RENGO Integrated Report (Separate Volume)

Financial Data

For Year Ended March 31, 2023

GPI
The General Packaging Industry
RENGO

Consolidated 11-Year Summary

Rengo Co., Ltd. and Consolidated Subsidiaries
(For the years ended March 31, 2013–2023)

	2013/3	2014/3	2015/3	2016/3	2017/3	2018/3	2019/3	2020/3	2021/3	2022/3	2023/3
For the fiscal year (millions of yen):											
Net sales	¥ 502,625	¥ 523,141	¥ 522,671	¥ 532,534	¥ 545,489	¥ 605,712	¥ 653,107	¥ 683,780	¥ 680,714	¥ 746,926	**¥ 846,080**
Gross profits	88,468	82,606	76,428	87,288	98,586	99,710	111,197	132,461	133,281	135,716	**141,918**
Operating income	23,890	14,221	5,567	15,727	23,642	17,082	25,292	41,227	39,938	33,279	**25,957**
Profit before income taxes and non-controlling interests	25,066	9,687	12,081	16,268	24,186	23,366	25,075	41,090	41,204	41,437	**30,857**
Profit attributable to owners of parent	12,956	3,702	5,718	9,816	13,876	16,622	17,163	27,790	28,599	28,188	**20,425**
Research and development expenses	1,581	1,421	1,405	1,441	1,448	1,483	1,531	1,593	1,900	2,151	**2,066**
Depreciation and amortization	27,898	28,581	29,611	29,333	29,524	30,880	32,259	35,076	38,114	41,723	**44,848**
Capital expenditures	37,014	52,849	39,982	29,656	30,445	41,527	36,512	38,700	47,143	49,509	**58,694**
EBITDA	51,789	42,802	35,179	46,454	54,372	49,616	59,028	77,662	80,014	77,193	**73,560**
At the fiscal year-end (millions of yen):											
Total assets	¥ 572,591	¥ 629,054	¥ 655,674	¥ 644,690	¥ 704,826	¥ 747,700	¥ 769,355	¥ 820,109	¥ 869,992	¥ 934,345	**¥ 1,053,138**
Working capital	(30,389)	(40,772)	(34,146)	(36,801)	(24,288)	(23,760)	(10,142)	(3,041)	14,229	39,411	**45,332**
Interest-bearing debt	237,745	263,430	276,906	264,728	283,350	287,322	283,071	323,614	330,645	353,415	**404,289**
Net assets	188,132	201,658	222,390	221,733	241,510	262,580	274,697	288,820	324,463	354,289	**385,732**
Equity capital[*1]	180,733	196,359	216,353	215,962	234,241	255,015	263,948	278,254	313,326	341,909	**372,795**
Per share amounts (yen):											
Basic earnings per share	¥ 50.99	¥ 14.95	¥ 23.09	¥ 39.64	¥ 56.04	¥ 67.14	¥ 69.32	¥ 112.24	¥ 115.51	¥ 113.84	**¥ 82.47**
Diluted earnings per share	—	—	—	—	—	—	—	—	—	—	**—**
Cash dividends applicable to the year	12.00	12.00	12.00	12.00	12.00	12.00	14.00	20.00	24.00	24.00	**24.00**
Net assets per share[*2]	729.53	792.78	873.60	872.17	946.06	1,029.98	1,066.07	1,123.86	1,265.53	1,380.74	**1,505.09**
Ratio:											
Return on equity (%)	7.5	2.0	2.8	4.5	6.2	6.8	6.6	10.3	9.7	8.6	**5.7**
Return on total assets (%)	2.3	0.6	0.9	1.5	2.1	2.3	2.3	3.5	3.4	3.1	**2.1**
Debt to equity ratio (times)	1.32	1.34	1.28	1.23	1.21	1.13	1.07	1.16	1.06	1.03	**1.08**
Capital adequacy ratio (%)	31.6	31.2	33.0	33.5	33.2	34.1	34.3	33.9	36.0	36.6	**35.4**
Other data:											
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	**271,056**
Number of employees	13,082	13,095	14,060	13,999	16,038	16,532	16,968	18,902	19,451	20,141	**22,548**
Share prices (yen):											
High	¥ 599	¥ 651	¥ 558	¥ 619	¥ 717	¥ 968	¥ 1,078	¥ 1,071	¥ 1,012	¥ 990	**¥ 928**
Low	311	438	443	459	546	603	787	660	776	730	**688**

*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 Discussion and Analysis of Financial Condition and Results of Operations

Overview

In FY2022 ended March 31, 2023, the Rengo Group worked diligently to expand business and increase earning capacity with strengthened marketing capabilities as well as proactive capital investment and M&A as “General Packaging Industry (GPI) Rengo,” offering innovative and diverse solutions that meet the packaging needs of all industries.

In response to the worldwide price hike of raw materials and fuels, we revised prices for each products, including containerboard and other paperboard products, corrugated packaging, cellophane, polypropylene film, and flexible packaging. However, because the higher resource prices in the context including the situation between Russia and Ukraine along with the ongoing depreciation of the yen made it extremely difficult for us to absorb further cost increases, we have been continuously implementing initiatives toward sustainable pricing system.

In June 2022, we invested in an industrial machinery manufacturer FCL Co., Ltd. (Nagakute-shi, Aichi Prefecture) with the aim of enhancing facility development capabilities supporting production technologies within the Group.

In July, we established a new plant within the premises of the Kanazu Mill (Awara-shi, Fukui Prefecture) which produces Viscopearl®, spherical cellulose microbeads made from wood pulp, to contribute to addressing the issue of ocean plastic waste. In September, we made Marufuku Co., Ltd. (Hakusan-shi, Ishikawa Prefecture) a subsidiary and further expanded our folding carton and flexible packaging businesses.

In October we began construction of the Ehime Toon Plant (Toon-shi, Ehime Prefecture), the relocation site of the Matsuyama Plant (Matsuyama-shi, Ehime Prefecture). It will start operation in January 2024. In February 2023, we made Nitto Danboru Co., Ltd. (Okegawa-shi, Saitama Prefecture) a subsidiary and reinforced our corrugated packaging business.

With regard to overseas business, in May 2022, we established Rengo Europe GmbH in Germany as a base to further focus on the Group’s business development in Europe. In June, we made THIMM Packaging Systems GmbH & Co. KG (later named TRICOR Packaging Systems GmbH), a manufacturer of heavy duty packaging materials in Germany, a subsidiary through Rengo Europe and TRICOR Packaging & Logistics AG (Germany). In August, Tri-Wall Limited in Hong-Kong made a corrugated packaging manufacturer in the United Kingdom a subsidiary, followed by an acquisition of a business from a heavy duty packaging materials manufacturer in the United States in September. Thus, we have made a progress in the global expansion of our heavy duty packaging materials business.

Environmental initiatives embedded in the ESG management are the top-priority issues for the Group advocating “Less is more.” as the key concept. With the aim of CO_2 emission reduction target to achieve 46% reduction compared to FY3/2014 by FY3/2031 (Eco Challenge 2030), in August 2022, we completed renovation work on the biomass incineration plant at the Amagasaki Mill (Amagasaki-shi, Hyogo Prefecture) to reduce city gas consumption, as well as commenced operation of the second biomass boiler for power generation at the Tonegawa Division (Bando-shi, Ibaraki Prefecture) in October, following the first installation at the Yashio Mill (Yashio-shi, Saitama Prefecture).

As a result, net sales were ¥846.1 billion, up 13.3% year on year, and profit attributable to owners of parent was ¥20.4 billion, down 27.5% year on year. Thus, even though net sales were higher from the previous fiscal year, profit was down.

As of March 31, 2023, we had 184 consolidated subsidiaries, an increase of 17 from the end of the previous fiscal year, and 17 affiliates accounted for using the equity method, an increase of one from the end of the previous fiscal year.

Sales

Net sales was ¥846.1 billion, ¥99.2 billion increase from ¥746.9 billion in the previous fiscal year. The sales increase was due to an increase in the number of consolidated subsidiaries, strong demand remaining in applications such as foods, e-commerce and parcel delivery, as well as the product price revision begun in the previous fiscal year.

In individual segments, net sales from the Paperboard and Packaging-Related Business increased 7.8%, net sales from the Flexible Packaging-Related Business increased 22.9%, net sales from the Heavy Duty Packaging-Related Business increased 6.3%, net sales from the Overseas Business increased 31.5%, and net sales from other businesses increased 0.4%.

Income and Expenses

Operating Expenses and Operating Income

The cost of sales increased ¥93.0 billion from ¥611.2 billion in the previous fiscal year to ¥704.2 billion due mainly to higher prices of raw materials and fuels. Selling, general and administrative expenses increased ¥13.6 billion from ¥102.4 billion in the previous fiscal year to ¥116.0 billion due mainly to higher personnel expenses.

Operating income was ¥26.0 billion, a ¥7.3 billion decrease from ¥33.3 billion in the previous fiscal year. Although the product prices were revised, the effects of higher prices of raw materials, fuels, and fixed costs exceeding the benefit.

Other Income and Expenses

With regard to the net balance of other income and expenses, net income in the fiscal year under review was ¥4.9 billion, compared to a net income of ¥8.2 billion in the previous fiscal year. Although gain on received compensation and sales of non-current assets were reported, loss on tax purpose reduction entry of non-current assets, loss on sales and retirement of non-current assets, and other expenses were reported.

Income Taxes and Profit Attributable to Non-Controlling Interests

Income taxes decreased ¥2.7 billion from ¥12.2 billion in the previous fiscal year to ¥9.5 billion mainly owing to a decrease in profit before income taxes and non-controlling interests. Profit attributable to non-controlling interests was ¥1.0 billion, the same as the previous fiscal year.

Profit Attributable to Owners of Parent

As a result of the above developments, profit attributable to owners of parent was ¥20.4 billion for the fiscal year under review, down ¥7.8 billion from ¥28.2 billion in the previous fiscal year. Basic earnings per share were ¥82.47, down from ¥113.84 in the previous fiscal year.

Cash dividends applicable to the fiscal year were ¥24 per share.

Financial Position and Cash Flows

Assets

Total assets were ¥1,053.1 billion, an increase of ¥118.8 billion from ¥934.3 billion at the end of the previous fiscal year. The net increase was comprised of a ¥63.3 billion increase in current assets, a ¥38.9 billion increase in property, plant and equipment, a ¥13.6 billion increase in intangible assets, and a ¥3.0 billion increase in investments and other assets.

The principal factor was an increase in notes and accounts receivable-trade.

Liabilities and Net Assets

Total liabilities amounted to ¥667.4 billion, an increase of ¥87.4 billion from ¥580.0 billion at the end of the previous fiscal year due mainly to an increase in long- and short-term borrowings and an increase in notes and accounts payable-trade.

Interest-bearing debt stood at ¥404.3 billion, an increase of ¥50.9 billion from ¥353.4 billion at the end of the previous fiscal year.

