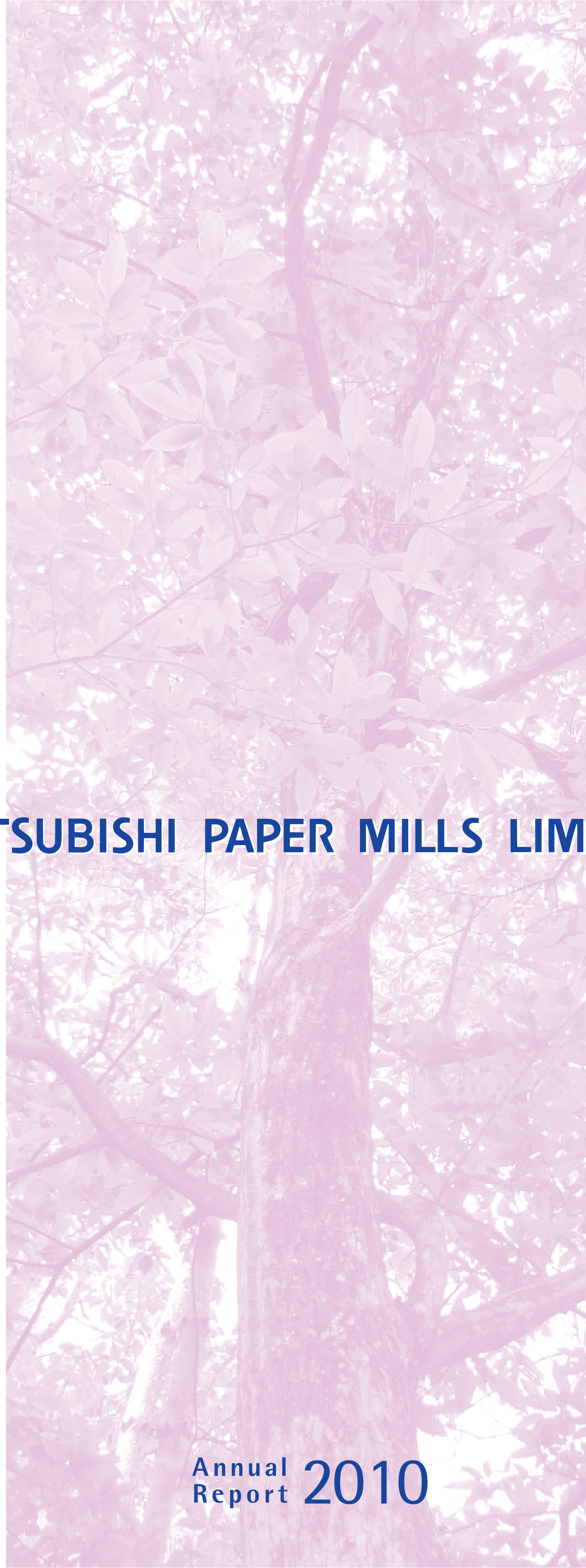
MITSUBISHI PAPER MILLS LIMITED



MITSUBISHI PAPER MILLS LIMITED

Annual Report 2010

PROFILE

Mitsubishi Paper Mills Limited was established by Mitsubishi's third president, Hisaya Iwasaki.

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

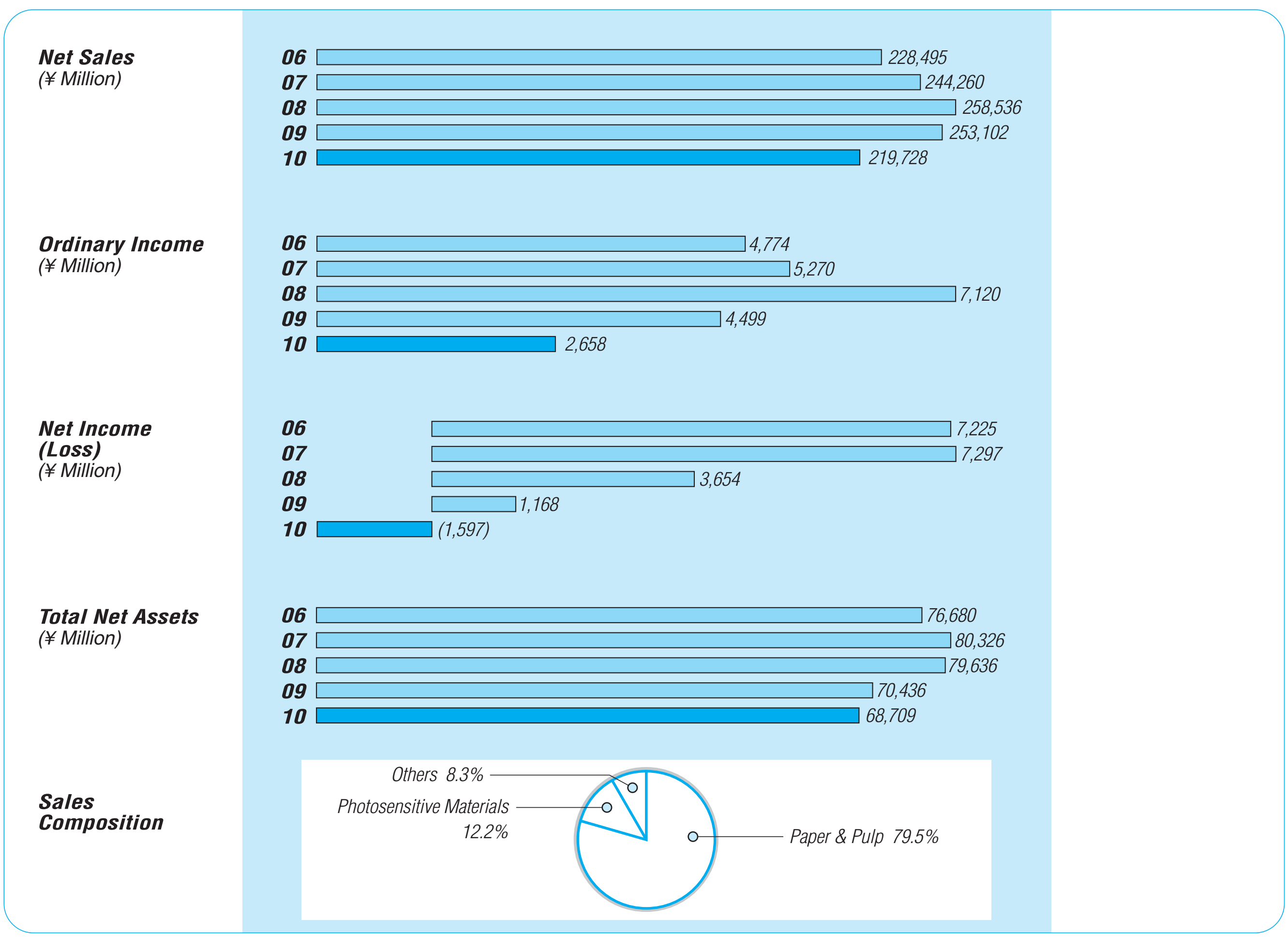
With production facilities and R&D sites mainly located in Japan and Germany, and sales sites located in Japan, Germany and the United States, we have positioned ourselves to serve global markets.

CONTENTS

FINANCIAL HIGHLIGHTS (CONSOLIDATED)

	Millions of yen *(1)*		Thousands of U.S. dollars *(1) and (2)*
	2010	2009	**2010**
For the years ended March 31			
Net sales	**¥ 219,728**	¥ 253,102	**$ 2,361,654**
Ordinary income	**2,658**	4,499	**28,577**
Net income (loss)	**(1,597)**	1,168	**(17,171)**
Net income (loss) per share (in yen and dollars)	**(4.67)**	3.41	**(0.05)**
Cash dividends per share (in yen and dollars)	**—**	2.50	**—**
As at March 31			
Total assets	**¥ 282,131**	¥ 294,254	**$ 3,032,368**
Total net assets	**68,709**	70,436	**738,489**
Common stock	**32,756**	32,756	**352,066**
Number of shareholders	**19,740**	17,854	
Number of employees	**4,441**	4,577	

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 ¥93.04 = U.S.$1, as of March 31, 2010.



