MITSUBISHI PAPER MILLS LIMITED

Annual Report 2014

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.

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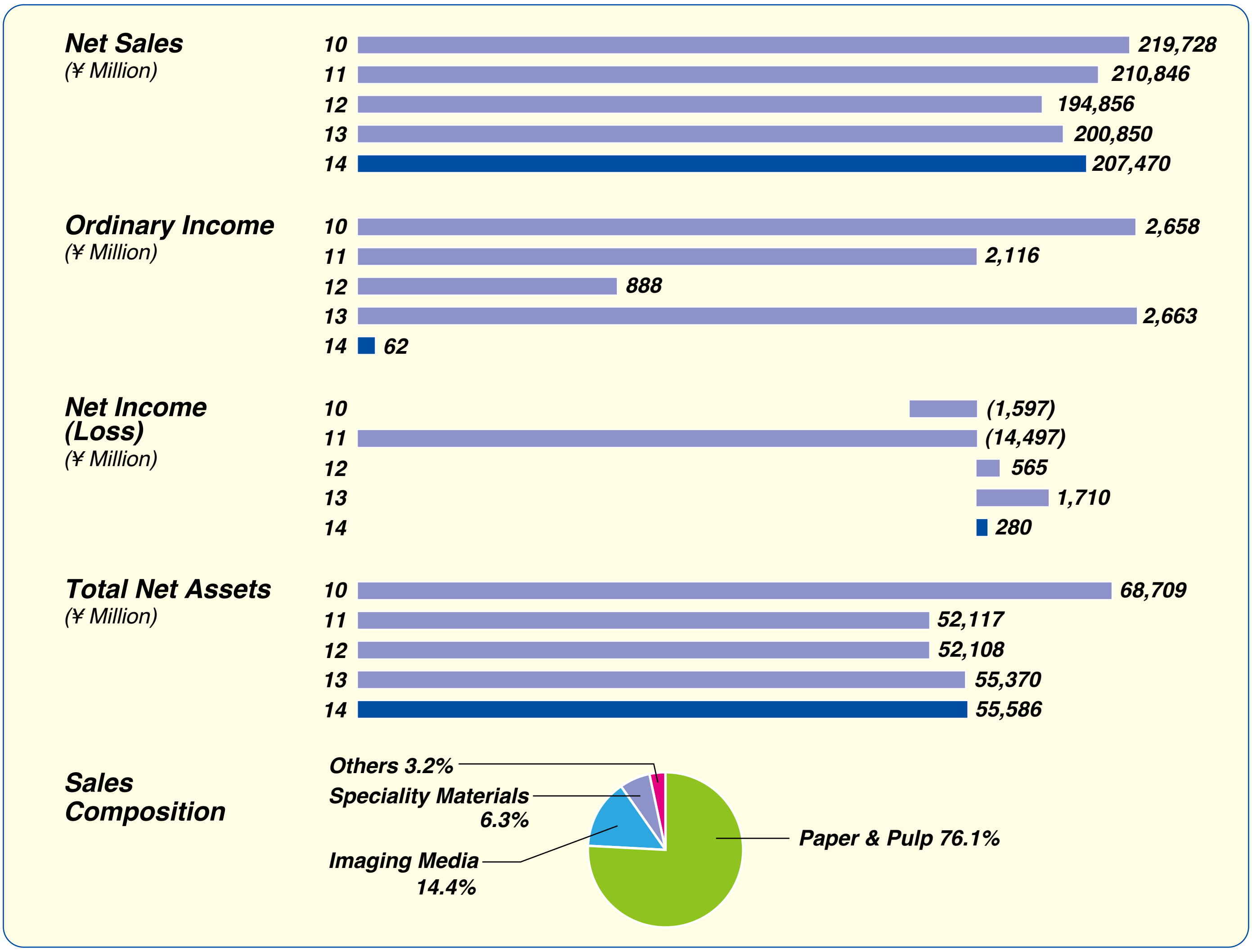
Financial Highlights (Consolidated)

	Millions of yen (1)		Thousands of U.S. dollars (1) and (2)
	2014	2013	**2014**
For the years ended March 31			
Net sales	**¥207,470**	¥200,850	**$2,015,842**
Ordinary income	**62**	2,663	**605**
Net income	**280**	1,710	**2,725**
Net income per share (in yen and dollars)	**0.82**	5.00	**0.00**
Cash dividends per share (in yen and dollars)	**–**	–	**–**
As at March 31			
Total assets	**¥258,599**	¥265,234	**$2,512,623**
Total net assets	**55,586**	55,370	**540,095**
Common stock	**32,756**	32,756	**318,269**
Number of shareholders	**17,987**	17,347	
Number of employees	**3,982**	4,133	

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 ¥102.92 = U.S.$1, as of March 31, 2014.



Message from the President

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

Overview of the Reporting Term

In the term under review, the Japanese economy showed a trend of gentle recovery, and the short-term business confidence in the paper and pulp industry is bouncing back. However, the paper and pulp industry remains in the stringent business environment, as the domestic demand for paper is shrinking structurally because of the spread of digitization and the industry is being globalized through fierce competitions.

This situation is different from the assumptions in "the First Medium-term Management Plan," which was designed for the emergencies just after the earthquake disaster, and so we revised strategies, etc. according to the changes in the business environment, produced "the Phase 2 Rolling Plan for the First Medium-term Management Plan" in November last year, and implemented some measures for "strengthening the revenue base for growth."

As for the mainstay printing paper business, we focused on maintaining the market conditions by recovering prices from the drop in the previous term and curtailing production continuously. Also, as for the imaging media business, we devoted ourselves to enhancing sales activities outside Japan as well as concentrating on the sales promotion of membrane substrate and cabin filters for automobiles, etc. in the speciality materials business.

As a result, consolidated net sales increased 3.3% from the previous term to ¥207,470 million (US$2,012 million).

As for profits and losses, consolidated ordinary income was ¥62 million (US$0.6 million), down 97.7% from the previous term, because raw fuel prices skyrocketed due to the yen depreciation, the sales volume of printing paper declined, and the accident occurred at equipment in a major factory, although there were some profit increasing factors, including the improvement of productivity at factories and the reduction in fixed costs, etc. While the settlement money for ending the lawsuit for claiming damages regarding the site of the old Nakagawa Mill was posted as a special loss, the extraordinary income from the sale of investment securities was posted. Consequently, current consolidated net profit was ¥280 million (US$2 million).

As for the nonconsolidated results of our company, net sales were ¥115,883 million (US$1,125 million), ordinary loss was ¥3,086 million (US$29 million), and net loss was ¥1,882 million (US$18 million).

In order to strengthen the revenue base, we restructured the Hachinohe Mill and the businesses of related subsidiaries on April 1, 2014, and solicited voluntary retirement in the first half, to concentrate on specific businesses and reduce labor cost.

Our Goals to Address

In the First Medium-term Management Plan, a period of one and a half years from the second half of the term ended March 2012 to the term ended March 2013 was defined as Phase 1 for “restoration,” and a period of two years from the term ended March 2014 to the term ending March 2015 is defined as Phase 2 for “strengthening the revenue base for growth.”

In Phase 1, we fully restored the Hachinohe Mill in a short period of time, recovered sales of the printing paper business, and curtailed interest-bearing debt, which augmented steeply, earlier than planned.

Since the autumn of 2012, imported paper has become popular because of the yen appreciation, and the printing paper market plummeted. We first reduced production output for adjusting the demand-supply balance, while considering that it was necessary to recover market conditions, and conducted the first price increase in March 2013. After the first price increase, we delineated the outlook for the business environment and a launch pad for our business was established. Accordingly, we revised strategies and produced the Phase 2 Rolling Plan in November 2013, while considering that it was necessary to respond to the changes in the business environment. The project period will be till the term ending March 2016, and we will carry out the following 5 actions:

(1) To implement the structural reform of the Hachinohe Mill
(2) To enhance the activities for making inroads into overseas markets
(3) To inject resources to the niche markets of promising products
(4) To promote non-commoditization
(5) To discuss the start of FIT businesses

For the structural reform of the Hachinohe Mill, we decided to spin off this section into a separate company, and established MPM Operation Co., Ltd. on April 1, 2014. For FIT businesses, we established an Energy Business Dept. on April 1, 2014, to start a full-scale discussion. In addition, in order to attain the goal of strengthening the revenue base, we decided to promote voluntary retirement from 200 employees in the first half.

On the other hand, our corporate group considers that it is necessary to not only secure profits, but also fulfill social responsibilities toward various stakeholders, in order for each firm to survive as a member of society.

We recognize that the purpose of CSR activities is to improve our corporate value by winning the trust and sympathy of people, promote our characteristic CSR activities, operate and enrich them.

In the term under review, we set the three primary goals of “improving CS that reflects the needs of users,” “enhancing the activities for eradicating unsafe behavioral disasters,” and “following laws and regulations thoroughly,” and pursued them. As for products, we made efforts to enrich environmentally friendly products, including FSC forest certified paper and Thermal Digiplater. Considering that it is necessary to comply with laws and regulations more strictly in the environment surrounding our company, we established the Legal Affairs Office on January 1, 2014.

In the term ending March 2015, we will focus on the improvement of safety performance and the thorough compliance of related regulations, set the primary objectives of “enhancing the activities for eradicating unsafe behavioral disasters” and “following laws and regulations thoroughly,” and promote the activities for improving our corporate value.

