MITSUBISHI PAPER MILLS LIMITED

MITSUBISHI PAPER MILLS LIMITED

Annual Report 2009

PROFILE

Mitsubishi Paper Mills Limited, established by Mitsubishi's third president Hisaya Iwasaki, celebrated its 110th anniversary in 2008.

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

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

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

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

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

Our reputation rests on our product quality, backed by advanced technological capability, in each of our business field, which Paper products (e.g. coated paper and thermal paper), Digital imaging media (e.g. photo base paper and inkjet paper) and Specialty materials (e.g. filters).

Mitsubishi Paper Mills has production and research facilities in Japan, Germany, China, and Mexico, and this extensive network gives the Company easy access to the global market.

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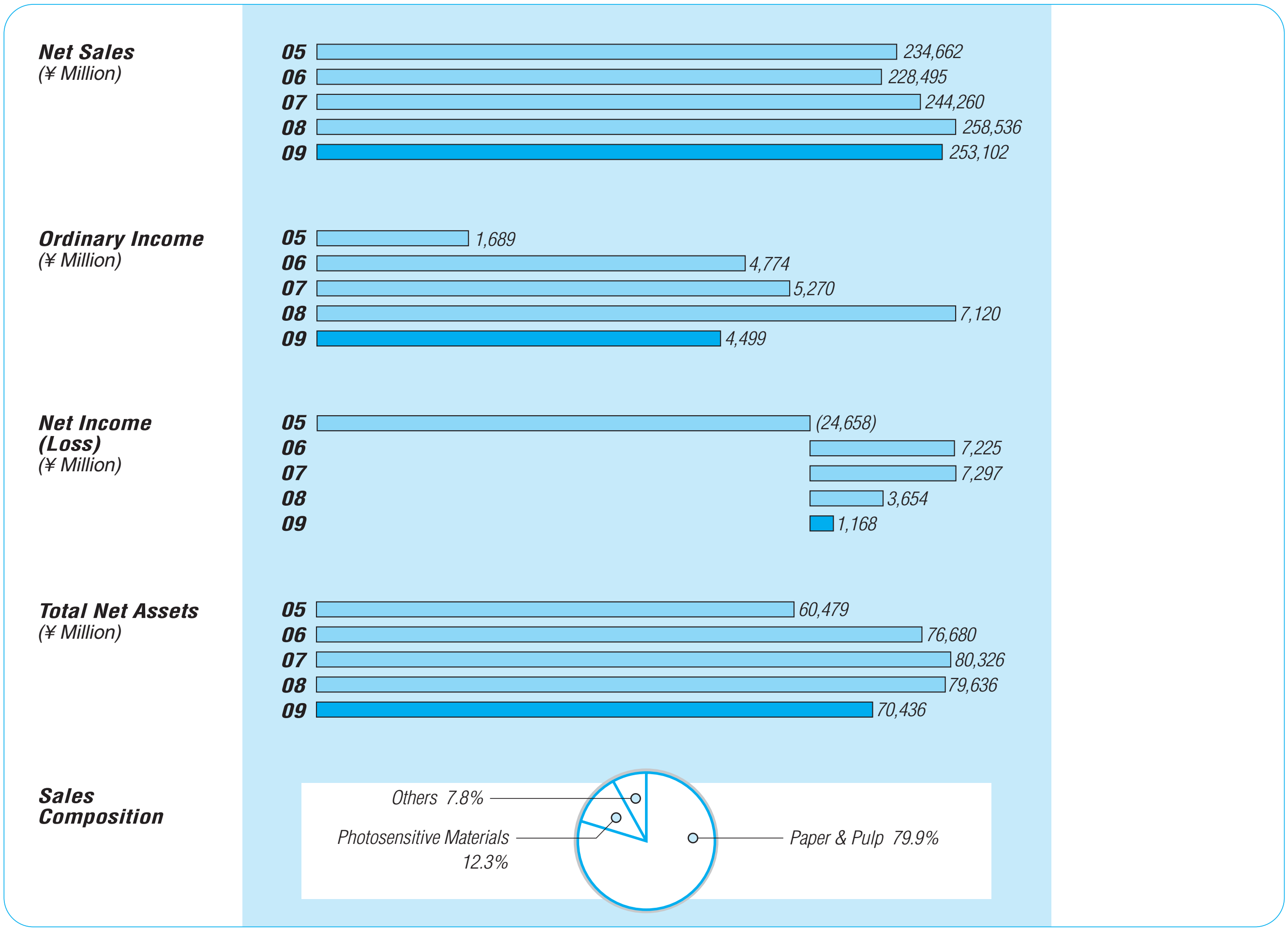
FINANCIAL HIGHLIGHTS (CONSOLIDATED)

	Millions of yen *(1)*		Thousands of U.S. dollars *(1) and (2)*
	2009	2008	**2009**
For the years ended March 31			
Net sales	**¥ 253,102**	¥ 258,536	**$ 2,576,635**
Ordinary income	**4,499**	7,120	**45,803**
Net income	**1,168**	3,654	**11,893**
Net income per share (in yen and dollars)	**3.41**	10.99	**0.03**
Cash dividends per share (in yen and dollars)	**2.50**	5.00	**0.03**
As at March 31			
Total assets	**¥ 294,254**	¥ 303,052	**$ 2,995,570**
Total net assets	**70,436**	79,636	**717,057**
Common stock	**32,756**	32,756	**333,465**
Number of shareholders	**17,854**	18,362	
Number of employees	**4,577**	4,574	

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 ¥98.23 = U.S.$1, as of March 31, 2009.



Note: Effective from the year ended March 31, 2007, the Company has applied the "Accounting standards for presentation of net assets in the balance sheet," and the "Implementation guidance for accounting standards for presentation of net assets in the balance sheet."
Furthermore, the Company presented its net assets in the balance sheets using the new presentation method as of March 31, 2005 and 2006 to conform to the current year's presentation.

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

Since its founding in 1898, Mitsubishi Paper Mills has constantly sought to employ its technological strengths to contribute to society. By developing and marketing value-added products that anticipate the needs of the next generation, the Company has played an important role in the development of information media in Japan in the publishing and printing industries, as well as in the development of photographic technology.

Today, along with the progress of digital information society, Mitsubishi Paper Mills, as an R&D-driven enterprise, is aiming to be the “Mitsubishi Paper Mills for High Grade and Information Media.”

We manufacture and sell almost the entire range of media products and materials used in all information recording processes, including not only paper for offset printing, and materials for printing plates as well as printing systems, but also carbonless and thermal paper, digital photography materials, silver halide photographic paper, and paper for inkjet printing. The Company’s strategic business portfolio also includes the production of Specialty materials such as highly-functional filters.

The exacerbation of global warming as a result of the emission of greenhouse gases has become an urgent issue in recent years. The Company is helping to address this issue through expansion of well managed forest and paper production with low energy consumption, and well as the recycling of waste materials. Specifically, thanks to its afforestation activities, the acreage of new forest planted overseas by the Company — compared to its total paper production volume —is one of the highest among the world’s papermakers. Mitsubishi Paper Mills was also one of the first companies in Japan to obtain FSC (Forest Stewardship Council) certification for its paper manufacturing and marketing operations. We are continuing our efforts in this regard with the aim of extending this certification to a wider range of business operations. We are also expanding the use of timber resources from forest-thinning activities in Japan, and are pursuing a number of projects with the goal of realizing sustainable use of Japan’s forests.

The recent worldwide economic downturn, in addition to the spread of paperless electronic information media, and the saturation of the paper market resulting from the shrinkage of the Japanese reading population (mainly due to the low birthrate), are likely to make operating conditions for Mitsubishi Paper Mills fairly difficult from here on. Amid these circumstances, we remain committed to realizing the Company’s corporate philosophy through significant contributions to the community, which we expect will enable the Mitsubishi Paper Mills Group to achieve further growth and development.

I look forward to the continued support and encouragement of the Company’s shareholders and all other stakeholders.

June 2009

鈴木邦夫

Kunio Suzuki
President & C.E.O.

Overview of the reporting term

The Japanese economy was greatly affected by the drastic global slowdown in the real economy following the outbreak of financial instability in the United States in autumn 2008. The paper and pulp sector has suffered unprecedented and ongoing production cutbacks in response to plummeting demand in Japan and overseas, particularly for printing and communication paper.