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

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

Overview of the Reporting Term

The business environment faced by the Group remains very difficult following the collapse in demand triggered by the global financial crisis that began in late 2008 and the steep rise in the value of the yen against the US dollar. To flourish as a business in this kind of environment, the Group has compiled a set of measures we call Enhanced Countermeasures plan, implementation of which will strengthen our cost-competitiveness and sharpen our focus on high value-added products.

In the Paper and Pulp Division, we now expect the slump in paper demand to be protracted. Accordingly, we cut production substantially at plants in Japan, and suspended operations of No. 12 Paper Machine at the Takasago Mill as part of measures to reduce costs across the Group by tailoring output more closely to lower demand levels. Restructuring also included idling of some facilities in the communication paper business in Europe.

The Photosensitive Materials Division was also badly hit by the global recession, and sales amounts and volumes both declined. Amid these circumstances, we scrapped and rebuilt manufacturing facilities for photographic base paper, and concentrated production on three multi-function resin coaters, one newly completed.

In addition to the decline in demand, sales were also impacted by the strong yen, as a large proportion of total Group sales are overseas. As a result of these factors, Group sales on a consolidated basis fell 13.2% year-on-year to ¥219,728 million (US$2,361 million).

Despite an earnings boost from a fall in woodchip and other raw material and fuel prices and a decrease in fixed costs at our plants, the impact of the drop in sales volumes was very severe and was exacerbated by the strong yen and other factors pushing down selling prices. As a result, ordinary income fell 40.9% year-on-year to ¥2,658 million (US$28 million). We posted a net loss for the reporting term of ¥1,597 million (US$17 million), due to recognition of an impairment loss from suspension of operation of certain manufacturing facilities and recognition of losses on disposal of property, plant and equipment under the restructuring described above.

The Company regards the distribution of profits to shareholders, based on consolidated business performance, as a matter of priority. It follows a long-term policy of maintaining a stable payout ratio, while ensuring availability of retained earnings for expansion of business operations. Our basic dividend payout ratio is 20% of ordinary income on a consolidated basis.

However, as part of measures under our Enhanced Countermeasures plan, we were forced to post an impairment loss on production system restructuring, leading to a net loss of ¥1,597 million (US$17 million) on a consolidated basis. Accordingly, we regret to announce that we have decided to suspend the dividend for the reporting term, in view of the need to prioritize the strengthening of our financial position.

Mid-term Management Strategy and Issues Facing the Company

The Company is undertaking a range of measures under its Post Phoenix Plan launched in fiscal 2008. However, to be able to cope better with an increasingly difficult operating environment, caused by declining demand amid the global recession and the effect of the high yen on imports, we have begun Groupwide implementation of our Enhanced Countermeasures plan compiled in October. (Please see pages 6-7 for more details of the plan and progress in implementation). Over the longer term, we are committed to a vision titled "Mitsubishi Paper Mills for High Grade and Information Media" within the Post Phoenix Plan, and have pinpointed three businesses with promising growth outlooks — printing and communication paper, digital imaging, and development businesses. We will pursue balanced growth based on these core businesses so as to remain committed to our vision for the Group for the future.

For our Company to continue functioning as an active member of society, we believe that it is necessary to fulfill our social responsibilities to all of our stakeholders. For that reason, we have created a Corporate Social Responsibility (CSR) organization covering the entire Group, and are actively engaged in measures to fulfill our social responsibility in areas such as compliance, disclosure of information, safety and quality, human and labor rights, the environment, and social contributions. This, we believe, is the path to greater enterprise value.

In the belief that a compliance-oriented corporate culture forms the soundest basis for corporate activities, we are likewise working to foster a better understanding of corporate ethics and conduct, and cultivate a fulfilling work environment where employee safety comes first and individual employees are able to realize their potential. We are also committed to a range of activities in awareness of the need to ensure harmonious coexistence with the community.

Forecasts

Factoring in the impact of cost-cutting measures under Enhanced Countermeasures, we forecast total sales of ¥225,000 million (US$2,500 million), operating income of ¥6,000 million (US$66 million), ordinary income of ¥4,000 million (US$44 million), and net income of ¥1,500 million (US$16 million) in the current year ending March 2011.

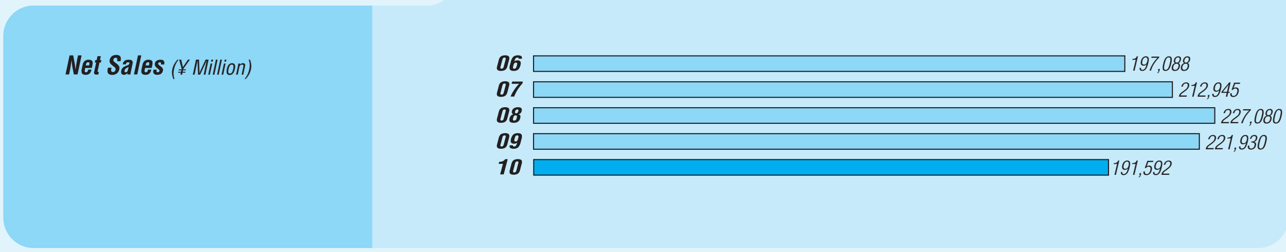
In the above forecasts, we assume an exchange rate of ¥90/US$1, and ¥130/€11.

June 2010

鈴木邦夫

Kunio Suzuki
President & C.E.O.

PAPER AND PULP DIVISIONS



PHOTOSENSITIVE MATERIALS DIVISION

OTHER DIVISIONS

Overseas Sales Breakdown

For the year ended March 31, 2010	Millions of yen	Thousands of U.S. dollars
Europe	¥ 28,636	$ 307,782
Asia	7,785	83,681
North America	10,234	110,005
Others	6,305	67,773
Total	¥ 52,962	$ 569,243

In the Paper and Pulp Divisions, the fall in domestic demand coupled with an increase in imported paper caused a decline in sales volumes of our mainstay commercial printing paper (for flyers, catalogs and pamphlets). Prices were also weak. Although there were signs of recovery in the second half in inkjet paper and other products, communication paper business sales overall were down, with carbonless paper performing particularly poorly. Under these circumstances, we continued production curbs from the previous fiscal year, to better tailor supply to reduced demand.

In specialty materials, we increased sales by launching new products with proprietary technologies, such as filters for air-cleaning equipment in Asian markets, Thermorewrite® films for ID cards, and masks for swine flu.

Sales volumes at our European subsidiaries declined in line with falling demand due to economic recession. Under these circumstances, we undertook organizational restructuring to improve earnings capability, involving suspension of operations at certain manufacturing facilities, major cuts in personnel, and adjustments to the product lineup. As a result, performance recovered somewhat from the second half.

Sales volumes and values both increased for pulp sold on the market, as price trends turned favorable.

As a result, overall sales in the Paper and Pulp Division decreased 13.7% year-on-year to ¥191,592 million (US$2,059 million) on a consolidated basis.

In the Photosensitive Materials Division, sales of photographic base paper and photographic paper were down in both volume and value terms from the previous fiscal year, due to the continued fall in global demand. Despite our measures to boost sales of digital products such as Silver Digiplate® and our new environment-friendly Thermal Digiplate®, printing plate materials also saw sales volumes and values decline year-on-year, due to the fall in demand in global printing markets and the impact of the strong yen.

As a result of the above, overall sales in the Photosensitive Materials Division fell 13.6% year-on-year to ¥29,518 million (US$317 million) on a consolidated basis.

Sales in Other Divisions declined 7.5% year-on-year to ¥19,967 million (US$214 million), due chiefly to lower sales at our engineering subsidiary.

Enhanced Countermeasures

Steady progress in cost-cutting and restructuring

The great recession in the global economy due to the financial crisis that started in late 2008 has caused demand for paper of all types to contract to substantially. This and the high yen have created major difficulties for our businesses.

The Seven Enhanced Countermeasures plan compiled in October 2009 provides a road map to the new departure for the Group, through an overhaul of production systems for greater efficiency and major cost reductions, as well as a shift to a high value added production and development of new products.

