11,758)	(125,965)
Net deferred tax assets (liabilities)	¥ 2,548	(¥ 425)	\$ 30,698

The difference between the aggregate statutory income tax rate and the effective tax rate for the years ended March 31, 2011 and 2010 was not significant.

17. 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥18,560	¥15,468	\$223,614
Less: Time deposits with maturities exceeding three months	(553)	(1,169)	(6,662)
Add: Negotiable certificates of deposits	2,200	—	26,506
Short-term loans receivable with maturities not exceeding three months	—	0	—
Cash and cash equivalents	¥20,207	¥14,299	\$243,458

(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
	2010
Assets	¥47,484
Liabilities	(33,711)
Negative goodwill	(1,119)
Minority interests	(4,867)
Cash paid for the capital	7,787
Cash paid for the capital of purchase for the current fiscal year	3,560
Cash and cash equivalents of consolidated subsidiaries	4,181
Cash paid in conjunction with the purchases of consolidated subsidiaries	¥ 621

(3) Significant Non-Fund Transactions

For the year ended March 31, 2010, the Company acquired NM as a wholly-owned subsidiary through a share exchange. Consequently, its capital surplus is increased by ¥4,129 million.

18. ASSET RETIREMENT OBLIGATIONS

Since the aggregate amount of asset retirement obligations as of March 31, 2011 was not material, asset retirement obligations-related has not been presented.

19. RENTAL AND OTHER REAL ESTATE ASSET-RELATED

Since the aggregate amount of rental and other real estate asset-related for the years ended March 31, 2011 and 2010 was not material, a rental and other real estate asset-related 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" (ASBJ Statement No. 20, issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, issued on November 28, 2008).

20. SEGMENT INFORMATION

(1) Segment Information by Business Segment

Paperboard and packaging-related business includes paperboard, corrugated board, corrugated containers and other. Flexible packaging-related business includes flexible packaging, cellophane and other. Other businesses include newsprint, chemical products, non-woven products and other.

Information by business segment for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Net sales:	
Paperboard and packaging-related business	¥363,177
Flexible packaging-related business	76,616
Other businesses	37,817
	477,610
Elimination or Corporate	(20,224)
	¥457,386
Operating costs and expenses:	
Paperboard and packaging-related business	¥332,799
Flexible packaging-related business	73,789
Other businesses	37,437
	444,025
Elimination or Corporate	(20,366)
	¥423,659
Operating income:	
Paperboard and packaging-related business	¥ 30,378
Flexible packaging-related business	2,827
Other businesses	380
	33,585
Elimination or Corporate	142
	¥ 33,727
Assets:	
Paperboard and packaging-related business	¥412,422
Flexible packaging-related business	77,922
Other businesses	24,628
	514,972
Elimination or Corporate	(16,835)
	¥498,137
Depreciation and amortization:	
Paperboard and packaging-related business	¥ 20,946
Flexible packaging-related business	3,239
Other businesses	1,094
	25,279
Elimination or Corporate	(56)
	¥ 25,223
Impairment loss:	
Paperboard and packaging-related business	¥ 955
Flexible packaging-related business	169
Other businesses	—
	1,124
Elimination or Corporate	—
	¥ 1,124
Capital expenditure:	
Paperboard and packaging-related business	¥ 23,798
Flexible packaging-related business	3,943
Other businesses	1,687
	29,428
Elimination or Corporate	(65)
	¥ 29,363

(2) Segment Information by Geographic Area

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

(4) Segment Information

(Additional Information)

Effective from the year ended March 31, 2011, the Company adopted "Accounting Standard for Disclosure of Segments about an Enterprise and Related Information" (ASBJ Statement No. 17, March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008).

A. Overview of reportable segments

The Company's reportable segments are the units for which separate financial information is available, and which are periodically reviewed by the board of directors for the purposes of deciding the allocation of management resources and evaluating business performance.

