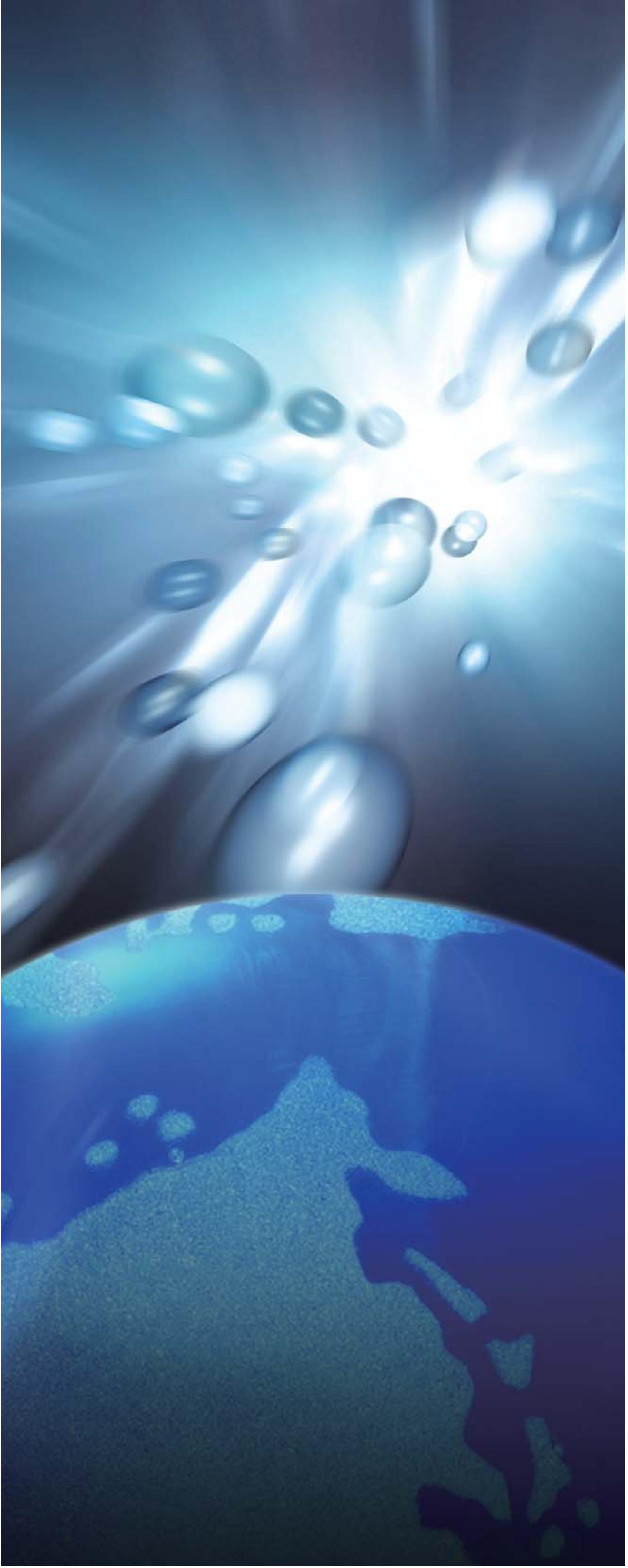


MITSUBISHI PAPER MILLS LIMITED

Annual Report 2012

Mitsubishi Paper Mills Limited was established by Mitsubishi's third president, Hisaya Iwasaki in 1898.

Since its founding, the Mitsubishi Paper Mills Group has contributed to the development of publishing, printing and photography media culture through its high value-added printing and communication paper, and products.

Dedicated to contributing to society by providing customers with products backed by advanced technological capabilities, we have the following three goals as a Group Philosophy:

1. A corporate group that lives up to the trust of its customers in the world market

2. A corporate group that is always on the leading edge of technology

3. A corporate group that contributes to preserving the global environment and creating a recycling society

Mitsubishi Paper Mills produces and develops not only printing paper, printing plate materials and printing systems supporting offset and other printing, but also supplies the media for almost all recording formats, such as pressure-sensitive, thermal, magnetic, electrographic, silver halide photography and inkjet paper. Furthermore, we are adding functional materials such as chemical paper, highly functional filters to our operating business domains, and increasing emphasis on research and development in new business areas.

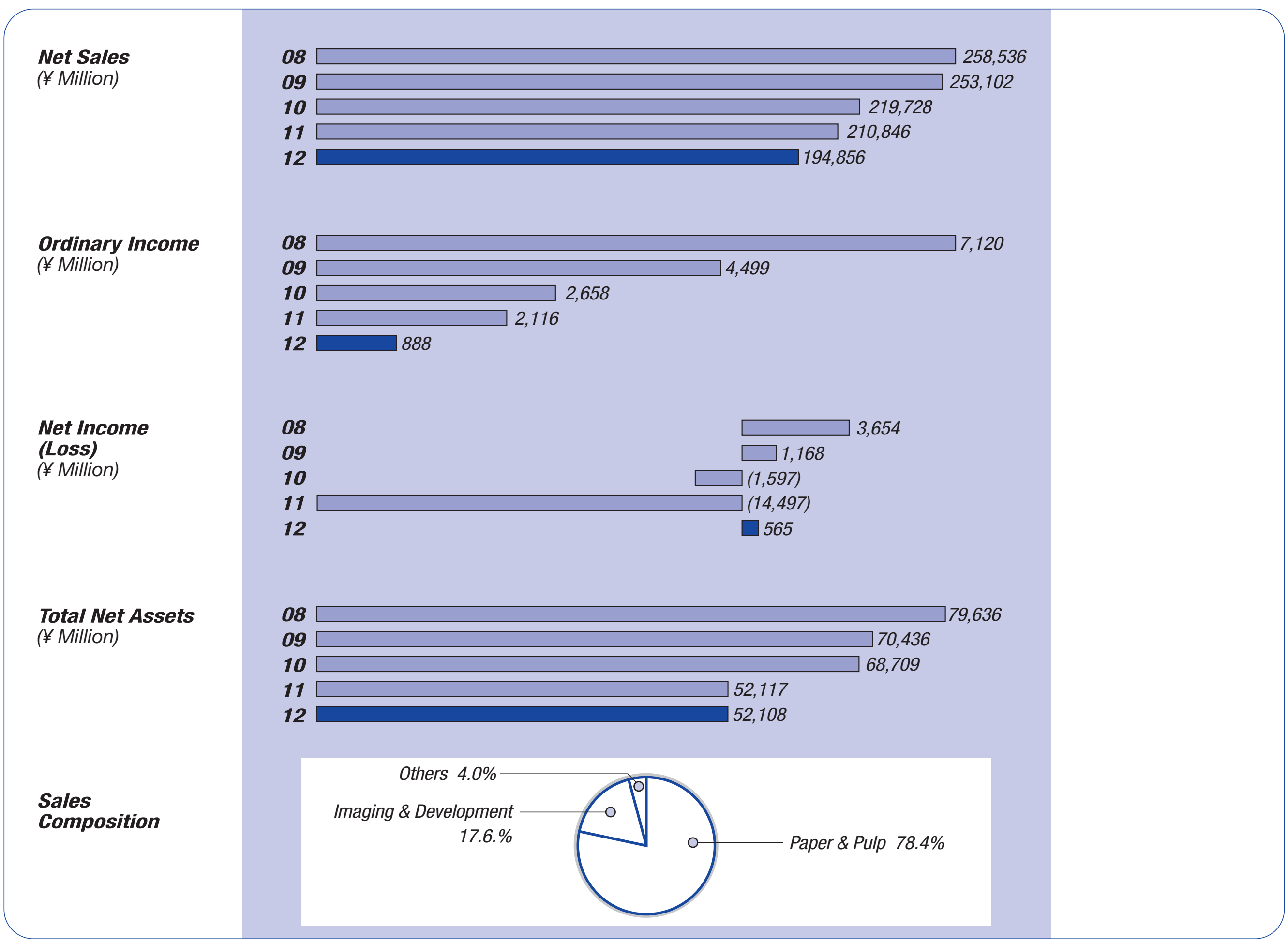
With production facilities and R&D sites mainly located in Japan and Germany, and sales sites located in Japan, Germany and the United States, we have positioned ourselves to serve global markets.

CONTENTS

FINANCIAL HIGHLIGHTS (CONSOLIDATED)

	Millions of yen *(1)*		Thousands of U.S. dollars *(1) and (2)*
	2012	2011	**2012**
For the years ended March 31			
Net sales	**¥ 194,856**	¥ 210,846	**$ 2,370,810**
Ordinary income	**888**	2,116	**10,805**
Net income (loss)	**565**	(14,497)	**6,882**
Net income (loss) per share (in yen and dollars)	**1.65**	(42.39)	**0.02**
Cash dividends per share (in yen and dollars)	**—**	—	**—**
As at March 31			
Total assets	**¥ 276,305**	¥ 248,506	**$ 3,361,794**
Total net assets	**52,108**	52,117	**634,002**
Common stock	**32,756**	32,756	**398,543**
Number of shareholders	**18,278**	19,311	
Number of employees	**4,341**	4,304	

Notes: (1) In this annual report, Japanese yen (in millions) and U.S. dollars (in thousands) are indicated with fractions omitted.
(2) U.S. dollar amounts in this report represent translations of yen amounts at the rate of ¥82.19 = U.S.$1, as of March 31, 2012.



Kunio Suzuki, *President & C.E.O.*

Overview of the Reporting Term

The Mitsubishi Paper Mills Group continued to face a difficult operating environment during the reporting term, largely as a result of the Tohoku Region Pacific Ocean Earthquake of March 11, 2011, in addition to the ongoing appreciation of the yen on the foreign exchange market. The Group's three production centers in the Tohoku region suffered damage in the March 11 disaster. In particular, the tsunami caused serious damage to our Hachinohe Mill, but thanks to recovery efforts by the entire Group as well as swift, all-out reconstruction measures under our First Mid-term Management Plan (announced in August), operation by all production facilities had resumed as of the middle of November.

Against this background, our Paper and Pulp Division recorded substantial decreases in sales value and volume of commercial printing and communication paper, largely due to the low production rates at the Hachinohe Mill due to the tsunami-caused damage.

In our Imaging and Development (I&D) Division, we put special effort into promoting sales of photographic paper in emerging markets, thanks to which total sales volume and value posted year on year increases. In specialty materials, we launched newly-developed products on the market, leveraging our proprietary technological know-how. As a result of this, as well as the inclusion in October of KJ Specialty Paper Co., Ltd. in the scope of consolidation, we recorded a year on year increase in sales value. Declines in both sales volume and value were recorded for inkjet paper (due to the impact of the earthquake and tsunami as well as the yen's appreciation) and printing plate materials (due to the business downturns in Europe and the United States, our principal markets, as well as the yen's appreciation).

As a result of the above, sales on a consolidated basis posted a decline of 7.6% from the previous year, to ¥194,856 million (US$2,370 million). In spite of the positive impact on earnings of our successful efforts to reduce costs, including fixed costs, consolidated ordinary income came to ¥888 million (US$10 million), down 58.0% year on year, largely as a result of a decline in paper sales volume owing to the March 11 earthquake and tsunami. Moreover, although fixed costs accrued during the period of production operation shutdown following the disaster were recognized as extraordinary loss, we posted a consolidated net income in the amount of ¥565 million (US$6 million). This was due to the posting of a decrease in income taxes-deferred owing to a gain on accrual of negative goodwill associated with the acquisition of KJ Specialty Paper Co., Ltd. (which was made into a consolidated subsidiary) and deferred tax assets, as well as the posting of insurance income, subsidy, and a gain on the transfer of fixed assets as extraordinary gain, among other factors.

On a non-consolidated basis, the Company posted net sales of ¥109,567 million (US$1,333 million) and ordinary income of ¥131 million (US$1 million), and a net loss of ¥1,974 million (US$24 million).