In the Paper and Pulp Division, demand held steady in the first half, and we were able to increase product prices to deal with soaring raw material and energy costs. But in the beginning of the second half, demand plunged, and we were forced to cut back production steeply to maintain market prices and improve the supply and demand balance.

The business environment in Germany, where we produce communication paper, was even more difficult than in Japan, in particular in the second half when the deterioration in the global economy hit, severely affecting earnings performance.

In the Photosensitive Materials Division, despite the shrinkage of photography market worldwide, sales of photographic base paper expanded through a sales campaign, but on the other hand sales of photographic paper and printing plate materials declined.

As a result of the foregoing, Group sales on a consolidated basis fell 2.1% year-on-year to ¥253,102 million (US$2,576 million).

Turning to earnings, upward momentum came from price increases for printing and communication paper, as well as cost-cutting measures. However, downward pressures proved stronger, with raw material and energy prices remaining high and sales plummeting after autumn 2008. In European businesses too, profitability worsened due to higher raw material and energy costs, intensified competition and falling demand. As a result, ordinary income declined 36.8% year-on-year to ¥4,499 million (US$45 million).

Net income fell year-on-year to ¥1,168 million (US$11 million), the chief factors being business restructuring costs at European subsidiaries and loss on valuation of securities, which outweighed gains from the sale of land at Katsushika-ku in Tokyo and others.

Medium-to-long-term Management Strategies and Issues

The Post Phoenix Plan

The Group has taken a range of measures under The Post Phoenix Plan launched in fiscal 2008. However, we have been forced to make revisions to it in light of the deep deterioration in the economy and the poor prospects for significant improvement.

We have made no change to our vision for the Group as presented in The Post Phoenix Plan, despite in the current business environment. But to build profitability and assure our survival, we plan immediate measure for fiscal years 2009 and 2010 (see to TOPIX page, P6-7) and together with the development of "Corporate Social Responsibility (CSR)," we will make an effort to generate greater enterprise value.

Forecasts

In light of the recent economic crisis, we expect difficult business conditions to persist.

In the current fiscal year ending March 2010, we forecast sales on a consolidated basis of ¥240,000 million (US$2,400 million), operating income of ¥7,000 million (US$70 million), ordinary income of ¥4,000 million (US$40 million) and net income of ¥1,500 million (US$15 million).

In the above forecasts, we assume an exchange rate of ¥100 /US$1, and ¥130 /€1.

These forecasts are based on information available to us at the time of writing. They are subject to the risks and uncertainties that may affect our businesses, which could cause actual results to differ materially from those anticipated.

PAPER AND PULP DIVISIONS

Net Sales (¥ Million)

PHOTOSENSITIVE MATERIALS DIVISION

Net Sales (¥ Million)

OTHER DIVISIONS

Net Sales (¥ Million)

Overseas Sales Breakdown

For the year ended March 31, 2009	Millions of yen	Thousands of U.S. dollars
Europe	¥ 39,095	$ 397,997
Asia	8,030	81,753
North America	13,246	134,849
Others	7,470	76,053
Total	¥ 67,843	$ 690,654

Thanks to the robust demand of commercial printing paper (for brochures, pamphlets and others) and of inkjet paper, we were able to raise prices in the first half for printing and communication paper, the mainstay products in this division, we were able to raise prices in the first half for printing and communication paper, the mainstay products in this division. However, from the autumn, as the economic slowdown took hold, demand for printing paper and communication paper (carbonless, thermal paper and inkjet paper etc.) declined, and we were forced to cut back production steeply to maintain an appropriate supply and demand balance.

In specialty materials, we launched newly developed products drawing on our technological capabilities, such as Thermorewrite® for smart and ID cards, filters with anti-mold and anti-odor features, in addition to anti-allergy and anti-virus functions.

Our European subsidiaries have been continuously suffered by persistently high raw material and energy prices and poor export profitability due to the high euro, and we have been counteracting by sales area optimization, by grade shift to higher value added grades, and by cost down efforts. But business conditions were badly affected by the falloff in demand due to the global economic recession.

As a result of the foregoing, sales decreased 2.3% year-on-year to ¥221,930 million (US$2,259 million).

Sales of photographic paper were down year-on-year in both volume and value terms due to the global decrease in demand. However photographic base paper sales rose in both volume and value terms as a result of aggressive marketing. Sales were down in both value and volume terms for printing plate materials, due to a decline in analog products sales, which outweighed the benefits of a sales drive targeting the digital range including Silver Digiplate® and CTP (computer-to-plate) printing paper for the newspaper industry (PD-NEWS).

As a result of the foregoing, sales in the Photosensitive Materials Division declined 1.8% year-on-year to ¥34,170 million (US$347 million).

Sales in Other Divisions declined 6.6% year-on-year to ¥21,575 million (US$219 million) due chiefly to a fall in sales of our engineering subsidiary, which performed well in the previous term.

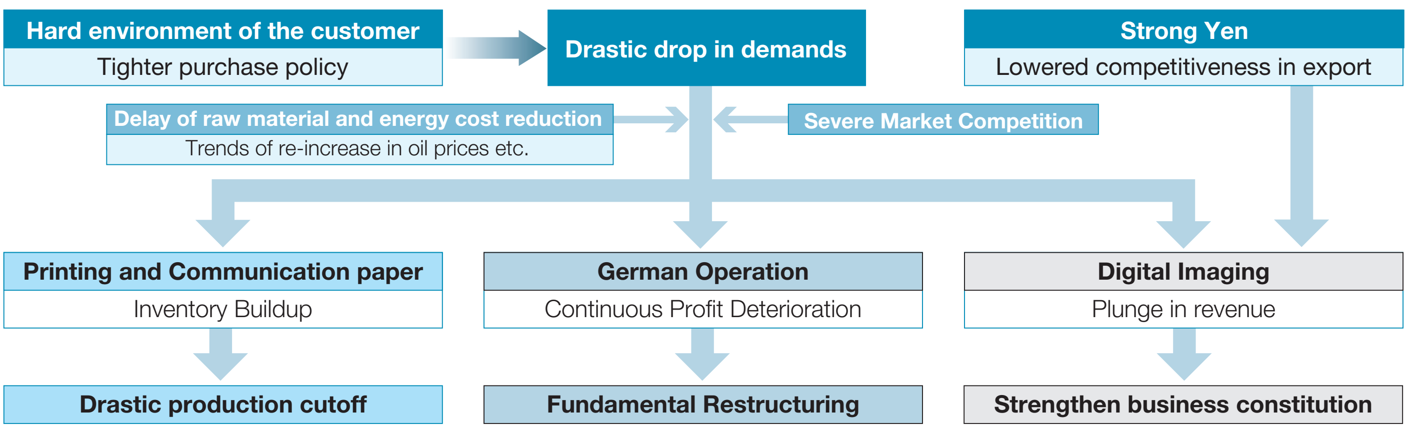
Our response to the business environment since autumn 2008

Drastic reforms to cope with this environment

Demand for paper declined by approximately 20% compared with the second half of fiscal 2008, and the fall has been almost 30% for printing and communication paper.

Paper industry is working to underpin demand by operation cut off and machine shut down at each of its paper mills. The industry has also suffered at a significant drop in export competitiveness due to the high yen.

We plan swift and drastic organizational reforms to strengthen our corporate structure in the face of these challenges.



