2018

Annual Report

For Year Ended March 31, 2018

GPI
The General Packaging Industry
RENGO

Corporate Philosophy

Ever since founder Teijiro Inoue manufactured Japan's first corrugated board in 1909, the Rengo Group has been serving society, continually adapting to the times to deliver the very best packaging solutions to customers and enhance the value of their products.

We plan to continue comprehensive development of optimal packaging solutions for distribution in all industries, and as a "General Packaging Industry" that creates new value in packaging through a tireless commitment to continual changes in thinking and technological innovation, we adhere to the following guiding principles.

1. Realize prosperity and ambitions for the future through dynamic business activities by earning the trust and satisfaction of customers.
2. Act always with integrity, maintaining high ethical standards and ensuring strict legal compliance.
3. Engage in communication with a broad section of society through proactive and accurate information disclosure.
4. Respect the value of individual employees and strive to create safe and congenial work environments providing comfort and fulfillment.
5. Take the initiative on environmental conservation efforts.
6. Contribute to society as a good corporate citizen.
7. Globalize by ensuring compliance with laws in each country or region and by contributing to economic and social development in those areas through business activities reflecting the different cultures and practices.

Vision 110

Taking on the Challenge to Become the World's No.1 General Packaging Industry

- Establish domestic and overseas systems that can provide advanced packaging solutions and supply chains responding to all packaging needs and integrate processes from procurement of packaging material, to distribution and packing.
- Aim to excel in quality improvement and cost reduction through innovation in manufacturing technologies, and build a system where people can focus on manufacturing safely at plants with good working environments.
- Thoroughly investigate ways to utilize information communication technologies (such as IoT and M2M) to make efficient manufacturing processes, logistics, and the supply chain, and at the same time anticipate the needs of customers arising from IoT to create next-generation added value.
- Aim to be a corporation where diverse individuals could maximize their unique potential.

Editorial Policy

This annual report summarizes information regarding the Rengo Group's business activities and finances in an accessible manner. It focuses on the most recent business activities and presents a message from the management team, details of products and activities including research and production, and the Group's business environment. Refer to the Environmental and Social Report for information regarding the Group's approach to and initiatives regarding preservation of the global environment and social programs.

Disclaimer Regarding Forward-Looking Statements

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

These forward-looking statements are based on management's assumptions and beliefs in 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.

CONTENTS

Group Network

Detailed information about the Rengo Group's business sites is provided below.

Domestic Network

https://www.rengo.co.jp/english/about_us/network/index.html

Rengo Group Companies in Japan

Paper / Paperboard
https://www.rengo.co.jp/english/about_us/network/group1.html

Corrugated Packaging
https://www.rengo.co.jp/english/about_us/network/group2.html

Folding Cartons
https://www.rengo.co.jp/english/about_us/network/group3.html

Flexible Packaging
https://www.rengo.co.jp/english/about_us/network/group4.html

Heavy Duty Packaging
https://www.rengo.co.jp/english/about_us/network/group5.html

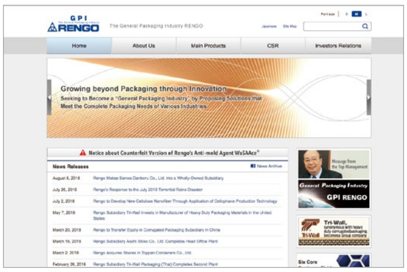
Other
https://www.rengo.co.jp/english/about_us/network/group6.html

Rengo Group Companies Overseas

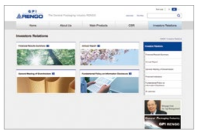
https://www.rengo.co.jp/english/about_us/network/foreign.html

Rengo's Information Disclosure Media

- Rengo provides appropriate and timely financial and non-financial information meeting the needs of stakeholders through our website and booklets.
- The Environmental and Social Report provides all stakeholders with detailed information regarding Rengo's CSR activities.
- The Annual Report provides information focusing on Rengo's financial situation to shareholders and investors.



Rengo's Website
Various types of information related to corporate activities are appropriately disclosed.
https://www.rengo.co.jp/english/



Website (Investors Relations)
https://www.rengo.co.jp/english/financial/index.html

Annual Report (booklet and PDF)
https://www.rengo.co.jp/english/financial/annualreport.html

Website (CSR)
https://www.rengo.co.jp/english/environment/index.html

Environmental and Social Report (booklet and PDF)
Environmental and Social Report Data Booklet (PDF) (In Japanese)
https://www.rengo.co.jp/english/environment/index.html

General Packaging Industry (GPI) Rengo Supports Sustainable Economic and Social Development and Enriching Lifestyles

Kiyoshi Otsubo
Representative Director,
Chairman, President and Chief Executive Officer

The Rengo Group, which in 2019 will mark 110 years since its foundation, is building solid business foundations with a view towards the next 100 years. As General Packaging Industry (GPI) Rengo, we propose comprehensive solutions to all packaging needs in every industry and are developing a hexagonal business structure centered on six core business fields: paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas business. With "Less is more." as our key concept, we are generating greater value from fewer resources and creating innovative packaging that is people- and environment-friendly.

Summary of Financial Results for Fiscal 2017

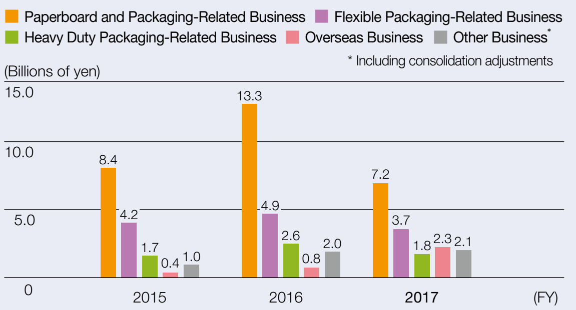
Strong Packaging Demand and Expansion of Group Business Lead to Higher Earnings
Measures to Create Reproducible Pricing Structures

The Rengo Group's consolidated financial results for fiscal 2017 (the year ended March 31, 2018) were as follows: net sales were ¥605,712 million, a year on year increase of 11.0%; operating income was ¥17,082 million, a decrease of 27.7%; ordinary income was ¥23,168 million, a decrease of 8.1%; and profit attributable to owners of the parent was ¥16,622 million, an increase of 19.8%. Thus, earnings were up for the second consecutive year since fiscal 2016.

In the Paperboard and Packaging-Related Business, sales increased and measures were taken to adjust product prices, but the rising price of recovered paper, higher energy prices, and other factors resulted in an increase in net sales but a decrease in profit. The Group made efforts to maintain product prices by countering the rising price of recovered paper, the primary raw material of containerboard, as well as higher costs for fuel, chemicals, and logistics through comprehensive cost-cutting measures, but it was difficult to overcome this situation through internal efforts alone. Consequently, the Group implemented price adjustments starting with August 2017 shipments for containerboard and other paperboard and as of October shipments for corrugated packaging, and these adjustments produced a certain level of results. The strong demand for corrugated boxes in Japan and overseas has a major influence on the price of recovered paper, and we will closely monitor trends of demand and energy prices in the future.

In the Flexible Packaging-Related Business, demand from convenience stores increased, but higher material costs and fixed costs resulted in higher sales but lower profit. In the Heavy Duty Packaging-Related Business, demand for container bags (flexible bulk containers) used for decontamination decreased, and as a result, both sales and profit were down. In Overseas Business, Tri-Wall Holdings Limited, which became a consolidated subsidiary, contributed to the Group's results and the corrugated packaging business was strong, resulting in substantial increases in sales and profit.

Operating Income by Segment



Domestic Strategies and Initiatives - Part 1

Building Production Systems to Capture Expanding Demand

In 2017, domestic corrugated board production volume was 14.2 billion square meters, an increase of 1.7% year on year. It is projected that the production volume in 2018 will increase by 1.2% to 14.4 billion square meters, the third consecutive annual increase and a record high. Demand for corrugated packaging is expected to grow at a steady pace, in part due to the expansion of e-commerce, and the Group has taken measures to develop production systems and enhance competitiveness through active capital investment and M&A.

The conversion of a paperboard machine that produces corrugating medium so it can also produce linerboard at the Kanazu Mill (Awara-shi, Fukui Prefecture), undertaken as a part of our initiative to restructure the containerboard production systems, was completed and operations began in October 2017. Also, production at the Yodogawa Mill (Fukushima-ku, Osaka) was suspended in December, and the Group consolidated its six containerboard mills in Japan to five mills. The result has been higher overall mill operating rates, an improvement in the balance of supply of corrugating medium and linerboard, and increased earnings capacity.

In addition, as a part of our efforts to reinforce supply capacity in the Kanto region, where demand for corrugated packaging is increasing rapidly, Asahi Shiko Co., Ltd. (Konosu-shi, Saitama Prefecture) completed construction of a corrugator plant building, extension of an office warehouse building, and renovation of the corrugator at its head office plant in January 2018. As a result, quality has improved and production capacity increased, and moreover, the plant can also produce heavy duty corrugated board. Furthermore, in March, we signed an agreement to make Toppan Containers Co., Ltd. (Taito-ku, Tokyo), then a subsidiary of Toppan Printing Co., Ltd., into a subsidiary of Rengo Co., Ltd. Toppan Containers has three corrugated plants in Japan (Kawaguchi-shi, Saitama Prefecture; Sano-shi, Tochigi Prefecture; and Ishinomaki-shi, Miyagi Prefecture). Rengo is considering making forward-looking capital investments in Toppan Containers plants and will organize systems to more fully satisfy customer needs by enhancing corrugated packaging production capacity and further improving quality.

In the Flexible Packaging-Related Business, against a backdrop of strong demand for film packaging including demand from convenience stores, Howa Sango Co., Ltd. (Funabashi-shi, Chiba Prefecture) is constructing a new plant building at its Narashino Plant (also located in Funabashi-shi), and the printing film production capacity of the plant will increase by about 30% in the autumn of 2018. In the Heavy Duty Packaging-Related Business, Nihon Matai Co., Ltd. (Taito-ku, Tokyo) is focusing on the diversification of business, and its efforts have made significant contributions to the Group's results through increase of added value of products including top/bottom tape for paper carriers, the sales volumes of which is at the world's highest level. In April 2017, Howa Sangyo and Nihon Matai established Howa Matai Packaging (Thailand) Co., Ltd., a joint venture in Thailand. The new company is operating as a sales base to respond accurately to growing local demand in Thailand and Southeast Asia.

Domestic Strategies and Initiatives - Part 2

Providing Responses that Fulfill Societal Needs

As labor shortages become an increasingly serious social problem in conjunction with a low birth rate and aging population, interest is rising in *Rengo Smart Display Packaging* (RSDP), part of the *Retail Mate* series of products that contributes to work efficiency in distribution sites. RSDP greatly reduces the time needed for opening, unpacking and displaying products, achieves low-cost operations in retail sites, and contributes to display functions and excellent in-store sales promotion. RSDP is a new-concept corrugated box developed with comprehensive capabilities in the design

"Less is more."

"Less is more."

The fundamental concept of Rengo's approach to packaging innovation.

"Less energy consumption"

"Less carbon emissions"

"High quality products with more value-added"

"Less is more." is the key concept for Rengo Group's packaging manufacturing. It means generating high value with fewer resources. This leads to the effective use of resources and reduced impact on the global environment while contributing to the development of a better and sustainable society through the production of high-quality and high added-value packaging. This is the ideal that the Rengo Group seeks through its business activities.

Rengo will continue to lead from the vanguard of advances in packaging based on "Less is more." while fulfilling its corporate social responsibility.

and marketing, packaging technology, and packaging systems, as well as manufacturing, sales operation, research and development. The lineup is now continuously evolving.

In the e-commerce field, reducing the burdens of packaging and shipping operations at logistics centers is an urgent issue. The *Gemini Packaging System* was originally developed by Rengo as an innovative packaging system that measures products and automatically assembles boxes according to the height of each product. This system can substantially automate and raise the efficiency of packaging processes, and we have received numerous inquiries. We also developed *Gemini S*, which simplifies some functions, to meet an even broader range of needs.

Going forward, we will continue to meet various customer needs through packaging innovation while keeping solutions to social problems in mind.

Overseas Strategies and Initiatives

Expanding Tri-Wall Group Business and Enhancing Existing Business

In overseas business, the results of Tri-Wall Holdings Limited became subject to consolidation as of the 2017 fiscal year, and the corrugated packaging business also performed well. As a result, both sales and segment profit were up substantially from the previous fiscal year.

The Tri-Wall Group owns Tri-Wall Pak® and Bi-Wall Pak®, global brands of heavy-duty corrugated packaging, and conducts business globally from its headquarters in Hong Kong. Tri-Wall established a joint venture heavy-duty packaging material manufacturing and sales company in the United States in April 2017 and engaged in active M&A to bring heavy duty packaging material manufacturers in Poland and the United Kingdom into the Group in June and July, respectively. In January 2018, the company expanded production capacity in Thailand and established structures to respond to growing demand for heavy duty packaging.

In the overseas corrugated packaging business, the Group has nine plants located in China, Malaysia, and the United States (Hawaii). The Group reinforced its supply chain and took measures to secure appropriate profit by adjusting product prices in line with raw material costs, and as a result, achieved higher sales and profit.

In ASEAN countries, the Group operates 15 corrugated plants in Thailand through Thai Containers Group Co., Ltd., a joint venture with Siam Cement Group, and is also focusing on the flexible packaging business centered on TC Flexible Packaging Co., Ltd., a subsidiary of Thai Containers Group. We are building structures that can provide a broader range of packaging services.

Including the above, the Group operates 138 plants in 17 countries and regions around the world (including unconsolidated affiliates, as of the end of March 2018), and we will continue to enhance the overall capabilities of the Group and strengthen global business foundations.

Corporate Social Responsibility

Initiatives to Improve Total Factor Productivity through Work Style Reform

For Japan to overcome the problem of a shrinking labor force and maintain growth in the future, it will be essential to improve productivity, and in particular total factor productivity (TFP), by implementing work style reform. The corrugated packaging industry turned its attention towards raising TFP at an early stage, and the Japan Corrugated Case Association established the TFP Committee in 2014. As a leading manufacturer, Rengo took the initiative in addressing long working hours and increasing rates of employees taking paid leave. These issues are closely related to the driver shortage, a serious problem in the corrugated packaging industry. By engaging in earnest dialogue with consignee customers, we are making improvements on the causes of long working hours such as manual loading, short delivery times, and small lots.

From the perspective of a shipper, we are collaborating and cooperating with transportation companies to raise logistics efficiency with reform of driver work styles in mind. At the Kanazu Mill, in order to reduce long transport distances for containerboard, our various innovations in logistics including establishment of transit warehouses at intermediate locations

No. 2 Plant Completed at Tri-Wall Packaging (Thai)

Tri-Wall Packaging (Thai) Ltd. (Rayong Province, Thailand), a subsidiary of Tri-Wall Limited (based in Hong Kong), began operation of its No. 2 plant in January 2018. The Group reinforced its heavy duty corrugated packaging supply systems in Thailand and throughout ASEAN, where demand for heavy duty packaging is expected to continue growing.

are improving long driver working hours, and achieving higher product delivery efficiency. These initiatives have been commended by the local labor office as models for others.

In terms of creating workplaces where diverse human resources can work with passion, Rengo has made efforts to diversify human resources and work styles through reinforcement of systems that support the empowerment of women such as promoting hiring and expanding job type eligibility in accordance with the Action Plan for Empowering Female Workers, as well as formulation of the Work Style Reform Declaration with a focus on encouraging male employees to take childcare leave. We adopted the Work Style Reform Action Plan in March 2018 and are working diligently to set quantitative targets, deadlines for achieving those targets, and specific actions from the following three perspectives: (1) address long working hours, (2) encourage taking of paid annual leave, and (3) promote flexible work styles.

True productivity increases are not achieved through manufacturing alone. In addition to technological innovation, it is also important to raise the total factor productivity involving how people work and how they feel. This is why work style reform is needed. We will continue to make improvements in productivity with sympathy.

SDGs Management

Seeking Sustainable Corporate Management and a Sustainable Society

“Vision110,” our vision for the future adopted to mark the 110th anniversary of the Company’s foundation, a major milestone, sets becoming the world’s number one General Packaging Industry as a target to be pursued. To achieve this, it will be essential for us to reinforce our hexagonal management earnings bases through establishment of structures that can propose advanced packaging solutions to fulfill all packaging needs in Japan and overseas, as well as supply chains that integrate all processes from procurement of packaging materials to logistics and packing.

In addition, in light of the Sustainable Development Goals (SDGs), which are international uniform objectives for achieving a sustainable society, we will respect the value of each employee as a source of the creativity and innovation that will be a major driver towards achieving those goals. We will accelerate work style reform to create environments where diverse human resources can demonstrate their maximum capabilities while we focus on raising total factor productivity and actively work to preserve the natural environment such as curtailing greenhouse gas emissions. The sustainability of society and the environment is the very foundation of a company’s business, and the Rengo Group remains committed to contributing to achieving the SDGs through its “Less is more.” packaging innovation.

There is no ultimate form of the world’s number one General Packaging Industry. It is none other than devoting the world’s highest level of passion to creating even higher added-value packaging and continuously taking on new challenges based on high ethical standards and a fair management stance. The Rengo Group will continue to actively address social issues in all of our business activities and make tireless efforts to support logistics and lifestyles through packaging while seeking to create a better, sustainable society.

I request the continued understanding and support of our shareholders, investors, and other stakeholders.

Work Style Reform Action Plan Adopted

Rengo established and announced a new Work Style Reform Action Plan in March 2018 to accelerate work style reform. The plan sets quantitative targets, deadlines for achieving those targets, and specific measures from the following three perspectives: (1) address long working hours, (2) encourage taking of paid annual leave, and (3) promote flexible work styles. Company-wide efforts are being made to achieve a good work-life balance that facilitates work by diverse human resources.

