The Packaging Solutions Company
RENGO

ANNUAL REPORT

For the Year ended
March 31, 2006

The Packaging Solutions Company

Company Profile

Since Rengo founder Teijiro Inoue produced Japan's first corrugated board and coined the Japanese word "dan-bo-ru" in 1909, corrugated board has played a major role in society as a packaging material suited for protective and attractive packaging and efficient transporting of goods.

At a time when companies are urged to demonstrate environmental consciousness by curbing fossil fuel consumption and reducing carbon dioxide emissions, the efficient use and recycling of resources is essential to the achievement of sustainable growth. Corrugated board provides benefits as a recycling-oriented product whose principal raw material is recovered paper and is receiving renewed recognition as an environmentally friendly packaging material.

During more than 90 years of operation, Rengo has sought to integrate papermaking and box-making. Over the years Rengo has greatly expanded the scope of its business to encompass everything from folding cartons, flexible packaging, and other packaging materials to physical distribution. Today, the increasing use of radio frequency identification (RFID) tags means that packaging materials have great potential for evolving into information tools that incorporate information transmission capabilities.

Rengo continues to be a packaging solutions company that creates new value as it ceaselessly explores "beyond the wave (corrugated flutes)" the full potential of packaging technology. The Rengo Group is pursuing further growth through 37 directly operated mills and plants and a network of 74 companies in Japan and 19 companies overseas.

Note: The numbers for mills, plants, and companies are as of June 30, 2006.

CONTENTS

Rengo Group Environmental
Action Guidelines

Corporate Philosophy of the Rengo Group

The Rengo Group, founded by Teijiro Inoue in 1909 as Japan's first corrugated box manufacturer, has consistently striven to excel as a packaging solutions company.

Our primary goal is to serve society by increasing the worth of our customer's products through "value-added packaging" and by optimizing the "flow of products" in the market.

In our ongoing quest for the development of new packaging technology and the creation of new value, we adhere to the following guiding principles in all our corporate activities.

- Realization of prosperity and future goals through dynamic business initiatives
- Integrity and fairness in management, fully respecting the individual
- Creation of a corporate culture that is constantly vibrant and innovative
- Adherence to corporate ethics and strict observance of all relevant legislation and regulations
- Enhancement of corporate value through wide-ranging and clear disclosure of information
- Prioritization of global environmental protection
- Contribution to society as a good corporate citizen

Rengo will celebrate the 100th anniversary of its founding in 2009. Rengo's slogan "The Packaging Solutions Company" expresses its vision of the ideal Rengo Group. To realize this vision in the run-up to the centenary, the members of the Rengo Group share action guidelines dubbed "3CO" and "Strength 1 + 9". Every employee of the Rengo Group is required to act, taking into account the "3CO" (Collaborating, Communicating, and Co-creating) as well as "CS" (Customer Satisfaction) coupled with the "6S" (seiri, seiton, seiso, seiketsu, shitsuke, and saho, six Japanese terms referring to tidiness, cleaning, discipline, and behavior) and the "3S" (Simplicity, Speed, and Self-confidence).

Disclaimer Regarding Forward-Looking Statements

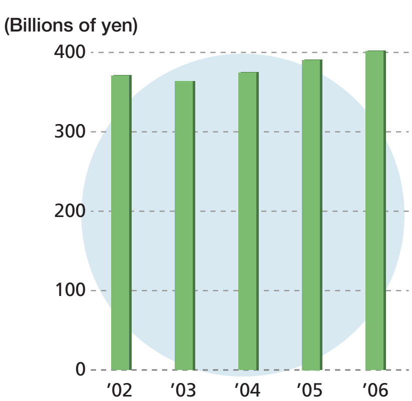
This annual report contains forward-looking statements regarding the Rengo Group's plans, strategies, and beliefs. These forward-looking statements are based on management's assumptions and beliefs in the light of information available at the time of publication, and actual results may differ materially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

For the Years ended March 31, 2006 and 2005

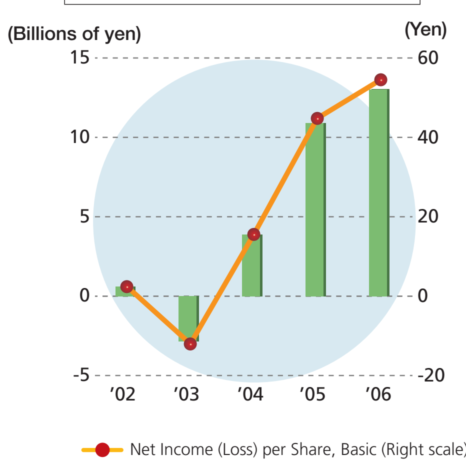
	Millions of yen		% change	Thousands of U.S.dollars
	2006	2005	06/05	**2006**
For the Year:				
Net sales	**¥ 402,168**	¥ 391,175	2.8	**$3,437,333**
Operating income	**21,701**	21,258	2.1	**185,479**
Net income	**13,032**	10,914	19.4	**111,385**
Capital expenditures	**22,408**	23,707	(5.5)	**191,522**
Depreciation and amortization	**20,822**	20,607	1.0	**177,966**
At Year-End:				
Total assets	**¥ 447,390**	¥424,654	5.4	**$3,823,846**
Interest-bearing debt	**176,323**	184,578	(4.5)	**1,507,034**
Shareholders' equity	**134,613**	113,155	19.0	**1,150,538**
	Yen		Change	U.S.dollars
Per Share Amounts:				
Net income, Basic	**¥54.63**	¥ 44.98	¥ 9.65	**$ 0.47**
Net income, Diluted	**47.72**	39.04	8.68	**0.41**
Cash dividends applicable to the year	**9.00**	8.00	1.00	**0.08**

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥117 to US$1 prevailing on March 31, 2006

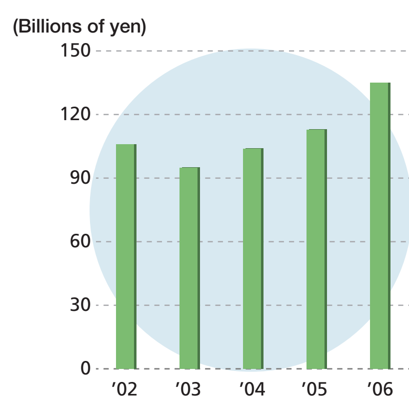
Net Sales



Net Income (Loss)
Net Income (Loss) per Share, Basic



Shareholders' Equity



A Message from the Management

Chairman
Ryoichi Inoue

President & Chief Executive Officer
Kiyoshi Otsubo

Since fiscal 2004 the Rengo Group put in place a structure to achieve a leap forward, development, and growth. In fiscal 2005 we engaged in reforms to achieve our objective of sustainable growth. We have worked to secure sales volumes and to maintain and increase product prices while, at the same time, strengthening cost competitiveness and improving the financial position through business restructuring, including scrapping and consolidation of production facilities. As a result, in fiscal 2005 we achieved record-high revenues and earnings for the second consecutive year. In fiscal 2006, the year ending March 31, 2007, we will continue to push forward with reforms and seek to advance to the next stage of growth for the Rengo Group in line with our basic policy of creating the world's strongest job-site operations.

We will actively engage in CSR activities to increase corporate value with the aim of being a corporate group that enjoys the trust of stakeholders. We would like to request the continuing support of all our stakeholders in the coming years.

Operating Results

During fiscal 2005, with a backdrop of economic recovery in Japan, demand for corrugated containers developed steadily, and consolidated net sales increased 2.8% year on year to ¥402,168 million. With regard to earnings, although a sharp increase in the cost of crude oil, recovered paper, and other raw materials drove costs higher, we strove to secure sales volumes and maintain selling prices and implemented measures to further boost cost competitiveness and improve financial position. As a result, Rengo recorded consolidated operating income of ¥21,701 million and net income of ¥13,032 million, both record-high figures.

Outlook for Fiscal 2006

In fiscal 2006, the year ending March 31, 2007, economic recovery in Japan driven by domestic demand in the form of capital investment and personal consumption is likely to continue, notwithstanding continued high prices of crude oil, recovered paper, and other raw materials and concerns about a possible stalling of the U.S. economy. The business environment for the Rengo Group is becoming tougher due to sharp increases in the prices of raw materials and fuels. However, while the Japanese economy shrugs off deflation as it enters a new phase, the Rengo Group launched a new pricing structure for corrugated and paperboard products on April 1. This move was essential for maintaining a stable supply of products while enhancing quality. Also, by stepping up measures to restructure the Group's businesses, including the streamlining of production systems, cost reductions, business process efficiency enhancements, and technology development, the Rengo Group aims to achieve consolidated net sales of ¥420 billion, operating income of ¥23.5 billion, and net income of ¥13 billion in fiscal 2006.

R. Inoue

Ryoichi Inoue, Chairman

Kiyoshi Otsubo, President & Chief Executive Officer

Kiyoshi Otsubo, President & Chief Executive Officer

The tasks ahead for the Rengo Group — Unleashing the tremendous potential of packaging

Physical distribution drives the global economy. People are recognizing anew the value of corrugated products, recyclable packaging materials that have minimal environmental impact and can be reused again and again. The Rengo Group provides vital support for countless industries by supplying corrugated products and other packaging materials. We asked Mr. Kiyoshi Otsubo, President of Rengo, about developments in the Rengo Group during the past year.

Market Conditions and Business Performance

Q In fiscal 2005 Rengo achieved record-high revenue and earnings. What factors led to the favorable results?

A During the year the employment situation in Japan steadily improved owing to improvement in corporate profits and an increase in capital investment, leading to a gradual recovery of personal consumption. As a result, solid demand continued throughout the year in the paperboard and packaging-related sectors. Physical distribution activity was robust, and sales volumes of corrugated products as well as of films and other flexible packaging products increased satisfactorily. Although concern is being expressed in some quarters about a contraction in consumption in Japan owing to the declining birthrate and aging of the population, the trend toward nuclear families is bringing about a reduction in the size of packages at supermarkets and convenience stores, but increasing the number of packages. Also, expansion of mail order sales and online shopping is contributing to continuation of a trend toward increased demand for corrugated containers and other packaging materials.

Q Exports to China of recovered paper, the raw material of corrugated board, are increasing. What impact does this have on the market in Japan?

A China is a major source of demand for old corrugated container, and the export volume of recovered paper from Japan continues to trend upward. During mid-2003 to mid-2004 growth in exports fueled an increase in export prices, and at one point the export price temporarily exceeded the price on the domestic market by as much as ¥2 per kilogram. Subsequently, however, the export price fell below the price in Japan, in part due to stable prices on the domestic market. Currently, the export price of about ¥11 per kilogram is roughly the same as the price on the domestic market. Provided the current situation persists, an increase in export volume does not pose a major threat.

Q **A sharp increase in the price of crude oil has become a new factor contributing to higher costs. What impact do you anticipate from this development?**

A The paperboard industry is an energy-intensive industry that uses large quantities of heavy oil, electricity, gas, and other fuels. The hike in crude oil prices has substantially driven up the costs of fuel and materials used in manufacturing, and also of transport. The Rengo Group has increased production efficiency by scrapping and consolidating production facilities while at the same time stepping up energy conservation by installing a high energy efficient gas engine and biomass combustion power generation facilities. In addition to striving to increase input yield of recovered paper at the paper mills, we have set numerical targets and continue making efforts to minimize the containerboard waste ratio at the corrugated box plants. The productivity enhancement efforts of the past few years have enabled the Yashio Mill to achieve world-class productivity.