(1) Printing and communication paper production cutoff

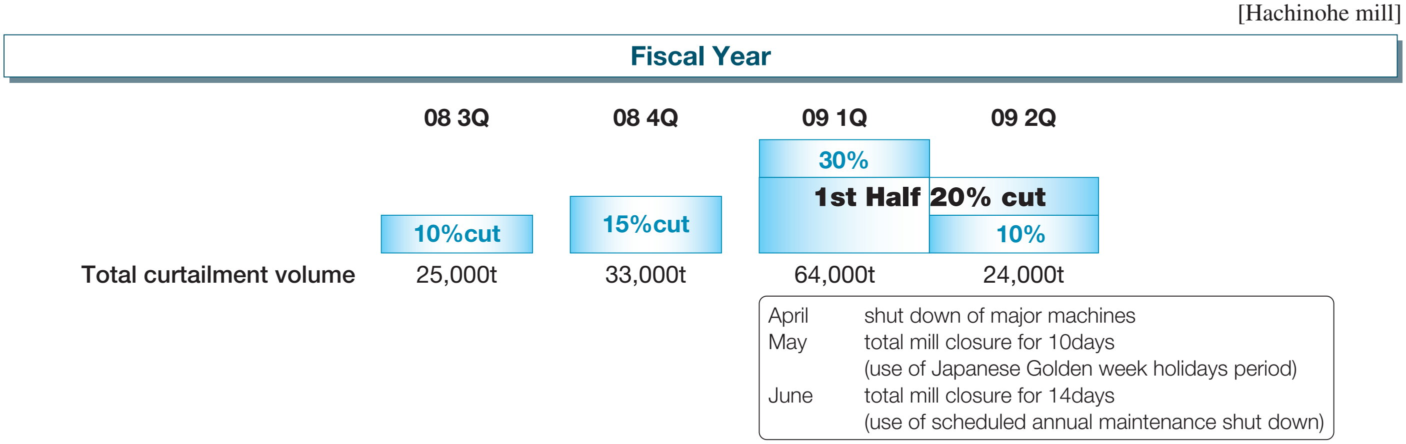
Due to the steep fall in demand, we too are reducing production even though we have no new production facilities. We have made the following unprecedented cutbacks at Hachinohe Mill: (1) 25,000 tonnes in the 3rd quarter of fiscal 2008, a 10% drop in production capacity; and (2) 33,000 tonnes in the 4th quarter, a 15% cut.

In fiscal 2009, we plan production cuts totaling 64,000 tonnes in the 1st quarter, a 30% drop. In the face of continuing uncertainty about the economy, we plan a further 24,000 tonne (10%) cut in the 2nd quarter, for an average 20% cut in the first half.

In the second half, we have prepared a 10% cut under a full-year plan.

While working to maintain prices through these measures, we aim to build an earnings model for low capacity utilization by ensuring production planning and operation levels are appropriate for expected sales.

[Hachinohe mill]



■ Build up profitable constitution under low capacity utilization Production planning and operation fit to the Sales

(2) Restructuring and strengthening of German operations

With regard to the restructuring of German operations, a precedent has been set in the rehabilitation under the Phoenix medium-term management plan of Kitakami Hitec Paper, which suffered red ink for 6 straight years.

Fierce global competition is buffeting the business environment surrounding the communication paper business in Europe, affecting not only sales within the European zone but also exports from the area. At the same time, raw material and energy prices remain high. And the high euro, regarded as an aberration until the summer of 2008, has weakened the competitiveness of exports from the area, causing loss of market share outside the Euro zone which will be difficult to regain.

Fundamental Restructuring

1. Shut down No.1 Paper Machine (→ consolidation to No.3 Paper machine)
2. Shut down of 4 cast coater machines
3. 150 personnel cuts (121 employees were already notified)
4. Review product portfolio, improve Product mix
5. Drastic organization reform, consolidation (MPF & MPB)
   ① Improvement of sales, purchase and logistic organization
   ② Consolidation and improvement of product development organization
   ③ Consolidation of management and controlling organizations

Target 2009

Profit Improvement
1.5 billion Yen

Despite these efforts we are still posting ordinary losses on some German operations. However, we plan to bring the entire German business into positive territory by the end of 2010.

(3) Strengthen the Digital Imaging Business and others

We have clearly separated the Digital Imaging Division, Specialty Material Development Division and Printing & Communication Paper Division, and have merged the first two, and introduced an internal company system.

The reason for this move is that both the digital imaging business and the specialty material development business are R&D-intensive, producing on a consignment basis. They differ in their earnings structure and policies from the Printing & Communication Paper Division, which is a facility-based, inventory/marketing driven type of business.

Our introduction of the internal company system is designed to speed up decision-making and clarify delegation of responsibility.

Introduction of internal company system

Mitsubishi Paper Mills
- Printing & Communication Paper Division
- Digital Imaging Division
- Speciality Material Development Division

→

Mitsubishi Paper Mills
- Printing & Communication Paper Division
- I&D Company
  Incl. Kyoto Mill
  Kitakami HiTec Paper
  Kyoto Research

* I&D: Imaging & Development

◆ Both "Digital Imaging business" and "Speciality Material Development business" are Development Intensive business
◆ Organization and resource input in accordance with the changes in business environment

Strengthen Marketing
Swift decision making and Clear responsibility

→

◆ High profit business integrating R&D, Production and Sales
◆ Quick profit recovery
Target : 2 billion Yen

In the face of this unprecedented crisis, we plan the above mentioned three measures.

For the term under review, we have set the following five priority targets: (1) better employee understanding of CSR and the Group Code of Conduct Charter, (2) getting the right message out (better disclosure), (3) further approach to human rights and Labor relations, (4) reduction of environmental load and risk, and (5) support for community contribution activities.

Based on these initiatives, we have set a further four activity targets: (1) promotion of distinctive CSR activities, (2) fostering of better understanding of corporate ethics and conduct, (3) review of action programs in the fields of human rights and labor relations, and (4) measures for prevention of global warming. By fulfilling our social responsibilities in areas such as compliance, safety and quality, employee rights and labor relations, environmental protection and community contributions, we are enhancing our enterprise value.

TOPICS - 1

Morino Chonai-kai (Neighborhood Association for Forest Conservation)

In collaboration with the environmental NGO (Office Chonai-Kai), Mitsubishi Paper Mills has commenced the sale of “Morino Chonai-Kai Copier Paper” to promote the use of timber from forest-thinning operations in Iwaizumi-cho, in northern Japan’s Iwate Prefecture.

The most unique feature of this product is that ¥15 per kg of the selling price is used to promote forest thinning in Iwaizumi-cho. (Forest thinning serves to improve the health of forests and increases their sustainability).

Specifically, the up charge is paid to forestry management operators to help pay the costs of thinning operations.

By buying this copier paper, Users become “Forest Thinning Supporters,” contributing to environmental preservation by helping prevent deterioration in the quality of forests.

As “Morino Chonai-Kai Copier Paper” conforms to the new standards under the Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the national government and Other Entities (Law on promoting Green Purchasing), which came into effect in April this year, its production and use also contributes to the recycling of waste paper.

For more information on the activities of the Morino Chonai-Kai, as well as a list of companies participating in the forest-thinning support initiative, please visit the association’s website at: http://www.mori-cho.org/index_en.html

TOPICS - 2

Eco-System Academy

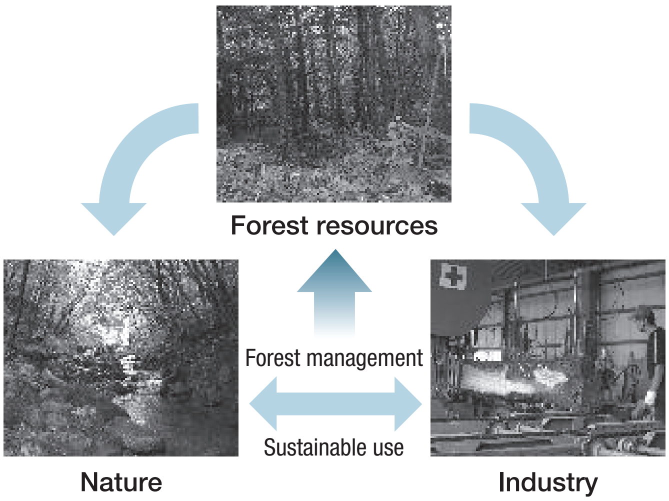
In July 2008 Mitsubishi Paper Mills set up an office to coordinate efforts to establish the Eco-System Academy, an educational course to promote understanding of the need to protect forests and the vital role that wood products play in our society.

Background to Plan

- Mitsubishi Paper Mills engages in the management of forests certified by the Forest Stewardship Council (FSC) in addition to other activities to help protect woodlands. We plan to develop unique social contribution activities using forests under our management.
- We searched for a suitable location for the Academy that would meet the following conditions : relatively close to Tokyo, Company training facility and company forest available, and support available from local forestry organizations and local stakeholders. On this basis, we set up the Academy at Nishigo-Mura in the Shirakawa district of Fukushima Prefecture.

The Concept of the Academy

To promote the sustainable use of the forest resources by industry.



Objectives of the Plan

To provide a place for hands-on education with the aim of promoting the sustainable use of the forest resources by industry, and to expand the FSC certified forest.

