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

Annual Report 2018

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 functional paper, highly functional filters to our operating business domains, and increasing emphasis on research and development in new business areas.

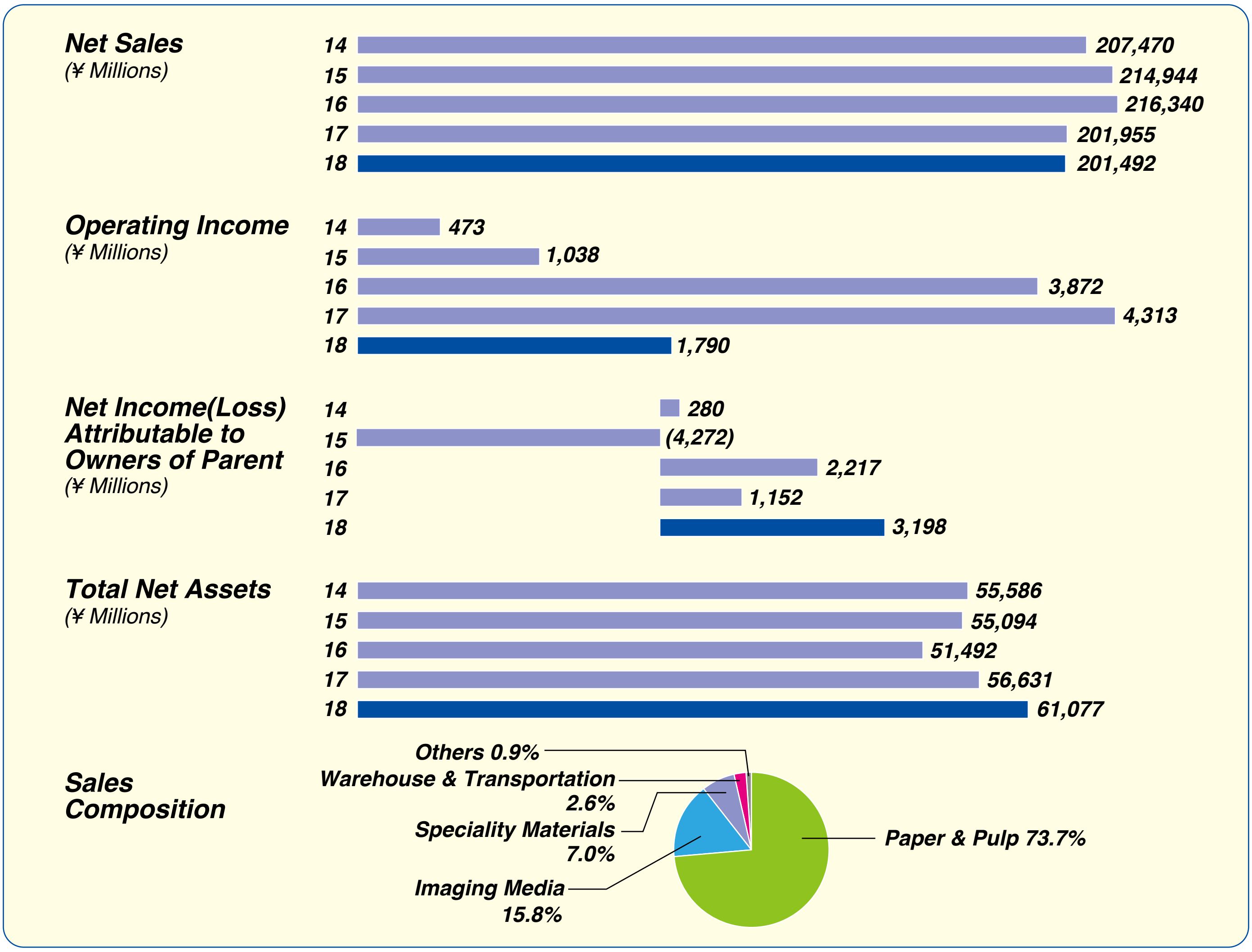
With production facilities and R&D sites mainly located in Japan and Germany, and sales sites located in Japan, Germany and the United States, we have positioned ourselves to serve global markets.

Contents

Financial Highlights (Consolidated)

	Millions of yen (1)		Thousands of U.S. dollars (1) and (2)
	2018	2017	**2018**
For the years ended March 31			
Net sales	**¥201,492**	¥201,955	**$1,896,579**
Operating income	**1,790**	4,313	**16,852**
Net income attributable to owners of parent	**3,198**	1,152	**30,105**
Net income per share (in yen and dollars) (3)	**93.57**	33.72	**0.88**
Cash dividends per share (in yen and dollars)	**5.00**	–	**0.05**
As of March 31			
Total assets	**¥237,426**	¥235,869	**$2,234,808**
Total net assets	**61,077**	56,631	**574,900**
Common stock	**32,756**	32,756	**308,323**
Net assets per share (in yen and dollars) (3)	**1,747.54**	1,591.00	**16.45**
Number of shareholders	**13,467**	14,406	
Number of employees	**3,723**	3,734	

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 ¥106.24 = U.S.$1, as of March 31, 2018.
(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, 2017.



Message from the President

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

Overview of the Reporting Term

The current term, although there were uncertainties over the international situation with rising of geopolitical risks, uncertainty regarding the American administration's policy management, and so on, the global economy showed a general trend of recovery. The Japanese economy was also on a moderate recovery trend, thanks to firm corporate earnings and improvement in labor and income conditions. As for the paper and pulp industry, business conditions especially for the mainstay paper business have become increasingly challenging, owing to structurally depressed demand due to digitalization of information media, increasing raw material and fuel costs, etc.

Under such conditions, 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 policies (1) Structural reform of printing paper business; (2) Improving profit base; (3) Developing new businesses; 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" in accordance with the Second Mid-term Management Plan (from April 2016 to March 2019).

Following the Second Mid-term Management Plan, we had been forming alliances with Oji Group in biomass power generating business, household and consumer paper business, etc. Both companies agreed that strengthening cooperative relationship in multiple businesses is essential for ensuring sustainable growth, and then we concluded a capital alliance agreement with Oji Holdings Corporation in February 2018.

The consolidated net sales for the current term was ¥201,492 million (US$1,896 million) (down 0.2% year on year) due to decreased demand for existing products, etc.

As for profits and losses, negative factors including increase of raw materials and fuel costs and such could not be compensated by the limited effect of revisions made to selling prices of paper, and consolidated operating income was ¥1,790 million (US$16 million) (down 58.5% year on year) while consolidated ordinary income was ¥652 million (US$6 million) (down 75.8% year on year). As gain on sale of fixed assets and investment securities was posted, and the posting of deferred tax assets reduced adjustments to corporate tax, etc. profit attributable to owners of parent was ¥3,198 million (US$30 million) (up 177.5% year on year).

As for non-consolidated performance, net sales were ¥118,445 million (US$1,114 million), ordinary income ¥3,543 million (US$33 million), and profit ¥4,050 million (US$38 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 getting fierce.