Forecasts

In the Fiscal 2014, we will implement some measures for completing the Phase 2 Rolling Plan of the First Medium-term Management Plan, and make efforts to improve profitability further. As for consolidated results, we estimate that net sales will be ¥220 billion (US$2,095 million), operating income will be ¥4.5 billion (US$42 million), ordinary income will be ¥2.5 billion (US$23 million), and net income will be ¥0 billion (US$0 million).

For the above earnings forecast, it is assumed that exchange rate will be 105 yen/US dollar and 140 yen/euro.

The earnings forecast is based on currently available information, and includes risks and uncertainties. Accordingly, there is a possibility that actual results will be different from forecasted values due to various factors.

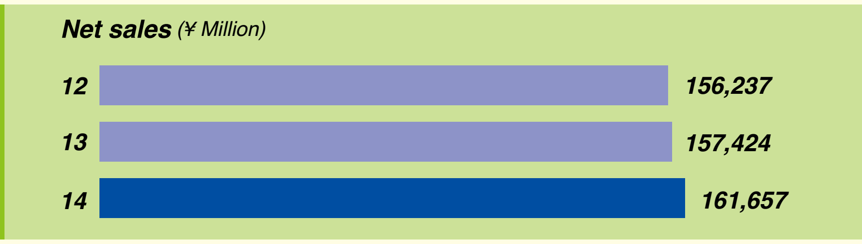
June 2014

鈴木邦夫

Kunio Suzuki,
President & C.E.O.

Breakdown of Operations by Division

Paper and Pulp Divisions



As for our core product, printing papers, we adjusted prices twice in the fiscal year under review in Spring and Autumn, due to the significant decline of the domestic market in previous year as well as spiked fuel price mainly effected by continued yen depreciation. However, both sales volume and amount decreased mainly because of maintaining reduced production at the main factory, Hachinohe Mill, in order to maintain market conditions.

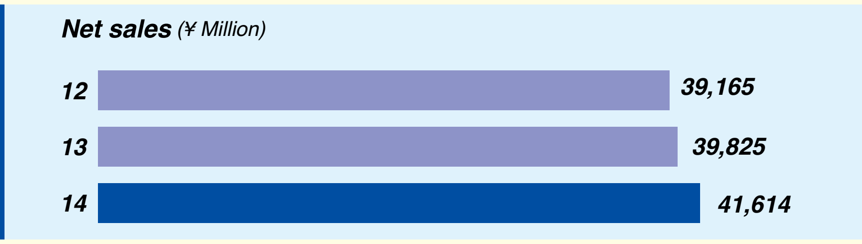
As for communication papers, both sales volume and amount increased mainly because of sales recovery of copier papers and also focused efforts in exporting Production Ink Jet papers by newly-organized International Sales Department.

As for European subsidiaries, although sales volume of carbonless copy papers and thermal papers decreased in Europe as the major market, sales amount increased due to the yen depreciation.

As for commercial pulp, sales volume and amount increased.

Consequently, the total net sales of the Paper and Pulp Divisions increased 2.7% from the previous term to ¥161,657 million (US$1,570 million).

Imaging Media Division



In the domestic market, the performance of photographic sensitive and platemaking materials was healthy, and sales amount was nearly equal to that in the previous year.

In overseas markets, photographic sensitive materials were affected by the rapid worsening of the market environment as competition became fierce, but sales amount increased because of the overseas sales promotion of inkjet printing paper and the yen depreciation.

Consequently, the total net sales of the Imaging Media Division increased 4.5% from the previous term to ¥41,614 million (US$404 million).

Speciality Materials Division

As for non-woven, the sales of our core products, including membrane substrate grew. As for filters, the sales of cabin filters for automobiles and filters for home appliances increased, thanks to sales promotion.

As for rewritable media, the sales of products for overseas markets increased, but domestic demand declined, and sales amount decreased slightly.

As for specialty paper, sales amount increased, because of the sales growth of the base paper for decorative laminates and wall coverings base, etc.

Consequently, the total net sales of the Specialty Materials Division increased 12.7% from the previous term to ¥16,034 million (US$155 million).

Other Divisions

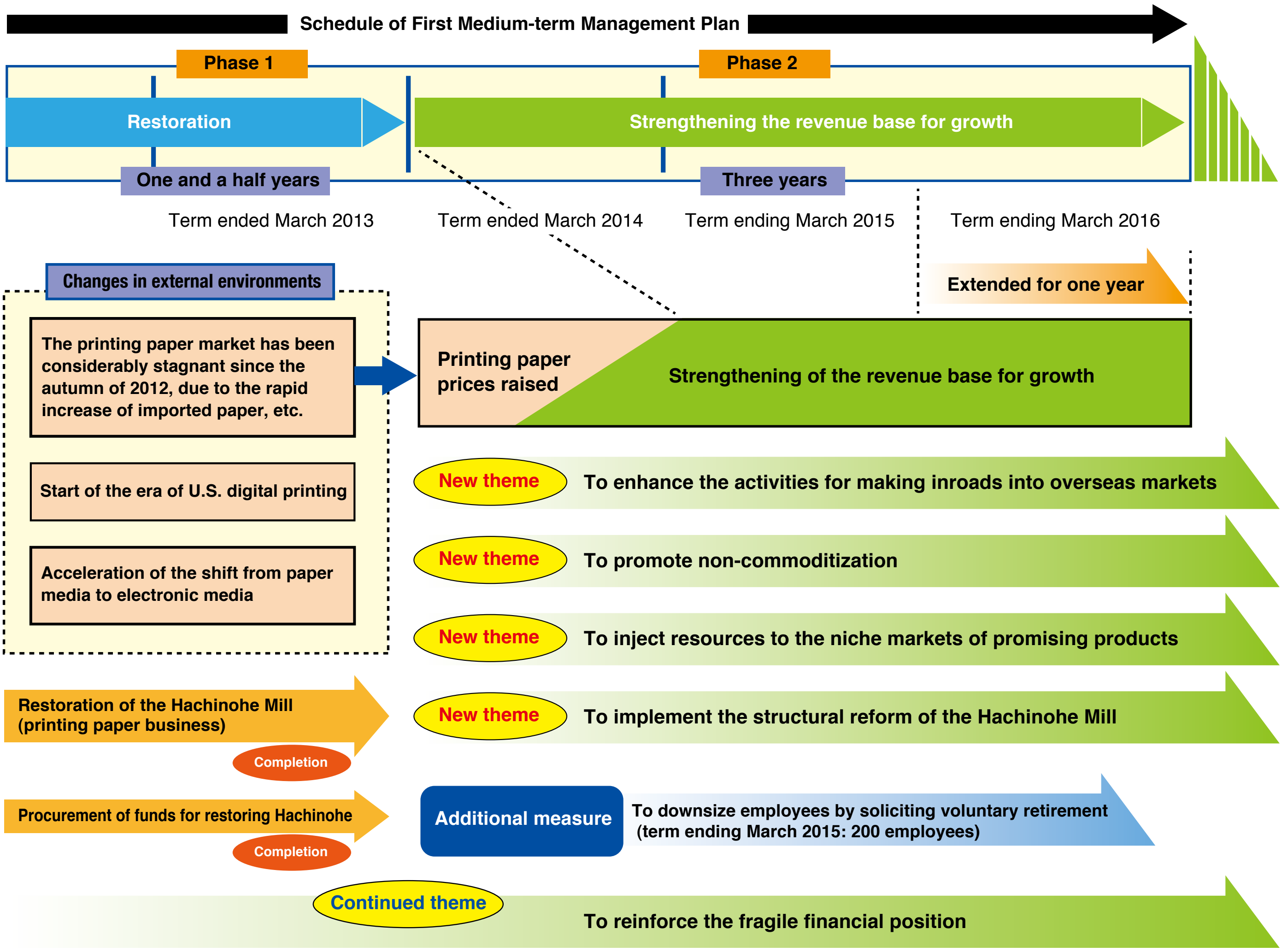
Due to the decline in sales of subsidiaries in the fields of engineering, warehousing, and transportation, etc., net sales decreased 3.1% from the previous term to ¥15,985 million (US$155 million).

Progress Made under Medium-term Management Plan

The medium-term business strategy of our corporate group is to complete the Phase 2 Rolling Plan of the First Medium-term Management Plan produced in November 2013, and we are making efforts to attain the final goals for the term ending March 2016.

The details and progress of the Phase 2 Rolling Plan of the First Medium-term Management Plan are as follows:

(1) Schedule and Basic Policies



(2) Values in the Basic Plan

	Term ended Mar. 2014	Term ending Mar. 2015	Term ending Mar. 2016
	Upper row: planned	Upper row: planned	Planned
	Lower row: results	**Lower row: forecasted**	
Net sales	210 billion yen	220 billion yen	230 billion yen
	207.5 billion yen	**220 billion yen**	
Operating income	1.7 billion yen	5.7 billion yen	8.5 billion yen
	0.5 billion yen	**4.5 billion yen**	
Ordinary income	1 billion yen	3.5 billion yen	6 billion yen
	0.1 billion yen	**2.5 billion yen**	
Interest-bearing debt	150 billion yen	145 billion yen	140 billion yen
	149 billion yen	**145 billion yen**	
D/E ratio	2.8 times	2.6 times	2.3 times
	2.8 times	**2.6 times**	

		Assumed values for the Phase 2 of the Medium-term plan (Oct. 2013)	Results for the term ended Mar. 2014	Assumed values for the term ending Mar. 2015
Exchange rate	US dollar	100 yen/USD	100.00 yen/USD	105 yen/USD
	Euro	125 yen/euro	134.01 yen/euro	140 yen/euro
	Australian dollar	93 yen/AUD	93.30 yen/AUD	93 yen/AUD
Crude oil	Dubai	$108/BBL	$105/BBL	$108/BBL

(3) Activities for the New Theme 1

To enhance the activities for making inroads into overseas markets → **Target ratio of overseas net sales: 35%**

To enter the U.S. digital printing market on a full-scale basis
(Production Inkjet paper / distributors in the U.S. / International Sales Dept.)