Net assets were ¥385.7 billion, an increase of ¥31.4 billion compared to ¥354.3 billion at the end of the previous fiscal year due to an increase in retained earnings as a result of reporting profit attributable to owners of parent, an increase in foreign currency translation adjustment in conjunction with fluctuations in the exchange rate, and other factors.

Cash Flows

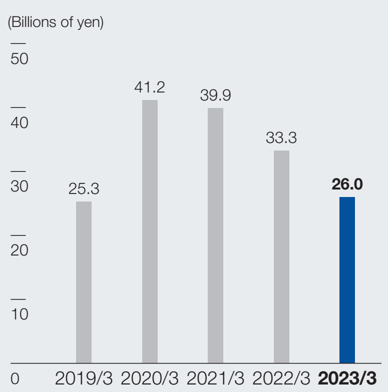
Net cash provided by operating activities amounted to ¥46.0 billion, a decrease of ¥11.9 billion from ¥57.9 billion in the previous fiscal year. The main items were profit before income taxes and non-controlling interests of ¥30.9 billion, depreciation and amortization of ¥44.8 billion, increase in notes and accounts receivable-trade of ¥16.8 billion, and income taxes paid of ¥12.3 billion.

Net cash used in investing activities was up ¥5.9 billion from ¥54.7 billion in the previous fiscal year to ¥60.6 billion. The main items were purchase of property, plant and equipment amounting to ¥42.6 billion, and purchase of investments in capital of subsidiaries resulting in change in scope of consolidation amounting to ¥14.1 billion.

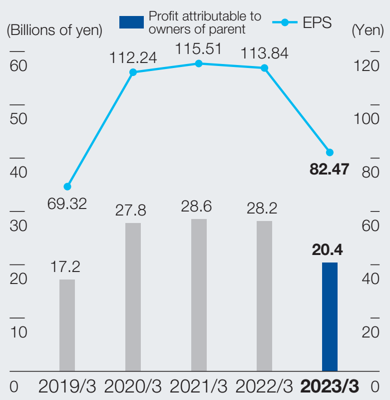
Net cash flow provided by financing activities was ¥20.0 billion, an increase of ¥18.1 billion from ¥1.9 billion in the previous fiscal year. The main items were a ¥26.3 billion for a net increase in long- and short-term borrowings, ¥10.0 billion for proceeds from issuance of bonds, ¥5.1 billion for redemption of bonds, and cash dividends paid amounting to ¥6.0 billion.

As a result, cash and cash equivalents were ¥70.9 billion at the end of the fiscal year under review, an increase of ¥13.1 billion from the previous fiscal year.

Operating Income



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

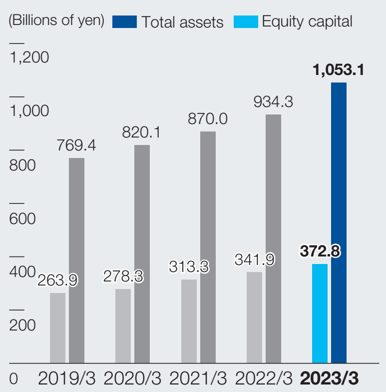


Income and Expenses as a Percentage of Net Sales

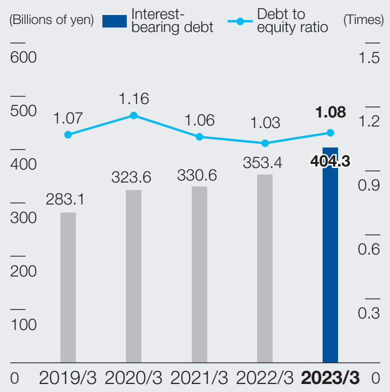
(%)

	2021/3	2022/3	2023/3
Cost of sales	80.4	81.8	83.2
SG&A expenses	13.7	13.7	13.7
Operating income	5.9	4.5	3.1
Profit attributable to owners of parent	4.2	3.8	2.4

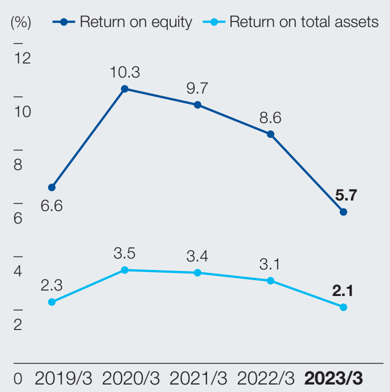
Equity Capital and Total Assets



Interest-Bearing Debt and Debt to Equity Ratio



Return on Equity and Return on Total Assets



Risk Factors

Of the matters concerning the status of business, accounting, and so on described in this report, the main risks that management is aware of that could have a material impact on the consolidated financial condition, operating results, and cash flows are set forth below.

Forward-looking statements in this report are based on the Rengo Group's expectations and beliefs as of the end of the consolidated fiscal year under review (March 31, 2023).

1. Product Demand and Market Trends

Paperboard and corrugated packaging, the 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 foods, demand for which is expected to be stable, and to build good relationships with our customers in various industries with the aim of relatively reducing impacts such as declining demand in specific industries. 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, the Group is working to minimize risks through intensity improvement and fuel diversification by conducting capital investment for raising productivity and conserving resources and energy.

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.

In response, the Group is working to create a structure that can fulfill its supply responsibilities by supplying 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 Flexible Packaging-Related Business, and Heavy Duty Packaging-Related Business 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 risks of exchange rate fluctuations, natural disasters and pandemics, and various other risks unique to each country such as economic and political risks. If these risks materialize, there may be an impact on the Group's business performance, financial status, and so on.

In response, the Group is working to minimize risks 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, 2023, overseas sales account for 20.1% of the Group's total sales.

5. Changes in Interest Rates

The Group's balance of interest-bearing debt was ¥404.3 billion as of March 31, 2023. 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 may have an impact on the Group's business performance, financial status, and so on.

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

7. Changes in Currency Exchange Rates

The Group may be affected by exchange rate fluctuations when importing and exporting products, raw materials, and fuel, and there may be 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 is working to practice compliance management including compliance with laws and regulations, and to minimize risks by conducting rank-specific training and education for officers and employees to raise awareness of compliance.

10. Other Risks

Risks other than those described above occurring as a result of unforeseeable circumstances are possible, and depending on the specific details 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, 2023 and 2022)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Assets			
Current assets:			
Cash and deposits (Notes 4, 6 and 8)	¥ 72,532	¥ 60,308	$ 545,353
Receivables			
Notes and accounts receivable-trade (Note 6 and 17)	242,862	214,656	1,826,030
Other	4,341	2,259	32,639
Allowance for doubtful accounts	(938)	(691)	(7,052)
	246,265	216,224	1,851,616
Inventories (Note 5)	87,254	66,237	656,045
Other	7,511	7,443	56,473
Total current assets	413,564	350,213	3,109,503
Property, plant and equipment (Note 8):			
Buildings and structures	312,926	296,063	2,352,827
Machinery, equipment and vehicles	646,134	605,807	4,858,150
Land	132,570	125,462	996,766
Leased assets	29,132	17,960	219,037
Construction in progress	19,077	12,269	143,436
Other	26,368	24,384	198,255
	1,166,210	1,081,947	8,768,496
Less accumulated depreciation	(743,245)	(697,914)	(5,588,308)
Total property, plant and equipment	422,964	384,032	3,180,180
Intangible assets:			
Goodwill	27,215	18,806	204,624
Other (Note 8)	21,265	16,109	159,887
Total intangible assets	48,480	34,915	364,511
Investments and other assets:			
Investment securities (Notes 6, 7 and 8)	138,850	139,366	1,043,984
Long-term loans receivable	548	575	4,120
Net defined benefit asset (Note 11)	3,385	3,168	25,451
Deferred tax assets (Note 10)	2,234	2,023	16,796
Other (Note 8)	24,037	21,162	180,729
Allowance for doubtful accounts	(927)	(1,114)	(6,969)
Total investments and other assets	168,129	165,183	1,264,127
Total assets	1,053,138	934,345	7,918,330

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Liabilities and net assets			
Current liabilities:			
Short-term borrowings and the current portion of long-term debt (Notes 6, 8 and 9)	¥ 144,649	¥ 119,158	$ 1,087,586
Lease liabilities (Note 6)	4,761	3,333	35,796
Payables			
Notes and accounts payable-trade (Note 8)	143,950	129,484	1,082,330
Other (Note 6)	28,886	17,291	217,187
	172,837	146,775	1,299,526
Income taxes payable	5,058	6,183	38,030
Provision for directors' bonuses	274	239	2,060
Other (Note 17)	40,651	35,111	305,646
Total current liabilities	368,231	310,802	2,768,654
Non-current liabilities:			
Long-term debt due after one year (Notes 6, 8 and 9)	242,839	223,641	1,825,857
Lease liabilities (Note 6)	12,027	7,258	90,428
Deferred tax liabilities (Note 10)	25,793	21,379	193,932
Provision for directors' retirement benefits	812	649	6,105
Provision for share-based remuneration for directors (and other officers)	599	409	4,503
Provision for plant relocation expenses	363	—	2,729
Net defined benefit liability (Note 11)	13,542	13,070	101,819
Other (Notes 6 and 8)	3,195	2,844	24,022
Total non-current liabilities	299,174	269,254	2,249,428
Contingent liabilities (Note 12)			
Net assets (Note 13):			
Shareholders' equity:			
Capital stock:			
Authorized 800,000,000 shares Issued 271,056,029 shares	31,066	31,066	233,578
Capital surplus	33,597	33,358	252,609
Retained earnings	252,677	238,185	1,899,827
Treasury stock:			
23,365,876 shares (3/2023) and 23,428,544 shares (3/2022)	(12,167)	(12,218)	(91,481)
Total shareholders' equity	305,174	290,392	2,294,541
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	35,467	31,739	266,669
Foreign currency translation adjustment	28,325	15,830	212,969
Remeasurements of defined benefit plans	3,827	3,946	28,774
Total accumulated other comprehensive income	67,621	51,516	508,428
Non-controlling interests	12,937	12,379	97,270
Total net assets	385,732	354,289	2,900,240
Total liabilities and net assets	1,053,138	934,345	7,918,330

Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries
(Fiscal years ended March 31, 2023 and 2022)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Net sales (Notes 17 and 18)	**¥ 846,080**	¥ 746,926	$ 6,361,503
Cost of sales	**704,161**	611,210	5,294,443
Selling, general and administrative expenses (Note 15)	**115,962**	102,436	871,894
Operating income (Note 18)	**25,957**	33,279	195,165
Other income (expenses):			
Interest and dividend income	**2,337**	2,157	17,571
Equity in earnings of affiliates	**1,377**	2,274	10,353
Interest expenses	**(2,078)**	(1,605)	(15,624)
Compensation income	**3,325**	—	25,000
Gain on sale of non-current assets	**3,106**	4,564	23,353
Gain on sale of investment securities	**804**	2,209	6,045
Loss on tax purpose reduction entry of non-current assets	**(2,000)**	(911)	(15,037)
Loss on sale and retirement of non-current assets	**(922)**	(610)	(6,932)
Renewal expenses of plants	**(670)**	(105)	(5,037)
Loss on disaster	**(582)**	(711)	(4,375)
Other, net	**203**	895	1,526
Profit before income taxes and non-controlling interests	**30,857**	41,437	232,007
Income taxes (Note 10):			
Income taxes-current	**10,337**	12,167	77,721
Income taxes-deferred	**(858)**	34	(6,451)
Total income taxes	**9,479**	12,202	71,270
Profit	**21,378**	29,234	160,736
Profit attributable to non-controlling interests	**952**	1,045	7,157
Profit attributable to owners of parent	**20,425**	28,188	153,571

	Yen		U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Per share data:			
Basic earnings per share	**¥ 82.47**	¥ 113.84	$ 0.62
Diluted earnings per share	**—**	—	—
Cash dividends applicable to the year	**24.00**	24.00	0.18

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, 2023 and 2022)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Profit	**¥ 21,378**	¥ 29,234	$ 160,736
Other comprehensive income (Note 14):			
Valuation difference on available-for-sale securities	**3,639**	(4,372)	27,360
Foreign currency translation adjustment	**9,065**	7,793	68,157
Remeasurements of defined benefit plans	**(196)**	209	(1,473)
Share of other comprehensive income of entities accounted for using equity method	**3,860**	3,528	29,022
Total other comprehensive income	**16,369**	7,159	123,075
Comprehensive income	**37,747**	36,394	283,812
(Comprehensive income attributable to)			
Owners of parent	**36,562**	34,865	274,902
Non-controlling interests	**1,185**	1,528	8,909

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, 2023 and 2022)

	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 March 31, 2021	271,056	¥ 31,066	¥ 33,731	¥ 215,899	¥ (12,253)	¥ 35,787	¥ 0	¥ 5,394	¥ 3,701	¥ 11,136	¥ 324,463
Dividends from surplus				(5,965)							(5,965)
Profit attributable to owners of parent				28,188							28,188
Purchase of treasury stock					(1)						(1)
Disposal of treasury stock			0		36						36
Other			(372)	63							(309)
Net changes in items other than shareholders' equity						(4,047)	(0)	10,435	245	1,243	7,877
Balance at March 31, 2022	271,056	31,066	33,358	238,185	(12,218)	31,739	—	15,830	3,946	12,379	354,289
Dividends from surplus				(5,965)							(5,965)
Profit attributable to owners of parent				20,425							20,425
Purchase of treasury stock					(1)						(1)
Disposal of treasury stock			0		53						53
Other			238	32							270
Net changes in items other than shareholders' equity						3,727		12,495	(119)	557	16,661
Balance at March 31, 2023	**271,056**	**31,066**	**33,597**	**252,677**	**(12,167)**	**35,467**	**—**	**28,325**	**3,827**	**12,937**	**385,732**

	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, 2022	$ 233,578	$ 250,812	$ 1,790,864	$ (91,864)	$ 238,639	—	$ 119,022	$ 29,669	$ 93,075	$ 2,663,827
Dividends from surplus			(44,849)							(44,849)
Profit attributable to owners of parent			153,571							153,571
Purchase of treasury stock				(7)						(7)
Disposal of treasury stock		0		398						398
Other		1,789	240							2,030
Net changes in items other than shareholders' equity					28,022		93,947	(894)	4,187	125,270
Balance at March 31, 2023	**233,578**	**252,609**	**1,899,827**	**(91,481)**	**266,669**	**—**	**212,969**	**28,774**	**97,270**	**2,900,240**

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, 2023 and 2022)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	3/2023	3/2022	3/2023
Net cash provided by (used in) operating activities:			
Profit before income taxes and non-controlling interests	**¥ 30,857**	¥ 41,437	$ 232,007
Depreciation and amortization	**44,848**	41,723	337,203
Impairment loss	**508**	81	3,819
Amortization of goodwill	**2,733**	2,170	20,548
Increase (decrease) in provision for directors' retirement benefits	**(5)**	(196)	(37)
Increase (decrease) in net defined benefit liability	**(163)**	492	(1,225)
Interest and dividend income	**(2,337)**	(2,157)	(17,571)
Interest expenses	**2,078**	1,605	15,624
Equity in (earnings) losses of affiliates	**(1,377)**	(2,274)	(10,353)
Loss (gain) on sale of investment securities	**(803)**	(1,598)	(6,037)
Loss (gain) on valuation of investment securities	**343**	102	2,578
Loss (gain) on sale of property, plant and equipment	**(3,076)**	(4,410)	(23,127)
Loss on retirement of property, plant and equipment	**1,176**	836	8,842
Decrease (increase) in notes and accounts receivable-trade	**(16,808)**	(12,421)	(126,375)
Decrease (increase) in inventories	**(12,511)**	(10,298)	(94,067)
Increase (decrease) in notes and accounts payable-trade	**8,640**	15,160	64,962
Other, net	**2,575**	(134)	19,360
Subtotal	**56,679**	70,118	426,157
Interest and dividend income received	**3,608**	3,254	27,127
Interest expenses paid	**(1,972)**	(1,618)	(14,827)
Income taxes paid	**(12,250)**	(13,859)	(92,105)
Net cash provided by (used in) operating activities	**46,066**	57,893	346,360
Net cash provided by (used in) investing activities:			
Net decrease (increase) in time deposits	**1,718**	16	12,917
Purchase of property, plant and equipment	**(42,611)**	(46,216)	(320,383)
Proceeds from sale of property, plant and equipment	**3,263**	381	24,533
Purchase of intangible assets	**(1,584)**	(1,739)	(11,909)
Purchase of investment securities	**(506)**	(527)	(3,804)
Proceeds from sale and redemption of investment securities	**2,100**	6,583	15,789
Purchase of shares of subsidiaries and associates	**(3,713)**	(12,741)	(27,917)
Net decrease (increase) in short-term loans receivable	**(546)**	(0)	(4,105)
Payments of long-term loans receivable	**(23)**	(118)	(172)
Collection of long-term loans receivable	**104**	224	781
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(4,723)**	(551)	(35,511)
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 4)	**(14,138)**	—	(106,300)
Other, net	**14**	10	105
Net cash provided by (used in) investing activities	**(60,646)**	(54,680)	(455,984)
Net cash provided by (used in) financing activities:			
Net increase (decrease) in short-term loans payable	**2,591**	(4,735)	19,481
Proceeds from long-term loans payable	**59,583**	36,459	447,992
Repayment of long-term loans payable	**(35,841)**	(29,171)	(269,481)
Proceeds from issuance of bonds	**10,000**	20,000	75,187
Redemption of bonds	**(5,087)**	(10,302)	(38,248)
Purchase of treasury stock	**(1)**	(1)	(7)
Proceeds from sale of treasury stock	**53**	36	398
Cash dividends paid	**(5,965)**	(5,965)	(44,849)
Repayments of lease obligations	**(4,845)**	(3,358)	(36,428)
Other, net	**(463)**	(1,099)	(3,481)
Net cash provided by (used in) financing activities	**20,023**	1,860	150,548
Effect of exchange rate change on cash and cash equivalents	**2,463**	1,707	18,518
Net increase (decrease) in cash and cash equivalents	**7,906**	6,781	59,443
Cash and cash equivalents at beginning of year	**57,835**	50,099	434,849
Increase in cash and cash equivalents from newly consolidated subsidiaries	**5,171**	953	38,879
Cash and cash equivalents at end of year (Note 4)	**70,912**	57,835	533,172

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, 2023, which was ¥133 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.

The amounts for each account and the sum of the accounts are translated from Japanese yen into U.S. dollars separately. Therefore, the total amount for each account after translation does not equal the translated amount for the sum of the accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 184 (167 in FY2021 ended March 31, 2022) 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 133 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 17 (16 in FY2021 ended March 31, 2022) 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 other than equity securities without market prices 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. Available-for-sale securities which are equity securities without market prices 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 other than equity securities without market prices 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 net asset value of equity securities issued by unconsolidated subsidiaries and affiliated companies without market prices or available-for-sale securities which are equity securities without market prices declines significantly, such securities should be written down to net asset value with a corresponding charge in the statement of income. 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 5 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 of the assets are depreciated over the lease term of the respective assets with the residual book value as zero.

Foreign consolidated subsidiaries that have prepared their financial satatements in accordance with International Financial Reporting Standards (IFRSs) have adopted IFRS 16 Leases. According to IFRS 16, all lease arrangements are recorded in principle as assets and liabilities on the balance sheet. Capitalized right-of-use assets are depreciated by the straight-line method.

(9) Deferred Assets

All expenses of bond issuance cost are expensed when 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. In accordance with internal rules, those subsidiaries provide the amounts that would be required if all the directors and audit & supervisory board members retired at the balance sheet date.

(12) Provision for Share-Based Remuneration for Directors (And Other Officers)

Provision for share-based remuneration for directors (and other officers) is provided in accordance with internal rules at the estimated amount of the obligation to deliver shares to directors and other officers of the Company.

(13) Provision for Plant Relocation Expenses

A provision for plant relocation expenses is provided at the estimated amount of possible losses arising from the relocation of the plant.

(14) 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. However, there are no companies subject to reporting for investment loss during the current fiscal year.The allowances deducted directly from the amounts of investment securities in FY2021 ended March 31, 2022 amounted to ¥8 million.

(15) 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.

(16) 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.

(17) 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.

(Hedging relationships to which "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" is applied)

Of the above hedging relationships, the Companies have applied the exception set out in the "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR "(PITF No.40, March 17, 2022) to all of those hedging relationships that are within the scope of the Practical Solution. The details of the hedging relationships to which the Practical Solution is applied are as follows.

Method of hedge accounting: special treatment for interest rate swaps
Hedging instrument: interest rate swaps
Hedged item: interest expenses
Type of hedge: cash flow hedge

(18) Reclassifications

Certain reclassifications of the financial statements for FY2021 ended March 31, 2022 have been made to conform to the presentation for the fiscal year ended March 31, 2023.

(19) 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 FY2022 and FY2021 ended March 31, 2023 and 2022 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.

(20) Accounting Policy for Recognition of Significant Revenues and Expenses

The Companies principally manufacture and sell paperboard products and operate in the packaging-related business, flexible packaging-related business, heavy duty packaging-related business, overseas business and other businesses. Revenue from the sale of products is recognized when they are delivered to customers because the Companies believe that the customers obtain control of the products and the performance obligation is satisfied at the time of delivery of the products. Revenue is measured at amounts less discounts, rebates, etc.

Revenue for products sold for which the Companies are determined to be acting as an agent is recognized at the net amount of consideration less payments to suppliers.

