GPI
The General Packaging Industry
RENGO

ANNUAL REPORT 2020

For Year Ended March 31, 2020

Annual Report 2020

For Year Ended March 31, 2020

RENGO

MIX
Paper from responsible sources
FSC® C017928
FSC
www.fsc.org

non VOC ink
eco UV

RENGO CO., LTD.

Head Office Nakanoshima Central Tower, 2-2-7 Nakanoshima,
Kita-ku, Osaka, Japan 530-0005
TEL. +81-6-6223-2371 FAX. +81-6-4706-9909

Tokyo Head Office Shinagawa Season Terrace, 1-2-70 Konan,
Minato-ku, Tokyo, Japan 108-0075
TEL. +81-3-6716-7300 FAX. +81-3-6716-7330

https://www.rengo.co.jp/english/

CONTENTS

Group Network

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

Rengo Group Companies in Japan

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

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 Sustainability Report for information regarding the Group's approach to initiatives and results regarding preservation of the global environment and social programs.

Disclaimer

This 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 of this report, and there is no guarantee that these forward-looking statements will actually occur in the future.

Corporate Philosophy

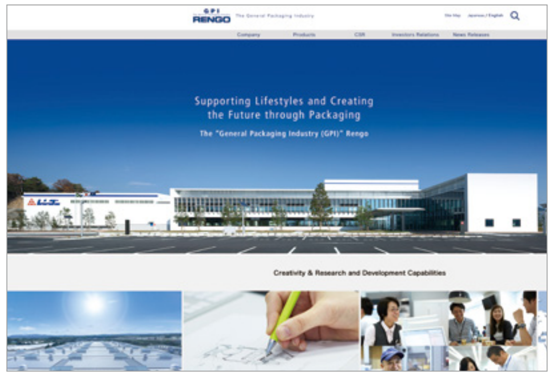
Ever since founder Teijiro Inoue manufactured Japan's first corrugated board in 1909, the Rengo Group has been serving society, continually adapting to the times to deliver the very best packaging solutions to customers and enhance the value of their products.

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.

Rengo's Information Disclosure Media

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



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

Website (shareholder and investor information)
https://www.rengo.co.jp/english/financial/index.html

Corporate Governance Report (Japanese)
https://www.rengo.co.jp/environment/imgs/pdf/governance.pdf

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

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

Sustainability Report 2020
https://www.rengo.co.jp/english/environment/report.html

Packaging Provider

"General Packaging Industry (GPI) Rengo"

Supporting Lifestyles and Creating the Future through Packaging

No matter how great a product is, its value cannot be put across to people without the packaging wrapping it.
That is why its evolution conceals the large possibility of changing today resulting in changing the future.
The entire range of assorted packaging solutions offered by "General Packaging Industry (GPI) Rengo" supports logistics and richness in lifestyles, and their innovation contributes toward solving social issues.
As a creative "packaging provider" that not only supplies products as a supplier but also designs the future on our own and creates new markets, Rengo provides comprehensive solutions that meet the packaging needs of all industries.

Kiyoshi Otsubo
Representative Director,
Chairman & CEO

Yosuke Kawamoto
Representative Director,
President & COO

Supporting Logistics and Prosperous Lifestyles through Constant Innovation
"General Packaging Industry (GPI) Rengo"

Since its foundation in 1909, the Rengo Group has been a pioneer in the Japanese corrugated packaging industry and has continuously created new value through constant changes in mindset and innovation. As "General Packaging Industry (GPI) Rengo," we now conduct business under a hexagonal structure centered on six core business fields—paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas business—to offer innovative solutions that meet the packaging needs of all industries as we build solid business foundations for the next 100 years. With "Less is more." as our key business concept, we are generating more value using fewer resources and creating innovative packaging that is people- and environmentally-friendly to build beneficial partnerships with all stakeholders and contribute broadly to society.

New Management Structure

New Management Structure Seeks Even Further Success and Development

In April 2020, Kiyoshi Otsubo was appointed Representative Director, Chairman & CEO and Yosuke Kawamoto was appointed Representative Director, President & COO with the aim of achieving even more success and development than in the past 110 years since the Company was established. Under this new management structure, the entire Group will work together to achieve sustainable growth and increase corporate value over the medium to long term as a "packaging provider" that creates new packaging value and brings unrivaled passion to its work.

Summary of Financial Results for FY2019

Net Sales and Profits Reach Record Highs

In the first half of FY2019 ended March 31, 2020, the Japanese economy saw solid corporate profits, improved employment and income environments, a recovery in personal consumption, and higher capital investment, resulting in a moderate recovery. In the second half, however, effects from natural disasters and the rapid spread of COVID-19 caused a downturn and reversal.

Under these circumstances, net sales were ¥683,780 million, a year-on-year increase of 4.7%; operating income was ¥41,228 million, an increase of 63.0%; ordinary income was ¥43,199 million, an increase of 57.4%; and net income attributable to owners of the parent was ¥27,790 million, an increase of 61.9%.

The Paperboard and Packaging-Related Business had higher fixed costs, but product prices were revised and raw materials costs were lower than the previous year, and as a result, both sales and profit were up. The Flexible Packaging-Related Business also reported higher sales and profit as a result of product price revisions and higher sales volumes. Despite higher sales due to an increase in consolidated subsidiaries, the Heavy Duty Packaging-Related Business reported lower profit as a result of lower sales volume of resin products and other factors. The Overseas Business reported higher sales due to an increase in consolidated subsidiaries, profit was down because of slumping demand in China and other factors.

Domestic Strategies and Initiatives

Expanding Business and Reinforcing the Earnings Base with a Focus on M&A

By strengthening sales and marketing capabilities and conducting vigorous capital investment and M&A, the Rengo Group diligently expanded business and increased earnings capacity.

During the fiscal year under review, the Matsumoto Sub-Plant of the Nagano Plant became independent and began operating as the Matsumoto Plant in April 2019, enhancing corrugated packaging supply structures in the Chubu region. In June, Nihon Matai Co., Ltd. (Taito-ku, Tokyo) acquired a majority stake in Sanyo Kakoshi Co., Ltd. (Toda-shi, Saitama Prefecture), and in August, Rengo and Nihon Matai acquired a majority stake in Tarutani Industrial Packaging Corporation (Amagasaki-shi, Hyogo Prefecture). These acquisitions strengthened the Group's heavy duty packaging business. In addition, Rengo acquired all shares of Takedashiki Co., Ltd. (Kashiwa-shi, Chiba Prefecture) in August, and a majority of the shares of Nishihara Shigyo Co., Ltd. (Samukawa-machi, Koza-gun, Kanagawa Prefecture) in September, bolstering the Group's corrugated packaging and sales promotion businesses. Also, construction of the new Yodogawa Logistics Center (tentative name) started in February 2020 at the site of the former Yodogawa Mill (Fukushima-ku, Osaka-shi), which was shuttered at the end of March 2018.

Earnestly Facing Social Issues Continuously Leading Innovation

In the development of packaging that generates more value using fewer resources based on our "Less is more." concept, we made further improvements to our Rengo Smart Display Packaging (RSDP) lineup, which contributes to increasing operational efficiency at retail sites, responding precisely to needs. We also introduced Japan's first digital pre-printing machine and launched DEGI-PAKE, an unprecedented corrugated box printed using high-definition variable digital printing which will open up new territory in the world of corrugated packaging as a promotional tool.

We also focused on expanding our lineup of packaging machinery for the growing online commerce market. We identified needs for labor-saving in logistics sites and higher transportation efficiency, and sales have been strong.

Moving forward, through combination of our wide-ranging product lineup, a highly refined service network, a wealth of packaging technologies built up over the years, and creativity based on rigorous marketing, we will propose optimal packaging to customers and contribute to solving social issues.

Overseas Strategies and Initiatives

Identifying All Packaging Needs Tackling True Globalization

In overseas business, Rengo is expanding in new countries and regions where future growth is expected and expanding business fields as a "packaging provider."

As a part of those efforts, in August 2019, Tri-Wall (Hong Kong) acquired 100% of the shares of TRICOR Packaging &

Logistics and Gutmann Anlagentechnik in Germany, expanding the heavy duty packaging business in that country, a major player in the European economy. Furthermore, Rengo entered into an agreement with SCG Packaging (Thailand) in January 2020 to make an equity investment in United Pulp and Paper, a containerboard manufacturing and sales subsidiary of SCG in the Philippines.

The Rengo Group is strengthening its business foundations in China and Southeast Asia, and in recent years, has been developing new business in Europe, North America, and other regions where it previously was not active, primarily through the Tri-Wall Group.

ESG Management

Seeking a Sustainable Society Based on the "Less is more." Concept

"Less is more." symbolizes the Rengo's environmental, social, and governance (ESG) initiatives, and we are confident that it will lead to achieving the Sustainable Development Goals (SDGs), which are unified international objectives. The Group's history began with corrugated board, and our business activities are founded on being friendly to both people and the environment.

Rengo strives to research, develop, and design products with low environmental impact and proposes and promotes the use of environmentally-friendly products. In addition, Rengo positions the reduction of environmental impact arising from business activities as one of the company's top-priority management issues which needs to be worked on. We have set a target for our climate change countermeasures of cutting CO_2 emissions by 50% by 2050 compared to FY1990, and also set a reduction target of 26% by FY2030 compared to FY2013. To achieve these targets, we plan to increase renewable energy to 25% of total energy inputs by FY2030.

The issue of ocean plastics, which raises concerns regarding pollution of the oceans and impacts on ecosystems, is also an urgent, global-scale problem. We already manufacture and sell cellulose-derived products such as cellophane, whose raw material is wood pulp. These products are biodegradable, giving rise to expectations that they can be used as alternatives to plastics. We are carrying out development aimed at establishing business production of cellulose nanofiber and cellulose microbeads, functional materials made from 100% natural wood pulp, by applying cellophane manufacturing technologies.

It cannot be overstated that the energy of each of our employees is the source of creativity for innovation. Since 2014, Rengo has implemented work style reforms with a focus on the work-life balance with the aim of improving total factor productivity (TFP). We are aware that measures to address the declining birth rate and providing support for the development of future generations are important issues for business enterprises, and accordingly, we provide support for childcare both systematically and economically by encouraging male employees to take childcare leave, reducing overtime work, paying substantial monetary bonuses when employees have children, and other measures. Furthermore, in January 2019, we formulated the Rengo Good Health Declaration, with the slogan of "lifetime careers," and in April 2019, we made 65 years the mandatory retirement age so that all employees can continue working with enthusiasm and determination while maintaining good health and high motivation. As a result of these efforts, Rengo was certified in March 2020 under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program (in the large enterprise category), a program operated by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.

For the Sustainable Development of GPI Rengo

Overcoming Challenging Situation and Fulfilling Our Mission as a "Packaging Provider"

Confronted with the COVID-19 pandemic, the greatest crisis Japan has faced in the post-war period, the domestic and overseas economies are experiencing severe conditions. However, as a result of massive economic stimulus measures and determined measures to control the spread of infection by many countries, we expect that exports will recover and domestic demand will improve, leading the economy to resume a moderate recovery in the medium term.

Under these circumstances, the Rengo Group completed Vision 110 in the fiscal year ended March 31, 2020 and adopted Vision 115, which started in the fiscal year ending March 31, 2021. Under this new vision, in order to ensure that the scale and profitability of all of our core businesses befit those of our hexagonal business structure while reinforcing governance and increasing profits, we strive to provide even greater value to all stakeholders with the goal of the sustainable development of GPI Rengo. We will continuously create new packaging value through constant changes in mindset and innovation, as well as seeking to be the world's best general packaging manufacturer group in order to sustainably enhance corporate value, taking to heart our mission as a "packaging provider" that designs its own future and develops new markets. We have established the Rengo Group Novel Coronavirus Emergency Management Headquarters to fulfil our responsibility as a supporting industry member to supply products used to deliver living essentials to consumers while ensuring the safety and health of workers and taking measures as a member of society to prevent the spread of infection. The Rengo Group will continue to do its utmost to prevent the spread of the COVID-19 and satisfy its corporate social responsibility through its business activities.

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

Developments Concerning Group Companies

Japan

June 2019	Nihon Matai Co., Ltd. acquired a majority stake in Sanyo Kakoshi Co., Ltd.
August 2019	Rengo and Nihon Matai acquired a majority stake in Tarutani Industrial Packaging Corporation
August 2019	Rengo acquired all shares of Takedashiki Co., Ltd.
September 2019	Rengo acquired a majority of the shares of Nishihara Shigyo Co., Ltd.

Overseas

August 2019	Tri-Wall Limited acquired 100% of the shares of TRICOR Packaging & Logistics and Gutmann Anlagentechnik
October 2019	Rengo became the exclusive owner of Dalian Rengo Packaging

Rengo Certified as a 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program

In March 2020, Rengo was certified under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program. This program recognizes companies and other corporations that take measures tailored to regional health issues, undertake the health promotion measures supported by the Nippon Kenko Kaigi, and practice particularly excellent health management.

We will continue to practice health management and encourage employees to work and live their lives full of vigor throughout the lifetimes.

2020 健康経営優良法人 Health and productivity

"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 generates more value using 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.

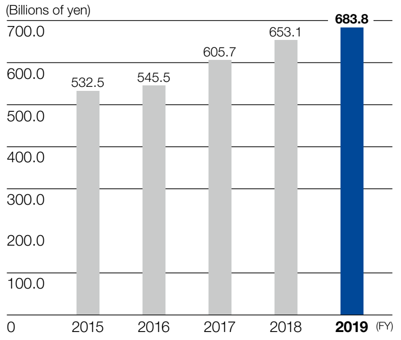
Rengo will continue to lead from the vanguard of advances in packaging based on "Less is more." while fulfilling its corporate social responsibility.

Consolidated Financial Highlights

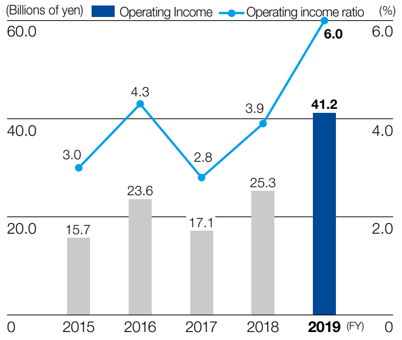
	FY2019	FY2018	FY2019/FY2018	FY2019
For the fiscal year:	(Millions of yen)	(Millions of yen)	Change (%)	(Thousands of U.S. dollars*1)
Net sales	¥ 683,780	¥ 653,107	4.7	$ 6,331,296
Operating income	41,228	25,292	63.0	381,741
Profit attributable to owners of parent	27,790	17,163	61.9	257,315
Depreciation and amortization	35,076	32,259	8.7	324,778
Capital expenditures	38,700	36,512	6.0	358,333
EBITDA	77,662	59,028	31.6	719,093
At the fiscal year-end:	(Millions of yen)	(Millions of yen)	Change (%)	(Thousands of U.S. dollars)
Total assets	¥ 820,109	¥ 769,356	6.6	$ 7,593,602
Interest-bearing debt	323,614	283,072	14.3	2,996,426
Net assets	288,820	274,698	5.1	2,674,259
Per share amounts:	(Yen)	(Yen)	Change (%)	(U.S. dollars)
Basic earnings, basic	¥ 112.24	¥ 69.32	¥ 42.92	$ 1.04
Basic earnings, diluted	—	—	—	—
Cash dividends applicable to the year	20.00	14.00	6.00	0.19
Net assets*2	1,123.86	1,066.07	57.79	10.41

*1 U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108 to U.S. $1.00 prevailing on March 31, 2020.
*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.