Seven Enhanced Countermeasures

(Announced October 30, 2009)

Move from "Scale" to "Cost Competitiveness" and "Value Added"

FY2010, FY2011 Initiative begun in the second half of FY2009

1 Efficient production system

Relocation of business communication paper production sites
Shut down No. 12 Paper Machine at Takasago Mill
(Transfer production of base paper, decrease pulp purchases)
Shut down KHP No. 5 RC Machine
Relocate personnel of I&D Company

2 Thorough cost minimization

- Maximized low-cost structure for I&D Company
- Cost reductions at Hachinohe and Takasago mills
- Trim logistic costs for printing & communication paper

3 Drastic reductions of overhead cost

- Streamline R&D system
- Reduce costs at the headquarters and subsidiaries

4 Shift to high value added products

- New paper for digital printing
- Expand development of various types of art paper
- FSC certified paper and use of forest thinnings

5 Launch new products

- Expand sales of Thermal Digiplate
- Expand sales of new ink jet media on a global scale
- Expand development of functional non-woven fabric

6 Stabilize and capitalize on overseas operations

- Restructuring of German operations
- Capitalize on and expand business base in China

7 Realize effect of alliances

- Alliance with FUJIFILM
- Alliance with OJI Paper in business communication paper

Enhanced Countermeasures: Mission

— Effects of Cost Reductions —

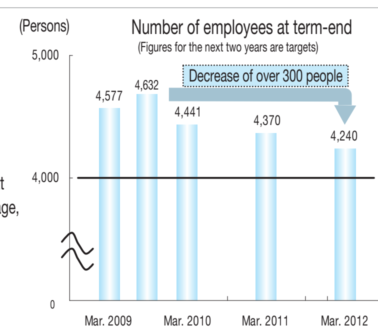
FY2009 (Year ending March 2010) ← ¥500 million front-loaded for enhanced countermeasures

Effects (¥ 100 million)

	Production system rebuilding	Rigorous cost reductions	Overseas operations	Personnel streamlining	Other (energy, depreciation, etc.)	Total
FY2010 (Year ending March 2011)	5	11	6	11	10	43
FY2011 (Year ending March 2012)	4	12	3	6		25

Personnel Decrease Plan

Germany	120 people	Retirements in 2009
Japan	180 people	Natural attrition (Employees resigning at mandatory retirement age, hiring restrictions)
Decrease of	300 people	



Progress of Measures by Business

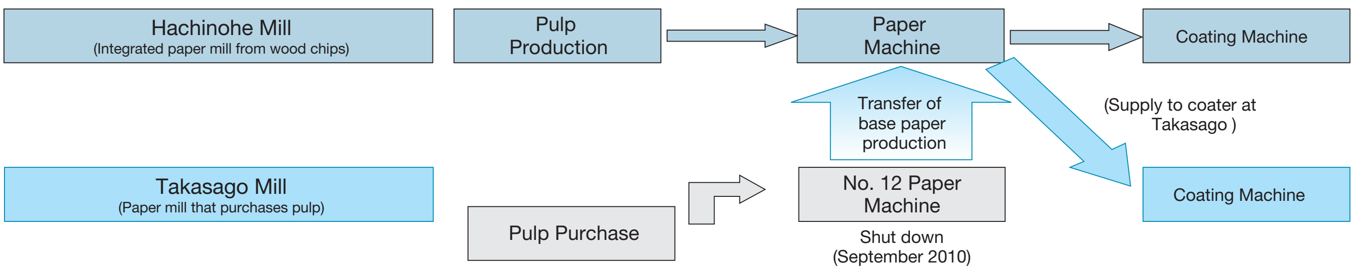
(1) Paper Business

Printing and Communication Paper Progress in Measures and Plans

From production curtailment to improved capacity utilization

1. Rebuilding of Production Systems

- **Transfer of business communication base paper production (carbonless and thermal base paper)**



- **Hachinohe Mill: Improve capacity utilization, reduce energy costs**
- **Takasago Mill: Drastic reduction in purchased pulp, reduce fixed costs**

(2) I&D Business

Imaging and Development Progress in Measures and Plans

■ I&D Business (Driven by Imaging & Development Company)

Applicable Items:

Inkjet paper, photographic paper, photo-sensitive printing plate, resin-coated paper, various functional materials (non woven fabric, filters, rewritable media, etc.), R&D developed products, etc.

Rebuilding of Production Systems (Kitakami Hitec Paper)

Add new No. 8 RC Machine, and concentrate operations on three multi-function resin coaters

→ No. 5 RC Machine to be shut down (August 2010)

Restructuring, Cost Reductions, Alliances

1. I&D Company personnel reductions (Kyoto, Kitakami, Headquarters, etc.)
   → Proceeding according to plan
2. Alliance with FUJIFILM on photographic base paper, now underway

Kitakami Hitec Paper

(3) German Business

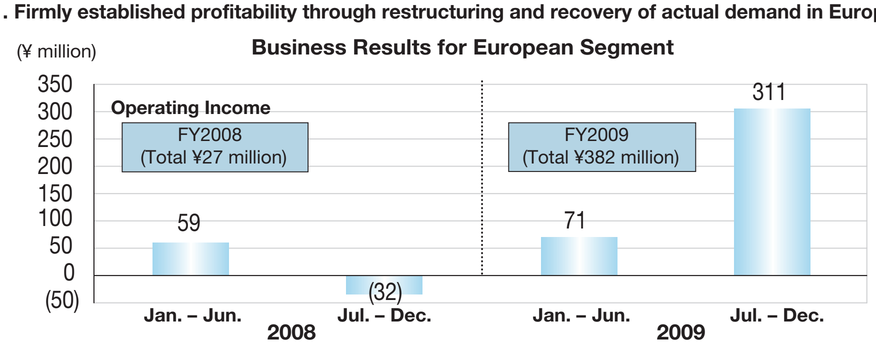
German Operations Progress in Measures and Plans

Fundamental Restructuring at MPB

MPB : Mitsubishi HiTec Paper Bielefeld GmbH

1. No. 1 Paper Machine (30,000 t/yr) shut down in July 2009; plant is currently operating with No.3 Paper Machine (120,000 t/yr)
2. All four cast coaters shut down in August 2009
3. Personnel cuts affecting 120 people in 2009
4. Review product portfolio, improve Product mix

1. Firmly established profitability through restructuring and recovery of actual demand in Europe



2. Improved productivity in high value added products such as inkjet paper for digital printing

For the term under review, Mitsubishi Paper Mills Group has set five basic CSR goals: (1) distinctive CSR activities, (2) fostering better understanding of corporate ethics and conduct, (3) reviewing action programs in the fields of human rights and labor relations, (4) implementing measures for prevention of global warming, and (5) supporting community contribution activities.

Based on the above, we have established six priority activity areas: (1) CSR-based management, (2) ensuring distinctive CSR activities, (3) fostering and realizing better understanding of corporate ethics and conduct, (4) customer satisfaction, (5) human rights and labor relations, and (6) community contributions. Under this paradigm we are committed to generating greater enterprise value by fulfilling our social responsibility in terms of compliance, disclosure, safety and quality, human rights and labor relations, the environment, and community contributions.

Special Feature: Biodiversity

Biodiversity describes the way living creatures with diverse characteristics are interlinked and need each other to survive. Biodiversity has benefited us in many ways — helping us protect the global environment, ensuring supplies of food and water, helping prevent disasters, and fostering cultures.

Papermaking companies have their roots in wood, the gift of the forests. For this reason, the focus of our commitment to fostering biodiversity is forest conservation. In 2010 — designated International Year of Biodiversity by the UN — we are taking biodiversity measures that cover all of our operations, centered on forest management under the Forest Stewardship Council (FSC) standards. Here, we would like to say a few things about biodiversity from three perspectives: direct impact from our production activities, indirect impact from our wood procurement, and our community contribution activities.

Direct impact from our production activities

Here, we are talking about the impact of emissions from our plants of substances that contribute to environmental load, and the impact of our own plantations on resource development. We manage the first category of impact by applying ISO14001 standards to reduce environmental load. With regard to the second category, we cannot ignore the impact on ecosystems of our afforestation activities, which require use of large tracts of land over long periods of time. So we obtained FSC certification for our plantations in Chile in 2002 when we began logging there, and have since managed these plantations based on FSC standards. To protect biodiversity, we ensure that we only fell as much timber as can be replaced by a natural growth. We have also taken measures to protect natural forest and endangered species, and carry out flora and fauna surveys. In a rare species initiative, we help protect the rare Chilean *keule* (Gomortega) tree by growing seedlings from seed and then replanting them in natural forest. We are also raising awareness among employees of rare animal species found in the areas around our plantations. Since 2007, we have also obtained FSC certification for Company-owned plantations within Japan — a measure to protect biodiversity through best-practice forest management.

