MITSUBISHI PAPER MILLS LIMITED

Annual Report 2016

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 photography media culture through its high value-added printing and communication paper, and products.

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

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

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

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

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

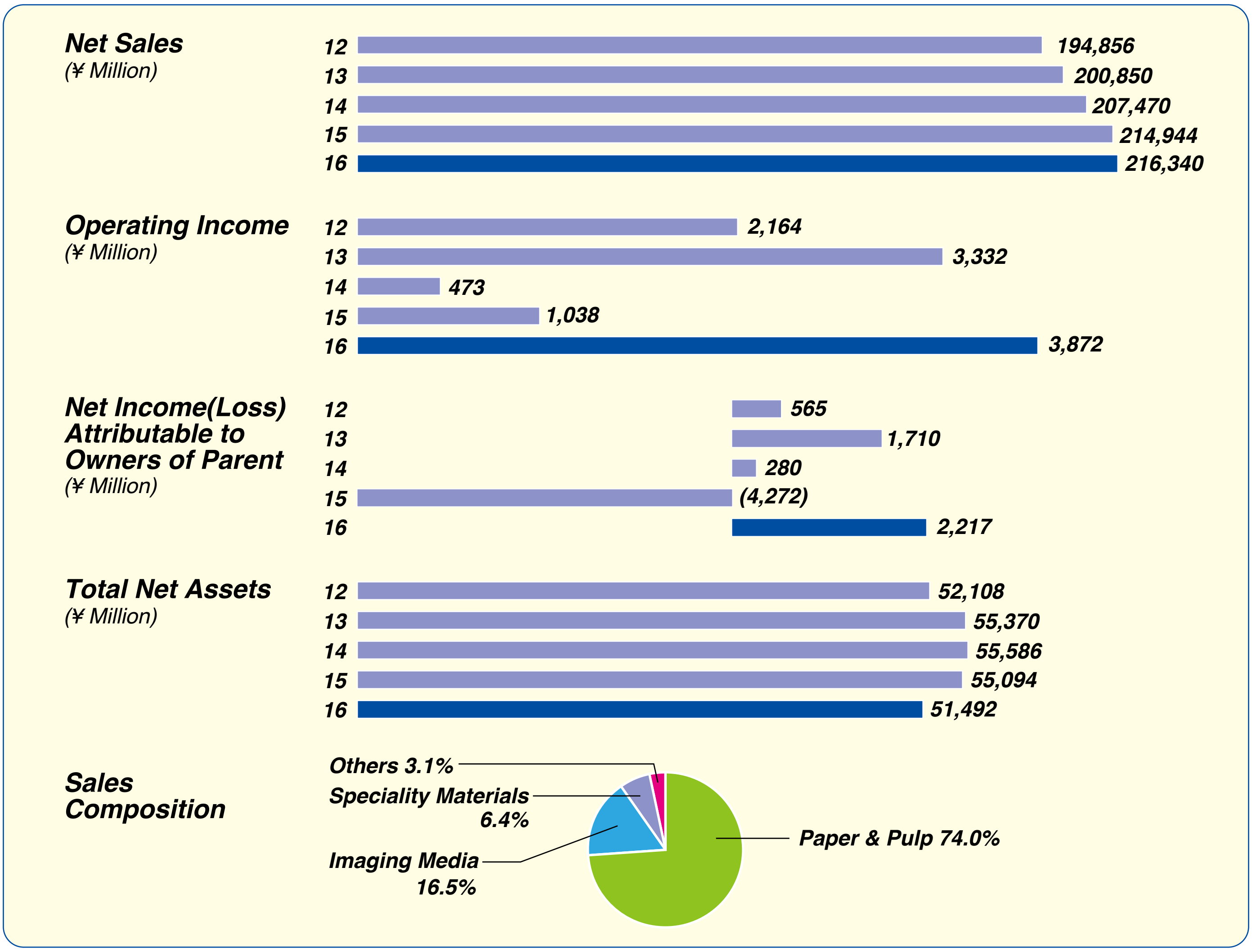
With production facilities and R&D sites mainly located in Japan and Germany, and sales sites located in Japan, Germany and the United States, we have positioned ourselves to serve global markets.

Contents

Financial Highlights (Consolidated)

	Millions of yen (1)		Thousands of U.S. dollars (1) and (2)
	2016	2015	**2016**
For the years ended March 31			
Net sales	**¥216,340**	¥ 214,944	**$1,919,956**
Operating income	**3,872**	1,038	**34,367**
Net income (loss) attributable to owners of parent	**2,217**	(4,272)	**19,676**
Net income (loss) per share (in yen and dollars)	**6.49**	(12.50)	**0.06**
Cash dividends per share (in yen and dollars)	**–**	–	**–**
As at March 31			
Total assets	**¥241,155**	¥ 253,482	**$2,140,179**
Total net assets	**51,492**	55,094	**456,978**
Capital stock	**32,756**	32,756	**290,702**
Net assets per share (in yen and dollars)	**144.05**	152.16	**1.28**
Number of shareholders	**15,797**	17,063	
Number of employees	**3,697**	3,622	

Notes: (1) In this annual report, Japanese yen (in millions) and U.S. dollars (in thousands) are indicated with fractions omitted.
(2) U.S. dollar amounts in this report represent translations of yen amounts at the rate of ¥112.68 = U.S.$1, as of March 31, 2016.



Message from the President

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

Overview of the Reporting Term

Japan's economy during this term showed some signs of improvement in corporate revenue and employment as a result of government economic policies and financial policies by the Bank of Japan. However, economic uncertainty remained due to growing concern over the future global economy including China's economic slowdown. The paper and pulp industry stayed in the severe business environment because of the continuous structural decrease in paper demand in Japan as the society sifts to the use of electronic media.

Under these circumstances, as the final year of the "Phase 2 Rolling Plan for the First Mid-term Management Plan" which was established in November 2013, we implemented various strategies to "strengthen the revenue base for growth." During this term, continuously from the previous term, we took strong cost reduction measures including promoting structural reform of the Hachinohe Mill.

For the printing paper business, sales volume increased because of steady demand for communication paper in Japan and export of printing paper. In order to respond to these increased sales, we resumed operation of the Hachinohe Mill No. 3 paper machine from July last year.

For the Imaging Media Business, the photographic sensitive materials were affected by the fierce competition in the overseas market. However, overall business demonstrated steady growth because of the increase in the sales of inkjet printing paper for business use.

For the Speciality Materials Business, sales volume increased as a result of increase in the sales of water treatment membrane supporting body for non-woven fabric as well as rewritable media and battery separator for the overseas market.

As a result, consolidated net sales were ¥216,340 million (US$1,919 million) (up 0.6% from the previous term). From profit and loss perspectives, although several factors in losing profits such as increase in material cost due to the yen depreciation were present, there were stronger factors in increasing profits such as modification of printing paper prices, improvement in the balance of profit and loss for the Imaging Media Business, sales promotion of functional materials, and cost reduction effects due to reduction in labor cost. As a result, consolidated ordinary income was ¥2,216 million (US$19 million) (up 1,535.9% from the previous term) and profit attributable to owners of parent was ¥2,217 million (US$19 million).

For nonconsolidated results of our company, net sales were ¥115,894 million (US$1,028 million), ordinary income was ¥2,874 million (US$25 million), and current net profit was ¥3,351 million (US$29 million).

Our Goals to Address

[Concerning the Second Mid-term Management Plan]

In line with the Phase 2 Rolling Plan for the First Mid-term Management Plan (from April 2013 to March 2016) with a focus on "strengthening the revenue base for growth," we had been reinforcing the revenue base by spinning off the Hachinohe Mill, soliciting voluntary early retirement, and restructuring Group companies. We had also reduced interest-bearing liabilities in accordance with the plan.

In order to respond to the increasingly severe business environment, we established the Second Mid-term Management Plan (from April 2016 to March 2019) with a key word of "stabilizing revenue through alliances." Through the following company-wide policies, we will make efforts to build a stable revenue structure that cannot be easily swayed by the external environment.

(1) Structural Reform of Printing Paper Business

・ By strengthening alliances, we will optimize the Hachinohe Mill, which is our main factory, to build a stable revenue structure that cannot be easily swayed by the external environment.

・ We will optimize our distribution system and logistics system.

(2) Improving Profit Base

・ We will establish a stronger alliance with Fujifilm Corporation in the field of photographic materials base paper and establish an efficient production structure.

・ We will enrich the revenue base businesses taking advantage of our strengths and positioning in the existing fields of the imaging media and speciality material businesses.

(3) Developing New Businesses

・ Taking advantage of the location of Hachinohe, we will launch a biomass power generation business in collaboration with Oji Group in order to further strengthen the revenue base.

・ We will strategically develop new businesses (new field of functional film, IJ transfer paper, non-woven fabric, etc.).

・ We will carefully make strategic and selected investment in the focused areas (e.g. non-woven fabric, functional film, and energy).

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

・ We will restructure business process and IT infrastructure to achieve business structure reform.

・ We will further reinforce the financial foundation by reducing the interest-bearing liabilities to the pre-Great East Japan Earthquake level.

[Concerning Corporate Social Responsibility (CSR)]

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

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

During this term, we carried out the activities in the following priority areas: "Enhancement of activity on safety and health" and "Initiatives to ensure strict legal compliance." With regard to products, we also tried to expand environment-conscious product lines such as FSC forest-certified products and Thermal DigiPlate System that will contribute to creating a sustainable society.

