
Our company-owned forests at Nishigo-mura, Nishishirakawa-gun, Fukushima Pref.

Annual Report 2017

MITSUBISHI PAPER MILLS LIMITED

Profile

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 photographic 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 photographic 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)

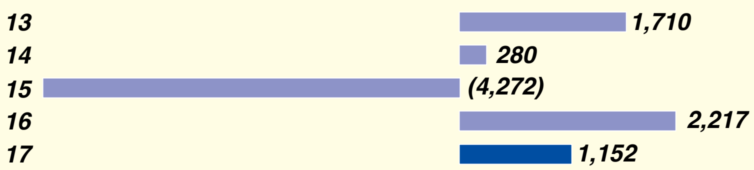
	Millions of yen (1)		Thousands of U.S. dollars (1) and (2)
	2017	2016	**2017**
For the years ended March 31			
Net sales	**¥201,955**	¥ 216,340	**$1,800,120**
Operating income	**4,313**	3,872	**38,448**
Net income attributable to owners of parent	**1,152**	2,217	**10,273**
Net income per share (in yen and dollars) (3)	**33.72**	64.85	**0.30**
Cash dividends per share (in yen and dollars)	**–**	–	**–**
As at March 31			
Total assets	**¥235,869**	¥ 241,155	**$2,102,411**
Total net assets	**56,631**	51,492	**504,779**
Common stock	**32,756**	32,756	**291,971**
Net assets per share (in yen and dollars) (3)	**1,591.00**	1,440.45	**14.18**
Number of shareholders	**14,406**	15,797	
Number of employees	**3,734**	3,697	

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 ¥112.19 = U.S.$1, as of March 31, 2017.
(3) On October 1, 2016,the share consolidation was executed at a ratio of 1share per 10 shares.
Net income per share ,and net assets per share, are calculated based on the assumption that the share consolidation was executed at the beginning of the fiscal year ended March 31,2016.

Net Sales
(¥ Million)

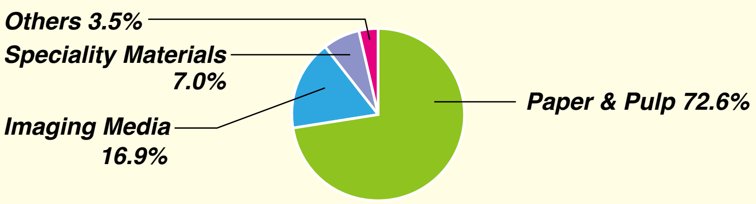
Operating Income
(¥ Million)

Net Income(Loss) Attributable to Owners of Parent
(¥ Million)



Total Net Assets
(¥ Million)

Sales Composition



Message from the President

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

Overview of the Reporting Term

The outlook for the Japanese economy in the current term remains unclear even though a mild recovery was seen amid a backdrop of improvements to the employment environment and strong corporate profits; there was also a slump in individual consumption and a sudden change in the exchange rate caused by economic and political shifts in the U.S. and Europe. The paper and pulp industry continued to suffer disastrously as structural demand kept declining due to the digitalization of various information media.

Under such conditions, in accordance with the Second Mid-term Management Plan (from April 2016 to March 2019), we have been working on measures to establish and strengthen a revenue structure that will not be affected by the external environment under the 4 fundamental polices (i.e. (1) structural reform of printing paper business; (2) improving profit base, (3) developing new business; and(4) strengthening business foundation and financial ground that will support the Group's earning power) based on the key concept of "stabilizing revenue through alliances".

The current term as the first year of the Second Mid-term Management Plan, we implemented the measures in accordance with the 4 fundamental policies. However consolidated net sales were ¥201,955 million (US$1,800 million) (down 6.6% from the previous term) mainly due to a decrease in demand for existing products, the downturn of the printing paper market and the appreciation of the yen.

As for profits and losses, profit gain factors, including cheap fuel costs in the first half and improvement in profits and losses of our European subsidiary, exceeded loss factors from sales including a decrease in sales figures and lower sales prices, leading to a consolidated operating income of ¥4,313 million (US$38 million; up 11.4% from the previous term), and a consolidated ordinary income of ¥2,703 million (US$24 million; up 22.0% from the previous term). Profit attributable to owners of parent was ¥1,152 million (US$10 million; down 48.0% from the previous term), showing a decrease from the previous term, which saw high gains on disposal of fixed assets.

As for non-consolidated results, we had net sales of ¥119,972 million (US$1,069 million), an ordinary income of ¥3,410 million (US$30 million), and a profit of ¥2,434 million (US$21 million).

Our Goals to Address

[Second Mid-term Management Plan]

We have formulated the Second Mid-term Management Plan (from April 2016 to March 2019) based on the key concept of "stabilizing revenue through alliances" and are making efforts to establish and strengthen a revenue structure that will be unaffected by the external environment to deal with the business environment where competitions are expected to be more and more fierce.

<Structural reform of printing paper business>

We are taking efforts to stabilize our sales volume by expanding the sales of communication paper through strengthening our alliance and by increasing the exports. We also are working to streamlining the supply chain from production to sales (optimization of distribution and circulation frameworks). Through those measures we try to build a stable revenue structure that will not be affected by the external environment.

German business shows the positive effect of the profit focused sales and of cost down efforts, and from now on we study the possible alliances in the world market.

In addition, we are currently in negotiations to mark up the price of printing and communication paper as well as white paperboards, since we had to revise our profitability in response to the increase in fuel costs during the second half of the fiscal year.

<Improving profit base>

For the Imaging Division, we will strengthen its business base using alliances, and through aggressive sales activity in overseas markets, we will further enrich existing products, for which the

Stabilization of profit through Alliances

1 Structural Reform of Printing Paper Business

- We will achieve stable earning structure not affected by the external environment through structural reform and strengthening our alliance with Oji Group.
- We will optimize our distribution and logistics systems.

2 Improving Profit Base

- We will strengthen our alliance with Fujifilm Corporation to build an efficient production system.
- We will improve the profit base business by effectively using the business superiority and positioning of Mitsubishi Paper Mills.

3 Developing New Businesses

- We will launch a biomass power generation business in collaboration with Oji Group.
- We will strategically develop new businesses.
- We will make careful strategic and selective investment in the focus fields.

4 Strengthening business foundation and financial ground that will support the Group's earning power

- We will work on the reconstruction of business process and IT infrastructure to achieve the Group's business structure reform.
- We will promote reduction of interest bearing debts, which we have managed to reduce to the pre-Great East Japan Earthquake level, and further strengthen the Group's financial ground.

market is maturing. For the Speciality Materials Division, we will strive to expand sales in Asian countries, primarily China, the U.S. and Europe, making steady growth of the non-woven fabrics and Thermo Rewrite using our position in the market.

<Developing New businesses>

We are expanding the business in the new fields through launching new businesses in the expanding markets such as functional films and digital image transfer paper utilizing our imaging technology, and through the superior quality of our battery separators. For functional films, we decided an investment to build a new exclusive facility in Kyoto Mill.

Moreover, to improve the profit base of Hachinohe Mill, we work with the Oji Group to build a biomass power plant, which will start operation in July 2019. Furthermore, we have agreed to launch a tissue paper business in collaboration with the Oji Group in Hachinohe Mill and strive to start operation in 2019.

<Strengthening business foundation and financial ground that will support the Group's earning power>

We build a project framework to rebuild our business processes and IT base. We achieved the goals set for interest-bearing liabilities and D/E ratio in the Second Mid-term Management Plan ahead of schedule in the current term. We continue to work towards achieving our final objectives of the Second Mid-term Management Plan.

[CSR (corporate Social Responsibility)]

We believe that appropriate actions to address issues from environment, financial and social perspectives through proactive dialogues with stakeholders are critical to collaboratively build a sustainable future and society.

We recognize that the purposes of the CSR activities are to enhance the corporate value by obtaining trust and sympathy from the stakeholders. Base on this recognition, we will implement unique CSR activities for sustainable development.

During this term, we carried out the activities in the following priority areas: “Initiatives to ensure strict legal compliance” and “Enhancement of activity on safety and health.” With regard to products, we also tries to expand environment-conscious product lines such as FSC certified products which contribute to prevent forests and Thermal DigiPlate System which will contribute to reduce environmental load.