Main Activities in the Eco-System Academy

- Guided tours of woodlands and observation of forest management methods such as tree-planting and forest thinning
- Sessions to teach participants about the many ways in which timber is used (woodcraft, traditional charcoal-making, lumber sawing)
- Hands-on experience in papermaking and related processes (pulp production, hand-made paper, printing)
- Operation of Visitor Center (exhibitions, training sessions, accommodation provided)
- Guided tours of processes including the production of wood chips for pulp, used paper recycling, papermaking, printing
- Explanation of management of the FSC certified forest

Education themes

- The resources contained in the forests
  - · The benefits for us all
  - · The benefits for industry
- The responsible forest management
- The application of different types of wood
- How paper is made?
- The future of recycling and paper

Schedule

FY2009: Construction of onsite educational facilities, implementation of educational courses for Company staff
FY2010: Full scale start-up of activities, including expanding the provision of this course to staff of affiliated companies and to the general public

SHIRAKAWA SITE

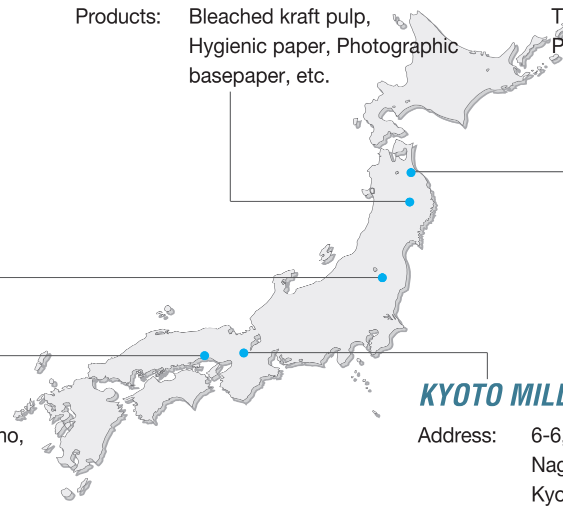
Address: 3, Maeyamanishi, Nishigo-mura, Nishi-Shirakawa-gun, Fukushima 961-8054
Telephone: +81-248-22-8111
Products: Transformer board

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.



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, Speciality 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, Photo Inkjet paper, etc.

OVERSEAS

Mitsubishi HiTec Paper Bielefeld GmbH
Address: Niedernholz 23, D-33699 Bielefeld, Germany
Telephone: +49-521-2091-232
Products: Carbonless paper, Thermal paper, Inkjet paper

(Bielefeld, Germany)

Mitsubishi HiTec Paper Flensburg GmbH
Address: Husumer Strasse 12 D-24941 Flensburg, Germany
Telephone: +49-461-8695-295
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 Guangdong Province, China
Telephone: +86-756-8895033
Products: Various filters
(Zhuhai, China)

SIX-YEAR SUMMARY (CONSOLIDATED)

	Millions of yen						Thousands of U.S. dollars
	2009	2008	2007	2006	2005	2004	**2009**
For the years ended March 31							
Net sales	**¥ 253,102**	¥ 258,536	¥ 244,260	¥ 228,495	¥ 234,662	¥ 236,995	**$ 2,576,635**
Operating income	**7,110**	9,302	7,256	6,484	4,326	4,631	**72,391**
Ordinary income	**4,499**	7,120	5,270	4,774	1,689	1,486	**45,803**
Net income (loss)	**1,168**	3,654	7,297	7,225	(24,658)	2,446	**11,893**
Net income (loss) per share (in yen and dollars)	**3.41**	10.99	22.44	22.16	(75.75)	7.48	**0.03**
As at March 31							
Total assets	**¥ 294,254**	¥ 303,052	¥ 320,603	¥ 314,869	¥ 319,469	¥ 374,716	**$ 2,995,570**
Total net assets	**70,436**	79,636	80,326	76,680	60,479	80,888	**717,057**

Note: Effective from the year ended March 31, 2007, the Company has applied the "Accounting standards for presentation of net assets in the balance sheet," and the "Implementation guidance for accounting standards for presentation of net assets in the balance sheet."
Furthermore, the Company presented its net assets in the balance sheets using the new presentation method as of March 31, 2005 and 2006 to conform to the current year's presentation.

CONSOLIDATED BALANCE SHEETS

As at March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
ASSETS			
Current assets:			
Cash and bank deposits (Note 3(11))	**¥ 3,698**	¥ 2,522	**$ 37,647**
Receivables:			
Trade notes and accounts	**48,203**	55,854	**490,722**
Other	**2,632**	3,606	**26,804**
	50,836	59,461	**517,526**
Less: Allowance for doubtful accounts	**(567)**	(730)	**(5,778)**
	50,269	58,731	**511,748**
Inventories	**59,116**	50,165	**601,819**
Deferred income taxes (Note 8)	**1,845**	2,808	**18,785**
Other	**1,695**	1,905	**17,260**
Total current assets	**116,624**	116,134	**1,187,260**
Property, plant and equipment (Note 6)**:**			
Land	**22,734**	22,086	**231,446**
Buildings and structures	**92,943**	97,083	**946,179**
Machinery and equipment	**337,005**	347,681	**3,430,781**
Construction in progress	**4,720**	1,550	**48,050**
Lease assets	**2,333**	—	**23,750**
Other	**9,964**	10,992	**101,435**
	469,700	479,394	**4,781,643**
Less: Accumulated depreciation	**(333,307)**	(344,552)	**(3,393,129)**
Accumulated impairment losses	**(221)**	(221)	**(2,250)**
Net property, plant and equipment	**136,172**	134,621	**1,386,264**
Investments and other assets:			
Investments in securities (Notes 4 and 6)	**27,833**	39,749	**283,349**
Investments in unconsolidated subsidiaries and affiliated companies	**1,492**	1,399	**15,192**
Long-term loans	**701**	530	**7,141**
Less: Allowance for doubtful accounts	**(318)**	(136)	**(3,240)**
Deferred income taxes (Note 8)	**3,649**	2,123	**37,149**
Other	**8,099**	8,630	**82,454**
Total investments and other assets	**41,457**	52,297	**422,045**
Total assets	**¥ 294,254**	¥ 303,052	**$ 2,995,570**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans	**¥ 90,196**	¥ 86,969	**$ 918,213**
Commercial paper	**2,000**	6,000	**20,360**
Current portion of long-term debt (Note 5)	**16,057**	10,527	**163,468**
Lease obligations (Note 5)	**60**	—	**612**
Payables:			
Trade notes and accounts	**28,633**	33,459	**291,491**
Other	**3,541**	5,266	**36,055**
Accrued expenses	**11,945**	13,213	**121,607**
Income taxes payable	**1,058**	1,014	**10,772**
Other	**5,290**	4,039	**53,856**
Total current liabilities	**158,782**	160,490	**1,616,437**
Long-term liabilities:			
Long-term debt (Note 5)	**51,549**	49,499	**524,779**
Lease obligations (Note 5)	**3,606**	—	**36,714**
Accrued post-employment benefits to employees (Note 7)	**6,286**	6,924	**64,002**
Accrued retirement benefits to directors and statutory auditors	**93**	115	**946**
Deferred income taxes (Note 8)	**505**	2,670	**5,144**
Other	**2,994**	3,714	**30,487**
Total long-term liabilities	**65,035**	62,924	**662,075**
Contingent liabilities (Note 9)			
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 900,000,000 shares at March 31, 2009 and 2008			
Issued: 342,584,332 shares at March 31, 2009 and 2008	**32,756**	32,756	**333,465**
Capital surplus	**19,717**	19,723	**200,727**
Retained earnings	**11,459**	14,035	**116,655**
Less: Treasury stock, at cost	**(129)**	(84)	**(1,320)**
Total shareholders' equity	**63,803**	66,431	**649,528**
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities	**1,578**	7,145	**16,064**
Translation adjustments	**821**	339	**8,360**
Total valuation and translation adjustments	**2,399**	7,485	**24,424**
Minority interests in consolidated subsidiaries	**4,234**	5,720	**43,104**
Total net assets	**70,436**	79,636	**717,057**
Total liabilities and net assets	**¥ 294,254**	¥ 303,052	**$ 2,995,570**

