

ANNUAL REPORT 2005

Expanding Our Territory

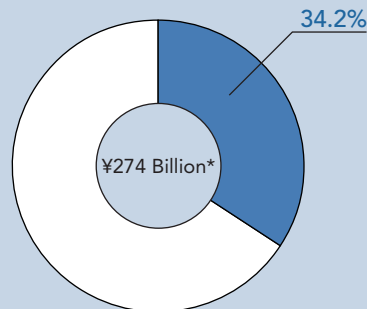
## PROFILE

Toppan Forms Co., Ltd., was established in 1955 with the goal of developing the business forms industry in Japan. Since that time, the Company has built a solid position as an industry leader through continued success in product development activities that have kept pace with the dramatic progress in computing technology.

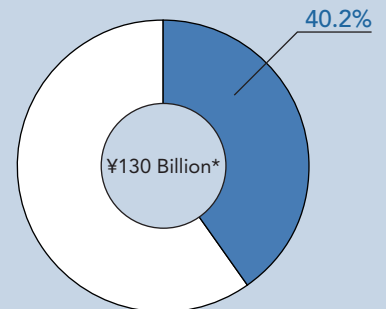
As a pioneer in the field of data print services (DPS), the Company has made a major contribution to market growth. Also, to increase its comprehensive capabilities as an integrated information management services company, Toppan Forms has accumulated a wide range of technologies and know-how related to the transmission of information.

Toppan Forms' growth potential is a direct result of the Company's approach to the challenge of expanding into new fields. With the full-fledged advent of the ubiquitous society under way, Toppan Forms is actively expanding its operations into new fields by combining its original technologies with other advanced technologies.

Market Scale and Our Share for Business Forms in FY 2005



Market Scale and Our Share for DPS in FY 2005



\*Market Data: Estimates by Toppan Forms based on materials from Yano Research Institute (December 2004)

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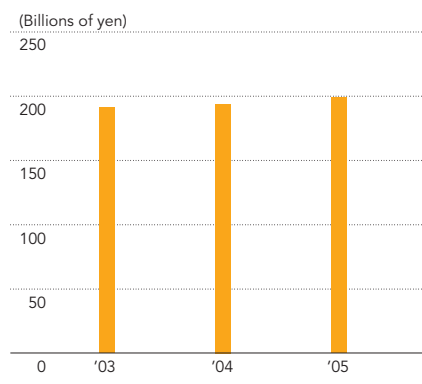
# CONSOLIDATED FINANCIAL HIGHLIGHTS

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

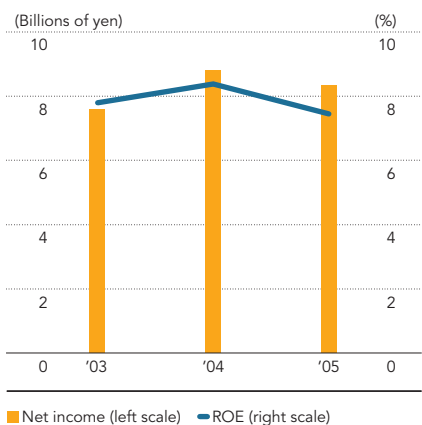
Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note)
	2003	2004	2005	2005
<b>For the year:</b>				
Net sales.....	¥191,324	¥193,985	¥199,173	\$1,854,672
Operating profit.....	15,030	15,766	13,696	127,540
Net income.....	7,630	8,763	8,276	77,066
<b>At year-end:</b>				
Total assets.....	¥148,990	¥158,077	¥169,070	\$1,574,363
Total shareholders' equity.....	99,969	107,964	113,985	1,061,410
<b>Per share data (Yen, U.S. dollars):</b>				
Net income.....	¥65.45	¥75.60	¥71.44	\$0.67
Cash dividends.....	23.00	23.00	23.00	0.21
<b>Key ratios (%):</b>				
Operating profit ratio.....	7.9	8.1	6.9	
ROE.....	7.8	8.4	7.5	
ROA.....	5.1	5.5	4.9	

Note: U.S. dollar amounts have been converted from yen, for convenience only, at the rate of ¥107=U.S.\$1, as at March 31, 2005.

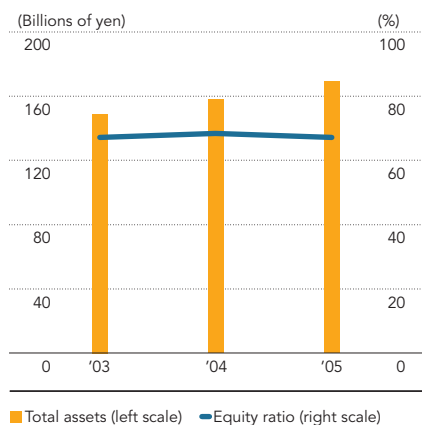
## Net Sales



## Net Income and ROE



## Total Assets and Equity Ratio





Since the Company's founding, Toppan Forms has responded rapidly and flexibly to changes in the market by combining fundamental technologies cultivated in business forms with other leading-edge technologies. The advent of the ubiquitous society has the potential to dramatically change the social structure. Toppan Forms approaches these types of major changes as opportunities, and the Company will work to build a new foundation for growth through operational development targeting the creation of new demand.

Masanori Akiyama  
President and CEO

**Q.** Would you please summarize the Company's operating environment and performance in fiscal 2005?

**A.** In the year under review, the Japanese economy benefited from the Olympics and economic growth in China, and capital investment increased in a wide range of industries. There was a marked improvement in economic sentiment.

Nonetheless, in the business forms market, operating conditions remained difficult. As corporations rationalized operations, they streamlined and networked their information systems, and as a result demand for business forms declined. In addition, changes in procurement practices led to declines in prices. On the other hand, in the year under review, we directly experienced the extent to which markets in our new fields of business have undergone dramatic growth. For example, progress in RFID (radio frequency identification) technology, which is driving the spread of ubiquitous commerce, is accelerating and tests and experiments targeting the commercialization of that technology are getting under way in a wide range of fields.

Although sales of business forms declined, we recorded higher sales of DPS and office supplies. As a result, net sales rose 2.7%, to ¥199.2 billion. We strove to increase efficiency and introduced rationalization measures throughout our operations, but due to the difficult conditions in the business forms market operating profit was down 13.1%, to ¥13.7 billion, and net income declined 5.6%, to ¥8.3 billion.

**Q.** How has Toppan Forms positioned its business forms operations, which are facing declining demand?

**A.** There is no question that demand for paper-based business forms is declining due to the streamlining of information systems accompanying corporate reorganizations and to the advance of digitization. However, business forms, which account for 53.0% of our net sales, are a key revenue source for the Company. Furthermore, as an integrated information management services company, we have grown through the incorporation of advanced technologies into business forms products. We have a dominant presence in business forms, with a 34% market share, and there is no question that business forms will remain the Company's foundation.

**Q.** What specific steps is the Company taking to improve profitability?

**Q.** Would you please outline Toppan Forms' strengths and fundamental strategy?

**Q.** What is the Company's medium-term strategy in business forms and office supplies?

**A.** We believe that strengthening our profit structure is an important management issue. We are working to improve our gross margins by thoroughly reevaluating our selling and procurement prices and by striving to reduce materials costs. Also, to raise labor productivity, we are taking steps to ensure appropriate human resources allocation on a Companywide basis. And to improve efficiency in production processes, we are working to achieve full automation of the DPS production process and to build a framework for continuous DOD production utilizing the Internet.

In the future, when it is appropriate given demand trends, we will shift business forms production lines to DPS and streamline the range of items produced at our plants.

**A.** With the full-fledged advent of the ubiquitous society under way, marketing and other business functions are undergoing dramatic changes. In this environment, changes in the manner in which information is transmitted will not be as simple as the replacement of paper media with digital media. Rather, the strengths of each type of media will be combined. Toppan Forms has treated paper media and digital media as having the same function in information transmission. At the same time, we have built a system that can provide tightly integrated products and services extending from the processing of the data on the media into the optimal form to consulting and systems development capabilities that support new business ventures. We have also developed complete information management systems. I think that these comprehensive capabilities are our greatest strength. Also, our fields of business have an extremely high degree of interconnection, so we have an operational structure that gives rise to synergies among our fields of business.

Our fundamental strategy has two parts. We will build a solid customer base by making full use of our comprehensive strengths and taking a wide-ranging approach to the provision of information management services. At the same time, by combining our original technologies with other advanced technologies, we will open up new fields of business in which we can establish a strong competitive edge.

**A.** The market environment in business forms is expected to remain difficult. Business forms is the platform for the Company's growth, and therefore we must improve our sales and profits in this field. We will offset quantitative declines with the development of high-value-added products and with solution-based marketing. We will also reevaluate profitability and eliminate inefficiencies in production processes. Moreover, we will reinforce our profit foundation by aggressively promoting Form Management Services, which integrate the entire range of procurement management, not only business forms but also office supplies.

In office supplies, where sales are increasing each year, our Internet order placement systems are making a contribution to expanded sales channels.

**Q.** Would you please describe the Company's medium-term strategy in DPS ?

**Q.** What is Toppan Forms' medium-term strategy for new fields of business?

**Q.** What is the Company's current situation regarding external alliances?

**A.** Previously, we had a very strong position in the DPS market, but new competitors have led to intensified price competition. In this environment, I believe that the ability to offer higher-value-added services and the ability to provide solutions that solve customers' problems will be the factors that determine success in this field.

We are considering a variety of options to raise added value in services. One such initiative is the addition of full color variable printing to DPS. We could also enhance our provision of integrated solutions that extend from the delivery stage to post-delivery operations. By further developing these services into BPO (business process outsourcing) operations, centered on DPS, we could expand our operations by serving as a business partner to our customers.

**A.** As I mentioned, accompanying the advent of the ubiquitous society, business conditions are undergoing dramatic change. In consideration of future market conditions, we must enhance our business model. Digital media and IC-related areas will play key roles in determining the future structure of the Company's operations, and accordingly we will give them high priority in the allocation of management resources. At the same time, we will aggressively pursue external alliances and establish a market presence as soon as possible.

In digital media related areas, we will emphasize development that anticipates timely themes, such as security, and work to develop a new business model through the integration of digital and paper media.

In IC-related products, we will endeavor to create new markets not only through the development and marketing of IC tags and IC cards but also through the provision of solution services tailored to the specific needs of each customer.

**A.** The effective use of external resources is extremely important from the viewpoint of strategic execution in the fields of digital media and IC-related products, where rapid development is required. In particular, we are aggressively promoting alliances in the field of RFID with companies that have technology that complements our own.

We have an operational tie-up with FEC Inc., which develops and produces the MM chip—the world's first multiband IC chip. This tie-up involves developing and marketing products based on the MM chip. We are making progress with the development of applications that anticipate the emergence of a full-fledged market for RFID-based solutions.

In February 2004, we entered an agreement with Microsoft Corporation for the purpose of jointly providing RFID-related product and technical information to solutions providers. In the year under review, the operations based on this cooperative venture continued to take shape as we developed a payment system using contactless IC cards that is now in use at a theme park in Japan. In the retail industry, on which RFID technology is expected to have the greatest effect, we have completed the development of middleware and will soon begin full-fledged business activities. In the future, we will develop new technologies and products that draw on the strengths of both parties to this agreement, such as the development of the RFID.NET Solution Center,

**Q.** Would you please tell us about Toppan Forms' information management system?

which will be a multipurpose facility in the Shiodome Building for the education of RFID engineers, the testing of RFID systems, and use as an RFID showroom. We will aggressively strive to complement our established presence in the information management services field by building our operations in CRM (customer relationship management) and other information marketing areas.

**A.** On April 1, 2005, a new law regulating the handling of personal information took effect in Japan. The protection of personal information has become an essential part of companies' responsibilities to society. With our DPS operations, where our customers entrust us with the personal information of consumers, we have already positioned information security as an issue of the highest priority. We have done our utmost to ensure the proper handling of personal information, not only in regard to organizational and facilities issues but also in regard to employee training and supplier compliance. Those efforts have borne fruit, and our information management system has earned high evaluations in a wide range of industries. In addition, we have been recognized by public institutions and have received a number of certifications. Moreover, in conjunction with the implementation of the new personal information law, we have established a new department that is dedicated to addressing these issues, and we continue to further bolster our information management system.

**Q.** In closing, what is your outlook for the fiscal year ending March 2006?

**A.** In the current fiscal year, conditions in the Japanese economy are expected to continue to pick up against a background of improvement in corporate performances and growth in consumer spending. On the other hand, an uncertain international situation and rising raw materials prices make it difficult to develop meaningful forecasts.

