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## Financial Highlights

### Toppan Printing Co., Ltd and subsidiaries

Years ended 31st March

	Millions of yen			Thousands of dollars*	
	1996	1997	1998	1998	%change
For the Year:					
Net sales	¥ 1,186,592	¥ 1,274,339	¥ 1,284,145	\$ 9,728,371	+0.8
Operating income	70,821	88,142	94,325	714,583	+7.0
Income before income taxes	79,821	69,792	105,714	800,864	+51.5
Net income	39,705	21,621	47,381	358,947	+119.1
Per share of common stock (yen/dollars) :					
-Net income	54.57	30.25	65.50	0.50	+116.5
-Cash dividends:					+116.5
--Actual	13.50	13.50	14.00	14.00	+3.7
--Adjusted	13.50	13.50	14.00	14.00	+3.7
Capital expenditures	69,878	83,104	123,515	935,720	+48.6
Depreciation and amortization	50,654	53,724	57,824	438,061	+7.6
At Year-End:					
Total assets	¥ 1,126,303	¥ 1,151,883	¥ 1,300,649	\$ 9,853,402	+12.9
Shareholders' investment	600,424	612,265	667,464	5,056,546	+9.0
Working capital	191,435	179,412	249,160	1,887,575	+38.9
Long-term indebtedness	66,616	64,279	113,050	856,439	+38.9

\* U.S. dollar amounts are translated from yen at the rate of 0132=U.S.\$1, as at 31st March, 1998.

Note 1: The consolidated results for the year ended 31st March, 1996, include the 010,362 million (US\$78,500 thousand) proceeds from the sale of Toppan Printing Co. (H.K.) Ltd.'s land.

Note 2: The consolidated results for the year ended 31st March, 1997, reflect the 9,015 million (US \$68,295 thousand) write-off pertaining to the acquisitions of Toppan Moore Co., Ltd.'s, and Avery Toppan Co., Ltd.'s goodwill.

Note 3: The consolidated results for the year ended 31st March, 1998, reflect the 20868million (US \$158,091 thousand) gain on the sale of investment in Toppan Forms Co., Ltd.(Toppan Moore Co., Ltd., changes its name to Toppan Forms Co., Ltd., on April 1, 1997.)

## Topics

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### **Successful development and mass production of high color purity resist color filters**

The range of applications for LCDs extends to such products as notebook computers, flatscreen televisions, and car navigation systems, and the demand for displays that offer larger sizes and more vivid colors is expanding rapidly. In response to that demand, Toppan has developed and begun the production of color filters that feature higher permeability and color purity than conventional filters. We have also developed and commenced marketing color filters designed especially for reflection type LCDs, which are finding growing application in mobile communications equipment that is used outdoors.

### **Image Mall Japan--Toppan begins digitizing national treasures and important cultural assets**

In conjunction with a leading manufacturer of electronic equipment, Toppan has initiated the Image Mall Japan project and begun to digitize national treasures and important cultural assets from the Tokugawa Museum, including the Genji Monogatari Scroll. Image Mall Japan is a project that undertakes right for consignment and sales of imaging materials of cultural and historical significance. Through this project, undertaken jointly with the Tokugawa Museum, we tested an experimental electronic museum system in January and February 1998.

### **Further expansion in Cartocan business**

Further expansion in Cartocan business Cartocan, an environmentally friendly paper drink container that can be recycled in the same way as milk cartons, has been highly evaluated by customers. In addition, Cartocan's applications were recently expanded to include coffee and fruit-flavored milk drinks when Japan's Ministry of Health and Welfare approved it for use as a container material for milk and related products. Cartocan has also received the Kinoshita Award, a prestigious award in the field of food packaging in Japan.

### **Toppan prepares to enter the satellite broadcast industry**

To further strengthen its television program planning and production business, Toppan complemented its existing full digital editing studio with the addition of specialized new facilities, including a synchronous recording studio and a transmission service center. We have also expanded from program production by reinforcing our staff of specialists and establishing an integrated broadcast system that extends from broadcast program planning and production to transmission service. Toppan is prepared for the multichannel broadcast era and will make further advances into the full-fledged broadcast business in the years ahead.

### **Toppan installs leading IC card production equipment at its Takino securities printing plant**

Demand for contact IC cards is expected to expand significantly, and to meet that demand Toppan decided to add leading-edge facilities at its Takino securities plant, increasing the plant's production capacity by 10 times. We also plan to take steps to further reduce costs, such as reevaluating production lines to ensure the thorough implementation of laborsaving and rationalization measures.

## **Consolidated subsidiary Toppan Forms lists on the First Section of Tokyo Stock Exchange**

On March 6, 1998, consolidated subsidiary Toppan Forms Co., Ltd., listed on the First Section of the Tokyo Stock Exchange. Toppan Forms, a pioneer in the field of business forms, has expanded the scope of its operations and built a solid market position. The listing of its stock will bolster its ability to raise funds, strengthen its financial position, and improve its name recognition. Toppan continues to promote closer ties with other Group companies and to reinforce its strong position in a broad range of markets.

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## Growth Strategy for the Next Century

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In the nearly 100 years since its founding, Toppan has built a solid position as a leader in Japan's printing industry. Over that period, the social environment in which businesses operate has undergone dramatic change, and many companies that grew through a specialized focus on tangible "products" are now faced with the need to reorient themselves to achieve systematic growth centered on intangible "information." That need to institute change extends to the entire span of a company's capabilities, including development, technology, and marketing. Toppan, even with its exceptionally strong position in the printing industry, is no exception. We are looking forward to our 100th anniversary in 2000 as the symbolic refounding of the Company, and we have begun to implement the sweeping changes that will be necessary to transform Toppan into an information and communications company that will enjoy continued prosperity in the next century.

### A New Stage of Growth

Since its founding, Toppan's operations have centered on printing. Traditionally, printing technology has involved the medium of paper and the use of such elements as typesetting, design and graphics to process information attractively, rapidly, and accurately.

Early this century, amid rising political, economic, and cultural standards in Japan, the development of printing centered on its role in communicating information. In a large, rapidly growing economy, volume and speed were the key factors in printing. As the economy matured, however, greater emphasis was placed on attractive presentation. In this environment, Toppan, with its close ties with a wide span of industries, began to post significant performance gains.

Today, Toppan's wide-ranging fields of business include securities and cards, commercial printing, publications printing, packaging, industrial materials, electronics, and multimedia, as well as business forms, which are handled by subsidiary Toppan Forms Co., Ltd. Through its connections with diverse sectors of the Japanese economy, Toppan has been a driving force behind growth in these fields and has built solid market positions.

However, several factors have emerged that together make it essential for Toppan to pursue dramatic change in its operations. These factors include the collapse of Japan's so-called bubble economy, the lengthening slump that followed the collapse, and ongoing societal and informational changes. Despite the challenging operating environment, Toppan continues to record solid growth. This performance has been made possible by the Company's strategy for making the transition from its previous emphasis on receiving orders for printing to a focus on creating markets that give rise to new demand.

We refer to this transition as becoming an "information and communications company." The management resources that we acquired through our traditional core business of printing are being invested in key areas. In response to advances in the printing industry, for example, we are investing in the operation of highly automated factories, which will enable us to reduce both costs and turnaround times. We are also investing our resources in fields that will grow in tandem with the advanced information society, such as multimedia and electronics. By investing resources in these ways, we will facilitate the necessary changes in our operational structure. That process of change highlights Toppan's future potential.

## Toppan's Competitive Edge in the Rapidly Changing Printing Industry

We will mark our 100th anniversary in 2000. Toppan's slogan--An Information and Communications Company--refers both to technical innovation in printing, the Company's core business, and to smooth development in applied fields.

Multimedia is often used in rather ambiguous references to the societal changes expected in the next century. For Toppan, however, its involvement in multimedia has been a natural extension of its traditional business activities. As a leading company in the printing industry, Toppan began to work with the digitization of text and graphics at an early stage. In the 1970s, we succeeded in developing Japan's first computerized typesetting system (CTS), and following that we were successful in graphics digitization. Today, the need for digitization in printing is expanding at an accelerating pace.

The use of digitization technologies at the prepress stage is an important factor in the competition to reduce costs and provide shorter turnaround times. The percentage of products handled through desktop publishing (DTP) grows each year, and Toppan has steadily strengthened its ability to respond to that trend. We have, for example, led the industry in the shift to the computer-to-plate (CTP) method through the introduction of direct digital color proofs (DDCPs). Our success in responding to demand for the digitization of these types of printed materials has enabled our smooth transition to multimedia-related activities, such as content creation for CD-ROMs and home pages. Toppan already has the foundation required to optimally combine and provide a variety of information to meet today's communications needs. Specifically, we have the hardware technologies for transferring to other media information prepared for printing, such as text, diagrams, and graphics, as well as the sound and video technologies used in home pages and CD-ROMs. In addition, we have advanced planning and creative capabilities acquired through years of success in the printing industry.