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

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
Net sales	**¥ 253,102**	¥ 258,536	**$ 2,576,635**
Cost of sales	**205,745**	208,974	**2,094,526**
Gross profit	**47,357**	49,562	**482,108**
Selling, general and administrative expenses	**40,246**	40,259	**409,717**
Operating income	**7,110**	9,302	**72,391**
Other income (expenses):			
Interest and dividend income	**894**	797	**9,105**
Interest expense	**(3,552)**	(3,361)	**(36,161)**
Gains (Losses) on disposal of properties	**3,754**	(159)	**38,219**
(Losses) Gains on sales of investments in securities	**(1)**	53	**(18)**
Write-downs of investments in securities	**(994)**	(560)	**(10,121)**
Losses on business restructuring	**(1,625)**	(495)	**(16,545)**
Impairment loss on fixed assets	**(5)**	—	**(50)**
Special severance payments	**(268)**	(592)	**(2,731)**
Other, net	**(193)**	305	**(1,969)**
Total	**(1,991)**	(4,014)	**(20,275)**
Income before income taxes and minority interests	**5,119**	5,288	**52,116**
Income taxes:			
Current	**1,556**	1,490	**15,846**
Deferred (Note 8)	**2,124**	(43)	**21,623**
	3,680	1,446	**37,469**
Minority interests in losses of consolidated subsidiaries	**270**	188	**2,752**
Net income	**¥ 1,168**	¥ 3,654	**$ 11,893**

	Yen		U.S. dollars (Note 2)
Amounts per share:			
Net income — basic (Note 3(10))	**¥ 3.41**	¥ 10.99	**$ 0.03**
Cash dividends applicable to the year	**2.50**	5.00	**0.03**

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

Mitsubishi Paper Mills Limited and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2009 and 2008

	Millions of yen										
		Shareholders' equity					Valuation and translation adjustments				
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	326,084,332	¥ 30,865	¥ 17,792	¥ 11,349	¥ (735)	¥ 59,272	¥ 12,944	¥ 193	¥ 13,138	¥ 7,915	¥ 80,326
Changes during the year:											
Issuance of new shares	16,500,000	1,890	1,890			3,781					3,781
Net income				3,654		3,654					3,654
Cash dividends				(968)		(968)					(968)
Acquisition of treasury stock					(26)	(26)					(26)
Disposal of treasury stock			40		676	717					717
Changes in items other than shareholders' equity							(5,799)	146	(5,652)	(2,194)	(7,847)
Total changes during the year	16,500,000	1,890	1,931	2,685	650	7,158	(5,799)	146	(5,652)	(2,194)	(689)
Balance at March 31, 2008	342,584,332	¥ 32,756	¥ 19,723	¥ 14,035	¥ (84)	¥ 66,431	¥ 7,145	¥ 339	¥ 7,485	¥ 5,720	¥ 79,636
Effects of changes in accounting procedures at overseas subsidiaries				**(2,032)**		**(2,032)**					**(2,032)**
Changes during the year:											
Net income				**1,168**		**1,168**					**1,168**
Cash dividends				**(1,712)**		**(1,712)**					**(1,712)**
Acquisition of treasury stock					**(74)**	**(74)**					**(74)**
Disposal of treasury stock			**(6)**		**29**	**23**					**23**
Changes in items other than shareholders' equity							**(5,567)**	**481**	**(5,086)**	**(1,486)**	**(6,572)**
Total changes during the year	**—**	**—**	**(6)**	**(544)**	**(45)**	**(595)**	**(5,567)**	**481**	**(5,086)**	**(1,486)**	**(7,168)**
Balance at March 31, 2009	**342,584,332**	**¥32,756**	**¥19,717**	**¥11,459**	**¥ (129)**	**¥63,803**	**¥ 1,578**	**¥821**	**¥ 2,399**	**¥4,234**	**¥70,436**

	Thousands of U.S. dollars									
	Shareholders' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	$ 333,465	$ 200,792	$ 142,884	$ (861)	$ 676,281	$ 72,743	$ 3,459	$ 76,203	$ 58,234	$ 810,719
Effects of changes in accounting procedures at overseas subsidiaries			**(20,689)**		**(20,689)**					**(20,689)**
Changes during the year:										
Net income			**11,893**		**11,893**					**11,893**
Cash dividends			**(17,432)**		**(17,432)**					**(17,432)**
Acquisition of treasury stock				**(759)**	**(759)**					**(759)**
Disposal of treasury stock		**(64)**		**300**	**236**					**236**
Changes in items other than shareholders' equity						**(56,679)**	**4,900**	**(51,778)**	**(15,130)**	**(66,909)**
Total changes during the year	**—**	**(64)**	**(5,539)**	**(458)**	**(6,062)**	**(56,679)**	**4,900**	**(51,778)**	**(15,130)**	**(72,971)**
Balance at March 31, 2009	**$ 333,465**	**$ 200,727**	**$ 116,655**	**$ (1,320)**	**$ 649,528**	**$ 16,064**	**$ 8,360**	**$ 24,424**	**$ 43,104**	**$ 717,057**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	**2009**
I Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 5,119**	¥ 5,288	**$ 52,116**
Depreciation and amortization	**12,862**	12,655	**130,941**
Write-downs of investments in securities	**994**	560	**10,121**
Accrued post-employment benefit costs	**(1,284)**	(3,169)	**(13,074)**
Accrued retirement benefit costs for directors and statutory auditors	**(34)**	(160)	**(354)**
Interest and dividend income	**(894)**	(797)	**(9,105)**
Interest expense	**3,552**	3,361	**36,161**
Gains on disposal of properties	**(4,128)**	(493)	**(42,032)**
Losses (gains) on sales of investments in securities	**1**	(53)	**18**
Write-downs of other investments	**3**	13	**40**
Losses on business restructuring	**1,625**	—	**16,545**
Decrease in trade accounts receivable	**6,663**	15,508	**67,836**
Increase in inventories	**(12,636)**	(6,393)	**(128,646)**
Decrease in trade accounts payable	**(3,430)**	(83)	**(34,924)**
Other, net	**609**	(3,779)	**6,200**
Sub-total	**9,021**	22,458	**91,844**
Interest and dividends received	**895**	832	**9,112**
Interest paid	**(3,668)**	(3,370)	**(37,348)**
Income taxes paid	**(2,090)**	(1,099)	**(21,281)**
Net cash provided by operating activities	**4,157**	18,820	**42,327**
II Cash flows from investing activities:			
Purchases of investment securities	**(181)**	(1,098)	**(1,849)**
Proceeds from sales of investment securities	**59**	141	**608**
Purchases of shares in an affiliated company and subsidiaries	**(453)**	(395)	**(4,620)**
Acquisition of property, plant and equipment	**(17,966)**	(19,266)	**(182,905)**
Proceeds from sales of property, plant and equipment	**6,322**	2,812	**64,365**
Loans made	**(731)**	(276)	**(7,449)**
Proceeds from collection of loans	**612**	223	**6,230**
Other, net	**78**	110	**797**
Net cash (used in) provided by investing activities	**(12,261)**	(17,749)	**(124,823)**
III Cash flows from financing activities:			
Increase or decrease in short-term bank loans	**5,032**	(15,530)	**51,232**
Increase or decrease in issuance of commercial paper	**(4,000)**	6,000	**(40,720)**
Repayment of finance lease debt	**—**	(805)	**—**
Proceeds from long-term debt	**19,650**	15,936	**200,040**
Repayment of long-term debt	**(10,668)**	(16,837)	**(108,609)**
Proceeds from issuanse of shares	**—**	3,781	**—**
Acquisition of treasury stock	**(74)**	(26)	**(759)**
Payment of cash dividends by the Company	**(1,712)**	(968)	**(17,432)**
Payments of cash dividends by subsidiaries to minority shareholders	**(100)**	(90)	**(1,021)**
Other, net	**(49)**	(482)	**(503)**
Net cash used in financing activities	**8,077**	(9,022)	**82,225**
IV Effect of foreign currency translation on cash and cash equivalents	**1,166**	35	**11,870**
V Net increase or decrease in cash and cash equivalents	**1,139**	(7,915)	**11,599**
VI Cash and cash equivalents at beginning of year	**2,324**	10,240	**23,666**
VII Cash and cash equivalents at end of year (Note 3(12))	**¥ 3,464**	¥ 2,324	**$ 35,266**

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 ¥98.23 = U.S.$1, the exchange rate prevailing as of March 31, 2009. 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 37 subsidiaries as of March 31, 2009 (39 as of March 31, 2008). The accompanying consolidated financial statements include the accounts of the Company and 27 (28 for 2008) of its subsidiaries for the year ended March 31, 2009 (together, hereinafter referred to as the "Companies").