● Rengo Co., Ltd. Work Style Reform Action Plan

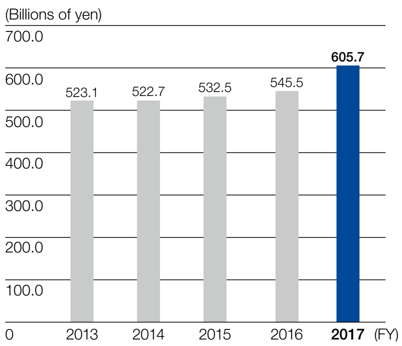
1. Address long working hours	Zero employees in fiscal 2018 with an average of 60 hours or more of work in excess of statutory working hours
2. Encourage taking of paid annual leave	Maintain average length of leave per person in fiscal 2018 at 10 days or more
3. Promote flexible working styles	Achieve 50% or higher in rate of childcare leave taken by male employees in fiscal 2018

Consolidated Financial Highlights

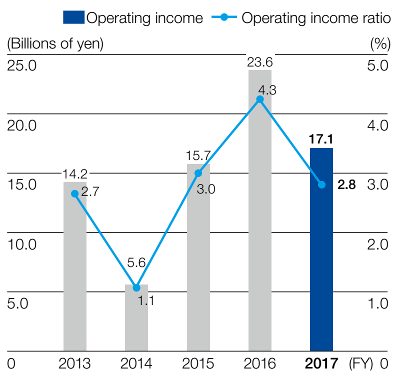
(For the fiscal year ended March 31, 2018 and 2017)	FY2017	FY2016	FY2016/FY2017	FY2017
For the fiscal year:	(Millions of yen)	(Millions of yen)	Change (%)	(Thousands of U.S. dollars[*1])
Net sales	¥ 605,713	¥ 545,489	11.0	$ 5,714,274
Operating income	17,083	23,642	(27.7)	161,160
Profit attributable to owners of parent	16,623	13,876	19.8	156,821
Depreciation and amortization	30,881	29,524	4.6	291,330
Capital expenditures	41,527	30,446	36.4	391,764
EBITDA	49,616	54,373	(8.7)	468,075
At the fiscal year-end:	(Millions of yen)	(Millions of yen)	Change (%)	(Thousands of U.S. dollars)
Total assets	¥ 750,636	¥ 704,827	6.5	$ 7,081,472
Interest-bearing debt	287,322	283,350	1.4	2,710,585
Net assets	262,581	241,511	8.7	2,477,179
Per share amounts:	(Yen)	(Yen)	Change (yen)	(U.S. dollars)
Basic earnings, basic	¥ 67.14	¥ 56.04	¥ 11.10	$ 0.63
Basic earnings, diluted	-	-	-	-
Cash dividends applicable to the year	12.00	12.00	-	0.11
Net assets[*2]	1,029.98	946.06	83.92	9.72

*1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥106 to U.S. $1.00 prevailing on March 31, 2018.
*2: The amount of net assets used for calculation of net assets per share is the amount of net assets on the consolidated balance sheets, excluding non-controlling interests.

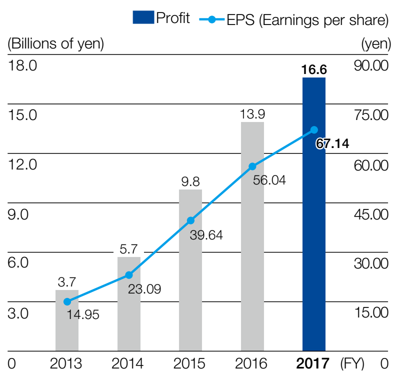
Net sales



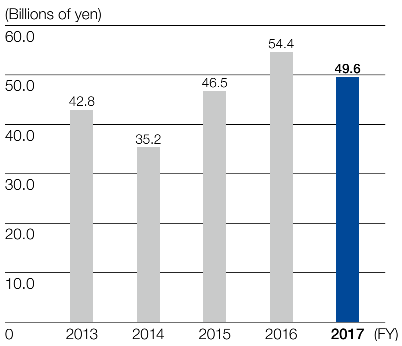
Operating income & operating income ratio



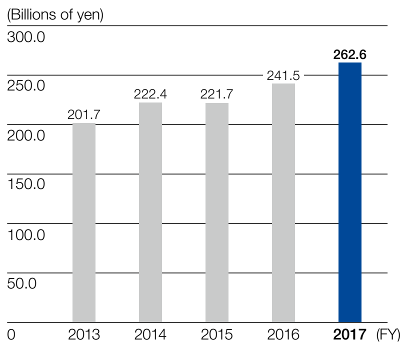
Profit attributable to owners of parent & EPS



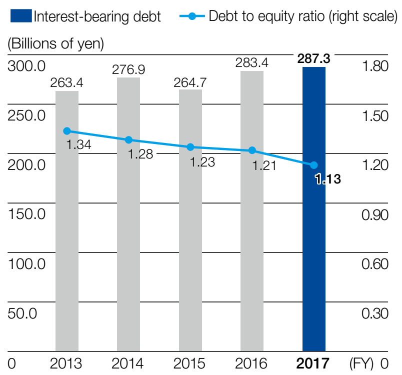
EBITDA



Net assets

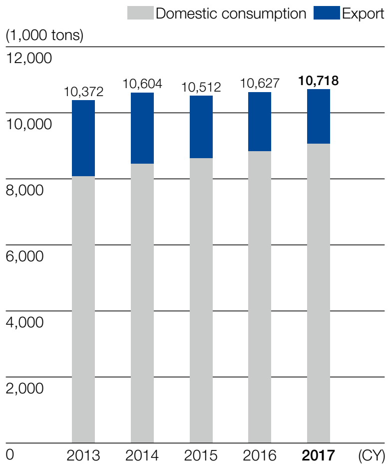


Interest-bearing debt & debt to equity ratio



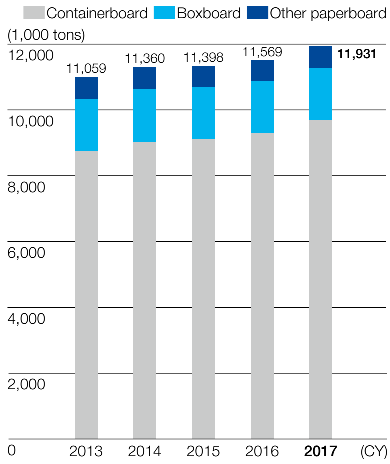
Market Data

Domestic consumption and export of old corrugated containers



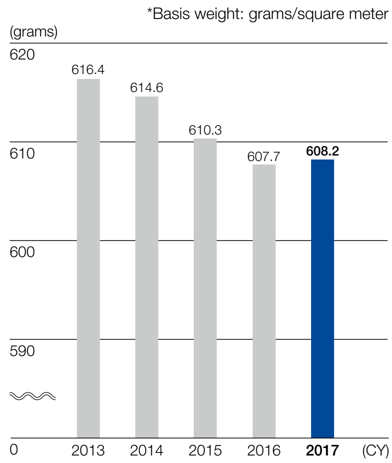
(Source: Ministry of Economy, Trade and Industry / Ministry of Finance)

Domestic production of paperboard



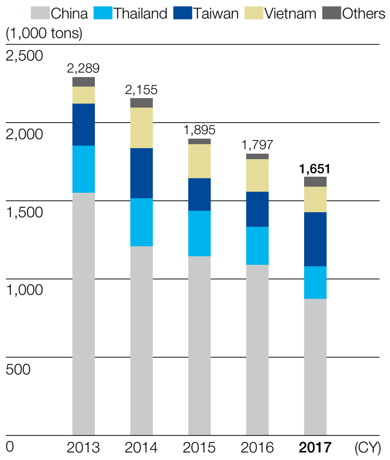
(Source: Ministry of Economy, Trade and Industry)

Average basis weight* of corrugated board



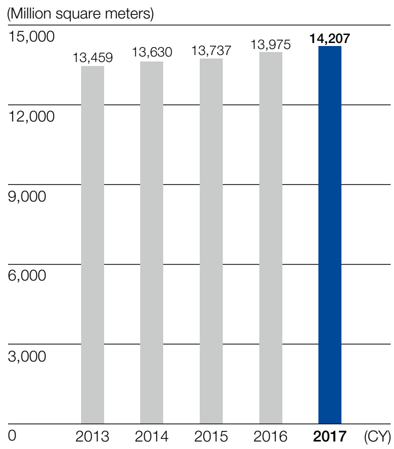
(Source: Japan Corrugated Case Association)

Export of old corrugated containers by country



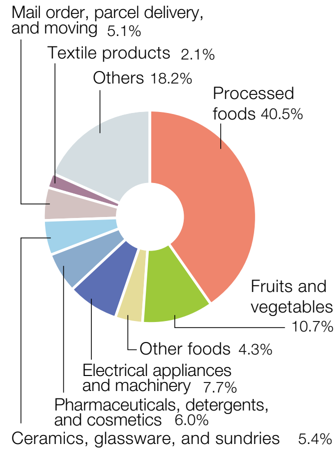
(Source: Ministry of Finance)

Domestic production of corrugated board



(Source: Japan Corrugated Case Association)

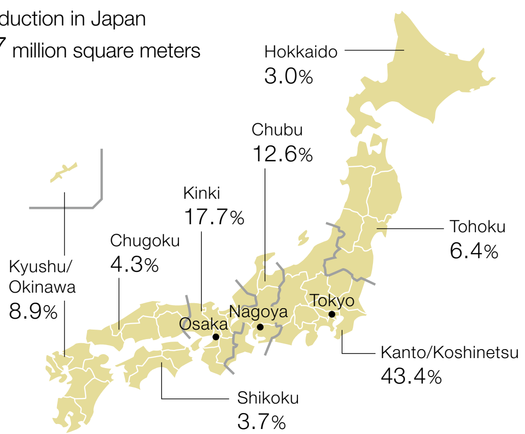
Breakdown of demand for corrugated boxes by market



(Source: Japan Corrugated Case Association)

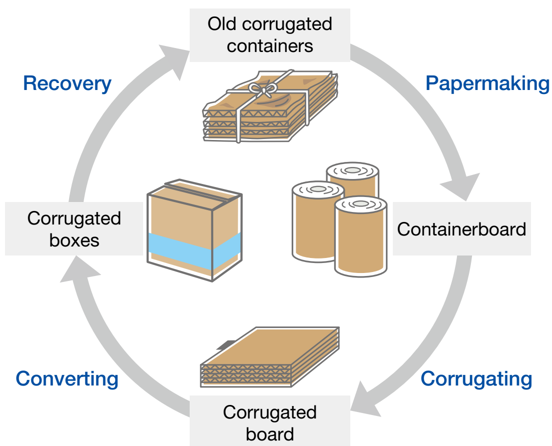
Production of corrugated board by region in 2017

Total production in Japan
14,207 million square meters



(Source: Japan Corrugated Case Association)

Flowchart of recycling corrugated board



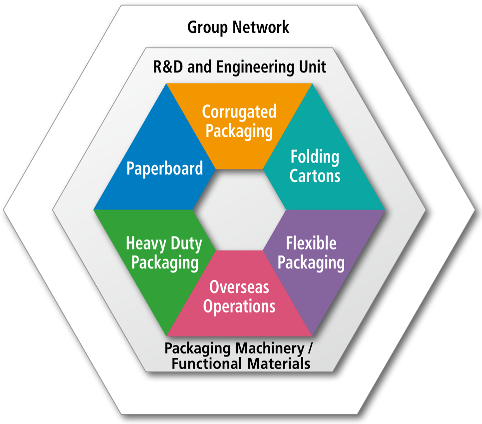
General Packaging Industry (GPI) Meeting Diverse Packaging Needs

As General Packaging Industry (GPI) Rengo, the Rengo Group proposes comprehensive solutions for all packaging needs in a wide range of industries and seeks to be a best partner for packaging through continuous changes in thinking and innovation. Rengo leverages its four strengths to contribute to increases in the value of customer products and grow in tandem with its customers through packaging.

Rengo's Strengths 1

The Comprehensive Capabilities of Six Core Business Fields

The Rengo Group has used its comprehensive capabilities to meet packaging needs with optimal solutions by applying its packaging-related technologies and expertise over many years. Currently, the Group conducts highly varied business with six core business fields: paperboard, corrugated packaging, folding cartons, flexible packaging, heavy-duty packaging, and overseas operations.



Rengo's Strengths 3

Solutions to Social Issues

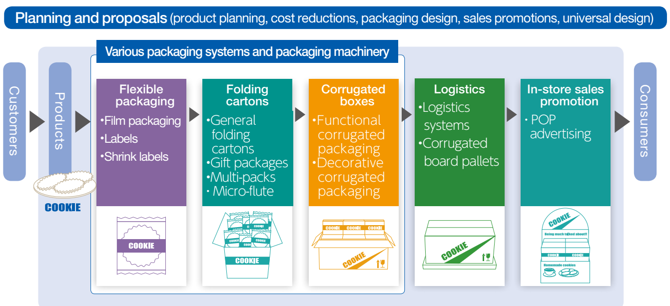
Rengo originated with corrugated board having outstanding recyclability and directly addresses social issues through its business activities to support logistics and consumers' lives with packaging. We also make unceasing efforts to support the creation of a sustainable society. Rengo strives to support the realization of the Sustainable Development Goals (SDGs), which are shared global objectives, through its business and continues to undertake various measures to that end.

Refer to the Rengo Environmental and Social Report 2018 for details.
https://www.rengo.co.jp/english/environment/index.html

Rengo's Strengths 2

Total Packaging Services

Rengo offers comprehensive solutions that take the product sales promotion effects and total costs into consideration starting from the customer new product planning stage. These proposals cover everything from the film packaging that directly covers the product to individual packaging, inner packaging, corrugated boxes, pallets, and packaging systems. We provide complete proposals that consider the optimal balance of quality, cost, and environmental factors.

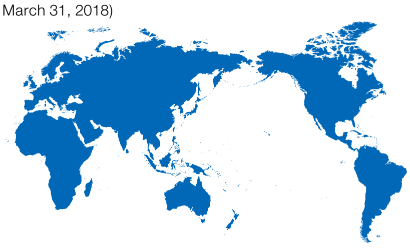


Rengo's Strengths 4

Group Network

Rengo has 34 directly-managed plants located from Hokkaido to Kyushu to cover every area of Japan. These directly-managed plants in each region serve as the core of the Rengo network including various Group companies to provide services with strong local ties. Overseas, the Group also has 138 plants and 25 sites in 17 countries and regions, for example in Asia, Europe, the Middle East, and the United States, to provide careful support for the overseas business development of our customers in their respective industries.

(As of March 31, 2018)



Increases in Value of Customer Product and the Company Sustainable Growth of Rengo

Manufacturing packaging that stays one step ahead of the times, is people- and environment-friendly, and has true value that evokes an emotional response

Paperboard
Paperboard production: Domestic market share
No. 2 *1

Corrugated Packaging
Corrugated board production: Domestic market share
No. 1 *2

Folding Cartons
Sale of multi-packs: Domestic market share
No. 1 *3

Flexible Packaging
Amount of OPP/CPP input for converting process: Domestic market share
No. 1 *4

Heavy Duty Packaging
Sale of flexible bulk containers and PE heavy duty bags: Domestic market share
No. 1 *5

Overseas
138 plants and
25 representative offices/ sales companies
(As of March 31, 2018)

Source:
*1 Japan Paper Association
*2 Yano Research Institute
*3 Rengo
*4 Japan Comprehensive Economic Research Centre
*5 Fuji Chimera Research Institute

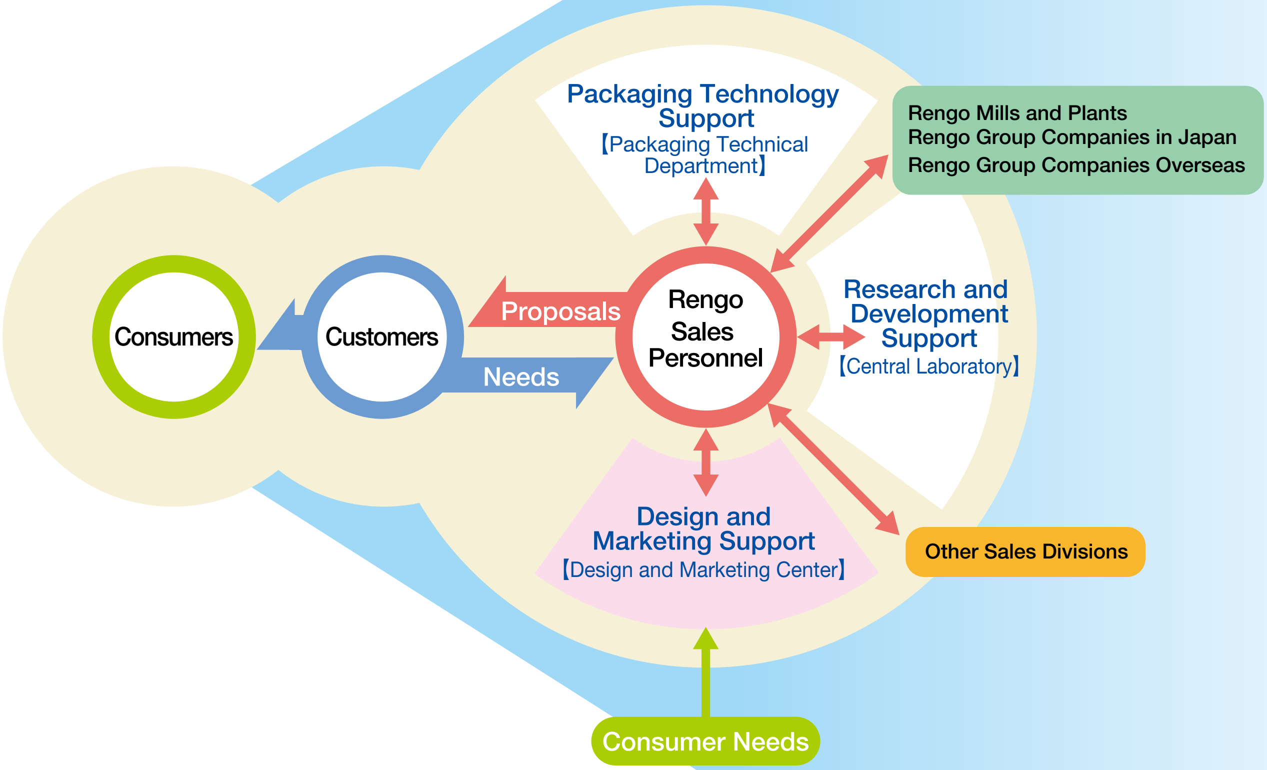
The General Packaging Industry

We Offer Solutions to Packaging Issues through a Three-Pronged Support Framework.