Signs raise awareness of rare animal species


Gathering *keule* (Gomortega) tree seeds

Indirect impact of our timber procurement

Wood that we procure from our own plantations is certified by the FSC, but it meets only part of our timber needs. For other procurement, we give priority to FSC-certified wood, but we cannot guarantee such certification for the rest. In using non-certified wood for FSC-certified paper, we trace its district of origin based on FSC Controlled Wood standards, and study the impact on biodiversity. This means researching whether or not such non-certified wood harvesting has any negative impact on “High Conservation Value Forests” or is linked with conversion of natural forests to plantations or non-forest uses. Only then do we procure non-certified wood. When documentation checks on biodiversity impact do not suffice, we visit suppliers’ forests and check ourselves that the woodland is being managed in a way that safeguards ecosystems.

Checking suppliers’ forest management

Community contribution activities

We are committed to biodiversity protection activities through FSC-certified forest in Japan.

<Support system for FSC certified forests>

In this system, FSC-certified wood product user companies shoulder part of the management expenses for managers (local authorities) of an FSC-certified forest, with the money being used to create a more ecologically sustainable and economically valuable forest. Wood that is then harvested in the course of forest cultivation and maintenance is used for FSC-certified products. Through this system, we support FSC-certified forests, starting with “MUAM no Mori,” a forest in Iwaizumi-cho in Iwate Prefecture supported by Mitsubishi UFJ Asset Management Co., Ltd. “MUAM no Mori” features a wide range of tree species suited to local conditions, including fruit-bearing trees and trees that yield high-quality wood. We have launched a similar initiative in Higashishirakawa-mura, Gifu Prefecture.

Underbush cutting at “MUAM no Mori”

SHIRAKAWA SITE

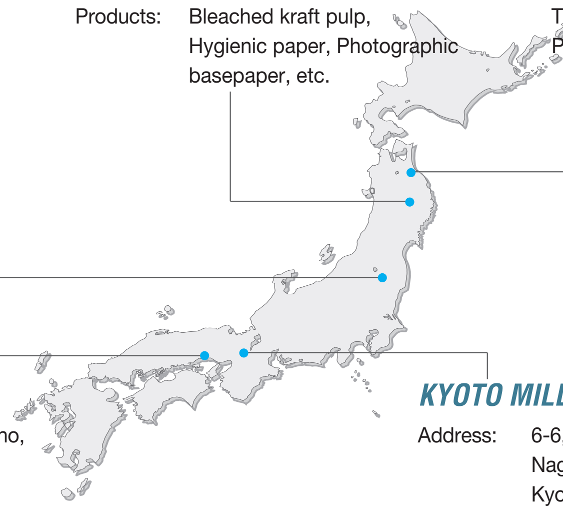
Address: 3, Maeyamanishi, Nishigo-mura, Nishi-Shirakawa-gun, Fukushima 961-8054
Telephone: +81-248-22-8111
Products: Transformer board

KITAKAMI HITEC PAPER CORP.

Address: 35, Sasanagane, Aisari-cho, Kitakami-shi, Iwate 024-0051
Telephone: +81-197-67-3211
Products: Bleached kraft pulp, Hygienic paper, Photographic basepaper, etc.

HACHINOHE MILL

Address: Kawaragi-Aomoriyachi, Hachinohe-shi, Aomori 039-1197
Telephone: +81-178-29-2111
Products: Bleached kraft pulp, Coated printing paper, Uncoated printing paper, White card board, etc.



TAKASAGO MILL

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

KYOTO MILL

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

OVERSEAS

Mitsubishi HiTec Paper Bielefeld GmbH
Address: Niedernholz 23, D-33699 Bielefeld, Germany
Telephone: +49-521-2091-401
Products: Carbonless paper, Thermal paper, Inkjet paper

(Bielefeld, Germany)

Mitsubishi HiTec Paper Flensburg GmbH
Address: Husumer Strasse 12 D-24941 Flensburg, Germany
Telephone: +49-461-8695-204
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 Guangdong Province, China
Telephone: +86-756-8895033
Products: Various filters
(Zhuhai, China)

Six-Year Summary (Consolidated)

	Millions of yen						Thousands of U.S. dollars
	2010	2009	2008	2007	2006	2005	**2010**
For the years ended March 31							
Net sales	**¥ 219,728**	¥ 253,102	¥ 258,536	¥ 244,260	¥ 228,495	¥ 234,662	**$ 2,361,654**
Operating income	**4,253**	7,110	9,302	7,256	6,484	4,326	**45,719**
Ordinary income	**2,658**	4,499	7,120	5,270	4,774	1,689	**28,577**
Net income (loss)	**(1,597)**	1,168	3,654	7,297	7,225	(24,658)	**(17,171)**
Net income (loss) per share (in yen and dollars)	**(4.67)**	3.41	10.99	22.44	22.16	(75.75)	**(0.05)**
As at March 31							
Total assets	**¥ 282,131**	¥ 294,254	¥ 303,052	¥ 320,603	¥ 314,869	¥ 319,469	**$ 3,032,368**
Total net assets	**68,709**	70,436	79,636	80,326	76,680	60,479	**738,489**

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

CONSOLIDATED BALANCE SHEETS

As at March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	**2010**
ASSETS			
Current assets:			
Cash and bank deposits (Note 3(11))	**¥ 7,269**	¥ 3,698	**$ 78,133**
Receivables:			
Trade notes and accounts (Note 10)	**48,022**	48,203	**516,151**
Other	**2,488**	2,632	**26,741**
	50,510	50,836	**542,892**
Less: Allowance for doubtful accounts	**(756)**	(567)	**(8,129)**
	49,754	50,269	**534,763**
Inventories	**50,996**	59,116	**548,109**
Deferred income taxes (Note 14)	**1,611**	1,845	**17,315**
Other	**909**	1,695	**9,772**
Total current assets	**110,540**	116,624	**1,188,093**
Property, plant and equipment (Note 4)**:**			
Land	**22,775**	22,734	**244,789**
Buildings and structures	**96,442**	92,943	**1,036,567**
Machinery and equipment	**343,461**	337,005	**3,691,543**
Construction in progress	**430**	4,720	**4,630**
Leased assets	**2,684**	2,333	**28,857**
Other	**9,883**	9,964	**106,233**
	475,678	469,700	**5,112,621**
Less: Accumulated depreciation	**(344,532)**	(333,307)	**(3,703,056)**
Accumulated impairment losses	**(1,712)**	(221)	**(18,407)**
Net property, plant and equipment	**129,433**	136,172	**1,391,156**
Investments and other assets:			
Investments in securities (Notes 4, 10 and 11)	**29,152**	27,833	**313,329**
Investments in unconsolidated subsidiaries and affiliated companies	**1,624**	1,492	**17,459**
Long-term loans	**725**	701	**7,797**
Less: Allowance for doubtful accounts	**(276)**	(318)	**(2,971)**
Deferred income taxes (Note 14)	**2,731**	3,649	**29,360**
Other	**8,200**	8,099	**88,141**
Total investments and other assets	**42,158**	41,457	**453,117**
Total assets	**¥ 282,131**	¥ 294,254	**$ 3,032,368**