In addition, the Companies do not recognize as revenue the consideration received from suppliers for transactions in which the Companies supply raw materials for a fee, buy back the processed products and then sell them to third parties.

The promised amount of consideration does not contain a significant financial component as it is paid approximately within three months from the time the performance obligation is satisfied.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The Company calculates amount of accounting estimates rationally based on information available when preparing the consolidated financial statements. The following items are accounting estimates that were recorded in the consolidated financial statements for the current fiscal year that could have a significant impact on the consolidated financial statements for the following fiscal year.

(1) Impairment of Goodwill

A. Carrying amounts in the current year's consolidated financial statements

Goodwill related to the overseas business includes the amount of ¥10,750 million (U.S. $80,827thousand) (¥10,114 million for the previous fiscal year) arising from the acquisition of TRICOR Packaging & Logistics AG by Tri-Wall Europe GmbH, a consolidated subsidiary located in Germany, that follows International Financial Reporting Standards (IFRSs). The Company conducted an annual impairment test for the goodwill in accordance with IFRSs to determine whether it was necessary to recognize an impairment loss. As a result of the impairment test, the Company concluded that there was no impairment loss to be recorded as the recoverable amount exceeded the carrying amount.

B. Other information that assists users of the consolidated financial statements in understanding the nature of the estimates

Foreign consolidated subsidiaries which have adopted IFRSs are required to conduct impairment tests annually and when there is an indication of impairment for groups of cash-generating units to which goodwill is allocated. The Company reduces the carrying amount to the recoverable amount and recognizes the resulting decrease in the carrying amount, except for the amount that has been amortized in accordance with J-GAAP, as an impairment loss when the recoverable amount is less than the carrying amount. The recoverable amount is measured on the basis of value in use.

The future cash flows used to measure the value in use were estimated based on the business plan of TRICOR Packaging & Logistics AG, which contains the assumptions of the expected increase in the sales volume in Germany and the improvement of the profit margin, and the terminal growth rate applied in following periods.

Forecasts of the effects of the above assumptions could have a significant impact on estimates of future cash flows due to the uncertainty.

(2) Impairment of Noncurrent Assets

A. Carrying amounts in the current year's consolidated financial statements

The Company examined whether it was necessary to recognize an impairment loss on noncurrent assets of RG Container Co., Ltd., a consolidated subsidiary that operates in the paperboard and packaging-related business, as the Company recognized recurring operating losses for several consecutive years due primarily to decreasing sales volume, indicating impairment. As a result of the impairment test, the Company concluded that there was no impairment loss to be recorded as the total amount of undiscounted future cash flows exceeded the carrying amount of related noncurrent assets of ¥10,148 million (U.S. $76,300 thousand), which consisted of ¥10,126 million (U.S. $76,135 thousand) of property, plant and equipment and ¥21 million (U.S. $157 thousand) of intangible assets. The carrying amount of related noncurrent assets for the previous fiscal year was ¥10,488 million, which consisted of ¥10,458 million of property, plant and equipment and ¥29 million of intangible assets.

B. Other information that assists users of the consolidated financial statements in understanding the nature of the estimates

It is necessary to determine whether an impairment loss should be recognized by comparing the carrying amount with the total amount of undiscounted future cash flows generated from the asset group. The Company reduces the carring amount to the recoverable amount, which is measured at the higher of net selling price or value in use, and recognizes the decrease in the carrying amount as an impairment loss when it is necessary to recognize an impairment loss as the total amount of undiscounted future cash flows is less than the carrying amount.

The future cash flows were estimated based on the business plan of RG Container Co., Ltd., which contains the assumptions upon which are based the projections of future demand for paperboard in the Kanto region and a projected increase in production volume due to a production transfer from the Company.

Forecasts of the effects of the above assumptions could have a significant impact on estimates of future cash flows due to the uncertainty.

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, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Cash and deposits	¥ 72,532	¥ 60,308	$ 545,353
Less: Time deposits with maturities exceeding three months	(1,620)	(2,472)	(12,180)
Cash and cash equivalents	70,912	57,835	533,172

(2) Purchases of Newly Consolidated Subsidiary

A breakdown of the assets and liabilities at the beginning of consolidation of THIMM Packaging Systems GmbH & Co.KG (Company name after acquisition: TRICOR Packaging Systems GmbH), which were acquired by the Company in the fiscal year ended March 2023, the consideration paid for acquisition and the cash flow from the purchase of investments in subsidiaries resulting in change in scope of consolidation are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 8,329	$ 62,624
Non-current assets	11,857	89,150
Goodwill	6,427	48,323
Current liabilities	(6,413)	(48,218)
Non-current liabilities	(5,716)	(42,977)
Consideration paid for acquisition	14,484	108,902
Cash and cash equivalents of the consolidated subsidiary	(372)	(2,796)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(14,111)	(106,097)

5. INVENTORIES

Inventories at March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Merchandise and finished goods	¥ 43,293	¥ 32,063	$ 325,511
Work in process	5,980	5,117	44,962
Raw materials and supplies	37,980	29,056	285,563
Total	87,254	66,237	656,045

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 risks of fluctuations in interest rates and exchange rates, the Companies hedge the risks 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, 2023 and 2022 are set forth in the tables below.

	Millions of yen						Thousands of U.S. dollars		
	3/2023			3/2022			3/2023		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Investment securities									
Available-for-sale securities	**¥ 87,329**	**¥ 87,329**	**¥ —**	¥ 81,215	¥ 81,215	¥ —	$ 656,609	$ 656,609	$ —
Equity securities issued by affiliated companies	**16,590**	**6,866**	**(9,723)**	15,077	7,269	(7,807)	124,736	51,624	(73,105)
Total assets	**103,919**	**94,196**	**(9,723)**	96,292	88,485	(7,807)	781,345	708,240	(73,105)
Current portion of bonds	**10,110**	**10,119**	**9**	5,061	5,069	7	76,015	76,082	67
Bonds payable	**80,065**	**79,048**	**(1,016)**	80,000	79,518	(481)	601,992	594,345	(7,639)
Long-term loans payable (including current portion)	**211,349**	**210,492**	**(856)**	183,574	183,048	(526)	1,589,090	1,582,646	(6,436)
Total liabilities	**301,524**	**299,660**	**(1,863)**	268,636	267,635	(1,000)	2,267,097	2,253,082	(14,007)
Derivative transactions *3									
Hedge accounting not applied	**(9)**	**(9)**	**—**	0	0	—	(67)	(67)	—
Total derivative transactions	**(9)**	**(9)**	**—**	0	0	—	(67)	(67)	—

*1 "Cash and deposits", "Notes and accounts receivable-trade", "Notes and accounts payable-trade", "Short-term borrowings(excluding current portion of long-term loans payable")" are not included in the table above because the book value and the fair value of these items are essentially equivalent as they are either cash or items to be settled in the short term.

*2 Equity securities without market prices are not included in investment securities. The carrying amount of those financial instruments are as follows:

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Available-for-sale securities	**¥ 2,234**	¥ 3,208	$ 16,796
Equity securities issued by unconsolidated subsidiaries and associates	**32,697**	39,865	245,842

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

Note (1) The redemption schedule for receivables and marketable securities with maturities subsequent to March 31, 2023 and 2022 was as follows:

	Millions of yen			
	3/2023			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	**¥ 72,532**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable-trade	**242,862**	**—**	**—**	**—**
Investment securities				
Available-for-sale securities	**—**	**—**	**—**	**120**
Total	**315,395**	**—**	**—**	**120**

	Millions of yen			
	3/2022			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	¥ 60,308	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	214,656	—	—	—
Investment securities				
Available-for-sale securities	—	—	—	120
Total	274,964	—	—	120

	Thousands of U.S. dollars			
	3/2023			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and deposits	$ 545,353	$ —	$ —	$ —
Notes and accounts receivable-trade	1,826,030	—	—	—
Investment securities				
Available-for-sale securities	—	—	—	902
Total	2,371,390	—	—	902

Note (2) The repayment schedule of long-term debt, lease debt and others subsequent to March 31, 2023 and 2022 was as follows:

	Millions of yen					
	3/2023					
	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	**¥ 85,964**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long-term debt	**58,684**	**33,958**	**35,655**	**53,526**	**42,818**	**76,880**
Lease debt	**4,761**	**3,780**	**2,883**	**2,023**	**1,515**	**1,823**
Others	**10**	**0**	**—**	**—**	**—**	**—**
Total	**149,421**	**37,740**	**38,538**	**55,550**	**44,333**	**78,704**

	Millions of yen					
	3/2022					
	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	¥ 74,163	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term debt	44,994	41,860	29,037	26,170	40,760	85,813
Lease debt	3,333	2,721	1,900	1,187	627	820
Others	13	10	0	—	—	—
Total	122,505	44,591	30,938	27,358	41,387	86,634

	Thousands of U.S. dollars					
	3/2023					
	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	$ 646,345	$ —	$ —	$ —	$ —	$ —
Long-term debt	441,233	255,323	268,082	402,451	321,939	578,045
Lease debt	35,796	28,421	21,676	15,210	11,390	13,706
Others	75	0	—	—	—	—
Total	1,123,466	283,759	289,759	417,669	333,330	591,759

(3) Fair value information of financial instruments by level of inputs

Based on the observability and the significance of the inputs used in measuring fair values, fair value information of financial instruments is presented by categorizing fair values into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: the fair value measured using observable inputs other than Level 1.

Level 3 fair value: the fair value measured using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Company classified the fair value into a category to which the lowest priority is given.

A. Financial instruments measured at fair values in the consolidated balance sheets

Classification	Millions of yen			
	3/2023 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Available-for-sale securities				
Securities	¥ 87,329	¥ —	¥ —	¥ 87,329
Derivative transactions				
Hedge accounting not applied	—	(9)	—	(9)
Total assets	87,329	(9)	—	87,319

Classification	Millions of yen			
	3/2022 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Available-for-sale securities				
Securities	¥ 81,215	¥ —	¥ —	¥ 81,215
Derivative transactions				
Hedge accounting not applied	—	0	—	0
Total assets	81,215	0	—	81,216

Classification	Thousands of U.S. dollars			
	3/2023 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Available-for-sale securities				
Securities	$ 656,609	$ —	$ —	$ 656,609
Derivative transactions				
Hedge accounting not applied	—	(67)	—	(67)
Total assets	656,609	(67)	—	656,533

B. Financial instruments other than those measured at fair values in the consolidated balance sheets

Classification	Millions of yen			
	3/2023 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Equity securities issued by affiliated companies	¥ 6,866	¥ —	¥ —	¥ 6,866
Total assets	6,866	—	—	6,866
Current portion of bonds	—	10,119	—	10,119
Bonds payable	—	79,048	—	79,048
Long-term loans payable (including current portion)	—	210,492	—	210,492
Total liabilities	—	299,660	—	299,660

Classification	Millions of yen			
	3/2022 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Equity securities issued by affiliated companies	¥ 7,269	¥ —	¥ —	¥ 7,269
Total assets	7,269	—	—	7,269
Current portion of bonds	—	5,069	—	5,069
Bonds payable	—	79,518	—	79,518
Long-term loans payable (including current portion)	—	183,048	—	183,048
Total liabilities	—	267,635	—	267,635

Classification	Thousands of U.S. dollars			
	3/2023 fair values			
	Level1	Level2	Level3	Total
Investment securities				
Equity securities issued by affiliated companies	$ 51,624	$ —	$ —	$ 51,624
Total assets	51,624	—	—	51,624
Current portion of bonds	—	76,082	—	76,082
Bonds payable	—	594,345	—	594,345
Long-term loans payable (including current portion)	—	1,582,646	—	1,582,646
Total liabilities	—	2,253,082	—	2,253,082

(Note) Valuation techniques and inputs used in measuring fair values

Investment securities

Listed equity securities are measured using quoted prices. Fair value of listed equity securities are classified as level 1 fair value, because they are exchanged in active markets.