In the current term, which is the second year of the Second Mid-term Management Plan, in order to take the alliance with Oji Group to a more comprehensive and constructive level, we concluded a capital alliance agreement. We concluded this agreement, while believing that strengthening our cooperative relationship in multiple businesses rather than having a one-time cooperation in a certain business is essential for ensuring sustainable growth.

Through this alliance, while placing value on autonomy in management and respecting the relationship with existing clients, we would like to have Oji Group as a long-term partner and extend and expedite mutual cooperation to achieve sound and sustainable growth, and maximize corporate value over the medium to long term.

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.

<Structural reform of printing paper business>
As part of the alliance with Oji Group, we aim to expand sales of communication paper, increase export of printing paper, combine that with strengthening of direct sales of pulp, to maintain operation rate of Hachinohe Mill and stabilize sales volume at the same time; and improve efficiency of the supply chain from production to sales (optimization of distribution and logistics systems), with the aim of establishing a stable revenue structure.

As for business in Germany, we started considering the reorganization of German subsidiaries with Oji Group.

<Improving profit base>
As for the imaging business, while we strive to strengthen the operation base through the alliance with Fujifilm for photographic base paper, we are further enhancing our existing products, which are already maturing, by actively expanding the business in foreign markets.

In the speciality materials business, we strive to expand sales in Asia with focus on China, the U.S. and Europe and by utilizing our own technologies, and are making steady progress in filter business, non-woven fabric business including water treatment membrane support substrate, rewritable thermal recording material business, and businesses of decorative laminate base paper and tape base paper.

<Developing new businesses>
We are taking steps to expand business in growth sectors such as functional films and digital image transfer inkjet paper for textile printing based on our imaging technology, battery separators with superior quality, etc. as well as taking steps to establish next new business.

Regarding functional films in particular, we started construction of new manufacturing facilities and are preparing for its start up in January 2019.

Additionally, aiming to strengthen the profit base of Hachinohe Mill, we are expanding the scope of business alliance with Oji Group to inaugurate biomass power generating business (to be started in July 2019) and household and consumer paper business (to be started in April 2019).

<Strengthening business foundation and financial ground that will support the Group's earning power>
In order to restructure our business processes and IT base, we are making efforts to develop a business foundation that can flexibly respond to management strategies. 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.

<CSR (Corporate Social Responsibility)>
Prioritizing to build a sustainable future together with the society, we believe it necessary to take precise effort to clear environmental, social and financial perspectives through close communication with all stakeholders. We acknowledge that the purpose of CSR activities is to lead to an increase in our corporate value through gaining the trust and compassion of the public. Based on such acknowledgement, we strive to carry out CSR activities to realize sustainable development.

During the current term, we addressed the most important challenges of "ensuring product quality" and "enhancement of activity on safety and health." Additionally, we expanded our environment-conscious products including FSC forest-certified products, which contribute to the achievement of the United Nation's Sustainable Development Goals (SDGs).

The 3 most important challenges in the following term are "enhancement of activity on safety and health," "customer-oriented product development," and "promoting policies to enhance employees' performance." 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$1,863 million), operating income of ¥1,500 million (US$13 million), ordinary income of ¥500 million (US$4 million), and profit attributable to owners of parent of ¥500 million (US$4 million).

The above forecast presumes 110 yen will equal 1 US dollar and 130 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.

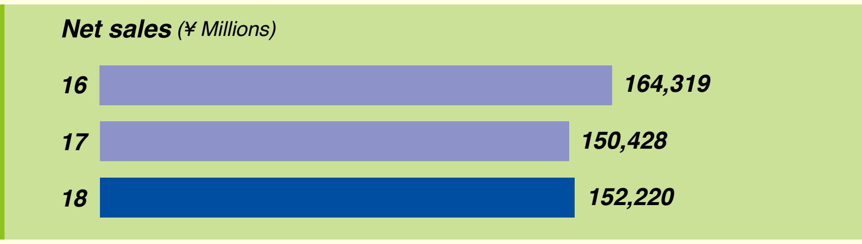
June 2018

鈴木邦夫

Kunio Suzuki,
President & C.E.O.

Breakdown of Operations by Business

Paper and Pulp Business



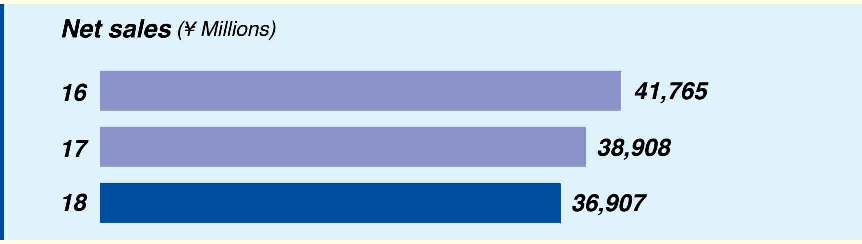
As for domestic sales, thanks to the effect of the alliance, etc. sales of communication paper have been continuously performing well. On the other hand, due to further decline in demand for printing paper, sales volume decreased. Regarding exports, there has been an increase in sales volume of printing paper, however it wasn't enough to cover the domestic decline. As a result, sales volume decreased, sales amount decreased also as the price revision done during the term yielded limited effect.

As for European subsidiaries, both sales and sales volume increased as demand for the mainstay products, thermal paper in particular, was steady.

As for commercial pulp, we seized the steep price jump, and endeavored to expand sales domestically and internationally. As a result, both sales and sales volume increased.

Consequently, the total net sales of the Paper and Pulp Business were ¥152,220 million (US$1,432 million), up 1.2% year on year.

Imaging Business

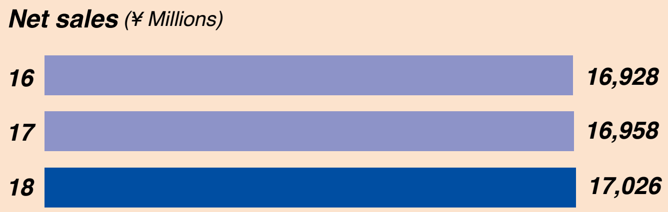


As for domestic sales, the demand for photosensitive materials and platemaking materials declined, therefore sales decreased.

In the overseas market, thanks to the alliance effect, orders for photosensitive materials were stable, and inkjet paper expanded in emerging countries, however the decline in demand for the existing products was severe, which resulted in a decrease of sales.

Consequently, the total net sales of the Imaging Business were ¥36,907 million (US$347 million), down 5.1% year on year.

Speciality Materials Business

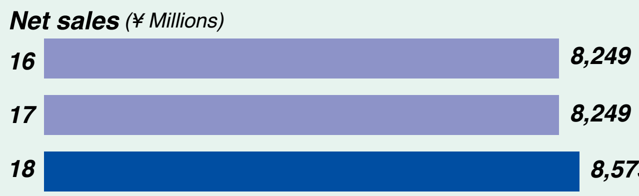


As for speciality materials, sales of non-woven fabric for water treatment membrane support substrate and electrical discharge machine processing filters as well as battery separators increased.