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	2010
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 10)	**¥ 79,902**	¥ 90,196	**$ 858,796**
Commercial paper	**9,000**	2,000	**96,732**
Current portion of long-term debt (Note 10)	**13,913**	16,057	**149,544**
Lease obligations	**570**	60	**6,126**
Payables:			
Trade notes and accounts (Note 10)	**23,239**	28,633	**249,783**
Other	**4,053**	3,541	**43,570**
Accrued expenses	**9,803**	11,945	**105,373**
Income taxes payable	**501**	1,058	**5,390**
Other	**3,247**	5,290	**34,901**
Total current liabilities	**144,232**	158,782	**1,550,218**
Long-term liabilities:			
Long-term debt (Note 10)	**55,679**	51,549	**598,444**
Lease obligations	**2,573**	3,606	**27,662**
Accrued retirement benefits to employees (Note 13)	**6,526**	6,286	**70,151**
Accrued retirement benefits to directors and statutory auditors	**113**	93	**1,216**
Deferred income taxes (Note 14)	**1,038**	505	**11,163**
Other	**3,258**	2,994	**35,021**
Total long-term liabilities	**69,190**	65,035	**743,659**
Contingent liabilities (Note 5)			
NET ASSETS			
Shareholders' equity:			
Common stock:			
Authorized: 900,000,000 shares at March 31, 2010 and 2009			
Issued: 342,584,332 shares at March 31, 2010 and 2009	**32,756**	32,756	**352,066**
Capital surplus	**19,717**	19,717	**211,922**
Retained earnings	**8,919**	11,459	**95,869**
Less: Treasury stock, at cost	**(133)**	(129)	**(1,432)**
Total shareholders' equity	**61,259**	63,803	**658,425**
Valuation and translation adjustments:			
Net unrealized gains on available-for-sale securities	**2,951**	1,578	**31,727**
Translation adjustments	**937**	821	**10,071**
Total valuation and translation adjustments	**3,888**	2,399	**41,799**
Minority interests in consolidated subsidiaries	**3,560**	4,234	**38,265**
Total net assets	**68,709**	70,436	**738,489**
Total liabilities and net assets	**¥ 282,131**	¥ 294,254	**$ 3,032,368**

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

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	**2010**
Net sales	**¥ 219,728**	¥ 253,102	**$ 2,361,654**
Cost of sales	**177,810**	205,745	**1,911,123**
Gross profit	**41,917**	47,357	**450,531**
Selling, general and administrative expenses	**37,663**	40,246	**404,812**
Operating income	**4,253**	7,110	**45,719**
Other income (expenses):			
Interest and dividend income	**641**	894	**6,895**
Interest expense	**(2,742)**	(3,552)	**(29,479)**
(Losses) Gains on disposal of property, plant and equipment	**(625)**	3,754	**(6,725)**
Gains (Losses) on sales of investments in securities	**865**	(1)	**9,303**
Write-downs of investments in securities	**(49)**	(994)	**(534)**
Losses on business restructuring (Note 6)	**(646)**	(1,625)	**(6,952)**
Impairment loss on property, plant and equipment (Note 8)	**(1,491)**	(5)	**(16,031)**
Special severance payments	**(189)**	(268)	**(2,038)**
Loss on liquidation of a subsidiary (Note 7)	**(390)**	—	**(4,191)**
Other, net	**184**	(193)	**1,979**
Total	**(4,444)**	(1,991)	**(47,774)**
Income (Loss) before income taxes and minority interests	**(191)**	5,119	**(2,055)**
Income taxes:			
Current	**605**	1,556	**6,512**
Deferred (Note 10)	**517**	2,124	**5,559**
	1,123	3,680	**12,072**
Minority interests in losses of consolidated subsidiaries	**283**	270	**3,043**
Net income (loss)	**¥ (1,597)**	¥ 1,168	**$ (17,171)**

	Yen		U.S. dollars (Note 2)
Amounts per share:			
Net income (loss) — basic (Note 3(10))	**¥ (4.67)**	¥ 3.41	**$ (0.05)**
Cash dividends applicable to the year	**—**	2.50	**—**

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

Mitsubishi Paper Mills Limited and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2010 and 2009

		Millions of yen									
		Shareholders' equity					Valuation and translation adjustments				
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	342,584,332	¥ 32,756	¥ 19,723	¥ 14,035	¥ (84)	¥ 66,431	¥ 7,145	¥ 339	¥ 7,485	¥ 5,720	¥ 79,636
Effects of changes in accounting procedures at overseas subsidiaries				(2,032)		(2,032)					(2,032)
Changes during the year:											
Net income				1,168		1,168					1,168
Cash dividends				(1,712)		(1,712)					(1,712)
Acquisition of treasury stock					(74)	(74)					(74)
Disposal of treasury stock			(6)		29	23					23
Changes in items other than shareholders' equity							(5,567)	481	(5,086)	(1,486)	(6,572)
Total changes during the year	—	—	(6)	(544)	(45)	(595)	(5,567)	481	(5,086)	(1,486)	(7,168)
Balance at March 31, 2009	342,584,332	¥32,756	¥19,717	¥11,459	¥ (129)	¥63,803	¥1,578	¥821	¥ 2,399	¥4,234	¥ 70,436
Changes during the year:											
Net loss				(1,597)		(1,597)					(1,597)
Cash dividends				(855)		(855)					(855)
Acquisition of treasury stock					(4)	(4)					(4)
Disposal of treasury stock			(0)		0	0					0
Decrease due to change in scope of consolidation				(15)		(15)					(15)
Decrease due to change in equity				(71)		(71)					(71)
Changes in items other than shareholders' equity							1,373	115	1,489	(673)	815
Total changes during the year	—	—	(0)	(2,539)	(3)	(2,543)	1,373	115	1,489	(673)	(1,727)
Balance at March 31, 2010	342,584,332	¥32,756	¥19,717	¥ 8,919	¥(133)	¥61,259	¥2,951	¥937	¥3,888	¥3,560	¥68,709

	Thousands of U.S. dollars									
	Shareholders' equity					Valuation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2009	$ 352,066	$ 211,925	$ 123,162	$ (1,393)	$ 685,761	$ 16,960	$ 8,826	$ 25,787	$ 45,508	$ 757,056
Changes during the year:										
Net loss			(17,171)		(17,171)					(17,171)
Cash dividends			(9,193)		(9,193)					(9,193)
Acquisition of treasury stock				(48)	(48)					(48)
Disposal of treasury stock		(2)		9	6					6
Decrease due to change in scope of consolidation			(165)		(165)					(165)
Decrease due to change in equity			(763)		(763)					(763)
Changes in items other than shareholders' equity						14,767	1,244	16,012	(7,243)	8,768
Total changes during the year	—	(2)	(27,293)	(39)	(27,335)	14,767	1,244	16,012	(7,243)	(18,566)
Balance at March 31, 2010	$ 352,066	$ 211,922	$ 95,869	$ (1,432)	$ 658,425	$ 31,727	$ 10,071	$ 41,799	$ 38,265	$ 738,489

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2010	2009	**2010**
I Cash flows from operating activities:			
Income (Loss) before income taxes and minority interests	**¥ (191)**	¥ 5,119	**$ (2,055)**
Depreciation and amortization	**12,897**	12,862	**138,624**
Impairment loss on fixed assets (Note 8)	**1,491**	—	**16,031**
Accrued retirement benefit costs	**(1,344)**	(1,284)	**(14,453)**
Accrued retirement benefit to directors and statutory auditors	**20**	(34)	**216**
Interest and dividend income	**(641)**	(894)	**(6,895)**
Interest expense	**2,742**	3,552	**29,479**
Losses (Gains) on disposal of property, plant and equipment	**69**	(4,128)	**746**
Gains (Losses) on sales of investments in securities	**(865)**	1	**(9,303)**
Write-downs of investments in securities	**49**	994	**534**
Write-downs of other investments	**15**	3	**163**
Losses on business restructuring (Note 6)	**646**	1,625	**6,952**
Loss on liquidation of a subsidiary (Note 7)	**390**	—	**4,191**
Decrease in trade accounts receivable	**213**	6,663	**2,289**
Decrease (Increase) in inventories	**8,198**	(12,636)	**88,114**
Decrease in trade accounts payable	**(5,524)**	(3,430)	**(59,372)**
Other, net	**540**	609	**5,813**
Sub-total	**18,708**	9,021	**201,078**
Interest and dividends received	**640**	895	**6,881**
Interest paid	**(2,876)**	(3,668)	**(30,912)**
Income taxes paid	**(1,459)**	(2,090)	**(15,683)**
Net cash provided by operating activities	**15,013**	4,157	**161,363**
II Cash flows from investing activities:			
Purchases of property, plant, equipment and intangible assets	**(10,238)**	(17,966)	**(110,041)**
Proceeds from sales of property, plant, equipment and intangible assets	**330**	6,322	**3,555**
Purchases of investment in securities	**(144)**	(181)	**(1,557)**
Proceeds from sales of investment in securities	**2,530**	59	**27,203**
Purchases of shares in unconsolidated subsidiaries and affiliated companies	**(579)**	(453)	**(6,228)**
Loans made	**(337)**	(731)	**(3,627)**
Proceeds from collection of loans	**29**	612	**320**
Other, net	**115**	78	**1,237**
Net cash used in investing activities	**(8,293)**	(12,261)	**(89,138)**
III Cash flows from financing activities:			
Increase or decrease in short-term bank loans	**(9,883)**	5,032	**(106,228)**
Increase or decrease in issuance of commercial paper	**7,000**	(4,000)	**75,236**
Proceeds from long-term debt	**18,207**	19,650	**195,692**
Repayment of long-term debt	**(6,834)**	(10,668)	**(73,459)**
Redemption of bonds	**(10,100)**	—	**(108,555)**
Repayment of lease debt	**(707)**	—	**(7,600)**
Purchases of treasury stock	**(4)**	(74)	**(48)**
Payment of cash dividends by the Company	**(855)**	(1,712)	**(9,193)**
Payments of cash dividends by subsidiaries to minority shareholders	**(84)**	(100)	**(913)**
Other, net	**0**	(49)	**6**
Net cash provided by (used in) financing activities	**(3,262)**	8,077	**(35,063)**
IV Effect of foreign currency translation on cash and cash equivalents	**63**	1,166	**687**
V Net increase or decrease in cash and cash equivalents	**3,521**	1,139	**37,848**
VI Cash and cash equivalents at beginning of the year	**3,464**	2,324	**37,233**
VII Cash and cash equivalents at end of the year (Note 3(11))	**¥ 6,985**	¥ 3,464	**$ 75,082**