In the 153rd term, we deemed “ensuring product quality” and “enhancement of activity on safety and health” as our top priority tasks. “Ensuring product quality” promotes strengthening our alliances, which is one of the pillars of our Second Mid-term Management Plan, while “enhancement of activity on safety and health” corresponds to “upgrading safety measures in the manufacturing business” which is progressing with assistance from the public and private sectors. We will endeavor to conduct CSR activities that will lead to mid- to long-term development and increasing our corporate value as well.

Forecast

The consolidated financial performance for the following term is forecasted to have net sales of ¥205,000 million (US$1,782 million), an operating income of ¥4,000 million (US$34 million), an ordinary income of ¥2,500 million (US$21 million), and profit attributable to owners of parent of ¥1,500 million (US$13 million).

The above forecast presumes 115 yen will equal 1 US dollar and 125 yen will be worth 1 euro. The business forecast is based on our judgment and available information at the time of creation and contains risks and uncertain elements. It is possible that actual results and figures may differ from the estimates according to various factors.

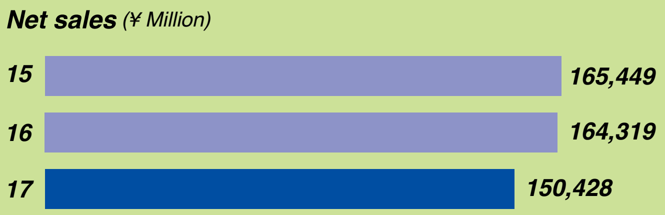
June 2017

鈴木邦夫

Kunio Suzuki,
President & C.E.O.

Breakdown of Operations by Division

Paper and Pulp Divisions



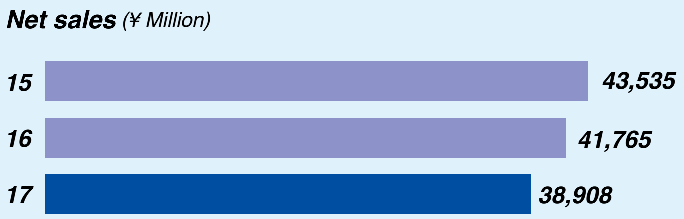
As for domestic sales, the performance of communication paper was healthy thanks to the alliance effects, the sales promotion of PPC paper, etc., while the sales of printing paper were sluggish, and so quantity sold declined. As for export, production inkjet paper was promoted and the sold quantity of printing paper grew. As a result, quantity sold increased, but the domestic market was stagnant, and sales declined.

As for European subsidiaries, the revisions to the prices of our mainstay carbonless copy paper and thermal paper turned out to be effective, but orders were selectively received. Consequently, both quantity sold and sales dropped.

As for commercial pulp, both quantity sold and sales decreased.

Consequently, the total net sales of the Paper and Pulp Divisions were ¥150,428 million (US$1,340 million), down 8.5% from the previous term.

Imaging Division



In the Japanese market, the performance of photosensitive sensitive materials and platemaking materials was healthy, and sales were nearly equal to those in the previous term. In the overseas market, the sales of photosensitive materials grew due to the alliance effect, but total sales dropped, due to the weakening of demand for existing products, including inkjet paper and platemaking materials, and the yen appreciation. Consequently, the total net sales of the Imaging Division were ¥38,908 million (US$346 million), down 6.8% from the previous term.

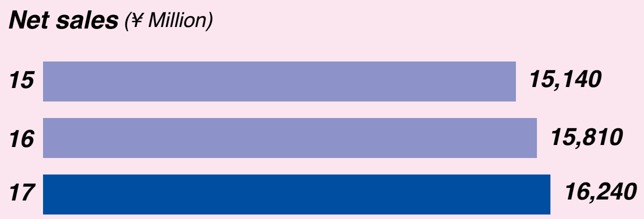
Speciality Materials Division

As for speciality materials, the sales of water treatment membrane supporting body and Thermo Rewrite targeted at overseas markets increased, but the number of orders for battery separators and filters for overseas home electronics decreased, and so the sales of speciality materials declined.

As for chemical paper, the performance of decorative laminate base paper and lining paper for wallpaper was sluggish, but the sales of tape base paper, etc. grew, and so the sales of chemical paper increased.

Consequently, the total net sales of the Speciality Materials Division were ¥16,958 million (US$151 million), up 0.2% from the previous term.

Other Divisions



As the sales at engineering-related subsidiaries increased, the total net sales of other divisions were ¥16,240 million (US$144 million), up 2.7% from the previous term.

50th anniversary of Hachinohe Mill

Hachinohe Mill of Mitsubishi Paper Mills started operation in January 1967, and commemorated the 50th anniversary in 2017. By taking advantage of the blessed coastal location of Hachinohe, it has grown to become one of the largest paper pulp plants in Japan, as the flagship factory of Mitsubishi Paper Mills.

It has undergone several earthquake disasters and economic turbulences, and suffered significant damage especially from the Great East Japan Earthquake, but was able to commemorate the 50th anniversary of start of operation, thanks to the strong support from stakeholders. We would like to express our gratitude to many people, including shareholders, business partners, Aomori Prefecture, Hachinohe City, and employees, all of whom have supported its operation for half a century.

As the demand for printing paper is weakening, Hachinohe Mill will work on shifting its portfolio to communication paper, biomass power generation, tissue paper business, and so on for the next stage, by utilizing alliances.

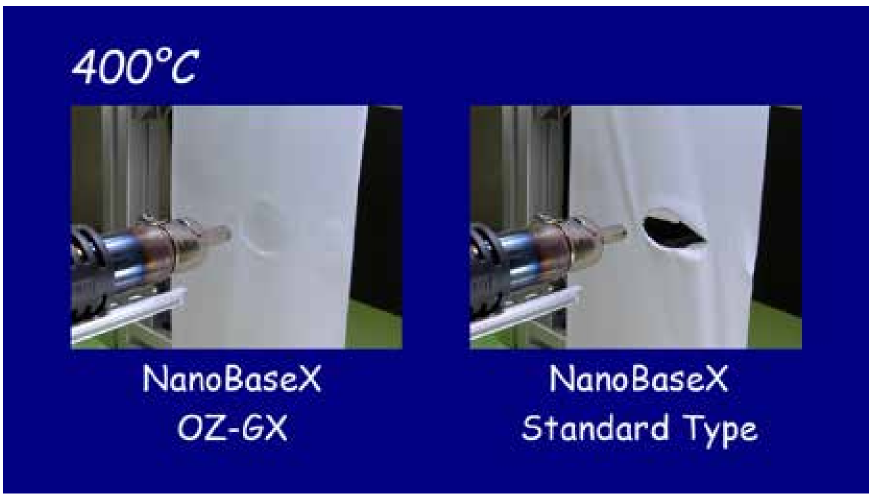
Establishment of a photo gallery & shop

We opened a photo shop that includes a photo gallery in Omotesando (Jingumae, Shibuya-ku, Tokyo). In this shop, Pictorico, which belongs to our corporate group, sells our photo-related products, offers consultation services about printing, and receives orders for the printing service “Pictorico Atelier.” We entrust Pictorico with the operation of this gallery.

NanoBaseX “OZ-GX Series,” heat-resistant separators for lithium-ion batteries (produced at Takasago Mill)

The heat resistance and liquid retention property of NanoBaseX, the separator for lithium-ion batteries, are enhanced by applying ceramics to non-woven polyester fabric. This separator contributes to the improvement of safety and life of lithium-ion batteries.

In November 2016, we developed NanoBaseX “OZ-GX Series” , which can tolerate as high as 470°C. As the size of lithium-ion batteries has become larger for electric vehicles, we need to secure their safety. In these circumstances, we are actively promoting NanoBaseX “OZ-GX Series,” which would overcome the separators’ heat resistance problem in lithium-ion batteries.