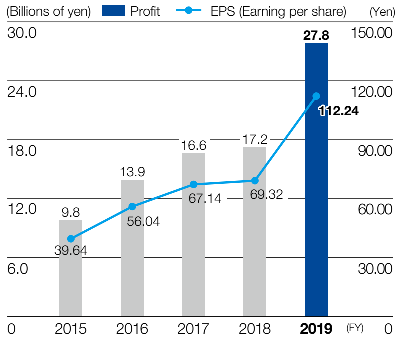
Net sales



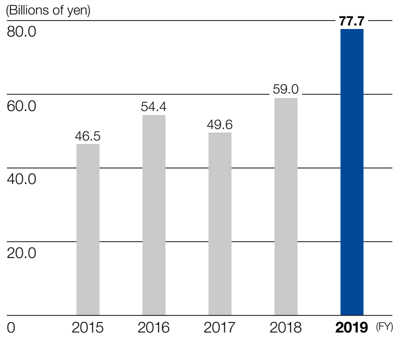
Operating income & operating income ratio



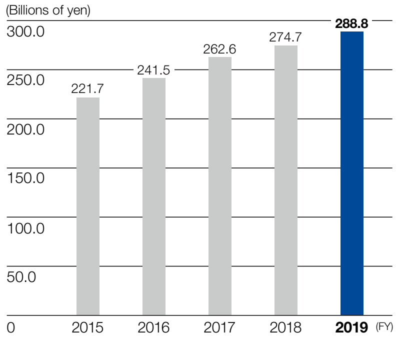
Profit attributable to owners of parent & EPS



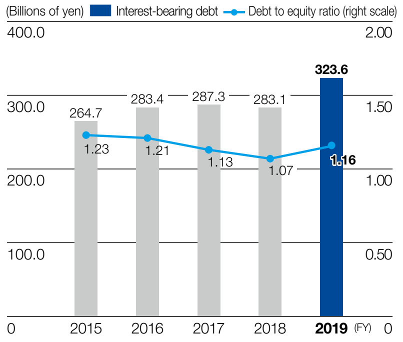
EBITDA



Net assets

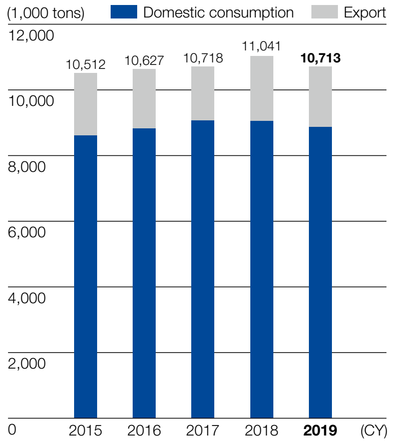


Interest-bearing debt & debt to equity ratio



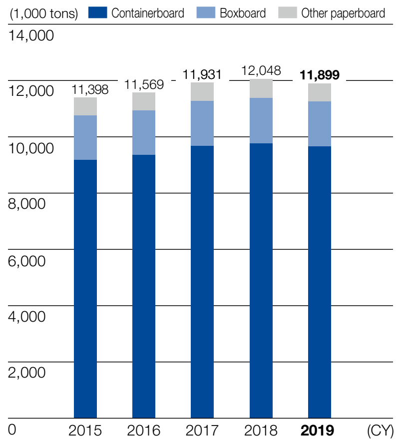
Market Data

Domestic consumption and export of old corrugated containers



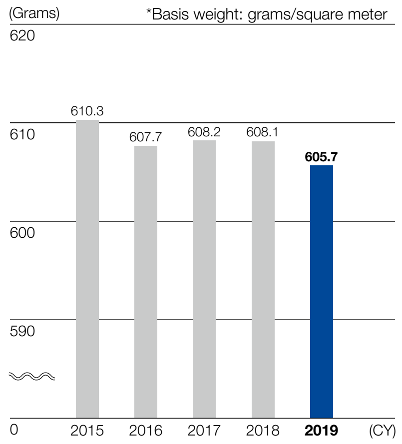
(Source: Ministry of Economy, Trade and Industry / Ministry of Finance)

Domestic production of paperboard



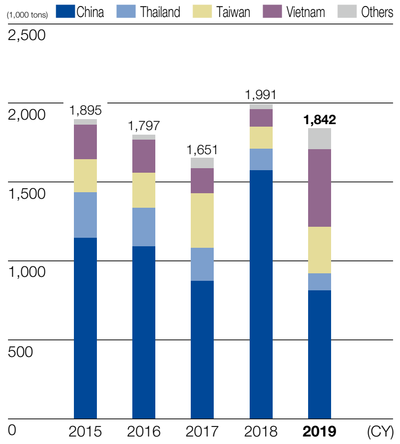
(Source: Ministry of Economy, Trade and Industry)

Average basis weight* of corrugated board



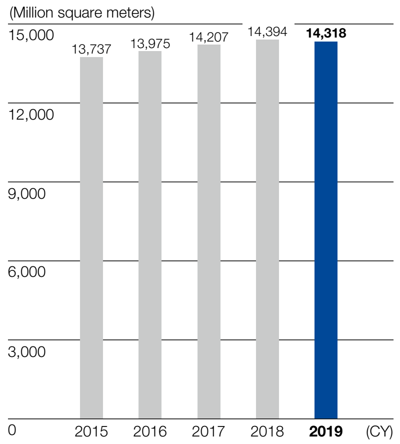
(Source: Japan Corrugated Case Association)

Export of old corrugated containers by country



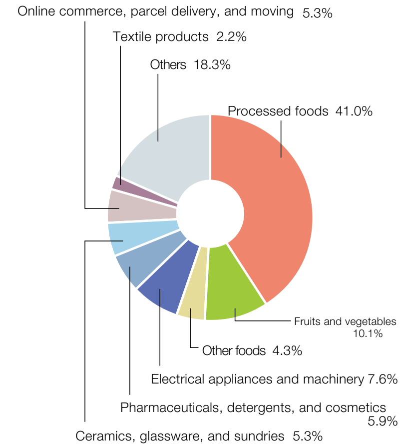
(Source: Ministry of Finance)

Domestic production of corrugated board



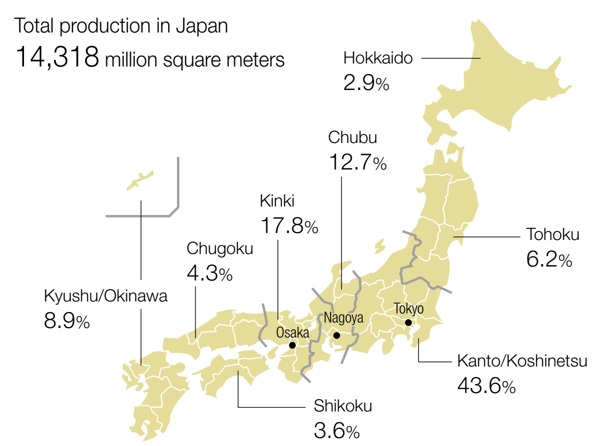
(Source: Japan Corrugated Case Association)

Breakdown of demand for corrugated boxes by market (2019)



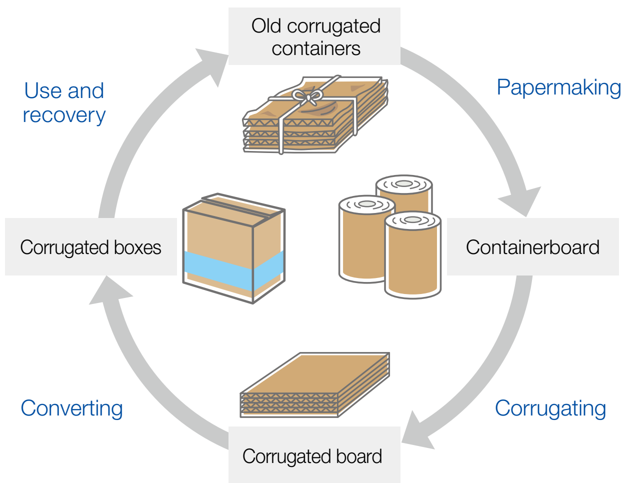
(Source: Japan Corrugated Case Association)

Production of corrugated board by region (2019)



(Source: Japan Corrugated Case Association)

Flowchart of recycling corrugated board



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 and corrugated box manufacturing and sales business is conducted independently by Rengo Co., Ltd., Yamato Shiki Co., Ltd., Settsu Carton Co., Ltd., and other Group companies. Particularly, 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, production volume was down from the previous year due to natural disasters and other factors. In the corrugated packaging industry, although demand was stagnant due to effects from natural disasters and a consumption tax rate hike, demand for use in online commerce and parcel delivery was solid, and as a result, production volume was flat from the previous year. In the folding carton industry, demand for use with foodstuffs provided support, but gift-related demand continued to decline, and production volume was down from the previous year.

Under these circumstances, despite an increase in fixed costs, the Paperboard and Packaging-Related Business reported higher sales and profit due to product price revisions and raw materials costs that were lower than the previous year.

As a result, segment sales were ¥449,696 million, up 4.1% year-on-year, and operating income was ¥30,209 million, an increase of 93.7%.

As a result of negative impact of unusual weather, the Group's paperboard production volume was 2,490 thousand tons, down 0.3% year-on-year. Despite the poor weather conditions, corrugated board production volume was up 1.2% year-on-year to 4,281 million m² and corrugated box production volume was up 1.6% year-on-year to 3,489 million m² due to an increase in consolidated subsidiaries.

Actions and Measures

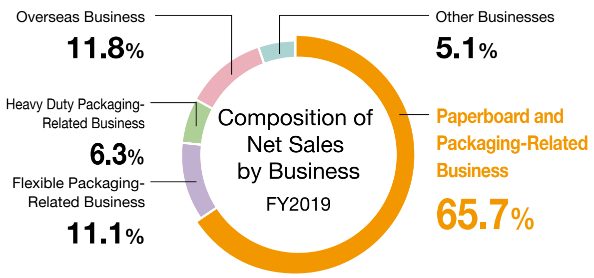
In the paperboard business, the Yodogawa Mill was shut down in March 2018, and the Group's production structure was reorganized by consolidating containerboard production to five sites. Rengo is making efforts to maintain supply structures tailored to demand and continue measures to raise productivity, reduce costs, and develop new products.

In the corrugated packaging business, we are reinforcing marketing capabilities group-wide and building optimal production systems. Proactive measures are also being taken to conduct proposal-based marketing tailored to customer needs and making efforts to increase competitiveness. We are enhancing and expanding the Rengo Smart Display Packaging (RSDP) lineup, which contributes to higher operational efficiency at retail sites. We also introduced Japan's first digital pre-printing machine and are promoting sales of DEGI-PAKE, an unprecedented corrugated box printed using high-definition variable digital printing which will open up new territory in the world of corrugated packaging as a promotional tool.

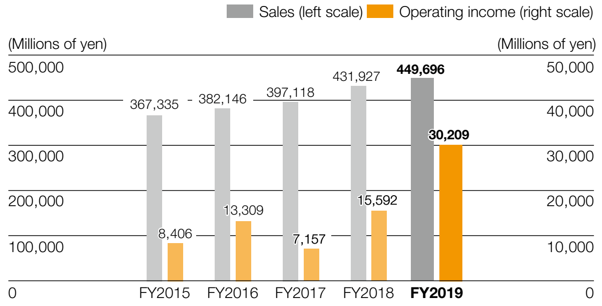
In the folding carton business, we supply optimal packaging that provides the needed functions and are consolidating accumulated knowledge and technology in the pursuit of packaging manufacturing for a new era.

Research and Development Activities

We are conducting research and development in technology for enhancing surface strength and quality toward a more lightweight containerboard, energy/resource saving production technologies including Delta-flute corrugated board and corrugating adhesives, and invention of containerboard and coating agents to improve digital printability with the aim to enhance quality and productivity, to save energy/resources, to reduce costs, and to increase the value-added of products; we are making steady progress toward practical application.



■ Sales and operating income (after intersegment eliminations)



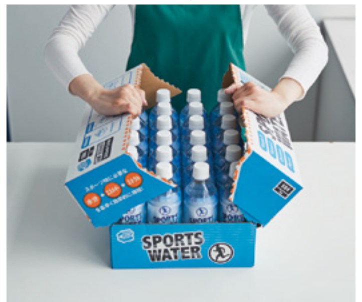
Main Products

Paperboard	• Containerboard • Tube board	• Boxboard • Chipboard
Corrugated packaging	• Corrugated board	• Corrugated boxes
Folding cartons	• General-purpose folding cartons • Gift packages • Multi-pack	

Rengo Products (corrugated packaging)

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 unpacking and displaying products to approximately one fifth and greatly enhance sales promotion through outstanding designs.

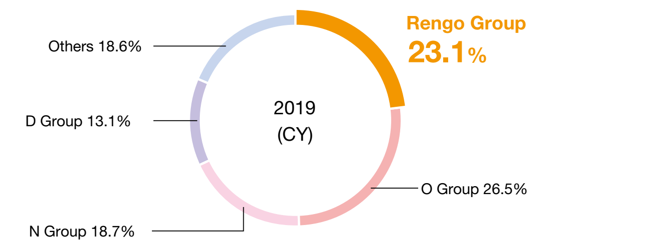


DEGI-PAKE

DEGI-PAKE employs digital pre-printing, a direct inkjet printing method on containerboard and boxboard. Not only is it suitable for high-definition printing, it does not require printing die, which means it is ideal for small-lot printing.

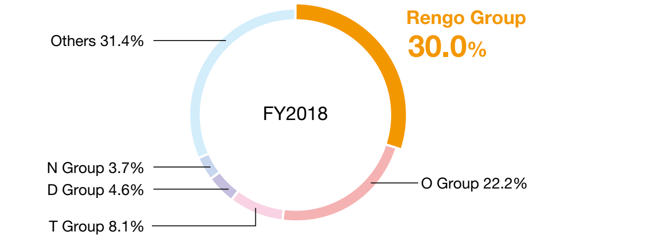
■ Major manufacturing groups' shares of the paperboard market in Japan

Source: Japan Paper Association

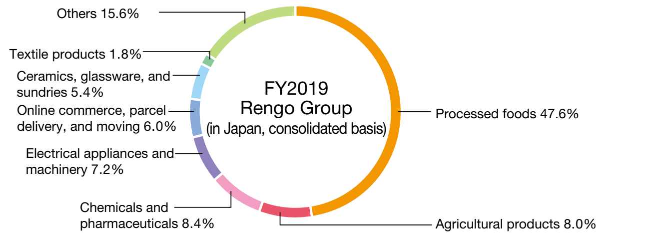


■ Major manufacturing groups' shares of the corrugated board market in Japan

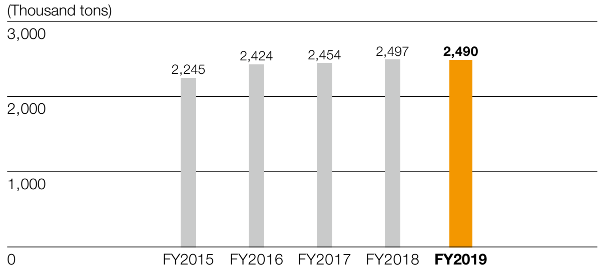
Source: Yano Research Institute



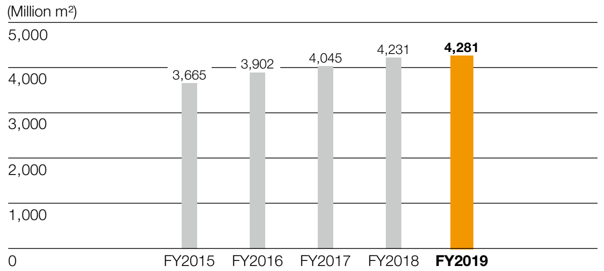
■ Breakdown of demand for corrugated boxes by market



■ Paperboard production (in Japan, consolidated basis)



■ Corrugated board production (in Japan, consolidated basis)



Flexible Packaging-Related Business

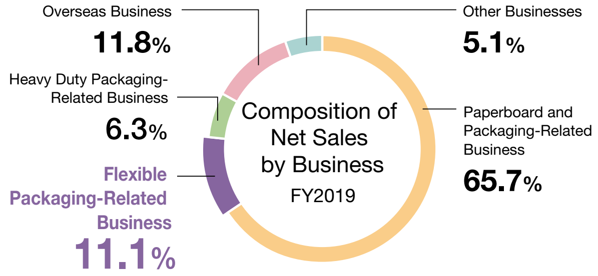
The Rengo Group's manufacturing and sales for the flexible packaging business is carried out mainly by Howa Sangyo Co., Ltd. Rengo Co., Ltd. is involved in sales only.
Manufacturing and sales of cellophane are carried out by Rengo Co., Ltd.