Former consolidated subsidiary Hananoki Logistics has been excluded from the scope of consolidation as a result of its merger with another consolidated subsidiary, Naniwa Transport, which is the surviving entity.

The accounts of the remaining 10 (11 for 2008) unconsolidated subsidiaries for the year ended March 31, 2009 have been excluded from consolidation since the aggregate amounts of these subsidiaries in terms of combined assets, net sales, retained earnings and net income were immaterial in relation to those of the consolidated financial statements of the Companies.

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

(2) Consolidation and elimination

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

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

Assets and liabilities of subsidiaries are remeasured based on the full fair value method, whereby the full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the date of acquisition of control.

(3) Investments in unconsolidated subsidiaries and affiliates

The Company had 15 affiliates as of March 31, 2009 (15 for 2008). 2 affiliated companies were accounted for by the equity method.

However, the remaining 10 subsidiaries and 13 affiliates (13 for 2008) 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

Until March 31, 2008, finished products, merchandise and work in process are primarily stated at cost, cost being determined by the average method and other inventories are stated at cost, cost being determined by the moving average method. Effective April 1, 2008, 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 excluding lease assets is computed by the straight-line method for property, plant and equipment, except for those other than the building held by the head office of the Company and certain consolidated subsidiaries, depreciation of which is computed by the declining-balance method. Estimated useful lives of assets used in computing depreciation are as follows:

Buildings and structures ....31 to 47 years

Machinery and equipment ....12 years

Lease assets under finance lease agreements of the Company and its domestic consolidated subsidiaries, which do not stipulate the transfer of ownership of the leased assets to the lessee, are depreciated principally over the lease term by the straight-line method with the residual value of zero except for the following transactions. Lease transactions which have been entered into before April 1, 2008 and do not stipulate the transfer of ownership of the leased assets to the lessee have been accounted for as operating leases.

Additional information

The Company and its domestic consolidated subsidiaries have reviewed the useful lives of their property, plant and equipment, pursuant to the revision of the Corporation Tax Law of Japan. As a result, useful lives of certain machinery and equipment have been changed effective April 1, 2008. The effect of this change was to decrease both operating income and income before income taxes and minority interests by ¥306 million ($3,125 thousand) for the year ended March 31, 2009, compared with the corresponding amounts that would have been recorded under the previous method. The effect of this change on segment information is explained in Note 11.

(7) Allowance for doubtful accounts

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

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

(8) Accrued post-employment benefits to employees

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

Overseas consolidated subsidiaries provide accrued post-employment benefits to employees based on the method prescribed by their respective countries' regulations.

Unrecognized net actuarial gains or losses are amortized from the year following the year in which such gains or losses are recognized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (13 to 15 years). Unrecognized prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (13 to 15 years).

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

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

(10) Net income or loss per share

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

(11) Cash and cash equivalents

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

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and bank deposits in the accompanying consolidated balance sheets at March 31, 2009 and 2008 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash and bank deposits	**¥ 3,698**	¥ 2,522	**$ 37,647**
Time deposits with maturities of over 3 months	**(233)**	(197)	**(2,380)**
Cash and cash equivalents	**¥ 3,464**	¥ 2,324	**$ 35,266**

(12) Accounting changes

(i) Effective for the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied a new accounting standard for inventories, the "Accounting Standards for Measurement of Inventories" (Accounting Standard Board of Japan (ASBJ) Statement No. 9 on July 5, 2006).

The effect of this change was to decrease gross profit by ¥669 million ($6,817 thousand), operating income by ¥598 million ($6,096 thousand), and income before income taxes and minority interest by ¥295 million ($3,010 thousand) for the year ended March 31, 2009, compared with the corresponding amounts that would have been recorded under the previous method. The effect of this change on segment information is explained in Note 11.

(ii) Until March 31, 2008, noncancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. Effective for the fiscal year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted a revised accounting standard for leases and related implementation guidance, the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13, revised March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16, revised March 30, 2007). In accordance with the revised standard, lease transactions which have been entered into on and after April 1, 2008 and do not stipulate the transfer of ownership of the leased assets to the lessee have been accounted for as either finance or operating leases.

The effect of this change was immaterial to the consolidated financial statements for the year ended March 31, 2009.

(iii) Effective April 1, 2008, the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)" has been adopted.

As a result of this change, as of April 1, 2008, retained earnings decreased by ¥2,032 million ($20,689 thousand) compared with the corresponding amount that would have been recorded under the previous method. The effect of this change was immaterial to the income for the year ended March 31, 2009. The effect of this change on segment information is explained in Note 11.

4. Investments in Securities

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at March 31, 2009 and 2008 are summarized as follows:

Available-for-sale securities:

	Millions of yen			
	2009			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥ 19,857**	**¥ 22,380**	**¥ 5,060**	**¥ 2,537**
Debentures	**9**	**9**	**0**	**—**
Others	**—**	**—**	**—**	**—**
	¥ 19,866	**¥ 22,389**	**¥ 5,060**	**¥ 2,537**

	Thousands of U.S. dollars			
	2009			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$ 202,148**	**$ 227,834**	**$ 51,519**	**$ 25,834**
Debentures	**97**	**98**	**0**	**—**
Others	**—**	**—**	**—**	**—**
	$ 202,246	**$ 227,932**	**$ 51,520**	**$ 25,834**

	Millions of yen			
	2008			
	Cost	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥ 20,806	¥ 34,371	¥ 15,000	¥ 1,435
Debentures	10	9	—	0
Others	2	3	0	—
	¥ 20,819	¥ 34,384	¥ 15,001	¥ 1,435

The carrying amount of securities without fair value as at March 31, 2009 and 2008 is summarized as follows:

Available-for-sale securities:

	Carrying amount	
	2009	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	**¥ 5,443**	**$ 55,416**
	¥ 5,443	**$ 55,416**

	Carrying amount	
	2008	
	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥ 5,365	$ 53,549
	¥ 5,365	$ 53,549

5. Long-Term Debt

Long-term debt as at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans from banks and other financial institutions secured by collateral/mortgages	**¥ 2,650**	¥ 3,058	**$ 26,977**
Unsecured loans from banks and other financial institutions	**54,006**	45,968	**549,797**
1.28% unsecured debentures in yen due in November 2009	**10,000**	10,000	**101,801**
1.07% unsecured debentures in yen due in September 2012	**950**	1,000	**9,671**
Lease obligations repayable within one year	**60**	—	**612**
Lease obligations with repayment period of one year or longer	**3,606**	—	**36,714**
	71,273	60,026	**725,574**
Less: Current portion	**(16,117)**	(10,527)	**(164,080)**
	¥ 55,155	¥ 49,499	**$ 561,494**

The maturities of loans, corporate debentures and lease obligations payable within 5 years (excluding the current portion of long-term debt) are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due after 1 year through 2 years	¥ 14,709	$ 149,741
Due after 2 years through 3 years	11,160	113,613
Due after 3 years through 4 years	16,576	168,749
Due after 4 years through 5 years	10,268	104,539

6. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans and long-term debt and debentures at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and structures	**¥ 22,141**	¥ 23,439	**$ 225,405**
Machinery and equipment	**32,947**	38,581	**335,412**
Land	**9,542**	9,542	**97,141**
Other	**503**	100	**5,128**
Investments in securities	**2,895**	5,380	**29,473**
	¥ 68,030	¥ 77,044	**$ 692,562**

7. Accrued Post-Employment Benefits

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

The following table sets forth a reconciliation of the projected benefit obligation, plan assets, funded status of the post-employment benefit plans and net liability recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008.