As for functional paper, although sales of decorative laminate base paper and tape base paper increased, sales of inorganic fiber paper decreased, resulting in a decrease in sales.

Consequently, the total net sales of the Speciality Materials Business were ¥17,026 million (US$160 million), up 0.4% year on year.

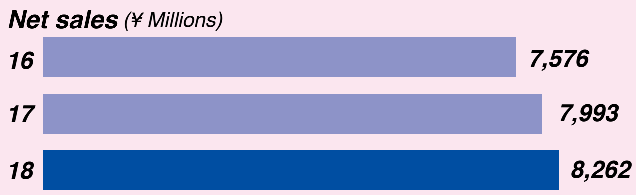
Warehouse and Transportation Business



Up until now Warehouse and Transportation business had been included in “Others,” but from this term we will treat it as a separate reportable segment.

The total net sales of Warehouse and Transportation Business were ¥8,575 million (US$80 million), up 4.0% year on year.

Others



As the sales at engineering-related subsidiaries increased, the total net sales of this segment were ¥8,262 million (US$77 million), up 3.4% year on year.

Contribution to SDGs through "FSC® Forest-Certified Products"

United Nation's Sustainable Development Goals (SDGs) which were entered into force in 2016 state 17 goals and 169 targets to be achieved by 2030, and the Japanese government has put implementation guidelines and started implementing steps to achieve the goals. In Mitsubishi Paper Mills, in order to actualize sustainable papermaking, we produce paper that complies with FSC standards, and we have introduced how FSC forest-certified products contribute to SDGs at various exhibitions, etc.

FSC® C021528

Introduction of Diamic Print Support Center

In the print support center "b-side" managed by Osaka branch of Diamic Co., Ltd., they display garment printer that can print on clothes, silkscreen printer that can print on several types of materials, embroidering apparatus, and printer for flasks in a show room exhibition.

Also, they manufacture T-shirts, tote bags, towels, flasks, etc. with original prints, while accepting even an order for only one product. Using this service, clients who are considering new commercial products determine its business feasibility.

Business Development of Water Treatment Membrane Support Substrate (product of Takasago Mill)

The quantity of non-woven fabric for water treatment membrane support substrate which is produced by utilizing our non-woven fabric manufacturing technology has increased considerably, for reverse osmosis (RO) membrane support substrate to be utilized in seawater desalination and pure water manufacturing.

Today, support substrate for MBR flat membranes used in the membrane bioreactor (MBR) which is attracting attention in fields related to wastewater treatment; and support substrate with enhanced chemical resistance by olefin fiber that can be used in cleaning of food products production line, etc. are widening the range of products and producing excellent results.

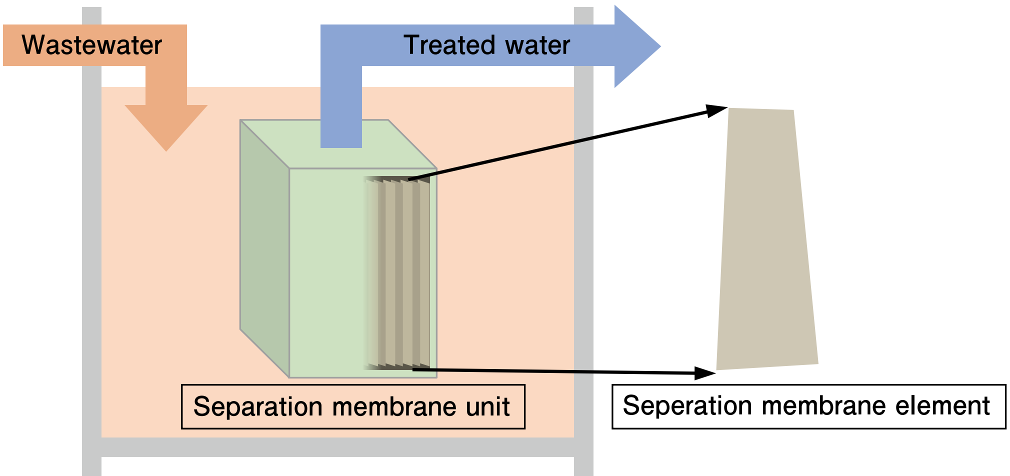


Image: Membrane bioreactor (MBR)

Our Mills and Their Product Lines

SHIRAKAWA SITE

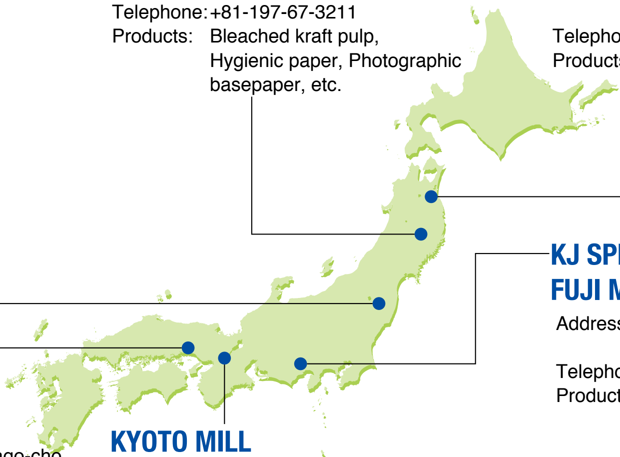
Address: 3, Maeyamanishi, Nishigo-mura, Nishi-Shirakawa-gun, Fukushima 961-8054
Telephone: +81-248-22-8111
Products: Transformer board

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

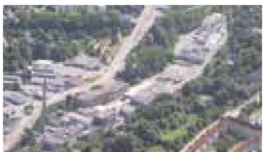
Address: 105, Sakae-machi, Takasago-cho, Takasago-shi, Hyogo 676-8677
Telephone: +81-794-42-3101
Products: Carbonless paper, Thermal paper, Inkjet paper, Specialty paper, Non Woven Fablics, etc.

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
	2018	2017	2016	2015	2014	2013	**2018**
For the years ended March 31							
Net sales	**¥201,492**	¥201,955	¥216,340	¥214,944	¥207,470	¥200,850	**$1,896,579**
Operating income	**1,790**	4,313	3,872	1,038	473	3,332	**16,852**
Net income (loss) attributable to owners of parent	**3,198**	1,152	2,217	(4,272)	280	1,710	**30,105**
Net income (loss) per share (in yen and dollars)	**93.57**	33.72	64.85	(124.96)	8.21	50.01	**0.88**
As of March 31							
Total assets	**¥237,426**	¥235,869	¥241,155	¥253,482	¥258,599	¥265,234	**$2,234,808**
Total net assets	**61,077**	56,631	51,492	55,094	55,586	55,370	**574,900**

Notes: On October 1, 2016, the share consolidation was executed at a ratio of 1share per 10 shares.
Net income (loss) per share is calculated based on the assumption that the share consolidation was executed at the beginning of the fiscal year ended March 31, 2013.