Market Environment and Business Results

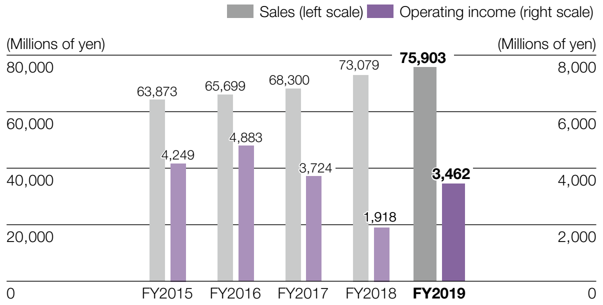
In the flexible packaging industry, despite the shift to plastic-free, production was supported by steady demand for products used with food and groceries, and production volume was up from the previous year.

The Group's Flexible Packaging-Relating Business reported higher sales and profit as a result of product price revisions, higher sales volume, and other factors.

As a result, segment sales were ¥75,903 million, up 3.9% year-on-year, and operating income was ¥3,462 million, an increase of 80.5%.



Sales and operating income (after intersegment eliminations)



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. In order to respond to the issue of ocean plastics, a global-scale problem, we are focusing efforts on development of cellulose related products that make effective use of the manufacturing technologies for cellophane, which we produce. From the perspective of reducing the use of petroleum resources, we are also conducting research and development with the aim of making packaging films thinner and improving functionality.

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

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

Heavy Duty Packaging-Related Business

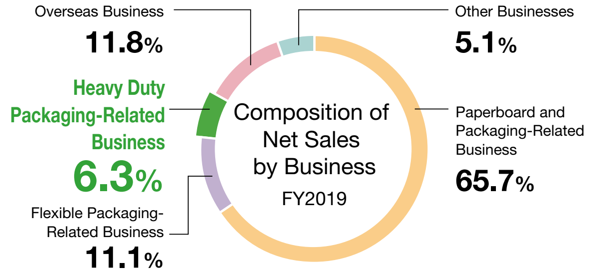
The Rengo Group's business for manufacture and sale of heavy duty packaging is carried out mainly by Nihon Matai Co., Ltd.

Market Environment and Business Results

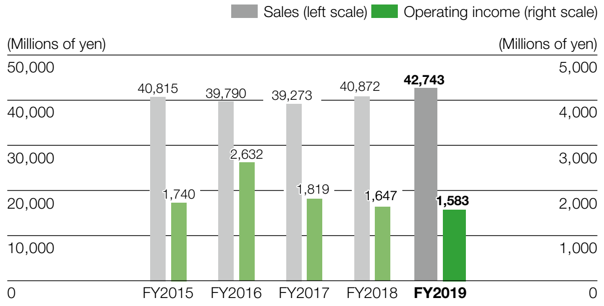
In the heavy duty packaging industry, production volume was down from the previous year due to a decline in agriculture-related demand.

In the Group's Heavy Duty Packaging-Related Business, sales were up because of an increase in consolidated subsidiaries, but profit decreased due to lower sales volume of resin products and other factors.

As a result, segment sales were ¥42,743 million, up 4.6% year-on-year, and operating income was ¥1,583 million, down 3.9%.



Sales and operating income (after intersegment eliminations)



Actions and Measures

We will promote collaboration with other business fields and respond accurately to the diverse needs of customers while raising productivity even further and enhancing cost competitiveness. We are also pursuing technological innovations that adapt to changes in society so that we can continue providing heavy duty packaging that enhances the value of customer products.

Research and Development Activities

Nihon Matai Co., Ltd. develops functional films, non-solvent laminated products, and heavy duty packaging.

With regard to non-solvent laminated products and heavy duty packaging, Nihon Matai reinforcing development of heavy duty bags and packaging films using biodegradable plastics and biomass plastics in response to environmental issues.

For functional films and highly functional resin products, Nihon Matai plans to expand its lineup of high added value protective films for outdoor use and use those films to reinforce development of other functional products and sheets for decorative molded products. The company holds the largest share of the domestic market for electronic component transportation packaging materials and is developing new products and enhancing quality in the pursuit of new growth.

Main Products

Flexible container bags
Various types of flexible container bags with high functionality, high quality, and cleanliness are produced in Japan and other parts of Asia. Optimal, made-to-order products are supplied to meet the specific needs of customers in Japan and overseas.

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

Top/bottom tape for paper carriers
Top and bottom tape are used by electronic component manufacturers 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; and nonwoven products by Wuxi Rengo Packaging Co., Ltd.

Market Environment and Business Results

In overseas business, sales were up because of an increase in consolidated subsidiaries, but profit decreased due to sluggish demand in China and other factors.

As a result, segment sales were ¥80,465 million, up 9.8% year-on-year, and operating income was ¥3,351 million, down 1.3%.

The Rengo Group's total overseas production volume including equity-method affiliates was 679 thousand tons of paperboard and 2,008 million m² of corrugated board.

Actions and Measures

In overseas business, which is in the process of expansion as a future growth driver, we are actively undertaking measures for the effective use of management resources through a process of selection and concentration. We are reinforcing business development in China and Southeast Asia and developing business through the Tri-Wall Group in regions where the Group has not entered until recently including Europe and North America.

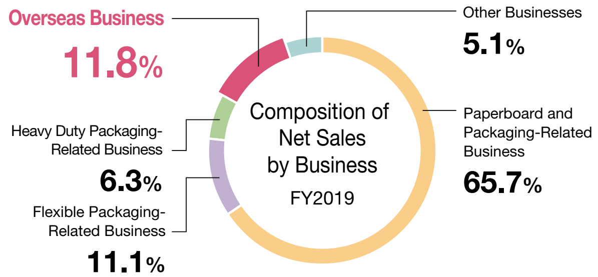
Global Network

As the globalization of economic society progresses, the Rengo Group is expanding its overseas packaging solutions network.

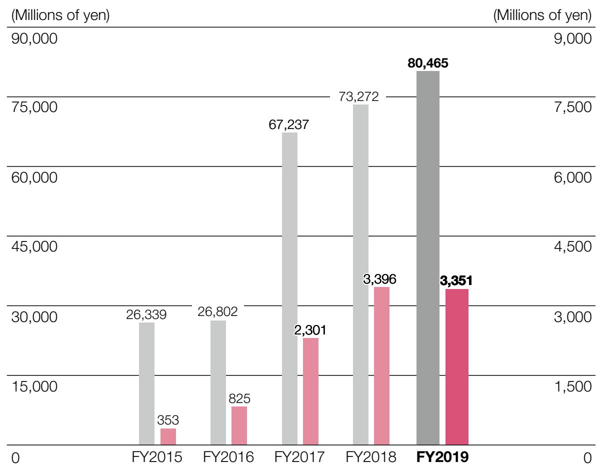
Number of Rengo Group Overseas Plants and Mills

* Including equity-method affiliates

(As of March 31, 2020)



■ Sales and operating income (after intersegment eliminations)



Tri-Wall Group

The Group is developing the heavy duty corrugated packaging business mainly through Tri-Wall, which became a Rengo Group company in October 2016.

In addition to easy of handling not provided by wooden crates as well as less environmental impact, heavy duty corrugated packaging is used for a wide range of applications including office equipment and automobile parts and is a growth driver in the Group's overseas business.

Other Businesses

Manufacturing 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.

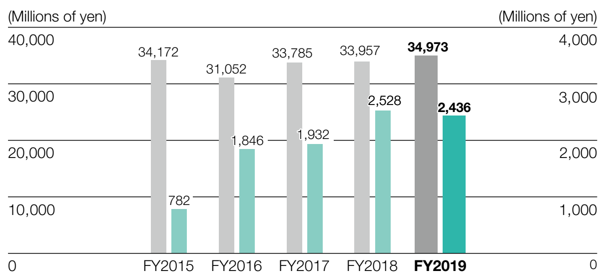
The transportation, insurance agency, leasing, and real estate businesses are carried out mainly by Rengo Logistics Co., Ltd. and Sanyo Jidosha Unso Co., Ltd.

Market Environment and Business Results

In other business, sales increased, but lower profitability in the transportation business resulted in a decrease in profit.

As a result, segment sales were ¥34,973 million, an increase of 3.0% year-on-year, and operating income was ¥2,436 million, down 3.6%.

■ Sales and operating income (after intersegment eliminations)



Business Development

TOPICS

Heavy Duty Packaging Manufacturing Sites Secured and European Business Expanded

Tri-Wall Acquired Leading Heavy Duty Packaging Manufacturer in Germany

In August 2019, Tri-Wall Limited acquired 100% of the shares of TRICOR Packaging & Logistics AG and Gutmann Anlagentechnik GmbH, both based in Germany.

TRICOR, a manufacturer of heavy duty packaging, has four mills in Germany and holds the third largest market share in Europe and the second largest in Germany. The company has advanced technology development capabilities, and proceeding with automation, and holds competitive patents. Gutmann Anlagentechnik manufactures and sells machinery to TRICOR and other customers.

By acquiring these companies, Tri-Wall has secured heavy duty packaging manufacturing sites in Germany, a major player in the European economy, and plans to expand its business in Europe. Germany has a thriving automobile industry, one of the main customers for heavy duty packaging, and Tri-Wall will use TRICOR's existing customer base as well as its own existing customer base in neighboring countries to generate inter-group synergy effects. In addition, Rengo Group companies will adopt TRICOR automation technologies and provide our technological capabilities to TRICOR to raise the production efficiency of both even further.


View of the TRICOR Headquarters

Overview of TRICOR

Name	TRICOR Packaging & Logistics AG
Established	August 2007
Capital	12.515 million euros (¥1,501 million; calculated at 1 euro = 120 yen)
Representative	CEO: Martin Müller
Location	Jakob-Müller-Straße 1, 86825 Bad Wörishofen, Germany
Main business	Design, manufacture and sale of heavy duty packaging materials for industrial use

Overview of Gutmann

Name	Gutmann Anlagentechnik GmbH
Established	March 2015
Capital	25,000 euros (¥3 million; calculated at 1 euro = 120 yen)
Representative	Managing Director: Peter Gutmann
Location	Hohenraunauer Straße 3, 86480 Aletshausen, Germany
Main business	Engineering, manufacture, and sale of machinery

Members of the Board, Audit & Supervisory Board Members and Executive Officers (As of June 26, 2020)

Kiyoshi Otsubo
Representative Director, Chairman & CEO

April 1962	Joined Sumitomo Corporation
June 2000	Representative Director, President & Chief Executive Officer of Rengo Co., Ltd.
April 2014	Representative Director, Chairman, President & Chief Executive Officer
April 2020	Representative Director, Chairman & CEO (to present)

Yosuke Kawamoto
Representative Director, President & COO

April 1978	Joined Rengo Co., Ltd.
April 2020	Representative Director, President & COO (to present)

Representative Director, Chairman & CEO	Kiyoshi Otsubo
Representative Director, President & COO	Yosuke Kawamoto
Representative Director, Executive Vice President	Moriaki Maeda
	Shigechika Ishida
	Ichiro Hasegawa
Member of the Board, Senior Managing Executive Officer	Yasuhiro Baba
	Hiromi Sambe
	Sadatoshi Inoue
Member of the Board*1	Yoshio Sato
	Masayuki Oku
	Shinya Sakai
Full-time Audit & Supervisory Board Member	Kiwamu Hashimoto
	Tsutomu Shoju
Audit & Supervisory Board Member*2	Junzo Ishii
	Kenji Tsujimoto
	Hitoshi Tsunekage
Managing Executive Officer Member of the Senior Executives Meeting	Hiroshi Ebihara
	Koichi Hirano
	Mitsumasa Yokota
	Takeshi Hosokawa
	Hirofumi Hori
	Toru Osako
	Yukio Okano
Managing Executive Officer	Yuji Hiwaki
	Masashi Nakashima
	Yuji Motomatsu
Executive Officer	Shin Morizuka
	Mitsunori Ozaki
	Shigetoshi Yoshimura
	Yosuke Tsuge
	Yasuhiro Yuida
	Mitsuyuki Goto
	Hitoshi Shibasaki
	Makoto Iida
	Yoshizumi Nishi
	Kanji Murai

*1 Board members Yoshio Sato, Masayuki Oku, and Shinya Sakai are outside directors.
*2 Audit & Supervisory Board members Junzo Ishii, Kenji Tsujimoto, and Hitoshi Tsunekage are outside members.

Moriaki Maeda
Representative Director, Executive Vice President
<Responsibilities> Aide to the President, Corporate Unit

April 1973	Joined Rengo Co., Ltd.
April 2013	Representative Director, Executive Vice President (to present)

Shigechika Ishida
Representative Director, Executive Vice President
<Responsibilities> Packaging Business Unit, Overseas Business Unit

April 1975	Joined Rengo Co., Ltd.
April 2019	Representative Director, Executive Vice President (to present)

Ichiro Hasegawa
Representative Director, Executive Vice President
<Responsibilities> Paperboard Business Unit, Procurement Unit, Chairman of Rengo Paper Business Co., Ltd.