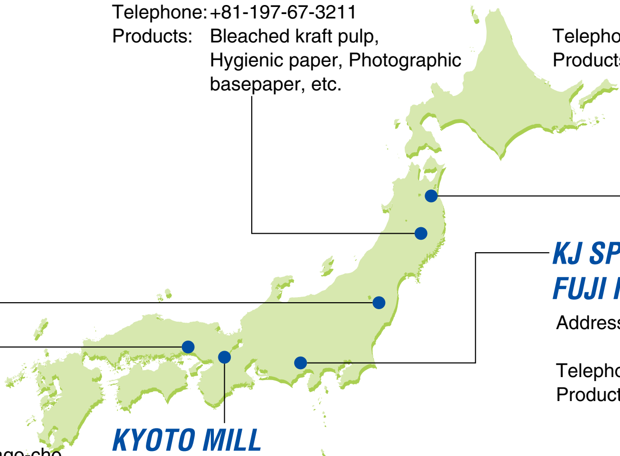


Our Mills and Their Product Lines

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

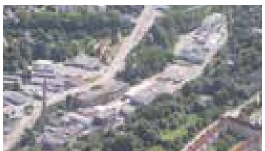
TAKASAGO MILL
Address: 105, Sakae-machi, Takasago-cho, Takasago-shi, Hyogo 676-8677
Telephone: +81-794-42-3101
Products: Carbonless paper, Thermal paper, Inkjet paper, Specialty paper, Non Woven Fablics, etc.

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)

Six-Year Summary (Consolidated)

	Millions of yen						Thousands of U.S. dollars
	2017	2016	2015	2014	2013	2012	**2017**
For the years ended March 31							
Net sales	**¥201,955**	¥ 216,340	¥ 214,944	¥ 207,470	¥200,850	¥194,856	**$1,800,120**
Operating income	**4,313**	3,872	1,038	473	3,332	2,164	**38,448**
Net income (loss) attributable to owners of parent	**1,152**	2,217	(4,272)	280	1,710	565	**10,273**
Net income (loss) per share (in yen and dollars)	**33.72**	64.85	(124.96)	8.21	50.01	16.54	**0.30**
As at March 31							
Total assets	**¥235,869**	¥ 241,155	¥ 253,482	¥ 258,599	¥265,234	¥276,305	**$2,102,411**
Total net assets	**56,631**	51,492	55,094	55,586	55,370	52,108	**504,779**

Notes: On October 1, 2016,the share consolidation was executed at a ratio of 1share per 10 shares. Net income per share is calculated based on the assumption that the share consolidation was executed at the beginning of the fiscal year ended March 31, 2012.

Consolidated Balance Sheets

As at March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
ASSETS			
Current assets:			
Cash and deposits (Note 3 (12))	**¥10,840**	¥11,381	**$96,629**
Receivables:			
Trade notes and accounts (Note 10)	**46,291**	48,338	**412,613**
Other	**2,100**	1,950	**18,725**
	48,391	50,288	**431,339**
Less: Allowance for doubtful accounts	**(216)**	(188)	**(1,926)**
	48,175	50,100	**429,412**
Inventories	**41,406**	45,505	**369,074**
Deferred tax assets (Note 14)	**1,027**	945	**9,160**
Other	**2,346**	1,975	**20,918**
Total current assets	**103,797**	109,907	**925,196**
Non-current assets:			
Property, plant and equipment (Note 4):			
Land	**22,068**	22,518	**196,708**
Buildings and structures	**96,648**	96,990	**861,471**
Machinery, equipment and vehicles	**360,409**	361,447	**3,212,494**
Construction in progress	**676**	535	**6,028**
Leased assets	**2,643**	2,867	**23,563**
Other	**9,583**	9,814	**85,417**
	492,029	494,174	**4,385,684**
Less: Accumulated depreciation	**(387,374)**	(383,735)	**(3,452,845)**
Accumulated impairment losses	**(590)**	(563)	**(5,267)**
Net property, plant and equipment	**104,064**	109,875	**927,571**
Investments and other assets:			
Investment securities (Notes 4, 10 and 11)	**21,673**	17,568	**193,183**
Investments in unconsolidated subsidiaries and affiliated companies	**1,328**	985	**11,843**
Long-term loans receivable	**599**	82	**5,339**
Net defined benefit asset	**2,005**	8	**17,875**
Less: Allowance for doubtful accounts	**(99)**	(338)	**(886)**
Deferred tax assets (Note 14)	**184**	198	**1,645**
Other	**2,315**	2,868	**20,642**
Total investments and other assets	**28,007**	21,372	**249,643**
Total assets	**¥235,869**	¥241,155	**$2,102,411**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans payable (Note 10)	**¥50,828**	¥53,321	**$453,061**
Current portion of long-term debt (Note 10)	**17,435**	27,854	**155,413**
Lease obligations	**346**	363	**3,087**
Payables:			
Trade notes and accounts (Note 10)	**24,573**	23,302	**219,037**
Other	**2,648**	2,744	**23,609**
Accrued expenses	**7,135**	7,081	**63,605**
Income taxes payable	**399**	345	**3,560**
Other	**4,007**	3,665	**35,718**
Total current liabilities	**107,376**	118,677	**957,093**
Non-current liabilities:			
Long-term debt (Note 10)	**57,570**	57,443	**513,150**
Lease obligations	**907**	1,240	**8,092**
Provision for directors' retirement benefits	**66**	48	**591**
Reserve for loss on dissolution of employee's fund	**143**	121	**1,283**
Net defined benefit liability	**8,949**	9,165	**79,766**
Deferred tax liabilities (Note 14)	**2,442**	1,213	**21,774**
Asset retirement obligations	**888**	884	**7,918**
Other	**893**	866	**7,962**
Total non-current liabilities	**71,862**	70,985	**640,539**
Total liabilities	**¥179,238**	¥189,663	**$1,597,632**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized: 90,000,000 shares at March 31, 2017			
Issued: 34,258,433 shares at March 31, 2017	**¥32,756**	¥32,756	**$291,971**
Capital surplus	**7,438**	7,456	**66,301**
Retained earnings	**8,599**	7,447	**76,654**
Treasury shares	**(147)**	(145)	**(1,314)**
Total shareholders' equity	**48,647**	47,514	**433,613**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**5,506**	3,014	**49,084**
Foreign currency translation adjustment	**1,245**	1,577	**11,101**
Remeasurements of defined benefit plans	**(1,015)**	(2,864)	**(9,052)**
Total accumulated other comprehensive income	**5,736**	1,727	**51,133**
Non-controlling interests	**2,247**	2,250	**20,032**
Total net assets	**¥56,631**	¥51,492	**$504,779**
Total liabilities and net assets	**¥235,869**	¥241,155	**$2,102,411**

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

Consolidated Statements of Operations

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
Net sales	**¥201,955**	¥216,340	**$1,800,120**
Cost of sales	**166,817**	181,117	**1,486,920**
Gross profit	**35,137**	35,223	**313,200**
Selling, general and administrative expenses	**30,824**	31,350	**274,752**
Operating income	**4,313**	3,872	**38,448**
Other income (expenses):			
Interest and dividend income	**485**	473	**4,327**
Interest expenses	**(2,075)**	(2,320)	**(18,502)**
Royalty income	**149**	188	**1,335**
Foreign exchange gains(losses)	**(287)**	(242)	**(2,559)**
Insurance income	**255**	365	**2,274**
Compensation income	**228**	37	**2,036**
Gain on sales of investment securities	**207**	38	**1,852**
Gain(loss) on disposal of non-current assets (Note 6)	**(513)**	1,017	**(4,574)**
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	**—**	277	**—**
Special retirement expenses	**(348)**	(302)	**(3,107)**
Business restructuring cost (Note 7)	**(276)**	(227)	**(2,465)**
Impairment loss (Note 8)	**(287)**	(18)	**(2,561)**
Other, net	**(265)**	(140)	**(2,370)**
Total	**(2,727)**	(853)	**(24,314)**
Income before income taxes and non-controlling interests	**1,585**	3,018	**14,133**
Income taxes:			
Current	**341**	914	**3,044**
Deferred (Note 14)	**(85)**	81	**(758)**
Net income	**1,329**	2,023	**11,848**
Net income(loss) attributable to non-controlling interests	**176**	(193)	**1,575**
Net income attributable to owners of parent	**¥1,152**	¥2,217	**$10,273**

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

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
Net income	**¥1,329**	¥2,023	**$11,848**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**2,813**	(1,918)	**25,078**
Foreign currency translation adjustments	**(313)**	(438)	**(2,798)**
Remeasurements of defined benefit plans,net of tax	**1,821**	(2,979)	**16,238**
Share of other comprehensive income of entities accounted for using equity method	**(53)**	3	**(472)**
Total other comprehensive income	**4,268**	(5,333)	**38,046**
Comprehensive income	**5,597**	(3,310)	**49,894**
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	**5,161**	(2,946)	**46,009**
Comprehensive income attributable to non-controlling interests	**¥435**	¥(364)	**$3,884**