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 ¥93.04 = U.S.$1, the exchange rate prevailing as of March 31, 2010. The inclusion of such U.S. dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

3. Summary of Significant Accounting Policies

(1) Scope of consolidation

The Company had 37 subsidiaries as of March 31, 2010 (37 as of March 31, 2009). The accompanying consolidated financial statements include the accounts of the Company and 25 (27 for 2009) of its subsidiaries for the year ended March 31, 2010 (together, hereinafter referred to as the "Companies").

MPB HiTec Paper UK Limited, London (UK) and Oy MPB HiTec Paper Ab, Espoo (Finland) have been excluded from the scope of consolidation as they are now insignificant following liquidation procedures.

The accounts of the remaining 12 (10 for 2009) unconsolidated subsidiaries for the year ended March 31, 2010 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 five (7 for 2009) subsidiaries are consolidated using the financial statements as of the respective fiscal year end which falls on December 31 and necessary adjustments are made to their adjustments are made to their financial statements to reflect any significant transactions from January 1 to March 31.

(2) Consolidation and elimination

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

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

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

(3) Investments in unconsolidated subsidiaries and affiliates

The Company had 13 affiliates as of March 31, 2010 (15 for 2009). 2 affiliated companies were accounted for by the equity method.

However, the remaining 12 (10 for 2009) subsidiaries and 11 (13 for 2009) 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

Until March 31, 2008, finished products, merchandise and work in process are primarily stated at cost, cost being determined by the average method and other inventories are stated at cost, cost being determined by the moving average method. Effective April 1, 2008, finished products, merchandise and work in process are primarily stated at lower of cost or market, cost being determined by the average method and other inventories are stated at lower of cost or market, cost being determined by the moving average method.

(6) Property, plant and equipment

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.

Additional information

The Company and its domestic consolidated subsidiaries have reviewed the useful lives of their property, plant and equipment, pursuant to the revision of the Corporation Tax Law of Japan. As a result, useful lives of certain machinery and equipment have been changed effective April 1, 2008. The effect of this change was to decrease both operating income and income before income taxes and minority interests by ¥306 million for the year ended March 31, 2009, compared with the corresponding amounts that would have been recorded under the previous method. The effect of this change on segment information is explained in Note 15.

(7) Allowance for doubtful accounts

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

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

(8) Accrued retirement benefits to employees

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

Overseas consolidated subsidiaries provide accrued retirement benefits to employees based on the method prescribed by their respective countries’ regulations.

Unrecognized net actuarial gains or losses are amortized from the year following the year in which such gains or losses are recognized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (10 to 15 years). Unrecognized prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of the employees who are expected to receive benefits under the plans (10 to 15 years).

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

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

(10) Net income or loss per share

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

(11) Cash and cash equivalents

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

A reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and bank deposits in the accompanying consolidated balance sheets at March 31, 2010 and 2009 is shown below:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and bank deposits	**¥ 7,269**	¥ 3,698	**$ 78,133**
Time deposits with maturities of over 3 months	**(283)**	(233)	**(3,050)**
Cash and cash equivalents	**¥ 6,985**	¥ 3,464	**$ 75,082**

(12) 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.

(13) Accounting changes

(i) Effective for the fiscal year ended March 31, 2010, the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan (ASBJ) Statement No. 19 issued on July 31, 2008) has been applied. This change made no difference on retirement benefit obligations. Therefore, there was no material effect on the financial statements for the year ended March 31, 2010.

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

The effect of this change was to decrease gross profit by ¥669 million, operating income by ¥598 million, and income before income taxes and minority interest by ¥295 million for the year ended March 31, 2009, compared with the corresponding amounts that would have been recorded under the previous method. The effect of this change on segment information is explained in Note 15.

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

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

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

As a result of this change, as of April 1, 2008, retained earnings decreased by ¥2,032 million compared with the corresponding amount that would have been recorded under the previous method. The effect of this change was immaterial to the income for the year ended March 31, 2009. The effect of this change on segment information is explained in Note 15.

4. Assets Pledged as Collateral

Assets pledged as collateral primarily for short-term loans, long-term debt and debentures at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Buildings and structures	**¥ 20,888**	¥ 22,141	**$ 224,515**
Machinery and equipment	**26,993**	32,947	**290,124**
Land	**9,542**	9,542	**102,560**
Other	**55**	503	**600**
Investments in securities	**3,526**	2,895	**37,899**
	¥ 61,006	¥ 68,030	**$ 655,700**

5. Contingent Liabilities

As at March 31, 2010 the Companies were contingently liable for guarantees of loans, primarily of their employees and unconsolidated subsidiaries and affiliates, in the aggregate amount of ¥3,429 million ($36,858 thousand), and also liable for a recourse obligation of credit securitization in the aggregate amount of ¥4,032 million ($43,338 thousand).

6. Loss on Business Restructuring

Loss on business restructuring mainly comprises restructuring costs at European subsidiaries of ¥646 million ($6,952 thousand), and ¥1,625 million in 2009.

7. Loss on Liquidation of a Subsidiary

A loss of ¥390 million ($4,191 thousand) is estimated from liquidation of Adelaide Blue Gum Pty Ltd. for the year ended March 31, 2010.

8. Impairment Loss on Fixed Assets

The Company has recognized impairment loss of ¥1,491 million ($16,031 thousand), for the following groups of assets as of March 31, 2010.

			Impairment loss	
Location	Use	Category	Millions of yen	Thousands of U.S. dollars
Takasago, Hyogo Prefecture	Property for business use	Machinary and equipment	**¥ 1,002**	**$ 10,773**
Kitakami, Iwate Prefecture	Property for business use	Machinary and equipment	**275**	**2,958**
Katsushika-ku, Tokyo	Idle assets	Building and structures, etc.	**213**	**2,298**
Total			**¥ 1,491**	**$ 16,031**

The Company assesses the impairment of each measurement unit of assets. Assessment is made on an individual basis for idle assets and on a measurement unit basis for assets for business use. The measurement unit, in principle, consists of a mill and peripheral facilities, which make up production units of the Company.

Due to the decline in real estate value and poor performance of assets, asset efficiency has worsened substantially. Therefore, the Company reduced the book value of assets in question to the recoverable amounts.

The recoverable amounts are determined using the net selling prices. The net selling prices are determined on the basis of the appraisal value by a real estate appraiser.