Current portion of bonds and Bonds payable

The fair value of bonds is based on market prices for those with market prices, and the fair value of those without market prices is measured by the discounted present value of the total amount of principal and interest using interest rates for the remaining period of the bonds payable adjusted by credit risks. Fair value of bonds is classified as Level 2 fair value.

Long-term loans payable (including current portion)

The carrying amount of long-term loans payable with floating interest rates approximates their fair value because the fair value reflects market interest rates in a short period of time and the Company's credit status has not changed significantly since the execution of the loans. Those with fixed interest rates are measured by the discounted present value of the total amount of principal and interest(*) using interest rates for the remaining period of the bonds payable adjusted by credit risks. Fair value of long-term loans payable is classified as Level 2 fair value.

(*) 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 calculated based on the discounted cash flow method using observable inputs such as exchange rates and is classified as Level 2 fair value. The fair value of interest rate swaps that are accounted for as special treatment or currency swaps that meet specific matching criteria are included in the fair value of the relevant long-term loans payable because they are accounted for as an integral part of the long-term loans payable that are hedged items.

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, 2023 and 2022.

	Millions of yen						Thousands of U.S. dollars		
	3/2023			3/2022			3/2023		
	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	**¥ 81,594**	**¥ 28,508**	**¥ 53,086**	¥ 72,493	¥ 24,522	¥ 47,970	$ 613,488	$ 214,345	$ 399,142
Bonds	**—**	**—**	**—**	—	—	—	—	—	—
Others	**—**	**—**	**—**	—	—	—	—	—	—
	81,594	**28,508**	**53,086**	72,493	24,522	47,970	613,488	214,345	399,142
Securities with book values (fair values) not exceeding acquisition costs:									
Equity securities	**5,734**	**7,367**	**(1,632)**	8,722	10,454	(1,732)	43,112	55,390	(12,270)
Bonds	**—**	**—**	**—**	—	—	—	—	—	—
Others	**—**	**—**	**—**	—	—	—	—	—	—
	5,734	**7,367**	**(1,632)**	8,722	10,454	(1,732)	43,112	55,390	(12,270)
Total	**87,329**	**35,875**	**51,453**	81,215	34,977	46,238	656,609	269,736	386,864

(2) Sales of Available-for-Sale Securities

Proceeds from sales of available-for-sale securities in FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥2,086 million (U.S. $15,684 thousand) and ¥6,570 million, respectively. The related gains for FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥804 million (U.S. $6,045 thousand) and ¥2,209 million, respectively. There were no related losses for FY2022 ended March 31, 2023, while related losses for FY2021 ended March 31, 2022 amounted to ¥610 million.

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 ¥1,862 million (U.S. $14,000 thousand), long-term debt of ¥791 million (U.S. $5,947 thousand), accounts payable-trade of ¥444 million (U.S. $3,338 thousand) and others of ¥1,061 million (U.S. $7,977 thousand) at March 31, 2023 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥ 11,757**	$ 88,398
Machinery, equipment and vehicles	**22,532**	169,413
Land	**33,513**	251,977
Investment securities	**2,170**	16,315
Other	**832**	6,255
Total	**70,804**	532,360

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate
	3/2023	3/2022	3/2023	3/2023
Short-term borrowings	**¥ 85,964**	¥ 74,163	$ 646,345	0.53%
Current portion of long-term debt	**58,684**	44,994	441,233	1.52
Total	**144,649**	119,158	1,087,586	—

Long-term debt at March 31, 2023 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Loans mainly from banks and insurance companies			
(3/2023: due in 3/2035, with interest rates ranging from 0.05% to 6.1%, 3/2022: due in 3/2035, with interest rates ranging from 0.05% to 4.1%)	**¥ 211,349**	¥ 183,574	$ 1,589,090
Issued by Rengo Co., Ltd.			
Unsecured 0.498% straight bonds, due September 2022	**—**	5,000	—
Unsecured 0.280% straight bonds, due December 2023	**10,000**	10,000	75,187
Unsecured 0.270% straight bonds, due December 2024	**5,000**	5,000	37,593
Unsecured 0.390% straight bonds, due December 2026	**10,000**	10,000	75,187
Unsecured 0.210% straight bonds, due December 2026	**10,000**	10,000	75,187
Unsecured 0.160% straight bonds, due December 2026	**10,000**	10,000	75,187
Unsecured 0.410% straight bonds, due December 2027	**5,000**	5,000	37,593
Unsecured 0.539% straight bonds, due December 2027	**10,000**	—	75,187
Unsecured 0.415% straight bonds, due December 2028	**10,000**	10,000	75,187
Unsecured 0.300% straight bonds, due December 2029	**10,000**	10,000	75,187
Unsecured 0.310% straight bonds, due December 2031	**10,000**	10,000	75,187
Issued by Hiropax Co., Ltd.			
Unsecured 0.880% straight bonds, due July 2023	**100**	—	751
Unsecured 0.210% straight bonds, due September 2025	**25**	—	187
Unsecured 0.525% straight bonds, due March 2026	**50**	—	375
Issued by Kinyosha Printing Co., Ltd.			
Unsecured 6-month yen TIBOR bonds, due May 2022	**—**	31	—
Issued by Sanyo Kakoshi Co., Ltd.			
Unsecured 6-month yen TIBOR bonds, due March 2023	**—**	30	—
	301,524	268,635	2,267,097
Less current portion	**(58,684)**	(44,994)	(441,233)
	242,839	223,641	1,825,857

The aggregate annual maturities of long-term debt at March 31, 2023 were as follows:

Fiscal years ending March 31	Millions of yen	Thousands of U.S. dollars
3/2024	**¥ 58,684**	$ 441,233
3/2025	**33,958**	255,323
3/2026	**35,655**	268,082
3/2027	**53,526**	402,451
3/2028 and thereafter	**119,698**	899,984
Total	**301,524**	2,267,097

10. INCOME TAXES

At March 31, 2023 and 2022, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Deferred tax assets:			
Carryforward tax loss (Note (2))	**¥ 8,865**	¥ 6,061	$ 66,654
Net defined benefit liability	**3,780**	3,653	28,421
Accrued bonuses	**3,218**	2,975	24,195
Write-down of golf club memberships	**438**	424	3,293
Provision for directors' retirement benefits	**329**	279	2,473
Loss on valuation of investment securities	**1,177**	1,025	8,849
Allowance for doubtful accounts	**232**	258	1,744
Unrealized gain on sale of property, plant and equipment eliminated on consolidation	**276**	274	2,075
Accrued enterprise taxes	**365**	433	2,744
Impairment loss	**542**	847	4,075
Other	**2,551**	2,109	19,180
Subtotal deferred tax assets	**21,776**	18,343	163,729
Valuation reserve for carryforward tax loss (Note (2))	**(8,631)**	(5,873)	(64,894)
Valuation reserve for deductible temporary differences	**(3,522)**	(3,830)	(26,481)
Subtotal valuation reserve (Note (1))	**(12,154)**	(9,703)	(91,383)
Total deferred tax assets	**9,622**	8,640	72,345
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(15,684)**	(14,126)	(117,924)
Deferred gain tax treatment of property	**(3,564)**	(3,469)	(26,796)
Non-current assets revaluation difference, net of taxes unrealized gain	**(9,037)**	(6,818)	(67,947)
Trademark rights	**(1,900)**	(1,873)	(14,285)
Customer relationships	**(2,270)**	(1,024)	(17,067)
Other	**(724)**	(683)	(5,443)
Total deferred tax liabilities	**(33,181)**	(27,995)	(249,481)
Net deferred tax assets (liabilities)	**(23,559)**	(19,355)	(177,135)

(Note (1)) Increase in valuation reserve by ¥2,451 million (U.S. $18,428 thousand) was caused mainly by increases in valuation reserve for the carryforward tax loss of newly consolidated subsidiaries and existing consolidated subsidiaries by ¥1,073 million (U.S. $8,067 thousand) and ¥1,684 million (U.S. $12,661 thousand), respectively.

(Note (2)) Carryforward tax loss and its deferred tax assets by expiration periods

	Millions of yen						
	3/2023						
	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 (*)	**¥ 411**	**¥ 463**	**¥ 542**	**¥ 691**	**¥ 251**	**¥ 6,504**	**¥ 8,865**
Valuation reserve	**(404)**	**(463)**	**(542)**	**(687)**	**(245)**	**(6,288)**	**(8,631)**
Net deferred tax assets	**7**	**—**	**—**	**3**	**6**	**216**	**233**

	Millions of yen						
	3/2022						
	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 (*)	¥ 304	¥ 458	¥ 582	¥ 518	¥ 584	¥ 3,613	¥ 6,061
Valuation reserve	(297)	(457)	(561)	(509)	(584)	(3,462)	(5,873)
Net deferred tax assets	6	0	20	9	0	151	187

	Thousands of U.S. dollars						
	3/2023						
	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 (*)	$ 3,090	$ 3,481	$ 4,075	$ 5,195	$ 1,887	$ 48,902	$ 66,654
Valuation reserve	(3,037)	(3,481)	(4,075)	(5,165)	(1,842)	(47,278)	(64,894)
Net deferred tax assets	52	—	—	22	45	1,624	1,751

(*) Carryforward tax loss shown in the above table is calculated by multiplying 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, 2023 and 2022 and retirement benefit expenses in the consolidated statements of income for FY2022 and FY2021 ended March 31, 2023 and 2022, 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
	3/2023	3/2022	3/2023
Balance at April 1, 2022 and 2021	**¥ 50,250**	¥ 48,195	$ 377,819
Service cost	**2,971**	2,966	22,338
Interest cost	**330**	316	2,481
Actuarial loss (gain)	**(620)**	29	(4,661)
Benefits paid	**(1,295)**	(1,283)	(9,736)
Past service cost	**(176)**	(3)	(1,323)
Other	**347**	29	2,609
Balance at March 31, 2023 and 2022	**51,808**	50,250	389,533