Mid-term Management Strategy and Issues Facing the Company

The Group's mid-term management strategy consists of seeing to a successful conclusion the goals of our First Mid-term Management Plan (lasting for three and a half years from October 2011 to the end of fiscal 2014). Our priority tasks under this plan are as follows:

- Improve earnings of printing paper business
- Normalize the Group's financial position
- Develop new products within each division and nurture them into new businesses, and achieve further development overseas, centered on emerging nations

Phase 1 of the First Mid-term Management Plan lasts one and a half years from the second half of fiscal 2011 up to the end of fiscal 2012, and Phase 2 is the fiscal 2013-fiscal 2014 two-year period. We have positioned this first phase as a period for "reconstruction," and the second phase as a period for "strengthening our revenue base for growth."

In the second half of the reporting term, we succeeded in returning sales back to roughly the pre-disaster levels, thanks to all-out efforts to reconstruct production facilities ahead of schedule. From here onward, to further secure the Group's earnings we aim to move forward with positive measures such as concentrating resources on profitable brands, reducing inventories, and reducing logistical costs.

We also plan to repay all sharply-increased interest-bearing debt as soon as possible as part of efforts to return the Group's financial position to normal. We intend to focus our efforts on building up a new revenue base through the injection of management resources into areas that promise good growth, such as our specialty materials business and initiatives in emerging nations, and to link up with our Second Mid-term Management Plan from fiscal 2015, under which we plan to strengthen our capabilities in growth areas.

At the same time, we recognize that corporate social responsibility (CSR) activities are a vital means of maintaining the trust and support of our stakeholders, and thereby of enhancing the Group's enterprise value. During the reporting term, we reorganized our system for promoting CSR activities and implemented certain changes to our head-office organization with the goal of strengthening governance functions. Also, learning a lesson from March 11 earthquake and tsunami, we established a Risk Management Committee charged with putting in place a risk management system capable of effectively handling the whole spectrum of risks to which a business corporation is exposed. In addition, we provided material support to local governments in the region hit by the disaster, and supplied surplus electric power from our in-house generators to the power utilities.

With regard to products, we took steps to expand our lineup of FSC forest-certified paper products and other ecologically friendly products.

For the current business term, fiscal 2012, we are pursuing five basic management policies –
1) strengthening our CSR management foundation, 2) promoting environmental management, 3) raising customer satisfaction levels by carefully addressing user needs, 4) taking further measures to ensure that we provide our employees with a pleasant working environment, and 5) pursuing activities that contribute to society. Under these basic policies, we will take measures to raise our enterprise value in the areas of compliance, risk management, safety & hygiene, the environment, product safety, product quality, human & labor rights, information disclosure, and social contributions.

Forecasts

The outlook for the economy is likely to remain unclear in the near future, in view of the aftereffects of the Tohoku Region Pacific Ocean Earthquake, as well as the ongoing European sovereign debt crisis. In the field of commercial printing and communication paper, too, sales are expected to remain weak for some time to come, due to current economic trends and the likely impact of rising paper imports.

Regarding the Company's consolidated business performance for the current fiscal year, we are moving forward with efforts to achieve the Basic Plan targets set out in our First Mid-term Management Plan. Taking into account projected trends in demand for paper, as well as the likely impact of the yen's foreign exchange rate, we forecast net sales of ¥215.0 billion (US$2,615 million), operating income of ¥6.5 billion (US$79 million), ordinary income of ¥4.0 billion (US$48 million), and net income of ¥3.0 billion (US$36 million).

Exchange rate assumptions for the above forecasts are ¥80/$1 and ¥100/€. This earnings forecast is based on information available at the time of the forecast, and takes into account risk factors and uncertainties. At this juncture, although all potential risks have been factored into the forecast, actual earnings results could vary substantially from the forecast due to a variety of factors.

June 2012

鈴木邦夫

Kunio Suzuki
President & C.E.O.

PAPER AND PULP DIVISIONS

Net Sales *(¥ Million)*

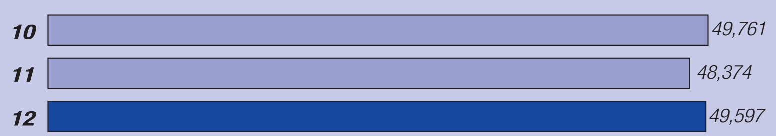
In commercial printing and communication paper – the Paper and Pulp Divisions' mainstay – to minimize the impact on customers of the suspension of production at our Hachinohe Mill, which was damaged by the earthquake and tsunami, we bought in alternative products from other companies to make up the shortfall in our inventories, and supplied them to our customers. We were then able to gradually start up the mills' papermaking machines one after another, recovering full production levels in November. In the latter half of the term, we also focused efforts on attempting to push through price increases, but due to the substantial impact of the low level of production activity, sales of paper fell sharply from the previous year in both volume and value terms.

The Company's European subsidiaries recorded sales roughly unchanged from the previous year in both volume and value terms. Sales of pulp declined in both volume and value terms.

As a result, overall sales in the Paper and Pulp Divisions posted a year on year decrease of 11.1%, to ¥156,237 million (US$1,900 million).

IMAGING AND DEVELOPMENT DIVISIONS

Net Sales *(¥ Million)*



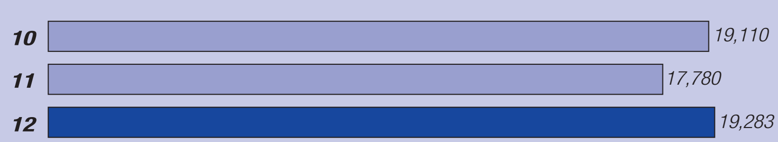
Amid a continuing decline in global demand for photosensitive materials, we focused on attempting to expand our sales in emerging markets, where demand is strong, and as a result achieved sharp increases in both sales volume and value. In the field of printing plate materials, we worked to boost sales of our environment-friendly CTP printing plates, but these efforts were insufficient to offset the business downturn in Europe and the US, as well as the effects of the strong yen. As a result, sales were down from the previous year in both volume and value.

Sales of inkjet paper in Asian markets increased in the latter half of the term, but sales fell in both volume and value terms due to the strong adverse impact of the earthquake and tsunami on the domestic market, as well as the yen's high exchange rate. In specialty materials, we leveraged our technological capabilities to launch a number of new products on the market, including filters for automotive air-conditioners, and elements for business-use humidifiers and evaporators. Sales of our construction-use materials benefitted from post-disaster reconstruction demand, and sales were boosted by the inclusion in October of KJ Specialty Paper Co., Ltd. as a consolidated subsidiary.

As a result, overall sales in the I&D Division increased by 2.5% year on year, to ¥49,597 million (US$603 million).

OTHER DIVISIONS

Net Sales *(¥ Million)*



Sales of other divisions increased 8.5% year on year, to ¥19,283 million (US$234 million), thanks to increased sales by our engineering subsidiaries, notably the newly-consolidated Ryoko Co., Ltd.

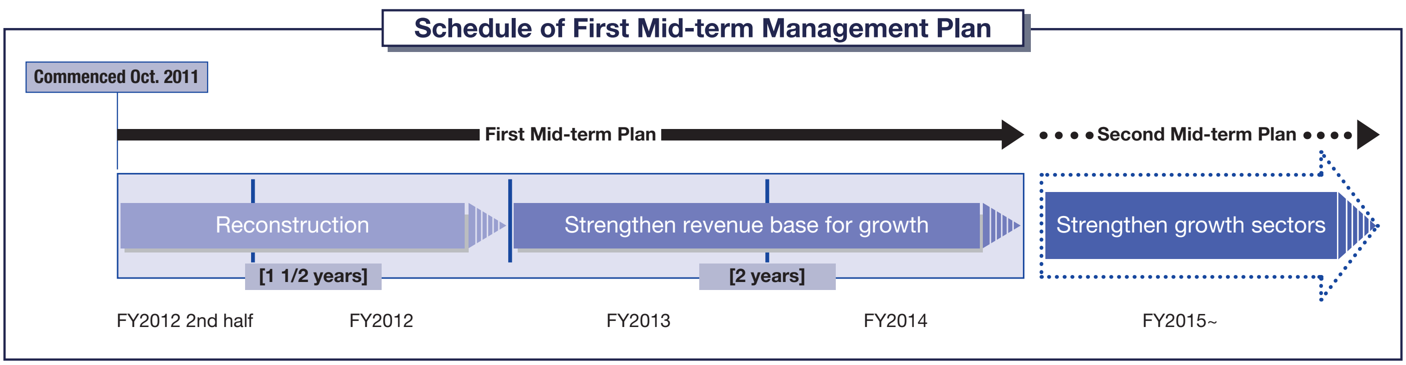
Progress Made under Mid-term Management Plan

Our facilities in the Tohoku Region were damaged by the massive earthquake that occurred on March 11, 2011. In particular, our Hachinohe Mill in Aomori Prefecture suffered extensive damage from the tsunami, and production at the mill came to a stop. Although a complete restoration of production activities was achieved by November, the supply of certain products had been impossible during the intervening period. Moreover, the Company's financial position was weakened considerably by the costs of the reconstruction.

In August of 2011 we announced our First Mid-term Management Plan with the principal goals of achieving a recovery in our sales and restoring our financial position to its former state, and have started implementation from October.

The following section provides a detailed description of the Mid-term Management Plan and the state of progress in its implementation.

(1) Schedule and Basic Policies



Basic Policies

(1) Quickly recover printing paper business market share, build efficient finishing lines
(2) Promptly repay sharply increased interest-bearing debt, normalize financial position
(3) Pursue separate business strategies for each segment

(2) Basic Plan Values

	FY2011	FY2012	FY2013	FY2014
	Plans	Plans	Plans	Plans
	Results	Forecasts		
Sales	¥200.0 bn	¥230.0 bn	¥235.0 bn	¥240.0 bn
	¥194.9 bn	¥215.0 bn		
Operating income	¥3.0 bn	¥7.5 bn	¥8.0 bn	¥10.0 bn
	¥2.2 bn	¥6.5 bn		
Ordinary income	¥1.0 bn	¥4.5 bn	¥5.0 bn	¥7.0 bn
	¥0.9 bn	¥4.0 bn		
Interest-bearing debt	¥170.0 bn	¥170.0 bn	¥160.0 bn	¥150.0 bn
	¥158.0 bn	¥165.0 bn		
D/E ratio	3.7	3.4	3.0	2.6
	3.3	3.3		

(3) Breakdown of Progress by Theme

① **Quickly recover printing paper business market share, build efficient finishing lines**

➡ Net sales of printing paper business in Jan. and Feb. 2012 = 97% year on year

② **Promptly repay sharply increased interest-bearing debt, normalize financial position**

a) Normalize earning power

◆ Sales recovery

➡ Price increase completed at end of 2011; sales volume back roughly to pre-earthquake level

◆ Reform fixed costs structure, with no areas off-limits

➡ •Reorganization as of January 1st, streamline head-office organization
⇨ head office relocation scheduled for July 2012
•Reduce labor costs by approx. ¥1.4 bn (FY2011 year on year comparison)

b) Secure adequate cash flows

◆ Reduce inventory assets, sell off fixed assets

➡ Sell land and buildings (company housing, facilities for training and seminars)

◆ Zero-based budgeting (ZBB) for capital investments

➡ Secure funds for reconstruction through main bank and government-run financial institutions

(4) Breakdown of Progress by Segment

Printing Paper Business

Three-and-a-half-year strategic theme ➡ Expand earnings amid market in which demand is maturing

○ FY2011 2nd half : Priority strategies and progress

Priority strategies: **Proceed with two-pronged strategy of recovering sales level by Hachinohe Mill and pushing through price raises**

➡ Focus on recovering customers lost due to earthquake. Price raise completed by end of Dec. 2011.