In the business forms market, we anticipate difficult conditions, with ongoing changes in the structure of demand and increasing raw materials prices. In this setting, Toppan Forms will bolster its ties with customers, expand its customer base, and create new markets. At the same time, by bolstering our corporate constitution through operational structure reforms, we will work to improve our performance. We are forecasting net sales of ¥207.5 billion, operating profit of ¥15.6 billion, and net income of ¥9.5 billion.

June 2005



Masanori Akiyama  
President and CEO

On a base of its original business forms technology, Toppan Forms has utilized a range of advanced technologies to expand into new fields of business, and the Company will continue to implement this growth strategy in the future. In this section, we provide an overview of the type of fields that we are targeting for expansion.

## Business Forms

### Territory 1.

## High-Value-Added Products

The structure of demand in the business forms market is changing. For example, companies are rationalizing their operations by integrating their information systems and making growing use of networks, and environmental conservation initiatives include measures to reduce paper consumption. As a result, the market for business forms is becoming more challenging each year. In this setting, Toppan Forms will reinforce its core business forms operations by increasing the added value of its products to achieve greater differentiation and by working to create new demand.

Our lineup of high-value-added products was made possible by our rapid and accurate grasp of market needs and by our application of the original technologies that we have developed. For example, we have always incorporated feedback from our customers in our development and improvement of POSTEX® sealed postcards, which offer enhanced confidentiality achieved through the use of pseudo-adhesive technology. And in the year under review, in response to the recent growth in concern about environmental conservation, we added a new version of POSTEX® to our lineup as a standard product. Previously, there was a trade-off in the development of these products between reusability and water resistance. However, we were able to make this new

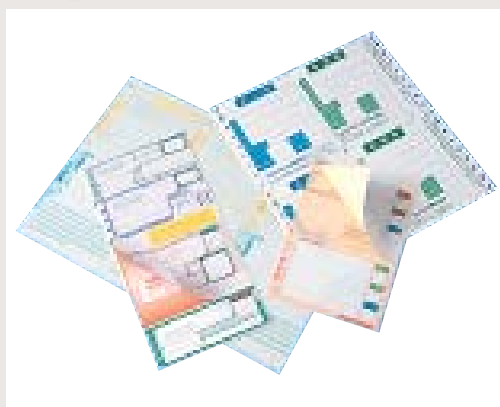
version of POSTEX® reusable by increasing the percentage of recycled paper, and at the same time we succeeded in improving water resistance. This is a good example of how we use multiple original technologies to provide versatile, high-level responses to market needs.

Moreover, we are applying our original pseudo-adhesive technology to POSTEX® products to cut costs by reducing the quantity of paper consumed while simultaneously helping companies to increase administrative efficiency. EX Forms, environmentally friendly distribution labels, are used by large numbers of companies in the transportation and retail sectors.

In response to heightened concern with security, we are also working to develop and market forms with enhanced security features. To help prevent counterfeiting and forgery, we are providing products that use platemaking technologies and special-ink printing technologies. And, we are meeting needs related to the protection of personal information with products that offer improved security functionality. In April 2005, a new law regulating the protection of personal information took effect in Japan, and we will meet related demand by aggressively marketing our products that provide a high level of protection for confidential information.



POSTEX® series products offer improved water resistance and recyclability.



EX Forms help companies to increase efficiency.





## Territory 2.

# Form Management Services

In the business forms market, which is contracting, one of the strategies that we formulated to expand our sources of revenue is the promotion of Form Management Services. In the past, our business model has involved developing new products and fields of business by adding value, such as functions and services, to our base of business forms. A typical example of that model is DPS, where we add to business forms such services as the processing and printing of data on the forms, insertion, sealing, and mailing. As with DPS, Form Management Services are centered on the provision of business forms combined with related value-added services. With Form Management Services, we offer integrated solutions to administrative tasks. This business model is aimed at enhancing customer retention, and we are promoting it on a Companywide basis.

Our integrated Form Management Services provide our customers with a gateway to our Internet order placement systems. These services include a procurement management system—covering order placement, inventory, and delivery management—and shipment to the customer's work site and

are available not just for catalogs, pamphlets, stationery, and supplies but also for business forms. Moreover, we are also promoting differentiation through the use of the know-how that we have acquired. For example, we provide consulting in such areas as the selection and improvement of form specifications and shapes and the management of mechanicals.

As companies strive to improve their administrative efficiency through the outsourcing of non-core tasks and to reduce their total costs by combining transactions, their needs for outsourcing services are steadily increasing. In response, Toppan Forms will make maximum use of its comprehensive strengths in the provision of a range of information-related products and services. In this way, we will aggressively develop our outsourcing services operations and establish a position as our customers' strategic partner.



T-PLAN Internet order placement system



With Form Management Services, we provide an integrated range of Internet-based services that extends from order placement and inventory control to delivery management.

# Data Print Services

## Territory 1.

### Vertical Integration

As markets have changed and the outsourcing of non-core functions has expanded, DPS has become a growth field. Moreover, the range of business activities that are being outsourced is expanding, and outsourcing needs are diversifying. In this market environment, the success or failure of companies providing outsourcing services depends on their ability to respond to changes in the operating environment.

Toppan Forms has established a competitive edge in the DPS market by making full use of its comprehensive strengths, such as a broad lineup of products and services, robust production and security systems, and know-how in a wide range of industries. In recent years, we have worked to anticipate market changes and to retain customers through the provision of integrated DPS services that comprehensively meet their outsourcing needs.

DPS is an outsourcing service where we add value through business form data processing, printing, inserting and sealing, and mailing. While they are built around these fundamental

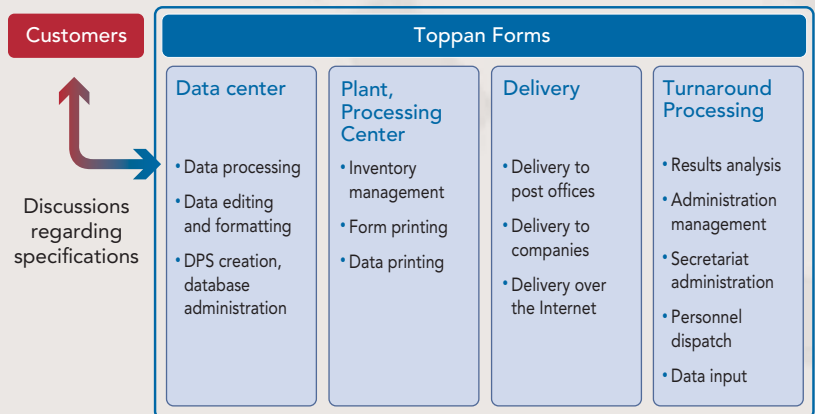
processes, our integrated services are vertically integrated, extending from upstream tasks, such as planning and consulting, to downstream tasks, such as data input and database administration.

This service model can accommodate large volumes of material at one time while significantly increasing customer convenience for work that involves post-processing, such as the management of customer information after delivery. College entrance exams are a good example. We print the application forms, distribute them to applicants, and then handle the receipt of the completed applications. Following the exams, we use DPS to distribute the results to the test-takers, and after admissions decisions are made we issue student ID cards. In this way, we use our know-how to provide services that are seamlessly integrated from beginning to end. In these endeavors, the key to strategic development is cooperation among operating divisions.



Our non-standard-size sales—promotion materials help customers to increase the effectiveness of their marketing activities.

#### Integrated Solutions with DPS





## Territory 2.

# Horizontal Extension

In DPS, in addition to vertical integration through the promotion of comprehensive services, we are also devoting resources to horizontal extension, where we are enhancing data processing and printing technologies, the core technologies of DPS, and expanding our customer base.

The transition to full color variable printing for DPS is a good example of enhanced printing technology. The use of full color variable printing has been fostered by DOD, through which we offer small lots of personalized, high-definition digitally printed materials. Until now, the use of full color variable printing with services like DPS, where the volume of work is large and the delivery schedules are short, has been widely considered to be difficult due to the technical challenges. But Toppan Forms has worked to conquer those technical challenges, and in the year under review the Company broke new ground with the development of technology for the production of personalized direct mail and pamphlets where each piece has a different design. Color personalized direct mail is expected to offer a substantial increase in effectiveness and, therefore, to find wide application in a range of areas.

Also, when companies send out transaction statements, they generally insert color pamphlets in the same envelope as one facet of their marketing strategy, but it has been necessary to print the pamphlets separately from the transaction statements. However, through the use of this technology, it is possible to print transaction statements and personal direct mail at the same time. For our customers, this results not only in increased direct mail effectiveness but also in cost savings. This technology marks an important advance in the DPS field, and Toppan Forms, as a pioneer in this field, will aggressively work to create demand.

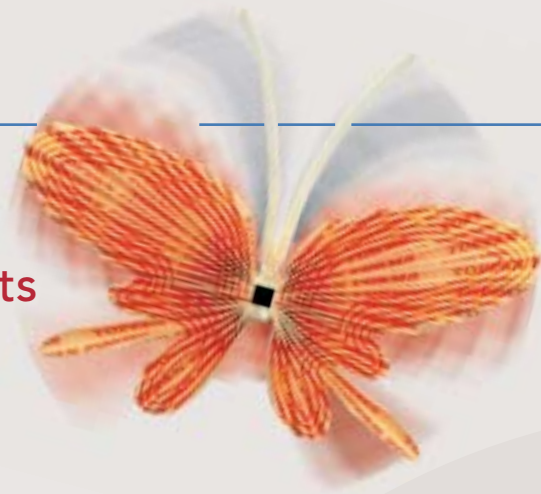
Many companies, including regional financial institutions, have produced materials for their customers in-house, but to bolster their competitiveness many of these companies are starting to outsource these operations. This trend is one of the factors behind the expectation of steady growth in the DPS market. To expand our customer base, we have decided to target fields with such latent demand, where we will strive to develop our operations by strongly promoting our track record and comprehensive strengths.



Toppan Forms strives to support the marketing strategies of its customers with direct mail specification proposals.



We conduct a wide range of post-processing activities related to DPS, such as entering data and handling inquiries.



## Multimedia and IC-Related Products

### Territory

## New Markets

In Toppan Form's product lineup, digital media, such as the Internet and e-mail, complement the paper media that comprise the Company's core business forms. As the digitization of information advances, the prominence of digital media is expanding at an accelerating pace. We are using the information processing and management techniques that we acquired in business forms to drive our growth in digital media. At the same time, we are striving to provide original solutions that leverage combinations of digital and paper media.

In recent years, the Internet has played an increasingly important role in information transmission, not only between companies but also between companies and consumers. However, with information technology becoming more advanced and complex, it can be inefficient for companies to install their own IT infrastructure.

As a provider of outsourcing services, we are supporting the Internet strategies of our customers. We provide data management services utilizing dedicated servers as well as advanced data distribution services for such applications as data exchanges between companies, the provision of notifications to end consumers, and e-mail marketing.

In security solutions, we regard the April 2005 implementation of Japan's new law regulating the handling of personal information as an excellent business opportunity. By using a MAIL MANAGEMENT PACKAGE (MMP) that incorporates an e-mail firewall and spam filter, we are aggressively promoting integrated services that range from consulting to installation and maintenance.

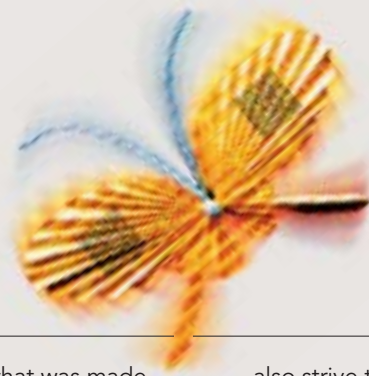
Also, with a combination of paper and digital media, we are cultivating customers by offering cross marketing and CYBER DIRECT MAIL services. These services use paper direct mail products that are delivered to end consumers and encourage them to visit the web sites of our customers, where information is provided. This new service model enables our customers to develop a better understanding of their own customers' personal interests based on web site browsing and then to personalize web sites accordingly, thereby enhancing the precision of marketing activities. With our unique competitive strengths in the core field of business forms, we believe that these services provide us with the opportunity to establish a competitive advantage.



We achieved a world first with Audio Paper by combining our technology for directly mounting ICs on circuit substrates with our 0.5-mm, ultrathin paper batteries.