9. 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		
	2010			2009			2010		
	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total	Machinery and equipment	Other	Total
Purchase price equivalent	**¥ 215**	**¥ 318**	**¥ 534**	¥ 424	¥ 477	¥ 901	**$ 2,313**	**$ 3,425**	**$ 5,739**
Accumulated depreciation equivalent	**144**	**231**	**376**	288	298	586	**1,552**	**2,490**	**4,043**
Net book value equivalent	**¥ 70**	**¥ 87**	**¥ 157**	¥ 135	¥ 178	¥ 314	**$ 761**	**$ 935**	**$ 1,696**

(2) Lease commitments

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	**¥ 79**	¥ 155	**$ 849**
Due after one year	**78**	158	**847**
Total	**¥ 157**	¥ 314	**$ 1,696**

(3) Lease expenses and depreciation equivalents

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease expenses	**¥ 153**	¥ 269	**$ 1,652**
Depreciation equivalents	**153**	269	**1,652**

Non-cancelable operating lease commitments were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	**¥ 4**	¥ 6	**$ 43**
Due after one year	**0**	4	**5**
Total	**¥ 4**	¥ 11	**$ 49**

10. Financial Instruments

Additional information

Effective the year ended March 31, 2010, "Accounting Standard for Financial Instruments" (ASBJ, Statement No. 10 issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ, Guidance No. 19 issued on March 10, 2008) have been applied.

(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. These are managed at all times with the aim of maintaining them within the balance of accounts payable denominated in the same foreign currencies.

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

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

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

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

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

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

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

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

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

(2) Fair Value of Financial Instruments

Book value, fair values and differences between them as of March 31, 2010 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		
	2010		
	Book value	Fair value	Difference
Trade notes and accounts receivable	¥ 48,022	¥ 48,022	¥ —
Investments in securities			
Available-for-sale securities	23,665	23,665	—
Total of assets	71,688	71,688	—
Trade notes and accounts payable	23,239	23,239	—
Short-term bank loans (excluding current portion of long-term debt)	79,902	79,902	—
Long-term debt (including current portion of long-term debt)	68,742	69,446	704
Total of liabilities	171,885	172,589	704
Derivative transactions	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	2010		
	Book value	Fair value	Difference
Trade notes and accounts receivable	$ 516,151	$ 516,151	$ —
Investments in securities			
Available-for-sale securities	254,360	254,360	—
Total of assets	770,511	770,511	—
Trade notes and accounts payable	249,783	249,783	—
Short-term bank loans (excluding current portion of long-term debt)	858,796	858,796	—
Long-term debt (including current portion of long-term debt)	738,852	746,419	7,566
Total of liabilities	1,847,432	1,854,999	7,566
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. Current portion of long-term debt (¥13,813 million ($148,469 thousand)) is included in long-term debt.
(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 ¥13,813 million ($148,469 thousand).
(vi) Derivatives
Please see Note 12.

Unlisted equity securities (in the amount of ¥7,110 million ($76,428 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.

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

	Millions of yen					
	2010					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5years
Debentures	¥ 100	¥ 100	¥ 650	¥ —	¥ —	¥ —
Long-term debt	13,813	12,444	19,565	14,230	8,440	248
Lease obligations	570	557	538	520	489	467
Other interest-bearing liabilities	9,000	—	—	—	—	—
Total	¥ 23,483	¥ 13,101	¥ 20,754	¥ 14,751	¥ 8,929	¥ 716

	Thousands of U.S. dollars					
	2010					
	Due within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5years
Debentures	$ 1,074	$ 1,074	$ 6,986	$ —	$ —	$ —
Long-term debt	148,469	133,755	210,291	152,951	90,716	2,667
Lease obligations	6,126	5,990	5,791	5,595	5,255	5,030
Other interest-bearing liabilities	96,732	—	—	—	—	—
Total	$ 252,403	$ 140,820	$ 223,069	$ 158,547	$ 95,972	$ 7,698

11. 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, 2010 and 2009 are summarized as follows:
Available-for-sale securities:

	Millions of yen			
	2010			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥ 18,241	¥ 23,655	¥ 7,066	¥ 1,652
Goverment bonds and local goverment bonds	9	9	0	—
Other	—	—	—	—
	¥ 18,251	¥ 23,665	¥ 7,066	¥ 1,652

	Thousands of U.S. dollars			
	2010			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	**$ 196,064**	**$ 254,254**	**$ 75,951**	**$ 17,761**
Goverment bonds and local goverment bonds	**103**	**106**	**2**	**—**
Other	**—**	**—**	**—**	**—**
	$ 196,167	**$ 254,360**	**$ 75,953**	**$ 17,761**

	Millions of yen			
	2009			
	Acquisition	Carrying amount	Gross unrealized holding gains	Gross unrealized holding losses
Equity securities	¥ 19,857	¥ 22,380	¥ 5,060	¥ 2,537
Goverment bonds and local goverment bonds	9	9	0	—
Other	—	—	—	—
	¥ 19,866	¥ 22,389	¥ 5,060	¥ 2,537

12. Derivatives

(1) Transactions not subject to hedge accounting

No applicable transactions

(2) Transactions subject to hedge accounting

(i) Currency-related

No applicable transactions

(ii) Interest-rate related

Hedge accounting method	Type of derivative transaction, etc.	Main targets of hedging	Contract value	Contract value of instruments due within more than a year
Special settlement of interest rate swap	Interest rate swap transactions, fixed payments, variable receivables	Long-term debt	¥29,542 million	¥22,654 million
			$317,524 thousand	$243,492 thousand

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

13. Accrued Retirement Benefits

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

The following table sets forth a reconciliation of the projected benefit obligation, plan assets, funded status of the retirement benefit plans and net liability recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009.

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

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligations	**¥ (27,600)**	¥ (26,221)	**$ 296,653**
Fair value of plan assets	**29,349**	20,661	**315,454**
Funded status of the plans	**1,749**	(5,609)	**18,800**
Unrecognized net actuarial	**(2,990)**	4,242	**(32,137)**
Unrecognized prior service cost (reduction of the obligation)	**(1,269)**	(1,420)	**(13,645)**
Net retirement benefits	**(2,510)**	(2,787)	**(26,983)**
Prepaid pension cost	**4,016**	3,499	**43,168**
Accrued retirement benefits	**¥ (6,526)**	¥ (6,286)	**$ (70,151)**

The net periodic retirement benefit cost for the years ended March 31, 2010 and 2009 included the following components:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥ 1,610**	¥ 1,773	**$ 17,313**
Interest cost	**543**	549	**5,837**
Expected return on plan assets	**(315)**	(382)	**(3,390)**
Amortization of net actuarial loss (gain)	**283**	(659)	**3,045**
Amortization of prior service cost (reduction of the obligation)	**(169)**	(155)	**(1,820)**
	¥ 1,952	¥ 1,124	**$ 20,985**

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

	2010	2009
Discount rate	**1.5~1.9%**	2.5%
Expected rate of return on plan assets	**4.0%**	4.0%
Method of attributing the projected benefits to periods of service	**mainly on a points basis**	mainly on a points basis
Amortization of unrecognized prior service cost	**10~15 years**	13~15 years
Amortization of unrecognized net actuarial gain or loss	**10~15 years**	13~15 years

14. Deferred Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities for the years ended March 31, 2010 and 2009 was primarily 40.7%.

At March 31, 2010 and 2009, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 99**	¥ 237	**$ 1,069**
Accrued expenses	**1,304**	1,376	**14,018**
Accrued retirement benefits to employees	**3,690**	4,123	**39,662**
Allowance for doubtful accounts	**233**	239	**2,508**
Loss on revaluation of fixed assets	**1,036**	522	**11,143**
Unrealized gains on property, plant and equipment	**199**	237	**2,149**
Tax loss carryforwards	**8,125**	12,226	**87,334**
Other	**8,696**	8,703	**93,467**
Gross deferred tax assets	**23,386**	27,666	**251,354**
Valuation allowance	**(17,456)**	(21,298)	**(187,619)**
Total deferred tax assets	**5,929**	6,368	**63,735**
Deferred tax liabilities:			
Reserve based on Special Taxation Measures Law	**(34)**	(37)	**(367)**
Consolidation adjustment to book value of subsidiaries' assets	**(239)**	(243)	**(2,571)**
Unrealized gains on available-for-sale securities	**(2,200)**	(1,023)	**(23,645)**
Other	**(163)**	(75)	**(1,758)**
Total deferred tax liabilities	**(2,637)**	(1,379)	**(28,342)**
Net deferred tax assets	**¥ 3,293**	¥ 4,988	**$ 35,392**

Due to the posting of a loss before income taxes for the year ended March 31, 2010, description regarding reconciliation of the statutory tax rate to the effective income tax rate was omitted.