To fulfill the multiple needs of packaging as "General Packaging Industry (GPI)", The Companies expand the business field such as flexible packaging and heavy duty packaging and overseas, make plans for the comprehensive strategy about products in each business field and operations, in addition to the integrated production from paperboards to corrugated containers. The Company has designated four reportable segments, which are the "Paperboard and Packaging-Related Business", "Flexible Packaging-Related Business", "Heavy Duty Packaging-Related Business", and "Overseas Business" segments, based on the business field.

The "Paperboard and Packaging-Related Business" segment includes manufacturing and sales of paperboard, corrugated board and corrugated containers domestically. The "Flexible Packaging-Related Business" segment includes manufacturing and sales of flexible packaging and cellophane domestically. The "Heavy Duty Packaging-Related Business" segment includes manufacturing and sales of heavy duty packaging products domestically. The "Overseas Business" segment includes manufacturing and sales of paperboard, corrugated board, corrugated containers, flexible packaging and heavy duty packaging products overseas.

B. Method of calculating sales, profit or loss, assets and other items by reportable segment

The accounting policies for business segments reported are generally the same as on those described in Note 2 "Summary of Significant Accounting Policies". Figures of reportable segment income are based on operating income. Internal return and transfer between segments are based on the current market prices.

C. Information on sales, profit or loss, assets and other items by reportable segment

Information by segment for the year ended March 31, 2011 and 2010 were as follows:

Millions of yen								
2011								
Reportable segments								
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal	Other businesses (*1)	Adjustments (*2)	Total (*3)
Net sales	¥363,571	¥54,076	¥25,352	¥15,960	¥458,959	¥40,404	(¥24,485)	¥474,878
Segment profit	28,823	1,523	1,262	503	32,111	171	109	32,391
Segment assets	415,103	37,448	23,646	33,066	509,263	25,640	(35,784)	499,119
Other items								
Depreciation and amortization	20,784	2,248	743	935	24,710	1,412	(57)	26,065
Amortization of goodwill	377	237	22	74	710	0	—	710
Investment in equity method affiliates	1,080	—	—	6,254	7,334	—	—	7,334
Increase in property, plant and equipment and intangible assets	17,868	1,791	510	341	20,510	2,184	(44)	22,650

Thousands of US dollars								
2011								
	Reportable segments					Other businesses (*1)	Adjustments (*2)	Total (*3)
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal			
Net sales	\$4,380,374	\$651,518	\$305,446	\$192,289	\$5,529,627	\$486,795	(\$295,000)	\$5,721,422
Segment profit	347,265	18,350	15,205	6,060	386,880	2,060	1,313	390,253
Segment assets	5,001,240	451,181	284,892	398,386	6,135,699	308,916	(431,133)	6,013,482
Other items								
Depreciation and amortization	250,410	27,084	8,952	11,265	297,711	17,012	(687)	314,036
Amortization of goodwill	4,542	2,855	265	892	8,554	0	—	8,554
Investment in equity method affiliates	13,012	—	—	75,349	88,361	—	—	88,361
Increase in property, plant and equipment and intangible assets	215,277	21,578	6,145	4,108	247,108	26,313	(529)	272,892

(*1) "Other businesses" are the business which is not included in reportable segments and includes manufacturing and sales of nonwoven products, paper packaging machinery, newsprint and chemical products, transport, insurance agency, leasing and real estate.

(*2) Resulting adjustments are as follows:

- The adjustment of segmental profits of ¥109 million (U.S. \$1,313 thousand) is from the elimination of intersegment transactions.
- The adjustment of segmental assets of -¥35,784 million (-U.S. \$431,133 thousand) is from the elimination of intersegment transactions.
- The adjustment of depreciation expense of -¥57 million (-U.S. \$687 thousand) is from the elimination of intersegment transactions.
- The adjustment of increases in property, plant and equipment, and intangible assets of -¥44 million (-U.S. \$529 thousand) is from the elimination of intersegment transactions.

(*3) The segment profit made an adjustment for operating income in the consolidated statements of income.