Consolidated Balance Sheets

As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and deposits (Note 3 (12))	**¥9,744**	¥10,840	**$91,719**
Receivables:			
Trade notes and accounts (Note 11)	**46,330**	46,291	**436,096**
Other	**1,731**	2,100	**16,296**
	48,062	48,391	**452,392**
Less: Allowance for doubtful accounts	**(224)**	(216)	**(2,112)**
	47,837	48,175	**450,279**
Inventories	**43,989**	41,406	**414,055**
Deferred tax assets (Note 15)	**1,103**	1,027	**10,382**
Other	**2,744**	2,346	**25,836**
Total current assets	**105,419**	103,797	**992,275**
Non-current assets:			
Property, plant and equipment (Note 4):			
Land	**22,147**	22,068	**208,464**
Buildings and structures	**96,267**	96,648	**906,130**
Machinery, equipment and vehicles	**366,704**	360,409	**3,451,657**
Construction in progress	**2,310**	676	**21,748**
Leased assets	**2,847**	2,643	**26,801**
Other	**9,794**	9,583	**92,190**
	500,070	492,029	**4,706,993**
Less: Accumulated depreciation	**(399,589)**	(387,374)	**(3,761,193)**
Accumulated impairment loss	**(749)**	(590)	**(7,051)**
Net property, plant and equipment	**99,732**	104,064	**938,748**
Investments and other assets:			
Investment securities (Notes 4, 11 and 12)	**20,354**	21,673	**191,594**
Investments in unconsolidated subsidiaries and affiliated companies	**1,317**	1,328	**12,397**
Long-term loans receivable	**1,448**	599	**13,633**
Net defined benefit asset (Note 14)	**5,263**	2,005	**49,547**
Less: Allowance for doubtful accounts	**(68)**	(99)	**(645)**
Deferred tax assets (Note 15)	**252**	184	**2,377**
Other	**3,705**	2,315	**34,880**
Total investments and other assets	**32,274**	28,007	**303,784**
Total assets	**¥237,426**	¥235,869	**$2,234,808**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	**2018**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans payable (Note 11)	**¥51,195**	¥50,828	**$481,883**
Current portion of long-term debt (Note 11)	**19,633**	17,435	**184,800**
Commercial Paper	**3,000**	–	**28,237**
Lease obligations (Note 11)	**375**	346	**3,533**
Payables:			
Trade notes and accounts (Note 11)	**26,870**	24,573	**252,925**
Other	**3,238**	2,648	**30,478**
Accrued expenses	**7,358**	7,135	**69,262**
Income taxes payable	**397**	399	**3,742**
Other	**5,140**	4,007	**48,381**
Total current liabilities	**117,208**	107,376	**1,103,245**
Non-current liabilities:			
Long-term debt (Note 11)	**45,656**	57,570	**429,745**
Lease obligations (Note 11)	**691**	907	**6,507**
Provision for directors' retirement benefits	**56**	66	**530**
Reserve for loss on dissolution of employee's fund	**143**	143	**1,355**
Net defined benefit liability (Note 14)	**9,328**	8,949	**87,809**
Deferred tax liabilities (Note 15)	**1,198**	2,442	**11,285**
Asset retirement obligations	**888**	888	**8,361**
Other	**1,175**	893	**11,068**
Total non-current liabilities	**59,139**	71,862	**556,663**
Total liabilities	**¥176,348**	¥179,238	**$1,659,908**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized: 90,000,000 shares at March 31, 2018			
Issued: 34,258,433 shares at March 31, 2018	**¥32,756**	¥ 32,756	**$308,323**
Capital surplus	**6,132**	7,438	**57,726**
Retained earnings	**12,965**	8,599	**122,040**
Treasury shares	**(148)**	(147)	**(1,399)**
Total shareholders' equity	**51,706**	48,647	**486,690**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**5,204**	5,506	**48,988**
Foreign currency translation adjustment	**1,511**	1,245	**14,225**
Remeasurements of defined benefit plans	**1,309**	(1,015)	**12,329**
Total accumulated other comprehensive income	**8,025**	5,736	**75,544**
Non-controlling interests	**1,345**	2,247	**12,665**
Total net assets	**¥61,077**	¥56,631	**$574,900**
Total liabilities and net assets	**¥237,426**	¥235,869	**$2,234,808**

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

Consolidated Statements of Operations

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	**2018**
Net sales	**¥201,492**	¥201,955	**$1,896,579**
Cost of sales	**169,221**	166,817	**1,592,825**
Gross profit	**32,270**	35,137	**303,754**
Selling, general and administrative expenses	**30,480**	30,824	**286,901**
Operating income	**1,790**	4,313	**16,852**
Other income (expenses):			
Interest and dividend income	**560**	485	**5,273**
Interest expenses	**(1,767)**	(2,075)	**(16,640)**
Royalty income	**175**	149	**1,649**
Foreign exchange gains (losses)	**59**	(287)	**558**
Gain on sales of investment securities	**846**	207	**7,969**
Gain (loss) on disposal of non-current assets (Note 6)	**1,144**	(513)	**10,776**
Special retirement expenses	**(375)**	(348)	**(3,535)**
Business restructuring cost (Note 7)	**—**	(276)	**—**
Environmental expenses (Note 8)	**(295)**	—	**(2,776)**
Impairment loss (Note 9)	**(209)**	(287)	**(1,970)**
Other, net	**(179)**	217	**(1,686)**
Total	**(40)**	(2,727)	**(380)**
Income before income taxes and non-controlling interests	**1,749**	1,585	**16,471**
Income taxes:			
Current	**383**	341	**3,614**
Deferred (Note 15)	**(1,914)**	(85)	**(18,017)**
Net income	**3,280**	1,329	**30,875**
Net income attributable to non-controlling interests	**81**	176	**769**
Net income attributable to owners of parent	**¥3,198**	¥1,152	**$30,105**

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

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	**2018**
Net income	**¥3,280**	¥1,329	**$30,875**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**(450)**	2,813	**(4,236)**
Foreign currency translation adjustments	**301**	(313)	**2,837**
Remeasurements of defined benefit plans, net of tax	**2,386**	1,821	**22,465**
Share of other comprehensive income of entities accounted for using equity method	**(24)**	(53)	**(232)**
Total other comprehensive income	**2,213**	4,268	**20,833**
Comprehensive income	**5,493**	5,597	**51,708**
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	**5,487**	5,161	**51,651**
Comprehensive income attributable to non-controlling interests	**¥6**	¥435	**$56**

	Yen		U.S. dollars (Note 2)
	2018	2017	**2018**
Amounts per share:			
Net income — basic (Note 3 (11))	**¥93.57**	¥33.72	**$0.88**
Cash dividends applicable to the year	**5.00**	–	**0.05**

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, 2017.