Toppan takes a diverse, decentralized approach to pursuing business opportunities in multimedia. Divisions whose main products are paper-based print materials, such as commercial and information printing, respond appropriately to developments in the markets they serve. The Multimedia Division, established in April 1996, spearheads multimedia-related operations in areas that cross divisional boundaries. Successes during the past year included the establishment of an integrated system for the planning, production, and transmission of broadcast programming, the installation of a system for entry into satellite broadcasting operations, and continued progress with our plans to open a channel on SKY PerfectTV! in October 1998. In addition, through a cooperative venture with a leading manufacturer of electronic equipment, we established Image Mall Japan and began the digitization of national treasures and important cultural assets in the collection of the Tokugawa Museum. These are just a few examples of how we are making steady progress in the transition to an information and communications company. That progress will ensure that our vision for the Company's operations in the next century--steady, systematic growth--will become a reality.

## Electronics--The Driving Force behind Toppan's Growth

In recent years, we have strived to reform the structure of our operations by steadily diversifying from our core businesses. Electronics has been the focus of much of those efforts, and we have posted notable performance gains in this field. The advent of the advanced information society has accelerated expansion in the markets for information- and communications-related equipment, such as mobile telephones and personal computers. Electronic devices, especially semiconductors and Liquid Crystal Displays (LCDs), are key components of these products.

Toppan's involvement in electronic components extends back to the 1950s. Using the advanced photofabrication technologies acquired through our plate-making process, we initially succeeded in developing highly precise patterns with features measured in terms of microns, a degree of precision that had not been possible with mechanical processing. Since then, Toppan has established a position of leadership in global markets while recording significant growth each year. Today, we produce a number of key devices that are at the forefront of electronics technology. We have developed photomasks, which are indispensable in burning circuit patterns onto wafers during the production of integrated circuits. Our product line also includes color filters, an essential component of the color LCDs that are used in notebook computers, and shadow masks, which are used in Cathode Ray Tube (CRT) for color computer monitors.

In the future, we expect demand for our electronic components to expand further, reinforcing the Electronics Division's strategic importance to the Company. Signs of that growth can already be seen in the technical development activities that Toppan now has under way.

In recent years, the adoption of larger screen sizes on notebook personal computers and the development of color LCD monitors have fueled demand for larger-sized color filters. To meet that demand, we have expanded our production line and heightened our ability to supply large-sized, high-resolution original plates. As a result, we are able to offer the highest-quality color filters in the industry. In addition, we have the capability to mass-produce these products using high color purity resist with special spectroscopic characteristics.

In the semiconductor industry, the key trends in recent years have included larger-scale integration and faster devices. In photomasks, the original plates for semiconductors, demand is growing for more-precise products with higher data capacities. In response, Toppan is offering a stable supply of photomasks for the key 16- and 64-megabit DRAMs. Also, we are making steady progress with the trial production of photomasks for 256-megabit and 1-gigabit DRAMs.

In the years ahead, we plan to invest aggressively in expanding the facilities of the Electronics Division. During the current year, we have already invested in raising our production capacity for color filters in Japan and established a joint venture company in Taiwan for the purpose of bolstering our photomask operations. We are now proceeding with the construction of a factory that will raise our production capacity for high-resolution photomasks and shadow masks. Our operational strategy, which is supported by our core and applied technologies, calls for steady progress in smoothly reforming our operational structure.

## The Future of Toppan as an Information and Communications Company

Toppan has already made considerable progress in developing the corporate strength and the fields of business required to realize its goal of becoming an information and communications company.

In printing, our core business field, the synergies with multimedia activities give us a firm grasp of the market's wide-ranging needs. The Commercial Printing Division and the Publications Printing Division are expanding our business scope by meeting needs for a more diverse mix of media options. In ecology- and environment-related areas, a similar role is played by the Packaging Division and the Industrial Materials Division. The Packaging Division offers a lineup, centered on packaging materials, of recyclable products and products that do not release harmful gases when incinerated, while the Industrial Materials Division has developed non-polyvinyl-chloride interior materials and formalin trapping decorative boards. And in the area of sophisticated, high-value-added printing-related products, the Securities and Cards Division is developing advanced IC cards and total systems to meet burgeoning security needs.

The Electronics Division, a platform for the structural reform of the entire Company's operations, is constantly using its strengths in technical innovation to create new markets. At the same time, it is posting steady growth as one of Toppan's core business fields. And in addition to bolstering our development capabilities, we are successfully reinforcing our quality control capabilities. For example, five plants in Japan and twelve work sites overseas have obtained ISO 9000 series certification.

Toppan's farsighted vision for the future transcends media boundaries and incorporates a solid strategy for the Company's further growth and development in the 21st century.

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## Review of Operations

### Securities and Cards Division

Stocks-Bonds-Checks-Passbooks-Other tickets-IC cards-Other cards

Toppan boasts the top share of domestic markets for a wide range of securities and cards. We have used our advanced securities printing and security technologies to become the leading supplier of negotiable securities, such as stock certificates, bonds, and passbooks, as well as of all types of cards, including prepaid and other magnetic cards and IC cards.

During the year under review, the division's sales decreased 9.4%, to ¥50.7 billion (US\$384.1 million). The principal reasons for this decline were the slump in Japan's financial industry and reduced demand for game cards due to the downturn in consumer spending. Favorable sales were recorded by 0.76 mm Rewritable Cards, one of our new products. Also, in securities-related business, our investor relations support activities for publicly traded companies and our information processing services, which are based on proposals for the rationalization of customer management systems, were the focus of considerable attention in the market. We bolstered our marketing of Thread Hologram and Pearlstar Paper, two products that are highly effective in preventing securities forgery, and we worked to make further progress in forgery prevention technology for cards. We also developed the environmentally friendly New Bio-and-Ecology Card and the Super Magnetic Card, which prevents improper usage. Of particular note in the field of IC cards was our development of the One Chip Hybrid IC Card. The first of its kind, this product enables a single card to be used for both contact and non-contact applications. The use of IC cards is expected to grow significantly in a variety of applications, and Toppan has positioned itself to meet that growth in demand by building a new dedicated card factory in Takino. These new facilities began operations during the year under review, and the Ranzan plant is scheduled to come on stream in 1999.

As the use of electronic transactions, such as electronic money and Internet shopping, continues to expand, sophisticated security systems are becoming even more important. At the same time, the need for advanced techniques for the prevention of forgery and the misuse of securities is also growing. Accordingly, Toppan is working to apply its original multimedia technologies to solve these problems and thereby facilitate further progress in these fields.

### Commercial Printing Division

Posters-Catalogs-Calendar-Point-of-purchase materials-Gifts-Premiums-Sales promotional tools-Multimedia

Toppan produces a wide range of printed materials that are used by corporations in their promotional activities, such as catalogs, pamphlets, flyers, posters, and calendars. We also plan and produce multimedia-related products, including CD-ROMs and home pages. Toppan's customers span a vast range of sizes and industries, giving the Company a very solid operational foundation.

Despite the sluggish business conditions, the division's sales increased 2.3% during the year under review, to ¥309.2 billion (US\$2,342.4 million). Orders for flyers from supermarkets and other sectors of the retail industry were strong. In addition, orders for point-of-purchase (POP) materials from beverage companies and for pamphlets and orders for event-related services from automobile companies were favorable due to aggressive promotional activities conducted by those customers. We also recorded strong sales of spatial design, and construction of interior for newly opened store and of multimedia-related products and services, such as CD-ROM and home page content creation.

At present, this division is working to expand demand for Toppan's commercial printing operations by providing a comprehensive range of support for the marketing activities of its customers. In response to demand

for personal marketing in a range of industries, we are building the Integrated Database Marketing System. This integrated service covers everything from the management of client databases on their behalf and the analysis of customer and purchase data to the planning of marketing programs and planning, production, distribution, and effectiveness analysis for optimal media solutions. We are also establishing a production line that can handle catalog binding, combination, and enclosure to meet the specific needs of individual customers.

At the same time, Toppan is pursuing emerging opportunities in commercial printing in a variety of ways. We are building a system that can offer environmentally friendly sales promotional materials, strengthening our development of products and services for the multimedia age, and bolstering our response to the growing use of digital technologies in the production processes for printed materials.

## **Publications Printing Division**

Books-Magazines-Dictionaries-Encyclopedias-Art books-Textbooks-Multimedia publications

Toppan has a wealth of experience in printing a variety of publications, including magazines, trade books, art books, and dictionaries. We have cultivated special strengths in the magazine market, where we maintain a solid position. Over the past year, for example, Toppan printed nearly 40% of the 179 new magazines published in Japan.