April 1976	Joined Sumitomo Corporation
June 2002	Member of the Board of Rengo Co., Ltd.
April 2013	Representative Director, Executive Vice President (to present)

Financial Section

Consolidated Ten-Year Summary

Rengo Co., Ltd. and Consolidated Subsidiaries
(For the years ended March 31, 2011–2020)

	2011/3	2012/3	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3
For the fiscal year (millions of yen):										
Net sales	¥ 474,878	¥ 492,628	¥ 502,626	¥ 523,142	¥ 522,672	¥ 532,534	¥ 545,489	¥ 605,713	¥ 653,107	¥ 683,780
Gross profits	91,888	86,196	88,469	82,606	76,429	87,288	98,587	99,710	111,197	132,461
Operating income	32,391	25,068	23,891	14,221	5,568	15,727	23,642	17,083	25,292	41,228
Profit before income taxes and non-controlling interests	18,042	11,272	25,066	9,687	12,081	16,268	24,186	23,366	25,076	41,090
Profit attributable to owners of parent	10,291	7,148	12,956	3,703	5,719	9,817	13,876	16,623	17,163	27,790
Research and development expenses	1,486	1,541	1,581	1,421	1,405	1,441	1,448	1,483	1,532	1,593
Depreciation and amortization	26,394	27,149	27,898	28,582	29,612	29,333	29,524	30,881	32,259	35,076
Capital expenditures	22,650	47,741	37,014	52,849	39,982	29,657	30,446	41,527	36,512	38,700
EBITDA	58,785	52,217	51,789	42,803	35,180	46,455	54,373	49,616	59,028	77,662
At the fiscal year-end (millions of yen):										
Total assets	¥ 499,119	¥ 549,058	¥ 572,591	¥ 629,055	¥ 655,675	¥ 644,690	¥ 704,827	¥ 747,700	¥ 769,356	¥ 820,109
Working capital	(36,385)	(46,135)	(30,389)	(40,772)	(34,146)	(36,802)	(24,289)	(23,761)	(10,143)	(3,042)
Interest-bearing debt	201,584	229,444	237,746	263,431	276,906	264,728	283,350	287,322	283,072	323,614
Net assets	165,613	170,931	188,133	201,659	222,391	221,734	241,511	262,581	274,698	288,820
Equity capital(*1)	159,395	164,339	180,734	196,359	216,353	215,963	234,242	255,015	263,948	278,255
Per share amounts (yen):										
Basic earnings per share	¥ 39.67	¥ 27.74	¥ 50.99	¥ 14.95	¥ 23.09	¥ 39.64	¥ 56.04	¥ 67.14	¥ 69.32	¥ 112.24
Diluted earnings per share	—	—	—	—	—	—	—	—	—	—
Cash dividends applicable to the year	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	14.00	20.00
Net assets per share(*2)	618.59	637.85	729.53	792.78	873.60	872.17	946.06	1,029.98	1,066.07	1,123.86
Ratio:										
Return on equity (%)	6.5	4.4	7.5	2.0	2.8	4.5	6.2	6.8	6.6	10.3
Return on total assets (%)	2.1	1.4	2.3	0.6	0.9	1.5	2.1	2.3	2.3	3.5
Debt to equity ratio (times)	1.27	1.40	1.32	1.34	1.28	1.23	1.21	1.13	1.07	1.16
Capital adequacy ratio (%)	31.9	29.9	31.6	31.2	33.0	33.5	33.2	34.1	34.3	33.9
Other statistics:										
Number of shares of common stock (thousand)	271,056	271,056	271,056	271,056	271,056	271,056	271,056	271,056	271,056	271,056
Number of employees	12,267	12,961	13,082	13,095	14,060	13,999	16,038	16,532	16,968	18,902
Stock prices (yen):										
High	¥ 597	¥ 619	¥ 599	¥ 651	¥ 558	¥ 619	¥ 717	¥ 968	¥ 1,078	¥ 1,071
Low	414	458	311	438	443	459	546	603	787	660

*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.

Management's Discussion and Analysis of Company Financial Status and Business Results

Overview

In the fiscal year ended March 31, 2020, the Rengo Group worked diligently to expand business and increase earnings capacity by strengthening sales and marketing capabilities and conducting vigorous capital investment and M&A as "General Packaging Industry (GPI) Rengo," offering innovative solutions that meet the packaging needs of all industries centered on six core business fields: paperboard, corrugated packaging, folding cartons, flexible packaging, heavy duty packaging, and overseas operations.

In the development of packaging that delivers significant value with fewer resources based on our "Less is more." concept, we made further improvements to our *Rengo Smart Display Packaging* (RSDP) lineup, which contributes to increasing operational efficiency at retail sites, responding precisely to needs. We also introduced Japan's first digital pre-printing machine and launched DEGI-PAKE, an unprecedented corrugated box printed using high-definition variable digital printing which will open up new territory in the world of corrugated packaging as a promotional tool.

In April 2019, the Matsumoto Sub-Plant of the Nagano Plant became independent and began operating as the Matsumoto Plant. This move was intended to enhance corrugated packaging supply structures in the Chubu region. In June, Nihon Matai Co., Ltd. (Taito-ku, Tokyo) acquired a majority stake in Sanyo Kakoshi Co., Ltd. (Toda-shi, Saitama Prefecture), and in August, Rengo and Nihon Matai acquired a majority stake in Tarutani Industrial Packaging Corporation (Amagasaki-shi, Hyogo Prefecture). These acquisitions strengthened the Group's heavy duty packaging business. In addition, Rengo acquired all shares of Takedashiki Co., Ltd. (Kashiwa-shi, Chiba Prefecture) in August, and a majority of the shares of Nishihara Shigyo Co., Ltd. (Samukawa-machi, Koza-gun, Kanagawa Prefecture) in September, bolstering the Group's corrugated packaging and sales promotion businesses. Also, construction of the new Yodogawa Logistics Center (tentative name) started in February 2020 at the site of the former Yodogawa Mill (Fukushima-ku, Osaka-shi), which was shuttered at the end of March 2018.

In overseas business, in August 2019, Tri-Wall Limited (Hong Kong) acquired 100% of the shares of TRICOR Packaging & Logistics AG and Gutmann Anlagentechnik GmbH in Germany, expanding the heavy duty packaging business in that country, a major player in the European economy.

Furthermore, Rengo entered into an agreement with SCG Packaging Public Company Limited (Thailand) in January 2020 to make an equity investment in United Pulp and Paper Co., Inc., a containerboard manufacturing and sales subsidiary of SCG in the Philippines.

As a result, both net sales and profits were higher, with net sales increasing 4.7% year on year to ¥683.8 billion and profit attributable to owners of the parent up 61.9% year on year to ¥28.0 billion.

As of March 31, 2020, Rengo had 160 consolidated subsidiaries, 14 more than at the end of the previous fiscal year, and 16 affiliates accounted for using the equity method, the same as at the end of the previous fiscal year.

Sales

Net sales increased ¥30.7 billion or 4.7% year on year from ¥653.1 billion for the previous year to ¥683.8 billion. The increase was due to the revision of product prices and an increase in the number of consolidated subsidiaries.

In regard to individual segments, net sales from the Paperboard and Packaging-Related Business increased 4.1% year on year, net sales from the Flexible Packaging-Related Business increased 3.9%, net sales from the Heavy Duty Packaging-Related Business increased 4.6%, net sales from the Overseas Business increased 9.8%, and net sales from other businesses increased 3.0%.

Volumes for corrugated box sales in Japan increased 3.8% on the back of robust demand.

Income and Expenses

Operating Expenses and Operating Income

Despite a drop in raw materials costs from the previous year, cost of sales increased 1.7% year on year from ¥541.9 billion in the previous year to ¥551.3 billion due to reasons including the increase in the number of consolidated subsidiaries. Selling, general and administrative expenses increased 6.2% from ¥85.9 billion to ¥91.2 billion owing primarily to an increase in personnel expenses and higher freight and packing costs.

Operating income increased ¥15.9 billion or 63.0% year on year from ¥25.3 billion to ¥41.2 billion. Operating income increased despite higher fixed costs as a result of revision of product prices and lower raw materials costs compared to the previous year.

Other Income and Expenses

Regarding the net balance of other income and expenses, net loss in the fiscal year under review was ¥0.1 billion compared to a loss of ¥0.2 billion in the previous year. Although revenue including gains on sales of investment securities and subsidy income was reported, the loss was the result primarily of loss on closing of plant in relation to the closure of the Yodogawa Mill and expenses including loss on sales and retirement of non-current assets.

Income Taxes and Profit Attributable to Non-controlling Interests

Income taxes increased ¥5.5 billion from ¥7.2 billion for the previous year to ¥12.7 billion mainly owing to an increase in profit before income taxes and non-controlling interests. Profit attributable to non-controlling interests were ¥0.6 billion, down ¥0.1 billion from ¥0.7 billion for the previous year.

Profit Attributable to Owners of Parent

As a result, profit attributable to owners of parent was ¥27.8 billion for the fiscal year under review, an increase of ¥10.6 billion or 61.9% from ¥17.2 billion for the previous year. Basic earnings per share was ¥112.24, having increased from ¥69.32 for the previous year.

Cash dividends applicable to the year were ¥20 per share.

Financial Position and Cash Flows

Assets

Total assets were ¥820.1 billion, having increased ¥50.7 billion from ¥769.4 billion at the end of the previous year. The overall increase was comprised of a ¥9.5 billion increase in current assets, a ¥30.6 billion increase in property, plant and equipment, a ¥16.0 billion increase in intangible assets, and a ¥5.4 billion decrease in investments and other assets.

The principal factor was the inclusion of TRICOR Packaging & Logistics, its subsidiaries, and Gutmann Anlagentechnik in the scope of consolidation.

Liabilities and Net Assets

Total liabilities amounted to ¥531.3 billion, an increase of ¥36.6 billion from ¥494.7 billion at the end of the previous year, due mainly to increases in interest-bearing debt including long-term and short-term loans and bonds payable.

Interest-bearing debt at the end of the fiscal year stood at ¥323.6 billion, having increased ¥40.5 billion from ¥283.1 billion at the end of the previous year.

Despite a decrease in valuation difference on available-for-sale securities in conjunction with a decline in share prices, net assets increased ¥14.1 billion from ¥274.7 billion at the end of the previous year to ¥288.8 billion mainly owing to an increase in retained earnings as a result of reporting profit attributable to owners of the parent.

Cash Flows

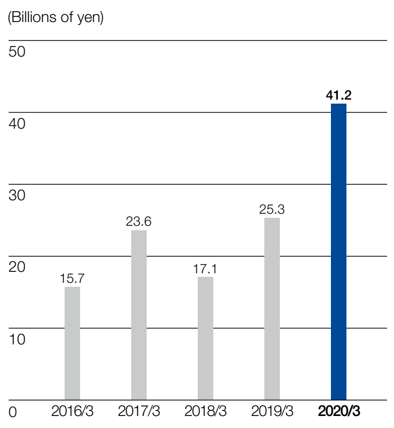
Net cash flow provided by operating activities amounted to ¥61.1 billion, an increase of ¥10.2 billion from ¥50.9 billion for the previous year. The main items were profit before income taxes and non-controlling interests amounting to ¥41.1 billion and depreciation and amortization amounting to ¥35.1 billion.

Net cash flow used in investing activities increased ¥39.6 billion from ¥38.7 billion for the previous year to ¥78.3 billion. The main items were purchase of property, plant and equipment amounting to ¥36.8 billion and a purchase of shares of subsidiaries resulting in change in scope of consolidation amounting to ¥32.0 billion.

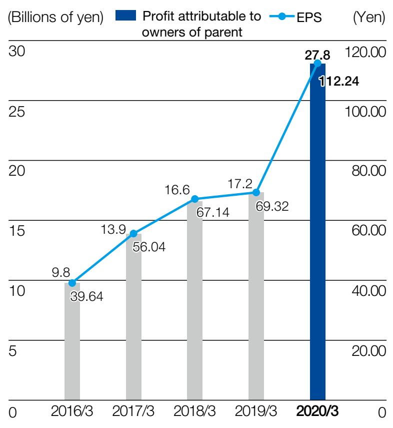
Net cash flow provided by financing activities was ¥24.3 billion, an increase of ¥33.7 billion from ¥9.4 billion used in financing activities in the previous year. The major items were a ¥22.7 billion increase in long-term and short-term loans payable, ¥20.0 billion in proceeds from issuance of bonds, ¥10.2 billion for redemption of bonds, and cash dividends paid amounting to ¥4.0 billion.

As a result, cash and cash equivalents were ¥37.5 billion at the end of the fiscal year under review, having increased ¥7.9 billion from the previous year.

Operating Income



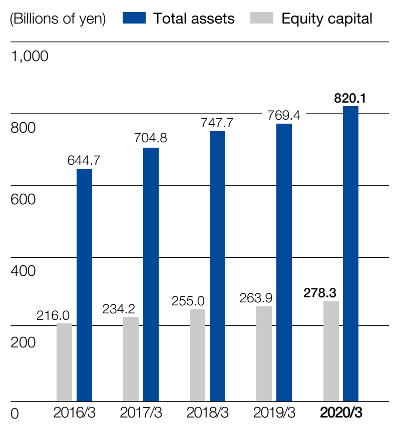
Profit Attributable to Owners of Parent and Earnings per Share (EPS)



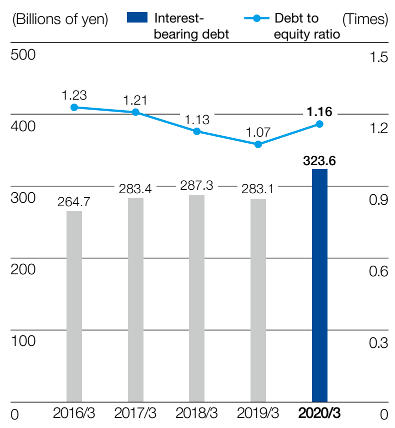
Income and Expenses as a Percentage of Net Sales

	2018/3	2019/3	2020/3
Cost of sales	83.5%	83.0%	80.6%
SG&A expenses	13.6	13.2	13.3
Operating income	2.8	3.9	6.0
Profit attributable to owners of parent	2.7	2.6	4.1

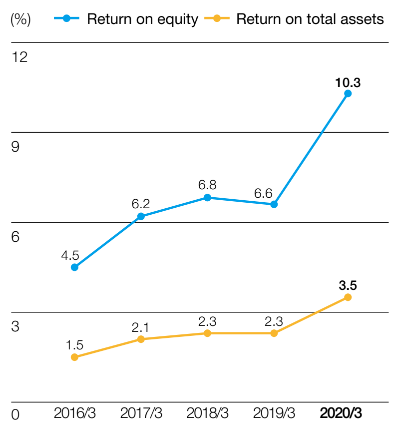
Equity Capital and Total Assets



Interest-Bearing Debt and Debt to Equity Ratio



Return on Equity and Return on Total Assets



Risk Factors

1. Product Demand and Market Trends

Paperboard and corrugated packaging, the Rengo Group's main products, will be impacted substantially by trends in the domestic market. Factors causing deterioration of market conditions such as a decline in demand due to economic downturn or an intensification of competition may have an impact on the Group's business performance, financial status, and so on.

In response, the Group is working to secure business opportunities for foodstuffs, demand for which is expected to be stable, and to build good relationships with business partners in various industries with the aim of reducing impacts such as declining demand in specific industries relatively. By creating even higher added-value packaging, the Group is taking measures to enhance competitiveness and minimize risks through proactive proposal-based marketing.

2. Raw Material and Fuel Prices

Prices for old corrugated containers, the main raw material used in the Group's products, will be affected by demand trends in China and other parts of Asia. If changes occur in the balance of supply and demand in the country, rising purchase prices may push costs higher, and this may have an impact on the Group's business performance, financial status, and so on.

The main fuels used by the Group are city gas, LNG, fuel oil, and coal. The prices of these fuels will be affected by international commodities markets, and if market prices increase, there may be an impact on the Group's business performance, financial status, and so on.

In response to these risks, the Group is taking measures to minimize them through intensity improvement and fuel diversification that are enabled with capital investment that contributes to raising productivity and resource and energy conservation.

3. Natural Disaster and Pandemic

If the Group's sites and facilities incur extensive damage as a result of a large-scale natural disaster such as an earthquake or typhoon, interruption of business activities may have an impact on the Group's business performance, financial status, and so on.

Furthermore, if the Group is forced to suspend business activities as a result of the large-scale spread of infectious disease, there may be an impact on the Group's business performance, financial status, and so on.

To address these risks, the Group is creating structures that can fulfill its supply responsibilities by supply products from its manufacturing sites located throughout the country in the event that certain business sites suspend operations.

4. Overseas Business

The Group has positioned China, Southeast Asia, and Europe as growth markets and is developing paperboard and packaging related business, as well as businesses related to flexible packaging, and heavy duty packaging in those markets. When developing business in overseas markets, the Group makes investment decisions after thoroughly examining the risks, but overseas business activities are exposed to the risk of exchange rate fluctuations, natural disaster and pandemic risks, and various other risks unique to each country such as economic and political risks. If these risks occur, there may be an impact on the Group's business performance, financial status, and so on.