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

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

15. Segment Information

(1) Industry segment information

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

Paper and pulp:

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

Photosensitive materials:

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

Other:

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

Industry segment information for the years ended March 31, 2010 and March 31, 2009 as follows:

	Millions of yen					
Year ended March 31, 2010	Paper and pulp	Photosensitive materials	Other	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	¥186,078	¥26,679	¥ 6,970	¥219,728	¥ —	¥219,728
Intersegment sales and transfers	5,514	2,838	12,996	21,349	(21,349)	—
Net sales	191,592	29,518	19,967	241,077	(21,349)	219,728
Operating expenses	187,836	29,651	19,465	236,953	(21,478)	215,474
Operating income (loss)	¥ 3,756	¥ (133)	¥ 501	¥ 4,124	¥ 129	¥ 4,253
2 Total assets, depreciation and amortization and capital expenditures:						
Total assets	¥237,018	¥31,105	¥13,165	¥281,289	¥ 841	¥282,131
Depreciation and amortization	11,435	1,270	235	12,941	(43)	12,897
Impairment loss on fixed assets	1,002	275	213	1,491	—	1,491
Capital expenditures	5,036	2,286	276	7,598	(55)	7,542

	Thousands of U.S. dollars					
Year ended March 31, 2010	Paper and pulp	Photosensitive materials	Other	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	$ 1,999,982	$ 286,752	$ 74,920	$ 2,361,654	$ —	$ 2,361,654
Intersegment sales and transfers	59,268	30,510	139,687	229,467	(229,467)	—
Net sales	2,059,251	317,262	214,608	2,591,121	(229,467)	2,361,654
Operating expenses	2,018,877	318,697	209,214	2,546,789	(230,853)	2,315,935
Operating income (loss)	$ 40,373	$ (1,435)	$ 5,393	$ 44,332	$ 1,386	$ 45,719
2 Total assets, depreciation and amortization and capital expenditures:						
Total assets	$ 2,547,494	$ 334,328	$ 141,498	$ 3,023,322	$ 9,045	$ 3,032,368
Depreciation and amortization	122,910	13,650	2,531	139,092	(468)	138,624
Impairment loss on fixed assets	10,773	2,958	2,298	16,031	—	16,031
Capital expenditures	54,129	24,570	2,966	81,666	(595)	81,070

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

Accounting changes

Application of a new standard for inventories

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

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

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

Additional information

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

(2) Information by geographic segment

Segment information by geographical area for the years ended March 31, 2010 and March 31, 2009 as follows:

Year ended March 31, 2010	Millions of yen Japan	Europe	U.S.A.	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**¥ 177,688**	**¥ 35,621**	**¥ 6,417**	**¥ 219,728**	**¥ —**	**¥ 219,728**
Intersegment sales and transfers	**6,352**	**325**	**492**	**7,171**	**(7,171)**	**—**
Net sales	**184,041**	**35,947**	**6,910**	**226,899**	**(7,171)**	**219,728**
Operating expenses	**180,614**	**35,564**	**6,838**	**223,017**	**(7,543)**	**215,474**
Operating income	**¥ 3,427**	**¥ 382**	**¥ 71**	**¥ 3,881**	**¥ 371**	**¥ 4,253**
2 Total assets	**¥ 241,359**	**¥ 23,532**	**¥ 2,672**	**¥ 267,564**	**¥ 14,566**	**¥ 282,131**

Year ended March 31, 2010	Thousands of U.S. dollars Japan	Europe	U.S.A.	Total	Eliminations/ Headquarters	Consolidated
1 Net sales and operating income:						
Sales to unaffiliated customers	**$ 1,909,812**	**$ 382,865**	**$ 68,977**	**$ 2,361,654**	**$ —**	**$ 2,361,654**
Intersegment sales and transfers	**68,281**	**3,501**	**5,294**	**77,076**	**(77,076)**	**—**
Net sales	**1,978,093**	**386,366**	**74,271**	**2,438,731**	**(77,076)**	**2,361,654**
Operating expenses	**1,941,258**	**382,250**	**73,499**	**2,397,008**	**(81,072)**	**2,315,935**
Operating income	**$ 36,834**	**$ 4,116**	**$ 772**	**$ 41,723**	**$ 3,995**	**$ 45,719**
2 Total assets	**$ 2,594,151**	**$ 252,929**	**$ 28,723**	**$ 2,875,803**	**$ 156,564**	**$ 3,032,368**

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

Accounting changes

Application of a new standard for inventories

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

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

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

Additional information

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

(3) Overseas sales

Export sales and sales by overseas consolidated subsidiaries for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars	Percentage of such sales against consolidated net sales	
	2010	2009	**2010**	**2010**	2009
Overseas sales:					
Europe	**¥ 28,636**	¥ 39,095	**$ 307,782**	**13.0%**	15.4%
Asia	**7,785**	8,030	**83,681**	**3.5%**	3.2%
North America	**10,234**	13,246	**110,005**	**4.7%**	5.2%
Other	**6,305**	7,470	**67,773**	**2.9%**	3.0%
Total	**¥ 52,962**	¥ 67,843	**$ 569,243**	**24.1%**	26.8%

REPORT OF INDEPENDENT AUDITORS ON CONSOLIDATED FINANCIAL STATEMENTS

ERNST & YOUNG

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Report of Independent Auditors

The Board of Directors
Mitsubishi Paper Mills Limited

We have audited the accompanying consolidated balance sheets of Mitsubishi Paper Mills Limited and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mitsubishi Paper Mills Limited and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 29, 2010

A member firm of Ernst & Young Global Limited

BOARD OF DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE AUDITORS

Managing Executive Officers

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President and Chief Executive Officer

Kazuo Nakase
Director and Senior Managing Executive Officer

Junichi Tachibana
Director and Senior Managing Executive Officer

Masami Mizuno
Director and Senior Managing Executive Officer

Takefumi Suzuki
Director and Managing Executive Officer

Takao Senga
Director and Managing Executive Officer

Kanji Itakura
Director and Managing Executive Officer

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Managing Executive Officer

Hiroshi Nozawa
Managing Executive Officer

President and Chief Executive Officer

Kunio Suzuki
President, Imaging & Development Company

Director and Senior Managing Executive Officers

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

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Supervisor, General Affairs & Personnel Dept. and Information Systems Dept.; In charge of Finance & Accounting Dept.

Masami Mizuno
Supervisor, Purchasing Dept. & Forestry Dept.; In charge of Internal Audit Dept.

Director and Managing Executive Officers

Takefumi Suzuki
Vice President, Imaging & Development Company (In charge of Digital Imaging Sales Dept. and Newspaper Systems Sales Group)

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

Kanji Itakura
General Manager, President's Office and Corporate Planning Dept.; In charge of President's Office (Corporate Planning Dept. and Affiliates Managing Dept.); Director responsible for Corporate Social Responsibility

Director and Executive Advisor

Takeshi Sato

Director

Tomohisa Shinagawa

Managing Executive Officers

Mitsuo Ushijima
General Manager, Commercial Printing Paper Sales Dept., Paper Div.

Hiroshi Nozawa
In charge of General Affairs & Personnel Dept. and Information Systems Dept.; General Manager, Information Systems Dept.

Senior Executive Officers

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Vice President, Imaging & Development Company (In charge of Planning, Marketing and the Kyoto R&D Center)

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

Fukumi Kanehama
Head, Hachinohe Mill and General Manager, Equipment Planning Office

Naoya Tashiro
Vice President, Imaging and Development Company (In charge of Kitakami Div.); General Manager, Kitakami Div.; President & CEO, Kitakami Hitec Paper Corp.

Executive Officers

Motoshige Yamada
Head, Kyoto Mill, Imaging and Development Company

Shinichi Suzuki
Head, Takasago Mill

Yoshihiko Hibino
Deputy Head, Hachinohe Mill

Kiyoharu Yamada
General Manager, Business Communication & Specialty Paper Sales Dept., Paper Div.

Corporate Auditors

Norio Fujii
Shigeru Uemura
Yasuharu Takamatsu
Koji Kaihotsu

(as of June 29, 2010)

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Sales Branch:
Osaka

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

Mills:
Takasago, Kyoto, Hachinohe

Major Affiliates:

Domestic
Mitsubishi Paper Sales Co., Ltd.
Ostrich Dia Co., Ltd.
Toho Tokushu Pulp Co., Ltd.
Hachinohe Paper Processing Co., Ltd.
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