New Pricing Structure

Q **Rengo has devised a new pricing structure. How does it differ from conventional price increases?**

A In 2000 the size of the packaging industry in Japan reached the ¥6 trillion mark. Subsequently, however, the economic downturn, price competition, and other factors have brought about a reduction in industry scale to the current level of under ¥6 trillion. In order to ensure their survival, manufacturers of paperboard and corrugated products are engaged in an industry-wide structural reform involving scrapping of some production facilities and pursuing industry realignment. I think that unless structural reform is pursued in unison by the recovered paper industry, the paperboard industry, and the corrugated products industry, it will not yield valuable results. Having taken the initiative in conducting price reviews in the recovered paper industry, we worked to facilitate the shift to a new pricing structure for containerboard. The question remains whether the new pricing structure will be acceptable to end users. This year I have taken the lead in meeting with executives of user companies to explain that the new pricing structure is necessary for both parties to maintain business sustainability. Some companies have postponed agreement, saying that suppliers other than Rengo have not announced price increases and asking whether we would object if they purchased from cheaper suppliers. My response is that it can’t be helped and that they should go ahead and purchase from such suppliers. I do not believe that Rengo is adopting a stance of imposing an unfair price increase; the aim of the new pricing structure is to return prices, which have been depressed, to a reasonable level.

Q **Rengo, an industry leader, is taking the lead in implementing a new pricing structure. Is the rest of the industry likely to fall in step?**

A We were inundated by telephone calls from small and medium-sized box manufacturers who saw our newspaper advertisement requesting understanding for the new pricing structure. Some manufacturers indicated that they had their sales representatives take copies of the advertisement around to their customers. This can be regarded as an expression of relief at the increase in demand for corrugated products due to economic recovery and the prospect of being able to once again pursue their proper business.

As a part of our environmentally friendly business activities, Rengo is promoting the use of C-flute. By supplying corrugated containers made using 4-mm thick C-flute corrugated board in place of the 5-mm thick A-flute board we have been using, we are contributing to energy saving and resource saving as a result of the use of thinner corrugated board. For customers who are particularly demanding about price, we are vigorously proposing the use of C-flute as it also leads to cost reduction due to enhanced load efficiency, smaller storage space requirements, and improved printability. For a portion of our products, we are already responding to this new demand.

Q Rengo has articulated the "Glocal" concept. Do you plan to review the overseas business strategy and the domestic business strategy?

A The expression "Glocal" is a combination of "global" and "local." Rengo will continue to use global standards as the basis for finance and accounting. At the same time, our basic management policy with regard to human resources and other corporate functions is to place importance on the local characteristics of the countries and regions in which we do business. Rengo engages in overseas operations through joint ventures with established local businesses in China and five countries in Southeast Asia. Business performance during the past year has been mostly favorable. However, growth in sales at Wuxi Rengo Packaging Co., Ltd., which began operations in December 2004 in the city of Wuxi in China's Jiangsu Province, has been sluggish as the facilities have been inadequate to satisfy local demand. We are currently augmenting production facilities to secure sales volumes, and I think this operation will fully meet our expectations in light of prospects for a sharp increase in demand as Japanese companies set up operations there.

Cost Structure Reform

Q What measures can be considered for further increasing productivity while satisfying customer needs?

A The most important thing is to meet requirements for high variety, small job size and short lead time. The Rengo Group is an integrated manufacturer involved at every stage from containerboard to corrugated containers, and we are pursuing production system innovation to respond to these requirements. There are several new measures. One is to promote collaboration between the electronic, chemical, and mechanical aspects of manufacturing. Another is to improve the accuracy of box manufacturing facilities. The mechanism of box manufacturing in Japan has been based on cutting using vertical motion. However, to meet the requirements of high variety, small job size and short lead time we will develop rotary die-cutting machines that offer accuracy superior to that attainable with vertical platen die-cutting machines.

Business Outlook and Corporate Vision

Q **What are the prospects for the fiscal year ending March 2007?**

A We expect revenues and earnings to increase satisfactorily. Although this is a rather conservative forecast, we plan to achieve net sales of ¥420 billion, an increase of 4.4% year on year, operating income of ¥23.5 billion, an 8.3% increase, and net income of ¥13 billion, roughly the same level as fiscal 2005. Although net income will remain at the same level as fiscal 2005 owing to the absence of the substantial gain on the sale of property, plant, and equipment booked in fiscal 2005, we aim to achieve increases in net sales and operating income for the fourth consecutive year. To achieve the forecast, we will strengthen the foundation for sustainable growth by switching to a new pricing structure in all business sectors.

Q **The Rengo Group has adopted the slogan "The Packaging Solutions Company." What is the concept behind this?**

A The Japanese word for packaging, written using the characters for "wrapping" and "beautiful decoration," is a word that carries a profound meaning. In the future, corrugated board will be far more than a mere packaging tool; it holds great promise as an information transmission tool. An important feature of the C-flute corrugated board that we supply is its enhanced printing suitability. The first aspect of a product the consumer sees is not the actual product, but the outer box. A beautiful outer box is analog information that makes a lasting impression. To use an analogy from geometry, whereas digital information is no more than a single point, analog information survives as a line.

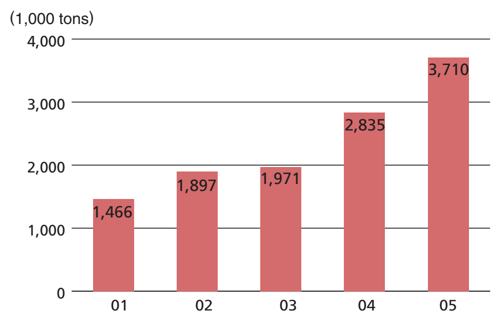
The need for traceability of packages used in physical distribution is increasing. Advances in RFID (radio frequency identification: the embedding of identifying information in tags and its use in history management and materials management) means that corrugated board and other packaging materials hold tremendous potential for development as information tools that incorporate sophisticated information transmission capabilities.

Rengo will create new value by constantly exploring new potential. For all our endeavors, I would like to request the continued support of our investors.

Market Data

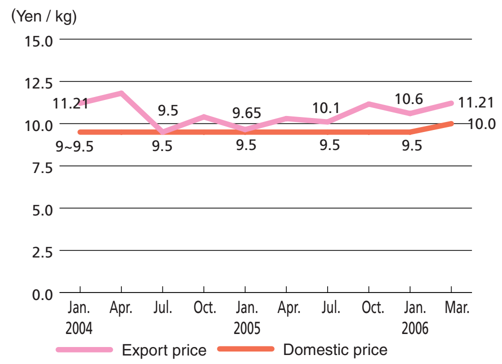
Recovered Paper

Export Volume of Recovered Paper



Sources: Ministry of Finance

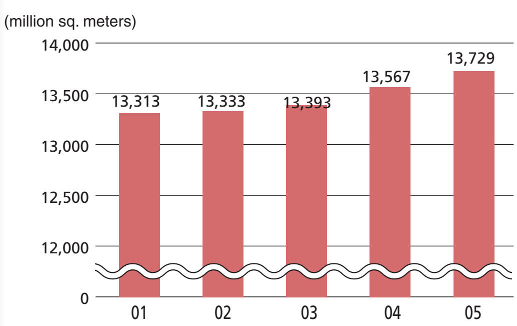
Export Price and Domestic Price of Old Corrugated Containers



Sources: Kanto Paper Manufacturing Material Direct Delivery Commerce and Paper Recycling Promotion Center

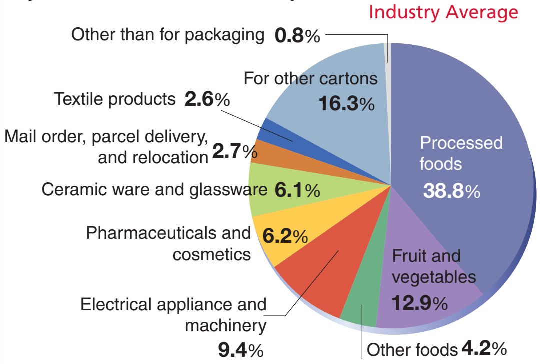
Corrugated Products

Production Volume of Corrugated Products



Sources: Ministry of Economy, Trade and Industry

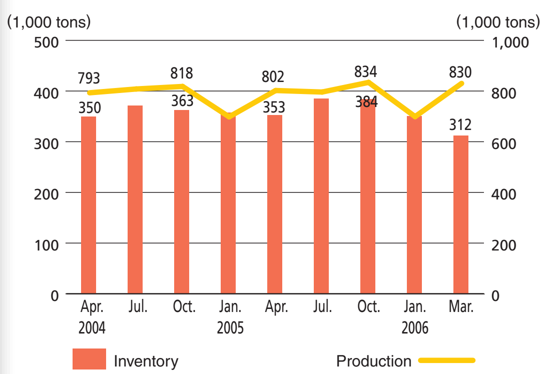
Breakdown of Demand for Corrugated Products by Market (2005 calendar year)



Sources: Ministry of Economy, Trade and Industry

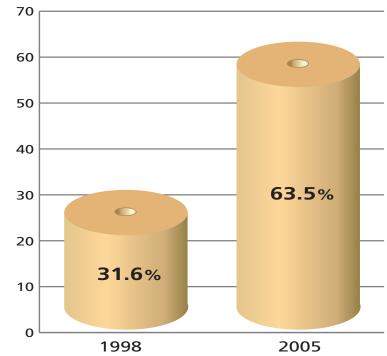
Containerboard

Production and Inventory Volumes of Containerboard



Sources: Ministry of Economy, Trade and Industry

Combined Share of Containerboard Production of the Top Three Groups (1998 vs. 2005)



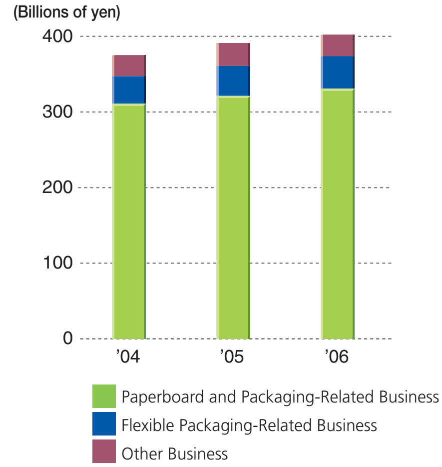
Source: Japan Paper Association

RENGO at a Glance

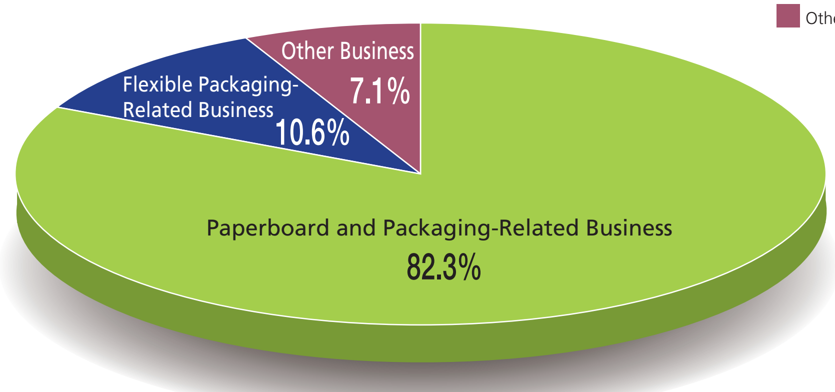
The Rengo Group leverages core competences in paperboard, corrugated board, folding cartons, flexible packaging, and overseas operations to pursue excellence in manufacturing in the field of packaging. We aim to provide an optimal packaging system that goes beyond the supply of packaging materials to encompass every process from design and packaging to physical distribution.

For the fiscal year ended March 31, 2006, sales from the Paperboard and Packaging-Related Business increased 3.0% year on year to ¥331 billion, while operating income decreased 1.3% to ¥18.4 billion. Sales from the Flexible Packaging-Related Business increased 7.8% to ¥42.7 billion, and operating income increased 24.2% to ¥2 billion. Sales from Other Business decreased 5.7% to ¥28.5 billion, while operating income increased 37.6% to ¥1.2 billion.