Millions of yen								
2010								
	Reportable segments					Other businesses (*1)	Adjustments (*2)	Total (*3)
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal			
Net sales	¥355,615	¥53,920	¥19,786	¥12,478	¥441,799	¥37,818	(¥22,231)	¥457,386
Segment profit	30,029	1,449	1,016	696	33,190	381	156	33,727
Segment assets	411,355	39,075	25,448	25,586	501,464	24,627	(27,954)	498,137
Other items								
Depreciation and amortization	19,795	2,320	659	907	23,681	1,093	(56)	24,718
Amortization of goodwill	360	237	—	13	610	0	—	610
Investment in equity method affiliates	1,014	—	—	7,684	8,698	—	—	8,698
Increase in property, plant and equipment and intangible assets	22,821	3,310	526	1,084	27,741	1,687	(65)	29,363

(*1) "Other businesses" are the business which is not included in reportable segments and includes manufacturing and sales of nonwoven products, paper packaging machinery, newsprint and chemical products, transport, insurance agency, leasing and real estate.

(*2) Resulting adjustments are as follows:

- The adjustment of segmental profits of ¥156 million is from the elimination of intersegment transactions.
- The adjustment of segmental assets of -¥27,954 million is from the elimination of intersegment transactions.
- The adjustment of depreciation expense of -¥56 million is from the elimination of intersegment transactions.
- The adjustment of increases in property, plant and equipment, and intangible assets of -¥65 million is from the elimination of intersegment transactions.

(*3) The segmental profit made an adjustment for operating income in the consolidated statements of income.

(5) Relative Information

A. Information regarding products and service

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Sales to customers		
Paperboard	¥ 50,365	\$ 606,807
Corrugated board	48,122	579,783
Corrugated boxes	247,479	2,981,675
Flexible packaging and cellophane	52,783	635,940
Other	76,129	917,217
Total	¥474,878	\$5,721,422

B. Information regarding regions

Since sales and property, plant and equipment in Japan accounted for more than 90% of consolidated sales and property, plant and equipment for the year ended March 31, 2011, information regarding regions geographic area has not been presented.

C. Information by major clients

Since no outside customers accounted for more than 10% of consolidated sales for the year ended March 31, 2011, information by major clients has not been presented.

(6) Information on Impairment Loss in Property, Plant and Equipment by Reportable Segment

	Millions of yen							
	2011							
	Reportable segments							
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal	Other businesses	Adjustments	Total
Impairment loss	¥700	¥65	¥—	¥73	¥838	¥1	¥—	¥839

	Thousands of US dollars							
	2011							
	Reportable segments							
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal	Other businesses	Adjustments	Total
Impairment loss	\$8,434	\$783	\$—	\$879	\$10,096	\$12	\$—	\$10,108

“Other businesses” are the business which is not included in reportable segments and includes manufacturing and sales of nonwoven products, paper packaging machinery, newsprint and chemical products, transport, insurance agency, leasing and real estate.

(7) Information on Amortization of Goodwill and Unamortized Balance by Reportable Segment

	Millions of yen							
	2011							
	Reportable segments							
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business	Subtotal	Other businesses	Adjustments	Total
Goodwill								
Amortized for the period	¥ 377	¥ 237	¥ 22	¥ 74	¥ 710	¥0	¥—	¥ 710
Balance at end of period	1,897	1,899	40	654	4,490	0	—	4,490
Negative goodwill								
Amortized for the period	237	2	219	51	509	—	—	509
Balance at end of period	1,027	25	765	266	2,083	—	—	2,083

Thousands of US dollars									
2011									
	Reportable segments					Subtotal	Other businesses	Adjustments	Total
	Paperboard and packaging-related business	Flexible packaging-related business	Heavy duty packaging-related business	Overseas business					
Goodwill									
Amortized for the period	\$ 4,542	\$ 2,855	\$ 265	\$ 892	\$ 8,554	\$0	\$—	\$ 8,554	
Balance at end of period	22,855	22,879	482	7,880	54,096	0	—	54,096	
Negative goodwill									
Amortized for the period	2,855	24	2,639	615	6,133	—	—	6,133	
Balance at end of period	12,373	301	9,217	3,205	25,096	—	—	25,096	

“Other businesses” are the business which is not included in reportable segments and includes manufacturing and sales of nonwoven products, paper packaging machinery, newsprint and chemical products, transport, insurance agency, leasing and real estate.