	Yen		U.S. dollars (Note 2)
	2017	2016	**2017**
Amounts per share:			
Net income(loss) — basic (Note 3 (11))	**¥33.72**	¥64.85	**$0.30**
Cash dividends applicable to the year	**–**	–	**–**

The accompanying notes are an integral part of these financial statements.
On October 1, 2016,the share consolidation was executed at a ratio of 1share per 10 shares. Net income per share is calculated based on the assumption that the share consolidation was executed at the beginning of the fiscal year ended March 31, 2016.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2017 and 2016

Millions of yen

		Shareholders' equity						Total accumulated other comprehensive income					
	Number of shares in issue	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	342,584,332	¥32,756	¥7,523	¥5,147	¥(143)	¥45,284	¥4,663	¥1,815	¥254	¥6,733	¥3,076	¥55,094
Changes during the year:												
Net income attributable to owners of parent				2,217		2,217						2,217
Acquisition of treasury stock					(1)	(1)						(1)
Disposal of treasury stock						–						–
Change of scope of consolidation				82		82						82
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(67)			(67)						(67)
Changes in items other than shareholders' equity							(1,648)	(237)	(3,119)	(5,006)	(826)	(5,832)
Total changes during the year	–		(67)	2,299	(1)	2,230	(1,648)	(237)	(3,119)	(5,006)	(826)	(3,602)
Balance at March 31, 2016	342,584,332	¥32,756	¥7,456	¥7,447	¥(145)	¥47,514	¥3,014	¥1,577	¥(2,864)	¥1,727	¥2,250	¥51,492
Changes during the year:												
Net income attributable to owners of parent				**1,152**		**1,152**						**1,152**
Acquisition of treasury stock					**(2)**	**(2)**						**(2)**
Disposal of treasury stock				**(0)**	**0**	**0**						**0**
Change of scope of consolidation						**–**						**–**
Change in treasury shares of parent arising from transactions with non-controlling shareholders			**(17)**			**(17)**						**(17)**
Changes in items other than shareholders' equity							**2,492**	**(332)**	**1,849**	**4,009**	**(3)**	**4,006**
Total changes during the year	**–**		**(17)**	**1,152**	**(1)**	**1,132**	**2,492**	**(332)**	**1,849**	**4,009**	**(3)**	**5,138**
Balance at March 31, 2017	**34,258,433**	**¥32,756**	**¥7,438**	**¥8,599**	**¥(147)**	**¥48,647**	**¥5,506**	**¥1,245**	**¥(1,015)**	**¥5,736**	**¥2,247**	**¥56,631**

Thousands of U.S. dollars

		Shareholders' equity						Total accumulated other comprehensive income					
	Number of shares in issue	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	342,584,332	$291,971	$66,461	$66,382	$(1,297)	$423,518	$26,869	$14,061	$(25,534)	$15,396	$20,059	$458,974
Changes during the year:												
Net income attributable to owners of parent				**10,273**		**10,273**						**10,273**
Acquisition of treasury stock					**(19)**	**(19)**						**(19)**
Disposal of treasury stock				**(0)**	**1**	**0**						**0**
Change of scope of consolidation						**–**						**–**
Change in treasury shares of parent arising from transactions with non-controlling shareholders			**(159)**			**(159)**						**(159)**
Changes in items other than shareholders' equity							**22,215**	**(2,960)**	**16,481**	**35,736**	**(27)**	**35,709**
Total changes during the year	**–**		**(159)**	**10,272**	**(17)**	**10,094**	**22,215**	**(2,960)**	**16,481**	**35,736**	**(27)**	**45,804**
Balance at March 31, 2017	**34,258,433**	**$291,971**	**$66,301**	**$76,654**	**$(1,314)**	**$433,613**	**$49,084**	**$11,101**	**$(9,052)**	**$51,133**	**$20,032**	**$504,779**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
I Cash flows from operating activities:			
Income before income taxes and non-controlling interests	**¥1,585**	¥3,018	**$14,133**
Depreciation	**10,454**	10,662	**93,188**
Impairment loss (Note 8)	**287**	18	**2,561**
Increase (decrease) in net defined benefit liability (Note 13)	**(120)**	291	**(1,070)**
Decrease (increase) in net defined benefit asset (Note 13)	**2**	(669)	**24**
Increase (decrease) in provision for directors' retirement benefits	**17**	14	**155**
Interest and dividend income	**(485)**	(473)	**(4,327)**
Interest expense	**2,075**	2,320	**18,502**
Loss (gain) on sales of short-term and long-term investment securities	**(207)**	(38)	**(1,852)**
Loss (gain) on disposal of non-current assets (Note 6)	**513**	(1,017)	**4,574**
Business restructuring cost (Note 7)	**276**	227	**2,465**
Decrease (increase) in trade notes and accounts receivable	**2,182**	(1,530)	**19,456**
Decrease (increase) in inventories	**3,432**	3,210	**30,593**
Increase (decrease) in trade notes and accounts payable	**1,547**	(384)	**13,793**
Other, net	**592**	(117)	**5,283**
Sub-total	**22,155**	15,532	**197,480**
Payments for business restructuring cost (Note 7)	**(144)**	(227)	**(1,285)**
Interest and dividend income received	**489**	470	**4,366**
Interest expenses paid	**(2,155)**	(2,387)	**(19,210)**
Income taxes paid	**(506)**	(761)	**(4,513)**
Net cash provided by (used in) operating activities	**19,839**	12,626	**176,837**
II Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**(6,120)**	(4,196)	**(54,557)**
Proceeds from sales of property, plant and equipment and intangible assets	**50**	1,682	**453**
Purchase of investment securities	**(142)**	(28)	**(1,266)**
Proceeds from sales of investment securities	**269**	40	**2,404**
Purchase of shares of subsidiaries and associates	**(355)**	(4)	**(3,168)**
Proceeds from sales of shares of subsidiaries and associates	**–**	4	**–**
Payments of loans receivable	**(570)**	(2)	**(5,085)**
Collection of loans receivable	**53**	325	**479**
Other, net	**(256)**	34	**(2,284)**
Net cash provided by (used in) investing activities	**(7,070)**	(2,145)	**(63,025)**
III Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(2,112)**	(2,343)	**(18,833)**
Proceeds from long-term debt	**17,899**	18,175	**159,541**
Repayments of long-term debt	**(28,090)**	(20,653)	**(250,382)**
Repayments of lease obligations	**(348)**	(383)	**(3,108)**
Purchase of treasury shares	**(2)**	(1)	**(19)**
Proceeds from sales of treasury shares	**0**	–	**0**
Dividends paid to non-controlling interests	**(188)**	(240)	**(1,680)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(269)**	(290)	**(2,401)**
Net cash provided by (used in) financing activities	**(13,112)**	(5,737)	**(116,881)**
IV Effect of exchange rate change on cash and cash equivalents	**(196)**	(109)	**(1,748)**
V Net increase (decrease) in cash and cash equivalents	**(540)**	4,633	**(4,818)**
VI Increase in cash and cash equivalents from newly consolidated subsidiaries	**–**	242	**–**
VII Cash and cash equivalents at beginning of period	**11,381**	6,505	**101,447**
VIII Cash and cash equivalents at end of period (Note 3 (12))	**¥10,840**	¥11,381	**$96,629**

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

Notes to Consolidated 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 ¥112.19 = U.S.$1, the exchange rate prevailing as of March 31, 2017. 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 34 subsidiaries as of March 31, 2017 (34 as of March 31, 2016). The accompanying consolidated financial statements include the accounts of the Company and 26 (26 for 2016) of its subsidiaries for the year ended March 31, 2017 (together, hereinafter referred to as the "Companies").

The accounts of the remaining 8 (8 for 2016) unconsolidated subsidiaries for the year ended March 31, 2017 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.

The fiscal year end of Mitsubishi Paper Holding (Europe) GmbH and other 6(6 for 2016) consolidated subsidiaries is December 31. For the purpose of preparing the consolidated financial statements, we used their financial statements as of their respective fiscal year end. We made adjustments for the purpose of consolidation as necessary for the material transactions that occurred between such fiscal year-end dates and the consolidated account closing date.