Net Sales by Business Segment



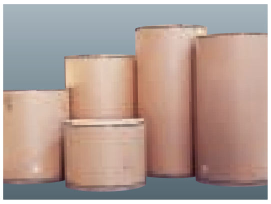
2006 Composition Ratio of Net Sales



Previously Rengo divided its businesses into two segments: Packaging-Related Business and Other Business. However, in view of the increased importance of the flexible packaging-related business, from fiscal 2006 onward Rengo will use three business categories: Paperboard and Packaging-Related Business, Flexible Packaging-Related Business, and Other Business.

Paperboard and Packaging-Related Business

Paperboard



Main Products

- Containerboard
- Whiteboard

Main Group Companies

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

Corrugated Products

Main Products

- Corrugated board
- Corrugated containers
- Folding cartons

Main Group Companies

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

Flexible Packaging-Related Business

Main Products

- Flexible packaging
- Cellophane

Main Group Companies

- Howa Sangyo Co., Ltd.
- Shin Jis Grande Co., Ltd.

Other Business

Main Products and Services

- Paper packaging machinery
- Small printing presses
- Newsprint
- Chemical products
- Nonwoven cloth
- Transport

Main Group Companies

- Hamada Printing Press Co., Ltd.
- Osaka Paper Co., Ltd.
- Rengo Nonwoven Products Co., Ltd.
- Rengo Logistics Co., Ltd.

Paperboard and Packaging-Related Business

Paperboard

The Market Environment and Business Results

During the fiscal year under review, the paperboard market saw a year-on-year increase in demand accompanied by downward pressure on profits owing to substantially higher costs due to an increase in the price of recovered paper, the principal raw material of paperboard, and a hike in the price of crude oil. As a result of maintaining production systems in line with market demand, paperboard manufacturers maintained the price level attained following the price adjustments of October 2003.

The Rengo Group's total production of paperboard increased 4.3% year on year to 2,582,000 metric tons as domestic production increased 2.7% to 2,229,000 metric tons and production in China rose 15.7% to 353,000 metric tons. The Group's share of the domestic paperboard market was approximately 18%. Paperboard sales (after intersegment elimination) increased 3.6% to ¥54.0 billion, accounting for 13.4% of consolidated net sales.

Net Sales* (Millions of yen)

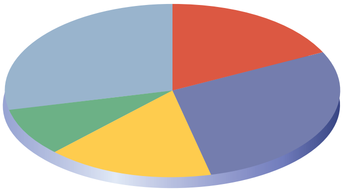
	2004	2005	2006
Paperboard	52,286	52,057	53,955

*After intersegment elimination

Production (Consolidated) (1,000 tons)

	2004	2005	2006
Paperboard	2,152	2,170	2,229

Major Manufacturing Groups' Share of the Paperboard Market in Japan



Rengo	18.4%
O	28.8%
N	15.0%
D	9.3%
Others	28.5%

Total production in 2005
12,051 thousand ton

Source: Japan Paper Association

Highlights of the Year under Review

The Company installed at the Yashio Mill, its principal production facility, biomass power generation facilities that use waste materials generated in papermaking processes as fuel. The facilities incinerate waste and wastewater sludge generated by the mill to generate electricity while, at the same time, reducing waste treatment and disposal costs. In addition, the Company worked to reduce environmental burdens and costs by introducing a gas engine at the Amagasaki Mill and updating the dryer hoods at the Tonegawa Mill.

In February 2006, subsidiary Marusan Paper Manufacturing Co., Ltd. permanently stopped operation of its No. 5 Papermaking Machine and concentrated management resources on its remaining three papermaking machines to increase productivity and reduce fixed costs.

Biomass power generation facilities

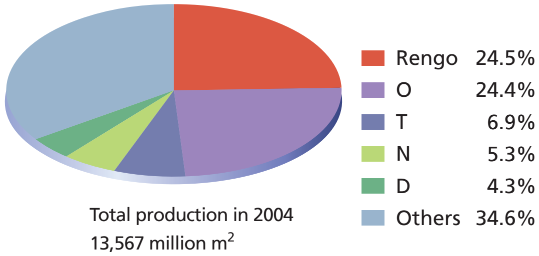
Corrugated Products

Net Sales* (Millions of yen)	2004	2005	2006
Corrugated products	240,505	250,273	256,526
Other packaging-related products	18,236	19,040	20,497

*After intersegment elimination

Production (Consolidated) (Million sq. meters)	2004	2005	2006
Corrugated board	3,202	3,360	3,566
Corrugated containers	2,336	2,484	2,628

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



Source: "Corrugated Board Market Outlook and Strategy," Yano Research Institute

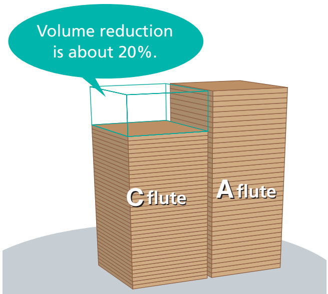
The Market Environment and Business Results

During the fiscal year under review, the corrugated products market experienced firm demand overall against the backdrop of economic recovery. Although summer didn't bring the extreme heat of the previous year, on the whole Japan was favored by good weather and demand for processed foods and fresh produce developed favorably. As a result, the total domestic production volume increased 1.5% year on year to 13,779 million square meters.

Total production volumes of corrugated products for the Rengo Group increased 3.8% to 4,771 million square meters. Domestic production volume, including production of affiliated companies, increased 3.8% to 3,470 million square meters. The increase was partly attributable to the inclusion of additional companies in the scope of consolidation. Production in China and Southeast Asia increased 3.7% to 1,301 million square meters. Corrugated product sales (after intersegment elimination) were ¥256.5 billion, accounting for 63.8% of consolidated net sales. Sales of other packaging-related products (after intersegment elimination) amounted to ¥20.5 billion.

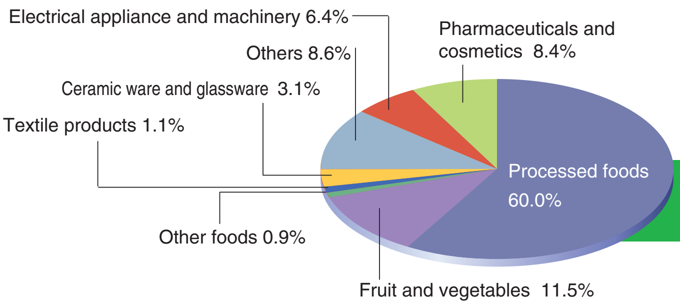
Highlights of the Year under Review

Rengo is actively working to introduce C-flute corrugated board as part of its eco-friendly business activities. Reducing the thickness of corrugated board increases load efficiency and reduces storage space, while the resulting high flute density increases printing suitability.



Rengo plans to consolidate and renovate its folding cartion plants in East Japan and West Japan with the aim of strengthening the profit base by opening the New Katsushika Plant (following integration of the Katsushika Plant and Kawasaki Plant) and the New Kyoto Plant (following integration of the Katsura, folding carton plant, and the Kyoto Plant, corrugated box plant)

Settsu Carton Corporation, a major subsidiary, is relocating its plant to Utsunomiya. The new plant is scheduled to complete in October 2006. As productivity will improve dramatically, the new plant is expected to be a powerful competitive asset in the Kanto region.



Breakdown of Demand for Corrugated Products by Market (Rengo Co., Ltd.) (2005 calendar year)

Flexible Packaging-Related Business

The Market Environment and Business Results

In the Flexible Packaging-Related Business, the impact of a hike in the price of crude oil resulted in a sharp increase in the price of film, the principal raw material used in the production of flexible packaging. Although market conditions were very challenging, price revisions and vigorous sales activities increased sales by 7.8% year on year to ¥42,696 million, accounting for 10.6% of overall consolidated net sales.

Highlights of the Year under Review

To enhance supply systems in flexible packaging operations, Rengo proceeded with expansion of the headquarters plant in Funabashi, Chiba Prefecture, of subsidiary Howa Sangyo Co., Ltd. Rengo also established Shin Jis Grande Co., Ltd. (located in Ujitawara-cho, Tsuzuki-gun, Kyoto) to serve as a production base in the Kansai region. The new company started operations in April 2006.

Net Sales* (Millions of yen)

	2004	2005	2006
Flexible packaging	36,435	39,603	42,696

*After intersegment elimination

Shin Jis Grande Co., Ltd.

Other Business

Sales from other business decreased 5.7% year on year to ¥28,494 million, accounting for 7.1% of overall consolidated net sales. Although sales fell sharply, in part due to the impact of the divestiture of rotary press operations in November 2004, profit surged as a result of continuous engagement in business performance improvement activities. Sales of small printing presses and paper packaging machinery developed favorably.

Net Sales* (Millions of yen)

	2004	2005	2006
Other business	27,601	30,202	28,494

*After intersegment elimination

Research and Development

The Central Laboratory engages primarily in research and development of packaging materials and of associated areas and is working to develop new creative, high-value-added, eco-friendly products and new technologies. The production technology units are developing and improving paper packaging machinery.

Cellgaia ®

Cellgaia is a new substance that consists of the porous mineral zeolite crystallized inside the natural cellulose fibers of pulp and other materials without the use of binding agents. Cellgaia offers excellent performance as a passive antibacterial, deodorizing, and gas absorbing substance and is seeing increasingly widespread application in antibacterial deodorizing facial masks, humidifiers, and paper vacuum cleaner bags.

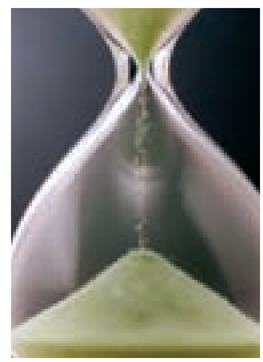
Wasaveil ®

A product that uses constituents of allyl mustard oil, a pungent component of natural wasabi and mustard, Wasaveil offers antibacterial, fungicidal, insecticidal, and freshness-preserving properties. Product benefits are high safety from a natural food ingredient and its properties when in a gaseous state.

Rengo intends to find applications for Wasaveil in wide-ranging fields and to explore synergy between passive Cellgaia and products that use allyl mustard oil, a substance with active antibacterial and fungicidal properties.

Viscopearl ®

Viscopearl are minute porous beads made from wood pulp and manufactured using a technology unique to Rengo. The pores of Viscopearl can carry aromatic substances, absorbent, and other substances. Because Viscopearl is made from the same cellulose material as paper, it is an eco-friendly material that can be easily incinerated and biodegradable. Whereas Viscopearl is available in 2.4 mm sizes, Viscopearl Mini, a sister product, ranges from 400 to 1,000 microns in diameter. Viscopearl Mini is used as a cigarette filter additive and as a scrubbing agent for hand soaps.