Promising thermal paper to secure the 3rd largest market share in the world (exerting the synergy between Germany and Japan)

To promote non-commoditization

Increase in the ratio of planographic products / promotion of the shift to communication paper

To inject resources to the niche markets of promising products (China, South Korea, Taiwan, and Mexico, etc.)

Full-scale entry to the functional film field by leveraging new products, such as touch panels
Establishment of cross-border production and selling systems for cabin filters for automobiles
Development of mass-production systems for membrane substrate / global promotion of LiB separators

(4) Activities for the New Theme 2

To implement the structural reform of the Hachinohe Mill

Economic benefits	Term ending Mar. 2015 1.3 billion yen/year	Term ending Mar. 2016 2.9 billion yen/year	Final economic benefits 5.5 billion yen/year
Reorganization of the Hachinohe Mill into a separate company	0.6 billion yen/year	1.2 billion yen/year	2.6 billion yen/year
Energy saving	——	0.1 billion yen/year	0.3 billion yen/year
Improvement of blending methods, etc.	0.4 billion yen/year	0.9 billion yen/year	1.1 billion yen/year
Improvement of distribution costs	0.1 billion yen/year	0.3 billion yen/year	0.3 billion yen/year
Reduction of other costs	0.2 billion yen/year	0.4 billion yen/year	——
Energy businesses	**Onset of effects from 2017 on**		**1.2 billion yen/year**

(5) Regarding the Solicitation of Voluntary Retirement

To reduce the number of employees

4,133 as of the end of Mar. 2013 ➡ 3,982 as of the end of Mar. 2014 ➡ 3,690 as of the end of Mar. 2015 (planned)

A decrease of 151

A decrease of about 300
(out of which, 200 is the number of voluntary retired employees)

The number of employees will decrease by about 450 in two years.

Economic benefits due to the reduction in labor costs based on voluntary retirement (amount of the effect on the medium-term plan under review)

Term ending Mar. 2015 0.9 billion yen ➡ **This will contribute fully to the performance in the term ending Mar. 2016.** ➡ **Term ending Mar. 2016 1.6 billion yen**

(6) Strategies for Each Business — Printing Paper Business

Target value for the Printing Paper Division: Operating income for the term ending Mar. 2016: 4.8 billion yen

☆ **To secure profit by raising product prices**

Increase in prices of printing and communication papers ➡ **Full exertion of the effects of price increase Improvement of quantities and combinations**

☆ **To implement the structural reform of the Hachinohe Mill**

Reduction in labor costs by reorganizing the Hachinohe Mill into a separate company and restructuring subsidiaries

Establishment of MOC in Apr. 2014 ➡ **Front-loaded exertion of effects**

☆ **To design and execute global strategies through the establishment of the International Sales Dept. Oct. 2013**

Expansion of export of Production IJ (4,000 tons/month for the term ending Mar. 2016)
→ To promote market cultivation, expand businesses in the U.S. and Australia, etc., and release new products to diversify the purposes of use

Over 700 tons/month in Mar. 2014 ➡ **1,800 tons/month for Production IJ** ➡ **4,000 tons/month for Production IJ**

Sales promotion of FSC products, white paperboards for food products, paper for printed books and high-class catalogue paper, etc.

Over 15,000 tons/month for FSC in Mar. 2014 ➡ **Sales promotion of FSC and new products** ➡

(7) Strategies for Each Business — Imaging Business

Target value for the Imaging Media Division: Operating income for the term ending Mar. 2016: 2.3 billion yen

☆ **To enter growing fields by utilizing our imaging technology**

To make inroads into growing fields, including functional films

Development of production lines in the term ended Mar. 2014 → Start of full-scale delivery in Apr. 2014

☆ **To further enrich existing products**

To expand businesses for the Inkjet minilab, which is rapidly growing in the major retail chains in the U.S.

Start of sale → Worldwide sales promotion

To strengthen the alliance with FUJIFILM → To enhance the effects of alliance

To increase new customers by producing a wider array of platemaking materials

New lineup of TDP-II
Fully process-less CTP system combining the use of plates and platemaking films → Active promotion outside Japan

☆ **New additional strategy: To enter the field of medical device production and sale**

To obtain the second-class medical device marketing authorization holder → To release the indwelling needle fixating tape “DiaEkur” → To introduce products after the completion of development

(8) Strategies for Each Business — Speciality Materials Business

Target value for the Speciality Materials Division: Consolidated operating income for the term ending Mar. 2016: 1 billion yen

☆ **Cross-border production and sale of functional filter products**

To concentrate resources to the development of systems for producing cabin filters for automobiles in Japan, China, and Mexico

To steadily increase production and shipment volumes in China (MFZ), exceeding planned values → To develop supply systems in Mexico (MPJ) from Jun. 2014 → To start global operation based on the 3 regions

☆ **To establish a system for mass-producing membrane substrate and sell them globally**

To accelerate the sale of RO film supports in China, Europe, the U.S. and South Korea

To receive stable orders from major customers → To keep pace with major customers production increase → Sales promotion and productivity boost

☆ **To develop mass-production system of separators for secondary batteries and conduct sales promotion for these products**

To establish solid operating basis in the battery market

To accomplish successful entry in the capacitor market → To collaborate with leading battery makers → To launch competitive products in the lithium ion batteries market

☆ **To promote the export by the major brand of KJ specialty paper**

To sell the base paper for decorative laminates by leveraging the yen depreciation, and promote the sales of high-quality masking tape backing in Europe

To release new products → To concentrate on overseas operation → To expand to processed products

Corporate Social Responsibility (CSR)

Overview of Our CSR Activities

At the Mitsubishi Paper Mills Group, we recognize that the fulfillment of our CSR is vital in winning the trust and understanding of our stakeholders and thereby enhancing the Group's enterprise value. Accordingly, we promote distinctive CSR activities while working to expand and enhance our initiatives in this area.

In fiscal 2013 our top priorities were redoubling efforts to eradicate unsafe practices at production sites, raising customer satisfaction levels by carefully addressing user needs and initiatives to ensure strict legal compliance. With regard to products, we took steps to expand our lineup of FSC forest-certified paper products and other ecologically friendly products such as Thermal DigiPlate System. Furthermore, in response to the company's environment, the Legal Department was established in January 2014 in recognition of the need for stricter legal compliance.

In fiscal 2014 we will focus on improving safety-related performance and thorough legal compliance, with the priority activities, "redoubling efforts to eradicate unsafe practices at production sites," and "strict legal compliance." We will take measures to raise our enterprise value in the areas of compliance, risk management, safety & health, the environment, product safety, product quality, human rights & labor rights, information, and social contributions, under the following five basic policies, 1) strengthening our CSR management foundation, 2) promoting environmental management, 3) raising customer satisfaction levels by carefully addressing user needs, 4) taking further measures to provide our employees with a pleasant working environment, and 5) pursuing activities that contribute to society.

Special Features

Increasing Awareness of the FSC Mark

We attended the Eco Products 2013 held at Tokyo Big Sight in December 2013. With cooperation from our customers, we collected various products with the FSC mark that people are familiar with, and displayed them in our booth, in order to show visitors the dissemination of the FSC mark.

Booth of the Mitsubishi Paper Mills Group

Mori-Smile® Projects

In August 2001, the Group's Hachinohe Mill (Aomori Prefecture) became the first paper mill in Japan to receive the FSC's Chain-of-Custody (CoC) certification and has been providing FSC-certified paper to the present. In addition, we are undertaking Mori-smile® projects, which apply the Mori-smile® name to our various FSC-certified forest-based services.

The FSC Certification Forest Supporter System

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

Original Brands

Various companies are working to further invigorate forests by following an "afforestation + usage" method in local forests that involves tree-planting under the "OO Forest" and other labels. To this end, we supply "original brand" paper products that use trees harvested from these forests.

The Ecosystem Academy

This is environmental education that aims to include everything from forestry to manufacturing that utilizes the forests' wood, under the theme of "Nature's blessing and collaboration between nature and industry." The main pillars of the Academy are hands-on-type learning experience sessions, forest research and survey, and environmental seminars using FSC certified forests.

Thermal DigiPlate System

Thermal Digiplate is the world's first complete processless platesetter and film imager. The thermal head works directly on thermal-sensitive paper to create sharp images. It uses less energy compared to other printing technologies, and it also comes in a compact package. The environmental load is further reduced because there is no need for chemical development, toner or ink ribbons.

Topics

Visit by Managing Director of FSC International

On March 11, 2014, Mr. Kim Carstensen, Director General of FSC International, made a courtesy visit to the headquarters of Mitsubishi Paper Mills Limited.

After viewing our FSC-certified products in the gallery on the 11th floor of the headquarters, Mr. Kim exchanged opinions with President Suzuki, Representative Director Mizuno and others, regarding the future activities of FSC International and on how to further increase awareness of FSC.