○ Priority strategies for FY2012

•Build efficient finishing lines at Hachinohe Mill
(improve efficiency and quality in production of PPC and flat printing paper sheets)
•Improve logistics capabilities
(establish direct transport system, maintain inventories at ideal minimum level)

Imaging Business

Three-and-a-half-year strategic theme ➡ Create conditions for ensuring adequate revenues despite strong yen

○ FY2011 2nd half : Priority strategies and progress

Priority strategies: **Use know-how in photosensitive materials to develop new products**

➡ Fortified product lineup with Violet DigiPlate (VDP: violet sensitive polyester based offset printing plate), high-end electrographic paper, and other products, and expanded sales

Aggressively market photosensitive materials in emerging nations

➡ Thermal DigiPlate (TDP; thermal digital plate and platesetter technology)
⇨ Commenced sales in Indonesia, Thailand, and other countries

○ Priority strategies for FY2012

•Further develop marketing capabilities in overseas markets
(establish sales channels in emerging nations)

Specialty Materials (New Business Development)

Three-and-a-half-year strategic theme ➡ Speed up growth, selectively focus appropriation of management resource

○ FY2011 2nd half : Priority strategies and progress

Priority strategies: Start-up of new non-woven fabric production machines at Takasago Mill; aim at early stabilization

➡ Test runs started in Jan. 2012; commercial operation started in April

Expand scale of Chinese operations

➡ Speed up development of new businesses

○ Priority strategies for FY2012

- Stabilize production and expand sales of new-brand non-woven fabric products
- Launch aggressive marketing of automotive-use cabin air filters

KJ Specialty Paper

Three-and-a-half-year strategic theme ➡ Create synergy, develop overseas

○ FY2011 2nd half : Priority strategies and progress

Priority strategies: Maintain stable operations of existing KJ Specialty Paper's business

➡ Established KJSP Committee to generate synergy from consolidation

○ Priority strategies for FY2012

- Efficient operation of shared sales channels by KJ Specialty Paper and MSM
  (discuss cooperation in sales and production)

German Operations

Three-and-a-half-year strategic theme ➡ Utilize weak euro to stimulate exports

○ FY2011 2nd half : Priority strategies and progress

Priority strategies: Expand export volume outside the eurozone

➡ Aggressive marketing of thermosensitive paper and commercial-use inkjet paper inside and outside the eurozone

○ Priority strategies for FY2012

- Make use of weak euro to increase exports

Overview of Our CSR Activities

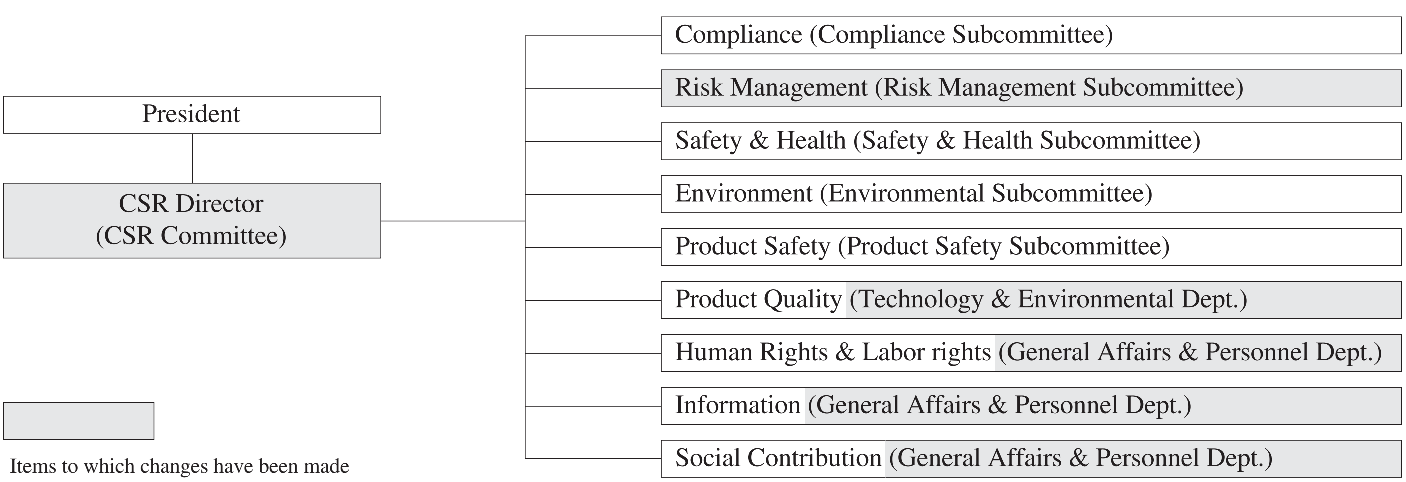
At the Mitsubishi Paper Mills Group, we recognize that the fulfillment of our corporate social responsibilities is vital in winning the trust and understanding of our stakeholders and thereby enhancing the Group's enterprise value. During the reporting term, we implemented certain changes to our head-office organization, reorganized our CSR promotion system to strengthen governance functions, and, learning a lesson from the March 11 earthquake and tsunami, established a Risk Management Committee charged with putting in place a risk management system capable of effectively handling the whole spectrum of risks to which a business corporation is exposed. We also provided material support to local governments in the region hit by the disaster, and supplied surplus electric power from our in-house generators to the power utilities. With regard to products, we took steps to expand our lineup of FSC forest-certified paper products and other ecologically friendly products.

For the current business term, fiscal 2012, we are pursuing five basic management policies – 1) strengthening our CSR management foundation, 2) promoting environmental management, 3) raising customer satisfaction levels by carefully addressing user needs, 4) taking further measures to provide our employees with a pleasant working environment, and 5) pursuing activities that contribute to society. Under these basic policies, we will take measures to raise our enterprise value in the areas of compliance, risk management, safety & health, the environment, product safety, product quality, human rights & labor rights, information, and social contributions.

Our CSR Promotion System

In January 2012, we revised our CSR promotion system to strengthen governance by more clearly delineating roles and responsibilities.

(1) Issues that need to be tackled on a Companywide basis (compliance, safety & hygiene, the environment, product safety) will continue to be promoted by existing committees.
(2) Authority should be transferred to divisions directly responsible (with respect to all four stages of the PDCA [plan-do-check-act] cycle) in cases where it is deemed that such transference will clarify the chain of responsibility.
(3) Learning a lesson from the Tohoku Region Pacific Ocean Earthquake, we established a Risk Management Committee charged with putting in place a risk management system to handle the risks to which the entire Group is exposed.



Ten Years Since Acquisition of FSC (Forest Stewardship Council) Certification

The Group operates businesses that use timber as the primary material. We have been seeking certification from the Forest Stewardship Council (FSC) based on our belief that sustainable forest management is necessary for wood to be a renewable resource. In 2001 our Hachinohe Mill became the first paper mill in Japan to receive the FSC's Chain-of-Custody (CoC) certification, covering processing and logistics. In 2002 we acquired FM (Forest Management) certification for our plantation in Chile, since when we have acquired CoC certification for all our paper production facilities in Japan and overseas, and have also acquired FM certification for Company-owned forests in Japan.

In addition, to popularize the FCS certification system in Japan, we have been taking part in "FSC forest certification support system" activities, centered on the town of Iwaizumi in Iwate Prefecture. Meanwhile, in the village of Nishigo in Fukushima Prefecture, we have been holding forestry and environmental education classes at the Ecosystem Academy to pass on to the next generation the importance of carefully managing our forests. In 2011 we exhibited at the "FSC Forest Summit 2011 in Yamanashi."

In 2011 we marked the tenth year since the start of sales of FSC-certified paper. As one of the first companies to adopt the FSC certification system in Japan, we will work to realize a stable supply of FSC-certified paper and to further popularize the adoption of the FSC certification system.

The FSC Certification Forest Supporter System

Companies that use FSC-certified products pay a certain proportion of the costs of managing the FSC-certified forests, and the organizations in charge of managing the certified forests (local governments) employ these funds to create environmentally sound and economically profitable forest resources. The system allows timber that has been cut as part of the forest management process to be used as FSC-certified products. In this way, the system assists in the maintenance of FSC-certified forests.

The Ecosystem Academy

As a result of the Tohoku Region Pacific Ocean Earthquake in March 2011, the Ecosystem Academy was unable to undertake any hands-on-type learning experience sessions or environmental seminars during fiscal 2011, but a vegetation survey was conducted at a Company-owned FSC-certified forest in Nishigo (Fukushima), and surveys of wild bird life were conducted once again with the cooperation of the Shirakawa (Fukushima) chapter of the Wild Bird Society of Japan.

Surveying wild bird populations

FSC Forest Summit 2011 in Yamanashi

The FSC Forest Summit is held with the aim of making the value of FSC certification more widely known among the Japanese public. The 2011 Summit was held in Yamanashi Prefecture to celebrate the 100th anniversary of the Imperial donation of the Onshirin forest, which has received FSC certification. Mitsubishi Paper Mills also opened a booth at the 2011 Summit.

The Company manufactures products at its Hachinohe Mill using FCS-certified wood chips from Yamanashi Prefecture, and sells FCS-certified paper to companies in the prefecture under the name "Yamanashi Forest Paper." We made a presentation on this paper product at the Summit as an example of a combination of the FSC system with the revitalization of local businesses.

At the 2011 FSC Forest Summit



SHIRAKAWA SITE

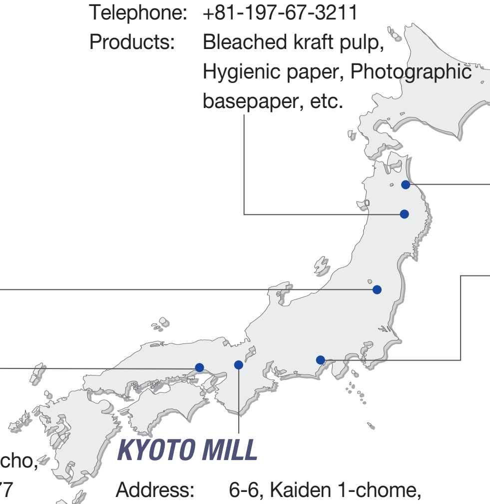
Address: 3, Maeyamanishi, Nishigo-mura, Nishi-Shirakawa-gun, Fukushima 961-8054
Telephone: +81-248-22-8111
Products: Transformer board

KITAKAMI HITEC PAPER CORP.

Address: 35, Sasanagane, Aisari-cho, Kitakami-shi, Iwate 024-0051
Telephone: +81-197-67-3211
Products: Bleached kraft pulp, Hygienic paper, Photographic basepaper, etc.

HACHINOHE MILL

Address: Kawaragi-Aomoriyachi, Hachinohe-shi, Aomori 039-1197
Telephone: +81-178-29-2111
Products: Bleached kraft pulp, Coated printing paper, Uncoated printing paper, White card board, etc.



KJ SPECIALTY PAPER CO., LTD. FUJI MILL

Address: 7-1, Shinbashicho, Fuji-shi, Shizuoka 417-0004
Telephone: +81-545-52-4075
Products: Base paper for decorative laminates, Impregnated decorative sheet, Base paper for wall paper, Stencil paper

TAKASAGO MILL

Address: 105, Sakae-machi, Takasago-cho, Takasago-shi, Hyogo 676-8677
Telephone: +81-794-42-3101
Products: Carbonless paper, Thermal paper, Inkjet paper, Specialty paper, Non Woven Fablics, etc.

KYOTO MILL

Address: 6-6, Kaiden 1-chome, Nagaokakyo-shi, Kyoto 617-8666
Telephone: +81-75-951-1181
Products: Color photographic paper, Graphic arts materials, Inkjet photo paper, etc.



OVERSEAS

Mitsubishi HiTec Paper Europe GmbH Bielefeld Mill
Address: Niedernholz 23, D-33699 Bielefeld, Germany
Telephone: +49-521-2091-401
Products: Carbonless paper, Thermal paper, Inkjet paper

(Bielefeld, Germany)


Mitsubishi HiTec Paper Europe GmbH Flensburg Mill
Address: Husumer Strasse 12 D-24941 Flensburg, Germany
Telephone: +49-461-8695-204
Products: Thermal paper, etc.