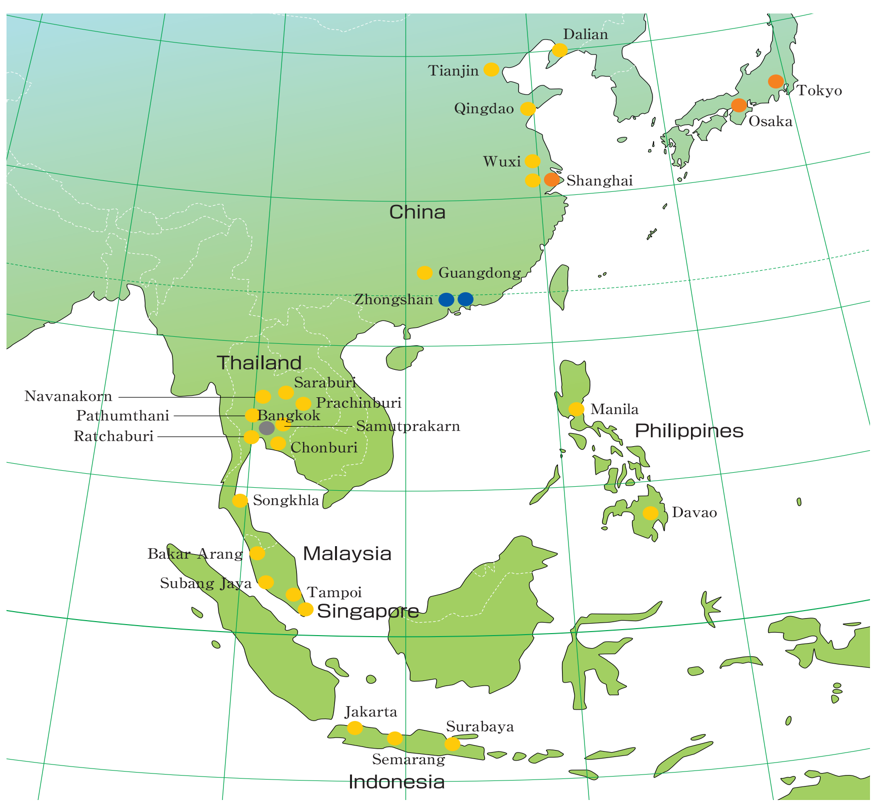


Viscopearl Mini ®

Overseas Operations

Rengo operates two paper mills and six corrugated board plants in China and 17 corrugated board plants in five countries in Southeast Asia. Rengo will take full advantage of its production network in Japan and overseas to expand business with overseas affiliates of Japanese companies and multinational companies and to move forward with the localization of production.

With selectivity and concentration as the watchwords, Rengo will review the allocation of management resources in overseas operations and endeavor to improve the business performance of joint venture companies and increase investment efficiency.



Environmental Protection

As an enterprise eager to contribute to the establishment of a sustainable society, in November 1999 Rengo enacted the Rengo Environmental Charter, which sets forth the fundamental philosophy and policies for environmental protection activities. The Environment Committee plays a leading role in putting in place a structure for implementing environmental protection activities throughout Rengo.

Fundamental Philosophy

Rengo considers the conduct of business in a manner that accords consideration to conserving the global environment to be indispensable for the Company's sustainable development and thus endeavors to continuously undertake environmental protection activities throughout its operations.

Environmental Charter

In preparation for the 100th anniversary of its founding in 2009, Rengo has established Eco Challenge 009, a document setting forth the Group's environmental vision and is implementing a program to obtain ISO 14001 certification for environmental management systems. In March 2006, two paper mills (Yodogawa and Amagasaki) received certification. As a result, all Rengo's paper mills and corrugated box plants, as well as one folding carton plant, have been certified.

Environmental Protection Activities

Since January 2005 the Environment Committee has engaged in environmental protection activities under a new structure as a subordinate organization of the Corporate Social Responsibility Committee. Principal activities include the following:

- Reduction of CO_2 emissions — global warming prevention and energy conservation
- Reduction of waste — greater recycling efficiency and reduced volume of waste with the aim of zero emissions
- Construction of environmental management systems — acquisition of ISO 14001 certification, enhancement of environmental accounting systems, voluntary control and curtailment or discontinuation of use of harmful chemical substances, green procurement
- Information disclosure — issue of an environmental report

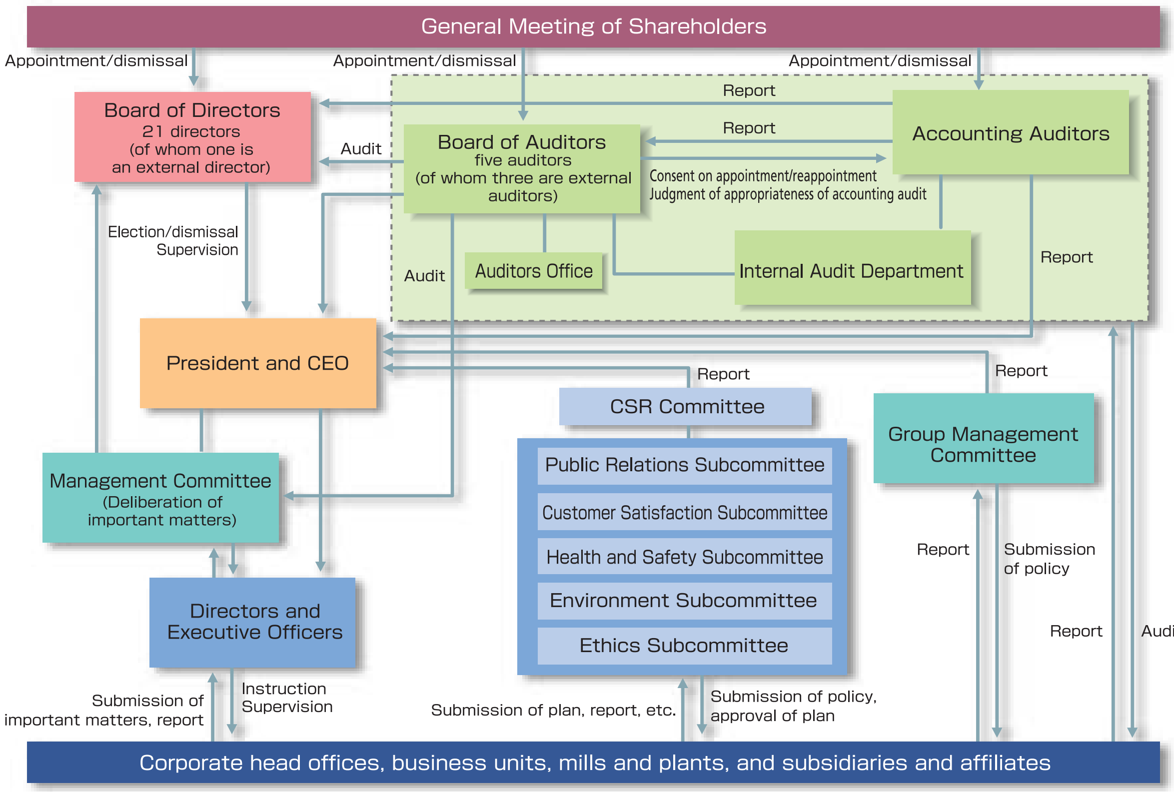
  To further these objectives, each fiscal year Rengo establishes environmental targets and engages in group-wide activities to achieve the targets.

In accordance with the Kyoto Protocol which came into effect in February 2005, Japan is obligated to reduce greenhouse gas emissions by 6% from 1990 levels during the five-year period from 2008 to 2012. As a result of introducing energy conservation facilities, converting to low CO_2 emission fuel, and actively promoting the effective use of energy from waste, in fiscal 2005 Rengo succeeded in reducing CO_2 emissions by 14% from the 1990 level.

Corporate Governance

Basic Approach to Corporate Governance

The Company intends to further enhance corporate governance by strengthening the current director and corporate auditor systems while delegating authority and increasing the speed of decision-making. Rengo will increase management transparency by striving for rapid and accurate disclosure of information to shareholders and the wider investor community.



Description of Management System and State of Development of Internal Control Systems

- The Company has adopted the corporate auditor system. Two standing corporate auditors and three external corporate auditors monitor the directors' execution of duties as well as the operating and financial situation of the Company and its domestic and overseas subsidiaries.
- The Board of Directors holds regularly scheduled board meetings, and extraordinary board meetings as necessary, decides matters stipulated by law and important matters in connection with management, and engages in the day-to-day supervision of the execution of business.
- The Management Committee consists of directors at the managing director level or above, the chairman of the board, and a number of other directors named by the president. When judged necessary by its members, the Management Committee can require the attendance of plant managers and other concerned parties and obtain their reports and opinions. In principle, the Management Committee meets monthly, and extraordinary meetings are convened as necessary. The Management Committee can as necessary form subcommittees, appoint subcommittee members, and refer especially important matters to the subcommittees.
- The Company obtains timely advice from legal advisor on matters that require legal decisions. The Company obtains proposals for improvements in the execution of business from independent auditor KPMG AZSA & Co. through financial audits.

Measures to Enhance Corporate Governance

With the aim of being a corporate group worthy of the trust of all its stakeholders, the Rengo Group actively engages in activities to increase corporate value. The five subcommittees that comprise the Corporate Social Responsibility Committee take the lead in these activities: Ethics, Environment, Health and Safety, Customer Satisfaction, and Public Relations.

To enhance its auditing system, on July 1 Rengo newly established and staffed the Internal Audit Office, putting in place a system to support the corporate auditors and the Board of Auditors.

Board of Directors and Corporate Auditors (As of June 29, 2006)

Seated, from left: Ryoichi Inoue, Kiyoshi Otsubo
Standing, from left: Morimasa Hirosaki, Yasuyuki Arimoto, Teruki Koetsuka

Chairman	Ryoichi Inoue
President& Chief Executive Officer	Kiyoshi Otsubo
Executive Vice President	Yasuyuki Arimoto
Senior Managing Directors	Morimasa Hirosaki
	Teruki Koetsuka
Managing Directors	Shogo Natori
	Isao Aki
	Kazuteru Kishimoto
	Toshihide Seki
	Jun Takenaka
	Yoshiaki Takashima
	Yukio Okabe
	Ichiro Hasegawa
Board Directors	Yoshitaka Ozawa
	Moriaki Maeda
	Takashi Inaba
	Kiwamu Hashimoto
	Sadaaki Goto
	Toshihiro Hijikata
	Osamu Nishimura
	Yoshifumi Nishikawa
Corporate Auditors	Rikuhei Ioki
	Michiaki Kanzawa
	Hiroshi Yamanouchi
	Shogo Itoda
	Kenji Tsujimoto

contents

Consolidated Five-Year Summary

Rengo Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2002 , 2003, 2004, 2005 and 2006

	Millions of yen				
	2002	2003	2004	2005	**2006**
For the Year:					
Net sales	¥371,219	¥364,300	¥375,063	¥391,175	**402,168**
Gross profits	59,610	55,139	61,591	69,841	**71,002**
Operating income	9,497	6,615	14,243	21,258	**21,701**
Income (loss) before income taxes	1,918	(3,011)	7,813	19,475	**23,712**
Net income (loss)	599	(2,854)	3,881	10,914	**13,032**
Research and development expenses	2,271	1,956	1,758	1,253	**1,316**
Depreciation and amortization	23,462	23,639	22,815	20,607	**20,822**
Capital expenditures	27,103	18,425	18,271	23,707	**22,408**
Per share amounts (yen):					
Net income (loss), Basic	2.51	(12.00)	15.67	44.98	**54.63**
Net income (loss), Diluted	2.51	(12.00)	13.60	39.04	**47.72**
Cash dividends applicable to the year	7.00	7.00	7.00	8.00	**9.00**
At Year-End:					
Total assets	¥451,562	¥420,177	¥423,024	¥424,654	**447,390**
Working capital	(62,173)	(61,828)	(43,052)	(41,746)	**(50,872)**
Interest-bearing debt	220,273	213,008	198,649	184,578	**176,323**
Shareholders' equity	105,774	94,710	104,064	113,155	**134,613**
Ratios:					
Return on equity (%)	0.5	(2.8)	3.9	10.0	**10.5**
Return on total assets (%)	0.1	(0.7)	0.9	2.6	**3.0**
Debt to equity ratio (%)	208.2	224.9	190.9	163.1	**131.0**
Shareholders' equity to total assets (%)	23.4	22.5	24.6	26.6	**30.1**
Other Statistics:					
Number of shares outstanding (thousand)	238,994	238,236	238,125	237,955	**239,006**
Number of employees	9,248	9,774	9,176	9,385	**9,545**
Stock prices (yen):					
High	¥430	¥362	¥475	¥598	**1,000**
Low	240	241	228	410	**501**

Overview

Despite hikes in material and fuel prices, the Rengo Group reported record-high sales and profits in the fiscal year ended March 31, 2006, for the second consecutive year, thanks to a substantial increase in sales volume of corrugated products coupled in combination with cost reductions.