In front of FSC-certified products
(From left to right: Mr. Maezawa, Executive Director of FSC Japan; Mr. Kim, Director General of FSC International; President Suzuki; Mr. Ota, Chairman of FSC Japan; Representative Director Mizuno)

After the meeting, Mr. Kim, Managing Director of FSC International, presented President Suzuki with a Letter of Gratitude in recognition of the long effort the company has put into FSC.

Mitsubishi Paper Mills Receives DBJ's Highest Environmental Responsibility Rating Two Years in a Row

Our company received the highest environmental responsibility rating from the Development Bank of Japan (DBJ) for two years in a row for the following measures:

(1) Conducting assessments and accurately understanding the relationship between our business and ecosystem services
(2) Understanding our business's impact on natural capital, including the supply chain, and
(3) Establishing a system for checking sustainability in the entire process, including wood chips and pulp.

Our Mills and Their Product Lines

SHIRAKAWA SITE

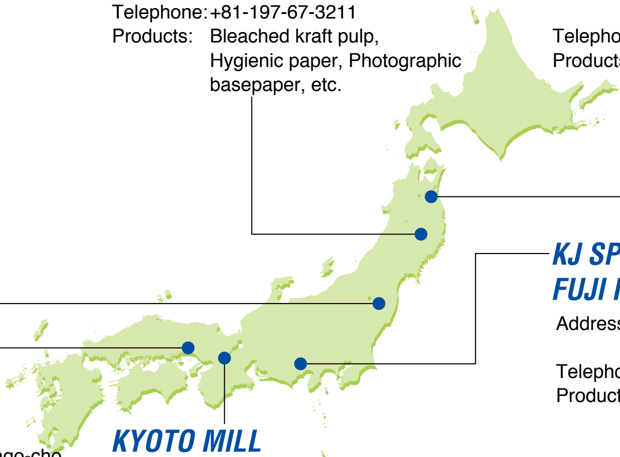
Address: 3, Maeyamanishi, Nishigo-mura, Nishi-Shirakawa-gun, Fukushima 961-8054
Telephone: +81-248-22-8111
Products: Transformer board

KITAMI 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

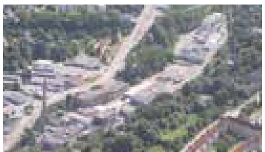
Address: 6-6, Kaiden 1-chome, Nagaokakyo-shi, Kyoto 617-8666
Telephone: +81-75-951-1181
Products: Color photographic paper, Graphic arts materials, Inkjet photo paper, etc.

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
	2014	2013	2012	2011	2010	2009	**2014**
For the years ended March 31							
Net sales	**¥207,470**	¥200,850	¥194,856	¥210,846	¥219,728	¥253,102	**$2,015,842**
Operating income	**473**	3,332	2,164	3,477	4,253	7,110	**4,603**
Ordinary income	**62**	2,663	888	2,116	2,658	4,499	**605**
Net income (loss)	**280**	1,710	565	(14,497)	(1,597)	1,168	**2,725**
Net income (loss) per share (in yen and dollars)	**0.82**	5.00	1.65	(42.39)	(4.67)	3.41	**0.00**
As at March 31							
Total assets	**¥258,599**	¥265,234	¥276,305	¥248,506	¥282,131	¥294,254	**$2,512,623**
Total net assets	**55,586**	55,370	52,108	52,117	68,709	70,436	**540,095**

Consolidated Balance Sheets

As at March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
ASSETS			
Current assets:			
Cash and bank deposits (Note 3 (12))	**¥8,382**	¥5,337	**$81,447**
Receivables:			
Trade notes and accounts (Note 11)	**42,424**	46,646	**412,206**
Other	**3,271**	2,523	**31,790**
	45,696	49,170	**443,996**
Less: Allowance for doubtful accounts	**(264)**	(392)	**(2,570)**
	45,431	48,777	**441,425**
Inventories	**51,879**	52,381	**504,080**
Deferred income taxes (Note 16)	**1,261**	1,225	**12,256**
Other	**2,372**	1,599	**23,052**
Total current assets	**109,328**	109,321	**1,062,262**
Property, plant and equipment (Note 4):			
Land	**23,198**	22,626	**225,400**
Buildings and structures	**98,410**	95,322	**956,182**
Machinery and equipment	**362,157**	346,782	**3,518,822**
Construction in progress	**1,107**	1,639	**10,763**
Leased assets	**3,086**	2,675	**29,992**
Other	**10,170**	9,492	**98,818**
	498,130	478,540	**4,839,979**
Less: Accumulated depreciation	**(373,785)**	(351,882)	**(3,631,804)**
Accumulated impairment losses	**(540)**	(540)	**(5,248)**
Net property, plant and equipment	**123,805**	126,117	**1,202,926**
Investments and other assets:			
Investments in securities (Notes 4, 12 and 13)	**19,213**	24,101	**186,681**
Investments in unconsolidated subsidiaries and affiliated companies	**1,015**	1,014	**9,867**
Long-term loans	**815**	808	**7,922**
Net defined benefit asset (Note 15)	**471**	–	**4,579**
Less: Allowance for doubtful accounts	**(1,055)**	(1,076)	**(10,251)**
Deferred income taxes (Note 16)	**1,657**	1,615	**16,105**
Other	**3,347**	3,332	**32,528**
Total investments and other assets	**25,465**	29,796	**247,433**
Total assets	**¥258,599**	¥265,234	**$2,512,623**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 12)	**¥53,227**	¥58,086	**$517,172**
Current portion of long-term debt (Note 12)	**20,675**	16,574	**200,892**
Lease obligations	**378**	321	**3,675**
Payables:			
Trade notes and accounts (Note 12)	**26,074**	26,850	**253,344**
Other	**4,388**	3,424	**42,637**
Accrued expenses	**6,969**	7,633	**67,715**
Income taxes payable	**390**	264	**3,796**
Other	**3,090**	3,807	**30,025**
Total current liabilities	**115,194**	116,962	**1,119,259**
Long-term liabilities:			
Long-term debt (Note 12)	**74,417**	79,998	**723,066**
Lease obligations	**1,864**	1,716	**18,115**
Accrued retirement benefits for employees (Note 3 (14) and 15)	**–**	8,473	**–**
Accrued retirement benefits for directors and statutory auditors	**54**	55	**533**
Reserve for loss on dissolution of employee pension fund	**206**	101	**2,004**
Net defined benefit liability (Note 3 (14) and 15)	**8,872**	–	**86,204**
Deferred income taxes (Note 16)	**487**	620	**4,736**
Asset retirement obligations	**877**	873	**8,521**
Other	**1,037**	1,061	**10,084**
Total long-term liabilities	**87,818**	92,901	**853,267**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 900,000,000 shares at March 31, 2014 and 2013			
Issued: 342,584,332 shares at March 31, 2014 and 2013	**32,756**	32,756	**318,269**
Capital surplus	**7,523**	7,523	**73,102**
Retained earnings	**9,164**	8,883	**89,041**
Less: Treasury stock, at cost	**(141)**	(138)	**(1,375)**
Total shareholders' equity	**49,302**	49,024	**479,038**
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	**2,804**	3,775	**27,247**
Translation adjustments	**1,576**	626	**15,318**
Accumulated remeasurements of defined benefit plans	**(924)**	(897)	**(8,981)**
Total accumulated other comprehensive income	**3,456**	3,504	**33,585**
Minority interests in consolidated subsidiaries	**2,827**	2,841	**27,472**
Total net assets	**55,586**	55,370	**540,095**
Total liabilities and net assets	**¥258,599**	¥265,234	**$2,512,623**

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

Consolidated Statements of Operations

For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Net sales	**¥207,470**	¥200,850	**$2,015,842**
Cost of sales	**178,273**	168,126	**1,732,151**
Gross profit	**29,197**	32,724	**283,690**
Selling, general and administrative expenses	**28,723**	29,391	**279,086**
Operating income	**473**	3,332	**4,603**
Other income (expenses):			
Interest and dividend income	**614**	656	**5,968**
Interest expense	**(2,440)**	(2,634)	**(23,710)**
Losses on disposal of property, plant and equipment (Note 6)	**(241)**	(210)	**(2,348)**
Gains on sales of investments in securities	**3,099**	825	**30,114**
Write-downs of investments in securities	**(65)**	(33)	**(639)**
Special severance payments	**(36)**	(21)	**(357)**
Gain on negative goodwill (Note 17 (5))	**199**	33	**1,933**
Subsidy income (Note 7)	**889**	236	**8,645**
Cost for business structure reform (Note 8)	**(464)**	–	**(4,515)**
Legal settlement (Note 9)	**(2,027)**	–	**(19,699)**
Other, net	**1,304**	551	**12,670**
Total	**829**	(594)	**8,062**
Income before income taxes and minority interests	**1,303**	2,737	**12,666**
Income taxes:			
Current	**484**	480	**4,709**
Deferred (Note 16)	**341**	420	**3,314**
	825	901	**8,024**
Income before minority interests	**477**	1,836	**4,642**
Minority interests in income of consolidated subsidiaries	**197**	126	**1,916**
Net income	**¥280**	¥1,710	**$2,725**