(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 goodwill or negative goodwill. Goodwill and negative goodwill (only incurred before March 31, 2010) are 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 10 affiliates as of March 31, 2017 (11 for 2016). 3 affiliated companies were accounted for by the equity method.

However, the remaining 8 (8 for 2016) subsidiaries and 7 (8 for 2016) 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

Depreciation of buildings (excluding for leased assets) is computed by the straight-line method.Depreciation of other property, plant and equipment (excluding for leased assets) is mainly computed by the straight-line method,but in part, the declining-balance method is used at the head office of the Company and certain consolidated subsidiaries.However,depreciation of structures acquired after April 1,2016 is computed by the straight-line 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.

(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) Accounting method for retirement benefits

(i) Method of attributing the projected benefits to periods of service

As for the calculation of retirement benefit obligation, the benefit formula basis is used for including estimated retirement benefits in a period till the end of this consolidated fiscal year. Some consolidated subsidiaries adopt the simplified method for calculating the liabilities and costs for retirement benefits, while defining the term-end privately necessary payment for retirement benefits as retirement benefit obligation for the lump-sum severance pay plan, and defining the actuarial obligation in the latest pension finance calculation as retirement benefit obligation for the corporate pension plan.

(ii) Amortization of unrecognized prior service cost

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 14 years).

(iii) Amortization of unrecognized net actuarial gain or loss

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 14 years).

(9) Reserve for loss on dissolution of employee pension fund

The Company and certain domestic consolidated subsidiaries reserve for loss on dissolution of employee pension fund.

(10) 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.

(11) 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.

(12) 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, 2017 and 2016 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and bank deposits	**¥10,840**	¥11,381	**$96,629**
Cash and cash equivalents	**¥10,840**	¥11,381	**$96,629**

(13) Dividends

The Companies Act 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.

(14) Accounting changes

In accordance with the amendment of the Corporate tax laws,the Company adopted the "Practical solution on change in depreciation method due to 2016 Tax Reform"(Practical Issues Task Force No. 32, June 17, 2016) from the fiscal year of 2016. Therefore, the Company has changed the depreciation method of structures acquired after April 1,2016 from the declining-balance method to the straight-line method. The impact of the change on consolidated financial statements in this consolidated fiscal year is insignificant.

(15) Changes in presentation

Previously, the Group presented part of the transportation expenses, etc. in our Paper and Pulp Division as “Cost of sales.” However, we switched to a method that presents this as “Selling, general and administrative expenses” from this consolidated fiscal year.

We made this change to more appropriately present these expenses in comparison with the content of our business activities after re-considering the conditions in which they occur while we are proceeding with efforts to optimize our distribution and logistics structures given in our “Second Mid-term Management Plan” that we started from this consolidated fiscal year. We have reclassified our consolidated financial statements for the previous consolidated fiscal year to reflect this change in the presentation method.

As a result, ¥3,640 million presented as “Cost of sales” in our consolidated statements of operations for the previous consolidated fiscal year has been reclassified as “Selling, general and administrative expenses.”

(16) Changes in Accounting estimates

With regard to the number of years for posting actuarial difference and past service costs, the average remaining years of service of an employee has shortened, therefore from this consolidated fiscal year, the number of years for the Company is changed from 13 to 12. Certain overseas consolidated subsidiaries have changed from 11 to 10. This change resulted in ¥182 million ($1,622 thousand) increase in operating income and income before income taxes and non-controlling interests for this consolidated fiscal year.

(17) Reclassification

Certain reclassification have been made to the prior years’ consolidated financial statements to conform to the presentation for the year ended March 31, 2017.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Buildings and structures	**¥16,061**	¥17,181	**$143,159**
Machinery and equipment	**27,784**	32,564	**247,656**
Land	**10,497**	10,497	**93,565**
Investment securities	**4,820**	3,583	**42,966**
Other	**74**	104	**659**
	¥59,237	¥63,930	**$528,008**

5. Contingent Liabilities

As at March 31, 2017 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥1,829 million ($16,303 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥546 million ($4,875 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
	2017	2016	**2017**
Machinery and equipment	**¥13**	¥4	**$121**
Land	**4**	1,455	**35**

(2) Losses 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
	2017	2016	**2017**
Scrapping and removal expenses	**¥342**	¥296	**$3,051**
Machinery and equipment	**105**	137	**938**
Buildings and structures	**55**	9	**492**

7. Business Restructuring Cost

Consolidated fiscal year under review (April 1,2016 – March 31,2017)

Survey and examination cost, and restructuring cost of a consolidated subsidiary

Previous consolidated fiscal year(April 1,2015 – March 31,2016)

Cost for dissolution of a consolidated subsidiary, etc.

8. Impairment Loss

Consolidated fiscal year under review (April 1,2016 – March 31,2017)

			Millions of yen	Thousands of U.S. dollars
Application	Location	Category	Impairment loss	
Idle assets	Aomori	Land	**¥212**	**$1,897**
Idle assets	Fukushima	Land, etc.	**52**	**469**
Idle assets	Fukushima	Machinery and equipment	**21**	**193**

Our group's main business assets are the factories that are used as production bases. Idle assets are grouped per individual unit. The book values of assets to be disposed of and idle assets are reduced to recoverable values. Such loss is reported as an impairment loss under extraordinary losses. Furthermore, the recoverable value is measured with the net sale value. Land is evaluated based on the values by real estate appraisers, and other assets are reduced their book value to the residual value.

Previous consolidated fiscal year (April 1,2015 – March 31,2016)

Millions of yen

Application	Location	Category	Impairment loss
Business assets	Hyogo	Machinery and equipment, etc.	**¥18**

Our group's main business assets are the factories that are used as production bases. Idle assets are grouped per individual unit. Based on the decision to discontinue the use of manufacturing equipment and the scheduled disposal of assets, their book values are reduced to recoverable values. Such loss is reported as an impairment loss under extraordinary losses. Furthermore, the recoverable value is measured with the net sale value. Land and buildings are evaluated based on the values by real estate appraisers, and other assets are reduced their book value to the residual value.

9. Other Comprehensive Income

The following table shows reclassification adjustment for each component of other comprehensive income for the year ended March 31, 2017:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	**¥4,279**	¥(2,946)	**$38,142**
Reclassification adjustments for gain and losses included in net income	**(233)**	(0)	**(2,078)**
Amount before tax effect	**4,045**	(2,946)	**36,063**
Tax effect	**(1,232)**	1,028	**(10,985)**
Total	**¥2,813**	¥(1,918)	**$25,078**
Foreign currency translation adjustment			
Amount arising during the year	**¥(313)**	¥ (438)	**$(2,798)**
Remeasurements of defined benefit plans			
Amount arising during the year	**¥2,634**	¥(2,343)	**$23,482**
Reclassification adjustments for gains and losses included in net income	**(812)**	(573)	**(7,243)**
Amount before tax effect	**1,821**	(2,917)	**16,238**
Tax effect	**-**	(62)	**-**
Total	**¥1,821**	¥(2,979)	**$16,238**
Share of other comprehensive income of investments for which the equity method is applied			
Amount arising during the year	**(53)**	3	**(472)**
Total other comprehensive income	**¥4,268**	¥(5,333)	**$38,046**

10. 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.

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 12. 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, 2017 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		
	2017		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**¥46,291**	**¥46,291**	**¥–**
Investment securities			
Available-for-sale securities	**21,002**	**21,002**	**–**
Total of assets	**67,293**	**67,293**	**–**
Trade notes and accounts payable	**24,556**	**24,556**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**50,828**	**50,828**	**–**
Long-term debt (including current portion of long-term debt)	**75,006**	**75,375**	**369**
Total of liabilities	**150,391**	**150,760**	**369**
Derivative transactions	**¥–**	**¥–**	**¥–**

	Thousands of U.S. dollars		
	2017		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**$412,613**	**$412,613**	**$–**
Investment securities			
Available-for-sale securities	**187,207**	**187,207**	**–**
Total of assets	**599,821**	**599,821**	**–**
Trade notes and accounts payable	**218,879**	**218,879**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**453,061**	**453,061**	**–**
Long-term debt (including current portion of long-term debt)	**668,563**	**671,853**	**3,290**
Total of liabilities	**1,340,504**	**1,343,794**	**3,290**
Derivative transactions	**$–**	**$–**	**$–**

	Millions of yen		
	2016		
	Book value	Fair value	Difference
Trade notes and accounts receivable	¥48,338	¥48,338	¥–
Investment securities			
Available-for-sale securities	16,962	16,962	–
Total of assets	65,300	65,300	–
Trade notes and accounts payable	23,245	23,245	–
Short-term loans payable (excluding current portion of long-term debt)	53,321	53,321	–
Long-term debt (including current portion of long-term debt)	85,297	85,430	132
Total of liabilities	161,865	161,997	132
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 securities

Fair value of investment 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 loans payable

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 ¥17,435 million ($155,413 thousand).