During the 152nd term, our priorities are set as "Securing effectiveness of the corporate governance" and "Enhancement of activity on safety and health." We will implement specific actions for each item in the basic policies concerning corporate governance and promote CSR activities that will lead to mid- to long-term development and enhancement of corporate value.

Forecast

Regarding the following term, we will make efforts to further improve earning capacity by implementing measures in the Second Mid-term Management Plan (April 2016 – March 2019). We predict the consolidated performance to be as follows: net sales, ¥220 billion (US$1,913 million); operating income, ¥4.5 billion (US$39 million); ordinary income, ¥2.5 billion (US$21 million); profit attributable to owners of parent, ¥1 billion (US$ 8 million).

The above earnings forecast is under the presumption that 115 yen is equal to 1 USD, and 125 yen is equal to 1 Euro.

Moreover, the earnings forecast is based on currently available information at the time of creating this material, and includes risks and uncertainty. Thus, actual earnings may differ from forecasted figures due to a variety of factors in the future.

June 2016

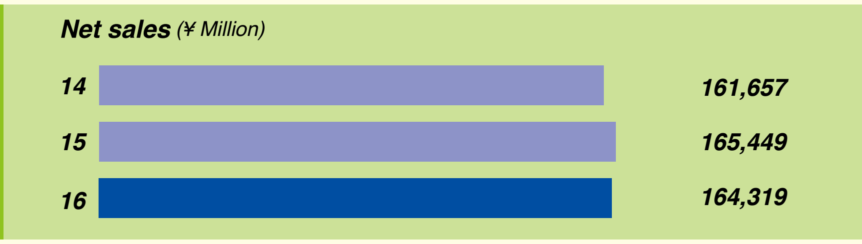
鈴木邦夫

Kunio Suzuki,

President & C.E.O.

Breakdown of Operations by Division

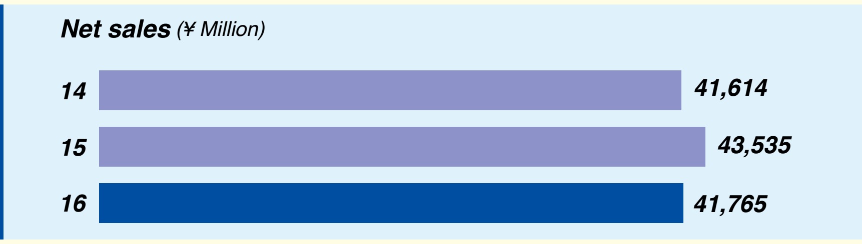
Paper and Pulp Divisions



Domestically, sales volume of mainly business communication paper increased. As for exports, efforts were also made to expand sales for production inkjet paper and printing paper. As a result, sales volume rose and the sales figure increased via the effects of price correction, etc. As for the performance of European subsidiaries, sales amount increased because we focused on promoting sales of our mainstay carbonless copy papers and thermal papers. However, the sales figure decreased due to influences including the exchange rate. Sales volume of commercial pulp dropped, yet the sales figure increased due to factors such as yen depreciation. Moreover, there was a drop in the sales figure due to a change in part of commercial distribution between consolidated companies.

As a result, the total net sales of the Paper and Pulp Divisions were ¥164,319 million (US$1,458 million), down 0.7% from the previous term.

Imaging Media Division



Photographic sensitive materials and platemaking materials remained strong in the domestic market, and the sales figure was at the same level as the previous term.

In the overseas market, photographic sensitive materials were affected by deterioration in the market environment, which was caused by fierce competition. However, we received stable amount of incoming orders overall as the business purposes of inkjet printing paper were healthy. Also with influences from the yen depreciation, the sales figure increased.

Meanwhile, there was a drop in the sales figure due to a change in part of commercial distribution between consolidated companies.

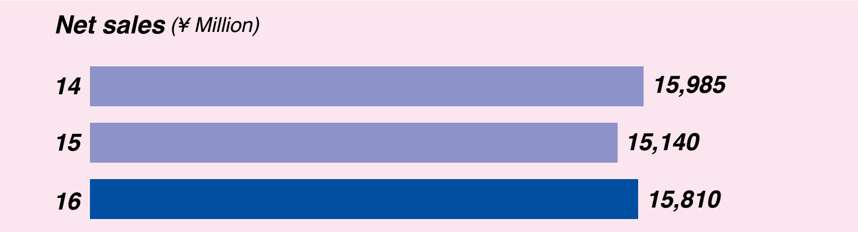
As a result, the total net sales of the Imaging Media Division were ¥41,765 million (US$370 million), down 4.1% from the previous term.

Speciality Materials Division

As for speciality materials, filters for overseas home electronics were sluggish, leading to a drop in the sales figure. However, sales for water treatment membrane supporting body and rewritable media for overseas markets rose, and the sales figure increased by selling battery separators to major battery manufacturers. As for chemical paper, lining paper for wallpaper was at a slump, and the sales figure decreased.

As a result, the total net sales of the Speciality Materials Division were ¥16,928 million (US$150 million), up 0.5% from the previous term.

Other Divisions



Net sales rose to ¥15,810 million (US$140 million), up 4.4% from the previous term, due to increased sales in engineering-related subsidiaries.

Second Mid-term Management Plan

To strengthen the stable profit structure

In March 2016, Mitsubishi Paper Mills Limited ended the First Mid-term Management Plan (including the Rolling Plan) that started in October 2011, and in April 2016, we implemented the Second Mid-term Management Plan, which is a new stage to leap into the future.
The key word of the Second Mid-term Management Plan is

"To stabilize earnings through alliance."

Each business field (i.e. Printing Paper, Imaging Media and Speciality Materials Business) will try to take various measures from global perspectives, utilizing the technical capabilities that have been gained through our 118-year history and the Company's positioning, in order to strengthen the stable profit structure.
Four basic principles of the Second Mid-term Management Plan are as follows.

Key player of the Printing Paper Business, Hachinohe Mill
(View from the Hachinohe port facility)

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

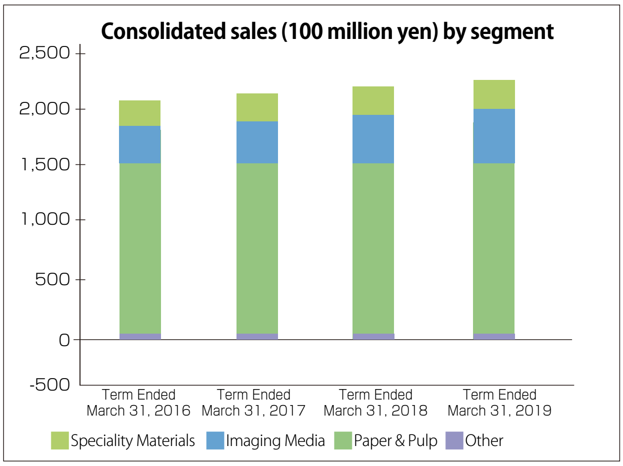
- We will work on the reconstruction of business process and IT infrastructure to achieve the Group's business structure reform.
- We will promote reduction of interest bearing debts, which we have managed to reduce to the pre-Great East Japan Earthquake level, and further strengthen the Group's financial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

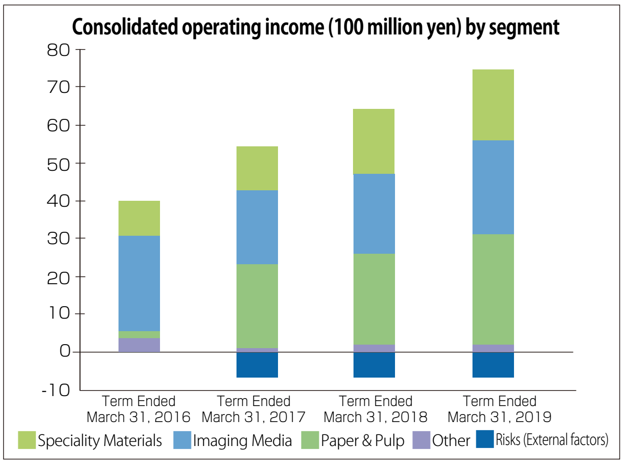
Second Mid-term Management Plan, Business target

Term ending March 31, 2019: Final year Target

Values: Consolidated base

Sales	230 billion yen
Operating income	6.5 billion yen
Ordinary income	4.5 billion yen
Interest bearing debts	125 billion yen
D/E ratio	2.3-fold





1. Structural Reform of Printing Paper Business

The basic strategy is "to build a stable earning structure not affected by the external environment." Based on this strategy, we will work on the followings:
(a) Strategically expand OEM with a focus on information/specialty papers by promoting alliance with Oji Group;
(b) Increase exports through OEM utilization and further export more production inkjet paper and printing paper; and
(c) Increase the information/specialty paper ratio in Hachinohe Mill.