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

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Balance at April 1, 2022 and 2021	**¥ 45,246**	¥ 42,803	$ 340,195
Expected return on plan assets	**649**	613	4,879
Actuarial loss (gain)	**(239)**	911	(1,796)
Contributions paid by the employer	**1,823**	1,854	13,706
Benefits paid	**(972)**	(937)	(7,308)
Other	**215**	1	1,616
Balance at March 31, 2023 and 2022	**46,722**	45,246	351,293

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

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Balance at April 1, 2022 and 2021	**¥ 4,898**	¥ 3,028	$ 36,827
Retirement benefit expenses	**615**	663	4,624
Benefits paid	**(565)**	(240)	(4,248)
Contributions paid by the employer	**(144)**	(203)	(1,082)
Increase accompanying new additions to the scope of consolidation	**417**	1,318	3,135
Increase due to transition to a defined contribution plan	**—**	289	—
Other	**(150)**	41	(1,127)
Balance at March 31, 2023 and 2022	**5,070**	4,898	38,120

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

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Funded retirement benefit obligations	**¥ 53,510**	¥ 52,277	$ 402,330
Plan assets	**(48,606)**	(47,271)	(365,458)
	4,904	5,006	36,872
Unfunded retirement benefit obligations	**5,252**	4,896	39,488
Total net liability for retirement benefits at March 31, 2023 and 2022	**10,156**	9,902	76,360
Net defined benefit liability	**13,542**	13,070	101,819
Net defined benefit asset	**(3,385)**	(3,168)	(25,451)
Total net liability for retirement benefits at March 31, 2023 and 2022	**10,156**	9,902	76,360

E. Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Service cost	¥ 2,971	¥ 2,966	$ 22,338
Interest cost	330	316	2,481
Expected return on plan assets	(649)	(613)	(4,879)
Amortization of net unrecognized actuarial differences	(731)	(449)	(5,496)
Amortization of past service cost	(97)	(117)	(729)
Retirement benefit expenses applying for simplified method	615	663	4,624
Losses (Gains) on transition to a defined contribution plan (Note)	—	289	—
Total retirement benefit expenses for FY2022 and FY2021 ended March 31, 2023 and 2022	2,439	3,056	18,338

(Note) Loss on revision of retirement benefit plan is recorded as "Other" for other expenses.

F. Remeasurements of defined benefit plans

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Past service cost	¥ 78	¥ (114)	$ 586
Actuarial gains and losses	(350)	417	(2,631)
Total remeasurements of defined benefit plans for FY2022 and FY2021 ended March 31, 2023 and 2022	(272)	303	(2,045)

G. Accumulated adjustments for retirement benefit

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Past service cost that are yet to be recognized	¥ 410	¥ 332	$ 3,082
Actuarial gains and losses that are yet to be recognized	5,077	5,428	38,172
Total balance at March 31, 2023 and 2022	5,487	5,760	41,255

H. Plan assets

(a) Plan assets comprise

	3/2023	3/2022
Bonds	33%	33%
General account	33	32
Equity securities	29	29
Other	5	6
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

	3/2023	3/2022
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 FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥453 million (U.S. $3,406 thousand) and ¥363 million, respectively.

(3) Multi-Employer Pension Plans

Required contributions to corporate pension fund system of the multi-employer pension plans which were treated the same as defined contribution plans for FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥44 million (U.S. $330 thousand) and ¥46 million, respectively.

A. The savings situation of the whole system

	Millions of yen		Thousands of U.S. dollars
	3/2023 (As of March 31, 2022)	3/2022 (As of March 31, 2021)	3/2023 (As of March 31, 2022)
Plan assets	¥ 17,746	¥ 16,536	$ 133,428
Net total actuarial obligations under pension funding programs and minimum actuarial reserve	15,863	15,988	119,270
Total balance	1,883	548	14,157

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

For FY2022 ended March 31, 2023 corresponding to the fiscal year ended March 31, 2023:3.7%

For FY2021 ended March 31, 2022 corresponding to the fiscal year ended March 31, 2022:3.8%

C. Supplemental information

The main factors of the total balance of A mentioned above are past service cost under pension funding programs, general reserve and surplus or deficiency. Past service cost under pension funding programs for FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to -¥4,254 million (-U.S. $31,984 thousand) and -¥4,927 million, respectively. General reserve for FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥5,535 million (U.S. $41,616 thousand) and ¥5,844 million, respectively. Surplus or deficiency for FY2022 and FY2021 ended March 31, 2023 and 2022 amounted to ¥602 million (U.S. $4,526 thousand) and -¥309 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, 2023, the Companies' contingent liabilities were as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes endorsed	¥ 24	$ 180
As guarantor of indebtedness	3	22

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, 2023 and 2022, 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
	3/2023	3/2022	3/2023
Valuation difference on available-for-sale securities			
Increase (decrease) during the fiscal year	**¥ 6,016**	¥ (4,756)	$ 45,233
Reclassification adjustments for losses realized in profit	**(787)**	(1,547)	(5,917)
Subtotal, before tax amount	**5,228**	(6,303)	39,308
Tax (expense) or benefit	**(1,589)**	1,931	(11,947)
Subtotal, net of tax amount	**3,639**	(4,372)	27,360
Foreign currency translation adjustment			
Increase (decrease) during the fiscal year	**9,065**	7,793	68,157
Remeasurements of defined benefit plans			
Increase (decrease) during the fiscal year	**557**	869	4,187
Reclassification adjustments for losses realized in profit	**(829)**	(566)	(6,233)
Subtotal, before tax amount	**(272)**	303	(2,045)
Tax (expense) or benefit	**76**	(93)	571
Subtotal, net of tax amount	**(196)**	209	(1,473)
Share of other comprehensive income of entities accounted for using equity method			
Increase (decrease) during the fiscal year	**3,860**	3,528	29,022
Total other comprehensive income	**16,369**	7,159	123,075

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 ¥2,066 million (U.S. $15,533 thousand) and ¥2,151 million for FY2022 and FY2021 ended March 31, 2023 and 2022, respectively.

16. BUSINESS COMBINATIONS

Business combination through acquisition

(1) Summary of the business combination

A. Name and business of the company acquired

Name: THIMM Packaging Systems GmbH & Co.KG

Business: Manufacturing and sales of heavy-duty packaging materials (corrugated boards, wood packaging and pallets, pulp-based and plastic-based packaging materials, etc.)

B. Reason for the combination

The addition of THIMM Packaging Systems GmbH & Co.KG to the group will help us expand our product portfolio and enhance supply system in order to respond quickly to various needs for packaging in the heavy duty packaging industry in Germany and surrounding areas.

C. Date of the combination

June 30, 2022

D. Legal form of the combination

Acquisition of equity for cash consideration

E. Post-combination name of the acquired company

TRICOR Packaging Systems GmbH

F. Percentage of voting rights acquired

100%

G. Basis for determining acquiring company

Rengo Europe GmbH and Tricor Packaging & Logistics AG, consolidated subsidiaries of the Company, acquired the equity in consideration of cash.

(2) Period of consolidation of the acquired company during the fiscal year ended March 31, 2023

From July 1, 2022 to December 31, 2022

(3) Acquisition price and type of consideration paid

Consideration paid for acquisition	Cash	EUR 101 million	(¥ 14,484 million)	(U.S. $ 108,902 thousand)
Acquisition price		EUR 101 million	(¥ 14,484 million)	(U.S. $ 108,902 thousand)

(4) Principal acquisition related expenses

Advisory fees, etc.: ¥147 million (U.S. $1,105 thousand)

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

A. Amount of goodwill incurred through the acquisition

¥6,427 million (U.S. $48,323 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	**¥ 8,329**	$ 62,624
Non-current assets	**11,857**	89,150
Total assets	**20,186**	151,774
Current liabilities	**6,413**	48,218
Non-current liabilities	**5,716**	42,977
Total liabilities	**12,129**	91,195

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

Categories	Millions of yen	Thousands of U.S. dollars	Amortization period (years)
Customer relationships	**¥ 3,465**	$ 26,052	Mainly 10 years

(8) Estimated impact on the consolidated statements of income for the fiscal year ended March 31, 2023 as if the business combination had been completed at the beginning of the fiscal year ended March 31, 2023 and the calculation method

	Millions of yen	Thousands of U.S. dollars
Net sales	**¥ 15,129**	$ 113,751
Operating income	**487**	3,661
Profit attributable to owners of parent	**360**	2,706

(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, 2023 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, 2023.

This note has not been audited.

17. REVENUE RECOGNITION

(1) Information of disaggregation of revenue from contracts with customers

	Millions of yen						
	3/2023						
	Reportable segments						
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business	Heavy Duty Packaging-Related Business	Overseas Business	Subtotal	Other Businesses*	Total
Japan	**¥ 482,430**	**¥ 113,031**	**¥ 42,490**	**¥ 3,966**	**¥ 641,919**	**¥ 33,287**	**¥ 675,206**
Asia	**1,421**	**386**	**2,148**	**75,831**	**79,787**	**828**	**80,615**
Europe	**—**	**2,042**	**29**	**74,277**	**76,349**	**—**	**76,349**
Other	**—**	**51**	**390**	**12,236**	**12,678**	**—**	**12,678**
Information of disaggregation of revenue from contracts with customers	**483,851**	**115,512**	**45,059**	**166,312**	**810,734**	**34,115**	**844,850**
Other revenue	**—**	**—**	**—**	**—**	**—**	**1,230**	**1,230**
Sales to third parties	**483,851**	**115,512**	**45,059**	**166,312**	**810,734**	**35,345**	**846,080**

	Millions of yen						
	2022/3						
	Reportable segments						
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business	Heavy Duty Packaging-Related Business	Overseas Business	Subtotal	Other Businesses*	Total
Japan	¥ 445,418	¥ 93,824	¥ 39,326	¥ 9,273	¥ 587,842	¥ 33,973	¥ 621,816
Asia	3,420	152	2,746	65,319	71,639	217	71,856
Europe	—	—	14	45,246	45,261	—	45,261
Other	—	2	292	6,678	6,973	6	6,979
Information of disaggregation of revenue from contracts with customers	448,838	93,979	42,380	126,518	711,716	34,197	745,914
Other revenue	—	—	—	—	—	1,012	1,012
Sales to third parties	448,838	93,979	42,380	126,518	711,716	35,210	746,926

	Thousands of U.S. dollars						
	3/2023						
	Reportable segments						
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business	Heavy Duty Packaging-Related Business	Overseas Business	Subtotal	Other Businesses*	Total
Japan	$ 3,627,293	$ 849,857	$ 319,473	$ 29,819	$ 4,826,458	$ 250,278	$ 5,076,736
Asia	10,684	2,902	16,150	570,157	599,902	6,225	606,127
Europe	—	15,353	218	558,473	574,052	—	574,052
Other	—	383	2,932	92,000	95,323	—	95,323
Information of disaggregation of revenue from contracts with customers	3,637,977	868,511	338,789	1,250,466	6,095,744	256,503	6,352,255
Other revenue	—	—	—	—	—	9,248	9,248
Sales to third parties	3,637,977	868,511	338,789	1,250,466	6,095,744	265,751	6,361,503

* "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) Information that provides a basis for understanding of revenue from contracts with customers

The basis for understanding revenue is described in "2. Summary of Significant Accounting Policies, (20) Accounting policy for recognition of significant revenues and expenses".