During the year under review, the division's sales increased 1.4%, to ¥194.6 billion (US\$1,474.2 million). Sluggish domestic consumption has affected the publishing industry, and the overall number of publications and total pages published are declining. However, we were able to improve our performance during the year by bolstering our efforts to secure orders for the increasing number of newly launched magazines particularly in the areas, such as town information and fashion magazines.

The publishing industry's business environment is becoming ever more challenging. In response, Toppan is implementing a number of measures to strengthen its operational foundation. In July 1998, we further strengthened our DTP capabilities with the opening of new prepress facilities at our Tokyo plant. We also prepared a system aimed at taking advantage of our strengths in the development of CD-ROMs and other multimedia-related products to increase orders for printing.

In multimedia, meanwhile, we are making the most of our market position, which enables us to gather information from a wide range of industries. We are aggressively expanding into the content creation business by meeting needs for the conversion of printed materials to multimedia formats and by entering into tie-ups with companies in other industries. We are also pushing ahead with technical innovation to meet the information needs of publishers. These steps include the international transmission of high-resolution color images and the establishment of digital technology for conversion from high-definition television (HDTV) broadcast data to printing data.

In the years ahead, Toppan will take a multifaceted approach to reinforcing its position of market leadership, drawing on its original, comprehensive strengths and working to create new demand and new markets.

## Packaging Division

Flexible packaging materials-Folding cartons-Paper containers-Paper cups-Plastic molding products-Laminated tubes Corrugated cardboard boxes

Toppan has a leading share of the packaging market in Japan. With a solid base of original technological development capabilities, we supply packaging products with superior functionality to a wide range of industries, including food, beverages, confectionery, and toiletries. Our comprehensive operational development has made us an industry leader in a broad span of packaging fields, such as paper containers, plastic film and other wrapping materials, filling and packaging machines, and related systems.

During the year under review, the division's sales decreased 2.6%, to ¥223.5 billion (US\$1,693.2 million). This decline was attributable to weak demand in our customer industries and to intense price competition. Our environmental products, which we have positioned as key strategic products for our future growth, continued to register significant sales gains during the year. The implementation of a law regulating the recycling of container packaging materials has had a positive impact on our sales of these products.

A good example of our environmental products is GL Film. This product's base material is a transparent, high barrier film onto which ceramic has been deposited. GL Film is finding an increasing number of applications, including as a flexible packaging material for confectioneries and retort pouches and in liquid containers. In addition, it is environmentally friendly because it can be incinerated without any release of harmful substances. Another key environmentally friendly product is Cartocan, a paper beverage container. The applications for Cartocan are also growing, centered on soft drinks and alcoholic beverages. Cartocan has been highly evaluated for its superior characteristics. Because it can be used in sterile filling and packaging operations, Cartocan makes possible long-term storage. And because it is paper, it can be recycled in the same way as milk cartons.

In the future, Toppan will further strengthen its development and marketing of products with original functionality. At the same time, by expanding into new markets, such as pharmaceuticals and health care, we will continue working to improve the results of the Packaging Division.

## Industrial Materials Division

Decorative sheet materials-Wallpaper Flooring-Materials for furniture-Materials for external finishing-Various industrial materials

Toppan has used its original development strengths in printing technologies and materials to develop high-value-added industrial materials, centered on such products as decorative sheet and wallpaper. We supply these products to residential builders and manufacturers of construction materials, and we have leading shares of those markets.

The division's sales declined 16.8% during the year under review, to ¥43.4 billion (US\$328.8 million). The principal reason for the decline was a large drop in housing starts caused by the lengthening slump in the domestic economy. There are, however, some positive factors working in the division's favor. Solid expansion is being recorded by ecology products, to which we are now devoting considerable resources, and by exports, especially sales to customers in the United States. In addition, the domestic housing renovation market is expanding. Based on these three factors, we expect our business in this field to grow in the years ahead.

In a difficult operating environment marked by a sluggish residential construction market, Toppan's aggressive marketing of high-value-added products is based on the keywords of health, environment, and safety. These marketing efforts are centered on our mainstay products of decorative sheet and wallpaper. For example, Toppan Ecosheet, a decorative sheet, and Toppan Ecowall, a wallpaper product, use no polyvinyl chlorides. We also offer an antibacterial decorative sheet. And our coating paper and SVS Decorative Paneling can absorb and confine formaldehyde, a

component of construction adhesives that is harmful to people. These products have been highly evaluated for their advanced functionality, and they are recording increased sales.

Through the continued development of products with such characteristics as durability, insulation, noncombustibility, and resistance to pollution, we are fostering further progress in the field of industrial materials.

### **Electronics Division**

Photomasks-Leadframes-Printed wiring boards-Shadow masks-Color filters-Thermal ribbons

Offering a wide range of electronic components based on its original precision fabrication technologies, Toppan has become a leader in the global markets of some electronic components including semiconductor-related products, such as photomasks and leadframes; color filters for LCDs; and shadow masks for CRTs.

During the year under review, the division continued to post double-digit growth in sales, advancing 15.2%, to ¥145.2 billion (US\$1,100.0 million). In semiconductor markets, the development of microcomputers and other integrated circuits is moving at a strong pace, and rapid progress is being made toward the mass production of 64-megabit DRAMs. Consequently, products suitable for use in high-resolution applications, such as phase shift photomasks, recorded solid sales during the past year. The production volume of color filters for LCDs was the same as in the previous year due to the slump in the personal computer market. Demand for high color purity resist color filters was favorable, and we succeeded in boosting our market share. Shadow masks also recorded steady sales growth. In addition, demand was strong for recording materials, such as printed wiring boards and dye sublimation thermal transfer ribbons. Furthermore, our anti-reflection film, which was developed to enhance the visibility of LCDs and CRTs, is being watched with keen interest.

During the year, we added new facilities at our Niigata plant, which is our production base for color filters for LCDs. In the future, we will install new facilities at the Shiga plant to raise production capacity for photomasks, and to augment our production capacity for high-precision shadow masks, we plan to add facilities at our Kumamoto plant. In recent years, the Asaka plant and the Kumamoto plant have won Total Product Maintenance (TPM) awards from a Japanese plant maintenance organization, indicating the strength of our quality management.

The further expansion of our electronics operations will remain one of our top priorities. We are prepared to provide a sophisticated response to the range of performance and quality standards that will be an integral part of continued progress in LCDs and semiconductors.

### **Business Forms Division**

Transport and delivery slips-Stock forms-OCR/OMR forms-Mailing forms-Label forms-Security forms-Ecology forms-Thermal forms-Pointrick forms-Data Print Services-Cards

Toppan Forms Co., Ltd., is responsible for the business forms operations of the Toppan Group. The division's main products include all types of business forms, such as vouchers and invoices, and our Integrated Data Print Services (DPS), where we receive data from customers for processing, printing, and delivery. In addition, we are making full use of the database technology acquired through business forms and DPS as we develop our operations in customer information strategy consulting and Cyber DM (Direct Mail), IC cards electronic booking slips and forms, which take full advantage of the Internet and other advances in this field.

During the year under review, the division's sales rose 2.4%, to ¥162.2 billion (US\$1,228.8 million). This increase was attributable to a favorable performance by the division's flagship Business Forms Division. Demand for mailing forms, shipping invoices, and distribution vouchers was strong. DPS operations benefited from the trend among customer companies toward more personalized mailing, and outsourcing operations, such as invoice

issuance, recorded significant gains. Sales of supplies were supported by favorable demand for PPC paper. And in service operations, computer facility management outsourcing services registered strong growth. Sales of equipment declined due to slack demand for Automatic Delivery receipt Printer registered mail delivery receipt systems, which made a large contribution to sales in the previous year.

In the future, Toppan Forms will work to reinforce its ability to respond accurately to customer needs for business forms, including high-variety, small-lot production. To reduce costs, we will emphasize laborsaving, rationalization, and greater efficiency in production and distribution. And through IMS, we will work to expand the scope of our operations and improve performance by aggressively developing new products, centered on the themes of electronics, personalized services, and cybertechnologies as an Integrated Information Management Services.

### Note to Review of Operations

As explained in Note 9 of the Notes to Consolidated Financial Statements, our consolidated segment information is presented for the Printing and Other segments. The Review of Operations section of this annual report, however, presents sales information for the Company's internal divisions and for Toppan Forms Co., Ltd., the consolidated subsidiary that handles business forms operations. The information is presented in this manner so that readers can more easily understand the performance trends for each of the Company's areas of operations. In the Review of Operations section of the annual report, the sales figures for the Business Forms Division represent sales by Toppan Forms Co., Ltd., and the combined totals of the sales figures for the other six divisions represent the non-consolidated sales of Toppan Printing Co., Ltd.