(vi) Derivatives
Please see Note 12.

Unlisted equity securities (in the amount of ¥1,999 million ($17,819 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
	2017	2016	**2017**
Unlisted equity securities	**¥1,999**	¥1,591	**$17,819**

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

	Millions of yen					
	2017					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	**¥50,828**	**¥–**	**¥–**	**¥–**	**¥–**	**¥–**
Long-term debt	**17,435**	**19,654**	**15,145**	**12,700**	**9,255**	**815**
Lease obligations	**346**	**332**	**309**	**68**	**49**	**147**
Total	**¥68,611**	**¥19,986**	**¥15,455**	**¥12,768**	**¥9,304**	**¥963**

	Thousands of U.S. dollars					
	2017					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	**$453,061**	**$–**	**$–**	**$–**	**$–**	**$–**
Long-term debt	**155,413**	**175,186**	**134,998**	**113,201**	**82,495**	**7,267**
Lease obligations	**3,087**	**2,960**	**2,761**	**610**	**441**	**1,317**
Total	**$611,561**	**$178,146**	**$137,759**	**$113,812**	**$82,937**	**$8,585**

	Millions of yen					
	2016					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	¥53,321	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt	27,854	16,870	17,162	11,418	9,633	2,357
Lease obligations	363	347	331	309	52	199
Total	¥81,539	¥17,217	¥17,493	¥11,728	¥9,686	¥2,557

11. Investment 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, 2017 and 2016 are summarized as follows:
Available-for-sale securities:

	Millions of yen			
	2017			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥12,354**	**¥21,002**	**¥8,866**	**¥218**
	¥12,354	**¥21,002**	**¥8,866**	**¥218**

	Thousands of U.S. dollars			
	2017			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$110,119**	**$187,207**	**$79,033**	**$1,945**
	$110,119	**$187,207**	**$79,033**	**$1,945**

	Millions of yen			
	2016			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥12,359	¥16,962	¥5,371	¥769
	¥12,359	¥16,962	¥5,371	¥769

12. 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	¥31,210 million	¥21,410 million
			$278,188 thousand	$190,836 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.

13. Retirement and Pension Plans

(1) Outline of retirement benefit plan

The Company and consolidated subsidiaries adopt reserve-type and non-reserve-type defined benefit and defined contribution plans for the retirement benefits of our employees.

In the defined benefit pension plan(reserve-type), employees will receive lump-sum payments or pensions, which are calculated based on their salaries and employment periods.

In the lump-sum retirement benefit plan(non-reserve-type), employees will receive lump-sum retirement benefits, which are calculated based on their salaries and employment periods. The Company and some consolidated subsidiaries establish retirement benefit trusts for the lump-sum retirement benefit plan to make it reserve-type.

In addition, additional retirement benefits may be paid, at the time of the retirement, etc. of our employees.

In the defined benefit pension and lump-sum retirement benefit plans adopted by some consolidated companies, the simplified method is used for calculating the liabilities and costs for retirement benefits.

As for defined contribution plans, the Company and some consolidated subsidiaries establish the defined contribution pension plan, while the other consolidated subsidiaries subscribe to Smaller Enterprise Retirement Allowance Mutual Aid System.

(2) Defined benefit plans

(i) The schedule of the defined benefit obligation at 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year (period)	**¥22,164**	¥21,858	**$197,562**
Current service cost	**1,101**	1,078	**9,820**
Interest cost	**131**	262	**1,174**
Actuarial losses	**595**	687	**5,311**
Benefit paid	**(1,163)**	(1,071)	**(10,368)**
Other	**(362)**	(650)	**(3,233)**
Balance at end of year (period)	**¥22,467**	¥22,164	**$200,266**

(ii) The schedule of the pension assets at 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year (period)	**¥13,586**	¥15,450	**$121,102**
Expected return on pension assets	**13**	13	**118**
Actuarial losses	**3,142**	(1,882)	**28,006**
Contributions by the employer	**56**	56	**500**
Benefit paid	**(623)**	(51)	**(5,561)**
Balance at end of year (period)	**¥16,174**	¥13,586	**$144,166**

(iii) The schedule of the net defined benefit liability for simplified method at 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of year (period)	**¥579**	¥635	**$5,162**
Periodic benefit cost	**122**	58	**1,090**
Benefit paid	**(34)**	(98)	**(308)**
Contribution to systems	**(17)**	(17)	**(153)**
Balance at end of year (period)	**¥649**	¥579	**$5,790**

(iv) The reconciliation of the defined benefit obligations and pension assets to the liabilities and assets on retirement benefits recognized in the consolidated balance sheet as of 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Funded defined benefit obligations	**¥15,123**	¥15,065	**$134,799**
Pension assets	**(16,520)**	(13,931)	**(147,253)**
	(1,397)	1,134	**(12,454)**
Unfunded defined benefit obligations	**8,340**	8,023	**74,345**
Net amount of liabilities and assets recognized in consolidated balance sheet	**6,943**	9,157	**61,891**
Retirement benefit liabilities	**8,949**	9,165	**79,766**
Retirement benefit asset	**(2,005)**	(8)	**(17,875)**
Net amount of liabilities and assets recognized in consolidated balance sheet	**¥6,943**	¥9,157	**$61,891**

(v) The profits and losses related to retirement benefits for fiscal period ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Current service cost	**¥1,101**	¥1,078	**$9,820**
Interest cost	**131**	262	**1,174**
Expected return on pension assets	**(13)**	(13)	**(118)**
Actuarial loss recognized in the year	**(716)**	(477)	**(6,390)**
Prior service cost recognized in the year	**(95)**	(95)	**(852)**
Periodic benefit cost in simplified method	**122**	58	**1,090**
Periodic benefit costs of retirement benefit plan	**¥529**	¥812	**$4,723**

In addition to the above, the premium severance payment has been reported as extraordinary losses of ¥348 million ($3,107 thousand), and ¥365 million for the consolidated fiscal year ended March 31,2017 and 2016, respectively. In addition,in preperation for the loss of the planned dissolution of the employees' pension fund that some of our consolidated subsidiaries are members of, the Company has recorded extraordinary losses of ¥22 million ($197 thousand),and ¥6 million for the consolidated fiscal year ended March 31,2017 and 2016, respectively.

(vi) The breakdown of items in other comprehensive income for fiscal period ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Actuarial loss	**¥1,917**	¥(2,821)	**$17,091**
Prior service cost	**(95)**	(95)	**(852)**
Total	**¥1,821**	¥(2,917)	**$16,238**

(vii) The breakdown of items in accumulated other comprehensive income for fiscal period ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized actuarial loss	**¥(1,459)**	¥(3,376)	**$(13,009)**
Unrecognized prior service cost	**97**	193	**873**
Total	**¥(1,361)**	¥(3,183)	**$(12,136)**

(viii) The breakdown of pension assets by major category as of March 31, 2017 and 2016 were as follows:

	2017	2016
Equities	**38%**	38%
Bonds	**37%**	36%
General account of life insurance	**22%**	22%
Other	**3%**	4%
	100%	100%

(ix) The items of actuarial assumptions as of fiscal period ended March 31, 2017 and 2016 were as follows:

	2017	2016
Discount rate	**0.0~1.8%**	0.0~2.5%
Expected long-term return on plan assets	**0.0~2.0%**	0.0~2.0%

(3) Defined contribution plan

The necessary contribution to the defined contribution plan of our company and consolidated subsidiaries is ¥360 million($3,215 thousand) and ¥371 million for the consolidated fiscal year ended March 31,2017 and 2016, respectively.