(Flensburg, Germany)



MP Juarez LLC
Address: Ave. Valle del Cedro #1551 Paraq. Ind Intermex C.P. 32690 Cd. Juarez. Chih., Mexico
Telephone: +1-915-534-8230 (U.S. Head Office)
Products: Inkjet paper

(Juarez, Mexico)

Zhuhai MPM Filter, Ltd
Address: #17 Yijing Lane, Pingsha Town, Jinwan District, Zhuhai, Guangdong, China
Telephone: +86-756-8895033
Products: Various filters

(Zhuhai, China)

	Millions of yen						Thousands of U.S. dollars
	2012	2011	2010	2009	2008	2007	**2012**
For the years ended March 31							
Net sales	**¥ 194,856**	¥ 210,846	¥ 219,728	¥ 253,102	¥ 258,536	¥ 244,260	**$ 2,370,810**
Operating income	**2,164**	3,477	4,253	7,110	9,302	7,256	**26,332**
Ordinary income	**888**	2,116	2,658	4,499	7,120	5,270	**10,805**
Net income (loss)	**565**	(14,497)	(1,597)	1,168	3,654	7,297	**6,882**
Net income (loss) per share (in yen and dollars)	**1.65**	(42.39)	(4.67)	3.41	10.99	22.44	**0.02**
As at March 31							
Total assets	**¥ 276,305**	¥ 248,506	¥ 282,131	¥ 294,254	¥ 303,052	¥ 320,603	**$ 3,361,794**
Total net assets	**52,108**	52,117	68,709	70,436	79,636	80,326	**634,002**

Note: Effective from the year ended March 31, 2007, the Company has applied the “Accounting standards for presentation of net assets in the balance sheet,” and the “Implementation guidance for accounting standards for presentation of net assets in the balance sheet.”

Consolidated Balance Sheets

As at March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
ASSETS			
Current assets:			
Cash and bank deposits (Note 3 (11))	**¥ 13,306**	¥ 8,878	**$ 161,904**
Receivables:			
Trade notes and accounts (Note 12)	**50,121**	42,168	**609,828**
Other	**2,651**	4,276	**32,260**
	52,773	46,444	**642,089**
Less: Allowance for doubtful accounts	**(493)**	(497)	**(6,008)**
	52,279	45,947	**636,080**
Inventories	**46,103**	41,288	**560,941**
Deferred income taxes (Note 16)	**1,393**	702	**16,951**
Other	**3,013**	616	**36,665**
Total current assets	**116,096**	97,432	**1,412,541**
Property, plant and equipment (Note 4)**:**			
Land	**22,369**	20,941	**272,162**
Buildings and structures	**93,814**	94,007	**1,141,434**
Machinery and equipment	**335,370**	332,542	**4,080,429**
Construction in progress	**3,199**	560	**38,924**
Leased assets	**2,381**	2,394	**28,976**
Other	**9,328**	9,425	**113,500**
	466,463	459,871	**5,675,429**
Less: Accumulated depreciation	**(336,685)**	(341,504)	**(4,096,430)**
Accumulated impairment losses	**(574)**	(574)	**(6,989)**
Net property, plant and equipment	**129,203**	117,792	**1,572,009**
Investments and other assets:			
Investments in securities (Notes 4, 12 and 13)	**23,852**	21,438	**290,211**
Investments in unconsolidated subsidiaries and affiliated companies	**1,026**	1,400	**12,495**
Long-term loans	**469**	569	**5,707**
Less: Allowance for doubtful accounts	**(1,229)**	(479)	**(14,953)**
Deferred income taxes (Note 16)	**2,547**	2,531	**30,996**
Other	**4,338**	7,819	**52,786**
Total investments and other assets	**31,005**	33,280	**377,244**
Total assets	**¥ 276,305**	¥ 248,506	**$ 3,361,794**

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 12)	**¥ 67,572**	¥ 75,596	**$ 822,147**
Commercial paper	**—**	1,000	**—**
Current portion of long-term debt (Note 12)	**20,338**	12,482	**247,458**
Lease obligations	**307**	294	**3,746**
Payables:			
Trade notes and accounts (Note 12)	**36,528**	20,980	**444,437**
Other	**3,974**	3,193	**48,360**
Accrued expenses	**9,420**	8,483	**114,614**
Income taxes payable	**316**	227	**3,847**
Reserve for loss on natural disaster (Note 3 (13))	**—**	7,439	**—**
Other	**5,426**	3,427	**66,027**
Total current liabilities	**143,885**	133,124	**1,750,639**
Long-term liabilities:			
Long-term debt (Note 12)	**68,573**	52,251	**834,323**
Lease obligations	**1,728**	1,868	**21,034**
Accrued retirement benefits for employees (Note 15)	**7,257**	5,373	**88,300**
Accrued retirement benefits for directors and statutory auditors	**65**	111	**800**
Deferred income taxes (Note 16)	**171**	201	**2,088**
Asset retirement obligations (Note 3 (14))	**869**	826	**10,580**
Other	**1,645**	2,630	**20,024**
Total long-term liabilities	**80,312**	63,264	**977,151**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 900,000,000 shares at March 31, 2012 and 2011			
Issued: 342,584,332 shares at March 31, 2012 and 2011	**32,756**	32,756	**398,543**
Capital surplus	**19,716**	19,717	**239,894**
Retained deficit	**(4,989)**	(5,577)	**(60,705)**
Less: Treasury stock, at cost	**(137)**	(136)	**(1,677)**
Total shareholders' equity	**47,345**	46,758	**576,054**
Accumulated other comprehensive income :			
Net unrealized gains on available-for-sale securities	**1,949**	1,794	**23,717**
Translation adjustments	**189**	378	**2,304**
Total accumulated other comprehensive income	**2,138**	2,173	**26,021**
Minority interests in consolidated subsidiaries	**2,624**	3,185	**31,926**
Total net assets	**52,108**	52,117	**634,002**
Total liabilities and net assets	**¥ 276,305**	¥ 248,506	**$ 3,361,794**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	**¥ 194,856**	¥ 210,846	**$ 2,370,810**
Cost of sales	**163,507**	173,381	**1,989,384**
Gross profit	**31,349**	37,465	**381,426**
Selling, general and administrative expenses	**29,185**	33,987	**355,094**
Operating income	**2,164**	3,477	**26,332**
Other income (expenses):			
Interest and dividend income	**589**	561	**7,175**
Interest expense	**(2,299)**	(2,343)	**(27,974)**
Gains on disposal of property, plant and equipment (Note 6)	**1,844**	1,298	**22,447**
Losses on sales of investments in securities	**(31)**	(357)	**(380)**
Write-downs of investments in securities	**(752)**	(1,328)	**(9,160)**
Special severance payments	**(224)**	(305)	**(2,735)**
Loss on liquidation of a subsidiary	**—**	(28)	**—**
Loss on natural disaster (Note 9)	**(5,544)**	(13,314)	**(67,464)**
Effect of adoption of accounting standard for asset retirement obligations (Note 3 (14))	**—**	(684)	**—**
Gain on negative goodwill (Note 18 (5))	**871**	—	**10,607**
Effect of partial cancellation of retirement benefit trust (Note 3 (8) and 15)	**2,106**	—	**25,630**
Loss on termination of qualified retirement pension plan (Note 3 (8) and 15)	**(3,217)**	—	**(39,142)**
Subsidy income (Note 7)	**1,543**	—	**18,784**
Insurance income (Note 8)	**1,851**	180	**22,524**
Other, net	**(367)**	243	**(4,474)**
Total	**(3,629)**	(16,078)	**(44,163)**
Loss before income taxes and minority interests	**(1,465)**	(12,601)	**(17,831)**
Income taxes:			
Current	**344**	442	**4,188**
Deferred (Note 16)	**(1,944)**	1,276	**(23,656)**
	(1,600)	1,718	**(19,467)**
Income (loss) before minority interests	**134**	(14,320)	**1,635**
Minority interests in income (losses) of consolidated subsidiaries	**(431)**	177	**(5,247)**
Net income (loss)	**¥ 565**	¥ (14,497)	**$ 6,882**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
Income (loss) before minority interests	**¥ 134**	¥ (14,320)	**$ 1,635**
Other comprehensive income:			
Net unrealized gains (losses) on available-for-sale securities	**101**	(1,533)	**1,229**
Translation adjustments	**(176)**	(525)	**(2,146)**
Share of other comprehensive income of companies accounted for by the equity method	**(19)**	(69)	**(241)**
Other comprehensive income	**(95)**	(2,128)	**(1,158)**
Comprehensive income	**39**	(16,448)	**477**
Comprehensive income attributable to Mitsubishi Paper Mills Limited	**531**	(16,213)	**6,464**
Comprehensive income attributable to minority interests	**¥ (492)**	¥ (235)	**$ (5,987)**

Additional information

Accounting Standard for Presentation of Comprehensive Income

Effective the fiscal year ended March 31, 2011, the Company has applied the “Accounting Standard for Presentation of Comprehensive Income” (Accounting Standards Board of Japan (ASBJ) Statement No. 25 issued on June 30, 2010).

	Yen		U.S. dollars (Note 2)
	2012	2011	**2012**
Amounts per share:			
Net income (loss) — basic (Note 3 (10))	**¥ 1.65**	¥ (42.39)	**$ 0.02**
Cash dividends applicable to the year	**—**	—	**—**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2012 and 2011

		Millions of yen									
		Shareholders' equity					Total accumulated other comprehensive income				
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total Accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2010	342,584,332	¥ 32,756	¥ 19,717	¥ 8,919	¥ (133)	¥ 61,259	¥ 2,951	¥ 937	¥ 3,888	¥ 3,560	¥ 68,709
Changes during the year:											
Net loss				(14,497)		(14,497)					(14,497)
Acquisition of treasury stock					(4)	(4)					(4)
Disposal of treasury stock			(0)		0	0					0
Changes in items other than shareholders' equity							(1,157)	(558)	(1,715)	(374)	(2,090)
Total changes during the year	—	—	(0)	(14,497)	(3)	(14,501)	(1,157)	(558)	(1,715)	(374)	(16,591)
Balance at April 1, 2011	342,584,332	¥ 32,756	¥ 19,717	¥ (5,577)	¥ (136)	¥ 46,758	¥ 1,794	¥ 378	¥ 2,173	¥ 3,185	¥ 52,117
Changes during the year:											
Net income				**565**		**565**					**565**
Acquisition of treasury stock					**(1)**	**(1)**					**(1)**
Disposal of treasury stock			**(0)**		**0**	**0**					**0**
Increase due to change in scope of consolidation				**22**		**22**					**22**
Changes in items other than shareholders' equity							**155**	**(189)**	**(34)**	**(561)**	**(595)**
Total changes during the year	**—**	**—**	**(0)**	**588**	**(0)**	**587**	**155**	**(189)**	**(34)**	**(561)**	**(8)**
Balance at March 31, 2012	**342,584,332**	**¥ 32,756**	**¥ 19,716**	**¥ (4,989)**	**¥ (137)**	**¥ 47,345**	**¥ 1,949**	**¥ 189**	**¥ 2,138**	**¥ 2,624**	**¥ 52,108**