Packaging performs multifaceted functions including protecting products, adorning products in an attractive manner, conveying information, and being people- and environment-friendly. As a medium that connects our customers with consumers, packaging is continuously evolving. Rengo supports solutions to all packaging-related issues from the three perspectives of packaging technology, design and marketing, and research and development. Based on our expansive foundations in packaging and technology, we provide total solutions for all customer products scenarios, from product development to packaging processes, logistics, and in-store sales promotion.

■ Three-Pronged Support Framework

We offer comprehensive support for various needs of customers.



Packaging Technology

In order to safely deliver customer products to consumers, it is necessary to select packaging formats, dimensions, and materials taking into consideration the product characteristics and logistics conditions. Sales personnel with professional packaging qualifications work in collaboration with the Packaging Technical Department to propose optimal packaging designs.

Design and Marketing

Rengo specializes in consulting and design proposals that start with marketing and cover all aspects from product planning to packaging design. We provide total support for creating products that sell with packaging as an in-store promotional tool.

Research and Development

Rengo creates products that meet the needs of the times by conducting research and development on topics from materials to manufacturing technologies. The details are highly varied and range from achieving various functions such as waterproofness, dampproofness, and maintaining freshness to developing environment-friendly products and functional materials.

Not Just for Transportation but for More Sales, the Design and Marketing Center Adds Value to Packaging

The Design and Marketing Center (DMC) provides new value not simply in the form of tools for “carrying” products such as corrugated boxes and intermediate boxes, but also proposes marketing tools for conveying brand image, advertising, and promoting sales in-store.

Packaging can serve as transport packaging and consumer packaging, but also functions as a new marketing tool to convey information to consumers. The Group, which hails itself as a General Packaging Industry, renamed an existing organization the Design and Marketing Center (DMC) in 2001 as a department for specialized teams made up of planners and designers to address everything from product planning to packaging design and propose packaging added-value that can build brand image, and promote sales.

In this field, where advertising agencies and design firms are our competitors, the strength of the DMC is the utilization of numerous planners and designers who have extensive proposal experience in various industries and with many types of packaging. They also develop new packaging in collaboration with the Packaging Technical Department, which possesses overwhelming structural design know-how.

Rengo, a packaging manufacturer strengthened with unrivaled added value, provides total support for creating products that lead to more sales.

Process Up to Proposal

Orientation
This is an important stage for confirming the client’s requests and the essence of the problem.

Marketing Research
The DMC investigates the environment in which the product exists, and searches for clues for striking an emotional chord with consumers.
- Consumer surveys
- Point-of-sale surveys
- Product analysis, etc.

How can we understand the appeal of a product and convey this to the target? We conduct planning and analyze the changing preferences and needs of consumers.

Planning
A product concept is established and specific measures are considered to draw out the unique appeal of the product and brand.
- Conceptual planning
- Branding support
- Naming and copywriting

Based on the planning, we seek to create appealing designs that induce purchasing intent on the part of target consumers.

Package Design
A design is produced to convey the value of the product using optimal expression in a manner that agrees with the concept.
- Ideas of packaging styles
- Logo and graphic design

Examples of Proposals

(These products won 2017 Japan Packaging Design Awards)

Mail order box
Suntory Wellness Ltd.

King Donuts
Marunaka Confectionary Co., Ltd.

Miura Grated Daikon Dressing Gift
Miura City Agricultural Cooperative

Paperboard and Packaging-Related Business

Rengo Co., Ltd., Marusan Paper Mfg. Co., Ltd., and Osaka Paper Co., Ltd. are active in the paperboard manufacturing and sales business. Each company sells products through its own sales channels including Rengo Paper Business Co., Ltd. and supplies the principal raw materials for corrugated packaging to Rengo Group companies via Rengo Co., Ltd. and Rengo Paper Business Co., Ltd.
The corrugated board, corrugated box, and folding carton manufacturing and sales business is conducted independently by Rengo Co., Ltd., Yamato Shiki Co., Ltd., Settsu Carton Co., Ltd., and other Group companies. Rengo Co., Ltd. and Rengo Riverwood Packaging, Ltd. manufacture and sell multi-packs used for six packs of canned beer and other products.

Market Environment and Business Results

In the paperboard industry, demand for containerboard was brisk and exports remained strong. As a result, paperboard production volume was up from the previous year. In the corrugated packaging industry, demand for use in the mail-order business was up substantially and demand in nearly all other segments including processed foods, sundries, and electrical appliances and machinery was robust, pushing production volume up from the previous year. In the folding carton industry, gift-related demand is declining year by year and the shift to other materials including flexible packaging continued, and as a result, production volume was down from the previous year.

Under these circumstances, the Rengo Group's Paperboard and Packaging-Related Business reported higher sales volumes and took measures to revise product prices, but the higher price of recovered paper as well as increasing energy prices led to higher sales but lower profit. As a result, segment sales were ¥397,118 million, an increase of 3.9% year on year, and operating income was ¥7,157 million, a decrease of 46.2%.

Due to strong demand, the Group's domestic production volume of paperboard was 2.454 million tons, up 1.2% year on year. Owing to higher sales volumes, particularly for mail-order applications, the corrugated packaging domestic production volume was 4,045 million square meters for corrugated board, an increase of 3.7%, and 3,248 million square meters for corrugated boxes, up 5.9%.

Actions and Measures

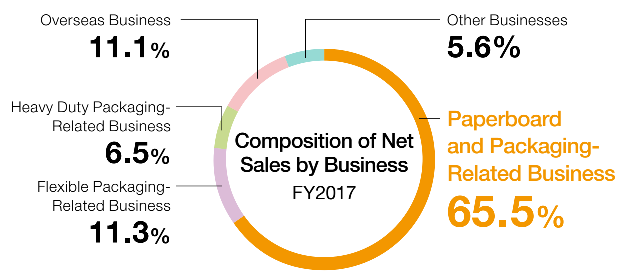
In the paperboard business, the restructuring of containerboard production systems announced in February 2016 was completed with the shutdown of linerboard machine at the Yodogawa Mill in December 2017. Rengo will make efforts to maintain supply structures tailored to demand and continue measures to raise productivity, reduce costs, and develop new products.

In the corrugated packaging business, we are reinforcing marketing capabilities group-wide and building optimal production systems. We are also taking proactive measures to conduct proposal-based marketing tailored to customer needs and making efforts to increase competitiveness. We are expanding the lineup of *Rengo Smart Display Packaging* (RSDP), a representative part of the *Retail Mate* series, a product family that contributes to higher work efficiency at retailer sites. The Group is developing high added value products including expansion of *Rakuppa* products, which can be assembled quickly and easily to function as sales sites, and conducting active promotions.

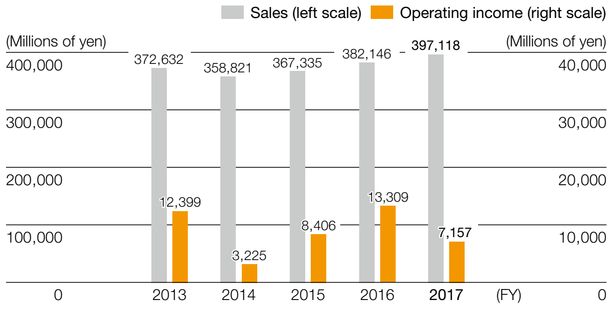
In the folding carton business, the Group supplies optimal packaging that provides the needed functions and is consolidating its accumulated knowledge and technology in the pursuit of packaging manufacturing for a new era.

Research and Development Activities

The Rengo Group is conducting research and development to enhance quality, raise productivity, reduce energy and resource consumption, cut costs, and increase the added value of products, and is making steady progress toward practical application. Some specific areas are development of technologies relating to stronger and higher quality for lightweight containerboard, *Delta-flute* corrugated board, development of energy-saving and resource-saving technologies with a focus on corrugating adhesives, and development of long-term transportation technology for fruits and vegetables using recyclable functional corrugated board.



● Sales and operating income (after intersegment eliminations)



Main Products

- Paperboard
  - Containerboard
  - Tube board
  - Boxboard
  - Chipboard
- Corrugated packaging
  - Corrugated board
  - Corrugated boxes
- Folding cartons

Rengo Products

RSDP

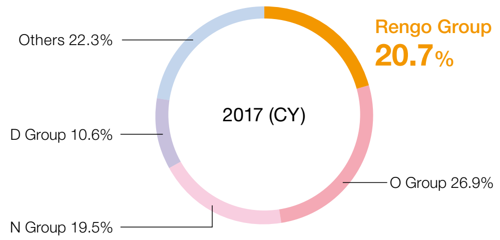
Rengo Smart Display Packaging (RSDP) goes beyond the conventional feature of transporting products to also provide opening, display and selling features. RSDP reduces the work time necessary for opening packages and displaying products to approximately one fifth and greatly enhance sales promotion through outstanding designs.

Rakuppa Display

Rengo developed paperboard displays that combine outstanding display functions with sufficient strength and can easily and quickly be assembled by anyone. *Rakuppa Display* is broadly applicable and can be used to display various products. We anticipate a wide range of applications in addition to retail such as displays at event sites, exhibitions, and more.

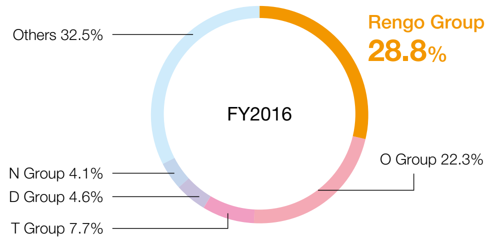
● Major manufacturing groups' shares of the paperboard market in Japan

Source: Japan Paper Association

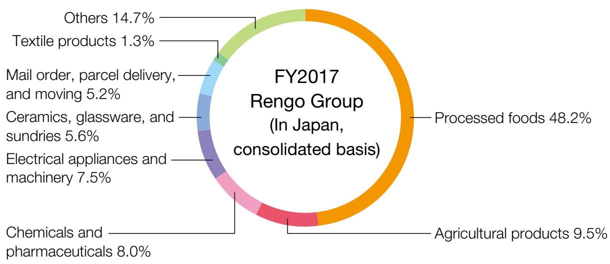


● Major manufacturing groups' shares of the corrugated board market in Japan

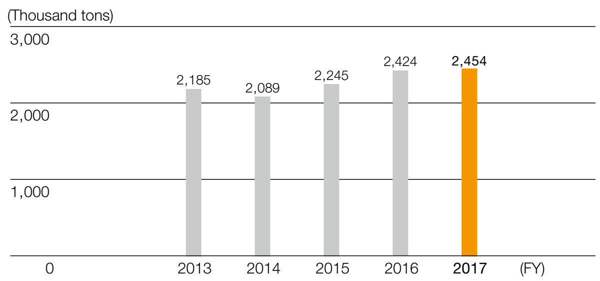
Source: Yano Research Institute



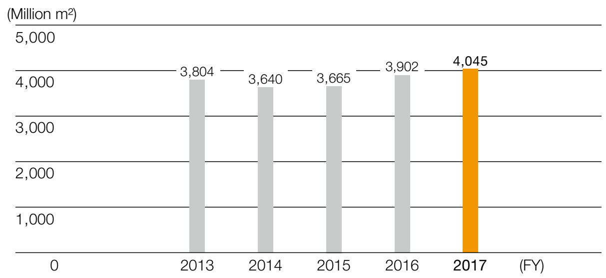
● Breakdown of demand for corrugated boxes by market



● Paperboard production (in Japan, consolidated basis)



● Corrugated board production (in Japan, consolidated basis)



Flexible Packaging-Related Business

Film packaging

The Rengo Group's flexible packaging manufacture and sale business is carried out mainly by Howa Sangyo Co., Ltd. Rengo Co., Ltd. is involved in sales only. Manufacture and sale of cellophane are carried out by Rengo Co., Ltd.

Market Environment and Business Results

In the flexible packaging industry, production volume increased from the previous year due to stable demand for processed foods and daily necessities as well as a shift in demand away from folding cartons.

In the Group's Flexible Packaging-Related Business, demand from convenience stores increased, but higher material costs and fixed costs gave rise to higher sales and lower profit.

As a result, segment sales were ¥68,300 million, an increase of 4.0% year on year, and operating income was ¥3,724 million, down 23.7%.

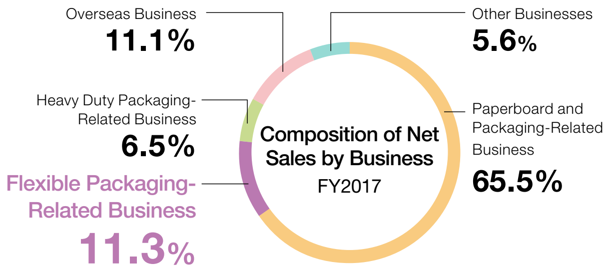
Actions and Measures

The Group is increasing competitiveness and reinforcing its earnings base in the flexible packaging business by building structures that use state-of-the-art facilities to supply high-function products to meet the needs of customers and accurately respond to growing demands.

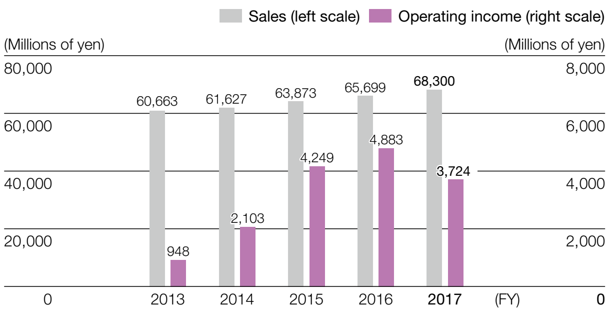
The Group continuously searches for new applications and is working not just to perform the basic functions of flexible packaging, but also to further enhance product value.

Research and Development Activities

We are deploying roll labels and roll-on shrink labels for beverages and conducting research and development on variable printing, environmentally-friendly labels, and diverse other needs. We are also developing lid film with heat resistant, anti-fogging functions for foodstuff packaging, oxygen barrier film suitable for boiling, and packaging film with easy removability. For industrial products, we are developing a hard coat film that contributes to anti-fogging for automotive window applications.



● Sales and operating income (after intersegment eliminations)



Main Products

● Film Packaging

The Group provides a wide-ranging product lineup including flat bags, gusset bags, pillow bags, standing pouches, and pouches with zip fasteners according to customer product needs.

● Labels

In addition to shrink labels and roll labels for bottles including plastic and glass bottles, we also supply roll-on shrink labels, which combine the strong points of these two types of labels.

● Cellophane

Cellophane is a transparent film made from wood pulp. It does not generate harmful gases even if incinerated and is degradable in soil, making it an environmentally-friendly film. Cellophane is suitable for packaging medical and pharmaceutical products, foodstuffs, and other products.

Heavy Duty Packaging-Related Business

The Rengo Group's business for manufacture and sale of heavy duty packaging is carried out mainly by Nihon Matai Co., Ltd.

Market Environment and Business Results

In the heavy duty packaging industry, due to a decline in demand for container bags (flexible bulk containers) in conjunction with completion of decontamination work relating to the 2011 Fukushima nuclear power plant accident, production volume was down from the previous year.

The Group's heavy duty packaging-related business reported lower sales and profit because of the decline in demand for decontamination container bags and other factors.

As a result, segment sales were ¥39,273 million, down 1.3% year on year, and operating income was ¥1,819 million, down 30.9%.

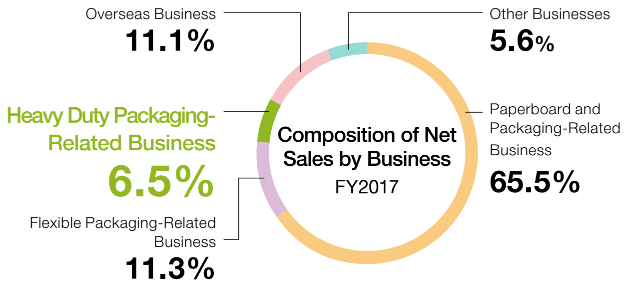
Actions and Measures

The Group mainly conducts the heavy duty packaging business through Nihon Matai Co., Ltd., a Rengo subsidiary. The Group pursues synergy effects while adopting technological innovations in response to changes in society so it can continue to provide heavy duty packaging that enhances the value of customer products.

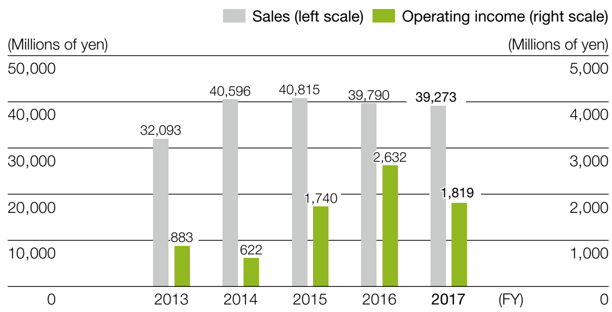
Research and Development Activities

Nihon Matai Co., Ltd. develops functional films, highly functional resin products and heavy duty packaging products. It markets weed-proofing sheets for agricultural use and is developing high-end products to expand business even further.

The company is expanding its single-layer and multi-layer sheeting business for functional film and highly functional resin products and augmenting its high value-added product lineup through stable operation of multilayer film machines and the accumulation of technological capabilities. Nihon Matai has maintained sales of top/bottom tape for paper carriers at the industry's highest level in the world and is developing new products and working to enhance quality in the pursuit of new growth.