Metal-compatible labels for use with RFID devices



In Japan, the additional UHF spectrum that was made available in April 2005 is expected to accelerate the adoption of RFID (radio frequency identification). Toppan Forms has positioned RFID as a strategically important area and is aggressively moving forward with the development of related products and applications. In our production processes for IC-related products, we use a range of technologies that we have cultivated through our business forms operations. For example, our printing technologies enable us to form low-cost, high-quality antennas, which are important components of IC cards and IC tags. In the same way, the application of our printing technologies has enabled us to establish a high degree of technical superiority in such areas as label processing and coating. Also, as a manufacturer of IC-related products, we have an integrated mass production system that extends from design and development to production, a key point of differentiation from our competitors.

We strive to accurately understand the different needs of each customer, such as needs for security enhancement, administrative efficiency, and CRM (customer relationship management), and then to develop systems that meet those needs. In this way, we not only sell IC-related products but

also strive to create markets by providing solutions. We are making steady progress in the installation of such products as work site time and attendance management systems, condominium security systems, and payment settlement systems.

Tie-ups with other companies play an extremely important role in our strategy. In the previous fiscal year, we entered a tie-up with Microsoft Corporation, through which we are providing RFID product and technical information to solutions providers via the Internet. We have released RDSC\* Framework for Logistics, a Windows-based RFID middleware product targeting the retail industry, and are pursuing full-fledged operational development through the Internet. Windows is the operating system on almost all of the POS systems in the retail industry, so we expect this product to contribute to the full-fledged adoption of RFID.

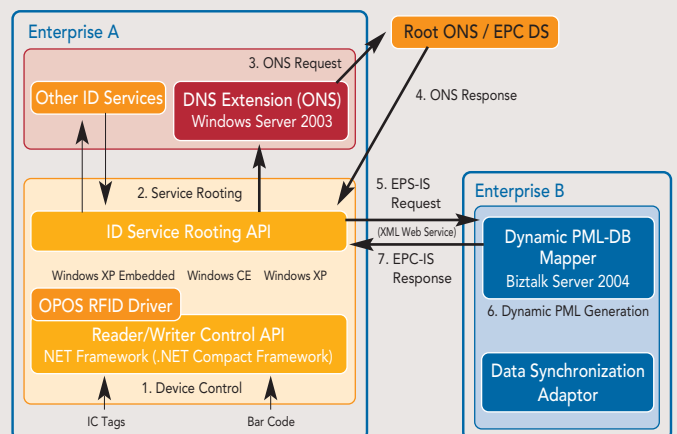
The digital media and IC-related products fields are leading-edge sectors that were opened up by Toppan Forms. However, the development of these fields is far from over, and in the future we will refine our original technologies and draw on other advanced technologies to foster further growth in digital media and IC-related products.

\* RFID .Net Solution Center



This payment system, which uses contactless IC cards, has been installed in a theme park in Japan.

### RDSC Framework for Logistics



## PRINTING BUSINESS

### Business Forms Division

#### Business Forms

- Transport and delivery slips
- Mail-related forms
- POSTEX® sealed postcard series
- Environmentally friendly business forms

#### Multimedia- and IC-Related Products (IMS)

- E-mail related services
- Web-related services
- IC tags, IC cards, and other RFID products

### Data Print Services (DPS) Division

#### Data Print Services (DPS)

- Business mail for notifications
- DM for sales promotions
- Data Print Services for in-house use

#### Digital Print on Demand (DOD)

- Personalized marketing tools
- Personalized educational materials

## OTHER BUSINESSES

#### Office Supplies

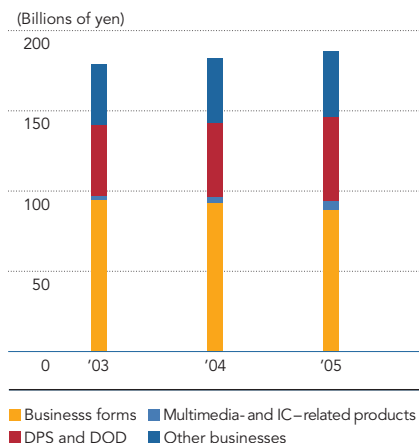
- IT-related equipment supplies
- Paper products

#### Equipment and Services

- Forms processors and system machines
- Dispatch of personnel

In fiscal 2005, the ratios of consolidated to non-consolidated net sales and operating income were 1.07 and 1.16, respectively. Because the difference between the two figures is small, non-consolidated figures have been used in this section.

### Net Sales by Type of Business



Note: The above breakdown of net sales by type of business has been presented for reference only and is not consistent with segment information presented in the Notes to Consolidated Financial Statements.

## PRINTING BUSINESS

Printing operations represent the Company's core business segment, accounting for 77.8% of net sales in the year under review, and are divided into two main categories: business forms and Data Print Services (DPS). Business forms account for the majority of the Company's sales and profits, while DPS is a key growth driver. In fiscal 2005, net sales in printing business operations increased 2.3% year on year, to ¥145.9 billion.

### Business Forms Division

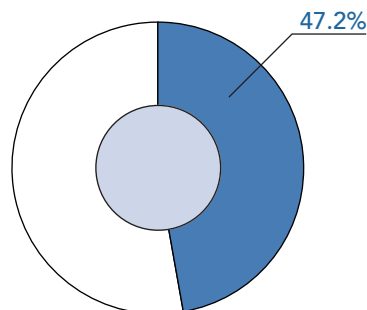
The Business Forms Division is organized into two major product categories: business forms and multimedia- and IC-related products.

#### Business Forms

In business forms, which have been the foundation for the Company's growth in all fields, Toppan Forms had a 34.2% share of the domestic market in fiscal 2005. Business forms accounted for 47.2% of net sales in the year under review. The main products in this category include various forms, such as POSTEX® notification forms and distribution-related forms, as well as envelopes, catalogs, pamphlets, and non-IC cards. IC cards are included in the multimedia- and IC-related products category.

In fiscal 2005, we recorded increased sales of environmentally friendly distribution-related forms and sealed labels that meet needs for the protection of personal information.

### Business Forms



Transport and delivery slips

However, demand continued to decline on account of corporate information system integration and networking, and prices continued to fall on account of changes in procurement practices. In addition, the prices of raw materials for paper rose. Market conditions were extremely challenging, and sales in this category declined 2.4%, to ¥93.6 billion.

In the year under review, in response to changes in the structure of demand, we worked to develop new products and improve existing ones. At the same time, we reinforced customer relationships by enhancing our service system and instituted a range of measures to improve profitability.

Product development and improvement initiatives included boosting the recyclability of POSTEX® sealed postcards featuring enhanced confidentiality achieved through the use of a re-releasable pressure-sensitive adhesive. In addition, we improved product quality by making water-resistant recycled paper standard in all product lines.

To enhance our service system, we promoted Form Management Services, which entail the integrated management of office supplies. In this way, we took a comprehensive approach to business forms, office supplies, and accessories.

We also implemented a range of initiatives to improve profitability, including reevaluating procurement and sales prices, raising production efficiency, and improving labor productivity.

In related printing operations, sales were favorable, with a continued contribution from solid demand for

business-forms-related printing, including catalogs, pamphlets, and mailing envelopes.

In non-IC cards, we conducted proposal-based marketing combining card sales with consulting and system development, and these efforts resulted in favorable sales.

### Multimedia- and IC-Related Products

Multimedia- and IC-related products are a newer field of business that the Company is striving to develop into a driver of future growth. Accordingly, we are aggressively allocating management resources and pursuing external alliances as we work to develop original products and systems. In the year under review, sales in this category were up 35.9%, to ¥4.4 billion.

In digital media products, we are aiming to utilize synergies between digital-media-based marketing activities and our core field of business forms. To that end, we are developing systems and providing services that draw on the distinctive characteristics of web sites, e-mail, and cellular phones.

In IC-related products, we offer RFID products, such as IC cards and IC tags; systems that use RFID products; reader-writer units and other equipment; and card issuance services.

We have developed and begun sales of Audio Paper, the world's first paper-like product that can record and play back sound. This product's key feature—flexibility that approaches very close to that of paper—resulted from our

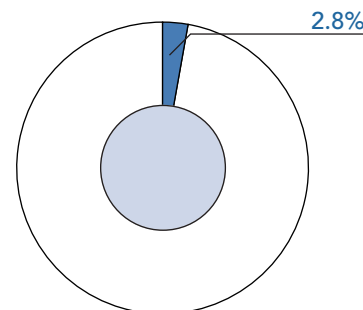


IC tags



These bar code labels can be applied directly to fruit.

### Multimedia- and IC-Related Products



success in reducing the product thickness to 0.75 mm from the previous limit of 5 mm. This advance was made possible by a combination of our original IC surface mounting technology, thin substrate production technology, and 0.5-mm, ultrathin paper batteries. Audio Paper has received considerable attention for its potential to expand the uses of paper.

In February 2004, we entered an agreement with Microsoft Corporation to provide product and technical information to system integrators and to conduct R&D. As one facet of those activities, we have jointly developed a payment system using contactless IC cards, which offer both low costs and stable operation, and this system is now in use at a theme park in Japan.

### Data Print Services (DPS) Division

DPS is a comprehensive outsourcing service that involves editing and processing data entrusted to us by customers, printing the variable data on business forms using high-speed non-impact printers, inserting the forms into envelopes, sealing the envelopes, and mailing them. To differentiate our services from those of competitors, we are using our DPS printer peripheral software and equipment, which we developed in-house, and our security system.

In fiscal 2005, this division's sales rose 11.7%, to ¥52.2 billion, or 27.8% of net sales.

This field features an extremely high need for rigorous management of personal information. In consideration of the new law regulating the protection of personal information, we have established a department specialized in this area and are implementing reinforcement measures in related organizational, administrative, and systems areas.

### Data Print Services (DPS)

In DPS operations, the market environment was difficult in the year under review as competition continued to intensify, leading to declines in prices. We expanded our lineup of large sales-promotion materials, for which the direct mail market has grown, and worked in related operations, which extend from planning to post-processing activities. These efforts, in conjunction with a bolstered production system, led to new orders from financial institutions for the integrated outsourcing of notifications and printing. Also, personalized products created with full color variable printing also made a contribution to our performance. Sales rose 9.7%, to ¥47.1 billion.

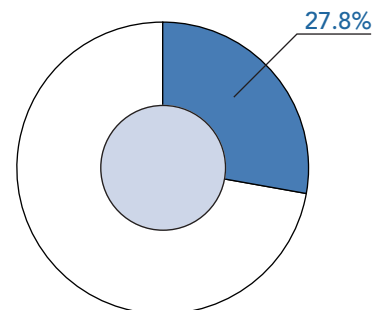


Personalized DPS was achieved through the use of full color variable printing technology.



The Fussa Plant boasts a stringent security system.

### DPS Division





■ Digital Print on Demand (DOD)

DOD is a system offering high-speed, programmable color printing of variable, digital graphics data created through DTP. Because the data can be easily changed, linking the system with a database enables the production of highly personalized direct mail, thereby facilitating more accurate marketing activities. Accordingly, demand for these services is increasing, and in the year under review sales rose 35.9%, to ¥5.0 billion.

OTHER BUSINESSES

The Other Businesses segment comprises the office supplies category and the equipment and services category, each of which complements Toppan Forms' printing business. Net sales in this segment rose 3.7% year on year, to ¥41.7 billion, or 22.0% of net sales.

■ Office Supplies

In the year under review, we enhanced our lineup of office supplies, which includes printing supplies and stationery, and broadened sales channels through an office supply procurement system that can rapidly meet customer needs. As a result, sales increased 4.7%, to ¥24.2 billion.

■ Equipment and Services

Toppan Forms is building a total support system that complements the sale of business forms with the design, manufacture, and sale of peripheral equipment and related devices and the provision of maintenance services through Group companies.

In peripheral equipment, we offer processing equipment, such as sealers that process printed business forms into the shapes of envelopes and postcards. In card-related products, we market ID card color printers and systems for issuing membership cards and rewritable cards.

In our services business, we dispatch specialist staff to provide customers with system development assistance, principally with operational and maintenance issues. We also undertake a wide range of computer-systems-related administration and management.

In the year under review, sales in the equipment and services category rose 2.4%, to ¥17.4 billion, due to increased capital investment accompanying improved business sentiment.

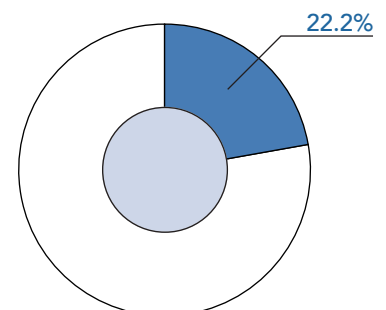


O-TASCARRY Internet-based order placement system catalog



Pressle Ace 2000

Other Businesses



With the need for effective corporate governance systems a focus of attention, Toppan Forms' fundamental policy calls for the establishment of a fair, shareholder-centered management system.