		Thousands of U.S. dollars									
		Shareholders' equity					Total accumulated other comprehensive income				
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total Accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2011	342,584,332	$ 398,543	$ 239,895	$ (67,861)	$ (1,666)	$ 568,911	$ 21,830	$ 4,608	$ 26,439	$ 38,756	$ 634,106
Changes during the year:											
Net income				**6,882**		**6,882**					**6,882**
Acquisition of treasury stock					**(14)**	**(14)**					**(14)**
Disposal of treasury stock			**(1)**		**2**	**1**					**1**
Increase due to change in scope of consolidation				**273**		**273**					**273**
Changes in items other than shareholders' equity							**1,886**	**(2,304)**	**(418)**	**(6,829)**	**(7,247)**
Total changes during the year		**—**	**(1)**	**7,156**	**(11)**	**7,143**	**1,886**	**(2,304)**	**(418)**	**(6,829)**	**(103)**
Balance at March 31, 2012	**342,584,332**	**$ 398,543**	**$ 239,894**	**$ (60,705)**	**$ (1,677)**	**$ 576,054**	**$ 23,717**	**$ 2,304**	**$ 26,021**	**$ 31,926**	**$ 634,002**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	**2012**
I Cash flows from operating activities:			
Loss before income taxes and minority interests	**¥ (1,465)**	¥ (12,601)	**$ (17,831)**
Depreciation and amortization	**9,576**	12,241	**116,511**
Loss on natural disaster (Note 9)	**5,544**	13,314	**67,464**
Accrued retirement benefits for employees	**1,884**	(1,492)	**22,924**
Accrued retirement benefits for directors and statutory auditors	**(58)**	(1)	**(714)**
Interest and dividend income	**(589)**	(561)	**(7,175)**
Interest expense	**2,299**	2,343	**27,974**
Subsidy income (Note 7)	**(1,543)**	—	**(18,784)**
Insurance income (Note 8)	**(1,851)**	(180)	**(22,524)**
Gain on negative goodwill (Note 18 (5))	**(871)**	—	**(10,607)**
Losses on sales of investments in securities	**31**	357	**380**
Write-downs of investments in securities	**752**	1,328	**9,160**
Write-downs of other investments	**10**	10	**123**
Gains on disposal of property, plant and equipment (Note 6)	**(1,844)**	(1,298)	**(22,447)**
Effect of adoption of accounting standard for asset retirement obligations (Note 3 (14))	**—**	684	**—**
Loss from adjustment of a subsidiary	**—**	28	**—**
Increase or decrease in trade accounts receivable	**(5,331)**	5,178	**(64,873)**
Increase or decrease in inventories	**(3,680)**	3,969	**(44,784)**
Increase or decrease in trade accounts payable	**7,515**	(1,541)	**91,445**
Other, net	**(5,474)**	(3,245)	**(66,605)**
Sub-total	**4,901**	18,536	**59,636**
Interest and dividends received	**586**	566	**7,132**
Proceeds from insurance income (Note 8)	**2,032**	—	**24,725**
Proceeds from subsidy (Note 7)	**987**	—	**12,019**
Interest paid	**(2,279)**	(2,376)	**(27,732)**
Income taxes paid	**(494)**	(683)	**(6,014)**
Loss on natural disaster paid (Note 9)	**(7,663)**	—	**(93,244)**
Net cash (used in) provided by operating activities	**(1,929)**	16,043	**(23,477)**
II Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(9,718)**	(4,320)	**(118,243)**
Proceeds from sales of property, plant and equipment	**2,212**	3,110	**26,919**
Purchases of investment securities	**(176)**	(31)	**(2,150)**
Proceeds from sales of investment securities	**138**	3,474	**1,682**
Purchases of shares in an affiliated company and subsidiaries	**(1,629)**	(109)	**(19,823)**
Loans made	**(4)**	(909)	**(60)**
Proceeds from collection of loans	**91**	692	**1,111**
Other, net	**65**	(144)	**797**
Net cash (used in) provided by investing activities	**(9,021)**	1,763	**(109,766)**
III Cash flows from financing activities:			
Decrease in short-term bank loans	**(7,204)**	(2,809)	**(87,653)**
Decrease in issuance of commercial paper	**(1,000)**	(8,000)	**(12,166)**
Proceeds from long-term debt	**37,114**	9,330	**451,572**
Repayment of long-term debt	**(13,053)**	(13,760)	**(158,824)**
Redemption of bonds	**(100)**	(100)	**(1,216)**
Repayment of lease debt	**(318)**	(636)	**(3,880)**
Acquisition of treasury stock	**(1)**	(4)	**(14)**
Payments of cash dividends by subsidiaries to minority shareholders	**(4)**	(41)	**(56)**
Other, net	**0**	0	**1**
Net cash provided by (used in) financing activities	**15,432**	(16,020)	**187,760**
IV Effect of foreign currency translation on cash and cash equivalents	**(2)**	(176)	**(29)**
V Net increase in cash and cash equivalents	**4,478**	1,609	**54,486**
VI Cash and cash equivalents at beginning of year	**8,594**	6,985	**104,572**
VII Cash and cash equivalents at end of year (Note 3 (11))	**¥ 13,073**	¥ 8,594	**$ 159,058**

The accompanying notes are an integral part of these financial statements.

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements of Mitsubishi Paper Mills Limited (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau (a regional branch organization of the Ministry of Finance in Japan) have been reclassified for the convenience of readers outside Japan.

2. United States Dollar Amounts

The Company maintains its accounting records in yen. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥82.19 = U.S.$1, the exchange rate prevailing as of March 31, 2012. The inclusion of such U.S. dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

3. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 36 subsidiaries as of March 31, 2012 (33 as of March 31, 2011). The accompanying consolidated financial statements include the accounts of the Company and 26 (24 for 2011) of its subsidiaries for the year ended March 31, 2012 (together, hereinafter referred to as the "Companies").

Ryoko Co., Ltd. and KJ Specialty Paper Co., Ltd. have been included in the scope of consolidation from this fiscal year.

The accounts of the remaining 10 (9 for 2011) unconsolidated subsidiaries for the year ended March 31, 2012 have been excluded from consolidation since the aggregate amounts of these subsidiaries in terms of combined assets, net sales, retained earnings and net income were immaterial in relation to those of the consolidated financial statements of the Companies.

Mitsubishi Paper Holding (Europe) GmbH and other four (4 for 2011) subsidiaries are consolidated using the financial statements as of the respective fiscal year end which falls on December 31 and necessary adjustments are made to their adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

(2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated.

Elimination of investments in shares of consolidated subsidiaries, together with the underlying equity in net assets of such subsidiaries, has been made to include equity in net income of subsidiaries subsequent to the respective dates of acquisition in the consolidated statements of income. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, unless specifically identified and reclassified to the applicable accounts from which the value originates, is treated as an asset or a liability, as the case may be, and amortized over five years on a straight-line basis.

Assets and liabilities of subsidiaries are remeasured based on their fair value at the date of acquisition of control of the subsidiaries.

(3) Investments in unconsolidated subsidiaries and affiliates

The Company had 12 affiliates as of March 31, 2012 (13 for 2011). 2 affiliated companies were accounted for by the equity method.

However, the remaining 10 (9 for 2011) subsidiaries and 10 (11 for 2011) affiliates did not have a material effect on net income and retained earnings in the accompanying consolidated financial statements and, therefore, these investments have been carried at cost.

(4) Financial instruments

(i) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net income or loss for the year in which they arise, except for those that are designated as "hedging instruments."

(ii) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(iii) Hedge Accounting

Unrealized gains or losses arising from changes in fair value of derivative financial instruments designated as “hedging instruments” are carried as an asset or a liability until the losses or gains on the hedged items or transactions are recognized.

In accordance with the exceptional measure under the Japanese Accounting Standard for Foreign Currency Translations, the Companies do not record certain forward exchange contracts at market value but translate the underlying foreign currency denominated assets or liabilities using the contractual rate under these contracts as long as such contracts meet the criteria for applying hedge accounting under the Japanese Accounting Standard for Financial Instruments.

Furthermore, in accordance with the special measure under the Accounting Standard for Financial Instruments, the Companies do not record certain interest rate swap arrangements at market value but charge or credit net cash flows arising from the swap arrangements to interest arising from the hedged borrowings, as long as these arrangements meet the specific criteria under the standard.

(5) Inventories

Finished products, merchandise and work in process are primarily stated at lower of cost or market, cost being determined by the average method and other inventories are stated at lower of cost or market, cost being determined by the moving average method.

(6) Property, plant and equipment

Mainly depreciation excluding for leased assets is computed by the straight-line method for property, plant and equipment. But in part, depreciation of machinery held by the head office of the Company and certain consolidated subsidiaries is computed by the declining-balance method. Estimated useful lives of assets used in computing depreciation are as follows:

Buildings and structures.................... 31 to 47 years
Machinery and equipment.......................... 12 years

Leased assets under finance lease agreements of the Company and its domestic consolidated subsidiaries, which do not stipulate the transfer ownership of the leased assets to the lessee, are depreciated principally over the lease term by the straight-line method with no residual value except for the following transactions. Lease transactions which have been entered into before April 1, 2008 and do not stipulate the transfer of ownership of the leased assets to the lessee have been accounted for as operating leases.

(7) Allowance for doubtful accounts

The Company and the domestic consolidated subsidiaries provide the allowance for doubtful accounts based on the bad debt loss ratio derived from their own loss history plus the amount of uncollectible receivables estimated on an individual basis.

Overseas consolidated subsidiaries provide the allowance for doubtful accounts based on methods prescribed by their respective countries’ regulations.

(8) Accrued retirement benefits to employees

The Company and the domestic consolidated subsidiaries provide accrued retirement benefits to employees based on the estimated actuarial present value of the projected benefit obligation and the estimated fair value of plan assets.

Overseas consolidated subsidiaries provide accrued retirement benefits to employees based on the method prescribed by their respective countries’ regulations.

Unrecognized net actuarial gains or losses are amortized from the year following the year in which such gains or losses are recognized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (10 to 15 years). Unrecognized prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (10 to 15 years).

(Additional information)

The Company holds that securities have been contributed a retirement benefit trust, but which the fair value exceeds the retirement benefit obligations. As this situation was likely to continue for a long period, the Company decided to cancel certain portion of the securities held in trust on July 29, 2011, and to recognize the effect of partial cancellation of the retirement benefit plan as extraordinary gain of ¥2,106 million ($25,630 thousand).

According to the amendment of the pension plan, the Company has transferred the portion attributable to the subscribers to a tax-qualified retirement pension plan to a retirement lump-sum payment plan and transferred the portion attributable to beneficiaries to a tax-qualified retirement pension plan to closed pension plan. As a result of this amendment, loss on termination of the qualified retirement pension plan was recognized as extraordinary loss in the consolidated statements of operations in the amount of ¥3,217 million ($39,142 thousand).

(9) Translation of foreign currency financial statements (accounts of overseas subsidiaries and affiliates)

The financial statements of overseas consolidated subsidiaries are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rate for capital accounts and retained earnings. All income and expense accounts are translated at the average rates of exchange during the fiscal year of those subsidiaries. The resulting translation adjustments are included in net assets.

(10) Net income or loss per share

Net income or loss per share is based on the weighted average-number of common shares outstanding less the number of treasury stock during each year, appropriately adjusted for subsequent free distributions of common shares.

(11) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits that are able to be withdrawn on demand and short-term investments with original maturities of three months or less that are exposed to a minor risk of fluctuation in value.

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and bank deposits in the accompanying consolidated balance sheets at March 31, 2012 and 2011 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and bank deposits	**¥ 13,306**	¥ 8,878	**$ 161,904**
Time deposits with maturities of over 3 months	**(233)**	(283)	**(2,845)**
Cash and cash equivalents	**¥ 13,073**	¥ 8,594	**$ 159,058**

(12) Dividends

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock amount. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met, however neither the capital reserve nor the legal reserve is available for distributions.

(13) Reserve for loss on natural disaster

The Companies have provided a reserve for loss on natural disaster based on the estimated future costs of restoration of facilities and disposal of equipment damaged by the Tohoku region Pacific Ocean earthquake that occurred in the fiscal year ended March 31, 2011.

(14) Accounting changes

(i) Accounting Standard for Accounting Changes and Error Corrections

Effective the year ended March 31, 2012, the Company has applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24), and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24), both issued on December 4, 2009.

(ii) Accounting Standard for Asset Retirement Obligations

Effective April 1, 2010, the Company has applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and the "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued on March 31, 2008). Due to the effect of adopting this new standard, both of operating income and ordinary income decreased by ¥21 million, while loss before income taxes and minority interests increased by ¥706 million.