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

Consolidated Statements of Comprehensive Income

For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Income before minority interests	**¥477**	¥1,836	**$4,642**
Other comprehensive income:			
Net unrealized gains on available-for-sale securities	**(972)**	2,105	**(9,448)**
Translation adjustments	**861**	399	**8,371**
Remeasurements of defined benefit plans	**(209)**	(702)	**(2,037)**
Share of other comprehensive income of companies accounted for by the equity method	**169**	72	**1,646**
Total other comprehensive income	**(150)**	1,874	**(1,467)**
Comprehensive income	**326**	3,711	**3,174**
Comprehensive income attributable to Mitsubishi Paper Mills Limited	**88**	3,400	**856**
Comprehensive income attributable to minority interests	**¥238**	¥311	**$2,318**

	Yen		U.S. dollars (Note 2)
	2014	2013	**2014**
Amounts per share:			
Net income — basic (Note 3 (11))	**¥0.82**	¥5.00	**$0.00**
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, 2014 and 2013

		Millions of yen										
		Shareholders' equity					Total accumulated other comprehensive income					
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2012	342,584,332	¥32,756	¥19,716	¥(4,989)	¥(137)	¥47,345	¥1,949	¥189	–	¥2,138	¥2,624	¥52,108
Cumulative effect of changes in accounting policies				(30)		(30)			(354)	(354)	(79)	(464)
Balance at the beginning of the term reflecting the change of accounting policies		32,756	19,716	(5,019)	(137)	47,315	1,949	189	(354)	1,784	2,544	51,644
Changes during the year:												
Transfer from capital surplus to accumulated deficit			(12,193)	12,193								–
Net income				1,710		1,710						1,710
Acquisition of treasury stock					(1)	(1)						(1)
Changes in items other than shareholders' equity							1,826	436	(543)	1,720	297	2,017
Total changes during the year	–	–	(12,193)	13,903	(1)	1,709	1,826	436	(543)	1,720	297	3,726
Balance at April 1, 2013	342,584,332	¥32,756	¥7,523	¥8,883	¥(138)	¥49,024	¥3,775	¥626	¥(897)	¥3,504	¥2,841	¥55,370
Changes during the year:												
Net income				**280**		**280**						**280**
Acquisition of treasury stock					**(2)**	**(2)**						**(2)**
Changes in items other than shareholders' equity							**(971)**	**950**	**(26)**	**(48)**	**(13)**	**(61)**
Total changes during the year	**–**	**–**	**–**	**280**	**(2)**	**277**	**(971)**	**950**	**(26)**	**(48)**	**(13)**	**216**
Balance at March 31, 2014	**342,584,332**	**¥32,756**	**¥7,523**	**¥9,164**	**¥(141)**	**¥49,302**	**¥2,804**	**¥1,576**	**¥(924)**	**¥3,456**	**¥2,827**	**¥55,586**

		Thousands of U.S. dollars										
		Shareholders' equity					Total accumulated other comprehensive income					
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Accumulated remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2013	342,584,332	$318,269	$73,102	$86,315	$(1,350)	$476,337	$36,688	$6,085	$(8,720)	$34,053	$27,605	$537,996
Changes during the year:												
Net income				**2,725**		**2,725**						**2,725**
Acquisition of treasury stock					**(24)**	**(24)**						**(24)**
Changes in items other than shareholders' equity							**(9,440)**	**9,233**	**(261)**	**(468)**	**(133)**	**(601)**
Total changes during the year	**–**	**–**	**–**	**2,725**	**(24)**	**2,700**	**(9,440)**	**9,233**	**(261)**	**(468)**	**(133)**	**2,099**
Balance at March 31, 2014	**342,584,332**	**$318,269**	**$73,102**	**$89,041**	**$(1,375)**	**$479,038**	**$27,247**	**$15,318**	**$(8,981)**	**$33,585**	**$27,472**	**$540,095**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
I Cash flows from operating activities:			
Income before income taxes and minority interests	**¥1,303**	¥2,737	**$12,666**
Depreciation and amortization	**11,214**	11,137	**108,961**
Accrued retirement benefits for employees	**(7,697)**	79	**(74,792)**
Increase in liabilities for net defined benefit liability	**6,858**	–	**66,641**
Decrease in assets for net defined benefit asset	**65**	–	**638**
Accrued retirement benefits for directors and statutory auditors	**(1)**	(9)	**(10)**
Interest and dividend income	**(614)**	(656)	**(5,968)**
Interest expense	**2,440**	2,634	**23,710**
Subsidy income (Note 7)	**(889)**	(236)	**(8,645)**
Gain on negative goodwill (Note 17 (5))	**(199)**	(33)	**(1,933)**
Gains on sales of investments in securities	**(3,099)**	(825)	**(30,114)**
Losses on disposal of property, plant and equipment (Note 6)	**241**	210	**2,348**
Cost for business structure reform (Note 8)	**464**	–	**4,515**
Legal settlement (Note 9)	**2,027**	–	**19,699**
Decrease in trade accounts receivable	**4,901**	3,516	**47,627**
Decrease (increase) in inventories	**3,208**	(5,109)	**31,170**
Decrease in trade accounts payable	**(2,095)**	(4,431)	**(20,364)**
Other, net	**(2,585)**	1,074	**(25,122)**
Sub-total	**15,543**	10,086	**151,026**
Interest and dividends received	**645**	631	**6,267**
Proceeds from subsidy (Note 7)	**889**	792	**8,645**
Interest paid	**(2,499)**	(2,584)	**(24,288)**
Income taxes paid	**(328)**	(578)	**(3,196)**
Loss on natural disaster paid	**–**	(1,078)	**–**
Pay of legal settlement (Note 9)	**(2,027)**	–	**(19,699)**
Net cash provided by (used in) operating activities	**12,222**	7,269	**118,755**
II Cash flows from investing activities:			
Acquisition of property, plant and equipment	**(6,525)**	(16,474)	**(63,399)**
Proceeds from sales of property, plant and equipment	**72**	55	**699**
Purchases of investment securities	**(40)**	(32)	**(388)**
Proceeds from sales of investment securities	**5,976**	3,840	**58,073**
Purchases of shares in an affiliated company and subsidiaries	**(78)**	(44)	**(764)**
Loans made	**(365)**	(540)	**(3,555)**
Proceeds from collection of loans	**355**	351	**3,458**
Proceeds from collection of security deposits	**–**	464	**–**
Other, net	**171**	197	**1,663**
Net cash (used in) provided by investing activities	**(433)**	(12,182)	**(4,213)**
III Cash flows from financing activities:			
Decrease in short-term bank loans	**(6,081)**	(9,847)	**(59,085)**
Proceeds from long-term debt	**14,361**	27,542	**139,544**
Repayment of long-term debt	**(16,747)**	(19,688)	**(162,721)**
Redemption of bonds	**–**	(650)	**–**
Repayment of lease obligations	**(367)**	(324)	**(3,567)**
Acquisition of treasury stock	**(30)**	(1)	**(296)**
Payments of cash dividends by subsidiaries to minority shareholders	**(24)**	(4)	**(234)**
Net cash (used in) provided by financing activities	**(8,888)**	(2,973)	**(86,360)**
IV Effect of foreign currency translation on cash and cash equivalents	**244**	51	**2,372**
V Net increase (decrease) in cash and cash equivalents	**3,144**	(7,835)	**30,554**
VI Cash and cash equivalents at beginning of year	**5,237**	13,073	**50,893**
VII Cash and cash equivalents at end of year (Note 3 (12))	**¥8,382**	¥5,237	**$81,447**

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 ¥102.92 = U.S.$1, the exchange rate prevailing as of March 31, 2014. 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 35 subsidiaries as of March 31, 2014 (35 as of March 31, 2013). The accompanying consolidated financial statements include the accounts of the Company and 25 (25 for 2013) of its subsidiaries for the year ended March 31, 2014 (together, hereinafter referred to as the "Companies").

The accounts of the remaining 10 (10 for 2013) unconsolidated subsidiaries for the year ended March 31, 2014 have been excluded from consolidation since the aggregate amounts of these subsidiaries in terms of combined assets, net sales, retained earnings and net income were immaterial in relation to those of the consolidated financial statements of the Companies.

Mitsubishi Paper Holding (Europe) GmbH and other four (4 for 2013) subsidiaries are consolidated using the financial statements as of the respective fiscal year end which falls on December 31 and necessary adjustments are made to their adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

(2) Consolidation and elimination

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

Elimination of investments in shares of consolidated subsidiaries, together with the underlying equity in net assets of such subsidiaries, has been made to include equity in net income of subsidiaries subsequent to the respective dates of acquisition in the consolidated statements of income. Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, unless specifically identified and reclassified to the applicable accounts from which the value originates, is treated as 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 12 affiliates as of March 31, 2014 (12 for 2013). 2 affiliated companies were accounted for by the equity method.

However, the remaining 10 (10 for 2013) subsidiaries and 10 (10 for 2013) 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 point standard is mainly 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, 2014 and 2013 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and bank deposits	**¥8,382**	¥5,337	**$81,447**
Time deposits with maturities of over 3 months	**–**	(100)	**–**
Cash and cash equivalents	**¥8,382**	¥5,237	**$81,447**

(13) Dividends

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

(14) Accounting changes

(i) Accounting Standard for Retirement Benefits

Effective the year ended March 31, 2014, the Company has applied "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26), and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), both issued on May 17, 2012.

Under the current requirements, actuarial gains and losses, past service costs and transitional obligation that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses, past service costs and transitional obligation that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (net defined benefit liability) or asset (net defined benefit asset).