In response to these risks, the Group is taking measures to minimize them while companies of the Group and relevant departments in Rengo gather and share information in a timely manner so that appropriate responses can be made quickly.

In the fiscal year ended March 31, 2020, overseas sales account for 11.8% of the Group's total sales.

5. Changes in Interest Rates

The Group's balance of interest-bearing debt was ¥323,614 million as of March 31, 2020. The Group has taken diligent measures to reduce interest-bearing debt, but is exposed to risks from interest rate fluctuations, and as a result, if market interest rates increase, there may be an impact on the Group's business performance, financial status, and so on.

6. Changes in Share Prices

The Group holds shares, mainly of its business partners, and the prices of marketable shares could decrease as a result of various factors, and this could have an impact on the Group's business performance, financial status, and so on.

The Group's pension assets are affected by stock price levels, and consequently, the retirement benefit expenses can be changed.

7. Changes in Currency Exchange Rates

The Group is exposed to risks of exchange rate fluctuations when importing and exporting products, raw materials, and fuel, and these risks may have an impact on the Group's business performance, financial status, and so on.

8. Business Restructuring

The Group is undergoing a process of business selection and concentration in order to increase corporate value, and the occurrence of temporary losses within that process may have an impact on the Group's business performance, financial status, and so on.

9. Litigation

In the process of conducting ongoing business activities in Japan and other countries, the Group is exposed to risks of litigation arising out of intellectual property, environmental matters, and other issues. Depending on the specific details of litigation, there may be an impact on the Group's business performance, financial status, and so on.

In response, the Group endeavors to practice compliance management including compliance with laws, regulations, and so on, and to minimize risks by conducting rank-based training and education for officers and employees to raise awareness of compliance.

10. COVID-19

In response to the spread of COVID-19 pandemic, the greatest crisis Japan has faced in the post-war period, the Group established the Rengo Group Novel Coronavirus Emergency Management Headquarters, and has made maximum efforts as a member of society to prevent the spread of infections. In addition, the Group has worked diligently to fulfill its responsibility as a supporting industry member to supply products used to deliver living essentials to consumers.

As of the end of June 2020, the outlook concerning the future scale of the spread of infection and the timing of when the pandemic will be controlled remains unclear, but there is a possibility that future developments will have an impact on the Group's business performance, financial status, and so on.

11. Other Risks

Risks other than those described above occurring as a result of unforeseeable circumstances are possible, and depending on the specifics of those risks, there may be an impact on the Group's business performance, financial status, and so on.

Consolidated Balance Sheets

Rengo Co., Ltd. and Consolidated Subsidiaries
(March 31, 2020 and 2019)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets:			
Cash and deposits (Notes 4, 6 and 8)	¥ 40,014	¥ 31,022	$ 370,500
Receivables			
Notes and accounts receivable-trade (Note 6)	192,230	194,762	1,779,907
Other	2,447	2,226	22,658
Allowance for doubtful accounts	(667)	(736)	(6,176)
	194,010	196,252	1,796,389
Inventories (Note 5)	49,961	48,906	462,602
Other	5,743	3,955	53,176
Total current assets	289,728	280,135	2,682,667
Property, plant and equipment (Note 8):			
Buildings and structures	257,002	239,284	2,379,648
Machinery, equipment and vehicles	520,277	485,147	4,817,380
Land	116,926	113,959	1,082,648
Construction in progress	7,444	7,280	68,926
Other	36,988	29,188	342,481
	938,637	874,858	8,691,083
Less accumulated depreciation	(588,053)	(554,896)	(5,444,935)
Total property, plant and equipment	350,584	319,962	3,246,148
Intangible assets:			
Goodwill	21,274	9,079	196,981
Other (Note 8)	17,151	13,351	158,806
Total intangible assets	38,425	22,430	355,787
Investments and other assets:			
Investment securities (Notes 6, 7 and 8)	120,113	123,745	1,112,157
Long-term loans receivable	536	710	4,963
Net defined benefit asset (Note 11)	2,184	2,564	20,222
Deferred tax assets (Note 10)	1,780	1,404	16,481
Other (Note 8)	17,840	19,544	165,186
Allowance for doubtful accounts	(1,081)	(1,138)	(10,009)
Total investments and other assets	141,372	146,829	1,309,000
Total assets	¥ 820,109	¥ 769,356	$ 7,593,602

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liabilities and net assets			
Current liabilities:			
Short-term borrowings and the current portion of long-term debt (Notes 6, 8 and 9)	¥ 116,114	¥ 109,679	$ 1,075,130
Payables			
Notes and accounts payable-trade (Notes 6 and 8)	110,889	124,232	1,026,750
Other (Note 6)	18,255	18,117	169,028
	129,144	142,349	1,195,778
Income taxes payable	9,501	5,422	87,972
Provision for directors' bonuses	259	221	2,398
Other	37,751	32,607	349,546
Total current liabilities	292,769	290,278	2,710,824
Non-current liabilities:			
Long-term debt due after one year (Notes 6, 8 and 9)	197,664	167,879	1,830,222
Deferred tax liabilities (Note 10)	16,942	17,223	156,870
Provision for directors' retirement benefits	986	1,011	9,130
Net defined benefit liability (Note 11)	13,823	12,253	127,991
Other (Notes 6 and 8)	9,105	6,014	84,306
Total non-current liabilities	238,520	204,380	2,208,519
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	287,657
Capital surplus	33,388	33,657	309,148
Retained earnings	193,184	169,587	1,788,741
Treasury stock:			
23,468,551 shares in 2020 and 23,466,372 shares in 2019	(11,945)	(11,943)	(110,602)
Total shareholders' equity	245,694	222,368	2,274,944
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	23,655	32,896	219,028
Deferred gains or losses on hedges	0	0	0
Foreign currency translation adjustment	7,887	6,726	73,028
Remeasurements of defined benefit plans	1,018	1,958	9,426
Total accumulated other comprehensive income	32,560	41,580	301,482
Non-controlling interests	10,566	10,750	97,833
Total net assets	288,820	274,698	2,674,259
Total liabilities and net assets	¥ 820,109	¥ 769,356	$ 7,593,602

Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2020 and 2019)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales (Note 20)	¥ 683,780	¥ 653,107	$ 6,331,296
Cost of sales	551,319	541,910	5,104,805
Selling, general and administrative expenses (Note 15)	91,233	85,905	844,750
Operating income (Note 20)	41,228	25,292	381,741
Other income (expenses):			
Interest and dividend income	2,402	2,254	22,241
Equity in earnings of affiliates	1,989	2,046	18,417
Interest expenses	(1,732)	(1,567)	(16,037)
Gain on sales of investment securities	996	82	9,222
Subsidy income	631	15	5,843
Gain on bargain purchase (Note 16)	299	—	2,769
Loss on closing of plant (Note 18)	(994)	(447)	(9,204)
Loss on sales and retirement of non-current assets	(862)	(485)	(7,982)
Renewal expenses of plants (Note 17)	(678)	(674)	(6,278)
Loss on tax purpose reduction entry of non-current assets	(635)	(1)	(5,880)
Loss on valuation of investment securities	(494)	(21)	(4,574)
Other, net	(1,060)	(1,418)	(9,815)
Profit before income taxes and non-controlling interests	41,090	25,076	380,463
Income taxes (Note 10):			
Income taxes-current	13,128	8,379	121,556
Income taxes-deferred	(380)	(1,159)	(3,519)
Total income taxes	12,748	7,220	118,037
Profit	28,342	17,856	262,426
Profit attributable to non-controlling interests	552	693	5,111
Profit attributable to owners of parent	¥ 27,790	¥ 17,163	$ 257,315

	Yen		U.S. dollars (Note 1)
	2020	2019	2020
Per share data:			
Basic earnings per share	¥ 112.24	¥ 69.32	$ 1.04
Diluted earnings per share	—	—	—
Cash dividends applicable to the year	20.00	14.00	0.19

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, 2020 and 2019)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit	¥ 28,342	¥ 17,856	$ 262,426
Other comprehensive income (Note 14):			
Valuation difference on available-for-sale securities	(9,080)	(1,404)	(84,074)
Deferred gains or losses on hedges	(0)	0	(0)
Foreign currency translation adjustment	818	(2,941)	7,574
Remeasurements of defined benefit plans	(928)	(121)	(8,593)
Share of other comprehensive income of entities accounted for using equity method	213	(1,214)	1,973
Total other comprehensive income	(8,977)	(5,680)	(83,120)
Comprehensive income	¥ 19,365	¥ 12,176	$ 179,306
Comprehensive income attributable to			
Owners of parent	¥ 18,918	¥ 11,712	$ 175,167
Non-controlling interests	447	464	4,139

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, 2020 and 2019)

	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, 2018	271,056	¥ 31,067	¥ 33,586	¥ 155,268	¥ (11,940)	¥ 34,322	¥ –	¥ 10,620	¥ 2,092	¥ 7,566	¥ 262,581
Dividends from surplus				(2,971)							(2,971)
Profit attributable to owners of parent				17,163							17,163
Purchase of treasury stock					(3)						(3)
Disposal of treasury stock			0		0						0
Other			71	127							198
Net changes in items other than shareholders' equity						(1,426)	0	(3,894)	(134)	3,184	(2,270)
Balance at March 31, 2019	271,056	¥ 31,067	¥ 33,657	¥ 169,587	¥ (11,943)	¥ 32,896	¥ 0	¥ 6,726	¥ 1,958	¥ 10,750	¥ 274,698
Change in scope of consolidation				(235)							(235)
Dividends from surplus				(3,961)							(3,961)
Profit attributable to owners of parent				27,790							27,790
Purchase of treasury stock					(2)						(2)
Disposal of treasury stock			0		0						0
Other			(269)	3							(266)
Net changes in items other than shareholders' equity						(9,241)	(0)	1,161	(940)	(184)	(9,204)
Balance at March 31, 2020	271,056	¥ 31,067	¥ 33,388	¥ 193,184	¥ (11,945)	¥ 23,655	¥ 0	¥ 7,887	¥ 1,018	¥ 10,566	¥ 288,820

	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, 2019	$ 287,657	$ 311,639	$ 1,570,250	$ (110,583)	$ 304,593	$ 0	$ 62,278	$ 18,130	$ 99,536	$ 2,543,500
Change in scope of consolidation			(2,176)							(2,176)
Dividends from surplus			(36,676)							(36,676)
Profit attributable to owners of parent			257,315							257,315
Purchase of treasury stock				(19)						(19)
Disposal of treasury stock		0		0						0
Other		(2,491)	28							(2,463)
Net changes in items other than shareholders' equity					(85,565)	(0)	10,750	(8,704)	(1,703)	(85,222)
Balance at March 31, 2020	$ 287,657	$ 309,148	$ 1,788,741	$ (110,602)	$ 219,028	$ 0	$ 73,028	$ 9,426	$ 97,833	$ 2,674,259

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, 2020 and 2019)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net cash provided by (used in) operating activities:			
Profit before income taxes and non-controlling interests	¥ 41,090	¥ 25,076	$ 380,463
Depreciation and amortization	35,076	32,259	324,778
Impairment loss	255	140	2,361
Amortization of goodwill	1,338	1,435	12,389
Increase (decrease) in provision for directors' retirement benefits	(26)	68	(241)
Increase (decrease) in net defined benefit liability	639	(47)	5,917
Interest and dividend income	(2,402)	(2,254)	(22,241)
Interest expenses	1,732	1,567	16,037
Equity in (earnings) losses of affiliates	(1,989)	(2,046)	(18,417)
Loss (gain) on sales of investment securities	(996)	(77)	(9,222)
Loss (gain) on valuation of investment securities	515	31	4,769
Loss (gain) on sales of property, plant and equipment	(18)	(68)	(167)
Loss on retirement of property, plant and equipment	813	464	7,528
Decrease (increase) in notes and accounts receivable-trade	6,420	(8,531)	59,444
Decrease (increase) in inventories	628	(3,118)	5,815
Increase (decrease) in notes and accounts payable-trade	(15,810)	6,082	(146,389)
Other, net	1,422	3,724	13,167
Subtotal	68,687	54,705	635,991
Interest and dividend income received	3,271	4,149	30,287
Interest expenses paid	(1,720)	(1,553)	(15,926)
Income taxes paid	(9,159)	(6,444)	(84,806)
Net cash provided by (used in) operating activities	61,079	50,857	565,546
Net cash provided by (used in) investing activities:			
Net decrease (increase) in time deposits	(853)	(279)	(7,898)
Purchase of property, plant and equipment	(36,796)	(38,292)	(340,704)
Proceeds from sales of property, plant and equipment	281	743	2,602
Purchase of intangible assets	(1,048)	(742)	(9,704)
Purchase of investment securities	(402)	(1,515)	(3,722)
Proceeds from sales and redemption of investment securities	1,447	386	13,398
Purchase of shares of subsidiaries and associates	(8,916)	—	(82,556)
Net decrease (increase) in short-term loans receivable	(367)	79	(3,398)
Payments of long-term loans receivable	(7)	(388)	(65)
Collection of long-term loans receivable	221	249	2,047
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 4)	274	1,698	2,537
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 4)	(32,042)	(261)	(296,685)
Purchase of investment in capital of subsidiaries resulting in change in scope of consolidation	—	(1,185)	—
Proceeds from sales of investments in capital of subsidiaries resulting in change in scope of consolidation	—	888	—
Other, net	(60)	(66)	(556)
Net cash provided by (used in) investing activities	(78,268)	(38,685)	(724,704)
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	(3,562)	(10,111)	(32,981)
Proceeds from long-term loans payable	45,823	31,282	424,287
Repayment of long-term loans payable	(19,595)	(29,697)	(181,435)
Proceeds from issuance of bonds	20,000	10,000	185,185
Redemption of bonds	(10,240)	(5,025)	(94,815)
Purchase of treasury stock	(2)	(3)	(19)
Proceeds from sales of treasury stock	0	0	0
Cash dividends paid	(3,962)	(2,971)	(36,685)
Repayments of lease obligations	(2,734)	(2,143)	(25,315)
Other, net	(1,447)	(744)	(13,398)
Net cash provided by (used in) financing activities	24,281	(9,412)	224,824
Effect of exchange rate change on cash and cash equivalents	625	(99)	5,788
Net increase (decrease) in cash and cash equivalents	7,717	2,661	71,454
Cash and cash equivalents at beginning of year	29,604	26,943	274,111
Increase in cash and cash equivalents from newly consolidated subsidiaries	207	—	1,916
Cash and cash equivalents at end of year (Note 4)	¥ 37,528	¥ 29,604	$ 347,481

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, 2020, which was ¥108 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 160 (146 in 2019) 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. There are 115 subsidiaries 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 16 (16 in 2019) unconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for 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 is 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.

Differences arising from the application of the processes stated above are presented separately in the consolidated financial statements in "Foreign currency translation adjustment" and "Non-controlling interests."

(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 March 31, 1998 and facilities attached to buildings and structures acquired after March 31, 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 lease term of the respective assets.

(9) Deferred Assets

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

(10) Provision for Directors' Bonuses

The Companies provide for directors' and audit & supervisory board members' bonuses applicable to the current fiscal year 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 affiliated 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, 2020 and 2019 amounted to ¥124 million (U.S. $1,148 thousand) and ¥120 million, respectively.