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2018 and 2017

	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, 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:												
Deficit disposition						–						–
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 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
Changes during the year:												
Deficit disposition			**(1,167)**	**1,167**		**–**						**–**
Net income attributable to owners of parent				**3,198**		**3,198**						**3,198**
Acquisition of treasury stock					**(1)**	**(1)**						**(1)**
Disposal of treasury stock						**–**						**–**
Change in treasury shares of parent arising from transactions with non-controlling shareholders			**(138)**			**(138)**						**(138)**
Changes in items other than shareholders' equity							**(302)**	**265**	**2,325**	**2,289**	**(901)**	**1,387**
Total changes during the year		**–**	**(1,305)**	**4,365**	**(1)**	**3,058**	**(302)**	**265**	**2,325**	**2,289**	**(901)**	**4,446**
Balance at March 31, 2018	**34,258,433**	**¥32,756**	**¥6,132**	**¥12,965**	**¥(148)**	**¥51,706**	**¥5,204**	**¥1,511**	**¥1,309**	**¥8,025**	**¥1,345**	**¥61,077**

	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, 2017	34,258,433	$308,323	$70,014	$80,947	$(1,388)	$457,897	$51,833	$11,723	$(9,559)	$53,997	$21,154	$533,049
Changes during the year:												
Deficit disposition			**(10,987)**	**10,987**		**–**						**–**
Net income attributable to owners of parent				**30,105**		**30,105**						**30,105**
Acquisition of treasury stock					**(11)**	**(11)**						**(11)**
Disposal of treasury stock						**–**						**–**
Change in treasury shares of parent arising from transactions with non-controlling shareholders			**(1,300)**			**(1,300)**						**(1,300)**
Changes in items other than shareholders' equity							**(2,845)**	**2,502**	**21,889**	**21,546**	**(8,488)**	**13,057**
Total changes during the year		**–**	**(12,288)**	**41,092**	**(11)**	**28,792**	**(2,845)**	**2,502**	**21,889**	**21,546**	**(8,488)**	**41,850**
Balance at March 31, 2018	**34,258,433**	**$308,323**	**$57,726**	**$122,040**	**$(1,399)**	**$486,690**	**$48,988**	**$14,225**	**$12,329**	**$75,544**	**$12,665**	**$574,900**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	**2018**
I Cash flows from operating activities:			
Income before income taxes and non-controlling interests	**¥1,749**	¥1,585	**$16,471**
Depreciation	**10,474**	10,454	**98,590**
Impairment loss (Note 9)	**209**	287	**1,970**
Decrease (increase) in net defined benefit asset (Note 14)	**(149)**	2	**(1,408)**
Increase (decrease) in net defined benefit liability (Note 14)	**312**	(120)	**2,943**
Increase (decrease) in provision for directors' retirement benefits	**(9)**	17	**(93)**
Interest and dividend income	**(560)**	(485)	**(5,273)**
Interest expense	**1,767**	2,075	**16,640**
Loss (gain) on sales of short-term and long-term investment securities	**(846)**	(207)	**(7,969)**
Loss (gain) on disposal of non-current assets (Note 6)	**(1,144)**	513	**(10,776)**
Business restructuring cost (Note 7)	**–**	276	**–**
Decrease (increase) in trade notes and accounts receivable	**(29)**	2,182	**(280)**
Decrease (increase) in inventories	**(1,935)**	3,432	**(18,221)**
Increase (decrease) in trade notes and accounts payable	**2,041**	1,547	**19,220**
Other, net	**2,710**	592	**25,513**
Sub-total	**14,589**	22,155	**137,325**
Payments for business restructuring cost (Note 7)	**(131)**	(144)	**(1,237)**
Interest and dividend income received	**566**	489	**5,327**
Interest expenses paid	**(1,771)**	(2,155)	**(16,677)**
Income taxes paid	**(442)**	(506)	**(4,163)**
Net cash provided by (used in) operating activities	**12,809**	19,839	**120,573**
II Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**(7,822)**	(6,120)	**(73,628)**
Proceeds from sales of property, plant and equipment and intangible assets	**1,872**	50	**17,623**
Purchase of investment securities	**(25)**	(142)	**(240)**
Proceeds from sales of investment securities	**1,136**	269	**10,694**
Purchase of shares of subsidiaries and associates	**(0)**	(355)	**(0)**
Payments of loans receivable	**(902)**	(570)	**(8,492)**
Collection of loans receivable	**23**	53	**222**
Other, net	**(276)**	(256)	**(2,606)**
Net cash provided by (used in) investing activities	**(5,994)**	(7,070)	**(56,428)**
III Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**1**	(2,112)	**11**
Net increase (decrease) in commercial paper	**3,000**	–	**28,237**
Proceeds from long-term debt	**7,740**	17,899	**72,853**
Repayments of long-term debt	**(17,441)**	(28,090)	**(164,166)**
Repayments of lease obligations	**(362)**	(348)	**(3,413)**
Proceeds from share issuance to non-controlling shareholders	**48**	–	**451**
Purchase of treasury shares	**(1)**	(2)	**(11)**
Proceeds from sales of treasury shares	**–**	0	**–**
Dividends paid to non-controlling shareholders	**(237)**	(188)	**(2,233)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(854)**	(269)	**(8,041)**
Net cash provided by (used in) financing activities	**(8,107)**	(13,112)	**(76,312)**
IV Effect of exchange rate change on cash and cash equivalents	**196**	(196)	**1,845**
V Net increase (decrease) in cash and cash equivalents	**(1,096)**	(540)	**(10,321)**
VI Cash and cash equivalents at beginning of period	**10,840**	11,381	**102,041**
VII Cash and cash equivalents at end of period (Note 3 (12))	**¥9,744**	¥10,840	**$91,719**

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 ¥106.24 = U.S.$1, the exchange rate prevailing as of March 31, 2018. 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 33 subsidiaries as of March 31, 2018 (34 as of March 31, 2017). The accompanying consolidated financial statements include the accounts of the Company and 26 (26 for 2017) of its subsidiaries for the year ended March 31, 2018 (together, hereinafter referred to as the "Companies"). Furthermore, MPM Oji Home Products Co., Ltd., which was newly established in this consolidated fiscal year, is included within the scope of the consolidation. In addition, Mitsubishi Paper Holding (Europe) GmbH conducted an absorption-type merger with Mitsubishi Paper GmbH, which was a consolidated company until the previous consolidated fiscal year.

The accounts of the remaining 7 (8 for 2017) unconsolidated subsidiaries for the year ended March 31, 2018 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 5 (6 for 2017) 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, 2018 (10 for 2017). 3 affiliated companies were accounted for by the equity method.

However, the remaining 7 (8 for 2017) subsidiaries and 7 (7 for 2017) 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 weighted 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 (9 to 15 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 (9 to 15 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, 2018 and 2017 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Cash and bank deposits	**¥9,744**	¥10,840	**$91,719**
Cash and cash equivalents	**¥9,744**	¥10,840	**$91,719**

(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) 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 certain consolidated subsidiaries has been changed from 10 to 9. This change resulted in a ¥47 million ($446 thousand) decrease in operating income and income before income taxes and non-controlling interests for this consolidated fiscal year.