● Sales and operating income (after intersegment eliminations)



Main Products

● **Flexible bulk containers**

Various types of flexible bulk containers that offer high functionality, high quality, and environmental performance are produced in Japan and other parts of Asia. Optimal, order-made products are supplied to meet the specific needs of customers in Japan and overseas.

● **Polyethylene heavy duty bags**

Nihon Matai boasts the industry's highest share of the market for polyethylene heavy duty bags, which are used for a wide range of applications including chemical products such as fertilizers, horticulture, and foodstuffs. Nihon Matai developed heavy duty gusset polyethylene bags for synthetic resins ahead of its competitors.

● **Top/bottom tape for paper carriers**

Top and bottom tape are used by electronic component manufactures around the world for sealing ultra-compact components on paper carriers.

Overseas Business

Overseas manufacture and sale of the Rengo Group's products are carried out mainly by the following companies: paperboard by Vina Kraft Paper Co., Ltd.; corrugated board and boxes by Dalian Rengo Packaging Co., Ltd.; flexible packaging by Jiangsu Zhongjin Matai Medicinal Packaging Co., Ltd.; heavy duty packaging by Tri-Wall Holdings Limited; and nonwoven products by Wuxi Rengo Packaging Co., Ltd.

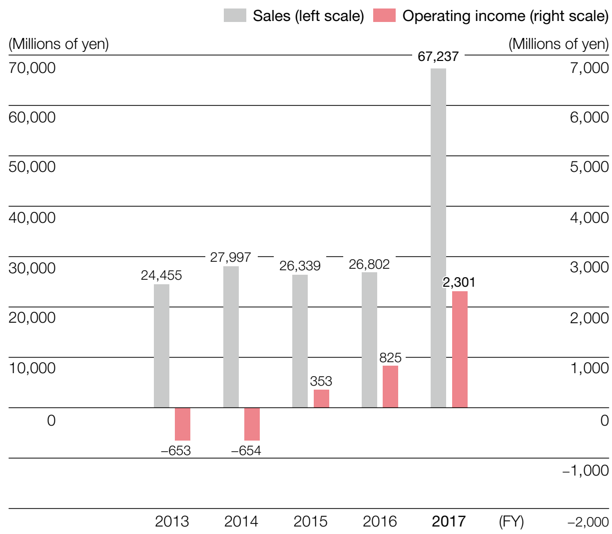
Market Environment and Business Results

Tri-Wall Holdings Limited, which became a consolidated subsidiary, contributed to performance in overseas business, and the corrugated business performed well, generating higher sales and profit.

As a result, segment sales were ¥67,237 million, up 150.9% year on year, and operating income was ¥2,301 million, an increase of 178.9%.

The Group's total overseas production volume of paperboard including production by equity-method affiliates was 660,000 tons, and the production volume of corrugated board was 1,984 million square meters.

Sales and operating income (after intersegment eliminations)



Other Businesses

Manufacture and sale of other products are carried out by the following companies: nonwoven products by Rengo Nonwoven Products Co., Ltd.; and packaging machines mainly by Yamada Kikai Kogyo Co., Ltd. Rengo Co., Ltd. is involved only in sales of packaging machines.

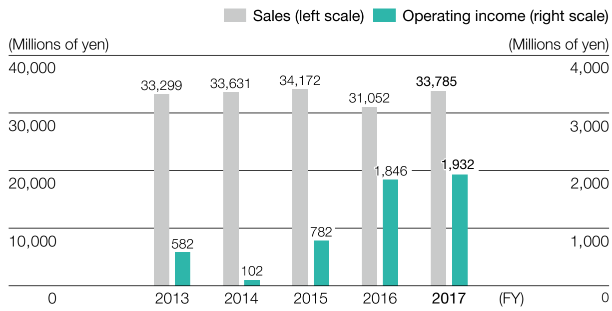
The transport, insurance agency, leasing, and real estate businesses are carried out mainly by Rengo Logistics Co., Ltd. and Sanyo Jidosha Unso Co., Ltd.

Market Environment and Business Results

In the Other Businesses, sales and profit were up mainly thanks to strong performance by the packaging machines business.

As a result, segment sales were ¥33,785 million, up 8.8% year on year, and operating income was ¥1,932 million, an increase of 4.7%.

Sales and operating income (after intersegment eliminations)



Business Development

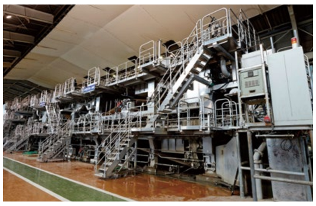
TOPICS

Conversion to Produce Both Corrugating Medium and Linerboard at Kanazu Mill Completed

Conversion to the Kanazu Mill (Awara-shi, Fukui Prefecture) so it can produce both corrugating medium and linerboard, undertaken as a part of the Group's initiatives to restructure containerboard production systems, was completed and commercial operations began in October 2017.

During the conversion, in addition to enabling production of both corrugating medium and linerboard, the stock preparation process, which has a major impact on the quality of paper, was enhanced to improve quality even further, creating cutting-edge paperboard machines that produce lightweight containerboard to save energy and resources in response to rising environmental demands. As a result, the Kanazu Mill has an even greater presence as a key production site for meeting the demand for containerboard from the central to western regions of Japan.

The Rengo Group previously manufactured containerboard at six mills in Japan including Marusan Paper Mfg. Co., Ltd., but with the completion of the renovation at the Kanazu Mill, containerboard (linerboard) production was suspended at the Yodogawa Mill (Fukushima-ku, Osaka) in December 2017, and the Group made the transition to a five-mill structure (Tonegawa, Yashio, Kanazu, Amagasaki, and Marusan Paper). As a result, operating rates at mills overall are higher and the balance of supply between linerboard and corrugating medium is improved, raising earnings capacity.



Kanazu No. 2 paperboard machine wire part

Overview of the Kanazu Mill Conversion

Location
1-8-10 Jiyugaoka, Awara-shi, Fukui Prefecture

Equipment
Kanazu No. 2 Paperboard Machine

Products
Containerboard (linerboard and corrugating medium)

Type
Multi fourdrinier three layers

Paper Width
4,500 mm

Basis weight range
Linerboard: 100 – 210 g/m^2; Corrugating medium: 90 – 200 g/m^2

Maximum production speed
1,000 m/minute

Average daily production
Linerboard: 930 t/day
(in the case of corrugating medium: 810 t/day)

Asahi Shiko Expands Head Office Plant, Upgrades Corrugator

Asahi Shiko Co., Ltd. (Konosu-shi, Saitama Prefecture) expanded its head office corrugated production plant building and office and warehouse building and upgraded its corrugator in January 2018. By installing state-of-the-art facilities, the company raised quality and increased production capacity and can now produce heavy duty corrugated board, bolstering the Group's corrugated packaging supply systems in the Kanto region.

Yodogawa Mill Closes

The Yodogawa Mill (Fukushima-ku, Osaka) was shut down in March 2018. After beginning operations in 1930 as a corrugated plant, operation of the paperboard mill commenced in 1936. After becoming an integrated plant for both papermaking and corrugated board, the mill established a history of 82 years, but it is located in an urban area, which left no space for expansion, and the facilities became outdated. The role of the mill ended with the restructuring of containerboard production systems.

(Production was terminated on December 15, 2017.)

Commemorative photo after the final papermaking operation

Rengo Completes Acquisition of Toppan Containers Shares

In March 2018, Rengo adopted a resolution to subscribe to new shares of Toppan Containers Co., Ltd., a wholly-owned subsidiary of Toppan Printing Co., Ltd., issued through a third-party allotment and to acquire shares from Toppan Printing to make Toppan Containers a subsidiary of Rengo. Agreements were signed with Toppan Containers and Toppan Printing regarding the share subscription and share acquisition, respectively. Following approval by regulatory authorities in Japan and China, Toppan Containers became a Rengo subsidiary in September 2018. Toppan Containers has three corrugated plants in Japan (Kawaguchi-shi, Saitama Prefecture; Sano-shi, Tochigi Prefecture; Ishinomaki-shi, Miyagi Prefecture), and this acquisition will enable the Group to expand supply capacity in the Kanto region, where demand is growing rapidly, and establish structures to respond even better to customer needs.

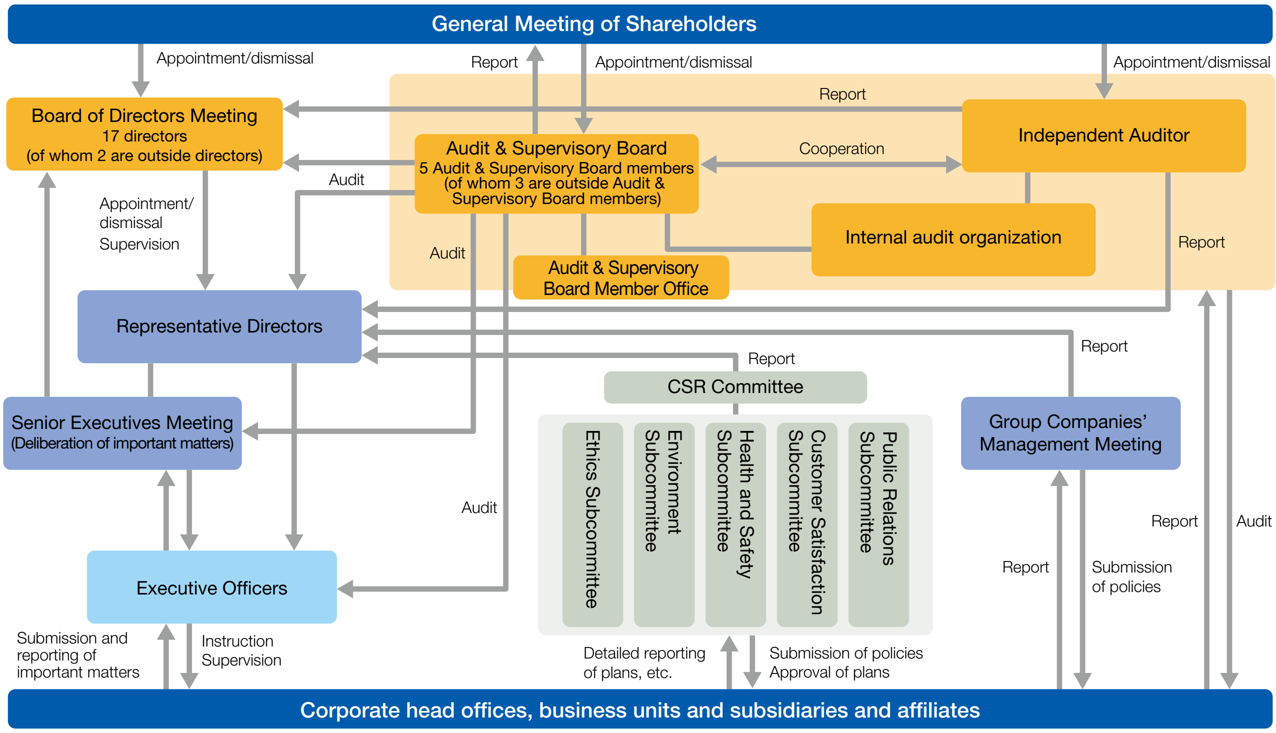
Other Major Developments

Japan	August 2017	Rengo invested in Tarutani Packaging Co., Ltd.
	September 2017	Rengo acquired a 100% stake in Sugii Kogyosho Co., Ltd.
Overseas	April 2017	Thai Containers Group Co., Ltd. completed acquisition of a stake in PT Indocorr Packaging Cikarang, a manufacturer of corrugated packaging in Indonesia.
	April 2017	Tri-Wall Limited ("Tri-Wall") established TW Michigan Inc., a joint venture, in Michigan, USA.
	June 2017	Tri-Wall acquired TPMS Polska Sp. z o.o., a manufacturer of heavy-duty packaging materials in Poland (the name was later changed to Tri-Wall Polska Sp. z o.o.).
	July 2017	Tri-Wall acquired Welsh Boxes and Engineering (Holding Company) Limited, a manufacturer of heavy-duty packaging materials in the United Kingdom.

To Be an Enterprise That Earns Society's Trust and Confidence

Rengo has put in place a corporate governance system and internal controls to accelerate decision-making and strengthen supervision of business execution, to increase corporate value.
In endorsing the Corporate Governance Code, we are continuing efforts to enhance our corporate governance system.

Corporate Governance Structure (As of June 28, 2018)



Basic Stance

As an enterprise with society's firm trust and confidence, our goal is timely and accurate information disclosure combined with sound management that has high transparency. In keeping with our corporate philosophy whose essence is "The truth is in the workplace," Rengo is enhancing corporate governance by strengthening the current system of Directors and Audit & Supervisory Board members while delegating authority and accelerating decision-making. In response to the Corporate Governance Code implemented since June 2015, Rengo has disclosed our approach to the Tokyo Stock Exchange in the form of a Corporate Governance Report in June 2016 for fiscal 2016, and the latest being on June 29, 2018. In endorsing the Corporate Governance Code, we will continue to work toward sustained growth for our company and improving our corporate value in the medium- to long-term.

Corporate Governance Systems

Rengo, a company with audit & supervisory board members, is making efforts to enhance management transparency and strengthen supervision of management. Audit & Supervisory Board members monitor the directors' performance of duties and the operations, as well as the financial conditions of Rengo and its subsidiaries.

Corporate governance structure

Organizational form	Company with audit & supervisory board members
Establishment of Audit & Supervisory Board	Established
Number of directors (of which, outside directors)	17 (2)
Number of audit & supervisory board members (of which, outside audit & supervisory board members)	5 (3)
Number of independent directors/auditors	5
Terms of office of director	1 year
Disclosure of compensation	Total amount*
Policy on determining compensation amounts and calculation methods	Established

* Information on individual directors' compensation totaling ¥100 million or more is disclosed separately.

Effectiveness and State of the Board of Directors

As of June 28, 2018, Rengo's Board of Directors consisted of 17 directors (the maximum number of directors stipulated in the Articles of Incorporation is 18). Regarding the effectiveness of the Board of Directors, Rengo is working to enhance the functions of the Board through self-evaluation by directors and other means. In February 2018, the company conducted a questionnaire survey (self-evaluation) of members of the Board of Directors and the Audit & Supervisory Board. The responses were analyzed, and following discussion of these results at a meeting of the Board of Directors, the overall effectiveness of the Board of Directors was confirmed.

Making Use of Independent Outside Directors

Rengo has appointed two independent outside directors, thus allowing for opinions stated from an independent stance during discussions at Board meetings.

In addition to meeting the criteria for qualifying as an outside director in accordance with the Companies Act and satisfying the qualifications for independent directors/auditors as stipulated by the Tokyo Stock Exchange, a requirement of outside directors is that they have no potential conflict of interest with ordinary shareholders. Furthermore, candidate outside directors are selected from those people who can contribute to Rengo's sustainable growth and enhancement of medium- and long-term corporate value.

Internal Control

Rengo formulated the basic policy for design of internal controls pursuant to the Companies Act of Japan and the Board of Directors approved it in May 2006. In April 2008, to respond to the internal control system required by the Financial Instruments and Exchange Act, Rengo established the new Audit Department, which is independent of routine operations. The Internal Control Audit Section of the Audit Department monitors and evaluates statuses of design and operation of company-wide internal controls and internal controls of significant business processes and pursues improvement.

In fiscal 2017, Rengo and its 110 consolidated subsidiaries were within the scope of evaluation of company-wide internal controls and seven significant business entities, including Rengo, were subject to evaluation of internal controls of business processes. As a result of the evaluation, management judged that Rengo's internal controls covering financial reporting were effective as of March 31, 2018.

Initiatives to Invigorate General Shareholders Meetings

In order to provide information on proposed General Shareholders Meeting resolutions to shareholders at the earliest possible time when a General Shareholders Meeting is convened, the company endeavors to send the notice of convocation early. In the case of the 150th Ordinary General Shareholders Meeting held in June 2018, notices were sent out 23 days prior to the meeting. To facilitate the exercise of voting rights, the company introduced electronic voting starting with the Ordinary General Shareholders Meeting held in June 2011 and has since participated in an electronic voting platform.

Formulating Rengo's Fundamental Policy on Information Disclosure

Rengo understands the importance of disclosing information in a timely and appropriate manner to the public and increasing management transparency so that society, customers, shareholders, and investors can accurately understand and assess our company. As such, we formulated our Fundamental Policy on Information Disclosure in June 2017.

The following fundamental policy governs our disclosure of information, in accordance with our corporate philosophy:

Criteria for Disclosure of Information

Information concerning the Rengo Group shall be disclosed in a prompt, fair and impartial manner, in accordance with laws and regulations, stock exchange rules, and suchlike. We shall also actively strive to disclose any other information beyond this scope that will help to promote understanding of the Rengo Group.

Methods of Disclosure of Information

We shall disclose information stipulated by laws and regulations, stock exchange rules, and suchlike through the stock exchange Timely Disclosure network (TDnet), as well as through press releases, our website and other means. We shall also strive to disclose other information through suitable methods such as publication on our website.

Quiet Period

To prevent the divulgence of information on financial results and for the sake of fairness, we shall not respond to any inquiries concerning financial results during the quiet period (from the day after the settlement date to the announcement date of results). However, there shall be appropriate disclosure in accordance with stock exchange rules in the event of likely major revisions to forecast results.

Forecasts

Risks and uncertainties are inherent in any future forecasts appearing in disclosed information, given the available information and the range of premises on which they were based at the time of disclosure. Please be aware that actual results may differ considerably from forecasts.

Market Rumors

In principle, we shall not comment on any market rumors or news articles based on conjecture. However, we shall respond in a suitable manner in the event that a lack of action would have grave repercussions for our company.