(13) Income Taxes

The asset-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 in which forward foreign exchange contracts, etc. are used as hedges and meet certain hedging criteria, forward foreign exchange contracts, etc. and hedged items are accounted for in the following manner ("Appropriate treatment"):

A. If a forward foreign exchange contract, etc. is executed to hedge 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 statements 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, etc. is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign exchange contract is recognized.

Appropriate treatment is adopted for assets and liabilities denominated in foreign currencies which are subject to foreign exchange forward contracts or currency swaps in order to hedge exchange rate fluctuation when they 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 differences paid or received under the swap agreements are included in interest expense or income.

(16) Application of IFRS16

Overseas consolidated subsidiaries applying IFRS (International Financial Reporting Standards) have applied IFRS 16 "Leases" from the current fiscal year. As a result, lease lessees will generally record all leases as assets and liabilities on the consolidated balance sheets. The adoption of IFRS 16 follows the transitional treatment and adopts the method of recognizing the cumulative effect of changes in accounting policies at the date of initial application.

The effects on the consolidated financial statements due to this change is immaterial.

(17) Reclassifications

Certain reclassifications of the financial statements for the fiscal year ended March 31, 2019 have been made to conform to the presentation for the fiscal year ended March 31, 2020.

(18) 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, 2020 and 2019 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

- **Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)**
- **Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)**

(1) Summary

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following five 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 subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- **Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)**
- **Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)**
- **Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)**
- **Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)**

(1) Summary

In order to enhance comparability with internationally recognized accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (together, hereinafter referred to as “Fair Value Accounting Standards”) were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of Financial instruments in “Accounting Standard for Financial Instruments.”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised and prescribed that fair value information of financial instruments by level are disclosed.

(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 subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

- **Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020)**

(1) Summary

This accounting standard intends to disclose information that contributes to users’ understanding about the nature of accounting estimates, which are recognized in the consolidated financial statements for the current fiscal year and impact on the consolidated financial statements for the next fiscal year significantly.

(2) Effective Date

Effective from the end of the fiscal year ending March 31, 2021.

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, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥ 40,014	¥ 31,022	$ 370,500
Less: Time deposits with maturities exceeding three months	(2,486)	(1,418)	(23,019)
Cash and cash equivalents	¥ 37,528	¥ 29,604	$ 347,481

(2) Purchases of Newly Consolidated Subsidiaries

For the fiscal year ended March 31, 2020, TRICOR Packaging & Logistics AG, its subsidiaries and Gutmann Anlagentechnik GmbH were acquired by the Company. Assets and liabilities of these companies at the time of consolidation, cash paid for the purchase of shares and cash paid in conjunction with the purchase of the consolidated subsidiaries were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5,246	$ 48,574
Non-current assets	24,303	225,028
Goodwill	11,845	109,676
Current liabilities	(2,854)	(26,426)
Non-current liabilities	(6,730)	(62,315)
Non-controlling interests	(3)	(28)
Cash paid for the purchase of shares	31,807	294,509
Cash and cash equivalents of the consolidated subsidiary	(1,392)	(12,889)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ (30,415)	$ (281,620)

For the fiscal year ended March 31, 2019, Rengo Toppan Containers Co., Ltd. was acquired by the Company. Assets and liabilities of this company at the time of consolidation, cash paid for the purchase of shares and cash received in conjunction with the purchase of the consolidated subsidiary were as follows:

	Millions of yen
Current assets	¥ 8,597
Non-current assets	7,637
Goodwill	147
Current liabilities	(6,205)
Non-current liabilities	(1,825)
Non-controlling interests	(3,281)
Cash paid for the purchase of shares	5,070
Cash and cash equivalents of the consolidated subsidiary	(6,768)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 1,698

5. INVENTORIES

Inventories at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Merchandise and finished goods	¥ 25,373	¥ 24,619	$ 234,935
Work in process	3,584	3,731	33,186
Raw materials and supplies	21,004	20,556	194,481
Total	¥ 49,961	¥ 48,906	$ 462,602

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 on 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 or 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 operations 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 relationships 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 holding stocks.

Trade notes and accounts payable are due within one year.

In addition, certain receivables and 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 bond issuances. Although some long-term loans are exposed to the risk of interest rate fluctuations 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 value, the fair value and any differences of the financial instruments presented in the consolidated balance sheets as of March 31, 2020 and 2019 are set forth in the tables below. Items whose fair value was considered extremely difficult to determine were not presented in the tables (See Note (2)).

	Millions of yen						Thousands of U.S. dollars		
	2020			2019			2020		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
(A) Cash and deposits	¥ 40,014	¥ 40,014	¥ —	¥ 31,022	¥ 31,022	¥ —	$ 370,500	$ 370,500	$ —
(B) Notes and accounts receivable-trade	192,230	192,230	—	194,762	194,762	—	1,779,907	1,779,907	—
(C) Investment securities									
Available-for-sale securities	75,043	75,043	—	88,598	88,598	—	694,843	694,843	—
Equity securities issued by affiliated companies	14,244	5,426	(8,818)	14,639	7,205	(7,434)	131,889	50,241	(81,648)
Total assets	¥ 321,531	¥ 312,713	¥ (8,818)	¥ 329,021	¥ 321,587	¥ (7,434)	$ 2,977,139	$ 2,895,491	$ (81,648)
(A) Notes and accounts payable-trade	¥ 110,889	¥ 110,889	¥ —	¥ 124,232	¥ 124,232	¥ —	$ 1,026,750	$ 1,026,750	$ —
(B) Short-term borrowings and the current portion of long-term loans payable	111,034	111,062	28	99,669	99,691	22	1,028,093	1,028,352	259
(C) Current portion of bonds	5,080	5,083	3	10,010	10,024	14	47,037	47,065	28
(D) Bonds payable	75,060	75,041	(19)	60,000	60,599	599	695,000	694,824	(176)
(E) Long-term loans payable	122,604	122,904	300	107,879	108,329	450	1,135,222	1,138,000	2,778
Total liabilities	¥ 424,667	¥ 424,979	¥ 312	¥ 401,790	¥ 402,875	¥ 1,085	$ 3,932,102	$ 3,934,991	$ 2,889
Derivative transactions*1									
(a) Hedge accounting not applied	¥ (1)	¥ (1)	¥ —	¥ (1)	¥ (1)	¥ —	$ (9)	$ (9)	$ —
(b) Hedge accounting applied	0	0	—	0	0	—	0	0	—
Total derivative transactions	¥ (1)	¥ (1)	¥ —	¥ (1)	¥ (1)	¥ —	$ (9)	$ (9)	$ —

*1 Amounts shown are net of assets and liabilities derived 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

As these are settled in the short term, the book value and fair value are essentially equivalent. The book value, therefore, is used for the fair value.

(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 method used for estimating the fair value of the current portion of long-term loans payable is the same as that for estimating (E) Long-term loans payable.

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

The fair value of bonds issued with available market value is estimated based on market prices. The fair value of bonds with no available 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 fair value of long-term loans payable with floating interest rate loans approximates its book value 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 long-term loans payable with fixed interest rate is estimated as the discounted present value of total principal and interest* using assumed interest rates for equivalent new loans.

* For long-term loans payable using interest rate swaps subject to special treatment or currency swaps subject to appropriate treatment, the fair value is computed by discounting the total amount of principal and interest on the loans, together with these interest rate swaps or currency swaps.

Derivative Transactions

The fair value of derivative transactions is measured mainly by prices 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 payable.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Available-for-sale securities	¥ 3,079	¥ 2,843	$ 28,509
Equity securities issued by unconsolidated subsidiaries and affiliated companies	27,747	17,665	256,916

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 Assets (C) Investment securities.

Note (3) The redemption schedule for receivables and marketable securities with maturities subsequent to March 31, 2020 and 2019 were as follows:

	Millions of yen			
	2020			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 40,014	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	192,230	—	—	—
Investment securities				
Available-for-sale securities	—	—	—	120
Total	¥ 232,244	¥ —	¥ —	¥ 120

	Millions of yen			
	2019			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 31,022	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	194,762	—	—	—
Investment securities				
Available-for-sale securities	—	—	—	120
Total	¥ 225,784	¥ —	¥ —	¥ 120

	Thousands of U.S. dollars			
	2020			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	$ 370,500	$ —	$ —	$ —
Notes and accounts receivable-trade	1,779,907	—	—	—
Investment securities				
Available-for-sale securities	—	—	—	1,111
Total	$ 2,150,407	$ —	$ —	$ 1,111

Note (4) The repayment schedule of long-term debt, lease debt and others subsequent to March 31, 2020 and 2019 were as follows:

	Millions of yen					
	2020					
	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 borrowings	¥ 71,158	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	44,956	33,241	31,171	36,218	19,873	77,161
Lease debt	2,916	2,334	1,732	1,394	601	805
Others	15	15	13	10	1	—
Total	¥ 119,045	¥ 35,590	¥ 32,916	¥ 37,622	¥ 20,475	¥ 77,966

	Millions of yen					
	2019					
	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 borrowings	¥ 73,551	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	36,128	38,098	30,774	28,034	32,204	38,769
Lease debt	1,656	1,292	1,033	605	442	292
Others	138	16	16	13	10	1
Total	¥ 111,473	¥ 39,406	¥31,823	¥ 28,652	¥ 32,656	¥ 39,062

	Thousands of U.S. dollars					
	2020					
	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 borrowings	$ 658,871	$ —	$ —	$ —	$ —	$ —
Long-term debt	416,259	307,787	288,620	335,352	184,009	714,454
Lease debt	27,000	21,611	16,037	12,907	5,565	7,453
Others	139	139	121	93	9	—
Total	$ 1,102,269	$ 329,537	$ 304,778	$ 348,352	$ 189,583	$ 721,907

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, 2020 and 2019.

	Millions of yen						Thousands of U.S. dollars		
	2020			2019			2020		
	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	¥ 60,912	¥ 22,700	¥ 38,212	¥ 78,925	¥ 29,645	¥ 49,280	$ 564,000	$ 210,185	$ 353,815
Bonds	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
	60,912	22,700	38,212	78,925	29,645	49,280	564,000	210,185	353,815
Securities with book values (fair values) not exceeding acquisition costs:									
Equity securities	14,131	17,412	(3,281)	9,673	11,022	(1,349)	130,843	161,222	(30,379)
Bonds	—	—	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—	—	—
	14,131	17,412	(3,281)	9,673	11,022	(1,349)	130,843	161,222	(30,379)
Total	¥ 75,043	¥ 40,112	¥ 34,931	¥ 88,598	¥ 40,667	¥ 47,931	$ 694,843	$ 371,407	$ 323,436

(2) Sales of Available-for-Sale Securities

Proceeds from sales of available-for-sale securities in the fiscal years ended March 31, 2020 and 2019 amounted to ¥1,447 million (U.S. $13,398 thousand) and ¥386 million, respectively. The related gains for the fiscal years ended March 31, 2020 and 2019 amounted to ¥996 million (U.S. $9,222 thousand) and ¥82 million, respectively.

8. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral including factory foundation for short-term borrowings and the current portion of long-term debt of ¥3,274 million (U.S. $30,315 thousand), long-term debt of ¥1,516 million (U.S. $14,037 thousand), accounts payable-trade of ¥401 million (U.S. $3,713 thousand) and others of ¥1,062 million (U.S. $9,833 thousand) at March 31, 2020 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 17,336	$ 160,518
Machinery, equipment and vehicles	21,739	201,287
Land	32,245	298,565
Investment securities	1,731	16,028
Other	807	7,472
Total	¥ 73,858	$ 683,870

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate
	2020	2019	2020	2020
Short-term borrowings	¥ 71,158	¥ 73,551	$ 658,871	0.53%
Current portion of long-term debt	44,956	36,128	416,259	0.85
Total	¥ 116,114	¥ 109,679	$ 1,075,130	—

Long-term debt at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans mainly from banks and insurance companies			
(2020: due in 2035, with interest rates ranging from 0.02% to 4.6%, 2019: due in 2033, with interest rates ranging from 0.01% to 4.3%)	¥ 162,480	¥ 133,997	$ 1,504,444
Issued by Rengo Co., Ltd.			
Unsecured 0.283% straight bonds, due September 2019	—	10,000	—
Unsecured 0.271% straight bonds, due September 2020	5,000	5,000	46,296
Unsecured 0.451% straight bonds, due September 2021	10,000	10,000	92,593
Unsecured 0.498% straight bonds, due September 2022	5,000	5,000	46,296
Unsecured 0.280% straight bonds, due December 2023	10,000	10,000	92,593
Unsecured 0.270% straight bonds, due December 2024	5,000	5,000	46,296
Unsecured 0.390% straight bonds, due December 2026	10,000	10,000	92,593
Unsecured 0.210% straight bonds, due December 2026	10,000	—	92,593
Unsecured 0.410% straight bonds, due December 2027	5,000	5,000	46,296
Unsecured 0.415% straight bonds, due December 2028	10,000	10,000	92,593
Unsecured 0.300% straight bonds, due December 2029	10,000	—	92,593
Issued by Kato Danboru Co., Ltd.			
Unsecured 0.490% bonds, due August 2019	—	10	—
Issued by Sanyo Kakoshi Co., Ltd.			
Unsecured 0.420% bonds, due June 2020	50	—	462
Unsecured 6-month yen TIBOR bonds, due March 2023	90	—	833
	242,620	204,007	2,246,481
Less current portion	(44,956)	(36,128)	(416,259)
	¥ 197,664	¥ 167,879	$ 1,830,222

The aggregate annual maturities of long-term debt at March 31, 2020 were as follows:

Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 44,956	$ 416,259
2022	33,241	307,787
2023	31,171	288,620
2024	36,218	335,352
2025 and thereafter	97,034	898,463
Total	¥ 242,620	$ 2,246,481

10. INCOME TAXES

At March 31, 2020 and 2019, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Carryforward tax loss (Note)	¥ 4,610	¥ 4,726	$ 42,685
Net defined benefit liability	4,212	3,351	39,000
Accrued bonuses	2,708	2,515	25,074
Write-down of golf club memberships	404	401	3,741
Provision for directors' retirement benefits	290	320	2,685
Loss on valuation of investment securities	1,018	1,026	9,426
Allowance for doubtful accounts	172	221	1,593
Unrealized gain on sale of property, plant and equipment eliminated on consolidation	274	272	2,537
Accrued enterprise taxes	592	399	5,482
Impairment loss	370	530	3,426
Other	1,807	1,807	16,731
Subtotal deferred tax assets	16,457	15,568	152,380
Valuation reserve for carryforward tax loss (Note)	(3,707)	(3,807)	(34,324)
Valuation reserve for deductible temporary differences	(2,930)	(2,280)	(27,130)
Subtotal valuation reserve	(6,637)	(6,087)	(61,454)
Total deferred tax assets	9,820	9,481	90,926
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(10,777)	(14,673)	(99,787)
Deferred gain tax treatment of property	(3,445)	(3,077)	(31,898)
Non-current assets revaluation difference, net of taxes unrealized gain	(6,705)	(5,007)	(62,083)
Trademark rights	(2,143)	(1,516)	(19,843)
Other	(1,913)	(1,027)	(17,713)
Total deferred tax liabilities	(24,983)	(25,300)	(231,324)
Net deferred tax assets (liabilities)	¥ (15,163)	¥ (15,819)	$ (140,398)

(Note) Carryforward tax loss and its deferred tax assets by expiration periods

	Millions of yen						
	2020						
	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	Total
Carryforward tax loss (*)	¥ 294	¥ 260	¥ 311	¥ 468	¥ 845	¥ 2,432	¥ 4,610
Valuation reserve	(288)	(260)	(311)	(468)	(465)	(1,915)	(3,707)
Net deferred tax assets	6	—	—	—	380	517	903

	Millions of yen						
	2019						
	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	Total
Carryforward tax loss (*)	¥ 101	¥ 327	¥ 253	¥ 270	¥ 537	¥ 3,238	¥ 4,726
Valuation reserve	(95)	(327)	(253)	(270)	(447)	(2,415)	(3,807)
Net deferred tax assets	6	—	—	—	90	823	919

	Thousands of U.S. dollars						
	2020						
	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	Total
Carryforward tax loss (*)	$ 2,723	$ 2,407	$ 2,880	$ 4,333	$ 7,824	$ 22,518	$ 42,685
Valuation reserve	(2,667)	(2,407)	(2,880)	(4,333)	(4,306)	(17,731)	(34,324)
Net deferred tax assets	56	—	—	—	3,518	4,787	8,361

(*) Carryforward tax loss shown in the above table is after multiplying the statutory tax rate.