It should be noted that the Rengo Group reviewed the classification of its business segments. Previously segment information was provided for the two business categories: packaging-related businesses and other businesses. In the year under review, however, since the ratio of sales of the flexible packaging business exceeded 10% of net sales and the importance of the flexible packaging business increased, partly due to the expansion of the factory and the renewal of production facilities at Howa Sangyo Co., Ltd., which is the principal company for the flexible packaging business, the business segment classification has been revised to the following three categories: the paperboard and paper processing businesses, the flexible packaging business, and other businesses.

Concretely, the flexible packaging business previously included in the packaging-related business segment and the cellophane business previously included in the other business segment were reclassified as a separate segment, namely, the flexible packaging business segment. Also, the folding carton machinery business previously included in the packaging-related business segment was reclassified into the other business segment and the packaging-related business segment was renamed as the paperboard and paper processing business segment.

For comparison with the previous year, figures for the previous year have been restated according to the new segment classification.

Sales

Consolidated net sales for the year under review increased ¥11.0 billion or 2.8% from the previous year to ¥402.2 billion compared with ¥391.2 billion for the previous year. Sales from the paperboard and paper processing business segment rose 3.0% year on year owing to robust demand throughout the year thanks to the recovery of the Japanese economy and owing to the increase in the number of consolidated subsidiaries. Sales from the flexible packaging business segment were 7.8% higher than in the previous year due to the revision of product prices reflecting the increase in the prices of films, which are raw materials. Sales from the other business segment decreased 5.7% as a result of the divestiture of the rotary press operation of Hamada Printing Press Co., Ltd. in November 2004.

Sales volumes of corrugated containers increased 3.4% year on year because three corrugated products subsidiaries were included within the scope of consolidation.

Income and Expenses

Operating Expenses and Operating Income

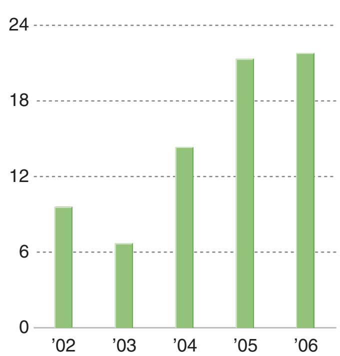
Cost of sales increased 3.1% year on year from ¥321.3 billion to ¥3,312 billion. This increase was mainly attributable to the increase in energy costs due to the hike in oil prices. Selling, general, and administrative expenses increased 1.5% from ¥48.6 billion to ¥49.3 billion partly due to an increase in freight in line with higher sales volumes.

Operating income increased ¥0.4 billion or 2.1% from ¥21.3 billion to ¥21.7 billion. The improvement was attributable to higher revenues resulting from sales volume increases and to the curtailment of variable and fixed expenses, which more than offset the cost increase caused by the hike in oil prices.

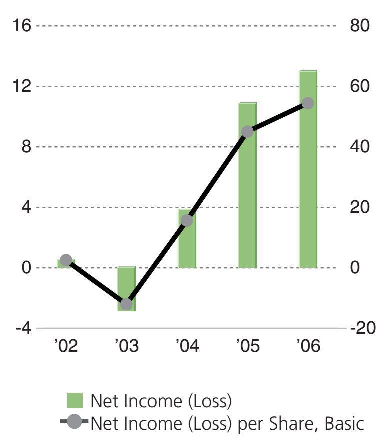
Other Income and Expenses

The balance of other income and expenses improved ¥3.8 billion from a loss of ¥1.8 billion for the previous year to an income of ¥2.0 billion for the year under review. Principal changes included the reporting of a ¥6.2 billion gain on sale of property, plant and equipment for the year under review as a result of the sale of the site previously occupied by the Kanagawa Plant of Yamato Shiki Co., Ltd., a subsidiary, whereas the gain on sale of property, plant and equipment amounted to ¥1.9 billion for the previous year. Also, due to application of the accounting standards for impairment of fixed assets from the year under review onward, a loss on impairment of fixed assets

Operating Income
(Billions of yen)



Net Income (loss) and
Net Income (loss) per Share, Basic
(Billions of yen) (Yen)



Income and Expenses as a Percentage of Net Sales

	2004	2005	2006
Cost of sales	83.6%	82.1%	**82.3%**
SG&A expenses	12.6	12.5	**12.3**
Operating income	3.8	5.4	**5.4**
Net income (loss)	1.0	2.8	**3.2**

amounting to ¥0.6 billion was reported.

Income Taxes and Minority Interests
Income taxes increased ¥2.4 billion from ¥8.3 billion for the previous year to ¥10.7 billion due to an increase in income before income taxes and minority interests. The Company reported minority interests in net losses of consolidated subsidiaries amounting to ¥30 million compared with minority interests in net income amounting to ¥0.3 billion for the previous year.

Net Income
As a result of these developments, net income increased ¥2.1 billion or 19.4% year on year from ¥10.9 billion for the previous year to ¥13.0 billion. Net income per share was ¥54.63, compared with ¥44.98 for the previous year.

Financial Position and Cash Flows

Assets
Total assets increased ¥22.7 billion from ¥424.7 billion for the previous year to ¥447.4 billion. Current assets increased ¥0.3 billion, property, plant, and equipment increased ¥1.9 billion, and investments and other assets increased ¥20.5 billion. Although there was a ¥2.5 billion increase in trade notes and accounts receivable in line with an increase in sales volumes, a ¥1.1 billion decrease in cash on hand and in banks due to the use of cash on hand for the repayment of interest-bearing debt by utilizing CMS resulted in a ¥0.3 billion increase in current assets. The increase in property, plant, and equipment was mainly due to the increase in the number of consolidated subsidiaries. The increase in investments and other assets was primarily due to a ¥20.4 billion increase in investment securities as a result of the increase in fair value in line with stock price increases and the acquisition of securities by Rengo.

Liabilities and Shareholders' Equity
Total liabilities increased ¥1.1 billion from ¥306.6 billion for the previous year to ¥307.7 billion as a result of an ¥8.3 billion decrease in short-term borrowings and long-term debt and an ¥8.9 billion increase in deferred tax liabilities. The ¥8.3 billion decrease in short-term borrowings and long-term debt was the result of an increase of ¥7.7 billion in borrowings, redemption of convertible bonds amounting to ¥10.0 billion, and conversion of convertible bonds amounting to ¥5.9 billion. The ¥8.9 billion increase in deferred tax liabilities was mainly due to an increase in the fair value due to stock price increases.

Shareholders' equity increased ¥21.4 billion from ¥113.2 billion for the previous year to ¥134.6 billion mainly due to increases in retained earnings and net unrealized holding gains on securities.

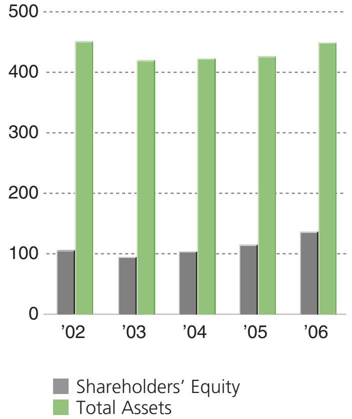
Cash Flows
Net cash provided by operating activities was ¥31.3 billion. While there was a cash inflow amounting to ¥44.5 billion consisting of proceeds of ¥23.7 billion from an increase in income before income taxes and minority interests and ¥20.8 billion from depreciation and amortization, a gain on sale of property, plant and equipment amounted to ¥6.9 billion (¥1.9 billion for the previous year).

Net cash used in investment activities was ¥19.5 billion. Whereas expenditures amounted to ¥28.1 billion due to acquisition of property, plant, and equipment, acquisition of intangible assets, and acquisition of investment securities, proceeds from sale of property, plant and equipment amounted to ¥7.4 billion mainly due to the sale of the site of the former Kanagawa Plant of Yamato Shiki Co., Ltd. in line with the relocation.

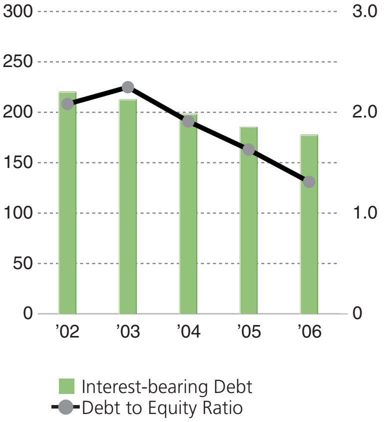
Net cash used in financing activities was ¥13.0 billion. This result was mainly attributable to the redemption of the sixth issue of unsecured bonds amounting to ¥10 billion, a ¥6.3 billion purchase of the Company's own shares and the increase in financing by means of borrowings.

As a result of the above developments and the affect of increases and decreases in the number of consolidated subsidiaries, cash and cash equivalents decreased ¥0.9 billion from the previous year to ¥6.8 billion at the end of the year under review.

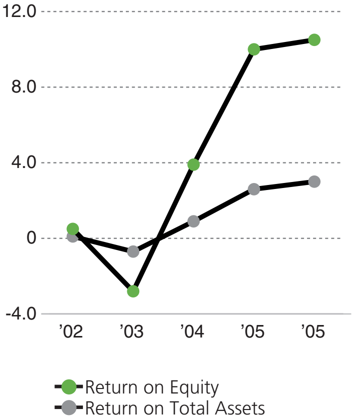
Shareholders' Equity and Total Assets (Billions of yen)



Interest-bearing Debt and Debt to Equity Ratio (Billions of yen) (Times)



Return on Equity and Return on Total Assets (%)