Established on June 1, 2017

Members of the Board, Audit & Supervisory Board Members and Executive Officers (As of June 28, 2018)

Representative Director, Chairman, President and Chief Executive Officer	Kiyoshi Otsubo
Representative Director, Executive Vice President	Moriaki Maeda
	Ichiro Hasegawa
Member of the Board, Senior Managing Executive Officer	Yasuhiro Baba
	Hiromi Sambe
	Shigechika Ishida
Member of the Board, Managing Executive Officer	Hiroshi Ebihara
	Yosuke Kawamoto
	Koichi Hirano
	Mitsumasa Yokota
	Hirofumi Hori
	Sadatoshi Inoue
Member of the Board, Executive Officer	Toru Osako
	Takeshi Hosokawa
	Yukio Okano
Member of the Board*1	Kenjiro Nakano
	Yoshio Sato

Full-time Audit & Supervisory Board Member	Kiwamu Hashimoto
	Yoshihiro Kagawa
Audit & Supervisory Board Member*2	Junzo Ishii
	Kiyoshi Mukohara
	Kenji Tsujimoto
Senior Managing Executive Officer	Osamu Nishimura
Executive Officer	Yuji Hiwaki
	Masashi Nakashima
	Yuji Motomatsu
	Shin Morizuka
	Satoshi Fujiwara
	Mitsunori Ozaki
	Shigetoshi Yoshimura
	Yosuke Tsuge
	Yasuhiro Yuida
	Mitsuyuki Goto
	Hitoshi Shibasaki

*1. Board members Kenjiro Nakano and Yoshio Sato are outside directors.
*2. Audit & Supervisory Board members Junzo Ishii, Kiyoshi Mukohara and Kenji Tsujimoto are outside members.

Financial Section

Consolidated Ten-Year Summary

Rengo Co., Ltd. and consolidated subsidiaries
(Fiscal years ended March 31, 2009–2018)

	2009	2010	2011
For the fiscal year (millions of yen):			
Net sales	¥ 446,660	¥ 457,386	¥ 474,878
Gross profits	69,813	91,645	91,888
Operating income	15,213	33,727	32,391
Profit before income taxes and non-controlling interests	14,215	29,633	18,042
Profit attributable to owners of parent	7,831	16,987	10,291
Research and development expenses	1,663	1,507	1,486
Depreciation and amortization	24,337	25,223	26,394
Capital expenditures	20,526	29,363	22,650
EBITDA	39,550	58,950	58,785
At the fiscal year-end (millions of yen):			
Total assets	¥ 457,263	¥ 498,137	¥ 499,119
Working capital	(43,897)	(37,080)	(36,385)
Interest-bearing debt	193,374	199,237	201,584
Net assets	140,779	163,926	165,613
Equity capital*1	136,175	159,385	159,395
Per share amounts (yen):			
Basic earnings per share	¥ 29.91	¥ 64.42	¥ 39.67
Diluted earnings per share	–	–	–
Cash dividends applicable to the year	10.00	10.00	12.00
Net assets per share*2	520.49	595.36	618.59
Ratio:			
Return on equity (%)	5.6	11.5	6.5
Return on total assets (%)	1.7	3.6	2.1
Debt to equity ratio (times)	1.42	1.25	1.27
Capital adequacy ratio (%)	29.8	32.0	31.9
Other statistics:			
Number of shares of common stock (thousand)	263,774	271,056	271,056
Number of employees	9,089	11,182	12,267
Stock prices (yen):			
High	¥ 849	¥ 652	¥ 597
Low	425	483	414

*1 Equity capital = Net assets - Non-controlling interests
*2 The amount of net assets used for calculation of net assets per share is the amount of net assets on the consolidated balance sheets, excluding non-controlling interests.

	2012	2013	2014	2015	2016	2017	2018
	¥ 492,628	¥ 502,626	¥ 523,142	¥ 522,672	¥ 532,534	¥ 545,489	¥ 605,713
	86,196	88,469	82,606	76,429	87,288	98,587	99,710
	25,068	23,891	14,221	5,568	15,727	23,642	17,083
	11,272	25,066	9,687	12,081	16,268	24,186	23,366
	7,148	12,956	3,703	5,719	9,817	13,876	16,623
	1,541	1,581	1,421	1,405	1,441	1,448	1,483
	27,149	27,898	28,582	29,612	29,333	29,524	30,881
	47,741	37,014	52,849	39,982	29,657	30,446	41,527
	52,217	51,789	42,803	35,180	46,455	54,373	49,616
	¥ 549,058	¥ 572,591	¥ 629,055	¥ 655,675	¥ 644,690	¥ 704,827	¥ 750,636
	(46,135)	(30,389)	(40,772)	(34,146)	(36,802)	(24,289)	(20,035)
	229,444	237,746	263,431	276,906	264,728	283,350	287,322
	170,931	188,133	201,659	222,391	221,734	241,511	262,581
	164,339	180,734	196,359	216,353	215,963	234,242	255,015
	¥ 27.74	¥ 50.99	¥ 14.95	¥ 23.09	¥ 39.64	¥ 56.04	¥ 67.14
	–	–	–	–	–	–	–
	12.00	12.00	12.00	12.00	12.00	12.00	12.00
	637.85	729.53	792.78	873.60	872.17	946.06	1,029.98
	4.4	7.5	2.0	2.8	4.5	6.2	6.8
	1.4	2.3	0.6	0.9	1.5	2.1	2.3
	1.40	1.32	1.34	1.28	1.23	1.21	1.13
	29.9	31.6	31.2	33.0	33.5	33.2	34.0
	271,056	271,056	271,056	271,056	271,056	271,056	271,056
	12,961	13,082	13,095	14,060	13,999	16,038	16,532
	¥ 619	¥ 599	¥ 651	¥ 558	¥ 619	¥ 717	¥ 968
	458	311	438	443	459	546	603

Management's Discussion and Analysis

Overview

In the fiscal year ended March 31, 2018, the Rengo Group strove to expand our business scale and improve our earnings power by strengthening sales and marketing capabilities through packaging innovation, responding quickly to changes in the business environment, and conducting vigorous capital investment and M&A. This was aimed at strengthening our business foundation as the General Packaging Industry (GPI) Rengo proposing comprehensive solutions for the full spectrum of packaging needs of virtually all industries centered on six core businesses—paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas business.

In the development of packaging that delivers significant value with fewer resources based on our "Less is more." concept, we worked on developing and aggressively promoting products with high added value while also keeping in mind the solving of social issues such as labor shortages. This includes further evolving our Retail Mate series that contributes to optimizing workflow at retail sites for both retail stores and online commerce, enhancing the lineup of our Rengo Smart Display Packaging (RSDP), and expanding the variations for Rakuppa, our sales display which can be easily assembled.

In response to the escalating cost of recovered paper—the main material for containerboard—and other costs such as for fuel, chemicals, and logistics, thorough efforts in cost reduction were taken to maintain the prices of our products. However, it seemed our efforts alone were not enough, and therefore we revised prices for all shipments of paperboard products—including containerboard—from August 2017, and corrugated packaging from October 2017. These revisions delivered some results.

In October 2017, as part of the restructuring of the production system for containerboard, Rengo's Kanazu Mill (Awara-shi, Fukui Prefecture) completed its conversion to become capable of producing both corrugating medium and linerboard, and started operations. In December 2017, we ceased containerboard production at our Yodogawa Mill (Fukushima-ku, Osaka) and consolidated the Group's production locations of containerboard to five mills so as to strengthen profitability.

In addition, Asahi Shiko Co., Ltd. (Konosu-shi, Saitama Prefecture) extended its head office plant and renovated its corrugator (a machine used in the manufacture of corrugated packaging) in January 2018. In March the same year, an agreement was concluded with Toppan Printing Co., Ltd. to make its subsidiary, Toppan Containers Co., Ltd. (Taito-ku, Tokyo), a subsidiary of Rengo.

Overseas, Thai Containers Group Co., Ltd. made an Indonesian corrugated packaging manufacturer into a subsidiary in April 2017 so as to strengthen its corrugated packaging business in Indonesia. In addition, Tri-Wall Limited (Hong Kong) established a joint venture in the United States for the manufacture and sales of heavy duty packaging materials, and brought manufacturers of heavy duty packaging materials in Poland and the United Kingdom into its group in June and July respectively. In January 2018, production capabilities were expanded in Thailand to enhance our system for responding to the increase in demand for heavy duty packaging.

As a result, sales increased, but operating income fell compared to the previous year. Profit attributable to owners of parent exceeded the previous year due to factors such as an increase in equity in earnings of affiliates.

As of March 31, 2018, there were 139 consolidated subsidiaries, nine more than at the end of the previous year, and there were 15 affiliates accounted for by the equity method, unchanged from that at the end of the previous year.

Sales

Consolidated net sales increased ¥60.2 billion or 11.0% year on year from ¥545.5 billion for the previous year to ¥605.7 billion for fiscal 2017. This increase was mainly due to an increase in the sales volume of corrugated products both within and outside Japan, revisions to product prices, as well as an expansion in overseas business operations when Tri-Wall Holdings was made into a subsidiary.

Sales from the Paperboard and Packaging-Related Business increased 3.9% year on year, sales from the Flexible Packaging-Related Business increased 4.0%, sales from the Heavy Duty Packaging-Related Business decreased 1.3%, sales from the Overseas Business increased 150.9%, and sales from other businesses increased 8.8%.

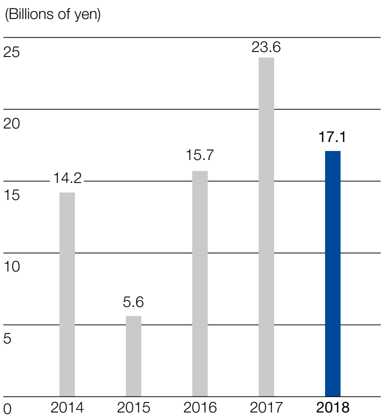
Sales volumes of corrugated boxes in Japan increased 6.7% on the back of robust demand.

Income and Expenses

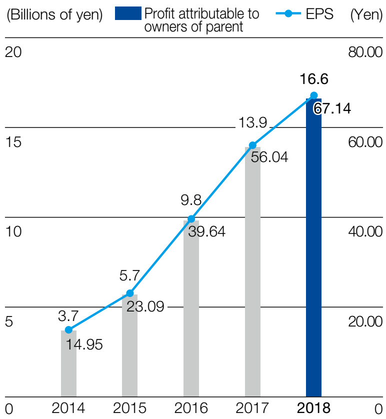
Operating Expenses and Operating Income

Cost of sales increased 13.2% year on year from ¥446.9 billion for the previous year to ¥506.0 billion owing to factors, including

Operating Income



Profit Attributable to Owners of Parent and Earnings per Share (EPS)



Income and Expenses as a Percentage of Net Sales

	2016	2017	2018
Cost of sales	83.6%	81.9%	83.5%
SG&A expenses	13.4	13.7	13.6
Operating income	3.0	4.3	2.8
Profit attributable to owners of parent	1.8	2.5	2.7

an increase in the number of consolidated subsidiaries, escalating cost of recovered paper, and rising prices of energy such as city gas and electricity. Selling, general and administrative expenses increased 10.3% from ¥74.9 billion to ¥82.6 billion primarily owing to an increase in the number of consolidated subsidiaries and an increase in freightage and packing expenses.

Operating income decreased ¥6.5 billion or 27.7% year on year from ¥23.6 billion to ¥17.1 billion. This decrease was because rise in costs—such as the escalating cost of recovered paper and rising prices of energy—occurred before the increase in the sales volume of corrugated products and revisions to product prices.

Other Income and Expenses

Regarding the net balance of other income and expenses, income for fiscal 2017 was ¥6.3 billion compared to ¥0.5 billion in the previous year. This is due to factors such as an increase in equity in earnings of affiliates arising from the recording of income from sales of shares of subsidiary by our equity-method affiliate Hung Hing Printing Group Limited.

Income Taxes and Profit Attributable to Non-controlling Interests

Income taxes decreased ¥3.6 billion from ¥9.6 billion for the previous year to ¥6.0 billion mainly owing to an decrease in profit before income taxes and non-controlling interests. Profit attributable to non-controlling interests decreased ¥0.1 billion from ¥0.8 billion for the previous year to ¥0.7 billion.

Profit Attributable to Owners of Parent

Profit attributable to owners of parent was ¥16.6 billion for fiscal 2017, an increase of ¥2.7 billion or 19.8% from ¥13.9 billion for the previous year. Basic earnings per share was ¥67.14, having increased from ¥56.04 for the previous year.

Annual cash dividends per share were unchanged from the previous year at ¥12.

Financial Position and Cash Flows

Assets

Total assets were ¥750.6 billion, having increased ¥45.8 billion from ¥704.8 billion at the end of the previous year. The overall increase was comprised of a ¥27.8 billion increase in current assets, a ¥9.6 billion increase in property, plant and equipment, a ¥2.0 billion decrease in intangible assets, and a ¥10.4 billion increase in investments and other assets.

The principal reasons were that there was an increase in current assets arising from an increase in notes and accounts receivable-trade, and an increase in investments and other assets arising from an increase in investment securities accompanying factors such as the rise in share prices.

Liabilities and Net Assets

Total liabilities amounted to ¥488.1 billion, having increased ¥24.8 billion from ¥463.3 billion at the end of the previous year, owing mainly to an increase in notes and accounts payable-trade.

Interest-bearing debt at the end of the fiscal year stood at ¥287.3 billion, having increased ¥3.9 billion from ¥283.4 billion at the end of the previous year.

Net assets amounted to ¥262.6 billion, having increased ¥21.1 billion from ¥241.5 billion at the end of the previous year, owing to an increase in retained earnings having recorded profit attributable to owners of parent, as well as an increase in the valuation difference on available-for-sale securities arising from increased stock prices.

Cash Flows

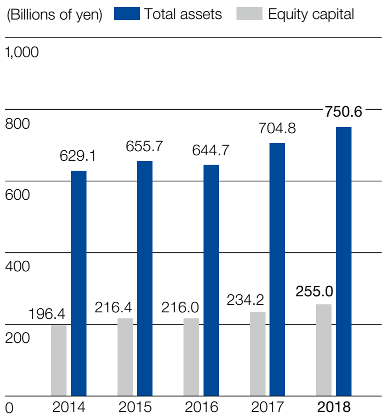
Net cash provided by operating activities amounted to ¥31.2 billion, a decrease of ¥10.8 billion from ¥42.0 billion for the previous year. The major item was depreciation and amortization amounting to ¥30.8 billion.

Net cash used in investing activities decreased ¥8.2 billion from ¥36.9 billion for the previous year to ¥28.7 billion. Principal items were purchases of property, plant and equipment amounting to ¥35.9 billion and proceeds from sales and redemption of investment securities amounting to ¥6.4 billion.

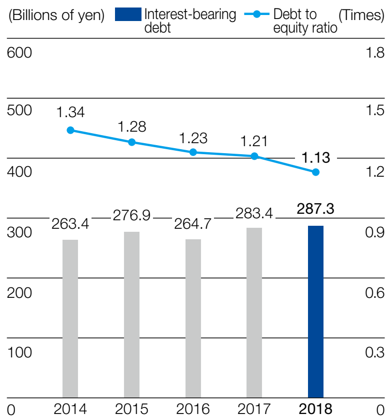
Net cash used in financing activities was ¥3.2 billion, having decreased ¥5.3 billion from net cash provided by financing activities of ¥2.1 billion for the previous year. Major items were a ¥5.6 billion net decrease in long-term loans payable, ¥10.0 billion in proceeds from issuance of bonds, cash dividends paid amounting to ¥3.0 billion, and repayments of lease obligations amounting to ¥2.4 billion.

As a result, cash and cash equivalents were ¥26.9 billion at the end of fiscal 2017, having increased ¥0.3 billion from the previous year.