(iii) Accounting Standard for Equity Method of Accounting for Investments

Effective April 1, 2010, the Company has applied the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16 issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force (PITF) No. 24 issued on March 10, 2008).

There was no effect on the financial statements for the year ended March 31, 2011.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Buildings and structures	**¥ 18,029**	¥ 19,664	**$ 219,368**
Machinery and equipment	**19,416**	22,671	**236,240**
Land	**9,542**	9,542	**116,099**
Other	**42**	47	**521**
Investments in securities	**2,702**	2,942	**32,886**
	¥ 49,734	¥ 54,868	**$ 605,117**

5. Contingent Liabilities

As at March 31, 2012 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥2,799 million ($34,063 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥1,727 million ($21,017 thousand).

6. Disposal of Property, Plant and Equipment

(1) Gains on disposal of property, plant and equipment

Main items under gains on disposal of property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Land	**¥ 2,154**	¥ 1,673	**$ 26,217**

(2) Losses on disposal of property, plant and equipment

Main items under losses on disposal of property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Machinery and equipment	**¥ 154**	¥ 118	**$ 1,877**
Scrapping and removal expenses	**132**	181	**1,616**

7. Subsidy Income

The Company and the domestic consolidated subsidiaries have received subsidies for the purpose of repairing or replacing facilities at the Company's Hachinohe Mill, that were damaged by the Tohoku region Pacific Ocean earthquake.

8. Insurance Income

"Insurance income" refers to insurance payouts relating to damage suffered from the Tohoku region Pacific Ocean earthquake.

9. Loss on Natural Disaster

The Company recorded a loss due to the Tohoku region Pacific Ocean earthquake, and the components of loss on natural disaster are as follows. The provision of reserve for loss on natural disaster is included under these expenses.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Restoration costs	**¥ 618**	¥ 4,510	**$ 7,522**
Inventory valuation losses	**754**	4,715	**9,175**
Estimated costs of disposal of fixed assets	**—**	2,640	**—**
Fixed costs during the suspension of operations	**4,038**	1,317	**49,133**
Others	**134**	130	**1,632**
Total	**¥ 5,544**	¥ 13,314	**$ 67,464**

10. The Amounts and Breakdown of Acquired Assets and Assumed Liabilities at the Date of Business Combination (Company Acquired through Stock Purchase)

The following is a breakdown of the assets acquired and liabilities assumed of KJ Specialty Paper Co., Ltd. (which was made into a consolidated subsidiary of the Company through share acquisition on October 1, 2011) at the date of business combination, in addition to the acquisition costs and the net amount of expenses involved.

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 4,905**	**$ 59,687**
Property, plant, and equipment	**2,872**	**34,947**
Current liabilities	**(2,626)**	**(31,951)**
Long-term liabilities	**(2,410)**	**(29,323)**
Negative goodwill	**(841)**	**(10,243)**
Acquisition costs of shares	**1,900**	**23,117**
Cash and cash equivalents	**(310)**	**(3,780)**
Net expenses involved in the acquisition of KJ Specialty Paper Co., Ltd.	**1,589**	**19,337**

11. Leases

Finance leases, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, of which transaction date is on or before March 31, 2008 were as follows:

(1) Equivalent of purchase price, accumulated depreciation and net book value of leased assets

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			**2012**		
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total
Purchase price equivalent	**¥ 62**	**¥ 117**	**¥ 179**	¥ 146	¥ 184	¥ 331	**$ 755**	**$ 1,429**	**$ 2,184**
Accumulated depreciation equivalent	**43**	**97**	**141**	104	138	243	**534**	**1,189**	**1,723**
Net book value equivalent	**¥ 18**	**¥ 19**	**¥ 37**	¥ 41	¥ 45	¥ 87	**$ 221**	**$ 239**	**$ 460**

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Due within one year	**¥ 23**	¥ 47	**$ 289**
Due after one year	**14**	39	**172**
Total	**¥ 37**	¥ 87	**$ 461**

(3) Lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Lease expenses	**¥44**	¥84	**$543**
Depreciation equivalents	**44**	84	**540**

Non-cancelable operating lease commitments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Due within one year	**¥ 0**	¥ 2	**$ 6**
Total	**¥ 0**	¥ 2	**$ 6**

12. Financial Instruments

(1) Summary of Financial Instruments

(i) Policy regarding financial instruments

To carry out its capital expenditure plans to develop its paper, pulp, photosensitive material products and other manufacturing activities, the Group raises the funds it needs principally through bank loans and issuance of corporate bonds. Temporary surpluses are managed as short-term deposits, and temporary working capital is procured through bank loans and issuance of commercial paper. The Company has a policy of not entering into any speculative derivative transactions and only enters into derivative transactions to avoid exposure to interest-rate risk on loans.

(ii) Details of financial instruments and related risk and management of risk

Trade notes and accounts receivable are exposed to the credit risk of customers. In accordance with the internal policy for credit risk management regulations, the Group manages both the due dates and balance of such transactions by customer, and has systems to accurately assess the credit status of its major customers at any time.

Receivables in foreign currencies originating overseas businesses are exposed to foreign exchange-rate risk. The majority of these risks are diminished through the use of a balance of accounts payable denominated in foreign currencies.

Investment securities are exposed to risks of changes in market prices. However, market prices of the shares held for operational purposes are periodically reviewed.

Trade notes and accounts payable are obligations due within one year. Some of these obligations are denominated in foreign currencies in connection with imports of raw materials, and are exposed to exchange-rate fluctuation risk. The Company hedges against risk regarding net receivables and payables denominated in foreign currencies using forward exchange contracts.

Short-term borrowings are raised mainly in connection with business activities, while long-term debt, corporate bonds and lease obligations related to finance lease transactions are the main means for procurement of funds needed for capital expenditures. In most cases, the repayment date is within five years from the balance sheet date.

For some long-term debt with floating interest rates exposed to interest-rate fluctuation risk, the Company uses derivative transactions (interest-rate swaps) for hedging purposes.

For derivative transactions, the Company uses forward exchange contracts to hedge against exchange-rate risk affecting trade notes and accounts receivable and payable denominated in foreign currencies, and interest rate swap transactions to hedge interest rate fluctuation risks on loans. We do not assess the effectiveness of our hedging strategies, since all derivative transactions meet the conditions for special accounting treatment for interest rate swaps.

For carrying out and managing derivative transactions, the Company adheres closely to internal policies delimiting the authority for engaging in such transactions. To reduce credit risk in using derivatives, the Company works only with the financial institutions with good credit-ratings.

The Company is exposed to liquidity risk in its payables and borrowings. Risk-management methods including compilation of a monthly cash flow plan are used to mitigate the risks by each Group company.

(iii) Additional notes on the fair value of financial instruments, etc.

Calculations of the fair value of financial instruments are based on their quoted market prices, as well as their reasonably estimated fair value when the quoted market prices are not available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the contract values of derivatives in Note 14. Derivatives are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair Value of Financial Instruments

Book value, fair values and differences between them as of March 31, 2012 are as follows. The following table does not include financial instruments for which the fair value is extremely difficult to determine (please refer to note below).

	Millions of yen		
	2012		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**¥ 50,121**	**¥ 50,121**	**¥—**
Investments in securities			
Available-for-sale securities	**21,802**	**21,802**	**—**
Total of assets	**71,924**	**71,924**	**—**
Trade notes and accounts payable	**30,623**	**30,623**	**—**
Short-term bank loans (excluding current portion of long-term debt)	**67,572**	**67,572**	**—**
Long-term debt (including current portion of long-term debt)	**88,261**	**88,314**	**52**
Total of liabilities	**186,457**	**186,510**	**52**
Derivative transactions	**¥ —**	**¥ —**	**¥—**

	Thousands of U.S. dollars		
	2012		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**$ 609,828**	**$ 609,828**	**$ —**
Investments in securities			
Available-for-sale securities	**265,270**	**265,270**	**—**
Total of assets	**875,099**	**875,099**	**—**
Trade notes and accounts payable	**372,598**	**372,598**	**—**
Short-term bank loans (excluding current portion of long-term debt)	**822,147**	**822,147**	**—**
Long-term debt (including current portion of long-term debt)	**1,073,873**	**1,074,514**	**641**
Total of liabilities	**2,268,619**	**2,269,260**	**641**
Derivative transactions	**$ —**	**$ —**	**$ —**

	Millions of yen		
	2011		
	Book value	Fair value	Difference
Trade notes and accounts receivable	¥ 42,168	¥ 42,168	¥ —
Investments in securities			
Available-for-sale securities	19,396	19,396	—
Total of assets	61,565	61,565	—
Trade notes and accounts payable	20,960	20,960	—
Short-term bank loans (excluding current portion of long-term debt)	75,596	75,596	—
Long-term debt (including current portion of long-term debt)	63,984	64,236	252
Total of liabilities	160,541	160,793	252
Derivative transactions	¥ —	¥ —	¥ —

(i) Trade notes and accounts receivable

Because these are settled in a short period of time, fair value approximates book value. Accordingly, fair value is recognized as book value.

(ii) Investment in securities

Fair value of investment in securities is based on quoted share prices at stock exchanges, and bond prices are based on indicative published prices in the papermaking sector.

(iii) Trade notes and accounts payable

Because these are settled in a short period of time, fair value approximates book value. Accordingly, fair value is recognized as book value.

(iv) Short-term borrowings

Because these are settled in a short period of time, fair value approximates book value. Accordingly, fair value is recognized as book value.

(v) Long-term debt
The fair value of long-term debt is calculated by discounting the total principal and interest using the assumed interest rate given equivalent new borrowings.

For long-term debt with floating interest rates, loans are subject to special settlement for interest swaps. The fair value is calculated by discounting the total principal and interest (including interest-rate swap) using the interest rate reasonably estimated given equivalent new borrowings. The amount also includes the total current portion of long-term debt of ¥19,688 million ($239,549 thousand).
(vi) Derivatives
Please see Note 14.

Unlisted equity securities (in the amount of ¥3,076 million ($37,435 thousand) on the consolidated balance sheet) are not included in available-for-sale securities, due to the difficulty of measuring their fair value as the stock has no quoted share price and future cash flow cannot be predicted.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Unlisted equity securities	**¥ 3,076**	¥ 3,442	**$ 37,435**

Planned repayment of debentures, long-term debt, lease obligations and other interest-bearing liabilities after the balance sheet date (consolidated basis).

	Millions of yen					
	2012					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Debentures	**¥ 650**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Long-term debt	**19,688**	**24,150**	**13,394**	**10,442**	**8,463**	**12,122**
Lease obligations	**307**	**278**	**245**	**223**	**197**	**783**
Other interest-bearing liabilities	**—**	**—**	**—**	**—**	**—**	**—**
Total	**¥ 20,646**	**¥ 24,428**	**¥ 13,639**	**¥ 10,666**	**¥ 8,661**	**¥ 12,906**

	Thousands of U.S. dollars					
	2012					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Debentures	**$ 7,908**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Long-term debt	**239,549**	**293,832**	**162,966**	**127,050**	**102,976**	**147,498**
Lease obligations	**3,746**	**3,387**	**2,988**	**2,723**	**2,401**	**9,533**
Other interest-bearing liabilities	**—**	**—**	**—**	**—**	**—**	**—**
Total	**$ 251,205**	**$ 297,220**	**$ 165,954**	**$ 129,773**	**$ 105,377**	**$ 157,031**

	Millions of yen					
	2011					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Debentures	¥ 100	¥ 650	¥ —	¥ —	¥ —	¥ —
Long-term debt	12,382	19,747	15,607	8,807	7,340	98
Lease obligations	294	269	246	208	192	951
Other interest-bearing liabilities	1,000	—	—	—	—	—
Total	¥ 13,776	¥ 20,667	¥ 15,854	¥ 9,015	¥ 7,532	¥ 1,050

Additional information
Effective the year ended March 31, 2010, "Accounting Standard for Financial Instruments" (ASBJ, Statement No. 10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ, Guidance No. 19 issued on March 10, 2008) have been applied.