(4) Multi-employer pension plan

As for the multi-employer pension plan(comprehensive employees' pension system) used by some consolidated subsidiaries, its importance is not significant, and so its notes are omitted.

14. Deferred Income Taxes

(1) At March 31, 2017 and 2016, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Deferred tax assets:			
Accrued enterprise taxes	**¥95**	¥73	**$846**
Accrued expenses	**595**	554	**5,306**
Net defined benefit liability	**1,909**	2,750	**17,020**
Allowance for doubtful accounts	**83**	175	**743**
Loss on revaluation of fixed assets	**338**	314	**3,017**
Unrealized gains on property, plant and equipment	**170**	221	**1,522**
Tax loss carryforwards	**6,386**	6,344	**56,922**
Other	**8,106**	8,248	**72,254**
Gross deferred tax assets	**17,685**	18,682	**157,634**
Valuation allowance	**(15,969)**	(16,989)	**(142,341)**
Total deferred tax assets	**1,715**	1,693	**15,293**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(18)**	(20)	**(161)**
Unrealized gains on available-for-sale securities	**(2,639)**	(1,407)	**(23,528)**
Other	**(288)**	(335)	**(2,571)**
Total deferred tax liabilities	**(2,946)**	(1,763)	**(26,261)**
Net deferred tax assets (liabilities)	**¥(1,230)**	¥(70)	**$(10,967)**

(2) For the year ended March 31, 2017 and 2016, a reconciliation of the statutory tax rate to the effective tax rates was as follows:

	2017	2016
Statutory tax rate	30.9%	– %
Permanently non-deductible expenses	3.9	–
Permanently non-taxable income	(2.8)	–
Per capita inhabitants' taxes	3.4	–
Valuation allowance	(22.2)	–
Unrealized gains (losses)	(1.5)	–
Other	4.5	–
Effective tax rates	16.2%	– %

For the year ended March 31, 2016, the difference between the effective statutory tax rate and the rate of burden of income taxes after tax effect accounting has been applied is less than 5/100 of the statutory effective tax rate, so this note has been omitted.

(3) Amendments to amounts of deferred tax assets and liabilities as a result of change in normal effective statutory tax rate
"Act for Partial Amendment of Act for Partial Amendment of the Consumption Tax Act and others for the drastic reform of the taxation system for ensuring stable financial resources for social security" and "Act for Partial Amendment of Act for Partial Amendment of the Local Tax Act and the Local Allocation Tax Act and others for the drastic reform of the taxation system for ensuring stable financial resources for social security" were enacted on November 18, 2016. As a result, the effective statutory tax rate, used to calculate deferred tax assets and deferred tax liabilities, have been changed from that of the previous consolidated fiscal year.
The impact on the consolidated financial statements in this consolidated fiscal year is insignificant.

15. 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 three reportable segments, identified by product portfolio, which are classified as the "Paper and Pulp Segment," the "Imaging Media Segment" and the "Speciality Materials Segment."

The "Paper and Pulp Segment" develops writing and printing paper, premium-quality paper and pulp. The Imaging Media Segment handles product portfolios, including photo-sensitive printing plates, inkjet paper, photographic materials. The Speciality Materials Segment handles speciality and other product portfolios.

Consolidated fiscal year under review (April 1, 2016–March 31, 2017)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2017	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**¥146,649**	**¥34,222**	**¥14,092**	**¥194,965**	**¥6,990**	**¥201,955**	**¥–**	**¥201,955**
Intersegment sales and transfers	**3,779**	**4,685**	**2,866**	**11,330**	**9,249**	**20,580**	**(20,580)**	**–**
Total sales	**150,428**	**38,908**	**16,958**	**206,295**	**16,240**	**222,535**	**(20,580)**	**201,955**
Segment income (loss)	**¥2,022**	**¥948**	**¥970**	**¥3,941**	**¥352**	**¥4,294**	**¥19**	**¥4,313**
Segment assets	**¥174,267**	**¥37,947**	**¥15,487**	**¥227,702**	**¥11,251**	**¥238,953**	**¥(3,084)**	**¥235,869**
Amortization	**7,548**	**2,151**	**608**	**10,308**	**241**	**10,550**	**(95)**	**10,454**
Investment in equity-method affiliates	**1,523**	**–**	**–**	**1,523**	**351**	**1,874**	**–**	**1,874**
Increase in tangible and intangible fixed assets	**3,678**	**1,820**	**470**	**5,970**	**123**	**6,094**	**(98)**	**5,995**

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2017	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**$1,307,153**	**$305,042**	**$125,614**	**$1,737,810**	**$62,309**	**$1,800,120**	**$–**	**$1,800,120**
Intersegment sales and transfers	**33,687**	**41,762**	**25,546**	**100,995**	**82,447**	**183,443**	**(183,443)**	**–**
Total sales	**1,340,841**	**346,805**	**151,160**	**1,838,806**	**144,756**	**1,983,563**	**(183,443)**	**1,800,120**
Segment income (loss)	**$18,029**	**$8,452**	**$8,653**	**$35,135**	**$3,139**	**$38,275**	**$172**	**$38,448**
Segment assets	**$1,553,322**	**$338,244**	**$138,049**	**$2,029,616**	**$100,287**	**$2,129,903**	**$(27,491)**	**$2,102,411**
Amortization	**67,286**	**19,174**	**5,424**	**91,884**	**2,155**	**94,040**	**(852)**	**93,188**
Investment in equity-method affiliates	**13,580**	**–**	**–**	**13,580**	**3,130**	**16,711**	**–**	**16,711**
Increase in tangible and intangible fixed assets	**32,791**	**16,227**	**4,194**	**53,214**	**1,105**	**54,319**	**(876)**	**53,442**

(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 ¥47 million ($427 thousand) of elimination of inter-segment income and loss and ¥(28) million ($(254) 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 ¥14,952 million ($133,276 thousand) of corporate assets and ¥(18,036) million ($(160,767) thousand) of elimination of inter-segment assets.
• Adjustments and eliminations for amortization of ¥(95) million ($(852) thousand) is elimination of inter-segment.
• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(98) million ($(876) thousand) of elimination of inter-segment increase in tangible and intangible fixed assets.
(iii) Segment income(loss) is adjusted with consolidated operating income.

Previous consolidated fiscal year (April 1, 2015 – March 31, 2016)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2016	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**¥160,013**	**¥35,673**	**¥13,859**	**¥209,546**	**¥6,793**	**¥216,340**	**¥–**	**¥216,340**
Intersegment sales and transfers	**4,306**	**6,092**	**3,068**	**13,466**	**9,017**	**22,483**	**(22,483)**	**–**
Total sales	**164,319**	**41,765**	**16,928**	**223,013**	**15,810**	**238,824**	**(22,483)**	**216,340**
Segment income (loss)	**¥226**	**¥2,400**	**¥902**	**¥3,529**	**¥371**	**¥3,901**	**¥(28)**	**¥3,872**
Segment assets	**¥185,155**	**¥40,300**	**¥15,585**	**¥241,041**	**¥9,998**	**¥251,040**	**¥(9,884)**	**¥241,155**
Amortization	**7,817**	**2,126**	**579**	**10,523**	**233**	**10,757**	**(94)**	**10,662**
Investment in equity-method affiliates	**1,810**	**–**	**–**	**1,810**	**4**	**1,815**	**–**	**1,815**
Increase in tangible and intangible fixed assets	**3,497**	**941**	**489**	**4,927**	**87**	**5,015**	**(75)**	**4,939**

(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 ¥(0) million of elimination of inter-segment income and loss and ¥(28) 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 ¥14,448 million of corporate assets and ¥(24,333) million of elimination of inter-segment assets.
• Adjustments and eliminations for amortization of ¥(94) million is elimination of inter-segment.
• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(75) million of elimination of inter-segment increase in tangible and intangible fixed assets.
(iii) Segment income(loss) is adjusted with consolidated operating income.

(2) Geographical information

(i) Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥141,513**	¥149,130	**$1,261,373**
Europe	**30,630**	35,368	**273,021**
Asia	**13,350**	14,439	**118,998**
North America	**11,663**	11,248	**103,966**
Other	**4,797**	6,154	**42,761**
Consolidated	**¥201,955**	¥216,340	**$1,800,120**

Net sales information above are based on customer location.