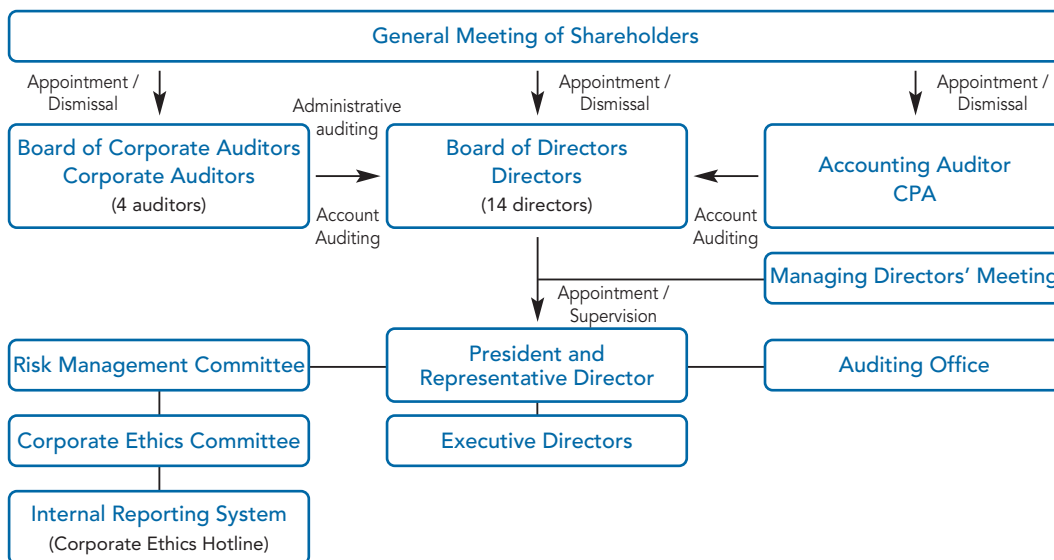
Based on this fundamental policy, we have taken steps to promote rapid, fair decision making and to reinforce the supervisory function of the board of directors by reducing the number of directors and appointing outside directors. Outside corporate auditors have been appointed to the board of corporate auditors, which is conducting strict auditing of the administrative execution of directors.

Moreover, to further enhance our internal control system, we have created the Risk Management Committee and strengthened our compliance system with the establishment of an internal reporting system (Corporate Ethics Hotline). Our aim is to be a company that is trusted by customers, shareholders, and other members of society.

## Outline of Corporate Governance System

- Toppan Forms uses the corporate auditor system.
- The Company has 14 directors, two of whom are outside directors. There are four corporate auditors, three of whom are outside auditors and two of whom, including one outside auditor, are full-time.
- The board of directors meets once a month, makes decisions on important issues, and supervises administrative execution.
- Managing directors' meetings are held once a month, prior to board of directors' meetings, and issues to be raised at the directors' meetings are considered and decided upon.

## Corporate Governance System



# CONSOLIDATED SIX-YEAR FINANCIAL SUMMARY

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen						Thousands of U.S. dollars (Note1)
	2000	2001	2002	2003	2004	2005	2005
<b>For the year:</b>							
Net sales .....	¥180,521	¥189,465	¥196,489	¥191,324	¥193,985	¥199,173	\$1,854,672
Operating profit .....	17,498	18,094	18,888	15,030	15,766	13,696	127,540
Income before income taxes .....	17,529	16,837	18,477	13,867	15,812	14,448	134,543
Net income .....	9,710	9,272	10,584	7,630	8,763	8,276	77,066
Depreciation and amortization .....	4,966	4,800	4,701	4,630	5,033	4,937	45,966
Capital expenditure .....	5,529	5,941	6,580	10,461	9,025	3,296	30,687
R&D expenditure .....	1,910	2,185	2,309	2,246	2,264	2,106	19,608
<b>At year-end:</b>							
Total assets .....	¥133,649	¥141,515	¥150,979	¥148,990	¥158,077	¥169,070	\$1,574,363
Total shareholders' equity .....	82,481	89,292	95,955	99,969	107,964	113,985	1,061,410
Number of shares outstanding (thousands).....	115,000	114,851	114,706	114,554	114,232	114,084	
Number of employees.....	6,139	6,165	6,349	6,342	6,115	6,074	
<b>Cash flows:</b>							
Net cash provided by operating activities.....	¥12,682	¥12,548	¥16,227	¥10,669	¥13,351	¥14,049	\$130,823
Net cash used in investing activities.....	(4,420)	(8,650)	(7,476)	(11,890)	(6,080)	(4,294)	(39,989)
Net cash used in financing activities.....	(2,494)	(2,568)	(2,552)	(3,292)	(3,188)	(2,270)	(21,136)
Cash and cash equivalents at end of year .....	16,767	18,113	24,373	19,836	23,908	31,392	292,316
yen <span style="float: right;">U.S. dollars</span>							
<b>Per share data (Note 2):</b>							
Net income:							
Basic .....	¥ 84.44	¥ 80.68	¥ 92.21	¥ 65.45	¥ 75.60	¥ 71.44	\$0.67
Diluted.....	—	—	—	—	—	71.44	0.67
Cash dividends .....	20.00	21.00	23.00	23.00	23.00	23.00	0.21
Shareholders' equity .....	717.23	777.46	836.52	871.54	944.05	998.05	9.29
Percent							
<b>Ratios:</b>							
Equity ratio .....	61.7%	63.1%	63.6%	67.1%	68.3%	67.4%	
Return on net sales .....	5.4	4.9	5.4	4.0	4.5	4.2	
Return on assets.....	7.5	6.7	7.2	5.1	5.5	4.9	
Return on shareholders' equity.....	12.3	10.8	11.4	7.8	8.4	7.5	

Notes: 1. U.S. dollar amounts have been converted from yen, for convenience only, at the rate of ¥107=U.S.\$1, as at March 31, 2005.  
 2. The computations of net income per share and shareholders' equity per share are based on the weighted-average number of shares of common stock outstanding during each year. Treasury stocks held during each year are excluded. Cash dividends per share represent the actual amounts applicable to the earnings of the respective years.

## Market Environment

In fiscal year 2005, ended March 31, 2005, conditions in the business forms industry remained difficult. As in the previous fiscal year, intensified competition and changes in procurement practices led to declines in product prices, and the streamlining of corporate systems resulted in lower demand. However, in advance of the April 2005 implementation of Japan's new privacy law, concerns about information security increased, leading to strong growth in demand for related products and services.

## Income and Expenses

In the year under review, consolidated net sales increased 2.7% year on year, to ¥199.2 billion (\$1,855 million). Sales in the Printing Business segment rose 2.4%, to ¥154.0 billion (\$1,435 million). Within this segment, business forms sales decreased 2.0%, to ¥100.9 billion (\$940 million), due to the effects of falling product prices and changes in the structure of demand. On the other hand, in Data Print Services

(DPS) operations, sales grew 11.7%, to ¥53.1 billion (\$495 million), as a result of integrated outsourcing orders combining notifications and printing operations.

In the Other Businesses segment, sales rose 3.7%, to ¥45.1 billion (\$420 million), due to our success in expanding our product range and broadening our sales channels through the use of the Internet.

Although the Company strove to reduce costs in the fiscal year under review, the cost of sales increased 4.2%, to ¥151.0 billion (\$1,406 million), due to higher raw materials prices. The cost of sales ratio rose 1.1 percentage points, to 75.8%. As a result, gross profit declined 1.9%, to ¥48.2 billion (\$449 million).

Although Toppan Forms worked to improve efficiency and rationalize operations on a Company-wide basis, selling, general and administrative (SG & A) expenses increased 3.5%, to ¥34.5 billion (\$321 million), and the ratio of SG & A expenses to net sales edged up 0.1 percentage points, to 17.3%.

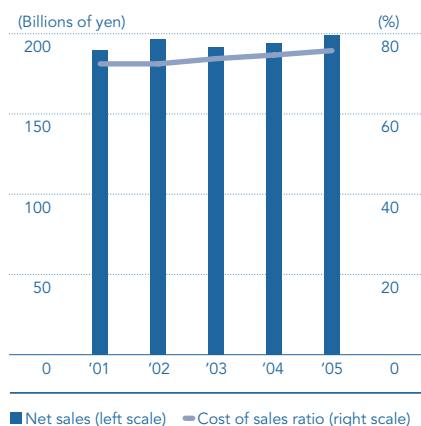
As a result, operating profit was down 13.1%, to ¥13.7 billion (\$128 million), and the operating profit margin decreased 1.2 percentage points, to 6.9%.

In other income and expenses, in the previous fiscal year we recorded substantial expenses, such as restructuring costs, as well as large income items, such as gains on sales of investment securities. In the year under review, however, there were no major expense or income items. Net other income was ¥0.75 billion (\$7 million), compared with net other income of ¥0.05 billion in the previous year.

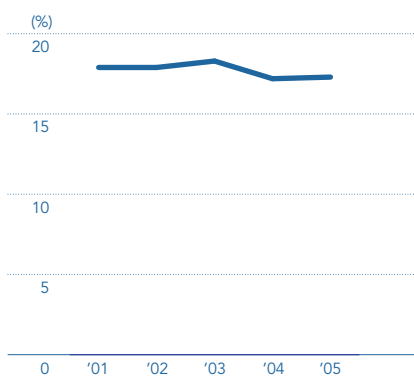
Income before income taxes was down 8.6%, to ¥14.4 billion (\$135 million), and net income declined 5.5%, to ¥8.3 billion (\$77 million).

Net income per share was ¥71.44 (\$0.67), compared with ¥75.60 in the previous year. Return on equity was 7.5%, down from 8.4% in the previous year, and return on assets was 4.9%, compared with 5.5% a year earlier.

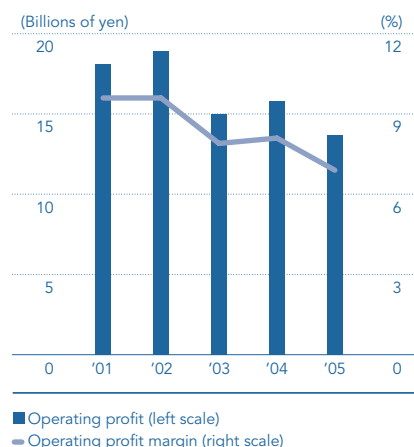
### Net Sales and SG & A Ratio



### SG & A Ratio



### Operating Profit and Operating Profit Margin



## Dividend Policy

Toppan Forms gives high priority to returning profits to investors through the stable, continuous payment of dividends in line with the Company's performance.

In fiscal year 2005, the Company paid interim and year-end dividends of ¥11.50 (\$0.10). As a result, total cash dividends per share were ¥23.00 (\$0.21), the same as in the previous fiscal year. The non-consolidated payout ratio was 30.9%.

## R&D Expenditure

In the year under review, R&D expenditure totaled ¥2.1 billion (\$20 million), compared with ¥2.3 billion in the previous year. In addition to investment targeting enhanced development activities in fundamental and device technologies, the Company aggressively conducted long-term investment in digital media and IC-related areas.

## Capital Expenditure/ Depreciation and Amortization

Capital expenditure, principally for enhanced production equipment,

decreased 63.5%, to ¥3.3 billion (\$31 million), due to investment in the previous year in building construction. Depreciation and amortization amounted to ¥4.9 billion (\$46 million), compared with ¥5.0 billion in the previous year.

## Financial Position

Current assets were up ¥11.1 billion, to ¥88.9 billion (\$828 million), primarily due to a growth in cash and cash equivalents. Current liabilities increased ¥3.9 billion, to ¥50.8 billion (\$473 million). Accordingly, working capital rose ¥7.2 billion, to ¥38.0 billion (\$354 million), and the current ratio improved from 1.66 to 1.74.

Total shareholders' equity rose ¥6.0 billion, to ¥114.0 billion (\$1,061 million) at year-end, mainly due to higher retained earnings. Total assets were up ¥11.0 billion, to ¥169.1 billion (\$1,574 million). Consequently, the equity ratio was 67.4%, compared with 68.3% a year earlier.