Basic Strategy Build a stable earning structure not affected by the external environment

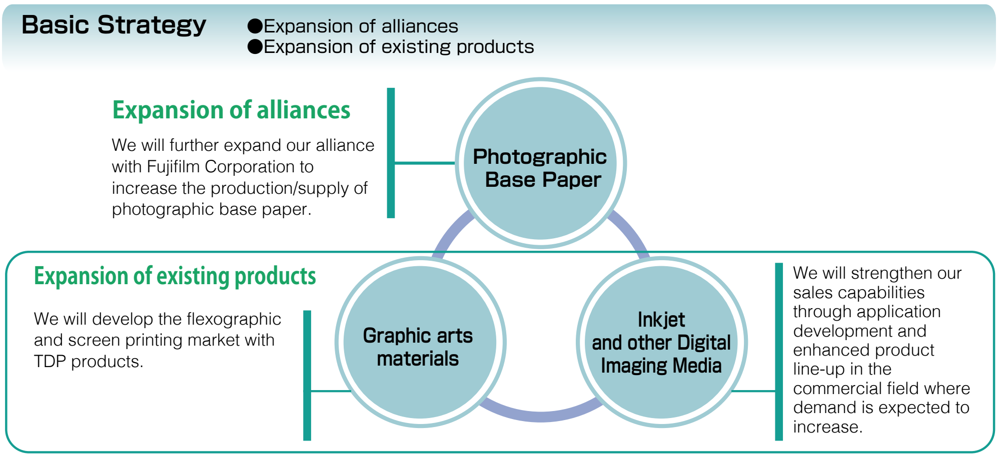
Key Challenges	Concrete Measures
Strategic expansion of OEM	●Promotion of our alliance with Oji Group centered on communication/specialty paper
Maintenance of our factory operating rate	●Increase in exports through OEM utilization ●Further strengthening of production inkjet paper and printing paper exports ●Increase in the information/speciality paper ratio in Hachinohe Mill

Key Challenges	Concrete Measures
Streamlining of the supply chain through integrated management of manufacture and sales	●Streamlining of distribution through a review of the roles of our firm/Mitsubishi Paper Sales by sales contact and by product ●Streamlining of production in line with a product portfolio review ●Promotion of product portfolio diversification in Mitsubishi Paper Sales ●Reduction in inventory through optimization of our distribution systems
Improvement in the profitability of German operation	●Sales strategy focused on the European market where demand for heat-sensitive paper is strong ●Expansion of the effect from a decrease in costs (materials, energy and yield improvement) ●Examination of alliances, etc. from a mid-to-long-term perspective

2. Improving Profit Base

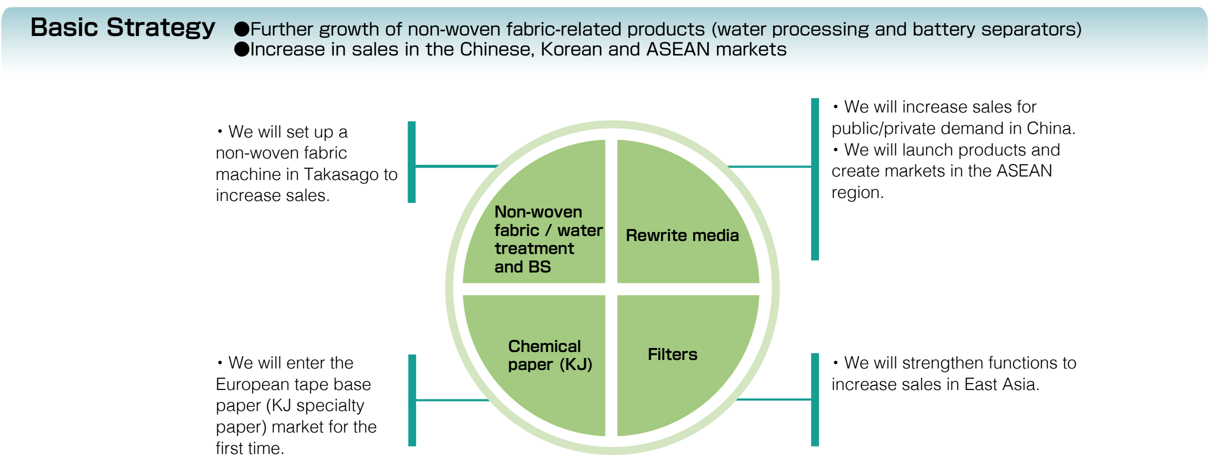
(1) Strategic Strengthening of Imaging Media Business

The basic strategies are "expansion of alliances and expansion of existing products." Based on these basic strategies, we will work on the followings:
(a) Expand the alliance with Fujifilm Corporation to increase the production/supply of photographic base paper and secure the top position in the market;
(b) Develop the flexographic and screen printing market of printing photo-sensitive materials with thermal digital plate (TDP) products; and
(c) Expand the inkjet paper business including mini-laboratory and HP indigo method in the growing B to B market.



(2) Strategic Expansion of Speciality Materials Business

The basic strategies are "further growth of non-woven fabric-related products, and increase in sales in the growing Chinese, Korean and ASEAN markets." Based on these basic strategies, we will work on the followings:
(a) Increase sales of water treatment membrane supporting body and battery separators;
(b) Increase sales of rewrite media for public/private demand in China and launch products and create markets in the ASEAN region;
(c) Strengthen functions of filter products to increase sales in East Asia; and
(d) Enter the tape base paper market in Europe for the chemical paper business.

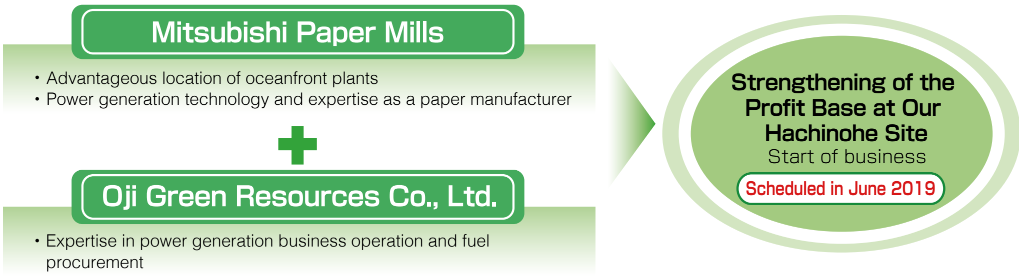


3. Developing New Businesses

(1) Launch of Biomass Power Generation Business

Through joint investment with Oji Green Resources Co., Ltd., which has expertise in power generation business operation and fuel procurement, we will launch a joint biomass business making the best use of advantageous location of oceanfront plant and power generation technology and strengthen the earnings base of the Hachinohe Site, which is our main factory.

Launch of Joint Biomass Business with Oji Group



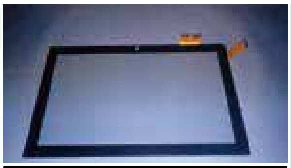
Summary……Utilization of the FIT System

- ●Company Name: MPM Oji Eco Energy Co., Ltd. (Financing: 45% from Mitsubishi Paper Mills and 55% from Oji Green Resources)
- ●Location: In the premises of Hachinohe Mill of Mitsubishi Paper Mills
- ●Production Capacity: Approx. 75,000kW (Power generation capacity)
- ●Sales: Approx. 11 billion yen
- ●Investment: 24 billion yen (Lease of main facilities, such as the boiler and turbine)

(2) Functional film

We will act offensively to expand the electric conducive film business in its major markets in Taiwan, China and South Korea in a hurried pace, expecting that silver mesh films will be demanded for large touch panels.
Our photo resist has high resistance and adhesion capacities. Its peeling piece also melts when the resist layer is peeled. By using these features, we will secure a certain level of sales of dry film resist* and produce them by ourselves, which will lead to the expansion of the photo resist business and increase in earnings.

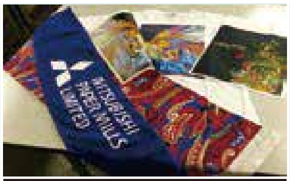
*Dry film resist: Resist to form wiring pattern of printed wiring boards.

Area	Application	Features	Activity
Conductive Film	 A touchscreen device with our conductive film	• Superior silver mesh film suitable for large- sized touchscreen devices	• To expand our target market; Taiwan, China and Korea and accelerate the business
Photosensitive DFR	 Step structure processed with our DFR	• Excellent resistance and adhesion • Fragmented and dissolved in stripping process	• To improve the profitability of DFR business by in-house production based on its large and stable sales volume

Main Strategic Investment	Target	Plant
A new coating machine	Expand sales volume & Improve profitability by In-house Production	Kyoto Mill

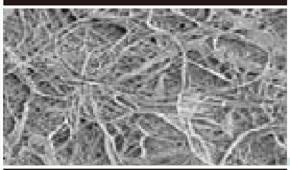
(3) Digital Textile Inkjet(IJ) Printing Transfer Paper

In the rapidly growing digital textile inklet printing transfer paper market, we will form a new market not just with our existing transfer paper for polyester but also newly-developed inkjet printing paper for natural materials.

Area	Application	Features	Activity
IJ Transfer Paper	 Digital textile by MPM technology	• Newly developed IJ transfer paper for cotton and silk (Natural fiber textiles)	• In addition to the existing dye sublimation paper for polyester (Synthetic fiber); newly developed IJ transfer paper for natural fabrics will offer growth opportunity in the digital textile marketplace.

(4) Expansion of New Non-woven Fabric-related Areas

(a) We will provide polyester separators with advanced safety that offer an inorganic coating layer for electronic vehicles.
(b) We will deploy paper-type separators manufactured using multiple functional fibers (e.g. fine fibrous cellulose) for electric double layer capacitors (EDLC) focused on rapid charging/discharging.

Area	Application	Features	Activity
EV separators	 Lithium-ion Battery	• Advanced safety • Heat-resistance • Long battery life	• Provide polyester separators (NanoBaseX®) with an inorganic coating layer that offer advanced safety for electronic vehicles (EVs).
EDLC separators	 Paper-type Separator	• Heat-resistance • Improved drying • Thin and high-strength	• Expand newly separators of the paper type (NanoBase2®) manufactured using multiple functional fibers (e.g. fine fibrous cellulose) for electric double layer capacitors (EDLC) that focused on rapid charging/discharging.