(8) Information on Gain on Negative Goodwill by Reportable Segment

For the year ended March 31, 2011, Gain on negative goodwill was not material and has not been presented.

21. 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
Awara-shi, Fukui Prefecture (Kanazu Mill)	Containerboard products production facilities (assets scheduled for disposal)	Buildings and structures	¥ 8
		Machinery, equipment and vehicles	637
		Other	0
		Total	645
Utsunomiya-shi, Tochigi Prefecture	Idle assets	Buildings and structures	12
		Land	226
		Total	238
Taito-ku, Tokyo (Nihon Matai Co., Ltd.)	Infusion-related facilities (assets scheduled for disposal)	Construction in progress	166
Other	Idle assets	Buildings and structures	57
		Machinery, equipment and vehicles	5
		Land	10
		Other	3
		Total	75

The Companies grouped their fixed assets based on 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 and impairment loss of ¥166 million 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 unsalable buildings and structures and others were based on the memorandum price.

22. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

For the year ended March 31, 2010, the business structure improvement expenses caused by the decision to dispose the No.1 paper machine at the Kanazu Mill, which created of impairment loss of ¥645 million, loss on valuation of inventories of ¥68 million and others.

23. LOSS ON DISASTER

For the year ended March 31, 2011, loss on disaster caused by the Great East Japan Earthquake (the “Earthquake”), which consisted of loss on the extinguishment, repair costs and other of fixed assets of ¥2,716 million (U.S. \$32,723

thousand), the fixed costs of manufacturing section during the period of the suspension of operations of ¥445 million (U.S. \$5,361 thousand), loss on extinguishment of inventory assets of ¥357 million (U.S. \$4,301 thousand) and others.

The principal components of impairment loss of the loss on extinguishment, repair costs and other of fixed assets were as follows:

Place	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Miyagino-ku, Sendai-shi (Sendai Plant)	Assets scheduled for sale	Land	¥150	\$1,807
		Buildings and structures	68	819
Other	Assets scheduled for disposal	Machinery, equipment and vehicles	2	24
		Other	0	0
		Total	70	843

The Companies grouped their fixed assets based on operating activities, and idle assets, rental 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 disaster due to the damage caused by the Earthquake of the above assets.

The recoverable values of the assets were measured on the basis of the net selling price. Evaluations of lands were based on the appraisal benchmarks of fixed asset tax and unsalable buildings and structures and others were based on the memorandum price.

24. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

(1) Derivatives Transactions for Which Hedge Accounting Does Not Apply

The details of this derivative liability are described in Note 13.

(2) Derivatives Transactions for Which Hedge Accounting Applies

Million yen					
2011					
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 transactions Payable fixed rate swaps / Receivable floating interest rate	Long-term loans payable	¥47,368	¥39,593	(*)

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 transactions Payable fixed rate swaps / Receivable floating interest rate	Long-term loans payable	¥41,275	¥40,368	(*)

Thousands of U.S. dollars					
2011					
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 transactions Payable fixed rate swaps / Receivable floating interest rate	Long-term loans payable	\$570,699	\$477,024	(*)

(*) 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.

25. 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 Representative Director, President and Chief Executive Officer
Business	<ul style="list-style-type: none">•Manufacturing and sales of paperboard, corrugated board, and corrugated containers•Manufacturing and sales of flexible packaging and cellophane•Manufacturing and sales of paper packaging machinery, newsprint, chemical products and nonwoven products; insurance agency; transport, leasing, and real estate.
Capital stock	¥31,067 million (As of March 31, 2010)

(2) Accounting Method

In line with stipulations in the "Accounting Standard for Business Combinations" (ASBJ Statement 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" (ASBJ Statement Guidance No. 10, issued 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
Common shares	¥4,129
Expenses for acquiring the common shares	86
Total	¥4,215

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 requests 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

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

(a) Amount of negative goodwill

¥650 million

(b) Reason for recognizing negative goodwill

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

(c) Method and term to amortize negative goodwill

Straight-line method over 5 years

26. SUBSEQUENT EVENTS

(1) Year-End Cash Dividends

At the Board of Directors meeting held on May 11, 2011, 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 (¥6.00 = U.S. \$0.07 per share)	¥1,546	\$18,627

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved.