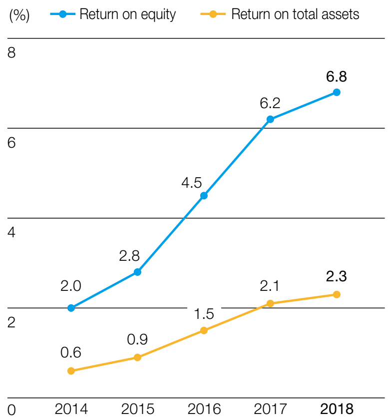
Equity Capital and Total Assets



Interest-Bearing Debt and Debt to Equity Ratio



Return on Equity and Return on Total Assets



Consolidated Balance Sheets

Rengo Co., Ltd. and Consolidated Subsidiaries
(March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Assets			
Current assets:			
Cash and deposits (Notes 4, 6 and 8)	¥ 28,108	¥ 28,402	$ 265,170
Receivables			
Notes and accounts receivable-trade (Note 6)	185,146	163,128	1,746,660
Other	2,180	2,410	20,566
Allowance for doubtful accounts	(646)	(631)	(6,094)
	186,680	164,907	1,761,132
Inventories (Note 5)	45,916	39,837	433,170
Deferred tax assets (Note 10)	3,725	3,676	35,142
Other	4,359	4,200	41,122
Total current assets	268,788	241,022	2,535,736
Property, plant and equipment (Note 8):			
Buildings and structures	228,549	222,746	2,156,123
Machinery, equipment and vehicles	474,597	456,286	4,477,330
Land	107,374	109,675	1,012,962
Construction in progress	6,334	4,953	59,755
Other	29,044	29,813	274,000
	845,898	823,473	7,980,170
Less accumulated depreciation	(536,192)	(523,362)	(5,058,415)
Total property, plant and equipment	309,706	300,111	2,921,755
Intangible assets:			
Goodwill	9,724	11,531	91,736
Other (Note 8)	14,097	14,265	132,990
Total intangible assets	23,821	25,796	224,726
Investments and other assets:			
Investment securities (Notes 6, 7 and 8)	126,688	116,289	1,195,170
Long-term loans receivable	1,009	1,092	9,519
Net defined benefit asset (Note 11)	2,808	2,464	26,491
Deferred tax assets (Note 10)	743	879	7,009
Other (Note 8)	18,061	18,244	170,387
Allowance for doubtful accounts	(988)	(1,070)	(9,321)
Total investments and other assets	148,321	137,898	1,399,255
Total assets	¥ 750,636	¥ 704,827	$ 7,081,472

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Liabilities and Net Assets			
Current liabilities:			
Short-term borrowings and the current portion of long-term debt (Notes 6, 8 and 9)	¥ 121,974	¥ 117,447	$ 1,150,698
Payables			
Notes and accounts payable-trade (Notes 6 and 8)	111,838	95,166	1,055,075
Other (Note 6)	22,105	16,706	208,538
	133,943	111,872	1,263,613
Income taxes payable	3,417	5,933	32,236
Provision for directors' bonuses	173	175	1,632
Other	29,316	29,883	276,567
Total current liabilities	288,823	265,310	2,724,746
Non-current liabilities:			
Long-term debt due after one year (Notes 6, 8 and 9)	159,091	158,974	1,500,858
Deferred tax liabilities (Note 10)	20,569	17,764	194,047
Provision for directors' retirement benefits	943	1,013	8,896
Net defined benefit liability (Note 11)	12,061	12,669	113,783
Other (Notes 6 and 8)	6,568	7,586	61,963
Total non-current liabilities	199,232	198,006	1,879,547
Contingent liabilities (Note 12)			
Net assets (Note 13):			
Shareholders' equity:			
Capital stock:			
Authorized 800,000,000 shares Issued 271,056,029 shares	31,067	31,067	293,085
Capital surplus	33,586	34,291	316,849
Retained earnings	155,268	141,527	1,464,793
Treasury stock:			
23,463,100 shares in 2018 and 23,458,037 shares in 2017	(11,940)	(11,936)	(112,642)
Total shareholders' equity	207,981	194,949	1,962,085
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	34,322	27,911	323,792
Deferred gains or losses on hedges	–	(2)	–
Foreign currency translation adjustment	10,620	9,833	100,189
Remeasurements of defined benefit plans	2,092	1,551	19,736
Total accumulated other comprehensive income	47,034	39,293	443,717
Non-controlling interests	7,566	7,269	71,377
Total net assets	262,581	241,511	2,477,179
Total liabilities and net assets	¥ 750,636	¥ 704,827	$ 7,081,472

Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 20)	¥ 605,713	¥ 545,489	$ 5,714,274
Cost of sales	506,002	446,903	4,773,604
Selling, general and administrative expenses (Note 15)	82,628	74,944	779,510
Operating income (Note 20)	17,083	23,642	161,160
Other income (expenses):			
Interest and dividend income	2,186	2,043	20,623
Equity in earnings of affiliates (Note 16)	6,272	1,657	59,170
Interest expenses	(1,621)	(1,522)	(15,292)
Gain on sales of non-current assets	1,647	324	15,538
Gain on sales of investment securities (Note 7)	1,315	735	12,406
Business structure improvement expenses (Note 17)	(1,105)	–	(10,425)
Loss on sales and retirement of non-current assets	(700)	(513)	(6,604)
Loss on reduction of non-current assets	(328)	(211)	(3,094)
Renewal expenses of plants	(318)	(266)	(3,000)
Office transfer expenses (Note 18)	–	(541)	–
Amortization of goodwill (Note 19)	–	(359)	–
Other, net	(1,065)	(803)	(10,048)
Profit before income taxes and non-controlling interests	23,366	24,186	220,434
Income taxes (Note 10):			
Income taxes-current	6,381	8,566	60,198
Income taxes-deferred	(336)	986	(3,170)
Total income taxes	6,045	9,552	57,028
Profit	17,321	14,634	163,406
Profit attributable to non-controlling interests	698	758	6,585
Profit attributable to owners of parent	¥ 16,623	¥ 13,876	$ 156,821

	Yen		U.S. dollars (Note 1)
	2018	2017	2018
Per share data:			
Basic earnings per share	¥ 67.14	¥ 56.04	$ 0.63
Diluted earnings per share	–	–	–
Cash dividends applicable to the year	12.00	12.00	0.11

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥ 17,321	¥ 14,634	$ 163,406
Other comprehensive income (Note 14):			
Valuation difference on available-for-sale securities	6,417	7,346	60,538
Deferred gains or losses on hedges	0	(0)	0
Foreign currency translation adjustment	727	(2,074)	6,858
Remeasurements of defined benefit plans, net of tax	538	864	5,075
Share of other comprehensive income of affiliates accounted for using equity method	158	(1,248)	1,491
Total other comprehensive income	7,840	4,888	73,962
Comprehensive income	¥ 25,161	¥ 19,522	$ 237,368
Comprehensive income attributable to			
Owners of the parent	¥ 24,354	¥ 18,880	$ 229,755
Non-controlling interests	807	642	7,613

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2018 and 2017)

	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	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at April 1, 2016	271,056	¥ 31,067	¥ 34,052	¥ 131,096	¥ (11,926)	¥ 20,556	¥ (9)	¥ 10,438	¥ 689	¥ 5,771	¥ 221,734
Change in scope of consolidation				(457)							(457)
Dividends from surplus				(2,971)							(2,971)
Profit attributable to owners of parent				13,876							13,876
Purchase of treasury stock					(10)						(10)
Disposal of treasury stock			0		0						0
Other			239	(17)							222
Net changes in items other than shareholders' equity						7,355	7	(605)	862	1,498	9,117
Balance at March 31, 2017	271,056	¥ 31,067	¥ 34,291	¥ 141,527	¥ (11,936)	¥ 27,911	¥ (2)	¥ 9,833	¥ 1,551	¥ 7,269	¥ 241,511
Change in scope of consolidation				88							88
Dividends from surplus				(2,971)							(2,971)
Profit attributable to owners of parent				16,623							16,623
Purchase of treasury stock					(4)						(4)
Disposal of treasury stock			0		0						0
Purchase of investments in capital of consolidated subsidiaries			(672)								(672)
Other			(33)	1							(32)
Net changes in items other than shareholders' equity						6,411	2	787	541	297	8,038
Balance at March 31, 2018	271,056	¥ 31,067	¥ 33,586	¥ 155,268	¥ (11,940)	¥ 34,322	¥ —	¥ 10,620	¥ 2,092	¥ 7,566	¥ 262,581

	Thousands of U.S. dollars (Note 1)									
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total
Balance at March 31, 2017	$ 293,085	$ 323,500	$1,335,161	$ (112,604)	$ 263,311	$ (19)	$ 92,765	$ 14,632	$ 68,575	$ 2,278,406
Change in scope of consolidation			830							830
Dividends from surplus			(28,028)							(28,028)
Profit attributable to owners of parent			156,821							156,821
Purchase of treasury stock				(38)						(38)
Disposal of treasury stock		0		0						0
Purchase of investments in capital of consolidated subsidiaries		(6,340)								(6,340)
Other		(311)	9							(302)
Net changes in items other than shareholders' equity					60,481	19	7,424	5,104	2,802	75,830
Balance at March 31, 2018	$ 293,085	$ 316,849	$1,464,793	$ (112,642)	$ 323,792	$ —	$ 100,189	$ 19,736	$ 71,377	$ 2,477,179

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2018 and 2017)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net cash provided by (used in) operating activities:			
Profit before income taxes and non-controlling interests	¥ 23,366	¥ 24,186	$ 220,434
Depreciation and amortization	30,777	29,524	290,349
Impairment loss	221	84	2,085
Amortization of goodwill	1,605	1,521	15,142
Business structure improvement expenses	1,105	–	10,425
Increase (decrease) in provision for directors' retirement benefits	(71)	100	(670)
Increase (decrease) in net defined benefit liability	(147)	909	(1,387)
Interest and dividend income	(2,186)	(2,043)	(20,623)
Interest expenses	1,621	1,522	15,293
Equity in (earnings) losses of affiliates	(6,272)	(1,657)	(59,170)
Loss (gain) on sales of investment securities	(1,315)	(721)	(12,406)
Loss (gain) on valuation of investment securities	19	40	179
Loss (gain) on sales of property, plant and equipment	(1,444)	(238)	(13,623)
Loss on retirement of property, plant and equipment	497	427	4,689
Decrease (increase) in notes and accounts receivable-trade	(19,897)	(7,163)	(187,708)
Decrease (increase) in inventories	(5,389)	(1,445)	(50,840)
Increase (decrease) in notes and accounts payable-trade	15,279	2,996	144,142
Other, net	1,264	832	11,925
Subtotal	39,033	48,874	368,236
Interest and dividend income received	2,650	2,375	25,000
Interest expenses paid	(1,595)	(1,500)	(15,047)
Income taxes paid	(8,839)	(7,745)	(83,387)
Net cash provided by (used in) operating activities	31,249	42,004	294,802
Net cash provided by (used in) investing activities:			
Net decrease (increase) in time deposits	716	734	6,755
Purchase of property, plant and equipment	(35,924)	(24,579)	(338,905)
Proceeds from sales of property, plant and equipment	3,949	1,083	37,255
Purchase of intangible assets	(1,246)	(1,399)	(11,755)
Purchase of investment securities	(931)	(936)	(8,783)
Proceeds from sales and redemption of investment securities	6,439	2,349	60,745
Payments for investments in capital of subsidiaries and affiliates	(732)	–	(6,906)
Net decrease (increase) in short-term loans receivable	147	185	1,387
Payments of long-term loans receivable	(84)	(107)	(792)
Collection of long-term loans receivable	146	2,082	1,377
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 4)	(986)	(16,297)	(9,302)
Other, net	(152)	–	(1,434)
Net cash provided by (used in) investing activities	(28,658)	(36,885)	(270,358)
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	8,177	(5,962)	77,141
Proceeds from long-term loans payable	29,813	33,689	281,255
Repayment of long-term loans payable	(43,546)	(34,481)	(410,811)
Proceeds from issuance of bonds	10,000	20,000	94,340
Redemption of bonds	(30)	(5,035)	(283)
Purchase of treasury stock	(4)	(10)	(38)
Proceeds from sales of treasury stock	0	0	0
Cash dividends paid	(2,971)	(2,971)	(28,028)
Payments from changes in ownership interests in investments in capital of subsidiaries that do not result in change in scope of consolidation	(1,515)	–	(14,293)
Repayments of lease obligations	(2,392)	(2,594)	(22,566)
Other, net	(714)	(573)	(6,736)
Net cash provided by (used in) financing activities	(3,182)	2,063	(30,019)
Effect of exchange rate change on cash and cash equivalents	123	(309)	1,160
Net increase (decrease) in cash and cash equivalents	(468)	6,873	(4,415)
Cash and cash equivalents at beginning of year	26,643	19,418	251,349
Increase in cash and cash equivalents from newly consolidated subsidiaries	394	352	3,717
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	374	–	3,528
Cash and cash equivalents at end of year (Note 4)	¥ 26,943	¥ 26,643	$ 254,179

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, 2018, which was ¥106 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 139 (130 in 2017) 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. 99 subsidiaries are consolidated on the basis of fiscal years ending on December 31, which differs from the date of the Company. However, necessary adjustments have been made if the effect of the difference is material.

Investments in 15 (15 in 2017) unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are mainly 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 non-controlling interests is charged or credited to non-controlling interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling 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 the period in which the economic benefits are expected to be realized. However, if the economic benefits are not expected to be realized in the future, goodwill was fully expensed. Negative goodwill acquired prior to March 31, 2010 is amortized on a straight-line basis continuously.

(2) Translation of Foreign Currencies

A. Translation of Foreign Currencies Receivables and Payables
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the fiscal year-end rates.

B. Translation of Foreign Currency Financial Statements
The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at fiscal year-end rates except for shareholders' equity accounts, which are translated at historical rates. The income statements of the consolidated overseas subsidiaries are translated at the fiscal year-end rates except for transactions with the Company, which are translated at rates used by the Company.

The resulting foreign currency translation adjustments are shown as a separate component of net assets, net of non-controlling interest.

(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 evaluation.

(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 or 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 fiscal year.

(5) Inventories

Raw materials are stated mainly at the lower of cost determined by the moving-average method or net realizable value. Other inventories are stated mainly at the lower of cost determined by the average method or net realizable value.

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

Property, plant and equipment are carried at cost. Depreciation is computed mainly by the declining balance method over the estimated useful life of the assets in accordance with the Corporation Tax Law of Japan. Buildings acquired after April 1, 1998 and facilities attached to buildings and structures, acquired after April 1, 2016 are depreciated by the straight-line method.

(7) Intangible Assets (Except Lease Assets)

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

Other intangible assets are mainly amortized using the straight-line method over the estimated useful life in accordance with the Corporation Tax Law of Japan.

(8) Lease Assets

Property, plant and equipment capitalized under finance lease arrangements without the transfer of ownership 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.

(9) Deferred Assets

The full cost of issuing bonds is recognized in expenses as incurred.

(10) Provision for Directors' Bonuses

The Companies provide directors' and audit & supervisory board members' bonuses applicable to the current fiscal year under review based on the projected amounts of payment.

(11) Provision for Directors' Retirement Benefits

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

(12) Allowance for Investment Loss

Allowance for investment loss is provided at the estimated amount of possible investment losses for unconsolidated subsidiaries and affiliate companies, according to internal rules, considering the financial condition of the investees.

The allowances deducted directly from the amounts of investment securities in the fiscal years ended March 31, 2018 and 2017 amounted to ¥113 million (U.S. $1,066 thousand) and ¥106 million, respectively.

(13) Income Taxes

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) Net Defined Benefit Liability

When calculating retirement benefit obligations, a benefit formula basis is used to distribute the estimated amount of retirement benefits into the period up to the end of the current fiscal year.

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 fiscal year. Differences generated from changes in actuarial assumptions are amortized for the subsequent fiscal years on a straight-line basis over mainly 13 years, which is shorter than the average remaining service periods of the employees. Prior service costs are amortized as incurred over certain periods (10 years), which is shorter than the average remaining service periods of the employees.

(15) Derivative Transactions and Hedge Accounting

In principle, the Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the 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 the derivative financial instrument 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 assets and liabilities denominated in a foreign currency;
   (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.

   Assets and liabilities denominated in foreign currencies for which foreign exchange forward contacts or currency swaps are used to hedge the foreign currency swaps qualify for hedge accounting.

   The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at fair value but the differential paid or received under the swap agreements are recognized and included in interested expense or income.

(16) Reclassifications

Certain reclassifications of the financial statements for the fiscal year ended March 31, 2017 have been made to conform to the presentation for the fiscal year ended March 31, 2018.

(17) Earnings per Share

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

Diluted earnings per share for the fiscal years ended March 31, 2018 and 2017 are not disclosed because there were no outstanding dilutive potential common stock equivalents.

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

3. ISSUED BUT NOT YET ADOPTED ACCOUNTING STANDARDS AND OTHERS

-Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)
-Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 (revised 2018), February 16, 2018)

(1) Summary
The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as 'Type 1' according to the guidance.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2019.

(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

-Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
-Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Summary
The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contract(s) with customers.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligation in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

4. 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥ 28,108	¥ 28,402	$ 265,170
Less: Time deposits with maturities exceeding three months	(1,165)	(1,759)	(10,991)
Cash and cash equivalents	¥ 26,943	¥ 26,643	$ 254,179

(2) Purchases of Newly Consolidated Subsidiaries

For the fiscal year ended March 31, 2017, Tri-Wall Holdings Limited and 74 other subsidiaries 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
Current assets	¥ 15,792
Non-current assets	15,213
Goodwill	9,828
Current liabilities	(6,399)
Non-current liabilities	(7,383)
Foreign currency translation adjustment	(2,612)
Non-controlling interests	(1,567)
Cash paid for the capital	22,872
Cash and cash equivalents of consolidated subsidiaries	(6,575)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 16,297

5. INVENTORIES

Inventories at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise and finished goods	¥ 21,824	¥ 20,101	$ 205,887
Work in process	3,255	2,681	30,708
Raw materials and supplies	20,837	17,055	196,575
Total	¥ 45,916	¥ 39,837	$ 433,170

6. FINANCIAL INSTRUMENTS

(1) Status of Financial Instruments

A. Policies for using financial instruments

The Companies set up the fund management plan based on the plan for capital expenditures and investments and procure the necessary long-term funds by borrowing from banks and issuing corporate bonds. The Companies raise short-term working capital for the ordinary business activities by bank loans and manage temporary surplus funds through financial assets that have a high level of safety. The Company and certain consolidated subsidiaries utilize derivative financial instruments to hedge interest rate fluctuation risk of long-term borrowings and foreign currency exchange rate fluctuation risk arising from export and import transactions denominated in foreign currencies and do not enter into derivative transactions for speculative purposes and with the high level of leveraged effect.

B. Details of financial instruments and associated risk and the risk management system

Notes and accounts receivable arising from operation are exposed to the credit risk of customers. The Companies set a credit limit for such business partners and manage the outstanding balances under credit management rules.

Investment securities are primarily the stocks of companies with which the Companies have business relationship and are exposed to market price fluctuation risk. The Companies periodically evaluate the fair value of these securities and monitor the issuing company and review its policies for the issuing of stocks.

Trade notes and accounts payable are due within one year.

In addition, certain payables are denominated in foreign currencies and exposed to the risk of exchange rate fluctuations. The Company and certain subsidiaries use forward foreign exchange contracts to hedge the risk of such exchange rate fluctuations.

The Companies generally raise the working capital required for business transactions through short-term loans and procure long-term funds required for capital expenditure, investment and loans receivable through long-term loans and the bond issuances. Although some long-term loans are exposed to the risk of interest rate fluctuations or of exchange rate fluctuations, the Companies hedge the risk with derivative transactions such as interest rate swaps and currency swaps. The risks of fluctuations in interest rates and exchange rates have been assumed to be completely hedged over the period of the hedging contracts as the 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 Finance and Accounting Group in accordance with its established policies. In using derivative 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 trade payable and fund procurement (payment default risk) by creating and updating monthly cash flow plans as needed.

C. Supplemental information on fair values

The fair value of financial instruments is based on market prices or estimates 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.

(2) Fair Values of Financial Instruments

The book values of the financial instruments presented in the consolidated balance sheets, the market value and any differences as of March 31, 2018 and 2017 are set for in the tables below. Items whose fair market value was considered extremely difficult to determine were not presented in the tables (See Note (2)).