13. Investments in Securities

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at March 31, 2012 and 2011 are summarized as follows:

Available-for-sale securities:

	Millions of yen			
	2012			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥ 19,032**	**¥ 21,792**	**¥ 3,894**	**¥ 1,134**
Government bonds and local government bonds	**9**	**9**	**0**	**—**
Other	**—**	**—**	**—**	**—**
	¥ 19,041	**¥ 21,802**	**¥ 3,895**	**¥ 1,134**

	Thousands of U.S. dollars			
	2012			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$ 231,564**	**$ 265,149**	**$ 47,386**	**$ 13,801**
Government bonds and local government bonds	**116**	**121**	**4**	**—**
Other	**—**	**—**	**—**	**—**
	$ 231,681	**$ 265,270**	**$ 47,391**	**$ 13,801**

	Millions of yen			
	2011			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥ 16,550	¥ 19,387	¥ 4,419	¥ 1,582
Government bonds and local government bonds	9	9	0	—
Other	—	—	—	—
	¥ 16,560	¥ 19,396	¥ 4,419	¥ 1,582

14. Derivatives

(1) Transactions not subject to hedge accounting

No applicable transactions

(2) Transactions subject to hedge accounting

(i) Currency-related

No applicable transactions

(ii) Interest-rate related

Hedge accounting method	Type of derivative transaction, etc.	Main targets of hedging	Contract value	Contract value of instruments due within more than a year
Special settlement of interest rate swap	Interest rate swap transactions, fixed payments, variable receivables	Long-term debt	¥51,405 million	¥45,085 million
			$625,441 thousand	$548,546 thousand

Transactions subject to special settlement for interest rate swaps are settled as a combined sum with the long-term debt being hedged so the fair value is included in the fair value of the long-term debt.

15. Accrued Retirement Benefits

Employees of the Company and the domestic consolidated subsidiaries excluding directors and statutory auditors, with more than one year of service are generally entitled to lump-sum retirement benefits determined by reference to the current basic rate of pay, length of service and conditions under which termination occurs. In addition, the Company and certain consolidated subsidiaries have funded other defined benefit plans.

In addition, the Company employs a tax-qualified retirement pension plan system, and with effect from August 1, 2011 this pension plan system was amended whereby the portion attributable to the subscribers to the tax-qualified pension plan was transferred to a retirement lump-sum system while the portion attributable to beneficiaries was transferred to a closed pension plan.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligations	**¥(19,841)**	¥ (26,399)	**$ (241,416)**
Fair value of plan assets	**14,030**	27,387	**170,710**
Funded status of the plans	**(5,811)**	988	**(70,705)**
Unrecognized net actuarial	**(1,003)**	(1,357)	**(12,207)**
Unrecognized prior service cost (reduction of the obligation)	**(442)**	(1,119)	**(5,388)**
Net retirement benefits	**(7,257)**	(1,487)	**(88,300)**
Prepaid pension cost	**—**	3,885	**—**
Accrued retirement benefits	**¥ (7,257)**	¥ (5,373)	**$ (88,300)**

The Company holds securities in a retirement benefit trust, but as the value of the securities held in trust exceeds that of the retirement benefit obligations, and as this situation is believed likely to continue for a long period, it was decided to cancel the retirement benefit trust on July 29, 2011 with respect to a certain portion of the securities held in trust. The monetary effect of this change to securities held in trust was recognized in the Company's consolidated accounts for the reporting term as follows.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Decline in pension assets	**¥(4,734)**	**$ (57,606)**
Unrecognized actuarial gain	**2,106**	**25,630**
Increase in accrued retirement benefits to employees	**¥(2,628)**	**$ (31,976)**

The monetary effects of the termination of the qualified retirement pension plan are as follows.

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Decrease in retirement benefit obligations	**¥7,341**	**$ 89,320**
Decrease in pension assets	**(8,150)**	**(99,163)**
Unrecognized actuarial loss	**(2,975)**	**(36,198)**
Unrecognized prior service liability	**567**	**6,899**
Decrease in prepaid pension cost	**¥(3,217)**	**$ (39,142)**

The net periodic retirement benefit cost for the years ended March 31, 2012 and 2011 included the following components:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	**¥1,540**	¥ 1,687	**$ 18,742**
Interest cost	**341**	427	**4,158**
Expected return on plan assets	**(83)**	(171)	**(1,018)**
Amortization of net actuarial loss (gain)	**(55)**	(253)	**(675)**
Amortization of prior service cost (reduction of the obligation)	**(133)**	(104)	**(1,626)**
Effect of partial cancellation of retirement benefit trust	**(2,106)**	—	**(25,630)**
Loss on termination of qualified retirement pension plan	**3,217**	—	**39,142**
	¥2,719	¥ 1,586	**$ 33,093**

Assumptions used in calculation of the above information were as follows:

	2012	2011
Discount rate	**1.5~1.9%**	1.5~1.9%
Expected rate of return on plan assets	**2.0%**	2.0%
Method of attributing the projected benefits to periods of service	**mainly on a points basis**	mainly on a points basis
Amortization of unrecognized prior service cost	**10~15 years**	10~15 years
Amortization of unrecognized net actuarial gain or loss	**10~15 years**	10~15 years

16. Deferred Income Taxes

At March 31, 2012 and 2011, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 80**	¥ 48	**$ 974**
Accrued expenses	**1,091**	1,042	**13,277**
Accrued retirement benefits to employees	**3,317**	3,305	**40,357**
Allowance for doubtful accounts	**451**	157	**5,498**
Loss on revaluation of fixed assets	**932**	613	**11,349**
Unrealized gains on property, plant and equipment	**164**	171	**2,006**
Loss on natural disaster	**—**	4,527	**—**
Tax loss carryforwards	**13,016**	9,903	**158,368**
Other	**9,448**	9,484	**114,960**
Gross deferred tax assets	**28,502**	29,255	**346,791**
Valuation allowance	**(21,913)**	(24,780)	**(266,621)**
Total deferred tax assets	**6,589**	4,474	**80,170**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(27)**	(32)	**(335)**
Unrealized gains on available-for-sale securities	**(987)**	(1,155)	**(12,015)**
Liability adjustment account	**(1,380)**	—	**(16,796)**
Other	**(425)**	(268)	**(5,173)**
Total deferred tax liabilities	**(2,820)**	(1,456)	**(34,321)**
Net deferred tax assets	**¥ 3,768**	¥ 3,018	**$ 45,849**

Due to the posting of a loss before income taxes and minority interests for the years ended March 31, 2012 and 2011, description regarding reconciliation of the statutory tax rate to the effective income tax rate was omitted.

(Amendments to amounts of deferred tax assets and liabilities as a result of change in normal effective statutory tax rate)
On December 2, 2011, the Japanese government issued “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011). Under these newly promulgated laws, the corporate income tax rates applicable for consolidated accounting years beginning on or after April 1, 2012, will be changed.

Accompanying these changes, the effective statutory tax rate applicable to the calculation of deferred tax assets and deferred tax liabilities will be changed as follows according to the time of full amortization of temporary differences:

From the fiscal year beginning April 1, 2012 through the year ending March 31, 2015: 38.0%

From the fiscal year beginning April 1, 2015 and in subsequent years: 35.6%

As a result of this change, the net amount of deferred tax assets (deferred income tax assets minus deferred income tax liabilities) registered a decrease of ¥295 million ($3,594 thousand) from the previous term, and for the reporting fiscal year the Company posted increases in income taxes — deferred on a consolidated basis in the amount of ¥435 million ($5,298 thousand) and net unrealized gains on available-for-sale securities in the amount of ¥140 million ($1,704 thousand).

17. Business Combination through Acquisition

The Company acquired KJ Specialty Paper to combine the high-level technological capabilities with effectively achieving further development for KJ's chemical paper operations and the Company's existing business operations.

The resultant synergy will enable us to create and expand our specialty papers division into an operation on a considerable scale.

(1) Outline of the business combination

(i) Name and description of business of acquired company

Name of acquired company: KJ Specialty Paper Co., Ltd.

Description of business of acquired company: Manufacture and sale of chemical paper (base paper for decorative laminates; impregnated decorative sheet; backing paper for wallpaper use; stencil paper)

(ii) Date of business combination

October 1, 2011

(iii) Legal form of business combination

Acquisition of shares in exchange for cash

(iv) Name of the company after the combination

Unchanged

(v) Percentage of voting rights acquired

100%

(2) Period of the business profit of the acquired company included in Consolidated Financial Statements

From October 1, 2011 to March 31, 2012

(3) Acquisition costs of the acquired company

¥1,900 million ($23,117 thousand)

(4) Amount of negative goodwill recognized, generating factors

(i) Amount of negative goodwill

¥841 million ($10,243 thousand)

(ii) Generation of factors of negative goodwill

The total net asset value of the acquired company as at the business combination was higher than the cost of acquisition; therefore the difference was recognized as negative goodwill.

18. Segment Information

(1) Reportable segment information

The Company's reportable segments are components for which discrete financial information is available and which are regularly reviewed by the Board of Directors to determine resource allocation and evaluate business results.

The Company's businesses are divided into segments, which handle specific products and carry out comprehensive strategy planning in Japanese and overseas markets.

The Company consists of two reportable segments, identified by product portfolio, which are classified as the "Paper and Pulp Segment" and the "Imaging and Development (I&D) Segment."

The "Paper and Pulp Segment" develops writing and printing paper, premium-quality paper and pulp. The "I&D Segment" develops photo-sensitive printing plates, inkjet paper, photographic materials and other items.

	Millions of yen						
	Reportable segments						
Year ended March 31, 2012	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
Sales							
Sales to unaffiliated customers	**¥152,766**	**¥34,246**	**¥187,013**	**¥ 7,843**	**¥194,856**	**¥ —**	**¥194,856**
Intersegment sales and transfers	**3,471**	**15,351**	**18,822**	**11,439**	**30,262**	**(30,262)**	**—**
Total sales	**156,237**	**49,597**	**205,835**	**19,283**	**225,119**	**(30,262)**	**194,856**
Segment income	**¥ 1,275**	**¥ 414**	**¥ 1,690**	**¥ 666**	**¥ 2,356**	**¥ (192)**	**¥ 2,164**
Segment assets	**¥205,836**	**¥59,750**	**¥265,586**	**¥12,909**	**¥278,496**	**¥ (2,190)**	**¥276,305**
Amortization	**6,909**	**2,410**	**9,319**	**331**	**9,651**	**(75)**	**9,576**
Investment in equity-method affiliates	**488**	**—**	**488**	**—**	**488**	**—**	**488**
Increase in tangible and intangible fixed assets	**19,472**	**2,793**	**22,266**	**142**	**22,409**	**(279)**	**22,130**

Year ended March 31, 2012	Reportable segments: Paper and Pulp	Reportable segments: Imaging and Development	Reportable segments: Total	Other	Total	Adjustments	Consolidated
	Thousands of U.S. dollars						
Sales							
Sales to unaffiliated customers	**$ 1,858,699**	**$ 416,678**	**$ 2,275,378**	**$ 95,432**	**$ 2,370,810**	**$ —**	**$ 2,370,810**
Intersegment sales and transfers	**42,234**	**186,775**	**229,010**	**139,186**	**368,197**	**(368,197)**	**—**
Total sales	**1,900,934**	**603,454**	**2,504,388**	**234,619**	**2,739,008**	**(368,197)**	**2,370,810**
Segment income	**$ 15,524**	**$ 5,038**	**$ 20,562**	**$ 8,112**	**$ 28,674**	**$ (2,342)**	**$ 26,332**
Segment assets	**$ 2,504,398**	**$ 726,975**	**$ 3,231,373**	**$ 157,073**	**$ 3,388,447**	**$ (26,652)**	**$ 3,361,794**
Amortization	**84,067**	**29,326**	**113,393**	**4,032**	**117,426**	**(914)**	**116,511**
Investment in equity-method affiliates	**5,945**	**—**	**5,945**	**—**	**5,945**	**—**	**5,945**
Increase in tangible and intangible fixed assets	**236,923**	**33,987**	**270,911**	**1,739**	**272,650**	**(3,395)**	**269,254**

(i) The storage and transport business as well as the engineering business are included in "Other." They are not included in the reportable segments.