The revised accounting standard does not change how to recognize actuarial gains and losses, past service costs and transitional obligation in profit or loss. Those amounts would be recognized in profit or loss over a certain period. However, actuarial gains and losses, past service costs and transitional obligation that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income, and actuarial gains and losses, past service costs and transitional obligation that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

As a result, as of March 31, 2014, the Companies recorded net defined benefit asset of ¥471 million ($4,579 thousand), net defined benefit liability of ¥8,872 million ($86,204 thousand), increased accumulated other comprehensive income by ¥144 million ($1,401 thousand) and decreased minority interests by ¥54 million ($533 thousand).

(ii) Revision to "Employee Benefits" of IAS No. 19

For some overseas consolidated subsidiaries, the revised "Employee Benefits" of IAS No. 19 (revised on June 16, 2011) has been applied since the consolidated fiscal year starting on January 1, 2013, changing the methods for calculating and indicating unrecognized actuarial difference.

This revision to the accounting policy is retroactively effective, and this revision applied retroactively to the consolidated financial statement for the previous consolidated fiscal year, but its effect is minor.

(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, 2014.

(16) Additional information

At the meeting of the board of directors held on Mar. 31, 2014, we resolved to solicit voluntary retirement as follows:

1. Reason for soliciting voluntary retirement

Our corporate group is proceeding with the First Medium-term Management Plan for recovering from the Great East Japan Earthquake and then growing further. In order to secure cost competitiveness amid the stringent business environment, we implemented some measures, including cost reduction, the suspension of new graduate recruitment, labor cost curtailment, and the restructuring of group companies. However, the business environment still remains harsh, because the markets of the existing businesses, including the Paper and Pulp business, have shrunk and profitability has declined due to fierce competition, etc.

In this circumstance, our corporate group decided to solicit voluntary retirement for optimizing personnel of our group as part of business structural reform.

2. Outline of the solicitation for voluntary retirement

(i) Target companies: Our company and consolidated subsidiaries inside Japan

(ii) Target people: Full-time employees at the age of over 39 as of Apr. 1, 2014

(iii) Number of retiring employees: About 200

(iv) Solicitation period: Jul. 1–8, 2014 (scheduled)

(v) Date of retirement: Aug. 20, 2014 (scheduled)

(vi) Preferential treatment: An additional amount will be added to an ordinary retirement benefit. In addition, we will assist voluntarily retiring employees in finding another job through re-employment support firms.

3. Estimated loss

The cost for the additional amount arising out of this solicitation will be posted as an extraordinary loss in the financial statement for the term ending Mar. 2015. Its effects on extraordinary losses and financial results will be studied carefully while considering voluntarily retiring employees, and estimates will be announced immediately after the study.

4. Others

Including the retiring employees through this solicitation, about 300 full-time employees of our corporate group are estimated to resign in the term ending Mar. 2015.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Buildings and structures	**¥19,458**	¥20,654	**$189,064**
Machinery and equipment	**43,086**	48,440	**418,637**
Land	**10,514**	10,514	**102,157**
Other	**178**	223	**1,733**
Investments in securities	**3,532**	3,418	**34,318**
	¥76,769	¥83,251	**$745,911**

5. Contingent Liabilities

As at March 31, 2014 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥2,296 million ($22,317 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥1,874 million ($18,209 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
	2014	2013	**2014**
Land	**¥25**	¥19	**$246**

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

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Machinery and equipment	**¥109**	¥87	**$1,068**
Scrapping and removal expenses	**146**	120	**1,428**

7. Subsidy Income

Previous consolidated fiscal year (April 1, 2012–March 31, 2013)

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

Consolidated fiscal year under review (April 1, 2013–March 31, 2014)

The subsidy income includes the subsidy for projects promoting domestic location given to the Company's Hachinohe Mill and consolidated subsidiaries.

8. Cost for Business Structure Reform

The cost for business structure reform includes the special retirement benefit for the transfer of employees to the new subsidiary MPM OPERATION Co., Ltd. through the restructuring of the Hachinohe Mill.

9. Legal Settlement

The legal settlement are the settlement money for the damage suit that had been filed by the Urban Renaissance Agency and was under dispute.

10. Other Comprehensive Income

The following table shows reclassification adjustment for each component of other comprehensive income for the year ended March 31, 2014:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	**¥1,533**	¥3,372	**$14,895**
Reclassification adjustments for gain and losses included in net income	**(3,043)**	(102)	**(29,568)**
Amount before tax effect	**(1,510)**	3,269	**(14,672)**
Tax effect	**537**	(1,164)	**5,224**
Total	**¥(972)**	¥2,105	**$(9,448)**
Foreign currency translation adjustment			
Amount arising during the year	**¥861**	¥399	**$8,371**
Reclassification adjustments for gains and losses included in net income	**–**	–	**0**
Amount before tax effect	**861**	399	**8,371**
Tax effect	**–**	–	**–**
Total	**¥861**	¥399	**$8,371**
Remeasurements of defined benefit plans			
Amount arising during the year	**¥(316)**	¥(702)	**$(3,075)**
Reclassification adjustments for gains and losses included in net income	**106**	–	**1,038**
Amount before tax effect	**(209)**	(702)	**(2,037)**
Tax effect	**–**	–	**–**
Total	**¥(209)**	¥(702)	**$(2,037)**
Share of other comprehensive income of investments for which the equity method is applied			
Amount arising during the year	**¥169**	¥72	**$1,646**
Reclassification adjustments for gains and losses included in net income	**–**	–	**–**
Total	**169**	72	**1,646**
Total other comprehensive income	**¥(150)**	¥1,874	**$(1,467)**

11. Leases

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

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

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			**2014**		
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total
Purchase price equivalent	**¥38**	**¥24**	**¥62**	¥52	¥39	¥92	**$370**	**$241**	**$611**
Accumulated depreciation equivalent	**34**	**24**	**59**	43	34	78	**335**	**238**	**573**
Net book value equivalent	**¥3**	**¥0**	**¥3**	¥9	¥5	¥14	**$35**	**$2**	**$37**

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Due within one year	**¥3**	¥10	**$37**
Due after one year	**–**	3	**–**
Total	**¥3**	¥14	**$37**

(3) Lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease expenses	**¥10**	¥18	**$99**
Depreciation equivalents	**10**	18	**99**

12. Financial Instruments

(1) Summary of financial instruments

(i) Policy regarding financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

Calculations of the fair value of financial instruments are based on their quoted market prices, as well as their reasonably estimated fair value when the quoted market prices are not available. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the contract values of derivatives in Note 13. Derivatives are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair value of financial instruments

Book value, fair values and differences between them as of March 31, 2014 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		
	2014		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**¥42,424**	**¥42,424**	**¥–**
Investments in securities			
Available-for-sale securities	**18,606**	**18,606**	**–**
Total of assets	**61,031**	**61,031**	**–**
Trade notes and accounts payable	**26,014**	**26,014**	**–**
Short-term bank loans (excluding current portion of long-term debt)	**53,227**	**53,227**	**–**
Long-term debt (including current portion of long-term debt)	**95,093**	**95,021**	**(72)**
Total of liabilities	**174,335**	**174,262**	**(72)**
Derivative transactions	**¥–**	**¥–**	**¥–**

	Thousands of U.S. dollars		
	2014		
	Book value	Fair value	Difference
Trade notes and accounts receivable	**$412,206**	**$412,206**	**$–**
Investments in securities			
Available-for-sale securities	**180,788**	**180,788**	**–**
Total of assets	**592,995**	**592,995**	**–**
Trade notes and accounts payable	**252,763**	**252,763**	**–**
Short-term bank loans (excluding current portion of long-term debt)	**517,172**	**517,172**	**–**
Long-term debt (including current portion of long-term debt)	**923,958**	**923,251**	**(707)**
Total of liabilities	**1,693,894**	**1,693,186**	**(707)**
Derivative transactions	**$–**	**$–**	**$–**

	Millions of yen		
	2013		
	Book value	Fair value	Difference
Trade notes and accounts receivable	¥46,646	¥46,646	¥–
Investments in securities			
Available-for-sale securities	23,471	23,471	–
Total of assets	70,118	70,118	–
Trade notes and accounts payable	26,792	26,792	–
Short-term bank loans (excluding current portion of long-term debt)	58,086	58,086	–
Long-term debt (including current portion of long-term debt)	96,573	97,020	447
Total of liabilities	181,452	181,900	447
Derivative transactions	¥–	¥–	¥–

(i) Trade notes and accounts receivable

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

(ii) Investment in securities

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

(iii) Trade notes and accounts payable

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

(iv) Short-term borrowings

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

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

For long-term debt with floating interest rates, loans are subject to special settlement for interest swaps. The fair value is calculated by discounting the total principal and interest (including interest-rate swap) using the interest rate reasonably estimated given equivalent new borrowings. The amount also includes the total current portion of long-term debt of ¥20,675 million ($200,890 thousand).

(vi) Derivatives
Please see Note 13.