## Cash Flows

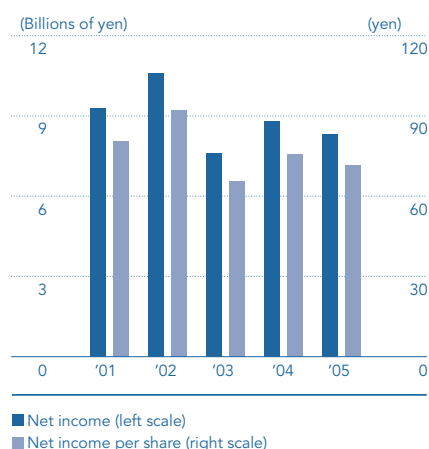
Net cash provided by operating activities rose from ¥13.4 billion in the previous fiscal year to ¥14.0 billion (\$131 million). The major inflow was income before income taxes of ¥14.4 billion (\$135 million). Income taxes paid totaled ¥6.6 billion (\$61 million).

Net cash used in investing activities fell from ¥6.1 billion in the previous year to ¥4.3 billion (\$40 million). This decrease was principally due to a decline in the acquisition of property, plant and equipment to ¥4.4 billion (\$41 million).

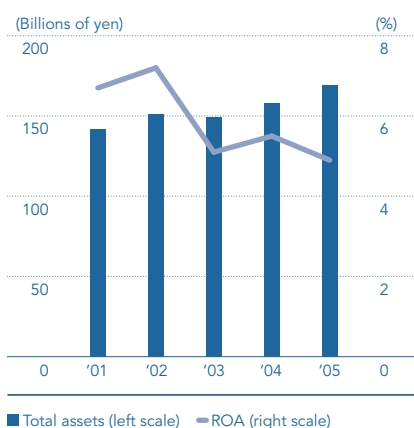
Net cash used in financing activities was ¥2.3 billion (\$21 million), down from ¥3.2 billion in the previous year. The major activity was dividends paid, which amounted to ¥2.6 billion (\$25 million).

At the end of fiscal year 2005, cash and cash equivalents totaled ¥31.4 billion (\$292 million), up ¥7.5 billion from the previous year-end.

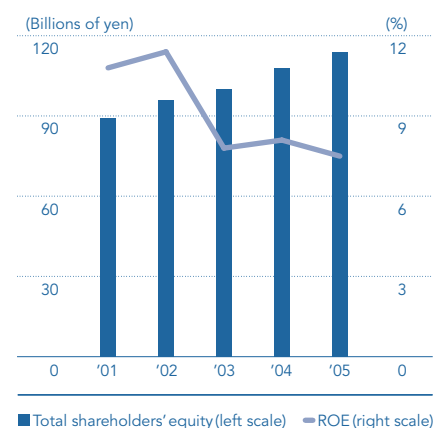
Net Income and  
Net Income per Share



Total Assets and ROA



Total Shareholders' Equity  
and ROE



# CONSOLIDATED BALANCE SHEETS

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents (Notes 2 and 3) .....	¥ 21,188	¥ 27,952	\$ 260,283
Marketable securities (Notes 2, 3 and 5) .....	2,820	3,440	32,033
Notes and accounts receivable, trade (Note 4) .....	36,939	38,867	361,928
Inventories (Notes 2 and 6) .....	12,485	13,756	128,097
Deferred tax assets (Note 13) .....	1,725	2,015	18,759
Other current assets .....	2,590	2,842	26,468
<b>Total current assets .....</b>	<b>77,747</b>	<b>88,872</b>	<b>827,568</b>
<b>Long-term assets:</b>			
<b>Property, plant and equipment (Note 2):</b>			
Land .....	18,162	18,162	169,123
Buildings and facilities .....	41,120	41,210	383,740
Machinery, equipment and vehicles .....	57,739	58,596	545,634
Tools and furniture .....	10,208	10,206	95,035
Construction-in-progress .....	693	498	4,637
	127,922	128,672	1,198,169
Less: Accumulated depreciation .....	(69,150)	(71,438)	(665,216)
<b>Property, plant and equipment, net .....</b>	<b>58,772</b>	<b>57,234</b>	<b>532,953</b>
<b>Investment securities and other assets:</b>			
Investment securities (Notes 2 and 5) .....	11,597	13,447	125,219
Leasehold deposits .....	2,178	2,127	19,808
Insurance funds .....	4,268	4,246	39,539
Deferred tax assets (Note 13) .....	854	902	8,395
Other assets .....	2,661	2,242	20,881
<b>Total investment securities and other assets .....</b>	<b>21,558</b>	<b>22,964</b>	<b>213,842</b>
<b>Total fixed assets .....</b>	<b>80,330</b>	<b>80,198</b>	<b>746,795</b>
<b>Total assets (Note 18) .....</b>	<b>¥158,077</b>	<b>¥169,070</b>	<b>\$1,574,363</b>

The accompanying notes are an integral part of these statements.

March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 7) .....	¥ 1,022	¥ 1,626	\$ 15,141
Notes and accounts payable:			
–Trade (Note 4).....	31,920	35,134	327,161
–Construction .....	1,488	1,151	10,722
Accrued income taxes (Notes 2 and 13) .....	3,296	3,517	32,749
Accrued bonuses to employees (Note 2) .....	3,374	3,484	32,439
Deferred tax liabilities (Note 13) .....	–	1	12
Other current liabilities .....	5,847	5,926	55,184
<b>Total current liabilities .....</b>	<b>46,947</b>	<b>50,839</b>	<b>473,408</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 7) .....	77	115	1,069
Pension liabilities (Notes 2 and 8).....	2,514	3,110	28,955
Deferred tax liabilities (Note 13) .....	370	819	7,629
Other long-term liabilities .....	83	93	874
<b>Total long-term liabilities .....</b>	<b>3,044</b>	<b>4,137</b>	<b>38,527</b>
<b>Minority interest in consolidated subsidiaries .....</b>	<b>122</b>	<b>109</b>	<b>1,018</b>
<b>Contingent liabilities (Note 17)</b>			
<b>Shareholders' equity (Note 9):</b>			
Common stock			
Authorized: 400,000,000 shares			
Issued: 115,000,000 shares .....	11,750	11,750	109,414
Additional paid-in capital .....	9,270	9,270	86,321
Retained earnings .....	87,034	92,545	861,765
	108,054	113,565	1,057,500
Net unrealized gains on other securities (Note 5) .....	2,058	2,799	26,065
Foreign currency translation adjustments .....	(761)	(782)	(7,280)
Treasury stock, at cost (Notes 2 and 10) (2004: 767,180 shares, 2005: 915,247 shares).....	(1,387)	(1,597)	(14,875)
<b>Total shareholders' equity .....</b>	<b>107,964</b>	<b>113,985</b>	<b>1,061,410</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥158,077</b>	<b>¥169,070</b>	<b>\$1,574,363</b>





# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2005
<b>Common stock:</b>				
Beginning and end of period .....	¥11,750	¥11,750	¥11,750	\$109,414
<b>Additional paid-in capital:</b>				
Beginning and end of period .....	¥ 9,270	¥ 9,270	¥ 9,270	\$ 86,321
<b>Retained earnings (Note 2):</b>				
Beginning of period .....	¥76,234	¥81,032	¥87,034	\$810,450
Add:				
Net income .....	7,630	8,763	8,276	77,066
Deduct:				
Cash dividends paid .....	2,695	2,631	2,625	24,450
Bonuses to directors (Note 2) .....	137	130	123	1,146
Loss on disposal of treasury stock .....	–	–	17	155
End of period .....	¥81,032	¥87,034	¥92,545	\$861,765
<b>Treasury stock at cost (Notes 2 and 10):</b>				
Beginning of period .....	¥ (684)	¥ (1,003)	¥ (1,387)	\$ (12,911)
Net change resulting from purchase and sale of fractional shares of less than "One Unit" as defined by the Japanese Commercial Code .....	(0)	–	(0)	(1)
Purchase of treasury stock.....	(319)	(384)	(270)	(2,515)
Decrease on exercise of stock options.....	–	–	60	552
End of period .....	¥ (1,003)	¥ (1,387)	¥ (1,597)	\$ (14,875)
<b>Net unrealized gains (losses) on other securities (Note 5):</b>				
Beginning of period .....	¥ (146)	¥ (474)	¥ 2,058	\$ 19,165
Add/(Deduct)– .....	(328)	2,532	741	6,900
End of period .....	¥ (474)	¥ 2,058	¥ 2,799	\$ 26,065
<b>Foreign currency translation adjustments:</b>				
Beginning of period .....	¥ (469)	¥ (606)	¥ (761)	\$ (7,084)
Deduct–.....	(137)	(155)	(21)	(196)
End of period .....	¥ (606)	¥ (761)	¥ (782)	\$ (7,280)

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

Years ended March 31	Millions of yen			Thousands of U.S. dollars (Note 1)
	2003	2004	2005	2005
<b>Cash flows from operating activities:</b>				
Income before income taxes.....	¥13,867	¥15,812	¥14,449	\$134,542
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization .....	4,630	5,033	4,936	45,966
Gains on sale of investment securities .....	(1)	(688)	(72)	(673)
Write-down of investment securities .....	1,464	111	0	1
Restructuring costs and other .....	–	982	–	–
Other, net .....	173	110	67	621
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable.....	918	(1,489)	(1,974)	(18,383)
Decrease (increase) in inventories .....	428	256	(1,285)	(11,964)
Increase (decrease) in notes and accounts payable .....	(2,033)	1,298	3,238	30,156
Increase in pension liabilities .....	527	919	659	6,132
Other, net.....	(768)	(2,091)	468	4,364
Sub total .....	19,205	20,253	20,486	190,762
Interest and dividends received .....	130	149	159	1,480
Interest paid .....	(69)	(43)	(33)	(305)
Income taxes paid .....	(8,597)	(7,008)	(6,563)	(61,114)
Net cash provided by operating activities .....	10,669	13,351	14,049	130,823
<b>Cash flows from investing activities:</b>				
Acquisition of property, plant and equipment .....	(11,391)	(8,181)	(4,448)	(41,422)
Proceeds from sale of property, plant and equipment .....	30	154	266	2,477
Acquisition of marketable securities .....	(100)	(100)	–	–
Proceeds from sale of marketable securities .....	200	100	100	931
Acquisition of investment securities .....	(986)	(1,087)	(573)	(5,340)
Proceeds from sale of investment securities .....	16	1,380	342	3,187
Provided by other investing activities .....	1,716	3,574	953	8,872
Used in other investing activities .....	(1,375)	(1,920)	(934)	(8,694)
Net cash used in investing activities .....	(11,890)	(6,080)	(4,294)	(39,989)
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term borrowings .....	(162)	(78)	776	7,229
Decrease in long-term debt .....	(17)	(16)	(121)	(1,130)
Repayments of capital lease obligations .....	(69)	(51)	(58)	(537)
Acquisition of treasury stock .....	(319)	(384)	(270)	(2,516)
Proceeds from sale of treasury stock .....	–	–	43	397
Dividends paid .....	(2,725)	(2,659)	(2,640)	(24,579)
Net cash used in financing activities .....	(3,292)	(3,188)	(2,270)	(21,136)
Effect of exchange rate changes on cash and cash equivalents.....	(24)	(15)	(1)	(11)
Net increase (decrease) in cash and cash equivalents .....	(4,537)	4,068	7,484	69,687
Cash and cash equivalents at beginning of year .....	24,373	19,836	23,908	222,629
Increase in cash and cash equivalents due to newly consolidated subsidiaries .....	–	4	–	–
Cash and cash equivalents at end of year (Notes 2 and 3) .....	¥19,836	¥23,908	¥31,392	\$292,316

The accompanying notes are an integral part of these statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

## 1 Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements of TOPPAN FORMS CO., LTD. (the "Company") filed with the Director of the Kanto Local Finance Bureau in accordance with the Securities and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. In addition, the consolidated statements of shareholders' equity, which are not required as part of the basic financial statements in Japan, are presented herein for additional information.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form more familiar to readers outside Japan. Some information provided in the notes to the consolidated financial

statements is not required under accounting principles generally accepted in Japan, but is also presented for the convenience of the readers.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been calculated at the rate of ¥107=U.S.\$1, the approximate rate of exchange on March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could have been or could be converted into U.S. dollars at that or any other rate.

## 2 Summary of Significant Accounting Policies

### (1) Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. The accounts of Toppan Forms (America), Inc., a wholly owned subsidiary of the Company, which was established in October 2004, have been included in the 2005 consolidation.

Investments in all affiliated companies where shareholdings are more than 20% and where the Company has significant influence over operations, finance and management, are accounted for by the equity method.

The assets and liabilities of consolidated subsidiaries are incorporated into the financial statements at fair value, and the difference between the net assets at fair value and the investment amounts is accounted for as goodwill, which is amortized equally over the effective periods.