Consolidated Balance Sheets

Rengo Co., Ltd. and Consolidated Subsidiaries

March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Assets			
Current assets:			
Cash on hand and in banks (Note 13)	**¥ 7,504**	¥ 8,573	**$ 64,137**
Marketable securities (Note 3)	**19**	76	**162**
Receivables—			
Trade notes and accounts	**101,401**	98,892	**866,675**
Other	**1,387**	1,862	**11,855**
Allowance for doubtful receivables	**(1,487)**	(1,028)	**(12,709)**
	101,301	99,726	**865,821**
Inventories (Note 4)	**22,578**	22,058	**192,974**
Deferred tax assets (Note 12)	**3,203**	3,091	**27,376**
Other	**1,494**	2,280	**12,769**
Total current assets	**136,099**	135,804	**1,163,239**
Property, plant and equipment (Note 6):			
Buildings and structures	**146,299**	142,403	**1,250,419**
Machinery and equipment	**319,550**	310,990	**2,731,197**
Land	**90,993**	90,157	**777,718**
Construction in progress	**2,959**	1,986	**25,291**
Other	**15,597**	15,048	**133,307**
	575,398	560,584	**4,917,932**
Less accumulated depreciation	**(348,303)**	(335,401)	**(2,976,949)**
Total property, plant and equipment	**227,095**	225,183	**1,940,983**
Intangible assets:			
Excess of cost over equity in net assets acquired	**2,385**	2,752	**20,385**
Other	**4,029**	3,638	**34,436**
Total intangible assets	**6,414**	6,390	**54,821**
Investments and other assets:			
Investment securities (Notes 3 and 6)	**70,152**	49,740	**599,590**
Long-term loans	**777**	167	**6,641**
Deferred tax assets (Note 12)	**1,212**	1,444	**10,359**
Other	**7,597**	7,856	**64,931**
Allowance for doubtful receivables	**(1,956)**	(1,930)	**(16,718)**
Total investments and other assets	**77,782**	57,277	**664,803**
	¥447,390	¥424,654	**$3,823,846**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings, including current portion			
of long-term debt (Notes 5 and 6)	**¥ 91,871**	¥ 85,000	**$ 785,222**
Payables—			
Trade notes and accounts	**58,099**	53,445	**496,573**
Other	**10,066**	11,364	**86,034**
	68,165	64,809	**582,607**
Income taxes payable	**5,192**	5,019	**44,376**
Other	**21,743**	22,723	**185,838**
Total current liabilities	**186,971**	177,551	**1,598,043**
Long-term liabilities:			
Long-term debt due after one year (Notes 5 and 6)	**84,452**	99,578	**721,812**
Deferred tax liabilities (Note 12)	**12,860**	3,960	**109,915**
Employees' severance and retirement benefits (Note 10)	**18,677**	21,055	**159,632**
Directors' and statutory auditors' retirement benefits	**2,075**	1,914	**17,735**
Other (Note 6)	**2,682**	2,576	**22,923**
Total long–term liabilities	**120,746**	129,083	**1,032,017**
Contingent liabilities (Note 7)			
Minority interests in consolidated subsidiaries	**5,060**	4,865	**43,248**
Shareholders' equity (Note 9)**:**			
Common stock:			
Authorized – 360,000,000 shares			
Issued – 241,926,626 shares in 2006	**25,343**	—	**216,607**
– 241,544,947 shares in 2005	**—**	25,243	**—**
Capital surplus	**21,748**	21,654	**185,880**
Retained earnings (Note 17)	**70,400**	59,889	**601,709**
Net unrealized holding gains on securities	**19,349**	9,663	**165,376**
Foreign currency translation adjustments	**(682)**	(2,247)	**(5,829)**
Treasury stock, at cost			
2,920,665 shares in 2006	**(1,545)**	—	**(13,205)**
3,589,780 shares in 2005	**—**	(1,047)	**—**
Total shareholders' equity	**134,613**	113,155	**1,150,538**
	¥447,390	¥424,654	**$3,823,846**

Consolidated Statements of Income

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 14)	¥402,168	¥391,175	$3,437,333
Cost of sales	331,166	321,334	2,830,478
Selling, general and administrative expenses (Note 11)	49,301	48,583	421,376
Operating income (Note 14)	21,701	21,258	185,479
Other income (expenses):			
Interest and dividend income	1,119	931	9,564
Interest expense	(1,755)	(1,859)	(15,000)
Rent and warehousing income	641	659	5,479
Equity in earnings of affiliates	683	466	5,837
Gain on sale of investment securities	396	103	3,385
Write-down of investment securities	—	(64)	—
Gain on sale of property, plant and equipment	6,187	1,863	52,880
Lump-sum amortization of past service cost	—	3,495	—
Loss on disposal and sale of property, plant and equipment	(1,091)	(1,917)	(9,325)
Write-down of golf club memberships	(168)	(171)	(1,436)
Amortization of net transition obligation as a result of new accounting standard for retirement benefits	—	(3,414)	—
Lump-sum amortization of excess of cost over equity in net assets acquired	(233)	(89)	(1,991)
Removal expenses of business offices and plants	(641)	(587)	(5,479)
Loss on impairment of fixed assets (Note 15)	(593)	—	(5,068)
Provision of allowance for doubtful receivables	(590)	—	(5,043)
Renewal expenses of plants	(569)	—	(4,863)
Other, net	(1,375)	(1,199)	(11,752)
Income before income taxes and minority interests	23,712	19,475	202,667
Income taxes (Note 12)**:**			
Current	8,753	7,405	74,812
Deferred	1,957	885	16,726
	10,710	8,290	91,538
Minority interests in net losses (income) of consolidated subsidiaries	30	(271)	256
Net income	¥ 13,032	¥ 10,914	$ 111,385

	Yen		U.S. dollars (Note 1)
Per share data:	2006	2005	2006
Net income per share – basic	¥ 54.63	¥ 44.98	$ 0.47
Net income per share – diluted	47.72	39.04	0.41
Cash dividends applicable to the year	9.00	8.00	0.08

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2006 and 2005

	Thousands	Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	241,545	¥25,243	¥21,648	¥50,827	¥9,297	(¥1,993)	(¥958)
Net income for the year ended March 31, 2005	—	—	—	10,914	—	—	—
Increase resulting from newly consolidated subsidiaries	—	—	—	95	—	—	—
Cash dividends (¥8.00 per share)	—	—	—	(1,786)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(145)	—	—	—
Net unrealized holding gains on securities	—	—	—	—	366	—	—
Changes in foreign currency translation adjustments	—	—	—	—	—	(254)	—
Change in treasury stock	—	—	—	—	—	—	(89)
Surplus from sale of treasury stock	—	—	6	—	—	—	—
Other	—	—	—	(16)	—	—	—
Balance at March 31, 2005	241,545	¥25,243	¥21,654	¥59,889	¥9,663	(¥2,247)	(¥1,047)
Net income for the year ended March 31, 2006	—	—	—	13,032	—	—	—
Decrease resulting from newly consolidated subsidiaries	—	—	—	(156)	—	—	—
Decrease resulting from investments newly accounted for by the equity method	—	—	—	(141)	—	—	—
Cash dividends (¥9.00 per share)	—	—	—	(1,883)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(204)	—	—	—
Net unrealized holding gains on securities	—	—	—	—	9,686	—	—
Changes in foreign currency translation adjustments	—	—	—	—	—	1,565	—
Change in treasury stock	—	—	—	—	—	—	(498)
Surplus from sale of treasury stock	—	—	(6)	(78)	—	—	—
Increase resulting from conversion of convertible bonds	382	100	100	—	—	—	—
Other	—	—	—	(59)	—	—	—
Balance at March 31, 2006	241,927	¥25,343	¥21,748	¥70,400	¥19,349	(¥682)	(¥1,545)

	Thousands of U.S Dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gains on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	$215,752	$185,077	$511,872	$82,590	($19,205)	($8,949)
Net income for the year ended March 31, 2006	—	—	111,385	—	—	—
Decrease resulting from newly consolidated subsidiaries	—	—	(1,334)	—	—	—
Decrease resulting from investments newly accounted for by the equity method	—	—	(1,205)	—	—	—
Cash dividends (¥9.00 per share)	—	—	(16,094)	—	—	—
Directors' and statutory auditors' bonuses	—	—	(1,744)	—	—	—
Net unrealized holding gains on securities	—	—	—	82,786	—	—
Changes in foreign currency translation adjustments	—	—	—	—	13,376	—
Change in treasury stock	—	—	—	—	—	(4,256)
Surplus from sale of treasury stock	—	(52)	(667)	—	—	—
Increase resulting from conversion of convertible bonds	855	855	—	—	—	—
Other	—	—	(504)	—	—	—
Balance at March 31, 2006	$216,607	$185,880	$601,709	$165,376	($5,829)	($13,205)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Rengo Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	**2006**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥23,712**	¥19,475	**$202,667**
Depreciation and amortization	**20,822**	20,607	**177,966**
Loss on impairment of fixed assets	**593**	—	**5,068**
Amortization of excess of cost over equity in net assets acquired	**461**	317	**3,940**
Decrease in provision for employees' severance and retirement benefits	**(2,477)**	(2,323)	**(21,171)**
Increase in provision for directors' and statutory auditors' retirement benefits	**104**	61	**889**
Interest and dividend income	**(1,119)**	(931)	**(9,564)**
Interest expense	**1,755**	1,859	**15,000**
Equity in earnings of affiliates	**(683)**	(466)	**(5,838)**
Gain on sale of investment securities	**(320)**	(79)	**(2,735)**
Write-down of investment securities	**—**	64	**—**
Gain on sale of property, plant and equipment	**(6,948)**	(1,863)	**(59,385)**
Loss on disposal and sale of property, plant and equipment	**2,024**	1,917	**17,299**
Increase in notes and accounts receivable	**(1,167)**	(3,381)	**(9,974)**
Increase (decrease) in inventories	**(114)**	226	**(974)**
Increase in notes and accounts payable	**3,055**	185	**26,111**
Other, net	**852**	2,467	**7,282**
Subtotal	**40,550**	38,135	**346,581**
Interest and dividends received	**1,475**	1,377	**12,607**
Interest paid	**(1,715)**	(1,860)	**(14,658)**
Income taxes paid	**(8,975)**	(7,621)	**(76,709)**
Net cash provided by operating activities	**31,335**	30,031	**267,821**
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(23,051)**	(19,077)	**(197,017)**
Proceeds from sale of property, plant and equipment	**7,353**	5,866	**62,846**
Acquisition of intangible fixed assets	**(834)**	(931)	**(7,128)**
Acquisition of investment securities	**(4,193)**	(2,578)	**(35,837)**
Proceeds from sale of investment securities	**761**	1,380	**6,504**
Cash acquired on acquisition of consolidated subsidiary, net (Note 13)	**—**	382	**—**
Cash of subsidiary excluded from consolidation, net of proceeds from sale of investments (Note 13)	**—**	(16)	**—**
Net decrease in short-term loans receivable	**699**	589	**5,974**
Advance of long-term loans receivable	**(643)**	(60)	**(5,496)**
Collection of long-term loans receivable	**28**	43	**239**
Other, net	**404**	672	**3,453**
Net cash used in investing activities	**(19,476)**	(13,730)	**(166,462)**
Cash flows from financing activities			
Increase (decrease) in short-term borrowings	**5,155**	(14,447)	**44,060**
Proceeds from long-term debt	**16,850**	21,471	**144,017**
Repayments of long-term debt	**(16,712)**	(13,541)	**(142,838)**
Redemption of convertible bonds	**—**	(8,519)	**—**
Repayments of bonds	**(10,000)**	—	**(85,470)**
Purchase of treasury stock	**(6,287)**	(96)	**(53,735)**
Dividends paid	**(1,883)**	(1,786)	**(16,094)**
Other, net	**(74)**	(34)	**(632)**
Net cash used in financing activities	**(12,951)**	(16,952)	**(110,692)**
Effect of exchange rate changes on cash and cash equivalents	**175**	(38)	**1,495**
Net decrease in cash and cash equivalents	**(917)**	(689)	**(7,838)**
Cash and cash equivalents at beginning of year	**7,557**	8,066	**64,590**
Increase in cash and cash equivalents by newly consolidated subsidiaries	**136**	180	**1,163**
Cash and cash equivalents at end of year (Note 13)	**¥ 6,776**	¥ 7,557	**$ 57,915**

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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 Securities and Exchange Law. Some 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 translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 34 (32 in 2005) significant subsidiaries, over which the Company has power of control through majority voting right or existence of certain conditions evidencing control by the Company. Certain subsidiaries are consolidated on the basis of years ending on December 31, which differs from that of the Company; however, necessary adjustments have been made if the effect of the difference in year-ends is material.

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

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

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated based on the fair value at the time the Company acquired control of the subsidiaries. The difference between the cost and the underlying net equity of acquisitions is being amortized over 20 years on a straight-line basis. However, such amounts for certain consolidated subsidiaries were fully expensed.

(2) Adoption of New Accounting Standard

For the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6) issued by the Accounting Standards Board of Japan on October 31, 2003.
As a result, income before income taxes and minority interests in net income of consolidated subsidiaries decreased by ¥593 million (US$5,068 thousand) for the year ended March 31, 2006.

(3) Translation of Foreign Currencies

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

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

(4) Allowance for Doubtful Accounts

The Companies provide the allowance for doubtful accounts for general accounts based on past experience, and provide the allowance for specific doubtful accounts based on individual valuation.