(2) Execution of Agreement of Stock Transfer

On April 15, 2011, to expand our paper manufacturing/packaging business in the rapidly-growing Chinese market as a part of the growth strategy for overseas operations, the Company executed an agreement on purchasing 271,452,000 common shares (the percentage to the issued number of shares is approximate 29.9%), of Hung Hing Printing Group Limited (the central office is in Hong Kong, "Hung Hing Printing"), listed in the Hong Kong Stock Exchange with its holder Asia Packaging Company Limited (the central office is in the Cayman Islands, "APC").

The Company plans to purchase 271,452,000 common shares of Hung Hing Printing from APC at 5.25 H.K. \$ per share, a total of 1,425,120 thousand HK\$ (about 15,500 million yen). This agreement, however, is subject to approval by the Department of Commerce in China.

Hung Hing Printing, based in Hong Kong, is one of the largest printing/packaging company in Asia and has operations, including book-printing, manufacturing and selling folding cartons and corrugated packaging, distributing paper in China. Hung Hing Printing has conducted a joint venture about manufacturing and selling containerboard in Zhongshan, China since 1995 with the Company.

Now by purchasing shares of Hung Hing Printing, the Company deepens its expanded product family, manufacturing technology and management, and endeavors to expand the business in the Chinese market, pursue a synergy effect and enhance the corporate value.

The Company, as well, will purvey the funds for this agreement with its own funds and debt loans.

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, 2011 and 2010, and the related consolidated statements of income, comprehensive 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, 2011 and 2010, 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, 2011 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, 2011

KPMG AZSA LLC

KPMG AZSA LLC

Directory

(As of June 30, 2011)

Head Office

2-7 Nakanoshima 2-chome,
Kita-ku, Osaka 530-0005,
Japan
Phone: 06-6223-2371
Fax: 06-4706-9909

Tokyo Head Office

16-1 Konan 2-chome, Minato-
ku, Tokyo 108-0075, Japan
Phone: 03-6716-7300
Fax: 03-6716-7330

Plants and Mills

Corrugated Packaging:

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

Folding Cartons:

Katsushika, Tonegawa,
Shin-Kyoto

Paperboard:

Tonegawa, Yashio, Kanazu,
Yodogawa, Amagasaki

Paperboard Converting:

Tonegawa

Chemical/Biotechnological Products:

Kanazu

Cellophane:

Takefu

Laboratories

Osaka, Fukui

Packaging Technical Centers

Tokyo, Osaka, Shanghai

Overseas Representative Office

Shanghai

Principal Subsidiaries and Affiliates

Japan

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

Asia

China:

Dalian Rengo Packaging
Co., Ltd.
Dalian Guoli Packaging
Co., Ltd.
Guangdong Rengo Packaging
Co., Ltd.
Jiangsu Zhongjin Matai
Medicinal 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.

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.

U.S.A. (Hawaii)

Rengo Packaging, Inc.

Investor Information

(As of March 31, 2011)

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	19,094	
Number of Employees	Parent Company	3,568
	Consolidated Subsidiaries	8,699
	Total	12,267
Stock Listings	Tokyo, Osaka	
Transfer Agent	The Sumitomo Trust and Banking Co., Ltd. 5-33 Kitahama 4-chome, Chuo-ku, Osaka, Japan	

Major Shareholders

Shareholders	% of total shares issued
Japan Trustee Services Bank, Ltd.	15.22%
The Master Trust Bank of Japan, Ltd.	5.31
Nippon Paper Group, Inc.	4.87
Sumitomo Mitsui Banking Corporation	3.53
National Mutual Insurance Federation of Agricultural Cooperatives	3.48
Mitsui Sumitomo Insurance Company, Limited	2.88
Sumitomo Life Insurance Company	2.69
Sumitomo Corporation	2.31
Trust & Custody Services Bank, Ltd.	2.22
The Norinchukin Bank	2.20



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