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## Financial Section

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## Management's Discussion and Analysis

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In the fiscal year ended March 31, 1998, Japan's economic slump lengthened and Toppan's operating environment remained challenging. Despite the difficult conditions, the Company achieved record high levels of net sales, which rose 0.8%, to ¥1,284.1 billion (US\$9,728.4 million); operating income, which increased 7.0%, to ¥94.3 billion (US\$714.6 million); and net income, which was up 119.1%, to ¥47.4 billion (US\$358.9 million). Net income per share rose 116.5%, to ¥65.50 (US\$0.50), and return on equity reached 7.4%, from 3.6% in the previous fiscal year. Dividends per share were increased to ¥14.00 (US\$0.11), from ¥13.50 in the previous year. In the year under review, Toppan continued to lay a firm foundation for future growth.

### Income and Expense Analysis

Despite the sluggish economy, Toppan's net sales increased 0.8%, to ¥1,284.1 billion (US\$9,728.4 million). In the domestic printing industry, the operating environment was difficult, with demand for printing sluggish and price competition intense. The Company succeeded in increasing its sales through aggressive marketing activities targeted at creating new demand. Our flagship Commercial Printing division turned in an excellent performance, and the Business Forms and Electronics divisions also continued to perform well. In the Packaging, Securities and Cards, and Industrial Materials divisions, however, sales declined.

The cost of sales reached ¥1,059.6 billion (US\$8,027.0 million), an increase of 0.5%, less than the rise in net sales. The cost of sales as a percentage of net sales improved 0.2 percentage points, to 82.5%, and gross profit rose 2.2%, to ¥224.6 billion (US\$1,701.4 million). We have implemented thorough cost control measures, such as rationalizing production and reducing outsourcing expenses to reduce the cost of sales, and those efforts are now showing results.

During the year, we implemented a range of measures targeted at improving operational efficiency. As a result, selling, general and administrative (SG & A) expenses declined 1.1%, to ¥130.3 billion (US\$986.8 million), and the ratio of SG&A; expenses to net sales improved to 10.1%, from 10.3% in the previous year.

Operating income rose 7.0%, to ¥94.3 billion (US\$714.6 million), and the operating income margin improved to 7.3%, from 6.9% in the previous year. In other income and expenses, we recorded net other income of ¥11.4 billion (US\$86.3 million) during the year under review, compared with net other expenses of ¥18.4 billion in the previous year. Due to the issuance of bonds, net interest expense increased to ¥1.8 billion (US\$13.6 million), from ¥0.6 billion. During the previous year, however, we recorded a ¥9.0 billion write-off of goodwill associated with the acquisition of the stock of subsidiaries, and during the year under review, we recorded ¥20.9 billion (US\$158.1million) in profit on the sale of stock when Toppan Forms Co., Ltd., listed on the First Section of the Tokyo Stock Exchange.

Income before income taxes increased 51.5%, to ¥105.7 billion (US\$800.9 million). Provision for income taxes rose 20.0%, to ¥59.2 billion (US\$448.4 million), while the effective tax rate declined to 56.0%, from 70.7% in the previous year. The Company also recorded ¥0.8 billion (US\$5.7 million) in minority interests in net income of consolidated subsidiaries and ¥1.6 billion (US\$12.2 million) in equity in earnings of non-consolidated subsidiaries and affiliates. Net income rose 119.1%, to ¥47.4 billion (US\$358.9 million), a record high level, and net income per share rose to ¥65.50 (US\$0.50), compared with ¥30.25 in the previous year.

Return on equity rose to 7.4%, from 3.6% in the previous year, and return on assets was 3.9%, up from 1.9%. The substantial growth in profitability was due principally to a nonrecurring gain on the sale of stock accompanying the stock exchange listing of subsidiary Toppan Forms. Accordingly, net income and profitability ratios for the year ahead are expected to decline year on year.

## Dividends

At ¥14.00 (US\$0.11), dividends per share were up ¥0.50 (US\$0.004) from the previous year. Our approach to the payment of dividends is to provide shareholders with a stable yet gradually increasing flow of dividend payments while retaining within the Company the resources needed to prepare for future growth.

The Company allocates retained earnings to the construction of new plants, to the renewal and expansion of existing production facilities, and to investment in new fields of business. Through these activities, we work to strengthen the Company and improve profitability, and thus to provide a return to our shareholders.

## Financial Position

To ensure that we can make the investment needed to maintain a strong operational foundation and to prepare for future growth, we place top priority on a sound financial position and adequate cash flow. The Company's performance gains during the year under review enabled it to improve its financial position.

Cash flow (net income + depreciation and amortization - cash dividends paid) during the year under review rose 44.8%, to ¥95.4 billion (US\$722.8 million), and net cash provided by operating activities was up 111.8%, to ¥163.0 billion (US\$1,234.7 million). This gain was primarily attributable to the growth in net income and to a ¥30.0 billion (US\$227.4 million) increase in minority interests.

Capital expenditures increased 48.6%, to ¥123.5 billion (US\$935.7 million), the highest level in the Company's history. In order to establish a foundation for future growth, we are increasing our spending on the expansion of production capacity in strategically important fields, especially electronics. Therefore, over the next several years we will maintain capital investment at a comparatively high level. Specifically, capital investment will exceed cash flow for the next few years. To ensure that we maintain adequate liquidity throughout this period of aggressive capital spending, we issued ¥50.0 billion (US\$378.8 million) in unsecured bonds during the year under review, and, as a result, cash and cash equivalents at the end of the term was up 45.7%, to ¥239.3 billion (US\$1,812.9 million). Our fundamental policy is to maintain capital spending for renewal and renovation purposes within the limits of cash flows, and, for such large investment projects as new plant construction, to raise the necessary funds in capital markets.

Current assets at the end of the term were up 13.3% from the previous year-end, to ¥712.0 billion (US\$5,393.8 million), while current liabilities totaled ¥462.8 billion (US\$3,506.2 million), an increase of 3.0%. As a result, working capital rose 38.9%, to ¥249.2 billion (US\$1,887.6 million), and the current ratio increased to 1.5, from 1.4 at the previous year-end.

Property, plant, and equipment, net, rose 15.7%, to ¥445.9 billion (US\$3,378.2 million), due principally to the increase in capital investment. Due to the issuance of ¥50.0 billion (US\$378.8 million) in unsecured bonds during the year under review, long-term liabilities at year-end were up 57.3%, to ¥137.0 billion (US\$1,037.7 million). Although the increase in long-term indebtedness caused the debt-to-equity ratio to rise to 21.5%, from 16.4% at the previous year-end, this ratio nonetheless remains at a relatively low level.

Shareholders' investment was up 9.0%, to ¥667.5 billion (US\$5,056.5 million), due primarily to an increase in retained earnings. The ratio of shareholders' equity to total assets edged down to 51.3%, from 53.2% at the previous year-end, while total assets rose 12.9%, to ¥1,300.6 billion (US\$9,853.4 million).

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## Consolidated Five-Year Financial Summary

### Toppan Printing Co., Ltd and subsidiaries

Years ended 31st March

	Millions of yen					thousands of dollars*
	1994	1995	1996	1997	1998	1998
<b>For the Year:</b>						
Net sales	¥ 1,089,964	¥ 1,130,569	¥ 1,186,592	¥ 1,274,339	¥ 1,284,145	\$ 9,728,371
Cost of sales	911,653	933,587	990,642	1,054,486	1,059,558	8,026,954
% of net sales	83.6%	82.6%	83.5%	82.7%	82.5%	82.5%
SG&A; expenses	112,153	115,145	125,129	131,711	130,262	986,834
% of net sales	10.3%	10.2%	10.5%	10.3%	10.1%	10.1%
Operating income	66,158	81,837	70,821	88,142	94,325	714,583
% of net sales	6.1%	7.2%	6.0%	6.9%	7.3%	7.3%
Income before income taxes	69,644	54,894	79,513	69,792	105,714	800,864
Net income	31,804	15,881	39,705	21,621	47,381	358,947
% of net sales	2.92%	1.40%	3.35%	1.70%	3.69%	3.69%
% of average assets	3.04%	1.49%	3.62%	1.90%	3.86%	3.86%
% of average equity	6.11%	2.88%	6.78%	3.57%	7.40%	7.40%
<b>Per share of common stock:</b>						
Net income	¥ 45.26	¥ 22.87	¥ 54.57	¥ 30.25	¥ 65.50	\$ 0.50
Cash dividends:						
Actual	10.00	13.00	13.50	13.50	14.00	0.11
Adjusted	10.00	13.00	13.50	13.50	14.00	0.11
R&D; expenses	¥ 15,917	¥ 15,090	¥ 15,426	¥ 15,874	¥ 17,131	\$ 129,780
Capital expenditures	36,848	64,096	69,878	83,104	123,515	935,720
Depreciation and amortization	49,046	49,680	50,654	53,724	57,824	438,061
<b>At Year-End:</b>						
Current assets	¥ 582,666	¥ 578,760	¥ 621,280	¥ 628,598	¥ 711,977	\$ 5,393,765
Current liabilities	408,232	387,526	429,845	449,186	462,817	3,506,190
Working capital	174,434	191,234	191,435	179,412	249,160	1,887,575
Cash and cash equivalents	202,600	160,376	179,466	164,214	239,308	1,812,939
Property, plant and equipment,						
at cost	328,871	340,198	357,436	385,535	445,916	3,378,152
Long-term indebtedness	84,106	83,864	66,616	64,279	113,050	856,439
Total assets	1,061,636	1,069,042	1,126,303	1,151,883	1,300,649	9,853,402
Shareholders' investment	533,287	570,276	600,424	612,265	667,464	5,056,546
Equity ratio	50.2%	53.3%	53.3%	53.2%	51.3%	51.3%
Debt-equity ratio	28.1%	19.7%	18.9%	16.4%	21.5%	21.5%
<b>Other Statistics:</b>						
Number of employees	25,697	32,953	33,479	33,719	34,402	
Number of common shares						
outstanding	676,691	699,246	699,282	699,300	699,411	

\* U.S. dollar amounts are translated from yen at the rate of ¥132=U.S.\$1, as at 31st March, 1998.