All significant intercompany balances and transactions, and unrealized profit included in assets have been eliminated on consolidation.

Overseas consolidated subsidiaries have adopted accounting principles generally accepted in their respective countries and no adjustments have been made to their financial statements on consolidation, as allowed under accounting principles and practices generally accepted in Japan.

### (2) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and, thus, are near maturity and present an insignificant risk of changes in value.

### (3) Financial instruments

#### (a) Derivatives:

All derivatives are stated at fair value, with changes in fair value being included in net profit or loss in the period in which they arise, except for derivatives that are designated as "hedging instruments".

#### (b) Securities:

Securities held by the Company and its consolidated subsidiaries are classified into four categories:

Trading securities are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

Held-to-maturity debt securities are stated at cost after accounting for any premium or discount on acquisition, which is amortized over the period to maturity.

Investments of the Company in equity securities issued by affiliates are accounted for by the equity method.

Other securities for which market price or quotations are available are stated at fair value. Net unrealized gains and losses on these securities are reported as a separate component in shareholders' equity at a net-of-tax amount. Other securities for which market quotations are unavailable are stated at cost. Subscriptions to investment business associations were included in other assets in the previous year. However, according to the amendment, they were classified as other investment securities for the year ended March 31, 2005, which are accounted for by the equity method on a basis of recent statement of earnings. While subscriptions to investment business associations included in other investment securities for the year ended March 31, 2005 amounted to ¥336 million (\$3,137 thousand), which were included in other assets for the year ended March 31, 2004 in the amount of ¥203 million.

#### (c) Hedge accounting:

Gains and losses arising from changes in the fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability, and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Company are principally forward exchange and interest rate swap contracts. The related hedged items are trade accounts receivable and payable, and long-term debts.

The Company has a policy of utilizing the above hedging instruments in order to reduce the Company's exposure to the risk of exchange and interest rate fluctuations. Thus, the Company's purchase of hedging instruments is limited to, at maximum, the amounts of the hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related items from the commencement of the hedges.

#### (4) Inventories

Inventories are stated at cost.

The cost of raw materials, supplies and purchased finished goods (supplies) is determined by the first-in, first-out method. The cost of purchased finished goods (machinery), finished products and work-in-process is determined by the specific identification method.

#### (5) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation, except for buildings, is computed primarily by the declining-balance method at rates based on the estimated useful lives of the assets. Depreciation of buildings at overseas subsidiaries and those acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998 is computed by the straight-line method.

Ordinary maintenance and repair costs are charged to income as incurred. Major replacements and improvements are capitalized.

#### (6) Accrued bonuses to employees

Accrued bonuses are provided for the expected payments of employee bonuses for the current fiscal year to those employees employed at the end of the fiscal year.

#### (7) Accrued bonuses to directors

Bonuses to directors are appropriated from retained earnings after shareholders' approval at the general meeting of shareholders held within three months of the fiscal year-end. These bonuses are generally not deductible for tax purposes.

#### (8) Pension and severance plans

The Company and certain domestic consolidated subsidiaries have entered into agreements with insurance companies and trust banking corporations covering employee pensions, for a defined benefit tax qualified pension plans and a non-contributory plans.

The Company and its domestic consolidated subsidiaries record their pension liabilities by deducting the value of the plan assets from the projected benefit obligation, and then adjusting for the actuarial difference. The unrecognized actuarial difference is amortized using the straight-line method over fifteen years (within the average remaining service period of employees when the difference is incurred) from the period following that in which it occurs.

Most overseas subsidiaries have defined contribution retirement plans which are available to all employees.

With respect to directors and statutory corporate auditors, provision is made for lump-sum severance indemnities based on internal regulations.

#### (9) Income taxes

Deferred income taxes are recognized using the asset and liability method. This method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary

differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

#### (10) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

#### (11) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements in the year they are approved at the general meeting of shareholders.

#### (12) Foreign currency translation

The assets, liabilities, income and expenses of foreign subsidiaries are translated into Japanese yen at the applicable current rates at the year-end. The translation of assets and liabilities denominated in foreign currency at the year-end is made at the current rate. Exchange gains and losses resulting from foreign currency transactions and translation of assets and liabilities denominated in foreign currencies are included in the consolidated statements of income.

#### (13) Treasury stocks

Treasury stocks are stated at cost as a separate component of the shareholders' equity in the accompanying consolidated balance sheets.

#### (14) Recently issued new accounting standards

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount which is measured at the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending after March 31, 2004.

Although this standard has not been applied in the consolidated financial statements, its adoption of this standard may not have a significant impact on the consolidated financial statements.

#### (15) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the years ended March 31, 2003 and 2004 have been made to conform to the presentation of the year ended March 31, 2005.

### 3 Cash and Cash Equivalents

"Cash and cash equivalents" comprise the following:

March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Cash and time deposits with original maturity of three months or less.....	¥17,636	¥21,188	¥27,952	\$260,283
Marketable securities .....	2,200	2,720	3,440	32,033
	¥19,836	¥23,908	¥31,392	\$292,316

#### 4 Accounts Balance and Transactions with Related Parties

There are several related party transactions, mainly purchases of commercial printed products from and sales of business forms to Toppan Printing Co., Ltd., which owns 58.6% of the common stock of the Company. The transactions were made at arm's-length, at prices that are considered to be equivalent to market prices.

Sales to Toppan Printing Co., Ltd. for the years ended March 31, 2003, 2004 and 2005 amounted to ¥6,536 million, ¥6,428 million and ¥6,171 million (\$57,461 thousand), respectively. Purchases from Toppan Printing Co., Ltd. for those three years were ¥3,458 million,

¥4,227 million and ¥4,006 million (\$37,300 thousand), respectively. The balance of receivables from Toppan Printing Co., Ltd. as of March 31, 2004 and 2005 amounted to ¥1,239 million and ¥2,116 million (\$19,708 thousand), respectively. The balance of payables to Toppan Printing Co., Ltd. as of March 31, 2004 and 2005 amounted to ¥623 million and ¥789 million (\$7,349 thousand), respectively.

Transactions with non-consolidated subsidiaries and affiliates were immaterial.

#### 5 Marketable and Investment Securities

The following is certain information relating to the aggregate book carrying amount and market value of securities in fiscal year 2004.

(i) "Held-to-maturity debt securities" whose market price or quotations are available.

	Millions of yen		
	March 31, 2004		
	Book carrying amount	Market value	Unrealized gains/losses
Debt securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Government bonds, Municipal bonds, etc. ....	¥ -	¥ -	¥ -
②Corporate bonds.....	¥ -	¥ -	¥ -
③Others .....	¥ -	¥ -	¥ -
	¥ -	¥ -	¥ -

(ii) "Other securities" whose market price or quotations are available.

	Millions of yen		
	March 31, 2004		
	Acquisition cost	Market value (=Book carrying amount)	Unrealized gains (losses)
Other securities whose market price or quotations exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks.....	¥3,723	¥7,376	¥3,653
②Others.....	129	146	17
	3,852	7,522	3,670
Other securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks.....	932	770	(162)
②Others.....	924	870	(54)
	1,856	1,640	(216)
Total .....	¥5,708	¥9,162	¥ 3,454
Tax effect .....			(1,396)
			¥ 2,058

(iii) "Other securities" sold in the current fiscal year.

	Millions of yen
	March 31, 2004
Proceeds from sales of "Other securities" .....	¥1,375
Gain on sales of "Other securities" .....	689
Loss on sales of "Other securities" .....	1

(iv) Securities whose market price or quotations are not available.

	Millions of yen
	March 31, 2004
	Book carrying amount
Other securities:	
①Share stocks not listed on the market (excluding over-the-counter stocks).....	¥1,813
②Others .....	2,820
	¥4,633

(v) Redemption schedule for "Other securities" that have a maturity date, and "Held-to-maturity debt securities".

	Millions of yen			
	March 31, 2004			
	Due 2005	Due 2006~2009	Due 2010~2014	Due after 2015
1. Bonds:				
①Government bonds, Municipal bonds, etc.	¥ -	¥ -	¥ -	¥ -
②Corporate bonds	100	-	-	-
③Others	-	-	-	-
2. Others:				
①Mutual funds	-	-	-	-
	¥100	¥ -	¥ -	¥ -

The following is certain information relating to the aggregate book carrying amount and market value of securities in fiscal year 2005.

(i) "Held-to-maturity debt securities" whose market price or quotations are available.

	Millions of yen		
	March 31, 2005		
	Book carrying amount	Market value	Unrealized gains/losses
Debt securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Government bonds, Municipal bonds, etc.	¥ -	¥ -	¥ -
②Corporate bonds	-	-	-
③Others	-	-	-
	¥ -	¥ -	¥ -

	Thousands of U.S. dollars		
	March 31, 2005		
	Book carrying amount	Market value	Unrealized gains/losses
Debt securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Government bonds, Municipal bonds, etc.	\$ -	\$ -	\$ -
②Corporate bonds	-	-	-
③Others	-	-	-
	\$ -	\$ -	\$ -

(ii) "Other securities" whose market price or quotations are available.

	Millions of yen		
	March 31, 2005		
	Acquisition cost	Market value (=Book carrying amount)	Unrealized gains (losses)
Other securities whose market price or quotations exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks	¥4,117	¥ 8,908	¥4,791
②Others	404	539	135
	4,521	9,447	4,926
Other securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks	679	533	(146)
②Others	826	768	(58)
	1,505	1,301	(204)
Total	¥6,026	¥10,748	¥4,722
Tax effect			(1,923)
			¥2,799

	Thousands of U.S. dollars		
	March 31, 2005		
	Acquisition cost	Market value (=Book carrying amount)	Unrealized gains (losses)
Other securities whose market price or quotations exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks.....	\$38,337	\$ 82,950	\$44,613
②Others.....	3,762	5,026	1,264
	<u>42,099</u>	<u>87,976</u>	<u>45,877</u>
Other securities whose market price or quotations do not exceed their book carrying amount on the consolidated balance sheet:			
①Share stocks.....	6,323	4,960	(1,363)
②Others.....	7,696	7,150	(546)
	<u>14,019</u>	<u>12,110</u>	<u>(1,909)</u>
Total.....	<u>\$56,118</u>	<u>\$100,086</u>	<u>\$43,968</u>
Tax effect.....			(17,903)
			<u>\$26,065</u>

(iii) "Other securities" sold in the current fiscal year.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2005	
Proceeds from sales of "Other securities".....	¥342	\$3,187
Gain on sales of "Other securities".....	72	675
Loss on sales of "Other securities".....	6	56

(iv) Securities whose market price or quotations are not available.

	Millions of yen	Thousands of U.S. dollars
	March 31, 2005	
	Book carrying amount	
Other securities:		
①Share stocks not listed on the market (excluding over-the-counter stocks).....	¥1,821	\$16,959
②Others.....	3,548	33,034
	<u>¥5,369</u>	<u>\$49,993</u>

(v) Redemption schedule for "Other securities" that have a maturity date, and "Held-to-maturity debt securities".

	Millions of yen			
	March 31, 2005			
	Due 2006	Due 2007-2010	Due 2011-2015	Due after 2016
1. Bonds:				
①Government bonds, Municipal bonds, etc.....	¥ -	¥ -	¥ -	¥ -
②Corporate bonds.....	-	-	-	108
③Others.....	-	-	-	-
2. Others:				
①Mutual funds.....	-	-	-	-
	<u>¥ -</u>	<u>¥ -</u>	<u>¥ -</u>	<u>¥108</u>

	Thousands of U.S. dollars			
	March 31, 2005			
	Due 2006	Due 2007~2010	Due 2011~2015	Due after 2016
1. Bonds:				
①Government bonds, Municipal bonds, etc.....	\$ -	\$ -	\$ -	\$ -
②Corporate bonds .....	-	-	-	1,001
③Others.....	-	-	-	-
2. Others:				
①Mutual funds.....	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,001</u>

## 6 Inventories

Inventories comprise the following:

March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Finished products .....	¥ 7,403	¥ 7,730	\$ 71,983
Purchased finished goods .....	2,373	2,615	24,346
Work in process .....	871	1,034	9,625
Raw materials and supplies .....	1,838	2,377	22,143
	<u>¥12,485</u>	<u>¥13,756</u>	<u>\$128,097</u>

## 7 Borrowings

Short-term borrowings primarily consist of short-term bank loans of certain domestic and overseas subsidiaries with annual interest rates ranging from 1.35 to 5.75 per cent as of March 31, 2005.