In addition, in October 2006, the Company transferred a portion of its defined benefit pension plans to a defined contribution pension plan.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligations	**¥ (26,221)**	¥ (26,427)	**$ (266,936)**
Fair value of plan assets	**20,661**	34,758	**209,833**
Funded status of the plans	**(5,609)**	8,330	**(57,103)**
Unrecognized net actuarial	**4,242**	(10,165)	**43,188**
Unrecognized prior service cost (reduction of the obligation)	**(1,420)**	(1,570)	**(14,457)**
Net post-employment benefits	**(2,787)**	(3,406)	**(28,372)**
Prepaid pension cost	**3,499**	3,518	**35,629**
Accrued post-employment benefits	**¥ (6,286)**	¥ (6,924)	**$ (64,002)**

The net periodic post-employment benefit cost for the years ended March 31, 2009 and 2008 included the following components:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 1,773**	¥ 1,540	**$ 18,051**
Interest cost	**549**	625	**5,590**
Expected return on plan assets	**(382)**	(472)	**(3,895)**
Amortization of net actuarial gain	**(659)**	(575)	**(6,718)**
Amortization of prior service cost (reduction of the obligation)	**(155)**	(161)	**(1,580)**
Loss on transfer to a defined contribution pension plan system	**—**	(3)	**—**
	¥ 1,124	¥ 952	**$ 11,446**

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

	2009	2008
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**4.0%**	4.0%
Method of attributing the projected benefits to periods of service	**mainly on a points basis**	mainly on a points basis
Amortization of unrecognized prior service cost	**13~15 years**	13~15 years
Amortization of unrecognized net actuarial gain or loss	**13~15 years**	13~15 years

8. Deferred Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities for the years ended March 31, 2009 and 2008 was primarily 40.7%.

At March 31, 2009 and 2008, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued enterprise taxes	**¥ 237**	¥ 110	**$ 2,421**
Accrued expenses	**1,376**	1,353	**14,017**
Accrued post-employment benefits to employees	**4,123**	4,464	**41,976**
Allowance for doubtful accounts	**239**	160	**2,433**
Loss on revaluation of fixed assets	**522**	523	**5,318**
Unrealized gains on property, plant and equipment	**237**	1,141	**2,412**
Tax loss carryforwards	**12,226**	14,211	**124,469**
Other	**8,703**	6,020	**88,599**
Gross deferred tax assets	**27,666**	27,986	**281,649**
Valuation allowance	**(21,298)**	(19,702)	**(216,818)**
Total deferred tax assets	**6,368**	8,283	**64,830**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(37)**	(37)	**(380)**
Consolidation adjustment to book value of subsidiaries' assets	**(243)**	(402)	**(2,474)**
Unrealized gains on available-for-sale securities	**(1,023)**	(5,517)	**(10,421)**
Other	**(75)**	(64)	**(771)**
Total deferred tax liabilities	**(1,379)**	(6,021)	**(14,047)**
Net deferred tax assets (liabilities)	**¥ 4,988**	¥ 2,261	**$ 50,783**

For the years ended March 31, 2009 and 2008, a reconciliation of the statutory tax rate to the effective tax rates was as follows:

	2009	2008
Statutory tax rate	**40.7%**	40.7%
Permanently non-deductible expenses	**3.2**	3.3
Permanently non-taxable income	**(1.9)**	(2.8)
Per capita inhabitants' taxes	**1.1**	1.8
Valuation allowance	**(18.9)**	(11.9)
Current operating losses of subsidiaries	**28.6**	4.2
Unrealized gains/losses	**9.2**	—
Other	**9.9**	(8.0)
Effective tax rates	**71.9%**	27.4%

9. Contingent Liabilities

As at March 31, 2009 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥3,930 million ($40,009 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥3,983 million ($40,548 thousand).

10. Leases

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

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

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			**2009**		
	Machinery equipment and vehicles	Other	Total	Machinery equipment and vehicles	Other	Total	Machinery equipment and vehicles	Other	Total
Purchase price equivalent	**¥424**	**¥477**	**¥901**	¥785	¥750	¥1,535	**$4,319**	**$4,856**	**$9,175**
Accumulated depreciation equivalent	**288**	**298**	**586**	513	441	954	**2,936**	**3,036**	**5,973**
Net book value equivalent	**¥135**	**¥178**	**¥314**	¥271	¥309	¥ 581	**$1,382**	**$1,820**	**$3,202**

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	**¥155**	¥281	**$1,583**
Due after one year	**158**	299	**1,618**
Total	**¥314**	¥581	**$3,202**

(3) Lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Lease expenses	**¥269**	¥379	**$2,741**
Depreciation equivalents	**269**	379	**2,741**

Non-cancelable operating lease commitments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	**¥ 6**	¥13	**$ 69**
Due after one year	**4**	17	**45**
Total	**¥11**	¥31	**$115**

11. Segment Information

(1) Industry segment information

The Companies operate primarily in the production and sale of paper, pulp, photosensitive materials and other.

Paper and pulp:

Coated paper, premium-quality paper, writing and printing paper, bleached kraft pulp

Photosensitive materials:

Photographic paper, printing and platemaking materials, related equipment and pharmaceuticals

Other:

Operation of swimming clubs, real estate, storage and transport, as well as machinery design, installment and maintenance

Accounting changes

Application of a new standard for inventories

Due to the application of a new accounting standard for inventories with effect for the year ended March 31, 2009 as stated in (12) (i) under 3.Summary of Significant Accounting Policies, operating income for the Company's paper and pulp business declined by ¥278 million ($2,835 thousand), while the photosensitive materials business recorded an increase in operating loss of ¥320 million ($3,259 thousand).

Application of a new accounting standard for the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

For the year ended March 31, 2009, as stated in (12) (iii) under 3.Summary of Significant Accounting Policies, assets of the paper and pulp business increased by ¥3,774 million ($38,421 thousand) compared with amounts calculated using the previous method.

Additional information

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have reviewed the useful lives of their property, plant and equipment, pursuant to the revision of the Corporation Tax Law of Japan. As a result, compared with amounts calculated using the previous method, operating income declined by ¥278 million ($2,832 thousand) for the paper and pulp business and by ¥1 million ($18 thousand) for the "other businesses" segment, while the operating loss posted by the photosensitive materials business increased by ¥26 million ($274 thousand).

Industry segment information for the years ended March 31, 2009 and 2008, was as follows:

	Millions of yen					
Year ended March 31, 2009	Paper and pulp	Photosensitive materials	Other	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**¥ 215,443**	**¥ 30,835**	**¥ 6,823**	**¥ 253,102**	**¥ —**	**¥ 253,102**
Intersegment sales and transfers	**6,487**	**3,334**	**14,752**	**24,574**	**(24,574)**	**—**
Net sales	**221,930**	**34,170**	**21,575**	**277,677**	**(24,574)**	**253,102**
Operating expenses	**215,388**	**34,310**	**21,036**	**270,735**	**(24,743)**	**245,991**
Operating income (loss)	**¥ 6,542**	**¥ (139)**	**¥ 539**	**¥ 6,941**	**¥ 169**	**¥ 7,110**
2 Total assets, depreciation and amortization and capital expenditures:						
Total assets	**¥ 249,063**	**¥ 34,220**	**¥ 13,698**	**¥ 296,981**	**¥ (2,726)**	**¥ 294,254**
Depreciation and amortization	**11,605**	**1,068**	**223**	**12,897**	**(34)**	**12,862**
Capital expenditures	**9,358**	**3,265**	**3,935**	**16,560**	**(95)**	**16,464**

	Thousands of U.S. dollars					
Year ended March 31, 2009	Paper and pulp	Photosensitive materials	Other	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**$ 2,193,255**	**$ 313,912**	**$ 69,467**	**$ 2,576,635**	**$ —**	**$ 2,576,635**
Intersegment sales and transfers	**66,043**	**33,948**	**150,178**	**250,171**	**(250,171)**	**—**
Net sales	**2,259,299**	**347,861**	**219,645**	**2,826,806**	**(250,171)**	**2,576,635**
Operating expenses	**2,192,698**	**349,283**	**214,153**	**2,756,136**	**(251,891)**	**2,504,244**
Operating income (loss)	**$ 66,600**	**$ (1,422)**	**$ 5,491**	**$ 70,670**	**$ 1,720**	**$ 72,391**
2 Total assets, depreciation and amortization and capital expenditures:						
Total assets	**$ 2,535,510**	**$ 348,369**	**$ 139,449**	**$ 3,023,328**	**$ (27,757)**	**$ 2,995,570**
Depreciation and amortization	**118,146**	**10,873**	**2,277**	**131,297**	**(356)**	**130,941**
Capital expenditures	**95,273**	**33,244**	**40,067**	**168,584**	**(972)**	**167,612**

	Millions of yen					
Year ended March 31, 2008	Paper and pulp	Photosensitive materials	Other	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	¥ 221,098	¥ 30,481	¥ 6,957	¥ 258,536	¥ —	¥ 258,536
Intersegment sales and transfers	5,982	4,307	16,131	26,421	(26,421)	—
Net sales	227,080	34,789	23,088	284,958	(26,421)	258,536
Operating expenses	220,389	32,683	22,414	275,488	(26,254)	249,234
Operating income	¥ 6,690	¥ 2,106	¥ 674	¥ 9,470	¥ (167)	¥ 9,302
2 Total assets, depreciation and amortization and capital expenditures:						
Total assets	¥ 259,746	¥ 30,788	¥ 13,129	¥ 303,664	¥ (612)	¥ 303,052
Depreciation and amortization	11,501	992	192	12,686	(30)	12,655
Capital expenditures	17,336	764	79	18,180	(127)	18,052

(2) Information by geographic segment

Accounting changes

Application of a new standard for inventories

Due to the application of a new accounting standard for inventories at the Company and its domestic subsidiaries with effect for the year ended March 31, 2009 as stated in (12) (i) under 3.Summary of Significant Accounting Policies, operating income on business operations in Japan decreased ¥598 million ($6,096 thousand), compared with amounts calculated using the previous method.