Main Strategic Investment	Target	Plant
A new non-woven fabric machine	To increase non-woven fabric and battery separator sales	Takasago Mill

(5) Expansion into Other New Business Fields

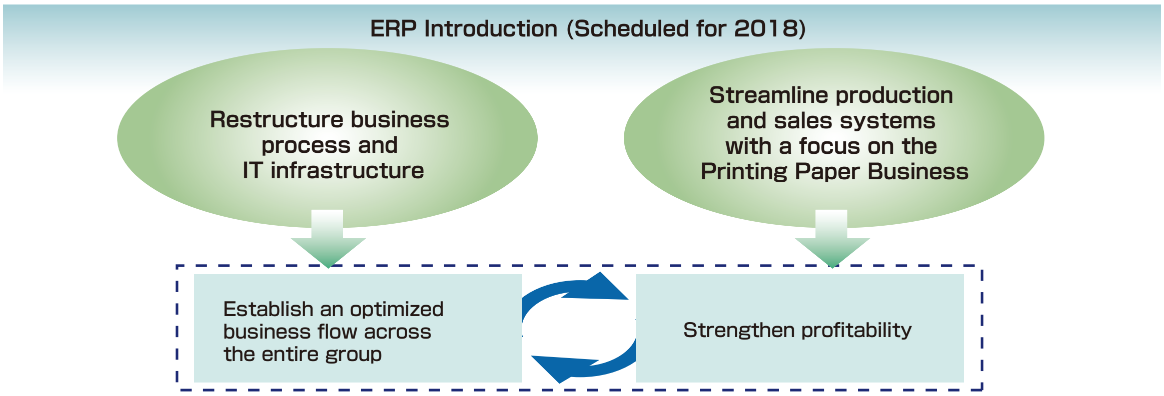
We will commercialize processed products of carbon nano-tube, taking advantage of high conducive and high thermal conductive features based on the high-concentration dispersion liquid mass production technology.

Area	Application	Features	Concrete Measures
CNT-related products	 Sheet Coated with CNT	• Superior electrical conductivity • High thermal conductance	• Commercialize processed products (e.g. tapes and sheets) that take advantage of capability on CNT(carbon nano-tube) dispersion with high concentration.

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

(1) Strengthening of Business Foundation

As company-wide efforts, we will establish a business structure that can flexibly correspond to the management strategies. Specifically, we will strongly promote the followings:
(a) Introduce ERP package in 2018 and restructure business process and IT infrastructure; and
(b) Streamline production and sales systems and distribution stock with a focus on the Printing Paper Business.



(2) Strengthening of Financial Ground

We will aim to continue reducing our interest bearing debts and further reduce our D/E ratio.

	Term Ended March 31, 2016: Actual	Term Ending March 31, 2019: Plan	Improvement
Interest bearing debts	138.8 billion yen	125 billion yen	13.8 billion yen reduction
D/E ratio	2.8-fold	2.3-fold	0.5 improvement

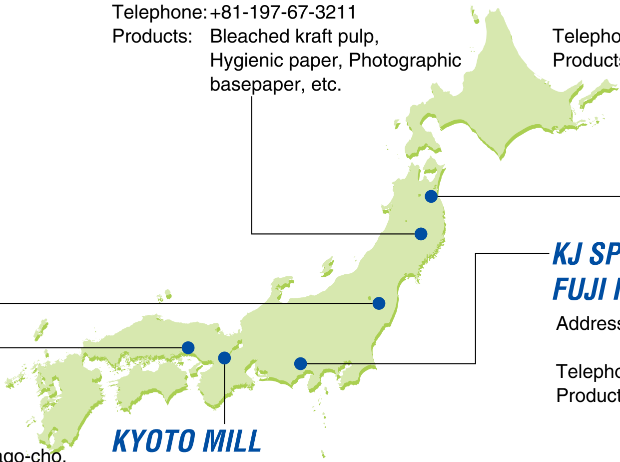
Our Mills and Their Product Lines



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

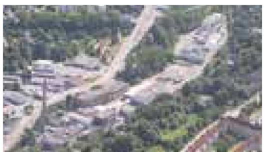
TAKASAGO MILL
Address: 105, Sakae-machi, Takasago-cho, Takasago-shi, Hyogo 676-8677
Telephone: +81-794-42-3101
Products: Carbonless paper, Thermal paper, Inkjet paper, Specialty paper, Non Woven Fablics, etc.

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
	2016	2015	2014	2013	2012	2011	**2016**
For the years ended March 31							
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Net income (loss) per share (in yen and dollars)	**6.49**	(12.50)	0.82	5.00	1.65	(42.39)	**0.06**
As at March 31							
Total assets	**¥241,155**	¥ 253,482	¥ 258,599	¥265,234	¥276,305	¥248,506	**$2,140,179**
Total net assets	**51,492**	55,094	55,586	55,370	52,108	52,117	**456,978**

Consolidated Balance Sheets

As at March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
ASSETS			
Current assets:			
Cash and deposits (Note 3 (12))	**¥11,381**	¥ 6,505	**$101,006**
Receivables:			
Trade notes and accounts (Note 10)	**48,338**	47,045	**428,987**
Other	**1,950**	2,588	**17,310**
	50,288	49,634	**446,298**
Less: Allowance for doubtful accounts	**(188)**	(149)	**(1,674)**
	50,100	49,485	**444,623**
Inventories	**45,505**	49,537	**403,845**
Deferred tax assets (Note 14)	**945**	892	**8,388**
Other	**1,975**	2,796	**17,528**
Total current assets	**109,907**	109,217	**975,393**
Non-current assets:			
Property, plant and equipment (Note 4):			
Land	**22,518**	22,950	**199,844**
Buildings and structures	**96,990**	98,238	**860,758**
Machinery, equipment and vehicles	**361,447**	365,033	**3,207,737**
Construction in progress	**535**	516	**4,752**
Leased assets	**2,867**	3,115	**25,446**
Other	**9,814**	10,037	**87,104**
	494,174	499,892	**4,385,643**
Less: Accumulated depreciation	**(383,735)**	(382,428)	**(3,405,530)**
Accumulated impairment losses	**(563)**	(807)	**(5,001)**
Net property, plant and equipment	**109,875**	116,656	**975,111**
Investments and other assets:			
Investment securities (Notes 4, 10 and 11)	**17,568**	20,491	**155,913**
Investments in unconsolidated subsidiaries and affiliated companies	**985**	977	**8,748**
Long-term loans receivable	**82**	772	**730**
Net defined benefit asset	**8**	2,638	**74**
Less: Allowance for doubtful accounts	**(338)**	(1,027)	**(3,007)**
Deferred tax assets (Note 14)	**198**	247	**1,759**
Other	**2,868**	3,508	**25,454**
Total investments and other assets	**21,372**	27,609	**189,674**
Total assets	**¥241,155**	¥ 253,482	**$2,140,179**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term loans payable (Note 10)	**¥53,321**	¥56,306	**$473,214**
Current portion of long-term debt (Note 10)	**27,854**	20,780	**247,201**
Lease obligations	**363**	394	**3,224**
Payables:			
Trade notes and accounts (Note 10)	**23,302**	24,062	**206,798**
Other	**2,744**	2,861	**24,352**
Accrued expenses	**7,081**	7,270	**62,842**
Income taxes payable	**345**	356	**3,066**
Other	**3,665**	3,774	**32,526**
Total current liabilities	**118,677**	115,807	**1,053,228**
Non-current liabilities:			
Long-term debt (Note 10)	**57,443**	67,234	**509,790**
Lease obligations	**1,240**	1,617	**11,008**
Provision for directors' retirement benefits	**48**	34	**433**
Reserve for loss on dissolution of employee's fund	**121**	115	**1,080**
Net defined benefit liability	**9,165**	9,682	**81,341**
Deferred tax liabilities (Note 14)	**1,213**	2,069	**10,772**
Asset retirement obligations	**884**	880	**7,851**
Other	**866**	945	**7,693**
Total non-current liabilities	**70,985**	82,580	**629,972**
Total liabilities	**¥189,663**	¥198,388	**$1,683,200**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Capital stock			
Authorized: 900,000,000 shares at March 31, 2016 and 2015			
Issued: 342,584,332 shares at March 31, 2016 and 2015	**¥32,756**	32,756	**$290,702**
Capital surplus	**7,456**	7,523	**66,172**
Retained earnings	**7,447**	5,147	**66,093**
Treasury shares	**(145)**	(143)	**(1,291)**
Total shareholders' equity	**47,514**	45,284	**421,676**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**3,014**	4,663	**26,752**
Foreign currency translation adjustment	**1,577**	1,815	**14,000**
Remeasurements of defined benefit plans	**(2,864)**	254	**(25,423)**
Total accumulated other comprehensive income	**1,727**	6,733	**15,329**
Non-controlling interests	**2,250**	3,076	**19,972**
Total net assets	**¥51,492**	¥55,094	**$456,978**
Total liabilities and net assets	**¥241,155**	¥253,482	**$2,140,179**