Long-term debt at March 31, 2005 comprises the following:

	Millions of yen	Thousands of U.S. dollars
Loans from Japanese banks and others:		
Unsecured—1.35 per cent .....	¥100	\$ 931
Unsecured—3.95 per cent .....	29	276
Unsecured—5.75 per cent .....	48	444
Less: Amounts due within one year.....	(62)	(582)
	<u>¥115</u>	<u>\$1,069</u>

The aggregate annual maturities of long-term debt during the next five years are as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2006 .....	¥ 62	\$ 582
2007 .....	15	138
2008 .....	100	931
2009 .....	-	-
2010 .....	-	-
	<u>¥177</u>	<u>\$1,651</u>



## 8 Pension and Severance Plans

The Company and certain domestic consolidated subsidiaries have entered into agreements with insurance companies and trust banking corporations for defined benefit tax qualified pension plans and non-contributory plans to cover employee pensions. The pension plans provide for annuity payments (or a lump-sum payment at the

employees' request) over ten years, based on the length of service and salary at the time of retirement for employees with at least twenty years of service. The plans also provide for lump-sum payments to employees who have served less than twenty years.

The pension liabilities for employees as of March 31, 2004 and 2005 can be analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
(1) Projected benefit obligation.....	¥29,903	¥30,646	\$285,371
(2) Plan assets at fair value.....	21,920	23,097	215,078
(3) Unfunded benefit obligation (1)-(2).....	7,983	7,549	70,293
(4) Unrecognized actuarial loss.....	(5,995)	(4,948)	(46,071)
(5) Prepaid pension expense.....	-	(46)	(423)
(6) Pension liabilities for employees (3)+(4)-(5).....	¥ 1,988	¥ 2,647	\$ 24,645

The Company contributed certain marketable equity securities in 2001 to the employee retirement benefit trust. These are included in "Plan assets at fair value" above, and amounted to ¥1,613 million in 2004 and ¥1,505 million (\$14,015 thousand) in 2005.

The components of the net periodic pension expense for the years ended March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
(1) Service costs.....	¥1,652	¥1,671	\$15,561
(2) Interest costs.....	665	675	6,289
(3) Expected return on plan assets.....	598	712	6,639
(4) Expense for actuarial loss.....	705	491	4,573
(5) Net periodic pension expense.....	¥2,424	¥2,125	\$19,784

The assumptions used as of March 31, 2003, 2004 and 2005 were as follows:

	2003	2004	2005
(1) Discount rate.....	2.5%	2.5%	2.5%
(2) Expected return on plan assets.....	3.5%	3.5%	3.5%
(3) Method of attributing the projected benefits to periods of service.....	Straight-line basis	Straight-line basis	Straight-line basis
(4) Amortization of unrecognized prior service costs.....	-	-	-
(5) Amortization of unrecognized actuarial gain/loss.....	Straight-line over 15 years	Straight-line over 15 years	Straight-line over 15 years

## 9 Shareholders' Equity

The Japanese Commercial Code provides that:

- Upon a resolution of the Board of Directors, appropriations of interim cash dividends and the related transfer to the legal earned reserve as described in (3) below, can be made from unappropriated retained earnings brought forward;
- All other appropriations of retained earnings, including year-end dividends and bonuses to directors and statutory corporate auditors, require approval by the shareholders at the general meeting of shareholders; and
- An amount equal to at least 10 per cent of cash dividends and other cash distributions paid by the Company from retained earnings must be appropriated from retained earnings as a legal earned reserve; no further appropriation is required when the

combined amount of the capital reserve and the legal earned reserve pursuant to the Japanese Commercial Code equals 25 per cent of the stated capital.

- Legal earned reserve and unappropriated retained earnings are presented in the 'retained earnings' accounts and 'legal capital reserve' and other capital reserves are presented in 'additional paid-in capital' accounts.

In accordance with customary practice in Japan, appropriations of retained earnings are recorded in the accounting period in which shareholders' approval is obtained. The fiscal 2005 year-end appropriation of retained earnings of the Company, which was approved at the general meeting of shareholders held in June 2005, is as follows:

	Millions of yen	Thousands of U.S. dollars
Appropriation for:		
Cash dividends, ¥11.50 (\$0.1) per share.....	¥1,312	\$12,217
Bonuses to directors.....	65	605
Retained earnings, provided for as general reserve.....	6,000	55,871
	¥7,377	\$68,693

## 10 Treasury Stocks

The amount of treasury stocks is stated at cost and is presented as a separate deduction item in the shareholders' equity.

The Company has acquired treasury stocks of 149,000 shares and 145,000 shares for the fiscal years ended March 31, 2001 and 2002, respectively, in order to prepare for exercising stock options granted to certain directors and certain employees with the approval of the ordinary shareholders' meetings.

Effective from October 1, 2001, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury stocks does not exceed the maximum amount available for dividends. On June 27, 2002, the ordinary shareholders' meeting approved (1) the company's acquisition of its own shares with a limit of 2,000,000 shares whose value is limited to ¥5,000 million until the date of the next ordinary shareholders' meeting, and (2) the granting of stock options to purchase newly issued shares with a limit of 200,000 shares to certain directors and certain employees.

In accordance with this approval, the Company decided to grant certain directors and employees stock options of 1,510 units, equivalent to 151,000 common shares with an exercise price of ¥2,131, and acquired treasury stocks of 151,000 shares in order to prepare for exercising those stock options in July 2002. In addition, the Company acquired treasury stocks of 165,100 shares in April 2003.

On June 27, 2003, the ordinary shareholders' meeting approved (1) the company's acquisition of its own shares with a limit of 2,000,000 shares whose value is limited to ¥2,300 million until the

date of the next ordinary shareholders' meeting, and (2) the granting of stock options to purchase newly issued shares with a limit of 200,000 shares to certain directors and certain employees.

In accordance with this approval, the Company decided to grant certain directors and employees stock options of 1,570 units, equivalent to 157,000 common shares with an exercise price of ¥1,255, and acquired treasury stock of 134,900 shares and 22,100 shares in order to prepare for exercising the stock options in July 2003 and in August 2003, respectively.

On June 29, 2004, the ordinary shareholders' meeting approved (1) the Company's acquisition of its own shares with a limit of 2,000,000 shares whose value is limited to ¥3,200 million until the date of next ordinary shareholders' meeting, and (2) the granting of stock options to purchase newly issued shares with a limit of 200,000 shares to certain directors and certain employees.

In accordance with this approval, the Company decided to grant certain directors and employees stock options of 1,820 units, equivalent to 182,000 common shares with an exercise price of ¥1,575 per share, and acquired treasury stock of 182,000 shares in order to prepare for exercising the stock options in July 2004.

The stock options of 290 units and 50 units, equivalent to 29,000 and 5,000 common shares with an exercise price of 1,255 per share, were exercised in August 2004 and in November 2004, respectively.

The following is the status of treasury stocks purchases and the balances of treasury stocks held by the Company as of March 31, 2002, 2003, 2004 and 2005.

Month of purchasing treasury stocks	Number of common stock shares purchased	Millions of yen
		Amounts to pay for purchases
In June 2000	149,000	¥ 375
In June 2001	145,000	309
As of March 31, 2002	294,000	684
In July 2002	151,000	319
Fractional shares during the year	80	0
As of March 31, 2003	445,080	1,003
In April 2003	165,100	178
In July 2003	134,900	177
In August 2003	22,100	29
As of March 31, 2004	767,180	1,387
In July, 2004	182,000	270
In August, 2004	(29,000)	(51)
In November, 2004	(5,000)	(9)
Fractional shares during the year	67	0
As of March 31, 2005	915,247	1,597
	-	-
As of June 29, 2005	915,247	1,597

## 11 Research and Development Expenditure

Research and development expenditure, which is charged to income when incurred, and is included in the cost of sales and selling, general and administrative expenses, amounted to ¥2,246 million,

¥2,264 million and ¥2,106 million (\$19,608 thousand) for the years ended March 31, 2003, 2004 and 2005, respectively.

## 12 Selling, General and Administrative Expenses

The major components of "Selling, general and administrative expenses" are as follows:

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Salaries and bonuses.....	¥12,176	¥11,593	¥11,744	\$109,354
Provisions for bonuses to employees.....	1,228	1,041	1,166	10,854
Provisions for severance indemnities of directors and statutory corporate auditors .....	114	105	105	976
Depreciation.....	635	1,078	1,129	10,516
Rent expenses.....	3,211	2,445	2,322	21,623
Freight charges.....	5,105	5,336	5,449	50,741
Research and development expenditure.....	2,246	2,264	2,106	19,608
Pension expenses.....	794	983	833	7,754
Others.....	9,588	8,521	9,670	90,055
<b>Total.....</b>	<b>¥35,097</b>	<b>¥33,366</b>	<b>¥34,524</b>	<b>\$321,481</b>

## 13 Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in aggregate, represent a statutory tax rate of approximately 42 per cent, effective from April 1, 1999.

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax will be

the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component.

According to the announcement issued by Financial Accounting Standards Foundation, in the new statement, b) a value added component and c) a capital based component of the enterprise tax, which were amounting by ¥220 million in total, should be presented in the account of selling, general and administrative expenses.

The significant components of deferred tax assets and liabilities for the years ended March 31, 2004 and 2005 are as follows:

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
<b>Deferred tax assets:</b>			
Accrued bonuses.....	¥ 1,363	¥ 1,407	\$ 13,105
Enterprise tax.....	305	291	2,709
Depreciation.....	185	143	1,328
Accrued severance indemnities for directors and statutory corporate auditors.....	214	188	1,754
Pension liabilities for employees.....	1,150	1,405	13,084
Bad debt reserve.....	18	17	162
Unrealized loss on golfclub membership.....	189	207	1,928
Unrealized loss on investment securities.....	86	43	396
Others.....	430	589	5,476
	<b>3,940</b>	<b>4,290</b>	<b>39,942</b>
<b>Deferred tax liabilities:</b>			
Undistributed earnings of foreign subsidiaries.....	(99)	(94)	(874)
Unrealized gain on investment securities.....	(1,413)	(1,921)	(17,890)
Depreciation.....	(183)	(142)	(1,327)
Others.....	(36)	(36)	(338)
	<b>(1,731)</b>	<b>(2,193)</b>	<b>(20,429)</b>
<b>Deferred tax assets, net(*).....</b>	<b>¥ 2,209</b>	<b>¥ 2,097</b>	<b>\$ 19,513</b>

"Pension liabilities for employees" for the years ended March 31, 2004 and 2005 include prepaid pension expenses of ¥25million and ¥18 million, respectively.

(\*) Deferred tax assets, net are included in the following accounts of the consolidated balance sheets.

Years ended March 31	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current assets—deferred tax assets.....	¥1,725	¥2,015	\$18,759
Long-term assets—deferred tax assets.....	854	902	8,395
Current liabilities—deferred tax liabilities.....	—	(1)	(12)
Long-term liabilities—deferred tax liabilities.....	(370)	(819)	(7,629)

The reconciliation between the statutory tax rate and the income tax rate in the consolidated statements of income for the year ended March 31, 2004 is as follows: The disclosure of reconciliation between the statutory tax rate and the income tax rate in the consolidated

statements of income has been required from fiscal years beginning April 1, 1999 if the difference between the two rates stated above is more than 5% of the statutory tax rate. Accordingly, reconciliation for fiscal year 2005 is not required.

	March 31, 2004
Statutory effective tax rate .....	42.1%
(Reconciliation)	
Entertainment expenses .....	1.5
Equalization of inhabitants tax .....	0.7
Effect on changes of effective tax rate which was adopted for long-term deferred tax assets .....	-
Effect on changes of effective tax rate which was adopted for current deferred tax assets.....	0.4
Others .....	0.1
Effective income tax rate .....	<u>44.8%</u>

## 14 Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases in accordance with

accounting principles and practices generally accepted in Japan. Certain information on such lease contracts of the Company and its consolidated subsidiaries, as a lessee, is shown below:

(1) Finance leases other than those which do not transfer ownership of properties to lessees are as follows:

(a) Acquisition costs of leased assets under the finance leases are as follows:

March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Machinery, equipment and vehicles.....	¥ 2,602	¥ 2,816	¥ 4,210	\$ 39,204
Tools and furniture .....	7,746	7,407	6,730	62,664
Other assets.....	179	202	116	1,081
Accumulated depreciation .....	(6,869)	(7,690)	(7,310)	(68,068)
Total .....	<u>¥ 3,658</u>	<u>¥ 2,735</u>	<u>¥ 3,746</u>	<u>\$ 34,881</u>

(b) Future lease payments under finance leases are as follows:

March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Due within one year .....	¥1,832	¥1,720	¥1,846	\$17,190
Due after one year.....	3,974	2,910	3,562	33,169
	<u>¥5,806</u>	<u>¥4,630</u>	<u>¥5,408</u>	<u>\$50,359</u>

(c) Lease payments and amounts representing depreciation and interest are as follows:

Years ended March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Lease payments .....	¥2,071	¥2,063	¥2,187	\$20,361
Amount representing depreciation .....	¥2,094	¥1,632	¥1,675	\$15,599
Amount representing interest .....	¥ 259	¥ 209	¥ 178	\$ 1,654

(2) Minimum lease payments under non-cancellable operating leases are as follows:

March 31	Millions of yen			Thousands of U.S. dollars
	2003	2004	2005	2005
Due within one year.....	¥ 506	¥ 393	¥ 418	\$ 3,894
Due after one year.....	2,641	2,092	1,790	16,662
Total minimum lease payments.....	<u>¥3,147</u>	<u>¥2,485</u>	<u>¥2,208</u>	<u>\$20,556</u>

## 15 Derivative Financial Instruments

The Company and its consolidated foreign subsidiaries utilize derivative financial instruments selectively to hedge foreign exchange risk and floating interest exchange risk.