(15) Reclassification

Certain reclassification have been made to the prior year's consolidated financial statements to conform to the presentation for the year ended March 31, 2018.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Buildings and structures	**¥14,993**	¥16,061	**$141,128**
Machinery and equipment	**23,249**	27,784	**218,839**
Land	**10,497**	10,497	**98,805**
Investment securities	**4,676**	4,820	**44,018**
Other	**54**	74	**512**
	¥53,471	¥59,237	**$503,304**

5. Contingent Liabilities

As of March 31, 2018 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥488 million ($4,597 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥634 million ($5,971 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
	2018	2017	**2018**
Land	**¥1,049**	¥4	**$9,878**
Buildings and structures	**482**	–	**4,543**
Machinery and equipment	**13**	13	**125**

(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
	2018	2017	**2018**
Scrapping and removal expenses	**¥214**	¥342	**$2,023**
Machinery and equipment	**81**	105	**770**
Land	**74**	7	**696**
Buildings and structures	**19**	55	**178**

7. Business Restructuring Cost

Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)

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

8. Environmental Expenses

Consolidated fiscal year under review (April 1, 2017 – March 31, 2018)

Expenses associated with the disposal of PCB (polychlorinated biphenyl) waste

9. Impairment Loss

Consolidated fiscal year under review (April 1, 2017 – March 31, 2018)

Application	Location	Category	Impairment loss (Millions of yen)	Impairment loss (Thousands of U.S. dollars)
Idle assets	Ibaraki	Buildings, etc	**¥132**	**$1,249**
Idle assets	Aomori	Buildings	**40**	**383**
Rental property	Osaka	Land	**26**	**253**
Idle assets	Fukushima, etc.	Machinery and equipment, etc.	**8**	**82**

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, 2016 – March 31, 2017)

Application	Location	Category	Impairment loss (Millions of yen)
Idle assets	Aomori	Land	¥212
Idle assets	Fukushima	Land, etc.	52
Idle assets	Fukushima	Machinery and equipment	21

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.

10. Other Comprehensive Income

The following table shows reclassification adjustment for each component of other comprehensive income for the year ended March 31, 2018:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Net unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	**¥(199)**	¥4,279	**$(1,879)**
Reclassification adjustments for gain and losses included in net income	**(779)**	(233)	**(7,337)**
Amount before tax effect	**(979)**	4,045	**(9,217)**
Tax effect	**529**	(1,232)	**4,980**
Total	**¥(450)**	¥2,813	**$(4,236)**
Foreign currency translation adjustment			
Amount arising during the year	**¥301**	¥(313)	**$2,837**
Remeasurements of defined benefit plans			
Amount arising during the year	**¥3,828**	¥2,634	**$36,039**
Reclassification adjustments for gains and losses included in net income	**(369)**	(812)	**(3,475)**
Amount before tax effect	**3,459**	1,821	**32,563**
Tax effect	**(1,072)**	–	**(10,098)**
Total	**¥2,386**	¥1,821	**$22,465**
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	**(24)**	(53)	**(232)**
Total other comprehensive income	**¥2,213**	¥4,268	**$20,833**

11. 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 13. 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, 2018 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		
	2018		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**¥46,330**	**¥46,330**	**¥–**
Investment securities			
Available-for-sale securities	**19,690**	**19,690**	**–**
Total of assets	**66,020**	**66,020**	**–**
Trade notes and accounts payable	**26,818**	**26,818**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**51,195**	**51,195**	**–**
Long-term debt (including current portion of long-term debt)	**65,289**	**66,149**	**860**
Total of liabilities	**143,302**	**144,163**	**860**
Derivative transactions	**¥–**	**¥–**	**¥–**

	Thousands of U.S. dollars		
	2018		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**$436,096**	**$436,096**	**$–**
Investment securities			
Available-for-sale securities	**185,335**	**185,335**	**–**
Total of assets	**621,432**	**621,432**	**–**
Trade notes and accounts payable	**252,428**	**252,428**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**481,883**	**481,883**	**–**
Long-term debt (including current portion of long-term debt)	**614,546**	**622,644**	**8,098**
Total of liabilities	**1,348,857**	**1,356,956**	**8,098**
Derivative transactions	**$–**	**$–**	**$–**

	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	¥–	¥–	¥–

(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 ¥19,633 million ($184,800 thousand).
(vi) Derivatives
Please see Note 13.

Unlisted equity securities (in the amount of ¥1,981 million ($18,655 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
	2018	2017	**2018**
Unlisted equity securities	**¥1,981**	¥1,999	**$18,655**

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

	Millions of yen					
	2018					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	**¥51,195**	**¥–**	**¥–**	**¥–**	**¥–**	**¥–**
Long-term debt	**19,633**	**15,575**	**13,600**	**10,155**	**5,238**	**1,086**
Lease obligations	**375**	**354**	**92**	**73**	**59**	**111**
Total	**¥71,203**	**¥15,930**	**¥13,692**	**¥10,228**	**¥5,298**	**¥1,198**

	Thousands of U.S. dollars					
	2018					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	**$481,883**	**$–**	**$–**	**$–**	**$–**	**$–**
Long-term debt	**184,800**	**146,606**	**128,013**	**95,587**	**49,311**	**10,227**
Lease obligations	**3,533**	**3,340**	**868**	**689**	**558**	**1,050**
Total	**$670,217**	**$149,946**	**$128,881**	**$96,276**	**$49,869**	**$11,278**

	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

12. 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, 2018 and 2017 are summarized as follows:
Available-for-sale securities:

	Millions of yen			
	2018			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥12,020**	**¥19,690**	**¥8,053**	**¥384**
	¥12,020	**¥19,690**	**¥8,053**	**¥384**

	Thousands of U.S. dollars			
	2018			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$113,147**	**$185,335**	**$75,809**	**$3,620**
	$113,147	**$185,335**	**$75,809**	**$3,620**

	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

13. 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	¥21,410 million	¥12,210 million
			$201,524 thousand	$114,928 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.

14. 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 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥22,467**	¥22,164	**$211,482**
Current service cost	**1,083**	1,101	**10,202**
Interest cost	**113**	131	**1,069**
Actuarial gain and loss	**(264)**	595	**(2,491)**
Retirement benefit paid	**(1,076)**	(1,163)	**(10,128)**
Other	**557**	(362)	**5,250**
Balance at the end of the year	**¥22,882**	¥22,467	**$215,386**

(ii) The schedule of the pension assets at 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥16,174**	¥13,586	**$152,240**
Expected return on pension assets	**14**	13	**131**
Actuarial gain and loss	**3,703**	3,142	**34,863**
Contributions by the employer	**53**	56	**505**
Retirement benefit paid	**(429)**	(623)	**(4,040)**
Balance at the end of the year	**¥19,516**	¥16,174	**$183,701**

(iii) The schedule of the net defined benefit liability for simplified method at 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Balance at the beginning of the year	**¥649**	¥579	**$6,115**
Periodic benefit cost	**92**	122	**872**
Retirement benefit paid	**(26)**	(34)	**(250)**
Contribution to systems	**(16)**	(17)	**(159)**
Balance at the end of the year	**¥698**	¥649	**$6,577**