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

Consolidated Statements of Operations

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Net sales	**¥216,340**	¥214,944	**$1,919,956**
Cost of sales	**184,758**	184,907	**1,639,672**
Gross profit	**31,582**	30,036	**280,283**
Selling, general and administrative expenses	**27,709**	28,997	**245,916**
Operating income	**3,872**	1,038	**34,367**
Other income (expenses):			
Interest and dividend income	**473**	670	**4,201**
Interest expenses	**(2,320)**	(2,519)	**(20,592)**
Royalty income	**188**	180	**1,670**
Foreign exchange gains(losses)	**(242)**	508	**(2,148)**
Insurance income	**365**	164	**3,241**
Gain on sales of investment securities	**38**	783	**344**
Gain(loss) on disposal of non-current assets (Note 6)	**1,017**	(319)	**9,029**
Reversal of allowance for doubtful accounts for subsidiaries and affiliates	**277**	–	**2,464**
Compensation for damage income	**–**	405	**–**
Special retirement expenses	**(302)**	(163)	**(2,682)**
Business restructuring cost (Note 7)	**(227)**	(1,665)	**(2,015)**
Impairment loss (Note 8)	**(18)**	(386)	**(167)**
Other, net	**(103)**	55	**(919)**
Total	**(853)**	(2,285)	**(7,575)**
Income (loss) before income taxes and non-controlling interests	**3,018**	(1,246)	**26,791**
Income taxes:			
Current	**914**	545	**8,116**
Deferred (Note 14)	**81**	2,478	**720**
Net income(loss)	**2,023**	(4,271)	**17,954**
Net income(loss) attributable to non-controlling interests	**(193)**	1	**(1,721)**
Net income(loss) attributable to owners of parent	**¥2,217**	¥(4,272)	**$19,676**

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

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Net Income (loss)	**¥2,023**	¥ (4,271)	**$17,954**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**(1,918)**	2,217	**(17,029)**
Foreigh currency translation adjustments	**(438)**	151	**(3,891)**
Remeasurements of defined benefit plans,net of tax	**(2,979)**	1,013	**(26,445)**
Share of other comprehensive income of entities accounted for using equity method	**3**	154	**32**
Total other comprehensive income	**(5,333)**	3,536	**(47,333)**
Comprehensive income	**(3,310)**	(734)	**(29,378)**
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	**(2,946)**	(995)	**(26,145)**
Comprehensive income attributable to non-controlling interests	**¥(364)**	¥ 260	**$(3,233)**

	Yen		U.S. dollars (Note 2)
	2016	2015	**2016**
Amounts per share:			
Net income(loss) — basic (Note 3 (11))	**¥6.49**	¥ (12.50)	**$0.06**
Cash dividends applicable to the year	**–**	–	**–**

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

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2016 and 2015

	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, 2014	342,584,332	¥32,756	¥7,523	¥9,164	¥(141)	¥49,302	¥2,804	¥1,576	¥(924)	¥3,456	¥2,827	¥55,586
Cumulative effect of changes in accounting policies				256		256					56	312
Balance at the beginning of the term reflecting the change of accounting policies		32,756	7,523	9,420	(141)	49,558	2,804	1,576	(924)	3,456	2,883	55,898
Changes during the year:												
Net loss attributable to owners of parent				(4,272)		(4,272)						(4,272)
Acquisition of treasury stock					(2)	(2)						(2)
Disposal of treasury stock				(0)	0	0						0
Change of scope of consolidation												–
Change in treasury shares of parent arising from transactions with non-controlling shareholders												–
Changes in items other than shareholders' equity							1,858	238	1,179	3,276	193	3,470
Total changes during the year	–	–	–	(4,272)	(2)	(4,274)	1,858	238	1,179	3,276	193	(804)
Balance at April 1, 2015	342,584,332	¥ 32,756	¥ 7,523	¥5,147	¥ (143)	¥ 45,284	¥4,663	¥1,815	¥254	¥6,733	¥3,076	¥55,094
Cumulative effect of changes in accounting policies												–
Balance at the beginning of the term reflecting the change of accounting policies		32,756	7,523	5,147	(143)	45,284	4,663	1,815	254	6,733	3,076	55,094
Changes during the year:												
Net income attributable to owners of parent				2,217		2,217						2,217
Acquisition of treasury stock					(1)	(1)						(1)
Disposal of treasury stock						–						–
Change of scope of consolidation				82		82						82
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(67)			(67)						(67)
Changes in items other than shareholders' equity							(1,648)	(237)	(3,119)	(5,006)	(826)	(5,832)
Total changes during the year	–	–	(67)	2,299	(1)	2,230	(1,648)	(237)	(3,119)	(5,006)	(826)	(3,602)
Balance at March 31, 2016	342,584,332	¥32,756	¥7,456	¥7,447	¥(145)	¥47,514	¥3,014	¥1,577	¥(2,864)	¥1,727	¥2,250	¥51,492

	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, 2015	342,584,332	$290,702	$66,770	$45,685	$(1,275)	$401,882	$41,384	$16,111	$2,262	$59,757	$27,305	$488,945
Cumulative effect of changes in accounting policies												
Balance at the beginning of the term reflecting the change of accounting policies		$290,702	$66,770	$45,685	$(1,275)	$401,882	$41,384	$16,111	$2,262	$59,757	$27,305	$488,945
Changes during the year:												
Net income attributable to owners of parent				19,676		19,676						19,676
Acquisition of treasury stock					(15)	(15)						(15)
Disposal of treasury stock						-						-
Change of scope of consolidation				731		731						731
Change in treasury shares of parent arising from transactions with non-controlling shareholders			(597)			(597)						(597)
Changes in items other than shareholders' equity							(14,631)	(2,110)	(27,685)	(44,428)	(7,333)	(51,761)
Total changes during the year	–	–	(597)	20,407	(15)	19,794	(14,631)	(2,110)	(27,685)	(44,428)	(7,333)	(31,966)
Balance at March 31, 2016	342,584,332	$290,702	$66,172	$66,093	$(1,291)	$421,676	$26,752	$14,000	$(25,423)	$15,329	$19,972	$456,978

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
I Cash flows from operating activities:			
Income (loss) before income taxes and non-controlling interests	**¥3,018**	¥(1,246)	**$26,791**
Depreciation	**10,662**	10,955	**94,628**
Impairment loss (Note 8)	**18**	386	**167**
Increase (decrease) in net defined benefit liability (Note 13)	**291**	289	**2,584**
Decrease (increase) in net defined benefit asset (Note 13)	**(669)**	(272)	**(5,944)**
Increase (decrease) in provision for directors' retirement benefits	**14**	3	**126**
Interest and dividend income	**(473)**	(670)	**(4,201)**
Interest expense	**2,320**	2,519	**20,592**
Loss (gain) on sales of short-term and long-term investment securities	**(38)**	(830)	**(344)**
Loss (gain) on disposal of non-current assets (Note 6)	**(1,017)**	319	**(9,029)**
Business restructuring cost (Note 7)	**227**	1,665	**2,015**
Decrease (increase) in trade notes and accounts receivable	**(1,530)**	(5,165)	**(13,579)**
Decrease (increase) in inventories	**3,210**	2,638	**28,494**
Increase (decrease) in trade notes and accounts payable	**(384)**	(1,567)	**(3,414)**
Other, net	**(117)**	(547)	**(1,041)**
Sub-total	**15,532**	8,476	**137,846**
Payments for business restructuring cost (Note 7)	**(227)**	(2,159)	**(2,015)**
Interest and dividend income received	**470**	670	**4,173**
Interest expenses paid	**(2,387)**	(2,557)	**(21,189)**
Income taxes paid	**(761)**	(522)	**(6,761)**
Net cash provided by (used in) operating activities	**12,626**	3,907	**112,053**
II Cash flows from investing activities:			
Purchase of property, plant and equipment and intangible assets	**(4,196)**	(4,735)	**(37,245)**
Proceeds from sales of property, plant and equipment and intangible assets	**1,682**	140	**14,933**
Purchase of investment securities	**(28)**	(29)	**(254)**
Proceeds from sales of investment securities	**40**	2,936	**358**
Purchase of shares of subsidiaries and associates	**(4)**	–	**(43)**
Proceeds from sales of shares of subsidiaries and associates	**4**	20	**35**
Payments of loans receivable	**(2)**	(9)	**(18)**
Collection of loans receivable	**325**	354	**2,886**
Other, net	**34**	153	**309**
Net cash provided by (used in) investing activities	**(2,145)**	(1,168)	**(19,039)**
III Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	**(2,343)**	2,910	**(20,797)**
Proceeds from long-term debt	**18,175**	14,000	**161,305**
Repayments of long-term debt	**(20,653)**	(21,074)	**(183,294)**
Repayments of lease obligations	**(383)**	(379)	**(3,402)**
Purchase of treasury shares	**(1)**	(2)	**(15)**
Proceeds from sales of treasury shares	**-**	0	**0**
Dividends paid to non-controlling interests	**(240)**	(30)	**(2,136)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(290)**	–	**(2,577)**
Net cash provided by (used in) financing activities	**(5,737)**	(4,576)	**(50,916)**
IV Effect of exchange rate change on cash and cash equivalents	**(109)**	(40)	**(974)**
V Net increase (decrease) in cash and cash equivalents	**4,633**	(1,877)	**41,122**
VI Increase in cash and cash equivalents from newly consolidated subsidiaries	**242**	-	**2,151**
VII Cash and cash equivalents at beginning of period	**6,505**	8,382	**57,732**
VIII Cash and cash equivalents at end of period (Note 3 (12))	**¥11,381**	¥6,505	**$101,006**

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

Notes to Consolidated Financial Statements

1. Basis of Presenting the Consolidated Financial Statements

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

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

2. United States Dollar Amounts

The Company maintains its accounting records in yen. The dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥112.68 = U.S.$1, the exchange rate prevailing as of March 31, 2016. The inclusion of such U.S. dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

3. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 34 subsidiaries as of March 31, 2016 (35 as of March 31, 2015). The accompanying consolidated financial statements include the accounts of the Company and 26 (25 for 2015) of its subsidiaries for the year ended March 31, 2016 (together, hereinafter referred to as the "Companies").