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

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

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly and is not expected to recover, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies is not readily available, such securities should be written down to net asset value with a corresponding charge in the statement of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(6) Inventories
Inventories are stated principally at the lower of cost or market. The cost of finished goods, merchandise, half-finished goods, goods in process and supplies is determined primarily by the average cost method, while the cost of raw materials is determined primarily by the moving-average cost method.

(7) Property, plant and equipment
Property, plant and equipment are carried at cost. Depreciation is computed principally by the declining-balance method at rates based on the estimated useful lives in accordance with income tax laws. Buildings acquired after April 1, 1998 are depreciated by the straight-line method.

(8) Intangible Assets
Goodwill, the cost in excess of assigned values of businesses acquired, is amortized on the straight-line method over 5 years.

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

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

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

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the end of the year. The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000, the date that a new accounting standard was adopted, and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation"), as adjusted, amounted to ¥18,201 million. It is being recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001. Actuarial gains and losses are recognized in income and expenses over certain periods (mainly 13 years), within the average of the estimated remaining service lives, commencing with the following period.

(10) Directors' and Statutory Auditors' Retirement Benefits
The Companies pay lump-sum retirement benefits to directors and statutory auditors. The Companies provided the amount that would be required if they all retired at the balance sheet date in accordance with internal rules.

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

(12) Leases
Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

(13) Derivative Transactions and Hedge Accounting
In principal, the Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

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

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

(14) Reclassifications
Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

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

Diluted net income per share is based on the assumption that all dilutive convertible bonds were converted into common stock at the beginning of the year. Related interest expense, net of income tax, has been eliminated.

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

3. INFORMATION ON SECURITIES

(1) The following table summarizes acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2006 and 2005:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			**2006**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values (fair values) exceeding acquisition costs:									
Equity securities	**¥24,503**	**¥57,309**	**¥32,806**	¥18,027	¥34,813	¥16,786	**$209,428**	**$489,821**	**$280,393**
Bonds	**50**	**51**	**1**	25	26	1	**427**	**436**	**9**
Others	**—**	**—**	**—**	—	—	—	**—**	**—**	**—**
	24,553	**57,360**	**32,807**	18,052	34,839	16,787	**209,855**	**490,257**	**280,402**
Securities with book values (fair values) not exceeding acquisition costs:									
Equity securities	**1,764**	**1,600**	**(164)**	4,363	3,886	(477)	**15,077**	**13,676**	**(1,401)**
Bonds	**1,013**	**988**	**(25)**	1,016	1,007	(9)	**8,658**	**8,444**	**(214)**
Others	**11**	**10**	**(1)**	11	10	(1)	**94**	**85**	**(9)**
	2,788	**2,598**	**(190)**	5,390	4,903	(487)	**23,829**	**22,205**	**(1,624)**
Total	**¥27,341**	**¥59,958**	**¥32,617**	¥23,442	¥39,742	¥16,300	**$233,684**	**$512,462**	**$278,778**

(2) The following table summarizes book values of securities with no available fair values as of March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Available-for-sale securities	**¥ 2,241**	¥ 2,363	**$19,154**
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**7,972**	7,711	**68,137**
Total	**¥10,213**	¥10,074	**$87,291**

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

	Millions of yen				
	2006				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities	¥ 45	¥1,025	¥ 10	¥—	¥1,080

	Thousands of U.S. dollars				
	2006				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities	$385	$8,761	$ 85	$—	$9,231

	Millions of yen				
	2005				
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years	Total
Available-for-sale securities	¥ 51	¥1,006	¥ 11	¥—	¥1,068

(4) Total sales of available-for-sale securities in the years ended March 31, 2006 and 2005 amounted to ¥705 million (U.S.$6,026 thousand) and ¥1,122 million, respectively. The related gains for the years ended March 31, 2006 and 2005 amounted to ¥396 million (U.S.$3,385 thousand) and ¥94 million, respectively. The related losses for the years ended March 31, 2006 and 2005 amounted to ¥76 million (U.S.$650 thousand) and ¥1 million, respectively.

4. INVENTORIES

Inventories as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods and merchandise	¥ 6,986	¥ 6,793	$ 59,709
Half-finished goods	3,162	3,506	27,026
Raw materials	5,953	5,237	50,880
Goods in process	3,094	2,848	26,444
Supplies	3,383	3,674	28,915
	¥22,578	¥22,058	$192,974

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings and the current portion of long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Weighted average interest rate
	2006	2005	2006	2006
Short-term borrowings	¥63,596	¥57,280	$543,555	0.73%
Current portion of long-term debt	28,275	27,720	241,667	0.81%
	¥91,871	¥85,000	$785,222	—

Long-term debt at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
0.19% to 4.66% loans, principally from banks and insurance companies, due in installments through 2024	¥ 79,556	¥ 78,218	$ 679,966
Unsecured 0.58% bonds, due August 2005	—	10,000	—
Unsecured 1.13% bonds, due August 2008	10,000	10,000	85,470
Unsecured 0.59% bonds, due March 2008	5,000	5,000	42,735
Unsecured 0.93% bonds, due March 2010	5,000	5,000	42,735
Secured 1.25% bonds, due December 2006	100	100	855
Unsecured 0.45% convertible bonds, due March 2007	13,071	18,980	111,718
	112,727	127,298	963,479
Less current portion	(28,275)	(27,720)	(241,667)
	¥ 84,452	¥ 99,578	$ 721,812

Due to a debt assumption contract on March 31, 2004, the Company assigned the obligation to repay unsecured 3.0% bonds of ¥5,000 million (U.S.$42,735 thousand) due August 2007 to a financial institution. Accordingly, these bonds have been treated as redeemed.

The conversion price per share of the unsecured 0.45% convertible bonds, due March 2007 is ¥524 per share.

Annual maturities of long-term debt at March 31, 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars
2007	¥ 28,275	$241,667
2008	21,069	180,077
2009	30,638	261,863
2010	18,001	153,855
2011 and thereafter	14,744	126,017
	¥112,727	$963,479

6. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral for short-term borrowings, including current portion of long-term debt, of ¥7,749 million (U.S.$66,231 thousand), long-term debt of ¥11,253 million (U.S.$96,179 thousand) and other long-term liabilities of ¥1,777 million (U.S.$15,188 thousand) at March 31, 2006 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥79,889	$682,812
Investment securities	426	3,641

Besides the above-mentioned, time deposits of ¥150 million (U.S.$1,282 thousand) pledged as collateral for soil a melio-ration.

7. CONTINGENT LIABILITIES

As of March 31, 2006, the Companies' contingent liabilities are as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted	¥ 219	$ 1,872
As endorser of notes endorsed	862	7,368
As guarantor of indebtedness and lease obligations	867	7,410
Debt assumption agreement (Note 5)	5,000	42,735

8. LEASE TRANSACTIONS

Information relating to finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, at March 31, 2006 and 2005 and for the fiscal years then ended, as lessee, is as follows:

(1) Original lease obligations, payments made and remaining balances at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Original lease obligations	**¥24,805**	¥23,156	**$212,008**
Payments made	**14,591**	13,086	**124,709**
Balance remaining	**¥10,214**	¥10,070	**$ 87,299**

(2) Future minimum lease payments for the remaining lease periods at March 31, 2006 and 2005:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Due within one year	**¥ 3,640**	¥ 2,987	**$31,111**
Due over one year	**6,574**	7,083	**56,188**
Total	**¥10,214**	¥10,070	**$87,299**

(3) Lease payments in the years ended March 31, 2006 and 2005 amounted to ¥3,130 million (U.S.$26,752 thousand) and ¥2,968 million, respectively.

9. SHAREHOLDERS' EQUITY AND PER SHARE DATA

(1) Common stock and capital surplus

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal earnings reserve. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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 Code.

(2) Cash dividends

A year-end dividend may be approved by the shareholders' meeting after the end of each fiscal year. In accordance with the Code, these dividends and the related appropriations of retained earnings are not reflected in the financial statements at the end of fiscal year but are recorded at the time they are approved. However, dividends per share shown in the accompanying consolidated statements of income are shown in the years to which they are applicable.

10. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥46,610**	¥46,896	**$398,376**
Unrecognized actuarial differences	**(4,123)**	(6,873)	**(35,240)**
Less fair value of pension assets	**(23,817)**	(18,968)	**(203,564)**
Prepaid pension costs	**7**	—	**60**
Liability for severance and retirement benefits	**¥18,677**	¥21,055	**$159,632**

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Service costs – benefits earned during the year	**¥2,074**	¥2,043	**$17,727**
Interest cost on projected benefit obligation	**835**	867	**7,137**
Expected return on plan assets	**(265)**	(238)	**(2,265)**
Amortization of net transition obligation	**—**	3,414	**—**
Amortization of net unrecognized actuarial differences	**682**	753	**5,829**
Lump-sum amortization of past service costs	**38**	(3,495)	**325**
Other severance and retirement benefit expenses	**372**	299	**3,179**
	¥3,736	¥3,643	**$31,932**

The discount rate of the projected benefit obligation used by the Companies for the years ended March 31, 2006 and 2005 is 2.0%. The rate of expected return on plan assets used by the Companies for the years ended March 31, 2006 and 2005 is 1.5%. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in the statements of income principally over 13 years commencing with the following period.

11. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in "general and administrative expenses" are charged to income as incurred. Research and development expenses charged to income amounted to ¥1,316 million (U.S.$11,248 thousand) and ¥1,253 million for the years ended March 31, 2006 and 2005, respectively.

12. INCOME TAXES

The Company and consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rate in Japan of approximately 40.4% for the years ended March 31, 2006 and 2005, respectively.

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Deferred tax assets:			
Loss carried forward for tax purposes	**¥ 2,499**	¥ 3,292	**$ 21,359**
Employees' severance and retirement benefits	**6,745**	7,244	**57,650**
Accrued bonuses	**2,077**	2,000	**17,752**
Write-down of golf-club memberships	**743**	748	**6,350**
Directors' and statutory auditors' retirement benefits	**832**	772	**7,111**
Write-down of investment securities	**2,041**	267	**17,444**
Allowance for doubtful accounts	**571**	485	**4,880**
Unrealized gain on sale of property, plant and equipment eliminated on consolidation	**432**	500	**3,692**
Accrued enterprise taxes	**463**	451	**3,957**
Loss on impairment of fixed assets	**239**	—	**2,043**
Other	**1,258**	1,218	**10,752**
Total deferred tax assets	**17,900**	16,977	**152,990**
Valuation allowance	**(3,018)**	(3,717)	**(25,794)**
Net deferred tax assets	**14,882**	13,260	**127,196**
Deferred tax liabilities:			
Special tax-purpose reserves	**(4,636)**	(2,964)	**(39,624)**
Unrealized gain on revaluation of land	**(3,464)**	(3,036)	**(29,607)**
Unrealized gain on revaluation of available-for-sale of securities	**(14,823)**	(6,587)	**(126,692)**
Other	**(404)**	(98)	**(3,453)**
Total deferred tax liabilities	**(23,327)**	(12,685)	**(199,376)**
Net deferred tax assets (liabilities)	**(¥ 8,445)**	¥ 575	**($ 72,180)**

At March 31, 2006 and 2005, the reconciliations of the aggregate statutory income tax rates to the effective income tax rates are as follows:

	2006	2005
Statutory tax rate	**40.4%**	40.4%
Non deductible expenses	**2.4**	2.8
Non-taxable dividend income	**(0.9)**	(0.9)
Elimination of dividend income in consolidation	**1.4**	1.5
Per capita inhabitants taxes	**0.9**	1.1
Amortization of excess of cost over equity in net assets acquired	**0.8**	0.7
Equity in earnings of non-consolidated subsidiaries and affiliates	**(0.8)**	(1.0)
Other	**1.0**	(2.0)
Effective income tax rate	**45.2%**	42.6%