(3) Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized from contracts with customers that existed at the end of the current fiscal year and are expected to be recognized in the following fiscal year

A. Balance of receivables and contract liabilities arising from contracts with customers

Balance of receivables and contract liabilities arising from contracts with customers are as follows

	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Notes receivable-trade	**¥ 15,157**	¥ 16,215	$ 113,962
Accounts receivable-trade	**227,672**	198,410	1,711,819
Receivables arising from contracts with customers	**242,830**	214,626	1,825,789
Contract liabilities	**112**	306	842

B. Transaction price allocated to remaining performance obligations

The description of the total transaction price allocated to the remaining performance obligations and the period over which revenue is expected to be recognized is omitted, since the initially expected contractual period with customers is due within one year.

18. SEGMENT INFORMATION

(1) Segment Information

A. Overview of reportable segments

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

To fulfill the multiple needs of packaging as "General Packaging Industry (GPI)," the Companies expanded the business field into flexible packaging and heavy duty packaging also overseas, and had been making plans for a comprehensive strategy about products in each business fields, 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, corrugated boxes and kraft pulp 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 "2. Summary of Significant Accounting Policies". 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 FY2022 and FY2021 ended March 31, 2023 and 2022 were as follows:

	Millions of yen							
	3/2023							
	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	**¥ 483,851**	**¥ 115,512**	**¥ 45,059**	**¥ 166,312**	**¥ 810,734**	**¥ 35,345**	**¥ —**	**¥ 846,080**
Intersegment sales and transfers	**2,255**	**670**	**2,878**	**6,664**	**12,468**	**28,036**	**(40,504)**	**—**
Total sales	**486,107**	**116,182**	**47,937**	**172,976**	**823,202**	**63,382**	**(40,504)**	**846,080**
Segment profit	**14,314**	**2,987**	**1,124**	**6,009**	**24,435**	**1,330**	**191**	**25,957**
Segment assets	**740,638**	**105,048**	**49,841**	**273,279**	**1,168,807**	**39,077**	**(154,746)**	**1,053,138**
Other items								
Depreciation and amortization	**27,440**	**4,826**	**1,412**	**9,825**	**43,505**	**1,333**	**(63)**	**44,774**
Amortization of goodwill	**265**	**165**	**69**	**2,252**	**2,753**	**—**	**—**	**2,753**
Investment in equity method affiliates	**739**	**—**	**—**	**56,644**	**57,383**	**1,018**	**—**	**58,402**
Increase in property, plant and equipment and intangible assets	**39,064**	**4,101**	**1,598**	**12,149**	**56,913**	**1,851**	**(70)**	**58,694**

	Millions of yen							
	3/2022							
	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	¥ 448,838	¥ 93,979	¥ 42,380	¥ 126,518	¥ 711,716	¥ 35,210	¥ —	¥ 746,926
Intersegment sales and transfers	2,664	478	3,386	4,135	10,664	27,242	(37,906)	—
Total sales	451,502	94,458	45,766	130,653	722,380	62,452	(37,906)	746,926
Segment profit	22,657	2,064	1,621	4,880	31,223	1,943	112	33,279
Segment assets	672,007	92,315	48,790	200,441	1,013,554	39,754	(118,963)	934,345
Other items								
Depreciation and amortization	27,156	4,190	1,352	7,697	40,396	1,328	(64)	41,660
Amortization of goodwill	259	165	69	1,696	2,190	—	—	2,190
Investment in equity method affiliates	717	—	—	50,160	50,878	978	—	51,856
Increase in property, plant and equipment and intangible assets	35,781	5,733	1,341	5,233	48,088	1,527	(107)	49,509

	Thousands of U.S. dollars							
	3/2023							
	Reportable segments							
	Paperboard and Packaging-Related Business	Flexible Packaging-Related Business	Heavy Duty Packaging-Related Business	Overseas Business	Subtotal	Other Businesses*1	Adjustments*2	Total*3
Sales to third parties	$ 3,637,977	$ 868,511	$ 338,789	$ 1,250,466	$ 6,095,744	$ 265,751	$ —	$ 6,361,503
Intersegment sales and transfers	16,954	5,037	21,639	50,105	93,744	210,796	(304,541)	—
Total sales	3,654,939	873,548	360,428	1,300,571	6,189,488	476,556	(304,541)	6,361,503
Segment profit	107,624	22,458	8,451	45,180	183,721	10,000	1,436	195,165
Segment assets	5,568,706	789,834	374,744	2,054,729	8,788,022	293,812	(1,163,503)	7,918,330
Other items								
Depreciation and amortization	206,315	36,285	10,616	73,872	327,105	10,022	(473)	336,646
Amortization of goodwill	1,992	1,240	518	16,932	20,699	—	—	20,699
Investment in equity method affiliates	5,556	—	—	425,894	431,451	7,654	—	439,112
Increase in property, plant and equipment and intangible assets	293,714	30,834	12,015	91,345	427,917	13,917	(526)	441,308

*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 ¥191 million (U.S. $1,436 thousand) and ¥112 million for FY2022 and FY2021 ended March 31, 2023 and 2022, respectively, were from the elimination of intersegment transactions.

(b) The adjustments of segment assets of -¥154,746 million (-U.S. $1,163,503 thousand) and -¥118,963 million for FY2022 and FY2021 ended March 31, 2023 and 2022, respectively, were from the elimination of intersegment transactions.

(c) The adjustments of depreciation and amortization of -¥63 million (-U.S. $473 thousand) and -¥64 million for FY2022 and FY2021 ended March 31, 2023 and 2022, respectively, were from the elimination of intersegment transactions.

(d) The adjustments of increases in property, plant and equipment, and intangible assets of -¥70 million (-U.S. $526 thousand) and -¥107 million for FY2022 and FY2021 ended March 31, 2023 and 2022, 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
	3/2023	3/2022	3/2023
Paperboard	¥ 63,956	¥ 60,005	$ 480,872
Corrugated board	41,623	39,376	312,954
Corrugated boxes	364,946	344,337	2,743,954
Flexible packaging and cellophane	136,501	107,284	1,026,323
Other	239,051	195,921	1,797,375
Total	846,080	746,926	6,361,503

B. Geographical Segments

(a) Sales	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Japan	¥ 676,436	¥ 622,828	$ 5,085,984
Asia	80,615	71,856	606,127
Europe	76,349	45,261	574,052
Other	12,678	6,979	95,323
Total	846,080	746,926	6,361,503

(b) Property, plant and equipment	Millions of yen		Thousands of U.S. dollars
	3/2023	3/2022	3/2023
Japan	¥ 355,479	¥ 337,706	$ 2,672,774
Asia	24,835	17,965	186,729
Europe	31,769	23,336	238,864
Other	10,880	5,025	81,804
Total	422,964	384,032	3,180,180

C. Major Customers

There were no specific customers whose sales exceeded 10% of the total sales in the consolidated statements of income for FY2022 and FY2021 ended March 31, 2023 and 2022. 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							
	3/2023							
	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	¥ 508	¥ —	¥ —	¥ —	¥ 508	¥ —	¥ —	¥ 508

	Millions of yen							
	3/2022							
	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	¥ —	¥ —	¥ 1	¥ 80	¥ 81	¥ —	¥ —	¥ 81

	Thousands of U.S. dollars							
	3/2023							
	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	$ 3,819	$ —	$ —	$ —	$ 3,819	$ —	$ —	$ 3,819

"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.

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

	Millions of yen							
	3/2023							
	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	**¥ 265**	**¥ 165**	**¥ 69**	**¥ 2,252**	**¥ 2,753**	**¥ —**	**¥ —**	**¥ 2,753**
Balance at end of period	**397**	**414**	**104**	**26,334**	**27,250**	**—**	**—**	**27,250**
Negative goodwill								
Amortized for the period	**18**	**1**	**—**	**—**	**19**	**—**	**—**	**19**
Balance at end of period	**30**	**4**	**—**	**—**	**35**	**—**	**—**	**35**

	Millions of yen							
	3/2022							
	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	¥ 259	¥ 165	¥ 69	¥ 1,696	¥ 2,190	¥ —	¥ —	¥ 2,190
Balance at end of period	629	580	174	17,478	18,862	—	—	18,862
Negative goodwill								
Amortized for the period	18	1	—	0	20	—	—	20
Balance at end of period	48	6	—	—	55	—	—	55

	Thousands of U.S. dollars							
	2023/3							
	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	$ 1,992	$ 1,240	$ 518	$ 16,932	$ 20,699	$ —	$ —	$ 20,699
Balance at end of period	2,984	3,112	781	198,000	204,887	—	—	204,887
Negative goodwill								
Amortized for the period	135	7	—	—	142	—	—	142
Balance at end of period	225	30	—	—	263	—	—	263

"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.

19. RELATED PARTY INFORMATION

There were no Significant transactions of the Company with related party for FY2022 ended March 31, 2023

There were no Significant transactions of the Company with related party for FY2021 ended March 31, 2022

20. ADDITIONNAL INFORMATION

(Stock compensation plan)

Based on the resolution of the General Meeting of Shareholders held on June 26, 2020, the Company introduced a Stock Compensation Plan using a trust for Directors, excluding Outside Directors, 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 and the Company's share value and sharing with stockholders the benefits and risks associated with the fluctuation in share prices.

The Company also introduced the same compensation plan as above for the executive officers of the Company.

(1) Overview of Transactions

The Plan is a stock compensation plan under which shares of the Company will be acquired through a trust (hereinafter the trust established by 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, etc., will be delivered to each Director, etc., through the Trust.In principle, the Company's shares will be delivered to Directors, etc., upon their retirement.

The accounting method regarding the Plan complies with the "Practical Solution on Transactions for Delivering the Company's Own Stock to Employees, etc., Through Trusts" (ASBJ Practical Issues Task Force No.30, March 26, 2015).

(2) The Company's shares remaining in the Trust

The Company's shares remaining in the Trust are posted as treasury stock as part of net assets based on the book value, excluding amounts for incidental expenses. The corresponding treasury stock book value and number of shares at the end of the fiscal year was ¥720 million (U.S. $5,413 thousand) and 880 thousand shares, whereas ¥773 million and 945 thousand shares at the end of the previous fiscal year.