Zhuhai MPM Filter Ltd. and MPM Hong Kong Limited, non-consolidated subsidiaries in the previous consolidated fiscal year, are included in the scope of consolidation from this consolidated fiscal year due to their increasing importance. In addition, Asahi Diazo-Sensitive Paper Co., Ltd. has been liquidated, so it has been excluded from the scope of consolidation.

The accounts of the remaining 8 (10 for 2015) unconsolidated subsidiaries for the year ended March 31, 2016 have been excluded from consolidation since the aggregate amounts of these subsidiaries in terms of combined assets, net sales, retained earnings and net income were immaterial in relation to those of the consolidated financial statements of the Companies.

The fiscal year end of Mitsubishi Paper Holding (Europe) GmbH and other 6(4 for 2015) 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 11 affiliates as of March 31, 2016 (11 for 2015). 3 affiliated companies were accounted for by the equity method. In this consolidated fiscal year, MPM Oji Eco Energy Co., Ltd., which was newly established, has been included in the scope of application for the equity method.

However, the remaining 8 (10 for 2015) subsidiaries and 8 (9 for 2015) affiliates did not have a material effect on net income and retained earnings in the accompanying consolidated financial statements and, therefore, these investments have been carried at cost.

(4) Financial instruments

(i) Derivatives

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

(ii) Securities

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

(iii) Hedge Accounting

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

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

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

(5) Inventories

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

(6) Property, plant and equipment

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

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

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

(7) Allowance for doubtful accounts

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

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

(8) Accounting method for retirement benefits

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

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

(ii) Amortization of unrecognized prior service cost

Unrecognized prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (10 to 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 (10 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, 2016 and 2015 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and bank deposits	**¥11,381**	¥6,505	**$101,006**
Cash and cash equivalents	**¥11,381**	¥6,505	**$101,006**

(13) Dividends

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

(14) Accounting changes

Effective from the fiscal year of 2015, the Company adopted the "Accounting Standard for Business Combination"(ASBJ Statement No.21,September 13,2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22,September 13,2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No.7,September 13,2013),etc, Therefore, we have changed to a method in which we will include the difference from equity changes in the Company in regards to subsidiaries that we continue to control as retained earnings and include the acquisition-related expenses as expenses in the consolidated fiscal year in which they occur. Moreover, in regards to business combinations that take place after the beginning of the consolidated fiscal year, we will switch to a method in which a review of the allocated amount of the acquisition costs after the determination of the provisional accounting process will be reflected in the consolidated financial statements for the consolidated fiscal year that comes in the date of the business combination. In addition, we have changed the representation of income, etc. and changed the representation of minority interests to non-controlling interests.

In accordance with transitional treatment determined by article 58-2 (4) of the Accounting Standard for Business Combination, article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and article 57-4 (4) of the Accounting Standard for Business Divestitures, we will apply these accounting standards in the future from the beginning of this consolidated fiscal year. As a result, the capital surplus at the end of this consolidated fiscal year has been reduced by 67 million yen. There is no impact on operating income, ordinary income or income before income taxes and non-controlling interests in this consolidated fiscal year.

Cash flows pertaining to the acquisition or sale of subsidiaries'shares unaccompanied by a change in the scope of consolidation will be described in the "cash flows from financing activities" section in the consolidated statements of cash flow in this consolidated fiscal year. Cash flows pertaining to expenses related to the acquisition of subsidiaries' shares accompanied by a change in the scope of consolidation or pertaining to expenses generated as a result of the acquisition or sale of subsidiaries' shares unaccompanied by changes in the scope of consolidation will be described in the "cash flows from operating activities" section in the consolidated statements of cash flow in this consolidated fiscal year.

The year-end balance of our capital surplus in the consolidated statements of changes in net assets in this consolidated fiscal year has been reduced by 67 million yen.

(15) Reclassification

Certain reclassification have been made to the prior years' consolidated financial statements to conform to the presentation for the year ended March 31, 2016.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings and structures	**¥17,181**	¥ 18,281	**$152,481**
Machinery and equipment	**32,564**	37,604	**288,995**
Land	**10,497**	10,497	**93,159**
Investment securities	**3,583**	4,444	**31,801**
Other	**104**	138	**928**
	¥63,930	¥ 70,967	**$567,367**

5. Contingent Liabilities

As at March 31, 2016 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥1,927 million ($17,108 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥691 million ($6,140 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
	2016	2015	**2016**
Machinery and equipment	**¥4**	¥7	**$38**
Land	**1,455**	0	**12,913**

(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
	2016	2015	**2016**
Scrapping and removal expenses	**¥296**	¥185	**$2,634**
Machinery and equipment	**137**	122	**1,217**
Buildings and structures	**9**	–	**81**

7. Business Restructuring Cost

Consolidated fiscal year under review (April 1,2015 – March 31,2016)
Cost for dissolution of a consolidated subsidiary, etc.

Previous consolidated fiscal year(April 1,2014 – March 31,2015)
Additional charges of voluntary retirement, etc.

8. Impairment Loss

Consolidated fiscal year under review (April 1,2015 – March 31,2016)

			Millions of yen	Thousands of U.S. dollars
Application	Location	Category	Inpairment loss	
Business assets	Hyogo	Machinery and equipment, etc.	**¥18**	**$167**

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

Previous consolidated fiscal year (April 1,2014 – March 31,2015)

Application	Location	Category	Impairment loss (Millions of yen)
Business assets	Hyogo	Machinery and equipment, etc.	**¥247**
Idle assets	Tokyo	Land, etc.	**139**

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

9. Other Comprehensive Income

The following table shows reclassification adjustment for each component of other comprehensive income for the year ended March 31, 2016:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Net unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	**¥(2,946)**	¥ 3,873	**$(26,152)**
Reclassification adjustments for gain and losses included in net income	**(0)**	(808)	**(0)**
Amount before tax effect	**(2,946)**	3,065	**(26,153)**
Tax effect	**1,028**	(847)	**9,123**
Total	**¥(1,918)**	¥ 2,217	**$(17,029)**
Foreign currency translation adjustment			
Amount arising during the year	**¥(438)**	¥ 151	**$(3,891)**
Remeasurements of defined benefit plans			
Amount arising during the year	**¥(2,343)**	¥ 831	**$(20,800)**
Reclassification adjustments for gains and losses included in net income	**(573)**	68	**(5,087)**
Amount before tax effect	**(2,917)**	900	**(25,887)**
Tax effect	**(62)**	112	**(558)**
Total	**¥(2,979)**	¥ 1,013	**$(26,445)**
Share of other comprehensive income of investments for which the equity method is applied			
Amount arising during the year	**3**	154	**32**
Total other comprehensive income	**¥(5,333)**	¥ 3,536	**$(47,333)**

10. Financial Instruments

(1) Summary of Financial Instruments

(i) Policy regarding financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

Calculations of the fair value of financial instruments are based on their quoted market prices, as well as their reasonably estimated fair value when the quoted market prices are not available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the contract values of derivatives in Note 12. Derivatives are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair Value of Financial Instruments

Book value, fair values and differences between them as of March 31, 2016 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		
	2016		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**¥48,338**	**¥48,338**	**¥–**
Investment securities			
Available-for-sale securities	**16,962**	**16,962**	**–**
Total of assets	**65,300**	**65,300**	**–**
Trade notes and accounts payable	**23,245**	**23,245**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**53,321**	**53,321**	**–**
Long-term debt (including current portion of long-term debt)	**85,297**	**85,430**	**132**
Total of liabilities	**161,865**	**161,997**	**132**
Derivative transactions	**¥–**	**¥–**	**¥–**

	Thousands of U.S. dollars		
	2016		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**$428,987**	**$428,987**	**$–**
Investment securities			
Available-for-sale securities	**150,534**	**150,534**	**–**
Total of assets	**579,522**	**579,522**	**–**
Trade notes and accounts payable	**206,296**	**206,296**	**–**
Short-term loans payable (excluding current portion of long-term debt)	**473,214**	**473,214**	**–**
Long-term debt (including current portion of long-term debt)	**756,992**	**758,169**	**1,177**
Total of liabilities	**1,436,503**	**1,437,680**	**1,177**
Derivative transactions	**$–**	**$–**	**$–**

	Millions of yen		
	2015		
	Book value	Fair value	Difference
Trade notes and accounts receivable	¥ 47,045	¥ 47,045	¥–
Investment securities			
Available-for-sale securities	19,881	19,881	–
Total of assets	66,927	66,927	–
Trade notes and accounts payable	24,015	24,015	–
Short-term loans payable (excluding current portion of long-term debt)	56,306	56,306	–
Long-term debt (including current portion of long-term debt)	88,015	88,155	140
Total of liabilities	168,337	168,477	140
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 ¥27,854 million ($247,201 thousand).

(vi) Derivatives
Please see Note 12.