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Book value	Market value	Difference	Book value	Market value	Difference	Book value	Market value	Difference
(A) Cash and deposits	¥ 28,108	¥ 28,108	¥ –	¥ 28,402	¥ 28,402	¥ –	$ 265,170	$ 265,170	$ –
(B) Notes and accounts receivable-trade	185,146	185,146	–	163,128	163,128	–	1,746,660	1,746,660	–
(C) Investment securities									
Available-for-sale securities	89,595	89,595	–	83,744	83,744	–	845,236	845,236	–
Equity securities issued by affiliated companies	16,523	9,193	(7,330)	12,463	7,235	(5,228)	155,877	86,726	(69,151)
Total assets	¥ 319,372	¥ 312,042	¥ (7,330)	¥ 287,737	¥ 282,509	¥ (5,228)	$ 3,012,943	$ 2,943,792	$ (69,151)
(A) Notes and accounts payable-trade	¥ 111,838	¥ 111,838	¥ –	¥ 95,166	¥ 95,166	¥ –	$ 1,055,075	$ 1,055,075	$ –
(B) Short-term borrowings and the current portion of long-term loans payable	116,948	116,990	42	117,417	117,614	197	1,103,284	1,103,680	396
(C) Current portion of bonds	5,025	5,037	12	30	30	0	47,406	47,519	113
(D) Bonds payable	60,010	60,248	238	55,035	55,343	308	566,132	568,377	2,245
(E) Long-term loans payable	99,081	99,529	448	103,939	105,279	1,340	934,726	938,953	4,227
Total liabilities	¥ 392,902	¥ 393,642	¥ 740	¥ 371,587	¥ 373,432	¥ 1,845	$ 3,706,623	$ 3,713,604	$ 6,981
Derivative transactions*1									
(a) Hedge accounting not applied	¥ (7)	¥ (7)	¥ –	¥ 13	¥ 13	¥ –	$ (66)	$ (66)	$ –
(b) Hedge accounting applied	–	–	–	(2)	(2)	–	–	–	–
Total derivative transactions	¥ (7)	¥ (7)	¥ –	¥ 11	¥ 11	¥ –	$ (66)	$ (66)	$ –

*1 Amounts shown are net of assets and liabilities which from derivative transactions. Net liability items in the total are shown in parentheses.

Note (1) Methods and assumptions to estimate fair value of financial instruments and matters concerning securities and derivative transactions.

Assets

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

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

(C) Investment securities

The fair value of investments in securities which have market values is the price listed on securities exchanges. Note 7 provides information on marketable securities classified according to the purpose for which they are held.

Liabilities

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

Because of their short-term maturity, the book value and fair value are essentially equivalent. The book value, therefore, is used for the fair value. The current portion of long-term loans payable use the same methods for estimating fair value as that for (E) Long-term loans payable.

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

The fair value of bonds issued 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 approximates the fair value of these long-term floating-rate loans because the floating interest rate reflects the market rates within a short period and the Companies' credit conditions remain unchanged following the execution of such debt. The 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.

* For long-term loans using interest rate swaps subject to special treatment or currency swaps subject to appropriate treatment, the amount of principal and interest on the loans included in these interest rate swaps or currency swaps is used.

Derivative Transactions

The fair value of derivative transactions is measured by prices mainly reported by the financial institutions with which the Companies engage in derivative transactions. The fair value of interest rate swaps subject to special treatment and the fair value of currency swaps subject to appropriated treatment are included in the fair value of the corresponding long-term loans.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Available-for-sale securities	¥ 2,919	¥ 4,404	$ 27,538
Equity securities issued by unconsolidated subsidiaries and affiliated companies	17,650	15,679	166,509

These financial instruments for which determining fair value was extremely difficult because no market price was available and future cash flow estimates were not possible were not included in (C) Investment securities.

Note (3) The redemption schedule for receivables and marketable securities with maturities subsequent to March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 28,108	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	185,146	–	–	–
Investment securities				
Available-for-sale securities	–	–	–	120
Total	¥ 213,254	¥ –	¥ –	¥ 120

	Millions of yen			
	2017			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 28,402	¥ –	¥ –	¥ –
Notes and accounts receivable-trade	163,128	–	–	–
Investment securities				
Available-for-sale securities	–	–	–	120
Total	¥ 191,530	¥ –	¥ –	¥ 120

	Thousands of U.S. dollars			
	2018			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	$ 265,170	$ –	$ –	$ –
Notes and accounts receivable-trade	1,746,660	–	–	–
Investment securities				
Available-for-sale securities	–	–	–	1,132
Total	$ 2,011,830	$ –	$ –	$ 1,132

Note (4) The repayment schedule of long-term debt, lease debt, and others subsequent to March 31, 2018 and 2017 were as follows:

	Millions of yen					
	2018					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term debt	¥ 83,625	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt	38,349	29,575	34,679	27,083	22,421	45,333
Lease debt	1,773	1,412	1,042	786	360	434
Others	257	138	16	15	13	11
Total	¥ 124,004	¥ 31,125	¥ 35,737	¥ 27,884	¥ 22,794	¥ 45,778

	Millions of yen					
	2017					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term debt	¥ 75,255	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt	42,192	35,829	26,865	31,449	22,730	42,101
Lease debt	1,822	1,518	1,193	773	530	419
Others	312	241	121	–	–	–
Total	¥ 119,581	¥ 37,588	¥ 28,179	¥ 32,222	¥ 23,260	¥ 42,520

	Thousands of U.S. dollars					
	2018					
	Within one year	Over one year but within two years	Over two years but within three years	Over three years but within four years	Over four years but within five years	Over five years
Short-term debt	$ 788,915	$ –	$ –	$ –	$ –	$ –
Long-term debt	361,783	279,009	327,160	255,500	211,519	427,670
Lease debt	16,726	13,321	9,831	7,415	3,396	4,094
Others	2,425	1,302	151	142	123	104
Total	$ 1,169,849	$ 293,632	$ 337,142	$ 263,057	$ 215,038	$ 431,868

7. 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, 2018 and 2017.

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	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	¥ 82,763	¥ 32,132	¥ 50,631	¥ 78,608	¥ 36,884	¥ 41,724	$ 780,783	$ 303,132	$ 477,651
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	20	12	8	–	–	–
	82,763	32,132	50,631	78,628	36,896	41,732	780,783	303,132	477,651
Securities with book values (fair values) not exceeding acquisition costs:									
Equity securities	6,832	7,522	(690)	5,116	6,170	(1,054)	64,453	70,962	(6,509)
Bonds	–	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–	–
	6,832	7,522	(690)	5,116	6,170	(1,054)	64,453	70,962	(6,509)
Total	¥ 89,595	¥ 39,654	¥ 49,941	¥ 83,744	¥ 43,066	¥ 40,678	$ 845,236	$ 374,094	$ 471,142

(2) Sales of Available-for-Sale Securities

Proceeds from sales of available-for-sale securities in the fiscal years ended March 31, 2018 and 2017 amounted to ¥6,441 million (U.S. $60,764 thousand) and ¥2,349 million, respectively. The related gains for the fiscal years ended March 31, 2018 and 2017 amounted to ¥1,315 million (U.S. $12,406 thousand) and ¥736 million, respectively. The related losses for the fiscal years ended March 31, 2018 and 2017 amounted to ¥0 million (U.S. $0 thousand) and ¥15 million, respectively.

8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral including factory foundation for short-term borrowings of ¥3,085 million (U.S. $29,104 thousand) and the current portion of long-term debt, long-term debt of ¥1,079 million (U.S. $10,179 thousand), accounts payable-trade of ¥346 million (U.S. $3,264 thousand) and others of ¥1,062 million (U.S. $10,019 thousand) at March 31, 2018 were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 11,520	$ 108,679
Machinery, equipment and vehicles	21,001	198,123
Land	31,722	299,264
Investment securities	1,927	18,179
Other	682	6,434
Total	¥ 66,852	$ 630,679

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate
	2018	2017	2018	2018
Short-term borrowings	¥ 83,625	¥ 75,255	$ 788,915	0.54%
Current portion of long-term debt	38,349	42,192	361,783	1.01
Total	¥ 121,974	¥ 117,447	$ 1,150,698	–

Long-term debt at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans mainly from banks and insurance companies			
(2018: due in 2030, with interest rates ranging from 0.00% to 4.0%, 2017: due in 2027, with interest rates ranging from 0.00% to 2.2%)	¥ 132,405	¥ 146,101	$ 1,249,103
Issued by Rengo Co., Ltd.			
Unsecured 0.86% straight bonds, due July 2018	5,000	5,000	47,170
Unsecured 0.28% straight bonds, due September 2019	10,000	10,000	94,340
Unsecured 0.27% straight bonds, due September 2020	5,000	5,000	47,170
Unsecured 0.45% straight bonds, due September 2021	10,000	10,000	94,340
Unsecured 0.50% straight bonds, due September 2022	5,000	5,000	47,170
Unsecured 0.28% straight bonds, due December 2023	10,000	10,000	94,340
Unsecured 0.27% straight bonds, due December 2024	5,000	–	47,170
Unsecured 0.39% straight bonds, due December 2026	10,000	10,000	94,340
Unsecured 0.41% straight bonds, due December 2027	5,000	–	47,170
Issued by Kato Danboru Co., Ltd.			
Unsecured 0.63% bonds, due September 2018	5	15	46
Unsecured 0.49% bonds, due August 2019	30	50	282
	197,440	201,166	1,862,641
Less current portion	(38,349)	(42,192)	(361,783)
	¥ 159,091	¥ 158,974	$ 1,500,858

The aggregate annual maturities of long-term debt at March 31, 2018 were as follows:

Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥ 38,349	$ 361,783
2020	29,575	279,009
2021	34,679	327,160
2022	27,083	255,500
2023 and thereafter	67,754	639,189
Total	¥ 197,440	$ 1,862,641

10. INCOME TAXES

At March 31, 2018 and 2017, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Net operating loss carryforwards for tax purposes	¥ 4,113	¥ 4,410	$ 38,802
Net defined benefit liability	3,476	3,682	32,792
Accrued bonuses	2,292	2,261	21,622
Write-down of golf club memberships	403	396	3,802
Provision for directors' retirement benefits	315	340	2,972
Loss on valuation of investment securities	901	898	8,500
Allowance for doubtful accounts	180	215	1,698
Unrealized gain on sale of property, plant and equipment eliminated on consolidation	276	287	2,604
Accrued enterprise taxes	306	436	2,887
Impairment loss	516	649	4,868
Other	1,872	1,876	17,660
Subtotal deferred tax assets	14,650	15,450	138,207
Valuation allowance	(5,879)	(6,502)	(55,462)
Total deferred tax assets	8,771	8,948	82,745
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(15,201)	(12,356)	(143,406)
Deferred gain tax treatment of property	(3,286)	(3,030)	(31,000)
Non-current assets revaluation difference, net of taxes unrealized gain	(3,748)	(3,963)	(35,358)
Trademark rights	(1,664)	(1,853)	(15,698)
Other	(973)	(955)	(9,179)
Total deferred tax liabilities	(24,872)	(22,157)	(234,641)
Net deferred tax assets (liabilities)	¥ (16,101)	¥ (13,209)	$ (151,896)

At March 31, 2018 and 2017, the reconciliation of the aggregate statutory income tax rate to the effective income tax rate was as follows:

	2018	2017
Statutory tax rate	30.7%	30.7%
Effect of:		
Tax deductions	(1.7)	(3.1)
Non-deductible items such as entertainment expenses	3.9	2.9
Non-taxable items such as dividends received	(4.0)	(3.1)
Per capita inhabitants' taxes	1.0	1.0
Dividends received eliminated in consolidation	3.7	2.7
Equity in earnings of affiliates	(8.2)	(2.1)
Valuation allowance	(0.1)	0.9
Amortization of goodwill	2.1	1.9
The effects from newly consolidated foreign subsidiaries	–	7.7
Other	(1.5)	0.0
Effective tax rate	25.9%	39.5%

11. RETIREMENT BENEFITS

Net defined benefit asset and net defined benefit liability included in the consolidated balance sheets as of March 31, 2018 and 2017 and retirement benefit expenses in the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

(1) Defined benefit plans

A. Movement in retirement benefit obligations, except plans that applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at April 1, 2017 and 2016	¥ 42,719	¥ 41,839	$ 403,010
Service cost	2,729	2,717	25,745
Interest cost	287	279	2,708
Actuarial loss (gain)	100	(85)	943
Benefits paid	(2,299)	(2,159)	(21,689)
Past service cost	3	(0)	28
Increase accompanying new additions to the scope of consolidation	–	129	–
Other	(8)	(1)	(75)
Balance at March 31, 2018 and 2017	¥ 43,531	¥ 42,719	$ 410,670

B. Movement in plan assets, except plans that applied the simplified method

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at April 1, 2017 and 2016	¥ 35,108	¥ 33,298	$ 331,207
Expected return on plan assets	486	466	4,585
Actuarial loss (gain)	1,082	1,099	10,207
Contributions paid by the employer	1,838	1,871	17,340
Benefits paid	(1,616)	(1,595)	(15,245)
Other	–	(31)	–
Balance at March 31, 2018 and 2017	¥ 36,898	¥ 35,108	$ 348,094

C. Movement in liability for retirement benefits on defined benefit plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at April 1, 2017 and 2016	¥ 2,593	¥ 1,996	$ 24,462
Retirement benefit expenses	511	384	4,821
Benefits paid	(294)	(191)	(2,774)
Contributions paid by the employer	(200)	(184)	(1,887)
Increase accompanying new additions to the scope of consolidation	–	576	–
Other	11	12	104
Balance at March 31, 2018 and 2017	¥ 2,621	¥ 2,593	$ 24,726

D. Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥ 46,032	¥ 44,946	$ 434,264
Plan assets	(39,637)	(37,791)	(373,934)
	6,395	7,155	60,330
Unfunded retirement benefit obligations	2,858	3,050	26,962
Total net liability for retirement benefits at March 31, 2018 and 2017	¥ 9,253	¥ 10,205	$ 87,292
Net defined benefit liability	¥ 12,061	¥ 12,669	$ 113,783
Net defined benefit asset	(2,808)	(2,464)	(26,491)
Total net liability for retirement benefits at March 31, 2018 and 2017	¥ 9,253	¥ 10,205	$ 87,292

E. Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 2,729	¥ 2,717	$ 25,745
Interest cost	287	279	2,708
Expected return on plan assets	(486)	(466)	(4,585)
Amortization of net unrecognized actuarial differences	(109)	151	(1,028)
Amortization of past service cost	(91)	(97)	(859)
Retirement benefit expenses applying for simplified method	511	384	4,821
Total retirement benefit expenses for the fiscal years ended March 31, 2018 and 2017	¥ 2,841	¥ 2,968	$ 26,802

F. Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service cost	¥ (94)	¥ (98)	$ (887)
Actuarial gains and losses	875	1,337	8,255
Total remeasurements of defined benefit plans for the fiscal years ended March 31, 2018 and 2017	¥ 781	¥ 1,239	$ 7,368

G. Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service cost that are yet to be recognized	¥ 336	¥ 430	$ 3,170
Actuarial gains and losses that are yet to be recognized	2,668	1,793	25,170
Total balance at March 31, 2018 and 2017	¥ 3,004	¥ 2,223	$ 28,340

H. Plan assets
(a) Plan assets comprise

	2018	2017
General account	34%	35%
Bonds	32	31
Equity securities	30	30
Other	4	4
Total	100%	100%

(b) Long-term expected rate of return
Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

I. Actuarial assumptions
The principal actuarial assumptions

	2018	2017
Discount rate	mainly 0.7%	mainly 0.7%
Long-term expected rate of return	mainly 1.5%	mainly 1.5%

Note: The expected rate of salary increase is not presented because Companies do not generally use it in actuarial calculations for their retirement benefit plans.

(2) Defined contribution plan
Required contribution for defined contribution plans by consolidated subsidiaries in the fiscal years ended March 31, 2018 and 2017 amounted to ¥219 million (U.S. $2,066 thousand) and ¥209 million, respectively.

(3) Multi-employer pension plans

Required contributions to employees' pension fund plans of the multi-employer pension plans which were treated the same as defined contribution plans for the years ended March 31, 2018 and 2017 amounted to ¥239 million (U.S. $2,255 thousand) and ¥276 million, respectively.

The multi-employer pension fund that certain consolidated subsidiaries had participated in was dissolved with the government's permission on May 1, 2016. As a result, the consolidated subsidiaries shifted to the succeeding pension fund. There will be no additional cost due to the dissolution.

The multi-employer pension fund that certain consolidated subsidiaries had participated in was dissolved with the government's permission on March 30, 2017. As a result, the consolidated subsidiaries shifted to the succeeding pension fund. The first fiscal year end of the succeeding pension was March 31, 2018, therefore the amount of the fund is not included in the table in below A and B. There will be no additional cost due to the dissolution.

A. The savings situation of the whole system

	Millions of yen		Thousands of U.S. dollars
	2018 (As of March 31, 2017)	2017 (As of March 31, 2016)	2018 (As of March 31, 2017)
Plan assets	¥ 40,998	¥ 101,854	$ 386,774
Net total actuarial obligations under pension funding programs and minimum actuarial reserve	44,855	126,601	423,161
Total balance	¥ (3,857)	¥ (24,747)	$ (36,387)

B. The ratio of the Companies' contributions to the multi-employer pension plans against total contributions

For the fiscal year ended March 31, 2018 corresponding to the fiscal year ended March 31, 2017: 11.0%

For the fiscal year ended March 31, 2017 corresponding to the fiscal year ended March 31, 2016: 4.5%

C. Supplemental information

The main factor of total balance of A mentioned above is past service cost under pension funding programs and general reserve. Past service cost under pension funding programs for the fiscal years ended March 31, 2018 and 2017 amounted to ¥8,829 million (U.S. $83,292 thousand) and ¥25,534 million, respectively. General reserve for the fiscal years ended March 31, 2018 and 2017 amounted to ¥4,870 million (U.S. $45,943 thousand) and ¥4,665 million, respectively.