(ii) Adjustments are:

- Adjustments and eliminations for segment income include ¥(160) million ($(1,952) thousand) of elimination of inter-segment income and loss and ¥(32) million ($(390) thousand) of corporate expenses, which are general and administrative expenses and are not allocable to the reportable segments.
- Adjustments and eliminations for segment assets include ¥22,753 million ($276,845 thousand) of corporate assets and ¥(24,944) million ($(303,498) thousand) of elimination of inter-segment assets.
- Adjustments and eliminations for amortization of ¥(75) million ($(914) thousand) is elimination of inter-segment.
- Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(279) million ($(3,395) thousand) of elimination of inter-segment increase in tangible and intangible fixed assets.

(iii) Segment income is adjusted with consolidated operating income.

Year ended March 31, 2011	Reportable segments: Paper and Pulp	Reportable segments: Imaging and Development	Reportable segments: Total	Other	Total	Adjustments	Consolidated
	Millions of yen						
Sales							
Sales to unaffiliated customers	¥ 172,129	¥ 31,825	¥ 203,954	¥ 6,891	¥ 210,846	¥ —	¥ 210,846
Intersegment sales and transfers	3,584	16,548	20,133	10,888	31,021	(31,021)	—
Total sales	175,713	48,374	224,088	17,780	241,868	(31,021)	210,846
Segment income (loss)	¥ 3,180	¥ (37)	¥ 3,142	¥ 375	¥ 3,518	¥ (40)	¥ 3,477
Segment assets	¥ 187,821	¥ 51,566	¥ 239,387	¥ 12,102	¥ 251,490	¥ (2,983)	¥ 248,506
Amortization	9,453	2,528	11,981	305	12,286	(44)	12,241
Investment in equity-method affiliates	488	—	488	—	488	—	488
Increase in tangible and intangible fixed assets	2,828	1,331	4,160	229	4,389	(62)	4,326

(i) The storage and transport business as well as the engineering business are included in "Other." They are not included in the reportable segments.

(ii) Adjustments are:

- Adjustments and eliminations for segment income (loss) include ¥(5) million of elimination of inter-segment income and loss and ¥(34) million of corporate expenses, which are general and administrative expenses and are not allocable to the reportable segments.
- Adjustments and eliminations for segment assets include ¥17,585 million of corporate assets and ¥(20,569) million of elimination of inter-segment assets.
- Adjustments and eliminations for amortization of ¥(44) million is elimination of inter-segment.
- Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(62) million of elimination of inter-segment increase in tangible and intangible fixed assets.

(iii) Segment income (loss) is adjusted with consolidated operating income (loss).

Additional information

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

(2) Geographical information

(i) Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Japan	**¥ 141,415**	¥ 157,463	**$ 1,720,596**
Europe	**27,025**	27,691	**328,814**
Asia	**9,934**	9,431	**120,872**
North America	**10,074**	9,759	**122,572**
Other	**6,407**	6,500	**77,954**
Consolidated	**¥ 194,856**	¥ 210,846	**$ 2,370,810**

Net sales information above are based on customer location.

(ii) Property, plant and equipment by countries or geographical areas at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Japan	**¥ 119,836**	¥ 107,182	**$ 1,458,046**
Europe	**9,284**	10,522	**112,962**
North America	**82**	87	**1,000**
Consolidated	**¥ 129,203**	¥ 117,792	**$ 1,572,009**

(3) Impairment loss on fixed assets by reportable segments

Not applicable

(4) Amortization and balance of goodwill

	Millions of yen						
	Reportable segments						
Year ended March 31, 2012	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
(Goodwill)							
Amortization	**¥ —**	**¥ 22**	**¥ 22**	**¥ —**	**¥ 22**	**¥ —**	**¥ 22**
Balance as of March 31	**—**	**—**	**—**	**—**	**—**	**—**	**—**
(Negative goodwill)							
Amortization	**108**	**—**	**108**	**96**	**205**	**—**	**205**
Balance as of March 31	**¥ 244**	**¥ —**	**¥ 244**	**¥ 100**	**¥ 345**	**¥ —**	**¥ 345**

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2012	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
(Goodwill)							
Amortization	**$ —**	**$ 275**	**$ 275**	**$ —**	**$ 275**	**$ —**	**$ 275**
Balance as of March 31	**—**	**—**	**—**	**—**	**—**	**—**	**—**
(Negative goodwill)							
Amortization	**1,318**	**—**	**1,318**	**1,175**	**2,494**	**—**	**2,494**
Balance as of March 31	**$ 2,978**	**$ —**	**$ 2,978**	**$ 1,220**	**$ 4,199**	**$ —**	**$ 4,199**

	Millions of yen						
	Reportable segments						
Year ended March 31, 2011	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
(Goodwill)							
Amortization	¥ —	¥ 42	¥ 42	¥ —	¥ 42	¥ —	¥ 42
Balance as of March 31	—	22	22	—	22	—	22
(Negative goodwill)							
Amortization	108	—	108	94	202	—	202
Balance as of March 31	¥ 353	¥ —	¥ 353	¥ 196	¥ 550	¥ —	¥ 550

(5) Information relating to gain on negative goodwill by reporting segment

	Millions of yen						
	Reportable segments						
Year ended March 31, 2012	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
Gain on negative goodwill	**¥ 29**	**¥ 842**	**¥ 871**	**¥ —**	**¥ 871**	**¥ —**	**¥ 871**

	Thousands of U.S. dollars						
	Reportable segments						
Year ended March 31, 2012	Paper and Pulp	Imaging and Development	Total	Other	Total	Adjustments	Consolidated
Gain on negative goodwill	**$ 360**	**$ 10,247**	**$ 10,607**	**$ —**	**$ 10,607**	**$ —**	**$ 10,607**

Regarding the Imaging and Development Segment of Mitsubishi Paper Mills, on October 1, 2011 the Company acquired KJ Specialty Paper Co., Ltd. and made it into a wholly-owned subsidiary. Gain on negative goodwill accruing from this acquisition was ¥841 million ($10,243 thousand). For further details, please see Note 17.

ERNST & YOUNG

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Independent Auditor's Report

The Board of Directors
Mitsubishi Paper Mills Limited

We have audited the accompanying consolidated financial statements of Mitsubishi Paper Mills Limited and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of operations, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Paper Mills Limited and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shinnihon LLC

June 28, 2012

Board of Directors, Executive Officers and Corporate Auditors

Managing Executive Officers

Kunio Suzuki
President and Chief Executive Officer

Masami Mizuno
Representative Director and Senior Managing Executive Officer

Mitsuo Ushijima
Representative Director and Senior Managing Executive Officer

Kanji Itakura
Director and Managing Executive Officer

Hiroshi Nozawa
Director and Managing Executive Officer

Fukumi Kanehama
Managing Executive Officer

President and Chief Executive Officer
Kunio Suzuki
President

Representative Director and Senior Managing Executive Officers
Masami Mizuno
Supervisor, Raw Materials & Purchasing Dept.; In charge of President's Office and Internal Audit Dept.; Director responsible for Corporate Social Responsibility

Mitsuo Ushijima
In charge of Paper Div. and German Operations; General Manager, Paper Div.

Director and Managing Executive Officers
Kanji Itakura
Supervisor, Finance & Accounting Dept.

Hiroshi Nozawa
In Charge of General Affairs & Personnel Dept.

Managing Executive Officer
Fukumi Kanehama
In Charge of Technology & Environmental Dept.

Director and Senior Executive Officer
Kazuhisa Taguchi
Supervisor, Kitakami Div. and Technology & Environmental Dept.; In charge of Imaging Media Div. and Intellectual Property Dept.; General Manager, Imaging Media Div.

Outside Director
Tomohisa Shinagawa

Senior Executive Officers
Kiyoshi Maeda
General Manager, Raw Materials & Purchasing Dept.

Naoya Tashiro
General Manager, Kitakami Div.; Deputy General Manager, Imaging Media Div.; President & CEO, Kitakami Hitec Paper Corp.

Kiyoharu Yamada
Deputy General Manager, Paper Div.

Shinichi Suzuki
Head, Takasago Mill; Deputy General Manager, Paper Div., Imaging Media Div. and Speciality Materials Div.

Motoshige Yamada
Head, Kyoto Mill; Deputy General Manager, Imaging Media Div.

Yoshihiko Hibino
Head, Hachinohe Mill; Deputy General Manager, Paper Div.

Director and Executive Officer
Junji Harada
In charge of Speciality Materials Div.; General Manager, Speciality Materials Div.

Executive Officers
Yutaka Oka
President, Mitsubishi Paper Holding (Europe) GmbH(Germany)

Masaki Shuto
General Manager, Finance & Accounting Dept.

Akira Takeuchi
Deputy Head, Hachinohe Mill and General Manager, Equipment Planning Office

Tsuneaki Handa
President & CEO, Diamic Co.,Ltd.

Corporate Auditor
Kenji Oka

Outside Corporate Auditors
Yasuharu Takamatsu
Koji Kaihotsu

(as of June 28, 2012)

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April 1, 1898

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+81-3-5600-1463 *(Business Communication & Specialty Paper Sales Dept. Paper Division)*
+81-3-5600-1464 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1479 *(Ink Jet & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1475 *(Graphic Systems Sales Dept. Imaging Media Division)*
+81-3-5600-1471 *(Speciality Materials Division)*
+81-3-5600-1453 *(Purchasing Dept.)*
+81-3-5600-1454 *(Forestry Dept.)*

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+81-3-5600-1419 *(Speciality Materials Division)*
+81-3-5600-1451 *(Purchasing Dept.)*
+81-3-5600-1451 *(Forestry Dept.)*

Sales Branch:
Osaka

Corporate Research Center:
Tsukuba R&D Laboratory
Kyoto R&D Laboratory
Process Development Laboratory

Mills:
Takasago, Kyoto, Hachinohe

Major Affiliates:

Domestic
Mitsubishi Paper Sales Co., Ltd.
Ostrich Dia Co., Ltd.
Toho Tokushu Pulp Co., Ltd.
Hachinohe Paper Processing Co., Ltd.
Hachinohe Forest Products Co., Ltd.
Hachiryo Co., Ltd.
Hokuryo Forest Products Co., Ltd.
Hokuryo Co., Ltd.
Hakuryo Co., Ltd.
Takasago Paper Processing Co., Ltd.
Kitakami Hitec Paper Corp.
Diamic Co., Ltd.
Pictorico Co., Ltd.
Asahi Diazo-Sensitive Paper Co., Ltd.
Kyoryo Chemical Co., Ltd.
Naniwa Express Co., Ltd.
Mitsubishi Paper Engineering Co., Ltd.
Ryoshi Co., Ltd.
MPM Shared-service Co., Ltd.
MPM CAE Center Co., Ltd.
KJ Specialty paper Co., Ltd.
Ryoko Co., Ltd.

Overseas
Mitsubishi Paper Holding (Europe) GmbH (Germany)
Mitsubishi Paper GmbH (Germany)
Mitsubishi HiTec Paper Europe GmbH (Germany)
Mitsubishi Imaging (MPM), Inc. (U.S.A.)
MP Juarez LLC (Mexico)
Zuhai MPM Filter, Ltd. (China)

Disclaimer Regarding Forward-Looking Statements

This material contains forward-looking statements relating to the businesses and prospects of the Company. These statements are based on our expectations at MAY 2012. and are subject to the risks and uncertainties that may affect our businesses, which could cause actual results to differ materially from those anticipated.
We will not be liable for any damage or loss incurred by you arising out of or in connection with this material.

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