21. SUBSEQUENT EVENTS

(1) Appropriation of Non-Consolidated Retained Earnings

At the Board of Directors meeting held on May 12, 2023, 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. $0.09 per share)	¥ 2,982	$ 22,421

The above mentioned appropriation has not been reflected in the consolidated financial statements as of March 31, 2023. Such appropriations are recognized in the period in which they are approved.

(Note) The total amount of dividends determined by the resolution of the Board of Directors held on May 12, 2023 includes dividends of ¥10 million (U.S. $75 thousand) which is paid for the Company's shares held by the Trust related to the Stock Compensation Plan.

(2) Business combination through acquisition

On June 29, 2023, the Board of Directors of the Company adopted a resolution to conclude an integration agreement (hereinafter referred to as "Management Integration," which contains an "Absorption-type Merger" and "Share Acquisition") and concluded the agreement on the same day. Pursuant to the agreement Sun·Tox Co., Ltd. (hereinafter referred to as "Sun·Tox"), a consolidated subsidiary of the Company, will be absorbed by Mitsui Chemicals Tohcello, Inc. (hereinafter referred to as "Mitsui Chemicals Tohcello"), a consolidated subsidiary of Mitsui Chemicals, Inc. (hereinafter referred to as "Mitsui Chemicals"). After the Absorption-type Merger takes effect, the Company will acquire the shares of Mitsui Chemicals Tohcello and make it a subsidiary.

Mitsui Chemicals Tohcello plans to implement an absorption-type company split in which Mitsui Chemicals Tohcello splits its Industrial Film & Sheet business and Protective Film business into a newly established company by the effective date of the Absorption-type Merger in order to make the main business the Packaging Solution business only. The newly established company will be a 100% subsidiary of Mitsui Chemicals and has no capital relationship with the Company.

A. Summary of the combination

(a) Name and business of the company acquired

Name:	Mitsui Chemicals Tohcello, Inc.
Business:	Packaging Solution Business Industrial Film & Sheet Business Protective Film Business
Scale of business	The amounts of net assets, total assets and total sales for the year ended March 31, 2023 were ¥49,428 million (U.S. $371,639 thousand), ¥71,987 million (U.S. $541,255 thousand) and ¥82,503 million (U.S. $620,323 thousand), respectively.

(Note (1)) The amounts above have not been audited by the Company's independent auditor.

(Note (2)) The above information is as of the filing date of the Integrated Report. As stated above, the absorption-type company split will be implemented prior to the Management Integration. As a result, at the time of the Share Acquisition, the acquired company's main business will be only the Packaging Solution business.

(b) Reason for the combination

In October 2015, the Company strengthened its procurement system for raw materials for flexible packaging products and its product development capabilities by taking a stake in Sun·Tox, a manufacturer specializing in polypropylene film. Sun·Tox has promoted an expansion in sales volume and production capacity through collaborating with the Companies which have close relationships with customers of flexible packaging products, such as daily delivery products for convenience stores and supermarkets.

Mitsui Chemicals Tohcello is one of leading Japanese manufacturers of polypropylene films, along with Sun·Tox, and is a leading manufacturer of linear low density polyethylene (LLDPE) films. The company has also been developing, manufacturing and selling foamed polyolefin sheets.

As the environment surrounding the plastic packaging materials industry has changed rapidly in recent years, the Management Integration will be implemented in order for Sun·Tox and Mitsui Chemicals Tohcello to respond flexibly to the future business environment and achieve a sustainable growth strategy by promoting high profitability, accelerating the development of environment-friendly new products and expanding their overseas business.

(c) Date of the combination

April 1, 2024

(d) Legal form of the combination

Acquisition of equity shares for cash consideration

(e) Post-combination name of the acquired company

RM TOHCELLO CO., LTD.

(f) Percentage of voting rights acquired

51.0%

(g) Basis for determining acquiring company

The Company will acquire shares of Mitsui Chemicals Tohcello from Mitsui Chemicals so that the Company will own 51.0% of voting rights of the acquired company after the Absorption-type Merger mentioned above.

B. Acquisition price and type of consideration paid

(a) Number of shares held before the change	— (Percentage of voting rights: —%)
(b) Acquisition price	¥10,850 million (U.S. $81,578 thousand) (estimated amount)
(c) Number of shares held after the change	undecided (Percentage of voting rights: 51.0%)

(Note (1)) The number of shares held before the change indicates the number of shares held before the Management Integration and does not include the number of shares allocated based on the Management Integration.

(Note (2)) The acquisition price and number of shares held will be finally determined after adjustment based on the price adjustment provisions set forth in the integration agreement.

C. Principal acquisition related expenses

Not finalized at this time.

D. Amount, cause and amortization of goodwill arising from the acquisition

Not finalized at this time.

E. Details of the assets acquired and the liabilities assumed at the date of the business combination

Not finalized at this time.

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, 2023 and 2022, the consolidated statements of income and 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, 2023 and 2022, and its consolidated financial performance and its consolidated 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 21, "Subsequent Events," of the consolidated financial statements. As described in Note 21 the Company concluded an integration agreement on June 29, 2023, in which Sun·Tox Co., Ltd., a consolidated subsidiary of the Company, will be absorbed by Mitsui Chemicals Tohcello, Inc., a consolidated subsidiary of Mitsui Chemicals, Inc., and after the absorption-type merger takes effect, the Company will acquire the shares of Mitsui Chemicals Tohcello, Inc. and make it a subsidiary.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on goodwill of TRICOR Packaging & Logistics AG

The key audit matter	How the matter was addressed in our audit
The Company reported goodwill related to the overseas business of ¥26,334 million in the consolidated balance sheet. As described in Note 3, "Significant accounting estimates, (1) Impairment of goodwill" of the consolidated financial statements, included therein was goodwill of ¥10,750 million that arose when Tri-Wall Ltd. ("Tri-Wall"), a consolidated subsidiary, obtained control of TRICOR Packaging & Logistics AG ("TRICOR"), a heavy duty packaging manufacturer based in Germany, in the period ended March 31, 2020. Tri-Wall adopts International Financial Reporting Standards (IFRSs) and performs an annual impairment test on a group of CGUs to which goodwill is allocated, in addition to when there is an impairment indicator. When the recoverable amount of a group of CGUs is less than the carrying amount, Tri-Wall reduces the carrying amount to the recoverable amount and recognizes the resulting decrease in the carrying amount as an impairment loss. The recoverable amount is the higher of either the value in use or fair value less costs of disposal. In the current fiscal year, Tri-Wall used the value in use as the recoverable amount in the impairment testing of goodwill of TRICOR. The future cash flows used for measuring this value in use were estimated based on the business plan of TRICOR developed by management and the terminal growth rate applied in following periods. Planning the expected increase in the sales volume in Germany and the improvement of the profit margin involved uncertainty, and the Company's judgment thereon had a significant effect on the estimated future cash flows. In addition, selecting appropriate models and input data for estimating the discount rate used to calculate the value in use requires a high degree of expertise in valuation. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether an impairment loss should be recognized on goodwill of TRICOR was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to evaluate whether the Company's judgment with respect to the recognition of an impairment loss on goodwill of TRICOR was appropriate, included the following. In performing the procedures, we evaluated the result of the audit procedures reported by the component auditor of Tri-Wall, to which we requested to perform an audit, and performed additional procedures. (1) Internal control testing Test of the design of certain of the Company's internal controls relevant to measuring the value in use used for the impairment testing on the group of CGUs to which goodwill is allocated. (2) Assessment of the reasonableness of the estimated value in use Assessment of the appropriateness of key assumptions adopted by management in preparing the business plan of TRICOR, which was used as the basis for estimating future cash flows by inquiring of management about the basis on which those assumptions were developed and performing the following procedures: • Assessment of the accuracy of the estimation developed in the previous years by comparing past business plans with actual results; • Assessment of the expected increase in the sales volume in Germany through comparison with the future forecasts of the related market published by external organizations; • Assessment of the improvement of the profit margin by comparing it with recent actual results as well as comparing management's estimate of future cash flows with those independently estimated by incorporating the effect of specific uncertainty into the business plan; and • Performance of the following procedures to assess the discount rate by using a valuation specialist within the network firms of the component auditor of Tri-Wall: • Assessment of the appropriateness of the model used to estimate the discount rate based on subject matters relevant to valuation and the requirements of accounting standards; and • Assessment of the appropriateness of the input data by comparing the discount rate with the rate independently estimated by the valuation specialist using market data and assumptions.

Appropriateness of the Company's judgment as to whether an impairment loss should be recognized on noncurrent assets of RG Containers Co., Ltd.

The key audit matter	How the matter was addressed in our audit
As described in Note 3, "Significant accounting estimates, (2) Impairment of noncurrent assets" of the consolidated financial statements, in the consolidated balance sheet of the Company, noncurrent assets of RG Containers Co., Ltd. ("RG Containers") that belongs to the paperboard and packaging-related business amounted to ¥10,148 million. While these assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is an impairment indicator. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the asset groups with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. RG Containers has recognized recurring operating losses for several consecutive years due primarily to decreasing sales volume, indicating impairment. Accordingly, the Company performed an impairment test during the fiscal year. The future cash flows used for the impairment test were estimated based on the business plan prepared by management. Key assumptions underlying the business plan, such as the projections of future demand for paperboard in the Kanto region as well as a projected increase in production volume due to production transfer from the Company involved uncertainty. Accordingly, management's judgment thereon had a significant effect on the estimated future cash flows. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether an impairment should be recognized on noncurrent assets of RG Containers was one of the most significant in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.	The primary procedures we performed to assess whether the Company's judgment with respect to the recognition of an impairment loss on noncurrent assets of RG Containers was appropriate, included the following: (1) Internal control testing We tested the design and operating effectiveness of the Company's certain internal controls relevant to determining impairment losses to be recognized on non-current assets. In this assessment, we focused our testing on controls designed to prevent and/or detect the use of unreasonable assumptions on future demand for paperboard in the Kanto region as well as the effect of a projected increase in production volume due to production transfer from the Company that served as the basis for the business plan of RG Containers. (2) Assessment of the reasonableness of estimated future cash flows In order to assess the appropriateness of key assumptions adopted by management in preparing the business plan of RG Containers, which was used as the basis for estimating future cash flows, we inquired of management about the basis on which those assumptions were developed. In addition, we: • assessed the accuracy of the estimation developed in the previous years by comparing past business plans with actual results; • compared the projections of future demand for paperboard in the Kanto region with the related data including market data published by external organizations; and • inspected the plan of production volume to be transferred to RG Containers from the Company, compared it with recent actual results, and identified sales order volume of the Company and operations of the Company's factories in the Kanto region to assess the assumption on the estimated production volume to be relocated to RG Containers.

Other Information

The other information comprises the information included in the Integrated Report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.Management is responsible for the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditors , we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 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
Takehiro Nakamura	Designated Engagement Partner	Certified Public Accountant
Satoshi Suzuki	Designated Engagement Partner	Certified Public Accountant

Osaka Office, Japan
July 14, 2023

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