Unlisted equity securities (in the amount of ¥1,591 million ($14,127 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
	2016	2015	**2016**
Unlisted equity securities	**¥1,591**	¥1,586	**$14,127**

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

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

	Thousands of U.S. dollars					
	2016					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	**$473,214**	**$–**	**$–**	**$–**	**$–**	**$–**
Long-term debt	**247,201**	**149,723**	**152,309**	**101,338**	**85,493**	**20,926**
Lease obligations	**3,224**	**3,080**	**2,938**	**2,745**	**469**	**1,773**
Total	**$723,641**	**$152,803**	**$155,247**	**$104,083**	**$85,963**	**$22,699**

	Millions of yen					
	2015					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term loans payable	¥ 56,306	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term debt	20,780	27,847	15,779	15,790	3,180	4,638
Lease obligations	394	364	346	331	314	259
Total	¥ 77,481	¥ 28,211	¥ 16,126	¥ 16,122	¥ 3,494	¥ 4,897

11. Investment Securities

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at March 31, 2016 and 2015 are summarized as follows:
Available-for-sale securities:

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

	Thousands of U.S. dollars			
	2016			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$109,688**	**$150,534**	**$47,673**	**$6,827**
	$109,688	**$150,534**	**$47,673**	**$6,827**

	Millions of yen			
	2015			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥12,332	¥19,881	¥7,669	¥119
	¥12,332	¥19,881	¥7,669	¥119

12. Derivatives

(1) Transactions not subject to hedge accounting

No applicable transactions

(2) Transactions subject to hedge accounting

(i) Currency-related

No applicable transactions

(ii) Interest-rate related

Hedge accounting method	Type of derivative transaction, etc.	Main targets of hedging	Contract value	Contract value of instruments due within more than a year
Special settlement of interest rate swap	Interest rate swap transactions,fixed payments, variable receivables	Long-term debt	¥51,796 million	¥30,450 million
			$459,677 thousand	$270,234 thousand

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

13. Retirement and Pension Plans

(1) Outline of retirement benefit plan

Our 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. Our 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, our 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 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year (period)	**¥21,858**	¥21,539	**$193,983**
Cumulative effect of changes in accounting policies	–	(487)	**0**
Balance at the beginning of the term reflecting the change of accounting policies	**21,858**	21,052	**193,983**
Current service cost	**1,078**	1,144	**9,568**
Interest cost	**262**	317	**2,327**
Actuarial losses	**687**	1,729	**6,100**
Benefit paid	**(1,071)**	(2,443)	**(9,505)**
Other	**(650)**	57	**(5,772)**
Balance at end of year (period)	**¥22,164**	¥21,858	**$196,703**

(ii) The schedule of the pension assets at 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year (period)	**¥15,450**	¥13,834	**$137,118**
Expected return on pension assets	**13**	14	**119**
Actuarial losses	**(1,882)**	2,545	**(16,702)**
Contributions by the employer	**56**	98	**496**
Benefit paid	**(51)**	(1,041)	**(455)**
Balance at end of year (period)	**¥13,586**	¥15,450	**$120,576**

(iii) The schedule of the net defined benefit liability for simplified method at 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of year (period)	**¥635**	¥695	**$5,644**
Periodic benefit cost	**58**	104	**523**
Benefit paid	**(98)**	(86)	**(871)**
Contribution to systems	**(17)**	(18)	**(156)**
Increase（Decrease）of business combination	–	(59)	–
Balance at end of year (period)	**¥579**	¥635	**$5,140**

(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 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded defined benefit obligations	**¥15,065**	¥ 13,755	**$133,705**
Pension assets	**(13,931)**	(15,771)	**(123,640)**
	1,134	(2,015)	**10,065**
Unfunded defined benefit obligations	**8,023**	9,059	**71,201**
Net amount of liabilities and assets recognized in consolidated balance sheet	**9,157**	7,043	**81,267**
Retirement benefit liabilities	**9,165**	9,682	**81,341**
Retirement benefit asset	**(8)**	(2,638)	**(74)**
Net amount of liabilities and assets recognized in consolidated balance sheet	**¥9,157**	¥ 7,043	**$81,267**

(v) The profits and losses related to retirement benefits for fiscal period ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current service cost	**¥1,078**	¥ 1,144	**$9,568**
Interest cost	**262**	317	**2,327**
Expected return on pension assets	**(13)**	(14)	**(119)**
Actuarial loss recognized in the year	**(477)**	207	**(4,238)**
Prior service cost recognized in the year	**(95)**	(138)	**(849)**
Periodic benefit cost in simplified method	**58**	104	**523**
Periodic benefit costs of retirement benefit plan	**¥812**	¥ 1,621	**$7,213**

In addition to the above, the premium severance payment has been reported as extraordinary losses of 365 million yen ($3,241 thousand), and 1,611 million yen for the consolidated fiscal year ended March 31,2016 and 2015, respectively.
In addition, we have forecast an increase in the amount of loss we will bear due to the planned dissolution of the employees' pension fund that some of our consolidated subsidiaries are members of. Therefore, we have recorded a 6 million yen ($55 thousand) extraordinary loss.

(vi) The breakdown of items in other comprehensive income for fiscal period ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Actuarial loss	**¥(2,821)**	¥1,039	**$(25,038)**
Prior service cost	**(95)**	(138)	**(849)**
Total	**¥(2,917)**	¥900	**$(25,887)**

(vii) The breakdown of items in accumulated other comprehensive income for fiscal period ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unrecognized actuarial loss	**¥(3,376)**	¥(559)	**$(29,969)**
Unrecognized prior service cost	**193**	289	**1,718**
Total	**¥(3,183)**	¥(270)	**$(28,251)**

(viii) The breakdown of pension assets by major category as of March 31, 2016 and 2015 were as follows:

	2016	2015
Equities	**38%**	33%
Bonds	**36%**	33%
General account of life insurance	**22%**	32%
Other	**4%**	2%
	100%	100%

(ix) The items of actuarial assumptions as of fiscal period ended March 31, 2016 and 2015 were as follows:

	2016	2015
Discount rate	**0.0~2.5%**	0.6~2.0%
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 ¥371 million($3,295 thousand) and ¥388 million for the consolidated fiscal year ended March 31,2016 and 2015, respectively.

(4) Multi-employer pension plan

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

14. Deferred Income Taxes

(1) At March 31, 2016 and 2015, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued enterprise taxes	**¥73**	¥ 75	**$655**
Accrued expenses	**554**	690	**4,917**
Net defined benefit liability	**2,750**	1,752	**24,407**
Allowance for doubtful accounts	**175**	470	**1,554**
Loss on revaluation of fixed assets	**314**	610	**2,794**
Unrealized gains on property, plant and equipment	**221**	186	**1,965**
Tax loss carryforwards	**6,344**	6,963	**56,301**
Other	**8,248**	8,785	**73,202**
Gross deferred tax assets	**18,682**	19,534	**165,798**
Valuation allowance	**(16,989)**	(17,351)	**(150,773)**
Total deferred tax assets	**1,693**	2,182	**15,025**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(20)**	(22)	**(181)**
Unrealized gains on available-for-sale securities	**(1,407)**	(2,435)	**(12,488)**
Liability adjustment account	–	(313)	–
Other	**(335)**	(341)	**(2,977)**
Total deferred tax liabilities	**(1,763)**	(3,112)	**(15,648)**
Net deferred tax assets (liabilities)	**¥(70)**	¥ (929)	**$(623)**

(2) A reconciliation of the statutory tax rate to the effective tax rates

Consolidated fiscal year under review (March 31, 2016)

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

Previous consolidated fiscal year (March 31, 2015)

Notes were omitted due to the posting of loss before income taxes and non-controlling interests.

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

"The Act for Partial Amendment of the Income Tax Act, Etc." and "the Act for Partial Amendment of the Local Tax Act, Etc." were enacted on March 29, 2016. As a result, the effective statutory tax rate, used to calculate deferred tax assets and deferred tax liabilities, will decline from 32.3%(in the previous fiscal year) to 30.9% between April 1, 2016 and March 31, 2018(the period in which the temporary difference and other items are expected to be abolished). As of April 1, 2018, it will be changed to 30.6%. As a result, deferred tax assets, and deferred tax liabilities have decreased by 35 million, and 82 million yen, respectively. And the income taxes – deferred which were reported in this consolidated fiscal year and the valuation difference on available-for-sale securities have increased by 24 million and 72 million yen, respectively.

15. Segment Information

(1) Reportable segment information

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

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

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

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

Consolidated fiscal year under review (April 1, 2015–March 31, 2016)

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

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2016	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	$1,420,069	$316,591	$123,002	$1,859,663	$60,292	$1,919,956	$–	$1,919,956
Intersegment sales and transfers	38,218	54,066	27,228	119,513	80,024	199,537	(199,537)	–
Total sales	1,458,287	370,658	150,231	1,979,176	140,317	2,119,494	(199,537)	1,919,956
Segment income (loss)	$2,011	$21,302	$8,008	$31,322	$3,299	$34,621	$(254)	$34,367
Segment assets	$1,643,195	$357,656	$138,315	$2,139,167	$88,737	$2,227,904	$(87,725)	$2,140,179
Amortization	69,381	18,870	5,141	93,393	2,075	95,469	(841)	94,628
Investment in equity-method affiliates	16,069	–	–	16,069	39	16,109	–	16,109
Increase in tangible and intangible fixed assets	31,036	8,353	4,343	43,732	775	44,508	(670)	43,837

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

(ii) Adjustments are:

• Adjustments and eliminations for segment income(loss) include ¥(0) million ($(5) thousand) of elimination of inter-segment income and loss and ¥(28) million ($(249) thousand) of corporate expenses, which are general and administrative expenses and are not allocable to the reportable segments.

• Adjustments and eliminations for segment assets include ¥14,448 million ($128,227 thousand) of corporate assets and ¥(24,333) million ($(215,953) thousand) of elimination of inter-segment assets.

• Adjustments and eliminations for amortization of ¥(94) million ($(841) thousand) is elimination of inter-segment.

• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(75) million ($(670) thousand) of elimination of inter-segment increase in tangible and intangible fixed assets.