At March 31, 2020 and 2019, the reconciliation of the aggregate statutory income tax rate to the effective income tax rate was as follows:

	2020	2019
Statutory tax rate	—	30.4%
Effect of:		
Tax deductions	—	(1.0)
Non-deductible items such as entertainment expenses	—	3.6
Non-taxable items such as dividends received	—	(4.7)
Per capita inhabitants' taxes	—	0.9
Dividends received eliminated in consolidation	—	4.5
Equity in earnings of affiliates	—	(2.4)
Valuation reserve	—	(2.5)
Amortization of goodwill	—	1.7
Other	—	(1.7)
Effective tax rate	—	28.8%

(*) Information for the year ended March 31, 2020 is not disclosed because the difference between the statutory tax rate and the effective income tax rate was less than 5% of the statutory tax rate.

11. RETIREMENT BENEFITS

Net defined benefit asset and net defined benefit liability included in the consolidated balance sheets as of March 31, 2020 and 2019 and retirement benefit expenses in the consolidated statements of income for the fiscal years ended March 31, 2020 and 2019 consisted of the following:

(1) Defined Benefit Plans

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1, 2019 and 2018	¥ 44,446	¥ 43,531	$ 411,537
Service cost	2,812	2,790	26,037
Interest cost	291	292	2,694
Actuarial loss (gain)	(430)	(19)	(3,981)
Benefits paid	(1,485)	(2,707)	(13,750)
Past service cost	(0)	(428)	(0)
Increase accompanying new additions to the scope of consolidation	—	1,012	—
Other	10	(25)	93
Balance at March 31, 2020 and 2019	¥ 45,644	¥ 44,446	$ 422,630

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1, 2019 and 2018	¥ 37,423	¥ 36,898	$ 346,509
Expected return on plan assets	535	519	4,954
Actuarial loss (gain)	(1,672)	(421)	(15,481)
Contributions paid by the employer	1,879	1,840	17,398
Benefits paid	(1,225)	(1,942)	(11,343)
Increase accompanying new additions to the scope of consolidation	—	529	—
Balance at March 31, 2020 and 2019	¥ 36,940	¥ 37,423	$ 342,037

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at April 1, 2019 and 2018	¥ 2,667	¥ 2,621	$ 24,694
Retirement benefit expenses	481	507	4,454
Benefits paid	(211)	(242)	(1,954)
Contributions paid by the employer	(201)	(197)	(1,861)
Increase accompanying new additions to the scope of consolidation	173	—	1,602
Other	27	(22)	250
Balance at March 31, 2020 and 2019	¥ 2,936	¥ 2,667	$ 27,185

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligations	¥ 48,118	¥ 46,678	$ 445,537
Plan assets	(39,956)	(40,274)	(369,963)
	8,162	6,404	75,574
Unfunded retirement benefit obligations	3,477	3,285	32,195
Total net liability for retirement benefits at March 31, 2020 and 2019	¥ 11,639	¥ 9,689	$ 107,769
Net defined benefit liability	¥ 13,823	¥ 12,253	$ 127,991
Net defined benefit asset	(2,184)	(2,564)	(20,222)
Total net liability for retirement benefits at March 31, 2020 and 2019	¥ 11,639	¥ 9,689	$ 107,769

E. Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 2,812	¥ 2,790	$ 26,037
Interest cost	291	292	2,694
Expected return on plan assets	(534)	(519)	(4,944)
Amortization of net unrecognized actuarial differences	22	(139)	204
Amortization of past service cost	(118)	(76)	(1,093)
Retirement benefit expenses applying for simplified method	481	507	4,454
Total retirement benefit expenses for the fiscal years ended March 31, 2020 and 2019	¥ 2,954	¥ 2,855	$ 27,352

F. Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Past service cost	¥ (118)	¥ 352	$ (1,092)
Actuarial gains and losses	(1,218)	(540)	(11,278)
Total remeasurements of defined benefit plans for the fiscal years ended March 31, 2020 and 2019	¥ (1,336)	¥ (188)	$ (12,370)

G. Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Past service cost that are yet to be recognized	¥ 571	¥ 689	$ 5,287
Actuarial gains and losses that are yet to be recognized	915	2,127	8,472
Total balance at March 31, 2020 and 2019	¥ 1,486	¥ 2,816	$ 13,759

H. Plan assets

(a) Plan assets comprise

	2020	2019
General account	36%	34%
Bonds	34	32
Equity securities	24	29
Other	6	5
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

	2020	2019
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 the 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, 2020 and 2019 amounted to ¥285 million (U.S. $2,639 thousand) and ¥263 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, 2020 and 2019 amounted to ¥45 million (U.S. $417 thousand) and ¥153 million, respectively.

The multi-employer pension fund that certain consolidated subsidiaries had participated in was dissolved with the government's permission on March 22, 2019. As a result, the consolidated subsidiaries shifted to the succeeding pension fund. The first fiscal year end of the succeeding pension fund was March 31, 2020. Therefore, the amount of the fund is not included in the tables below in 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
	2020 (As of March 31, 2019)	2019 (As of March 31, 2018)	2020 (As of March 31, 2019)
Plan assets	¥ 9,639	¥ 43,090	$ 89,250
Net total actuarial obligations under pension funding programs and minimum actuarial reserve	11,357	45,433	105,157
Total balance	¥ (1,718)	¥ (2,343)	$ (15,907)

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

For the fiscal year ended March 31, 2020 corresponding to the fiscal year ended March 31, 2019: 6.8%

For the fiscal year ended March 31, 2019 corresponding to the fiscal year ended March 31, 2018: 10.5%

C. Supplemental information

The main factor of the 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, 2020 and 2019 amounted to ¥5,790 million (U.S. $53,611 thousand) and ¥8,262 million, respectively. General reserve for the fiscal years ended March 31, 2020 and 2019 amounted to ¥4,163 million (U.S. $38,546 thousand) and ¥4,890 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, 2020, the Companies' contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted	¥ 57	$ 528
As endorser of notes endorsed	462	4,278
As guarantor of indebtedness	732	6,778

Note: The guarantee obligations of ¥422 million (U.S. $3,907 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 in which 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, 2020 and 2019, 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
	2020	2019	2020
Valuation difference on available-for-sale securities			
Increase (decrease) during the fiscal year	¥ (12,498)	¥ (1,939)	$ (115,722)
Reclassification adjustments for losses realized in profit	(507)	16	(4,695)
Subtotal, before tax amount	(13,005)	(1,923)	(120,417)
Tax (expense) or benefit	3,925	519	36,343
Subtotal, net of tax amount	(9,080)	(1,404)	(84,074)
Deferred gains or 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	818	(2,901)	7,574
Reclassification adjustments for losses realized in profit	—	(51)	—
Subtotal, before tax amount	818	(2,952)	7,574
Tax (expense) or benefit	—	11	—
Subtotal, net of tax amount	818	(2,941)	7,574
Remeasurements of defined benefit plans			
Increase (decrease) during the fiscal year	(1,241)	30	(11,491)
Reclassification adjustments for losses realized in profit	(95)	(218)	(879)
Subtotal, before tax amount	(1,336)	(188)	(12,370)
Tax (expense) or benefit	408	67	3,777
Subtotal, net of tax amount	(928)	(121)	(8,593)
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the fiscal year	213	(1,214)	1,973
Total other comprehensive income	¥ (8,977)	¥ (5,680)	$ (83,120)

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 ¥1,593 million (U.S. $14,752 thousand) and ¥1,532 million for the fiscal years ended March 31, 2020 and 2019, respectively.

16. GAIN ON BARGAIN PURCHASE

The gain on bargain purchase for the fiscal year ended March 31, 2020 was due to the acquisition of shares of Sanyo Kakoshi Co., Ltd.

17. RENEWAL EXPENSES OF PLANTS

For the fiscal year ended March 31, 2020, renewal expenses of plants were the cost associated with the rebuilding of the plant by Rengo Toppan Containers Co., Ltd., construction of the new plant building by Howa Sangyo Co., Ltd. and the rebuilding of the branch by Sanyo Jidosha Unso Co., Ltd. The components of the expenses were loss on sales and retirement of non-current assets and other of ¥515 million (U.S. $4,769 thousand), impairment loss of ¥25 million (U.S. $231 thousand) and transfer expenses and other of ¥138 million (U.S. $1,278 thousand).

The principle components of the impairment loss were as follows:

Place	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
Hiroshima-City, Hiroshima Prefecture	Assets scheduled for disposal	Buildings and structures	¥ 25	$ 231
		Machinery, equipment and vehicles	0	0
		Other	0	0
		Total	¥ 25	$ 231

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 "Renewal expenses of plants" (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.

For the fiscal year ended March 31, 2019, renewal expenses of plants were associated with removal for construction of the new plant building by Howa Sangyo Co., Ltd. and the rebuilding of the plant by Rengo Toppan Containers Co., Ltd. The components of the expenses were loss on sales and retirement of non-current assets and other of ¥303 million, impairment loss of ¥168 million and transfer expenses and other of ¥203 million.

The principle components of the impairment loss were as follows:

Place	Use	Type of assets	Millions of yen
Funabashi-City, Chiba Prefecture	Assets scheduled for disposal	Buildings and structures	¥ 87
		Machinery, equipment and vehicles	7
		Other	0
		Total	94
Kawaguchi-City, Saitama Prefecture	Assets scheduled for disposal	Buildings and structures	74
		Other	0
		Total	¥ 74

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 "Renewal expenses of plants" (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. LOSS ON CLOSING OF PLANT

For the fiscal year ended March 31, 2020, loss on closing of plant was associated with the closure of the Yodogawa Mill. The components of the loss were the removal cost of ¥976 million (U.S. $9,037 thousand) for the Yodogawa Mill building and other of ¥18 million (U.S. $167 thousand).

For the fiscal year ended March 31, 2019, loss on closing of plant was associated with the closure of the Yodogawa Mill. The components of the loss were impairment loss of ¥338 million on the Yodogawa Mill building and other and transfer expenses and other of ¥109 million.

The principle components of the impairment loss were as follows:

Place	Use	Type of assets	Millions of yen
Fukushima-ku, Osaka	Assets scheduled for disposal	Buildings and structures	¥ 284
		Machinery, equipment and vehicles	54
		Other	0
		Total	¥ 338

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 “Loss on closing of plant” (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. BUSINESS COMBINATIONS

Business combination through acquisition

(1) Summary of the combination

A. Name and business of the company acquired
Name: TRICOR Packaging & Logistics AG, Gutmann Anlagentechnik GmbH
Business: Designing, manufacturing and sales of heavy duty packaging materials
Machinery manufacturing

B. Reason for the combination
Making TRICOR Packaging & Logistics AG a group company will strengthen the Companies overseas business, which is one of the core businesses of the Companies, and lead to further expansion of business scope and enhanced performance.

C. Date of the combination
August 20, 2019 (Share acquisition date)
August 31, 2019 (Deemed acquisition date)

D. Legal form of the combination
Acquisition of equity shares for cash consideration

E. Post-combination name of the acquired company
Same as before the combination

F. Percentage of voting rights acquired
100%

G. Basis for determining acquiring company
Tri-Wall Europe GmbH (former company name: Tri-Wall Germany GmbH), a consolidated subsidiary of the company, acquired shares for cash consideration

(2) Period of consolidation of the acquired company during the fiscal year ended March 31, 2020
September 1, 2019 to December 31, 2019

(3) Acquisition price and type of consideration paid

Consideration paid for acquisition	Cash	EUR 268 million	(¥ 31,807 million)	(U.S. $ 294,509 thousand)
Acquisition price		EUR 268 million	(¥ 31,807 million)	(U.S. $ 294,509 thousand)

(4) Principal acquisition related expenses
Advisory fees, etc.: ¥120 million (U.S. $1,111 thousand)

(5) Amount, cause and amortization of goodwill arising from the acquisition

A. Amount of goodwill incurred through the acquisition
¥11,845 million (U.S. $109,676 thousand)
B. Cause for the occurrence of goodwill
Excess earnings power expected in the future due to business development
C. Amortization method and period
Straight-line method over 15 years

(6) Details of the assets acquired and the liabilities assumed at the date of the business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 5,246	$ 48,574
Non-current asset	24,303	225,028
Total assets	29,549	273,602
Current liabilities	2,854	26,426
Non-current liabilities	6,730	62,315
Total liabilities	¥ 9,584	$ 88,741

(7) The major categories and amounts of intangible assets other than goodwill recognized using the purchase price allocation and the corresponding amortization periods

Categories	Millions of yen	Thousands of U.S. dollars	Amortization period (years)
Patent right	¥ 2,882	$ 26,685	11
Trademark right	2,388	22,111	12
Customer relationships	129	1,194	12

(8) Estimated impact on the consolidated statements of income for the fiscal year ended March 31, 2020 as if the business combination had been completed at the beginning of the fiscal year ended March 31, 2020 and the calculation method

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 12,304	$ 113,926
Operating income	60	556
Profit attributable to owners of parent	(235)	(2,176)

(Calculation method of estimated impact)
The estimated impact amounts were calculated as the difference between sales and other profits or losses assuming that the business combination was completed at the beginning of the fiscal year ended March 31, 2020 and the Company's sales and other profits or losses on the consolidated statements of income. The amortization of goodwill and other was calculated assuming that the goodwill and other, which was recognized at the date of the business combination, had arisen at the beginning of the fiscal year ended March 31, 2020.

This note has not been audited.