Note 1: The consolidated results for the year ended 31st March, 1995, reflect the ¥18,223 million (US\$138,053 thousand) write-off pertaining to the acquisition of Toppan Moore Co., Ltd.'s goodwill.

Note 2: The consolidated results for the year ended 31st March, 1996, include the ¥10,362 million (US\$78,500 thousand) proceeds from the sale of Toppan Printing Co. (H.K.) Ltd.'s land.

Note 3: The consolidated results for the year ended 31st March, 1997, reflect the ¥9,015 million (US\$68,295 thousand) write-off pertaining to the acquisitions of Toppan Moore Co., Ltd.'s, and Avery Toppan Co., Ltd.'s goodwill.

Note 4: The consolidated results for the year ended 31st March, 1998, reflect the ¥20,868 million (US\$158,091 thousand) gain on the sale of investment in Toppan Forms Co., Ltd. (Toppan Moore Co., Ltd., changed its name to Toppan Forms Co., Ltd., on April 1, 1997.)

Note 5: As a result of the increase in the number of subsidiaries included in the consolidated financial statements in the year ended 31st March, 1995, the number of employees increased significantly.

## Consolidated Balance Sheets

### Toppan Printing Co., Ltd and subsidiaries

As at 31st March, 1997 and 1998

	Millions of yen		Thousands of dollars (Note 1)
	1997	1998	1998
<b>Assets</b>			
<b>Current Assets:</b>			
Cash and cash equivalents (Note 1)	¥ 164,214	¥ 239,308	\$ 1,812,939
Notes and accounts receivable--			
--Trade	392,762	392,741	2,975,311
--Non-consolidated subsidiaries and affiliates (Note 2)	1,684	1,642	12,439
--Less: Allowance for doubtful receivables	(4,431)	(4,974)	(37,682)
Inventories (Note 1)--			
--Finished goods and merchandise	28,344	31,195	236,326
--Work in process and raw materials	39,198	40,313	305,402
Other current assets (Note 4)	6,827	11,752	89,030
--Total current assets	628,598	711,977	5,393,765
<b>Property, Plant and Equipment, at cost (Notes 1 and 3):</b>			
Land	81,853	93,086	705,197
Buildings and structures	284,236	317,471	2,405,083
Machinery and equipment	541,066	577,486	4,374,894
	907,155	988,043	7,485,174
Less: Accumulated depreciation	(521,620)	(542,127)	(4,107,022)
	385,535	445,916	3,378,152
<b>Investments and Other Assets:</b>			
<b>Investments in and advances to non-consolidated subsidiaries</b>			
--and affiliates (Notes 1 and 2)	38,359	39,911	302,356
Investment securities (Note 1)	67,366	63,463	480,780
Long-term loans receivable from employees and other (Note 4)	32,025	39,382	298,349
	137,750	142,756	1,081,485
<b>Total Assets</b>	<b>¥ 1,151,883</b>	<b>¥ 1,300,649</b>	<b>\$ 9,853,402</b>

The accompanying notes to the consolidated financial statements are an integral part of these balance sheets.

As at 31st March, 1997 and 1998

	Millions of yen		Thousands of dollars (Note 1)
	1997	1998	1998
<b>Liabilities and Shareholders' Investment</b>			
Current Liabilities:			
Short-term bank borrowings, average interest 4.7%			
--at 31st March, 1998	¥ 34,960	¥ 29,636	\$ 224,515
Current portion of long-term indebtedness (Note 3)	1,251	996	7,545
Notes and accounts payable--			
--Trade	297,751	291,695	2,209,811
--Construction	40,679	62,485	473,371
--Non-consolidated subsidiaries and affiliates (Note 2)	17,668	15,272	115,697
Accrued expenses	26,001	26,698	202,258
Income taxes (Notes 1 and 4)	30,876	36,035	272,993
--Total current liabilities	449,186	462,817	3,506,190
Long-Term Liabilities:			
Long-term indebtedness (Note 3)	64,279	113,050	856,439
Estimated termination and retirement allowances (Note 1)	22,543	23,458	177,712
Other long-term liabilities	236	467	3,538
	87,058	136,975	1,037,689
Minority Interests	3,374	33,393	252,977
Minority Commitments and Contingent Liabilities (Note 8)			
Shareholders' Investment (Note 5):			
Common stock, par value 050 per share;			
--Authorized--1,200,000,000 shares			
--Outstanding--699,300,208 shares and 699,411,267 shares			
--at 31st March, 1997 and 1998, respectively	104,942	104,985	795,341
Additional paid-in capital	117,694	117,738	891,955
Legal reserve	12,612	13,607	103,083
Retained earnings	377,017	431,134	3,266,167
Retained earnings	612,265	667,464	5,056,546
Total Liabilities and Shareholders' Investment	¥ 1,151,883	¥ 1,300,649	\$ 9,853,402

## Consolidated Statements of Income

### Toppan Printing Co., Ltd and subsidiaries

For the years ended 31st March, 1996, 1997 and 1998

	Millions of yen			Thousands of dollars (Note 1)
	1996	1997	1998	1998
For the Year:				
Net sales	¥ 1,186,592	¥ 1,274,339	¥ 1,284,145	\$ 9,728,371
Cost of Sales	990,642	1,054,486	1,059,558	8,026,954
Gross Profit	195,950	219,853	224,587	1,701,417
Selling, General and Administrative Expenses	125,129	131,711	130,262	986,834
--Operating income	70,821	88,142	94,325	714,583
Other Income (Expenses):				
--Interest expense	(3,401)	(3,350)	(4,468)	(33,848)
--Interest and dividend income	4,455	2,781	2,667	20,204
--Rental income on leased equipment	1,466	2,224	1,691	12,811
--Amortization of past service costs (Note 1)	(1,971)	(1,981)	(2,201)	(16,674)
--Losses on liquidation of a non- consolidated	(444)	-	-	-
--subsidiary and an affiliate				
--Goodwill write-off (Note 1)	-	(9,015)	-	-
--Loss from valuation of marketable securities	-	(7,185)	(5,620)	(42,576)
--and investment securities				
--Gain on sale of property	10,837	1,065	2,395	18,144
--Gain on sale of investment in subsidiaries (Note 1)	-	-	20,868	158,091
--Other, net	(2,250)	(2,889)	(3,943)	(29,871)
	8,692	(18,350)	11,389	86,281
Income before Income Taxes	79,513	69,792	105,714	800,864
Provision for Income Taxes (Notes 1 and 4):	40,673	49,311	54,251	410,993
--Current				
--Deferred	-	-	4,938	37,409
Net Income before Minority Interests in Net Income of				
--Consolidated Subsidiaries and Equity in Earnings of	38,840	20,481	46,525	352,462
--Non-Consolidated Subsidiaries and Affiliates				
Minority Interests in Net Income of Consolidated Subsidiaries	(324)	(882)	(752)	(5,697)
Equity in Earnings of Non- Consolidated Subsidiaries --and Affiliates (Note 1)	1,189	2,022	1,608	12,182

Net Income	¥ 39,705	¥ 21,621	¥ 47,381	\$ 358,947
	Yen			Dollars (Note 1)
Per Share of Common Stock (Note 6):				
--Net income	¥ 54.57	¥ 30.25	¥ 65.50	\$ 0.50
--Cash dividends, applicable to earnings for the year	13.50	13.50	14.00	0.11