Unlisted equity securities (in the amount of ¥1,622 million ($15,760 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
	2014	2013	**2014**
Unlisted equity securities	**¥1,622**	¥1,645	**$15,760**

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

	Millions of yen					
	2014					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term bank loans	**¥53,227**	**¥–**	**¥–**	**¥–**	**¥–**	**¥–**
Debentures	**–**	**–**	**–**	**–**	**–**	**–**
Long-term debt	**20,675**	**20,500**	**27,077**	**9,458**	**10,462**	**6,918**
Lease obligations	**378**	**361**	**331**	**316**	**302**	**551**
Total	**¥74,281**	**¥20,861**	**¥27,409**	**¥9,775**	**¥10,765**	**¥7,470**

	Thousands of U.S. dollars					
	2014					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term bank loans	**$517,172**	**$–**	**$–**	**$–**	**$–**	**$–**
Debentures	**–**	**–**	**–**	**–**	**–**	**–**
Long-term debt	**200,892**	**199,188**	**263,094**	**91,902**	**101,661**	**67,219**
Lease obligations	**3,675**	**3,512**	**3,222**	**3,078**	**2,939**	**5,362**
Total	**$721,739**	**$202,700**	**$266,316**	**$94,981**	**$104,601**	**$72,581**

	Millions of yen					
	2013					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
Short-term bank loans	¥58,086	¥–	¥–	¥–	¥–	¥–
Debentures	–	–	–	–	–	–
Long-term debt	16,574	19,852	20,378	25,641	4,287	9,840
Lease obligations	321	293	273	243	234	670
Total	¥74,983	¥20,146	¥20,652	¥25,884	¥4,521	¥10,510

13. Investments in Securities

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at March 31, 2014 and 2013 are summarized as follows:

Available-for-sale securities:

	Millions of yen			
	2014			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**¥14,086**	**¥18,606**	**¥4,960**	**¥439**
Government bonds and local government bonds	**–**	**–**	**–**	**–**
	¥14,086	**¥18,606**	**¥4,960**	**¥439**

	Thousands of U.S. dollars			
	2014			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$136,865**	**$180,788**	**$48,198**	**$4,274**
Government bonds and local government bonds	**–**	**–**	**–**	**–**
	$136,865	**$180,788**	**$48,198**	**$4,274**

	Millions of yen			
	2013			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥17,431	¥23,461	¥6,853	¥822
Government bonds and local government bonds	9	9	0	–
	¥17,441	¥23,471	¥6,853	¥822

14. Derivatives

(1) Transactions not subject to hedge accounting

No applicable transactions

(2) Transactions subject to hedge accounting

(i) Currency-related

No applicable transactions

(ii) Interest-rate related

Hedge accounting method	Type of derivative transaction, etc.	Main targets of hedging	Contract value	Contract value of instruments due within more than a year
Special settlement of interest rate swap	Interest rate swap transactions,fixed payments, variable receivables	Long-term debt	¥55,584 million	¥46,957 million
			$540,069 thousand	$456,254 thousand

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

15. Retirement and Pension Plans

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.

For the year ended March 31, 2014

The detailed notes relating to retirement benefit plan for fiscal period ended March 31, 2014, were as follows:

The schedule of the defined benefit obligation at March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
As of April 1, 2013	**¥21,329**	**$207,241**
Current service cost	**1,144**	**11,118**
Interest cost	**309**	**3,003**
Actuarial losses	**407**	**3,961**
Benefit paid	**(2,427)**	**(23,590)**
Other	**777**	**7,550**
As of March 31, 2014	**¥21,539**	**$209,284**

The schedule of the pension assets at March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
As of April 1, 2013	**¥13,327**	**$129,496**
Expected return on pension assets	**12**	**121**
Actuarial losses	**596**	**5,796**
Contributions by the employer	**108**	**1,058**
Benefit paid	**(211)**	**(2,054)**
As of March 31, 2014	**¥13,834**	**$134,419**

The schedule of the net defined benefit liability for simplified method was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
As of April 1, 2013	**¥738**	**$7,177**
Periodic benefit cost	**90**	**875**
Benefit paid	**(110)**	**(1,072)**
Contribution to systems	**(22)**	**(220)**
As of March 31, 2014	**¥695**	**$6,760**

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 March 31, 2014, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligations	¥14,683	$142,667
Pension assets	(14,144)	(137,429)
	539	5,237
Unfunded defined benefit obligations	7,861	76,387
Net amount of liabilities and assets recognized in consolidated balance sheet	8,400	81,625
Retirement benefit liabilities	8,872	86,204
Retirement benefit asset	(471)	(4,579)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥8,400	$81,625

The profits and losses related to retirement benefits for fiscal period ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current service cost	¥1,144	$11,118
Interest cost	309	3,003
Expected return on pension assets	(12)	(121)
Actuarial loss recognized in the year	100	974
Prior service cost recognized in the year	(93)	(906)
Periodic benefit cost in simplified method	90	875
Periodic benefit costs of retirement benefit plan	¥1,537	$14,943

Irregular premium severance pay: ¥484 million ($4,707 thousand) was posted as an extraordinary loss.

The breakdown of items in other comprehensive income was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Actuarial loss	¥(209)	$(2,037)

The breakdown of items in accumulated other comprehensive income was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥427	$4,158
Unrecognized actuarial loss	(1,598)	(15,531)
	¥(1,170)	$(11,373)

The breakdown of pension assets by major category as of March 31, 2014, was as follows:

	2014
General account of life insurance	45%
Bonds	29%
Equities	24%
Other	2%
	100%

The items of actuarial assumptions as of fiscal period ended March 31, 2014, were as follows:

	2014
Discount rate	**0.6~3.4%**
Expected long-term return on plan assets	**0.0~2.0%**

The necessary contribution to the defined contribution plan of our company and consolidated subsidiaries is ¥324 million ($3,128 thousand).

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.

For the year ended March 31, 2013

The detailed notes relating to retirement benefit plan for the year ended March 31, 2013, were as follows:

	Millions of yen
	2013
Projected benefit obligations	¥(22,963)
Fair value of plan assets	14,223
Funded status of the plans	(8,740)
Unrecognized net actuarial	640
Unrecognized prior service cost (reduction of the obligation)	(374)
Accrued retirement benefits	¥(8,473)

The net periodic retirement benefit cost for the years ended March 31, 2013 included the following components:

	Millions of yen
	2013
Service cost	¥1,497
Interest cost	421
Expected return on plan assets	(9)
Amortization of net actuarial gain	(121)
Amortization of prior service cost (reduction of the obligation)	(93)
	¥1,694

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

	Millions of yen
	2013
Discount rate	0.6~1.1%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of service	mainly on a points basis
Amortization of unrecognized prior service cost	10~15 years
Amortization of unrecognized net actuarial gain or loss	10~15 years

16. Deferred Income Taxes

At March 31, 2014 and 2013, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Accrued enterprise taxes	**¥70**	¥64	**$687**
Accrued expenses	**620**	854	**6,031**
Accrued retirement benefits to employees	**–**	3,430	**–**
Net defined benefit liability	**2,989**	–	**29,047**
Allowance for doubtful accounts	**542**	608	**5,268**
Loss on revaluation of fixed assets	**578**	679	**5,619**
Unrealized gains on property, plant and equipment	**215**	191	**2,094**
Tax loss carryforwards	**8,137**	7,471	**79,064**
Other	**8,759**	8,848	**85,108**
Gross deferred tax assets	**21,913**	22,148	**212,922**
Valuation allowance	**(16,810)**	(16,313)	**163,331**
Total deferred tax assets	**5,103**	5,835	**49,590**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(24)**	(26)	**(237)**
Unrealized gains on available-for-sale securities	**(1,610)**	(2,148)	**(15,648)**
Liability adjustment account	**(658)**	(1,030)	**(6,400)**
Other	**(378)**	(410)	**(3,677)**
Total deferred tax liabilities	**(2,672)**	(3,615)	**(25,964)**
Net deferred tax assets	**¥2,431**	¥2,220	**$23,625**

For the year ended March 31, 2014 and 2013, a reconciliation of the statutory tax rate to the effective tax rates was as follows:

	2014	2013
Statutory tax rate	**38.0%**	38.0%
Permanently non-deductible expenses	**7.1**	2.8
Permanently non-taxable income	**(3.7)**	(2.7)
Per capita inhabitants' taxes	**4.8**	2.3
The effect of tax rate changes	**(1.8)**	(11.3)
Valuation allowance	**40.8**	6.5
Unrealized gains (losses)	**(20.1)**	(0.7)
Other	**(1.7)**	(2.0)
Effective tax rates	**63.4%**	32.9%

17. 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.