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 fields 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 paperboard 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, 2020 and 2019 were as follows:

	Millions of yen							
	2020							
	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	¥ 449,696	¥ 75,903	¥ 42,743	¥ 80,465	¥ 648,807	¥ 34,973	¥ —	¥ 683,780
Intersegment sales and transfers	1,319	171	2,516	4,562	8,568	26,985	(35,553)	—
Total sales	451,015	76,074	45,259	85,027	657,375	61,958	(35,553)	683,780
Segment profit	30,209	3,462	1,583	3,351	38,605	2,436	187	41,228
Segment assets	627,756	62,193	45,326	168,441	903,716	35,852	(119,459)	820,109
Other items								
Depreciation and amortization	24,500	2,756	1,467	5,019	33,742	1,311	(44)	35,009
Amortization of goodwill	248	—	35	1,075	1,358	—	—	1,358
Investment in equity method affiliates	671	1,813	—	36,840	39,324	864	—	40,188
Increase in property, plant and equipment and intangible assets	30,818	2,278	1,176	3,448	37,720	1,035	(55)	38,700

	Millions of yen							
	2019							
	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	¥ 431,927	¥ 73,079	¥ 40,872	¥ 73,272	¥ 619,150	¥ 33,957	¥ —	¥ 653,107
Intersegment sales and transfers	1,712	125	2,520	4,628	8,985	27,283	(36,268)	—
Total sales	433,639	73,204	43,392	77,900	628,135	61,240	(36,268)	653,107
Segment profit	15,592	1,918	1,647	3,396	22,553	2,528	211	25,292
Segment assets	584,300	62,785	44,592	122,965	814,642	36,504	(81,790)	769,356
Other items								
Depreciation and amortization	23,913	2,367	1,475	3,163	30,918	1,315	(44)	32,189
Amortization of goodwill	220	237	178	842	1,477	—	—	1,477
Investment in equity method affiliates	656	1,773	—	35,587	38,016	831	—	38,847
Increase in property, plant and equipment and intangible assets	26,487	5,267	1,430	1,455	34,639	1,907	(34)	36,512

	Thousands of U.S. dollars							
	2020							
	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	$ 4,163,852	$ 702,806	$ 395,769	$ 745,046	$ 6,007,473	$ 323,823	$ —	$ 6,331,296
Intersegment sales and transfers	12,213	1,583	23,296	42,241	79,333	249,861	(329,194)	—
Total sales	4,176,065	704,389	419,065	787,287	6,086,806	573,684	(329,194)	6,331,296
Segment profit	279,713	32,056	14,657	31,028	357,454	22,556	1,731	381,741
Segment assets	5,812,556	575,861	419,685	1,559,639	8,367,741	331,963	(1,106,102)	7,593,602
Other items								
Depreciation and amortization	226,852	25,519	13,583	46,472	312,426	12,138	(407)	324,157
Amortization of goodwill	2,296	—	324	9,954	12,574	—	—	12,574
Investment in equity method affiliates	6,213	16,787	—	341,111	364,111	8,000	—	372,111
Increase in property, plant and equipment and intangible assets	285,352	21,092	10,889	31,926	349,259	9,583	(509)	358,333

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

*2 "Adjustments" were as follows:

(a) The adjustments of segment profits of ¥187 million (U.S. $1,731 thousand) and ¥211 million for the fiscal years ended March 31, 2020 and 2019, respectively, were from the elimination of intersegment transactions.

(b) The adjustments of segment assets of -¥119,459 million (-U.S. $1,106,102 thousand) and -¥81,790 million for the fiscal years ended March 31, 2020 and 2019, respectively, were from the elimination of intersegment transactions.

(c) The adjustments of depreciation and amortization of -¥44 million (-U.S. $407 thousand) and -¥44 million for the fiscal years ended March 31, 2020 and 2019, respectively, were from the elimination of intersegment transactions.

(d) The adjustments of increases in property, plant and equipment, and intangible assets of -¥55 million (-U.S. $509 thousand) and -¥34 million for the fiscal years ended March 31, 2020 and 2019, respectively, were from the elimination of intersegment transactions.

*3 The segment profit was reconciled with operating income in the consolidated statements of income.

(2) Related Information

A. Products and Services

Sales to third parties	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Paperboard	¥ 62,550	¥ 62,469	$ 579,167
Corrugated board	46,476	44,949	430,333
Corrugated boxes	332,011	315,338	3,074,176
Flexible packaging and cellophane	85,230	81,556	789,166
Other	157,513	148,795	1,458,454
Total	¥ 683,780	¥ 653,107	$ 6,331,296

B. Geographical Segments

(a) Sales	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 602,881	¥ 579,117	$ 5,582,231
Asia	57,846	59,820	535,611
Europe	18,048	9,712	167,111
Other	5,005	4,458	46,343
Total	¥ 683,780	¥ 653,107	$ 6,331,296

(b) Property, plant and equipment	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Japan	¥ 304,907	¥ 297,627	$ 2,823,213
Asia	17,522	15,383	162,241
Europe	23,860	2,616	220,926
Other	4,295	4,336	39,768
Total	¥ 350,584	¥ 319,962	$ 3,246,148

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, 2020 and 2019. Therefore, information regarding such major customers was not required to be disclosed.

(3) Information on Impairment Loss of Non-Current Assets by Reportable Segments

	Millions of yen							
	2020							
	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	¥ 102	¥ 14	¥ —	¥ 139	¥ 255	¥ 25	¥ —	¥ 280

	Millions of yen							
	2019							
	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	¥ 529	¥ 95	¥ 10	¥ 13	¥ 647	¥ 0	¥ —	¥ 647

	Thousands of U.S. dollars							
	2020							
	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	$ 944	$ 130	$ —	$ 1,287	$ 2,361	$ 232	$ —	$ 2,593

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

In "Other Business," impairment loss of ¥25 million (U.S. $231 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, 2020.

In "Paperboard and Packaging-Related Business," impairment loss of ¥338 million related to the closing of plant is included in "Loss on closing of plant" (Other income (expenses)) and impairment loss of ¥74 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, 2019. In "Flexible Packaging-Related Business," impairment loss of ¥94 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, 2019.

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

	Millions of yen							
	2020							
	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	¥ 248	¥ —	¥ 35	¥ 1,075	¥ 1,358	¥ —	¥ —	¥ 1,358
Balance at end of period	1,162	—	314	19,894	21,370	—	—	21,370
Negative goodwill								
Amortized for the period	18	2	—	0	20	—	—	20
Balance at end of period	85	10	—	1	96	—	—	96

	Millions of yen							
	2019							
	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	¥ 220	¥ 237	¥ 178	¥ 842	¥ 1,477	¥ —	¥ —	¥ 1,477
Balance at end of period	343	—	—	8,853	9,196	—	—	9,196
Negative goodwill								
Amortized for the period	40	2	—	0	42	—	—	42
Balance at end of period	103	12	—	1	116	—	—	116

	Thousands of U.S. dollars							
	2020							
	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	$ 2,296	$ —	$ 324	$ 9,954	$ 12,574	$ —	$ —	$ 12,574
Balance at end of period	10,759	—	2,907	184,204	197,870	—	—	197,870
Negative goodwill								
Amortized for the period	167	18	—	0	185	—	—	185
Balance at end of period	787	93	—	9	889	—	—	889

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

21. RELATED PARTY INFORMATION

(1) Transactions with related party

Significant transactions of the Company with related party for the fiscal year ended March 31, 2020 were as follows:

Attribute	Name	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Officer	Yoshio Sato	Company director Chairman of the Board and Representative Executive Officer of SUMITOMO LIFE INSURANCE COMPANY	(Parent company ownership ratio) 2.7	Borrowings of fund	Borrowings of funds	¥1,860 million ($17,222 thousand)	Short-term borrowings and the current portion of long-term debt	¥1,570 million ($14,537 thousand)
					Repayment of borrowings	¥1,510 million ($13,981 thousand)	Long-term debt due after one year	¥6,620 million ($61,296 thousand)

Note
The contents of the above transaction were that the Company borrowed from SUMITOMO LIFE INSURANCE COMPANY of which Yoshio Sato was a representative.
The interest rate has been reasonably determined considering the market rate of interest.

Significant transactions of the Company with related party for the fiscal year ended March 31, 2019 were as follows:

Attribute	Name	The contents of a business operation or an occupation	Ownership ratio (Parent company ownership ratio) of voting rights (%)	Relationship	Nature of transaction	Trading amount	Account	Balance at the end of the fiscal year
Officer	Yoshio Sato	Company director Chairman of the Board and Representative Executive Officer of SUMITOMO LIFE INSURANCE COMPANY	(Parent company ownership ratio) 2.7	Borrowings of fund	Borrowings of funds	¥760 million	Short-term borrowings and the current portion of long-term debt	¥1,510 million
					Repayment of borrowings	¥790 million	Long-term debt due after one year	¥6,330 million

Note (1)
The contents of the above transaction were that the Company borrowed from SUMITOMO LIFE INSURANCE COMPANY of which Yoshio Sato was a representative.
The interest rate has been reasonably determined considering the market rate of interest.
Note (2)
On June 28, 2018, Yoshio Sato assumed the position of a Company director and became, therefore, a related party. The above transactions were made after he assumed this position.

22. ADDITIONAL INFORMATION

(Accounting estimates related to COVID-19)
Although a further downturn in the domestic and international economy due to the spread of COVID-19 is expected, we believe that the economies will recover in the medium term. We assume that there will be only a minor effect by the spread of COVID-19 when it comes to the demand for corrugated boards and other products since there is a steady demand in the industries of foods and e-commerce. We conducted the accounting estimates like impairment accounting based on this assumption.

23. SUBSEQUENT EVENTS

(1) Appropriation of Non-Consolidated Retained Earnings

At the Board of Directors meeting held on May 13, 2020, 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 (¥12.00 = U.S. $0.11 per share)	¥ 2,971	$ 27,509

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2020. Such appropriations are recognized in the period in which they are approved.

(2) Introduction of Stock Compensation Plan

At the General Meeting of Shareholders held on June 26, 2020, the Company resolved to introduce a Stock Compensation Plan to increase Directors' motivation to make contributions to improving the Company's mid- to long-term performance and increasing its corporate value by making a clearer link between the compensation provided to Directors (excluding Outside Directors) and the Company's share value and sharing with shareholders the benefits and risks associated with the fluctuation of share prices. As a result, the compensation provided to Directors of the Company consists of "Fixed Compensation", "Bonuses" and "Stock Compensation".

A. Overview of the Plan

The Plan is a stock compensation plan under which shares of the Company will be acquired through a trust (hereinafter the trust established based on the Plan shall be referred to as the “Trust”) using money contributed by the Company as a source, and the Company's shares equivalent to the number of points awarded by the Company to each Director will be delivered to each Director through the Trust.

In principle, the Company’s shares will be delivered to Directors on their retirement.

(a)	Target person	Company's Directors (excluding Outside Directors)
(b)	Target period	From the fiscal year ending March 31, 2021 until the fiscal year March ending 31, 2023
(c)	The upper limit of the amount of money that the Company contributes to the Trust for acquiring the Company's shares to be delivered to the target person of (a) during the target period of (b)	Total ¥810 million
(d)	How to acquire the Company's shares	Acquiring through the disposal of treasury stock of the Company or the stock market (including off-auction transactions)
(e)	The upper limit of the number of points awarded to the target person of (a)	180,000 points per fiscal year
(f)	Criteria for awarding points	Points are awarded based on Directors' position and others
(g)	Timing of delivery of the Company's shares to the person of (a)	The time when each Director retires

B. Upper limit of the amount of money contributed by the Company

The trust period of the Trust is initially 3 years, and the Company will contribute a maximum of ¥810 million, the money to acquire the Company's shares to be delivered to the Directors under the Plan to the Trust as the compensation for Directors serving during the target period and establish the Trust where Directors who meet certain conditions are beneficiaries. The Trust will acquire the Company's shares through the disposal of treasury stock of the Company or the stock market (including off-auction transactions) by using the money entrusted by the Company.

Note: The Company entrusted the money to acquire the Company's shares as well as expected expenses like trust fees, compensation for the trust administrator and so on.

There is some possibility that the Board of Directors of the Company will decide that the target period be extended by 3 years or less and the trust period accordingly extended, including the case in which the trust period is expanded substantially by transferring trust assets of the Trust to another trust which has the same purpose as the Trust. In this case, the Company contributes additional money, the maximum amount of ¥270 million per fiscal year, to the Trust to acquire the Company's shares to be delivered to the Directors during the extended target period, and continues to award points and deliver shares to Directors as described in C. below.

Even if the Company decides not to extend the target period and continue the Plan, the trust period can be extended until the delivery of shares to the Directors is complete, when there are Directors who have been awarded points but not yet retired at the end of the trust period.

C. Calculation method and upper limit of the number of the Company's shares to be delivered to Directors

(a) How points are awarded to Directors

The Directors will be awarded a number of points during the trust period as determined by their position and other factors on the date set forth in the Stock Delivery Regulations established by the Company.

The upper limit of the total number of points to be awarded to Directors per fiscal year is 180,000 points.

(b) Delivery of the Company's shares based on the number of points awarded

The Company's shares are delivered to the Directors based on the number of points awarded as described in (a) above according to procedures of (c) below.

With regard to the points awarded to the Directors, one point shall be converted into one share of stock of the Company. In case there are events like a stock split, reverse stock split etc. in which the number of shares to be delivered should be adjusted, a reasonable adjustment shall be made to the number of shares based on the ratio of the stock split, reverse stock split etc.

(c) Delivery of the Company's shares to Directors

The Trust delivers the Company's shares to the Directors as described in (b) above by procedures confirming the beneficiaries when each Director retires.

The Company might pay, to a certain percentage of shares, money equivalent to the market value of shares for the purpose of the withholding personal income tax instead of delivering shares. In addition, if the Company's shares held by the Trust are converted into money in cases such as the application for the takeover bid, the money might be delivered in place of shares.

D. Exercise of voting rights

The Trust will not exercise voting rights for the Company's shares held by the Trust based on directions form the trust administrator, who is independent from the Company and the Directors of the Company, to ensure neutrality to the management of the Company.

E. Dividends

Dividends related to the Company's share held by the Trust will be received by the Trust and used for the acquisition of the Company's shares, trust fees and so on.

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Rengo Co., Ltd. ("the Company") and its consolidated subsidiaries, (collectively referred to as "the Group") which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Yoshihide Takehisa
Designated Engagement Partner
Certified Public Accountant

Tatsuya Kido
Designated Engagement Partner
Certified Public Accountant

Takehiro Nakamura
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
June 29, 2020

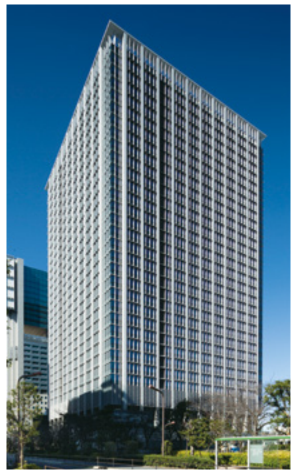
Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

Company Information (as of March 31, 2020)

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		16,016
Number of employees	Rengo	4,042
	Consolidated subsidiaries	14,860
	Total	18,902


Head Office

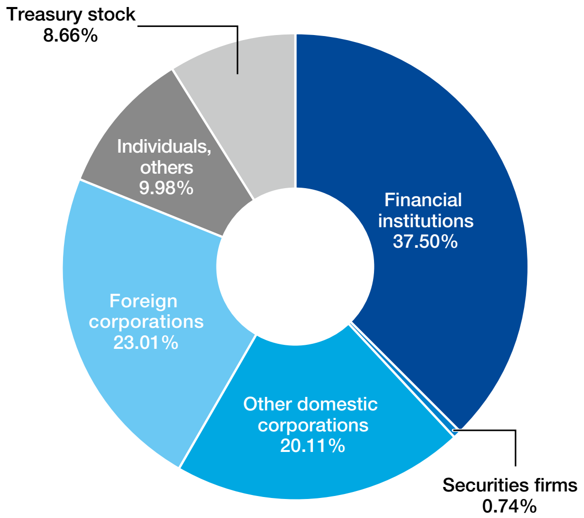

Tokyo Head Office

Major Shareholders

Shareholders	Shareholding ratio (%)
Japan Trustee Services Bank, Ltd.	14.88
The Master Trust Bank of Japan, Ltd.	7.21
Sumitomo Mitsui Banking Corporation	3.86
Sumitomo Life Insurance Company	2.79
The Norinchukin Bank	2.40
Sumitomo Corporation	2.12
Mitsui Sumitomo Insurance Company, Ltd.	1.94
Trust & Custody Services Bank, Ltd.	1.83
JP MORGAN CHASE BANK 385632 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1.80
JP MORGAN CHASE BANK 385151 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	1.50

* 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 Announcement		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									