As of March 31, 2004 and 2005, there are no contract amounts outstanding for derivatives except for those held for "hedge accounting" purposes as described in Note 2 (3) (c) above.

## 16 Earnings per Share Information

The computation of net income per share is based on the weighted-average number of common shares outstanding during each fiscal year. Treasury stocks held during these periods are excluded.

Effective from the year ended March 31, 2003, the Company and its consolidated subsidiaries adopted the Statement of Financial Accounting Standard No. 2 "Earnings per Share" issued by the Accounting Standards Board of Japan.

The earnings per share for the years ended March 31, 2003, 2004 and 2005 amounted to ¥65.45, ¥75.60 and ¥71.44 respectively. These amounts are calculated by excluding the director's bonus of ¥129 million, ¥123 million and ¥123 million, respectively as an appropriation of retained earnings.

The following are earnings per share for the years ended March 31, 2003, 2004 and 2005 calculated using the new method.

	yen		
	2003	2004	2005
Per share of common stock:			
Net income:			
Basic .....	¥65.45	¥75.60	¥71.44
Diluted.....	-	-	71.44

The following are the number of common shares to be granted.

	The date of ordinary shareholders' meeting	Number of common shares granted (shares)	Exercise price per share (exact yen)	Exercise periods
I. Stock options to purchase				
treasury stocks .....	June 29, 2000	149,000	¥2,636	From July 1, 2001 to June 30, 2006
	June 28, 2001	145,000	2,200	From July 1, 2002 to June 30, 2007
II. Stock options to purchase newly issued shares.....	June 27, 2002	151,000	¥2,131	From July 1, 2003 to June 30, 2008
	June 27, 2003	157,000	1,255	From July 1, 2004 to June 30, 2009
	June 29, 2004	182,000	1,575	From July 1, 2005 to June 30, 2010
III. Decrease on exercise of stock options.....	In August, 2004	(29,000)	1,255	From July 1, 2004 to June 30, 2009
	In November, 2004	(5,000)	1,255	From July 1, 2004 to June 30, 2009
		<u>750,000</u>		

The stock options to purchase treasury stocks and to purchase newly issued shares will have a dilutive effect only when the average market price of common stocks during each fiscal year exceeds the exercise price of these options. During the 2003 and 2004 fiscal years, the

average market price did not exceed the exercise price given, while the average market price for fiscal year 2005 exceeded the exercise price given.

## 17 Contingent Liabilities

Based upon information currently available, the Company and its consolidated subsidiaries have no significant pending lawsuits.

## 18 Segment Information

(1) Segments by Industry

March 31, 2003	Millions of yen				
	Printing business	Other businesses	Total	Elimination/ Corporate	Consolidated
I. Net sales:					
(1) Outside customers .....	¥149,475	¥41,849	¥191,324	¥ -	¥191,324
(2) Inter-segment .....	286	1,310	1,596	(1,596)	-
Total .....	149,761	43,159	192,920	(1,596)	191,324
Operating expenses .....	132,975	41,622	174,597	1,697	176,294
Operating profit .....	¥ 16,786	¥ 1,537	¥ 18,323	¥(3,293)	¥ 15,030
II. Assets, depreciation and capital expenditure:					
Assets .....	¥110,518	¥13,887	¥124,405	¥24,585	¥148,990
Depreciation .....	4,530	41	4,571	59	4,630
Capital expenditure .....	10,453	8	10,461	-	10,461

March 31, 2004	Millions of yen				
	Printing business	Other businesses	Total	Elimination/Corporate	Consolidated
<b>I. Net sales:</b>					
(1) Outside customers .....	¥150,447	¥43,538	¥193,985	¥ –	¥193,985
(2) Inter-segment .....	289	1,602	1,891	(1,891)	–
Total .....	150,736	45,140	195,876	(1,891)	193,985
Operating expenses .....	133,661	44,079	177,740	479	178,219
Operating profit .....	¥ 17,075	¥ 1,061	¥ 18,136	¥(2,370)	¥ 15,766
<b>II. Assets, depreciation and capital expenditure:</b>					
Assets .....	¥111,392	¥14,576	¥125,968	¥32,109	¥158,077
Depreciation .....	4,887	128	5,015	18	5,033
Capital expenditure .....	9,022	3	9,025	–	9,025

March 31, 2005	Millions of yen				
	Printing business	Other businesses	Total	Elimination/Corporate	Consolidated
<b>I. Net sales:</b>					
(1) Outside customers .....	¥154,025	¥45,148	¥199,173	¥ –	¥199,173
(2) Inter-segment .....	361	1,793	2,154	(2,154)	–
Total .....	154,386	46,941	201,327	(2,154)	199,173
Operating expenses .....	140,836	45,280	186,116	(639)	185,477
Operating profit .....	¥ 13,550	¥ 1,661	¥ 15,211	¥ (1,515)	¥ 13,696
<b>II. Assets, depreciation and capital expenditure:</b>					
Assets .....	¥115,827	¥16,472	¥132,299	¥36,771	¥169,070
Depreciation .....	4,793	129	4,922	15	4,937
Capital expenditure .....	3,291	5	3,296	–	3,296

March 31, 2005	Thousands of U.S. dollars				
	Printing business	Other businesses	Total	Elimination/Corporate	Consolidated
<b>I. Net sales:</b>					
(1) Outside customers .....	\$1,434,258	\$420,414	\$1,854,672	\$ –	\$1,854,672
(2) Inter-segment .....	3,359	16,698	20,057	(20,057)	–
Total .....	1,437,617	437,112	1,874,729	(20,057)	1,854,672
Operating expenses .....	1,311,448	421,643	1,733,091	(5,959)	1,727,132
Operating profit .....	\$ 126,169	\$ 15,469	\$ 141,638	\$(14,098)	\$ 127,540
<b>II. Assets, depreciation and capital expenditure:</b>					
Assets .....	\$1,078,565	\$153,393	\$1,231,958	\$342,405	\$1,574,363
Depreciation .....	44,629	1,198	45,827	139	45,966
Capital expenditure .....	30,641	46	30,687	–	30,687

Notes:

- a) Segment information by business activity is determined by considering the product line, the product market and the management control of the business.
- b) Main products of each business segment:
  - i) Printing business: Printing of business forms and data printing services.
  - ii) Other businesses: Sales of supplies and equipment related to the printing business, business information operating services and other.
- c) Corporate expenses mainly include the administrative expenses of the Company.
- d) "Assets" mainly include the short-term deposits and long-term investments of the Company.

(2) Geographic Areas

Geographic information on consolidated subsidiaries located in countries or regions outside of Japan is not presented since the sales and assets of the Company and its consolidated subsidiaries located in Japan exceed 90% of consolidated sales in total and consolidated assets in total.

# REPORT OF INDEPENDENT AUDITORS

Toppan Forms Co., Ltd. and Consolidated Subsidiaries

June 29, 2005

To the Board of Directors  
of TOPPAN FORMS CO., LTD.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of TOPPAN FORMS CO., LTD. and its consolidated subsidiaries at March 31, 2004 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2005, in conformity with accounting principles generally accepted in Japan. 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 of these statements in accordance with auditing standards generally accepted in Japan which 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, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.



ChuoAoyama PricewaterhouseCoopers  
(Certified Public Accountants)

## PRINCIPAL SUBSIDIARIES AND AFFILIATES

(As of March 31, 2005)

Name	Country	Main business	Issued capital (Thousands)	Equity held by the Company (%)
Toppan Forms (Hamamatsu) Co., Ltd.	Japan	Manufacture of business forms	¥ 100,000	100.0
Toppan Forms Operation Co., Ltd.	Japan	Operation and administration of computers	¥ 100,000	100.0
Toppan Forms Process Co., Ltd.	Japan	Processing of business forms and DPS operations	¥ 100,000	100.0
Techno Toppan Forms Co., Ltd.	Japan	Sale, maintenance, and repair of office equipment	¥ 100,000	100.0
Toppan Forms (Sanyo) Co., Ltd.	Japan	Manufacture of business forms	¥ 50,000	100.0
Toppan Forms Logistics and Services Co., Ltd.	Japan	Distribution, delivery, and storage services	¥ 50,000	100.0
Toppan Forms Services (Kansai) Co., Ltd.	Japan	Distribution, delivery, and storage services Processing of business forms and DPS operations	¥ 50,000	100.0
T.F. Company Limited	Hong Kong	Holding company	HK\$15,000	100.0
Toppan Forms Card Technologies Ltd.	Hong Kong	Manufacture and sale of plastic cards; sale of card-related products	HK\$ 2,000	100.0* <sup>1</sup>
Toppan Forms (Hong Kong) Ltd.	Hong Kong	Manufacture and sale of business forms; sale of plastic cards, computer supplies, and office automation machines	HK\$10,000	100.0* <sup>2</sup>
Toppan Forms (S) Pte. Ltd.	Singapore	Manufacture and sale of business forms; sale of machines for processing business forms	S\$ 1,226	100.0* <sup>3</sup>

Total number of subsidiaries: 20

Total number of affiliates: 9

\*<sup>1</sup> 30.0 percent directly owned by the Company and 70.0 percent indirectly owned through T.F. Company Limited.

\*<sup>2</sup> Indirectly owned through T.F. Company Limited.

\*<sup>3</sup> 52.3 percent directly owned by the Company and 47.7 percent indirectly owned through T.F. Company Limited.



## BOARD OF DIRECTORS

(As of June 31, 2005)

**Chairman & Representative Director**  
Yasuhiro Fukuda

**President & CEO**  
Masanori Akiyama

**Senior Managing Directors**  
Kenji Osanai  
Takeo Sugi

**Managing Directors**  
Kazuo Kato  
Michikata Kono  
Hirohito Okada

**Directors**  
Naoki Adachi  
Toshifumi Motohara  
Kenjiro Matsumoto  
Kenji Nitta  
Takayoshi Otsubo  
Keiichi Utaka  
Eiji Kato

**Corporate Auditors**  
Tatsuo Yamamoto (full-time)  
Yukio Terada (full-time)  
Kunio Sakuma  
Takeshi Toyama

## INVESTOR INFORMATION

(As of March 31, 2005)

**Stock Listing**  
Tokyo Stock Exchange

**Common Stock**  
Authorized: 400,000,000 shares  
Issued: 115,000,000 shares

**Stock Code**  
7862

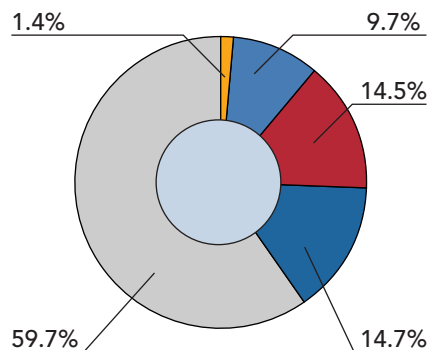
**Stock Transaction Unit**  
100 shares

**Independent Certified Public Accountant**  
ChuoAoyama PricewaterhouseCoopers  
(Member Firm of PricewaterhouseCoopers LLP)

**Transfer Agent**  
The Mitsubishi Trust and Banking Corporation

**Number of Shareholders**  
11,970

Shareholdings by Type of Shareholder



■ Japanese Securities Firms  
■ Japanese Individuals and Others  
■ Japanese Financial Institutions  
■ Foreign Institutions and Individuals  
■ Other Japanese Corporations

# TOPPAN FORMS CO.,LTD.

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