In addition, the ratio in B mentioned above does not accord with the real burden on the Companies' ratio.

12. CONTINGENT LIABILITIES

As of March 31, 2018, the Companies' contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted	¥ 20	$ 189
As endorser of notes endorsed	115	1,085
As guarantor of indebtedness	1,590	15,000

Note: The guarantee obligations of ¥870 million (U.S. $8,208 thousand) was re-guaranteed by third party.

13. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common 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 common 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.

14. COMPREHENSIVE INCOME STATEMENTS

At March 31, 2018 and 2017, amounts reclassified to profit (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities			
Increase (decrease) during the fiscal year	¥ 10,015	¥ 11,215	$ 94,481
Reclassification adjustments for losses realized in profit	(751)	(715)	(7,085)
Subtotal, before tax amount	9,264	10,500	87,396
Tax (expense) or benefit	(2,847)	(3,154)	(26,858)
Subtotal, net of tax amount	6,417	7,346	60,538
Deferred gains and losses on hedges			
Increase (decrease) during the fiscal year	0	(0)	0
Tax (expense) or benefit	(0)	0	(0)
Subtotal, net of tax amount	0	(0)	0
Foreign currency translation adjustment			
Increase (decrease) during the fiscal year	738	(2,074)	6,962
Tax (expense) or benefit	(11)	–	(104)
Subtotal, net of tax amount	727	(2,074)	6,858
Remeasurements of defined benefit plans			
Increase (decrease) during the fiscal year	984	1,186	9,283
Reclassification adjustments for losses realized in profit	(203)	53	(1,915)
Subtotal, before tax amount	781	1,239	7,368
Tax (expense) or benefit	(243)	(375)	(2,293)
Subtotal, net of tax amount	538	864	5,075
Share of other comprehensive income of affiliates accounted for using equity method			
Increase (decrease) during the fiscal year	158	(1,248)	1,491
Total other comprehensive income	¥ 7,840	¥ 4,888	$ 73,962

15. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in “General and administrative expenses” and are charged to income as incurred. The aggregate amounts of research and development expenses charged to income were ¥1,483 million (U.S. $13,991 thousand) and ¥1,448 million for the fiscal years ended March 31, 2018 and 2017, respectively.

16. EQUITY IN EARNINGS OF AFFILIATES

For the fiscal year ended March 31, 2018, equity in earnings of affiliates was mainly caused by gain on sales of shares of subsidiaries at Hung Hing Printing Group Limited.

17. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

For the fiscal year ended March 31, 2018, business structure improvement expenses were associated with rebuilding the containerboard production systems. The components of the expenses were fixed costs during the period of Mill closed and other of ¥540 million (U.S. $5,094 thousand) related to conversion of Kanazu Mill’s paper machine to produce both corrugating medium and linerboard, and impairment loss and other of ¥565 million (U.S. $5,330 thousand) from the closure of the Yodogawa Mill.

The principle components of the impairment loss were as follows:

Place	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Fukushima-ku, Osaka	Assets scheduled for disposal	Machinery, equipment and vehicles	¥ 375	$ 3,538
		Other	9	85
		Total	¥ 384	$ 3,623

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” (Other income (expenses)) due to the decision made to dispose of the above assets.

The recoverable values of the assets were measured on the basis of the net selling price. The evaluations of unsalable assets were mainly zero.

18. OFFICE TRANSFER EXPENSES

For the fiscal year ended March 31, 2017, office transfer expenses were caused by the decision to transfer the Tokyo Head Office of the Company, which created impairment loss of ¥244 million and other expenses of ¥297 million.

The principle components of the impairment loss were as follows:

Place	Use	Type of assets	Millions of yen
Minato-ku, Tokyo	Assets scheduled for disposal	Buildings and structures	¥ 239
		Other	5
		Total	¥ 244

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 “Office transfer expenses” (Other income (expenses)) due to the decision made to dispose of the above assets.

The recoverable values of the assets were measured on the basis of the net selling price. The evaluations of unsalable assets were mainly zero.

19. AMORTIZATION OF GOODWILL

For the fiscal year ended March 31, 2017, the Company recognized a one-time amortization of goodwill in accordance with the provisions of Article 32 of the “Practical Guidelines on Accounting Standards for Capital Consolidation Procedures in Preparing Consolidated Financial Statements" (The Japanese Institute of Certified Public Accountants, Accounting Practice Committee Statement No. 7, issued November 28, 2014).

20. SEGMENT INFORMATION

(1) Segment Information

A. Overview of reportable segments

The Company's reportable segments are the business units for which separate financial information is available and which are periodically reviewed by the Board of Directors for the purposes of monitoring to determine the allocation of business resources and evaluate business performance.

To fulfill the multiple needs of packaging as “General Packaging Industry (GPI),” the Companies expanded the business field into flexible packaging and heavy duty packaging also overseas, and had been making plans for a comprehensive strategy about products in each business field, in addition to the integrated production from paperboards to corrugated boxes. 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 boxes 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 boxes, flexible packaging, heavy duty packaging and nonwoven products in overseas operations.

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

The accounting policies for business segments reported are generally the same as on those described in Note 2. Figures for reportable segment income are based on operating income. Internal transactions are based on the current market prices.

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

Information by segment for the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen							
	2018							
	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
Sales to third parties	¥ 397,118	¥ 68,300	¥ 39,273	¥ 67,237	¥ 571,928	¥ 33,785	¥ —	¥ 605,713
Intersegment sales and transfers	2,523	226	2,226	4,663	9,638	25,043	(34,681)	—
Total sales	399,641	68,526	41,499	71,900	581,566	58,828	(34,681)	605,713
Segment profit	7,157	3,724	1,819	2,301	15,001	1,932	150	17,083
Segment assets	567,872	59,029	44,500	126,780	798,181	36,374	(83,919)	750,636
Other items								
Depreciation and amortization	23,132	2,028	1,261	2,966	29,387	1,326	(45)	30,668
Amortization of goodwill	221	238	356	838	1,653	—	—	1,653
Investment in equity method affiliates	645	1,781	—	36,804	39,230	635	—	39,865
Increase in property, plant and equipment and intangible assets	30,951	4,746	1,994	2,705	40,396	1,148	(17)	41,527

	Millions of yen							
	2017							
	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
Sales to third parties	¥ 382,146	¥ 65,699	¥ 39,790	¥ 26,802	¥ 514,437	¥ 31,052	¥ —	¥ 545,489
Intersegment sales and transfers	1,578	161	849	4,288	6,876	23,286	(30,162)	—
Total sales	383,724	65,860	40,639	31,090	521,313	54,338	(30,162)	545,489
Segment profit	13,309	4,883	2,632	825	21,649	1,846	147	23,642
Segment assets	545,268	52,427	41,109	111,755	750,559	33,881	(79,613)	704,827
Other items								
Depreciation and amortization	23,437	2,062	1,065	1,709	28,273	1,299	(48)	29,524
Amortization of goodwill*4	728	237	356	227	1,548	18	—	1,566
Investment in equity method affiliates	642	1,715	—	29,848	32,205	724	—	32,929
Increase in property, plant and equipment and intangible assets	22,969	2,155	1,953	1,443	28,520	1,966	(40)	30,446

	Thousands of U.S. dollars							
	2018							
	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
Sales to third parties	$ 3,746,396	$ 644,340	$ 370,500	$ 634,311	$ 5,395,547	$ 318,727	$ —	$ 5,714,274
Intersegment sales and transfers	23,802	2,132	21,000	43,991	90,925	236,254	(327,179)	—
Total sales	3,770,198	646,472	391,500	678,302	5,486,472	554,981	(327,179)	5,714,274
Segment profit	67,519	35,132	17,160	21,708	141,519	18,226	1,415	161,160
Segment assets	5,357,283	556,877	419,811	1,196,038	7,530,009	343,151	(791,688)	7,081,472
Other items								
Depreciation and amortization	218,227	19,132	11,896	27,981	277,236	12,510	(425)	289,321
Amortization of goodwill	2,085	2,245	3,358	7,906	15,594	—	—	15,594
Investment in equity method affiliates	6,085	16,802	—	347,207	370,094	5,991	—	376,085
Increase in property, plant and equipment and intangible assets	291,990	44,774	18,811	25,519	381,094	10,830	(160)	391,764

*1 "Other Businesses" are the businesses which are not included in reportable segments and included domestic manufacturing and sales of nonwoven products, paper packaging machinery and other businesses such as transport, insurance agency, leasing and real estate.
*2 Resulting "Adjustments" were as follows:
(a) The adjustments of segment profits of ¥150 million (U.S. $1,415 thousand) and ¥147 million for the fiscal years ended March 31, 2018 and 2017, respectively, were from the elimination of intersegment transactions.
(b) The adjustments of segment assets of -¥83,919 million (-U.S. $791,688 thousand) and -¥79,613 million for the fiscal years ended March 31, 2018 and 2017, respectively, were from the elimination of intersegment transactions.
(c) The adjustments of depreciation and amortization of -¥45 million (-U.S. $425 thousand) and -¥48 million for the fiscal years ended March 31, 2018 and 2017, respectively, were from the elimination of intersegment transactions.
(d) The adjustments of increases in property, plant and equipment, and intangible assets of -¥17 million (-U.S. $160 thousand) and -¥40 million for the fiscal years ended March 31, 2018 and 2017, respectively, were from the elimination of intersegment transactions.
*3 The segment profit was reconciled with operating income in the consolidated statements of income.
*4 For the fiscal year ended March 31, 2017, the amortization of goodwill of "Paperboard and Packaging-Related Business" includes amortization of goodwill consisting of other income (expenses) on the consolidated statements of income.

(2) Related Information

A. Products and Services

Sales to third parties	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Paperboard	¥ 58,412	¥ 55,921	$ 551,057
Corrugated board	41,841	41,741	394,726
Corrugated boxes	283,308	263,621	2,672,717
Flexible packaging and cellophane	73,096	67,919	689,585
Other	149,056	116,287	1,406,189
Total	¥ 605,713	¥ 545,489	$ 5,714,274

B. Geographical Segments

(a) Sales	Millions of yen	Thousands of U.S. dollars
	2018	2018
Japan	¥ 536,181	$ 5,058,311
Asia	59,987	565,915
Other	9,545	90,048
Total	¥ 605,713	$ 5,714,274

The ratio of sales in Japan to those in the consolidated financial statements exceeded 90% for the fiscal year ended March 31, 2017. Therefore, information regarding geographical segments was not required to be disclosed.

(b) Property, plant and equipment

The ratios of property, plant and equipment in Japan to those in the consolidated financial statements exceeded 90% for the fiscal years ended March 31, 2018 and 2017. Therefore, information regarding geographical segments was not required to be disclosed.

C. Major Customers

There were no specific customers whose sales exceeded 10% of the total sales in the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017. Therefore, information regarding such major customers was not required to be disclosed.

(3) Information on Impairment Loss in Property, Plant and Equipment by Reportable Segments

	Millions of yen							
	2018							
	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	¥ 538	¥ —	¥ 47	¥ 19	¥ 604	¥ 7	¥ —	¥ 611

	Millions of yen							
	2017							
	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	¥ 403	¥ —	¥ —	¥ 13	¥ 416	¥ 2	¥ —	¥ 418

	Thousands of U.S. dollars							
	2018							
	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	$ 5,076	$ —	$ 443	$ 179	$ 5,698	$ 66	$ —	$ 5,764

“Other Businesses” are the businesses which are not included in reportable segments and included domestic manufacturing and sales of nonwoven products, paper packaging machinery and other businesses such as transport, insurance agency, leasing and real estate.

In “Paperboard and Packaging-Related Business”, impairment loss of ¥384 million (U.S. $3,623 thousand) related to the business structure improvement is included in “Business structure improvement expenses” (Other income (expenses)) on the consolidated statements of income as of March 31, 2018. In “Other Businesses”, impairment loss of ¥7 million (U.S. $66 thousand) related to the renewal of plants is included in “Renewal expenses of plants” (Other income (expenses)) on the consolidated statements of income as of March 31, 2018.

In “Paperboard and Packaging-Related Business”, impairment loss of ¥244 million related to the office transference is included in “Office transfer expenses” and impairment loss of ¥88 million related to the factory renovation is included in “Renewal expenses of plants” (Other income (expenses)) on the consolidated statements of income as of March 31, 2017. In “Other Businesses”, impairment loss of ¥2 million related to the renewal of plants is included in “Renewal expenses of plants” (Other income (expenses)) on the consolidated statements of income as of March 31, 2017.

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

	Millions of yen							
	2018							
	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	¥ 221	¥ 238	¥ 356	¥ 838	¥ 1,653	¥ —	¥ —	¥ 1,653
Balance at end of period	416	237	178	9,065	9,896	—	—	9,896
Negative goodwill								
Amortized for the period	41	2	—	4	47	—	—	47
Balance at end of period	143	13	—	16	172	—	—	172

	Millions of yen							
	2017							
	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	¥ 728	¥ 237	¥ 356	¥ 227	¥ 1,548	¥ 18	¥ —	¥ 1,566
Balance at end of period	637	475	534	10,104	11,750	—	—	11,750
Negative goodwill								
Amortized for the period	39	2	—	4	45	—	—	45
Balance at end of period	184	15	—	20	219	—	—	219

	Thousands of U.S. dollars							
	2018							
	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	$ 2,085	$ 2,245	$ 3,358	$ 7,906	$ 15,594	$ —	$ —	$ 15,594
Balance at end of period	3,924	2,236	1,679	85,519	93,358	—	—	93,358
Negative goodwill								
Amortized for the period	386	19	—	38	443	—	—	443
Balance at end of period	1,349	123	—	151	1,623	—	—	1,623

"Other Businesses" are the businesses which are not included in reportable segments and included domestic manufacturing and sales of nonwoven products, paper packaging machinery and other businesses such as transport, insurance agency, leasing and real estate.

For the fiscal year ended March 31, 2017, the amortization of goodwill of "Paperboard and Packaging-Related Business" includes amortization of goodwill consisting of other income (expenses) on the consolidated statements of income.

21. RELATED PARTY INFORMATION

Summary of financial statements of significant affiliate

The Company's only significant affiliate as of March 31, 2018 was Hung Hing Printing Group Limited, and a summary of its financial statements are as follows:

	Millions of yen	Thousands of U.S. dollars
Total current assets	¥ 47,050	$ 443,868
Total non-current assets	18,654	175,981
Total current liabilities	7,823	73,802
Total non-current liabilities	2,716	25,623
Total net assets	55,165	520,424
Net sales	45,342	427,755
Profit before income taxes and non-controlling interests	17,361	163,783
Profit attributable to owners of parent	15,190	143,302

Note: Hung Hing Printing Group Limited was added from the year ended March 31, 2018 due to its increased importance.

22. SUBSEQUENT EVENTS

At the Board of Directors meeting held on May 11, 2018, 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. $0.06 per share)	¥ 1,486	$ 14,019

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2018. Such appropriations are recognized in the period in which they are approved.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Rengo Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rengo Co., Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 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, 2018

KPMG AZSA LLC

KPMG AZSA LLC

Company Information (as of March 31, 2018)

Corporate Profile

Founded		April 12, 1909
Incorporated		May 2, 1920
Capital stock		31.067 billion yen
Number of shares authorized		800,000,000
Number of shares issued		271,056,029
Number of shareholders		15,098
Number of employees	Rengo	3,730
	Consolidated subsidiaries	12,802
	Total	16,532
Stock exchange listings	Tokyo	
Stock transfer agent	Sumitomo Mitsui Trust Bank, Limited	
	4-5-33, Kitahama, Chuo-ku, Osaka, Japan	


Head Office

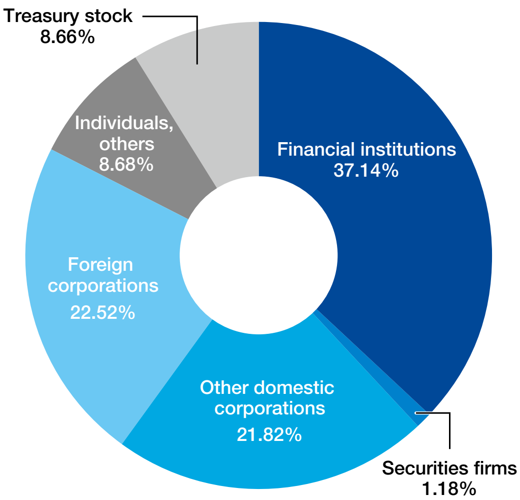

Tokyo Head Office

Major Shareholders

Shareholders	Ownership ratio (%)
Japan Trustee Services Bank, Ltd.	16.47
The Master Trust Bank of Japan, Ltd.	5.14
Sumitomo Mitsui Banking Corporation	3.86
Sumitomo Life Insurance Company	2.76
Mitsui Sumitomo Insurance Company, Ltd.	2.54
The Norinchukin Bank	2.40
Sumitomo Corporation	2.12
Trust & Custody Services Bank, Ltd.	1.81
DFA INTL SMALL CAP VALUE PORTFOLIO	1.79
Rengo Employee Shareholding Association	1.38

* Shareholding ratios are calculated after deducting treasury shares.

Shareholder Distribution



IR Calendar

	April	May	June	July	August	September	October	November	December	January	February	March
Financial Results Annoucement		● Announcement of year-end results ● Earnings presentation			● Announcement of 1st quarter results			● Announcement of 2nd quarter results ● Earnings presentation			● Announcement of 3rd quarter results	
Letter to Shareholders			● Submission of Annual Securities Report ● Posting of Annual Letter to Shareholders		● Submission of Quarterly Securities Report	● Posting of Annual Report		● Submission of Quarterly Securities Report	● Posting of Interim Letter to Shareholders		● Submission of Quarterly Securities Report	
General Meeting of Shareholders			● Notice of General Meeting of Shareholders ● Ordinary General Meeting of Shareholders									

RENGO

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