(ii) Property, plant and equipment by countries or geographical areas at March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Japan	**¥94,329**	¥98,852	**$840,799**
Europe	**9,235**	10,433	**82,317**
Asia	**369**	439	**3,295**
North America	**130**	150	**1,159**
Consolidated	**¥104,064**	¥109,875	**$927,571**

(3) Impairment loss on fixed assets by reportable segments

Consolidated fiscal year under review (April 1, 2016–March 31, 2017)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2017	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Impairment losses	**¥287**	**¥–**	**¥–**	**¥287**	**¥–**	**¥287**	**¥–**	**¥287**

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2017	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Impairment losses	**$2,561**	**$–**	**$–**	**$2,561**	**$–**	**$2,561**	**$–**	**$2,561**

Previous consolidated fiscal year (April 1, 2015 – March 31, 2016)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2016	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Impairment losses	**¥18**	**¥–**	**¥–**	**¥18**	**¥–**	**¥18**	**¥–**	**¥18**

16. Important Subsequent Events

A reduction in the amount of capital reserve and an appropriation of surplus

At a meeting of the Board of Directors on May 25, 2017, the Company resolved a reduction in the amount of capital reserve and an appropriation of surplus according to the Company's Articles of Incorporation pursuant to the provisions of Paragraph 1 of Article 459 of the Companies Act.The details of this are as follows.

(1) Purpose

The purpose of a reduction in the amount of capital reserve and an appropriation of surplus is to dispose of deficits of retained earnings for resumption of dividend,and to secure flexibility and mobility of the future capital policy.

(2) Procedure of a reduction in the amount of capital reserve

Based on the provisions of Paragraph 1 of Article 448 of the Companies Act, the Company reduced the amount of capital reserve and transferred the same amount to other capital surplus.

(i) Items and amount by which the reserves are reduced

Capital reserve: 1,167,302,386 yen of 7,523,692,165 yen

(ii) Items and amount by which the reserves are increased

Other capital surplus: 1,167,302,386 yen

(3) Procedure of an appropriation of surplus

Based on the provisions of Article 452 of the Companies Act, by transferring other capital surplus after transfer of the capital reserves described above (2) to retained earnings, the Company disposed of all deficits of retained earnings.

(i) Items and amount by which the reserves are reduced

Other capital surplus: 1,167,302,386 yen

(ii) Items and amount by which the reserves are increased

Retained earnings: 1,167,302,386 yen

(4) Effective date

May 25, 2017

Independent Auditor's Report

EY
Building a better working world

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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, 2017, and the consolidated statements of income, 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, 2017, 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 27, 2017

Board of Directors, Executive Officers and Corporate Auditors

Managing Executive Officers

Kunio Suzuki

President and Chief Executive Officer

Kazuhisa Taguchi

Director and Senior Executive Vice President

Kanji Morioka

Director and Senior Managing Executive Officer

Junji Harada

Director and Managing Executive Officer

Masaki Shuto

Director and Managing Executive Officer

Tsuneaki Handa

Director and Managing Executive Officer

Kiyoharu Yamada

Managing Executive Officer

Makoto Fujita

Managing Executive Officer

President and Chief Executive Officer

Kunio Suzuki
President

Director and Senior Executive Vice President

Kazuhisa Taguchi
Supervisor, Imaging Media Div., Energy Business Dept. and Technology & Environmental Dept.
; In charge of Kitakami Div.; General Manager, Kitakami Div.

Director and Senior Managing Executive Officer

Kanji Morioka
Supervisor, President's Office ; In charge of Raw Materials & Purchasing Dept. and Internal Audit Dept.
; Director responsible for Corporate Social Responsibility

Director and Managing Executive Officers

Junji Harada
Supervisor, Speciality Materials R&D Laboratory, Product Development Dept. and Intellectual Property Dept. ; In charge
of Speciality Materials Div. ; General Manager, Speciality Materials Div.

Masaki Shuto
In charge of Finance & Accounting Dept.

Tsuneaki Handa
Supervisor, German Operations ; In Charge of Paper Div.; General Manager, Paper Div.

Managing Executive Officers

Kiyoharu Yamada
President & CEO, MPM Operation Co., Ltd.
Head, Hachinohe Mill; Deputy General Manager, Paper Div.

Makoto Fujita
In charge of Energy Business Dept., Speciality Materials R&D Laboratory, Product Development Dept., Intellectual Property Dept. and Technology & Environmental Dept. ; General Manager, Product Development Dept.

Director and Senior Executive Officer

Naoki Okawa
In charge of General Affairs & Personnel Dept. ,Legal Dept. and Shirakawa Office
General Manager, General Affairs & Personnel Dept.

Outside Directors

Tomohisa Shinagawa

Soumitsu Takehara

Senior Executive Officers

Yutaka Oka
In charge of Imaging Media Div. ; General Manager, Imaging Media Div. and General Manager, DI & Photo Sales Dept.

Nobuhiro Sato
In charge of German Operations ; Deputy General Manager, Paper Div.

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

Akira Inoue
Director and Managing Executive Officer, Mitsubishi Paper Sales Co., Ltd.

Executive Officers

Shimpei Yamada
In charge of President's Office
General Manager, President's Office

Keiichi Sato
Director and Managing Executive Officer, MPM Operation Co., Ltd.
Deputy Head, Hachinohe Mill

Koji Hayashi
President, Mitsubishi Paper Holding (Europe) GmbH

Takeshi Sunakawa
President & CEO, KJ SPECIALTY PAPER Co., Ltd.

Corporate Auditor

Kenji Oka

Outside Corporate Auditors

Tsuyoshi Inoue
Hiroaki Tonooka
Takayuki Nakazato

(as of June 27, 2017)

Company Data

Established:

April 1, 1898

Head Office:

2-10-14, Ryogoku, Sumida-ku, Tokyo 130-0026, Japan
Telephone:
+81-3-5600-1488 *(Information)*
+81-3-5600-1481 *(President's Office)*
+81-3-5600-1459 *(Commercial Printing & Business Communication Paper Sales Dept. Paper Division)*
+81-3-5600-1464 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1536 *(International Sales Dept. Paper Division)*
+81-3-5600-1479 *(DI & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1475 *(Graphic Systems Dept. Imaging Media Division)*
+81-3-5600-1471 *(Speciality Materials Division)*
+81-3-5600-1453 *(Raw Materials & Purchasing Dept.)*

Facsimile:
+81-3-5600-1489 *(Information)*
+81-3-5600-1489 *(President's Office)*
+81-3-5600-1467 *(Commercial Printing & Business Communication Paper Sales Dept. Paper Division)*
+81-3-5600-1469 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1539 *(International Sales Dept. Paper Division)*
+81-3-5600-1418 *(DI & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1413 *(Graphic Systems Dept. Imaging Media Division)*
+81-3-5600-1419 *(Speciality Materials Division)*
+81-3-5600-1451 *(Raw Materials & Purchasing Dept.)*

Sales Branch:

Osaka

Corporate Research Center:

Speciality Materials R&D Laboratory
Kyoto R&D Laboratory
Process Development Laboratory

Mills:

Takasago
Kyoto
Hachinohe

Major Affiliates:

Domestic

Mitsubishi Paper Sales Co., Ltd.
Toho Tokushu Pulp Co., Ltd.
Hachinohe Paper Processing Co., Ltd.
Shin-Hokuryo Forest Products Co., Ltd.
Hachiryo Co., Ltd.
Hokuryo Co., Ltd.
Hakuryo Paper Technology Co., Ltd.
Takasago Paper Processing Co., Ltd.
Kitakami HiTec Paper Corp.
Diamic Co., Ltd.
Pictorico Co., Ltd.
Kyoryo Chemical Co., Ltd.
NAMITSU 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.
MPM Operation Co., Ltd.

Overseas

Mitsubishi Paper Holding (Europe) GmbH (Germany)
Mitsubishi HiTec Paper Europe GmbH (Germany)
Mitsubishi Imaging (MPM), Inc. (U.S.A.)
MP Juarez LLC (Mexico)
Zuhai MPM Filter, Ltd. (China)
MPM Hong Kong Limited
Forestal Tierra Chilena Ltda. (Chile)

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Tokyo 130-0026, JAPAN
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MITSUBISHI
PAPER MILLS
LIMITED