	Millions of yen							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**¥157,974**	**¥29,886**	**¥13,019**	**¥200,880**	**¥6,589**	**¥207,470**	**¥–**	**¥207,470**
Intersegment sales and transfers	**3,683**	**11,727**	**3,015**	**18,426**	**9,395**	**27,821**	**(27,821)**	**–**
Total sales	**161,657**	**41,614**	**16,034**	**219,307**	**15,985**	**235,292**	**(27,821)**	**207,470**
Segment income	**¥(1,806)**	**¥1,526**	**¥294**	**¥13**	**¥463**	**¥477**	**¥(3)**	**¥473**
Segment assets	**¥201,995**	**¥41,668**	**¥15,380**	**¥259,044**	**¥10,866**	**¥269,910**	**¥(11,311)**	**¥258,599**
Amortization	**8,443**	**2,094**	**506**	**11,044**	**254**	**11,298**	**(84)**	**11,214**
Investment in equity-method affiliates	**488**	**–**	**–**	**488**	**–**	**488**	**–**	**488**
Increase in tangible and intangible fixed assets	**4,348**	**1,659**	**483**	**6,491**	**105**	**6,596**	**(101)**	**6,494**

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	**$1,534,921**	**$290,389**	**$126,503**	**$1,951,814**	**$64,027**	**$2,015,842**	**$–**	**$2,015,842**
Intersegment sales and transfers	**35,788**	**113,950**	**29,296**	**179,035**	**91,287**	**270,322**	**(270,322)**	**–**
Total sales	**1,570,709**	**404,339**	**155,800**	**2,130,849**	**155,315**	**2,286,165**	**(270,322)**	**2,015,842**
Segment income	**$(17,555)**	**$14,828**	**$2,860**	**$133**	**$4,504**	**$4,638**	**$(34)**	**$4,603**
Segment assets	**$1,962,644**	**$404,860**	**$149,441**	**$2,516,947**	**$105,585**	**$2,622,532**	**$(109,908)**	**$2,512,623**
Amortization	**82,040**	**20,347**	**4,922**	**107,309**	**2,474**	**109,784**	**(823)**	**108,961**
Investment in equity-method affiliates	**4,747**	**–**	**–**	**4,747**	**–**	**4,747**	**–**	**4,747**
Increase in tangible and intangible fixed assets	**42,249**	**16,122**	**4,698**	**63,070**	**1,025**	**64,096**	**(989)**	**63,106**

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

(ii) Adjustments are:

- Adjustments and eliminations for segment income include ¥21 million ($208 thousand) of elimination of inter-segment income and loss and ¥(24) million ($(242) 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 ¥19,751 million ($191,907 thousand) of corporate assets and ¥(31,062) million ($(301,815) thousand) of elimination of inter-segment assets.
- Adjustments and eliminations for amortization of ¥(84) million ($(823) thousand) is elimination of inter-segment.
- Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(101) million ($(989) thousand) of elimination of inter-segment increase in tangible and intangible fixed assets.

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

Year ended March 31, 2013	Millions of yen							
	Reportable segments							
	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Sales								
Sales to unaffiliated customers	¥153,706	¥28,737	¥11,438	¥193,883	¥6,966	¥200,850	¥–	¥200,850
Intersegment sales and transfers	3,717	11,088	2,785	17,591	95,260	27,117	(27,117)	–
Total sales	157,424	39,825	14,223	211,474	16,493	227,967	(27,117)	200,850
Segment income	¥2,167	¥538	¥299	¥3,005	¥379	¥3,384	¥(52)	¥3,332
Segment assets	¥201,167	¥47,020	¥14,877	¥263,064	¥11,467	¥274,532	¥(9,298)	¥265,234
Amortization	8,347	2,110	480	10,938	282	11,220	(83)	11,137
Investment in equity-method affiliates	488	–	–	488	–	488	–	488
Increase in tangible and intangible fixed assets	5,686	1,085	306	7,078	55	7,134	(65)	7,068

(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 ¥(25) million of elimination of inter-segment income and loss and ¥(26) 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 ¥18,283 million of corporate assets and ¥(27,581) million of elimination of inter-segment assets.
- Adjustments and eliminations for amortization of ¥(83) million is elimination of inter-segment.
- Adjustments and eliminations for increase in tangible and intangible fixed assets include ¥(65) million of elimination of interseg-ment increase in tangible and intangible fixed assets.

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

(2) Geographical information

(i) Net sales to third parties by countries or areas grouped according to geographical classification for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥146,547**	¥141,565	**$1,423,897**
Europe	**30,218**	27,489	**293,612**
Asia	**12,080**	13,486	**117,377**
North America	**10,708**	10,225	**104,046**
Other	**7,915**	8,082	**76,908**
Consolidated	**¥207,470**	¥200,850	**$2,015,842**

Net sales information above are based on customer location.

(ii) Property, plant and equipment by countries or geographical areas at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥111,779**	¥116,108	**$1,086,077**
Europe	**11,900**	9,911	**115,626**
North America	**125**	97	**1,222**
Consolidated	**¥123,805**	¥126,117	**$1,202,926**

(3) Impairment loss on fixed assets by reportable segments

Not applicable

(4) Amortization and balance of goodwill

	Millions of yen							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
(Goodwill)								
Amortization	¥–	¥–	¥–	¥–	¥–	¥–	¥–	¥–
Balance as of March 31	–	–	–	–	–	–	–	–
(Negative goodwill)								
Amortization	105	–	–	105	3	109	–	109
Balance as of March 31	¥30	¥–	¥–	¥30	¥–	¥30	¥–	¥30

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
(Goodwill)								
Amortization	$–	$–	$–	$–	$–	$–	$–	$–
Balance as of March 31	–	–	–	–	–	–	–	–
(Negative goodwill)	–							
Amortization	1,027	–	–	1,027	35	1,063	–	1,063
Balance as of March 31	$298	$–	$–	$298	$–	$298	$–	$298

	Millions of yen							
	Reportable segments							
Year ended March 31, 2013	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
(Goodwill)								
Amortization	¥–	¥–	¥–	¥–	¥–	¥–	¥–	¥–
Balance as of March 31	–	–	–	–	–	–	–	–
(Negative goodwill)								
Amortization	108	–	–	108	96	205	–	205
Balance as of March 31	¥136	¥–	¥–	¥136	¥3	¥140	¥–	¥140

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

	Millions of yen							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Gain on negative goodwill	¥198	¥0	¥–	¥199	¥–	¥199	¥–	¥199

	Thousands of U.S. dollars							
	Reportable segments							
Year ended March 31, 2014	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Gain on negative goodwill	$1,932	$1	$–	$1,933	$–	$1,933	$–	$1,933

	Millions of yen							
	Reportable segments							
Year ended March 31, 2013	Paper and Pulp	Imaging Media	Speciality Materials	Total	Other	Total	Adjustments	Consolidated
Gain on negative goodwill	¥33	¥ –	¥–	¥33	¥–	¥33	¥–	¥33

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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 27, 2014

Board of Directors, Executive Officers and Corporate Auditors

Managing Executive Officers

Kunio Suzuki

President and Chief Executive Officer

Masami Mizuno

Representative Director and Senior Managing Executive Officer

Mitsuo Ushijima

Representative Director and Senior Managing Executive Officer

Kanji Itakura

Director and Senior Managing Executive Officer

Kazuhisa Taguchi

Director and Senior Managing Executive Officer

Hiroshi Nozawa

Director and Managing Executive Officer

Naoya Tashiro

Managing Executive Officer

President and Chief Executive Officer

Kunio Suzuki
President

Representative Director and Senior Managing Executive Officers

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

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

Director and Senior Managing Executive Officers

Kanji Itakura
Supervisor, Finance & Accounting Dept.

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

Director and Managing Executive Officer

Hiroshi Nozawa
In charge of General Affairs & Personnel Dept. and Legal Dept.

Managing Executive Officer

Naoya Tashiro
In charge of Energy Business Dept. and Technology & Environmental Dept. General Manager Kitakami Div. Deputy General Manager, Imaging Media Div.

Outside Director

Tomohisa Shinagawa

Senior Executive Officers

Kiyoshi Maeda
General Manager, President's Office

Kiyoharu Yamada
General Manager, Raw Materials & Purchasing Dept.

Yutaka Oka
In charge of German Operations; Deputy General Manager, Paper Div. General Manager, International Sales Dept.

Director and Executive Officer

Junji Harada
In charge of Speciality Materials Div.; General Manager, Speciality Materials Div.

Executive Officers

Masaki Shuto
General Manager, Finance & Accounting Dept.

Akira Takeuchi
General Manager, Energy Business dept.

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

Nobuhiro Sato
General Manager, Business Communication & Specialty Paper Sales Dept.

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

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

Shimpei Yamada
General Manager, Ink Jet & Photo Sales Dept.

Corporate Auditor

Kenji Oka

Outside Corporate Auditors

Yasuharu Takamatsu
Koji Kaihotsu
Tsuyoshi Inoue

(as of June 27, 2014)

Company Data

Established:

April 1, 1898

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+81-3-5600-1481 *(President's Office)*
+81-3-5600-1459 *(Commercial Printing Paper Sales Dept. Paper Division)*
+81-3-5600-1463 *(Business Communication & Specialty Paper Sales Dept. Paper Division)*
+81-3-5600-1464 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1536 *(International Sales Dept.)*
+81-3-5600-1479 *(Ink Jet & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1475 *(Graphic Systems Sales Dept. Imaging Media Division)*
+81-3-5600-1471 *(Speciality Materials Division)*
+81-3-5600-1453 *(Purchasing Dept.)*
+81-3-5600-1454 *(Forestry Dept.)*

Facsimile:
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+81-3-5600-1467 *(Commercial Printing Paper Sales Dept. Paper Division)*
+81-3-5600-1468 *(Business Communication & Specialty Paper Sales Dept. Paper Division)*
+81-3-5600-1469 *(Sales Administration Dept. Paper Division)*
+81-3-5600-1539 *(International Sales Dept.)*
+81-3-5600-1418 *(Ink Jet & Photo Sales Dept. Imaging Media Division)*
+81-3-5600-1413 *(Graphic Systems Sales Dept. Imaging Media Division)*
+81-3-5600-1419 *(Speciality Materials Division)*
+81-3-5600-1451 *(Purchasing Dept.)*
+81-3-5600-1451 *(Forestry Dept.)*

Sales Branch:

Osaka

Corporate Research Center:

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

Mills:

Takasago, Kyoto, Hachinohe

Major Affiliates:

Domestic

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

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MITSUBISHI
PAPER MILLS
LIMITED