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

## Consolidated Statements of Shareholders' Investment

### Toppan Printing Co., Ltd and subsidiaries

For the years ended 31st March, 1996, 1997 and 1998

	Millions of yen			Thousands of dollars (Note 1)
	1996	1997	1998	1998
Common Stock:				
Beginning balance	¥ 104,921	¥ 104,935	¥ 104,942	\$ 795,015
Conversion of convertible bonds	14	7	43	326
--Ending balance	¥ 104,935	¥ 104,942	¥ 104,985	\$ 795,341
Additional Paid-in Capital:				
Beginning balance	¥ 117,644	¥ 117,658	¥ 117,694	\$ 891,621
Transfer by merger (Note 1)	-	29	-	-
Conversion of convertible bonds	14	7	44	334
--Ending balance	¥ 117,658	¥ 117,694	¥ 117,738	\$ 891,955
--Ending balance	¥ 117,658	¥ 117,694	¥ 117,738	\$ 891,955
Legal Reserve:				
Beginning balance	¥ 10,685	¥ 11,645	¥ 12,612	\$ 95,545
Transfer from retained earnings	960	959	995	7,538
Transfer by merger (Note 1)	-	8	-	-
--Ending balance	¥ 11,645	¥ 12,612	¥ 13,607	\$ 103,083
Retained Earnings:				
Beginning balance	¥ 337,026	¥ 366,186	¥ 377,017	\$ 2,856,189
Net income	39,705	21,621	47,381	358,947
Cash dividends paid	(9,440)	(9,440)	(9,791)	(74,174)
Directors' bonuses	(365)	(366)	(354)	(2,682)
Transfer to legal reserve	(960)	(959)	(995)	(7,538)
Transfer by merger (Note 1)	-	(36)	-	-
Effect of adoption of tax allocation accounting (Notes 1 and 4)	-	-	17,811	134,932

Translation adjustment and other (Note 1)	220	11	65	493
<hr/>				
--Ending balance	¥ 366,186	¥ 377,017	¥ 431,134	\$ 3,266,167
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The accompanying notes to the consolidated financial statements are an integral part of these statements.

## Consolidated Statements of Cash Flows

### Toppan Printing Co., Ltd and subsidiaries

For the years ended 31st March, 1996, 1997 and 1998

	Millions of yen			Thousands of dollars (Note 1)
	1996	1997	1998	1998
Cash Flows from Operating Activities:				
Net income	¥ 39,705	¥ 21,621	¥ 47,381	\$ 358,947
Adjustments to reconcile net income to				
-net cash provided by operating activities--				
--Depreciation and amortization	50,654	53,724	57,824	438,061
-Provision for termination and retirement allowances	5,523	5,357	4,690	35,530
-Equity in earnings of non-consolidated subsidiaries and affiliates	(1,189)	(2,022)	(1,608)	(12,182)
-Payment of retirement allowances	(4,027)	(4,890)	(3,775)	(28,598)
-Increase in receivables and inventories	(27,135)	(22,059)	(3,360)	(25,455)
-Increase in payables, accrued expenses and income taxes	23,775	30,105	19,221	145,614
-Increase (decrease) in minority interests	525	(3,935)	30,019	227,417
-Other, net	3,610	(955)	12,585	95,340
-Net cash provided by operating activities	91,441	76,946	162,977	1,234,674
-Cash Flows from Investing Activities:				
Capital expenditures	(69,878)	(83,104)	(123,515)	(935,720)
-Proceeds from sales of property, plant and equipment	3,034	3,574	7,313	55,402
Investments in and advances to subsidiaries and affiliates, net	2,691	3,433	56	424
Investment securities, net	(930)	8,994	3,903	29,568
Long-term loans receivable from employees and other, net	877	(2,863)	(9,359)	(70,901)
Net cash used in investing activities	(64,206)	(69,966)	(121,602)	(921,227)
Net cash used in investing activities	(64,206)	(69,966)	(121,602)	(921,227)

Cash Flows from Financing Activities:				
-Cash dividends paid	(9,440)	(9,440)	(9,791)	(74,174)
Long-term indebtedness, net	1,295	(12,792)	43,510	329,621
Net cash provided by (used in) financing activities	(8,145)	(22,232)	33,719	255,447
Net Change in Cash and Cash Equivalents	19,090	(15,252)	75,094	568,894
Cash and Cash Equivalents at Beginning of Year	160,376	179,466	164,214	1,244,045
Cash and Cash Equivalents at End of Year	¥ 179,466	¥ 164,214	¥ 239,308	\$ 1,812,939

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

# Notes to Consolidated Financial Statements

## 1. Significant Accounting and Reporting Policies

The following is a summary of the significant accounting and reporting policies adopted by Toppan Printing Co., Ltd. (the "Company") and its consolidated subsidiaries in the preparation of the consolidated financial statements.

### Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan, which are in conformity with accounting principles and practices generally accepted in Japan and Japanese income tax laws. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside of Japan.

For the convenience of the reader, the accompanying consolidated financial statements as at 31st March, 1998, and for the year then ended have also been presented in U.S. dollars by arithmetically translating all Japanese yen amounts at the approximate exchange rate of ¥132 to \$1.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries.

Material intercompany balances, transactions and profits have been eliminated in consolidation.

Investment in affiliates (20-50% owned) have been accounted for by the equity method. These investments are included in investments in and advances to non-consolidated subsidiaries and affiliates in the accompanying consolidated balance sheets.

In fiscal 1995, the Company acquired additional stocks of Toppan Moore Co., Ltd. With this acquisition, the Company's rate of equity had risen from 55% to 90%. Goodwill totaling ¥18,223 million (\$138,053 thousand) that the Company derived from the acquisition was redeemed in one lump sum. In the year ended March 31, 1997, the Company acquired all the remaining stocks of Toppan Moore Co., Ltd. and Avery Toppan Co., Ltd. With these acquisitions, the Company's rate of equity in the Toppan Moore Co., Ltd. had risen from 90% to 100%, and that in Avery Toppan Co., Ltd. from 50% to 100%. Goodwill totaling 09,015 million (\$68,295 thousand) that the Company derived from the acquisitions was redeemed in one lump sum. In fiscal 1997, the Company merged two of its wholly owned subsidiaries. The accounting treatment for this merger was accounted for in conformity with the Japanese Commercial Code.

In March 1998, the Company sold shares in its wholly owned subsidiary Toppan Forms Co., Ltd. when the subsidiary listed its shares on the Tokyo Stock Exchange. (Toppan Moore Co., Ltd., changed its name to Toppan Forms Co., Ltd., on April 1, 1997.)

As a result of this sale, the Company's rate of equity in the subsidiary fell from 100% to 58.6% and the Company's recognized profit on the sale of the subsidiary's shares amounted to ¥20,868 million (\$158,091 thousand).

### Translation of Foreign Currencies

Foreign currency transactions are translated into Japanese yen using the exchange rates in effect at the time of the transactions or at the applicable exchange rates under forward exchange contracts. Current assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the end of each fiscal year, except that forward exchange contract rates are used where applicable and the resulting gains and losses are included in current income. Non-current assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the time of the transactions, except that forward exchange contract rates are used where applicable.

Financial statements of overseas consolidated subsidiaries are translated into Japanese yen by using the exchange rates prevailing at the end of each

fiscal year, except that the exchange rates in effect at the time of the transactions are used for shareholders' investment.

## Inventories

Inventories are stated at cost, being determined primarily by the following methods:

Merchandise	First in, first out method
Finished goods and work in process	Average as determined by the retail method
Raw materials	Average method

## Depreciation

Depreciation of property, plant and equipment is computed by using a declining-balance method over their estimated useful lives. Effective rates of depreciation for the years ended 31st March, 1996, 1997 and 1998, are summarized below:

	1996	1997	1998
Buildings and structures	8.2%	8.3%	8.5%
Machinery and equipment	26.1	25.8	25.1

The rates of depreciation are based on useful lives of 8 to 65 years for buildings and structures and 2 to 12 years for machinery and equipment. Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

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## Marketable Securities and Investment Securities

Listed securities included in cash and cash equivalents and investment securities (non-current) are primarily stated at the lower of cost or market, cost being determined by the moving average method. Other securities are primarily stated at moving average cost (see table on page 33).

Effective April 1996, the Company changed its valuation method for listed securities from the moving average cost to the lower of cost or market, cost being determined by the moving average method to reflect the decline of stock prices more immediately. As a result of this change, income before income taxes for the year ended 31st March, 1997, decreased by O7,185 million (\$54,432 thousand).

## Income Taxes

Provision is made currently for income taxes applicable to all items of revenues and expenses reported in income tax returns on the basis of when such items are taxable or deductible.

Effective April 1997, the Company changed its method of accounting for income taxes to recognize the tax effect attributable to temporary differences. This change was made to present a more accurate relationship between income before income taxes and income taxes (current and deferred). Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements. As a result of this change, net income for the year ended 31st March, 1998, decreased by O4,982 million (\$37,742 thousand) and the beginning balance of retained earnings for fiscal 1998, increased by O12,828 million (\$97,182 thousand).