13. CASH FLOW STATEMENTS

(1) Cash and Cash Equivalents

Cash and cash equivalents comprised cash on hand, bank deposits that are 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 time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash on hand and in banks	**¥7,504**	¥8,573	**$64,137**
Less: Time deposits with maturities exceeding three months	**(754)**	(1,050)	**(6,444)**
Add: Short-term loans receivable with maturities not exceeding three months	**26**	9	**222**
Add: Short-term highly liquid investments with maturities not exceeding three months	**—**	25	**—**
Cash and cash equivalents	**¥6,776**	¥7,557	**$57,915**

(2) The assets and liabilities of newly consolidated subsidiary as a result of acquisition of shares and the cash acquisition are summarized as follows:

	Millions of yen
	2005
Current assets	¥1,942
Fixed assets	2,051
Cost for share acquisition in excess of net book value	(286)
Current liabilities	(1,359)
Long-term liabilities	(1,075)
Minority interests	(536)
Increase in investments resulting from the application of the equity method prior to March 31, 2005	(548)
Cost for share acquisition	189
Acquisition cost prior to March 31, 2005	(24)
Cash and cash equivalents held by the subsidiary	(547)
Cash acquired on acquisition of consolidated subsidiary, net	(¥ 382)

(3) The assets and liabilities of subsidiary as of June 30, 2004, which was excluded from consolidation effective September 30, 2004 were as follows:

	Millions of yen
Current assets	¥363
Fixed assets	398
Total assets	¥761
Current liabilities	(¥466)
Long-term liabilities	(6)
Total liabilities	(¥472)

(4) Significant Non-fund Transaction

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Increase of common stock by conversion of convertible bonds	**¥ 100**	**$ 855**
Increase of capital surplus by conversion of convertible bonds	**100**	**855**
Allocation of treasury stock by conversion of convertible bonds	**5,794**	**49,521**
Loss on reissuance of treasury stock following the above	**(86)**	**(736)**
Payment for odd redemption by conversion of convertible bonds	**1**	**9**
Decrease of convertible bonds by conversion	**¥5,909**	**$50,504**

14. SEGMENT INFORMATION

Segment change

Effective April 1, 2005, the Company changed from two segment categories (packaging and other business) to three segment categories (Paperboard and packaging-related products, Flexible packaging-related products and other business).

This change was made to provide more useful segment information, because the importance of flexible packaging-related business has increased, as net sales in flexible packaging-related products have exceeded 10% of the total amount of net sales of all segments, and Howa sangyo Co., Ltd., which is a core subsidiary of flexible packaging-related products in the Rengo group, decided to have additional construction of plant and renew manufacturing equipment.

Segment information for the years ended March 31, 2006 and 2005, under the present year segmentation method, is as shown below.

Paperboard and packaging-related products Division includes paperboard, corrugated board, corrugated containers and other.

Flexible packaging-related products Division includes flexible packaging, cellophane and other.
The Other Division includes printing machinery, newsprint, chemical synthetics, non-woven products and other.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Net sales:			
Paperboard and packaging-related products	**¥331,030**	¥321,459	**$2,829,316**
Flexible packaging-related products	**42,698**	39,607	**364,940**
Other	**51,267**	51,643	**438,180**
	424,995	412,709	**3,632,436**
Elimination or Corporate	**(22,827)**	(21,534)	**(195,103)**
	¥402,168	¥391,175	**$3,437,333**
Operating costs and expenses:			
Paperboard and packaging-related products	**¥312,606**	¥302,801	**$2,671,846**
Flexible packaging-related products	**40,704**	38,001	**347,897**
Other	**50,110**	50,802	**428,291**
	403,420	391,604	**3,448,034**
Elimination or Corporate	**(22,953)**	(21,687)	**(196,180)**
	¥380,467	¥369,917	**$3,251,854**
Operating income:			
Paperboard and packaging-related products	**¥18,424**	¥18,658	**$157,470**
Flexible packaging-related products	**1,994**	1,606	**17,043**
Other	**1,157**	841	**9,889**
	21,575	21,105	**184,402**
Elimination or Corporate	**126**	153	**1,077**
	¥21,701	¥21,258	**$185,479**
Assets:			
Paperboard and packaging-related products	**¥386,444**	¥362,414	**$3,302,940**
Flexible packaging-related products	**36,325**	36,815	**310,470**
Other	**37,493**	37,779	**320,453**
	460,262	437,008	**3,933,863**
Elimination or Corporate	**(12,872)**	(12,354)	**(110,017)**
	¥447,390	¥424,654	**$3,823,846**
Depreciation and amortization:			
Paperboard and packaging-related products	**¥17,418**	¥16,905	**$148,872**
Flexible packaging-related products	**1,804**	1,999	**15,419**
Other	**1,801**	1,920	**15,393**
	21,023	20,824	**179,684**
Elimination or Corporate	**(201)**	(217)	**(1,718)**
	¥20,822	¥20,607	**$177,966**
Loss on impairment of fixed assets			
Paperboard and packaging-related products	**¥593**	¥—	**$5,068**
Flexible packaging-related products	**—**	—	**—**
Other	**—**	—	**—**
	593	—	**5,068**
Elimination or Corporate	**—**	—	**—**
	¥593	¥—	**$5,068**
Capital expenditure			
Paperboard and packaging-related products	**¥18,212**	¥20,939	**$155,658**
Flexible packaging-related products	**1,791**	1,661	**15,308**
Other	**2,563**	1,284	**21,906**
	22,566	23,884	**192,872**
Elimination or Corporate	**(158)**	(177)	**(1,350)**
	¥22,408	¥23,707	**$191,522**

15. LOSS ON IMPAIRMENT OF FIXED ASSETS

In the year ended March 31, 2006, the Company reported the following loss on impairment fixed assets;

Use	Type of asset	Place	Millions of yen	Thousands of U.S.dollars
Idle assets	Land	Kanda-cho Miyako-gun Fukuoka Prefecture	¥527	$4,504
		Toyota-shi Aichi Prefecture	42	359
		Kirishima-shi Kagoshima Prefecture	15	128
		Iwata-shi Shizuoka Prefecture	9	77
		Total	¥593	$5,068

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

As for the idle assets, the impairment loss was recognized because the recoverable amount is below the book value and there are no future use prospects.The recoverable amounts of the assets are the net selling price and evaluations are principally based on real estate appraisal benchmarks.

16. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Company uses interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of interest rate increases with respect to loans. Interest rate swap contracts are subject to risks of interest rate changes.

The derivative transactions are executed and managed by the Company in accordance with established policies.

The risks of fluctuations in interest rates have been assumed to be completely hedged over the period of hedging contracts as major conditions of hedging instruments and hedged items are consistent. Accordingly, the evaluation of effectiveness of the hedging contracts is unnecessary.

17. SUBSEQUENT EVENTS

The annual shareholders' meeting of the Company, which was held on June 29, 2006, resolved the following year-end appropriation of non-consolidated retained earnings:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.00 = US$0.04 per share)	¥1,195	$10,214
Bonuses to directors and statutory auditors	141	1,205

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Rengo Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rengo Co., Ltd. and subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

1. As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, Rengo Co., Ltd. and domestic consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.
2. As discussed in Note 14 to consolidated financial statements, the Company changed its classification of business segments.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 29, 2006

KPMG AZSA & Co.

KPMG AZSA & Co.

DIRECTORY

Head Office

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

Tokyo Head Office

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

Plants and Mills

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

Paperboard Packaging: Katsushika, Kawasaki, Tonegawa, Katsura

Paperboard: Tonegawa, Yodogawa, Kanazu, Yashio, Amagasaki

Paperboard Converting: Tonegawa

Chemical/Biotechnological Products: Kanazu

Cellophane: Takefu

Laboratories

Osaka, Fukui

Overseas Representative Offices

Shanghai:
1111 Jinxiang Road Jinqiao
Export Processing Zone,
Shanghai 201206
Phone: 86-21-5032-8030
Fax: 86-21-5032-8026

Principal Subsidiaries and Affiliates

Japan

Asahi Danboru Co., Ltd.
Awaji Shiko Co., Ltd.
Ihara Shiki Co., Ltd.
Osaka Paper Co., Ltd.
Kyoei Danboru Co., Ltd.
Kofu Daiichi Jitugyo Co., Ltd.
Saito Shiki Co., Ltd.
Settsu Carton Corporation
Shin Jis Grande Co., Ltd.
Taiyo Industry Ltd.
Daiichi Package Co., Ltd.
Tokai Shiki Co., Ltd.
Nitto Shiki Kogyo Co., Ltd.
Hamada Printing Press Co., Ltd.
Hinode Shiki Kogyo Co., Ltd.
Hokkaido Hoso Shizai Co., Ltd.
Hokuriku Shiki Co., Ltd.
Howa Sangyo Co., Ltd.
Matsumoto Package Co., Ltd.
Marusan Paper Mfg. Co., Ltd.
Yamada Kikai Kogyo Co., Ltd.
Yamato Shiki Co., Ltd.
Yamatoya Co., Ltd.
Rengo Service Co., Ltd.
Rengo Nonwoven Products Co., Ltd.
Rengo Paper Business Co., Ltd.
Rengo Riverwood Packaging, Ltd.
Rengo Logistics Co., Ltd.

Asia

China:
Dalian Rengo Packaging Co., Ltd.
Guangdong Rengo Packaging Co., Ltd.
Qingdao Rengo Packaging Co., Ltd.
Shanghai Rengo Packaging Co., Ltd.
Tianjin Rengo Packaging Co., Ltd.
Wuxi Rengo Packaging Co., Ltd.
Weihai Hamada Printing Press Co., Ltd.
Zhongshan Rengo Hung Hing Paper Manufacturing Co., Ltd.
Zhongshan Ren Hing Paper Manufacturing Co., Ltd.

Singapore:
Sime Rengo Packaging (Singapore) Ltd.
Rising Paper Products Pte. Ltd.

Malaysia:
Sime Rengo Packaging (Malaysia) Sdn. Bhd.

Thailand:
Thai Containers Ltd.
Thai Containers Industry Co., Ltd.
Thai Containers Ratchaburi (1989) Co., Ltd.
Thai Containers Group Co., Ltd.

Indonesia:
P. T. Surya Rengo Containers

Philippines:
San Miguel Rengo Packaging Corp.
Mindanao Corrugated Fibreboard, Inc.

INVESTORS INFORMATION

(As of March 31, 2006)

Founded	April 12, 1909	
Incorporated	May 2, 1920	
Paid-in Capital	¥25,343 million	
Number of Shares	Authorized: 360,000,000 Issued: 241,926,626	
Number of Shareholders	19,128	
Number of Employees	Parent Company	2,819
	Consolidated Subsidiaries	6,726
	Total	9,545
Stock Listings	Tokyo, Osaka	
Transfer Agent	The Sumitomo Trust and Banking Co., Ltd. 5-33 Kitahama 4-chome, Chuo-ku, Osaka, Japan	

Major Shareholders

Name	% of total shares issued
Japan Trustee Services Bank, Ltd.	9.49 %
The Master Trust Bank of Japan, Ltd.	8.07
The Sumitomo Trust and Banking Co., Ltd.	3.87
Mitsui Sumitomo Insurance Co., Ltd.	3.23
Trust & Custody Services Bank, Ltd.	3.12
The National Mutual Insurance Federation of Agricultural Cooperatives	3.11
Sumitomo Life Insurance Company	3.07
Sumitomo Corporation	3.00
Sumitomo Mitsui Banking Corporation	2.91
The Norinchukin Bank	2.32

RENGO CO., LTD.

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

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