(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 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Funded defined benefit obligations	**¥15,145**	¥15,123	**$142,556**
Pension assets	**(19,872)**	(16,520)	**(187,054)**
	(4,727)	(1,397)	**(44,498)**
Unfunded defined benefit obligations	**8,792**	8,340	**82,761**
Net amount of liabilities and assets recognized in consolidated balance sheet	**4,065**	6,943	**38,262**
Retirement benefit liabilities	**9,328**	8,949	**87,809**
Retirement benefit asset	**(5,263)**	(2,005)	**(49,547)**
Net amount of liabilities and assets recognized in consolidated balance sheet	**¥4,065**	¥6,943	**$38,262**

(v) The profits and losses related to retirement benefits for fiscal period ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Current service cost	**¥1,083**	¥1,101	**$10,202**
Interest cost	**113**	131	**1,069**
Expected return on pension assets	**(14)**	(13)	**(131)**
Actuarial gain and loss recognized in the year	**(334)**	(716)	**(3,149)**
Prior service cost recognized in the year	**(34)**	(95)	**(326)**
Periodic benefit cost in simplified method	**92**	122	**872**
Periodic benefit costs of retirement benefit plan	**¥906**	¥529	**$8,537**

In addition to the above, the premium severance payment has been reported as extraordinary losses of ¥375 million ($3,535 thousand), and ¥348 million for the consolidated fiscal year ended March 31, 2018 and 2017, 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 for the consolidated fiscal year ended March 31, 2017.

(vi) The breakdown of items in other comprehensive income for fiscal period ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Actuarial gain and loss	**¥3,494**	¥1,917	**$32,889**
Prior service cost	**(34)**	(95)	**(326)**
Total	**¥3,459**	¥1,821	**$32,563**

(vii) The breakdown of items in accumulated other comprehensive income for fiscal period ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Unrecognized actuarial gain and loss	**¥2,034**	¥(1,459)	**$19,151**
Unrecognized prior service cost	**63**	97	**595**
Total	**¥2,097**	¥(1,361)	**$19,747**

(viii) The breakdown of pension assets by major category as of March 31, 2018 and 2017 were as follows:

	2018	2017
Equities	**38%**	38%
Bonds	**37%**	37%
General account of life insurance	**23%**	22%
Other	**2%**	3%
	100%	100%

(ix) The items of actuarial assumptions as of fiscal period ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rate	**0.0～2.0%**	0.0～1.8%
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 ¥359 million ($3,381 thousand) and ¥360 million for the consolidated fiscal year ended March 31, 2018 and 2017, 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.

15. Deferred Income Taxes

(1) At March 31, 2018 and 2017, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Deferred tax assets:			
Accrued enterprise taxes	**¥77**	¥95	**$727**
Accrued expenses	**587**	595	**5,529**
Net defined benefit liability	**2,378**	3,347	**22,389**
Allowance for doubtful accounts	**75**	83	**707**
Accumulated impairment loss of fixed assets	**357**	338	**3,362**
Unrealized gains on property, plant and equipment	**175**	170	**1,654**
Net operating loss carry forward	**6,231**	6,386	**58,652**
Other	**7,713**	8,106	**72,603**
Gross deferred tax assets	**17,596**	19,122	**165,628**
Valuation allowance	**(13,585)**	(15,969)	**(127,872)**
Total deferred tax assets	**4,011**	3,153	**37,756**
Deferred tax liabilities:			
Gain on securities contributed to retirement benefit trust	**(1,121)**	(1,121)	**(10,552)**
Return of securities contributed to retirement benefit trust	**(316)**	(316)	**(2,980)**
Reserve based on Special Taxation Measures Law	**(16)**	(18)	**(157)**
Unrealized gains on available-for-sale securities	**(2,110)**	(2,639)	**(19,866)**
Other	**(289)**	(288)	**(2,724)**
Total deferred tax liabilities	**(3,854)**	(4,383)	**(36,281)**
Net deferred tax assets (liabilities)	**¥156**	¥(1,230)	**$1,475**

(2) For the year ended March 31, 2018 and 2017, a reconciliation of the statutory tax rate to the effective tax rates was as follows:

	2018	2017
Statutory tax rate	**30.9%**	30.9%
Permanently non-deductible expenses	**3.1**	3.9
Permanently non-taxable income	**(3.2)**	(2.8)
Per capita inhabitants' taxes	**3.1**	3.4
Valuation allowance	**(119.4)**	(22.2)
Unrealized gains (losses)	**(1.5)**	(1.5)
Other	**(0.3)**	4.5
Effective tax rates	**(87.4)%**	16.2%

(3) Amendments to amounts of deferred tax assets and liabilities as a result of change in normal effective statutory tax rate

On December 22, 2017, the Tax Cuts Jobs Act (the "Act") was signed into law in the United States. The Act reduces the corporate tax rate to 21 percent from 35 percent. As a result, deferred tax assets (net) have decreased by ¥9 million ($88 thousand), and deferred income taxes have increased by ¥9 million ($88 thousand).

16. 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 four reportable segments, identified by product portfolio, which are classified as the "Paper and Pulp Segment," the "Imaging Media Segment," the "Speciality Materials Segment," and the "Warehouse and Transportation 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. The "Warehouse and Transportation Segment" handles warehousing and carrying service.

From this consolidated fiscal year, as the quantitative importance of "Warehouse and Transportation Segment," which was included in "Other," increased, the Company adopted the method to list "Warehouse and Transportation Segment" as a reportable segment. In addition, segment information of the previous consolidated fiscal year is based on the new reportable segments.

Consolidated fiscal year under review (April 1, 2017 – March 31, 2018)

	Millions of yen								
	Reportable segments								
Year ended March 31, 2018	Paper and Pulp	Imaging Media	Speciality Materials	Warehouse and Transportation	Total	Other	Total	Adjustments	Consolidated
Net sales									
Sales to third parties	**¥148,508**	**¥31,756**	**¥14,090**	**¥5,208**	**¥199,563**	**¥1,928**	**¥201,492**	**¥–**	**¥201,492**
Inter-segment sales and transfers	**3,712**	**5,151**	**2,936**	**3,367**	**15,166**	**6,333**	**21,500**	**(21,500)**	**–**
Total sales	**152,220**	**36,907**	**17,026**	**8,575**	**214,730**	**8,262**	**222,992**	**(21,500)**	**201,492**
Segment income	**¥98**	**¥449**	**¥952**	**¥258**	**¥1,759**	**¥135**	**¥1,895**	**¥(104)**	**¥1,790**
Segment assets	**¥174,439**	**¥38,784**	**¥17,090**	**¥4,607**	**¥234,921**	**¥8,207**	**¥243,129**	**¥(5,703)**	**¥237,426**
Depreciation and amortization	**7,613**	**2,089**	**608**	**122**	**10,434**	**138**	**10,572**	**(98)**	**10,474**
Investment in equity-method affiliates	**1,554**	**–**	**–**	**–**	**1,554**	**323**	**1,878**	**–**	**1,878**
Increase in tangible and intangible fixed assets	**5,292**	**1,625**	**478**	**140**	**7,536**	**19**	**7,556**	**(117)**	**7,438**