## Termination and Retirement Plans

The Company and certain consolidated subsidiaries have unfunded termination and retirement allowances plans covering all of their employees. In addition, the Company and certain subsidiaries have an integrated non-contributory funded pension plan. Also, certain consolidated subsidiaries have non-contributory funded pension plans for their employees.

Under the plans, employees are entitled to receive lump-sum payments at the time of termination or pension payments in case of termination at retirement age. The amounts of the termination and retirement allowances are determined on the basis of length of service and basic salary at the time of termination or retirement. Accruals have been made for allowances equal to 50% of the amount payable if all employees had voluntarily terminated their employment at the end of each fiscal year, or for liabilities equal to 50% of the amount required on a voluntary basis less the amount payable from the non-contributory welfare pension fund.

Under the funded pension plan, the annual payments, including amortization of the past service costs over 8 to 20 years, are charged to income. The net assets of the pension plans as at 31st March, 1997, the latest date for available information, were O108,510 million (\$822,045 thousand). The aggregate unfunded past service costs amounted to approximately O9,790 million (\$74,167 thousand) as at 31st March, 1997, based on an assumed rate of return of 5.5%.

Amortization of the past service costs under the funded pension plan is shown as other expenses in the accompanying consolidated statements of income.

Retirement allowance to directors and corporate auditors is provided and determined based on the pertinent rules.

The estimated amount to be paid if all directors and corporate auditors retire on the balance sheet date is also calculated based on these rules. The total provisions and payments, including provisions for the retirement allowance to directors and corporate auditors, charged to income under the plans for the years ended 31st March, 1996, 1997 and 1998, were as follows:

	Millions of yen	Thousands of dollars
1996	¥12,450	\$94,318
1997	15,043	113,962
1998	14,743	111,689

## Research and Development

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses include practical-application research expenses of the Technical Development Departments of each division, in addition to usual expenses of basic research, centered in the Toppan Technical Research Institute.

The amounts for the years ended 31st March, 1996, 1997 and 1998, were as follows:

	Millions of yen	Thousands of dollars
1996	¥15,426	\$116,864
1997	15,874	120,258
1998	17,131	129,780

## Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all time deposits and current marketable securities to be cash equivalents in conformity with the definition used in the Company's annual security report filed with the Minister of Finance.

## Reclassifications

Certain reclassifications have been made to previously reported 1996 and 1997 amounts to conform to the 1998 presentation. These reclassifications had no effect on previously reported net income or total shareholders' investment.

	Millions of yen		Thousands of dollars
	1997	1998	1998
Marketable securities-- -Marketable equity securities	¥3,680	¥6,659	\$50,447
-Interest-bearing bonds and other	19,562	78,352	593,576
	¥23,242	¥85,011	\$644,023

Investment securities-- -Marketable equity securities	¥58,073	¥54,543	\$413,205
-Non-marketable equity securities	9,123	8,780	66,514
-Interest-bearing bonds and other	170	140	1,061
-Interest-bearing bonds and other	¥67,366	¥63,463	\$480,780

Interest-bearing bonds represent primarily those issued by the government, government-sponsored agencies and banks.

The unrealized gains, net of unrealized losses, applicable to current and non-current marketable equity securities as at the respective balance sheet dates were as follows:

	Millions of yen		Thousands of dollars
	1997	1998	1998
Current	¥1,260	¥13,800	\$104,545
Non-current	81,204	51,854	392,833

## 2. Investments in and Advances to Non-Consolidated Subsidiaries and Affiliates

(a) Combined unaudited financial information of affiliates as at each balance sheet date and for each of the years presented were as follows:

	Millions of yen		Thousands of dollars
	1997	1998	1998
Financial Position:	¥218,101	¥215,350	\$1,631,439
Assets--			
-Current assets			
-Net property and other assets	170,585	180,965	1,370,947
	¥388,686	¥396,315	\$3,002,386
Liabilities--	¥140,979	¥139,752	\$1,058,727
-Current liabilities			
-Other liabilities	89,779	93,053	704,947
-Shareholders' investment	157,928	163,510	1,238,712
-Shareholders' investment	¥388,686	¥396,315	\$3,002,386

	Millions of yen			Thousands of dollars
	1996	1997	1998	1998
Operations:				
Net sales	¥ 352,930	¥ 346,459	¥ 345,185	\$ 2,615,038
Costs and expenses	348,911	340,135	339,202	2,569,712
Net income	¥ 4,019	¥ 6,324	¥ 5,983	\$ 45,326

(b) Summarized below are significant transactions with affiliates for the years ended 31st March, 1996, 1997 and 1998:

	Millions of yen			Thousands of dollars
	1996	1997	1998	1998
Sales	¥ 2,383	¥ 2,120	¥ 1,651	\$ 12,508
Cost of sales--				
-Purchases of materials	23,278	26,217	24,613	186,462
-Subcontractors' fees	8,617	7,433	7,050	53,409
Interest and dividend income	711	713	794	6,015
Rental income	616	732	779	5,902

### 3. Long-Term Indebtedness

Long-term indebtedness as at 31st March, 1997 and 1998, is detailed in the table below:

	Conversion/ subscription price	Millions of yen		Thousands of dollars
	Yen per share	1997	1998	1998
Operations:				
Unsecured convertible bonds--				
-3.0%, due 1997	¥ 778.40	¥ 93	¥ --	\$ --
-1.9%, due 2001	1,645.10	24,934	24,933	188,886
-1.4%, due 2005	2,235.20	34,950	34,950	264,773
Unsecured bonds--				
-2.7%, due 2007	--	--	50,000	378,788
Secured bonds--				
-2.5%, due 2004	--	500	500	3,788
Secured bonds--				
-7.1%, due 1998	--	200	200	1,515
Secured bonds--				
-2.2%, due 2003	--	--	300	2,272
Unsecured loans--				
-Japanese banks, 2.1-4.2%, due 1999 through 2004	--	2,127	371	2,811
-Foreign banks, 6.7-9.1%, due 1999 through 2004	--	501	121	916
Mortgage loans--				
-Japanese banks, 2.3-5.4%, due 1999 through 2004	--	2,225	2,671	20,235
		65,530	114,046	863,984

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Less: Current portion included in current liabilities	(1,251)	(996)	(7,545)
	¥ 64,279	¥ 113,050	\$ 856,439

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As at 31st March, 1998, property, plant and equipment with a net book value of O5,532 million (\$41,909 thousand) was pledged as collateral for long-term indebtedness.

The convertible bonds are convertible into common stock at the option of the holders, currently at applicable conversion prices per share as listed in the preceding table. These conversion prices are subject to adjustment for subsequent stock splits of common stock and shares issued at less than market value. The outstanding convertible bonds are redeemable at the option of the Company at prices ranging from 107% to 100% of the principal amount under certain conditions as provided in the respective agreements.

The unsecured convertible bonds are subject to certain covenants such as restrictions on dividends, earnings and certain additional secured indebtedness, as defined in the agreements. The Company presently estimates none of such covenants would be applicable to the outstanding bonds.

If all outstanding convertible bonds had been converted into common stock as at 31st March, 1998, approximately 30,792 thousand shares of common stock would have been issuable.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances, and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Company and its consolidated subsidiaries have not received any such requests from the banks. In addition, the agreements provide that the bank has the right to offset cash deposits against any short-term or long-term debt that becomes due, and in case of default and certain other specified events, against all other debt payable to the bank.

The aggregate annual maturities of long-term loans subsequent to 31st March, 1999, are as follows:

Fiscal year ending 31st March	Millions of yen	Thousands of dollars
2000	¥ 559	\$ 4,235
2001	341	2,583
2002	189	1,432
2003	158	1,197
2004 and thereafter	1,120	8,485

#### 4. Income Taxes

The Company and its consolidated subsidiaries are subject to several taxes (corporate, inhabitant and enterprise) based on income. The aggregate statutory tax rates and the effective tax rates for the years ended 31st March, 1996, 1997 and 1998, are as follows:

	1996	1997	1998
Statutory tax rate	51%	51%	51%
Effective tax rate	51	71	56

Variance between the statutory tax rates and the effective tax rates for the years ended 31st March 1996 and 1997, consist primarily of (a) the effect of temporary differences in the recognition of certain revenues and expenses for tax and financial statement purposes, and (b) the effect of permanently non-deductible expenses and non-taxable income. The effective tax rate for the year ended 31st March, 1997, was affected by the lump-sum write-off of goodwill pertaining to the acquisition of Toppan Moore Co., Ltd. and Avery Toppan Co., Ltd. in 1997.

For the year ended 31st March, 1998, the variance consists primarily of (b) above as all temporary differences were reflected to deferred income taxes as a result of adopting the allocation of income taxes.