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

Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2015	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**¥161,300**	**¥33,496**	**¥13,829**	**¥208,626**	**¥6,317**	**¥214,944**	**¥–**	**¥214,944**
Intersegment sales and transfers	**4,149**	**10,039**	**3,017**	**17,205**	**8,823**	**26,029**	**(26,029)**	**–**
Total sales	**165,449**	**43,535**	**16,847**	**225,832**	**15,140**	**240,973**	**(26,029)**	**214,944**
Segment income (loss)	**¥(1,326)**	**¥1,481**	**¥561**	**¥715**	**¥395**	**¥1,110**	**¥(71)**	**¥1,038**
Segment assets	**¥196,861**	**¥44,192**	**¥15,976**	**¥257,031**	**¥10,466**	**¥267,497**	**¥(14,014)**	**¥253,482**
Amortization	**8,107**	**2,160**	**529**	**10,797**	**245**	**11,043**	**(88)**	**10,955**
Investment in equity-method affiliates	**1,902**	**–**	**–**	**1,902**	**–**	**1,902**	**–**	**1,902**
Increase in tangible and intangible fixed assets	**3,407**	**739**	**427**	**4,575**	**61**	**4,637**	**(70)**	**4,566**

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

(ii) Adjustments are:

• Adjustments and eliminations for segment income(loss) include ¥(42) million of elimination of inter-segment income and loss and ¥(29) 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 ¥12,823 million of corporate assets and ¥(26,838) million of elimination of inter-segment assets.

• Adjustments and eliminations for amortization of ¥(88) million is elimination of inter-segment.

• Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(70) million of elimination of inter-segment increase in tangible and intangible fixed assets.

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

(2) Geographical information

(i) Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Japan	**¥149,130**	¥ 148,059	**$1,323,485**
Europe	**35,368**	36,668	**313,880**
Asia	**14,439**	13,031	**128,144**
North America	**11,248**	10,467	**99,825**
Other	**6,154**	6,716	**54,621**
Consolidated	**¥216,340**	¥ 214,944	**$1,919,956**

Net sales information above are based on customer location.

(ii) Property, plant and equipment by countries or geographical areas at March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Japan	**¥98,852**	¥ 104,534	**$877,283**
Europe	**10,433**	11,973	**92,592**
Asia	**439**	–	**3,897**
North America	**150**	147	**1,338**
Consolidated	**¥109,875**	¥ 116,656	**$975,111**

(3) Impairment loss on fixed assets by reportable segments

Consolidated fiscal year under review (April 1, 2015–March 31, 2016)

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

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2016	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Impairment losses	**$167**	**$–**	**$–**	**$167**	**$–**	**$167**	**$–**	**$167**

Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2015	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Impairment losses	**¥373**	**¥13**	**¥–**	**¥386**	**¥–**	**¥386**	**¥–**	**¥386**

(4) Amortization and balance of goodwill

Consolidated fiscal year under review (April 1, 2015–March 31, 2016)

No applicable transactions

Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)

	Millions of yen							
	Reportable segments							
Year ended March 31, 2015	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
(Negative goodwill)								
Amortization	¥30	¥–	¥–	¥30	¥–	¥30	¥–	¥30
Balance as of March 31	¥–	¥–	¥–	¥–	¥–	¥–	¥–	¥–

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

Consolidated fiscal year under review (April 1, 2015–March 31, 2016)

No applicable transactions

Previous consolidated fiscal year (April 1, 2014 – March 31, 2015)

No applicable transactions

16. Important Subsequent Events

Consolidation of Shares and Change of the number of shares to constitute one unit

We decided to discuss the consolidation of shares at the 151st General Meeting of Shareholders on June 28, 2016 at a meeting of the Board of Directors on May 31, 2016. In addition, we decided to change the number of our share units as a condition of approving and passing a proposal pertaining to the consolidation of shares at the same General Meeting of Shareholders. This proposal for the consolidation of shares was approved and passed at the same General Meeting of Shareholders. The details of this are as follows below.

(1) Purpose of Consolidation of Shares and Change of the number of shares to constitute one unit

Japanese stock exchanges (including the Tokyo Stock Exchange) set a deadline of October 1, 2018 by which the trading units of all listed companies in Japan must be unified to 100 shares. Therefore, we changed the trading unit of our common stock from the current 1,000 shares to 100 shares to respect the spirit of this movement as a company that is listed on the Tokyo Stock Exchange. In addition, we will also maintain the level desired by stock exchanges with respect to the price per trading unit of our shares (50,000 yen or more but less than 500,000 yen). Together with this, we will implement a consolidation to turn ten of our shares into one share so that no changes occur in the number of voting rights of each shareholder.

(2) Particulars of Consolidation of Shares

(i) Type of shares to be consolidated

Common shares

(ii) Consolidation ratio

On October 1, 2016, shares held by shareholders recorded in the latest Shareholder Registry as of September 30, 2016 will be consolidated at the ratio of 10 shares to 1 share.

(iii) Number of shares reduced through consolidation

Total number of issued shares before consolidation (as of March 31, 2016)	342,584,332 shares
Number of shares reduced through consolidation	308,325,899 shares
Total number of issued shares after consolidation	34,258,433 shares

(3) Treatment of fractional shares

If any fractional shares arise as a result of the consolidation of shares, pursuant to the provisions of the Companies Act, the Company will sell all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions.

(4) Total number of authorized shares as of effective date

90,000,000 shares

(5) Schedule

Resolution of the Board of Directors	May 31, 2016
Resolution of General Meeting of Shareholders	June 28, 2016
Effective date of consolidation of shares and change of the number of shares to constitute one unit	October 1, 2016

(6) Influence on per share information

The following gives the information per share in the previous consolidated fiscal year and this consolidated fiscal year under the assumption that the applicable consolidation of shares was enforced at the beginning of the previous consolidated fiscal year.

	Millions of yen		U.S. dollars
	2016	2015	**2016**
Net assets per share (in yen and dollars)	**¥1,440.45**	¥1,521.56	**$12.78**
Net income(loss) per share (in yen and dollars)	**64.85**	(124.96)	**0.58**

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, 2016, 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 28, 2016

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

Kiyoshi Maeda
Senior Managing Executive Officer

Junji Harada
Director and
Managing Executive Officer

Masaki Shuto
Director and
Managing Executive Officer

Tsuneaki Handa
Director and
Managing Executive Officer

Kiyoharu Yamada
Managing Executive Officer

Makoto Fujita
Managing Executive Officer

President and Chief Executive Officer
Kunio Suzuki
President

Director and Senior Executive Vice President
Kazuhisa Taguchi
Supervisor, President's Office and Imaging Media Div.; In charge of Kitakami Div. Internal Audit Dept. Energy Business Dept. and Technology & Environmental Dept. General Manager, Kitakami Div., Director responsible for Corporate Social Responsibility

Director and Senior Managing Executive Officer
Kanji Morioka
In charge of Raw Materials & Purchasing Dept.

Senior Managing Executive Officer
Kiyoshi Maeda
In charge of President's Office
General Manager, President's Office

Director and Managing Executive Officers
Junji Harada
In charge of Speciality Materials Div. and Intellectual Property Dept.; General Manager, Speciality Materials Div.

Masaki Shuto
In charge of Finance & Accounting Dept.

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

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

Makoto Fujita
Head, Kyoto Mill; Deputy General Manager, Imaging Media Div.

Outside Directors
Tomohisa Shinagawa

Soumitsu Takehara

Senior Executive Officers
Yutaka Oka
President & CEO, Diamic Co., Ltd.

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

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

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

Executive Officers
Shimpei Yamada
General Manager, Imaging Media Div. and General Manager, DI & Photo Sales Dept.

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

Kenji Manabe
Deputy General Manager, Kitakami Div., ; President & CEO, Kitakami Hitec Paper Corp.

Keiichi Sato
President & CEO, KJ SPECIALTY PAPER Co., Ltd.

Corporate Auditor
Kenji Oka

Outside Corporate Auditors
Tsuyoshi Inoue
Hiroaki Tonooka
Hatsuhito Kaneko

(as of June 28, 2016)

Company Data

Established:

April 1, 1898

Head Office:

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

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+81-3-5600-1469 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1539 *(International Sales Dept. Paper Division)*
+81-3-5600-1418 *(DI & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1413 *(Graphic Systems Dept. Imaging Media Division)*
+81-3-5600-1419 *(Speciality Materials Division)*
+81-3-5600-1451 *(Raw Materials & Purchasing Dept.)*

Sales Branch:

Osaka

Corporate Research Center:

Tsukuba R&D Laboratory
Kyoto R&D Laboratory
Process Development Laboratory

Mills:

Takasago
Kyoto
Hachinohe

Major Affiliates:

Domestic

Mitsubishi Paper Sales Co., Ltd.
Toho Tokushu Pulp Co., Ltd.
Hachinohe Paper Processing Co., Ltd.
Shin-Hokuryo Forest Products Co., Ltd.
Hachiryo Co., Ltd.
Hokuryo Co., Ltd.
Hakuryo Paper Technology Co., Ltd.
Takasago Paper Processing Co., Ltd.
Kitakami HiTec Paper Corp.
Diamic Co., Ltd.
Pictorico Co., Ltd.
Kyoryo Chemical Co., Ltd.
NAMITSU Co., Ltd.
Mitsubishi Paper Engineering Co., Ltd.
Ryoshi Co., Ltd.
MPM Shared-service Co., Ltd.
MPM CAE Center Co., Ltd.
KJ Specialty Paper Co., Ltd.
Ryoko Co., Ltd.
MPM Operation Co., Ltd.

Overseas

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

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 2016. 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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LIMITED