	Thousands of U.S. dollars								
	Reportable segments								
Year ended March 31, 2018	Paper and Pulp	Imaging Media	Speciality Materials	Warehouse and Transportation	Total	Other	Total	Adjustments	Consolidated
Net sales									
Sales to third parties	**$1,397,856**	**$298,913**	**$132,629**	**$49,026**	**$1,878,426**	**$18,153**	**$1,896,579**	**$–**	**$1,896,579**
Inter-segment sales and transfers	**34,941**	**48,488**	**27,635**	**31,695**	**142,760**	**59,615**	**202,375**	**(202,375)**	**–**
Total sales	**1,432,798**	**347,401**	**160,264**	**80,721**	**2,021,186**	**77,768**	**2,098,954**	**(202,375)**	**1,896,579**
Segment income	**$926**	**$4,235**	**$8,962**	**$2,435**	**$16,559**	**$1,279**	**$17,839**	**$(987)**	**$16,852**
Segment assets	**$1,641,939**	**$365,062**	**$160,862**	**$43,373**	**$2,211,237**	**$77,257**	**$2,288,494**	**$(53,685)**	**$2,234,808**
Depreciation and amortization	**71,666**	**19,667**	**5,723**	**1,154**	**98,212**	**1,302**	**99,515**	**(924)**	**98,590**
Investment in equity-method affiliates	**14,635**	**–**	**–**	**–**	**14,635**	**3,048**	**17,684**	**–**	**17,684**
Increase in tangible and intangible fixed assets	**49,816**	**15,303**	**4,500**	**1,322**	**70,942**	**183**	**71,126**	**(1,110)**	**70,015**

(i) The engineering business and others are included in “Other.” They are not included in the reportable segments.
(ii) Adjustments are:
• Adjustments and eliminations for segment income include ¥(75) million ($(712) thousand) of elimination of inter-segment income and loss and ¥(29) million ($(274) 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 ¥12,710 million ($119,642 thousand) of corporate assets and ¥(18,414) million ($(173,328) thousand) of elimination of inter-segment assets.
• Adjustments and eliminations for amortization of ¥(98) million ($(924) thousand) is elimination of inter-segment.
• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(117) million ($(1,110) thousand) of elimination of inter-segment increase in tangible and intangible fixed assets.
(iii) Segment income is adjusted with consolidated operating income.

Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)

	Millions of yen								
	Reportable segments								
Year ended March 31, 2017	Paper and Pulp	Imaging Media	Speciality Materials	Warehouse and Transportation	Total	Other	Total	Adjustments	Consolidated
Net sales									
Sales to third parties	¥146,649	¥34,222	¥14,092	¥4,759	¥199,724	¥2,231	¥201,955	¥–	¥201,955
Inter-segment sales and transfers	3,779	4,685	2,866	3,489	14,820	5,761	20,582	(20,582)	–
Total sales	150,428	38,908	16,958	8,249	214,544	7,993	222,537	(20,582)	201,955
Segment income	¥2,022	¥948	¥970	¥198	¥4,139	¥154	¥4,293	¥19	¥4,313
Segment assets	¥174,267	¥37,947	¥15,487	¥4,519	¥232,222	¥6,755	¥238,977	¥(3,107)	¥235,869
Depreciation and amortization	7,548	2,151	608	105	10,413	136	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	107	6,078	15	6,094	(98)	5,995

(i) The engineering business and others are included in “Other.” They are not included in the reportable segments.
(ii) Adjustments are:
• Adjustments and eliminations for segment income include ¥48 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 ¥14,952 million of corporate assets and ¥(18,059) million of elimination of inter-segment assets.
• Adjustments and eliminations for amortization of ¥(95) million is elimination of inter-segment.
• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(98) million of elimination of inter-segment increase in tangible and intangible fixed assets.
(iii) Segment income 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Japan	**¥137,787**	¥141,513	**$1,296,950**
Europe	**32,809**	30,630	**308,822**
Asia	**13,308**	13,350	**125,265**
North America	**13,923**	11,663	**131,058**
Other	**3,663**	4,797	**34,481**
Consolidated	**¥201,492**	¥201,955	**$1,896,579**

Net sales information above are based on customer location.

(ii) Property, plant and equipment by countries or geographical areas at March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	**2018**
Japan	**¥89,704**	¥94,329	**$844,352**
Europe	**9,545**	9,235	**89,846**
Asia	**370**	369	**3,484**
North America	**113**	130	**1,064**
Consolidated	**¥99,732**	¥104,064	**$938,748**

(3) Impairment loss on fixed assets by reportable segments

Consolidated fiscal year under review (April 1, 2017 – March 31, 2018)

	Millions of yen								
	Reportable segments								
Year ended March 31, 2018	Paper and Pulp	Imaging Media	Speciality Materials	Warehouse and Transportation	Total	Other	Total	Corporate and Adjustments	Consolidated
Impairment loss	**¥47**	**¥1**	**¥–**	**¥26**	**¥76**	**¥–**	**¥76**	**¥132**	**¥209**

	Thousands of U.S. dollars								
	Reportable segments								
Year ended March 31, 2018	Paper and Pulp	Imaging Media	Speciality Materials	Warehouse and Transportation	Total	Other	Total	Corporate and Adjustments	Consolidated
Impairment loss	**$450**	**$16**	**$–**	**$253**	**$720**	**$–**	**$720**	**$1,249**	**$1,970**

Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)

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

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, 2018, 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, 2018, 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, 2018

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 Senior Managing Executive Officer

Masaki Shuto

Director and Managing Executive Officer

Makoto Fujita

Managing Executive Officer

Yukihiro Tachifuji

Managing Executive Officer

Naoki Okawa

Director and Managing Executive Officer

President and Chief Executive Officer

Kunio Suzuki
President

Director and Senior Executive Vice President

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

Director and Senior Managing Executive Officers

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

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.

Director and Managing Executive Officers

Masaki Shuto
In charge of Finance & Accounting Dept.

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

Managing Executive Officers

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.

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

Director and Senior Executive Officer

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

Outside Directors

Tomohisa Shinagawa

Soumitsu Takehara

Senior Executive Officers

Yutaka Oka
In charge of Imaging Div. ; General Manager, Imaging Div.

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

Koji Hayashi
President, Mitsubishi Paper Holding (Europe) GmbH

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

Executive Officers

Keiichi Sato
President & CEO, MPM Operation Co., Ltd.; Head, Hachinohe Mill; Deputy General Manager, Paper Div.; President & CEO, MPM Oji Home Products Co., Ltd.

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

Masaya Sawada
Deputy General Manager, Speciality Materials Div.

Teiji Ota
Head, Kyoto Mill; Deputy General Manager, Imaging Div.

Corporate Auditor

Kenji Oka

Outside Corporate Auditors

Hiroaki Tonooka
Takayuki Nakazato
Takeshi Kobayashi

(as of June 27, 2018)

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 *(Imaging Media Dept. Imaging Division)*
+81-3-5600-1475 *(Graphic & Development Dept. Imaging 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 *(Imaging Media Dept. Imaging Division)*
+81-3-5600-1413 *(Graphic & Development Dept. Imaging 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.
MPM OJI Home Products 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

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MITSUBISHI
PAPER MILLS
LIMITED