Net deferred income tax assets are presented in the consolidated balance sheet as of 31st March, 1998, as follows:

	Millions of yen	Thousands of dollars
Other current assets	¥ 6,464	\$ 48,970
Other assets	5,502	41,682

Enterprise tax, which is based on income, has been recorded on an accrual basis and charged to general and administrative expenses in the books of the Company and its consolidated subsidiaries, but has been reclassified to provision for income taxes in the accompanying consolidated statements of income. Enterprise taxes for the years ended 31st March, 1996, 1997 and 1998, were as follows: :

	Millions of yen	Thousands of dollars
1996	¥ 8,598	\$ 65,136
1997	10,491	79,477
1998	11,348	85,970

## 5. Shareholders' Investment

The Japanese Commercial Code provides that an amount equivalent to at least 10% of cash dividends paid and of other cash outlays in each fiscal or interim six-month period be appropriated to a legal reserve until such reserve equals 25% of the issued share capital.

The Code also provides that neither the additional paid-in capital nor the legal reserve is available for cash dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Year-end dividends are approved by the shareholders after the end of each fiscal year, and interim dividends are declared by the Board of Directors after the end of each semi-annual period. In accordance with the Commercial Code, the year-end dividends and the related appropriation of retained earnings are not reflected in the consolidated financial statements at the end of each fiscal year.

On 26th June, 1998, the shareholders approved the declaration of a year-end cash dividend totaling 05,595 million (\$42,386 thousand), which was paid in that month to the shareholders of record as at 31st March, 1998, and the related appropriation of retained earnings to legal reserve of 0577 million (\$4,371 thousand).

## 6. Per Share Data

Net income per share is based on the weighted average number of shares of common stock outstanding and dilutive common stock equivalents. The 1.9% and 1.4% convertible bonds were considered as common stock equivalents and were included in the calculation of earnings per share when they were dilutive. In computing net income per share, net income is adjusted, at net of income taxes, by interest expense on the convertible bonds.

Dividends per share are computed based on dividends paid for the year. The number of shares of common stock used in computing net income per share was as follows:

Thousands of shares	
1996	736,851
1997	736,805
1998	730,231

## 7. Derivative Financial Instruments

The Company uses derivative financial instruments selectively, to manage interest rate risk and foreign exchange risk.

The Company enters into forward exchange contracts to hedge foreign exchange risks and also uses interest rate swaps to manage floating interest rate risk.

To reduce the credit risk of counterparties in derivative transactions, the Company selects major, creditworthy financial institutions as counterparties.

The Company has entered into the following types derivative financial instruments as of March 31, 1998.

	Millions of yen		Thousands of dollars			
	1998	1997	1998		1997	
	Notional Amount	Fair Value	Notional Amount	Notional Amount	Fair Value	Notional Amount
Interest rate swaps	¥7,000	¥6,998	¥6,510	\$53,030	\$53,015	\$49,318

The preceding table excludes all the forward exchange contracts entered into to hedge receivables and payables denominated in foreign currencies, since they have been translated and reflected at the corresponding contracted rates in the accompanying balance sheets as of March 31, 1997 and 1998.

From fiscal 1998, it has been required to disclose the fair values of interest rate swaps.

## 8. Commitments and Contingent Liabilities

Commitments outstanding as at 31st March, 1998, for capital expenditures approximated O45,772 million (\$346,758 thousand).

As at 31st March, 1998, the Company and its subsidiaries were contingently liable for trade notes receivable discounted with banks of O2,696 million (\$20,424 thousand). The average interest rate of the notes discounted with banks was 1.6% per annum as at 31st March, 1998.

The Company and its subsidiaries were also contingently liable as guarantors for the borrowings of certain subsidiaries, affiliates and subcontractors, amounting to O2,836 million (\$21,485 thousand) as at 31st March, 1998.

The Company and its consolidated subsidiaries had cancellable and non-cancellable long-term lease agreements, principally for office space and computer equipment. Annual rental expenses for the year ended 31st March, 1998, were O26,117 million (\$197,856 thousand).

## 9. Segment Information

The Company's primary business activities include products produced through printing-related facilities and machineries, as well as other segments.

A summary of net sales, costs and expenses and operating income by segment of business activities for the years ended 31st March, 1996, 1997 and 1998, is shown on the next page.

Geographical segment information was not presented as the sales and assets of consolidated domestic subsidiaries for the years ended 31st March, 1996, 1997 and 1998, exceed 90% of consolidated net sales and assets.

The overseas sales of the Company and its consolidated subsidiaries for the years ended 31st March, 1996, 1997 and 1998, were less than 10% of consolidated net sales.

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## Notes to Consolidated Financial Statements

1996	Millions of yen				
	Printing	Other	Total	Elimination	Consolidated
Net sales--					
-Outside customers	¥1,071,020	¥115,572	¥1,186,592	¥--	¥1,186,592
-Inter segment	23,259	38,080	61,339	(61,339)	--
-Total	1,094,279	153,652	1,247,931	(61,339)	1,186,592
Costs and expenses	1,024,895	152,215	1,177,110	(61,339)	1,115,771
Operating income	¥69,384	¥1,437	¥70,821	¥--	¥70,821
Assets	¥1,089,366	¥66,942	¥1,156,308	¥(30,005)	¥1,126,303
Depreciation	¥48,978	¥654	¥49,632	¥--	¥49,632
Capital expenditure	¥65,815	¥411	¥66,226	¥--	¥66,226
1997	Millions of yen				
	Printing	Other	Total	Elimination	Consolidated
Net sales--					
-Outside customers	¥1,151,132	¥123,207	¥1,274,339	¥--	¥1,274,339
-Inter segment	25,556	44,734	70,290	(70,290)	--
Total	1,176,688	167,941	1,344,629	(70,290)	1,274,339
Costs and expenses	1,090,269	166,218	1,256,487	(70,290)	1,186,197
Operating income	¥86,419	¥1,723	¥88,142	¥--	¥88,142
Assets	¥1,111,036	¥64,928	¥1,175,964	¥(24,081)	¥1,151,883
Depreciation	¥51,426	¥332	¥51,758	¥--	¥51,758
Capital expenditure	¥77,996	¥499	¥78,495	¥--	¥78,495
1998	Millions of yen				
	Printing	Other	Total	Elimination	Consolidated
Net sales--					
-Outside customers	¥1,172,178	¥111,967	¥1,284,145	¥--	¥1,284,145
-Inter segment	21,324	46,352	67,676	(67,676)	--
Total	1,193,502	158,319	1,351,821	(67,676)	1,284,145
Costs and expenses	1,100,129	157,367	1,257,496	(67,676)	1,189,820
Operating income	¥93,373	¥952	¥94,325	¥--	¥94,325

Assets	¥1,260,724	¥57,825	¥1,318,549	¥(17,900)	¥1,300,649
Depreciation	¥55,732	¥277	¥56,009	¥--	¥56,009
Capital expenditure	¥128,148	¥586	¥128,734	¥--	¥128,734

1998	Thousands of dollars				
	Printing	Other	Total	Elimination	Consolidated
Net sales--					
-Outside customers	\$8,880,136	\$848,235	\$9,728,371	\$--	\$9,728,371
-Inter segment	161,545	351,152	512,697	(512,697)	--
Total	9,041,681	1,199,387	10,241,068	(512,697)	9,728,371
Costs and expenses	8,334,310	1,192,175	9,526,485	(512,697)	9,013,788
Operating income	\$707,371	\$7,212	\$714,583	\$--	\$714,583
Assets	\$9,550,939	\$438,069	\$9,989,008	\$(135,606)	\$9,853,402
Depreciation	\$422,213	\$2,098	\$424,311	\$--	\$424,311
Capital expenditure	\$970,819	\$4,439	\$4,439	\$--	\$975,258

## Report of Independent Public Accountants

### To the Board of Directors of TOPPAN PRINTING CO., LTD.:

We have audited the accompanying consolidated balance sheets of TOPPAN PRINTING CO., LTD. (a Japanese corporation) and its consolidated subsidiaries as at 31st March, 1997 and 1998, and the related consolidated statements of income, shareholders' investment and cash flows for each of the three years in the period ended 31st March, 1998, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of TOPPAN PRINTING CO., LTD., and its consolidated subsidiaries as at 31st March, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended 31st March, 1998, in conformity with accounting principles generally accepted in Japan (see Note 1) consistently applied during the period except for the changes in the valuation method of listed securities, made in the year ended 31st March, 1997, and in the accounting policy for income taxes, made in the year ended 31st March, 1998, as explained in Note 1 of the notes to the consolidated financial statements.

Also, in our opinion, the translated amounts in the accompanying consolidated financial statements translated into U.S. dollars have been computed on the basis set forth in Note 1 of the notes to the consolidated financial statements.

### **Asahi & Co**

(A Member Firm of Andersen Worldwide SC)

Tokyo, Japan  
26th June, 1998

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