Application of a new accounting standard for the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

For the year ended March 31, 2009, as stated in (12) (iii) under 3.Summary of Significant Accounting Policies, assets in Europe increased by ¥3,774 million ($38,421 thousand) compared with amounts calculated using the previous method.

Additional information

Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have reviewed the useful lives of their property, plant and equipment, pursuant to the revision of the Corporation Tax Law of Japan. As a result, compared with amounts calculated using the previous method, operating income in Japan declined by ¥306 million ($3,125 thousand).

Segment information by geographical area for the years ended March 31, 2009 and 2008, was as follows:

	Millions of yen					
Year ended March 31, 2009	Japan	Europe	U.S.A.	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**¥ 198,624**	**¥ 46,411**	**¥ 8,066**	**¥ 253,102**	**¥ —**	**¥ 253,102**
Intersegment sales and transfers	**5,070**	**1,122**	**9**	**6,201**	**(6,201)**	**—**
Net sales	**203,695**	**47,533**	**8,075**	**259,304**	**(6,201)**	**253,102**
Operating expenses	**197,100**	**47,506**	**7,990**	**252,597**	**(6,605)**	**245,991**
Operating income	**¥ 6,594**	**¥ 27**	**¥ 85**	**¥ 6,707**	**¥ 403**	**¥ 7,110**
2 Total assets	**¥ 251,082**	**¥ 26,085**	**¥ 2,876**	**¥ 280,044**	**¥ 14,210**	**¥ 294,254**

	Thousands of U.S. dollars					
Year ended March 31, 2009	Japan	Europe	U.S.A.	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**$ 2,022,038**	**$ 472,478**	**$ 82,118**	**$ 2,576,635**	**$ —**	**$ 2,576,635**
Intersegment sales and transfers	**51,615**	**11,422**	**95**	**63,134**	**(63,134)**	**—**
Net sales	**2,073,653**	**483,901**	**82,214**	**2,639,769**	**(63,134)**	**2,576,635**
Operating expenses	**2,006,519**	**483,621**	**81,344**	**2,571,485**	**(67,241)**	**2,504,244**
Operating income	**$ 67,134**	**$ 279**	**$ 869**	**$ 68,284**	**$ 4,107**	**$ 72,391**
2 Total assets	**$ 2,556,065**	**$ 265,551**	**$ 29,288**	**$ 2,850,905**	**$ 144,665**	**$ 2,995,570**

	Millions of yen					
Year ended March 31, 2008	Japan	Europe	U.S.A.	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	¥ 197,246	¥ 50,970	¥ 10,319	¥ 258,536	¥ —	¥ 258,536
Intersegment sales and transfers	7,847	1,656	12	9,516	(9,516)	—
Net sales	205,094	52,627	10,332	268,053	(9,516)	258,536
Operating expenses	196,886	52,003	10,131	259,021	(9,787)	249,234
Operating income	¥ 8,207	¥ 624	¥ 200	¥ 9,032	¥ 270	¥ 9,302
2 Total assets	¥ 254,104	¥ 33,500	¥ 3,725	¥ 291,329	¥ 11,722	¥ 303,052

(3) Overseas sales

Export sales and sales by overseas consolidated subsidiaries for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars	Percentage of such sales against consolidated net sales	
	2009	2008	**2009**	**2009**	2008
Overseas sales:					
Europe	**¥ 39,095**	¥ 39,216	**$ 397,997**	**15.4%**	15.2%
Asia	**8,030**	9,002	**81,753**	**3.2%**	3.5%
North America	**13,246**	16,564	**134,849**	**5.2%**	6.4%
Other	**7,470**	9,736	**76,053**	**3.0%**	3.7%
Total	**¥ 67,843**	¥ 74,520	**$ 690,654**	**26.8%**	28.8%

REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

Ernst & Young ShinNihon LLC

Report of Independent Auditors

The Board of Directors
Mitsubishi Paper Mills Limited

We have audited the accompanying consolidated balance sheets of Mitsubishi Paper Mills Limited and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Paper Mills Limited and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

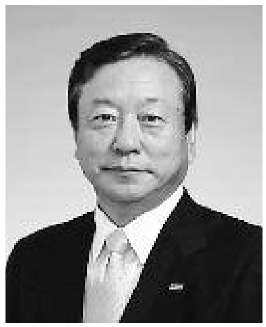
Ernst & Young ShinNihon LLC

June 26, 2009

A member firm of Ernst & Young Global Limited

Managing Executive Officers

Kunio Suzuki
President and Chief Executive Officer



Shunichi Tokuda
Director and Senior Executive Vice President

Kazuo Nakase
Director and Senior Managing Executive Officer

Junichi Tachibana
Director and Senior Managing Executive Officer

Takefumi Suzuki
Director and Managing Executive Officer

Takao Senga
Director and Managing Executive Officer

Kanji Itakura
Director and Managing Executive Officer

President and Chief Executive Officer
Kunio Suzuki

Director and Senior Executive Vice President
Shunichi Tokuda
In charge of President's Office; President of the Imaging & Development Company; supervisor of Internal Audit Department; responsible for Corporate Social Responsibility

Director and Senior Managing Executive Officers
Kazuo Nakase
General Manager, Paper Division; in charge of German Operations

Junichi Tachibana
In charge of General Affairs and Personnel Dept., Information Systems Dept., and supervisor of Finance & Accounting Dept.

Director and Managing Executive Officers
Takefumi Suzuki
Vice President, Imaging & Development Company (in charge of sales administration)

Takao Senga
Head of Corporate Research Center; supervisor of Technology & Environmental Dept. and Intellectual Property Dept.; Vice President, Imaging & Development Company (in charge of New Business Development Unit)

Kanji Itakura
In charge of Purchasing Dept. and Forestry Dept; supervisor of Corporate Planning Office, Affiliates Managing Dept., Global Business Planning Dept., and Post Phoenix Plan Office (all within President's Office)
General Manager, President's Office and Corporate Planning Dept.

Director and Executive Advisor
Takeshi Sato

Senior Executive Officers
Mitsuo Ushijima
General Manager, Commercial Printing Paper Sales Department; General Manager, Information Sharing Office (within President's Office)

Hiroshi Nozawa
General Manager, General Affairs and Personnel Dept.; General Manager, Information Systems Dept.

Kazuhisa Taguchi
Vice President, Imaging & Development Company (responsible for planning, marketing and the Kyoto R&D Center)

Executive Officers
Kiyoshi Maeda
General Manager, Purchasing Dept. and Forestry Dept.

Fukumi Kanehama
Head of Hachinohe Mill

Naoya Tashiro
President & CEO of Kitakami Hitec Paper Corp. (part of Imaging & Development Company)

Motoshige Yamada
(Affiliated to Imaging & Development Company)
Head of Kyoto Mill and Head of Kyoto R&D Center

Shinichi Suzuki
Head of Takasago Mill

Corporate Auditors
Norio Fujii
Shigeru Uemura
Yasuharu Takamatsu
Hajime Sugizaki

(as of June 26, 2009)

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Sales Branch:
Osaka

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

Mills:
Takasago, Kyoto, Hachinohe

Major Affiliates:

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

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

Disclaimer Regarding Forward-Looking Statements

This material contains forward-looking statements relating to the businesses and prospects of the Company. These statements are based on our expectations at MAY, 2009. and are subject to the risks and uncertainties that may affect our businesses, which could cause actual results to differ materially from those anticipated.
We will not be liable for any damage or loss incurred by you arising out of or in connection with this material.

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